

2020

ANNUAL REPORT*

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

*This version of Annual report is a translation from the original, which was prepared in Latvian. In all matters of interpretation of information, views or opinions, the original language version of Annual takes precedence over this translation

Riga 2021

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INFORMATION ON THE COMPANY

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

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

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

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

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

WHAT IS IMPORTANT TO US?

Values



Secure operation
of the system

WHY DO WE EXIST?

Mission

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



Professional
and united team

WHO DO WE WANT TO BE?

Vision

To become the most reliable energy source in the region.



Flexibility and openness
through competent solutions



Sustainable
development

Conexus targets

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

1

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

2

Provide safe, accessible and market-based infrastructure

3

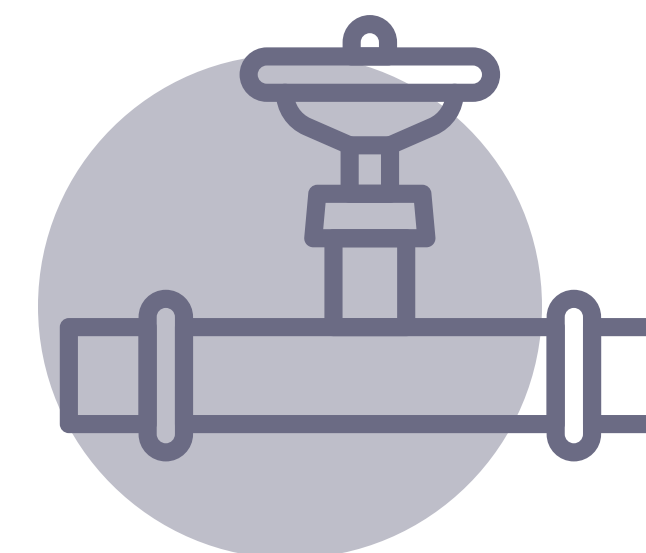
Implement sustainable management of the working capacity of internal and external resources

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



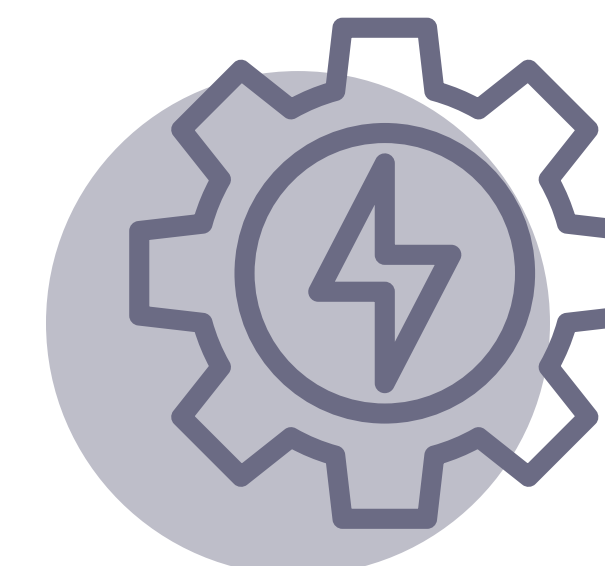
DIGITISATION

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



COOPERATION WITH OTHER REGIONAL TSOs

In the medium term, Conexus plans to facilitate cooperation with other TSOs in the region by coordinating operational cooperation and introducing a periodic benchmarking system with other regional TSOs



CONEXUS – ENERGY PROVIDER

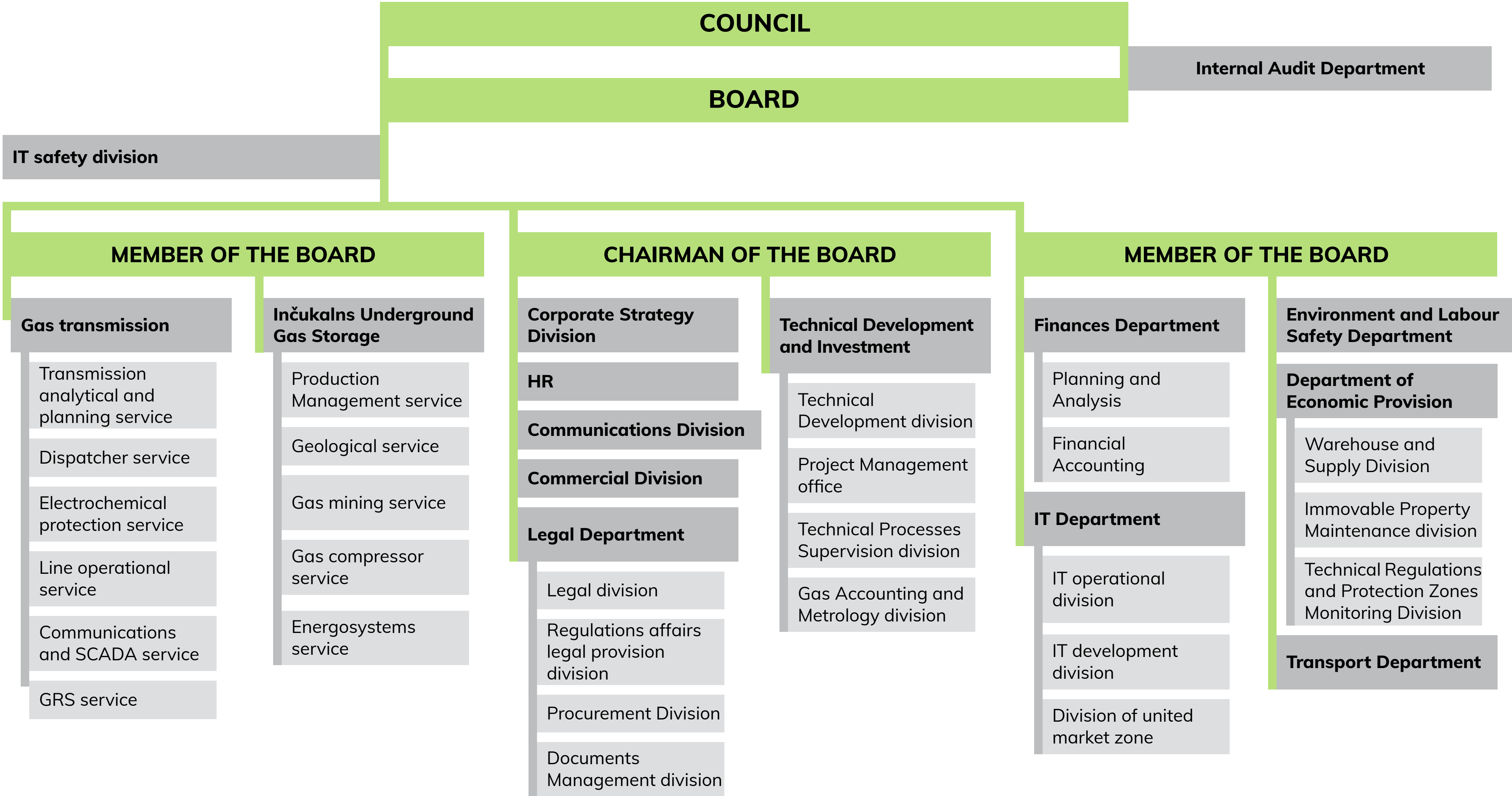
To become the most reliable energy source in the region and gradually introduce services not only for natural gas users, but also for electricity users.

Company's management and structure

Company's management is implemented based on external laws and regulations, Company's statutes, shareholder meeting, Council's and Board's decisions, medium-term operational strategy, medium-term business plan and the company's budget. The corporate governance framework and key principles are set out in the approved Corporate Governance Policy, which determines the key principles for effective corporate governance, internal control, risk management, corporate external communication, and sustainable development.

The main administrative institution of the Company is the shareholders' meeting, which appoints the Council of the Company.

Structure of the joint-stock company Conexus Baltic Grid



Shareholders and Shareholders' Meeting

Conexus is a closed-emission joint stock company with 100% registered shares. The total number of shares is 39 786 089, with a nominal value of EUR 1.00. The total number of shareholders exceeds 4,8 thousand. 97.52% of the total number of shares belong to two largest shareholders - JSC „Augstsprieguma tīkls” (68.46%), MM Infrastructure Investments Europe Limited (29.06%).

The shareholders' register of Conexus Baltic Grid is maintained electronically and is provided by Nasdaq CSD SE in accordance with agreement.



Change of shareholders

- On April 1, Nasdaq CSD informed that on 1 April 2020 changes were made in the shareholders' registry: change of ownership of 29.06% (11 560 645 closed share issue shares) of the Company's share capital. The transferor of the shares is Marguerite Gas I S.à.r.l., the acquirer of the shares is MM Infrastructure Investments Europe Limited (Reg. No 12279235);
- On July 21 changes were made in the shareholders' registry: change of ownership of 34.10% of the Company's share capital. The transferor of the shares is PJSC "Gazprom" (reg. No. 7736050003, Russian Federation), the acquirer of the shares is JSC "Augstsprieguma tīkls" (reg. No. 40003575567, Republic of Latvia). Thus, JSC "Augstsprieguma tīkls" currently holds 68.46% of the total share capital paid by the Company;
- With change of shareholders, PUC finished the assessment of Conexus compliance with independence requirements and declared Conexus an independent system operator.



Main obligations of shareholders' meeting:

- to approve the annual accounts and to decide on the use of the profits for the previous year;
- to approve the Company's Statutes and its amendments;
- to decide on the increase or reduction of Company's share capital;
- to elect and withdraw the council;
- to elect the auditor.



The Council

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

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

Term of office from 30 April 2020 until 29 April 2023



(in Council from 3 January 2018)

ILMĀRS ŠŅUCINS
Chairman of the Council



(in Council from 30 April 2020)

TOMOHIDE GOTO
Vice-Chairman of the Council



(in Council from 30 April 2020)

IPPEI KOJIMA
Member of the Council



(in Council from 30 April 2020)

JUN MATSUMOTO
Member of the Council



(in Council from 30 April 2020)

ILZE ALEKSANDROVIČA
Member of the Council



(in Council from 30 April 2020)

ZANE ĀBOLIŅA
Member of the Council



(in Council from 30 April 2020)

NORMUNDS ŠUKSTS
Member of the Council

Term of office until April 2020

KASPARS ĀBOLIŅŠ
Chairman of the Council

(from 3 January 2018 until 30 April 2020)

WILLIAM PIERSON
Vice-Chairman of the Council

(from 15 August 2017 until 1 April 2020)

ILZE BĒRZIŅA
Member of the Council

(from 3 January 2018 until 30 April 2020)

SANITA GREIZE
Member of the Council

(from 3 January 2018 until 30 April 2020)

GUILLAUME RIVRON
Member of the Council

(from 22 December 2016 until 1 April 2020)

MARTIN SICHELKOW
Member of the Council

(from 27 April 2018 until 1 April 2020)

ILMĀRS ŠŅUCINS
Member of the Council

(in the Council from 3 January 2018)



ILMĀRS ŠŅUCINS

CHAIRMAN
OF THE COUNCIL OF
JSC "CONEXUS BALTIC GRID"

Born on 1 April 1974

WORK EXPERIENCE

- Since 2018** JSC "Conexus Baltic Grid" - Member of the Council
- Since 2012** Deputy State Secretary in tax, customs and accounting issues, Ministry of Finance
- 2010-2013** Director of Tax Analysis Department, Ministry of Finance
- 2006-2010** Deputy Director of Economy Analysis and Fiscal Politics Department, Ministry of Finance
- 1999-2006** Head of Macroeconomics Unit of Economy Analysis and Fiscal Politics Department, Ministry of Finance

EDUCATION

- 1999** Master's Degree, Faculty of Economics and Management of University of Latvia
- 1997-1998** Guest studies at University St.Gallen (Switzerland)

**Does not own shares
in JSC "Conexus Baltic Grid"**



TOMOHIDE GOTO

VICE-CHAIRMAN OF THE
COUNCIL OF JSC "CONEXUS
BALTIC GRID"

Born on 28 January 1969

WORK EXPERIENCE

- Since 2019** MM Capital Partners Co., Ltd. – President and CEO (Tokyo)
- 2016-2018** Marubeni Europe Plc. – General Manager, Transport Infrastructure (London)
- 2013-2016** Marubeni Corporation – General Manager, Transport Infrastructure (Tokyo)
- 2001-2012** Marubeni Corporation – General Manager, Heavy Machinery & Natural Resources (Tokyo)
- 2000-2001** American Iron Oxide Company - Vice-President for Finance (Pennsylvania)
- 1992-1999** Marubeni Corporation – Assistant Manager, Heavy Machinery Plant (Tokyo)

EDUCATION

- 1987-1992** Bachelor's degree in economics, Kobe University (Kobe)

**Does not own shares
in JSC "Conexus Baltic Grid"**



ILZE ALEKSANDROVIČA

MEMBER OF THE COUNCIL OF
JSC "CONEXUS BALTIC GRID"

Born on 10 November 1979

WORK EXPERIENCE

- Since 2012** SJSC "Latvijas Gaisa satiksme" – Member of the Board
- 2012-2020** Ministry of Transport, Republic of Latvia – deputy state secretary
- 2011-2012** JSC "Air Baltic Corporation" – Member of the Council
- 2009-2011** SJSC "Latvijas Pasts" – member of the Board
- 2009-2012** Ministry of Transport, Republic of Latvia – director, Department of Investments
- 2007-2009** Ministry of Finance, Republic of Latvia – Deputy Director, EU Funds Strategy Department; head of Entrepreneurship and Innovation Planning Division
- 2007-2007** Ministry of Finance, Republic of Latvia – Deputy Director, EU Funds Strategy Department; head of European Union Funds Control Division
- 2004-2007** Ministry of Finance, Republic of Latvia – head of Control and Development division
- 2003-2004** Central Finance and Contracting Agency – head of Non-Investment Division
- 2002-2003** Central Finance and Contracting Agency – procurement specialist
- 2002-2002** SIA "Trivest" – market analyst
- 2000-2001** OU "Age Com" – market analyst

EDUCATION

- 2006-2007** Master's degree in International and EU law, Riga Graduate School of Law
- 1999-2002** Bachelor's degree in international entrepreneurship, Concordia International University (Estonia)

**Does not own shares
in JSC "Conexus Baltic Grid"**



ZANE ĀBOLIŅA

MEMBER OF THE BOARD OF
JSC "CONEXUS BALTIC GRID"

Born on 26 August 1987

WORK EXPERIENCE

- Since 2020** JSC "Conexus Baltic Grid" – Member of the Council
- Since 2017** JSC "Augstsprieguma tīkls" – head of Regulatory Affairs unit
- 2016-2017** State Railway Administration – deputy director of the administration
- 2012-2016** Public Utilities Commission – head of Railway Transport division
- 2010-2012** Ministry of Economics – senior desk officer, EU Funds Implementation department
- 2007-2010** Ministry of Economics – senior desk officer, Energy department

EDUCATION

- 2013-2015** Master's degree in Managing Enterprises and Institutions, Riga Technical University
- 2010-2012** Professional Master's degree in legal science, University of Latvia
- 2006-2009** Bachelor's degree in legal science, University of Latvia

**Does not own shares
in JSC "Conexus Baltic Grid"**



IPPEI KOJIMA

MEMBER OF THE BOARD OF
JSC "CONEXUS BALTIC GRID"

Born on 16 June 1981

WORK EXPERIENCE

- Since 2018** Marubeni Europe Plc. – General Manager, Energy Infrastructure (London)
- 2015-2018** Marubeni Corporation – Manager, Energy Infrastructure (Tokyo)
- 2011-2015** Marubeni Corporation – Assistant General Counsel, Legal (Tokyo)
- 2005-2009** Marubeni Corporation – Assistant General Counsel, Legal (Tokyo)

EDUCATION

- 2009-2011** Master's degree, Cornell Law School (New York)
- 2000-2004** Bachelor's degree, Waseda University (Tokyo)

**Does not own shares
in JSC "Conexus Baltic Grid"**



JUN MATSUMOTO

MEMBER OF THE BOARD OF
JSC "CONEXUS BALTIC GRID"

Born on 14 June 1986

WORK EXPERIENCE

- Since 2019** MM Capital Partners Co., Ltd – Investment Director (Tokyo)
- 2015-2018** Marubeni Corporation – Assistant Manager, Energy Infrastructure (Tokyo)
- 2013-2014** Marubeni Europe Plc. – Assistant Manager, Energy Infrastructure (London)
- 2012** Marubeni Corporation – Trader, Carbon Emission Credits (Tokyo)
- 2010-2011** Marubeni Corporation – Analyst, Business Accounting (Tokyo)

EDUCATION

- 2005-2009** Bachelor's degree, International Liberal Arts Waseda University (Tokyo)

**Does not own shares
in JSC "Conexus Baltic Grid"**



NORMUNDS ŠUKSTS

MEMBER OF THE BOARD OF
JSC "CONEXUS BALTIC GRID"

Born on 25 May 1973

WORK EXPERIENCE

- 2019-2019** JSC AIF "Hipo Fondi aktīvu pārvalde" – Chairman of the Board
- 2003-2013** SJSC "Latvijas Hipotēku un zemes banka" – Head of Finance Management department
- 2008-2011** JSC IPS "Hipo Fondi", SJSC "Latvijas Hipotēku un zemes banka" – Chairman of the Board
- 2001-2002** JSC "Latvijas Centrālais depozitārijs" – Member of the Council
- 1996-2003** SJSC "Latvijas Hipotēku un zemes banka" – economist, Head of Currency Department
- 1994-1996** JSC bank "Dynasty" – currency dealer

EDUCATION

- 1998** Master's degree in Economics and Management, University of Latvia
- 1996** Bachelor's degree in Economics and Management, University of Latvia

**Does not own shares
in JSC "Conexus Baltic Grid"**

Board

Conexus management in daily operations is provided by its executive body – the Board. The Board of Conexus consists of three Members who are elected by the Council of Conexus for a term of three years, assessing the compliance with the required competences, experience, and scope of responsibility. The tasks and responsibilities of the Board of Conexus are regulated by the laws and regulations. The operating principles and main responsibilities of the Board are prescribed by the Statutes and the regulations (by-laws) of the Board. The members of the Board manage Conexus jointly and are autonomous in decision-making. The right to represent Conexus shall be shared by two members of the Board. The members of the Board shall, during their term of office, comply with the restrictions imposed on them by laws and regulations in respect of the conclusion of transactions, holding the offices and participation in other commercial companies.

Main responsibilities of the Board of Conexus:

- ♦ manage and represent the Company,
- ♦ administer the property of the Company,
- ♦ account for Company's operation and compliance of accounting with the laws and regulations,
- ♦ implement the strategic course, development plans, targets, and policies of the Company.

The Board of Conexus organizes its work on a functional basis: each Member is responsible for a certain course of action according to the professional knowledge, experience and competences in the relevant area of responsibility: the Chairman of the Board is responsible for general management involving personnel, legal provision, procurement, document management, communication, strategic management, technical development and investment management issues, commercial issues, as well as cooperation with transmission and storage operators of other countries in the provision of services, one Member of the Board is responsible for the finances and information technology (IT), environmental and labour safety, economic provision and transport; the second Member of the Board - on the technical area, the management of transmission and storage infrastructure systems.

Changes in the Board during the reporting period:

Zane Kotāne - Chairwoman of the Board from 31 December 2017 until 26 June 2020

Jānis Eisaks - Chairman of the Board from 27 June 2020 until 10 November 2020

Dividend policy

The dividend policy of the Company is based on the following principles:

- ♦ The decision on the use of profits and the number of dividends is adopted by the shareholders' meeting of the Company;
- ♦ in the approved medium-term strategy, the dividend ratio was set to 90% of profits.



ULDIS BARISS

JOINT-STOCK COMPANY
“CONEXUS BALTIC GRID”
CHAIRMAN OF THE BOARD

Born on 29 April 1965

valde@conexus.lv

WORK EXPERIENCE

since 2020 JSC “Conexus Baltic Grid” - Chairman of the Board
2013-2020 JSC “Latvenergo” - Chief Commercial Officer
2010-2020 “Elektrum Eesti” OU - Chairman of the Council
2010-2020 “Elektrum Lietuva” UAB - Chairman of the Council
2005-2020 JSC “Latvenergo” - Member of the Board
2005 JSC “Latvenergo” - distribution grid reorganization project manager
2002-2004 JSC “Latvenergo” - Director of Economics Department
1996-2002 LTD “Lattelekom” - Manager of Financial Planning and Controlling, Manager of management accounting

EDUCATION

2017 Riga Technical University,
Doctor of Science in Engineering, Environmental Science
2008 Stockholm School of Economics in Riga, Professional Master's degree in Business Administration
2004 University of Latvia, Master's degree in Economics

Term of office:

16.11.2020 - 15.11.2023

Does not own shares in JSC “Conexus Baltic Grid”



GINTS FREIBERGS

JOINT-STOCK COMPANY
“CONEXUS BALTIC GRID”
MEMBER OF THE BOARD

Born on 23 August 1959

valde@conexus.lv

WORK EXPERIENCE

Since 2016 JSC “Conexus Baltic Grid” - Member of the Board
1997 - 2017 JSC “Latvijas Gāze” - Member of the Board
Since 1984 Employed in gas industry

EDUCATION

1984 Riga Polytechnic Institute, Engineer, heat power industry

Term of office:

31.12.2017 – 31.12.2020

01.01.2021 - 31.12.2023

Owns 416 shares in JSC “Conexus Baltic Grid”



MĀRTIŅŠ GODE

JOINT-STOCK COMPANY
“CONEXUS BALTIC GRID”
MEMBER OF THE BOARD

Born on 17 August 1976

valde@conexus.lv

WORK EXPERIENCE

Since 2018 JSC “Conexus Baltic Grid” - Member of the Board
2017 LTD “Narvesen Baltija” - Finance Director
2005 - 2017 LTD “Latvijas Mobilais Telefons” - Finance Management Director
2000 - 2005 LTD “Latvijas Mobilais Telefons” - Head of Management Accounting Division
1998 - 2000 LTD “Latvijas Mobilais Telefons” - Financial Analyst
1996– 1998 LTD “Lattelecom” - Financial Analyst

EDUCATION

2008 Stockholm School of Economics in Riga - Professional Master's degree in Business Administration
2002 University of Latvia, Master's degree of Social Sciences in Economics
2000 University of Latvia, Bachelor's degree of Social Sciences in Economics
1995 - 1997 Stockholm School of Economics in Riga, Business Administration study program

Term of office:

31.12.2017 – 31.12.2020

01.01.2021 - 31.12.2023

Does not own shares in JSC “Conexus Baltic Grid”

Remuneration policies of the Council and the Board

The remuneration of the Members and Chairman of the Board is determined by the Council of the Company, taking into account the principles laid down in the Law on Governance of Capital Shares of a Public Person and Capital Companies, as well as the maximum amounts referred to in the Cabinet Regulations issued on the basis of this Law, by balancing the amount of remuneration with the duties of the Members of the Board. The remuneration of the Members and the Chairman of the Council is determined by the shareholders of the Company by adopting a relevant decision and taking into account the above-mentioned principles. All resolutions of the shareholders' meeting are publicly available on Company's website. Information on the total remuneration costs of Company's Board and Council is published in the Annual Report of the Company.

The members of the Board and the Council have concluded authorization agreements, and they are not subject to Collective Agreement's terms.

For 2020, members of the Council received remuneration in accordance with period of service. Remuneration of Council members in office until 31.03.2020: Deputy Chairman of the Council W.Michael Pierson - 11 600.00 EUR, members of the Council G.Rivron and M.Sichelkow

- 11 500.00 EUR each; remuneration of Council members in office until 30.04.2020: members of Council I.Bērziņa and S.Greize - 13 800.00 EUR each; remuneration of Council member in office from 30.04.2020: Deputy Chairman of the Council T.Goto - 18 676.00 EUR, members of the Council N.Šuksts, J.Matsumoto, Z.Āboliņa and I.Aleksandroviča - 18 515.00 EUR each.

Remuneration for 2020 received by Chairwoman of the Board Z.Kotāne (in office until 26.06.2020) - 131 220.74 EUR, Chairman of the Board J.Eisaks (in office from 27.06.2020 until 16.11.2020) - 38 334.33 EUR, Chairman of the Board U.Bariss (in office from 16.11.2020) - 16 106.16 EUR; remuneration received by Board member G.Freibergs - 166 057.88 EUR, Board member M.Gode - 166 253.57 EUR.

Internal audit

The internal audit is functionally subordinated to the Council of Conexus, but administratively - to the Chairman of the Board of Conexus. The Council approves the annual plan for internal audit and is the main addressee of the internal audit reports and the performance assessor. The operation of internal audit covers all the risks, processes, units, and employees of Conexus. The audit plan for the current year is drawn up based on the conducted risk assessment and of the priorities identified by the Conexus management. The guidelines of professional operation of the internal audit are laid down in the internal audit definition approved by the International Institute of Internal Auditors, the Code of Conduct, and the International Internal Audit Standards.

Risk management

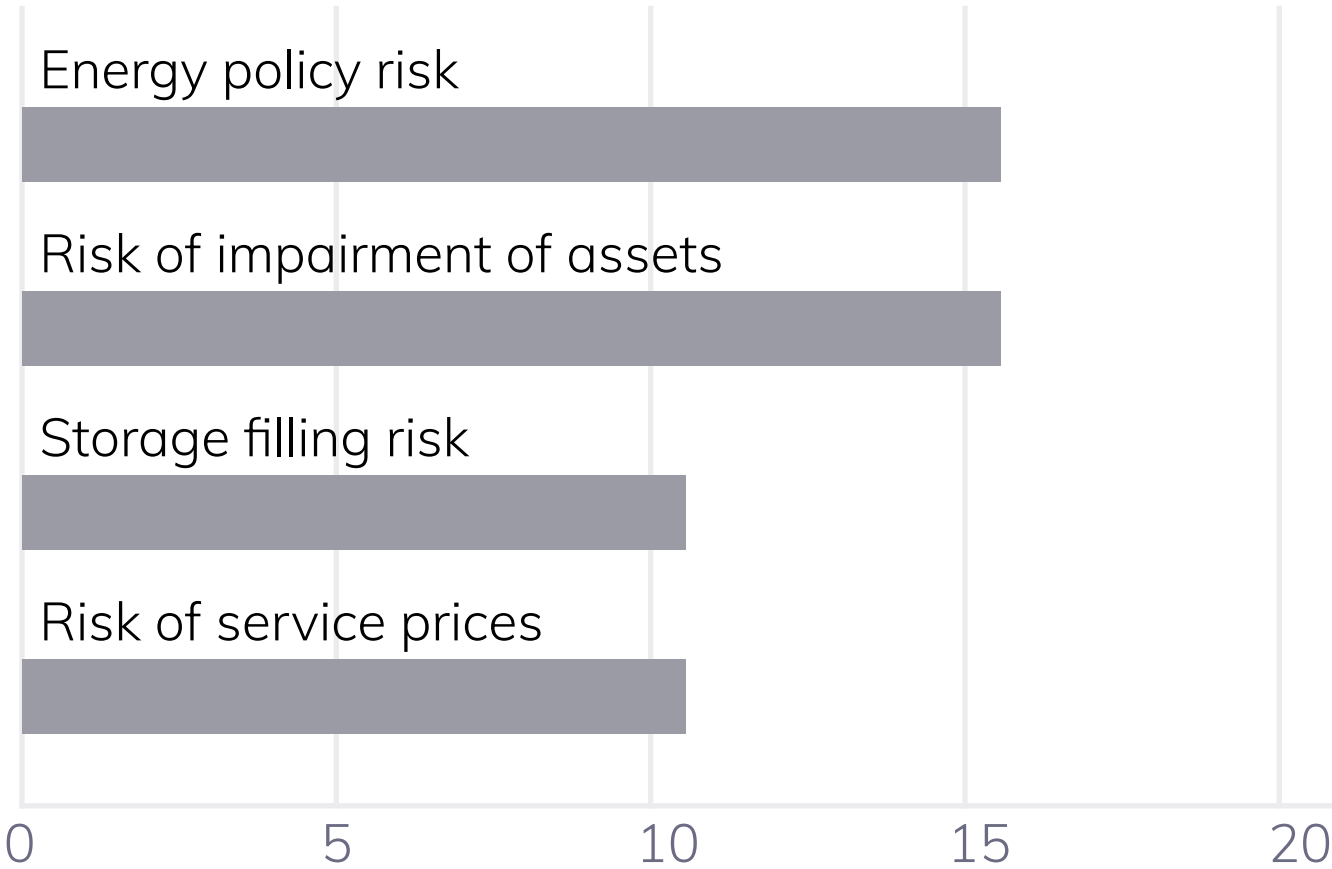
In order to contribute to the strategic targets and to ensure sustainable development, Conexus carries out risk management. It is implemented as a continuous, unified, and harmonized process at all levels of the Company to manage the risks that may affect the achievement of Company's targets.

Each year, Conexus identifies, assesses, analyses and controls the corporate risks affecting the past, present and future activities of the Company. After the risk assessment, they are divided according to the importance - risk with higher importance requires a faster and more active imposition of risk reduction measures.

The risk impact assessment covers such aspects as impact on strategic targets, finances, tariffs, individuals, and reputation.

In 2020, Conexus did not identify any critical risks but identified the following high risks:

- ♦ **Energy policy risk** - changes in energy policy that reduce the competitiveness of natural gas,
- ♦ **Risk of impairment of assets** - Conexus must write off the value of assets as a result of changes in tariff methodologies or in overall regulation;
- ♦ **Storage filling risk** - the minimum required level of filling is not achieved;
- ♦ **Risk of service prices** - acquisition of resources and services necessary for the operation of Conexus above the market price due to a limited number of service suppliers.



Assessment of risk importance*	
Critical risk	over 20
High risk	12 - 19
Medium risk	7- 11
Low risk	5 - 6
Very low risk	below 5

*The assessment of risk importance is determined by multiplying the risk probability (in scale from 1 to 5) by the risk impact on Company's importance (in scale from 1 to 5).

Activities in the industry and public organizations



European Clean
Hydrogen Alliance



OPERATING SEGMENTS

Storage of natural gas

Conexus is the unified natural gas transmission and storage operator, structure of which includes Inčukalns Underground Gas Storage. Inčukalns UGS provides injection, storage and withdrawal of natural gas by supplying it to the main gas pipelines.

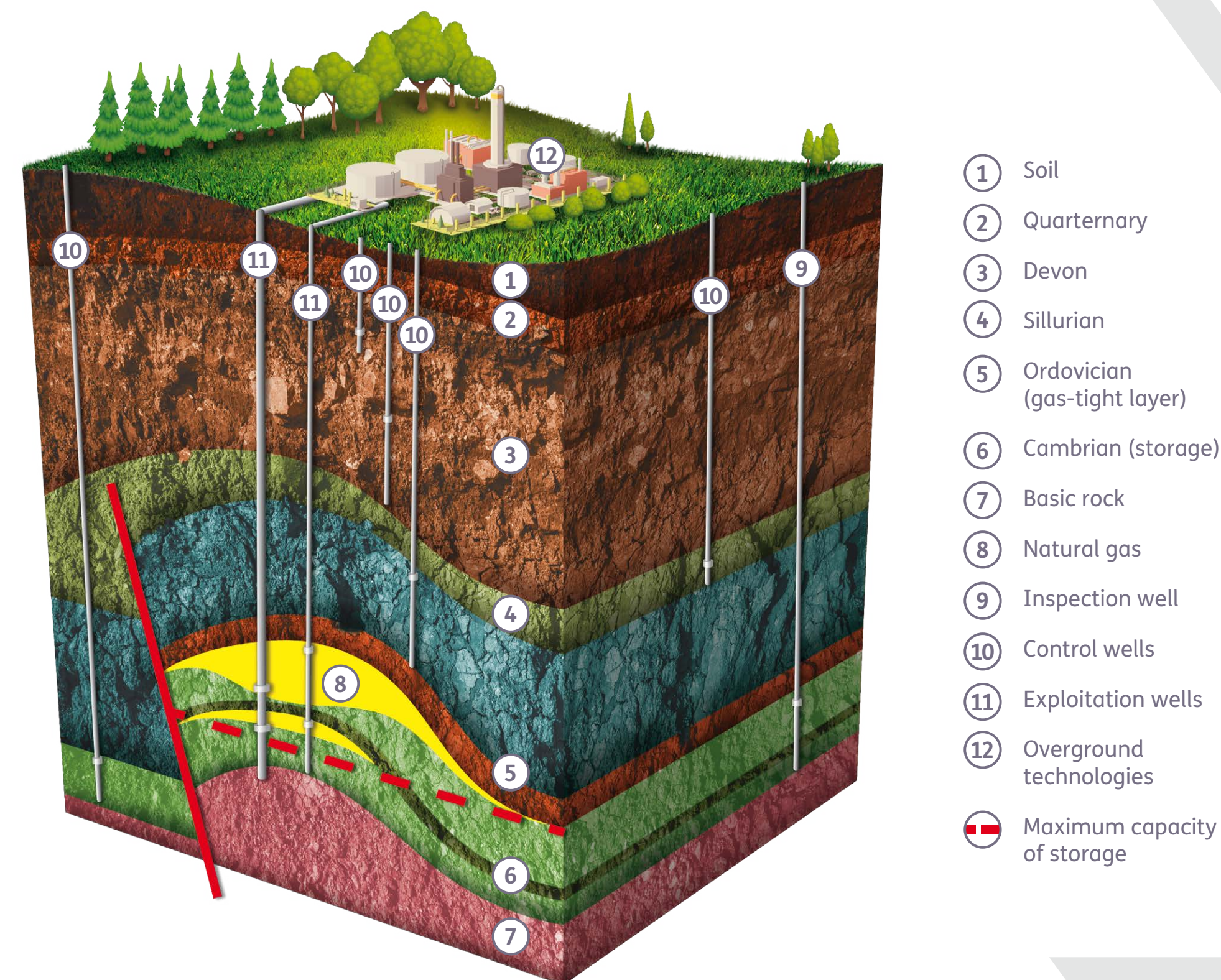
Characterization of storage

Inčukalns UGS, which is part of the Conexus structure, consists of surface technological installations, wells, and underground reservoir. The reservoir is a naturally formed Cambrian sedimentary rock in the aquatic medium horizon at the depth of ca. 600 to 750 meters.

Latvia is crossed by the geological layer of Cambrian sedimentary rock. In Latvia, the porous Cambrian sandstone sedimentary rock is characterized by very good properties. Namely, its porosity amounts up to 30%, allowing efficient and economic storage of natural gas.

The central territory of Inčukalns UGS and the equipment needed to ensure the technological processes - three gas collection points (hereafter GCP) and 180 gas storage wells (control, monitoring and 93 operational wells for the injection and withdrawal of natural gas) cover approximately 8 400 hectares. The total territory of IUGS - underground geological formations (collection layer) with a contour area of ~ 40 km² is located in the territories of Sēja, Krimulda and Inčukalns municipalities.

The maximum possible amount of active natural gas to be stored as foreseen in the technical project of Inčukalns UGS is 24,219 TWh, while the maximum technical capacity of injection is 178,5 GWh/day. The pressure of the collector layer and the amount of natural gas stored in it are impacted by several technological factors, but in particular by the actual natural gas filling in Inčukalns UGS during previous storage cycles and the injection intensity during the particular storage cycle. During the last three full storage cycles, the filling of Inčukalns UGS was below 85% of the designed volume of active gas, and the injection mode stability has fundamentally



changed, because the system users follow the current commercial considerations.

Inčukalns UGS is a complicated engineering geological object the exploitation whereof is related to particular risks and resulting exploitation conditions. The maximum permissible pressure in the collector layer (pressure at which the storage overlayer remains tight) must not be exceeded. Violation of this condition can lead to gas leaking in the upper layer, i.e. gas losses and contamination. The permissible maximum injection pressure must also not be exceeded, as it may cause a hydraulic fracturing of collector layer – collapse of sandstone crystal grid and damage to technological equipment.

Storage of natural gas

The task of the gas storage is to ensure a permanent supply of gas to consumers, regardless of seasonal changes in consumption, by performing injection of natural gas in summer and withdrawal in winter. Inčukalns UGS is the only functioning underground gas storage in the Baltic States, ensuring the stability of gas supply in the region since 1968.

The injection of natural gas into Inčukalns UGS is carried out by means of compressor operation, but withdrawal - by means of the resulting pressure difference. With the opening of natural gas market and the development of regional market, the role of Inčukalns UGS has expanded, improving both the flexibility of supply and security of gas supply in the region. In the single natural gas market, IUGS promotes competition between suppliers and ensures the stabilization of natural gas prices in the region.

Storage operator:

- ensures continuous functioning of Inčukalns UGS by monitoring and controlling the stability of the storage, by inspecting and preventing infrastructure damage and making investments in storage development and security,
- provides traders with fair and equal access to Inčukalns UGS, allowing traders to store natural gas in accordance with the Inčukalns Underground Storage regulations approved by PUC.

In 2020, interest in storage services significantly exceeded the available storage capacity of 21,5 TWh. In general, 76% of all available capacity has been reserved for 2021/2020 storage cycle as bundled capacity product and 24% as a two-year bundled capacity product, tariffs of which were as follows:

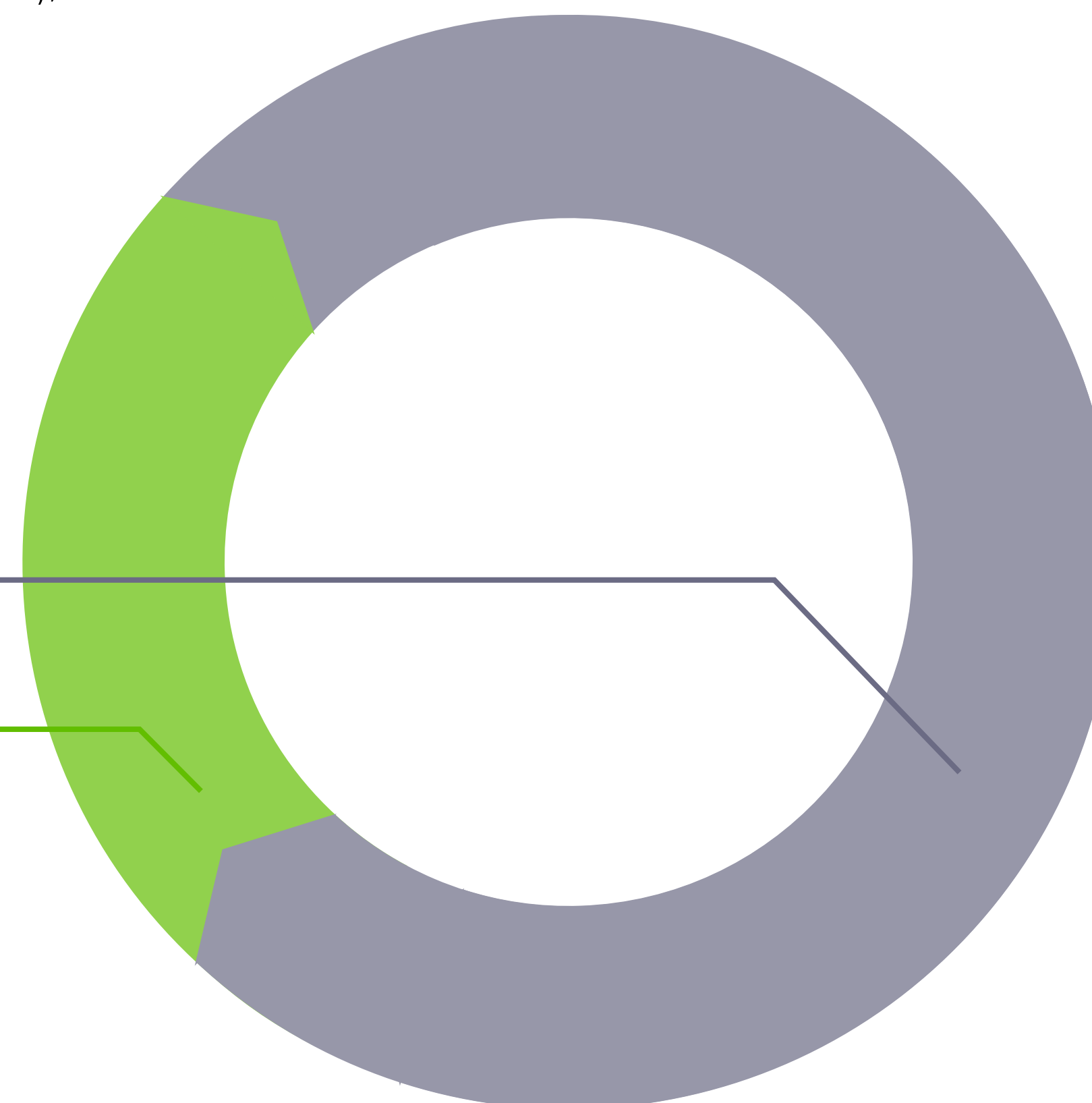
- bundled capacity product**
(maximum value 1.37918 EUR/MWh),
- 2-year bundled capacity product**
(tariff - 2.84741 EUR/MWh);

2 YEAR
BOUNDED
CAPACITY
PRODUCT

76%

24%

BOUNDED
CAPACITY
PRODUCT



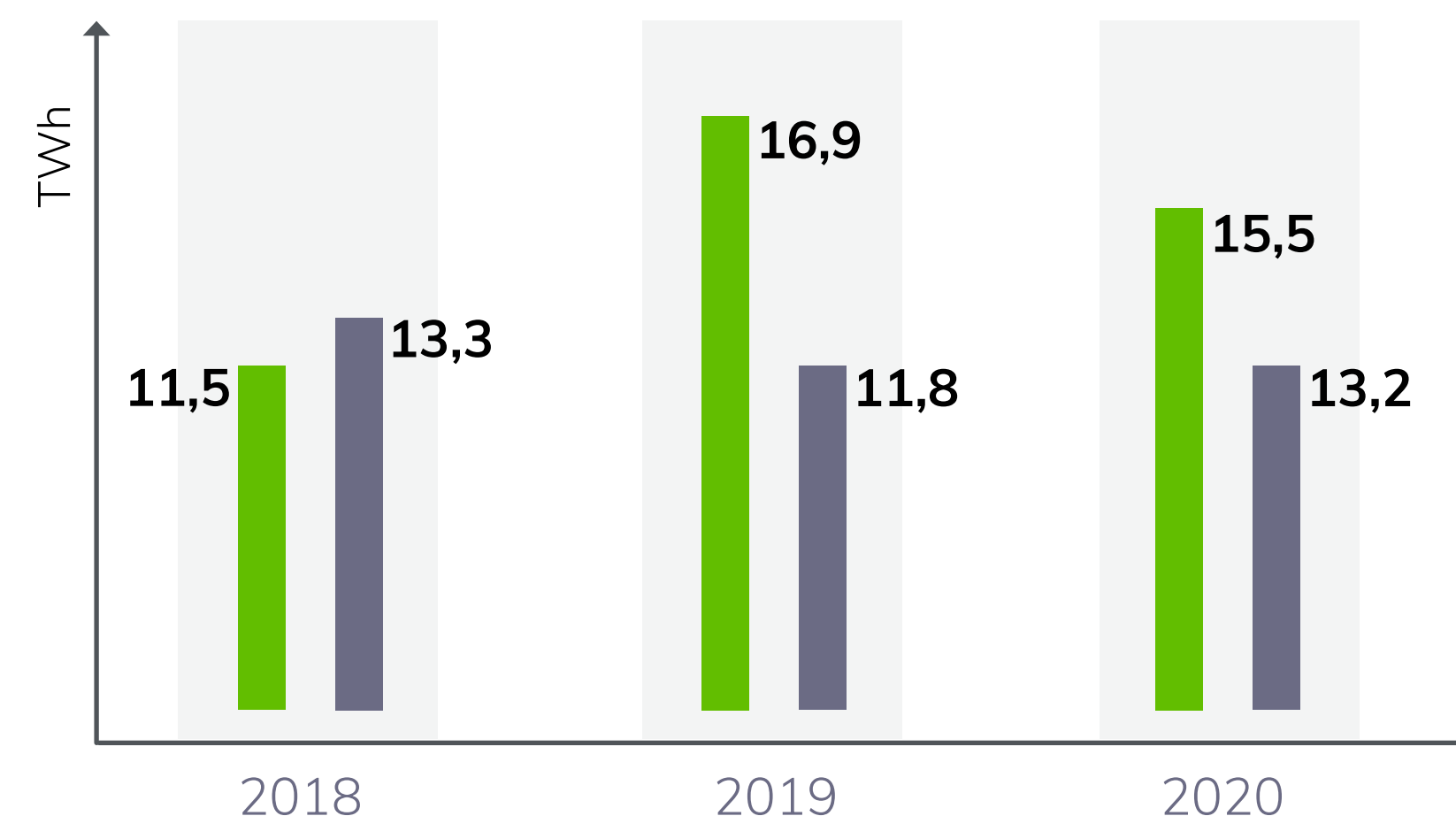
Storage of natural gas

The creation of the single market has contributed to the interest of users in the storage. The Estonian-Finnish interconnection Balticconnector opened in early 2020 has had a positive impact on the total volumes of transmitted flows, as the new pipeline has enabled natural gas to be supplied, including from Inčukalns UGS, to Finnish users in amount of 8,45 TWh, representing 34% of the total consumption in Finland. In storage cycle 2020/2021, users from the Baltic States, Norway and Switzerland had reserved their storage capacity. Overall, the number of active users has doubled, when compared to the year before, and reaches 20 users.

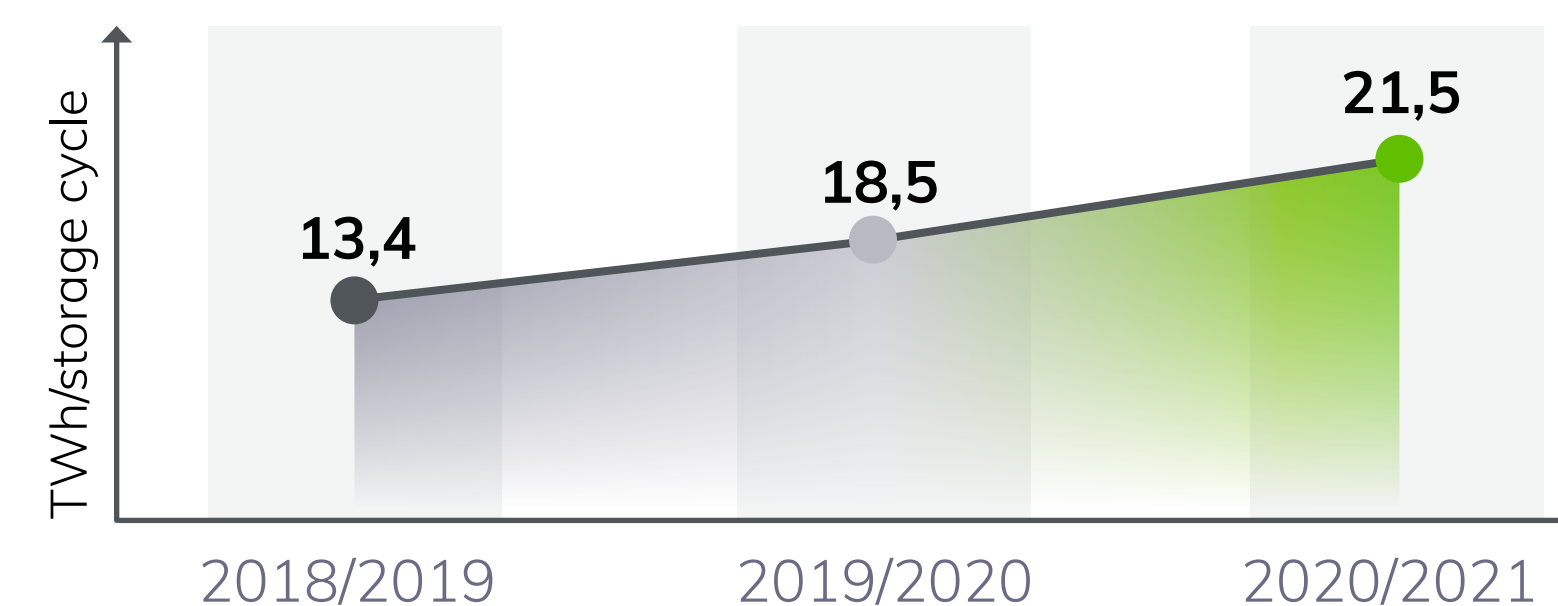
In summer of 2020, the interest in storage increased due to the advantageous gas price structure: a large price difference between winter and summer prices, which encouraged users to purchase natural gas and place it in storage in order to sell it profitably during the winter season.

In preparation for the next storage cycle, the technical capacity forecast for the storage cycle 2021/2022 published in November 2020 is 22,5 TWh. Since the interest of users in storage services remains high, it is expected that the demand for technical capacity to be used during the next two to three storage cycles returns to the designed limits.

■ Natural gas injected to Inčukalns UGS, TWh
■ Volume of natural gas withdrawn from Inčukalns UGS, TWh



Volume of reserved capacity in the Inčukalns UGS, TWh/storage cycle



Development

On 23 January 2019, the European Commission approved co-financing of 50% for the modernization of the storage facility. Investments will significantly strengthen the role of Inčukalns UGS as a modern and critical natural gas infrastructure not only in Latvia, but also in the Baltic and Finnish regions.

Inčukalns UGS development project aims to improve the functioning of the storage so that it can provide functionality after increasing pressure in the Baltic transmission system, as well as to reduce the dependence of productivity of the storage from the volume of natural

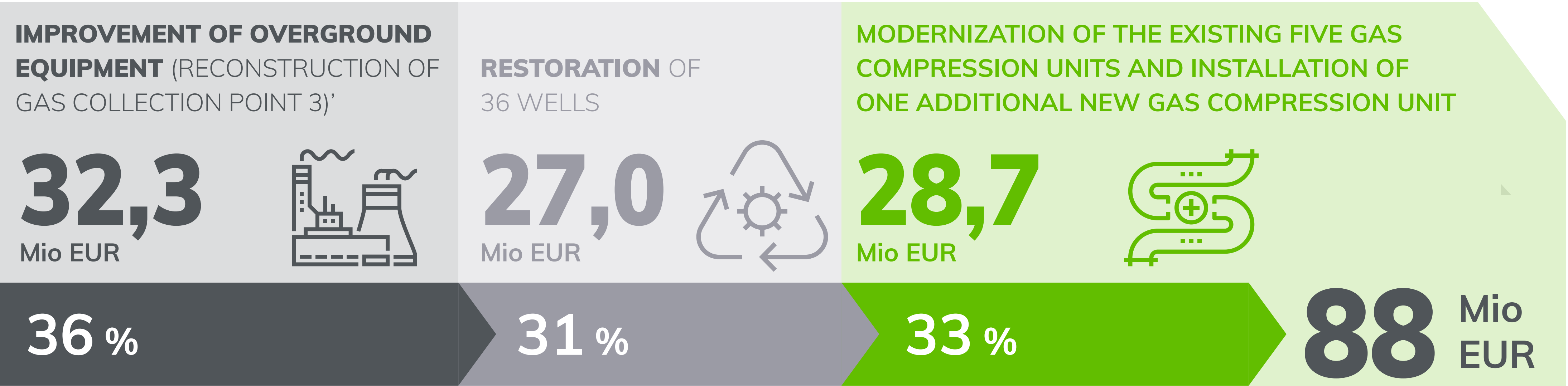
gas stored. A new compressor will be installed within the framework of the project to allow compression removal from storage, which will enable the output pressure of 50 to 55 bar in Inčukalns UGS interconnection with the transmission system even if the pressure in the reservoir is below the pressure in the transmission system. For wells and overground technological equipment operate at sufficient capacity in the new mode, certain improvements are needed, which are an integral part of this project. Besides, the project will reduce the environmental impact of the storage by reducing CO₂, NO_x, SO_x and other emissions.

Inčukalns UGS development project

The total funding of the project is 88 million EUR. By 2025, the following project sections are planned:



Co-financed by the European Union
Connecting Europe Facility



Transmission

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

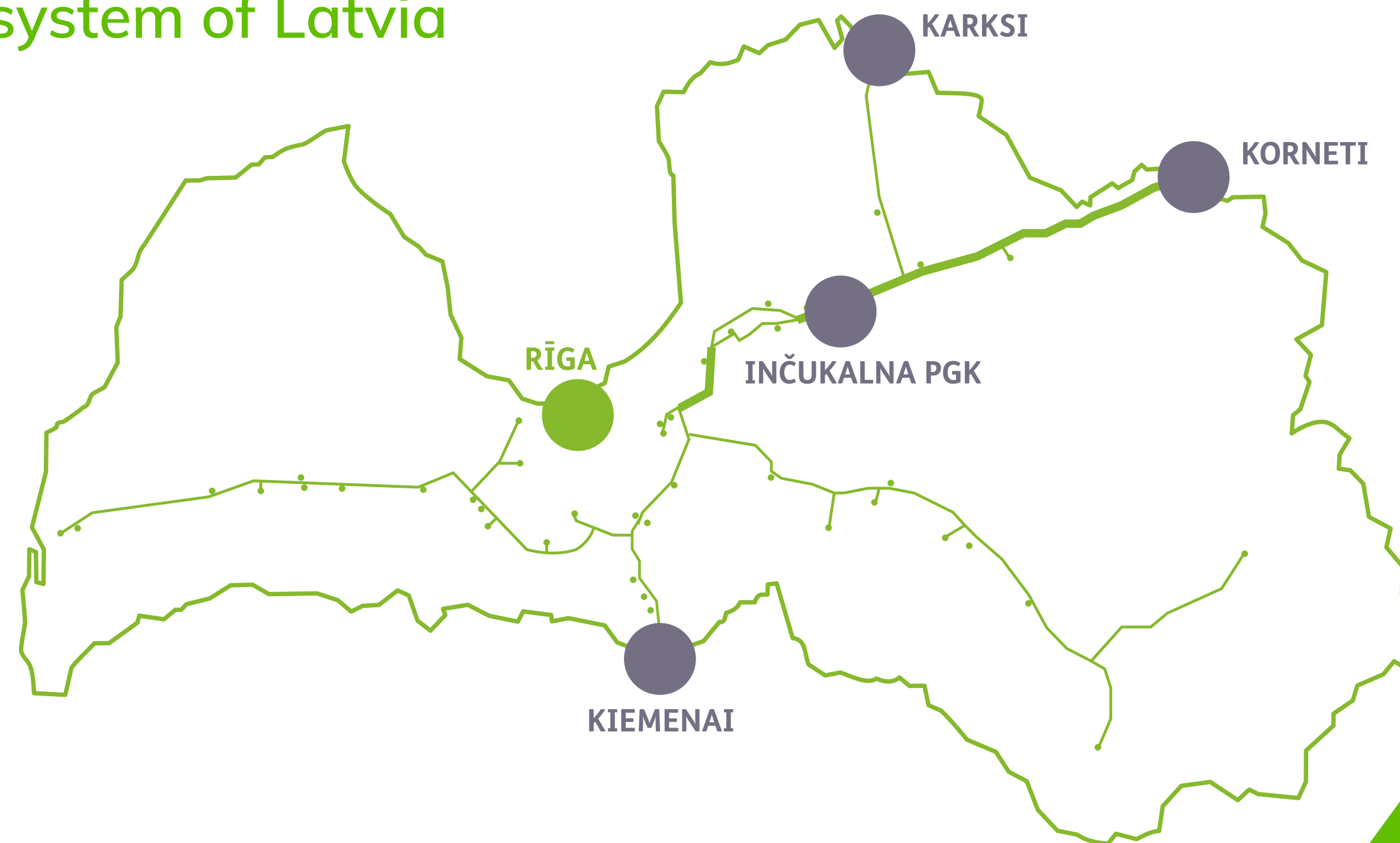
The modern main natural gas transmission system of the Company is 1 188 km long and is directly connected to the natural gas transmission systems of Lithuania, Estonia and Russia, ensuring both the transmission of natural gas in regional gas pipelines in the territory of Latvia and interconnections with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

The diameter of international gas pipelines of the transmission network of natural gas transmission system in Latvia is 720 mm with the operating pressure between 28 and 40 bars, while the diameter of regional gas pipelines is between 400 mm and 530 mm with the operating pressure up to 35 bars. To transport the natural gas to the local distribution system in Latvia, 40 gas adjustment stations are used. A virtual exit point is provided for the supplies of natural gas to Latvian users, which compiles all technically feasible exits in the territory of Latvia.

As a transmission operator, Conexus shall:

- ensure the stability of the transmission network and be responsible for technical balancing, which provides traders with continuous and secure supply opportunities,

Natural gas transmission system of Latvia



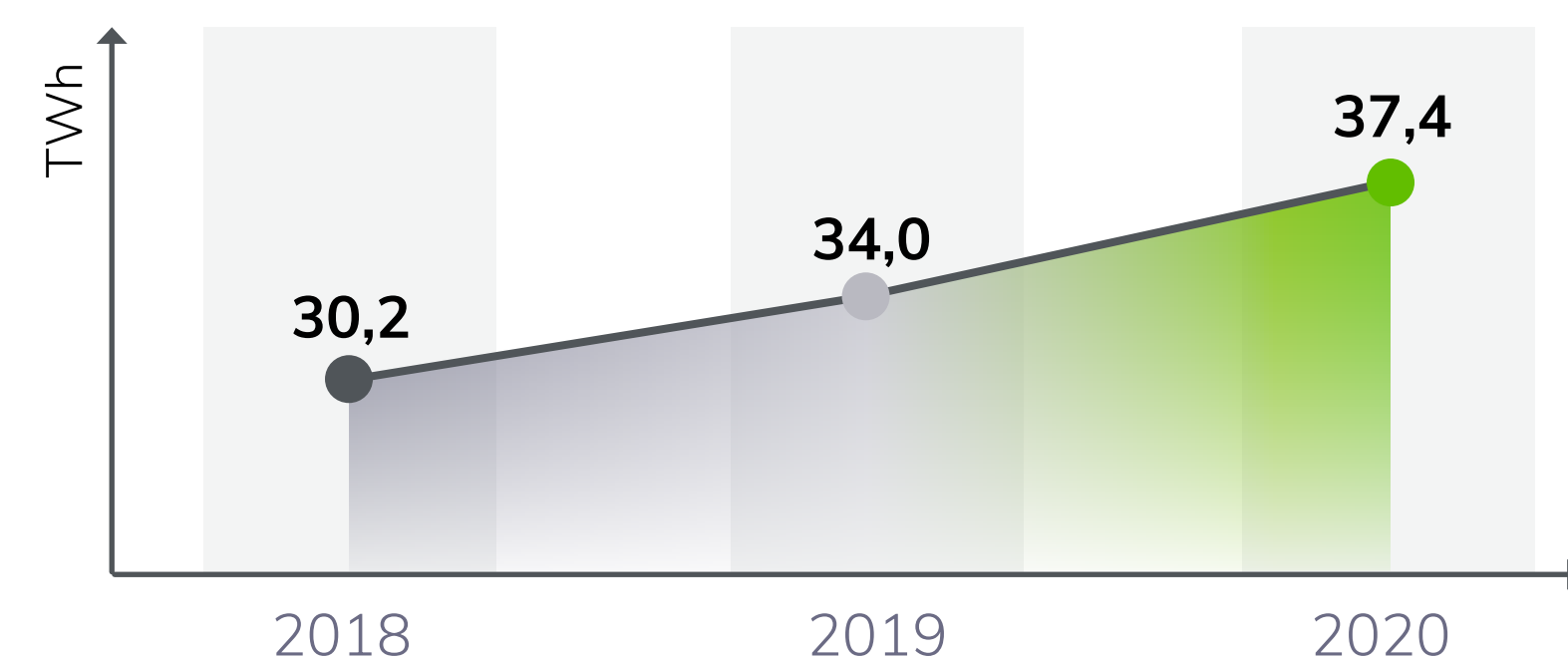
- ensure continuity in the provision of natural gas services by maintaining the infrastructure in a technical order,
- in accordance with the open natural gas market condition of Latvia, ensure the traders with non-discriminatory access to the use of gas transmission system through the sale of capacity products, so that traders can use the capacity of the main transmission networks for the wholesale and supply of natural gas to customers,
- together with the Estonian operator Elering maintains the virtual trading point (VTP) in the single natural gas balancing zone of Latvia and Estonia, allowing traders to transfer and receive ownership of gas in the system.

Transmission

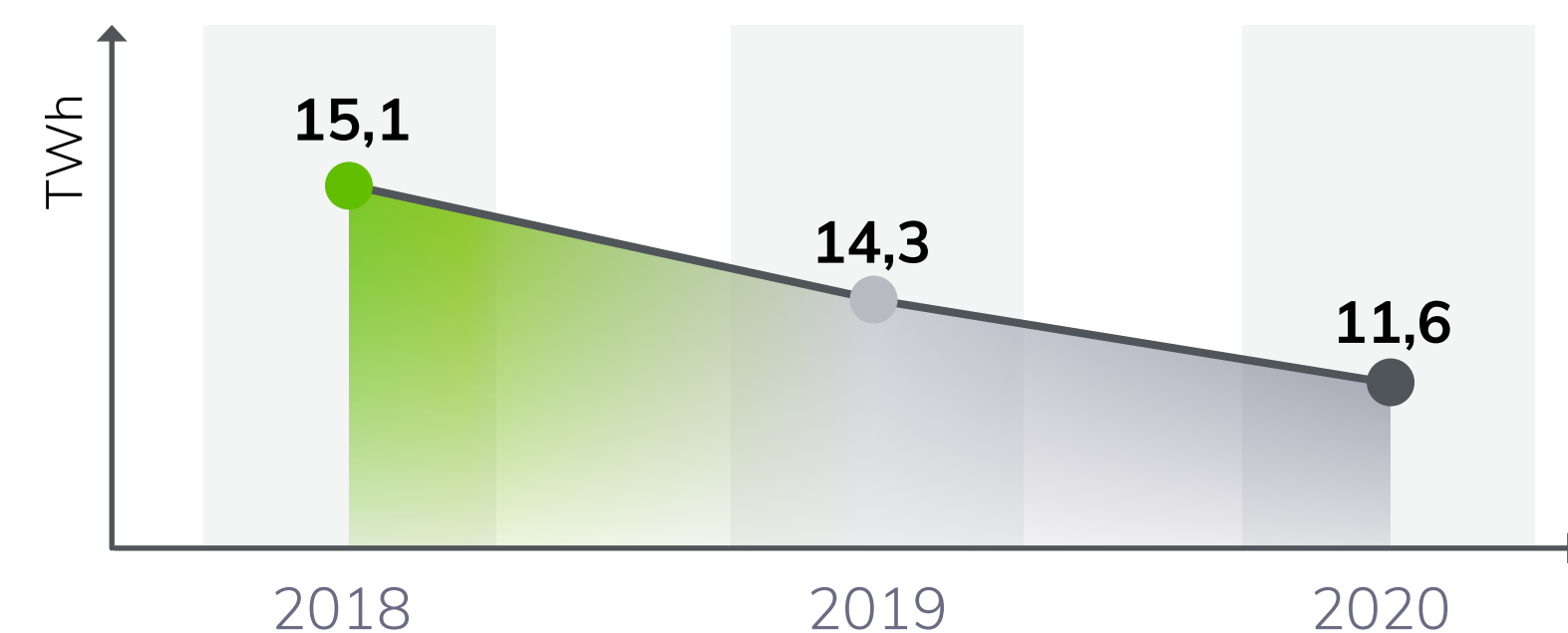
In 2020, the total volume of gas transported reached 37 TWh, which in comparison to prior year has increased by 10%. However, the volumes of transported gas for the consumption of Latvian users have decreased by 19%, forming 31% of the total outgoing flows.

During the reporting period, the revenues of the transmission segment were impacted by the warm weather conditions at the beginning of the year, which significantly reduced the demand for natural gas for heating purposes. The actual air temperatures during the winter months 2020 were not only higher than in 2019, but even higher than the historical norm. As a result, the overall consumer need for gas for heating purposes was lower than in the previous year.

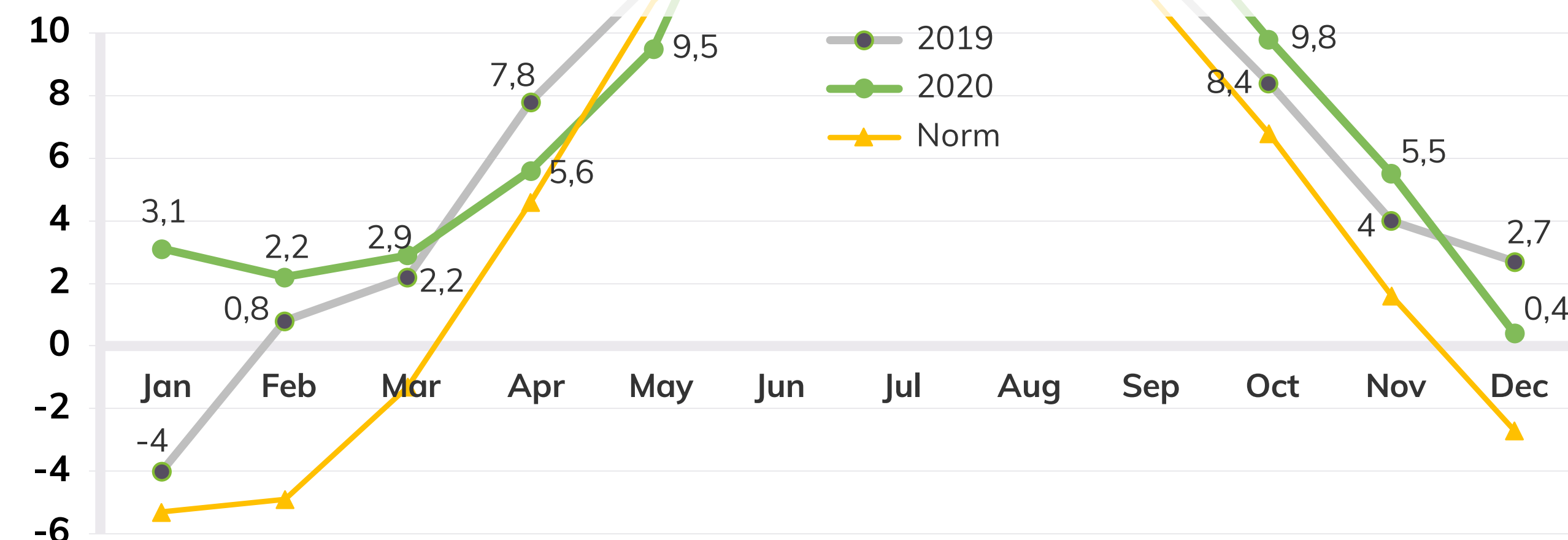
Transported natural gas, TWh



Natural gas for consumption in Latvia, TWh



Monthly temperatures during the heating season, °C



The single natural gas market

From 1 January 2020, the single natural gas market was launched which was created by the gas transmission system operators in Finland, Latvia and Estonia - "Gasum Oy", Conexus and JSC "Elering", on which the Baltic States and Finland worked actively in 2018 and 2019. It is the first single market region of this type in the European Union, where Latvia and Estonia form a common balancing zone, while Latvia, Estonia and Finland form a common entry tariff area.

The single natural gas market was designed to strengthen the energy independence of the countries and to make more efficient use of the cross-border natural gas transmission and storage infrastructure. The results of the first operation year of the single market zone show that all participants involved in the natural gas supply are significant winners.

The natural gas transmission system and gas end users have significantly higher options to select suppliers, because fees for border-crossing of these countries are cancelled thus facilitating the competition among natural gas traders.

Natural gas traders use more efficiently the offered natural gas transmission and storage infrastructure, while a single Estonian-Latvian balancing zone reduces the bureaucratic burden and creates a convenient and transparent process of balancing.

Market integration marks a significant step forward in Latvia's energy independence, sustainable and efficient use and broader availability of infrastructure, especially Inčukalna Underground Gas Storage, and wider opportunities in future to develop the production of the so called "green" gases and their use and inter-sector integration, which marks the progress to integration of the region to single gas market of European Union.

DAY

24%

MONTH

70%

CURRENT DAYS

2%

QUARTER

4%

YEAR

0%

The single natural gas market

The inter-operator revenue of the single tariff area entry points is distributed among Finland, Estonia and the Latvia transmission system operators by adopting jointly a single entry tariff in all three countries (0.39 EUR/MWh per unit for annual product) and by agreeing on distribution of retained revenues among operators in proportion to the natural gas consumption in each country.

In 2020, following the merger of Conexus into the single balancing zone with Elering, Conexus gets revenue from exit points to other countries only from Kiemenai exit point where the tariff set was identical to the single entry tariff – 0.39 EUR/MWh (unit costs for annual product). As of October 2020, the tariff for the supply of users in Latvia decreased to 2.00 EUR/MWh from the previous 2.11 EUR/MWh.

When assessing the distribution of reserved products in 2020, it should be concluded that system users are increasingly focusing on longer time frames for booking transmission capacity products, which was hardly observed in the past. The interest of system users in booking longer – monthly, quarterly and annual – capacities is explained by the product multipliers introduced in the tariffs, which provide cheaper costs for MWh when booking capacity products for longer periods and improve the overall performance of the system. When booking a day product, the costs of one unit are 0.59 EUR/MWh, monthly - 0.49 EUR/MWh, quarterly – 0.43 EUR/MWh and an annual – 0.39 EUR/MWh. Currently, the monthly product dominates in customer portfolios, which shows that users have assessed the monthly product as the most suitable assessing the future liabilities against costs per unit. It should be outlined that in 2020-year product reservation was made for the first time in Conexus history in Varsk entry point managed by Elering.



Development



Co-financed by the European Union
Connecting Europe Facility

At the end of 2019, the European Commission's Executive Agency for Innovations and Networks approved the allocation of funds for the project to increase the capacity of Lithuanian-Latvian gas pipeline, planning the total investment amount in this project of 10 Mio EUR, of which 5,5 Mio EUR applies to the Latvian transmission operator JSC "Conexus Baltic Grid". Within the framework of Connecting Europe Facility (CEF), the European Commission has granted EU support to increase the capacity of Lithuanian-Latvian gas pipeline connection in amount of 50% of the project's implementation costs.

By increasing the transmission capacity between Lithuania and Latvia, access to Klaipeda liquefied gas terminal, Latvia Inčukalns Underground Gas Storage and Poland-Lithuania gas interconnector, which is planned to be launched in 2023, will be promoted in the market. The aim of the project is to increase the capacity of Lithuania-Latvia interconnection by 70-80% on average, implementing improvements in the existing infrastructure.

The planned works on the Latvian side during the project will be reconstruction of individual spans in the main gas pipeline in order to increase the maximum working pressure from 40 to 50 bars. Through this investment, the capacity of gas connection will be increased to 130,47 GWh per day in the direction to Latvia (currently 67,6 GWh per day) and to 119,5 GWh per day in the direction to Lithuania (currently 65,1 GWh per day). The project is implemented by the end of 2023 with 17 sub-projects.

CONEXUS STRATEGIC FRAMEWORK FOR SUSTAINABILITY

The Company has developed the general corporate social responsibility policy with the aim of taking the most appropriate actions to promote the implementation of Company's strategy and sustainable development, as well as to integrate the social and environmental aspects into its business and in relations with the stakeholders.

In 2020, Conexus was awarded a silver-level award in the Latvian sustainability index, recognizing the efforts of the Company to address environmental, social and management issues. This was the second participation of Conexus in this external evaluation organized by the Institute for Corporate Sustainability and Responsibility.

Key aspects of sustainability

In order to improve sustainable development, define the sustainability framework and key aspects, in 2020 the Company carried out the analysis of the relevance of sustainability aspects, involving representatives of all main stakeholders. The evaluation was carried out on the relevant environmental, social and management aspects, taking into account the opinions of the stakeholders, conformity to management's assessment, the trends of other industry participants and opinions of external experts.

Sustainability, energy and societal experts from universities, non-governmental organizations, business organizations and specialized consultancy firms participated in the analysis. A total of 250 stakeholders and experts from ca. 200 organizations were addressed.

There was also a discussion among the leaders of the groups of individuals affected by the activities of Conexus, whose decisions and opinions affect the Company, involving them in online survey and individual negotiations conducted by neutral third-party consultants.

MAIN CATEGORIES OF STAKEHOLDERS:

Clients, business community	Professionals from energy industry and other gas companies (from Latvia and nearby countries)	Suppliers (products and services for infrastructure and office)	Public sector (policy makers, regulators)	NGOs on environmental and social issues, local authorities and public organizations	Financial institutions	Educational and scientific institutions	Owner/Member, Council	Employees and trade unions
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TYPES OF ENGAGEMENT: Online survey and interviews to assess the relevance of sustainability in 2020

Business relations	Business relations, networking	Business relations	Meetings with representatives (when required)	Meetings with representatives (when required)	Meetings with representatives (when required)	Joint projects	Council meetings, seminar sessions (when required)	Engagement and satisfaction survey
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MAIN EXPECTATIONS FOR PRIORITY SUSTAINABILITY ASPECTS:

Prevention of earth, air and water pollution	Secure energy supply, access to the grid	Safety and security	Safety and security	Responsible use of materials and waste management	Network security and safety	Sustainable energy solutions (transition to low carbon dioxide/renewable energy and innovation)	Fair and ethical corporate management, anti-corruption	Staff competence and availability of skilled future workforce
Secure energy supply, access to the grid	Safety and security	Secure energy supply, access to the grid	Staff competence and availability of skilled future workforce	Staff competence and availability of skilled future workforce	Fair and ethical corporate management, anti-corruption	Staff competence and availability of skilled future workforce	Network security and safety	Health and safety of employees
Fair and ethical corporate management, anti-corruption	Health and safety of employees	Health and safety of employees	Secure energy supply, access to the grid	Prevention of earth, air and water pollution	Secure energy supply, access to the grid	Protection of biodiversity and the natural environment	Health and safety of employees	Network security and safety
Network security and safety	Prevention of earth, air and water pollution	Staff competence and availability of skilled future workforce	Energy efficiency and reduction of carbon/methane emissions at work	Network security and safety	Staff competence and availability of skilled future workforce	Network security and safety	Staff competence and availability of skilled future workforce	Secure energy supply, access to the grid
Transparent public communication, active involvement of stakeholders	Energy efficiency and reduction of carbon/methane emissions at work	Prevention of earth, air and water pollution	Sustainable energy solutions (transition to low carbon dioxide/renewable energy and innovation)	Health and safety of employees		Sustainable procurement	Secure energy supply, access to the grid	Sustainable procurement

Environmental aspects - green colour. Employment and workplace aspects - yellow colour. Service responsibility aspects - blue colour. Management aspects - gray colour.

The analysis of relevance led to the definition of the 14 most appropriate sustainability aspects that Conexus should take care of with the highest degree of responsibility. The matrix below shows the priority level for each aspect:

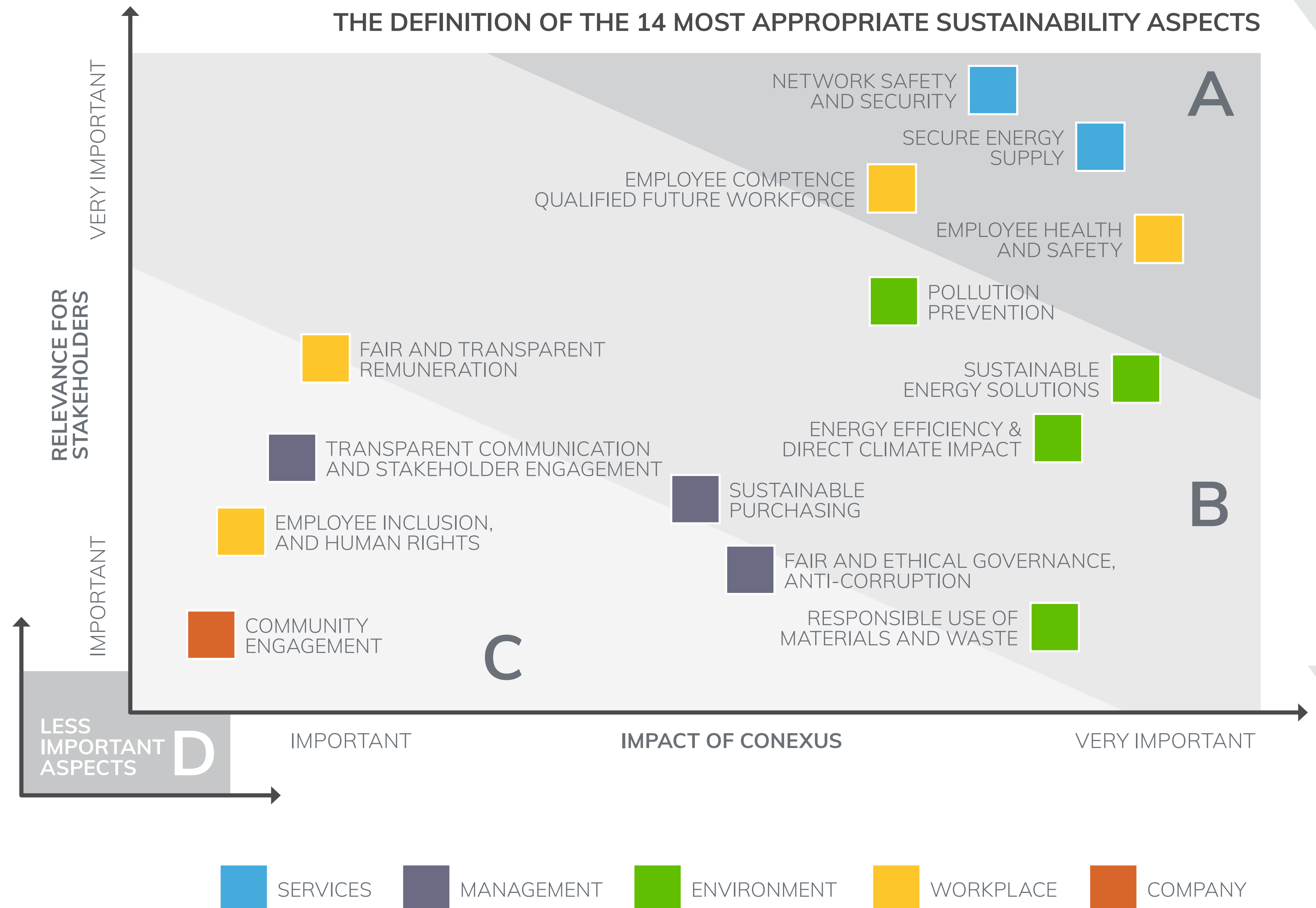
A - priority aspects which foresee safe and continuous provision of service

B - field of aspects where Conexus should contribute to reducing its environmental impact

C - field of aspects that contribute to the openness, fairness of Conexus and stakeholder involvement

D - other aspects of liability where Conexus must ensure compliance and a sufficient level of performance

Work on the development of Conexus Sustainable Development Program is started, setting targets, tasks and key initiatives that are seen in the context of the UN Sustainable Development Goals and sub-targets, which enable identification where the Company has a significant impact. The Sustainable Development Program will be integrated into Company's medium-term strategy in 2021.



Priority SDG-s for Conexus

To aim towards minimizing the footprint and maximising the positive impact of the core work of Conexus

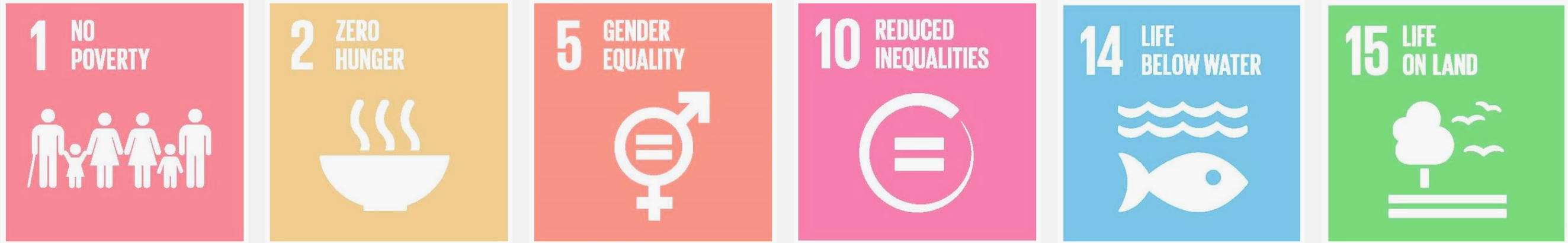


Medium-priority

To be managed with high responsibility and care, reduce risks and maximise positive effect
Although health and competence related sustainability topics are among the most relevant ones, SDG3 and SDG4 targets are not that directly linked to the impact and activities of Conexus



Low-priority



RESPONSIBILITY FOR SERVICES

Secure infrastructure

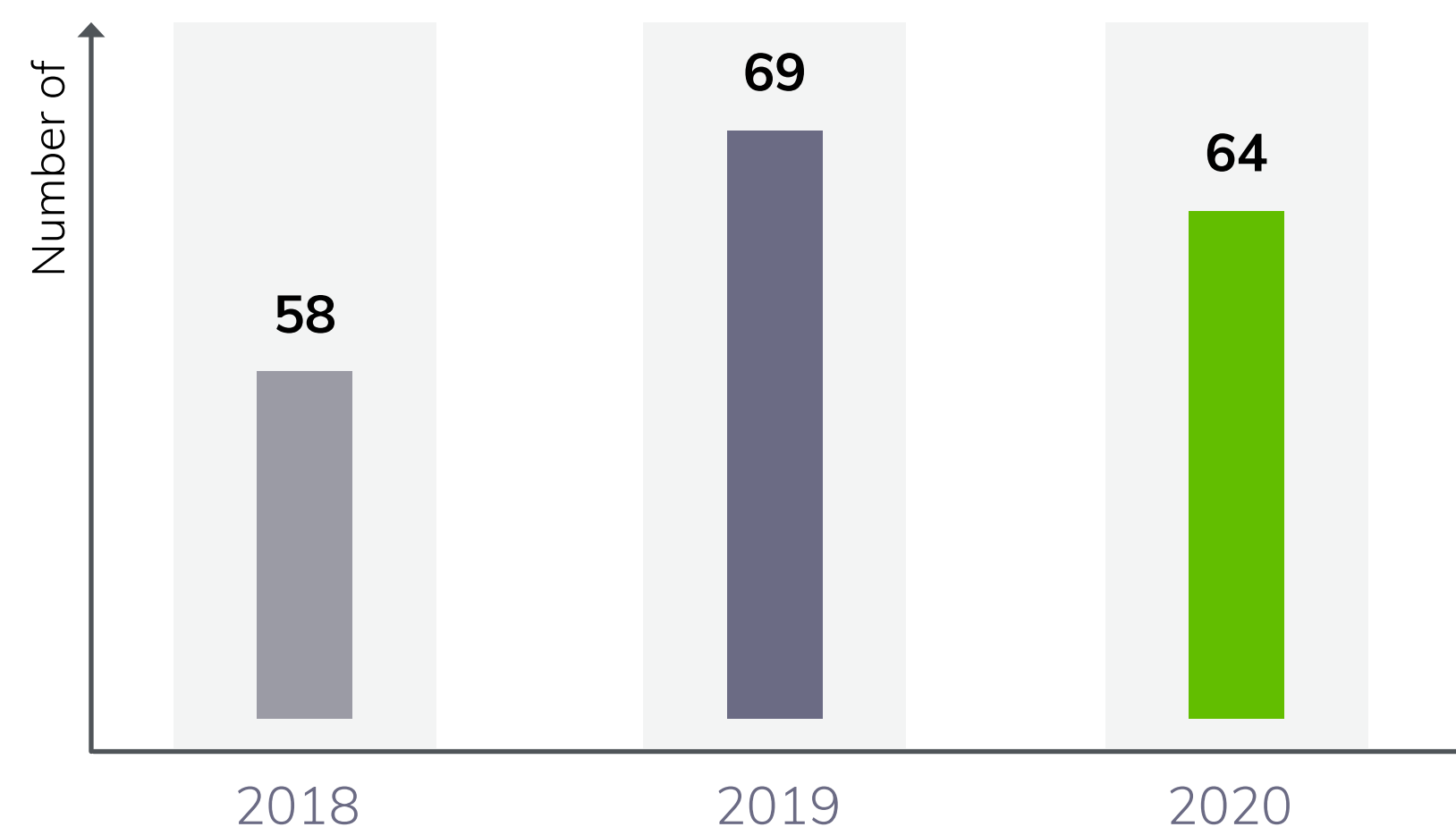
Safe, accessible infrastructure that corresponds to market conditions is one of the strategic goals of the Company. The technical order of systems and equipment, regular diagnostics and appropriate conduct of employees are key factors that determine the work safety. Technological solutions are constantly being improved in the Company to improve the inspection and surveillance processes.

Occupational health, work safety and environmental management policies and assets management policies provide the basis for a reliable operation of transmission and storage infrastructure:

- ◆ The Company has a safety management system, a plan of measures to reduce the risk of industrial accidents and a civil protection plan;
- ◆ Conexus complies with the binding standards and requirements for the maintenance, inspection, diagnosis and repair of equipment;
- ◆ working procedures and instructions for the diagnosis, analysis, operation and maintenance of the transmission and storage system (e.g. repair) and operative operation (e.g. emergency and accident response) are established within the Company, which ensures the detection of potential hazards;
- ◆ staff is regularly informed and trained on work safety issues;
- ◆ civil protection training is organized every three years, together with other organizations involved.

Emergency preparedness training is arranged at least every three months, in accordance with the approved emergency response plans. In 2020, 64 trainings were held.

Number of emergency preparedness trainings



Protective zones are around the infrastructure of the Company where construction or human activities not related to the infrastructure are not permitted. High security requirements are maintained in the Company, threats and incidents are investigated.

Inčukalns UGS is classified as industrially high-risk object considering the quantities of chemicals (methanol, natural gas) stored. In order to protect the surrounding population and the environment from potential industrial risks, different protection zones have been defined in the storage; there is explosion, fire and accident prevention equipment on site, and a set of measures for dealing with the above-mentioned situations have been established. One of the most important safeguards is the communication and monitoring technologies implemented in Inčukalns UGS, as well as the contracts concluded with qualified emergency response and prevention organizations.

In October 2020, there was a theoretical and practical training at Inčukalns UGS. Fire and rescue service, emergency medical service, police, environmental service, National Guard, security service and local authorities (Sēja, Krimulda, Sigulda) participated in the training together with the specialists of Conexus.

In 2020, no top level (level 3 and 4 according to the Company Emergency Management and notification procedures) incidents related to technical damage in installations, electricity interruption, environmental impact or impact on people were recorded. Two lower (level 2) incidents have been recorded.



In 2020, an evaluation of the physical security systems of Inčukalns UGS and gas transmission infrastructure was carried out.



Secure energy supply

Strategic task of the Company is to guarantee a secure and continuous energy supply. Customers must be provided with a continuous gas supply without disturbances and disruptions. The Company ensures transparent, equal and stable access to transmission and storage services.

Key measures taken and commenced by the Company for secure supply of energy:

- maintaining and modernization of adequate technical, information technology and cybersecurity infrastructure,
- introduction of a digital asset management system and projects of common interest of the European Union,
- independent diagnostics of internal system and reduction of identified incidents attempting to completely eliminate the incidents,
- optimized planning of technical maintenance works to reduce capacity limitations,
- establishment of a common balancing zone with Estonia,
- regularly monitored and assessed offer and demand trends in order to safeguard against a drop in the higher consumption period (winter),
- integration of the action plan for emergencies in wells into the civil protection plan,
- harmonized publication of Urgent Market Messaging (UMM) on a single website with the neighbouring transmission system operators,
- compliance with third party access (TPA) rules - capacity reservation, nomination, balancing, billing, timely and correct market information,
- open communication with market participants.

In 2020, Conexus invested 21,9 Mio EUR in modernizing the natural gas transmission and storage which are one of the largest investments of last few years. More information is included in the “Management report” section and in the sub-section “Segment performance”.

There was a very large difference in winter and summer gas prices during the injection season 2020, resulting in a higher demand in the market for capacity of Inčukalns UGS than was physically available.

	2020	2019	2018	2017
Deliverability (%) The ratio of nominations of network users executed	100%	100%	100%	100%
Delivery of Inčukalns UGS (%) The ratio is calculated including the quantity cut-off above the guaranteed minimum amount at Inčukalns UGS as part of the congestion management	100%	96.87%	99.92%	100%
Number of unplanned changes in transmission capacity	17	41	44	1
Number of justified customer complaints received	0	0	0	0
Number of significant (Level 3 and 4) incidents related to IT systems In line with the Company's emergency management and notification procedures	2	1	0	0

ENVIRONMENTAL RESPONSIBILITY

The basic principle of Company's environmental management is the environmental impact assessment of operation and planning and implementation of mitigation measures. The Company has implemented an environmental management and energy management system to ensure the sustainable and environmentally friendly operation and development of storage and transmission systems and to reduce operational environmental risks. The management systems implemented are based on ISO 14001 environmental management standard as well as on the requirements of ISO 50001 energy management standards, that are duly certified.

The management of environmental aspects and environmental impacts, both in gas transmission and in an underground gas storage, which has been granted a category B pollutant activity authorization and a greenhouse gas emission permit, is a major focus. Conexus participates in European Union's emission allowance trading scheme. In 2020, no significant environmental infringement was identified, and all the conditions set out in environmental legislation were met.

Energy consumption and greenhouse gas emissions from Company's operation

The main emissions that arise and are related to Company's operation are methane and carbon emissions. Both direct methane emissions and the combustion of natural gas in equipment, boilers in gas regula-

tion stations and compressors are the main sources of greenhouse gas emissions at Conexus. Most emissions arise from planned activities.

During the gas transmission process, emissions arise from: operation of natural gas pneumatic valves, testing of pneumatic regulators, pressure reduction at GRS by freeing devices from natural gas, blowing of natural gas cleaning equipment, refilling of odorant supply system, leakage of natural gas, from natural gas that has leaked from pipelines due to repairs, repair and replacement of fittings, elimination of accidents and dehydration operations; and from economic activity: burning natural gas for technological needs and heating of premises.

During gas storage: by blowing gathering and other pipelines with gas, eliminating the condensation from different equipment, by launching gas motor compressors, by partially reducing gas pressure in gas pipelines and equipment, by removing gas-gas mixture gas purification plant (systems) connecting pipelines, by opening and closing the isolation valve, by conducting geophysical studies. Emissions also occur as leakage from the gas pipeline parts isolation valves, as a result escape compressors non-tightness, escape fountain fittings, intercolumnar gas leaks, escaping gas from gas-operated compressors and the gas-air-cooling equipment and other appliances, from equipment applicable to compressor No. 1, and from economic activity: burning natural gas for technological needs and heating of rooms.

Emissions are limited by improving technological processes, implementing continuous technological improvements and repairs, and planning all measures to be taken.

Environmental performance:

	2020	2019	2018
Energy consumption			
Total energy consumption in the Company, MWh (including natural gas (for heating and technological processes), fuel and electricity)	161 382	183 566	137 118
of which electricity consumption, MWh	5 889	5 611	4 852
of which thermal energy consumption, MWh	152 965	175 378	130 438
Indicator of Underground Gas Storage energy consumption Indicator = consumption of natural gas for process provision at Inčukalns UGS (m³/year)/pumped volume of natural gas at Inčukalns UGS (m³/g)	0.0101	0.0104	0.0105
Indicator of gas transmission system energy consumption Indicator = consumption of natural gas for transmission system processes (m³/year)/volume of natural gas conveyed through transmission system (m³/year)	0.016	0.022	0.028
	2020	2019	2018
Greenhouse gas emissions			
Direct greenhouse gas emissions (CO₂ and CH₄ emissions), tCO₂ equivalent¹	51 975	49 104	29 735
of which CO ₂ emissions	27 127	31 775	23 436
of which CH ₄ emissions (converted to CO ₂ eq.)	24 849	17 328	6 300
Greenhouse gas emissions indicator for Inčukalns UGS (CO₂ and CH₄ emissions converted to CO₂ eq.) Indicator = GHG emissions from processes in Inčukalns UGS (CO ₂ kg/g + CH ₄ kg/g = GHG emissions expressed as CO ₂ eq.(kg))/volume of natural gas pumped in Inčukalns UGS (1000 m³/year).	23.052	22.791	24.204
Greenhouse gas emissions indicator for transmission systems (CO₂ and CH₄ emissions converted to CO₂ eq.) Indicator = GHG emissions from processes in transmission system (CO ₂ kg/g + CH ₄ kg/g = GHG emissions expressed as CO ₂ ekv eq.(kg))/volume of natural gas conveyed through transmission system (1000m³/year).	6.196	4.783	1.196
Other emissions to air			
Quantity of NO_x emissions, tons ²	56.67	52.91	36.12

¹ The CO₂ emission coefficient is determined by national methodology (ftp://ftp2.meteo.lv/Gaiss/Gaisa_piesarnojums/CO2_metodika/CO2_met_2021.pdf). CH₄ global warming potential for the calculation of CO₂ equivalent (28) is determined according to https://www.ghgprotocol.org/sites/default/files/ghgp/Global-Warming-Potential-Values%20%28Feb%2016%202016%29_1.pdf

² The national methodology is for transmission boilers. Cabinet Regulations that became invalid as of 14.01.2021: <https://likumi.lv/ta/id/98099-vides-prasibas-mazo-katlumaju-apsaimniekosanai>. From 2021 onwards, the calculation methodology and coefficients will be different. Inčukalns UGS emission calculations were based on a pollution emissions limit project.

Increasing focus is paid on methane emissions

The Company will continue the work on finding more effective solutions by assessing the best available technological methods for technological improvements and the use of more environmentally friendly energy resources (such as electrification and renewable energy) to find ways to reduce greenhouse gas emissions (including methane emissions) and improve energy efficiency.

The most important related activities and development projects:

- the compressor workshop modernization project (with the aim of reducing emissions of NO_x, CO₂ and CH₄ in flue gas, improving energy efficiency) is planned to be completed in 2024,
- gas collection point modernization project (with the aim of reducing CH₄ emissions),
- installation of automatic equipment in gas control stations is continued,
- repairs in gas transmission network are continuously planned (with the aim of reducing CH₄ emissions).

Water abstraction and pollution prevention

Company’s operations have an impact on the environment, including pollution of different kinds and consumption of natural resources.

Water abstraction. For the operation processes and self-consumption in underground gas storage, water is extracted from five wells. The Company has received a permission to extract water, and the natural resources tax is paid depending on the amount of water obtained. The water used in the underground gas storage is purified appropriately and returned to the environment. But water in gas transmission facilities comes from the utility’s providers.

Wastewater. Industrial (production) wastewater is produced with the exception of gas from underground storage - certain chemicals are to be used to separate the water from gas and for hydrates prevention, which is the main source of water pollution. The risk of pollution of entrails of the earth is prevented by testing first the industrial wastewater and then returning it to the entrails of earth (by being pumped back into the wells). All wastewater activities are carried out in accordance with a permit prescribing the amount of industrial wastewater and the permitted level of pollution, as well as strict conditions for reducing the environmental impact of the extraction. According to regulatory provisions, the permit for polluting activities and water extraction is granted by the State Environmental Service. Natural resources tax is paid for the pollution generated and the amount of water used.

In 2020, the reconstruction of water preparation plant of Inčukalns UGS compressor workshop is started, which will bring significant improvements in the efficient use of natural resources and in the reduction of environmental pollution.

	2020	2019	2018	2017
Total water abstraction, m³	9 849	11 121	10 290	9 487
of which extraction of underground waters at Inčukalns UGS	8 361	6 863	7 807	7 773
of which the extraction of drinking water from the external supplier	43	50	45	42
of which the extraction of household water from the external supplier	1 445	4 208	2 438	1 672
Total volume of wastewater, m³	25 416	33 203	24 323	43 007
of which created at Inčukalns UGS and discharged into the environment after treatment	24 039	29 054	21 918	41 370
of which have been transferred to an appropriate treatment service provider	1 377	4 149	2 405	1 637
Volume of industrial (production) wastewater, m³	289	222	425	148

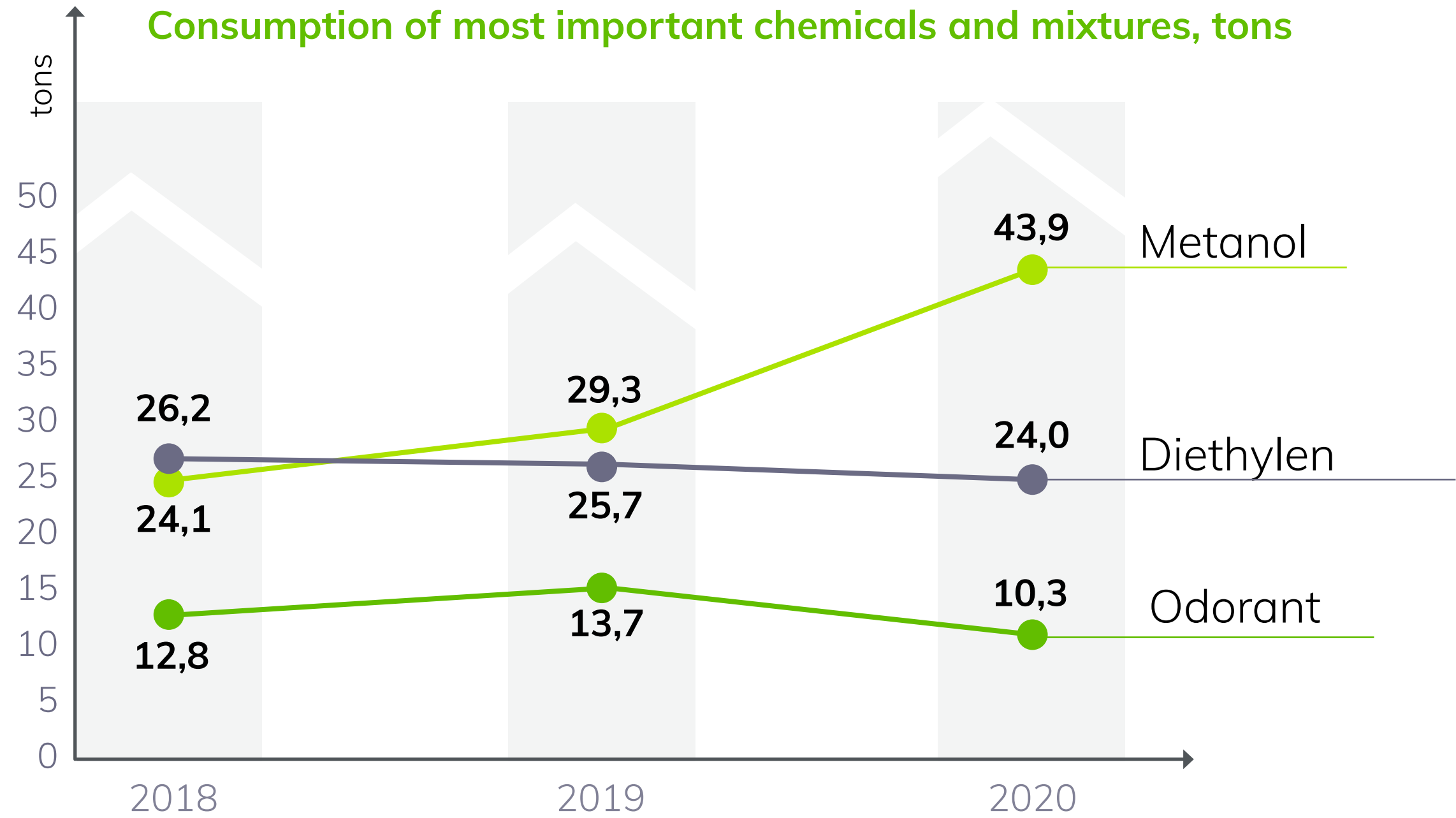
Consumption of chemicals

Methanol, diethylene glycol and odorant are some of the hazardous chemicals used by the Company. During the gas extraction process, methanol is injected into the natural gas during the winter period, if necessary, to prevent crystalline hydrates from forming as a result of the throttling process. Further, natural gas is transferred to a gas drying unit, where excess moisture is removed with the aid of diethylene glycol. The diethylene glycol is recovered after drying in a non-standard plant - evaporator and reused during the natural gas drying process.

Due to the fact that natural gas is odourless in the gas transmission system, the transmission system operator carries out its odorization by adding an odorant enabling people to smell the natural gas.

In 2020, no significant chemical leaks were detected (in 2019: 0).

Other hazardous and non-hazardous chemicals and mixtures are also used to ensure Company's operations, but their volume and hazards are not assessed as relevant when compared with the mentioned substances.



Waste management

The main materials used by the Company are steel pipes, pipe insulation materials and various chemicals (paints, oil products, etc.). The amount of materials purchased is thoroughly planned to ensure efficient use of materials.

In addition to the residues of the above-mentioned materials, a large waste is the mixture of water and oil products from pumping facilities (collected during pipeline inspections) and depreciated infrastructure installations.

The Company has established waste management procedures, which also include contracts for the collection of hazardous waste, collection of sorted and unsorted waste, and various partners are involved in the proper management of waste. The amount of municipal and hazardous waste generated is calculated and controlled annually.

	2020	2019
Total weight of hazardous waste produced, tons	111	154
Percentage of hazardous waste delivered for recycling ³	100%	100%
Total weight of non-hazardous waste, tons	96	78
Percentage of non-hazardous waste delivered for recycling	33%	13%
Percentage of non-hazardous waste delivered for landfill	67%	87%

³ Information on the amount of hazardous and non-hazardous waste is provided by the waste management company.

The challenge of Conexus - transition to a more environmentally friendly energy sector

The energy sector plays an important role in Company's progress toward a sustainable and carbon-neutral future. In the light of the European Green deal, changes in EU and national policies, plans and regulations, the importance of climate-friendly and sustainable energy solutions and the expectations of stakeholders have increased rapidly.

In the Eastern Baltic region (Finland, Estonia, Latvia and Lithuania), a significant drop in natural gas consumption was observed in the first 6 months of 2010, due to general energy efficiency improvements in energy consumption and electricity generation, as well as the shift to more environmentally friendly or renewable sources in the production of electricity and heat, thus reducing the natural gas consumption. In the second half of the decade, gas demand stabilized, and fluctuations reflected mainly the effects of climate conditions and fluctuations in electricity production volumes caused by market conditions.

According to the common TYNDP (Ten-Year Network Development Plan) 2020 scenario report of the European Network of Gas and Electricity Transmission System operators (ENTSO-G and ENTSO-E)⁴ for the development of the energy sector in the EU by 2050, there are three significantly different potential scenarios:

- 1.** national trend scenario
- 2.** global ambition scenario
- 3.** a distributed energy scenario

⁴ <https://2020.entsos-tyndp-scenarios.eu/>

Despite the drop of consumption due to the above circumstances, gas continues to play a significant role in the overall primary energy consumption structure in Latvia.

Following global trends, the Company has considered the risks of energy policy that need to be considered in long-term strategic planning in its risk assessments.

The Company is aware of its role in development of a long-term climate-neutral, integrated energy system, focusing on the development of renewable electricity, carbon-neutral and low-carbon gases, with operational processes being organized toward a circular economy.

THE WORK OF CONEXUS IN THE ENERGY TRANSITION TOWARD A MORE ENVIRONMENTALLY FRIENDLY ENERGY SECTOR IS BASED ON THE FOLLOWING PILLARS:



improved understanding, knowledge and competence of the Company's employees



improved infrastructure to be ready for sustainable gas storage and transport



cooperation with other stakeholders in the development of a sustainable gas market



participation in policy-making processes at national and regional level

A strategically important energy policy document in Latvia is the National Energy and Climate Plan (NECP) 2021-2030. Latvia has set a target to ensuring that 50% of energy consumed is generated from renewable sources by 2030, as well as reduce GHG emissions by 65% (when compared to 1990).

Recent events and investments in 2020:

- ✦ The Company participated in the report of the Gas Infrastructure Europe (GIE) CAE and DAE task force on decarbonization “How can gas infrastructure contribute to the EU’s long-term decarbonization objectives”⁵;
- ✦ The Company participated in the studies of the Gas Infrastructure Europe (GIE) Gas Storage Working Group on “The value of gas storage infrastructure in energy system” and on “Development of specific proposals for European legislation on gas storage”⁶;
- ✦ Two energy transition projects (ETR) are submitted to EntsoG TYNDP2020: “Biomethane production with infrastructure building/enhancement in Latvia” and “Power to Gas Production with infrastructure building/enhancement in Latvia”⁷;
- ✦ The Company acts as coordinator of the regional group of operators on hydrogen injection into gas infrastructure;
- ✦ The Company participates in the European Clean Hydrogen Alliance⁸;
- ✦ By the end of 2020, one CNG facility was connected to the gas transmission system (0 in 2019);
- ✦ amendments to the law are proposed, which provide that Conexus is the issuing authority for proofs of origin in Latvia as of 1 January 2022;
- ✦ international co-operation with other national gas TSOs in RES in low emission gas matters with participation of Green Gas Coordination Group, European Hydrogen Alliance, GIE and ENTSG;
- ✦ exploring the potential of hydrogen to identify the opportunities and, where appropriate, to ensure the uptake of RES gases into the system.

⁵ https://ec.europa.eu/info/sites/info/files/energy_climate_change_environment/events/documents/02_mf34_intervention-gie-ceesee_regions_decarbonisation-kus.pdf

⁶ <https://www.gie.eu/index.php/gie-publications/studies/28628-elaborating-concrete-european-legislative-proposals-on-gas-storage/file>

⁷ <https://tyndp2020.entsog.eu/infrastructure/energy-transition-projects/>

⁸ https://ec.europa.eu/growth/industry/policy/european-clean-hydrogen-alliance_en

RESPONSIBILITY FOR THE EMPLOYEES AND THE WORKING ENVIRONMENT

Occupational health and labour safety

The main objective of Conexus labour safety and occupational health is to prevent accidents and occupational diseases among employees and subcontractors. The Company works actively to achieve this goal, focusing on what is defined in the Occupational health, labour safety, and environmental management policy:

- 🌱 continuous compliance with the requirements of the laws, standards, and management systems,
- 🌱 setting effective targets and measures,
- 🌱 maintaining a high level of competence,
- 🌱 high-level emergency preparedness,
- 🌱 taking preventive actions,
- 🌱 cooperation and communication.

Safety management system

Accidents at the workplace can only be completely prevented if a safe working process is guaranteed, so every employee must meet all safety requirements. In order to implement the safety and health measures, the Company maintains and continuously improves the management system in accordance with the requirements of ISO 45001 Occupational health and safety management system. The certification requirements apply to all sectors of the Conexus activity and to staff.

Safety culture

In 2018, the assessment of culture of occupational health, safety and environmental management was carried out in the Company to identify any potential problems at all levels of the working environment, develop solutions and facilitate the daily work to employees. The results revealed that the employees in the Company have a high understanding of the causes of different hazards and the existing systems for risk prevention. At the same time, improvements possibilities were identified, such as the procedure for reporting accidents, near-accidents and unsafe situations at work. Several initiatives have been proposed to improve the labour safety culture, including the promotion of employee involvement in solving related issues, such as the launch of manager's safety rounds in 2019, facilitating the interaction between management and staff. In 2020, these rounds were made to the expected extent, resulting in 37 observations and proposals for improvement.

There is a growing interest and willingness of employees to engage in the creation of a safe working environment. In 2020, staff' proposals were particularly valuable in the context of the pandemic, emergency, and national restrictions: ideas on possible improvements, remote working and personal protective equipment were suggested. It should be emphasised that the safety of employees is a priority at Conexus and the managers are responsive to these proposals.

Understanding about health and safety

To achieve and maintain high safety and health standards, Conexus regularly provides the most up-to-date information, training and professional development to its staff.

Employees are trained in labour protection, fire safety, first aid, hazardous work, specific maintenance activities for gas systems, electrical safety and wellbeing. Initial training is provided for employees when starting their work in the Company, but recurrent training or other thematic training is provided during their work.

In 2020, the Company paid special attention to the mental health and well-being of its employees by introducing two important initiatives. Initially, the index of the emotional climate of the employees of Conexus was determined which identified the most urgent needs, and at the end of the year an eight-week training program “Strengthening the well-being of employees” was launched, covering a different related topics such as social, mental, emotional, physical and environmental well-being.

The good practice in safety management

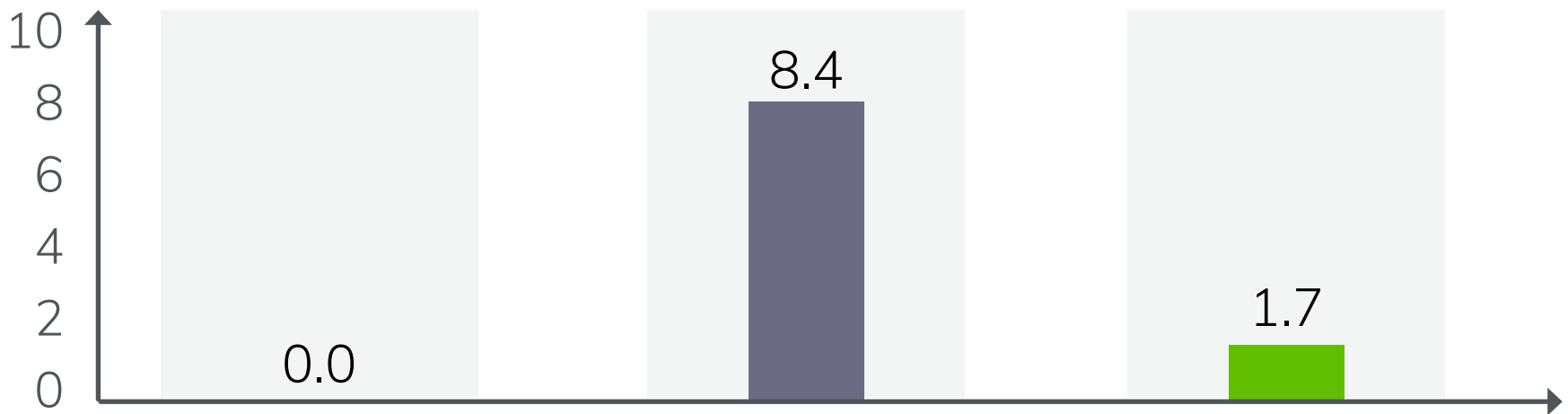
The aim of Conexus is to become an example of good practice in the field of health and safety among Latvian companies and other European gas infrastructure companies, therefore the experts of the Company actively participate in public events and discussions, sharing experience of Conexus and providing opinions on draft normative acts.

The activities of the Company in the field of safety have been highly appreciated by third parties. In 2020, Conexus won a silver award in the category “National and municipal car fleet with lowest risk” in the annual award “The safest car fleet of a company” organized by the insurance company “BALTA” and the Ministry of Transport.

Work safety and occupational health performance

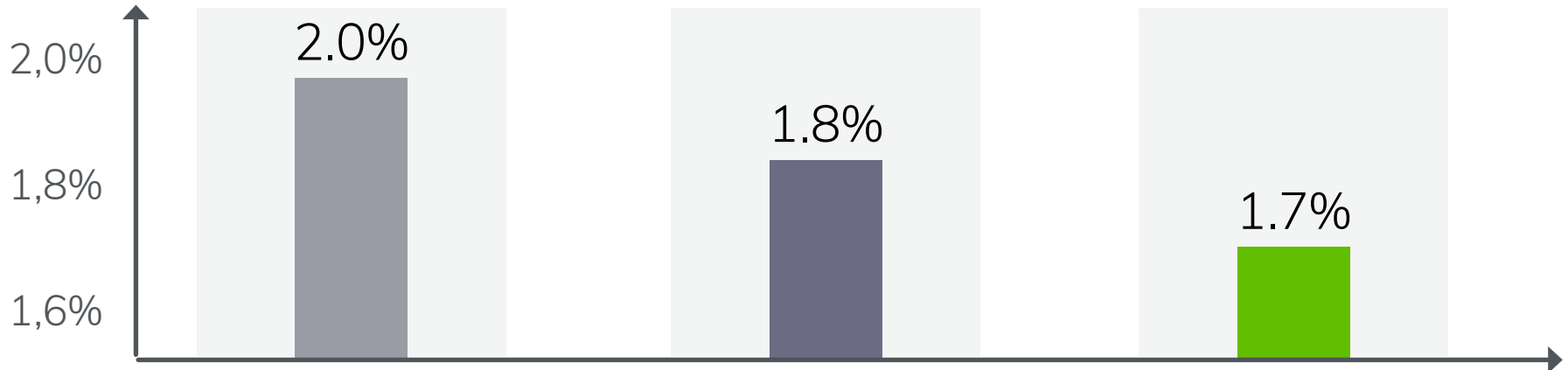
During 2020, no severe accidents at work were recorded (0 in 2019; 0 in 2018) or work-related deaths (0 in 2019; 0 in 2018). And there were no accidents at work resulting in a loss of working days (5 in 2019; 0 in 2018). The aim of Conexus is to keep these figures within zero in the future.

Total registered accidents frequency
(per 1 000 000 working hours)

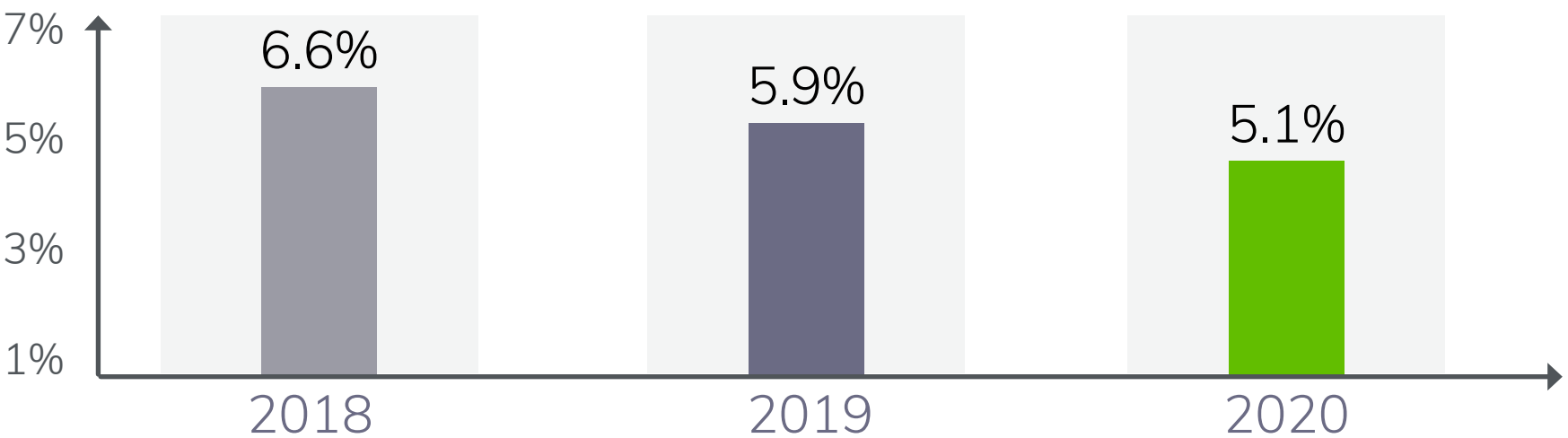


In 2020, one accident at work was registered (5 in 2019, 0 in 2018).

Proportion of active occupational disease cases among employees, %



Proportion of absence from work
(illness days percentage of total workdays), %



In 2020, different activities were organized for the employees to raise their awareness of the well-being, a total of 31 hours (27 in 2019; 17 in 2018). 10 hours were devoted to the well-being, 13 hours - to physiotherapy and 8 hours - to annual sports games for staff.

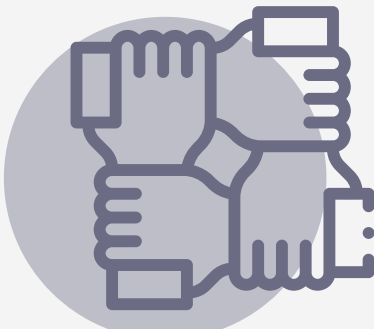
Employment relations, incorporation, and involvement of employees

One of the main values of Conexus is loyal and professional employees, regardless of gender, nationality or other factors. The team of Conexus is characterized by diversity, equality, and non-discriminatory treatment, aiming to create a truly inclusive working environment where employees can fully realize their potential.

	2020	2019	2018	2017
Staff and diversity				
Total number of employees	341	343	350	356
Percentage of women in the Company	18%	19%	18%	19%
Percentage of men in the Company	82%	81%	82%	81%
Proportion of women in managerial bodies	19%	15%	21%	27%
Proportion of men in managerial bodies	81%	85%	79%	73%
Percentage of employees over 50 years of age	38%	42%	44%	47%
Employee turnover and succession				
Total turnover level (%)	12%	9%	10%	8%
Percentage of vacant management positions held by own staff (promotion to a new position in the Company)	12%	21%	29%	0%
Number of trainees working in the organization during the reporting year	8	2	0	0

In 2019, Conexus staff policy was approved, according to which the Company ensures the growth of employees and the overall development of the sector, creating sustainable employment and added economic value, while taking care of the environmental impact of technological processes. Remuneration plays an important role in attracting, motivating, and retaining skilled professionals.

The remuneration system of Conexus is based on the following basic principles:



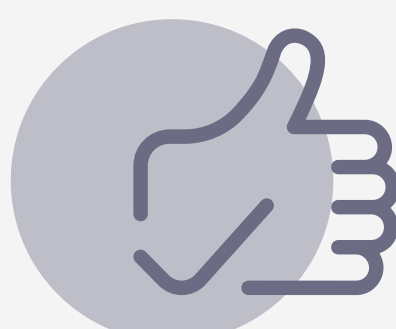
FAIRNESS: A COMMON PRINCIPLE FOR THE WHOLE COMPANY



COMPETITIVENESS: THE LEVEL OF SALARY IS IN LINE WITH LABOUR MARKET TRENDS



TRANSPARENCY: REMUNERATION IS UNDERSTANDABLE TO ALL EMPLOYEES OF CONEXUS



MOTIVATIONAL POWER: ENCOURAGES PROFESSIONAL GROWTH AND MOTIVATES EMPLOYEES TO DO MORE, FASTER AND BETTER

In order to remain competitive and to comply with the most advanced salary trends, the Company regularly assesses its practice in this field by carrying out studies in cooperation with the staff management consulting company “Fontes”.

The generations of labour are changing, so financial incentives cannot be the only instruments that motivate employees. The reputation, welfare, remote working, flexible working arrangements are some of the aspects that are becoming increasingly important for the employees at Conexus. At the beginning of 2020, before the changes dictated by the pandemic, Conexus introduced remote working solutions with a fixed number of days that employees can work remotely.

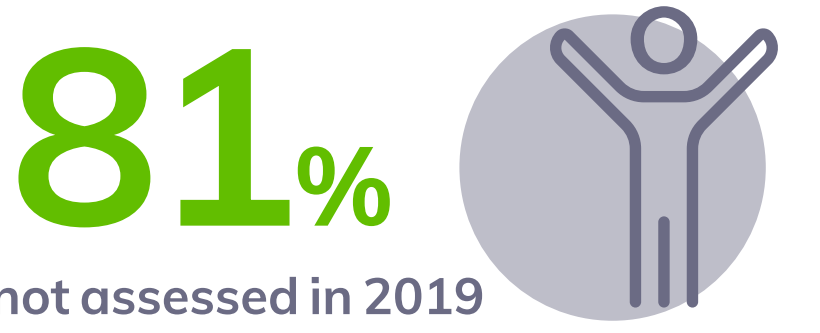
In 2020, the Company’s staff assessment system was improved to prevent any subjectivity by ensuring a common understanding of the criteria among all those involved.

In 2020, the new digital staff management system was also introduced, which promotes transparency and internal communication, as all information needed by employees is easily accessible. Each employee has its own digital profile, where all relevant data (salary, evaluation results, etc.) can be accessed and managed, for example, to apply for annual leave or benefits.

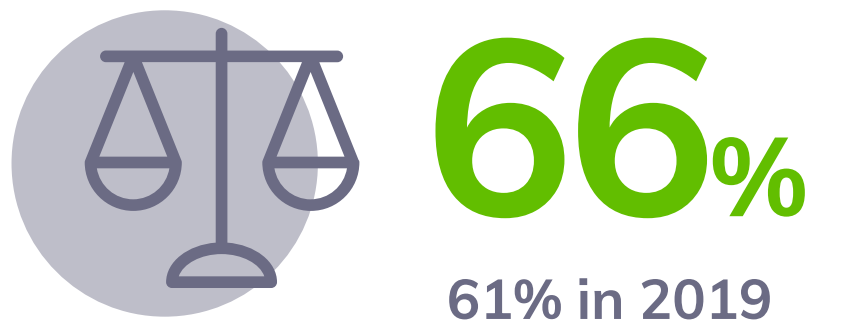
Various employee involvement surveys provide an opportunity to express their views and provide feedback to Conexus management, enabling it to improve the work of its teams. **The survey in 2020 showed:**

Several internal means of communication are used, such as the ‘Conexus code’ newspaper and the ‘Insider’ intranet so that employees are informed about current events, objectives and they could act in a coordinated manner. In 2020, in the result of a targeted communication 73% of staff said they had a clear understanding of goals and long-term strategy of the Company.

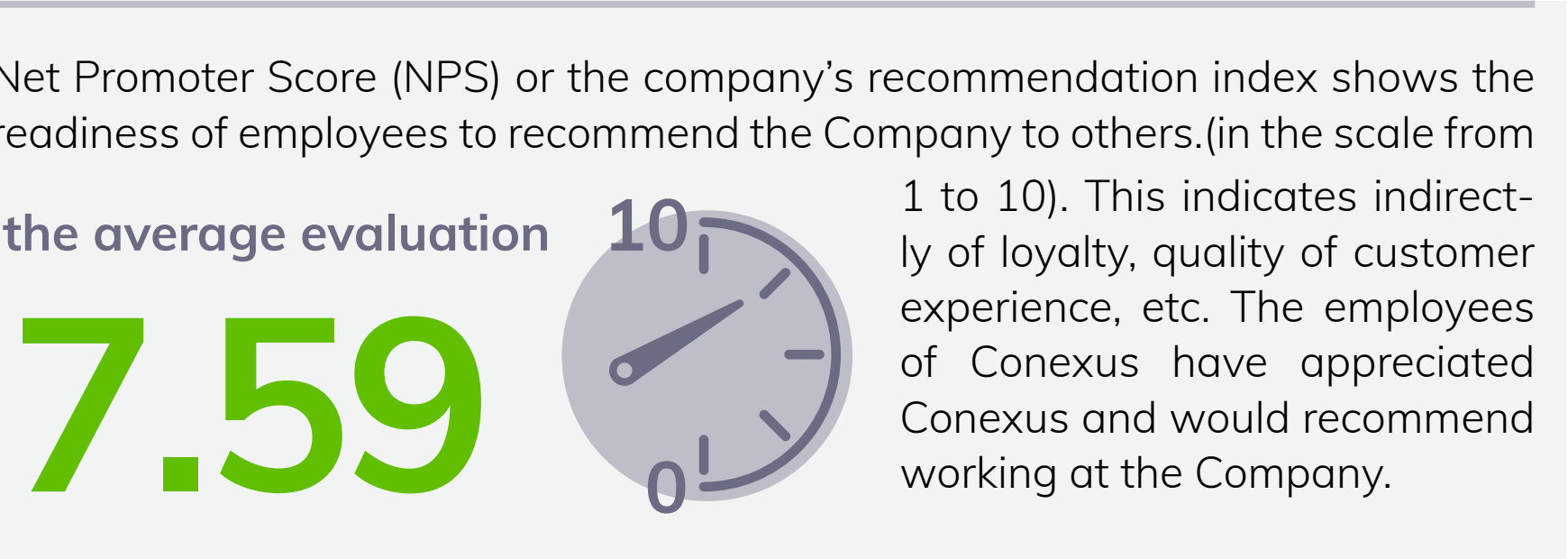
The Company respects the right of employees to collective representation, in 2020, 29% of employees were members in the Trade Union. Conexus has concluded a collective agreement with the Trade Union, which applies to all employees of Conexus.



of staff consider themselves enthusiastic about the changes that will help the Company to develop in the long term



of employees think that their work and private life are in balance



In 2020, Conexus received a building permit from Riga City Construction Authority for construction of a new office building at Stigu Street 14 in Riga. The new project was designed to reduce the fragmentation of workplace and create a new office building to gather several buildings from different locations.

It will become a modern, energy efficient office building on four floors. The project will include modern, everyday environmental design solutions and spatial planning. The new office building is expected to be available to staff in 2022.

Development of staff competence and future workforce

A professional team is one of the values of Conexus, and market developments confirm that the growth of employees, skills development and strengthening internal resources are an essential element of an attractive employer's reputation.

Conexus promotes and supports the professional development of staff. Every year, all employees and managers receive an activity and career development review to identify areas for improvement. Managers are evaluated by 360 degree method: the assessment is provided by the direct manager, colleagues and subordinates and is accompanied by a self-assessment.

The natural gas transmission and storage is an energy sector that requires specific knowledge, but experts of this industry are not prepared in Latvian educational system. In order to promote the development of the gas industry and the acquisition of specific knowledge, in 2020 the Company has started cooperation with Riga Technical University (hereinafter – RTU) in the development of several specialized study programs. RTU is the leading educational institution in the country that prepares technical specialists, and training is provided through the University. Within the framework of the program, RTU Department Heat Engineering and Technology and Conexus specialists have developed two courses for students and three training programs for the staff of Conexus. In 2020, the first 16 students completed the specialized RTU program, and 72 employees of Conexus completed the specific training program.

According to the defined needs, the Company provides adequate training for employees at all levels. Particular attention is also given to other areas where professionalism should be enhanced, such as digital skills, management skills, public speech. In 2020, two training programs were organized: "School leaders" and "School of speech".

Conexus is looking for different ways to address the emerging engineers and other specialists. In order to ensure a stable supply of natural gas, it is important to forecast its future consumption. In the spring season of 2020, the Innovation Platform "Demola Latvia" and Conexus have challenged students to look for ways to increase the accuracy of the 14-day consumption forecast. By carrying out studies and collecting data, students developed a mathematical forecasting model based on Excel, which was recognized and licensed by the Company. Conexus continues the cooperation with students to create an automated consumer forecasting platform through engine learning.

Diversity in the workplace, equality and fair treatment

Conexus is a diverse company and team that treats everyone fairly and equally. In 2020, no discrimination cases were reported or registered (also the figure for 2019 is 0).

Respect and fairness are the basic principles included in the Code of Conduct for Conexus, and according to it, the Company fairly treats both its employees and business partners. It is very important for the Company to ensure equal opportunities and access to information for all employees in all structural units of the Company. It is historically developed that Conexus is a multicultural team, representing different generations, so internal communication is given special attention.

- 🔥 38% of employees were over 50 in 2020 and 16% of employees will reach retirement age in the next 5 years, work on a succession program is commenced to prepare a new generation of professionals and support the current older professionals;
- 🔥 80% of all employees are men, who historically are linked to the education system and the fact that women chose engineering science more rarely in higher education and vocational training.



RESPONSIBILITY FOR THE COMPANY

The aim of Conexus Corporate Social responsibility (CSR) policy is to develop and implement the most appropriate activities in the field of corporate social responsibility to promote the implementation and sustainable development of the societal strategy.

Under CSR policy and Company's strategy, Conexus has chosen to engage in CSR activities that meet one or more criteria:

- meets the long-term strategic objectives of the Company and contribute to their achievement;
- is consistent with the directions of the Company, contributes to the understanding of company about its current events;
- works on a large scale, promote the involvement of large groups of the public as well as the employees of the Company;
- ensures long-term, mutually enriching relationship with project promoters and all stakeholders, is oriented toward long-term public benefits;
- supports the values of the Company's brand and promotes the development of Company's image;
- comprises the potential for communication, does not require investment in additional means of communication;
- the reputation of the cooperation partners corresponds to the values and character of Company's brand.

CORPORATE RESPONSIBILITY



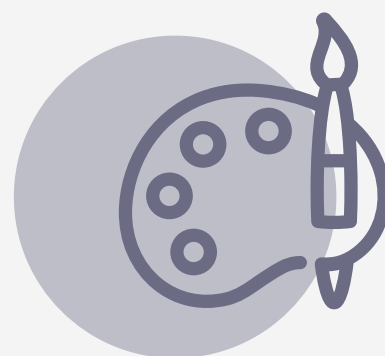
Training of young specialists and succession of competencies



Interests of science knowledge promotion among young people



Infrastructure improvement projects in Līgatne Nature Trails



Support for young artists



National and regional cultural events

The development of a sustainable natural gas infrastructure depends not only on financial investment but also on the improvement of human resources, so training and the succession of competences of young specialists is important for the development of the Conexus operating sector. In order to promote this, the task of the sector's companies is to participate in and contribute to the labour market, to the development and implementation of appropriate training programs, and therefore the Company has started in-depth cooperation with RTU.



In September 2020, Conexus together with RTU organized a day dedicated to the sustainable development of gas infrastructure for university students. The event was attended by industry experts and teachers of the University, leading Conexus specialists, as well as the Ambassador of Japan to Latvia Jasuhiro Kavaguchi.

Conexus also promotes the interest of children in exact sciences by organizing entertaining lessons devoted to physics and mathematics in local schools, in cooperation with the Science and Inquisitiveness Center ZINOO. To familiarize the stakeholders with the operation of Inčukalns UGS, Conexus organizes excursions for students, pupils and cooperation partners. Ambassadors, ministerial representatives and students from RTU often visit the storage.

When taking care for the environment and biological diversity, Conexus supports infrastructure improvement projects in Līgatne natural pathways. By promoting the development and preservation of essential values, Conexus supports national and regional cultural

activities. Conexus is particularly proud of being a supporter of the competition for the best choirs of Latvian Song and Dance Festival.

Conexus supports the young artists: when creating the table calendar of the year, paintings by young artists are used and thus they are promoted. In 2020, the Company supported for the second year in a row the Social Agenda “Come to the Museum!”, organized by the Latvian National Museum of Arts. Every year, 16 schools participate in the program – eight general schools and eight schools for children with special needs from all over Latvia.

The Company ranked in 14th place (20th place in 2019) among the most valuable Latvian companies Top 101, which is a public initiative implemented by “Prudentia” and Nasdaq Riga since 2005. This initiative is based on the willingness of project-makers to stimulate public debate on the value of companies and factors influencing this value. The aim of the project is to strengthen the understanding of the value of enterprises as a significant benchmark for further development by explaining the motivation of buying, selling, merging companies and the role of corporate governance in improving the competitiveness of enterprises both in Latvia and in the Baltic States.

Relations with the local community

Conexus works in the industry with a high safety risk. The Company's sites are not only located on the property of Conexus. Some of the sites are located on the land of other owners, so the Company has significant cooperation with local communities and landowners.

Local governments where Conexus sites are located, receive informative materials from the Company explaining the laws and regulatory provisions. The Company, in cooperation with the National Fire and Rescue Service, organizes the civil protection training during which the alarm and notification system is being operated, while emergency vehicles drive on local and national roads, people are being evacuated and short-term traffic restrictions are possible. By implementing the corporate social responsibility activities, Conexus supports the local community through educational measures for children of local schools, as well as through support for cultural activities.

RESPONSIBLE GOVERNANCE

Good corporate governance matters become more and more important for the Conexus management. Therefore, Conexus also pays increased attention to high ethical and transparency standards.

Ethics and corruption prevention

Conexus has developed a Code of Conduct based on best practices and involving a management team. The Code of Conduct aims to establish a single set of ethical standards in the Company, establishing fundamental ethical principles and internal organization measures based on the fundamental values of the Company. The Company expects that every employee, in the performance of their duties, will respect the highest ethical standards. The Code of Conduct is also available at Conexus website www.conexus.lv for external partners.

The Code covers also cooperation with Conexus partners, including market participants and suppliers. If the action of cooperation partner's do not comply with the fundamental principles and ethical standards contained in the Code of Conduct, the Company assesses the start or continuation of cooperation with such partner.

In order to raise awareness of compliance and provide guidance on integrity and ethical behaviour matters, the Company's Reconciliation commission is entrusted with the role of the Ethics com-

mission. In the case of unethical conduct, staff(s) can be held liable to disciplinary action in accordance with the rules of the Company's working regulations.

Besides, in accordance with the requirements of the Whistleblowing law, an internal whistleblowing system was set up in 2020 in the Company, adopting whistleblowing rules and appointing a responsible employee to review reports of whistle-blowers.

In 2020, the Company did not receive any fines and non-monetary sanctions for non-compliance with the laws and/or regulations (also in 2019, the figure was 0), and no cases of corruption related with the Company and its employees were approved (0 in 2019). One corruption-related incident was prevented and one applicant was disqualified due to attempt at corrupt behaviour.

The Procurement Team has participated in specialized training on corruption prevention principles: In 2020, 8 employees were trained (in 2019 – 4).

Responsible procurements

The current policy on the procurements of Conexus focuses on openness of procurement procedures, free competition between suppliers, equal and fair treatment and efficient use of Company's resources.

Conexus, as a public service provider, organizes procurement procedures in accordance with the Public Service Procurement Law, as well as the internal normative document - procurement organization procedure, where the estimated amount of the transaction is below the thresholds set in the Public Service Procurement Law.

For the purpose of ensuring economic activity, Conexus purchases energy resources, as well as various types of construction works, goods and services by purchasing mainly from suppliers in Latvia.

Conexus ensures high cost-efficiency, transparency of procurement procedures, monitoring corruption risks, and promotes fair competition. In 2020, Conexus entered into 491 procurement contracts, including 34 construction works contracts, 312 service contracts and 145 supply contracts, and information on procurements is published on Company's website.

Transparency and stakeholder involvement

Transparency is an essential aspect of Company's sustainability, not only by establishing and maintaining relations with key stakeholders, but also by developing the Company's image and promoting its sustainable development.

Conexus involves stakeholders in its activities, using various methods, such as individual meetings, work in different committees, visits to underground gas storage, etc., to provide the most appropriate information for each category of stakeholders.

A comprehensive stakeholder engagement in sustainability matters

In early 2020, the list of Company's stakeholders' was revised and expanded, when commencing the development of the strategic framework for sustainability as well as the introduction of non-financial reporting.

Key stakeholders were identified among customers, businessmen, professionals of energy sector, other gas companies (from Latvia and the neighbouring countries), suppliers, public sector institutions (policy makers, regulators), environmental and social non-governmental organizations, local authorities and community organizations, financial institutions, educational and scientific institutions, as well as owners/shareholders and members of the Council. In this work, attention is

paid also to employees and the Trade Union of the Company.

Representative of around 250 different stakeholder groups shared their views and recommendations on related sustainability aspects of the Company through an online survey and personal interviews (more in the section "Conexus Strategic Framework for sustainability").

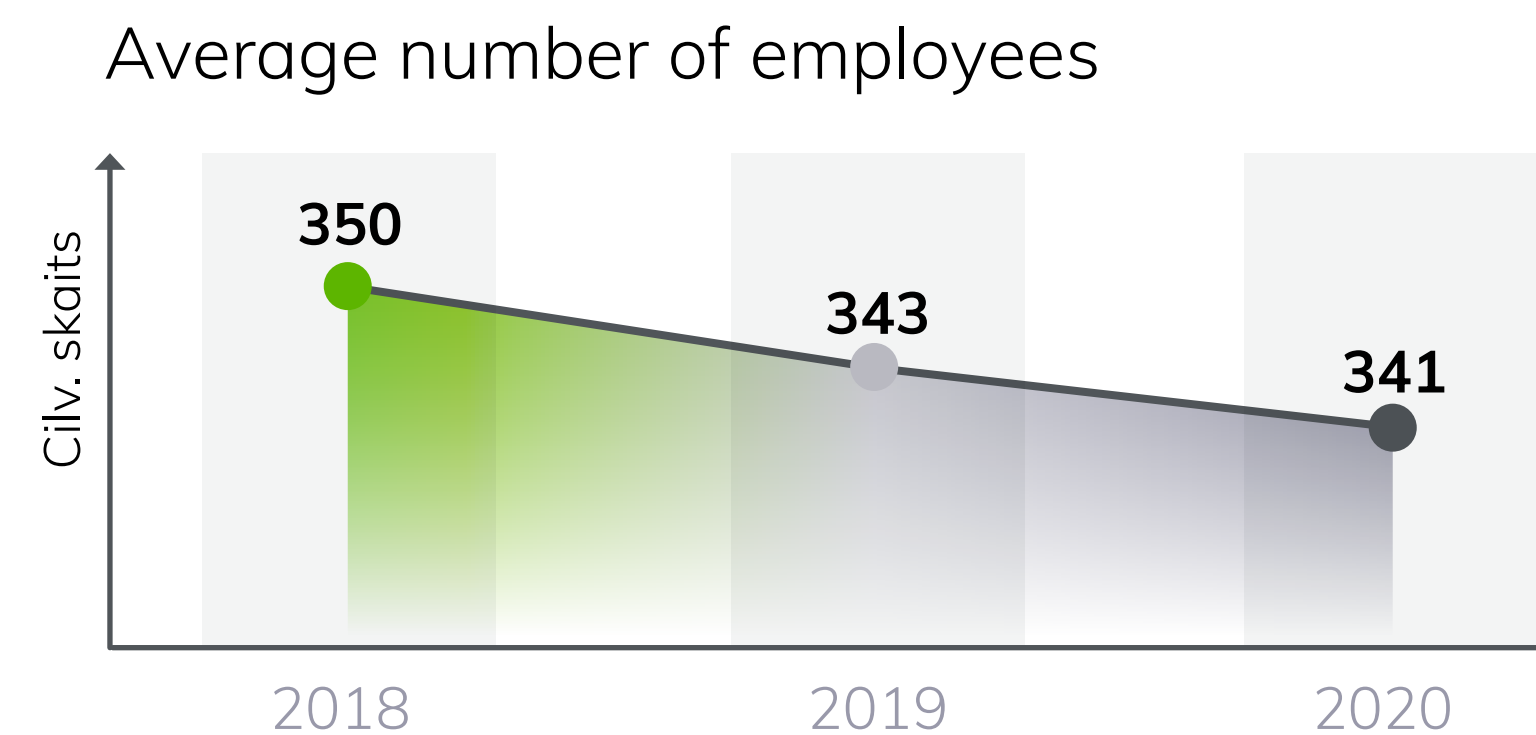
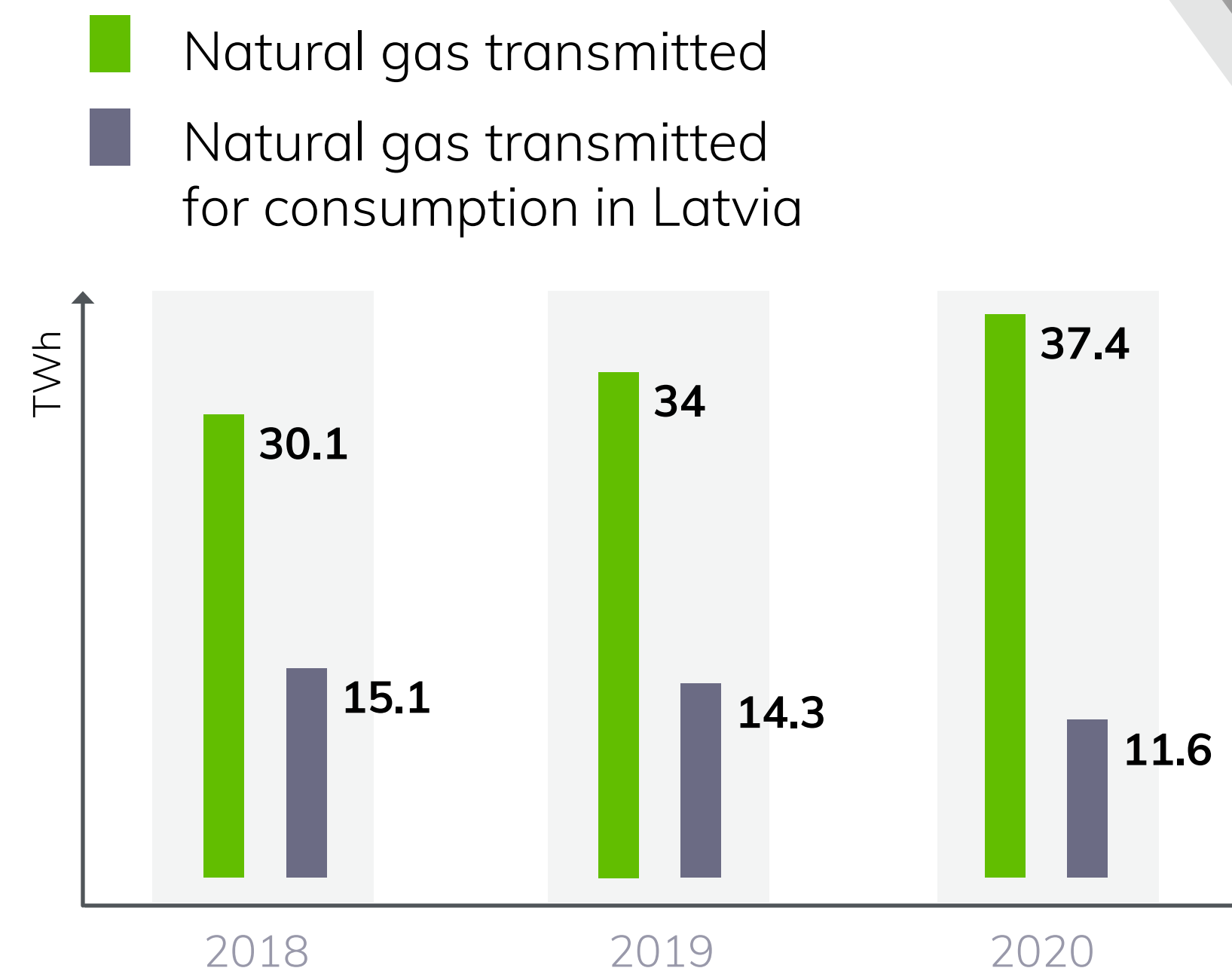
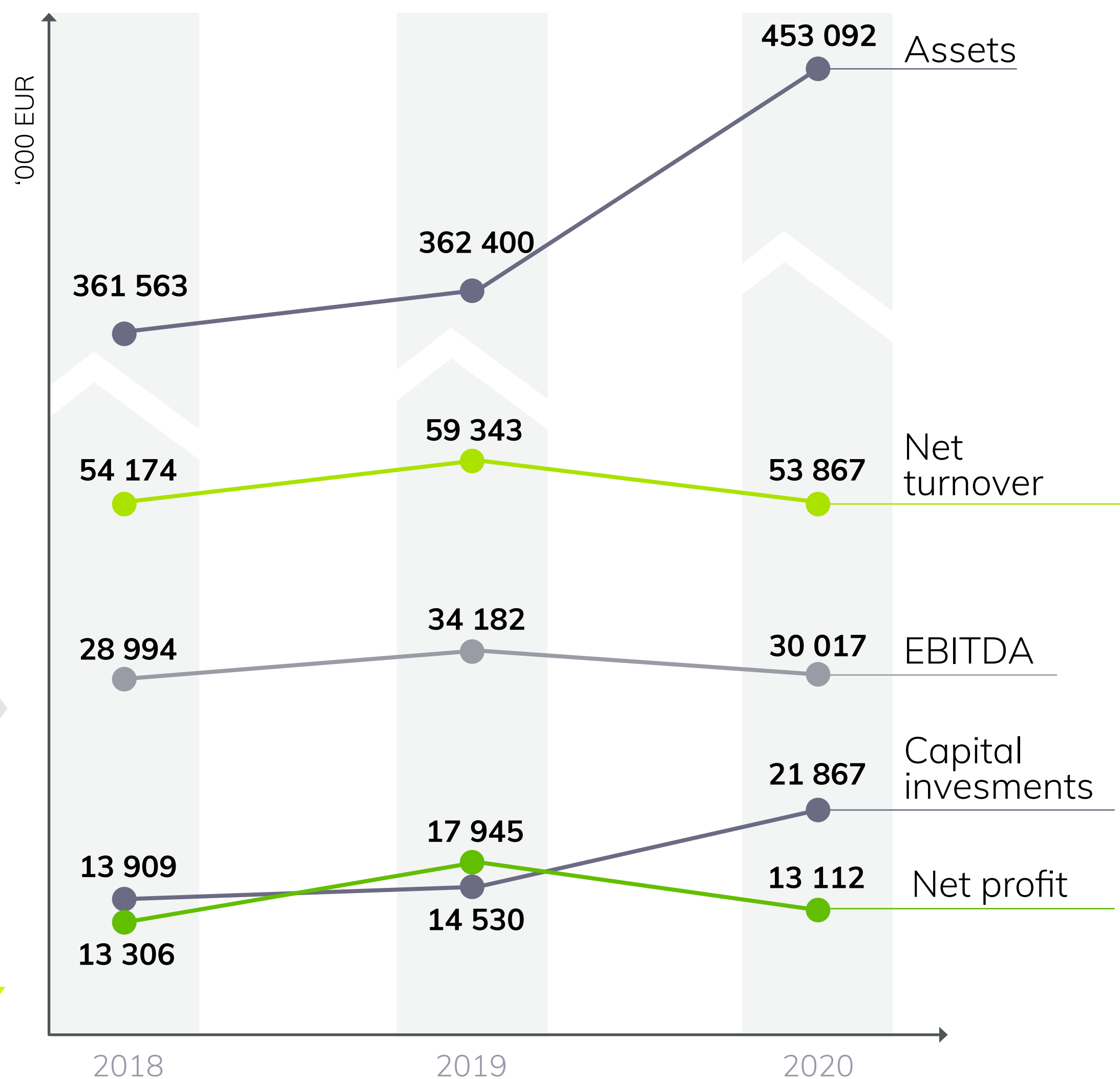
In order to contribute to the successful process of establishing and integrating the regional gas market on 1 January 2020, Conexus invited market participants to send information to the e-mail integration@conexus.lv on the shortcomings identified as well as proposals to improve the functioning of the single Baltic Gas Market.



In addition to cooperation with stakeholders, a high attention is paid to public communication and media relations, informing about important decisions, development and investment projects. In addition to the usual channels of communication, Conexus also conducts communication on social network [Facebook](#).

The main principles of communication and behaviour in social networks are laid down in the Code of Conduct of the Company, in the corporate management policy and in the Internal working regulations. For example, the documents state that official external (media) communication is carried out by the Board and the Head of Communication Division. Although there are clearly defined principles and educational work is being carried out, there have been cases where unconsidered communications of Company's employees in social networks could have threatened the reputation of the Company.

KEY PERFORMANCE INDICATORS



Joint-stock company

conexus
B A L T I C G R I D

2020

FINANCIAL STATEMENTS

MANAGEMENT REPORT

Year 2020 was challenging for Latvian as well as for overall world economy due to Covid-19 pandemic which not only significantly impacted each person's everyday life, but also caused serious changes to the economic situation in the world. Additionally, the abnormally warm weather during winter months was also a challenge for the energy sector, having a significant impact on the natural gas demand and consequently on Companies' financial results.

Despite the declared state of emergency in relation to Covid-19, Conexus provided safe and uninterrupted operation of transmission system and Inčukalns UGS, and an uninterrupted natural gas supply for the consumption of Latvia, Lithuania, Estonia, Finland and Russia. Total volume of gas transmitted reached 37,4 TWh, which is 10% more than in prior year.

MAIN OPERATING INDICATORS	2020	2019
Natural gas transmitted, TWh	37.4	33.9
Reserved capacity, TWh	21.5	18.5
Total amount of natural gas stored in Inčukalns UGS, TWh	17.2	14.9
Natural gas for consumption in Latvia, TWh	11.6	14.3
Total length of main gas pipelines, km	1 188	1 188
Average number of employees	341	343

In 2020 the common market area, which unites gas transmission system operators in Finland, Latvia and Estonia - "Gasgrid Finland Oy", Conexus and JSC "Elering", began operating, demonstrating the ability of several countries to cooperate. The single entry tariff area consists of two balancing zones, Estonia-Latvia and Finland. With establishment of the unified market area on 1 January 2020, the interest to use Inčukalns UGS has increased, as demonstrated by market participants' interest in storage reservations for the following injection season – capacity reservations by market participants significantly exceeded the available capacity of 21,5 TWh for 2020/2021, which is 16% more reserved capacity than last year. Increased interest from natural gas traders led to higher inflows into the single entry tariff area and increased revenues for transmission operators.

During the reporting period, the Company's net turnover was EUR 53,9 million, which is 9% less than in prior year. The Company's operating result is net profit of EUR 13,1 million and EBITDA reached EUR 30 million. The Company's financial results were affected by the abnormally warm weather during winter months, which decreased demand for gas transmission services for consumption in Latvia by 19%, reaching 11,6 TWh.

CONEXUS FINANCIAL INDICATORS	2020 / 31.12.2020	2019 / 31.12.2019	+/-	%
	EUR'000	EUR'000		
Net turnover	53 867	59 343	(5 476)	-9%
EBITDA	30 017	34 182	(4 165)	-12%
Net profit	13 112	17 945	(4 833)	-27%
Segment assets	437 928	340 896	97 032	28%
Cash and cash equivalents	15 164	21 504	(6 340)	-29%
Total assets	453 092	362 400	90 692	25%
Approved regulated asset base	322 444	322 444	-	0%
Net debt*	22 881	20 041	2 840	14%
Acquisition of fixed assets and intangible assets	21 867	14 530	7 337	50%

*Net debt includes guarantee received from bank.

CONEXUS FINANCIAL COEFFICIENTS	31.12.2020	31.12.2019
EBITDA profitability	56%	58%
Net profitability	24%	30%
Return on equity ratio (ROE)	3.52%	6%
Shareholders' equity ratio (>50%)	89%	87%
Net debt to EBITDA ratio (< 2)	0.76	0.59

During the reporting period, for the third time Conexus arranged an auction for storage of active natural gas and availability thereof in Inčukalns UGS during the season 2020/2021, which is required to ensure the Latvian natural gas supply during an energy crisis or in case of national threats, in accordance with 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" adopted by the Cabinet of Ministers on 19 April 2011. The received bids exceeded the required auction volume approximately two times

compared to 2019, thereby significantly reducing the total costs of the auction. The auction costs are included in the tariff, therefore this resulted in a 4.9% reduction of the tariff for exit point for the supply of Latvian consumers from 1 October 2020 until 30 September 2021. Auction costs constitute part of expenses included into transmission tariff, therefore, by reduction of those the tariff changes.

Main events

Regulatory activities

- Since 1 January, single transmission entry tariff system entered into force, significantly reducing the administrative burden for the users. A transparent and simple tariff system was established, which will positively affect the usage of the natural gas infrastructure in the long term. The revenue incurred on external borders of the common market area are split among three countries, which affirms the common goal of all common market member states to strengthen the energetic security of the region;
- On 12 March 2020, PUC approved amendments in usage regulations of Inčukalns UGS and made a decision on Conexus natural gas storage tariffs application procedure for the 2020/2021 storage cycle, approving the following tariff values (VAT excl.):
 - minimum value of market product tariff - 0.92000 EUR/MWh;
 - virtual counterflow product tariff – 0.32200 EUR/MWh;
 - maximum value of bundled capacity product – 1.37918 EUR/MWh;
 - two-years bundled capacity product tariff – 2.84741 EUR/MWh.

🌱 On 1 October 2020, the Public Utilities Commission (PUC) approved new rules for the use of Inčukalns underground gas storage. The regulatory changes have been made in relation to the increased storage role in natural gas supply throughout the Baltic region. Main changes were as follows:

- The new rules determine that for booking products of storage capacity – bundled capacity product, two-year bundled capacity product and interruptible capacity product – an auction procedure is to be used, providing for the setting of a single premium. The auctions have a specific timetable – from mid-March to mid-August;
- The interruptible capacity product that replaces the market product is intended for cases when capacity of all the available bundled capacity product and the two-year bundled capacity product is not auctioned in the first two rounds of auctions;
- The new stock transfer product aims to stimulate users to remove as much natural gas as possible from storage by the end of the withdrawal season to ensure the storage operations are sustainable.

🌱 In October 2020, a natural gas storage tariff project was submitted to the Regulator for the next regulatory period of 5 years (from 1 May 2021 until 30 April 2026). It is planned that after approval by the Regulator, the new tariffs will come into force as the new 2021/2022 storage cycle commences.

Change of shareholders

🌱 On April 1, Nasdaq CSD informed that on 1 April 2020 changes were made in the shareholders' registry: change of ownership of 29.06 % (11 560 645 closed share issue shares) of the Company's share capital. The transferor of the shares is Marguerite Gas I S.à.r.l., the acquirer of the shares is MM Infrastructure Investments Europe Limited (Reg. No 12279235);

🌱 On July 21 changes were made in the shareholders' registry: change of ownership of 34.10 % of the Company's share capital. The transferor of the shares is PJSC "Gazprom" (reg. No. 7736050003, Russian Federation), the acquirer of the shares is JSC "Augstsprieguma tīkls" (reg. No. 40003575567, Republic of Latvia). Thus, JSC "Augstsprieguma tīkls" currently holds 68.46% of the total share capital paid by the Company;

🌱 With change of shareholders, PUC finished the assessment of Conexus compliance with independence requirements and declared Conexus an independent system operator.

Legal events

- On 18 September 2018 Conexus filed an application to the District administrative court against the decision No. 69 of the Regulator council “On JSC “Conexus Baltic Grid” natural gas transmission system tariffs” dated 18 June 2018, in relation to expenses not being included in the transmission system tariff project and issuance of a new administrative act, intending to include the excluded expenses in tariff project in the next period. With the decision of the District administrative dated on 7 April 2020 the application was rejected. Conexus submitted an appeal in cassation to the Department of Administrative Cases of the Senate on 7 May 2020. The cassation appeal has been accepted, but the date of the hearing is not known at this time;
- On 28 September 2020 Conexus filed an application to the Administrative District Court regarding cancellation of the PUC Council’s decision No 109 dated 20 August 2020 on the capital rate of return for the calculation of the tariff project for natural gas transmission system, natural gas distribution system and natural gas storage services. Hearing date is scheduled for 10 March 2021.

Other activities

- In 2020, an asset revaluation was carried out in accordance with the International Financial Reporting Standards, with a view to ensuring that the carrying amount does not differ significantly from the fair values of the assets. The following groups of fixed assets were subject to revaluation: buildings, technological equipment and machinery, excluding land, cushion gas in the underground gas storage, natural gas in the pipelines of the transmission system and emergency spare parts;
- Conexus successfully adapted its activities to the emergency conditions created by Covid-19 virus, thanks to the digitalisation activities carried out in recent years. Despite the difficult conditions at global and national level, the Company was able to ensure safe operation of infrastructure and access to natural gas transmission and storage services. Thus, the emergency situation related to Covid-19 did not significantly affect the Company’s operational and financial results;
- Dividends paid to shareholders for 2019 in amount of EUR 16 312 thousand or EUR 0.41 per share.

Results of segments' operations

Transmission

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 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 32,1 million and EBITDA reached EUR 16,6 million, representing 55.4% of the Company's total EBITDA. Profit of the transmission segment amounted to EUR 6,8 million, 27% less than last year due to decrease in the volume of gas transmitted for consumption in Latvia, as well as tariff changes due to lower costs of an auction for natural gas supplies included in tariffs.

TRANSMISSION	2020 / 31.12.2020	2019 / 31.12.2019
	EUR'000	EUR'000
Net sales	32 072	36 424
EBITDA	16 640	18 963
Segment Net Profit	6 829	9 287
Segment assets	232 042	178 197
Depreciation and amortisation	9 706	9 578
Acquisition of fixed assets and intangible assets	8 788	7 051
Regulated asset base	171 820	171 820

Starting from 2020, the Transmission segment demonstrated here includes also results of operations of common market area, that is not

included in the transmission service tariff calculation. In 2020, common market area-related EBITDA was EUR 33 thousand, depreciation EUR 30 thousand, and net profit EUR 0 thousand.

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). At the end of the reporting period of 2020, the transmission segment actual revenue is by EUR 3 440 thousand lower than those in the approved tariff project and allowed revenues of next transmission tariff period will be increased by this unearned revenue amount.

The transmission segment's assets at the end of the reporting period amounted to EUR 232 million, which comprised 53% of the total assets of the Company. During the reporting period, capital investments were made in amount of EUR 8,9 million. Largest investments during 2020:

✦ Within the framework of the European project of common interest "Enhancement of Latvia -Lithuania Interconnection" (ELLI), the Company invested a total of EUR 1,7 million in several sub-projects during 2020. During the reporting period 6 activities out of 17 planned activities have been completed:

- Evaluation of transmission gas pipeline (TGP) system for enhancing the operating pressure to 50 bar;
- Reconstruction of TGP Vireši-Tallinn valve unit T5 and T6;
- Reconstruction of TGP branch to gas regulation station (GRS) Valmiera-1;
- Reconstruction of TGP Vireši-Tallina connection valve;



- Reconstruction of valve No. 1PI to GRS Palsmane;
- Reconstruction of connection valve No. Iz-427;
- Necessary diagnostics and repairs of existing transmission gas pipelines.

Development of construction projects was completed for 5 activities:

- Replacement of TGP branch to GRS Ezeriems;
- Replacement of TGP Rīga-Inčukalns UGS phases at Inčukalns UGS connection valve;
- Replacement of TGP Rīga-Inčukalns UGS phases at GRS Rīga-1;
- Replacement of TGP branch to GRS Krimulda;
- Reconstruction of TGP Rīga-Paņeveža connection valve.

Works have been commenced on development of reconstruction projects for TGP branches to gas regulation stations Vangaži, Zaķumuiža, Daugmale and Baldone.

- TGP Pleskava-Rīga repairs were made in amount of EUR 1,7 million, eliminating 154 faults in total;
- EUR 2,9 million invested into reconstruction of 8,1 km long TGP branch to GRS Sloka.

In December 2020, the first direct connection to the gas transmission system has been completed, which is scheduled to commence operation in the near future. Such direct connection solutions are of particular interest for industrial sector customers located far from the urban gas distribution networks, with a gas consumption of at least 1000-1500 m³ per hour. Great interest in direct connections is expressed by both producers of compressed natural gas and producers of biomethane, knowing that the natural gas transmission

system is technologically prepared to provide such a service to green energy producers.

Storage

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

Storage revenue in 2020 reached EUR 21,8 million (5% more than a year earlier) due to periodization of storage reservation. The amount of revenue generated by the storage segment ensured EBITDA of EUR 13,4 million and profit of EUR 6,3 million.

STORAGE	2020 / 31.12.2020	2019 / 31.12.2019
	EUR'000	EUR'000
Net sales	21 795	22 919
EBITDA	13 376	15 218
Segment Net Profit	6 283	8 658
Segment assets	205 886	162 699
Depreciation and amortisation	7 030	6 502
Acquisition of fixed assets and intangible assets	13 079	7 479
Regulated asset base	150 624	150 624

Storage segment's assets at the end of the reporting period were EUR 206 million, comprising 47% of the total assets. During 2020, capital investments were made in amount of EUR 13 million, which was EUR 5,6 million more than in prior year. Largest investments were made within the major project of common interest 8.2.4 "Enhancement of Inčukalns UGS":

Necessary construction permits were obtained and project development works are continuing in relation to enhancement of gas collection point No 3. The project's goal is to reconstruct the technologically

outdated gas collection point in order to decrease its impact on the environment and to provide an opportunity to manage the technological processes remotely from the Inčukalns UGS dispatch room. Gas collection point enhancement related investments are planned in amount of EUR 32,3 million, thus making it one of largest sub-projects of the Inčukalns UGS enhancement project;

- For the improvement of surface equipment, a contract for development and supervision of a building project has been concluded during 2020, as well as a construction design documentation was prepared which resulted in obtaining two construction permits in order to fulfil the gas collection point No. 3 construction in two stages. Also, a contract for supply of core technological equipment has been concluded;
- As part of renovation of 36 wells, during 2020 3 wells were accepted into use, making a total of 9 wells completed to date. Total invested during 2020 reached EUR 7,3 million;
- As part of renovation of existing gas conveying devices (GCD), the necessary equipment has been delivered to ensure the modernisation of GCD No. 3 at compressor workshop No. 2. Total invested during 2020 reached EUR 2,4 million;
- Construction design documentation was prepared for installation of a new GCD at compressor workshop, and a building permit was obtained. Also a tender has been announced for purchase of a GCD set.

Further development

- In 2021, active work will continue on the project “Enhancement of Inčukalns UGS”, during which by 2025 it is planned to significantly improve the technical infrastructure and equipment safety, for the purpose of the Inčukalns UGS retaining its functionality after increase of pressure within the Baltic transmission network;
- Work will continue on the increase of Latvia-Lithuania transmission gas pipe capacity with the aim of facilitate access to the Klaipėda liquid gas terminal, Latvia’s Inčukalns UGS and Poland-Lithuania’s gas interconnection, which is planned to be put into operation in 2023;
- Conexus continues to evaluate possibilities of producing biomethane in Latvia and the most effective ways of using it in the Conexus transmission pipeline network. As part of this activity, on 27 July 2020 Conexus organised a “Green vision” seminar, with participants from Ministry of Economics, Ministry of Finance, World Energy Council Latvian Member Committee and AST. After the seminar, on 5 August 2020 Conexus organised “Green vision” session for Conexus Council members. As a result, a report was devised on evaluation of available options for development of Conexus’ sustainable business operations;
- As per the European green deal to make Europe climate neutral by 2050, Conexus has joined the European Clean Hydrogen Alliance the aim of which is to expand the hydrogen technologies and develop a viable investment program with specific projects aimed also at decarbonization of different industries. Considering the European green deal, the demand for gas of fossil origin in chemically connected energy carriers could reduce after 2030 therefore it is important to reprofile the current gas infrastructure elements of Europe thus ensuring an infrastructure for cross-border bulk transportation of hydrogen and extending efficient and sustainable inclusion of renewable energy in economy;
- At the end of 2020, Conexus received a building permit for construction of a new office building at Stigu street 14 in Riga. This project was designed with the aim of reducing fragmentation of employee locations and to create a new office building instead of several separate buildings in various locations.

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 2020.

On 26 February 2021, a loan agreement was concluded with Nordic Investment Bank for an amount of EUR 30 million, with due date until 4 March 2038.

Proposed distribution of the profit

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 2020 is EUR 13 112 thousand.

ABBREVIATIONS AND FORMULAS:

MWh	megawatt-hours
TWh	terawatt-hours
EUR/MWh/d/g	Euro for megawatt-hour per day/ per year
EBITDA	earnings before interest, taxation, depreciation & amortisation
RAB	regulated asset base
Net debt	loans minus cash and cash equivalents
EBITDA profitability	EBITDA/income
Net profitability	net profit/income
Return on equity ratio (ROE)	net profit (over the reporting period)/equity average value
Shareholders’ equity	equity/total assets
Net debt to EBITDA ratio	net debt/EBITDA (over 12 months period)

STATEMENT OF THE BOARD'S RESPONSIBILITY

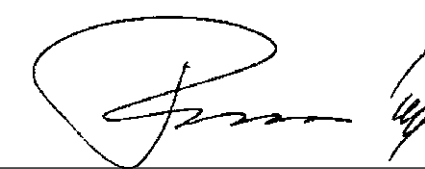
The Board of the Company is responsible for preparing its financial statements.

The financial statements of the Company for 2020 were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, providing true and fair view of the financial position of the Company, its operational results and cash flow.

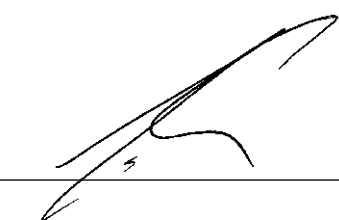
The financial statements are approved on 15 March 2021 by the Company's Board and signed by:



ULDIS BARISS
Chairman of the Board



GINTS FREIBERGS
Member of the Board



MĀRTIŅŠ GODE
Member of the Board

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FINANCIAL STATEMENTS


PROFIT OR LOSS STATEMENT

	Note	2020	2019
		EUR	EUR
Revenue	2	53 867 296	59 342 937
Other income	3	1 352 349	1 349 467
Cost of materials and services	4	(8 345 208)	(11 457 572)
Personnel expenses	5	(12 067 353)	(10 532 297)
Depreciation, amortization and impairment of property, plant and equipment	7,8	(16 736 387)	(16 045 167)
Other operating expenses	6	(4 790 359)	(4 521 619)
Gross profit		13 280 338	18 135 749
Financial expenses, net		(168 532)	(191 151)
Profit before taxation		13 111 806	17 944 598
Corporate income tax		-	-
Profit for the reporting year		13 111 806	17 944 598

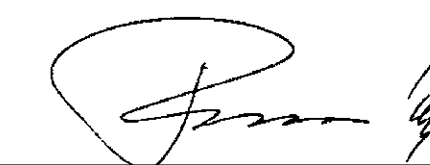
STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	2020	2019
		EUR	EUR
Profit for the reporting year		13 111 806	17 944 598
Other comprehensive income			
Property, plant and equipment revaluation		92 100 425	-
Remeasurement of post-employment benefits due to changes in actuary's assumptions	17	26 238	(56 104)
Other comprehensive income		92 126 663	(56 104)
Total comprehensive income		105 238 469	17 888 494

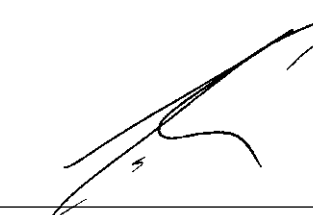
The accompanying notes on pages 64 to 90 form an integral part of these financial statements.



ULDIS BARISS
Chairman of the Board



GINTS FREIBERGS
Member of the Board



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Member of the Board

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2020	31.12.2019
ASSETS		EUR	EUR
Non-current assets			
Intangible assets	7	1 872 671	1 645 745
Property, plant and equipment	8	424 022 779	327 279 632
Non-current prepaid costs	14	1 209 438	1 310 224
Right-of-use assets	10	503 584	532 734
Total non-current assets:		427 608 472	330 768 335
Current assets			
Inventories	11	3 021 003	3 384 361
Advances paid for inventories		-	32 884
Receivables from contracts with customers	12	6 855 249	6 258 202
Other receivables	13	93 002	138 167
Current prepaid costs	14	350 493	313 804
Cash and cash equivalents		15 163 736	21 504 400
Total current assets:		25 483 483	31 631 818
TOTAL ASSETS:		453 091 955	362 400 153

The accompanying notes on pages 64 to 90 form an integral part of these financial statements.


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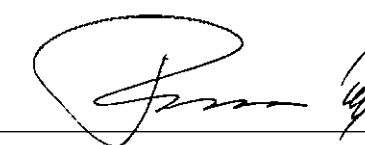
STATEMENT OF FINANCIAL POSITION (continued)

	Note	31.12.2020	31.12.2019
LIABILITIES AND SHAREHOLDERS' EQUITY		EUR	EUR
Shareholders' equity:			
Share capital		39 786 089	39 786 089
Treasury shares		(34 678)	(36 471)
Reserves	15	224 758 592	140 629 827
Retained earnings		140 138 666	135 341 259
	<i>Retained earnings</i>	<i>127 026 860</i>	<i>117 396 661</i>
	<i>Profit for the reporting year</i>	<i>13 111 806</i>	<i>17 944 598</i>
Total shareholders' equity:		404 648 669	315 720 704
Non-current liabilities			
Deferred income	16	10 781 736	11 124 975
Employee benefit liabilities	17	1 028 494	1 114 516
Loans from credit institutions	18	-	21 875 000
Non-current lease liabilities	10	453 852	452 827
Total non-current liabilities:		12 264 082	34 567 318
Short-term liabilities			
Borrowings	18	21 875 000	3 500 000
Accounts payable to suppliers and contractors		7 637 032	2 326 667
Other liabilities	19	1 787 955	908 958
Provisions and accrued liabilities	20	2 912 784	4 454 150
Deferred income	16	1 252 930	307 496
Customer advances		653 285	524 232
Current lease liabilities	10	60 218	90 628
Total current liabilities:		36 179 204	12 112 131
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		453 091 955	362 400 153

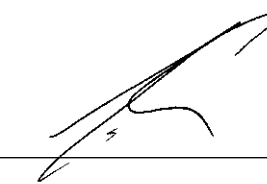
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STATEMENT OF CHANGES IN EQUITY

	Share capital	Treasury shares	Reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
As at 1 January 2019	39 786 089	(37 783)	146 914 425	123 103 994	309 766 725
Dividends	-	1 312	-	(11 935 827)	(11 934 515)
Decrease of the revaluation reserve	-	-	(6 228 494)	6 228 494	-
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	(56 104)	-	(56 104)
Profit for the reporting year	-	-	-	17 944 598	17 944 598
<i>Total other comprehensive income:</i>	-	-	(56 104)	17 944 598	17 888 494
As at 31 December 2019	39 786 089	(36 471)	140 629 827	135 341 259	315 720 704
As at 1 January 2020	39 786 089	(36 471)	140 629 827	135 341 259	315 720 704
Dividends	-	1 793	-	(16 312 297)	(16 310 504)
Decrease of the revaluation reserve	-	-	(7 997 898)	7 997 898	-
<i>Other comprehensive income:</i>					
Increase of the revaluation reserve	-	-	92 100 425	-	92 100 425
<i>Other comprehensive income:</i>					-
Other comprehensive income	-	-	26 238	-	26 238
Profit for the reporting year	-	-	-	13 111 806	13 111 806
<i>Total other comprehensive income</i>	-	-	92 126 663	13 111 806	105 238 469
As at 31 December 2020	39 786 089	(34 678)	224 758 592	140 138 666	404 648 669

The accompanying notes on pages 64 to 90 form an integral part of these financial statements

		
ULDIS BARISS Chairman of the Board	GINTS FREIBERGS Member of the Board	MĀRTIŅŠ GODE Member of the Board

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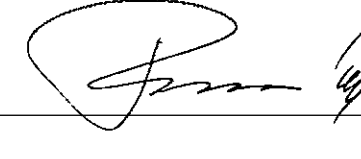
STATEMENT OF CASH FLOWS

	Note	2020	2019
Cash flows from operating activities		EUR	EUR
Profit before taxes		13 111 806	17 944 598
Adjustments for:			
- depreciation	8	16 191 661	15 671 608
- amortization of intangible assets	7	544 726	373 559
- loss from disposal of property, plant and equipment		631 746	246 874
- amortization of the right of use assets	10	86 547	34 663
- change in provisions	20	(74 207)	(1 421 021)
- participation in the transnational cross-border project	9	100 786	100 786
- amortization of EU co-financing	16	(300 970)	(353 267)
- interest expenses		169 875	190 960
Change in operating assets and liabilities:			
- (increase)/decrease in debtors		(588 571)	519 537
- decrease/(increase) in inventories		384 428	(1 204 202)
- increase /(decrease) in creditors		5 272 964	(4 173 695)
Corporate income tax paid		-	-
Net cash flows from operating activities		35 530 791	27 930 400
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(21 095 066)	(13 500 279)
Purchase of intangible assets	7	(771 934)	(1 029 605)
Income from the sale of property, plant and equipment		64 499	1 954 023
Net cash flows from investing activities		(21 802 501)	(12 575 861)
Cash flows from financing activities			
Interest paid		(144 939)	(190 960)
Repayment of borrowings	18	(3 500 000)	(3 500 000)
EU co-financing received	16	-	3 682 771
Lease payments	10	(111 718)	(22 706)
Dividends paid		(16 312 297)	(11 887 327)
Net cash flows from financing activities		(20 068 954)	(11 918 222)
Net cash flows		(6 340 664)	3 436 317
Cash and cash equivalents at the beginning of the reporting year		21 504 400	18 068 083
Cash and cash equivalents at the end of the reporting year		15 163 736	21 504 400


The accompanying notes on pages 64 to 90 form an integral part of these financial statements



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GINTS FREIBERGS
Member of the Board



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Member of the Board

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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 32 million and EBITDA reached EUR 17 million, representing 55.4% of the Company's total EBITDA. Profit of the transmission segment amounted to EUR 7 million (26% less than last year due to decreased volume of transported natural gas for Latvian consumption).

Storage revenue in 2020 reached EUR 22 million, (5% less than a year earlier) due to periodization of storage reservations. The amount of revenue generated by the storage segment ensured EBITDA of EUR 13 million and profit of EUR 6 million.

GAS TRANSMISSION	2020 / 31.12.2020	2019 / 31.12.2019
	EUR	EUR
Net sales	32 072 101	36 424 089
EBITDA	16 640 442	18 963 084
Segment net profit	6 828 524	9 286 575
Segment assets	232 042 020	178 196 754
Depreciation and amortization	9 706 022	9 577 524
Acquisition of fixed and intangible assets	8 788 117	7 050 930
Regulated asset base in the approved draft tariffs	171 820 000	171 820 000

GAS STORAGE	2020 / 31.12.2020	2019 / 31.12.2019
	EUR	EUR
Net sales	21 795 195	22 918 848
EBITDA	13 376 283	15 218 495
Segment net profit	6 283 282	8 658 023
Segment assets	205 886 199	162 699 000
Depreciation and amortization	7 030 365	6 502 306
Acquisition of fixed and intangible assets	13 078 884	7 478 937
Regulated asset base	150 624 000	150 624 000

2. REVENUE

	2020	2019
	EUR	EUR
Revenue from transmission services	32 072 101	36 424 089
Revenue from storage services	21 795 195	22 918 848
	53 867 296	59 342 937

All revenue is generated in Latvia.

3. OTHER INCOME

	2020	2019
	EUR	EUR
Other income*	1 051 379	996 200
Income from EU financing	300 970	353 267
	1 352 349	1 349 467

*incl. revenue from balancing operations

4. MATERIALS AND SERVICES

	2020	2019
	EUR	EUR
Maintenance of transmission and storage infrastructure	5 595 961	8 948 963
Cost of materials	1 081 903	1 422 966
Natural gas expenses	783 784	464 664
Maintenance of IT infrastructure	656 975	443 923
Maintenance of transport and machinery	226 585	177 056
	8 345 208	11 457 572

5. PERSONNEL EXPENSES

	2020	2019
	EUR	EUR
Salary	9 261 571	8 069 356
Compulsory state social security contributions	2 285 894	1 980 451
Life, health and pension insurance	505 388	468 751
Other personnel costs	14 500	13 739
	12 067 353	10 532 297
Including for members of the Council and the Board		
- Salary	672 908	616 630
- Compulsory state social security contributions	149 544	135 235
- Life, health and pension insurance	47 625	41 865
- Other personnel costs	3 000	8 139
	873 077	801 869
Average number of employees	341	343

Personnel expenses of EUR 140 727 capitalised in the value of long-term investments.

6. OTHER OPERATING EXPENSES

	2020	2019
	EUR	EUR
Premises and territory maintenance and other services	1 378 990	1 367 535
Office and other administrative costs	1 399 667	1 501 663
Taxes and duties*	1 346 092	1 370 884
Net loss from disposals of property, plant and equipment	567 248	34 663
Amortization of the right-of-use assets	98 362	246 874
	4 790 359	4 521 619

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

NOTES TO THE BALANCE SHEET

7. INTANGIBLE ASSETS

Intangible assets	31.12.2020	31.12.2019
Historical cost	EUR	EUR
Beginning of the period	6 988 487	5 958 882
Additions	771 934	1 029 605
Disposals	(55 068)	-
End of the period	7 705 353	6 988 487
Accumulated amortization		
Beginning of the period	5 342 742	4 969 183
Amortization for the reporting period	544 726	373 559
Disposals	(54 786)	-
End of the period	5 832 682	5 342 742
Balance as at 31.12.2019	1 645 745	989 699
Balance as at 31.12.2020	1 872 671	1 645 745

Intangible assets as at 31.12.2020 include fully depreciated intangible assets with a total cost of EUR 4 419 426 (as at 31.12.2019: EUR 4 367 295).

Intangible assets are primarily comprised of software for the purposes of operating segments. Personnel expenses in the amount of EUR 69 321 capitalised in the value of intangible assets (establishment of an asset management system).

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Other property and equipment	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
Historical cost or revalued amount						
31.12.2018	650 638 943	120 701 589	6 231 404	1 434 542	7 833 173	786 839 651
Additions	-	177 869	746 030	-	12 576 380	13 500 279
Reclassified	9 208 232	6 543 665	-	-	(15 751 897)	-
Disposals	(3 225 756)	(266 209)	(317 014)	-	-	(3 808 979)
Moved to inventories	-	-	-	(29 815)	-	(29 815)
31.12.2019	656 621 419	127 156 914	6 660 420	1 404 727	4 657 656	796 501 136
Accumulated depreciation						
31.12.2018	387 129 269	63 980 363	4 048 594	-	-	455 158 226
Calculated	11 201 381	3 959 475	510 752	-	-	15 671 608
Disposals	(1 245 015)	(207 036)	(156 279)	-	-	(1 608 330)
31.12.2019	397 085 635	67 732 802	4 403 067	-	-	469 221 504
Balance as at 31.12.2019	259 535 784	59 424 112	2 257 353	1 404 727	4 657 656	327 279 632

8. PROPERTY, PLANT AND EQUIPMENT (continued)

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

* an emergency spare parts established at the end of the year;

** the unamortised value of the written off fixed assets of EUR 630 703 consists mainly of the part of the renovated fixed asset excluded as part of the reconstruction of gas pipelines and gas regulatory stations.

Property, plant and equipment as at 31.12.2020 include fully depreciated assets with a total cost of EUR 4 898 677 (as at 31.12.2019: EUR 16 202 195). The cadastre value of real estate amounts to EUR 63 558 370.

Personnel expenses in the amount of EUR 75 406 capitalised in the value of fixed assets: EUR 66 472 in the value of structures (reconstruction of gas bores), EUR 8 934 in value of structures and technological equipment (reconstruction of compressor workshop).

The revaluation of property, plant and equipment in 2020 was performed to ensure that the carrying amount does not differ significantly from the fair values of the assets. The following groups of fixed assets were subject to revaluation: buildings, structures, technological equipment and machinery, excluding land, cushion gas in the underground gas storage, natural gas in the pipelines of the transmission system. The accounting policy stipulates that the revaluation of fixed assets is performed regularly, but not less than once every three or five years. Evaluating the information on construction costs and market prices, the Company’s management decided to revalue the assets as of January 1, 2020.

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

As a result of revaluation, the residual value of revalued assets as at January 1, 2020 was increased by EUR 92 311 666. The revaluation reserve was increased by EUR 92 100 425, the positive effect of reversing a previously recognised impairment loss of EUR 211 241 is included in the income statement.

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

The following table summarises balance values for the revalued assets as if they were carried at the acquisition cost:

Balance values	31.12.2020	31.12.2019
	EUR	EUR
Buildings and structures	152 720 246	148 061 023
Equipment and machinery	54 719 982	55 218 145

9. CO-FINANCED PROJECTS

In accordance with Regulator’s Decision of 30 April 2014 No 97 (minutes No 16, p.4) “On the distribution of investment costs for the common interest project “Klaipėdos - Kiemėnai pipeline capacity increase in Lithuania” in year 2017, a payment EUR 1 713 370 was made to AB Amber Grid. Deferred expenses will be included in the costs of the return on investment until 2033.

	31.12.2020	31.12.2019
	EUR	EUR
Opening balance	1 411 010	1 511 796
Amortised in profit or loss	(100 786)	(100 786)
Transferred to future periods	1 310 224	1 411 010
incl. current part (see Note 14)	100 786	100 786
long term	1 209 438	1 310 224

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 inter-operator 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 2021.

10. LEASE

	31.12.2020	31.12.2019
	EUR	EUR
Right-of-use assets		
Opening balance	532 734	-
Initially recognized on 1 January 2019	-	431 303
Recognised changes in lease contracts	57 397	136 094
Depreciation recognised in the statement of profit or loss	(86 547)	(34 663)
Balance as at 31.12.2020	503 584	532 734
Lease liability		
Opening balance	543 455	-
Initially recognized on 1 January 2019	-	431 303
Recognised changes in lease contracts	57 397	136 094
Recognised decrease in lease liabilities	(111 718)	(44 057)
Recognised lease interest expense	24 936	20 115
Balance as at 31.12.2020	514 070	543 455
incl. Non-current lease liabilities		
Non-current lease liabilities	453 852	452 827
Current lease liabilities	60 218	90 628

11. INVENTORIES

	31.12.2020	31.12.2019
	EUR	EUR
Materials and spare parts	1 623 448	1 658 262
Natural gas	1 477 709	1 794 438
Write-off of inventory value to net realisable value	(80 154)	(68 339)
3 021 003	3 384 361	

Write-off of inventory value to net realisable value	31.12.2020	31.12.2019
	EUR	EUR
Write-offs at the beginning of the period	(68 339)	(68 339)
Write-offs during period	(11 815)	-
Write-offs at the end of the period	(80 154)	(68 339)

12. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	31.12.2020	31.12.2019
	EUR	EUR
Receivables for natural gas transporting	4 625 819	4 052 071
Receivables for natural gas storage	2 009 978	2 204 346
Receivables for balancing operations	218 523	-
Receivables for penalties	929	1 785
6 855 249	6 258 202	
Incl. Accrued income		
For natural gas transporting	2 335 550	2 160 402
For natural gas storage	1 571 515	1 332 219
For balancing operations	111 273	124 511
4 018 338	3 617 132	

The items represent clearly known amounts to be settled with clients in relation to transportation, storage, and balancing operations of natural gas of the Company in the reporting year with regard to which the due date for issuing the payment supporting document (invoice) as set in the agreement has not arrived at the reporting date.

RECEIVABLES FROM CONTRACTS WITH CUSTOMERS UNDER THE EXPECTED CREDIT LOSS (ECL) MODEL:

Overdue days under IFRS 9	ECL rate	Receivable	Impair-ment	ECL rate	Receivable	Impair-ment
		31.12.2020			31.12.2019	
Not past due	0.000%	7 484 262	-	0.000%	6 843 981	-
Overdue by 1-10	0.000%	-	-	0.000%	-	-
Overdue by 11-20	0.003%	200	-	0.170%	11 911	20
Overdue by 21-30	0.000%	-	-	0.010%	929	-
Overdue by > 31	0.020%	1 636	-	0.090%	6 224	6
Insolvent debtors	100%	-	-	100%	-	-
Total		7 486 098	-		6 863 044	26

Expected credit losses on receivables from contracts with customers are insignificant (0.04% on average per year), therefore a decision has been made not to create provisions for doubtful debts.

13. OTHER RECEIVABLES

	31.12.2020	31.12.2019
	EUR	EUR
Other receivables	75 445	116 993
Other prepaid expenses	16 708	14 516
Advances to the SRS deposited funds account	849	6 658
	93 002	138 167

14. PREPAID EXPENSES

	31.12.2020	31.12.2019
	EUR	EUR
Non-current part		
Participation in the transnational cross-border project	1 209 438	1 310 224
Total non-current part	1 209 438	1 310 224
Current part		
Participation in the transnational cross-border project	100 786	100 786
IT expenses	162 095	108 505
Expenses of insurance	66 537	57 153
Expenses of transport	11 408	34 950
Other prepaid expenses	9 667	12 410
Total current part	350 493	313 804
Total prepaid expenses	1 559 931	1 624 028

15. RESERVES

	31.12.2020	31.12.2019
	EUR	EUR
Property, plant and equipment revaluation reserve	199 783 256	115 680 729
Reorganisation reserve	24 647 260	24 647 260
Post-employment benefit revaluation reserve	328 076	301 838
	224 758 592	140 629 827

Movement in revaluation reserves	Property, plant and equipment revaluation reserve	Post-employment benefit revaluation reserve
	EUR	EUR
Balance as at 31.12.2018	121 909 223	357 942
Reassessment of actuarial assumptions	-	(56 104)
Disposed revalued items of PPE	(565 740)	-
Transfer of accumulated depreciation of the revaluation reserve (transferred in reorganisation) to retained earnings	(5 662 754)	-
Balance as at 31.12.2019	115 680 729	301 838
Reassessment of actuarial assumptions	-	26 238
Increase in revaluation reserve	92 100 425	-
Disposed revalued assets	(347 390)	-
Transfer of depreciation of revaluation surplus charged for the period to retained earnings	(7 650 508)	-
Balance as at 31.12.2020	199 783 256	328 076

16. DEFERRED INCOME

	31.12.2020	31.12.2019
	EUR	EUR
Non-current part	10 781 736	11 124 975
Current part (EU co-financing)	349 765	307 496
Current part (contract liabilities)	903 165	-
	12 034 666	11 432 471

Movement of deferred income	31.12.2020	31.12.2019
	EUR	EUR
Opening balance	11 432 471	8 102 967
EU co-funding received	-	3 682 771
Recognized contract liabilities*	903 165	-
Transferred to revenue for the period (see Note 3)	(300 970)	(353 267)
Transferred to future periods	12 034 666	11 432 471

*includes payments for the reserved capacity products for the full recognition of the revenue throughout the period of provision of the service

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.

Projects completed in 2019 EUR 3 938 250 (EU co-financing 1 969 125 EUR), projects completed in 2020 EUR 3 300 953 (EU co-financing 1 650 477 EUR).

17. EMPLOYEE BENEFIT OBLIGATIONS

	31.12.2020	31.12.2019
	EUR	EUR
Post-employment benefit liabilities	925 691	1 016 180
Other employment benefits	102 803	98 336
	1 028 494	1 114 516

	31.12.2020	31.12.2019
Obligations at the beginning of the reporting period	1 114 516	1 060 622
Recognised in profit or loss	92 947	84 484
Paid	(152 731)	(86 694)
Revaluations due to changes in actuarial assumptions - in equity	(26 238)	56 104
Obligations at the end of the reporting period	1 028 494	1 114 516

Assumptions used in the calculations of obligations	2020	2019
Discount rate, %	-0.13%	0.43%
Employee rotation rate, %	4.59%	4.39%
Employee retirement age, years	65.0	64.9
Wage growth, %	3.00%	3.00%
Contribution into private pension fund, %	5.00%	5.00%
Compulsory social security contributions (employees), %	23.59%	24.09%
Compulsory social security contributions (retired), %	20.77%	21.31%

Assumptions used in the calculations of obligations	Changes in assumptions	Impact on obligations due to changes in assumptions	2020	2019
Discount rate	+0.5%	Savings reduced by	-4.88%	-4.39%
Employee rotation rate	+0.5%	Savings reduced by	-5.37%	-4.82%
Employee retirement age	+1 year	Savings reduced by	-5.47%	-5.88%
Wage growth	+0.5%	Savings increased by	5.00%	4.52%
Contribution into private pension fund	+0.5%	Savings increased by	0.39%	0.39%
Social contributions (employees)	+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	2020	2019
Discount rate	-0.5%	Savings reduced by	5.38%	4.81%
Employee rotation rate	-0.5%	Savings reduced by	5.90%	5.27%
Employee retirement age	-1 year	Savings reduced by	5.58%	5.91%
Wage growth	-0.5%	Savings increased by	-4.59%	-4.16%
Contribution into private pension fund	-0.5%	Savings increased by	-0.39%	-0.39%
Social contributions (employees)	-0.5%	Savings increased by	-0.39%	-0.39%

18. BORROWINGS

	31.12.2020	31.12.2019
	EUR	EUR
Borrowings from credit institutions	-	21 875 000
Short-term loans from credit institutions	21 875 000	3 500 000
	21 875 000	25 375 000

The Company has a 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. The Company plans to refinance the borrowing in 2021 and management is currently considering alternative refinancing offers from credit institutions.

19. OTHER LIABILITIES

	31.12.2020	31.12.2019
	EUR	EUR
Value added tax	611 962	-
Staff remuneration	382 599	359 431
Social contributions	267 146	219 660
Personal income tax	131 367	113 358
Dividends undistributed from prior years	190 355	121 302
Other non-current liabilities	157 740	42 222
Corporate income tax from theoretically distributed profit	3 539	28 015
Natural resources tax	43 237	24 916
Real estate tax	10	54
	1 787 955	908 958

20. PROVISIONS AND ACCRUED LIABILITIES

	31.12.2020	31.12.2019
	EUR	EUR
Provisions for annual performance bonuses	1 739 250	1 224 881
Accrued liabilities for unreceived invoices	640 973	2 841 694
Accrued unused vacation costs	516 421	375 135
Accrued liabilities for annual audit	16 140	12 440
	2 912 784	4 454 150
incl. Financial liabilities	657 112	2 841 694

Provisions for slow-moving inventories	80 154	68 339
Provisions for employee benefit liabilities	1 028 494	1 114 516
	1 108 648	1 182 855

Movement of provisions	Post-employment and other employee benefits	Provisions for slow-moving inventories	Provisions to maintain minimum amount of natural gas in the pipelines
Balance as at 31.12.2018	1 060 622	68 878	1 420 481
Provisions increase	53 894	-	-
Provisions decrease	-	(539)	(1 420 481)
Balance as at 31.12.2019	1 114 516	68 339	-
Provisions increase	-	11 815	-
Provisions decrease	(86 022)	-	-
Balance as at 31.12.2020	1 028 494	80 154	-

21. TAXES

	Liabilities 31.12.2019	Calculated	Paid	(Overpaid)/ Liabilities at 31.12.2020
	EUR	EUR	EUR	EUR
Corporate income tax from theoretically distributed profit	28 015	14 289	(38 765)	3 539
Value added tax	(22 424)	7 104 299	(6 469 913)	611 962
Social contributions	219 660	3 120 435	(3 072 949)	267 146
Personal income tax	113 358	1 609 584	(1 591 575)	131 367
Natural resources tax	24 916	277 103	(258 782)	43 237
Excise tax	-	4 424	(4 424)	-
State fee for business risk	-	1 479	(1 479)	-
Public Utilities Commission fee	-	108 348	(108 348)	-
Real estate tax	54	945 019	(945 063)	10
	363 579	13 184 980	(12 491 298)	1 057 261

22. RELATED PARTY TRANSACTIONS

Related parties include the Company's Shareholders, members of the Supervisory Council, members of the Management Board, members of that person's family and companies in which they have significant influence or control over the reporting entity.

Related party transactions	31.12.2020	31.12.2019
	EUR	EUR
Companies controlled by PJSC Gazprom	-	239 966
Companies controlled by AS "Augstsprieguma tīkls"	593	-
Expenses on purchase of services from the companies controlled by related companies	593	239 966
Balance as at the ending of the period	-	-

On July 21, 2020, changes were made in the shareholders registry: change of ownership of 34.10 % of the Company's share capital. The transferor of the shares is PJSC "Gazprom", the acquirer of the shares is JSC "Augstsprieguma tīkls". Thus, JSC "Augstsprieguma tīkls" significantly increased its shareholding (currently holds 68.46% of the total share paid by the Company) and it has a decisive influence.

23. OFF-BALANCE SHEET LIABILITIES

Payments for long-term asset contracts. As of 31 December 2020, investment agreements contracted for, but not yet delivered: EUR 27 107 443.

24. REMUNERATION TO THE CERTIFIED AUDITORS' COMPANY

Remuneration to the certified auditors' company	31.12.2020	31.12.2019
	EUR	EUR
Statutory audit	23 700	18 900
	23 700	18 900

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

The principles and guidelines for general management of financial risks are set out in the Company's financial risk management policy. Financial risk management is ensured by the Member of the Board responsible for the financial area.

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

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

Financial assets and liabilities	31.12.2020	31.12.2019
	EUR	EUR
Trade receivables	6 855 249	6 258 202
Other receivables	75 445	93 671
Cash and cash equivalents	15 163 736	21 504 400
Total financial assets	22 094 430	27 856 273
Loans from credit institutions	21 875 000	25 375 000
Accounts payable to suppliers and contractors	7 637 032	2 326 667
Other liabilities	657 112	2 841 694
Total financial liabilities	30 169 144	30 543 361

LIQUIDITY RISK

Liquidity risk is associated with ability of the Company to settle its obligations within agreed terms. Company follows prudent liquidity risk management when estimated annual, quarterly and monthly cash flows to ensure appropriate amount of funds necessary for operating activities. If necessary, Company can leverage short-term credit lines if needed. The liquidity reserves of the Company are made of the Company's own cash and cash equivalents. The Company's current liabilities exceed current assets due to the loan agreement with a due date of 30 November 2021 in amount of 21.9 million EUR included in current liabilities. The Company

has intention and ability to refinance this loan in 2021, so it does not pose a risk of going concern. After refinancing the Company's current assets will significantly exceed current liabilities. In order to ensure capital adequacy, the Company's management has evaluated the financial forecasts based on future action plans until 2030 and a decision has been taken to

attract additional financing, thus opening a negotiated procedure with commercial banks regarding the attraction of financing.

On 26 February 2021, a loan agreement was concluded with Nordic Investment Bank for an amount of EUR 30 million, with due date until 4 March 2038.

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

31.12.2020	Carrying amount	Contractual cash flows	1 to 3 months	3 months – 1 year	1 – 5 years
	EUR	EUR	EUR	EUR	EUR
Loans	21 875 000	21 988 944	907 365	21 081 579	-
Other liabilities	8 294 144	8 294 144	8 294 144	-	-
Financial liabilities	30 169 144	30 283 088	9 201 509	21 081 579	-

31.12.2019	Carrying amount	Contractual cash flows	1 to 3 months	3 months – 1 year	1 – 5 years
	EUR	EUR	EUR	EUR	EUR
Loans	25 375 000	25 633 941	913 043	2 731 954	21 988 944
Other liabilities	5 168 361	5 168 361	5 168 361	-	-
Financial liabilities	30 543 361	30 802 302	6 081 404	2 731 954	21 988 944

INTEREST RATE RISK

Interest rate risk arises from the use of borrowed cash resources to ensure liquidity. Company uses general borrowing to finance its operations. The Company is exposed to interest rate risk as the borrowing has variable interest rates. The Company's financial risk management policy stipulates that the interest rate of the largest portion of the borrowing is variable.

As all financial assets and liabilities are accounted for at the amortised cost, the Company is not exposed to the fair value interest rate risk.

CREDIT RISK

The Company is exposed to credit risk, i.e., in case the counterparty fails to fulfil its contractual obligations, losses will incur. Credit risk is derived from cash and cash equivalents and from overdue accounts receivable. To restrict credit risk, the Company uses security deposits. As the end of reporting period the Company was not subject to significant credit risk related to its debtors as there were no overdue debts and all trade receivables were collected during January 2021.

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 BBB- or Baa3. Based on such assessment, outstanding cash and cash equivalents can be summarised as follows (grouped by long term rating):

Bank	Rating	31.12.2020	31.12.2019
		EUR	EUR
Swedbank*	Aa3*	11 082 180	18 874 725
OP Corporate bank plc Latvian branch	Aa3	696 523	694 928
Citadele bank	Baa3	949 544	949 589
SEB bank**	Aa2**	935 582	985 158
Luminor Bank AS Latvian branch***	Baa1	1 499 907	-
Cash and cash equivalents:		15 163 736	21 504 400

* The Moody's rating for the parent company Swedbank AB, such rating is not available for Swedbank AS.

** Credit rating for Skandinaviska Enskilda Banken (SEB), Sweden.

*** Credit rating for Luminor bank AS, Estonia.

As at 31 December 2020 and 31 December 2019, 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 31.12.2020 and 31.12.2019 the proportion of borrowed capital to total capital was as follows:

	31.12.2020	31.12.2019
	EUR	EUR
Total liabilities	48 443 286	46 679 449
(Cash and cash equivalents)	15 163 736	(21 504 400)
(Deferred income - EU co-financing)	(12 034 666)	(11 432 471)
Net total liabilities	21 244 885	13 742 578
Total equity and liabilities	453 091 955	362 400 153
Borrowed capital proportion to total capital	4,69%	3,79%

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:

	31.12.2020	31.12.2019
	EUR	EUR
Assets:		
Trade receivables	6 855 249	6 258 202
Other receivables	75 445	93 671
Cash and cash equivalents	15 163 736	21 504 400
Liabilities:		
Loans	21 875 000	25 375 000
Trade payables	7 637 032	2 326 667
Other creditors	1 387 807	3 385 088

**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 revaluation was performed in 2020. 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 (the previous revaluation was performed in 2016 while the relevant assets were still the part of JSC "Latvijas Gāze"), 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. 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 2020 and has not identified significant changes as compared to January 2020 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.

26. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Company are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements cover the period from 1 January 2020 to 31 December 2020.

These financial statements have been approved by the Management Board on 15 March 2021 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. As at 31 December 2020, the Company's current liabilities exceed current assets by EUR 10,7 million due to the loan agreement with a due date of 30 November 2021 in amount of 21,9 million EUR included in current liabilities. The Company has intention to refinance this loan in 2021, so it does not pose a risk of going concern. After refinancing the Company's current assets will significantly exceed current liabilities.

Assets and liabilities in the financial statements are measured on the historical cost basis, and items of property, plant and equipment are remeasured to fair value. The cash flow statement has been prepared in accordance with the indirect method. Financial indicators in the financial statements of the Company are reported in thousands of the EUR, unless stated otherwise.

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

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

CURRENCY UNIT AND REVALUATION OF FOREIGN CURRENCY

The items in the financial statements are expressed in Euro, which is the functional currency of the economic activity environment of the Company and official currency in the Republic of Latvia.

All transactions in foreign currencies are translated into euro at the exchange rate of the European Central Bank on the day of the relevant transactions. All monetary assets and liabilities denominated in foreign currencies are revalued to EUR according to the exchange rate on the last day of the reporting year. Gains or losses from the revaluation of foreign currencies are recognized in the profit and loss statement of the respective period.

SIGNIFICANT ESTIMATES AND JUDGEMENTS

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

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

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.

NON-FINANCIAL ASSETS AND LIABILITIES

INTANGIBLE ASSETS

Recognised as intangible assets are identifiable non-monetary assets without physical substance that are used for the provision of services or for operating purposes. Intangible assets of Company mainly consist of so ware licenses and patents.

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible assets held for using in more than one period in supply of goods and in providing services or for operating purposes. Company's main fixed asset groups are buildings and structures, transmission gas pipelines and associated machinery and equipment, as well as structures, equipment and machinery of 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, pre-payments for PPE, assets under construction, emergency reserve of spare parts as well as cushion gas and line fill.

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

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

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

Type of PPE	Estimated useful life in years
Buildings	20-100
Engineering structures	20-65
Equipment and machinery	5-35
Other PPE	3-15

LEASE

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

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

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

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

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

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

INVENTORIES

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

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

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

PROVISIONS

Provisions for obligations are recognised when due to past events the Company has a present legal or constructive obligation, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are recognised if the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value according to the management best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The required provisions are periodically reviewed, but not less than once a year.

EMPLOYEE BENEFITS

The Company 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 Company will have no legal or constructive obligations to pay further contributions if the statutory fund cannot settle their liabilities towards the Company's 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.

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).

PREPAID EXPENSES

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

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

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

DEFERRED INCOME

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

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

CONTRACT ASSETS

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

CONTRACT LIABILITIES

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

ACCRUED LIABILITIES

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

Accrued liabilities are recognised:

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

FINANCIAL ASSETS

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

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

ACCOUNTS RECEIVABLE

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

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

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

LIABILITIES

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

are classified as non-current liabilities.

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

BORROWINGS

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

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

REVENUE

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

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

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

The internal revenue recognition policies for the different types of contracts with customers have been analysed, identifying the performance obligations, the determination of the calendar of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them have been detected. IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. The current practices applied by 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 Company expects to be entitled in exchange for such goods or services. Based on this recognition model, sales are recognised when services are rendered to the customer and have been accepted by the customer, even if they have not been invoiced, and it is probable that the economic benefits associated with the transaction will flow to the Company. The specific accounting policies for the Company's main types of revenue are explained below.

Revenue from transmission services

The transmission service is considered to be one performance obligation under IFRS 15. Transmission capacity product sales are regulated services provided by Company to the transmission system users at approved dates. Short-term (quarterly, monthly, daily and current day's capacity) and long-term transmission capacity (annual

capacity) products are offered. Revenue from transmission capacity trade products, which, in its essence mean the provision of the transmission infrastructure and according to the chosen product, does not change over time for each capacity unit, is recognised in the profit or loss account for each reporting month in proportion to the period of the transmission capacity product reserved by the user.

Revenue from storage

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

Interest income

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

Income from fines

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

Other income

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

Company maintains information on the quantity of natural gas en-

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

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

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

CORPORATE INCOME TAX

On 1 January 2018 the Law on Enterprise Income Tax of the Republic of Latvia entered into force and set out a new regime for paying taxes. The tax rate is 20%, and the taxable base, determined by dividing the value of the amount taxable with corporate income tax by coefficient 0.8, includes:

- ♦ distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends), and
- ♦ conditionally or theoretically distributed profit (non-operating expenses and other specific cases provided for by the law).

The new tax regime is not applicable to the distribution of dividends from profit accumulated to 31 December 2017 and taxed under the previous taxation regime. Corporate income tax calculated for conditionally distributed profit under IFRS is classified as other operating expenses.

As at 31 December 2020 the Company has provisions of EUR 1 039 986 and if certain legal conditions are fulfilled by this amount the Company will be able to reduce the CIT taxable base in future taxation periods.

The potential benefits described above as at 31 December 2020 that may arise from the potential possibility to decrease the amount of tax in the future are treated as contingent assets and are not recognised in the statement of financial position.

SHARE CAPITAL AND DIVIDENDS

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

STANDARDS ISSUED OR AMENDED THAT AFFECTED FINANCIAL YEAR

A number of new standards (or amendments) are effective from 1 January 2020 but they do not have a material effect on the Company's financial statements.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of

initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated.

The Company has determined that all onerous contracts existing at 31 December 2020 will be completed before the amendments become effective.

Other standards

The following new and amended standards are not expected to have a significant impact on the Company's financial statements:

- 🌱 Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- 🌱 COVID-19-Related Rent Concessions (Amendment to IFRS 16);
- 🌱 Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- 🌱 Reference to Conceptual Framework (Amendments to IFRS 3);
- 🌱 Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- 🌱 Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- 🌱 IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

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.

FAIR VALUE MEASUREMENT

Fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has an access at that date. The fair value of liabilities represents the risk of default. According to the Company's accounting policies and disclosure requirements fair value should be determined for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value is classified into different levels of the fair value hierarchy based on the inputs used in the measurement techniques:

- 🌱 Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 🌱 Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- 🌱 Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and disclosure purposes based on the below methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash and cash equivalents are included in Level 1. Cash and cash equivalents are financial assets with maturities below 3 months. The Company believes that the fair value of these financial assets matches their initial nominal value and the carrying amount at any future date.

The Company has no financial assets and liabilities categorised as Level 2.

Level 3 includes:

- 🌱 Loans from credit institutions;
- 🌱 Payables and receivables.

LOANS FROM CREDIT INSTITUTIONS

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value of financial liabilities with outstanding maturities longer than six months is calculated based on the present value of future principal

and interest cash flows, discounted at the market interest rate at the measurement date. Loans include a fixed and floating interest rate components and changes to the fixed component are assessed each year according to changes in the market situation. As a result, it is assumed that the loan interest rate approximates the market rate in all reporting dates presented. For finance leases the market interest rate is determined with reference to similar lease agreements. Fair value of shorter term financial liabilities with no stated interest rate is deemed to approximate their face value on initial recognition and carrying value on any subsequent date as the effect of discounting is immaterial.

PAYABLES AND RECEIVABLES

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

The financial statements were prepared by:



AIJA MARTINSONE-STAZE
Head of Financial Accounting Division

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



KPMG Baltics AS
Vesetas iela 7
Rīga, LV-1013
Latvia

T: + 371 67038000
kpmg.com/lv
kpmg@kpmg.lv

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 59 to 90 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2020,
- the statement of profit or loss and other comprehensive income 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with 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 page 2 of the accompanying Annual Report,
- the Management Report, as set out on page 50 to 57 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 58 of the accompanying Annual Report,

- the Statement of Corporate Governance, as set out on page 3 to 49 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 Company 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, in all material respects:

- 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
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Armine Movsisjana
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 178
Riga, Latvia
15 March 2021

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

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