

# Unaudited interim condensed financial statements

for the period 01.01.2018 – 30.09.2018

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

Translated from Latvian

**RIGA 2018**



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# Information on Company



# Information on the Company

The joint-stock company (JSC) “Conexus Baltic Grid” (hereinafter – Company, Conexus) is a unified natural gas transmission and storage operator in Latvia who manages one of the most modern natural gas storage facilities in Europe – Inčukalns underground gas storage (hereinafter – Inčukalns UGS, Storage) and main natural gas transmission system, which connects directly the Latvian natural gas market with Lithuania, Estonia and North-West region of Russia.

Conexus offers natural gas transmission and storage services to its clients in accordance with the tariffs determined by Public Utilities Regulator (hereinafter – PUR, Regulator).

## Targets of Conexus

- ◆ Development of regional natural gas market to achieve sustainable operation of Inčukalns UGS in market conditions;
- ◆ Ensure safe, available and market-based infrastructure;
- ◆ Introduce a sustainable management of working capacity of internal and external resources.

## Mission of Conexus

- ◆ Promote sustainable operation of energy market in the region by ensuring reliable operation of natural gas transmission and storage system.

## Vision of Conexus

- ◆ Become the most reliable energy source in the region by facilitating the development of transmission system and using the potential of the underground gas storage.

## Values of Conexus

- ◆ **Safe operation of system** – we take care of safe operation of infrastructure by regularly monitoring the infrastructure;
- ◆ **Flexibility and openness through competent solutions** – we support market development and are open towards new solutions that support market development;
- ◆ **Sustainable development** – we regularly invest in the modernization of gas system and increase of safety, and in development of technological system to protect the residents and the environment from possible safety risks;
- ◆ **Professional and unified team** – we highly appreciate the professionalism in all things and everyone – colleagues, clients and cooperation partners can rely on us.

## Sustainability

- ◆ We are a socially responsible company that ensures employee growth and overall industry development, creating sustainable employment and added economic viability while at the same time taking care of the environmental impact of technological processes.

<b>Company</b>	joint-stock company “Conexus Baltic Grid”
<b>Registration number</b>	40203041605
<b>Registration date and place</b>	2 January 2017, Riga
<b>Address</b>	Aristida Briāna Street 6 Riga, LV – 1001 Latvia www.conexus.lv
<b>Main shareholders</b>	JSC „Augstsprieguma tīkls” (34,36 %) PAS „Gazprom” (34,10 %) Marguerite Gas I S.à r.l. (29,06 %)
<b>Financial statements period</b>	1 January 2018 – 30 September 2018.

## Council

### Term of powers from 3 January 2018

<b>Kaspars Āboliņš</b>	Chairman of the Council
<b>Viljams Pīrsons</b>	Deputy Chairman of the Council
<b>Ilze Bērziņa</b>	Member of the Council
<b>Sanita Greize</b>	Member of the Council
<b>Ilmārs Šņucins</b>	Member of the Council
<b>Gijoms Rivrons</b>	Member of the Council
<b>Franks Zīberts</b>	Member of the Council (to 31 March 2018)
<b>Martins Sičelkovs</b>	Member of the Council (from 27 April 2018)

## Board

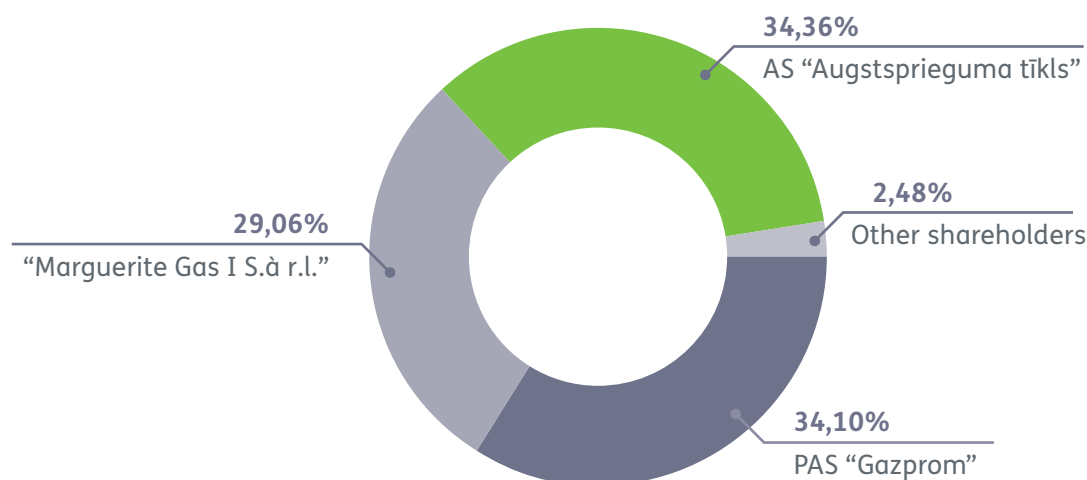
### Term of powers from 31 December 2017

<b>Zane Kotāne</b>	Chairwoman of the Board
<b>Gints Freibergs</b>	Member of the Board
<b>Mārtiņš Gode</b>	Member of the Board

## Shareholders

Conexus Baltic Grid 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 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, shareholders' structure of Conexus changed when Latvian electricity transmission system operator AS "Augstsprieguma tīkls" (AST) concluded deals with German energy company "Uniper Ruhrgas International GmbH" (Uniper) for the acquisition of 18.31% shares and with SIA "ITERA Latvija" for acquisition of its 16.05% stake in the natural gas transmission and storage system operator, thus becoming the largest Conexus shareholder with 34.36% shares.



# Management report



## Summary

During the reporting period, Conexus ensured uninterrupted supply of natural gas for the needs of Latvia, Lithuania, Estonia and Russia. 45% of the total transmitted flows were for the needs of Latvian market.

The volumes of natural gas transmitted during 9 month 2018 reached 23 574 GWh that, compared with the previous year, has increased by 27%. During the reporting period, the volumes of natural gas transmitted for the needs of other countries have increase and the volume of transmitted gas for the needs of Latvian users is also by 13% larger.

### The Company organized four auctions regarding the provision of availability of natural gas in the transmission system interconnection with the storage for the storage cycle 2018/2019

- ◆ On 18 May 2018, Cabinet of Minister adopted amendments in Regulations No. 312 “Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State” of 19 April 2011, on the base of which a transmission system operator shall ensure that from end of natural gas pumping season till March 1 of the following year such amount of active natural gas in Inčukalns underground gas storage that is not less than 3160 thous. MWh (300 milj. m<sup>3</sup>);
- ◆ The company organized 4 auctions to ensure, during the energy crisis, the required daily capacity for removal from Inčukalns Underground Storage and is anticipated for provision of Latvian natural gas supply.

### The Regulator certifies Conexus as an independent transmission and storage system operator

- ◆ On 25 July The European Commission render the opinion on PUR draft decision on certification of JSC “Conexus Baltic Grid”. In its opinion the European Commission states that is agrees to PUR

conclusion that shareholding of PAS “Gazprom” and Marguerite Fund is not compliant with the requirements of Gas Directive article 9;

- ◆ On 28 September PUR adopted the final decision under which the unified natural gas transmission and storage system operator JSC “Conexus Baltic Grid” was certified and natural gas transmission system operator JSC “Conexus Baltic Grid” was approved, at the same time prescribing the provision that must be fulfilled to 1 January 2020;
- ◆ PUR assigns “Conexus Baltic Grid” to ensure till 1 January 2020 that the energy supply merchant engaged in trade of natural gas cannot control directly or indirectly JSC “Conexus Baltic Grid” and the direct or indirect operation of financial institutions and merchants established specifically for this purpose fail to cause a conflict of interests between JSC “Conexus Baltic Grid” and energy supply merchant that is engaged in the manufacture or trade of natural gas or electricity;
- ◆ JSC “Conexus Baltic Grid” is obliged, once in two months from the day of adopting the decision, inform PUR on the process of implementation of the conditions and further planned activities by submitting a written report and substantiating documents.

### Conexus submits an application to the Administrative Court on draft transmission tariff approved by PUR

- ◆ On 30 July 2018, The Administrative Regional Court accepted the application from Conexus and instituted an administrative proceeding regarding the confirmed draft transmission tariff. In its application the Company asks to cancel partially the adopted tariff decision and include all actual costs incurred in heating season 2017/2018 regarding the provision of transmission system pressure that allowed Conexus to ensure the uninterrupted supply to Latvian market prescribed in the Licence and Energy Law. PUR has failed to recognize the costs in full in the tariff’s method and transmission tariff decision, in the result the actual costs of transmission operator amounting to 3 million EUR are not foreseen to be covered from the service tariffs.

### Rate of return on capital in the field of natural gas confirmed in the amount of 4.22%

- ◆ The Regulator confirms the rate of return on capital or profit norm in the field of natural gas that is applied by the natural gas transmission and storage system operator when elaborating the draft tariffs. The rate of return on capital in the field of natural gas is confirmed in the amount of 4.22% that is lower than the one determined in the previous year.

### Support for attraction of EU funding

- ◆ On 4 October PUR adopts a decision granting the support so that Conexus can attract the co-funding from the European Union (EU) for the development of IUGS operation. The adopted decision means that the Company can apply for EU co-funding to start implementing the project of common concern “Improvement of operation of Inčukalns Underground Gas storage”. The final decision on the amount of the granted co-funding shall be adopted by the European Commission;

- ◆ Target of the project “Improvement of operation of Inčukalns Underground Gas Storage” is to increase the operation of storage so that Inčukalns Underground Gas Storage can maintain the functionality after increase of pressure in Baltic transmission system. The main benefit from implementation of the project is the ability to reduce the dependence of natural gas removal capacity from the volume of natural gas in the storage;
- ◆ At the same time, decision of PUR prescribes that if the average influence during the Project implementation process for the period from 2019 – 2026 exceeds 18% on costs of natural gas storage service costs when compared with natural gas storage service costs 2018 according to the natural gas storage service tariffs, the implementation of project shall be reviewed.

### Inčukalns Underground Gas Storage -50

On 9 August one of most important energy infrastructure object in Latvia – Inčukalns Underground Gas Storage turns 50. Thanks to important investments and the high professionalism of company’s experts, Inčukalns Underground Gas Storage has become one of the most modern in Europe in terms of technology and environment protection.



## Key operational indicators

Economic activity of the Company is in transmission and storage segments which are regulated forms of activity and services are offered in accordance with the tariffs set and approved by PUR.

During the reporting period, revenues of Conexus reached 43 922 thous. EUR, which, when compared with the last year's period, increased by 29%, EBITDA reached 21 866 thous. EUR, which is by 5% more, but the profit is 10 233 thous. EUR.

Key financial indicators	30.09.2018	30.09.2017
	EUR'000	EUR'000
<b>Net turnover</b>	<b>43 922</b>	<b>34 151</b>
<b>EBITDA</b>	<b>21 866</b>	<b>20 853</b>
EBITDA, %	50%	61%
<b>Net profit</b>	<b>10 233</b>	<b>17 573</b>
Net profitability, %	23%	51%
Assets of segments	339 381	343 497
Cash and its equivalents	12 831	16 473
Assets total	352 212	359 970

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

Key performance indicators	30.09.2018	30.09.2017
Transmitted natural gas, thous. MWh	23 574	18 634
Active natural gas in Inčukalns UGS, thous. MWh	12 447	11 966
Natural gas for Latvian consumption, thous. MWh	10 505	9 283
Length of gas mains, km	1 188	1 191
Number of employees, average	336	335

## Segment operating results

The Company operates in two segments: gas transmission (includes transporting of natural gas through high pressure pipes to deliver it to the Storage, other countries, distributions system or directly to users) and storage of gas (storage of natural gas in Inčukalns Underground Gas Storage).

The transmission segment gains revenue from both the natural gas consumption in Latvia and the international natural gas transport as well as from natural gas movement when injecting into or removing the natural gas from Inčukalns UGS. In the reporting period, the transmission segment income compo-

sed 30 Mio. EUR and EBITDA reached 13.2 Mio. EUR, which ensures 61% of Company's total EBITDA. The transmission segment profit reached 6.1 Mio. EUR. The transmission segment is the largest segment in the volume of assets. Assets of segments as to 30 September 2018 were 179 Mio. EUR and composed 53% of total Company's assets.

In the reporting period, the storage segment operated with income in amount of 13.8 Mio. EUR which ensured EBITDA of 8.6 Mio. EUR and profit of 4.1 Mio. EUR. At the end of the reporting period, assets of the segment composed 160.5 Mio. EUR.

### Information of segments

<b>Gas transmission</b>	<b>30.09.2018</b>	<b>30.09.2017</b>
	EUR'000	EUR'000
Net turnover	30 082	17 812
Profit of segment before taxes	6 115	2 661
Assets of segment	178 843	182 507
Adjustable assets base confirmed in draft tariff	173 772	180 864
Depreciation and amortization	7 048	8 051
Purchase of fixed assets and intangible assets	3 467	4 535
<b>EBITDA</b>	<b>13 255</b>	<b>10 804</b>

<b>Gas storage</b>	<b>30.09.2018</b>	<b>30.09.2017</b>
	EUR'000	EUR'000
Net turnover	13 840	16 339
Profit of segment before taxes	4 118	4 010
Assets of segment	160 538	160 990
Adjustable assets base confirmed in draft tariff	150 624	102 616
Depreciation and amortization	4 443	5 956
Purchase of fixed assets and intangible assets	4 897	6 860
<b>EBITDA</b>	<b>8 611</b>	<b>10 049</b>

## Events after the end of the reporting period

### On 22 October 2018 the Company submitted the following to PUR Draft transmission tariff

- ◆ To prepare timely for the new suction season in Inčukalns Underground Gas Storage, In accordance with the Regulator' Natural gas transmission system service tariffs calculation method article 66, the System operator must submit draft tariffs and relevant costs for the period of 12 months, information of required revenues of capacity reserving service planned during the tariff reporting cycle, and information on revenues form capacity reserving service of previous year and total actual costs of transmission system capacity booking service to the Regulator till February 1 of each year.
- ◆ When compared with the previous tariff's cycle,

the presented draft transmission system service tariff anticipates an increase of costs that is related with the amendments adopted on 18 May 2018 in Cabinet Regulations No. 312 "Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State" of 19 April 2011.

**Storage service tariff's values within the framework of the existing tariffs reporting cycle for the storage cycle 2019/2020. This anticipates the determine the maximum value of applicable grouped capacity product tariff for 2019/2020 storage cycle to 3,68494 EUR/MWh and the minimum value of applicable market product tariff for 2019/2020 storage cycle to 1,37000 EUR/MWh.**

## Statement on Board's responsibility

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

The unaudited condensed financial statements for 9 months of the Company "Conexus Baltic Grid" that

ends on 30 September 2018, have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union and provide a true and fair view of the Company's assets, liabilities, financial position and operational results.

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**Zane Kotāne**

Chairwoman of the Board

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**Gints Freibergs**

Member of the Board

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**Mārtiņš Gode**

Member of the Board

# Financial Statements



## Statement of profit or loss

	Note	01.01.2018 – 30.09.2018	04.01.2017 – 30.09.2017
		EUR'000	EUR'000
Revenue from operating activities	1	43 922	34 151
Other income	2	237	265
Materials and services costs	3	(11 803)	(4 979)
Personnel expenses	4	(7 222)	(6 187)
Depreciation, amortisation and impairment of Property, Plant and Equipment/Fixed Assets	6, 7	(11 491)	(14 007)
Other operating expenses	5	(3 268)	(2 397)
<b>Gross profit</b>		<b>10 375</b>	<b>6 846</b>
Financial income, net		(142)	(175)
<b>Profit before taxes</b>		<b>10 233</b>	<b>6 671</b>
Corporate income tax			10 902
<b>Profit for the reporting period</b>		<b>10 233</b>	<b>17 573</b>

The accompanying notes set out on pages 18 to 28 form an integral part of these Financial Statements.

**Zane Kotāne**

Chairwoman of the Board

**Gints Freibergs**

Member of the Board

**Mārtiņš Gode**

Member of the Board

# Balance sheet

## ASSETS

	Note	30.09.2018	31.12.2017
		EUR'000	EUR'000
<b>Long-term investments</b>			
Intangible assets	6	857	1 038
Property, Plant and Equipment/Fixed assets	7	329 447	333 883
Non-current pre-paid costs		1 411	1 513
<b>Total non-current assets</b>		<b>331 715</b>	<b>336 434</b>
<b>Current assets</b>			
Inventories	8	1 522	2 277
Advances for inventories		1	12
Trade receivables		5 415	5 959
Other current assets	9	728	420
Cash and its equivalents		12 831	17 886
<b>Total current assets:</b>		<b>20 497</b>	<b>26 554</b>
<b>TOTAL ASSETS</b>		<b>352 212</b>	<b>362 988</b>

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Chairwoman of the Board

**Gints Freibergs**

Member of the Board

**Mārtiņš Gode**

Member of the Board

## Balance sheet (continued)

### Liabilities and shareholders' equity

	Note	30.09.2018	31.12.2017
		EUR'000	EUR'000
<b>Shareholders' equity:</b>			
Share capital		39 786	39 786
Treasury shares		(38)	(39)
Reserves	10	148 440	153 004
Retained earnings		118 537	117 666
<b>Total shareholders equity:</b>		<b>306 725</b>	<b>310 417</b>
<b>Non-current liabilities</b>			
Deferred Income	12	7 867	8 068
Employee benefit obligations		1 040	1 040
Borrowings from credit institutions	11	26 250	28 875
<b>Total non-current liabilities:</b>		<b>35 157</b>	<b>37 983</b>
<b>Current liabilities</b>			
Borrowings from credit institutions	11	3 500	3 500
Trade payables		1 255	2 814
Corporate income tax		1	1 103
Other liabilities	13	5 050	6 707
Deferred income	12	362	327
Advances from customers		162	137
<b>Total current liabilities:</b>		<b>10 330</b>	<b>14 588</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		<b>352 212</b>	<b>362 988</b>

The accompanying notes set out on pages 18 to 28 form an integral part of these Financial Statements.

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**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
<b>Starting balance 04.01.2017</b>	-	-	-	-	-
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
<b>31 December 2017</b>	<b>39 786</b>	<b>(39)</b>	<b>153 004</b>	<b>117 666</b>	<b>310 417</b>
Reduction in the revaluation reserve	-	-	(4 564)	4 564	-
Dividends	-	1	-	(13 926)	(13 925)
Profit for the reporting year	-	-	-	10 233	10 233
Total	-	1	(4 564)	871	(3 692)
<b>30 September 2018</b>	<b>39 786</b>	<b>(38)</b>	<b>148 440</b>	<b>118 537</b>	<b>306 725</b>

The accompanying notes set out on pages 18 to 28 form an integral part of these Financial Statements.

**Zane Kotāne**  
Chairwoman of the Board

**Gints Freibergs**  
Member of the Board

**Mārtiņš Gode**  
Member of the Board



## Statement of cash flows

Note	01.01.2018– 30.09.2018	04.01.2017– 30.09.2017
<b>Cash flows from operating activities</b>	EUR'000	EUR'000
<b>Profit before corporate income tax</b>	<b>10 233</b>	<b>6 671</b>
<i>Adjustments:</i>		
depreciation of Property, Plant and Equipment	11 207	13 494
amortisation of intangible assets	284	514
loss on disposal of Property, Plant and Equipment provisions	199	105
participation in the transnational cross-border project	101	-
depreciation of the EU grants	(201)	-
interest expenses	141	155
<i>Change in operating assets and liabilities, excluding the effects of reorganisation:</i>		
increase in debtors	237	(5 954)
increase in advances for inventories	11	(10)
increase in inventories	754	557
increase in creditors	(3 269)	3 705
Corporate income tax paid	(1 103)	-
<b>Net cash flow from operating activities</b>	<b>18 594</b>	<b>19 237</b>
<b>Cash flow from investing activities</b>		
Payments for Property, Plant, and Equipment	(6 990)	(11 319)
Payments for intangible assets	(103)	(85)
Revenue from the sale of Property, Plant, and Equipment	21	-
Acquisition of treasury shares		(39)
Participation in the transnational cross-border project	-	(1 713)
<b>Net cash outflow from investing activities</b>	<b>(7 072)</b>	<b>(13 156)</b>
<b>Cash flow from financing activities</b>		
Interest paid	(141)	(155)
Repayment of borrowings	(2 625)	(1 750)
EU grants received	35	-
Paid dividends	(13 846)	-
<b>Net cash inflow from financing activities</b>	<b>(16 577)</b>	<b>(1 905)</b>
<b>Net cash flow</b>	<b>(5 055)</b>	<b>4 176</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>17 886</b>	<b>12 297</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>12 831</b>	<b>16 473</b>

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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

	01.01.2018–30.09.2018	04.01.2017 –30.09.2017
	EUR'000	EUR'000
Revenue from the transmission services	30 082	17 812
Revenue from the storage services	13 840	16 339
	<b>43 922</b>	<b>34 151</b>

### 2. Other income

	01.01.2018–30.09.2018	04.01.2017–30.09.2017
	EUR'000	EUR'000
Income from the EU grants	201	201
Other income	36	54
Revenue of disposal of Property, Plant and Equipment revaluation reserve	-	10
	<b>237</b>	<b>265</b>

### 3. Materials and services costs

	01.01.2018–30.09.2018	04.01.2017–30.09.2017
	EUR'000	EUR'000
Maintenance of transmission and storage infrastructure	9 447	918
Natural gas costs	1 229	3 044
Material costs	716	700
Maintenance of IT infrastructure	149	130
Maintenance of transport and machinery	262	187
	<b>11 803</b>	<b>4 979</b>

### 4. Personnel expenses

	01.01.2018–30.09.2018	04.01.2017–30.09.2017
	EUR'000	EUR'000
Employee remuneration	5 557	4 794
Compulsory state social insurance contributions	1 317	1 089
Life, health and pension insurance	327	289
Other personnel costs	21	15
	<b>7 222</b>	<b>6 187</b>

## 5. Other operating expenses

	01.01.2018–30.09.2018	04.01.2017–30.09.2017
	EUR'000	EUR'000
Premises and area maintenance and other related services	1 056	977
Office and other administrative expenses	1 049	534
Taxes and duties	963	886
Loss on disposal of Property, Plant and Equipment provisions	200	-
	<b>3 268</b>	<b>2 397</b>

## Notes to the Balance Sheet

### 6. Intangible assets

Intangible assets	30.09.2018	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	103	373
Disposal	(7)	(13)
<b>At the end of the reporting period</b>	<b>5 808</b>	<b>5 712</b>
<b>Amortisation charge</b>		
<b>At the beginning of the reporting period</b>	<b>4 674</b>	<b>-</b>
Received as a result of reorganisation	-	4 017
Amortisation over the reporting period	284	663
Disposal	(7)	(6)
At the end of the reporting period	4 951	4 674
<b>Net book value at the end of the reporting period</b>	<b>857</b>	<b>1 038</b>

## 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
<b>Initial or revalued amount</b>						
<b>04.01.2017</b>	–	–	–	–	–	–
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	-	-	-
<b>31.12.2017</b>	<b>639 387</b>	<b>109 939</b>	<b>5 522</b>	<b>1 608</b>	<b>19 289</b>	<b>775 745</b>
<b>Depreciation</b>						
<b>04.01.2017</b>	–	–	–	–	–	–
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	-	-	-
<b>31.12.2017</b>	<b>377 393</b>	<b>60 827</b>	<b>3 642</b>	<b>-</b>	<b>-</b>	<b>441 862</b>
<b>Net book value as at 31.12.2017</b>	<b>261 994</b>	<b>49 112</b>	<b>1 880</b>	<b>1 608</b>	<b>19 289</b>	<b>333 883</b>

**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
<b>Initial or revalued amount</b>						
<b>31.12.2017</b>	<b>639 387</b>	<b>109 939</b>	<b>5 522</b>	<b>1 608</b>	<b>19 289</b>	<b>775 745</b>
Acquired	-	-	-	-	6 991	6 991
Reclassified	7 232	9 647	653	-	(17 532)	-
Disposal	(959)	(339)	(59)	-	-	(1 357)
Transferred	-	-	-	-	-	-
<b>30.09.2018</b>	<b>645 660</b>	<b>119 247</b>	<b>6 116</b>	<b>1 608</b>	<b>8 748</b>	<b>781 379</b>
<b>Amortisation</b>						
<b>31.12.2017</b>	<b>377 393</b>	<b>60 827</b>	<b>3 642</b>	-	-	<b>441 862</b>
Estimated	8 072	2 777	358	-	-	11 207
Depreciation charge	(778)	(300)	(59)	-	-	(1 137)
<b>30.09.2018</b>	<b>384 687</b>	<b>63 304</b>	<b>3 941</b>	-	-	<b>451 932</b>
<b>Net book value 30.09.2018</b>	<b>260 973</b>	<b>55 943</b>	<b>2 175</b>	<b>1 608</b>	<b>8 748</b>	<b>329 447</b>

**8. Inventories**

	30.09.2018	31.12.2017
	EUR'000	EUR'000
Materials and spare parts	1 523	1 366
Natural gas	68	980
Provisions for impairment of slow-moving inventories	(69)	(69)
	<b>1 522</b>	<b>2 277</b>

**9. Other debtors**

	30.09.2018	31.12.2017
	EUR'000	EUR'000
Prepaid expenses	536	245
Other debtors	192	175
	<b>728</b>	<b>420</b>

## 10. Reserves

	30.09.2018	31.12.2017
	EUR'000	EUR'000
Property, Plant, and Equipment revaluation reserve	123 403	127 967
Post-employment benefit revaluation reserve	390	390
Reorganisation reserve	24 647	24 647
	<b>148 440</b>	<b>153 004</b>

## 11. Borrowings from credit institutions

Borrowings from credit institutions	30.09.2018	31.12.2017
	EUR'000	EUR'000
Borrowings from credit institutions – non-current part	26 250	28 875
Borrowings from credit institutions – current part	3 500	3 500
	<b>29 750</b>	<b>32 375</b>

## 12. Future earnings

	30.09.2018	31.12.2017
	EUR'000	EUR'000
Long-term part	7 867	8 068
Short-term part	362	327
	<b>8 229</b>	<b>8 395</b>

Changes in future period income	01.01.2018 – 30.09.2018	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	(201)	(267)
<b>Transferred to future periods</b>	<b>8 229</b>	<b>8 395</b>

## 13. Other liabilities

Other liabilities	30.09.2018	31.12.2017
	EUR'000	EUR'000
Accrued liabilities	1 449	4 040
Value added tax	1 035	339
Accrued expenses for employee benefits	1 032	772
Accrued unpaid vacation costs	515	515
Employee remuneration	259	281
Immovable property tax	240	-
Compulsory social insurance contributions	180	382
Natural resource tax	144	62
Other non-current liabilities	106	85
Personal income tax	89	231
Corporate income tax	1	
	<b>5 050</b>	<b>6 707</b>

## 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:

	<b>Years</b>
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 an significant 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 future 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 storage 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 fixed assets are determined by applying the approved useful lives, determined on the basis of past experience and industry practices. Within the revaluation process, the remaining useful life of the revaluation of fixed assets is also determined, which is usually extended in comparison to the previous estimate under the influence of technological innovations. This practice is fully compliant with the existing industry practice.

#### *Revaluation of fixed assets*

The Conexus accounting policies provide for a periodic revaluation of property, plant and equipment if the purchase prices and average construction costs have changed significantly. The replacement value and the useful life of revalued fixed assets are

determined independently by certified appraisers in accordance with the assessment standards for the immovable property.

The latest revaluation of the buildings, structures, machinery and equipment was conducted in 2016, before the reorganisation of JSC “Latvijas gāze”. The balances of revalued fixed assets were transferred to the Company as a result of reorganisation, in their previous accounting values. The Management made estimation that the carrying amount of the revalued assets does not differ materially from their fair value, shall be made no less than once in the reporting year.

*Employee benefit obligations*

Management’s best estimate in respect of the

amount of employee benefit obligations is based on the assessment of the main financial and demographic assumptions made using periodic advice from the actuary.

The rate used to discount the scheme’s liability reflects a government bond with an initial maturity of 5 years or more, as the average profit rate determined in the last two auctions. The inflation rate is determined with reference to the data of the Central Statistical Bureau in the 12 months of the relevant year, and it reflects the changes in the average consumer price in %, as compared to the previous period. The assumptions for mortality are determined according to the actuarial advice, according to the statistics.

Financial Statements prepared by:

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**Dace Freimane**

Head of Financial Accounting Department

