

## **Supervisory Council’s Report on Operational Results 2023**

Year 2023 was busy and important for the Joint Stock Company “Conexus Baltic Grid” (“Conexus”) with working on the strategic objectives set by the Supervisory Council (“Council”), operation of a safe transmission and storage system, regulatory issues, implementation of the guarantees of origin system, biomethane, hydrogen, cybersecurity and corporate governance issues.

At the beginning of 2023, Conexus implemented the ban on natural gas supplies from the Russian Federation, as stipulated in the Energy Law. To manage the supply risk, infrastructure operations were optimised to ensure efficient operation of the transmission system, including further work on the flexibility of services provided. During the reporting period, 29.1 TWh of natural gas was transported, which, although 7 % less than in the previous year, reflects the impact of lower consumption, weather conditions and natural gas prices. In 2023, the Enhancement of Latvia-Lithuania interconnection project (ELLI) was completed, thus significantly increasing the technical capacity of the interconnector, and work continued on improving the operation of Inčukalns Underground Gas Storage (“Inčukalns UGS”). System users continued to show interest in Inčukalns UGS, auctioning all of the offered storage capacities in the first half of the year. The total capacity requested exceeded the storage capacity available for auctioning more than three times. Inčukalns UGS also stored the State’s safety reserves of energy supply (more than 1.8 TWh) for security of supply purposes, i.e., to ensure the users with a continuous supply of natural gas and to prevent an energy crisis. The accident and subsequent shutdown of the Estonia-Finland interconnector Balticconnector did not affect Latvia’s gas supply system and the availability of gas to system users is ensured in the required volumes.

While continuing its efforts to provide efficient, economically sound and cost-effective public services, Conexus actively worked also on regulatory issues, to which the Council has paid particular attention, following market developments influenced by the geopolitical events. Conexus not only prepared and submitted to the Public Utilities Commission (“the Regulator”) natural gas transmission system tariffs for the next regulatory period, ensuring the least possible negative impact on natural gas consumers, but also worked on the appropriate methodology for the calculation of the tariffs on the natural gas transmission services. Conexus also prepared and submitted to the regulator a proposal for the release of the regulatory account balance for the natural gas storage system service, with regulator approving the allocation of 50 % of the regulatory balance to the financing of the assets created, with a corresponding reduction in the capital costs attributable to the tariff, allocating part of the remainder to the reduction of the allowed revenues in the next tariff period. A 10-year development plan for the natural gas transmission system of Conexus (for the period 2024-2033) was also prepared for the first time and approved by the Regulator, as set out in the Energy Law.

Addressing future strategic initiatives and the development of renewable gases in Latvia, Conexus together with the natural gas transmission system operators from the neighbouring

countries continued work on the study to evaluate the possibility of injecting hydrogen into the transmission system, conducted a market study for hydrogen infrastructure development in Latvia, and started work on a study on the possibility of injecting pure hydrogen into Inčukalns UGS. Activities continued to promote the market development and use of biomethane, with Conexus organising a seminar for market participants on biomethane development and developing a solution for the first centralised biomethane injection point in the Baltics. Work was also carried out with the other Baltic transmission system operators on harmonising gas quality standards, which is a particularly important aspect for the promotion of the renewable gas market. Conexus also continued the work started in the previous year on the implementation of the administration of guarantees of origin in accordance with the Energy Law. The European Association of Issuing Bodies approved the domain protocol for Latvia developed by Conexus that sets the rules for the distribution of guarantees of origin, and the Latvian gas guarantees of origin registry system was linked with the platform of the European Association of Guarantees of Origin. Thus, Conexus has established a reliable and internationally recognised system for natural gas guarantees of origin, operating within the framework of the European Energy Certificate System (EECS). In addition, Conexus continued to work on the capital investment project “Construction of a solar electricity generation system at Inčukalns UGS” which was commenced in the previous year in order to ensure energy efficiency and the use of renewable energy.

Taking into account the term of office of the Management Board (“Board”) members and the decision of the Board member (Chief Technical Officer) Gints Freibergs not to continue serving on the Board, the Council carried out evaluation of the other two Board members during the reporting period by conducting both competency interviews and 360-degree evaluations. In light of the results of the evaluation and the previous performance, the Council decided to continue cooperation with both the Chairman of the Board Uldis Bariss and Member of the Board (Chief Financial Officer) Mārtiņš Gode by electing them for the next term of office, while an open competition was held for the position of Member of the Board (Chief Technical Officer). The selection of candidates was organised by the Nomination Commission formed by the Council. The selection process was organised in five rounds, and the Council made the final decision to elect Rinalds Dimiņš, the former Head of Inčukalns UGS, to the Board.

During the reporting period, work was also carried out on updating the documents related to the medium-term operational strategy of Conexus. The sustainability materiality matrix was updated to reflect the present situation, with two aspects (“competence of employees, skilled workforce of the future” and “fair and transparent remuneration”) given greater weight; the roadmap for 2023-2027 was updated as well. In line with changes in the legislation, the Corporate Governance Policy was revised and Articles of Association were updated to provide for the conversion of Conexus’ shares into dematerialised shares, and the Business Plan for 2024-2028 was approved as well. The total operating income of Conexus for 2023 is 39 % higher than in the previous year, owing to the results of Inčukalns UGS capacity auctions. S&P Global Ratings has maintained Conexus’ credit rating at BBB+ with a stable outlook. Conexus has also prolonged some commercial bank borrowing agreements, securing its funding needs for 2024 and reducing financial risks.

As before, the Council continued to supervise the capital investment projects mentioned above and, taking into account the geopolitical threat and the role of Conexus as a strategic energy company, paid particular attention to improving cyber security. Conexus continued to work closely with the Information Technology Security Response Institution CERT.LV and the electricity transmission system operator, majority shareholder “Augstsprieguma tīkls”, making additional improvements to internal processes. In 2023, the Council also conducted the assessment of risks and risk monitoring measures already in place, as well as monitored the implementation of the approved Internal Audit Plan and its performance indicators. 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.

During the reporting period, the Council held 13 meetings (4 regular and 9 extraordinary). At each of the regular meetings the Board reported to the Council on the fulfilment of targets, current financial and operational management issues. In addition, 5 informal work sessions were held in 2023, where more complex agenda items were discussed before the Council meetings and the Council worked on various regulatory, financial, strategic and sustainability issues. The Council has performed self-assessment of its work in 2023 generally assessing its work highly (3.36 out of 4 points) and showing an even higher result than in the previous reporting period (3.28 out of 4 points). The highest scores were given for the Council's cooperation with the Board (3.71 out of 4 points) and the organisation of Council meetings (3.71 out of 4 points).

The financial and non-financial results of Conexus demonstrate its ability to operate in the long term and adapt to changing circumstances, while maintaining its strategic role in ensuring the region's energy security. The operations of Conexus are in line with the medium-term operational strategy and the targets set by the Council for 2023. The Council has set challenging targets for the coming year as well, involving continued work on sustainability issues (hydrogen research, biomethane, greenhouse gas emission accounting), regulatory issues, capital investments and internal process improvements. The Council expresses its gratitude to the Board and the staff of Conexus for their work and is ready to continue the successful cooperation on the ongoing projects and new challenges.

The audit of Conexus's annual report 2023 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 2023 in compliance with the IFRS Accounting Standards adopted by the European Union. The Council is acquainted with Conexus's annual report 2023 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