Joint Stock Company

conexus

BALTIC GRID

Unaudited condensed interim financial statements

for the 9-month period ending 30 September 2020

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

RIGA 2020

CONTENTS

Joint Stock Company Conexus Baltic Grid

Information on Company

Information on company

Company	Joint Stock Company (JSC) 'Conexus Baltic Grid'
Registration number	40203041605
Registration date and place	Riga, 2 January 2017
Address	Stigu Street 14 Riga, LV – 1021 Latvia www.conexus.lv
Main shareholders	JSC "Augstsprieguma tīkls" (68,46 %) MM Infrastructure Investments Europe Limited (29,06 %)
Financial statements period	1 January 2020 – 30 September 2020

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

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

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

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

Conexus vision, mission and values

VISION (Who we want to be?)	MISSION (Why do we exist?)	VALUES (What is importat to us?)
To become the most reliable energy source in the region	To promote a sustainable energy market in the region, offering reliable operation of natural gas transmission and storage system.	Secure operation of the system Professional und united team Flexibility and openness through competent solutions Sustainable development

Goals of Conexus

- Medium-term (2019-2023) key goals of Conexus are related to three areas: **Market development, provision of infrastructure and operational development.** The Company's strategic goals are set in accordance with Conexus values, vision and mission – **to promote sustainable energy market in the region, offering reliable operation of natural gas transmission and storage system.**

STRATEGIC GOALS

1. Development of regional natural gas market to achieve sustainable operation of Inčukalns UGS in market conditions
2. Provide safe, accessible and marked-based infrastructure
3. Implement sustainable management of the working capacity of internal and external resources

- In addition to its strategic goals, Conexus has identified three developmental motives that spread across all medium-term activities planned. These motives add to the strategic goals, facilitate their implementation and are determined as follow:

DIGItisation	CONEXUS – ENERGY PROVIDER	COOPERATION WITH OTHER REGIONAL TSOs
Conexus will focus on modernisation and development of technologies as well as centralized asset, personnel and financial management and implementation of effective resource management.	To become the most reliable energy source in the region and gradually introduce services not only for natural gas users, but also for electricity users.	In the medium term, Conexus plans to facilitate cooperation with other TSOs in the region by coordinating operational cooperation and introducing a periodic benchmarking system with other regional TSOs

The Council

Term of office from 3 January 2018 until 30 April 2020

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

Term of office since 30 April 2020

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

The Board

Term of office from 31 December 2017

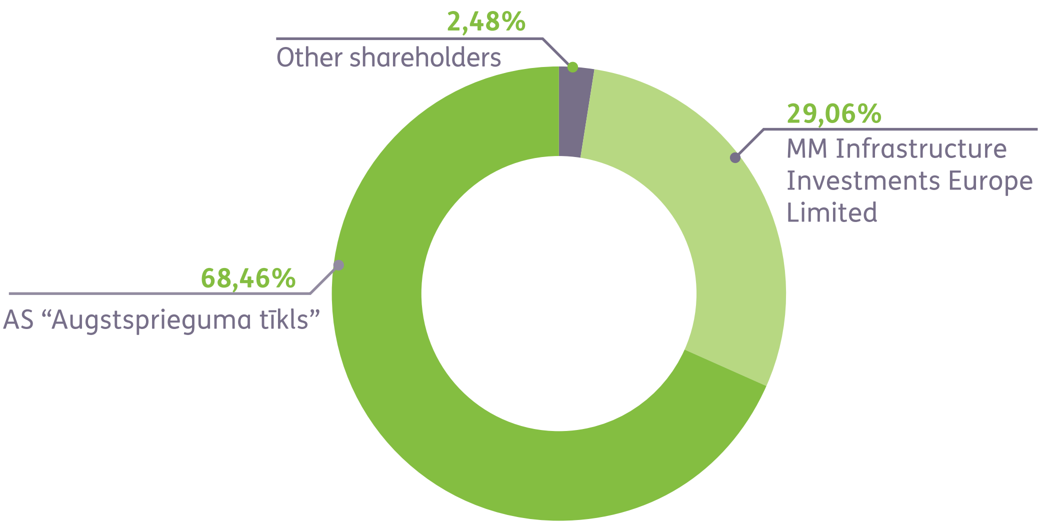
Zane Kotāne	Chairwoman of the Board (until 26 June 2020)
Gints Freibergs	Member of the Board
Mārtiņš Gode	Member of the Board

Term of office from 27 June 2020

Jānis Eisaks	Chairman of the Board

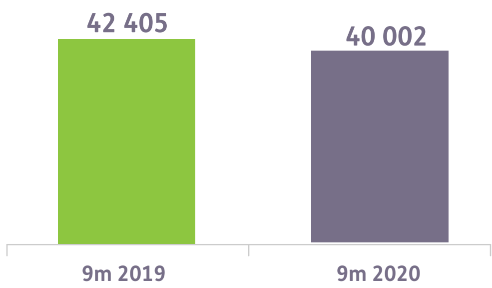
Shareholders

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

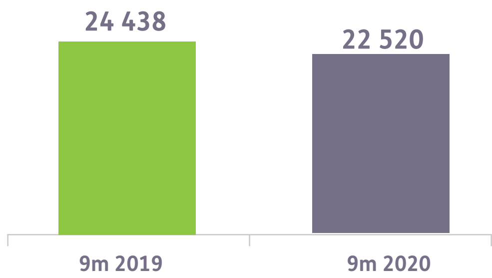


Key performance indicators

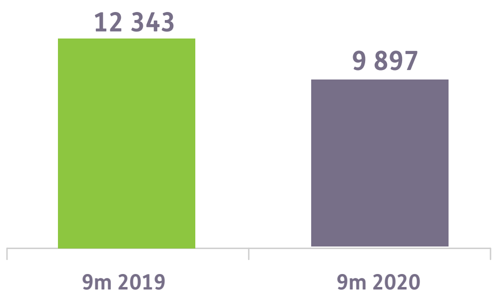
Net turnover, '000 EUR



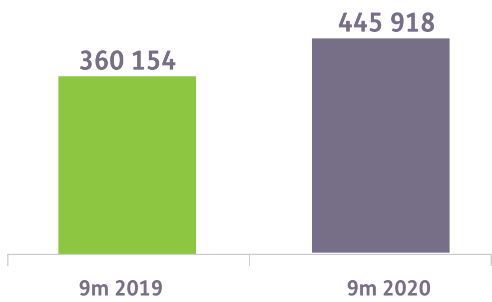
EBITDA, '000 EUR



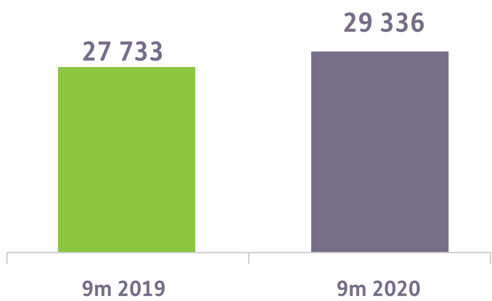
Net profit, '000 EUR



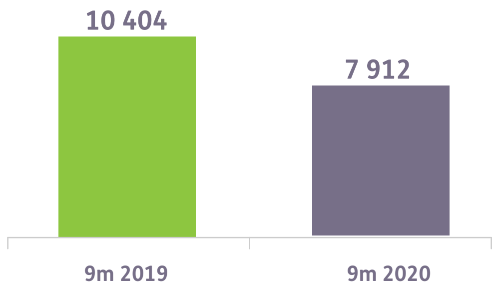
Assets, '000 EUR



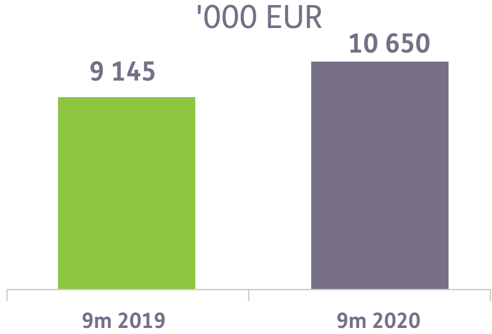
Transmitted natural gas, '000 MWh



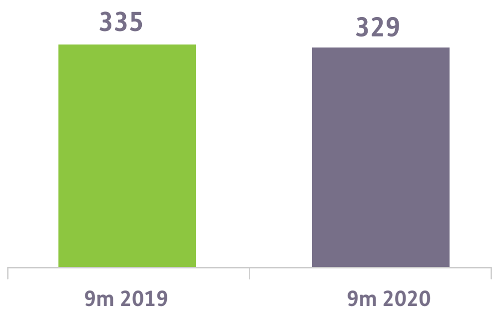
Natural gas for consumption in Latvia, '000 MWh



Capital investments, '000 EUR



Average number of employees



Joint Stock Company
conexus
BALTIC GRID

Management report

Management report

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 29,0570% (11'560'645 closed share issue shares) of the Company's share capital. The transferor of the shares is Marguerite Gas I S.àr.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 34,0991% of the Company's share capital. The transferor of the shares is PJSC "Gazprom" (reg. No. 7736050003, Russian Federation), the acquirer of the shares is JSC "Augstsprieguma tīkls" (reg. No. 40003575567, Republic of Latvia). Thus, JSC "Augstsprieguma tīkls" currently holds 68,46% of the total share capital paid by the Company;
- With change of shareholders, PUC finished the evaluation of Conexus compliance with independence requirements and declared Conexus an independent system operator.

The unusually warm weather in winter months adversely affected the volume of natural gas transmitted in Latvia and financial results

- Average actual temperatures were considerably above norm during the reporting period, which significantly affected gas demand for heating purposes, and decreased the volume of gas transmitted for consumption in Latvia to 7.9 TWh, 24% less in comparison to the same period of 2019. At the same time, timely reservation of storage capacity offset the impact of negative weather on the Company's financial performance;
- In the 9 months of 2020 the Company ensured uninterrupted supply of natural gas for the needs of Latvia, Lithuania, Estonia, Finland and Russia. With establishment of the single natural gas market, the interest to use Inčukalns UGS has increased, as demonstrated by market participants' interest in storage reservations for the following injection season, which has repeatedly exceeded the available capacity of 21.5 TWh for 2020/2021;
- During the 9 months of 2020 the Company's net turnover was 40 002 thousand EUR, which is 6% less in comparison to the same period of 2019. Company generated a net profit of 9 897 thousand EUR and reached EBITDA of 22 520 thousand EUR.

Main activities

- On 1 January 2020 the single natural gas market began operating, single transmission tariff system entered into force, significantly reducing the administrative burden for the users, and a transparent and simple tariff system was established, which will positively affect the usage of the natural gas infrastructure in the long term. The revenue incurred on external borders of the unified market zone are split among the three countries, which affirms the common goal of all unified market member states to strengthen the energetic security of the region;
- On 12 March 2020, PUC approved amendments in usage regulations of Inčukalns UGS and made a decision on Conexus natural gas storage tariffs application procedure for the 2020/2021 storage cycle. The Inčukalns UGS usage regulations came into force on March 14, tariff values came into force on April 14. PUC

confirmed the following tariff values for Inčukalns UGS storage cycle 2020/2021 (VAT excl.):

- minimum value of market product tariff - 0.92000 EUR/MWh;
- virtual counterflow product tariff – 0.32200 EUR/MWh;
- maximum value of bundled capacity product – 1.37918 EUR/MWh;
- two-years bundled capacity product tariff – 2.84741 EUR/MWh.

- During emergency situation in relation to Covid-19 Conexus provides safe and uninterrupted operation of transmission system and Inčukalns UGS;

- In 2020, the Company carried out an asset revaluation in accordance with the International financial reporting standards, with the aim of ensuring that the carrying amount does not differ materially from the fair value of the assets. The following groups of assets were subject to revaluation: buildings, structures, technological equipment and machinery, excluding land, cushion gas in the underground gas storage, natural gas in the pipelines of the transmission system and emergency spare parts;

- During the reporting period, for the third time Conexus arranged an auction regarding the storage of active natural gas volume and availability thereof in Inčukalns UGS during the season 2020/2021 which is required to ensure the Latvian natural gas supply during an energy crisis or in case of national threats. The received bids exceeded the required auction volume approximately two times compared to 2019, thereby significantly reducing the total costs of the auction. The auction costs are included in the tariff, therefore this resulted in a 4.9% reduction of the tariff for exit point for the supply of Latvian consumers from 1 October 2020 until 30 September 2021;

- On 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 6 June 2019, in Administrative District Court examined an application for the annulment of the part of the Regulator Board Decision No 112 of 28 September 2018 on the certification of the single operator of the natural gas transmission and storage system with regards to the conditions set in points 1.1 and 1.2 of the decision. By ruling of the Administrative District Court of 2 September 2019, Conexus's application was rejected. On 2 October 2019, Conexus filed a cassation appeal with the Administrative Case Department of the Supreme Court. The cassation appeal has been accepted, however, no decision has yet been taken on the further course of the case. The date of the proceedings has not yet been designated.

- On 9 April 2020, the Regulator's Council adopted Decision No 30 regarding a request for an extension of certification conditions fulfilment deadline by Conexus, by which the Regulator refused to extend the deadline requested by Conexus. Considering that decisions were yet to be made by the Cabinet of Ministers regarding Conexus shares, and also taking into account decision No 31. which issued a warning to Conexus and imposed new requirements with a fulfilment deadline until 1 October 2020, Conexus submitted an application to the Administrative District Court for annulment of these two decisions. The application was examined in Administrative District Court on 22 October 2020, the court ruling is scheduled to be announced on 12 January 2021.

- On 15 July 2020 Conexus filed a motion to the Administrative Case Department of the Supreme Court to submit preliminary questions to the European Union Court regarding whether the articles 101.1 and 114. Of the Energy law conforms with the Directive No. 2009/73/EC of the European Parliament and of the Council dated 13 July 2009, concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC. The Court has not yet taken a decision on this matter.

- 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 return rate for the calculation of the tariff project for natural gas transmission system, natural gas distribution system and natural gas storage services. The application has been accepted in Court and an administrative case has been initiated, but the hearing date is not yet determined.

- 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, 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 this 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.

- Participating in the Sustainability Index assessment by the Institute of Corporate Sustainability and Responsibility, Conexus also in 2020 has been awarded the prestigious Silver Award for Sustainability, which is an assessment of Conexus' work over the past year to improve environmental, work environment, strategic planning, market relations and community support activities.

- Changes have occurred in the Board: the former Chairwoman of the Board Zane Kotāne left office on 27 June, accepting other professional challenges. Until the appointment of a new Chairman of the Board, Jānis Eisaks, former head of the Corporate Strategy, was appointed to fulfil duties of the Chairman of the Board.

- Dividends paid to shareholders for 2019 in amount of 16 312 thousand EUR or 0.41 EUR per share.

Main operating indicators

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

Conexus performance indicators		30.09.2020	30.09.2019
Transmitted natural gas	thousand MWh	29 336	27 733
Total amount of natural gas stored in Inčukalns UGS	thousand MWh	21 213	17 376
Natural gas for consumption in Latvia	thousand MWh	7 912	10 404
Total length of main gas pipelines	km	1 188	1 188
Average number of employees	Average (based on working hours)	329	335

Financial results

During the reporting period, the Company's net turnover is 40 002 thousand EUR, which is 6% less than the respective period of the prior year. The Company's operating result is net profit of 9 897 thousand EUR and EBITDA reached 22 520 thousand EUR.

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

Significantly lower transmission auction expenses of 2019 attributable to the nine months of 2020 had a positive effect on the Company's EBITDA (by 1 577 thousand EUR lower than comparable expenses the year before). The savings were caused by earlier organization of this auction, due to timely approval of storage tariffs for 2019/2020, which provided increased interest from natural gas traders and subsequently lower expenses.

Conexus financial indicators	30.09.2020	30.09.2019	+/-	%
	EUR'000	EUR'000		
Net turnover	**40 002**	**42 405**	**(2 403)**	**-6%**
EBITDA	22 520	24 438	(1 917)	-8%
Net Profit	**9 897**	**12 343**	**(2 446)**	**-20%**
Segment assets	430 428	338 785	91 643	27%
Cash and cash equivalents	15 491	21 369	(5 878)	-28%
Total assets	445 918	360 154	85 765	24%
Regulated asset base	322 444	322 444	0	0%
Net debt*	23 429	21 051	2 378	11%
Investments	10 649	9 145	1 504	16%

*Net debt includes guarantee received from bank.

Financing and liquidity

The financial assets at the Company's disposal are sufficient to meet the Company's needs. As at 30 September 2020, the Company's borrowings were 22 750 thousand EUR at an interest rate of 0.6% + 6-month EURIBOR, with maturity on 30 November 2021. All financial covenants set in the Company's loan agreement have been complied with during the reporting period.

Conexus financial coefficients	30.09.2020	30.09.2019
EBITDA profitability	56%	58%
Net profitability	25%	29%
Return on equity ratio (ROE)	2.73%	4.00%
Shareholders' equity ratio (>50%)	90%	86%
Net debt to EBITDA ratio (<2)	0.73	0.67

Results of segment operations

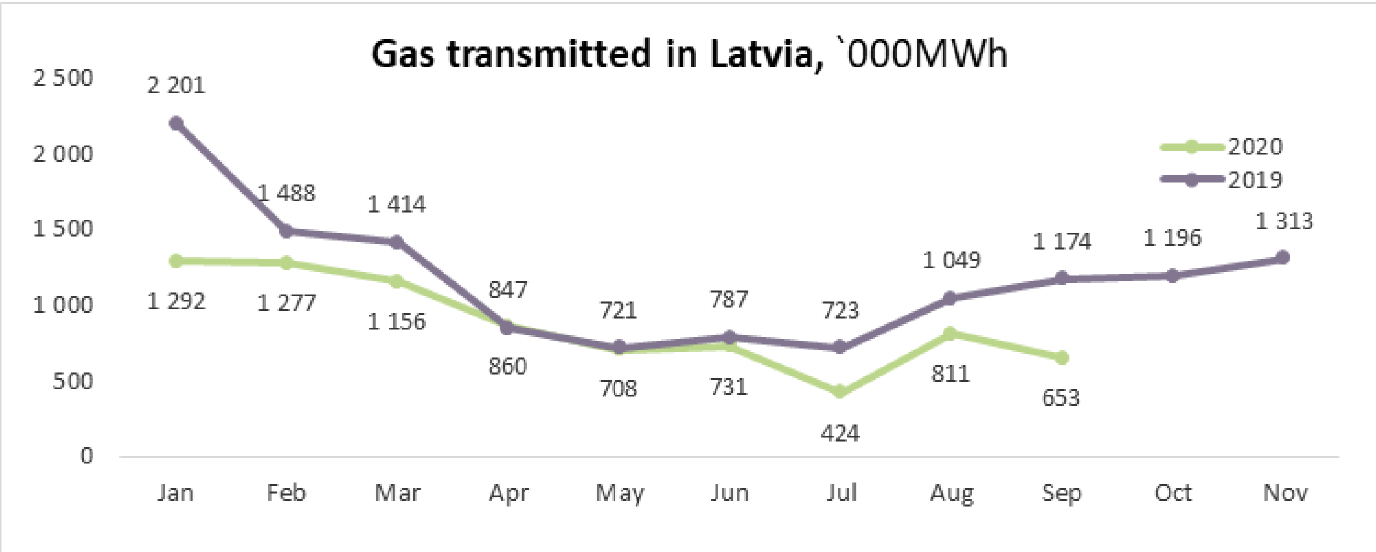
Business of the Company is organized in two segments: transmission and storage of natural gas. This division is based on internal organizational structure of the Company, which serves as a basis for regular supervision of its business results, for making decisions on assignment of resources to segments,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

- The natural gas **transmission** segment involves transportation of natural gas via high-pressure pipelines, to be delivered to Inčukalns UGS, other countries, and to the distribution system. The transmission system tariffs are approved by the Regulator.
- The natural gas **storage** segment involves storage of natural gas at Inčukalns UGS for the purposes of heating season and other needs of system users. The storage tariffs are also approved by the Regulator.

Transmission

The transmission segment generates revenue from sale of capacity both for natural gas consumption in Latvia and for international transportation of natural gas. The revenue of the transmission segment during the reporting period was 23.7 million EUR and EBITDA reached 12.0 million EUR, representing 54% of the Company's total EBITDA. Net profit of the transmission segment amounted to 4.7 million EUR (18% less than in the respective period of prior year).

During the first nine months of 2020, the total volume of transmitted gas reached 29 TWh, 6% increase versus the respective period of prior year. However, during the reporting period the volume of gas transmitted for consumption in Latvia decreased by 24%, reaching 50% of the total transmitted volume.



The transmission segment's revenue of the nine months of 2020 was affected by the warm weather, which decreased gas demand for heating purposes. Actual temperatures in winter months 2020 where not only higher than in the respective months of 2019, but also higher than the norm. As a result, the consumers' need for gas for heating purposes was lower than in the respective months of 2019.

Temperature	Average monthly temperature	Above/below norm
January 2019	-4 °C	(-0.8 °C)
February 2019	+0.8 °C	(+4.5 °C)
March 2019	+2.2 °C	(+2.4 °C)
January 2020	+3.1 °C	(+6.3 °C)
February 2020	+2.2 °C	(+5.9 °C)
March 2020	+2.9 °C	(+3.1 °C)

The transmission segment assets at the end of the reporting period amounted to 230 million EUR, accounting for 54% of the total assets of the Company. Largest capital investments during the reporting period: GRS Sloka branch capital repairs (1 338 thousand EUR); transmission gas pipeline repairs (1 220 thousand EUR).

Transmission	30.09.2020	30.09.2019	+/-	%
	EUR'000	EUR'000		
Net sales	**23 730**	**25 896**	**(2 166)**	**-8%**
EBITDA	12 051	12 988	(936)	-7%
Segment Net Profit	**4 732**	**5 756**	**(1 023)**	**-18%**
Segment assets	230 257	178 652	51 605	29%
Depreciation and amortisation	7 218	7 144	73	1%
Acquisition of fixed assets and intangible assets	5 638	5 096	542	11%
Regulated asset base	171 820	171 820	-	0%

Storage

The storage segment revenue during the reporting period was 16.3 million EUR (1% less than in the respective period of last year). The revenue level allowed to reach EBITDA of 10.3 million EUR and 5.2 million EUR net profit.

The assets of the segment at the end of the reporting period amounted to 200 million EUR, accounting for 46% of the total assets of the Company. The largest capital investments during the reporting period: Reconstruction of bores (3 961 thousand EUR).

Storage	30.09.2020	30.09.2019	+/-	%
	EUR'000	EUR'000		
Net sales	**16 273**	**16 509**	**(237)**	**-1%**
EBITDA	10 469	11 450	(981)	-9%
Segment Net Profit	**5 165**	**6 587**	**(1 423)**	**-22%**
Segment assets	200 171	160 133	40 038	25%
Depreciation and amortisation	5 065	4 811	254	5%
Acquisition of fixed assets and intangible assets	5 011	4 049	962	24%
Regulated asset base	150 624	150 624	-	0%

Subsequent events

- On October 1, 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. The new rules determine that an auction procedure for booking products of storage capacity — bundled capacity product, two year bundled capacity product and interruptible capacity product — is to use an auction procedure providing for the setting of a single premium. The auctions have a specific timetable – from mid-March to mid-August. At the same time, it should be noted that the holding of storage capacity reservation auctions depends on the capacity available for reservation. 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. The arrangements for the use of capacity products and the transfer of stocks have also been clarified and other changes have been made. These Regulations take effect on October.

- In October 2020, a natural gas storage tariff project was submitted to the Regulator for the next regulatory period of 5 years.
- Changes have been made to the Board of Conexus – Uldis Bariss has been selected through a competition as the Chairman of the Board, and it is expected that U. Bariss will start to fulfil his duties starting from 16 November 2020.

Abbreviations and formulas

- **MWh** = megawatt-hours
- **TWh** = terawatt-hours
- **EBITDA** = earnings before interest, taxation, depreciation & amortisation
- **RAB** = regulated asset base
- **Net debt** = loans minus cash and cash equivalents
- **EBITDA profitability** = EBITDA/income
- **Net profitability** = net profit/income
- **Return on equity ratio (ROE)** = net profit (over the reporting period)/equity average value
- **Shareholders' equity** = equity/total assets
- **Net debt to EBITDA ratio** = net debt/EBITDA (over 12 months period)

Statement of the Board's responsibility

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

The unaudited financial statements of the Company for the 9 months period ending 30 September 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.

(signature*)	(signature*)	(signature*)
Jānis Eisaks	**Gints Freibergs**	**Mārtiņš Gode**
Chairman of the Board	Member of the Board	Member of the Board

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Joint Stock Company

Financial statements

Profit and loss statement

	Note	01.01.2020-30.09.2020	01.01.2019 - 30.09.2019
		EUR	**EUR**
Revenue	**1**	**40 002 187**	**42 405 214**
Other income	2	431 783	(746 707)
Cost of materials and services	3	(5 614 753)	(6 651 714)
Personnel expenses	4	(8 985 713)	(7 498 243)
Depreciation, amortization and impairment of property, plant and equipment	6,7	(12 493 669)	(11 955 522)
Other operating expenses	5	(3 313 128)	(3 069 910)
Gross profit		**10 026 708**	**12 483 118**
Financial expenses, net		(129 771)	(139 884)
Profit before taxation		**9 896 937**	**12 343 233**
Corporate income tax	-	-	-
Profit for the period		**9 896 937**	**12 343 233**

The accompanying notes on pages 23 to 38 form an integral part of these financial statements.

Comprehensive income

	Note	01.01.2020-30.09.2020	01.01.2019 - 30.09.2019
		EUR	**EUR**
Profit of the period		**9 896 937**	**12 343 233**
Other comprehensive income			
Property, plant and equipment revaluation	7	92 100 425	-
Other comprehensive income		*92 100 425*	-
Total comprehensive income		**101 997 361**	**12 343 233**

The accompanying notes on pages 23 to 38 form an integral part of these financial statements.

(signature*)	(signature*)	(signature*)
Jānis Eisaks Chairman of the Board	**Gints Freibergs** Member of the Board	**Mārtiņš Gode** Member of the Board

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Balance sheet

Assets

	Note	30.09.2020	31.12.2019
		EUR	EUR
Non-current assets			
Intangible assets	6	1 456 315	1 645 745
Property, plant and equipment	7	417 766 542	327 279 632
Non-current prepaid costs		1 209 438	1 310 224
Right of use assets	8	526 767	532 734
Total non-current assets:		**420 959 061**	**330 768 336**
Current assets			
Inventories	9	2 891 137	3 384 361
Advances paid for inventories		24 456	32 882
Trade receivables		5 886 630	6 258 202
Other receivables	10	666 385	451 972
Cash and cash equivalents		15 490 645	21 504 400
Total current assets:		**24 959 254**	**31 631 818**
TOTAL ASSETS:		**445 918 315**	**362 400 153**

(continued on next page)

The accompanying notes on pages 23 to 38 form an integral part of these financial statements.

(signature*)	(signature*)	(signature*)
Jānis Eisaks	**Gints Freibergs**	**Mārtiņš Gode**
Chairman of the Board	Member of the Board	Member of the Board

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Balance sheet (continued)

Liabilities and shareholders' equity

	Note	30.09.2020	31.12.2019
		EUR	EUR
Shareholders` equity:			
Share capital		39 786 089	39 786 089
Treasury shares		(34 678)	(36 471)
Reserves	11	226 895 708	140 629 827
Retained earnings		134 760 443	135 341 259
Total shareholders' equity:		**401 407 562**	**315 720 704**
Non-current liabilities			
Deferred income	13	11 529 939	11 124 975
Employee benefit liabilities		1 114 516	1 114 516
Loans from credit institutions	12	19 250 000	21 875 000
Non-current lease liabilities	8	514 074	452 827
Total non-current liabilities:		**32 408 528**	**34 567 318**
Short-term liabilities			
Borrowings	12	3 500 000	3 500 000
Accounts payable to suppliers and contractors		3 577 388	2 326 667
Other liabilities	14	2 438 590	908 958
Provisions and accrued liabilities	15	1 551 110	4 454 150
Deferred income	13	300 970	307 496
Customer advances		716 890	524 232
Current lease liabilities	8	17 275	90 628
Total current liabilities:		**12 102 224**	**12 112 131**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**445 918 315**	**362 400 153**

The accompanying notes on pages 23 to 38 form an integral part of these financial statements.

(signature*)	(signature*)	(signature*)
Jānis Eisaks	**Gints Freibergs**	**Mārtiņš Gode**
Chairman of the Board	Member of the Board	Member of the Board

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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	-
Other comprehensive income:					
Other comprehensive income	-	-	(56 104)	-	(56 104)
Profit for the period	-	-	-	17 944 598	17 944 598
Total other comprehensive income:	-	-	*(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**
Decrease of the revaluation reserve	-	1 793	-	(16 312 296)	(16 310 503)
Other comprehensive income:	-	-	(5 834 544)	5 834 544	-
Other comprehensive income					
Profit for the period	-	-	92 100 425	-	92 100 425
Decrease of the revaluation reserve	-	-	-	9 896 937	9 896 937
Total	-	*1 793*	*86 265 881*	*(580 816)*	*85 686 858*
As at 30 September 2020	**39 786 089**	**(34 678)**	**226 895 708**	**134 760 443**	**401 407 562**

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Statement of cash flows

	Note	01.01.2020 – 30.09.2020	01.01.2019 – 30.09.2019
Cash flows from operating activities		**EUR**	**EUR**
Profit before taxes		**9 896 937**	**12 343 233**
Adjustments for:			
- depreciation	7	12 103 028	11 677 382
- amortization of the right of use assets	8	63 365	8 985
- amortization of intangible assets	6	390 641	269 154
- loss/(gain) from disposals of property, plant and equipment		170 851	1 855 863
- participation in the transnational cross-border project		100 786	100 786
- amortization of EU grants	13	(225 728)	(200 622)
- interest expanses		129 191	139 660
Change in operating assets and liabilities:			
- (increase)/decrease in debtors		157 159	(167 621)
- (increase)/decrease in advances for inventories		8 426	(12 976)
- (increase)/decrease in inventories		493 224	553 924
- (decrease)/ increase in creditors		483 610	(2 367 179)
Corporate income tax paid		-	(36 400)
Net cash flows from operating activities		**23 771 489**	**24 164 191**
Cash flows from investing activities			
Purchase of property, plant and equipment		(10 447 762)	(8 722 937)
Purchase of intangible assets		(201 492)	(422 019)
Net cash flows from investing activities		**(10 649 253)**	**(9 144 956)**
Cash flows from financing activities			
Interest paid		(110 512)	(139 660)
Repayment of borrowings		(2 625 000)	(2 625 000)
Lease payments		(88 183)	-
EU grants received		-	2 932 000
Dividends paid		(16 312 296)	(11 885 786)
Net cash flows from financing activities		**(19 135 992)**	**(11 718 446)**
Net cash flows		**(6 013 756)**	**3 300 789**
Cash and cash equivalents at the beginning of the reporting period		**21 504 400**	**18 068 083**
Cash and cash equivalents at the end of the reporting period		**15 490 645**	**21 368 872**

The accompanying notes on pages 23 to 38 form an integral part of these financial statements.

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Notes to the financial statements

Notes to the statement of profit or loss

1. Revenue

	01.01.2020 - 30.09.2020	01.01.2019 - 30.09.2019
	EUR	EUR
Revenue from transmission services	23 729 637	25 895 791
Revenue from storage services	16 272 550	16 509 422
	40 002 187	**42 405 214**

2. Other income

	01.01.2020 - 30.09.2020	01.01.2019 - 30.09.2019
	EUR	EUR
Income from EU financing	225 728	200 622
Other income	206 056	(947 329)
	431 783	**(746 707)**

3. Materials and services

	01.01.2020 - 30.09.2020	01.01.2019 - 30.09.2019
	EUR	EUR
Natural gas expenses	280 841	124 923
Cost of materials	744 806	889 351
Maintenance of transmission and storage infrastructure	3 945 334	5 194 996
Maintenance of transport and machinery	169 162	119 804
Maintenance of IT infrastructure	474 609	322 641
	5 614 753	**6 651 714**

4. Personnel expenses

	01.01.2020 - 30.09.2020	01.01.2019 - 30.09.2019
	EUR	EUR
Salary	6 898 595	5 759 784
Compulsory state social security contributions	1 690 660	1 371 935
Life, health and pension insurance	387 387	354 624
Other personnel costs	9 072	11 900
	8 985 713	**7 498 243**

5. Other operating costs

	01.01.2020 - 30.09.2020	01.01.2019 - 30.09.2019
	EUR	EUR
Premises and territory maintenance and other services	1 019 010	1 039 343
Taxes and duties	1 047 055	1 047 129
Office and other administrative costs	1 039 772	974 452
Amortization of the right of use assets	63 365	8 985
Net loss from disposals of property, plant and equipment	143 927	-
	3 313 128	**3 069 910**

Notes to the balance sheet

6. Intangible assets

	30.09.2020	31.12.2019
	EUR	EUR
Cost	**1 645 745**	**989 699**
Beginning of the period	6 988 487	5 958 882
Additions	201 492	1 029 605
Disposals	(55 067)	-
End of the period	**7 134 911**	**6 988 487**
Accumulated amortization		
Beginning of the period	5 342 742	4 969 183
Amortization for the reporting period	390 641	373 559
Disposals	(54 786)	-
End of the period	**5 678 596**	**5 342 742**
Net book value as at the end of the period	**1 456 315**	**1 645 745**

7. 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
Cost or revalued amount						
31.12.2018	**650 638 943**	**120 701 590**	**6 231 404**	**1 434 542**	**7 833 173**	**786 839 652**
31.12.2018	-	177 869	746 030	-	12 576 380	13 500 279
Additions	9 208 232	6 543 665	-	-	(15 751 897)	-
Reclassified	(3 225 755)	(266 209)	(317 014)	-	-	(3 808 979)
Disposals	-	-	-	(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	11 205 336	3 959 734	510 752	-	-	15 675 822
Disposals	(1 248 970)	(207 296)	(156 279)	-	-	(1 612 545)
31.12.2019	**397 085 635**	**67 732 801**	**4 403 067**	**-**	**-**	**469 221 504**
Balance as at 31.12.2019	**259 535 784**	**59 424 113**	**2 257 352**	**1 404 727**	**4 657 656**	**327 279 632**

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
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	-	253 652	246 155	-	9 947 955	10 447 762
Revaluated	108 395 378	2 721 464	69 399	-	-	111 186 241
Reclassified	1 291 198	1 006 869	-	-	(2 298 066)	-
Disposals	(427 480)	(571 492)	(91 081)	-	-	(1 090 053)
Transferred	36	-	-	-	-	36
30.09.2020	**765 880 551**	**130 567 406**	**6 884 892**	**1 404 727**	**12 307 544**	**917 045 121**
Depreciation						
31.12.2019	**397 085 635**	**67 732 801**	**4 403 067**	**-**	**-**	**469 221 504**
Calculated	8 225 720	3 444 234	433 073	-	-	12 103 028
Calculated accelerated depreciation	83 059	(309 297)	14 997	-	-	(211 241)
Revaluated	32 214 500	(13 169 683)	40 999	-	-	19 085 816
Disposals	(300 437)	(530 977)	(89 114)	-	-	(920 527)
Reclassified	-	-	-	-	-	-
30.09.2020	**437 308 477**	**57 167 078**	**4 803 023**	**-**	**-**	**499 278 579**
Balance as at 30.09.2020	**328 572 074**	**73 400 328**	**2 081 869**	**1 404 727**	**12 307 544**	**417 766 542**

8. Lease

	30.09.2020	31.12.2019
	EUR	EUR
Right of use assets		
Opening balance	532 734	-
Initially recognized on 1 January 2019	-	431 303
Recognized changes in lease contracts	57 397	136 094
Depreciation recognized in the statement of profit or loss	(63 365)	(34 663)
Balance at the end of the period	**526 767**	**532 734**
Lease liability		
Opening balance	**543 455**	**-**
Initially recognized on 1 January 2019	-	431 303
Recognized changes in lease contracts	57 397	136 094
Recognized decrease in lease liabilities	(88 183)	(44 057)
Recognized lease interest expense	18 679	20 115
Balance at the end of the period	**531 349**	**543 455**
incl.:		
Non-current lease liabilities	514 074	452 827
Current lease liabilities	17 275	90 628

9. Inventories

	30.09.2020	31.12.2019
	EUR	EUR
Natural gas	1 143 940	1 794 438
Materials and spare parts	1 815 536	1 658 262
Write-off of inventory value to net realizable value	(68 339)	(68 339)
	2 891 137	**3 384 361**

10. Other receivables

	30.09.2020	31.12.2019
	EUR	EUR
Prepaid expenses related to the participation in the transnational cross-border project	100 786	100 786
Other prepaid expenses	457 257	213 018
Other receivables	108 342	138 167
	666 385	**451 972**

11. Reserves

	30.09.2020	31.12.2019
	EUR	EUR
Property, plant and equipment revaluation reserve	201 946 610	115 680 729
Post-employment benefit revaluation reserve	301 838	301 838
Reorganization reserve	24 647 260	24 647 260
	226 895 708	**140 629 827**

12. Borrowings

Borrowings from credit institutions	30.09.2020	31.12.2019
	EUR	EUR
Long-term borrowings from credit institutions	19 250 000	21 875 000
Short-term loans from credit institutions	3 500 000	3 500 000
	22 750 000	**25 375 000**

13. Deferred income

	30.09.2020	31.12.2019
	EUR	EUR
Non-current part	11 529 939	11 124 975
Current part	300 970	307 496
	11 830 910	**11 432 471**

Movement of deferred income	**01.01.2020 - 30.09.2020**	**01.01.2019 - 31.12.2019**
	EUR	EUR
Opening balance	11 432 471	8 142 967
EU co-funding received	-	3 642 771
Recognized in deferred income	624 167	-
Transferred to revenue for the period	(225 728)	(353 267)
Transferred to future periods	**11 830 910**	**11 432 471**

14. Other liabilities

	30.09.2020	31.12.2019
	EUR	EUR
Real estate tax	235 630	54
Staff remuneration	409 882	359 431
Social contributions	192 539	219 660
Personal income tax	107 297	113 358
Dividends undistributed from prior years	190 435	121 302
Other non-current liabilities	49 973	42 222
Natural resources tax	149 251	24 916
Corporate income tax from theoretically distributed profit	2 755	28 015
Value added tax	1 100 827	-
	2 438 590	**908 958**

15. Provisions and accrued liabilities

	30.09.2020	31.12.2019
	EUR	EUR
Provisions for annual performance bonuses	1 169 360	1 224 881
Accrued unused vacation costs	375 135	375 135
Accrued liabilities for annual audit	6 615	12 440
Accrued liabilities for unreceived invoices	-	2 841 694
	1 551 110	**4 454 150**

Financial risk management

Financial risk management

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

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

Liquidity risk

Liquidity risk is associated with ability of the Company to settle its obligations within agreed terms. 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.

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 amortized 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, Company uses security deposits.

Capital risk management

The Company's objectives when managing capital risk are to safeguard the Company's ability to continue as a going concern, maintain an optimal structure to reduce the cost of capital. The Company performs management of the capital, based on the proportion of borrowed capital against total capital.

Currency risk

The Company policy is focused on operating transactions, assets or liabilities in the functional currency of the Company, which is the euro. Foreign currency risk is considered to be low.

Accounting Policies

Basis of preparation

The financial statements of 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 30 September 2020.

The financial statements were prepared on a going concern basis. Assets and liabilities in the financial statements are measured on the historical cost basis, and items of property, plant and equipment are remeasured to fair value. The cash flows statement has been prepared in accordance with the indirect method. The statement of financial position is entitled “Balance Sheet”. Financial indicators in the financial statements of Company are reported in 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.

Intangible assets

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

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

Property, plant and equipment

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

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

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

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

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

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

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

Type of PPE	Estimated useful life in years
Buildings	20-100
Engineering structures	20-65
Equipment and machinery	5-35
Other PPE	3-10

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

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

Lease

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

The impact of IFRS 16 on the financial statements of the Company is disclosed in Note 8.

The new standard, when initially applied, will result in the Company having to recognize starting from 1 January 2019 in its balance sheet assets and liabilities relating to operating leases for which the Company acts as a lessee.

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

Non-current prepaid costs

Classified as non-current prepaid expenses are balances of payment made by 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 amortization and they are gradually recognized in the profit or loss based on their economic substance. Those prepaid expenses are disclosed under current assets that will be amortized during 12 months under profit or loss, and the remaining balance – within non-current assets.

Inventories

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

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

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

Cash and cash equivalents

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

Other financial assets

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

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

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

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss (ECL)' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model is applied to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

In accordance with IFRS 9 loss allowance is measured on the basis of either:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Initial recognition and measurement

Company's financial assets include trade and other receivables and cash and cash equivalents. Similarly to the past practice all financial assets held by the Company are classified as loans and receivables at amortized cost under IFRS 9. The Company determines the classification of its financial liabilities at initial recognition. All financial assets held by the Company are recognised initially at fair value plus directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

After initial measurement, financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when rights to receive cash flows from the asset have expired.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Allowances for ECL are determined on the basis of customers' ability to pay, considering historical information about payment patterns, doubtful debts, customer creditworthiness and prevailing economic conditions. Estimates made are updated if the debtor's ability to pay changes. The Company has adopted a loss rate based on past due day status for its trade debtors and contract assets. The effect of implementing ECLs is trivial due to the nature of the Company's financial assets. Current receivables the Company holds are of short-term nature and from customers with no past loss events. Likewise, given the short-term nature the impact on cash and cash equivalents is assessed as not significant.

Therefore, no significant additional disclosures included in financial statements as allowed under IAS 1.31.

Financial liabilities

For financial liabilities, IFRS 9 brings no changes to classification and measurement except for liabilities designated at fair value through profit or loss whereby the changes in own credit risks are recognised in other comprehensive income.

Initial recognition and measurement

The Company's financial liabilities include trade and other payables, interest bearing loans and other liabilities.

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortised cost. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

Subsequent measurement

After initial recognition, trade and other payables, interest bearing loans and other liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit and loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of profit and loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit and loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Dividends

Dividends are recognized as a liability in the period in which the dividends are approved by the Company's shareholders.

Provisions

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

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

Currency unit and revaluation of foreign currency

The items in the financial statements are expressed in Euro, which is the functional currency of the economic activity environment of 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.

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.

Taxes

As of 1 January 2018, the new Law on Enterprise Income Tax of the Republic of Latvia has become into effect setting out a conceptually new regime for paying taxes. As of the date, the taxation period is one month, and the taxable base includes:

- distributed profit (dividends calculated, payments equalled to dividends, conditional dividends) and
- conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering transactions at prices other than those on the market).

Grants

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

Revenue

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

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

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

The internal revenue recognition policies for the different types of contracts with customers have been analysed, identifying the performance obligations, the determination of the calendar of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them have been detected. IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. The current practices applied by Company 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 storage service is considered to be one performance obligation under IFRS 15. Company provides Inčukalns underground gas storage capacity services at approved storage tariffs to the users of the storage who have reserved natural gas storage capacity during the storage season. Revenue from the sale of storage capacity which according to the nature of the service means ensuring the infrastructure of IUGS and does not change during the storage season, is recognised for each reporting month according to the storage tariffs and in proportion to the remaining months the end of storage season.

Interest income

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

Income from fines

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

Other income

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

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

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

Where market participants cause imbalance and where 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.

Significant estimates and judgements

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

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

Useful lives of property, plant and equipment

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

Revaluation of property, plant and equipment

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

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

As a result of revaluation, the residual value of revalued assets as at 1 January 2020 was increased by 92,311 thousand. EUR. The revaluation reserve was increased by 92,100 thousand. EUR, the effect on the income statement is revenue 211 thousand. EUR.

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

Employee benefit liabilities

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

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

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

The financial statements were prepared by:

(signature*)

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* THIS DOCUMENT IS ELECTRONICALLY SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME-STAMP