

Unaudited interim condensed financial statements

for the period 01.01.2018 – 30.06.2018

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

RIGA 2018



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Information on Company



Information on Company

Joint Stock Company “Conexus Baltic Grid” (hereinafter referred to as the Company, as or Conexus) is a unified natural gas transmission and storage operator in Latvia, which manages one of the most modern natural gas storage facilities in Europe – the Inčukalns Underground Gas Storage (hereinafter referred to as the Inčukalns UGS, the Storage), and the natural gas main transmission system that directly connects the Latvian natural gas market with Lithuania, Estonia and the Northwest Region of Russia.

Conexus offers its clients the natural gas transmission and storage services in compliance with the tariffs laid down by the Public Utilities Commission.

Conexus was established on 22 December 2016, as a result of the reorganisation, separating the transmission and storage activities from the JSC “Latvijas Gāze”.

Conexus objectives

- ♦ to promote a wider use of the natural gas as a product, simultaneously ensuring provision of the necessary technical requirements, as well as the efficient use of technologies under the rapidly changing market conditions;
- ♦ to ensure the customers with a possibility to purchase the storage and transmission services in an easily accessible and transparent manner;
- ♦ to become a leader in the Baltic region in provision

of the gas supply system balancing service.

Conexus mission

- ♦ Provision of a continuous and secure natural gas supply and efficient market functioning in the Baltic Sea region.

Conexus vision

- ♦ cooperating towards the development of transmission infrastructure and, using the possibilities of underground gas storage, to become the main natural gas source in the Baltic region during the heating season.

Conexus values

- ♦ a safe and friendly working environment, observance of the highly professional and ethical standards and teamwork geared towards customers – our core value.

Sustainability

- ♦ We are a socially responsible enterprise committed to ensure the employee growth and overall industry development, creating sustainable employment and added economic value, while at the same time being aware and taking care of the environmental impact of technological processes.

| | |
|------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| Company | JSC Conexus Baltic Grid |
| Registration number | 40203041605 |
| Registration date and place | Riga, 2 January 2017 |
| Address | Aristida Briāna Street 6 Riga, LV-1001 Latvia www.conexus.lv |
| Main shareholders | Joint stock company “Augstsprieguma tīkls” (34.36 %) PJSC “Gazprom” (34.10 %) Marguerite Gas I S.à r.l. (29.06 %) |
| Financial statements period | 1 January 2018 – 30 June 2018. |

The Council

Term of office : as of 3 January 2018

| | |
|--------------------------|---------------------------------------------|
| Kaspars Āboliņš | Chairman of the Council |
| Viljams Pīrsons | Deputy Chairman of the Council |
| Ilze Bērziņa | Member of the Council |
| Sanita Greize | Member of the Council |
| Ilmārs Šņucins | Member of the Council |
| Gijoms Rivrons | Member of the Council |
| Franks Zīberts | Member of the Council (until 31 March 2018) |
| Martins Sičelkovs | Member of the Council (from 27 April 2018) |

The Board

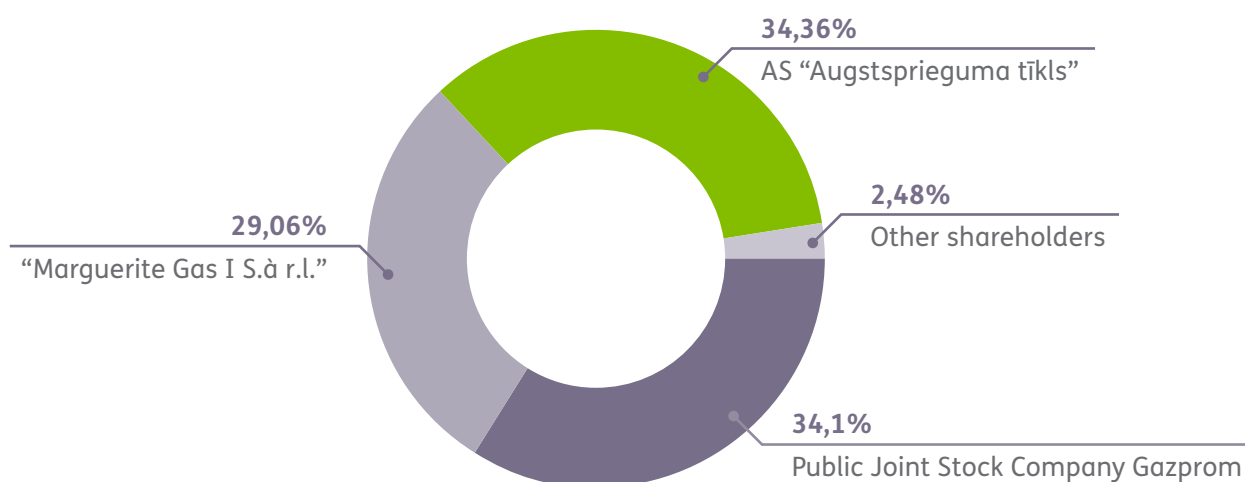
Term of office: as of 31 December 2017

| | |
|------------------------|--------------------------|
| Zane Kotāne | Chairperson of the Board |
| Gints Freibergs | Member of the Board |
| Mārtiņš Gode | Member of the Board |

Shareholders

Conexus Baltic Grid is a Closed-End Joint Stock Company, whose shares are 100% registered shares. The total number of shares is 39,786,089, with a nominal value of EUR 1.00 EUR. The total number of shareholders exceeds 4.8 thousand. 97.52% of the total number of shares belong to the three largest shareholders.

In 2017, Conexus shareholders structure has changed, when the Latvian electricity transmission system operator JSC Augstsprieguma tīkls (hereinafter referred to as AST) concluded deals with the German energy company “Uniper Ruhrgas International GmbH” (hereinafter referred to as Uniper) for the acquisition of its 18.31% shares in the natural gas transmission and storage system operator, and SIA “ITERA Latvija” for the acquisition of its 16.05% shares in the natural gas transmission and storage system operator, thereby becoming the largest shareholder of Conexus, owning 34.36% of the shares.



Management Report



Summary

During the reporting period has Conexus provided a continuous supply of natural gas for the needs of Latvia, Lithuania, Estonia and Russia. Notably, 76 % of the total transmitted flows were intended for the Latvian market needs.

In the first half of 2018, the amount of gas transmitted amounted to 10609 GWh, which has increased by 27% as compared to the previous year.

During the reporting period, the volumes of transported gas have increased for the needs of other countries, as well as the amount of gas transported for the needs of users in Latvia has increased by 4%.

New tariffs approved

On 26 April 2018, the Public Utilities Commission (hereinafter - the Regulator) has approved the new Tariffs for the Natural Gas Storage Service. Uses are offered three new basic products as follows: bundled capacity product, market product, virtual counter-current product that were purposefully designed to be easy to use and economically viable in the natural gas new market conditions.

On 18 June 2018, the Regulator has approved new Tariffs for the Natural Gas Transmission System Service, which shall come into force:

- ◆ 18 July 2018 – for the annual, quarterly, day and current day products;
- ◆ 1 August 2018 – for the monthly products.

Provision of the Security Reserves

On 8 May 2018, the Cabinet of Ministers adopted amendments to the Cabinet Regulation No. 312 as of 19 April 2011 “Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State”, which was entered into force on 25 May 2018, which lays the condition that by 1 March of the next year in the Inčukalns Underground Gas storage is stored the active natural gas, which quantity is not less than 3160 thsd. Mwh, and is intended to ensure the supply of natural gas to Latvia, and the costs associated with this condition are included in the eligible costs of the natural gas transmission system.

Decisions regarding Conexus certification

On 16 May 2018, in compliance to the procedure established by the Energy Law, and pursuant to the certification application submitted by Conexus and the accompanying documents, the Board of the Regulator has adopted a draft decision “On Certification of the Single Natural Gas Transmission and Storage System Operator”, providing to certify and approve Conexus as an independent transmission system operator under certain conditions. On 31 May 2018, the aforementioned decision was forwarded to the European Commission to obtain its opinion thereon.

Key Financial Indicators

All Conexus revenue is derived from the regulated services by application of the tariffs for storage services approved in 2008 and on 26 April 2018, and the transmission service tariffs approved on 30 May 2017.

During the reporting period, Conexus revenue amounted to EUR 27,720 thsd., which increased by 15% in comparison to the previous year, EBITDA reached EUR 13 984 thsd., which is by 18% less, while the profit is EUR 5,765 thsd.

| Key Financial Indicators | 30.06.2018 | 30.06.2017 |
|--------------------------|---------------|---------------|
| | EUR'000 | EUR'000 |
| Net turnover | 27 720 | 24 009 |
| EBITDA | 13 984 | 16 966 |
| EBITDA, % | 50% | 71% |
| Net profit | 5 765 | 5 367 |
| Net profitability, % | 21% | 22% |
| Segment assets | 338 151 | 337 383 |
| Cash and its equivalents | 8 673 | 21 899 |
| Total assets | 346 824 | 359 283 |

EBITDA - Profit before income tax, interest, depreciation and amortisation

| Key Performance Indicators | 30.06.2018 | 30.06.2017 |
|----------------------------------------------------|------------|------------|
| Natural gas transported, thsd. MWh | 10 609 | 8 343 |
| Active natural gas at the Inčukalns UGS, thsd. MWh | 2 882 | 3 662 |
| Natural gas for Latvia's consumption, thsd. MWh | 8 017 | 7 682 |
| Length of main gas pipelines, km | 1 188 | 1 191 |
| Number of employees, average | 334 | 335 |

Segment Performance Results

The Company has two operating segments, first, the gas transmission (includes transportation of natural gas through the high pressure pipelines to supply the storage, other countries, the distribution system or directly to users) and, second is the gas storage (natural gas storage at the Inčukalns Underground Gas Storage).

The transmission segment generates revenue both from the natural gas consumption in Latvia, and from international natural gas transportation, as well as from natural gas flow, by injecting or removing natural gas from the Inčukalns UGS. The transmission

segment revenue in the reporting period was EUR 19 mln., and EBITDA amounted to EUR 8.2 mln., which provides 59% of the Company's total EBITDA. The transmission segment profit amounted to EUR 3,4 mln. The transmission segment is the largest segment by volume of assets. Segment assets as at 30 June 2018 comprised EUR 179 mln., and accounted for 52% of the total assets of the Company.

The storage segment in the reporting period operated with a revenue of EUR 8.7 mln., which provided for EBITDA of EUR 5.7 mln. and profit of EUR 2,3 mln. Segment assets at the end of the reporting period totaled EUR 159.1 mln.

Segment information

| Gas transmission | 30.06.2018 | 30.06.2017 |
|-----------------------------------------------------------|------------|------------|
| | EUR'000 | EUR'000 |
| Net turnover | 18 980 | 12 307 |
| Segment profit before taxes | 3 430 | 2 789 |
| Segment assets | 179 031 | 180 343 |
| The regulated asset base approved under the draft Tariffs | 173 772 | 180 864 |
| Depreciation and amortisation | 4 750 | 5 378 |
| Purchase of tangible and intangible assets | 1 755 | 2016 |
| EBITDA | 8 244 | 8 222 |

| Gas storage | 30.06.2018 | 30.06.2017 |
|-----------------------------------------------------------|------------|------------|
| | EUR'000 | EUR'000 |
| Net turnover | 8 740 | 11 702 |
| Segment profit before taxes | 2 335 | 3 526 |
| Segment assets | 159 120 | 157 040 |
| The regulated asset base approved under the draft Tariffs | 150 624 | 102 616 |
| Depreciation and amortisation | 3 372 | 5 169 |
| Purchase of tangible and intangible assets | 2 213 | 196 |
| EBITDA | 5 740 | 8 744 |

Events after the end of the reporting period

On 5 July 2018, the Regulator has announced public consultations regarding amendments to the methodology for calculating tariffs for the Natural gas transmission system service and the methodology for calculating the Storage service tariff.

The purpose of the consultations carried out was to eliminate the procedure for calculating the rate of return on capital laid down in the methodologies. The future regulation provides for the procedure for calculating the rate of return on capital in regulated sectors in which capital costs will include return on capital in tariff plans shall be determined by the

methodology issued by the Regulator: "Methodology for calculating the rate of return on capital", which is also subject to public consultations. Considering the changes in the corporate income tax regulation and the approach to the calculation of the rate of return on capital, the draft amendment seeks to exclude the corporate income tax expense position. The draft methodology for calculating the rate of return on capital involves changes in the approach to calculating the rate of return on capital, where the rate of return on capital is replaced by a tax rate of return on capital in the pre-tax terms.

Statement of responsibility of the Board

The Board of the Joint Stock Company "Conexus Baltic Grid" is responsible for the preparation of the Company's Financial Statements.

The unaudited Financial Statements of the Company "Conexus Baltic Grid" for the 6-month period ended

30 June 2018 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and provide a true and fair view of the Company's assets, liabilities, financial position and profit or loss.

Zane Kotāne

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Financial Statements



Statement of profit or loss

| | Note | 01.01.2018–30.06.2018 | 04.01.2017– 30.06.2017 |
|-----------------------------------------------------------------------------------------|------|-----------------------|------------------------|
| | | EUR'000 | EUR'000 |
| Revenue from operating activities | 1 | 27 720 | 24 009 |
| Other income | 2 | 97 | 285 |
| Materials and services costs | 3 | (7 636) | (1 807) |
| Personnel expenses | 4 | (4 399) | (4 115) |
| Depreciation, amortisation and impairment of Property, Plant and Equipment/Fixed Assets | 6, 7 | (8 122) | (10 547) |
| Other operating expenses | 5 | (1 798) | (1 407) |
| Gross profit | | 5 862 | 6 418 |
| Financial income, net | | (97) | (103) |
| Profit before taxes | | 5 765 | 6 315 |
| Corporate income tax | | | (948) |
| Profit for the reporting period | | 5 765 | 5 367 |

The accompanying notes set out on pages 14 to 25 form an integral part of these Financial Statements.

Zane Kotāne

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Balance sheet

Assets

| | Appendix | 30.06.2018 | 31.12.2017 |
|--------------------------------------------|----------|----------------|----------------|
| | | EUR'000 | EUR'000 |
| Long-term investments | | | |
| Intangible assets | 6 | 855 | 1 038 |
| Property, Plant and Equipment/Fixed assets | 7 | 329 834 | 333 883 |
| Non-current pre-paid costs | | 1 411 | 1 513 |
| Total non-current assets | | 332 100 | 336 434 |
| Current assets | | | |
| Inventories | 8 | 2 454 | 2 277 |
| Advances for inventories | | 1 | 12 |
| Trade receivables | | 2 743 | 5 959 |
| Other current assets | 9 | 853 | 420 |
| Cash and its equivalents | | 8 673 | 17 886 |
| Total current assets: | | 14 724 | 26 554 |
| TOTAL ASSETS | | 346 824 | 362 988 |

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Zane Kotāne

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Balance sheet (continued)

Liabilities and shareholders' equity

| | Note | 30.06.2018 | 31.12.2017 |
|----------------------------------------------------|------|----------------|----------------|
| | | EUR'000 | EUR'000 |
| Shareholders' equity: | | | |
| Share capital | | 39 786 | 39 786 |
| Treasury shares | | (38) | (39) |
| Reserves | 10 | 149 938 | 153 004 |
| Retained earnings | | 112 571 | 117 666 |
| Total shareholders equity: | | 302 257 | 310 417 |
| Non-current liabilities | | | |
| Deferred Income | 12 | 7 934 | 8 068 |
| Employee benefit obligations | | 1 040 | 1 040 |
| Borrowings from credit institutions | 11 | 27 125 | 28 875 |
| Total non-current liabilities: | | 36 099 | 37 983 |
| Current liabilities | | | |
| Borrowings from credit institutions | 11 | 3 500 | 3 500 |
| Trade payables | | 2 192 | 2 814 |
| Corporate income tax | | 4 | 1 103 |
| Other liabilities | 13 | 2 273 | 6 707 |
| Deferred income | 12 | 362 | 327 |
| Advances from customers | | 137 | 137 |
| Total current liabilities: | | 8 468 | 14 588 |
| Total liabilities and shareholders' equity: | | 346 824 | 362 988 |

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Zane Kotāne

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Statement of changes in equity

| | Share capital | Treasury shares | Reserves | Retained earnings | Total |
|-----------------------------------------|---------------|-----------------|----------------|-------------------|----------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Starting balance 04.01.2017 | - | - | - | - | - |
| Received as a result of reorganisation | 39 786 | - | 234 299 | - | 274 085 |
| Reduction in the revaluation reserve | - | - | (100 645) | 100 645 | - |
| Acquisition of treasury shares | - | (39) | - | - | (39) |
| <i>Other comprehensive income:</i> | | | | | |
| Other comprehensive income | - | - | 19 350 | - | 19 350 |
| Profit for the reporting year | | | | 17 021 | 17 021 |
| <i>Total other comprehensive income</i> | - | - | 19 350 | 17 021 | 36 371 |
| 31 December, 2017 | 39 786 | (39) | 153 004 | 117 666 | 310 417 |
| Reduction of the revaluation reserve | - | | (3 066) | 3 066 | - |
| Dividends | - | 1 | | (13 926) | (13 925) |
| Profit for the reporting year | - | - | - | 5 765 | 5 765 |
| Total | - | 1 | (3 066) | (5 095) | (8 160) |
| 30 June 2018 | 39 786 | (38) | 149 938 | 112 571 | 302 257 |

The accompanying notes set out on pages 14 to 25 form an integral part of these Financial Statements.

Zane Kotāne
Chairperson of the Board

Gints Freibergs
Member of the Board

Mārtiņš Gode
Member of the Board

Statement of cash flows

| | Note | 01.01.2018– 30.06.2018 | 04.01.2017– 30.06.2017 |
|---------------------------------------------------------------------------------------------|------|---------------------------|---------------------------|
| Cash flows from operating activities | | EUR'000 | EUR'000 |
| Profit before corporate income tax | | 5 765 | 6 315 |
| <i>Adjustments:</i> | | | |
| depreciation of Property, Plant and Equipment | | 7 933 | 10 206 |
| amortisation of intangible assets | | 189 | 341 |
| loss on disposal of Property, Plant and Equipment provisions | | 67 | 6 |
| participation in the transnational cross-border project | | 101 | - |
| depreciation of the EU grants | | (134) | - |
| interest expenses | | 95 | 103 |
| <i>Change in operating assets and liabilities, excluding the effects of reorganisation:</i> | | | |
| increase in debtors | | 2 784 | (3 693) |
| increase in advances for inventories | | 11 | (2) |
| increase in inventories | | (178) | 514 |
| increase in creditors | | (5 137) | 2 488 |
| Corporate income tax paid | | (1 103) | - |
| Net cash inflow from operating activities | | 10 393 | 16 278 |
| Cash flow from investing activities | | | |
| Payments for Property, Plant, and Equipment | | (3 961) | (3 947) |
| Payments for intangible assets | | (7) | (38) |
| Revenue from the sale of Property, Plant, and Equipment | | 11 | - |
| Participation in the transnational cross-border project | | - | (1 713) |
| Net cash outflow from investing activities | | (3 957) | (5 698) |
| Cash flow from financing activities | | | |
| Interest paid | | (95) | (103) |
| Repayment of borrowings | | (1 750) | (875) |
| EU grants received | | 35 | - |
| Paid dividends | | (13 839) | - |
| Net cash inflow from financing activities | | (15 649) | (978) |
| Net cash flow | | (9 213) | 9 602 |
| Cash and cash equivalents at the beginning of the reporting period | | 17 886 | 12 297 |
| Cash and cash equivalents at the end of the reporting period | | 8 673 | 21 899 |

The accompanying notes set out on pages 14 to 25 form an integral part of these Financial Statements.

Zane Kotāne
Chairperson of the Board

Gints Freibergs
Member of the Board

Mārtiņš Gode
Member of the Board

Notes to the financial statements

Notes to the statement of profit and loss

1. Revenue

| | 01.01.2018–30.06.2018 | 04.01.2017–30.06.2017 |
|----------------------------------------|-----------------------|-----------------------|
| | EUR'000 | EUR'000 |
| Revenue from the transmission services | 18 980 | 12 307 |
| Revenue from the storage services | 8 740 | 11 702 |
| | 27 720 | 24 009 |

2. Other income

| | 01.01.2018–30.06.2018 | 04.01.2017–30.06.2017 |
|---------------------------|-----------------------|-----------------------|
| | EUR'000 | EUR'000 |
| Income from the EU grants | 133 | 133 |
| Other income | (36) | 152 |
| | 97 | 285 |

3. Materials and services costs

| | 01.01.2018–30.06.2018 | 04.01.2017–30.06.2017 |
|--------------------------------------------------------|-----------------------|-----------------------|
| | EUR'000 | EUR'000 |
| Technological consumption | - | 918 |
| Natural gas costs | 256 | - |
| Material costs | 419 | 412 |
| Maintenance of transmission and storage infrastructure | 6 631 | 247 |
| Maintenance of transport and machinery | 118 | 105 |
| Maintenance of IT infrastructure | 212 | 125 |
| | 7 636 | 1 807 |

4. Personnel expenses

| | 01.01.2018–30.06.2018 | 04.01.2017–30.06.2017 |
|-------------------------------------------------|-----------------------|-----------------------|
| | EUR'000 | EUR'000 |
| Employee remuneration | 3 369 | 3 187 |
| Compulsory state social insurance contributions | 799 | 729 |
| Life, health and pension insurance | 219 | 193 |
| Other personnel costs | 12 | 6 |
| | 4 399 | 4 115 |

5. Other operating expenses

| | 01.01.2018–30.06.2018 | 04.01.2017–30.06.2017 |
|----------------------------------------------------------|-----------------------|-----------------------|
| | EUR'000 | EUR'000 |
| Premises and area maintenance and other related services | 667 | 579 |
| Taxes and duties | 551 | 511 |
| Office and other administrative expenses | 580 | 317 |
| | 1 798 | 1 407 |

Notes to the Balance Sheet

6. Intangible assets

| | 30.06.2018 | 31.12.2017 |
|----------------------------------------------------------|--------------|--------------|
| | EUR'000 | EUR'000 |
| Initial value | | |
| At the beginning of the reporting period | 5 712 | - |
| Received as a result of reorganisation | - | 5 352 |
| Acquired | 7 | 373 |
| Disposal | (7) | (13) |
| At the end of the reporting period | 5 712 | 5 712 |
| Amortisation charge | | |
| At the beginning of the reporting period | 4 674 | - |
| Received as a result of reorganisation | - | 4 017 |
| Amortisation over the reporting period | 189 | 663 |
| Disposal | (6) | (6) |
| At the end of the reporting period | 4 857 | 4 674 |
| Net book value at the end of the reporting period | 855 | 1 038 |

7. Property, plant and equipment

| | Land, Buildings and structures | Machinery and equipment | Other fixed assets | Spare parts emergency reserve | Assets under construction | TOTAL |
|----------------------------------------|--------------------------------------|----------------------------|-----------------------|-------------------------------------|------------------------------|----------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Initial or revalued amount | | | | | | |
| 04.01.2017 | – | – | – | – | – | – |
| Reorganisation | 635 266 | 105 659 | 4 331 | – | 12 419 | 757 675 |
| Acquired | – | – | – | – | 16 587 | 16 587 |
| Reclassified | 4 830 | 5 630 | 588 | 1 608 | (9 717) | 2 939 |
| Disposal | (716) | (630) | (110) | – | – | (1 456) |
| Transferred | 7 | (720) | 713 | – | – | – |
| 31.12.2017 | 639 387 | 109 939 | 5 522 | 1 608 | 19 289 | 775 745 |
| Depreciation | | | | | | |
| 04.01.2017 | – | – | – | – | – | – |
| Reorganisation | 366 126 | 55 994 | 2 988 | – | – | 425 108 |
| Estimated | 11 786 | 5 704 | 391 | – | – | 17 881 |
| Revalued | | (10) | | | | (10) |
| Depreciation charge | (526) | (499) | (92) | – | – | (1 117) |
| Transferred | 7 | (362) | 355 | – | | – |
| 31.12.2017 | 377 393 | 60 827 | 3 642 | – | – | 441 862 |
| Net book value as at 31.12.2017 | 261 994 | 49 112 | 1 880 | 1 608 | 19 289 | 333 883 |

Property, plant and equipment (continued)

| | Land, Buildings and structures | Machinery and equipment | Other fixed assets | Spare parts emergency reserve | Assets under construction | TOTAL |
|--------------------------------------|--------------------------------------|----------------------------|-----------------------|-------------------------------------|------------------------------|----------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Initial or revalued amount | | | | | | |
| 31.12.2017 | 639 387 | 109 939 | 5 522 | 1 608 | 19 289 | 775 745 |
| Acquired | - | - | - | - | 3 961 | 3 961 |
| Reclassified | 162 | 230 | 209 | - | (601) | - |
| Disposal | (99) | (134) | (17) | - | - | (250) |
| Transferred | 1 | - | - | - | - | 1 |
| 30.06.2018 | 639 451 | 110 035 | 5 714 | 1 608 | 22 649 | 779 457 |
| Amortisation | | | | | | |
| 31.12.2017 | 377 393 | 60 827 | 3 642 | - | - | 441 862 |
| Estimated | 5 417 | 2 276 | 240 | - | - | 7 933 |
| Depreciation charge | (49) | (106) | (17) | - | - | (172) |
| 30.06.2018 | 382 761 | 62 997 | 3 865 | - | - | 449 623 |
| Net book value 30.06.2018 | 256 690 | 47 038 | 1 849 | 1 608 | 22 649 | 329 834 |

8. Inventories

| | 30.06.2018 | 31.12.2017 |
|------------------------------------------------------|-------------------|-------------------|
| | EUR'000 | EUR'000 |
| Materials and spare parts | 1 543 | 1 366 |
| Natural gas | 980 | 980 |
| Provisions for impairment of slow-moving inventories | (69) | (69) |
| | 2 454 | 2 277 |

9. Other debtors

| | 31.03.2018 | 31.12.2017 |
|------------------|-------------------|-------------------|
| | EUR'000 | EUR'000 |
| Prepaid expenses | 662 | 245 |
| Other debtors | 191 | 175 |
| | 853 | 420 |

10. Reserves

| | 30.06.2018 | 31.12.2017 |
|----------------------------------------------------|----------------|----------------|
| | EUR'000 | EUR'000 |
| Property, Plant, and Equipment revaluation reserve | 124 901 | 127 967 |
| Post-employment benefit revaluation reserve | 390 | 390 |
| Reorganisation reserve | 24 647 | 24 647 |
| | 149 938 | 153 004 |

11. Borrowings from credit institutions

| Borrowings from credit institutions | 30.06.2018 | 31.12.2017 |
|--------------------------------------------------------|---------------|---------------|
| | EUR'000 | EUR'000 |
| Borrowings from credit institutions – non-current part | 27 125 | 28 875 |
| Borrowings from credit institutions – current part | 3 500 | 3 500 |
| | 30 625 | 32 375 |

12. Future earnings

| | 30.06.2018 | 31.12.2017 |
|-----------------|--------------|--------------|
| | EUR'000 | EUR'000 |
| Long-term part | 7 934 | 8 068 |
| Short-term part | 362 | 327 |
| | 8 296 | 8 395 |

| Changes in future period income | 01.01.2018–30.06.2018 | 04.01.2017–31.12.2017 |
|-------------------------------------------------|-----------------------|-----------------------|
| | EUR'000 | EUR'000 |
| Opening balance | 8 395 | - |
| Overtaken by reorganisation | | 8 602 |
| Funds received from the EU | 35 | 60 |
| Included in the income statement for the period | (134) | (267) |
| Transferred to future periods | 8 296 | 8 395 |

13. Other liabilities

| Other liabilities | 30.06.2018 | 31.12.2017 |
|-------------------------------------------|--------------|--------------|
| | EUR'000 | EUR'000 |
| Accrued outstanding invoices | - | 4 040 |
| Accrued unpaid vacation costs | 515 | 515 |
| Immovable property tax | 480 | - |
| Accrued expenses for employee benefits | 346 | 772 |
| Value added tax | 313 | 339 |
| Employee remuneration | 198 | 281 |
| Compulsory social insurance contributions | 195 | 382 |
| Other non-current liabilities | 115 | 85 |
| Personal income tax | 101 | 231 |
| Natural resource tax | 10 | 62 |
| | 2 273 | 6 707 |

Financial risk management

Conexus is exposed to the credit risk in respect of financial assets, and liquidity risk in respect of financial liabilities. Economic transactions are mostly carried out in euro, so there is no significant foreign currency exchange risk. Conexus uses a regular loan for general purposes, so there is an interest rate risk. The financial assets of Conexus financial assets comprise trade and other receivables, other debtors, cash and cash equivalents. Financial liabilities include loans, debts to suppliers and other creditors.

Liquidity risk

Liquidity risk is associated with the ability of the Company to settle its obligations within agreed term due dates. Conexus observes prudential liquidity risk management strategy. The availability of financial resources is planned to settle liabilities before creditors and shareholders using cash flow planning tools and establishing annual, quarterly and monthly cash flow to determine the demand of operating cash flows.

Market risk

Interest rate risk

The risk of signs of interest rate arises from the use of borrowed cash resources to ensure liquidity. Conexus uses a regular loan for general purposes to finance its business. The Company's short-term and long-term borrowings have variable interest rates. The Company's policy aims to ensure that the interest rate on the largest part of the loan is variable. Other financial assets and liabilities have no fixed interest.

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

Conexus is subject to a credit risk, that is, the risk that losses in the event of failure by the counterparty to fulfill their contractual obligations. Credit risk is derived from cash and cash equivalents and from timely unsettled receivables. To foreclose credit risk, Conexus uses security money. Credit risk associated with main customers of Conexus.

All credit institutions with whom the cooperation is

carried out or is planned are reviewed periodically, but not less than once a quarter, according to their financial and non-financial indicators. Within the framework of the internal assessment, the Company also analyses the Moody's Investor Services credit rating of a particular credit institution or its ultimate parent company.

Capital risk management

The objectives of the Company concerning the management of capital risk are to ensure the Company's ability to continue its operations, giving return to its owner and providing benefits to other stakeholders, and maintaining an optimal capital structure, thereby reducing the cost of capital. The Company performs management of the capital based on the ratio of the borrowed capital to the total capital. This indicator is calculated as the ratio of the Company's total liabilities to its total capital.

Liabilities include all long-term and short-term liabilities, while the total capital includes all liabilities of the Company and the equity thereof. This indicator is used to evaluate the structure of the capital of the Company, as well as its solvency. The strategy of the Company is to ensure that the aforementioned ratio does not exceed 50%.

Accounting policy

Guidelines for the preparation of Financial Statements

The Financial Statements of Conexus are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union. These Financial Statements cover the reporting period from 1 January 2018 to 30 June 2018.

The Financial Statements are prepared based on the assumption of continued operation. Assets and liabilities are measured at historical cost according to the historical cost convention. At fair value, fixed assets are revalued. The cash flow statement is prepared in accordance with the indirect method. The financial ratios in Conexus financial statements are presented in thousands of euros unless stated otherwise.

The preparation of the Conexus Financial Statements in accordance with IFRS has kept the balance sheet of financial statements as precise as possible on the basis of management information regarding current events and activities, based on the estimates and assumptions.

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

Intangible assets

Intangible assets of Conexus mainly consist of software licenses and patents. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful life. The average useful life of intangible assets is 5 years.

Property, plant and equipment

Property, plant and equipment are tangible assets intended to be used in more than one period for the provision of services and the supply of goods or for business purposes. Conexus main asset groups are buildings and structures, transmission pipelines and related technological facilities, as well as structures, equipment and machinery of the Inčukalns Underground Gas Storage facilities.

Buildings, constructions and technological equipment in the Financial Statements are reflected at the revalued amounts. The revaluation is performed on a regular basis to ensure that the carrying amount of these assets does not materially differ from that which would be determined using the fair value at the end of the reporting period. The remaining assets, including land, cushion and natural gas pipelines and technological spare parts and emergency reserve are reflected in the acquisition value. In the financial statements, property, plant, and equipment are stated net of accumulated depreciation and write-downs of impairment.

An item of property, plant and equipment is recognised as an asset if there is a high probability that future economic benefits associated with the relevant asset will be received and the cost of an asset can be measured reliably. Assets in the construction or installation process, which at the moment of purchase are not yet ready for the intended use, are

reflected in the financial statements as part of the unfinished construction objects. Subsequent costs are included in the asset's carrying amount based on the recognition criteria of the asset. The cost of maintaining or repairing fixed assets is included in the profit and loss account for the period in which they are incurred.

Assets purchased, but not yet ready for the intended use or under installation process are classified under Assets under construction. Subsequent costs are included in the asset's carrying amount based on asset recognition criteria. Fixed assets repairs and maintenance are charged to the profit or loss statement for the financial period when they are incurred.

An increase in value resulting from the revaluation of property, plant and equipment is stated in under the equity item "Reserves". The 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 assessment. The revaluation surplus of property, plant and equipment written off in the financial statements is included in equity in the accumulated profit. During the use of a revalued asset in each reporting period, part of the revaluation surplus calculated as the difference between depreciation from the revalued carrying amount of the asset and depreciation from the asset's initial cost value is recognised in equity in the accumulated profit.

In the financial statements, property, plant and equipment item is stated net of accumulated depreciation and write-downs of impairment.

Depreciation on fixed assets is calculated on a straight-line basis over their useful life:

| | years |
|-------------------------------------------|--------|
| Buildings | 20–100 |
| Structures, including transmission system | 20–60 |
| Equipment and machinery | 5–30 |
| Other fixed assets | 3–10 |

In cases where the carrying amount of an asset is higher than its recoverable amount, the value of the respective fixed asset is immediately written

down to its recoverable amount.

Profit or loss from disposal of property, plant and equipment is calculated as the difference between the carrying amount of the asset and the proceeds from the sale of the item of property, plant and equipment. Excluding a revalued item of property, its revaluation reserve is credited to the equity in retained earnings.

Non-current prepaid expenses

Non-current prepaid expenses are classified by Conexus payments made according to their economic nature relating to future periods commencing after more than one year after the balance sheet date.

Non-current prepaid expenses are determined by the depreciation period and are gradually recognised in the profit and loss account according to their economic nature.

Inventories

In the Financial Statements, inventories are presented at the lowest cost or net realisable value. The net realisable value is the estimated selling price of the inventories determined in the course of regular operations of the Company, less the costs of completion and sale of inventories.

The stocks of natural gas, materials and spare parts listed in the inventories are valued at weighted average prices. Inventories are recognised in the expenses in the profit or loss statement during the period in which they are incurred.

Provisions have been made for the purpose of a decrease in the value of aging, slow turnover or damaged stock, the required amount of which is periodically reviewed, but not less than once during the reporting period.

Trade receivables

Trade receivables in financial statements are initially recognised at the fair value and subsequently measured at the amortised cost using the effective interest rate method, less the provision for impairment. The provision for impairment of trade receivables is established for debts without security when there is objective evidence that the Conexus will not be able to receive debt in full in the original repayment period.

The impairment of provisions for possible impairment of the trade receivables is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

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 3 months or less that are readily convertible to known amounts of cash and are not subject to a nsignificant risk of changes in value.

Dividends

The payment of dividend in the Financial Statements is recognised as a liability during the period in which the dividends are approved by Conexus shareholders.

Trade payables

Creditors' liabilities in the Financial Statements are initially recognised at the fair value and subsequently measured at amortised cost using the effective interest rate method. Creditors' liabilities are classified according to the payment deadline.

Provisions

Provisions for liabilities are recognised if, as a result of past events, Conexus has a present legal or constructive obligation, and there is a likelihood that the performance of the obligation will require a certain outflow of resources. Provisions are recognised when the amount of the costs can be reliably determined. Provisions are not recognised for future operating losses. Provisions are valued at the current value according to the most accurate estimate. If necessary, the amount of the provision can be reviewed periodically, but at least once a year.

Accrued vacation expenses

The cost of unused leave of employees is recognised as accrued expenses, estimating the amount of costs as a difference between the average daily salary of employees during the last six months of the reporting year and the number of unused annual leave days accumulated at the end of the reporting year.

Borrowing and interest expenses

Borrowings are initially recognised at the fair value less transaction costs. In subsequent periods, borrowings are recognised at amortised cost using the effective interest rate method. Borrowing costs incurred in connection with the general loans or directly related to the acquisition or construction of non-current assets are accrued in the cost of constructing those assets until the assets are ready for their intended use.

Currency unit and revaluation of foreign currencies

The items in the Financial Statements are expressed in EUR, which is the functional currency of the Conexus economic activity environment and the official currency of the Republic of Latvia. All transactions in foreign currencies are translated into EUR at the exchange rate of the European Central Bank on the day of the relevant transactions. Profits or losses from foreign currency revaluations are credited to the profit and loss for the relevant period.

Employee Benefits

Conexus recognises the provision for employees in the event that this derives from the contract or there is a past practice that gives rise to a well-founded commitment.

Commitments and premiums are recognised on the basis of a formula that takes into account the profits payable to the Conexus shareholders pursuant to certain adjustments.

Conexus performs the state compulsory social insurance contributions to the State-funded Pension Scheme in the amount specified by regulatory enactments of the Republic of Latvia. In addition, Conexus makes a contribution to the external fixed-income private pension scheme. Social security and retirement plan contributions are recognised as costs on an accrual basis and included in employee costs.

Post-employment and other benefits

Under the Collective Agreement, Conexus provides certain benefits for the employees, whose employment conditions meet certain criteria, in the event of termination of employment and during the rest of their life. Post-employment benefit obligations are calculated on the basis of the current salary level, the

number of employees who are or will be entitled to these benefits in the future, and actuarial assumptions. Benefit liabilities are calculated once a year, discounting the expected cash flows using market rates on government bonds.

Taxes

Commenced with the 2018 taxation year, corporate income tax is calculated as a distribution (20/80 of the net amount to be paid to the participants [shareholders]). Company income tax on distributed profits is calculated at the time when the Company's participants [shareholders] decision on the distribution of profit.

Other taxes are calculated and accounted for in accordance with the tax laws of the Republic of Latvia and are shown on the balance sheet as liabilities of the amounts payable to the state budget.

Grants

Grants received for specific types of capital investments are recorded as deferred income and are gradually included in the period of the useful life of the fixed assets acquired or received during the grants. Grants received to cover expenses are recognised as an income during the same period when incurred if all the conditions associated with the receipt of the grant have been fulfilled. The Company has received grants from the EU as co-financing of capital investments.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. The amounts shown in the income do not include discounts and amounts collected on behalf of third parties. The Company recognises revenue when its amount can be measured reliably and there is a high probability that fu-

ture economic benefits will flow to the Company. The specific accounting policies for the Company's main types of revenue are set out below.

Transmission Revenue

Transmission capacity product marketing is a regulated service provided by Conexus to the transmission system users at the approved tariffs. Short-term (quarterly, monthly, daily and current day's capacity) and long-term transmission capacity (annual capacity) products are offered. Revenue from the sales of transmission capacity products is recognised in the profit and loss on monthly basis in proportion to the period reserved by the user for the respective transmission power product

Revenue from balancing

Conexus maintains information on the volume of natural gas supply to the transmission system and transfer from it performed by the transmission system users and calculates the imbalance. The volume of daily imbalance is the difference between the supply and transfer. In cases in which a transmission system user experiences a negative imbalance, 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 recognised for each reporting month when the transmission system user experiences an imbalance that has caused a deficit of natural gas in the transmission system.

Revenue from storage

Revenues from trading of storage capacity are recognised for each reporting month according to the stor-

age tariff and in proportion to the remaining months until the end of the storage season .

Conexus provides the Inčukalns Underground Gas Storage capacity services at the approved storage tariffs to the users of the storage who have reserved the natural gas storage capacity during the storage season. Revenue from the sale of storage capacity is recognised for each reporting month according to the storage tariff and in proportion to the remaining months until the end of storage season.

Interest income

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

Penalty income

Contractual penalties and late payments are recognised in revenue when it is clear that Conexus will receive economic benefits, that is, revenue recognition generally coincides with the moment a penalty is received.

Other income

Other revenue from the provision of services is recognised in the period when they are provided. Other revenue from the sale of materials are recognised when the purchaser has accepted them.

Essential estimates and judgments

The Financial Statements are prepared in compliance to IFRS, using significant management estimates and judgments. Assumptions and accounting estimates affect the amounts of assets and liabilities by the date of the Financial Statements and the amount of income and expenses during the reporting period. Actual results may differ from estimates and assumptions about the outcome of future events.

The Company Management has designated the following areas of the Financial Statements, where significant estimates or judgments have been required in respect to them: assessment of fixed assets revaluation and replacement value of fixed assets, estimation of the useful life of fixed assets.

Useful lives of fixed assets

Amortisation of intangible assets and depreciation of

Financial statements were prepared by:

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