

Council’s Report on Operational Results 2022

Year 2022 for Joint Stock Company “Conexus Baltic Grid” (hereinafter “Conexus”) brought several challenges both due to the geopolitical situation and the rapid changes in the energy sector. However, despite this Conexus not only continued to successfully work on implementing the strategic targets set by the Council and adapting to the rapidly changing environment but also continued to ensure uninterrupted gas transmission and storage services providing the users with natural gas.

In March 2022, the Cabinet of Ministers announced the early warning state for natural gas sector and Conexus cooperated with the directly connected neighbour states to fulfil the task of prioritising natural gas flows from Klaipeda LNG terminal and Gas Interconnection Poland-Lithuania (GIPL). To ensure the supply of natural gas, Conexus not only optimised several investment and repairment projects, thus excluding any impact on gas flows from Lithuania to Estonia, but also performed analysis of the Latvia-Lithuania interconnection pipeline’s technical condition finding a way for the works to be carried out more swiftly and increasing the maximum allowed inlet pressure, thus facilitating a higher capacity on interconnection point between Lithuania and Latvia (from 65 to 90 GWh/day). Even though due to geopolitical events, increase of natural gas prices and changes in supply the total volume of natural gas transmitted decreased compared to the previous period by 18,5 % reaching 32,1 TWh, at the same time, the users’ interest in the storage increased considerably. In the reporting period, users reserved all of the available capacity (24.1 TWh), thus reaching the largest amount of storage capacity bookings in Conexus’ history, which demonstrates the strategic role of the storage in security of gas supply and therefore Conexus’ role as a strategically important company in ensuring the energy security in the region. Considering the requests of the market participants, Conexus prepared Inčukalns Underground Gas Storage (“Inčukalns UGS”) for injection also during the natural gas withdrawal season successfully ensuring directional and capacity flexibility in line with the changing situation.

Conexus also played an active role in refining the changes in the legal framework, submitting opinions and proposals on regulatory enactments of European and national level regarding energy security and natural gas supply. Conexus together with the Estonian transmission system operator also drafted amendments to the Common Natural Gas Transmission System Rules to implement the obligation stipulated by the national laws to ban gas import from Russia. Moreover, Conexus also actively participated in refining the Methodology for Accounting and Calculation of Capital Costs that stipulates moving away from the real weighted average cost of capital (“WACC”) to nominal WACC, the Methodology for Calculating Natural Gas Transmission System’s Service Tariffs to ensure the transmission system operator’s ability to recover its costs in the shortest possible time, as well as provided proposals regarding the Natural Gas Transmission System’s Development Plan and drafted the new natural gas storage service tariffs for the period from the 1st of May, 2023. The Council has closely followed the changes in the sector and market developments, especially the regulatory issues, providing the necessary guidance.

In the reporting period, work was continued also on implementing the sustainability targets, including the work on refining the framework of renewable energy, supporting and contributing to the development of gases from renewable energy, providing proposals for amendments to regulatory enactments, including amendments to the Energy Law that stipulates Conexus’ obligation to become the issuing body for the gas guarantees of origin and their registry administrator. Conexus continued cooperating with the neighbouring natural gas transmission

system operators on a joint research assessing the possibility to inject hydrogen in the transmission system, as well as continued joint research and development project within the Hydrogen Baltic Coordination Group evaluating the technical capabilities of the methane transmission systems for injection and transportation of hydrogen. Moreover, Conexus started the first phase of the research on evaluating the possibilities of injecting 100 % hydrogen in Inčukalns UGS, created a standardized solution for injecting biomethane into the transmission system concluding an agreement for the rights to develop the construction design of four connection points and receiving approval for the funding model for construction of one regional biomethane injection point. Conexus also worked on the development of the regulatory framework and implementations of technological solutions to promote the development of biomethane in Latvia. In order to facilitate the achievement of the sustainability targets, Conexus joined the European Hydrogen Backbone initiative, the European Commission's Biomethane Industrial Partnership initiative and energy certification organization AIB (Association of Issuing Bodies). Technical activities also continued to mitigate methane emissions at Inčukalns UGS.

Council has also continued monitoring the implementation of the ongoing capital investment projects: European Union project of common interest PCI 8.2.4. "Inčukalns Underground Gas Station modernization project", CINEA co-financed project Enhancement of Latvia-Lithuania interconnection project (ELLI), modernization of gas transmission's and Inčukalns UGS's Supervisory Control and Data Acquisition System SCADA, modernization of physical security and fire safety systems, as well as renovation and re-insulation of the gas transmission pipeline Izborsk-Inčukalns UGS. In the reporting period, a new project "Inčukalns UGS solar energy production farm" was initiated. Considering the risk assessment and the strategical importance of Conexus, active work was done on improving cybersecurity, inter alia signing the Memorandum of Understanding between Conexus, electricity transmission system operator and majority shareholder JSC "Augstsprieguma tīkls" and the information technology security incident response authority CERT.LV on establishing a cyber security centre for energy infrastructure operators.

During the reporting period, Conexus medium-term operational strategy for 2023-2027, Business plan for 2023-2027, Conexus Bond Emission Base Prospectus and financing plan were developed and approved. Even though the total operating income of Conexus in 2022 due to the decrease in natural gas consumption and the total volume of natural gas transmitted is less than budgeted and the results of the previous year, the results are in line with the situation. Moreover, the profit in 2022 significantly exceeds the budgeted amount. International credit rating agency S&P Global Ratings has evaluated Conexus' credit and awarded credit rating BBB+ with a stable outlook. Conexus also concluded several overdraft agreements with commercial banks thus fully covering the financial needs of Conexus for 2023 and significantly reducing financial risks.

As every year, the Council has also approved the Internal Audit Plan and performance indicators, overseeing their progress. According to the annual internal audit report and the Board's risk management report to the Council, the corporate governance, internal control, and risk management in Conexus are considered to be adequate, reasonable and effective.

In the reporting period, eight Council meetings were convened. In each of the regular meetings, the Board reported to the Council on the fulfilment of the targets for 2022, current financial and operational management issues. In addition, four informal Council work sessions were held in 2022 during which the Council worked on various financial, strategic and sustainability issues. The Council has performed the self-assessment of its work in 2022 generally assessing Council's work highly (3.28 from 4 points). The results indicate particularly successful cooperation with the Board, effective teamwork and leadership.

The operations of Conexus are in line with the medium-term operational strategy and the Council appreciates the work done by the Board on achieving the targets set by the Council. Taking into account the future challenges of the energy sector, it can be expected that Conexus will have to proceed with its active work on mitigating the energy supply risks ensuring efficient natural gas supply to the users in 2023 as well. The Council is ready to continue the work in progress and respond swiftly to the changes in the sector, maintaining safe, uninterrupted provision of natural gas transmission and storage services while also monitoring the implementation of the ongoing sustainability initiatives.

The audit of Conexus's annual report 2022 was carried out by the international commercial company of certified auditors PricewaterhouseCoopers SIA. The Council has received the auditor's report recognising that the financial statements give a true and fair view on Conexus, as well as the financial results of its operation and cash flows in 2022 in compliance with the International Financial Reporting Standards adopted by the European Union. The Council is acquainted with Conexus's annual report 2022 and the profit distribution proposal prepared by the Board and recommends both documents for approval to the Shareholders meeting.

Chairman of the Council

Ilmārs Šņucins

* Document has been signed with secure electronic signature.