



# SUSTAINABILITY AND ANNUAL REPORT

# 2023

This version of Sustainability and Annual Report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version takes precedence over this translation.

Riga 2024

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# MANAGEMENT'S STATEMENT

GRI 2-22

The year of 2023 in relation to operation of Joint Stock Company (AS) "Conexus Baltic Grid" (hereinafter referred to as – Conexus, the Company) was very dynamic and efficient, encompassing several significant events. 2023 saw further global geopolitical escalations which affected also the energy sector and the daily operation of Conexus. At the beginning of 2023, Latvia implemented the ban on Russian natural gas deliveries for internal consumption stipulated in the Energy Law, which marked two main supply routes – from Lithuanian and Finnish liquefied gas terminals.

Accident of the Estonian–Finnish interconnection "Balticconnector" showed that in the natural gas supply operations availability of several natural gas supply routes and timely accumulation of reserves at Inčukalns underground gas storage (hereinafter referred to as – Inčukalns UGS, storage) are of critical vitality. Therefore, we should mention conclusion of the Enhancement of Latvia-Lithuania interconnection (ELLI) project as one of the most important events, which significantly enhanced the availability of capacity at the Kiemenai interconnection point. In November 2022, technical capacity of the Kiemenai point in the direction from Lithuania to Latvia was enhanced from 67.6 GWh/d to 90.0 GWh/d, whereas, in the direction from Latvia to Lithuania it was enhanced from 65.1 GWh/d to 82.0 GWh/d in November 2023. Those events crucial to the gas market – enhanced capacity of the Kiemenai interconnection, launch of the Inkoo terminal in Finland and favorable market conditions – led

to the point where the natural gas withdrawal season in 2023 with the highest degree of filling of Inčukalns UGS in the last five years – 21.7 TWh of natural gas. During the natural gas injection season, approximately 70 % of the total volume of gas was delivered to the common Latvian and Estonian gas market from Lithuania, whereas 30 % - from Finland. Users of the natural gas storage system purposefully provided themselves with natural gas storing it in Inčukalns UGS, furthermore, as soon as in the first half of the year, all the available storage capacity were fully auctioned.

Last year, the natural gas transmission system development plan for 2024-2033 devised by Conexus was submitted and approved by the Public Utilities Commission (hereinafter referred to as – PUC, the Regulator). The goal of the Conexus' development plan is to provide sustainable and safe operation and development of infrastructure through investments in renovation of the current natural gas transmission system and building of new transmission system elements, as well as promotion of the development of renewable and low carbon gases.

In order to provide rendering and development of transmission services, in the second half of the year, based on gradual reduction in natural gas consumption in the last decade, Conexus' transmission system service fee for using the exit point for supplying consumers in Latvia was increased. Under the circumstances where transmission

system maintenance costs do not depend on the volume of transmitted natural gas, decrease in consumption of natural gas inevitably results in higher tariffs. Overall, Conexus succeeded in achieving that the new transmission tariff affects the final bills of natural gas consumers to the least possible extent. Such a balance is largely supported by the previously completed modernization works including at Inčukalns UGS, within the framework of which significant reduction of impact in rise of material and service prices on transmission tariff has been achieved.

In 2023, Supervisory Council of Conexus assessed performance of the Management Board of Conexus and elected it for the next term of office – previous Chairman of the Management Board Uldis Bariss and Member of the Management Board Mārtiņš Gode continue their work, but Rinalds Dimiņš, former head of Inčukalns UGS, was elected as the Chief Technical Officer.

High interest of the users of the natural gas storage system to book storage capacity at Inčukalns UGS by auctions led to an increase in Conexus revenue by EUR 21.3 million, whereas the natural gas transmission segment showed performance at the level equal to last year's. The increase in the storage segment revenue to a large extent ensured profit of Conexus of EUR 16.2 million. Investments of Conexus amounted to EUR 33.6 million in 2023, half of which refers to Inčukalns UGS modernization project.

Conexus operations are provided by staff possessing unique, comparatively rare and specific skills and competences, acquired on a long-term basis. Being aware of the contribution to and importance of the Company's staff, especially technical specialists, in successful operation of the company, Conexus continued providing its staff with competitive remuneration and good working conditions in 2023. Constant attention is paid to the promotion of staff development, succession and open internal culture at the Company.

Changes and challenges in the energy sector are a daily occurrence. It is very important to notice the required changes, to accept and implement them into the daily routine. Therefore, we thank every member of the Conexus staff participating in the company's development and helping the Company to achieve the set goals to make us proud of Conexus as a stable, but at the same time development-oriented place of employment!



AS "Conexus Baltic Grid"  
Chairman of the Supervisory Council  
**ILMĀRS ŠŅUCINS**



AS "Conexus Baltic Grid"  
Chairman of the Management Board  
**ULDIS BARISS**

# GRI (GLOBAL REPORTING INITIATIVE) CONTENT INDEX

The Company reports information on 2023 provided in this table in accordance with the GRI guidelines.  
The Sustainability Report has been prepared in accordance with the requirements of "GRI 1 Foundation 2021". Applied GRI sector standard: GRI 11 "Oil and gas".

## GRI General Standards

GRI INDICATOR	Section of the report
<b>Organization profile</b>	
2-1	Information on the organization
2-2	Entities included in the sustainability report
2-3	Reporting period, frequency and contact information
2-4	Corrections of information provided in previous reports
2-5	External assurance
<b>Activities and workers</b>	
2-6	Activities, value chain and other business relationships
2-7	Employees
2-8	Workers other than the company's employees

GRI INDICATOR	Section of the report
<b>Governance</b>	
2-9	Governance structure and composition
2-10	Nomination and selection of members of the highest governance body
2-11	Chair of the highest governance body
2-12	Role of the highest governance body in overseeing the management of impacts
2-13	Delegation of responsibility for management measures
2-14	Role of the highest governance body in sustainability reporting
2-15	Conflicts of interest
2-16	Communication of critical issues to the Supervisory Council
2-17	Collective knowledge of the highest governance body on sustainability matters

GRI INDICATOR		Section of the report
2-18	Evaluation of the performance of the highest governance body	Supervisory Council
2-19	Remuneration policies	Remuneration Policy of the Management Board and the Supervisory Council
2-20	Remuneration determination process in the organization	Employment relations, employee inclusion and involvement
2-21	Annual total compensation indicator	Employment relations, employee inclusion and involvement
<b>Strategy, policies and practices</b>		
2-22	Statement on sustainable development strategy	Management's statement
2-23	Policy commitments	Corporate governance; Annexes
2-24	Implementation of policy commitments	Corporate governance; Risk management; Annexes
2-25	Processes for mitigation/compensation of negative impact	Ethics and prevention of corruption
2-26	Mechanisms for asking questions and updating issues	Ethics and prevention of corruption
2-27	Compliance with laws and regulations	Ethics and prevention of corruption; Environmental responsibility
2-28	Membership in associations	Membership in industry and public organizations
<b>Involvement of stakeholders</b>		
2-29	Approach to involvement of stakeholders	Conexus' strategic sustainability framework
2-30	Collective agreements	Employment relations, employee inclusion and involvement
<b>Material areas of sustainability</b>		
3-1	Determination of material areas	Conexus' strategic sustainability framework
3-2	List of material areas	Conexus' strategic sustainability framework



# GRI Specific standards

Aspect		GRI standard name		GRI indicator or the additionally developed Conexus-specific indicator (CXS), based on the totality of material aspects	Sector of the report	GRI sector standards (GRI 11 "Oil and gas")	
Services	Infrastructure security and safety	3-3	Management approach		Infrastructure security and safety		
		416	Customer health and safety	416-1	Assessment of the health and safety impact factors of product and service categories	Infrastructure security and safety	11.3.3
				416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Infrastructure security and safety	
	Secure energy supply	3-3	Management approach		Operating segments; Secure energy		
		203	Indirect economic impact	203-1	Operating segments, Secure energy	Operating segments; Secure energy	11.14.4
		-	Conexus specific indicator	CXS-4	Digitalization of processes	Digitalization of processes	
Environment	Avoiding pollution	3-3	Management approach		Pollution prevention	11.3.1	
		303	Water and effluents	303-2	Significant impact of water withdrawal on water sources	Pollution prevention	
		305	Emissions	305-7	NOx, SOx and other significant air emissions	Pollution prevention	11.3.2
	Sustainable energy solutions	3-3	Management approach		The challenge for Conexus – transition to a more environmentally friendly energy sector		
		-	Conexus specific indicator	CXS-1	The challenge for Conexus – transition to a more environmentally friendly energy sector	The challenge for Conexus – transition to a more environmentally friendly energy sector	
	Impact on climate and energy efficiency	3-3	Management approach		Impact on climate and energy efficiency	11.1.1	
		302	Energy	302-1	Energy consumption within the organization	Impact on climate and energy efficiency	11.1.2
				302-3	Energy intensity	Impact on climate and energy efficiency	11.1.4
		305	Emissions	305-1	Direct GHG emissions	Impact on climate and energy efficiency	11.1.5
				305-4	Intensity of GHG emissions	Impact on climate and energy efficiency	11.1.8
	Responsible use of materials and waste management	3-3	Management approach		Responsible use of materials and waste management	11.5.1 11.6.1	
		303	Water and effluents	303-1	Activities using water as shared resource	Responsible use of materials and waste management	11.6.2
				303-3	Water withdrawal	Responsible use of materials and waste management	11.6.4
		306	Waste	306-2	Management of significant waste-related impacts	Responsible use of materials and waste management	11.5.3
				306-3	Waste generated	Responsible use of materials and waste management	11.8.2 11.5.4
306-4				Waste diverted from destruction	Responsible use of materials and waste management	11.5.5	

Aspect	GRI standard name	GRI indicator or the additionally developed Conexus-specific indicator (CXS), based on the totality of material aspects		Sector of the report	GRI sector standard (GRI 11 "Oil and gas")			
Workplace	Health and safety of employees	3-3	Management approach	Health and safety of employees	11.9.1			
		403	Occupational diseases and work safety	403-1	Labour safety and health management system	Health and safety of employees	11.9.2	
				403-2	Hazard identification, risk assessment and accident investigation	Health and safety of employees	11.9.3	
				403-3	Occupational health promotion measures	Health and safety of employees	11.9.4	
				403-4	Employee participation, consultation and communication on labour safety and health issues	Health and safety of employees	11.9.5	
				403-5	Employee training on labour safety and health issues	Health and safety of employees	11.9.6	
				403-6	Staff health promotion	Health and safety of employees	11.9.7	
				403-7	Prevention of occupational health and safety violations	Health and safety of employees	11.9.8	
				403-8	Employees covered by the health and safety management system	Health and safety of employees	11.9.9	
				403-9	Accidents at work	Health and safety of employees	11.9.10	
	403-10			Occupational diseases	Health and safety of employees	11.9.11		
	Employee competence, qualified future workforce	3-3	Management approach	Development of employee competence and future workforce				
				404	Training and education	404-2	Programs for upgrading employee skills and growth assistance programs	Development of employee competence and future workforce
404-3						Percentage of employees receiving regular growth and career development reviews	Development of employee competence and future workforce	
Fair and transparent remuneration	3-3	Management approach	Employment relations, employee inclusion and involvement					
			-	Conexus specific indicator	CXS-2	Remuneration	Employment relations, employee inclusion and involvement	



Aspect		GRI standard name		GRI indicator or the additionally developed Conexus-specific indicator (CXS), based on the totality of material aspects		Sector of the report	GRI sector standard (GRI 11 "Oil and gas")
Workplace	Employee inclusion and diversity at the workplace	3-3	Management approach			Employment relations, employee inclusion and involvement	11.11.1
		405	Diversity and equal opportunities	405-1	Diversity of governance bodies and employees	Employment relations, employee inclusion and involvement	11.11.5
		406	Non-discrimination	406-1	Incidents of discrimination and corrective actions	Equal and fair treatment	11.11.7
Governance	Transparent communication and stakeholder involvement	3-3	Management approach			Transparency and stakeholder involvement	
		-	Conexus specific indicator	CXS-3	Transparent communication	Transparency and stakeholder involvement	
	Sustainable procurement	3-3	Management approach			Sustainable procurements	
		204	Procurement practice	204-1	Proportion of local suppliers	Sustainable procurements	11.14.6
		308	Suppliers' environmental impact assessment	308-1	Suppliers selected based on environmental impact criteria	Sustainable procurements	
	Fair and ethical management, prevention of corruption	3-3	Management approach			Ethics and prevention of corruption	
		205	Anti-corruption	205-1	Activities with assessed corruption risks	Ethics and prevention of corruption	11.20.2
				205-2	Communication and training on policies and procedures in relation to anti-corruption	Ethics and prevention of corruption; Corporate Governance Code	11.20.3
205-3	Confirmed cases of corruption and follow-up action	Ethics and prevention of corruption	11.20.4				

#### GRI sector's standard indicators not considered significant

Indicator	Explanation
GRI 11 11.1.3, 11.1.6, 11.1.7, 11.2.1, 11.2.2., 11.2.3., 11.2.4, 11.4.1, 11.4.2, 11.4.3, 11.4.4, 11.4.5, 11.5.2, 11.5.6, 11.6.3, 11.6.5, 11.6.6, 11.7.1, 11.7.2, 11.7.4, 11.7.5, 11.7.6, 11.8.1, 11.8.3, 11.10.1, 11.10.2, 11.10.3, 11.10.4, 11.10.5, 11.10.6, 11.10.7, 11.10.8, 11.10.9, 11.11.2, 11.11.3, 11.11.4, 11.11.6, 11.12.1, 11.12.2, 11.12.3, 11.13.1, 11.13.2, 11.14.1, 11.14.2, 11.14.3, 11.14.5, 11.15.1, 11.15.2, 11.15.3, 11.15.4, 11.16.1, 11.16.2, 11.17.1, 11.17.2, 11.17.3, 11.17.4, 11.18.1, 11.18.2, 11.19.1, 11.19.2, 11.20.1, 11.20.5, 11.20.6, 11.21.1, 11.21.2, 11.21.3, 11.21.4, 11.21.5, 11.21.6, 11.21.7, 11.21.8, 11.22.1, 11.22.2	During the process of determination of significant aspects, the respective aspects were not determined as significant. Therefore, the listed indicators were not considered relevant to the Company's operation, or sufficient information has been disclosed on other relevant indicators.



# INFORMATION ON THE COMPANY AND THE REPORT

GRI 2-1, 2-6, 2-3, 2-5

Company	AS "Conexus Baltic Grid"
Registration number	40203041605
LEI code	485100YDVP9E8GT6PJ90
Date and place of registration	January 2, 2017, Riga
Address	14 Stigu Street, Riga, LV-1021, Latvia
Website	<a href="http://www.conexus.lv">www.conexus.lv</a>
Major shareholders	AS "Augstsprieguma tīkls" (68.46 %) "MM Infrastructure Investments Europe Limited" (29.06 %)
Reporting period	January 1, 2023 –December 31, 2023
Sustainability report	The Sustainability report for 2023 has been prepared in accordance with the requirements of the Global Reporting Initiative (GRI) 2021 standards. The reporting frequency is annual. The reporting process is described in the "Conexus' strategic sustainability framework" section.
Financial statements	The Financial statements for 2023 have been prepared in accordance with the International Financial Reporting Standards (IFRS) Accounting Standards as adopted by the European Union.
Comparative data period	January 1, 2022 – December 31, 2022
Contact information	E-mail address for sustainability report suggestions and questions: <a href="mailto:info@conexus.lv">info@conexus.lv</a>
Independent auditor's declaration	Independent Limited Assurance Report on Sustainability report 2023 has been provided by "PricewaterhouseCoopers". Auditor's Report on the Financial statements 2023 has been provided by SIA "PricewaterhouseCoopers".
Report format	The Sustainability and annual report is published on the Conexus website <a href="http://www.conexus.lv">www.conexus.lv</a> on April 30, 2024 (in Latvian and in English).



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Conexus is an independent operator of a unified natural gas transmission and storage system in Latvia, managing one of the most advanced natural gas storage facilities in Europe, i.e., Inčukalns Underground Gas Storage (hereinafter referred to as – Inčukalns UGS, storage) and the main natural gas transmission system connecting the Latvian natural gas market with Lithuania and Estonia.

The customers of Conexus, users of the natural gas transmission and storage system, come from several countries of the Baltic Sea region – Finland, Estonia, Latvia, Lithuania and Poland – as well as from other European countries – Norway, the Czech Republic and Switzerland. The users are private and state-owned, local and international companies representing different business sectors: natural gas wholesalers and retailers, energy producers, heating operators and production companies.

The natural gas transmission and storage services provided by Conexus are monitored by the Public Utilities Commission (hereinafter referred to as – PUC, the Regulator).

Conexus ensures the sustainability and safety of the infrastructure, high quality of services, which promotes the development of the market and provides economic benefits to customers and society as a whole.

Conexus is a socially responsible company that ensures the overall development of the industry, growth of employees, and sustainable employment through creation of added economic value, at the same time keeping the impact of technological processes on the environment to the minimum.

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# MEDIUM-TERM BUSINESS STRATEGY

In accordance with the main goal of the European Green Deal<sup>1</sup>, climate neutrality, i.e., an economy with zero net greenhouse gas emissions must be achieved by 2050. All parts of society and economy sector play their respective roles, including the gas sector, with its determined aim of phasing out natural gas to the extent that does not hinder the competition of the region and, at the same time, provides a maximum progress towards a decarbonized gas market. Gas transmission system and related infrastructure will be an important aspect for achieving climate neutrality.

The Russian invasion of Ukraine completely changed the landscape of European natural gas industry, including in Latvia, which banned Russian natural gas imports for national needs from January 1, 2023. These circumstances created new challenges related to natural gas import sources and business processes, making the security of supply the most important dimension of the natural gas sector both on national and regional level.

Considering the significant changes in the natural gas sector, Conexus updated the strategic directions and priorities in 2022. The medium-term strategy for 2023-2027 sets strategic goals, defines priorities and a set of measures to achieve Conexus' goals, which will ensure sustainable development of the Company. The strategic framework of Conexus consists of the Company's values, mission, vision and strategic goals. To define future priorities and strategic directions, it is important for Conexus to define the motivation and future ambitions, while observing the principles of sustainability and the existing regulatory framework. Conexus' values, mission and vision set a moral compass for the Company's strategic goals, which will be achieved through a variety of strategic initiatives.

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<sup>1</sup> [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal\\_lv](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_lv)

WHO DO WE WANT TO BE?

## Vision

Sustainable gas transmission and storage operator in regionally integrated energy market.

WHY DO WE EXIST?

## Mission

Ensure reliable operation of gas transmission and storage through promotion of energy sector decarbonization and market development.

WHAT IS IMPORTANT TO US?

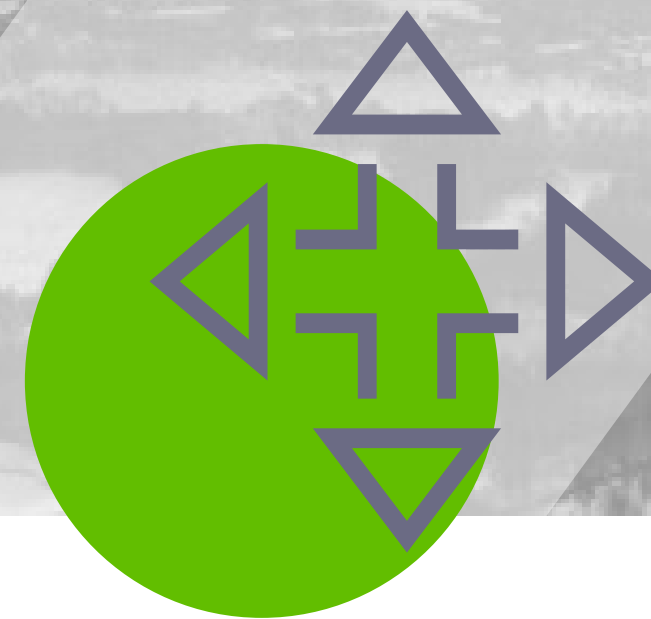
## Values

Safety and security



It is important for us to have a secure and reliable gas transmission and storage.

Competence






We value employees' competence, knowledge, professional experience, and orientation towards development.

Cooperation

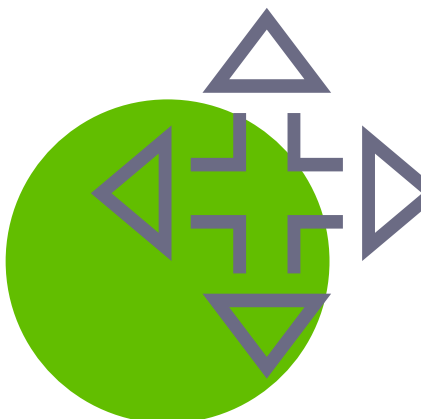




We support each other in decision making, we listen and search for common solutions both internally and working with clients and current and potential partners.

For the strategic planning period, Conexus has identified strategic goals in three directions:

<p><b>MARKET DEVELOPMENT</b></p> 	<p>Promote development and further integration of gas market, including promotion for growth of hydrogen and other gaseous energy carriers' markets</p>	<ul style="list-style-type: none"> <li>• <b>Facilitate integration of the regional market</b></li> <li>• <b>Promote cooperation with other regional transmission system operators (TSOs)</b>, to develop a unified position for the integration of biogas and hydrogen into the transmission networks, by <b>supporting biomethane injection into the transmission system</b></li> <li>• <b>Further development of Inčukalns UGS services</b> by securing higher flexibility, including compression withdrawal option</li> </ul>
<p><b>INFRASTRUCTURE SAFETY AND SECURITY OF SUPPLY</b></p> 	<p>Ensure available and secure gas transmission and storage infrastructure, at the same time researching and promoting adaptation options for injection of other gaseous energy carriers</p>	<ul style="list-style-type: none"> <li>• <b>Implement projects of common interest</b></li> <li>• <b>Carry out research and development projects</b> to identify technical options and necessary investments for repurposing of existing infrastructure for the blending or pure hydrogen usage, including by building a dedicated hydrogen infrastructure.</li> <li>• Asset management based on future challenges</li> </ul>
<p><b>SUSTAINABILITY</b></p> 	<p>Focus on climate and environmental sustainability aspects</p>	<p>When focusing on sustainability, Conexus shall target its attention to environmental aspects:</p> <ul style="list-style-type: none"> <li>• <b>E</b> – regional market integration that promotes renewable gas development, secure transmission and storage infrastructure, while focusing on NOx and GHG (greenhouse gas) emission reduction</li> <li>• <b>S</b> – safety-oriented culture, professional and development-oriented team</li> <li>• <b>G</b> – compliance with the Corporate Governance Code</li> </ul>

Strategic goals have been set according to Conexus values, vision and mission. Alongside strategic goals, Conexus has defined horizontal goals closely related to all the planned medium-term activities. Horizontal goals complement the strategic goals and contribute to their achievement.

	<p><b>Focus on organizational development and efficiency</b></p>	<p>Conexus will facilitate funding opportunities, as well as enhance operational efficiency.</p>
	<p><b>Digitalization and cybersecurity</b></p>	<p>Conexus will continue digitalization projects focusing on operational technology, physical security, fire safety and cybersecurity.</p>
	<p><b>Professional and development-oriented team</b></p>	<p>Conexus' value is a professional team, therefore the Company will develop a program which will provide opportunity for employees to develop skills by creating individual development plans. Learning new skills will be promoted to adapt to renewable gas technologies, as well as transfer of skills and knowledge from experienced employees to new ones. To facilitate professional development of the team, Conexus will create a competitive and flexible remuneration system.</p>

Stakeholders' benefits from Conexus' strategic activities:

	GAS USERS	SYSTEM USERS	INVESTORS	SOCIETY	EMPLOYEES
TARGETS	<ul style="list-style-type: none"> <li>• Infrastructure adaptation for development of renewable gases</li> <li>• Secure and predictable supply of gas</li> </ul>	<ul style="list-style-type: none"> <li>• More market-appropriate and flexible storage products</li> <li>• Proper and timely information on current and upcoming events and changes</li> <li>• Higher capacity available at interconnection points</li> </ul>	<ul style="list-style-type: none"> <li>• Profitable operations and predictable dividends</li> <li>• Updated approach to asset management adjusted for future challenges</li> <li>• New financing sources</li> </ul>	<ul style="list-style-type: none"> <li>• Secure and reliable energy supply</li> <li>• Reduced Conexus environmental impact according to economical and technical options</li> <li>• Gas infrastructure adaption to renewable gases to promote achievement of state's goals related to GHG emission reduction and other environmental targets</li> </ul>	<ul style="list-style-type: none"> <li>• Safe and digitally advanced workplace</li> <li>• Professional development of employees</li> <li>• Retaining skills and knowledge in the organization</li> <li>• Competitive and flexible remuneration system</li> </ul>
INDICATORS	<ul style="list-style-type: none"> <li>• Elaboration of plans and regulations for the promotion of renewable gases</li> <li>• Number of incidents and gas supply interruptions</li> </ul>	<ul style="list-style-type: none"> <li>• New products for storage</li> <li>• ELLI and Inčukalns UGS enhancement projects completed</li> <li>• Public consultations on relevant topics</li> <li>• Explanatory information and events</li> </ul>	<ul style="list-style-type: none"> <li>• Profit (EUR)</li> <li>• Dividend pay-out ratio</li> <li>• Asset management policy</li> <li>• Financial instruments issued by Conexus</li> </ul>	<ul style="list-style-type: none"> <li>• Emissions (CH<sub>4</sub>, NO<sub>x</sub>, CO<sub>2</sub>) from technological processes</li> <li>• Undisrupted gas flow</li> <li>• Volume of renewable gas transported or stored in Conexus infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Health &amp; safety indicators</li> <li>• Training course attendance rate</li> <li>• Digitalization and cybersecurity projects</li> <li>• Ability to attract the necessary industry professionals</li> </ul>
RESULTS IN 2027 AND BEYOND	<ul style="list-style-type: none"> <li>• Completed research on potential to inject hydrogen in the gas system</li> <li>• Available infrastructure for injection, transmission and storage of biomethane</li> <li>• No major incidents, no gas flow interruptions for end users</li> </ul>	<ul style="list-style-type: none"> <li>• Lower administrative burden</li> <li>• Deeper market integration</li> <li>• Higher capacities at interconnection points</li> <li>• Provided compression withdrawal at Inčukalns UGS</li> </ul>	<ul style="list-style-type: none"> <li>• Fully collected allowed revenue and ROE achieved at peers level</li> <li>• Reviewed and updated asset management policy</li> <li>• Dividends paid according to Dividend Policy</li> <li>• Presence in capital markets</li> </ul>	<ul style="list-style-type: none"> <li>• Completed Inčukalns UGS enhancement project</li> <li>• Secured national gas demand</li> <li>• Possibility and technical support for biomethane injection</li> <li>• Solar generation plant at Inčukalns UGS</li> <li>• Clarity on possibilities to inject hydrogen into the existing gas infrastructure</li> <li>• Emission of GHG and NO<sub>x</sub> reduced in technological processes according to goals</li> </ul>	<ul style="list-style-type: none"> <li>• Zero serious safety incidents</li> <li>• Developed lifelong learning and competence programs with high attendance rates</li> <li>• Completed key digitalization projects</li> <li>• Professional staff employed</li> </ul>

# THE COMPANY'S MANAGEMENT AND STRUCTURE

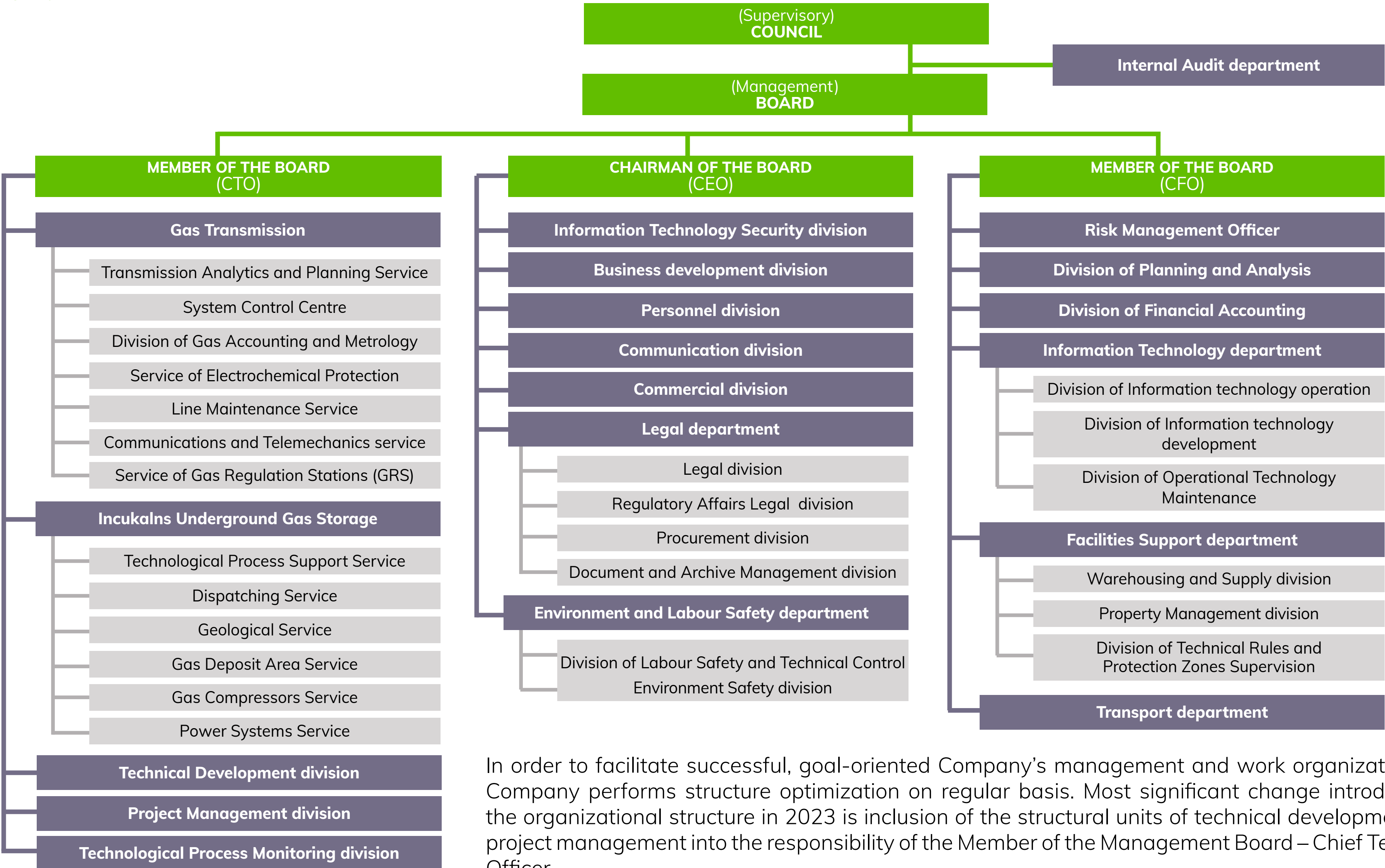
GRI 2-9

The governance of Conexus is implemented by the Shareholder's meeting, the Supervisory Council and the Management Board based on the external laws and regulations, Conexus' Articles of Association, regulations, resolutions of the Supervisory Council, the Management Board, and the shareholder meeting, medium-term strategy, business plan, goals and budget. With the governance duties lying fully with the Management Board and the Supervisory Council, Conexus has not established separate committees, however, in September 2023, the Supervisory Council formed a Nomination Commission for the selection of a Member of the Management Board (Chief Technical Officer). The corporate governance framework is determined by Conexus' Corporate Governance Policy. It sets out the key principles of Conexus for the implementation of effective and sustainable corporate governance and transparency. The corporate governance framework is also determined by the approved Conexus' Risk Management Policy, which aims to establish common underlying risk management principles to identify and manage the key factors negatively impacting Conexus' business in a timely manner to ensure achievement of strategic goals and successful development, and to minimize potential losses or reputational damage.



# Organizational structure

GRI 2-9



In order to facilitate successful, goal-oriented Company’s management and work organization, the Company performs structure optimization on regular basis. Most significant change introduced in the organizational structure in 2023 is inclusion of the structural units of technical development and project management into the responsibility of the Member of the Management Board – Chief Technical Officer.

# Shareholders and the Shareholders' meeting

GRI 2-9

The main Conexus management body is the Shareholders' meeting, which elects the Supervisory Council of Conexus.

Conexus is a closed joint-stock company with 100 % dematerialised shares. The total number of shares is 39 786 089 with the nominal value of EUR 1 each. The total number of shareholders exceeds 4.8 thousand. 97.52 % of the total number of shares is owned by the two largest shareholders – AS Augstsprieguma tīkls (68.46 %) and MM Infrastructure Investments Europe Limited (29.06 %).

Shareholders as of December 31, 2023:

**AS „AUGSTSPRIEGUMA TĪKLS”**

**68.46 %**

**MM INFRASTRUCTURE INVESTMENTS EUROPE LIMITED**

**29.06 %**

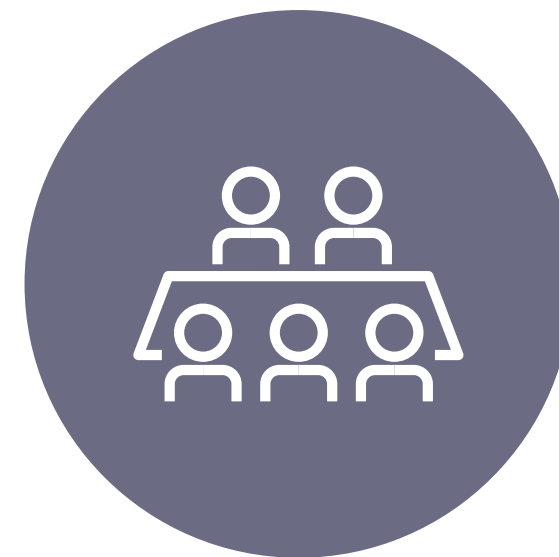
**OTHER SHAREHOLDERS**

**2.48 %**



## The main responsibilities of the Shareholders' meeting:

- ✔ to approve the annual report and decide on the use of the profit of the previous year;
- ✔ to approve Conexus' Articles of Association, Management Board and Supervisory Council Remuneration policy and amendments to these documents;
- ✔ to decide to increase or decrease the share capital of Conexus;
- ✔ to elect and recall the Supervisory Council;
- ✔ to elect an auditor.



In order to ensure the largest possible involvement of shareholders in decision-making, all the shareholders were invited to participate in the meeting in writing by filling in a pre-meeting voting form sent together with the notification on meeting. In 2023, the Shareholders' meeting was organized onsite with the possibility for the shareholders to participate also remotely. In order to provide any shareholder with an opportunity to ask questions and receive impartial and comprehensive information for voting, prior to the meeting in 2023, a remote premeeting was held. Conexus communicates information to its shareholders in Latvian and English using also digital solutions.

# Supervisory Council

GRI 2-9, 2-10, 2-11, 2-12, 2-13, 2-14, 2-16, 2-17, 2-18

The Supervisory Council of Conexus represents the interests of shareholders between Shareholders' meetings and oversees the activities of the Management Board of Conexus. The operating principles of the Supervisory Council of Conexus and primary responsibilities of the Supervisory Council of Conexus are set forth in the Articles of Association and the Regulation of the Supervisory Council. The tasks and responsibilities of the Supervisory Council of Conexus are regulated by laws and regulations. The Supervisory Council has not established separate committees, however, in September 2023, the Supervisory Council formed a Nomination Commission for the selection of a Member of the Management Board (Chief Technical Officer). The Nomination Commission finalized its work in December 2023 submitting a proposal to the Supervisory Council for election of a Member of the Management Board.

The members of the Supervisory Council of Conexus are elected according to the procedures stipulated by the Commercial Law, with the Supervisory Council candidates being nominated by both major shareholders (AS "Augstsprieguma tīkls" and "MM Infrastructure Investments Europe Limited") according to the percentage of shares held. According to the obligation set out in the Cabinet of Ministers Regulation No. 175 "Regulations Regarding the Corporate Governance Recommendations Applicable to a Capital Company of a Public Entity and a Public Private Capital Company" dated March 15, 2022, issued on the basis of the Law on Governance of Capital Shares of a Public Entity and Management of Capital Companies Thereof, the majority shareholder of Conexus – AS "Augstsprieguma tīkls" – applies the Corporate Governance Code

of Latvia, which also stipulates the principles for the composition of members of the Supervisory Council: principle of ensuring an appropriate body of expertise and experience and the principle of diversity. In accordance with the framework of the external laws and regulations and Clauses 15.1.6 and 15.1.7 of the Company's majority shareholder's AS "Augstsprieguma tīkls" Corporate Governance Policy, within the selection and nomination process of members of the Supervisory Council, AS "Augstsprieguma tīkls" follows the binding laws and regulations, as well as the principles of good practice of corporate governance ensuring an open, fair and professional selection of members of the Supervisory Council, thus facilitating the establishment of a professional and competent management body of the Company.

More than half of the Members of the Supervisory Council of Conexus are to be considered independent Members of the Supervisory Council. According to Paragraph 39 of the Conexus' Regulation of the Supervisory Council, where conflict of interest occurs, the respective member of the Supervisory Council does not take part in the voting on the respective matter in the agenda and their participation at the meeting is not taken into account when determining quorum for deciding on the matter in question. Furthermore, if members of the Supervisory Council fail to comply with these requirements, they are responsible before the Company for the losses caused. During the reporting period, the Supervisory Council has not decided on any matters where conflict of interest of any member of the Supervisory Council would have been found.

According to the Articles of Association of Conexus, the Supervisory Council approves medium-term operational strategy of Conexus and supervises implementation thereof. During the reporting period, the Supervisory Council has reviewed the significant sustainability fields (materiality matrix). During the reporting period, a two-day seminar was also organized for the members of the Supervisory Council of Conexus on the current operational matters of Conexus, including matters of sustainable development and emissions. The Supervisory Council of Conexus set sustainable (green) initiatives to be implemented as one of the indicators of the strategic goal for 2023, as well as defined the security and integrity indicators to be achieved, additionally defining also the supply crisis management indicator to provide residents of Latvia with natural gas. For the year of 2024, the Supervisory Council has included in the indicators of the strategic initiative hydrogen research projects, establishment of biomethane injection point and other sustainability aspects.

In order to ensure successful implementation of the medium-term operational strategy, every year, Conexus' key performance indicators are set, which are subsequently approved by the Supervisory Council and the achievement of which is under the responsibility of the Management Board of Conexus. Overall, achievement progress of the performance indicators is assessed on an annual basis, together with the approval of the annual report, in order to assess performance of the Management Board. Additionally, according to the Regulation of the Management Board of Conexus, the Supervisory Council is provided with information on financial performance and important events at Conexus on a monthly

basis, whereas a written report on material events at Conexus and the progress of performance of the objectives set by Conexus for the current meetings of the Supervisory Council of Conexus is prepared on a quarterly basis. According to the Commercial Law, the Management Board of Conexus is responsible for the management of the aspects impacting Conexus. The Supervisory Council of Conexus has approved the Regulation of the Management Board, which defines the general management of Conexus (including management of the impact aspects) as one of the key areas of competence of the Chairman of the Management Board of Conexus.

According to the Conexus' Regulation of the Supervisory Council, the Supervisory Council conducts performance self-assessment on an annual basis examining results in the Supervisory Council meeting. At the end of December 2023, performance of the Supervisory Council in the reporting period was assessed based on the criteria and good practice stipulated in the Corporate Governance Code of Latvia, assessing composition and performance of the Supervisory Council, as well as organization of meetings. Average self-assessment of the Supervisory Council conducted during the reporting period for the performance in 2023 is high (3.36 points out of 4). Self-assessment was conducted by filling in questionnaires and examining summary of anonymized results in the Supervisory Council meeting. Based on the proposals expressed by the Members of the Supervisory Council during the assessment and the initiative of the Management Board, several awareness-raising seminars were organized for the Members of the Supervisory Council in 2023.

During the reporting period, changes were introduced to the composition of the Supervisory Council of Conexus (Masanobu Furuya was elected to the Supervisory Council following the resignation of Yukiko Fujii).

Term of office from 27 April 2023 until 26 April 2026



(Since 3 January 2018)

**ILMĀRS ŠŅUCINS**

Chairman of the Supervisory Council



(Since 30 April 2020)

**TOMOHIDE GOTO**

Vice-Chairman of the Supervisory Council



(Since 28 April 2022)

**IVARS MOISEJS**

Member of the Supervisory Council



(Since 12 May 2021)

**VIKTORS SENTUHOVSKIS**

Member of the Supervisory Council



(Since 30 April 2020)

**ZANE ĀBOLIŅA**

Member of the Supervisory Council



(Since 27 April 2023)

**MASANOBU FURUYA**

Member of the Supervisory Council



(Since 30 April 2020)

**NORMUNDS ŠUKSTS**

Member of the Supervisory Council

Term of office until 27 April 2023

**ILMĀRS ŠŅUCINS**

Chairman of the Supervisory Council

(Since 3 January 2018)

**TOMOHIDE GOTO**

Vice-Chairman of the Supervisory Council

(Since 30 April 2020)

**ZANE ĀBOLIŅA**

Member of the Supervisory Council

(Since 30 April 2020)

**YUKIKO FUJII**

Member of the Supervisory Council

(Since 28 April 2022)

**NORMUNDS ŠUKSTS**

Member of the Supervisory Council

(Since 30 April 2020)

**IVARS MOISEJS**

Member of the Supervisory Council

(Since 28 April 2022)

**VIKTORS SENTUHOVSKIS**

Member of the Supervisory Council

(Since 12 May 2021)



## ILMĀRS ŠŅUCINS

AS "CONEXUS BALTIC GRID" CHAIRMAN OF THE SUPERVISORY COUNCIL

Born in 1974

### CAREER

- Since 2018** Member of the Supervisory Council, AS "Conexus Baltic Grid" (Chairman of the Supervisory Council since 2020)
- Since 2012** Deputy State Secretary in tax, customs and accounting issues, Ministry of Finance
- 2010–2013** Director of Tax Analysis Department, Ministry of Finance
- 2006–2010** Deputy Director of Economic Analysis and Fiscal Policy Department, Ministry of Finance
- 1999–2006** Head of Macroeconomics Unit of Economic Analysis and Fiscal Policy Department, Ministry of Finance

### EDUCATION

- 1999** Master's Degree, Faculty of Economics and Management of University of Latvia
- 1997–1998** Guest studies at University St.Gallen (Switzerland)

Doesn't own any shares in AS "Conexus Baltic Grid".  
Independent Member of the Supervisory Council.



## TOMOHIDE GOTO

AS "CONEXUS BALTIC GRID" VICE-CHAIRMAN OF THE SUPERVISORY COUNCIL

Born in 1969

### CAREER

- Since 2020** AS "Conexus Baltic Grid" – Vice-Chairman of the Supervisory Council
- Since 2019** MM Capital Partners Co., Ltd. – President and CEO (Tokyo)
- 2016–2018** Marubeni Europe Plc. – General Manager, Transport Infrastructure (London)
- 2013–2016** Marubeni Corporation – General Manager, Transport Infrastructure (Tokyo)
- 2001–2012** Marubeni Corporation – General Manager, Heavy Machinery & Natural Resources (Tokyo)
- 2000–2001** American Iron Oxide Company – Vice President of Finance (Pennsylvania)
- 1992–1999** Marubeni Corporation – Assistant Manager, Heavy Machinery Plant (Tokyo)

### EDUCATION

- 1987–1992** B.A. in Economics, Kobe University (Kobe)

Doesn't own any shares in AS "Conexus Baltic Grid".  
Independent Member of the Supervisory Council.



## ZANE ĀBOLIŅA

AS "CONEXUS BALTIC GRID" MEMBER OF THE SUPERVISORY COUNCIL

Born in 1987

### CAREER

- Since 2020** AS "Conexus Baltic Grid" – Member of the Supervisory Council
- Since 2023** AS "Augstsprieguma tīkls" – Head of Legal Department
- 2017–2023** AS "Augstsprieguma tīkls" – Head of Regulatory Affairs Division
- 2016–2017** State Railway Administration – Deputy Director of the administration
- 2012–2016** Public Utilities Commission – Head of Railway Transport Unit
- 2010–2012** Ministry of Economics – Senior Desk Officer, EU Funds Implementation department
- 2007–2010** Ministry of Economics – Senior Desk Officer, Energy Department

### EDUCATION

- 2013–2015** Master's degree in Managing Enterprises and Institutions, Riga Technical University
- 2010–2012** Professional Master's degree in legal science, University of Latvia
- 2006–2009** Bachelor's degree in legal science, University of Latvia

Doesn't own any shares in AS "Conexus Baltic Grid".



## MASANOBU FURUYA

AS "CONEXUS BALTIC GRID" MEMBER OF THE SUPERVISORY COUNCIL

Born in 1976

### CAREER

- Since 2023** "Conexus Baltic Grid" AS – Member of the Supervisory Council
- Since 2019** MM Capital Partners Co., Ltd. – COO, Head of Investment Group (Tokyo)
- 2013–2019** Marubeni Corporation – Manager, Transport Infrastructure (Tokyo)
- 2009–2013** Marubeni Corporation – Manager, Emission Trading (Tokyo)
- 2005–2009** Marubeni America Corporation – Director, Venture Capital (New York, Silicon Valley)
- 2001–2005** Marubeni Corporation – Manager, Venture Investment (Tokyo)
- 1999–2001** Marubeni Corporation – Assistant Manager, Electronic Materials (Tokyo)

### EDUCATION

- 1997–1999** M.S. Applied Chemistry, Keio University (Yokohama)
- 1993–1997** B.S. in Applied Chemistry, Keio University (Yokohama)

Doesn't own any shares in AS "Conexus Baltic Grid".  
Independent Member of the Supervisory Council.



## IVARS MOISEJS

AS "CONEXUS BALTIC GRID" MEMBER OF THE SUPERVISORY COUNCIL

Born in 1970

### CAREER

- Since 2022** AS "Conexus Baltic Grid" – Member of the Supervisory Council
- Since 2013** AS "Augstsprieguma tīkls" – Head of Dispatching Service
- 2000–2013** AS "Augstsprieguma tīkls" – Senior Dispatcher, Lead Dispatcher
- 1999–2000** PVAS "Latvenergo", branch "Augstsprieguma tīkls" – Senior On-Call Dispatcher
- 1992–1999** VAS "Latvenergo" Central Dispatching Service – Engineer, Dispatcher

### EDUCATION

- 1988–1993** Bachelor's degree, qualification of electrical engineer, Riga Technical University

Doesn't own any shares in AS "Conexus Baltic Grid".



## VIKTORS SENTUHOVSKIS

AS "CONEXUS BALTIC GRID" MEMBER OF THE SUPERVISORY COUNCIL

Born in 1984

### CAREER

- Since 2021** AS "Conexus Baltic Grid" – Member of the Supervisory Council
- Since 2020** VSE Advisory, SIA – Independent Advisor to MM Capital Partners Co., Ltd.
- Since 2020** Liepāja Bulk Terminal, LSEZ, SIA – Member of the Board, Head of Business Development and Investments
- 2011–2020** EY – Senior Manager, Transaction Advisory and M&A
- 2010–2011** Baltic International Bank – Head of Investment Department
- 2009–2010** Maximus Advisors – Director, M&A
- 2008–2009** KPMG – Associate, Corporate finance (Budapest)

### EDUCATION

- 2002–2006** B.A. in Business Administration and Finance, International University Concordia Audentes (Estonia)

Doesn't own any shares in AS "Conexus Baltic Grid".  
Independent Member of the Supervisory Council.



## NORMUNDS ŠUKSTS

AS "CONEXUS BALTIC GRID" MEMBER OF THE SUPERVISORY COUNCIL

Born in 1973

### CAREER

- Since 2020** AS "Conexus Baltic Grid" – Member of the Supervisory Council
- 2019–2019** AS AIF "Hipo Fondi aktīvu pārvalde" – Chairman of the Board
- 2003–2013** VAS "Latvijas Hipo tēku un zemes banka" – Head of Finance Management Department
- 2008–2011** AS IPS "Hipo Fondi" – Chairman of the Board
- 2001–2002** AS "Latvijas Centrālais depozitārijs" – Member of the Council

### EDUCATION

- 2015** Chartered Financial Analyst (CFA), CFA Institute
- 1998** Master's Degree in Economics and Management, University of Latvia
- 1996** Bachelor's Degree in Economics and Management, University of Latvia

Doesn't own any shares in AS "Conexus Baltic Grid".  
Independent Member of the Supervisory Council.

# Management Board

GRI 2-9, 2-10, 2-11, 2-12, 2-13

Conexus is managed on a day-to-day basis by its executive body, the Management Board. The operation of the Management Board of Conexus is implemented by three members. Members of the Management Board are elected by the Supervisory Council of Conexus for five years defining their main areas of competence: Chairman of the Management Board (Chief Executive Officer), Member of the Management Board (Chief Technical Officer) and Member of the Management Board (Chief Financial Officer). Division of the main and other responsibilities of the Members of the Management Board is

The Management Board of Conexus organizes its work according to a functional principle: each member is responsible for a specific line of business according to their professional knowledge, experience, and expertise in their respective areas of responsibility:

- 🔥 The Chairman of the Management Board (Chief Executive Officer) is responsible for general management, including strategic management, matters of personnel and legal provision, commercial matters, communications and environmental and occupational safety matters;
- 🔥 The Member of the Management Board (Chief Technical Officer) is responsible for the technical management of gas transmission and storage systems, as well as matters related to technical development and investment management;
- 🔥 The Member of the Management Board (Chief Financial Officer) is responsible for matters related to finance, risk management, information technology (IT), business support and transport.


determined by the organizational structure of Conexus. The tasks and responsibilities of the Management Board of Conexus are regulated by laws and regulations. The principles of operation of the Management Board, as well as the main responsibilities are set out in the Articles of Association and the Regulation of the Management Board. The Members of the Management Board jointly manage Conexus and are independent in their decision-making. Conexus may be jointly represented by two Members of the Management Board. The Members of the Management Board comply with the restrictions imposed on them by laws and regulations with regard to entering into transactions, holding offices, and shareholdings in other commercial companies.

On December 27, 2023, Supervisory Council of Conexus adopted decision to elect Rinalds Dimiņš, Head of Inčukalns UGS, as the Member of the Management Board of Conexus for the term of office of five years, effective from January 1, 2024. Office of the Member of the Management Board (Chief Technical Officer) Gints Freibergs expired on December 31, 2023.

## The main duties of the Management Board of Conexus are to:

- 🔥 manage and represent Conexus;
- 🔥 manage Conexus' property;
- 🔥 develop proposals for Conexus' medium-term operational strategy and business plan;
- 🔥 implement Conexus' management and implementation policies, medium-term operational strategy, business plan;
- 🔥 ensure achievement of the operational objectives for Conexus set for the current year and approved by the Supervisory Council;
- 🔥 prepare reports for the Supervisory Council of Conexus and the Shareholders' meeting on the operation of Conexus;
- 🔥 be responsible for the operation of Conexus.





Structural units forming the organizational structure of Conexus have been established according to the division of competences of the Members of the Management Board and subordinated thereto. Each structural unit has its Regulation to follow, approved by the Management Board. Regulation of the structural unit defines the structural unit's subordination, goal, structure, work organization, tasks, authority, duties and responsibilities of the head of the structural unit. According to the regulations of the structural units, the head of the structural unit is obliged to prepare and provide reports regarding fulfilment of the tasks assigned to the structural unit.

Every month, the Management Board is provided with reports on commercial and balancing activities, as well as the financial performance of Conexus. Every quarter, the Management Board examines such reports in the fields material for the Company's operation, for example, on the key performance indicators (KPIs) of Inčukalns Underground Gas Storage and Gas Transmission, containing various indicators including environmental and staff qualification indicators; on security indicators – accidents at work, registered environmental incidents, unauthorized and unlawful activities in the infrastructure objects; on the progress of the investment and information technology projects implemented by Conexus.

Management of sustainability aspects at Conexus is provided by multiple structural units according to their division of competences, which are subordinated to the Chairman of the Management Board.



## ULDIS BARISS

AS "CONEXUS BALTIC GRID"  
CHAIRMAN OF THE MANAGEMENT BOARD

Born in 1965  
[valde@conexus.lv](mailto:valde@conexus.lv)

### CAREER

- from 2020** AS "Conexus Baltic Grid", Chairman of the Management Board
- 2013–2020** AS "Latvenergo", Chief Commercial Officer
- 2010–2020** "Elektrum Eesti", OU Chairman of the Supervisory Board
- 2010–2020** "Elektrum Lietuva" UAB, Chairman of the Supervisory Board
- 2005–2020** AS "Latvenergo", Member of the Management Board
- 2005** AS "Latvenergo", Distribution Network Reorganization Project Director
- 2002–2004** AS "Latvenergo", Director of Economics Department
- 1997–2002** "Lattelekom", Manager of Financial Planning and Controlling
- 1996–1997** "Lattelekom" Head of management's Accounting Sector

### EDUCATION

- 2017** Riga Technical University, Doctor of Science Degree
- 2008** Stockholm School of Economics in Riga, Master of Business Administration Degree
- 2004** University of Latvia, Master's Degree in Economics

**Term of office:**  
from 16.11.2023 until 15.11.2028  
(previous term of office: 16.11.2020–15.11.2023)  
Doesn't own any shares in AS "Conexus Baltic Grid".



## RINALDS DIMIŅŠ

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE MANAGEMENT BOARD

Born in 1975  
[valde@conexus.lv](mailto:valde@conexus.lv)

### CAREER

- Since 2024** AS "Conexus Baltic Grid", Member of the Management Board
- 2018–2024** AS "Conexus Baltic Grid", Head of Inčukalns Underground Gas Storage
- 2016–2018** AS "Conexus Baltic Grid", Head of the Gas Compressors Service, Inčukalns Underground Gas Storage
- 2002–2016** AS "Latvijas Gāze", Head of the Gas Compressors Service, Inčukalns Underground Gas Storage

### EDUCATION

- 2001–2003** Professional Master's Degree in Total Quality Management, Riga Technical University
- 1998–2000** Master's Degree in Sociology, Latvia University of Agriculture
- 1994–1998** Bachelor's Degree in Engineering, Latvia University of Agriculture

**Term of office:**  
from 01.01.2024 until 31.12.2028  
Owns 2 shares in AS "Conexus Baltic Grid"



## MĀRTIŅŠ GODE

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE MANAGEMENT BOARD

Born in 1976  
[valde@conexus.lv](mailto:valde@conexus.lv)

### CAREER

- Since 2018** AS "Conexus Baltic Grid", Member of the Management Board
- 2017** SIA "Narvesen Baltija", Chief Financial Officer
- 2005–2017** SIA "Latvijas Mobilais Telefons", Finance Management Director
- 2000–2005** SIA "Latvijas Mobilais Telefons", Head of Management Accounting Division
- 1998–2000** SIA "Latvijas Mobilais Telefons", Financial Analyst
- 1996–1998** SIA "LATTELEKOM SIA", Financial Analyst

### EDUCATION

- 2008** Stockholm School of Economics in Riga, Executive Master of Business Administration
- 2002** University of Latvia, Master's Degree in Economics
- 2000** University of Latvia, Bachelor's Degree in Economics
- 1995–1997** Stockholm School of Economics in Riga, Business Administration Study Program

**Term of office:**  
from 01.01.2024 until 31.12.2028  
(previous term of office: from 31.12.2017 to 31.12.2023).  
Doesn't own any shares in AS "Conexus Baltic Grid".



## GINTS FREIBERGS

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE MANAGEMENT BOARD

Born in 1959  
[valde@conexus.lv](mailto:valde@conexus.lv)

### CAREER

- 2016–2023** AS "Conexus Baltic Grid", Member of the Management Board
- 1997–2017** AS "Latvijas Gāze", Member of the Management Board
- Since 1984** Employed in gas industry

### EDUCATION

- 1984** Riga Polytechnic Institute, engineer - industrial heat engineer

**Term of office:**  
from 01.01.2021 until 31.12.2023  
(previous term of office: from 22.12.2016 until 31.12.2020).  
Owns 416 shares in AS "Conexus Baltic Grid".

# Remuneration Policy of the Management Board and the Supervisory Council

GRI 2-19

Remuneration and compensation of the members of the Management Board are determined by the Supervisory Council of Conexus taking into account the Remuneration Policy of the Management Board and the Supervisory Council, the principles laid down in the Law on Governance of Capital Shares of a Public Entity and Management of Capital Companies. Thereof, as well as the maximum amounts referred to in the Cabinet of Ministers regulation issued on the basis of this law, balancing the amount of remuneration with the scope of duties of the members of the Management Board. Remuneration of the members of the Supervisory Council is determined by the shareholders of the Company, taking a relevant decision and considering the above mentioned internal and external laws and regulations. All resolutions of the Shareholders' meeting are public and available on the Company's website. Information on the remuneration of the Company's Management Board and Supervisory Council is published in the Company's relevant annual report. Variable part of remuneration for members of the Management Board is determined taking into account achievement of targets set to the Company. Amount of the remuneration is set by a resolution of the Company's Supervisory Council (in relation to the Management Board) and the Company's ordinary Shareholders' meeting (in relation to the Supervisory Council).

The Remuneration Policy of the Management Board and the Supervisory Council stipulates the Management Board and Supervisory Council members' remuneration and variable part thereof. The contract concluded with a member of the Management Board additionally stipulates termination payments and contributions to the private pension plan. Collective agreement does not apply to the members of the Management Board and the Supervisory Council.

In accordance with the Company's Remuneration Policy of the Management Board and the Supervisory Council, the remuneration system is designed to ensure the competencies required to achieve the Company's goals, facilitating the implementation of the Company's mission, vision and strategy, remuneration system balance and competitiveness. The remuneration system is based on the following basic principles:

- 🔥 **fairness** – remuneration is appropriate to the professional qualifications, performance and responsibility of a member of the Company's Management Board or Supervisory Council;
- 🔥 **competitiveness** – the level of remuneration is in line with market trends;
- 🔥 **transparency** – the remuneration system is understandable to the Company's shareholders, members of the Supervisory Council and Management Board, as well as employees;
- 🔥 **motivation** – the remuneration system promotes development and the desire to continue cooperation with the Company.

Remuneration to members of the Supervisory Council for 2023 has been paid according to the period of office. Remuneration paid in 2023 to the Member of the Supervisory Council Yukiko Fujii, who was in office until April 26, 2023, amounted to EUR 6 642.66; remuneration paid to the Member of the Supervisory Council Masanobu Furuya, who was in office from April 27, 2023, amounted to EUR 20 957.34; remuneration paid to the Vice-Chairman of the Supervisory Council Tomohide Goto was EUR 27 840.00; to the Members of the Supervisory Council Normunds Šuksts, Viktors Sentuhovskis, Ivars Moisejs un Zane Āboliņa – EUR 27 600.00 for each of them.

Remuneration paid for 2023 to the Chairman of the Management Board Uldis Bariss was EUR 165 774.97; to the Members of the Management Board Gints Freibergs – EUR 204 540.00 and Mārtiņš Gode – EUR 146 100.00.

# Corporate governance

GRI 2-12, 2-23, 2-24

The Company ensures corporate governance according to the laws and regulations in force in the European Union and the Republic of Latvia, including the Commercial Law, the Law on Governance of Capital Shares of a Public Person and Capital Companies, the Labour Law, as well as the following corporate governance principles: sustainable development, openness and transparency, compliance, performance, horizontal cooperation, professionalism, initiative, growth, four eyes principle, ethics, equal opportunities, communication to stakeholders, high-quality internal communication and reliable external communication.

In order to ensure good corporate governance, Corporate Governance Policy was revised in 2023, and corporate social responsibility matters were introduced and updated in the new version of the policy.

Conexus policies and other internal regulatory enactments stipulate the persons responsible for the implementation and supervision of policies, as well as set the deadlines for updating policies. In general, implementation of policies in the Company is the Management Board's responsibility (except for the Company's Internal Audit Policy, the implementation of which is the responsibility of the internal audit structural unit, and the Company's Risk Management Policy, the implementation of which is the responsibility of the Risk Management Officer), and so is the updating of policies (mostly, the term for revision of policies has been set for at least every three years), whereas supervision of policy implementation is provided by the Supervisory Council. At the same time, according to the division of competencies, each policy has its specific Member of the Management Board who is responsible for the relevant field or under whose authority is the structural unit of the Company which proposes preparation

of the document and the responsible person who, according to their competence, is responsible for the implementation of general principles and guidelines of the relevant policy. Heads of the Company's structural units are responsible for the implementation of the internal control system within the duties and functions delegated thereto (including for the implementation of policies and other laws and regulations in their field of operation), management of the internal control system is performed by the Management Board, supervision – by the Supervisory Council, whereas system efficiency is supervised by the structural unit responsible for the internal audit.

Taking into account the fact that policies determine only the key Company governance or operating implementation and specific system establishment principles, for the purpose of introduction thereof, internal regulatory enactments are issued (regulations, procedures, instructions, including internal regulatory enactments applicable in business relations with external partners, for example, Procedures for the Conclusion of Contracts, Procedures for the Organization of Procurements, Procedures for the Monitoring Sanctions and the execution of Business Deals). When developing or amending internal regulatory enactments, compliance thereof with the Company's key documents and policies is ensured, including by receiving approval of these internal regulatory enactments from the person responsible for the relevant policy. After the entry of a new policy or other internal regulatory enactment into effect, the responsible employee ensures that the employees who are subject to the regulatory enactment in question are aware of their duties and rights arising therefrom. Training is organized, where necessary, including assessing the necessity for and format of training (on-site, online, e-training platform Conexus academy), as well as the training regularity. The Company cooperates

with the Riga Technical University (RTU) to upgrade skills of the Company's employees in the specialized educational programs (see more details in the [Development of employee competence and qualified future workforce](#) section). Necessity and efficiency of the training may be assessed based on whether and how often incompliances in application of internal regulatory enactments are found.

Heads of the first-level structural units inform the Management Board on the progress towards achievement of goals and key events on weekly basis, including if any problems related to implementation of internal regulatory enactments are detected. Regular meetings between the managers and the Management Board are also organized to discuss significant matters and progress of works. Matters affecting all employees are discussed also in the regular online meetings of the Management Board and the employees. Furthermore, during the employee performance evaluation on semi-annual basis, one of the evaluation criteria is compliance with the laws and regulations and internal guidelines of the specific structural unit.

Information on compliance with the principles of human rights can be found in the [Employment relations, employee inclusion and involvement](#) and [Equal and fair treatment sections](#).

## Corporate Governance Code

GRI 2-12, 11.20.3

The Company has assessed compliance with the Corporate Governance Code of Latvia<sup>2</sup>, which was developed by the Corporate Governance Advisory Board established by the Ministry of Justice of the Republic of Latvia. The Code consists of 17 principles that promote a long-term increase in a company's value, its efficient governance and transparency of operations. The Company has concluded that it complies with all the key aspects. See detailed assessment in Annex [No. 1 Performance of the Corporate Governance Code of Latvia](#).

<sup>2</sup> <https://www.tm.gov.lv/en/media/7428/download?attachment>

# Internal audit

GRI-2-12

Internal Audit Department is an independent structural unit of the Company, and its task is to assess and improve the effectiveness of internal control, risk management and governance processes. Internal audit is functionally subordinated to the Company's Supervisory Council, but administratively – to the Management Board. The Internal Audit Department is managed by the Head of the Internal Audit Department with 18 years of experience in internal audit and education in computer systems. The Department employs one senior auditor with 10 years of experience and education in business administration and in management science. Once a year, the Internal Audit Department carries out a training needs assessment, planning 10 business days of training per person. In 2023, employees of the Internal Audit Department participated in training of average duration of 18 days. The professional guidelines for internal audit are set out in the Internal Audit Policy, as well as the definition of Internal Audit, approved by the International Institute of Internal Auditors, the Code of Ethics and the International Standards on Internal Auditing. The activity of internal audit covers all the Company's risks, processes, structural units and employees.

The audit plan for the current year is prepared based on the performed risk assessment and the priorities set by the Company's management, approved by the Company's Supervisory Council. Internal audits are performed in accordance with the

International Standards of the Professional Practice on Internal Auditing. Compliance of the internal audit activity with these standards is assessed by a qualified external assessor every five years. Results of the performed internal audits are reported to the Company's Management Board, which prepares plans for the upgrade of operations, as well as informs the Supervisory Council on the audit results and approved proposals for upgrade of the Company's operations. Internal audit ensures regular monitoring of implementation of the recommendations.

Internal audit activities are reported annually to the Company's Management Board and the Supervisory Council. The report includes information on the audits performed, the assessments of the areas audited, the recommendations made, quality assurance of the internal audit, as well as provides an overall opinion on the effectiveness of the internal control and risk management systems. During the year of 2023, all five pre-planned audits were implemented. In 2023, the Internal Audit Department covered 95 % of all the Company's processes in its audits, taking into account the regularity of the inspections set out in the Internal Audit Policy. The results showed that, in 96 % of the verified processes controls were adequate or minor enhancements were required and in 4 % of these processes an upgrade of internal controls was needed. Recommendations are given for improvements, and follow-up is carried out.

# Risk management

GRI 2-24

The Company considers risk management an integral part of the governance process, which is based on the understanding of each employee of the Company about the transactions under his / her control and the risks associated therewith.

Objectives and basic principles of risk management are determined by the Company's Risk Management Policy approved by the Company's Supervisory Council in 2021, and the risk management process in the Company is provided according to the Risk Management Procedure approved by the Company's Management Board in 2022.

The objective of Conexus' risk management is to establish a common framework of fundamental risk management principles to timely identify and manage key factors negatively affecting the Company's operations and loss of significant opportunities to ensure achievement of the Company's strategic objectives, successful development and minimization of potential financial and reputational damage.

Risk management is implemented as a continuous, unified and coordinated process at all levels of the Company, which is integrated both in the process of strategy development and implementation, and in the day-to-day operations, with the aim to facilitate the performance of the Company's functions, achieve goals and sustainability.

The Company promotes economic activity which is based on honest principles, compliance with the norms of ethics, as well as performs the required actions to prevent risks of corruptive and fraudulent activities and contribute to an improved control environment.

The Company believes that it uses prudent risk management techniques, supports risk management and an internal control system on three lines of defense, an effective operating structure, clear goals, strategies and guidelines that are appropriate to the Company's operations and aim to ensure effective overall risk mitigation.



**In order to ensure effective risk management and monitoring of the internal control system, three lines of defense have been introduced in the Company:**

**1. First line** – primary risk management. The Company's business structural units, including Gas Transmission, Inčukalns UGS, Information Technology Department, Commercial Division are the risk owners and perform primary risk management within the framework of their area of responsibility, identify, assess and analyze risks, develop internal controls and ensure compliance therewith, identify and analyze incidents, report the risks;

**2. Second line** – risk management process supervision and control. Risk management process supervision and control function coordinates and oversees the identified risks, but there are not always necessarily any risk owners, including Human Resources Division, Legal Department, Information Technology Department, Environment and Labour Safety Department, and Information Technology Security Division. Supervision and control of the risk management process is the responsibility of the Risk Management Officer in the Company.

**3. Third line** – provision of independent assurance. This function is performed in the Company by the Internal Audit Department, which is independent both of the Company's structural units ("first line of defense"), and the risk management supervision and control function ("second line of defense"). It provides independent assessment on the risk management, is directly subordinated to the Supervisory Council of Conexus, provides proposals for improving the risk management system.

**The Company analyses all the risks summarized in risk groups according to the responsibility of the managed functions. Risk management includes the following risk groups:**

◆ **strategic and corporate risks**, including strategy risks; regulatory risks; market, competition, economic risks; project management risks; reputation risks; communication risks; personnel management and organizational risks; legal and compliance risks, sanction and transaction performance risks, personal data processing risks;

◆ **information technology and cybersecurity risks;**

◆ **transmission operational risks;**

◆ **storage operation risks;**

◆ **financial risks**, including capital risk; funding risk; currency risk; credit risk; liquidity risk; tax risk; accounting risk, interest rate risk;

◆ **environmental, occupational safety and physical security risks**, including environmental risks; working environment risks; physical security risks;

◆ **risks of fraud and corruption.**

In 2023, the Company performed an annual risk review, the framework of which included assessment and analysis of the most significant risks of Conexus operations in all risk groups, assessing the probability of risk occurrence and impact on strategic objectives, the environment, finances, tariffs, individuals and reputation, as well as determination of the critical control and the necessary risk mitigation measures. The results obtained and the steps taken in risk management process are reported by the Company's Management Board to the Company's Supervisory Council on an annual basis.



Taking into account the performed risk assessments and the previously implemented risk monitoring measures, one may conclude that the risk management is adequate, the risks identified are managed effectively, and the controls in place generally provide a low level of risk. High-value risks were identified mainly in the group of strategic risks, in some cases in the areas of IT and cyber security risks, transmission and storage risks.

**The most significant identified risks:**

- ◆ Gas supply security risk;
- ◆ Risk of impairment of assets;
- ◆ Risk of rupture of gas transmission pipelines;
- ◆ Well fountaining risk;
- ◆ Cyber security risk;
- ◆ Risk of unfavorable energy regulation;
- ◆ Risk of attraction and retention of operationally crucial staff.

Conexus has defined the acceptable level or degree of risk for the most significant risks that the Company is prepared to take when achieving its strategic goals, as well as key risk indicators that provide an early warning of changes in the likelihood or impact of occurrence of a particular risk.

The identified risks are linked to the internal audit system, allowing use of the risk assessments also in the planning of internal audit activities.

## Dividend policy




**The Company's dividend policy is based on the following principles:**






- ◆ Dividends are calculated in accordance with the Law on Governance of Capital Shares of a Public Entity and Management of Capital Companies Thereof, which stipulates that the share of profits to be paid in dividends shall be determined on the basis of the medium-term operational strategy of the capital company, goals of the capital company specified therein and the implementation thereof;
- ◆ The decision on the use of profit and the amount of dividends is made by the Shareholders' meeting of the Company;
- ◆ The approved medium-term operational strategy sets the dividend ratio at 90 % of profits.

# MEMBERSHIP IN INDUSTRY AND PUBLIC ORGANIZATIONS

GRI 2-28

In order to provide quality, sustainable and modern operation of the Company, Conexus is a member of several national and international sectoral organizations.

	No.	Organization	About the organization	Details on the organization
	1	AIB (Association of Issuing Bodies)	Association of bodies issuing certifications of origin with the mission to guarantee European origin of energy.	<a href="https://www.aib-net.org">https://www.aib-net.org</a>
	2	Baltic Institute of Corporate Governance	Baltic Institute of Corporate Governance is a non-profit non-governmental association which involves companies and political leaders to promote the best corporate governance practice in Lithuania, Latvia and Estonia.	<a href="https://www.bicg.eu/home">https://www.bicg.eu/home</a>
	3	Biomethane Industrial Partnership	Biomethane Industrial Partnership is an initiative established by the European Commission with the task to promote policy planning reducing the obstacles of biomethane development, facilitate permit obtaining process, significantly expand biomethane production, promote sustainable use of energy resources, promote cost-effective production, as well as strengthen technological development through research and innovations.	<a href="https://bip-europe.eu/">https://bip-europe.eu/</a>
	4	EASEE-gas (European Association for the Streamlining of Energy Exchange-gas)	European Association for the Streamlining of Energy Exchange EASEE-gas was established in 2002 to develop and promote business practice for simplification and streamlining of gas transmission and trade across the Europe.	<a href="https://easee-gas.eu/">https://easee-gas.eu/</a>

	No.	Organization	About the organization	Details on the organization
	5	EHB (European Hydrogen Backbone)	European Hydrogen Backbone (EHB) initiative consists of a group of thirty-one energy infrastructure operators, which share common vision on climate-neutral Europe ensured by a prospering low-carbon hydrogen market.	<a href="https://ehb.eu/">https://ehb.eu/</a>
	6	ENTSOG (European Network of Transmission System Operators for Gas)	Task of the European Network of Transmission System Operators for Gas (ENTSOG) is to promote and facilitate cooperation between national operators of gas transmission systems (TSO) across the Europe to ensure development of European scale transmission system in accordance with the energy and climate goals set by the European Union.	<a href="https://www.entsog.eu/">https://www.entsog.eu/</a>
	7	GIE (Gas Infrastructure Europe)	GIE represents 68 member organizations from 27 countries uniting gas infrastructure operators across the Europe: operators of transmission pipelines, storage facilities and LNG terminals.	<a href="https://www.gie.eu/">https://www.gie.eu/</a>
	8	LTRK (Latvian Chamber of Commerce and Industry)	The Latvian Chamber of Commerce and Industry is the largest society of entrepreneurs in Latvia with nearly 6 000 members – micro-, small, medium and large companies of all regions and sectors, associations, city business clubs and other business unions. The society represents the interests of entrepreneurs, as well as provides services to have outstanding companies in outstanding business environment in Latvia.	<a href="https://www.ltrk.lv/">https://www.ltrk.lv/</a>
	9	PEP LNK (The World Energy Council Latvian National Committee)	The Committee unites leaders of energy sector across the globe to tackle various problems related to energy systems.	<a href="https://www.worldenergycouncil.lv/lv/">https://www.worldenergycouncil.lv/lv/</a>

# OPERATING SEGMENTS

GRI 2-6, 203-1

## Storage of natural gas

Conexus is the unified natural gas transmission and storage system operator, the structure of which includes Inčukalns UGS, which ensures the injection, storage and withdrawal of natural gas by supplying it to the main gas pipelines.

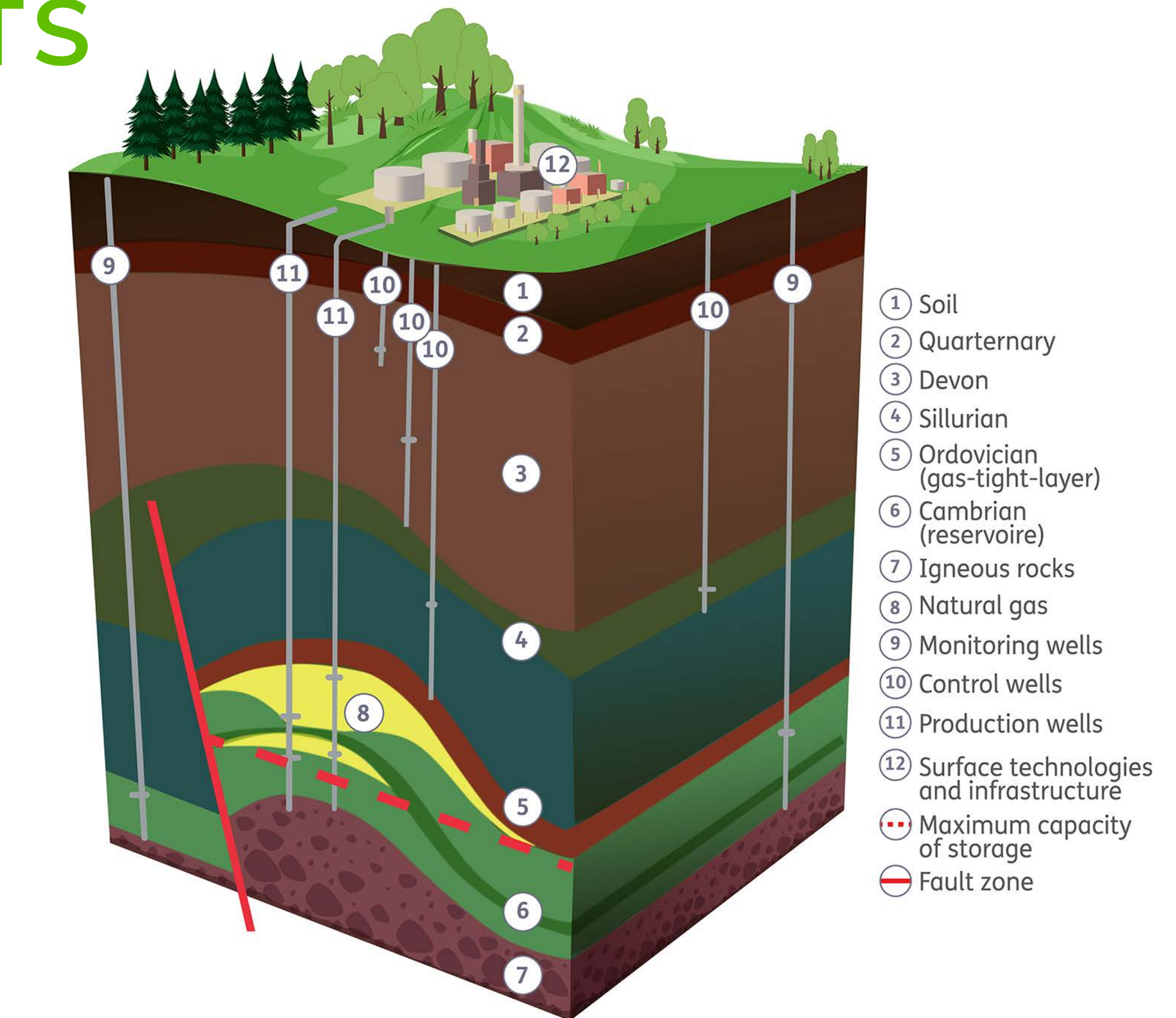
## Characterization of storage facility

Inčukalns UGS, which is a part of the Conexus structure, consists of surface technological equipment, wells and an underground reservoir. The reservoir is a naturally formed Cambrian sedimentary rock in the water-bearing horizon at a depth of approximately 600–750 meters.

The geological layer of Cambrian era sediments crosses Latvia. In Latvia, the porous sandstone sediment of the Cambrian era is characterized by extremely good physical properties, namely, its porosity reaches up to 30 %, which allows a low-cost storage of natural gas.

The central area of Inčukalns UGS and the facilities necessary for ensuring the technological processes – three gas collection points (hereinafter referred to as – GCP) and 180 gas storage wells (control and monitoring wells and 93 operating wells for injection and withdrawal of natural gas) – cover an area of about 8 400 hectares. The area of the geological structure (collector layer) of Inčukalns UGS is ~25 km<sup>2</sup> and belongs to Sigulda, Saulkrasti and Ropaži municipalities. According to the Cabinet Regulation No. 773 dated December 13, 2016 “Regulation on the Determination of the Subterranean Depth Area of National Importance “Inčukalns Natural Gas Storage””, the subterranean depth area covers 83.722 km<sup>2</sup>.

The maximum possible volume of active natural gas to be stored as per Inčukalns UGS technological project is 24.219 TWh, while the maximum technical injection capacity is 178.5 GWh/day. The pressure of the collector layer and the volume of natural gas to be stored therein are influenced by several technological factors,



especially – by the actual filling of natural gas in Inčukalns UGS in previous storage cycles and the intensity of injection during a given storage cycle. System users being guided by the current commercial considerations, stability of the injection mode over the last years has changed significantly.

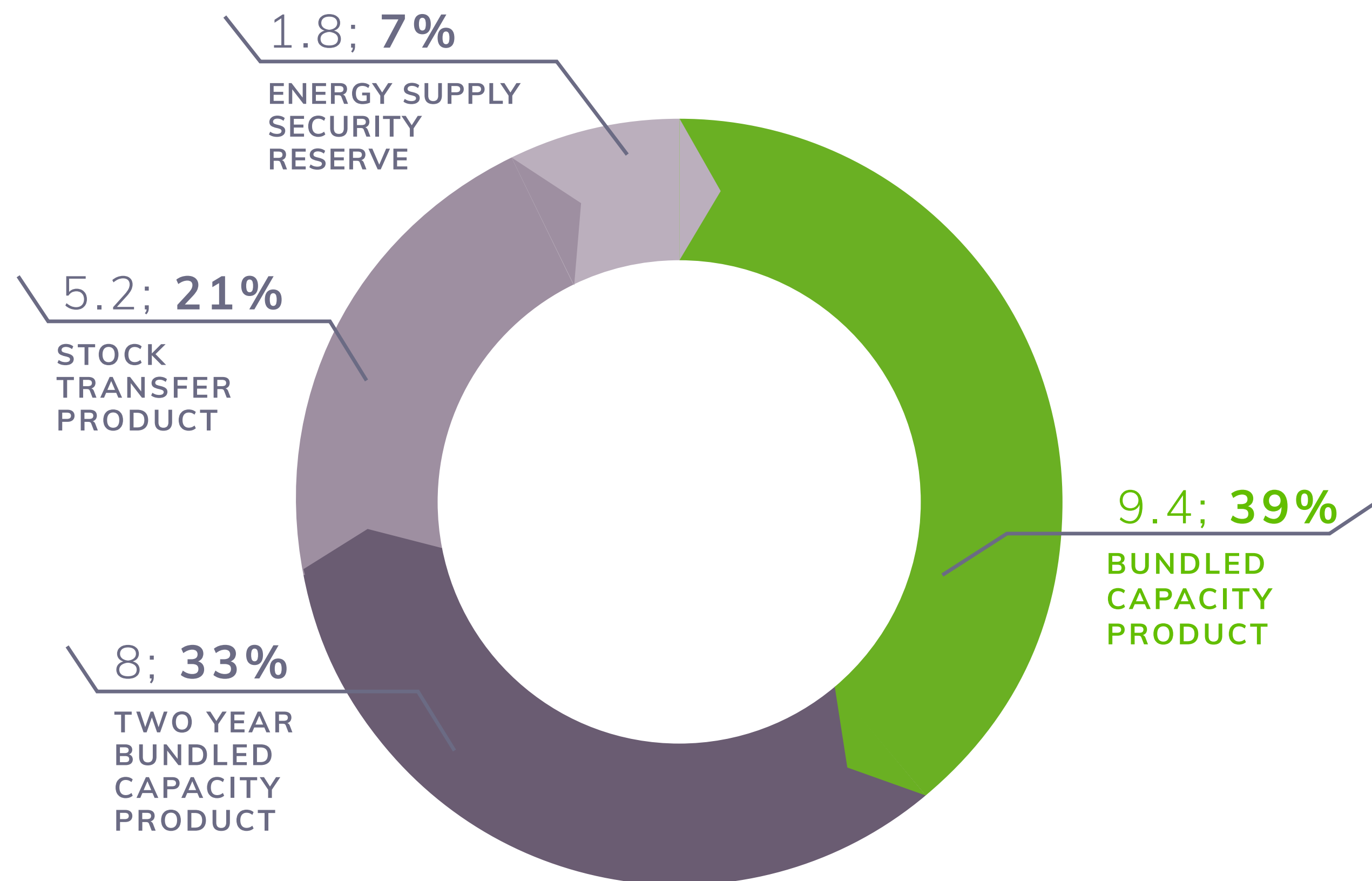
Inčukalns UGS is a complex engineering-geological object whose operation is related to specific risks and operating conditions arising therefrom. Exceeding the maximum allowed pressure in the collector layer (pressure at which the storage top layer remains impermeable) is not permissible. This can lead to gas leaks in the upper layers, i.e., cause gas losses and pollution. Exceeding the maximum allowed injection pressure is also not permissible, since it can cause hydraulic rupture of the collector layer – collapse of the sandstone crystal grid and damage to the surface technological equipment.

## Storage of natural gas

The role of natural gas storage is to ensure a constant supply of gas to consumers, regardless of seasonal fluctuations in consumption, by injecting natural gas in the summer and withdrawing it in the winter. Inčukalns UGS is the only functioning underground gas storage facility in the Baltic States, ensuring the stability of gas supply to the region since 1968.

Natural gas is injected into Inčukalns UGS by means of compressors, and withdrawal is mainly carried out by the pressure difference created during injection. With the opening of the natural gas market and the development of the regional market, the role of Inčukalns UGS has increased, improving both the flexibility of supply and the security of gas supply in the region. In the common natural gas market, Inčukalns UGS promotes competition among suppliers and ensures the stabilization of natural gas prices in the region.

## Booked capacity by products for 2023/2024 storage cycle, TWh



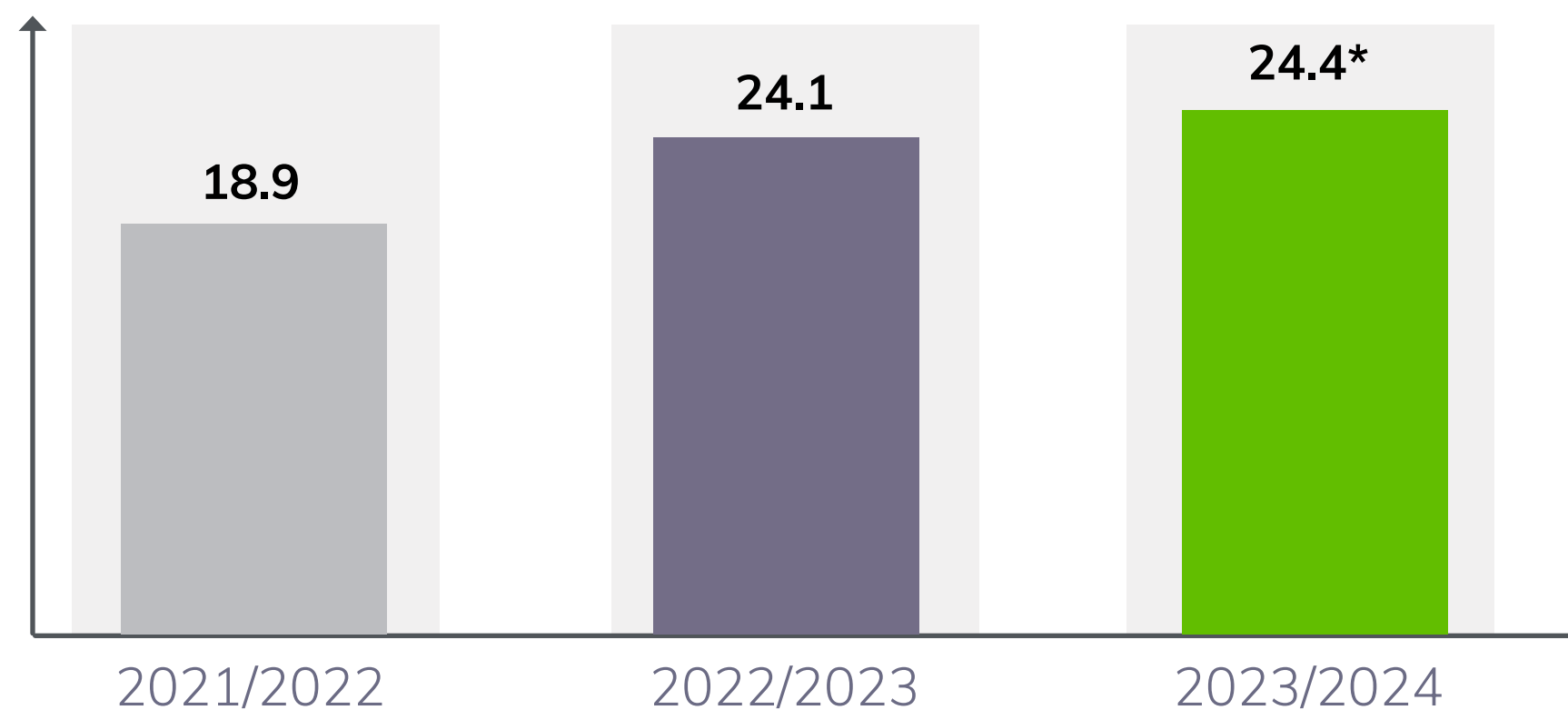
### Conexus as the storage operator:

- Ensures continuous operation of Inčukalns UGS by monitoring and controlling stability of the storage facility, monitoring the facility and preventing damage to the infrastructure, and investing in the development and safety of the storage facility;
- Ensures fair and equal access for system users to Inčukalns UGS providing them with the opportunity to store natural gas in accordance with the terms of use of Inčukalns UGS approved by the PUC.

The type of storage capacity booking is an auction procedure with a single premium, which provides transparency of the capacity booking according to the market situation and equal access to storage services.

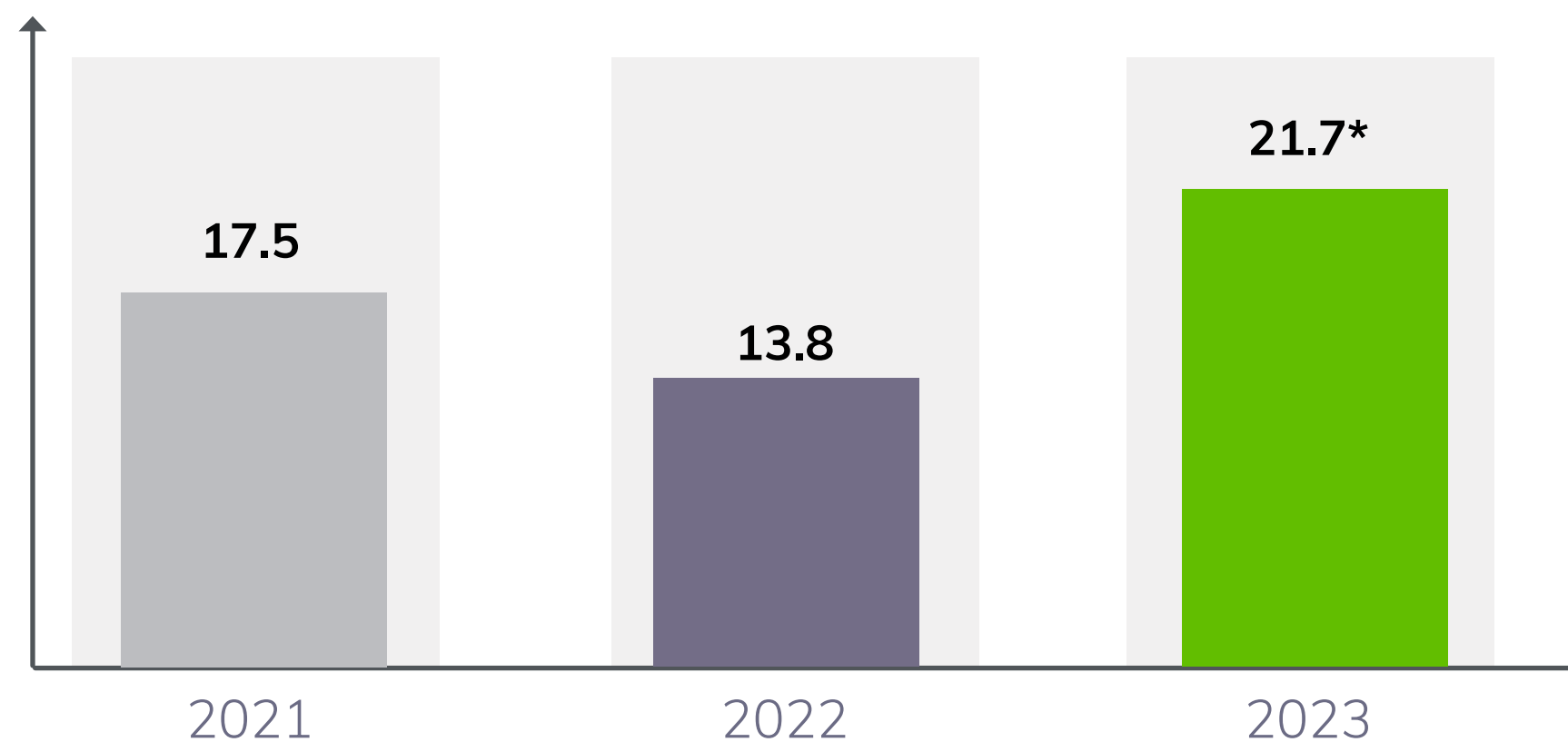
The storage capacity of 24.4 TWh, including energy supply security reserve 1.8 TWh is fully booked for 2023/2024 storage cycle.

### Amount of booked capacity at Inčukalns UGS, TWh/storage cycle



\* including energy supply security reserve 1.8 TWh

### Amount of natural gas stored in the storage facility at the beginning of the withdrawal season, TWh



\* including energy supply security reserve 1.8 TWh

# Development

On January 23, 2019, the European Commission approved 50 % co-financing for modernization of the storage facility. The investments will significantly strengthen the importance of Inčukalns UGS as a modern and significant natural gas infrastructure not only in Latvia, but also in the Baltic region and Finland.

The objective of the Inčukalns UGS development project is to improve the operation of the storage facility to ensure its functionality even after the increase in pressure in the Baltic gas transmission system, as well as to reduce dependence of the storage facility's operational capability on the amount of natural gas reserves

during the withdrawal season, and to reduce environmental impact of the facility's technological processes. A new compressor will be installed within the framework of the project to allow compression withdrawal from the storage facility, namely, it will ensure possibility to provide an output pressure of up to 50 bar in Inčukalns UGS interconnection with the transmission system and independent gas flow, even if the pressure in the storage reservoir is lower than in the transmission system. In order for the wells and surface technological devices to operate at sufficient capacity in the new mode, certain improvements are required, which form an integral part of this project. Besides, the project will reduce the environmental impact of the storage facility by reducing the volume of CO<sub>2</sub>, NO<sub>x</sub> and other emissions.

## Inčukalns UGS development project

The total costs of the project amount to EUR 99.5 million. The following activities are planned therein by 2025:



Co-financed by the European Union  
Connecting Europe Facility

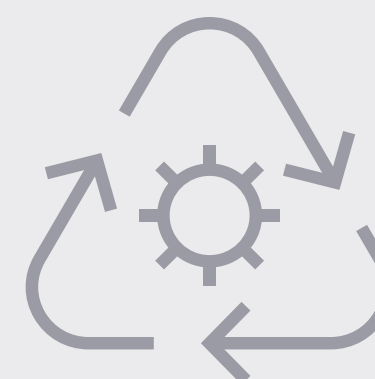
**IMPROVEMENT OF SURFACE EQUIPMENT (RECONSTRUCTION OF THE GAS COLLECTION POINT NO. 3)**

**30.5**  
million euro



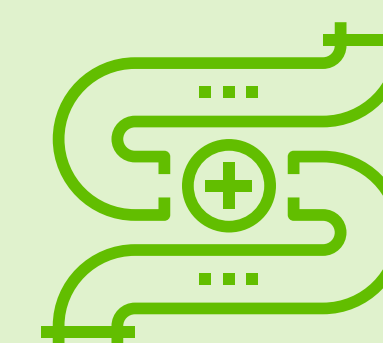
**RESTORATION OF 36 WELLS**

**25.5**  
million euro



**MODERNISATION OF THE EXISTING FIVE GAS COMPRESSION UNITS AND INSTALLATION OF ONE ADDITIONAL NEW GAS COMPRESSION UNIT**

**43.5**  
million euro.



# Transmission

Conexus is the unified operator of the natural gas transmission and storage system, which ensures the maintenance of the natural gas transmission system, its safe and uninterrupted operation, and interconnections with the transmission systems of other countries, enabling system users to use the natural gas transmission system for natural gas trade.

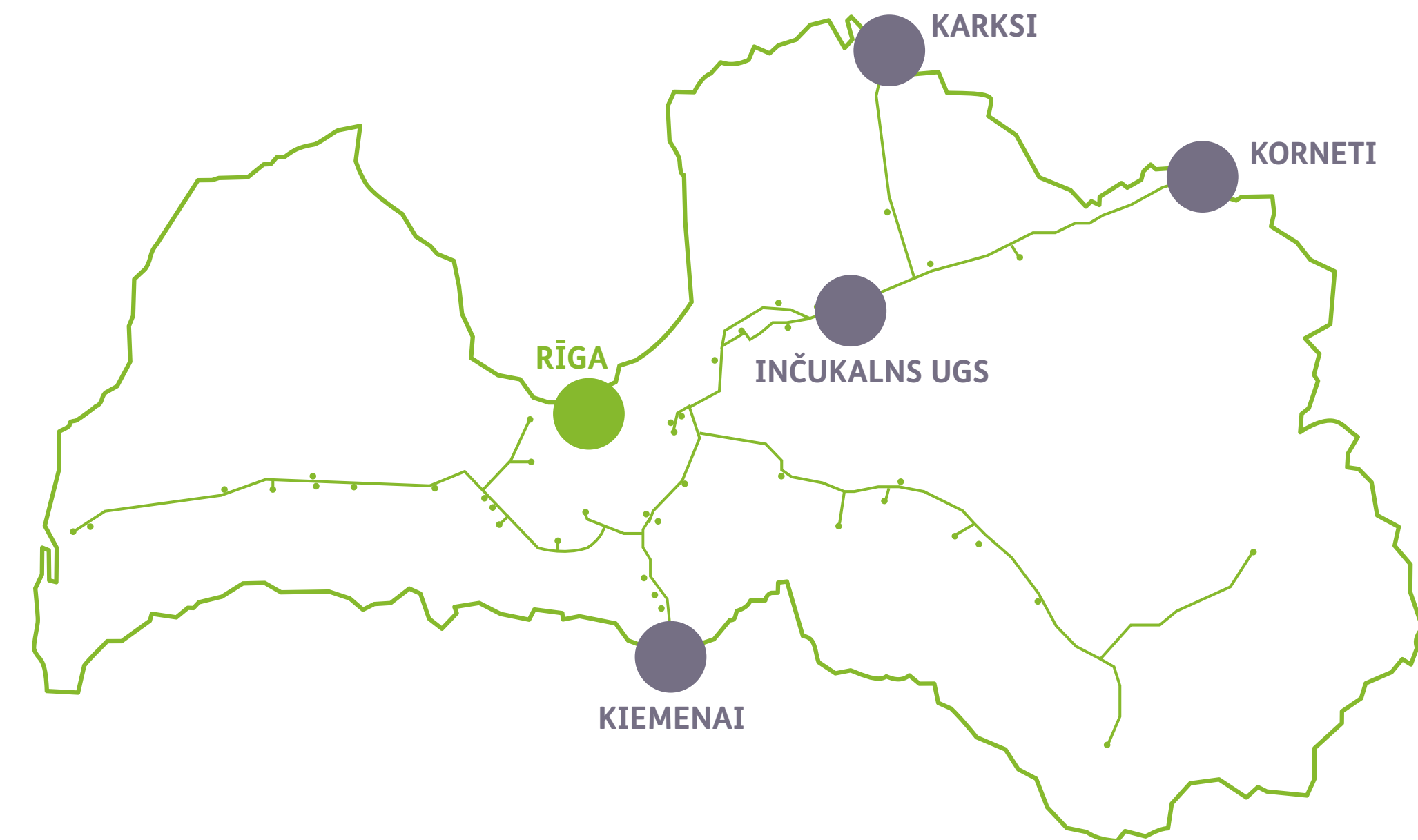
The Company's modern natural gas main transmission system is 1 190 km long and connected directly to the natural gas transmission systems of Lithuania and Estonia, ensuring both natural gas transmission by regional gas pipelines in the territory of Latvia and connection with the natural gas transmission systems of neighboring countries using interconnections.

Nominal diameter of the gas pipelines of the transmission network of the Latvian natural gas transmission system ensuring gas transmission to the neighboring countries is DN700 mm with an operating pressure within the range of 28 to 50 bars, while nominal diameter of the regional gas pipelines is from DN100 mm to DN500 mm with an operating pressure of up to 35 bars. 40 gas regulation stations are used to deliver natural gas to the local distribution system in Latvia.

## Conexus as the transmission system operator:

- Ensures stability of the transmission network and is responsible for the technical balancing that provides uninterrupted and secure supply possibilities to network users;
- Ensures continuity of natural gas transmission service provision by maintaining the infrastructure in technically sound condition;
- Provides network users with non-discriminatory access to the use of the gas transmission system by offering transmission capacity products, in accordance with the conditions of the Latvian open natural gas market for the traders to be able to use the capacity of the main transmission networks for wholesale and supply of natural gas to customers;

## Natural gas transmission system of Latvia



- Together with the Estonian operator Elering maintains a virtual trading point (VTP) in the common natural gas transmission system balancing zone of Latvia-Estonia, enabling system users to exchange gas in the system commercially.

In 2023, the total volume of the transmitted natural gas reached 29.1 TWh, a decrease of 7 % compared to the previous year (in 2022 – 31.4 TWh). Volume of natural gas transmitted for the needs of Latvian users (volume of natural gas injected in the natural gas distribution system) has also decreased by 7 % and amounts to 8.2 TWh (in 2022 – 8.8 TWh).





## Development



**Co-financed by the European Union**

**Connecting Europe Facility**

At the end of 2019, the European Climate, Infrastructure and Environment Executive Agency (previously – the Innovation and Networks Executive Agency) approved the allocation of funds for the Lithuanian-Latvia gas pipeline capacity increase project planning a total investment of EUR 10 million, of which EUR 5.5 million was allocated to Conexus. The European Commission provided EU support under the Connecting Europe Facility (CEF) for increase of capacity of the Latvian-Lithuanian gas pipeline interconnection in the amount of 50 % of the project implementation costs. The project was completed in 2023. Within the project, Conexus implemented 17 sub-projects in Latvia, such as rebuilding of several valve nodes, branch lines to GRS and GRS connections to the pipeline. Prior to the project, the capacity of the cross-border point was limited to 67.6 GWh/d from Lithuania to Latvia and 65.1 GWh/d from Latvia to Lithuania. From 13 November 2023, following the implementation of the project, the capacity was increased to 90 GWh/d in the direction towards Latvia with a possible dynamic increase to approximately 100 GWh/d and to 82 GWh/d in the direction towards Lithuania with a possible dynamic increase to approximately 100 GWh/d. Under special transmission system operating conditions and within a limited period of time, the system operators can provide technical capacity of up to 130 GWh/d in the direction from Lithuania to Latvia and up to 119 GWh/d – in the direction from Latvia to Lithuania.

In 2023, the PUC approved the natural gas transmission system development plan for 2024–2033 drafted by Conexus. The goal of Conexus' development plan is to ensure sustainable and safe operation and development of the infrastructure through investments in renovation of the existing natural gas transmission system and building of new transmission system elements, as well as to facilitate development of renewable and low carbon gases. The development plan provides for investments amounting to approximately EUR 120 million during the period from 2024 to 2033.

# Common natural gas market

On January 1, 2020, common natural gas market started the operation uniting the gas transmission system operators in Finland, Latvia and Estonia, creating a common entry tariff zone. Creation of such a zone resulted in cancellation of payments for crossing the internal borders of member states of the common natural gas market, and a common transmission system entry tariff to its external borders was set, thus facilitating competition among gas traders within the entire common natural gas market. Although the gas transmission operator in Lithuania has not joined the common entry tariff zone, its activities are closely integrated with the operators of the other Baltic States and Finland.

The year of 2023 was different in comparison to the assessment of the period since the opening of the natural gas market in 2017. 2023 was the year that saw creation of a completely new natural gas supply model for the region of the Baltic Sea countries. According to the Energy Law, from January 1, 2023, the ban on Russian natural gas imports entered into effect. Similar restrictions came into force in other countries already in 2022. As a result, in addition to the Klaipėda liquefied natural gas (LNG) terminal operating since 2014, supplies and regasification were commenced in the spring in the Inkoo LNG terminal in Finland.

Auctions of Inčukalns UGS capacities for 2023 commenced on March 1 and resulted in the entire available capacity being fully booked and determining a single premium for users above 3 EUR/MWh. Altogether 18 market participants from the three Baltic States, Finland, Norway, Germany and Switzerland participated in the auctions and allocated the storage capacity.

Along with the stabilization of supplies and corresponding decrease in the natural gas prices in Europe, users actively injected natural gas into the storage facility, thus

providing filling at a level close to the maximum. Having regard to the possible entry capacities in the common natural gas market and injection capacity in the storage facility, in 2023, no injection congestions were detected and nominations of the system users were fully met.

On October 8, 2023, an accident happened in the Baltic Sea, when the underwater gas pipeline “Balticconnector” connecting Finland and Estonia was ruptured. Closure of “Balticconnector” did not affect gas supplies to the consumers in Estonia, since Estonia is still able to receive natural gas from Inčukalns UGS. Whereas Finnish consumers are provided from the Inkoo liquefied natural gases terminal. Latvian gas supply system operated without interruptions, and gas availability to the system users was provided in full.

Despite the decrease in natural gas prices in Europe in 2023, natural gas consumption in Latvia and the region in general continued to decrease. The main reasons include reorientation of natural gas consumers to other energy sources after the price rise in 2022. Consumption in Latvia in 2023 reached 8.2 TWh which is 7 % less than in 2022. Significant role in this decrease was played by the hydrologic situation in the River Daugava – at the beginning of 2023, snow-break led to high level water affluence in the River Daugava, as a result of which the water resources were used for the production of electricity, decreasing the demand for natural gas.

On May 1, 2023, natural gas market for households was opened for free competition. Three traders became actively involved in this segment: the existing household supplier “Latvijas Gāze”, “Latvenergo”, as well as “Elenger”, a subsidiary of the Estonian trader “Eesti Gaas” in Latvia. Competition led to lower prices for consumers but did not affect the natural gas consumption.

# CONEXUS' STRATEGIC SUSTAINABILITY FRAMEWORK

GRI 2-29, 2-4, 3-1, 3-2

The Company has developed a Corporate Governance Policy with the aim of taking the most appropriate actions to promote implementation of the Company's strategy and sustainable development, as well as to integrate social and environmental aspects into its business and stakeholder relations.

## Most significant sustainability aspects

In order to upgrade sustainable development, define the framework and most significant aspects of sustainability, the Company performed a materiality analysis of the sustainability aspects in 2020, involving representatives of all major stakeholder categories. Within the framework of the working group, stakeholder categories were defined and, in consultation with the responsible structural units of the Company, specific organizations and their representatives to be involved in the evaluation process of the significant sustainability aspects were identified. The evaluation was carried out on the relevant environmental, social and governance aspects, considering the views of stakeholders, compliance with management evaluation, trends of other industry players and opinions of external experts. Sustainability, energy, and society experts from universities, non-governmental organizations, business organizations and specialized consulting firms took part in the analysis. A total of 250 stakeholders and experts from around 200 organizations were addressed by sending an invitation to participate in the Conexus' survey of affecting parties on sustainability. 104 external stakeholder answers and 150 answers from employees were received. A discussion took place between the leaders of the groups affected by Conexus' activities, whose decisions and opinions affect the Company, through an online survey and individual interviews conducted by neutral third-party consultants.

In 2023, a review of the significant sustainability aspects was carried out within the framework of the Company's management group (including the Management Board and the Supervisory Council), resulting in amendments to the position of aspects on the Company's impact axis in accordance with the current trends affecting the Company. The importance of the aspects "Employee competence, qualified future workforce" and "Fair and transparent remuneration" was increased in the materiality scale.

## MAIN CATEGORIES OF STAKEHOLDERS:

Customers, business community	Energy professionals and other gas companies (from Latvia and neighbouring countries)	Suppliers (infrastructure and office products and services)	Public sector (policy makers, regulators)	Environmental and social NGOs, local governments and community organizations	Financial institutions	Educational and scientific institutions	Owner/shareholder, Supervisory Council	Employees and trade union
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### TYPE OF INVOLVEMENT: Online survey and interviews to assess the relevance of sustainability

Business relations	Business relations, networking	Business relations	Meeting with representatives (as required)	Meeting with representatives (as required)	Meeting with representatives (as required)	Joint projects	Supervisory Council meetings, seminar sessions (as required)	Involvement and satisfaction survey
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## MAIN EXPECTATIONS REGARDING PRIORITY ASPECTS OF SUSTAINABILITY:

Prevention of land, air and water pollution	Secure energy supply, network access	Security and safety	Security and safety	Responsible use of materials and waste management	Network security and safety	Sustainable energy solutions (transition to low carbon / renewable energy and innovation in the field)	Fair and ethical corporate governance, prevention of corruption	Competence of employees and availability of qualified future workforce
Secure energy supply, network access	Security and safety	Secure energy supply, network access	Competence of employees and availability of qualified future workforce	Competence of employees and availability of qualified future workforce	Fair and ethical corporate governance, prevention of corruption	Competence of employees and availability of qualified future workforce	Network security and safety	Health and safety of employees
Fair and ethical corporate governance, prevention of corruption	Health and safety of employees	Health and safety of employees	Secure energy supply, network access	Prevention of land, air and water pollution	Secure energy supply, network access	Protection of biodiversity and the natural environment	Health and safety of employees	Network security and safety
Network security and safety	Prevention of land, air and water pollution	Competence of employees and availability of qualified future workforce	Energy efficiency and reduction of carbon / methane emissions at work	Network security and safety	Competence of employees and availability of qualified future workforce	Network security and safety	Competence of employees and availability of qualified future workforce	Secure energy supply, network access
Transparent public communication, active involvement of stakeholders	Energy efficiency and reduction of carbon / methane emissions	Prevention of land, air and water pollution	Sustainable energy solutions (transition to low carbon / renewable energy and innovation in the field)	Health and safety of employees		Sustainable purchases	Secure energy supply, network access	Sustainable purchases

Environmental aspects - green colour. Employment and workplace aspects - yellow colour. Service responsibility aspects - blue colour. Governance aspects - grey colour

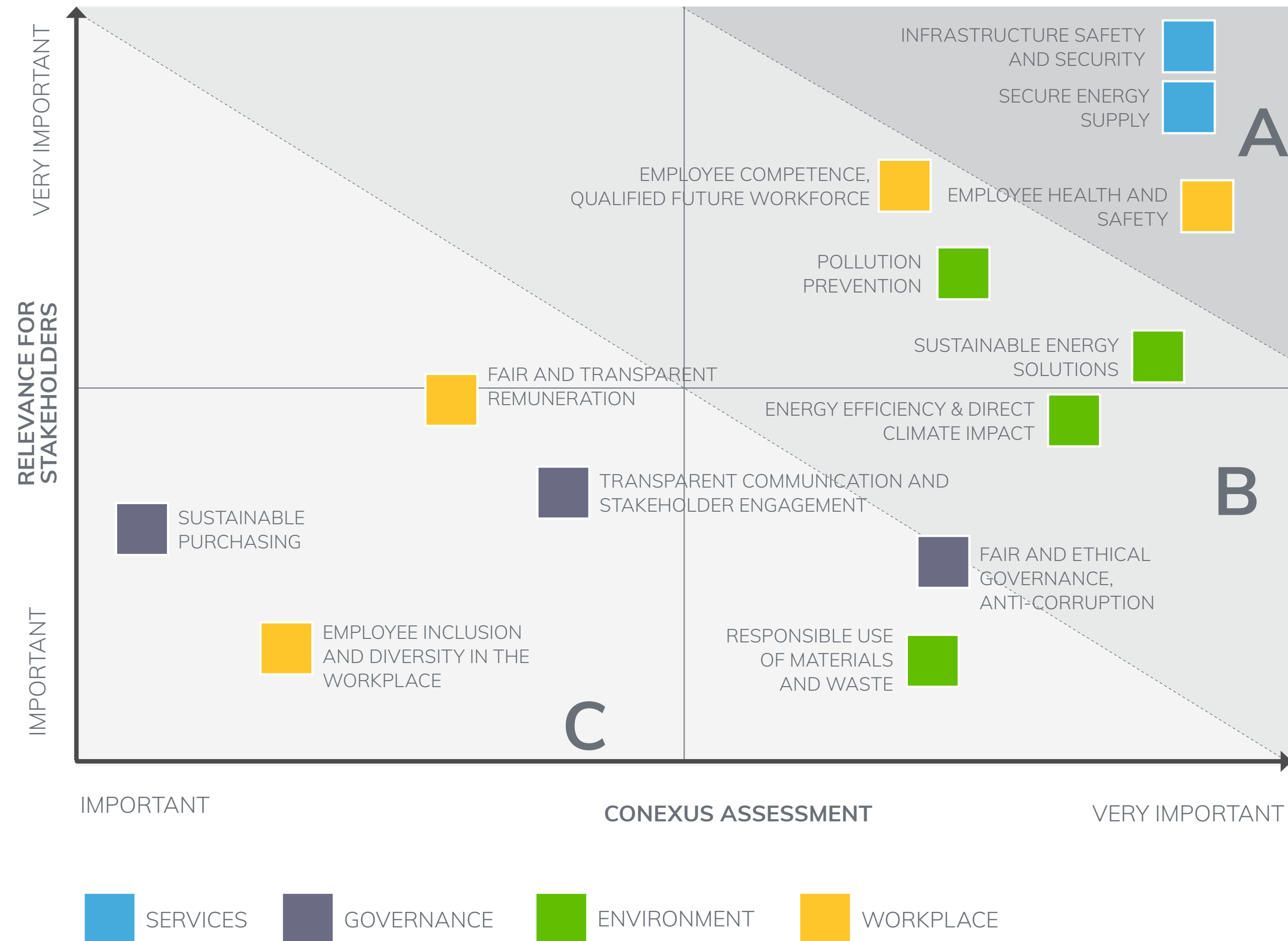
## Sustainability materiality matrix

**A** - priority aspects that ensure safe and continued provision of the service

**B** - field of aspects where Conexus should contribute to reducing its environmental impact and facilitates a change in its business model

**C** - field of aspects that contribute to Conexus' openness, fairness and stakeholder involvement

THE MATRIX ENCLOSED BELOW SHOWS THE PRIORITY LEVEL OF EACH ASPECT:



# RESPONSIBILITY FOR SERVICES

## Infrastructure security and safety

GRI 416-1, 416-2, 11.3.3

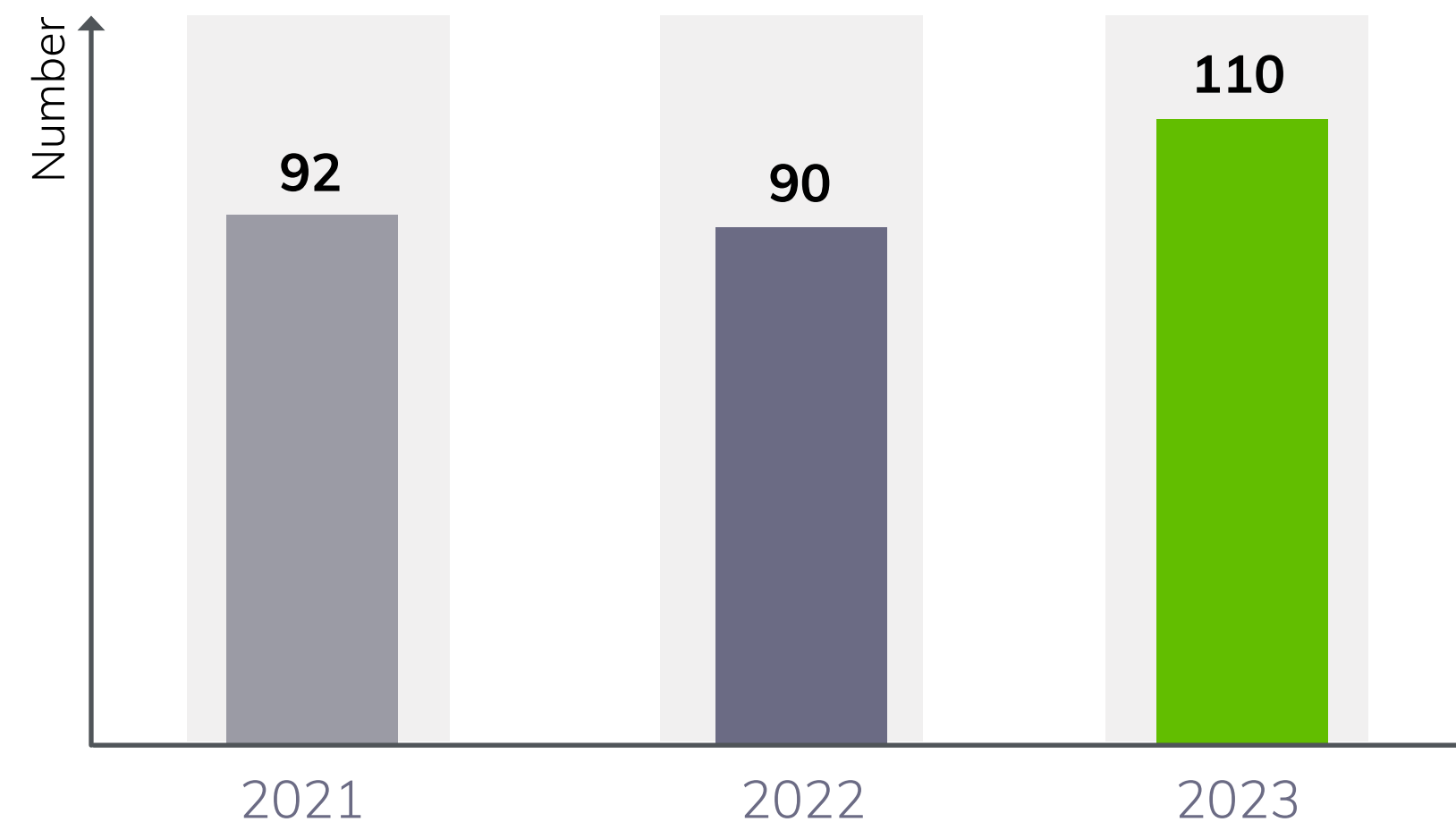
**Secure, accessible and market-compliant infrastructure is one of the Company's strategic goals, arising from the services provided by the Company. The technical order of systems and equipment, regular diagnostics and compliance with occupational safety requirements are the main factors that determine the level of occupational safety. The Company is constantly improving technological solutions to streamline inspection and monitoring processes, and significant investments are made in the development of the infrastructure.**

The Occupational Health, Safety and Environmental Management Policy and the Asset Management Policy form the basis for reliable operation of the transmission and storage infrastructure:

- the Company has in place a security management system, a plan for measures to reduce the risk of industrial accidents, civil defense plans and an operational continuity plan for cases of threat to national security;
- Conexus adheres to binding standards and requirements for asset maintenance, inspection, diagnostics and repair;
- the Company has established work procedures and instructions for transmission and storage system diagnostics and analysis, operation and maintenance (e.g., repair), and effective operation (e.g., emergency and accident response) that ensure identification of potential hazards;
- employees are regularly informed and trained on occupational safety issues;
- civil defense trainings are organized every three years together with other organizations involved.

Emergency preparedness trainings are conducted at least every three months in accordance with approved emergency response plans. In 2023, 110 trainings took place (in 2022 – 90). The Company follows the practical application of the policies developed and no cases of non-compliance have been identified.

**Number of emergency preparedness trainings**



Protection zones have been established around the Company's infrastructure where construction or human activities unrelated to that infrastructure are not permitted. The Company maintains high security requirements and investigates threats and incidents. 4 material violations of protection zones were detected in 2023 (in 2022 – 3), unauthorized excavation works, logging works, and illegal construction were performed in the gas pipeline safety protection zone. Furthermore, several cases of placement of work equipment in the gas pipeline protection zone were detected and subsequently resolved by contacting the landowners. After detection of the violations, the Company responded rapidly and eliminated the aforementioned violations in cooperation with the involved parties.

Inčukalns UGS is classified as an industrially hazardous object due to the volume of chemical substances (methanol, natural gas) stored in it. In order to protect the surrounding residents and the environment from possible industrial risks, protection zones of different areas have been established in the storage facility. Equipment for the prevention of explosions, fires and accidents is available at the site, as well as a range of measures to handle dangerous situations is in place. One of the most important safety tools is the reporting and monitoring technology implemented at Inčukalns UGS, as well as agreements concluded with qualified emergency response and prevention organizations.

On October 26, 2023, local practical civil defense and disaster management training with hazard imitation was organized at

Inčukalns UGS. The training involved state emergency services, Sigulda Municipality and other state authorities and legal entities, including international well emergency situation prevention organization "Haliburton". During the training, a natural gas leak with ignition from a well was imitated.

In 2023, modernization of physical security and fire safety systems of Inčukalns UGS and Gas Transmission's infrastructure continued, and the process will continue also in 2024. In 2023, the gas measuring station "Korneti" and physical security systems in the central area of Inčukalns UGS were upgraded. Work has been commenced on upgrading the physical security systems of gas regulation stations.

In accordance with the Company's emergency management and notification procedures, level 3 and level 4 incidents involving technical damage to equipment, power outages, impact on the environment, or individuals are classified at the highest level. In 2023, no level 4 incidents were registered (in 2022 – 0). In 2023, one level 3 incident was registered – disruptions of power supply with the duration exceeding 4 h, resulting in reduction in injection capacity (in 2022 – 0). In 2023, no level 2 incidents were registered (in 2022 – 0). 3 140 incidents of lower level were detected (in 2022 – 2 173). Significant increase in the number of lower level incidents can be explained by commencement of active full-scale use of the management system, which enabled identification of all the possible incidents not detected in the previous years during the gradual implementation of the system.



# Secure energy supply

GRI 203-1, 11.14.4

According to the services provided by the Company – natural gas storage and transmission, the Company’s strategic task is to guarantee a secure and uninterrupted energy supply, contributing significant investments for this purpose. The Company ensures transparent, equal and stable access to transmission and storage services.

Measures taken and initiated by the Company for secure supply of energy:

- 🌱 maintenance and upgrade of appropriate technical, information technology and cyber security infrastructure;
- 🌱 implementation of a digital asset management system and EU projects of common interest;
- 🌱 independent internal system diagnostics and reduction of detected incidents, striving to completely prevent incidents;
- 🌱 optimized maintenance planning to reduce capacity restrictions;
- 🌱 establishment of a common balancing zone with Estonia;
- 🌱 regular monitoring and evaluation of supply and demand trends;
- 🌱 integration of the well emergency plan into the civil defense plan;
- 🌱 coordination of repair plan and coordinated publishing of urgent market messaging (UMM) on a single website with the neighboring transmission system operators;
- 🌱 development and improvement of third party access and balancing rules – capacity booking, nomination, balancing, invoicing, timely and correct market information;

- 🌱 open communication with market participants;
- 🌱 extended cooperation with the regional operators to ensure security of supply.

In 2023, investments were made in the total amount of EUR 33.6 million. Detailed information on the investments made in 2023 is included in the annex “Segment Information” to the financial statements.

	2023	2022	2021	2020	2019
Transmission supply performance (%)	100 %	100 %	100 %	100 %	100 %
<small>Ratio of completed and total approved nominations</small>					
Supply performance at Inčukalns UGS (%)	100 %	100 %	100 %	100 %	96.87 %
<small>The indicator is calculated by including the interrupted quantity above the guaranteed minimum volume within the congestion management of Inčukalns UGS</small>					
Number of unplanned changes in transmission capacity	39	150	27	17	41
Number of substantiated customer complaints received	0	0	0	0	0
Number of significant (Level 3 and 4) incidents related to IT systems	0	0	0	2	1
<small>According to the Company’s Emergency management and notification procedure</small>					



# Digitalization of processes

CXS-4

Conexus medium-term strategy sets strategic goals according to Conexus values, vision and mission. In addition to strategic goals, Conexus determined also horizontal goals closely related to all the planned medium-term activities. One of these horizontal goals supplementing strategic goals and facilitating achievement thereof is the digitalization of processes and cyber-security. The following activities were performed within the framework of digitalization processes in the Company in 2023 to improve the company's operations and provide a safer or more efficient service:

## 1. Improvement in physical security

Physical security, video surveillance and fire detection systems were replaced in several Conexus objects providing centralized collection of information and automatic responding to triggering system sensors. The introduction of this system improved safety of the service provided. Replacement of system will continue also in 2024 and 2025.

## 2. Replacement of SCADA system

The design phase was developed and approved for replacement of the SCADA system, preparing for the activities to be taken in the following periods for the actual replacement of the system, thus improving the system's stability against the cyber-security threats and improving the security of the service provided. Key activities for the system replacement will continue in 2024, with complete replacement of the system being foreseen by the end of 2025.

## 3. Launching an artificial intelligence (AI) pilot project

The main goal of the project is to test the practical options for the use of AI for the achievement of particular goals: firstly, use of AI for the search of technical documentation and parameters and obtaining answers to reduce the time required of engineers or other technical staff; secondly, use of AI for the summarization of requirements of internal regulatory enactments to reduce the time required of supporting staff to find the answers. In 2023, technical infrastructure was prepared, and the first tests for the processing of technical documentation by using AI were launched.

## 4. Linking of information on physical assets and asset accounting

Information on physical assets and asset accounting was linked, thus providing the technical staff with faster access to information on the remaining value of the technical asset. The linking of new assets in accounting and newly installed technical assets was ensured.



# ENVIRONMENTAL RESPONSIBILITY

GRI 2-27

The basic principle of Company's environmental management is to assess the environmental impact of the activities carried out and to plan and implement measures to mitigate the impact. The Company has implemented an environmental management and energy management system to ensure sustainable and environmentally friendly operation and development of natural gas storage and transmission systems, as well as to reduce the environmental risks associated with the operations. The implemented management systems are based on the requirements of the environmental management standard ISO 14001 and on the requirements of the energy management standards ISO 50001, which are duly certified. An internal audit is conducted annually to randomly test the employees' understanding and performance of work in accordance with the requirements of the standards. Compliance with these standards is voluntary but it demonstrates a responsible company's attitude towards the environment and its efforts to reduce resource consumption as much as possible.

Great attention is paid to managing environmental aspects and impacts in natural gas transmission, for which six certificates of category C polluting activity have been received and the seventh certificate has been received for administrative site, for natural gas storage in an underground gas storage facility with a permit for category B polluting activity and a permit for greenhouse gas emissions. Conexus participates in the European Union Emissions Trading System.

All activities are carried out in accordance with the conditions specified in the permits and certificates. Pollution is monitored and compliance with the limit values set for pollutants is controlled. The Company pays a natural resources tax for the pollution caused.

In 2023, no violations against the environment were detected (in 2022 – 0), and the conditions set in the environmental laws and regulations were complied with.

## Impact on climate and energy efficiency

GRI 11.1.1, 11.11.1

### Greenhouse gas emissions and reduction thereof

GRI 305-1, 305-4, 11.1.5, 11.1.8

The main greenhouse gas emissions (GHG) resulting from and related to the Company's operations are methane (CH<sub>4</sub>) and carbon dioxide (CO<sub>2</sub>) emissions. Both direct methane emissions from the repair and daily operation of natural gas transmission and storage systems and carbon dioxide and incomplete combustion emissions from combustion equipment at gas regulation stations, combustion equipment, including compressors, for the provision of underground gas storage processes, as well as combustion equipment for heating purposes are sources of Conexus' greenhouse gas emissions. Greenhouse gas emissions are caused by planned activities.

During the natural gas transmission process, methane emissions result from release of natural gas from various technological equipment before repair works, operation of natural gas pneumatic valves, inspection of pneumatic regulators, purging of natural gas purification equipment, leakage of natural gas, operational needs of gas quality points and elimination of hydrate formations. When natural gas is burned for technological needs and space heating, carbon dioxide emissions are produced during the natural gas transmission process.

During the natural gas storage process, methane emissions occur by starting-up of gas engine driven compressors, purging pipelines, releasing condensate from various technological equipment, partially reducing the gas pressure in gas pipelines and equipment, releasing air-gas mixture from gas purification equipment (system), opening and closing of valves, and conducting geophysical surveys. Emissions also occur as leakages at compressor seals, leakages in the valves of the gas pipeline sections, leakages in fountain fittings, annular gas leaks, releasing gas from gas engine driven compressors and the gas-air cooling facilities. When natural gas is burned for technological needs and space heating, carbon dioxide emissions are produced during the natural gas storage process.

The annually most significant source of methane emissions is the natural gas emitted during the repair works of the natural gas transmission system, however, in 2023, a larger amount of methane emissions was emitted by the operation of Inčukalns UGS – direct emission, leakage and incomplete combustion. The most significant source of carbon dioxide is operation of the gas compression units, when injecting natural gas into the storage facility.

Volume of direct greenhouse gas emissions in the Company\*:

	2023	2022	2021	2020	2019
<b>Direct greenhouse gas emissions (CO<sub>2</sub> and CH<sub>4</sub> emissions), tonnes CO<sub>2</sub> equivalent</b>	<b>54 758</b>	<b>35 080</b>	<b>55 423</b>	<b>59 607</b>	<b>59 083</b>
of which CO <sub>2</sub> emissions	30 711	20 771	27 714	27 390	32 037
of which CH <sub>4</sub> emissions (converted to CO <sub>2</sub> eq.)	24 044	14 309	27 707	32 209	27 041
<b>Greenhouse gas emission indicator at Inčukalns UGS, kg/thousand m<sup>3</sup>, (CO<sub>2</sub> and CH<sub>4</sub> emissions converted to CO<sub>2</sub> eq.)</b>	<b>35</b>	<b>33</b>	<b>32</b>	<b>32</b>	<b>30</b>
Indicator = GHG emissions from processes at Inčukalns UGS (CO <sub>2</sub> kg/g + CH <sub>4</sub> kg/g = GHG emissions expressed as CO <sub>2</sub> eq. (kg))/volume of natural gas injected into Inčukalns UGS (1000 m <sup>3</sup> /year)					
<b>Greenhouse gas emission indicator in gas transmission system, kg/thousand m<sup>3</sup>, (CO<sub>2</sub> and CH<sub>4</sub> emissions converted to CO<sub>2</sub> eq.)</b>	<b>3.3</b>	<b>1.3</b>	<b>4.3</b>	<b>5.0</b>	<b>4.6</b>
Indicator = GHG emissions from processes in transmission system (CO <sub>2</sub> kg/g + CH <sub>4</sub> kg/g = GHG emissions expressed as CO <sub>2</sub> eq. (kg))/volume of natural gas transmitted through transmission system (1000 m <sup>3</sup> /year)					

\* In 2023, through the upgrade and increased accuracy in recording direct emissions, all of the volumes of emissions included in the table and the respective indicators were slightly updated. Information reported previously is available in the Sustainability and Annual report 2022.



Compared to the previous years, volume of greenhouse gas emissions has increased, which is both directly and indirectly related to the increase in scale of operations which depend on the demand for injection of natural gas into the underground storage. In 2023, compared to the previous years, a larger volume of natural gas was injected into Inčukalns UGS; correspondingly, technological equipment was operated and more emissions were emitted.

Increased GHG emission indicator at Inčukalns UGS in 2023 is related to both an improved recording of methane emissions and an increase in the volume of CO<sub>2</sub> emissions. Although the modernization of gas compression units in the Gas Compressor Station No. 2 was completed in 2023, in relation to necessity for flexible operation, according to the market demand, the volumes of gas injection fluctuated within a rather broad range and were hard to predict, thus preventing the equipment from being operated at the highest level of efficiency in relation to the environmental pollution (reduced volume of CO<sub>2</sub> emissions per volume of injected natural gas). Methane emissions have a higher impact on climate than CO<sub>2</sub> emissions, and improving the recording also affected the volume of greenhouse gas emissions. Correspondingly, the previous values of indicators were not affected to such an extent by the volume of methane emissions known by then.

The indicator of greenhouse gas emissions in the gas transmission system compared to the indicator of 2022 has increased, since the volume of methane emissions has increased. The volume of

methane emissions directly depends on the scheduled repair works of gas pipelines and, accordingly, the volume of the blown, released natural gas. Accurate planning of works takes place in the gas transmission to avoid or reduce natural gas emissions as much as possible, but, in contrast to the previous year, in 2023, scheduled repair works were performed, which were not fully implemented in 2022, therefore, compared to 2019–2021, it may be concluded that the value of the indicator 2023 in a typical year of operation shows good efficiency of operations – the indicator's value for the greenhouse gas emissions in relation to the transmitted volume of natural gas is reduced.

The CO<sub>2</sub> emissions are calculated by applying the national methodology "Methodology for Calculation of CO<sub>2</sub> Emissions from Stationary Combustion of Fuel"<sup>3</sup>. The volume of methane emissions is calculated by using the methodologies of natural gas technological losses, approved by the Company in 2017, and direct emission measurements and calculations are performed using specific emission factors. For the calculation of CO<sub>2</sub> emissions, information on the quantities of natural gas burned in the equipment and the factors specified in the methodology are used, while the quantity of methane emissions is determined and calculated on the basis of the technical documentation of the equipment and physicochemical parameters of natural gas. For the purposes of calculation of the total volume of greenhouse gases in terms of CO<sub>2</sub> equivalent, methane emissions are multiplied by 28<sup>4</sup> times the impact on climate compared to CO<sub>2</sub> emissions.

<sup>3</sup> <https://videscentrs.lv/gmc.lv/lapas/gaisa-piesarnojums>

<sup>4</sup> [https://www.ghgprotocol.org/sites/default/files/ghgp/Global-Warming-Potential-Values%20%28Feb%2016%202016%29\\_1.pdf](https://www.ghgprotocol.org/sites/default/files/ghgp/Global-Warming-Potential-Values%20%28Feb%2016%202016%29_1.pdf)



In order to reduce the volume of blown natural gas as much as possible and to make efficient use of the natural gas in the gas pipelines to be repaired, the repair works to be performed in the transmission system are carefully planned. Scheduled replacement works of outdated equipment, and regular inspections and prevention of leaks in the underground gas storage infrastructure are performed to minimize methane emissions. The Company develops a methane emission reduction plan within the framework of which it considers the possible technological improvements for the reduction of methane emissions. The Company constantly works to find more efficient solutions, evaluating the best available technical solutions for technological improvements to find ways to reduce greenhouse gas emissions.

**The most important measures and development projects related to this are:**

- ◆ Inčukalns UGS compressor 12z330 modernization project aimed at reducing NO<sub>x</sub>, CO<sub>2</sub>, and CH<sub>4</sub> emissions and improving energy efficiency;
- ◆ Gas collection point enhancement project at Inčukalns UGS with the aim to reduce CH<sub>4</sub> emissions;
- ◆ Repair works of the natural gas transmission network are constantly planned to reduce CH<sub>4</sub> emissions, and equipment of the gas regulation stations are upgraded to improve energy efficiency.

In light of the fact that methane is a powerful greenhouse gas, reduction of its emissions may slow down the climate change. The Company has been actively following the methane emission management and reduction initiatives and continued working on improving the recording of methane emission sources and volume of emissions in 2023.



# Operational energy consumption and energy efficiency improvement

GRI 302-1, 302-3, 11.1.2, 11.1.4

The Company's energy management system covers the areas of natural gas storage and transmission, which are mainly related to the consumption of natural gas in natural gas combustion equipment, electricity consumption in electricity-consuming equipment, energy resources for operation of road transport and machinery. In order to continuously improve the Company's energy efficiency, energy consumption is monitored, and annual energy efficiency improvement targets are determined, as well as measures for the achievement thereof.

## Annual energy consumption and indicators for the Company's energy consumption\*:

	2023	2022	2021	2020	2019
<b>Total energy consumption in the Company, MWh</b>	<b>167 505</b>	<b>122 930</b>	<b>161 437</b>	<b>161 318</b>	<b>183 566</b>
electricity consumption, MWh	6 203	4 947	5 522	5 889	5 610
thermal energy consumption (natural gas for heating and technological processes), MWh	158 854	115 543	153 465	152 901	175 378
fuel consumption, MWh	2 448	2 440	2 450	2 528	2 578
<b>Energy consumption indicator of underground gas storage</b>	<b>0.0114</b>	<b>0.0102</b>	<b>0.0105</b>	<b>0.0101</b>	<b>0.0104</b>
Indicator = natural gas consumption for the provision of processes at Inčukalns UGS (m <sup>3</sup> /year)/volume of injected natural gas into Inčukalns UGS (m <sup>3</sup> /year)					
<b>Energy consumption indicator of natural gas transmission</b>	<b>0.046</b>	<b>0.048</b>	<b>0.054</b>	<b>0.050</b>	<b>0.053</b>
Indicator = natural gas consumption for the provision of transmission system processes (m <sup>3</sup> /year)/ volume of natural gas transmitted in the gas regulating stations (m <sup>3</sup> /year)					

\*The amount of energy consumption in the table has been slightly updated. Information reported previously is available in the Sustainability and Annual report 2022.

The main energy resources in natural gas storage are natural gas and electricity, which are consumed to provide technological processes when injecting natural gas into the underground gas storage. Whereas the main energy resource for the provision of natural gas transmission processes is natural gas, which is consumed to ensure the technological processes of natural gas transmission. Information on consumed electricity is obtained from the electricity supplier, while information on thermal energy is calculated in terms of MWh using the monthly calorific value of natural gas.

Considering the fact that the main energy resource used to provide the technological processes carried out by the Company is natural gas, energy consumption indicators have been developed, which are expressed as natural gas consumption in relation to the volume of natural gas injected into Inčukalns UGS and volume of natural gas consumed for technological needs of transmission service in relation to the volume of natural gas transmitted in the gas regulating stations.

The energy consumption indicator of Inčukalns UGS has increased in 2023 compared to 2022: although modernization of gas compression units in the compressor station No. 2 was completed in 2023, resulting in decrease in natural gas consumption during efficient operation of the units by at least 5 %, in relation to necessity for flexible operation, according to the market demand, when volumes of gas injection fluctuated within a rather broad range and were hard to predict, the equipment was prevented from being operated at the highest possible level of efficiency with regard to natural gas consumption and the volume of natural gas to be injected.

The energy consumption indicator of gas transmission in 2023 has decreased compared to 2022. In order to transmit natural gas, warming up is necessary, which is provided by using technological equipment consuming natural gas. When regulating processes or setting them in automatic mode, a smaller amount of natural gas is consumed for the provision of process. Improvement is provided also by the ongoing measures for thermal insulation of equipment of gas regulation stations (thermal insulation of heat exchangers and heat carrier pipelines) and replacement of combustion equipment with more efficient one.

# Pollution prevention

## Air pollutants

GRI 305-7, 303-2, 11.3.1, 11.3.2

Other air pollutants caused by the Company's activities include nitric oxide (NO<sub>x</sub>) and carbon monoxide (CO). These emissions result from the provision of natural gas transmission and storage operations combusting natural gas in technological equipment and heating boilers to provide heat supply. Combustion of natural gas produces the pollutants CO<sub>2</sub>, CO, and NO<sub>x</sub>. Assessment of the amount of these emissions is determined and governed by laws and regulations. No emissions of other pollutants in the air (sulfurous oxide (SO<sub>x</sub>), persistent organic pollutants (POPs), volatile organic compounds (VOCs)), hazardous air pollutants, or solid particles (PM) have been identified as a result of the Company's operation and are not possible due to the specific nature of the operation.

Nitric oxide and carbon monoxide emissions:

	2023	2022	2021	2020	2019
NO <sub>x</sub> emissions, tons	57	32	45	57	53
CO emissions, tons	74	57	83	118	105

The quantities of CO and NO<sub>x</sub> emissions are determined using a calculation methodology. In order to obtain a permit for polluting activities issued by the State Environmental Agency, in 2022, according to the regulatory enactment, the Company updated the draft emission limit for the specifically used combustion equipment at Inčukalns UGS, developed in 2018, which was approved by the State Environmental Agency in 2023. As a result, recording of the emission volume of such pollutants was specified. By 2023, calculations were performed on the basis of then applicable calculation methodology which did not reflect the actual volume of NO<sub>x</sub> emissions, which was higher, but, along with the implementation of modernization project

of gas compression units in the compressor station No. 2, was significantly reduced. Emissions of these pollutants are affected by a number of factors; and the volume of natural gas injected should be mentioned as the most important one. The more natural gas needs to be injected into the underground gas storage facilities, the more natural gas will be burned in the technological equipment and the more pollutants will be emitted. Small and medium-sized combustion equipment that burn natural gas and emit air pollutants are also used in the gas regulation stations to ensure the operation of the natural gas transmission system. Compared to the equipment used for the natural gas injection process, the equipment used in the natural gas transmission system is low-capacity heating boilers with higher efficiency resulting in fewer emissions. In the Gas Transmission, replacement of combustion equipment with high efficiency technological equipment is systematically implemented (condensation type heating boilers that consume a lower amount of energy and work with higher efficiency are installed), as a result of which reduction of emissions is also expected. Natural resources tax is paid for the air pollution caused.

The Company continuously upgrades the technologies used and analyses current processes to operate the equipment used at maximum efficiency and produce as few pollutant emissions as possible.

## Wastewaters

According to the technological processes, in providing safe natural gases storage and transmission processes, Conexus generates industrial, production and household wastewater. The underground gas storage also treats the rainwater collected in the territory.

Industrial wastewater is generated when withdrawing gas from the underground gas storage facility: water is separated from the gas, and various chemicals that are a source of water contamination must be used to prevent hydrates. The risk of subterranean depth contamination is prevented by laboratory control of the water separated from gas and then discharging it back into the subterranean depths (by injecting it back into the wells). In the Company, in accordance with the conditions set in the permit for polluting activities and in the license for the use of subterranean depths, the permissible limit has been set both for the volume of such wastewater (650 m<sup>3</sup>/year) and for the volume of pollutants contained therein (methanol in the amount of 90 m<sup>3</sup>/year, diethylene glycol – 15 m<sup>3</sup>/year).

	2023	2022	2021	2020	2019
Volume of industrial (production) wastewater, m <sup>3</sup>	209	275	525	289	222

Compared to the previous year, in 2023, the amount of industrial wastewater has decreased in relation to the withdrawn natural gas, from which reservoir water associated with natural gas in subterranean depths is removed. After removing the natural gas, water is discharged back into subterranean depths as industrial wastewater with a mixture of methanol and diethylene glycol. The volume of wastewater to be discharged and the amount of pollutants in the industrial wastewater is not exceeded.

In addition to industrial wastewater, household and production wastewater is also generated, and rainwater is collected and properly treated in treatment plants installed in the territory of the underground gas storage before discharging it into the environment. Whereas wastewater from the natural gas transmission are transferred to an outsourced service provider.

	2023	2022	2021	2020	2019
<b>Total volume of wastewater, m<sup>3</sup></b>	<b>33 355</b>	<b>31 572</b>	<b>30 307</b>	<b>25 416</b>	<b>33 203</b>
of which created at Inčukalns UGS and discharged into the environment after treatment	31 698	30 360	28 732	24 039	29 054
of which transferred for appropriate treatment to service providers	1 657	1 212	1 575	1 377	4 149

The Company treats household wastewater and rainwater in the territory of the underground gas storage. There is a limit set for the pollution that remains in the environment, which the Company complies with by performing regular monitoring and maintenance of the treatment plants.

All wastewater operations are carried out at Inčukalns UGS in accordance with a permit that specifies the permissible volume of wastewater and the degree of pollution. Furthermore, there are strict requirements to reduce the environmental impact of extraction. In 2023, the Company has not exceeded the set volumes of household wastewater and rainwater and pollutants.

# Responsible use of materials and waste management

## Consumption of chemicals

GRI 303-1, 303-3, 306-2, 306-3, 306-4, 11.5.3, 11.6.2., 11.6.4, 11.8.2, 11.5.4, 11.5.5, 11.5.1, 11.6.1

The hazardous chemicals consumed by the Company in significant amounts and required for the technological operation are motor oil, methanol, diethylene glycol and odorant.

During the gas withdrawal process, in order to prevent the formation of crystalline hydrates in technological communications, methanol is sprayed in natural gas in the winter period, as necessary. The natural

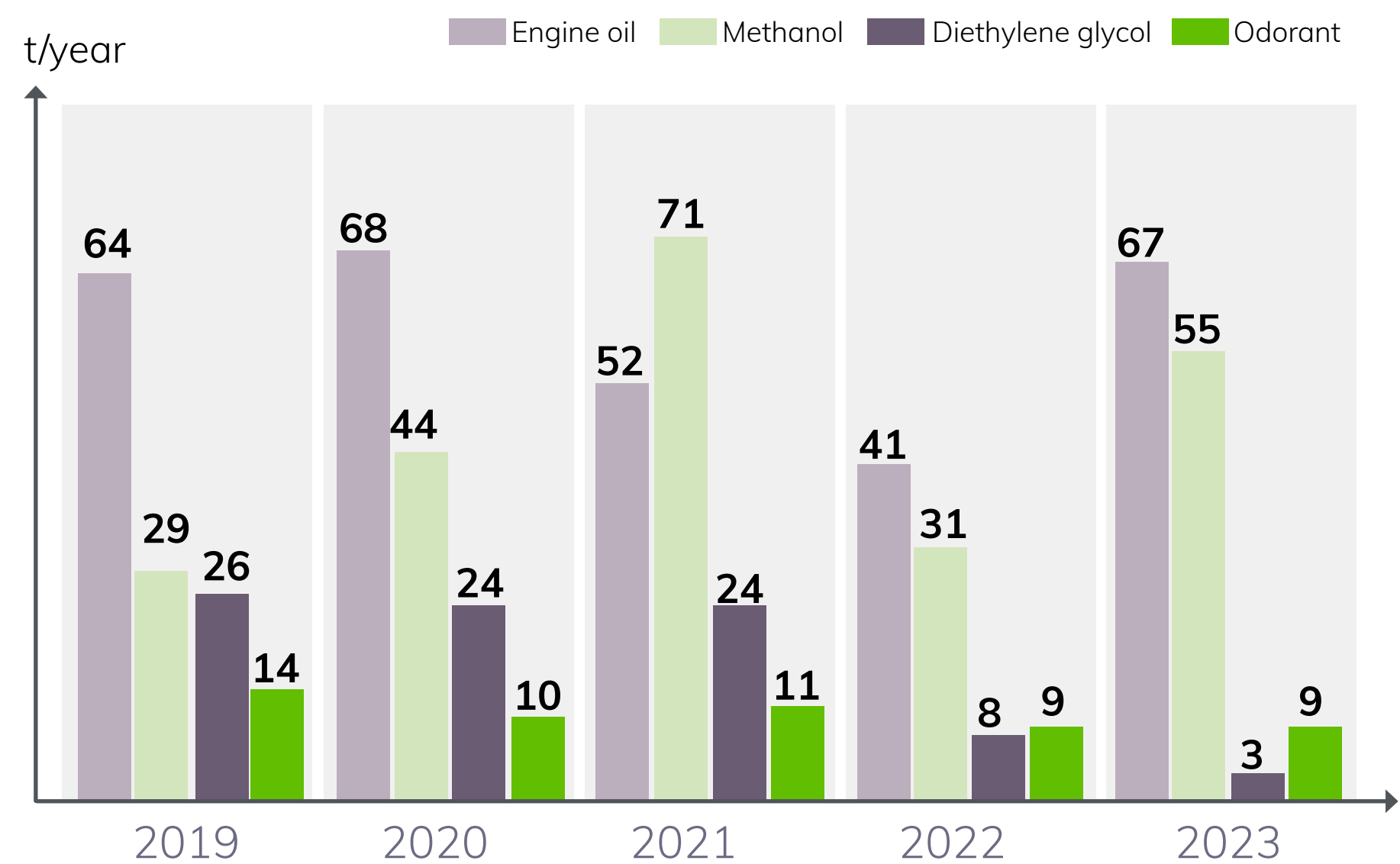
gas is then diverted to a gas dehydration unit where excess moisture is removed from it using diethylene glycol. After drying, diethylene glycol is recovered in an evaporator and reused during the natural gas drying process.

Natural gas is odorless in the transmission system. To make it perceptible to humans, the transmission system operator odorizes it by adding odorant.

Engine oil is mainly consumed to operate the gas compression units.



## Consumption of essential chemicals and mixtures at Conexus, tons



Increase in consumption of essential chemicals in relation to 2022 can be related to an increase in the volume of transmitted, injected and withdrawn natural gas, regardless of the fact of ongoing careful monitoring of technological processes to reduce as much as possible the volumes of the substances to be used. For example, recovery of diethylene glycol is under upgrade to ensure its reuse, which allows reducing its consumption.

The main materials used in the Company are – steel pipes, pipeline insulation materials, various other chemicals and fuel.

Vehicle fuel annual consumption depends on both planned and extraordinary trips related to maintenance of the whole infrastructure.

	2023	2022	2021	2020	2019
<b>Total vehicle fuel consumption, liters</b>	<b>248 610</b>	<b>247 612</b>	<b>250 823</b>	<b>238 649</b>	<b>201 629</b>
Diesel	216 449	221 100	223 588	215 728	179 533
Petrol	29 178	23 905	27 235	22 921	22 096
Compressed natural gas	2 983	2 607	-	-	-

In 2023, shared electric cars were introduced for work trips.

Other hazardous and non-hazardous chemicals and mixtures are also used for the provision of the Company's operational processes; however, their volume and dangerousness cannot be assessed as being as important as that of the aforementioned substances.

No releases of chemicals were detected in 2023 (in 2022 – 0).

## Use of water

In the underground gas storage facility, water is extracted for operational processes and internal consumption from five wells. The maximum possible volume for water extraction for production processes and household needs has been limited to 47 450 m<sup>3</sup>/year.

Household water in gas transmission is purchased from the public service provider. Potable water in the facilities of underground gas storage and natural gas transmission system is purchased from an external supplier.

Meters are used to record the amount of underground water extracted, while information on the volume of water purchased from the external water supplier is provided by the respective supplier.

	2023	2022	2021	2020	2019
<b>Total water supplied*, m<sup>3</sup></b>	<b>8 539</b>	<b>7 926</b>	<b>8 251</b>	<b>9 856</b>	<b>10 755</b>
of which underground water extraction at Inčukalns UGS	6 799	6 624	6 570	8 361	6 502
of which potable water purchased from external supplier	52	45	38	50	45
of which household water purchased from external supplier	1 688	1 257	1 643	1 445	4 208

\* The amount of water supplied has been insignificantly specified in 2023. The information reported in previous years is available in the Sustainability and Annual report 2022.

Consumption of water required for production processes at Inčukalns underground gas storage has been fluctuating. It is not expected to be constant in the coming years, as various projects have been initiated and are underway at the storage facility that involve technological improvements and are aimed at more efficient processes and reduction in resource consumption.

## Waste management

The Company has established procedures for waste management, including contracts for the collection of hazardous waste, separately collected waste and unsorted waste, and cooperates with various partners for appropriate waste management. The Company separately collects the used packaging materials, which are transferred to a participant of the manufacturers' responsibility system. Glass, metal, plastic, paper and cardboard materials generated, as well as construction waste, biodegradable waste, large size waste, and hazardous waste are also collected separately. Every month, information is obtained from waste managers on the amount of non-hazardous household waste (m<sup>3</sup>) delivered, on the basis of which the amount of waste (t) is determined, as well as information for reference as to how much of the waste generated is to be transferred for recycling and landfilling. Information on the amount of hazardous waste (t) is provided by the waste managers to whom the hazardous waste is delivered for further appropriate management, for which they provide information in the State Information System for Record-Keeping of Waste Transportation.

Amount of waste generated by the Company:

	2023	2022	2021	2020	2019
<b>Total weight of hazardous waste generated, tons</b>	<b>121</b>	<b>186</b>	<b>172</b>	<b>111</b>	<b>154</b>
<b>Total weight of non-hazardous waste generated, tons</b>	<b>112</b>	<b>118</b>	<b>112</b>	<b>96</b>	<b>78</b>
Percentage of non-hazardous waste transferred for recycling	29 %	44 %	51 %	33 %	13 %
Percentage of non-hazardous waste transferred for landfilling	71 %	56 %	49 %	67 %	87 %
Scrap metal, tons	0	77	87	164	0
Construction waste, tons	16	42	38	81	13

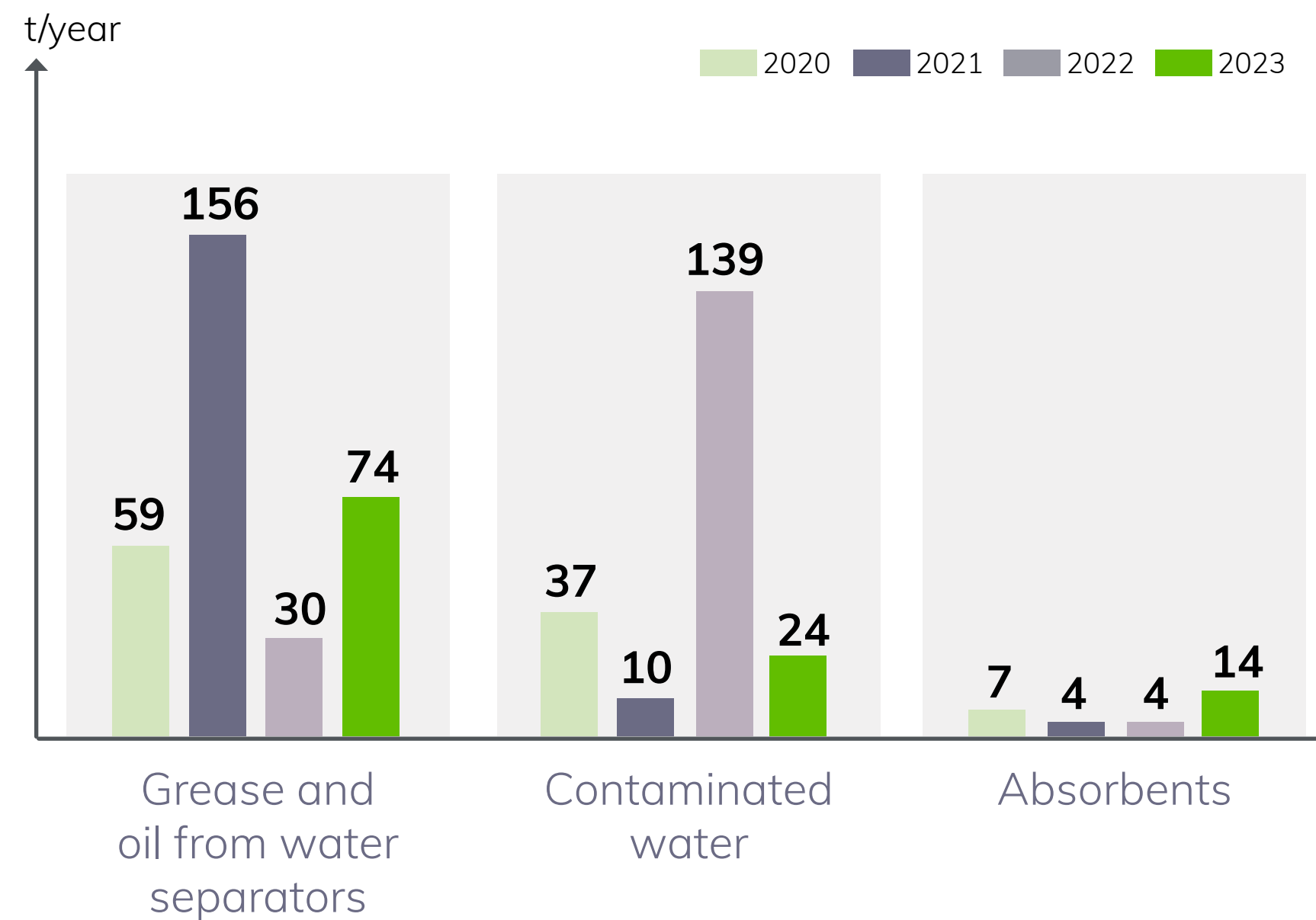
In 2023, the amount of generated household waste, as well as volume of separately collected waste to be delivered for recycling, has decreased in relation to the total generated volume.

The volume of construction waste generated by the Company, as well as the volume of scrap metal, decreases every year, and this can be explained by the practice to order contractors of the planned construction and repair works to provide collection of the waste generated during the works and delivery thereto to waste managers for recycling without using the Company's resources.

Operation of the Company generates different types of hazardous waste which are collected separately. Largest share of hazardous waste consists of contaminated water collected during the technological processes and grease and oils from water separators. The volume of the generated waste partially depends on the maintenance and inspection of the equipment, organized according to individual maintenance plan and not performed every year. Therefore, volumes of the generated waste may significantly vary year by year.

The Company informs and educates its employees on the mandatory nature of separated collection of waste and reduction of hazardous waste, as well as performs periodic controls for the performance evaluation. In 2023, the Company implemented an employee awareness raising measure regarding necessity of separated collection of waste and reduction of waste. However, the most efficient measure for waste reduction is prevention of waste generation. The quantity of the materials purchased is carefully planned to ensure efficient use of materials and prevent surpluses. Generation of waste is one of the environmental aspects assessed in

### Quantity (t) of main hazardous waste generated by the Company



the Company's structural units. The Company keeps moving towards the application of "green procurements", and, where possible, assesses the equipment lifecycle costs within the procurement procedures. Application of such procurement clearly demonstrates the Company's commitment to minimizing its environmental impact and to working with sustainability-oriented partners. The Company is interested in lower consumption of resources and lower waste generation rates, choosing more energy-efficient and sustainable solutions to minimize the negative impact on the environment.

# The challenge for Conexus – transition to a more environmentally friendly energy sector

CXS-1

**Energy sector plays an important role in the society's direction towards a sustainable and carbon-neutral future. In light of Europe's green deal, changes in the EU and national policies, plans and regulations, the importance of climate-friendly and sustainable energy solutions and stakeholder expectations have grown rapidly.**

In the Eastern Baltic region (Finland, Estonia, Latvia, and Lithuania), there was a significant decrease in natural gas consumption in the first half of 2010, caused by overall improvements in energy efficiency related to energy consumption and electricity generation, as well as a transition to greener or renewable sources of electricity and heat, thus reducing consumption of natural gas. In the second half of the decade, gas demand stabilized, mainly due to the impact of climatic conditions and market-driven fluctuations in electricity generation. Because of the Russia's invasion of Ukraine, ban on Russian natural gas deliveries in Latvia is in place since 2023. The rapid growth of natural gas prices caused by geopolitical and economic circumstances, weather conditions, as well as the energy diversification and energy efficiency measures implemented by natural gas consumers reduced national natural gas consumption. Natural gas consumption in Latvia remained relatively low in 2023. It is expected that, along with the stabilization of fluctuations of natural

gas price and synchronization with the power grids of continental Europe, consumption could return back to the level of 2020/2021 as of 2025.

Despite the trends of natural gas consumption, natural gas keeps playing significant role in the Latvian primary energy consumption structure. Majority of consumption is made by natural gas consumers who consume natural gas for the generation of electricity or thermal energy, therefore, natural gas consumption is closely related to fluctuations of air temperature, natural gas prices on the market, as well as to competitiveness of electricity generated using natural gas in the Baltic and Nordic electricity market.

Following the global trends, the Company has considered the risks of energy policy in its assessments, which must be taken into account in the long-term strategic planning.

According to the Conexus' mission, as well as the strategic sustainability goals included in the Company's medium-term operational strategy, the Company is aware of its role in creating a climate-neutral, integrated energy system in the long term, focusing on carbon-neutral and low carbon gases, organizing business processes towards a circular economy.

## CONEXUS' WORK FOR THE TRANSITION TO A GREENER ENERGY SECTOR IS BASED ON THE FOLLOWING PILLARS:



improved understanding, knowledge and competence of the Company's employees;



improved infrastructure ready for the storage and transmission of sustainable gases;



cooperation with other stakeholders interested in development of a sustainable gas market;



participation in national and regional policymaking processes.

There are several ways of diversification of energy resources and provision of their integration into the common energy system. Looking at renewable gases, the Company researches the possibilities of decarbonization, considering the possibility to use biomethane, methane-hydrogen mixture as the main directions, assessing also the development possibilities of pure hydrogen infrastructure. At the same time, initiatives related to carbon capture and storage are also followed, besides, the Company has commenced set up of its own solar energy collector park on the territory of Inčukalns underground gas storage for partial provision of electricity for self-consumption.

### Most significant processes and events in 2023:

◆ A significant achievement of 2023 is full introduction of guarantees of gas origin. In order to certify that biomethane has been produced of renewable energy resources, according to provisions of Section 117<sup>1</sup> of the Energy Law, a producer may require guarantees of origin for the biomethane produced. Since July 1, 2023, the Company is the issuing body of guarantees of origin, and it maintains the operation of the Guarantee of Origin Registry. Furthermore, the Company has developed and approved in a relevant international procedure the Latvian domain protocol for gas which functions as a detailed procedure of guarantees of origin and explains how the international European Energy Certificate System standard has been taken over at national level. The Company ensures availability of comprehensive information on matters related to guarantees of gas origin on its website and regularly consults all the emerging market participants from Latvia, as well as other Member States of the European Union on guarantees of origin and other matters. The Company is ready to issue guarantees of gas origin and is currently waiting for the first users of this system – biomethane producers.

◆ Introduction of smart integrated solutions for the injection of renewal gases into the transmission system: the project provides for arrangement of biomethane injection points which would provide an opportunity for the off-grid biomethane producers (producers with no direct connection to the gas infrastructure) to inject the produced biomethane into the transmission grid without constructing the connecting pipelines from the biomethane production facility to the transmission system. Initially, arrangement of the first point at Džūkste Parish as a pilot project is planned by mid-2025, and, taking into account the experience gained, to subsequently decide on further development of other biomethane injection points.

◆ Adoption of cross-border gas transmission system for hydrogen transportation: completed research of transmission system in cooperation between the gas transmission system operators from Finland, Estonia, Latvia and Lithuania. The research determined the necessary actions and assessed required investments to safely inject hydrogen in the existing gas transmission system. In 2024, operators involved in the project will continue work to agree on further steps.

◆ Feasibility study regarding storage of hydrogen at Inčukalns UGS is a significant project which the Company has commenced to prepare itself for the expected hydrogen market development in the region. In cooperation with a consulting company, the Company has drafted a research project plan to assess readiness of the existing technical assets of Inčukalns UGS for the injection, storage and withdrawal of hydrogen, as well as to determine the amounts of investments related thereto.

◆ Nordic-Baltic hydrogen corridor is a project implemented jointly by transmission system operators from six countries (Finland, Estonia, Latvia, Lithuania, Poland and Germany) – Gasgrid Finland Oy, Elering AS, Conexus, Amber Grid AB, GAZ SYSTEM S.A. and ONTRAS Gastransport GmbH. It aims to create cross-border hydrogen gas transmission infrastructure from Finland to Germany through the Baltic States and Poland. The project of Nordic-

Baltic hydrogen corridor purposefully supports direction towards achievement of national climate goals and those of the European Union (EU). In December 2022, the project partners signed a cooperation agreement on joint direction of the project, whereas, in November 2023, the European Commission assigned status of European project of common interests to the Nordic-Baltic hydrogen corridor. Feasibility study is in progress to ascertain the potential of production and consumption of green and low carbon hydrogen in the region. Experts will provide recommendations as to the scope of the project, pipeline routing, capacities, funding and risk management. It is considered that the hydrogen corridor will provide significant possibilities for the development of energy and the related eco-systems. This will promote development of production of renewable electricity, use of renewable energy sources, accelerate the development of hydrogen economics and promote achievement of the European climate goals. Besides, the project will provide investment opportunities in the industrial and technological innovations throughout the pipeline route, decrease energy transportation costs, create new jobs and provide additional income for the countries.

Production of renewable gases in Latvia is an important aspect promoting energy independence and security. The Company promotes growth of markets for biomethane, hydrogen and other gaseous energy carriers and provides available and safe gas transmission and storage infrastructure.

# RESPONSIBILITY TOWARDS EMPLOYEES AND THE WORKING ENVIRONMENT

## Health and safety of employees

GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-8, 403-9, 403-10, 11.9.1, 11.9.2, 11.9.3, 11.9.4, 11.9.5, 11.9.6, 11.9.7, 11.9.8, 11.9.9, 11.9.10, 11.9.11

The main objective of Conexus' Occupational Health and Safety (hereinafter referred to as – occupational safety) is to prevent accidents and occupational diseases among employees and subcontractors. The Company actively pursues this objective, focusing on the provisions of the Occupational Health, Safety and Environmental Management Policy:

- ◆ Constant compliance with the requirements of laws and regulations, standards, and management systems;
- ◆ Setting effective targets and measures;
- ◆ Maintaining a high level of competence;
- ◆ Maintaining a high level of emergency preparedness;
- ◆ Performing preventive actions;
- ◆ Mutual cooperation and communication.

## Occupational safety management system

Accidents and occupational diseases at the workplace can only be completely prevented if a safe working environment is ensured, therefore, every employee must comply with all the occupational safety requirements. To implement occupational safety measures, the Company has a certified management system, maintained and continuously upgraded in accordance with the requirements of the ISO 45001 standard Occupational Health and Safety Management System. The system is externally certified, thus ensuring regular independent evaluation of a third party. The gas storage system was

initially certified in 2005, and the gas transmission system – in 2019. The certification requirements apply to all areas of activity and employees of Conexus. The system ensures internal monitoring of the working environment, employee awareness of hazards and risks in their daily work, and a high level of responsiveness in an emergency situation.

## Occupational safety culture

The processes of the occupational safety management system enable timely detection of risks, non-compliances, collection of observations and suggestions. Employees are encouraged to report hazardous situations, hazardous acts, non-compliances, or improvements in the field of occupational safety to occupational safety specialists, heads of structural units, trade union, or through a dedicated e-mail address. The information received is registered and managed by means of the Company's electronic document management system which stipulates the necessary actions, responsible persons and deadlines.

In order to enhance occupational safety culture and encourage involvement of employees in dealing with matters related thereto, managers conduct regular safety walks, thus promoting interaction between the management and the staff. In 2023, these rounds were performed in the planned volume resulting in observations and suggestions for improvements submitted by 59 employees (in 2022 – 68).

## Internal control

Internal control is essential. In 2023, several situations related to unsafe working environment or action were eliminated, thus avoiding possibilities of accident or occupational disease. In 2023, all the planned internal audits and assessment of working environment risk were performed resulting in 115 observations and suggestions for upgrade (in 2022 – 167). It must be emphasized that employee safety is a priority for Conexus and employees are responsive to these observations and suggestions.

## Employee involvement and training

Employee participation is ensured by interacting with employees who are involved in assessing risks in the working environment and making suggestions to improve the working environment. When selecting the occupational safety equipment, recommendations and references of employees are taken into account.

The Company has developed the necessary legal basis for the management of occupational safety processes, and regular staff training is provided. The work instructions contain clauses on situations in which commencement of work is forbidden. An employee may refuse to work if he/she is not provided with safe working conditions, and he/she is obliged to inform the head of his/her structural unit thereof.

## Accident investigation

Accident investigations are conducted in accordance with the procedures stipulated by the law. In addition, near misses are recorded and analyzed. Results of investigations of such cases and the corrective and preventive measures taken on their basis are used to upgrade the occupational safety system.

## Assessment of the working environment risks

Assessment of the working environment risks is one of the phases

of the Company's internal monitoring of the working environment the preventive and corrective occupational safety measures are based on. Assessment of these risks is carried out by a competent institution with the involvement of the Company's occupational safety specialists, heads of structural units, and employees, based on an annually updated assessment methodology that contains current requirements of laws and regulations. During assessment of the working environment risk, all the workplaces and all types of work are inspected.

Methodology of the working environment risk assessment provides for an assessment in several stages:

1. Phase 1 includes update of methodologies for assessment of the working environment risk and explosive working environment risk;
2. Phase 2 includes identification of factors of assessment of the working environment risk and explosive working environment risk by surveying specific workplaces and objects, assessing compliance with the requirements of normative documents and scope of the completed measures of occupational safety;
3. Phase 3 includes the necessary measurements of the harmful factors of the working environment, as well as the assessment of other necessary information (analysis of the safety data sheets of chemical substances, analysis of accidents and occupational diseases, etc.);
4. Phase 4 includes preparation of the documentation regarding the assessments of the working environment risk and explosive working environment risk;
5. Phase 5 includes registration and management of the necessary corrective and preventive measures in the Company's electronic documents' management system.

Employees are regularly informed about the risk factors and planned corrective and preventive measures to reduce these risks.

After the Covid-19 pandemic, remote working option was retained for the employees, if the specifics of the work allows for it; therefore, the necessary amendments were made to the internal regulations, as well as assessment of the working environment risks related to remote work. When making risk assessment, attention is paid to viruses causing Covid-19, flu and other respiratory diseases.

Identification of the working environment risks related to remote work is performed in cooperation with the staff working remotely and by using employment self-evaluation questionnaires. Following the evaluation, recommendations are developed for the employees regarding remote work, including proper workplace organization.



## Understanding health and safety

To achieve and maintain high safety and health standards, Conexus regularly provides its employees with an up-to-date information, training and professional growth.

Employees are trained in occupational safety, fire safety, civil defense, first aid, hazardous work, technical maintenance of gas transmission and storage systems, electrical safety and well-being. At the beginning of their work in the Company, employees receive initial training, which is repeated during the course of their work; other thematic training is also offered. The training courses are organized in cooperation with external service providers, as well as internal teaching staff. In 2023, employee training was conducted both remotely and onsite taking into account the context and workplace of the trainees.

In 2023, the Company paid special attention to the mental health and well-being of its employees and introduced several important initiatives: organized training on communication, team psychology, life balance (in 14 lectures, experts shared their experience on what it means to be a professional, on relations within family and with close relatives, as well as themselves as a personality). Annual winter celebration also took place with various activities in fresh air. In 2023, sports equipment at Inčukalns UGS was upgraded and supplemented. Through the use of internal communication portal and informative screens installed on the Company's premises, employees were informed on risks and safety measures related to ticks, slippery weather in the winter, burn-out syndrome and pre-celebration period, as well as ideas for micro-breaks.

The Company provides every Conexus employee with a health insurance policy that allows them to receive inpatient and a wide range of outpatient treatments as necessary, as well as provides with an opportunity to receive consultations from various specialists. Despite the rise in prices for medical services, the amount of the expenses covered by the insurance policy of Conexus employees has remained the same as before.

## Good practice in security management

The Company's security activities have been highly valued by third parties. In 2022, occupational safety management system was re-certified in accordance with the requirements of ISO 45001 standard Occupational Health and Safety Management System, and a new certificate was received. In December 2023, the first supervision audit was performed and closed without identifying any non-compliances. In September 2023, an experience exchange event with the participation of experts of the Baltic environmental supervisory institutions took place; it was organized by the State Environmental Service, and within the framework of the event, a visit to Inčukalns UGS was organized, and Conexus' staff shared their practical experience on measures for reduction of industrial accident risk.

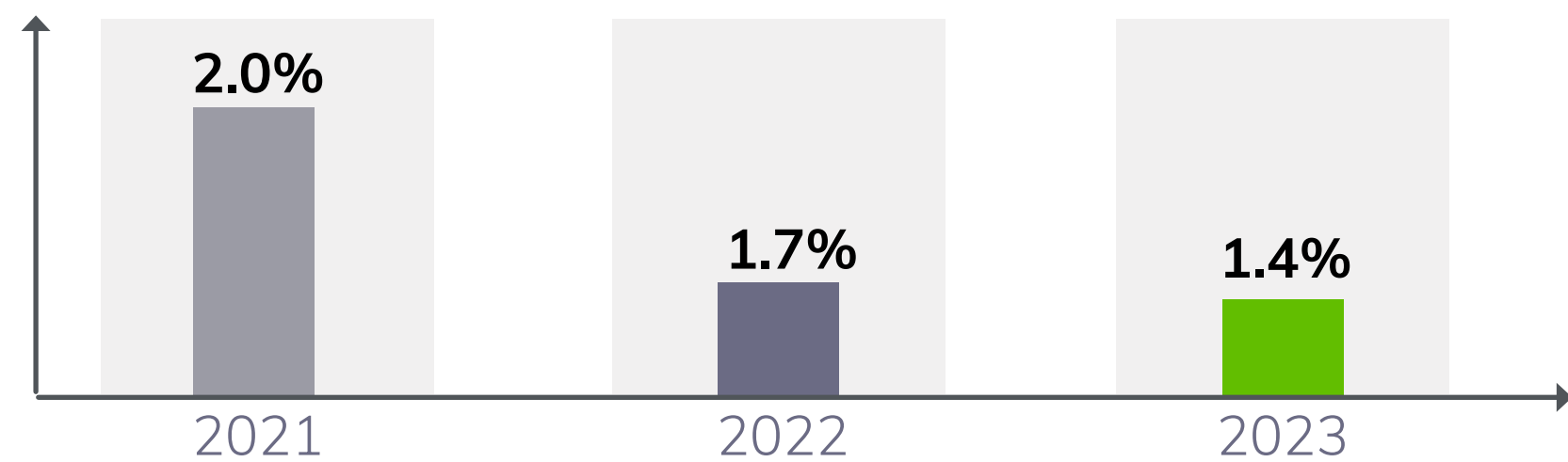
## Occupational safety and health performance

Workplace accidents are classified as serious accidents or minor accidents, having regard to the requirements of Cabinet Regulations No. 950 dated August 25, 2009 "Procedures for Investigation and Registration of Accidents at Work". Decision on the severity of impairment is made by a medical institution.

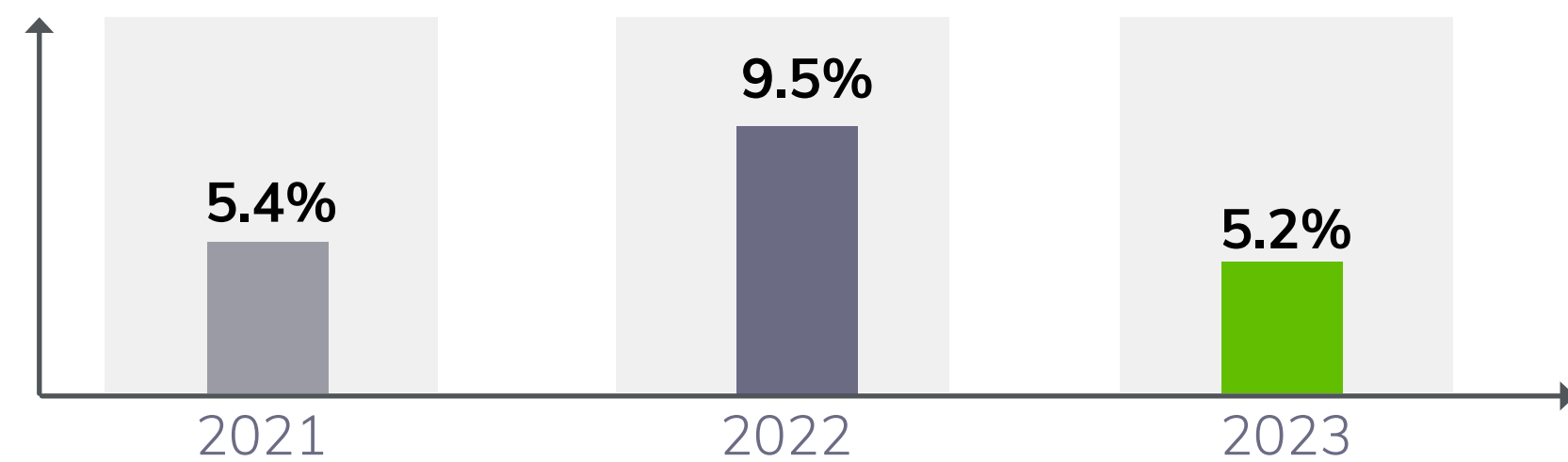
In 2023, no serious workplace accidents (in 2022 - 0) or work-related fatalities (in 2022 - 0) were recorded and no workplace accidents that resulted in lost workdays (in 2022 - 1) were recorded. Conexus strives to keep these numbers at zero in the future. One minor workplace accident (in 2022 - 1) was recorded and no new employee was diagnosed with an occupational disease in 2023. The total number of active occupational diseases in 2023 is 5 (in 2022 - 6).



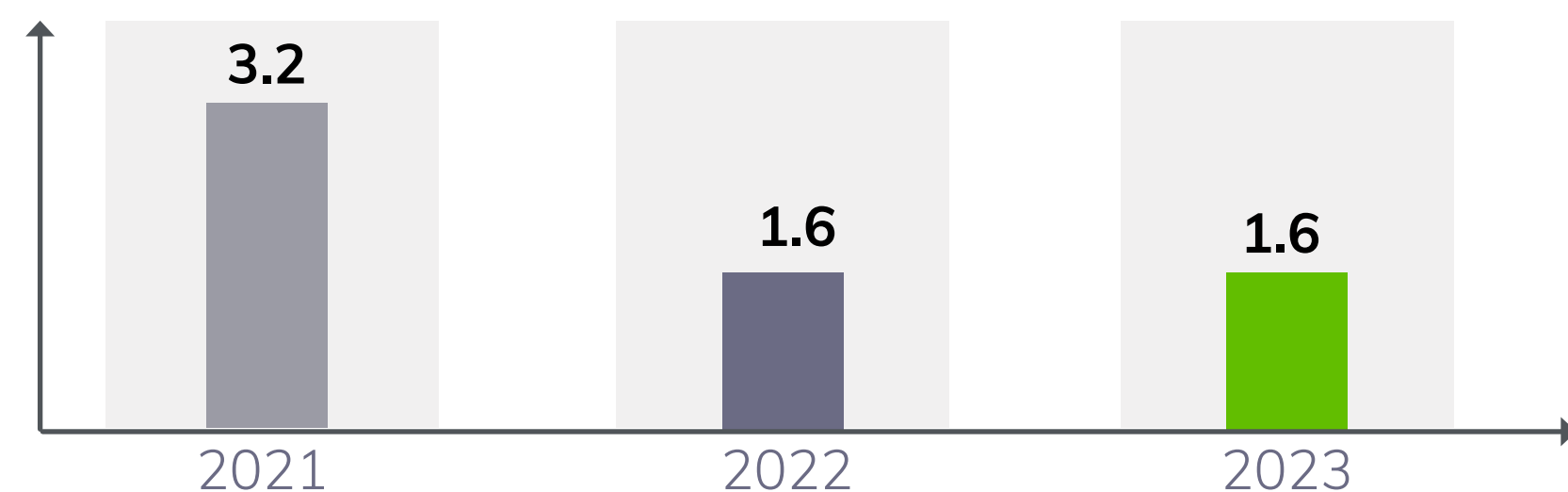
### Proportion of cases of active occupational diseases among employees, %



### Proportion of work absence among employees (percentage indicator of illness days of total working days), %



### Total frequency of registered accidents (per 1 million working hours)



In 2023, various activities for awareness raising on well-being were organized for employees, totaling to 10 hours (in 2022 – 49). Training on life balance took place – lectures totaling to 7 hours and annual winter celebration totaling to 3 hours.

According to the working environment risk assessment, employees are provided with mandatory health examinations. In 2023, 167 employees underwent mandatory health examinations. The following special remarks and recommendations of the occupational physicians for the employer were received:

- ◆ several employees who work with a computer need glasses;
- ◆ necessity to use of hearing protection in noisy environments is emphasized for some employees;
- ◆ necessity to comply with ergonomic requirements when moving heavy items is emphasized for some employees.

## Contract workers and visitors

Contract workers are instructed in safe performance of the work at the Company's facilities prior to performing the work. Instructions are provided in accordance with Latvian laws and regulations, taking into account the Occupational Health, Safety and Environmental Management Policy. The Company monitors the work of contracting organizations, which contributes to the creation of a safe working environment.

Guests visiting the Company's premises are accompanied by Conexus employees when moving around the premises. Prior to the visit, instruction on safety requirements at the premises is provided.



# Employment relations, employee inclusion and involvement

GRI 405-1, CXS-2, 2-7, 2-8, 2-20, 2-21, 2-30, 11.11.5

## Remuneration policy

Great value of Conexus is its professional, qualified, competent, responsible, loyal and motivated staff contributing to the achievement of strategic goals of Conexus applying their knowledge and skills. Employees are one of Conexus' most important strategic resources contributing to Conexus' high operational efficiency.

The purpose of the Company's Personnel and Remuneration Policy is to ensure efficient practice in dealing with human resources management issues within the Company to introduce sustainable management of internal resource performance ensuring competitive and motivating remuneration, as well as staff succession and competence development.

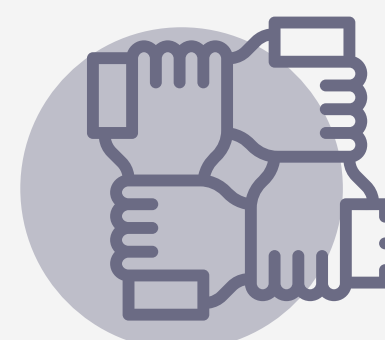
### Conexus human resources management guidelines are as follows:

- ◆ **Professionalism** - employees are competent in their respective fields, focused on acquiring new skills and abilities, sharing knowledge and experience both nationally and internationally;
- ◆ **Quality** - employees ensure high quality execution of the entrusted tasks through accurate, prompt and professional performance of their duties and honest attitude;
- ◆ **Development** - the Company supports the professional growth and purposefulness of employees by ensuring, as far as possible, adequate training and career development for them both in horizontal and vertical aspect;
- ◆ **Stability** - the Company's operations are stable and development-

oriented in the long term. The Company takes care of its employees and strengthens their sense of security regarding stable employment, adequate remuneration and social guarantees;

◆ **Prohibition of discrimination** - the Company recognizes equal role of every person in the development of the Company, regardless of race, color of skin, sex, religious, political or other beliefs, national or social origin, property or marital status and other circumstances. All employees have the same rights.

## CONEXUS REMUNERATION SYSTEM IS BASED ON THE FOLLOWING FUNDAMENTAL PRINCIPLES:



**FAIRNESS** – the remuneration system is proportionate and based on uniform principles throughout the Company. Remuneration is aligned with the employee's qualifications and contribution;



**COMPETITIVENESS** – the level of remuneration is in line with the labour market trends;



**TRANSPARENCY** – the remuneration system is understandable to all employees of the Company;



**MOTIVATION** – promotes the professional growth of employees and motivates employees for quality work performance and achievement of goals.

Remuneration of employees depends on the position, qualifications, amount of work to be performed, skills, attitude and contribution to the Company, achievement of the structural unit's and individual goals (link between the work contributed and the remuneration received), as well as the Company's performance indicators. In order to remain competitive and in line with the current remuneration trends, the Company evaluates its practices in this area annually by conducting a survey in collaboration with the human resources management consulting firm "Figure Baltic Advisory". Considering the current remuneration trends in Latvia, the Company assesses and reviews remuneration levels accordingly.

**Conexus remuneration structure consists of three components:**

◆ **Basic salary** – the salary specified in the employee's employment contract according to the job assessment in the approved list of positions;

◆ **Variable part of remuneration** – the component of remuneration paid to the employees for work performance, which an employee may receive in addition to his/her basic salary as a bonus, the amount of which depends on the achievement of the Company's overall goals and the employee's individual performance. Employees are granted also an irregular individual bonus for additional work;

◆ **Additional benefits and allowances** under the Collective Agreement.

Remuneration of employees is determined taking into account the underlying principles defined in the remuneration system, labour market trends and the Company's financial capabilities.

In 2023, work on the development of procedures for position assessment and determination of remuneration was performed. In 2022, position assessment work group in cooperation with a consultant from "Figure Baltic Advisory" conducted an assessment of the Company's positions according to the uniform principles and criteria based on the analytic assessment method of intellectual and manual jobs. The position assessment work group has conducted also the identification and definition of specific factors of the Company's positions. These factors have been included in the position assessment system, at the same time ensuring conformity to the position assessment method of "Figure Baltic Advisory". When introducing specific assessment factors into the position assessment mechanism, factors related to the Company's operation affecting performance of daily duties of certain positions are taken into account and included in the position assessment.

## Remuneration of employees in 2023

The Company's strategy focuses on sustainable development of the natural gas transmission and storage services and infrastructure operations. Ensuring operational continuity in the long term requires a qualified workforce with special knowledge and specific experience. To meet these challenges for current employees, as well as to attract new recruits, competitive remuneration must be provided.

In accordance with the Company's remuneration policy and financial capabilities, revision of the amounts of the employees' basic salaries resulted in the overall average basic salary increase of 6.9 % in 2023.

The table below provides a comparison of data regarding the amount of remuneration of the highest paid employee to the total annual employee remuneration median for the period of the last two years.

Increase in remuneration	2023	2022
Increase in the total annual remuneration median for employees (excluding increase for the highest-paid employee)	15.1 %	13.7 %
The highest-paid employee (total annual increase in total remuneration)	14.6 %	6.2 %
Comparison of the highest-paid employee's remuneration to the total annual remuneration median of other employees	4.1 times	4.1 times

**The following assumptions were made for the calculation of the total annual remuneration median:**

- ◆ All the employees who were in employment for the entire reporting year participated in the analysis, except for the highest-paid employee;
- ◆ Members of the Management Board were excluded from the analysis;
- ◆ The highest-paid employee was determined by the total annual salary, not the basic salary;
- ◆ Calculation of the total annual salary includes all the elements of basic salary (salary, regular bonuses, payment of sick-leave certificate, payment of leave, one-off bonuses, etc.), bonus for annual/semi-annual results, contributions to the private pension fund;
- ◆ Calculation of total annual salary excludes tax payments and benefits provided for in the Collective Agreement.

## Collective agreement

The Company's Collective Agreement governs the following matters related to legal employment relations in addition to laws and regulations and the Employment Contract concluded with the employee: obligations of the parties, employment guarantees, wage payment organization, occupational and employees' health protection, leaves, additional leaves, and social guarantees. The Company respects the employees' rights to collective representation. In 2023, 22 % of the employees were members of a trade union (in 2022 – 25 %). The Company has concluded Collective Agreement with the trade union, and it ensures protection of the employees' economic and social interests in addition to the requirements stipulated in the laws. The Collective Agreement applies not only to the members of the trade union, but also to all the Company's employees.

According to the Collective Agreement, the following additional benefits and allowances are granted to the employees: health insurance, contributions to private pension fund, retirement benefit, additional leave, support in major life events and monetary award on employment anniversary.

Despite the low supply of the insurance service market, in order to promote social protection of employees, in 2023, the Company has provided employees with health and accident insurance for the new insurance period at a constant level (the same as in the previous period).

According to the results of Conexus employee satisfaction and involvement survey 2023, more than 92 % of respondents are satisfied with the fringe benefits offered by the Company (in 2022 – 90 %). Social guarantees and remuneration are currently the key motivators for the employees.



## Employee diversity

Generations of the workforce are changing, so financial incentives cannot be the only tools used to motivate employees. Employer's reputation, prosperity, remote work, and flexible working arrangements are some of the aspects that become increasingly important for the Company's employees. 227 employees or 64 % of all the approached Company's employees participated in the employee satisfaction survey conducted by the Company (in 2022 – 72 %).

	2023	2022	2021	2020	2019
Total average number of employees annually	361	356	352	341	343
Total number of employees at the end of the year	354	356	350	349	335
Proportion of women	18 %	19 %	19 %	18 %	19 %
Proportion of men	82 %	81 %	81 %	82 %	81 %
Proportion of women in supporting function	18 %	16 %	17 %	19 %	15 %
Proportion of men in supporting function	82 %	84 %	83 %	81 %	85 %
Employees aged above 50	36 %	35 %	34 %	38 %	42 %
Employees aged 30 to 50	54 %	55 %	55 %	52 %	47 %
Employees under 30 years of age	10 %	10 %	11 %	10 %	11 %
Employee turnover rate	9 %	8 %	8 %	12 %	9 %
Vacant managerial positions taken by employees (career development within the Company)	100 %	100 %	90 %	56 %	67 %
Number of trainees employed by Conexus	9	9	3	8	2

Diversity of Management Board and Supervisory Council at the Company <sup>5</sup>	2023	2022	2021
Proportion of women	10 %	20 %	20 %
Proportion of men	90 %	80 %	80 %
Aged above 50	40 %	40 %	30 %
Aged 30 to 50	60 %	60 %	60 %
Under 30 years of age	0 %	0 %	10 %

The workplaces of the Company's employees and contractual workers are in Riga Region, at two base locations: Riga, 14 Stigu Street, and Inčukalns Underground Gas Storage, Krimulda Parish, Sigulda Municipality.

The energy sector is characterized by a high number of employees in technical professions, therefore, the proportion of men in the Conexus' employee structure is relatively high – in 2023, 82 % of employees were men and 18 % - women. This indicator has not changed significantly in the recent years.

Groups of positions	2023		2022		2021	
	Women %	Men %	Women %	Men %	Women %	Men %
Managers	18	82	19	81	22	78
Specialists	24	76	26	74	34	66
Qualified employees	1	99	1	99	0	100
Other	64	36	62	38	73	27
<b>Total</b>	<b>18</b>	<b>82</b>	<b>19</b>	<b>81</b>	<b>19</b>	<b>81</b>

<sup>5</sup>Data as of December 31 of the reporting year

Of 354 Conexus employees (63 women and 291 men), the largest number of employees work in the Gas Transmission structural unit – 113 employees (5 women and 108 men). Whereas 92 professionals (3 women and 89 men) take care of the gas storage at Inčukalns UGS, but 139 employees (54 women and 85 men) provide the support function.

	2023		2022	
	Women %	Men %	Women %	Men %
Transmission	4	96	4	96
Storage	3	97	7	93
Support function	39	61	38	62

The majority of employment contracts are full-time. At the end of 2023, one employee was employed half-time, while 5 employees were part-time.

Employment mode in the Company	Number of contracts 31.12.2023	Women %	Men %	Number of contracts 31.12.2022	Women %	Men %
Half-time	1	100	0	3	33	67
Part-time	5	0	100	2	0	100
Aggregated working time	57	5	95	48	6	94
Normal full-time	281	21	79	293	21	79
Supervisory Council, Management Board	10	10	90	10	20	80
<b>Total</b>	<b>354</b>	<b>18</b>	<b>82</b>	<b>356</b>	<b>19</b>	<b>81</b>

Employment contracts with employees are concluded open-ended, except for the situations when employment relations have been established for the period of another employee's absence. At the end of 2023, one employee was employed under a fixed-term contract.

Term of the employment contract	Number of contracts 31.12.2023	Women %	Men %	Number of contracts 31.12.2022	Women %	Men %
Employees for an indefinite period (including on maternity leave; excluding Supervisory Council)	341	18	82	345	19	81
Fixed-term employees	3	33	67	1	100	0
Contractual employees	3	0	100	2	0	100

Work-performance contracts are entered into with contractual employees for the performance of specific tasks. The contracts define specific works to be performed and the results to be achieved (deliverables). At the end of 2023, there were 3 active work-performance contracts with contractual employees working on developing data parameters for input into the information system, developing information systems and developing the technical specification for the reconstruction of Inčukalns PGK operational technology. The total number of work-performance contracts concluded in 2023 was 22; 6 of them were concluded with persons for which the Company made tax payments, while 16 contractual employees were self-employed and made tax payments independently.

## Employee involvement

The Company's employees have access to a digital human resources and salary management system, which provides each employee with access to relevant data (salary, evaluation results, etc.), and management options of such data (application for leave or benefit, etc.). The system has been supplemented by a business travel module and includes also the employees' performance evaluation.

Conexus management has always been interested in the team's opinion regarding improvements of processes in the Company and feelings related to the working environment. Therefore, since the establishment of Conexus, the Company's management has encouraged the employees to express their opinions and provide feedback regarding processes, evaluations and improvement in the Company. In 2023, employees' opinions regarding their satisfaction, motivation, loyalty, internal communication, remote work, teambuilding events, perspectives, cooperation within team and other matters concerning the working environment were ascertained again.

227 employees or 64 % of all the addressed Conexus employees participated in the employee satisfaction survey in 2023 (in 2022 – 72 %).

Compared to 2022, there are no significant changes, and the company shows stability and constantly high satisfaction rates. Employees are in general more satisfied with the aspects of work organization and internal communication, the opinion regarding leadership and planning aspects has improved. In general, the Company's culture is assessed a bit higher.

In 2023, Conexus' employees gave the highest rate to their role in the company, as was admitted by 89 % of respondents (in 2022 – 88 %), highlighting the high work quality standards, being aware of

the necessity to improve their work quality while doing an exciting and satisfying job. High rating was given also to Conexus' work organization and internal communication, which was recognized as good by 89 % of respondents (in 2022 – 88 %), which indicates that employees are satisfied with their colleagues, availability of information on current events within the Company, as well as the clearly defined work tasks.

Overall, the leadership and planning rating within the Company is still high (93 %), furthermore, it has increased compared to the already sufficiently high indicator of 2022, when the leadership rating was 86 %. The majority of employees are of the opinion that Conexus is a company with great reputation. Employees generally feel that managers care about their well-being, as well as agree to the opinion that employees' initiative is appreciated. Conexus' strategy is clear to the employees, and Conexus goals are clearly defined and understandable. In general, relations between the employees and line managers may be assessed as positive, and indicators have remained constant within the framework of the year (assessment provided by 84 % of the respondents). Employees consider that their manager listens to their views, helps the employees to develop and provides the necessary training for the employees to enable them to perform their duties fully, and the employees also receive their managers' feedback regarding their performance on regular basis.

The corporate culture of Conexus also has high rating in general, with observed improvements in evaluations in this area to the indicator of 85 % (in 2022 – 82 %). Employees appreciate that the Company's supports free discussions, furthermore, majority of employees agree that the Company does not support any kind of discrimination, and intolerance to gossip and slander can be observed. The majority of employees feel safe to express their opinions within the Company.



◆ Net Promoter Score (NPS) or the company's recommendation index shows the readiness of employees to recommend the Company to others. In 2023, the employees' NPS indicator at Conexus was +7 points (in 2022: +17 points), which means that there was a higher number of promoters than deniers.

Significant improvements in the communication, information exchange and team-building processes have been promoted by the online conversations of the Conexus' Management Board with the employees on current events at the Company, during which the employees are given opportunity to participate in a free discussion and ask questions. Therefore, satisfaction with the sufficiency of the information necessary for the performance of the particular work increases for the second year in a row, furthermore, satisfaction with timely delivery of the work-related information to the employees can be observed.

The Company implements the New Employee Integration Program. The integration program is a set of measures aimed at providing support to the new employee to integrate into the team, acquire the necessary knowledge and skills for effective performance of professional duties within the shortest possible time period. During the Integration program, the new employee familiarizes himself/herself with the Company's culture, values and goals, professional duties, gets acquainted with the colleagues and working environment, and tools and information required for the work under the supervision of a mentor appointed by the manager. In 2023, through the implementation of the New Employee Integration Program, 23 new employees were successfully integrated in the job (in 2022 – 23).

Conexus organizes and manages recruitment process in the Visma EasyCruit system. This reduces the administrative burden, speeds up and systemises the recruitment process. The system enables rapid communication with the candidates, allows for efficient assessment of the applications sent, and, with the consent of the candidate, stores valuable information about the candidate for further cooperation. Likewise, standardized communication with the candidates is provided in each step of recruitment.



# Equal and fair treatment

GRI 406-1, 11.11.7

The Conexus team is characterized by diversity, equal treatment and non-discrimination, and strives to create a truly inclusive work environment where employees can fully implement their potential. The Company recognizes the equal role of any person in the development of the Company. Dignity and fairness are fundamental principles set in the Company's Code of Ethics. The Company treats employees and business partners equally fairly and justly. No cases of discrimination were reported or registered in 2023 (in 2022, this indicator was also 0).

At the end of 2021, the Company was awarded the "Family-Friendly Workplace" status for two years. The main criteria for selecting recipients were related to demonstration of the employer's understanding of the work environment and work-life balance by introducing various support mechanisms in the working environment – additional holidays to spend time with family, additional days of leave, and support for education. An important criterion was the ordering of workload and the process of performance of professional duties and remote working options. Because of the specific character of their work, more than 40 % of employees are able to work remotely, however, according to the employee satisfaction survey, 33 % choose working in hybrid mode. In its effort to take care of the employees' well-being at work and in family, Conexus employees had a chance to participate in the forum "Life balance", where experts shared their experience on what it means to be a professional, on relationship within the family and loved ones, as well as themselves as personalities. The forum was attended by 127 employees of Conexus. The work-life balance of Conexus' employees has reached 74 % (in 2022 – 71 %).



# Development of employee competence and qualified future workforce

GRI 404-2, 404-3, 11.7.3

Human resources development is a regular set of systemic actions aimed at ensuring such a development of knowledge, competencies and skills of employees that facilitates increase in work efficiency and professionalism, promotes motivation to achieve not only the Company's, but also individual goals.

The Company has developed and implemented an employee performance evaluation system that defines the performance evaluation process for the heads of structural units and employees, its types, criteria, responsibilities and deadlines. Performance evaluation is one of the most important ways for the Company to support its employees, ensuring responsible performance of their professional duties and identifying their professional development needs. The Company's personnel evaluation system is aimed at achieving results, and, within the framework of this system, employee's performance over a certain period of time is planned, managed and evaluated on regular basis. Evaluation promotes the employee's responsibility for individual achievements and ensures that remuneration is aligned with performance.

All the employees who have completed the trial period are provided with performance evaluation.

Succession planning plays an important role in the Company to ensure the continuity of business processes, taking into account the specific knowledge and skills required by the Company's staff. The Company's work organization provides for a short-term substitution of employees at all levels, and the Company plans and implements employee training and succession planning. However, planning of systemic succession is a part of risk management and helps planning

the Company's further development highlighting the skills that will be necessary in the future and verifying succession of the critical competences.

Succession plan is developed including in it the Company's key positions which ensure continued operation of the Company and processes supporting achievement of the strategic goals set in the strategy, and which require the unique, sufficiently rare skills and competences of this specific business acquired on a long-term basis.

Succession planning process includes examination of the Company's strategic goals, processes supporting achievement of the goals, and positions of the structural units responsible for the processes. Development of successors and potential successors is planned within the framework of the overall employee's development plan, however, additional attention is paid to the development of successors and potential successors, and the plan includes both development of the skills specifically defined for their positions and development of broader skills. For the successors and potential successors, development plan has been developed ensuring acquirement of the specific knowledge and skills. According to the development plan, a successor or potential successor gains the required practical experience, as well as may be involved in various specific development projects. Depending on the knowledge and experience of the successor or potential successor, the necessary training is included in the development plan and implemented, for example, to improve language, digital and leadership skills.

Staff training and growth is an important part of the Conexus human resources management system, and its objective is to upgrade the employees' knowledge and skills in such a way as to ensure successful development of the Company's operations in long-term and create job satisfaction. The Company promotes improvement of the necessary employee's skills and knowledge according to the Conexus strategic goals and individual contribution of employees to achievement of these goals. In 2023, both the internal and external trainings were mostly organized on-site. At the same time, e-learning platforms were still used, for example, the Company's e-learning platform Conexus Academy and Udemy.com. Professionalism of the Company's employees is improved also in the field of digital, management and business correspondence skills, as well as foreign language learning by participating in courses, seminars and conferences. In total, 16 927 hours were dedicated in 118 various training courses in 2023, when each employee dedicated 48 hours on average for training (no precise recording of hours was provided in 2022). At the end of 2023, automated training planning and budgeting module was introduced in the Company.

More than 60 e-learning courses and programs have been developed in the Company's e-learning platform Conexus Academy on a variety of Company's professional areas, well-being topics, internal processes and normative regulations of the Company, and international business training courses on the sectoral specifics. For the purposes of acquiring specific competences, Conexus keeps promoting the employees' self-learning capabilities by creating interactive e training modules, available to all the employees.

In order to promote the development of the gas industry and the acquisition of specific knowledge, Conexus and Riga Technical University (RTU) continue their cooperation in improving specialized educational programs for the Company's employees, specialists in the operation and maintenance of natural gas transmission and storage systems, as well as dispatchers. In 2023, 76 employees and 19 new employees of Conexus completed these trainings (in 2022 – 73 and

29, respectively). 476 employees in total have undergone the training since the creation of the Conexus and RTU training program.

The average age of the Company's employees is constantly 46 years, and, according to the analysis of the staff structure, 36 % of employees (in 2022 – 35 %) are over 50 years old, which also increases the importance of staff renewal, therefore, a complex approach of purposeful activities to changing the age structure of the workforce is promoted providing incentives to attract younger employees. In order to stimulate young people's interest in the sciences and engineering professions, as well as to promote the development of the future workforce in Latvia, the Company's experts and RTU teaching staff implement study courses and promotes student participation in the Conexus Student Club, as well as organize trips to the Company's sites.

Age (years)	Employees (2023)	Women	Men	Employees (2022)	Women	Men
Up to 30	10 %	1 %	9 %	9 %	2 %	7 %
31 to 40	25 %	6 %	19 %	25 %	6 %	19 %
41 to 50	29 %	5 %	24 %	30 %	5 %	25 %
51 to 60	22 %	4 %	18 %	21 %	4 %	17 %
Over 60	14 %	2 %	12 %	15 %	2 %	13 %
<b>Total</b>	<b>100 %</b>	<b>18 %</b>	<b>82 %</b>	<b>100 %</b>	<b>19 %</b>	<b>81 %</b>



# RESPONSIBLE GOVERNANCE

## Ethics and prevention of corruption

GRI 2-15, 2-25, 2-26, 2-27, 205-1, 205-2, 205-3, 11.20.2, 11.20.3, 11.20.4

Conexus has a Code of Ethics in place. The purpose of the Code of Ethics is to create a uniform set of ethical behavioral standards within the Company and to strengthen the Company's internal culture, business practices and reputation by establishing fundamental ethical principles and internal organizational policies based on the Company's core values. The Code applies both to the Company as a whole and to every employee and elected official of the Company.

The Code of Ethics stipulates that the Company does not allow conflict of interest situations and corrupt or fraudulent activities by introducing and implementing preventive supervision measures in the Company. The Company's employees behave fairly in their relations with the Company and other employees, as well as cooperation partners and do not engage in anti-competitive, corrupt or fraudulent transactions or activities, stipulating also specific principles for giving and receiving gifts. Furthermore, if the actions of a cooperation partner do not comply with the basic principles and norms of ethical conduct included in the Code of Ethics, the Company assesses the commencement or continuation of cooperation with such a partner. According to the Code of Ethics, the Supervisory Council of Conexus manages conflict of interest situations involving members of the Supervisory Council and of the Management Board or persons associated therewith. The Management Board manages conflict of interest situations involving employees of the company, as well as supervises the Company's dealings with former members of the Supervisory

Council and of the Management Board and persons associated therewith. Where a conflict of interest has been encountered in respect of a member of the Management Board or of the Supervisory Council, this information is provided to the Supervisory Council or the Management Board accordingly. Where a conflict of interest situation is encountered in respect of an employee, the information is disclosed to the head of the structural unit and/or to the responsible member of the Management Board.

The Company has assessed the risk of corruption within the context of the operation of the entire Company, and it has not identified any high-level risks. The Company practices absolute intolerance in relation to any malicious, wrong or illegal action by employees and officials for personal benefit, and a "0" tolerance (risk appetite) to corruption and fraud risks has been set. Every year, with the internal audit determining the risk level for every business process, self-assessment of corruption and fraud risk is also conducted, thus allowing to distinguish processes with lower or higher potential fraud risk by auditing the latter processes more frequently. In addition to reducing the risk of corruption, the Code of Ethics provides that the Company's Management Board approves the list of positions obliged to submit a declaration containing statement of absence of a conflict of interest, as well as contents of this declaration. The list includes heads of structural units, leading specialists, procurement specialists, and other employees who are involved in the adoption or preparation of decisions that have a significant impact on the Company's business or at whose disposal, for the purposes of performance of their professional duties, restricted information or information containing trade secrets is constantly transferred. Declarations must be submitted annually, and, where necessary, measures for prevention of potential or actual conflict of interest may be taken after assessment of the respective declaration.

According to the Code of Ethics, the first mandatory ethics training for the Company's employees was organized in 2021, which covered both matters of the Code of Ethics and certain matters of Rules of Conduct, Information Protection Rules and Whistleblowing Rules. Since 2022, all the new employees, upon commencement of employment at Conexus, undergo a training course titled "Manual of a New Employee" containing the information necessary to carry out the daily tasks, as well as the most significant internal rules of conduct, for example, the Code of Ethics, Rules of Conduct etc.

Employees are encouraged to seek advice on ethical issues and to be socially responsible and respond when a breach of the Code or other violation is identified by notifying their line manager, Member of the Management Board or by filing a whistleblowing report in accordance with the internal whistleblowing procedures. Detailed information on the introduced whistleblowing mechanism, as well as on the available communication channels is available on the Conexus website<sup>6</sup>. Employees are informed of this option in mandatory ethics training, and the whistleblowing rules are also sent to all employees electronically. When the system was introduced, the information on filing report in paper format was posted on information boards. In the event of an unethical conduct, the employee may be subject to disciplinary action in accordance with the Company's Rules of Conduct. The Company does not impose sanctions or other adverse consequences on the employee who has reported a breach of the Code or other violation unless the employee has knowingly provided false information.

Compliance with the standards of the Code of Ethics is one of the criteria for evaluating employees and is taken into account when evaluating the employee's performance and considering the employee's preferences in the internal recruitment competitions and in maintaining employment relations.

<sup>6</sup> <https://www.conexus.lv/whistleblowing>

<sup>7</sup> <https://www.conexus.lv/code-ethics>

<sup>8</sup> [https://www.conexus.lv/uploads/filedir/Dokumenti/Procurement\\_policy.pdf](https://www.conexus.lv/uploads/filedir/Dokumenti/Procurement_policy.pdf); <https://www.conexus.lv/basic-principles-suppliers-ethics>

The Code of Ethics is published on the Conexus website<sup>7</sup>.

**Additional measures to prevent corruption and conflicts of interest, as well as internal control systems are stipulated also in:**

◆ The Regulation of the Supervisory Council and the Regulation of the Management Board (obligation for the respective Member of the Management Board or of the Supervisory Council not to participate in the decision of a matter where interests of his/her first or second-degree relative, an adoptee, adopters and persons he/she has a common household with contradict the Company's interests);

◆ The Corporate Governance Policy (definition of the internal control system and its purpose);

◆ The Procurement Policy (basic principles of supplier ethics have been established, including prevention of corruptive practices);

◆ The Financial Risk Management Policy (regarding the possibility of corruption risk in case of occurrence of refinancing risk, defining measures to limit refinancing risk).

All the Conexus employees have been informed of the Conexus corruption prevention framework and procedures and have undergone the Ethics Training covering also the matters concerning prevention of the conflict of interests and corruption. All the Conexus cooperation partners (364, including 75 partners receiving the services provided by Conexus, 277 suppliers and 12 contractors) have been informed of the Conexus corruption prevention framework and procedures, since, when participating in the procurements organized by Conexus, all the suppliers are obliged to acknowledge compliance with the aforementioned basic principles of ethics, whereas the remaining suppliers can familiarize themselves with these principles on the Conexus website<sup>8</sup>.

In 2023, no fines or non-monetary sanctions were imposed on the Company for noncompliance with laws and/or rules (this indicator in 2022 was also 0), no corruption-related incident has taken place, and the Company is not involved in any corruption-related legal proceedings either. During the reporting period, one report was received which was not classified as a whistleblowing report. In 2023, no cases of corruption related to the Company and its staff have been found (in 2022 – 0), and no business relations have been terminated by the Company on corruption-related grounds.

# Sustainable procurements

GRI 2-6, 204-1, 308-1, 11.14.6

Conexus procurement policy is focused on transparency of procurement procedures, free competition among suppliers, equal and fair treatment, and efficient use of Conexus resources. The fundamental principles of ethics of the suppliers have been included in the Procurement Policy. The Procurement Policy is published on the Conexus website in Latvian and English<sup>9</sup>. In the middle of 2022, Conexus started summarizing information about the suppliers who have acknowledged familiarization with the code of ethics of the suppliers. In 2023, of 189 suppliers interviewed, 160 or 85 % of the tenderers acknowledged that they had familiarized themselves with the suppliers' fundamental principles of ethics (in 2022 – 77%). The Procurement Regulation contains framework that the procurement contract shall be concluded with the tenderer in case, where the tenderer which has been awarded the contract has acknowledged that they are familiar with suppliers' principles of ethics.

Conexus continues pursuing the application of “green” procurements and, if possible, evaluates the life-cycle costs of equipment within the procurement procedures.

Conexus organizes procurement procedures in accordance with the Law on the Procurements of Public Service Providers, the Procurement Guidelines for Public Service Providers issued by the Procurement Monitoring Bureau, as well as the internal regulatory document – Procurement Organization Procedure, where the expected transaction amount is below the threshold set in the Law

<sup>9</sup> <https://www.conexus.lv/other-binding-documents>

<sup>10</sup> <https://www.conexus.lv/procurements>

<sup>11</sup> <https://www.conexus.lv/archive>

on the Procurements of Public Service Providers (sub-threshold procurements). The Conexus Procurement Organization Procedure stipulates organization of procurements of goods, services and construction works in the Company, procurement planning, procurement methods applicable in the sub-threshold procurements, procedures for the establishment and operation and duties of procurement commission, fundamental principles for determination of tenderer selection and proposal assessment criteria, registration, circulation and storage of procurement documentation, procedures for the examination of breaches of the procurement procedure, as well as preparation and submission of the statistical report on the performed procurements.

To ensure its business operations, Conexus purchases energy resources, as well as various types of construction works, goods, and services, including technical equipment and materials, diagnostics, repair works, IT services and research. Majority of procurements is provided by suppliers in Latvia. Conexus ensures high-cost efficiency, transparency of procurement procedures, monitoring of corruption risks and promotes fair competition.

In 2023, Conexus concluded 254 procurement contracts, including 19 construction work contracts (100 % of them with companies registered in Latvia; in 2022 – 100 %) for the total contractual price of EUR 23 157 690; 137 service contracts (81 % of which – with companies registered in Latvia; in 2022 – 89 %) for the total contractual price of EUR 7 006 405; and 98 supply contracts (86 % of which – with companies registered in Latvia; in 2022 – 86 %) for the total contractual price of EUR 8 591 361. Information on procurements is published on the Company's website<sup>10</sup>, as well as in the Publication Management System of the Procurement Monitoring Bureau. Of all the contracts concluded in 2023, Conexus entered into 39 contracts with 31 supplier registered outside Latvia. 38 of them are registered in the European Union (in 2022 – 22), and 1 supplier – outside of the European Union (in 2022 – 2). Procurement archive is available on the Company's website<sup>11</sup>.

Conexus does not cooperate with suppliers that are subject to international or national sanctions or sanctions of a Member State of the European Union or North Atlantic Treaty Organization that affect significant financial and capital market interests that may affect the performance of the Cooperation Contract.



Procedures for the Monitoring of Sanctions and Transaction Performance Risks are in place at Conexus. Prior to conclusion of each transaction, Conexus conducts verification on whether the suppliers and partners are subjects to international or national sanctions or sanctions of a Member State of the European Union or North Atlantic Treaty Organization that affect significant financial and capital market interests. Monitoring of the suppliers' sanctions is performed by Conexus through the use of automated solution that ensures immediate receipt of notification, where any of the suppliers or their officials have become subjects to international or national sanctions or sanctions of a Member State of the European Union or North Atlantic Treaty Organization that affect significant financial and capital market interests.

Likewise, prior to conclusion of a transaction, Conexus conducts assessment of geographic risks taking into account also the international assessment of the cooperation jurisdiction, reputation risks of Conexus, security situation and whether any sanctions have been imposed on the state in general, risk investigation of the transaction in question, verifying whether the currency of the transaction or credit institution will not affect performance of payment, and whether the service or good in question is not included in the sanctions' list. Conexus conducts in-depth assessment of the services creating the mediator's position (for example, logistics, transport etc., which supports one of the parties to perform economic activity without identifying the respective party to the transaction as the actual performer of actions).

Within the framework of the organized procurement procedures, Conexus demands the tenderers to specify information on their true beneficial owners, as well as verify this information by using the public databases. Conexus cooperates only with such tenderers that or

whose shareholders are not registered in a sanctioned country, or the country of origin of the goods offered by whom or the country of origin of the contractor is not a sanctioned country. Conexus has identified the areas of supply management where risks to the Company and its shareholders may arise. These areas include economic as well as ethical, environmental, and social aspects and form the basis for Conexus' assessments of suppliers in various procurement processes.

**Conexus continuously assesses information on:**

- ◆ quality of goods, services and/or construction works;
- ◆ compliance with tax obligations;
- ◆ civil liability;
- ◆ true beneficial owners of the supplier.

In 2023, Conexus continued conducting surveys and collecting information on supplier compliance with environmental and occupational safety standards. In 2023, 189 companies were surveyed. The survey revealed that 30 of the surveyed companies (16 %; in 2022 – 16 %) had an occupational health and occupational safety management system in place, while 40 of the surveyed companies (21 %; in 2022 – 8 %) were certified to an environmental management standard or environmental management system. Conexus takes note of the aforementioned information and perform risk prevention activities, for example, in case of construction works, there is a mandatory requirement for involvement of occupational safety specialist in supervision of the construction site's occupational safety system.



# Transparency and stakeholder involvement

GRI CXS-3

Transparency is an essential aspect of the Company's sustainability not only when building and maintaining relationships with key stakeholders but also when developing the Company's image and promoting its sustainable development. Conexus involves its stakeholders in its activities through various methods, such as a website, publications, individual meetings, committee work, visits to an underground gas storage facility, etc., to provide the most suitable information to each category of stakeholders.

Conexus operates in an industry that poses a high-security risk. The Company's facilities are located not only on land properties owned by Conexus, but also on the land plots of other owners, therefore cooperation with the local community and landowners is important for the Company. The Company sends informational materials to the local authorities in whose territory the Conexus sites are located annually, explaining the provisions of the laws and regulations. The Company organizes civil defense trainings in cooperation with the State Fire and Rescue Service, during which the alarm and notification system is operated, but emergency vehicles travel on local and national roads, people are evacuated, and temporary traffic restrictions are possible.



In addition to cooperation with stakeholders, great attention is paid to public communication and media relations providing information on important decisions, development, and investment projects. Along with the usual communication channels, Conexus communicates also via the social networks [Facebook](#)<sup>12</sup> and [LinkedIn](#)<sup>13</sup>. In order to assess the effectiveness of communication, Conexus carries out media monitoring (that reflects the widespread rotation of news in the media) daily. In 2023, the Latvian media continued to pay increased attention energy, therefore all the information distributed by Conexus to the media was widely covered in the Latvian media. In order to familiarize media with Inčukalns UGS which is under the Company's supervision, in the second half of 2023, the Company invited representatives of Latvian media to visit Inčukalns UGS and informed them about current events and explained technological processes onsite. Activities of involved persons, reposting of information and comments are followed on social networks. Conexus always responds to the questions or concerns raised on the social media.

# Corporate Social Responsibility

In accordance with the Company's strategy, Conexus Corporate Social Responsibility (CSR) support criteria were included in the Company's Corporate Governance Policy in 2023. The Company implements its CSR activities in the following directions:

- ✦ **engineering science and education**, for whose promotion in the field of energy the following tasks are implemented:
  - updating study aids for teachers,
  - supporting the scientific activities of natural gas researchers and teachers;
- ✦ **environment** – identification and mitigation of the Company's impact and communication; in the field of environmental protection, the Company implements the following CSR activities:
  - maintains certified environmental management and energy management system according to the international standards following the principles of continuous improvement,
  - promotes application of basic cleaner production principles in all the processes related to the Company's operation, which may have an environmental impact, participates in research on integration of sustainable gases into the Latvian gas transmission and storage system supporting European Union's Green Deal;
- ✦ **social responsibility** – the Company promotes life quality improvement and is a socially responsible employer which develops a safe working environment. The Company provides the employees, to the extent possible, with additional social protection which is not stipulated in the employment contract and which is the employer's initiative. As a part of its CSR activities, Conexus supports the local community by implementing educational measures for children studying at local schools, as well as by supporting local community activities. For example, in 2023, Conexus financially supported the Alūksne Municipality association for children and young people with disabilities "Saulstariņi", as well as the Inčukalns Volunteer Firefighter Association.

<sup>12</sup><https://www.facebook.com/conexusbaltic/>

<sup>13</sup><https://www.linkedin.com/company/conexus-baltic-grid/mycompany/>

# ANNEXES

GRI 2-5, 2-15, 2-23, 2-24

## Annex No. 1 Performance of the Corporate Governance Code of Latvia

Principle of the Corporate Governance Code of Latvia		Conexus performance	
Company strategy			
	<b>1. The company has an up-to-date strategy in place that sets out the company's goals and progress towards long-term value increase</b>	√	
*	The company has an up-to-date strategy, the draft of which is developed by the Management Board	√	The Supervisory Council approves the medium-term strategy prepared by the Management Board.
*	The Supervisory Council engages in the strategy development process and approves the strategy at the Supervisory Council meeting	√	The Supervisory Council engaged in the development of the Conexus medium-term strategy 2023–2027, approving the strategy at the end of 2022. In 2023, working session on strategy and sustainability matters took place; on November 24, 2023, the Supervisory Council approved an updated strategy implementation plan (roadmap).
*	The Supervisory Council monitors implementation of the strategy	√	In order to ensure successful implementation of the strategy, key performance indicators (KPIs) are set for the Company every year, which are approved by the Supervisory Council and the performance which is the Management Board's responsibility. Meeting the performance indicators is assessed annually, together with the approval of the annual report to assess the performance of the Management Board.
*	The Supervisory Company's Management Board implements the strategy and reports to the Supervisory Council on the course of its implementation on regular basis	√	Once a month, the Management Board prepares and submits to the Supervisory Council information on the Company's financial performance and on significant events in the Company, whereas to the ordinary Supervisory Council meetings – written report on its activities, including meeting the key performance indicators (KPIs) set according to the medium-term strategy.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
<b>Internal culture and ethical behavior</b>			
	<b>2. The company develops a code of internal culture and ethics code which serves as a standard of conduct for the company's management and employees</b>	√	
*	The Supervisory Council defines the company's core values	√	The core values are defined and approved in the Company's medium-term strategy.
*	The Management Board prepares and the Supervisory Council approves the code of internal culture and ethics	√	The last updated Code of Ethics was approved by the decision of the Supervisory Council meeting dated September 9, 2021.
*	The management board ensures compliance with the company's internal culture and ethics code on a daily basis and reacts if there is a breach of the code	√	Upon commencement of employment at Conexus, all the Company's employees undergo the mandatory training of ethics. Compliance with the norms of the Code of Ethics is one of the employee evaluation criteria, and it is taken into account when performing the employee's performance. Employees are encouraged to be socially active and respond, if breach of the Code of Ethics is detected. No reports related to the breach of the Code of Ethics have been received in 2023 (in 2022 – 0). The Management Board organizes regular online meetings with the employees concerning the current events related to Conexus dealing with current events (including matters related to mutual communication, ethics), and responses to the questions of employees are provided.
<b>Internal control system, risk management and internal audit</b>			
	<b>3. The company has an internal control system in place, the effectiveness of which is monitored by the Supervisory Council</b>	√	
*	The company has a documented internal control system, the establishment of which is the responsibility of the Management Board	√	Aspects are described in the Corporate Governance Policy. <sup>14</sup>
*	The internal audit evaluates the effectiveness of the internal control system at least once a year, taking into account pre-defined criteria and reporting the results of the evaluation to the Supervisory Council	√	An evaluation is provided in each of several audits per year, assessing the compliance of the processes with the aspects of internal control defined in the Corporate Governance Policy. According to the annual plan, the volume of processes covered so far at the end of 2023 was 95 % (in 2022 – 95 %); and the projected coverage for the end of 2026 is 100 %.
*	At least once a year, the Supervisory Council assesses the provided evaluation of the effectiveness of the internal control system	√	Once a year, the Supervisory Council is provided with a report on the performance of internal audit, which also includes an assessment of internal control and a general opinion on the internal control system.

<sup>14</sup> <https://www.conexus.lv/other-binding-documents>

Principle of the Corporate Governance Code of Latvia		Conexus performance	
	<b>4. The company identifies, assesses and monitors the risks associated with its operations</b>	✓	
*	The Management Board develops and the Supervisory Council approves the company's risk management policy	✓	Risk management approved at the Supervisory Council meeting dated September 9, 2021.
*	Based on the identified risk assessment, the Management Board implements risk management measures	✓	In 2023, the most significant risks affecting the operations of Conexus were assessed and analyzed, assessing the probability and impact of each risk and determining the critical controls for each risk and the necessary risk mitigation measures. For the identified risks, the Management Board of Conexus has defined the acceptable level or degree of risk that the Company is willing to take upon achievement of its strategic goals, as well as key risk indicators that provide an early indication of changes in the likelihood or impact of a particular risk.
*	At least once a year, the Supervisory Council reviews the Management Board's reports on risk management measures and implementation of the risk management policy	✓	The Management Board reports to the Supervisory Council on the Company's risk management at least once a year.
	<b>5. An internal audit has been established in the company, it evaluates the company's operations independently and objectively</b>	✓	
*	The company has an internal auditor who is functionally independent of the Management Board and reports to the Supervisory Council	✓	Internal audit is functionally subordinated to the Company's Supervisory Council. The professional guidelines for internal audit are set out in the International Institute of Internal Auditors' definition of Internal Audit, Conexus' Internal Audit Policy, the Code of Ethics, and the International Standards on Internal Auditing.
*	Internal auditor is approved by the Supervisory Council	✓	The internal auditor candidate has been accepted by the Supervisory Council.
*	Internal auditor develops a risk-based internal audit plan, which is approved by the Supervisory Council	✓	Clause 10.11 of the Conexus Supervisory Council Regulation sets out the Supervisory Council's duty to approve the annual internal audit plan and its amendments. The internal audit plan 2024 was approved at the meeting of the Company's Supervisory Council on November 24, 2023.
*	Internal auditor informs the Management Board and the Supervisory Council on the implementation of the internal audit plan, audit results and recommended actions to address deficiencies, if any	✓	Clauses 25 and 26 of the Internal Audit Policy require reporting to the Supervisory Council on the results of the audit and the implementation of the recommendations. This information is prepared for each regular meeting of the Supervisory Council in accordance with the approved Annual Internal Audit Plan.

Principle of the Corporate Governance Code of Latvia		Conexus performance
<b>External auditor</b>		
<b>6. The company has an independent external auditor</b>		√
*	The Supervisory Council and the Audit Committee (if established) determine the external auditor selection criteria	√ Articles of Association provide for the annual financial statements to be audited by an internationally recognized independent auditor. The auditor is elected by the Shareholders' meeting after consideration at the meeting of the Supervisory Council.
*	The company has an independent external auditor with appropriate qualifications	√ An agreement has been concluded with PricewaterhouseCoopers SIA for the audit of the annual reports for 2021, 2022 and 2023 and the review of the dependency reports, as well as for the review of the sustainability report.
*	The term of office of one external auditor does not exceed 5 years	√ The agreement with PricewaterhouseCoopers SIA has been concluded for a term of 3 years – 2021, 2022, 2023.
<b>Election of Members of the Supervisory Council</b>		
<b>7. The company ensures transparent procedures for the election and removal of Members of the Supervisory Council</b>		√
*	The company has approved the procedure for selection and removal of Members of the Supervisory Council	X - Procedure for removal of Members of the Supervisory Council is regulated by external regulatory enactments (Commercial Law). A separate procedure for the selection of Members of the Supervisory Council is not stipulated at Conexus. However, Clauses 15.1.6 and 15.1.7 of the Corporate Governance Policy of the Company's majority shareholder AS "Augstsprieguma tīkls" stipulates that, during the selection and nomination process of the Members of the Supervisory Council of AS "Augstsprieguma tīkls", the binding laws and regulations are complied with, as well as the principles of good practice of the corporate governance providing open, fair and professional selection of the Members of the Supervisory Council which promotes establishment of professional and competent administration body of the Company. - Clause 21 of the Company's Articles of Association stipulates that the Shareholders' meeting may elect to the Supervisory Council only persons who are not subject to the restrictions laid down in the laws and regulations, including those specified in the Energy Law.
*	The company provides timely and sufficient information to the company's shareholders on the members of the Supervisory council nominated for election or re-election	√ No later than 14 days before the Shareholders' meeting (if the meeting is scheduled on-site) or no later than 30 days before the Shareholders' meeting (if, due to epidemiological safety restrictions, the meeting is to be put to the vote by a prior written vote remotely), information on the Supervisory Council candidates is posted on the Conexus website.
*	Size of the Supervisory Council corresponds to the specifics of the company's operations	√ Seven Members of the Supervisory Council shall be sufficient to ensure professional and competent supervision of the unified natural gas transmission and storage system operator, as well as to ensure protection of the interests of shareholders.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
*	Member of the Supervisory Council is elected for a term of office not exceeding 5 years	√	Clause 21 of the Articles of Association stipulates as follows: The Supervisory Council shall be elected by the Shareholders' meeting for a term of office of three years, determining the remuneration of the Members of the Supervisory Council in accordance with the remuneration policy approved by the Shareholders' meeting. Only persons, who are not subject to the restrictions specified in the laws and regulations, including the Energy Law, may be elected to the Supervisory Council.
<b>8. Members of the Supervisory Council combined have relevant experience and competence</b>		√	
*	The Supervisory Council as a whole has a set of skills, experience and knowledge, including on the sector concerned, to be able to fully perform their duties	√	The published Sustainability and Annual Report and the Conexus website contain description of the experience of the Members of the Supervisory Council which is sufficient to oversee the operations of the unified natural gas transmission and storage system operator.
*	When setting up the composition of the Supervisory Council, principles of diversity are complied with	√	According to Section 296, Paragraph Four of the Commercial Law, a shareholder or group of shareholders may propose its Supervisory Council candidates with a calculation that, when dividing the voting capital represented by such a shareholder or group of shareholders by the number of candidates to be nominated, each of the candidates would have at least five per cent of the voting capital represented at the meeting. The Company's Articles of Association do not stipulate more stringent requirements on the composition of the Supervisory Council, and the Company does not have a separate diversity policy for the nomination and election of the Members of the Supervisory Council. At the same time, Sub-clause 15.1.7 of the Corporate Governance Policy of the Company's largest shareholder AS "Augstsprieguma tīkls", during the nominating process of the Members of the Supervisory Council of subsidiaries, AS "Augstsprieguma tīkls" complies with the principles of good practice of the corporate governance. The currently elected Supervisory Council is composed of individuals with diverse, mutually complementary competence, education, and professional experience, representing several nationalities, different ages and both sexes.
*	Both sexes are represented in the Supervisory Council	√	The current composition of the Supervisory Council is: six men and one woman.
*	The Management Board develops an induction training program and provides new Members of the Supervisory Council with induction training	√	In order to provide training, introductory sessions of the Supervisory Council are organized, including on the gas market, technical and financial matters.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
<b>9. The company's Supervisory Council consists of independent Members</b>			
*	The Company assesses and the shareholders determine the proportion of independent Members of the Supervisory Council	X	- There is no such a policy in place. - Members of the Supervisory Council comply with the requirements specified in the Commercial Law for the Members of the Supervisory Council of a commercial company, as well as all the Members of the Supervisory Council have acknowledged in writing that they comply with the requirement specified in Section 111, Paragraph Three, Clause 4 of the Energy Law. In accordance with Clause 58 of the Supervisory Council Regulation, Members of the Supervisory Council shall inform Conexus on their participation and positions in other commercial companies, as well as that of their spouses and children.
*	At least half of the Members of the Supervisory Council are independent	√	Members of the Supervisory Council have assessed their compliance with the independence criteria stated by the Corporate Governance Code of Latvia. More than half of them are considered to be independent Members of the Supervisory Council and have submitted an appropriate statement of independence.
*	The independent Supervisory Council candidates submit a statement of their compliance with the independence criteria	√	All the Members of the Supervisory Council have assessed their compliance with the independence criteria by filling in and signing the questionnaires prepared to assess their compliance.
*	Prior to the election of the Supervisory Council, the company evaluates the independence of the Members of the Supervisory Council according to the available information	X	Candidates for Conexus Supervisory Council are nominated and approved by both major shareholders according to the percentage of shares held. See <a href="#">Supervisory Council</a> section of the Sustainability and Annual Report.
<b>Principles of determination of the remuneration for the Supervisory Council and the Management Board</b>			
<b>10. The company has a remuneration policy in place</b>			
*	The Company has a remuneration policy in place, developed by the Management Board, reviewed by the Supervisory Council and approved by the Shareholders' meeting	√	The Company has the Management Board and Supervisory Council Remuneration Policy in place (approved at the Company's annual Shareholders' meeting dated May 12, 2021), as well as the Personnel and Remuneration Policy (approved by the decision of the Company's Supervisory Council meeting dated November 25, 2021).
*	Once a year, the Supervisory Council determines the financial and non-financial goals to be achieved by the Management Board, their impact on the variable part of remuneration and controls their fulfilment	√	In order to ensure successful implementation of the strategy, key performance indicators (KPIs) are set for the Company every year, which are approved by the Supervisory Council and the achievement of which is the Management Board's responsibility. Performance is assessed annually, together with the approval of the annual report, to assess performance of the Management Board and decide on the bonuses to be paid to the Management Board.
*	No variable part of remuneration is determined for Members of the Supervisory Council, and no compensation is paid in case of removal or resignation from office	√	Remuneration Policy of the Management Board and Supervisory Council stipulates that the principles specified in the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies must be followed. Having regard to the provisions of Section 112 of the said Law, in 2023, no variable part of remuneration or any kind of compensations for the Members of the Supervisory Council were determined.
*	Once a year, the Management Board prepares a report on the remuneration granted to each current and former Member of the Management Board and Supervisory Council	√	Information on the remuneration of the Members of the Management Board and the Supervisory Council is included in the published sustainability reports and annual reports.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
Organization of the Supervisory Council's work and decision-making			
	<b>11. The company has a clear and understandable Supervisory Council work organization in place</b>	✓	
*	The Supervisory Council organizes its work in accordance with the Supervisory Council Regulation and the work calendar	✓	The Supervisory Council's work is organized in accordance with the Supervisory Council Regulation and the work calendar. In 2023, thirteen Supervisory Council meetings took place (four regular, nine extraordinary). Attendance rate of the Supervisory Council meetings – 100 % (in 2022 – 100 %).
*	The Supervisory Council holds at least one separate Supervisory Council meeting per year to discuss the company's strategy and its implementation	✓	In 2023, one separate Supervisory Council work session was dedicated for the strategy (in 2022 - 2), and the relevant matters were discussed at several Supervisory Council meetings, including the Supervisory Council meeting dated November 24, 2023, when the Supervisory Council approved Annex 6.3 "Roadmap 2023-2027" to the Conexus medium-term business strategy 2023-2027 in new version.
*	The Company's budget provides for the financing necessary to ensure the operation of the Supervisory Council	✓	The work process of the Supervisory Council is ensured in accordance with the Supervisory Council Regulation, and the funding provided for in the budget has been sufficient.
*	Once a year, the Supervisory Council conducts a self-assessment of the work of the Supervisory Council and reviews its results at the Supervisory Council meeting	✓	According to Clause 62 of the Supervisory Council Regulation, the Supervisory Council conducts a self-assessment on an annual basis. At the end 2023, the Supervisory Council conducted a self-assessment of its work during the reporting period examining the results in the Supervisory Council meeting.
*	The Supervisory Council has evaluated the need to set up committees (if a committee has been set up, see principle # 12.1)	✓	Laws and regulations do not provide for the mandatory establishment of committees, whereas the existing structure of the Company ensures proper management and supervision of processes. The Supervisory Council has discussed and assessed the establishment of an audit committee and, if required by laws and regulations, a relevant committee will be established. During the reporting period, the Supervisory Council established the Nomination Commission for the selection of a Member of the Management Board. The Commission concluded its work at the end of 2023.
	<b>12. The Supervisory Council takes informed and well-balanced decisions</b>	✓	
*	The Supervisory Council has access to information prepared by the Management Board for decision-making in a timely manner and in sufficient amount	✓	Information is submitted to all the Members of the Supervisory Council two weeks before the meeting or, in the case of extraordinary meetings – at least one week before the meeting unless a different time limit has been agreed on (Clause 25 of the Supervisory Council Regulation).
*	The Supervisory Council determines the procedure for the circulation of information, including the right of the Supervisory Council to request from the Management Board information, which the Supervisory Council needs to make decisions	✓	Procedure for the circulation of information, including the right to request information, is stipulated in Clause 11 of the Supervisory Council Regulation.
*	Member of the Supervisory Council analyses the information and prepares proposals for decisions to be adopted by the Supervisory Council	✓	Member of the Supervisory Council analyses the information and prepares proposals for decision-making in the Supervisory Council.



Principle of the Corporate Governance Code of Latvia		Conexus performance	
*	When making decisions, the Supervisory Council assesses the risks, short-term and long-term impact on the Company's value, sustainability and responsible development	√	When making decisions, the Supervisory Council assesses the risks, short-term and long-term impact on the Company's value, sustainability and responsible development.
<b>12.1. A committee prepares proposals for decision-making in the Supervisory Council</b>			
*	The Supervisory Council determines tasks of the committee and the procedures for organization of work	√	When the Supervisory Council established the Nomination Commission, its tasks were determined by delegating the Nomination Commission to develop and approve the Nomination Commission Regulation (meeting dated September 19, 2023, Minutes No. 8 (2023))
*	The Supervisory Council establishes a committee consisting of at least 3 members of the Supervisory Council with appropriate experience and expertise in the field of work of the committee (remuneration, nomination, audit or other field)	×	In light of the Company's shareholder structure and composition of the Supervisory Council, the Nomination Commission was established in the composition of two Members of the Supervisory Council with appropriate experience and knowledge in the field of nomination.
*	The Committee analyses the information and prepares proposals for decision-making at the Supervisory Council, as well as informs the Supervisory Council of the committee work	√	The Nomination Commission, with the involvement of an advisor, performed selection of the Management Board candidates by submitting to the Supervisory Council information on the commission's work and information on the candidates selected for the consideration and choice of the final candidate.
<b>Prevention of conflict of interest</b>			
<b>13. Members of the Management Board and of the Supervisory Council are clearly aware of the manifestations of conflicts of interest and are informed of the action to be taken in the event of a conflict of interest</b>		√	
*	The Supervisory Council defines the indications of a conflict of interest and determines procedure for the prevention and management of the conflict of interest	√	<ul style="list-style-type: none"> <li>- The Supervisory Council has approved the Supervisory Council Regulation and Code of Ethics which regulate matters related to conflict of interest.</li> <li>- In addition, Members of the Supervisory Council fill in forms (Clause 58 of the Supervisory Council Regulation) and examine them at the Supervisory Council meeting, indicating their own and spouses' and children's workplaces, capital shares owned, positions with the right of representation. The Members of the Supervisory Council are obliged to provide information in case the information provided in the forms has changed (Clause 59). The Supervisory Council has examined the forms completed by the Members of the Supervisory Council without finding any conflict of interest.</li> </ul>
*	Members of the Management Board and of the Supervisory Council do not participate in decision-making on matters in which the Company's interests conflict with the interests of the Members of the Supervisory Council, the Management Board or persons related to them	√	In accordance with Clause 39 of the Supervisory Council Regulation, a Member of the Supervisory Council is obliged to inform the Supervisory Council no later than before the approval of the agenda of the Supervisory Council meeting, where conflict of interest has or may occur with regard to the specific matter on the agenda.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
*	Persons subject to the obligation of prevention of the conflict of interest participate in training on dealing with conflicts of interest situations on a regular basis	√	- Mandatory training has been introduced for all employees on ethical issues in the Company, including also the matters concerning the prevention of conflicts of interest. - Individual training on conflict of interest for the Members of the Supervisory Council has not been organized, however, the Supervisory Council has approved the Supervisory Council Regulation and the Code of Ethics regulating the matters related to the conflict of interest, and the Members of the Supervisory Council have been explained indications of the conflict of interest and actions to take in case of a conflict of interest.
<b>Shareholders' meeting</b>			
	<b>14. The company provides shareholders with information on shareholders' meeting in timely manner providing all the information necessary for decision-making</b>	√	
*	The Company informs shareholders in a timely manner about the agenda, course and voting procedure of the Shareholders' meeting, as well as about any changes related thereto	√	The notice on the Shareholders' meeting shall be sent by post to all shareholders not later than 30 days before the Shareholders' meeting, indicating in the notice the agenda, procedure of the meeting, procedure for submission of proposals. Notice on the Shareholders' meeting is also published on the Conexus website.
*	Simultaneously with the announcement of the meeting, the Company provides an opportunity for the shareholders to get acquainted with the draft decisions, which are initially planned to be voted on at the meeting. The company informs the shareholders immediately of any additional draft decisions submitted	√	Opportunity for the shareholders to familiarize themselves with the draft decisions to be initially voted on at the meeting, voting by a previous written ballot (without being present in person) is provided simultaneously with the announcement of the meeting. The information is sent with the notice and posted on the Conexus website. If the meeting is planned to be held on-site, draft decisions are posted on the website as soon as they are prepared, but no later than 14 days before the meeting.
*	The Company provides shareholders with an opportunity to submit questions on the matters included in the agenda and draft decisions before the Shareholders' meeting	√	In 2023, a pre-meeting was held two weeks prior to the Shareholders' meeting, where shareholders were familiarized with the topics to be examined at the Shareholders' meeting, as well as the Management Board provided answers to the shareholders' questions.
*	Draft decisions and the documents attached thereto provide detailed, clear and complete information on the matter under consideration	√	Draft decisions and the documents attached thereto provide detailed, clear and complete information on the matter under consideration.
	<b>15. The Company promotes effective shareholder involvement in decision-making and maximum possible participation of shareholders in Shareholders' meetings</b>	√	
*	Shareholders' meeting is convened and held at a place and time easily accessible to the shareholders	√	Shareholders' meetings are held on working days at 10:00 am. Time is selected taking into account different time zones.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
*	The company provides shareholders with the opportunity to participate in the Shareholders' meeting remotely	√	In 2023, the Shareholders' meeting was held on-site providing the shareholders also with the opportunity to participate remotely on the MS Teams platform. All the shareholders were asked to participate at the meeting in writing by filling in, prior to the meeting, a voting form sent with the meeting notice. A link to the participation in the meeting was sent to the address indicated in the application prior to the meeting.
*	The company determines appropriate duration of the shareholders' meeting and provides the shareholders with the opportunity to express their opinions during the meeting and obtain the information necessary for decision-making	√	
*	The Company announces a new Shareholders' meeting if the matters included on the agenda of the meeting cannot be considered within the planned time limit	n/a	So far, Conexus has not encountered a situation where the matters included on the agenda of the Shareholders' meeting could not be examined within the planned time limit. Should such a situation arise in the future, Conexus would act in accordance with the procedures stipulated in the Commercial Law and the Articles of Association.
*	The company invites Members of the Management Board and the Supervisory Council, the Management Board and the Supervisory Council candidates, the auditor and internal auditors, as well as other persons to participate in the Shareholders' meeting according to the matters to be considered at the meeting	√	The entire Management Board and the Chairman of the Supervisory Council attend the Shareholders' meeting; the external auditor and the head of Internal Audit Department are also invited to discuss certain issues.
*	The Shareholders' meeting makes decisions according to the previously announced draft decisions	√	Decisions made by the Shareholders' meeting are available on the Conexus website. The key resolutions of the Shareholders' meeting in 2023: <b>1)</b> approval of the sustainability and annual report and the dependency report 2022, <b>2)</b> use of the profits generated in 2022, <b>3)</b> conversion of shares, amendments to the Articles of Association related thereto and selection of depository for accounting for shares, <b>4)</b> election of the Members of the Supervisory Council. The decisions adopted were consistent with the previously announced draft decisions.
<b>16. The company develops and discusses dividend policy with shareholders</b>		√	
*	The company has developed and published an up-to-date dividend policy	√	Dividends are calculated in accordance with the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies, in accordance with which the share of profits to be paid in dividends shall be determined on the basis of the medium-term strategy of the capital company, objectives of the capital company specified therein and the implementation thereof. Decision on the use of profits and the amount of dividends is adopted by the Company's Shareholders' meeting. In the approved medium-term business strategy, the dividend rate is set at 90 % of profit. For a description of the dividend policy, see the <a href="#">Dividend policy</a> section of the Sustainability and Annual Report.
*	The dividend policy has been discussed with the shareholders during the shareholders' meeting	√	The decision on the dividend policy, the use of profits and the amount of dividends is made by the Company's Shareholders' meeting.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
<b>Transparency of the Company's operations</b>			
	<b>17. The Company informs shareholders and other stakeholders on a regular basis and in a timely manner of business operations, financial results, management and other relevant issues</b>	√	
*	The Company discloses complete, accurate, objective, up-to-date and true information in a timely manner	√	Complete, accurate, objective, up-to-date and true information is published in a timely manner.
*	The Company discloses information to all the shareholders at the same time and to the same extent	√	The information is provided simultaneously and to the same extent to all the shareholders.
*	The Company discloses information about the Company's management, strategy or lines of business and publishes financial statements as well as other information in accordance with Annex No. 1 on the website	√	See below.
*	The Company provides information both in Latvian and in at least one other language that is understandable to most of the company's foreign shareholders and other stakeholders	√	In accordance with the Company's Articles of Association information for shareholders is provided in Latvian and English.
<b>Annex No. 1 to the Corporate Governance Code of Latvia: Information to be published on the Company's website</b>			
<b>Company</b>			
*	Information about the company – history of its establishment and operation, registration data, address, description of the industry, main types of business, place of the company in the group structure (if applicable)	√	Published on the website and in the annual reports.
*	Information about the company's strategic goals	√	<a href="https://www.conexus.lv/goal-and-strategy">https://www.conexus.lv/goal-and-strategy</a>
*	The Company's Articles of Association	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Information on the Company's corporate governance structure (interaction between Shareholders' meeting, the Supervisory Council, its committees, the Management Board, auditor, internal auditor, auditing committee, etc.)	√	Published on the website and in the annual reports.
*	The Company's Code of Internal Culture and Ethics	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Key Company policies (Information Disclosure, Circulation and Confidentiality Policy, Conflict of Interest Prevention Policy, Risk Management Policy, etc.) in accordance with Annex No. 2	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>

## Shareholders and true beneficial owners

*	Information on the Company's shareholders holding at least 5 % of the Company's share capital (indicating the date on which this information was prepared)	✓	<a href="https://www.conexus.lv/shareholder-structure">https://www.conexus.lv/shareholder-structure</a>
*	Information on the true beneficial owners of the Company (indicating the date when this information was prepared)	✓	There is no such natural person considered to be the true beneficial owner of Conexus under the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing and other laws and regulations.
*	Number of the Company's issued, paid-up and voting shares, bonds or other financial instruments	✓	<a href="https://conexus.lv/information/informacija-par-akcijam">https://conexus.lv/information/informacija-par-akcijam</a>

## The Supervisory Council and the Management Board

*	The Management Board and the Supervisory Council Regulation or other document comparable thereto	✓	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Information on each member of the Company's Supervisory Council and of the Management Board:		
	- term of office;	✓	<a href="https://www.conexus.lv/council">https://www.conexus.lv/council</a>
	- position and area of responsibility (if determined);	✓	<a href="https://www.conexus.lv/board">https://www.conexus.lv/board</a>
	- professional work experience and education;	✓	The Company has assessed that the Members of the Management Board and of the Supervisory Council do not hold any other positions in such commercial companies that could create a conflict of interest.
	- up-to-date information on positions in other companies;	✓	
	- up-to-date information on the company's shares owned;	✓	
	- statistics on attendance of the Supervisory Council meetings (applies to the Members of the Supervisory Council only)	✓	
*	Information on independent Members of the Supervisory Council:		
	- which Members of the Supervisory Council are considered to be independent;	✓	Members of the Supervisory Council which are to be considered independent are: I. Šņucins, T. Goto, M. Furuya, V. Sentuhovskis, and N. Šuksts. Independence of the Members of the Supervisory Council has been determined according to the criteria set in the Corporate Governance Code of Latvia.
	- according to what criteria the independence of a Member of the Supervisory Council supervisory is determined;		
	- annual evaluation of dependence of Members of the Supervisory Council		
*	The Management Board and Supervisory Council Remuneration Policy and remuneration report	✓	Information on the remuneration of the Members of the Management Board and of the Supervisory Council for the reporting year is published in the Company's Sustainability and Annual Report. <a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
*	Information on the selection (nomination) process of the Management Board and the Supervisory Council	✓	The Management Board is elected by the Supervisory Council. For the selection of the Chairman and Member of the Management Board (Chief Technical Officer), the Supervisory Council established a Nomination Commission, which, in cooperation with a recruitment company, conducted the selection in an open competition, presenting the results to the Supervisory Council. Further, if changes to the Management Board are necessary, a Nomination Commission will be established. See <a href="#">Supervisory Council</a> and the <a href="#">Management Board</a> sections of the Sustainability and Annual Report.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
*	Information on the Supervisory Council's committees and the audit committee:		
	- committee regulation;	n/a	Laws and regulations do not provide for the mandatory establishment of committees, whereas the existing structure of the Company ensures proper management and supervision of processes. The Supervisory Council has discussed establishment of an audit committee and, if required by laws and regulations, a relevant committee will be established. During the reporting period, a Nomination Commission was established, and both the vacancy ad and the announcement of results included information on the composition of the commission. The Nomination Commission developed and approved also the Nomination Commission's Regulation, however, neither the framework of laws and regulations, nor the related guidelines provide for publishing of the Nomination Commission's Regulation. Clause 57 of the Guidelines for the Nomination of Members of the Management Board and of the Supervisory Council at the Capital Companies where Capital Shares are Owned by the State or Derived Public Person, developed by the Cross-Sectoral Coordination Centre, directly stipulates that the Regulation (particularly, evaluation criteria) do not have to be published, since it is provided for the work of the Nomination Commission only and covers organizational matters of the nomination process. <a href="https://www.conexus.lv/press-releases/conexus-padome-valde-ievil-incukalna-pgk-vaditaju-diminu">https://www.conexus.lv/press-releases/conexus-padome-valde-ievil-incukalna-pgk-vaditaju-diminu</a>
	- information on members of committees.	√	
<b>Financial and non-financial reports and information</b>			
*	The Company's financial statements and reports for at least 3 last financial years:	√	
	- annual reports (including consolidated reports, if any) and auditor's reports (if any);	√	Published. Financial statements are prepared in accordance with IFRS Accounting Standards. <a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
	- interim reports and quarterly reports.	√	Interim financial statements are published on a quarterly basis in accordance with the published financial calendar. <a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
*	The company's non-financial reports (on the company's environmental impact, social and employee aspects, respect for human rights and anti-corruption measures, including the sustainability report) for at least 3 last financial years	√	Sustainability reports are published since 2020 reporting year. Sustainability Reports for 2021, 2022 and 2023 were prepared in accordance with the GRI (Global Reporting Initiative) guidelines and obtained auditors' opinion. <a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
*	Corporate governance reports	√	The corporate governance reports are included in the Sustainability Reports since the Sustainability Report 2022.

Principle of the Corporate Governance Code of Latvia		Conexus performance	
*	The Company's financial calendar or other calendar of significant and planned communication events	√	<a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
<b>Information for shareholders and investors</b>			
*	Information on the scheduled Shareholders' meetings:	√	<a href="https://www.conexus.lv/information">https://www.conexus.lv/information</a>
	- notices on convention of Shareholders' meetings;	√	<a href="https://www.conexus.lv/information">https://www.conexus.lv/information</a>
	- draft decisions.	√	<a href="https://www.conexus.lv/information">https://www.conexus.lv/information</a>
*	Information on held Shareholders' meetings:	√	In 2023, one Shareholders' meeting was held (in 2022 - 1).
	- information on the decisions adopted at the Shareholders' meetings	√	The key decisions of the Shareholders' meeting in 2023: 1) Approval of the Sustainability and Annual Report and the Dependency Report 2022, 2) use of profits generated in 2022, 3) conversion of shares, amendments to the Articles of Association related thereto and selection of depository for accounting for shares, 4) election of the Members of the Supervisory Council.
*	The Company's dividend policy and information on paid dividends (on at least 10 last years of the company's operation)	√	Dividends are calculated in accordance with the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies, in accordance with which the share of profits to be paid in dividends shall be determined on the basis of the medium-term strategy of the capital company, objectives of the capital company specified therein and the implementation thereof. Decision on the use of profits and the amount of dividends is adopted by the Company's Shareholders' meeting. In the approved medium-term business strategy, the dividend rate is set at 90 % of profit. For a description of the dividend policy, see the <a href="#">dividend policy</a> section of the Sustainability and Annual Report.
*	Information on transactions of related parties	√	Information is published in the Conexus Sustainability and Annual Report.
*	Announcements published by the company and relevant information for investors, including presentations for investors, videos of events for investors, forecasts, if any, etc.	√	<a href="https://www.conexus.lv/aktualitates-sistemas-lietotajiem-eng-575">https://www.conexus.lv/aktualitates-sistemas-lietotajiem-eng-575</a>
*	Contacts of the investor relations specialist (if any)	√	Normunds Čižiks, Head of the Legal Division of the Legal Department, phone 26101807, <a href="mailto:IR@conexus.lv">IR@conexus.lv</a> . The e-mail address is provided both on the Conexus website and in the notice announcing the Shareholders' meeting. Advice to shareholders and potential shareholders is also provided by Nasdaq CSD SE, 67212431, <a href="mailto:csd.latvia@nasdaq.com">csd.latvia@nasdaq.com</a>

Principle of the Corporate Governance Code of Latvia		Conexus performance	
<b>Annex No. 2 to the Corporate Governance Code of Latvia: Key company policies</b>			
<b>Key policies included in corporate governance principles or criteria thereof:</b>			
*	Risk Management Policy	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Remuneration Policy	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Dividend Policy	√	For a description of the <a href="#">dividend policy</a> , see the dividend policy section of the Sustainability and Annual Report.
<b>Other key policies mentioned in the Corporate Governance Code of Latvia:</b>			
*	Internal Audit Policy	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Conflict of Interest Prevention Policy	√	Matters of conflict of interest are stipulated in the Supervisory Council Regulation, the Management Board Regulation, as well as in the Code of Ethics. <a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Information Disclosure, Circulation and Confidentiality Policy	√	Information disclosure, circulation and confidentiality matters are regulated by the Code of Ethics. <a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>





## Independent Limited Assurance Report

To the Management of AS “Conexus Baltic Grid”:

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### Introduction

We have been engaged by the Management of AS “Conexus Baltic Grid” (the “Company”) on the basis of our agreement dated 21 October 2021 to provide limited assurance on the Selected information described below and included in the Sustainability and Annual report of the Company for the year ended 31 December 2023 on pages 2 to 95 (“the Sustainability report 2023”). The Sustainability report 2023 represents information related to the Company.

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### Selected Information and Reporting Criteria

We assessed the qualitative and quantitative information, that is disclosed in the Sustainability report 2023 and referred to and included in the GRI Content Index (hereinafter – the “Selected Information”). The Selected Information has been prepared in accordance with GRI Sustainability Reporting Standards (hereinafter – the “GRI Standards”), published by the Global Reporting Initiative (GRI).

The scope of our limited assurance procedures was limited to the Selected Information for the year ended 31 December 2023. We have not performed any procedures with respect to earlier periods or any other items included in the Sustainability report 2023 and, therefore, do not express any conclusion thereon.

We assessed the Selected Information using relevant criteria, including reporting principles and requirements, in the GRI Standards (hereinafter – the “Reporting Criteria”). We believe that the Reporting Criteria are appropriate given the purpose of our limited assurance engagement.

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### Responsibilities of the Management of the Company

The Management of the Company is responsible for:

- designing, implementing and maintaining internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing internal methodology and guidelines for preparing and reporting the Selected Information in accordance with the Reporting Criteria;
- preparing, measuring and reporting of the Selected Information in accordance with the Reporting Criteria; and
- the accuracy, completeness and presentation of the Selected Information.



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## Our Responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Company's Management.

We performed the limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements, and plan and perform procedures to obtain limited assurance on whether the measures taken by the Company in respect of Selected information comply in all material respects, with the Reporting criteria.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

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## Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We have fulfilled our other ethical responsibilities in accordance with IESBA Code.

Our firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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## Summary of the Work Performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the Sustainability report 2023 in accordance with the GRI Standards.



Our work consisted of:

- interviewing the management and senior executives to evaluate the application of the GRI Standards and to obtain an understanding of the control environment related to sustainability reporting;
- obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the Sustainability report 2023;
- comparing data from Selected information to internal documentation and corroborating statements of management and senior executives in the interviews;
- comparing the financial data included in the Sustainability report 2023 to the financial statements 2023 of Company; and
- evaluating the overall format and content of the Sustainability report 2023, taking into account the compliance of the disclosed information with the Reporting Criteria.

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### Reporting and Measurement Methodologies

Under the Reporting criteria there is a range of different, but acceptable, measurement and reporting techniques. The techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Selected Information should therefore be read in conjunction with the methodology used by the Management as described in the Sustainability report 2023, and for which the Company is solely responsible.

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### Our Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2023 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

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### Restriction of Use and Distribution

This report, including our conclusion, has been prepared solely for the Company's Management in accordance with the agreement between us, to assist the Management in reporting on the Company sustainability performance and activities. We permit this report to be disclosed in the Sustainability report 2023, which will be published on the Company's website<sup>1</sup>, to assist the Management in responding to their governance responsibilities by obtaining an independent limited assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company for our work or this report except where the respective terms are expressly agreed in writing and our prior consent in writing is obtained.

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<sup>1</sup> *The maintenance and integrity of the Company's website is the responsibility of management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on the Company's website.*



PricewaterhouseCoopers SIA  
Certified audit company  
License No. 5

Ilandra Lejiņa  
Member of the Board  
Certified auditor in charge  
Certificate No. 168

Riga, Latvia  
4 March 2024

INDEPENDENT LIMITED ASSURANCE REPORT IS SIGNED ELECTRONICALLY WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A  
TIME STAMP

The background of the entire page is a photograph of an industrial facility, likely a refinery or chemical plant. It features multiple levels of metal walkways with yellow railings, large cylindrical storage tanks, and a complex network of pipes and valves. A large, semi-transparent green graphic element, consisting of several overlapping geometric shapes, is overlaid on the right side of the image, extending from the top right towards the bottom right. The sky is clear and blue.

**conexus**  
B A L T I C G R I D

# ANNUAL REPORT for 2023

Prepared in accordance with IFRS Accounting Standards  
as adopted by the European Union

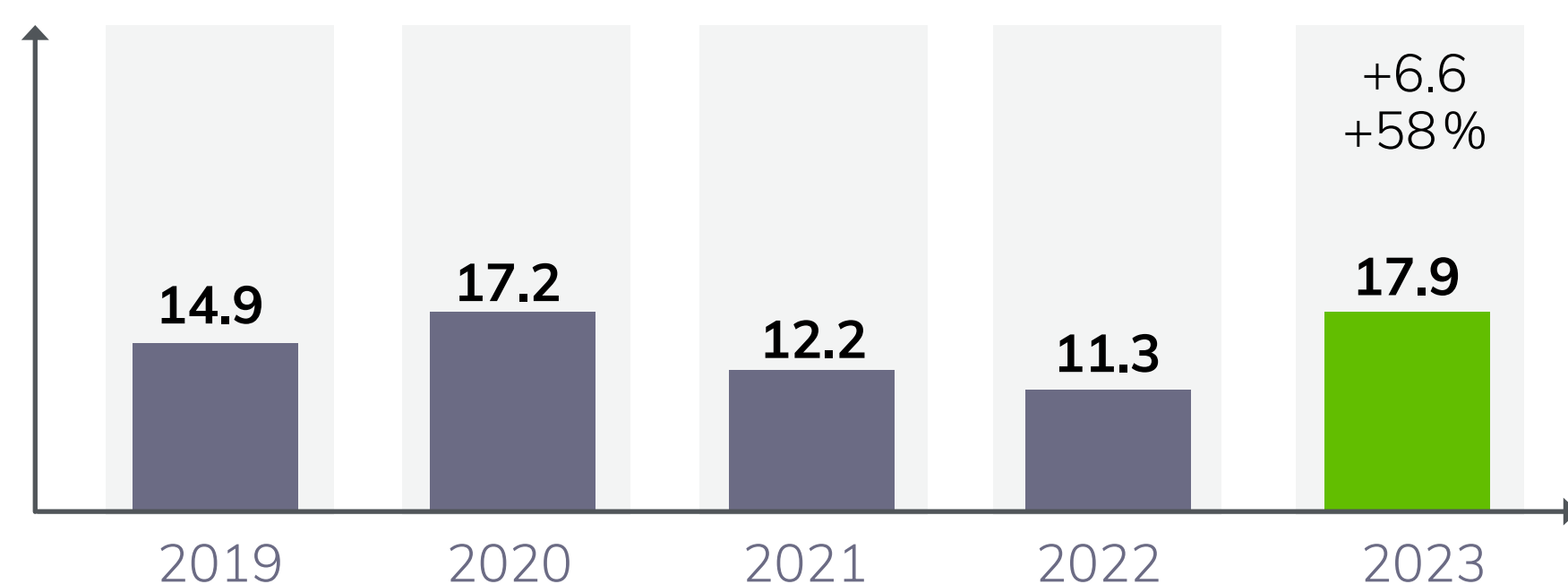
Riga 2024

# MANAGEMENT REPORT

## Main activities

### Amount of natural gas stored in Inčukalns UGS

Inčukalns UGS filling at the end of reporting year, TWh



At the end of the reporting year, 17.9 TWh of natural gas is stored in Inčukalns UGS (including energy supply security reserves), which is 58 % above the same time a year ago and is the largest amount of natural gas stored in the storage facility in the last five years. On 15 October 2023, at the beginning of natural gas withdrawal season, Inčukalns UGS held 21.7 TWh of natural gas. The withdrawal

season has commenced with the largest amount of natural gas stored in Inčukalns UGS in the last five years.

To ensure safe and continued supply injection of natural gas into storage was continued also during 2022/2023 withdrawal season. Usually, injection into Inčukalns UGS starts after the end of withdrawal season, which is set for 30 April each year.

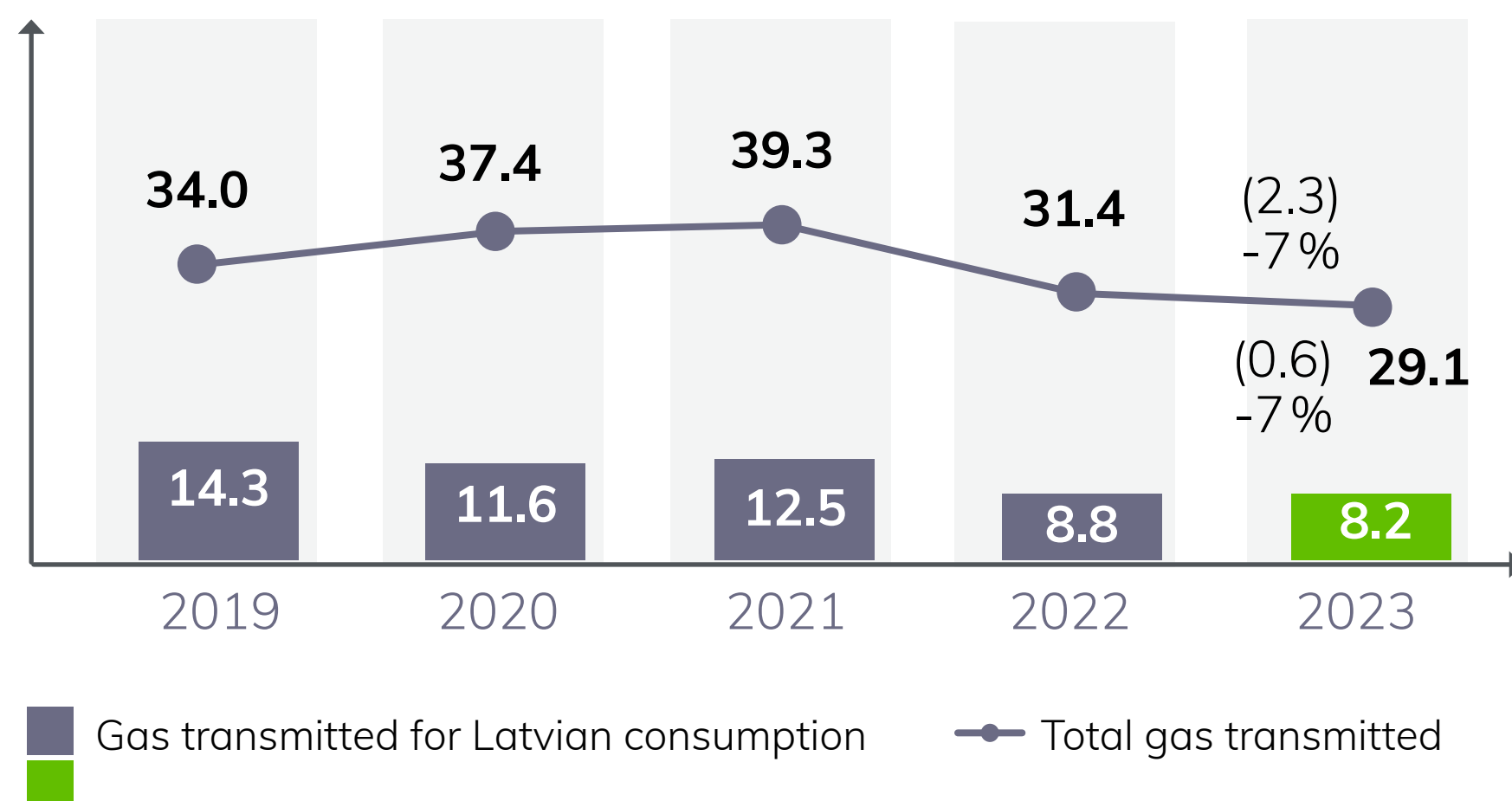
### Natural gas supply

In 2023, Conexus ensured uninterrupted supply of natural gas to users in Latvia, as well as natural gas transmission and storage services for Lithuania, Estonia and Finland<sup>1</sup>. Deliveries of natural gas were made from the Klaipeda liquefied gas terminal, from the Inkoo liquefied gas terminal and from Inčukalns UGS. Natural gas from the Russian Federation has not been supplied for consumption in Latvia<sup>2</sup>. During the reporting year, the volume of natural gas transmitted from Lithuania reached 17.7 TWh, the volume of natural gas transmitted from Finland reached 4.1 TWh and 7.3 TWh were injected into the transmission system from storage. The total volume of gas transmitted in Latvia during the reporting year reached 29.1 TWh, which is 7 % less than in the prior year.

<sup>1</sup>Conexus ensured the service to Finland until 8 October 2023. Since October 8, when the underwater gas pipeline connecting Finland and Estonia "Balticconnector" was closed, Finnish consumers have been supplied through Inkoo liquefied natural gas terminal.

<sup>2</sup>Energy law, Article 106.

## Transmitted natural gas, TWh



Consumption of natural gas in Latvia in 2023 reached 8.2 TWh, which is 7 % less than in the prior year. The decrease was caused by weather conditions that were milder this winter than in 2022, which led the users to consume less natural gas for heating purposes, as well as by the high gas prices, which also caused the users to reduce their consumption of natural gas. Reduction of the consumption was partially offset by increase in electricity generation in the country's largest thermal power plants<sup>3</sup>.

<sup>3</sup> <https://ast.lv/lv/electricity-market-review>

## Results of the storage capacity auctions

During the reporting year, several auctions of Inčukalna UGS capacity were held, in which system users were granted a total capacity of 13.4 TWh – 9.4 TWh of the one-year bundled capacity product for 2023/2024 storage cycle, 4 TWh of the two-year bundled capacity product for the 2023/2025 storage cycle. The storage capacity offered in the auctions was fully booked. The total requested amount of the storage capacity exceeded the available capacity more than 3 times. As a result of the auctions, applicable premium ranged from 2.53 EUR/MWh to 4.08 EUR/MWh. Effective rate of the premiums is 1.62 EUR/MWh (premium earned against 22.6 TWh capacity booked). Storage cycle capacity auctions were completed with the auction held on 10 May 2023, in which the last available storage capacity was auctioned.

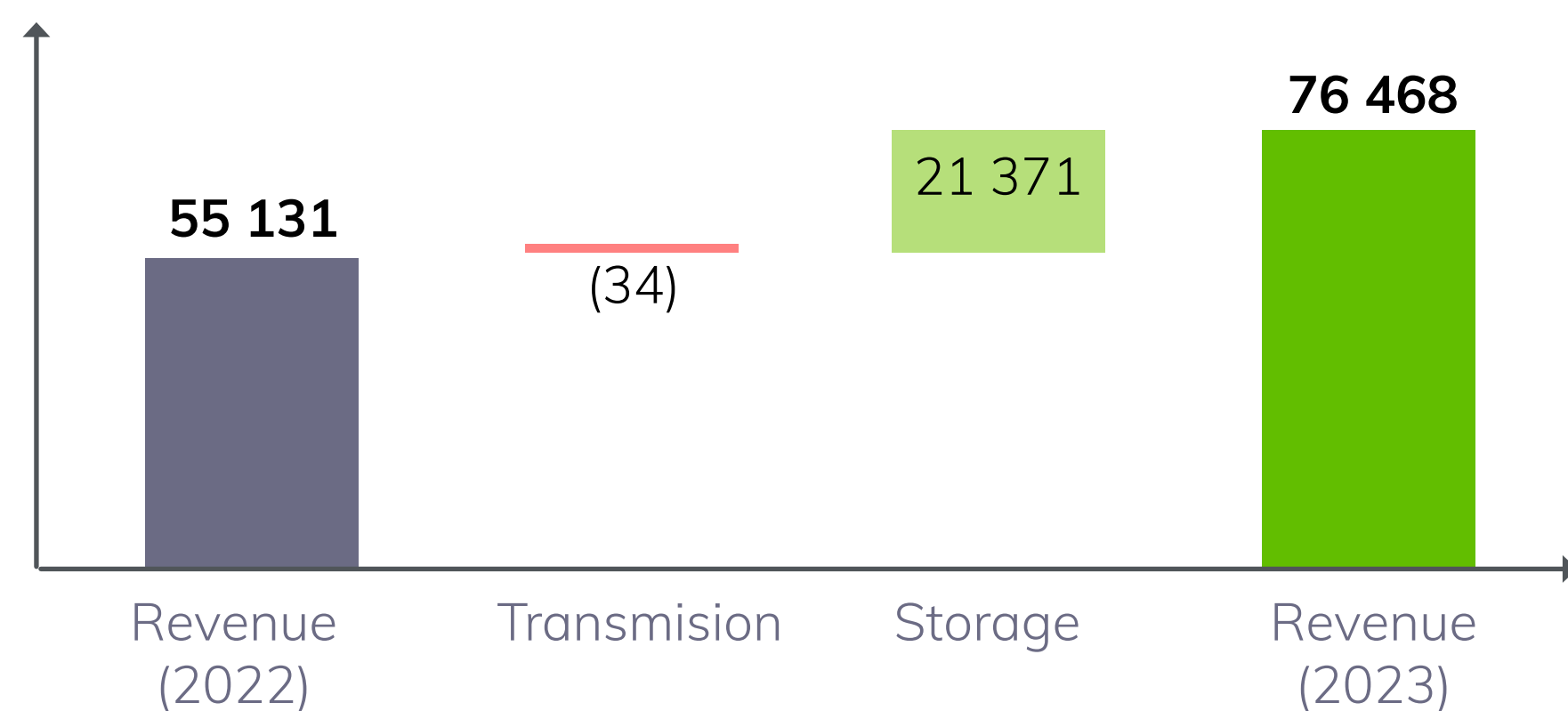
## Conexus' financial results

The net turnover in the reporting year was 39 % higher than in the previous year and reached EUR 76 468 thousand. During the reporting year, Conexus EBITDA increased by 57 % in comparison to 2022 reaching EUR 50 502 thousand. The revenue and EBITDA were positively affected by the increase in storage service revenues and EBITDA, while the transmission segment revenues and EBITDA remained relatively unchanged.

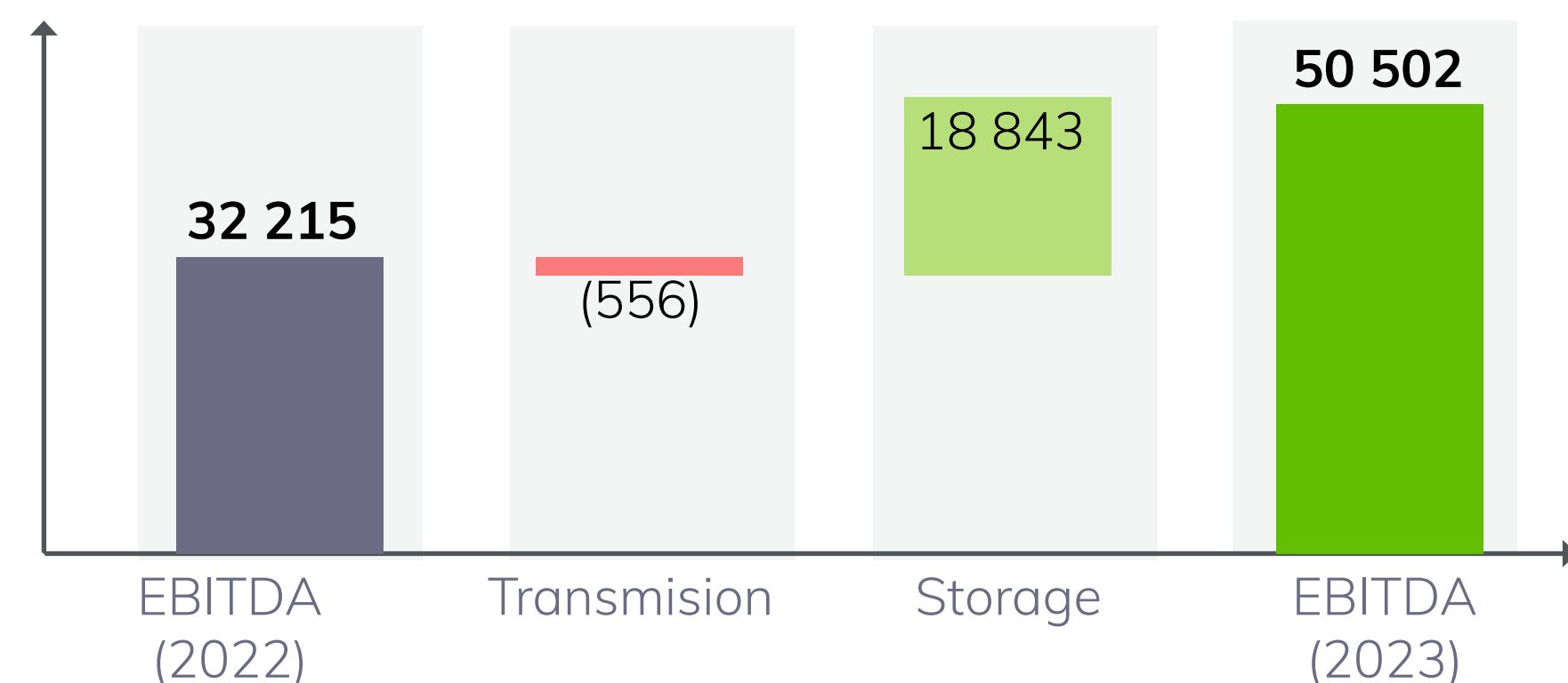
During the reporting year, Conexus' net profit was EUR 16 172 thousand, which is EUR 4 807 thousand more than in the prior year.

MAIN FINANCIAL INDICATORS	2023 or	2022 or	+/-	%
	31.12.2023	31.12.2022		
	EUR'000	EUR'000		
<b>Net turnover</b>	<b>76 468</b>	<b>55 131</b>	<b>21 337</b>	<b>39 %</b>
EBITDA	50 502	32 215	18 287	57 %
<b>Net profit</b>	<b>16 172</b>	<b>11 365</b>	<b>4 807</b>	<b>42 %</b>
Total assets	469 284	463 809	5 475	1 %
Investments (additions of intangible assets and PPE, excluding GIPL expenses)	33 568	14 941	18 627	125 %

Conexus revenue, '000 EUR



Conexus EBITDA, '000 EUR



## Financing and liquidity

The financial assets held by Conexus are sufficient to meet Conexus' financing needs. At the end of the reporting year, the total amount of Conexus' borrowings is EUR 79 544 thousand, overdrafts have not been used. The amount of overdrafts available to Conexus at the end of the reporting year reaches EUR 65 000 thousand, which provides significant liquidity reserve. The duration of agreements for the overdraft facilities is less than 1 year. At the end of the reporting year, Conexus holds long-term loan agreements amounting to EUR 45 000 thousand with expected withdrawal of funds during 2024.

All financial covenants set in Conexus' loan agreements have been complied with during the reporting year.

CONEXUS' FINANCIAL COVENANTS	31.12.2023	31.12.2022
Shareholders' equity ratio (>50 %)	70%	72%
Net debt to EBITDA ratio (<5)	1.3	2.7
Debt-Service Coverage Ratio (DSCR) (>1.2)	3.3	2.9

## Carrying value of storage system service assets

In accordance with IFRS Accounting Standards, in order to ensure that the carrying amount of the assets does not differ significantly from their fair value, revaluation of certain classes of assets has been carried out in 2023, which resulted in a reduction of the carrying amount (impairment) of storage system service assets by EUR 23 488 thousand. Company's revaluation reserves have been reduced by EUR 11 743 thousand, but EUR 11 745 thousand is recognized in line item "Depreciation, amortisation, and PPE impairment" of the Company's Income statement for 2023. The impairment of storage system service assets is related to the decision of the Public Utilities Commission regarding the utilization of the regulatory account balance of storage system service, as well as the subsequent revaluation of some classes of assets by setting the value of these classes at fair value. Additional information is set out in Note 9.



Regulatory account balance for the storage system service at the end of the storage cycle (30 April 2024) is expected to be EUR 29 648 thousand. The premium paid by system users for storage cycle set in the storage capacity auctions that took place in the spring of 2023, initially increased the balance of the storage system service regulatory account at the end of the storage cycle (30 April 2024) to EUR 43 312 thousand. In accordance with the methodology for calculating tariffs for the natural gas storage system service, the Public Utility Commission had to decide on the usage of the regulatory account balance, since the amount thereof exceeds 50 % of the revenue planned in the tariff period. In its Decision No 162 of 28 December 2023, Public Utilities Commission decided to allocate 50 % of the regulatory account balance to finance assets of the storage system service set up in the current regulatory period. As a result of this decision, value of the assets set up by the investment in the storage system service will not be included in RAB value and will not provide a return, so the regulatory carrying amount of Conexus' storage system service assets will be reduced by EUR 21 656 thousand. The regulatory carrying amount of the storage system service assets has been reduced by EUR 13 664 thousand in 2023, whereas the remaining EUR 7 992 thousand is expected to reduce the regulatory carrying amount of the storage system service assets in 2024.

## Legal events

On 18 September 2018, Conexus filed an application to the Administrative district court challenging the decision No 69 of the PUC Council "On AS "Conexus Baltic Grid" natural gas transmission system tariffs" dated 18 June 2018, in relation to expenses not included in the transmission system tariff project and issuance of a new administrative act, intending to include the excluded expenses in the tariff project for the next period. By decision of the Administrative district court dated 7 April 2020, the application was rejected. Conexus submitted cassation complaint to the Department of Administrative Cases of the Senate of the Supreme Court on 7 May 2020 and the cassation proceedings were initiated. On 12 January 2024, the Senate of the Supreme Court passed a judgment rejecting Conexus' application. The judgment is not subject to appeal.

On 13 May 2020, Conexus filed an application to the Administrative district court regarding cancellation of the PUC Council's decision No 30 dated 9 April 2020 "On the request for an extension of certification conditions fulfilment deadline by AS "Conexus Baltic Grid"" and decision No 31 dated 9 April 2020 "On the imposition of an obligation and a warning to the AS "Conexus Baltic Grid"". With the decision of the Administrative district court dated 15 January 2021, the application was upheld, declaring Decision No 30 unlawful from the time of its adoption and annulling paragraph 2 of Decision No 31 PUC submitted cassation complaint to the Department of Administrative Cases of the Senate of the Supreme Court and the cassation proceedings were initiated. The date of the hearing has not been set at this time.

On 28 September 2020, Conexus filed an application to the Administrative district court regarding cancellation of the PUC Council's decision No 109 dated 20 August 2020 "Regarding the Capital Return Rate for the Calculation of the Draft Tariff for Natural Gas Transmission System, Natural Gas Distribution System, and Natural Gas Storage Services". By decision of 3 January 2024, the Court decided to refer to the Court of Justice of the European Union concerning the interpretation of the provisions of European Union law applicable to the case. Pending the opinion of the Court of Justice of the European Union, the proceedings in the present case have been suspended.

On 13 September 2023, Conexus filed an application to the Administrative district court regarding cancellation of the PUC Council's decision No 83 dated 10 August 2023 "On the rate of return on capital for the calculation of the tariff project for natural gas transmission system, natural gas distribution system and natural gas storage services". This decision sets an unreasonable low rate of return on capital (1.48 %) to be applied in the calculation of the new tariff for the transmission service in case of submission of new transmission tariff. The first hearing is scheduled for 11 April 2024.

# Key financial indicators

		2019 or 31.12.2019	2020 or 31.12.2020	2021 or 31.12.2021	2022 or 31.12.2022	2023 or 31.12.2023	Δ	Δ %	
Operating indicators	Transmitted natural gas	TWh	34.0	37.4	39.3	31.4	29.1	(2.3)	-7 %
	Volume of natural gas consumed in Latvia*	TWh	14.3	11.6	12.5	8.8	8.2	(0.6)	-7 %
	Inčukalns UGS filling at the end of reporting year**	TWh	14.9	17.2	12.2	11.3	17.9	6.6	58 %
	Volume of natural gas withdrawn from Inčukalns UGS	TWh	10.5	11.6	17.9	10.6	7.3	(3.3)	-31 %
Financial indicators	Net turnover***	`000 EUR	60 526	54 283	56 911	55 131	76 468	21 337	39 %
	EBITDA	`000 EUR	34 216	30 103	33 565	32 215	50 502	18 287	57 %
	Net profit	`000 EUR	17 945	13 112	13 217	11 365	16 172	4 807	42 %
	Total assets	`000 EUR	362 400	453 092	468 070	463 809	469 284	5 475	1 %
	Investments	`000 EUR	13 944	22 118	27 352	14 941	33 568	18 627	125 %
	Depreciation and amortisation	`000 EUR	16 080	16 823	17 806	17 859	29 938	12 079	68 %
Financial coefficients	EBITDA profitability	%	57 %	55 %	59 %	58 %	66 %	8 ppt	
	Net profitability	%	30 %	24 %	23 %	21 %	21 %	0 ppt	
	Return on Equity ratio (ROE)	%	5.8 %	3.5 %	3.6 %	3.4 %	4.8 %	1.4 ppt	
	Shareholders' equity ratio****	%	87 %	89 %	71 %	72 %	70 %	(2 ppt)	
	Net debt to EBITDA ratio (Net debt / EBITDA)*****	coef.	0.6	0.8	3.0	2.7	1.3	(1.4)	-52 %
	Debt-service Coverage Ratio (DSCR)*****	coef.	9.3	8.3	3.7	2.9	3.3	0.4	14 %
Average number of employees	number	343	341	352	356	361	5	1 %	

\* Volume of natural gas injected into the distribution system

\*\* Including energy supply security reserves

\*\*\* Comparative figures reclassified to be comparable with 2023 figures

Financial covenants:

\*\*\*\* Shareholders' equity ratio > 50 %

\*\*\*\*\* Net debt to EBITDA ratio < 5

\*\*\*\*\* Debt-Service Coverage Ratio (DSCR) > 1.2

# Other events and further development

With the aim to promote production of biomethane and its free circulation in Latvia, Conexus continues to develop a solution, allowing biomethane producers to deliver biomethane to a centralised biomethane entry point using special mobile gas containers to be fed into the common gas transmission system.

The European Union's (EU) and European Commission's energy transformation and decarbonisation pathway obliges member states to significantly reduce their GHG emissions in the long term and to promote a transition towards renewable energy. The transformation strategy is based on the development of a hydrogen economy, in which hydrogen will be used as energy carrier and means of storage of renewable energy for future use. During the reporting year, Conexus, together with other national transmission system operators "Gasgrid Finland" (Finland), "Elering" (Estonia), "Amber Grid" (Lithuania), "Gaz System Poland" (Poland) and "Ontras" (Germany), has launched Northern-Baltic Hydrogen Corridor project, which aims to establish a cross-border hydrogen transmission corridor from Finland through Estonia, Latvia, Lithuania and Poland to Germany by 2030.

Implementation of climate-friendly and sustainable energy solutions is one of Conexus' strategic directions. During the reporting year, Conexus has concluded a contract for the construction of a solar panel park, including purchase of the equipment, in the territory of Inčukalns UGS following an open procurement procedure. The project is planned to be completed by the next spring. The use of solar energy is expected to generate around 1 000 000 kWh per year and it is forecasted to provide 25 % of the total electricity consumption in the storage.

On 13 December 2023, the Association of Issuing Bodies (AIB) formally approved the Conexus' gas domain protocol for Latvia making Conexus a formal member of the AIB's Gas Scheme Group. The Domain Protocol sets out the rules for the circulation of guarantees of origin allowing the issuance of gas guarantees of origin that comply with the international standard. In accordance with the requirements of the Energy Law, Conexus has established a system for the issuance, circulation and control of guarantees of origin for gas from renewable energy sources implementing the system in accordance with the requirements of the European Energy Certificate System (EECS) developed by the European Association of Issuing Bodies. The approval of the domain protocol ensures that the registry is legally recognised in the member countries of the European Association of Issuing Bodies. EECS provides a reliable, internationally recognised standard of origin for biomethane injected into the interconnected gas system. Conexus administers the guarantees of origin in an electronic register, which has been set up and maintained by the Finnish information technology company "Grexel Systems Oy" in accordance with the requirements set by Conexus and EECS.

During the reporting year, Conexus continued active work on Inčukalns UGS modernisation project, where the technical infrastructure and equipment safety is to be significantly improved by 2025 to maintain the functionality of Inčukalns UGS after increase of pressure within the national transmission network.

"Enhancement of Latvia-Lithuania Interconnection" (ELLI) project was completed in 2023. At the end of 2019, the European Climate, Infrastructure and Environment Executive Agency (formerly the Innovation and Networks Executive Agency) approved the allocation of funds in the amount of EUR 10 million for the project to increase the capacity of the Lithuanian-Latvian gas pipeline. From the funds provided EUR 5.5 million was allocated to Conexus. Within the project, Conexus implemented 17 sub-projects in Latvia, such as rebuilding of several valve nodes, branch lines to GRS and GRS connections to pipeline. Prior to the project, the capacity of the cross-border point



was limited to 67.6 GWh/d from Lithuania to Latvia and 65.1 GWh/d from Latvia to Lithuania. From 13 November 2023, following the implementation of the project, the capacity was increased to 90 GWh/d in the direction towards Latvia with a possible dynamic increase to approximately 100 GWh/d and to 82 GWh/d in the direction towards Lithuania with a possible dynamic increase to approximately 100 GWh/d. For a limited period of time and under specific operating conditions of the transmission system, system operators can provide technical capacity of up to 130 GWh/d from Lithuania to Latvia and up to 119 GWh/d from Latvia to Lithuania.

International credit rating agency S&P Global Ratings (S&P) has left unchanged the long-term issuer credit rating assigned to Conexus. The BBB+ credit rating with a stable outlook has been maintained. In its report, S&P notes that it views Latvia's regulatory framework for gas transmission and storage as supportive for the sector and offers regulatory transparency at least until 2026.

## Subsequent events

According to the management's assessment, there are no subsequent circumstances or events since the last date of the reporting year until the signing of this report that would have a significant effect on the financial position of Conexus as of 31 December 2023.

## Proposed distribution of the profit

The decision on the distribution of profit and the amount of dividends is made by the shareholders' meeting of AS "Conexus Baltic Grid". The profit of AS "Conexus Baltic Grid" for 2023 is EUR 16 172 thousand.

### ABBREVIATIONS AND FORMULAS

MWh	megawatt-hours
TWh	terawatt-hours
EUR/MWh/d/g	euro for megawatt-hour per day / per year
EBITDA	earnings before interest, taxation, depreciation & amortisation
Net debt	loans including overdrafts minus cash and cash equivalents
EBITDA profitability	EBITDA / income
Net profitability	net profit / income
Return on equity ratio (ROE)	net profit / equity average value (over the reporting period)
Shareholders' equity	equity / total assets
Net debt to EBITDA ratio	net debt / EBITDA (over 12 months period)
Debt-Service Coverage Ratio (DSCR)	EBITDA (over 12 months period) / debt payments

# STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITY

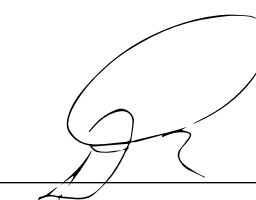
The Management Board of the Company is responsible for preparing the financial statements.

Based on the information available to the Management Board of AS "Conexus Baltic Grid", financial statements for the year ended 31 December 2023 have been prepared in accordance with IFRS Accounting Standards as adopted by the European Union and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and respective cash flows. Information provided in the Management Report is accurate.

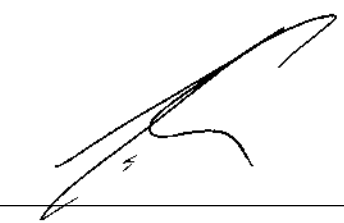
The financial statements are approved by the Company's Board on 4 March 2024 and signed by:



**ULDIS BARISS**  
Chairman of the  
Management Board



**RINALDS DIMIŅŠ**  
Member of the  
Management Board



**MĀRTIŅŠ GODE**  
Member of the  
Management Board

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# FINANCIAL STATEMENTS

## INCOME STATEMENT

	Note	2023	2022
		EUR	EUR
Revenue	2	76 467 879	55 131 399
Other income	3	1 049 741	881 767
Maintenance and operating costs	4	(8 079 268)	(7 326 125)
Personnel expenses	5	(15 985 653)	(13 834 205)
Other operating costs	6	(2 950 649)	(2 638 298)
Depreciation, amortisation, and PPE impairment	8, 9, 11	(29 938 201)	(17 858 532)
<b>Operating profit</b>		<b>20 563 849</b>	<b>14 356 006</b>
Financial costs, net	7	(2 303 314)	(604 096)
<b>Profit before tax</b>		<b>18 260 535</b>	<b>13 751 910</b>
Corporate income tax	23	(2 088 770)	(2 387 165)
<b>Profit for the year</b>		<b>16 171 765</b>	<b>11 364 745</b>

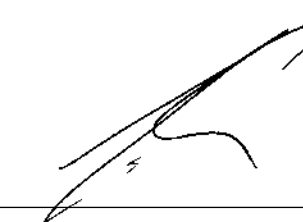
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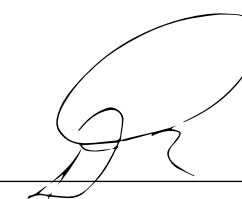
## STATEMENT OF COMPREHENSIVE INCOME

	Note	2023	2022
		EUR	EUR
<b>Profit for the year</b>		<b>16 171 765</b>	<b>11 364 745</b>
<b>Other comprehensive income / (loss):</b>			
Revaluations of post – employment benefits as a result of changes in actuarial assumptions	18	29 480	59 045
Decrease of PPE revaluation reserve	9, 16	(12 291 041)	(921 246)
<b>Total other comprehensive loss that will not be reclassified to profit or loss in subsequent periods</b>		<b>(12 261 561)</b>	<b>(862 201)</b>
<b>Total comprehensive income</b>		<b>3 910 204</b>	<b>10 502 544</b>

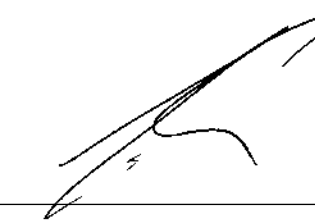
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## STATEMENT OF FINANCIAL POSITION

	Note	31.12.2023	31.12.2022
ASSETS		EUR	EUR
<b>Long-term investments</b>			
Intangible assets	8	17 990 579	2 108 009
Advances for intangible assets		40 700	-
Property, plant and equipment	9	418 229 727	427 077 998
Advances for property, plant and equipment		2 483 546	5 322 009
Long-term deferred expenses	10, 15	-	1 007 865
Right-of-use assets	11	448 358	461 503
<b>Total long-term investments</b>		<b>439 192 910</b>	<b>435 977 384</b>
<b>Current assets</b>			
Inventories	12	4 677 609	3 690 935
Receivables from contracts with customers	13	11 555 119	10 237 307
Other receivables	14	265 160	2 456 478
Deferred expenses	10, 15	640 226	480 075
Cash and cash equivalents	24, 28	12 953 450	10 967 116
<b>Total current assets</b>		<b>30 091 564</b>	<b>27 831 911</b>
<b>TOTAL ASSETS</b>		<b>469 284 474</b>	<b>463 809 295</b>

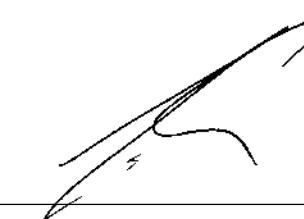
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## STATEMENT OF FINANCIAL POSITION (continued)

	Note	31.12.2023	31.12.2022
<b>EQUITY AND LIABILITIES</b>		<b>EUR</b>	<b>EUR</b>
<b>Equity</b>			
Share capital		39 786 089	39 786 089
Own shares		(23 352)	(24 270)
Reserves	16	188 650 930	207 960 842
Retained earnings		100 503 041	85 638 003
<b>Total equity</b>		<b>328 916 708</b>	<b>333 360 664</b>
<b>Non-current liabilities</b>			
Borrowings from credit institutions	19	65 568 897	69 468 183
Deferred income	17	26 070 874	24 957 748
Employee benefit obligations	18	1 331 477	1 351 768
Non-current lease liabilities	11	450 798	459 358
<b>Total non-current liabilities</b>		<b>93 422 046</b>	<b>96 237 057</b>
<b>Current liabilities</b>			
Borrowings from credit institutions	19	13 974 779	12 961 766
Trade payables	20	5 781 591	7 411 426
Other liabilities	21	2 373 934	2 204 749
Accrued liabilities	22	17 696 397	2 260 852
Deferred income from contracts with customers	17	4 475	-
Deferred income, other	17	974 483	767 335
Advances from customers	13	6 112 857	8 580 382
Current lease liabilities	11	27 204	25 064
<b>Total current liabilities</b>		<b>46 945 720</b>	<b>34 211 574</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>469 284 474</b>	<b>463 809 295</b>

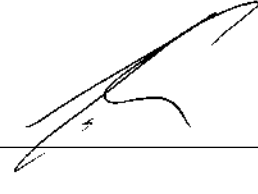
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## STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Retained earnings	Own shares	Reorgani- sation reserve	PPE evaluation reserve	Revaluation reserve for post- employment benefits	Total
		EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>Opening balance at 01.01.2022</b>		<b>39 786 089</b>	<b>76 412 620</b>	<b>(25 320)</b>	<b>24 647 260</b>	<b>191 583 804</b>	<b>(146)</b>	<b>332 404 307</b>
Profit for the year		-	11 364 745	-	-	-	-	11 364 745
Other comprehensive income for the reporting year		-	-	-	-	(921 246)	59 045	(862 201)
<b>Total comprehensive income for the year</b>		-	<b>11 364 745</b>	-	-	<b>(921 246)</b>	<b>59 045</b>	<b>10 502 544</b>
Dividends	23	-	(9 548 661)	1 050	-	-	-	(9 547 611)
Decrease of PPE revaluation reserve	16	-	7 409 299	-	-	(7 407 875)	-	1 424
<b>Total transactions with shareholders and other changes in equity</b>		-	<b>(2 139 362)</b>	<b>1 050</b>	-	<b>(7 407 875)</b>	-	<b>(9 546 187)</b>
<b>As 31 December 2022</b>		<b>39 786 089</b>	<b>85 638 003</b>	<b>(24 270)</b>	<b>24 647 260</b>	<b>183 254 683</b>	<b>58 899</b>	<b>333 360 664</b>
Profit for the year		-	16 171 765	-	-	-	-	16 171 765
Other comprehensive income for the reporting year		-	-	-	-	(12 291 041)	29 480	(12 261 561)
<b>Total comprehensive income for the year</b>		-	<b>16 171 765</b>	-	-	<b>(12 291 041)</b>	<b>29 480</b>	<b>3 910 204</b>
Dividends	23	-	(8 355 078)	918	-	-	-	(8 354 160)
Decrease of PPE revaluation reserve	16	-	7 048 351	-	-	(7 048 351)	-	-
<b>Total transactions with shareholders and other changes in equity</b>		-	<b>(1 306 727)</b>	<b>918</b>	-	<b>(7 048 351)</b>	-	<b>(8 354 160)</b>
<b>As 31 December 2023</b>		<b>39 786 089</b>	<b>100 503 041</b>	<b>(23 352)</b>	<b>24 647 260</b>	<b>163 915 291</b>	<b>88 379</b>	<b>328 916 708</b>

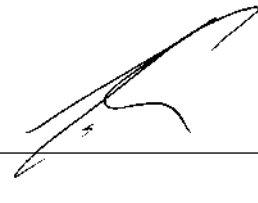
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## STATEMENT OF CASH FLOWS

	Note	2023	2022
<b>Cash flow from operating activity</b>		<b>EUR</b>	<b>EUR</b>
<b>Profit before corporate income tax</b>		<b>18 260 535</b>	<b>13 751 910</b>
<i>Adjustments:</i>			
- depreciation and impairment of property, plant and equipment	9	29 194 738	17 123 684
- depreciation of the right-of-use assets	11	13 145	26 251
- amortisation of intangible assets	8	730 319	708 597
- loss / (profit) on disposal of PPEs	6	152 767	(34 135)
- changes in provisions		(20 291)	(22 367)
- amortisation of the EU co-financing	3	(820 889)	(614 520)
- interest expense		2 389 890	609 927
- interest income		(80 105)	-
<i>Changes in the working capital:</i>			
- decrease of receivables from contracts with customers, other receivables and deferred expenses		713 357	1 083 048
- increase in inventories		(986 674)	(1 064 396)
- (decrease) / increase of lease liabilities, trade payables, accrued liabilities, advances from customers and other liabilities		(4 331 736)	3 036 874
Corporate income tax paid		(2 088 770)	(2 387 165)
<b>Net cash flow from operating activity</b>		<b>43 126 286</b>	<b>32 217 708</b>
<b>Cash flow from investing activity</b>			
Acquisition of property, plant and equipment	9	(28 958 250)	(16 873 561)
Acquisition of intangible assets	8	(501 400)	(926 543)
Proceeds from the sale of property, plant and equipment items		4 789	35 866
Received EU co-financing	17	2 141 164	7 643 940
<b>Net cash flow from investing activities</b>		<b>(27 313 697)</b>	<b>(10 120 298)</b>

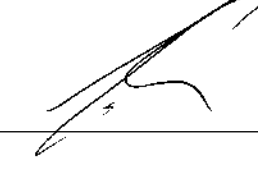
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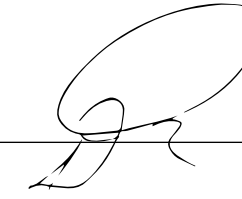
## STATEMENT OF CASH FLOWS (continued)

	Note	2023	2022
		EUR	EUR
<b>Cash flow from financing activities</b>			
Interest paid	19	(2 568 496)	(563 790)
Borrowings received	19	10 000 000	20 000 000
Borrowings repaid	19	(12 899 286)	(35 688 383)
Lease payments	11	(27 203)	(40 217)
Dividends paid		(8 331 270)	(9 514 014)
<b>Net cash flow from financing activity</b>		<b>(13 826 255)</b>	<b>(25 806 404)</b>
<b>Net cash flow</b>		<b>1 986 334</b>	<b>(3 708 994)</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>		<b>10 967 116</b>	<b>14 676 110</b>
<b>Cash and cash equivalents at the end of the reporting year</b>		<b>12 953 450</b>	<b>10 967 116</b>

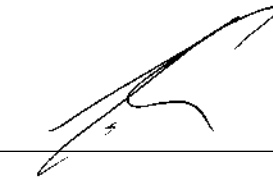
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# NOTES TO THE FINANCIAL STATEMENTS

## 1. SEGMENT INFORMATION

### Description of segments

Conexus is operating in two segments: natural gas transmission and natural gas storage. Conexus derives all of its revenue from regulated services applying the tariffs set by the regulatory authority. The split of information included into operating segments corresponds to the split of regulated services. This split is defined in the internal management accounting system and is applied both in the appraisal of results and in the decision-making. Segment information (segment profit or loss statements and investments made) is regularly submitted to Conexus' Management Board and Conexus' Supervisory Council.

### NATURAL GAS TRANSMISSION

Conexus is the single natural gas transmission and storage operator in Latvia, which ensures the maintenance, as well as safe and continuous operation of the natural gas transmission system, and the interconnections with the transmission systems of other countries, enabling system users to use the natural gas transmission system for the trading of natural gas.

The natural gas transmission segment generates revenue from capacity trading for natural gas consumption in Latvia as well as international natural gas transportation.

The regulatory (tariff) periods for the natural gas transmission system service differ from the financial reporting year. In accordance with the Methodology for the Calculation of the Tariffs of the Natural

Gas Transmission System Services, deviations of income and expenses may occur against the allowed ones during the tariff period, which will affect tariff values in the subsequent tariff period. In the transmission segment, such deviations can occur due to actual consumption of natural gas differing from the one planned in the tariffs, leading to revenue adjustment. Actual revenue of transmission segment generated during gas years from 1 January 2020 until 30 November 2023 is EUR 16.7 million less than the allowed revenue for the same period. The allowed revenue for the regulatory period set from 1 December 2023 to 30 September 2026 is increased by the amount of the ungained revenue.

On 26 October 2023, the Regulator's Council made a decision<sup>4</sup> on transmission system service tariffs, which entered into force on 1 December 2023. According to the decision, the fee for using the exit point for supply of consumers in Latvia increases by 37 % from 1.9296946 EUR/MWh to 2.6488301 EUR/MWh, where as the tariffs for standard yearly capacity product, short term standard capacity product, interruptible capacity product and interruptible virtual counterflow capacity product of the natural gas transmission system do not change and retain their current values. Conexus estimates that the fee increase for using the exit point for supply of consumers in Latvia will impact the natural gas invoice by 0.5-1.1 % depending on consumption. Although the overall costs for the transmission system service have decreased, the increase in tariffs is driven by a decrease in natural gas consumption in Latvia in the recent years.

The largest investments of the transmission system service in the reporting year:

◆ Within the framework of the European project of common interest PCI 8.2.1 "Enhancement of Latvia-Lithuania Interconnection" (ELLI), Conexus invested a total of EUR 1 079 thousand in several sub-projects during the reporting year. Main activities were carried out on the reconstruction of Zaķumuiža, Daugmale and Vangaži gas regulation stations. ELLI project has been completed;

<sup>4</sup> <https://likumi.lv/ta/id/346867>

Investments made in replacing insulation of gas pipelines in the section between Izborsk – Inčukalns UGS in the amount of EUR 6 160 thousand;

Repairs of transmission gas pipeline sections and their anti-corrosion insulation were made in the amount of EUR 2 030 thousand.

## NATURAL GAS STORAGE

Inčukalns UGS provides storage of natural gas in the underground gas storage facility for consumption during the heating season and for other needs of the system users.

The storage segment generates revenue from the booking of storage capacity, which is granted to system users in storage capacity auctions within the storage cycle. The storage cycle lasts from May 1 to April 30 of the following year.

During 2022/2023 storage cycle, Inčukalns UGS capacity booking reached 24.1 TWh. During 2023/2024 storage cycle, Inčukalns UGS capacity booking reached 24.4 TWh (including energy supply security reserve 1.8 TWh). Revenue from capacity products during the reporting year increased by EUR 14 018 thousand compared to the previous year. The revenue growth relates to auctions of storage capacity, which have resulted in the effective rate of applicable premium of 1.62 EUR/MWh (the total amount of applicable premium divided by the booked capacity).

The regulatory (tariff) periods for the natural gas storage system service differ from both the financial reporting year and the regulatory periods for natural gas transmission. In accordance with Methodology for the Calculation of Natural Gas Storage Service Tariffs, deviations of revenue and costs may occur against allowed ones during the tariff period, which will affect tariff values in subsequent tariff cycles. In storage segment, such deviations are accrued in a regulatory account. Please refer to [Carrying value of storage system service assets](#) section of the management report for more details.

New tariffs of natural gas storage system service came into force on 1 May 2023. Due to decreased planned revenue attributable to the tariff period, tariff values of the most popular storage products decreased by 14 %. On 18 January 2024, the Public Utilities Commission adopted a decision<sup>5</sup> on tariffs for the natural gas storage system service, which will come into force on 1 May 2024. For basic products, such as the one-year bundled capacity product and the two-year bundled capacity product, tariffs for the next storage cycle will stay unchanged. The tariff for the stock transfer product will increase from 1.3581 EUR/MWh/storage cycle to 3.2260 EUR/MWh/storage cycle. The stock transfer product tariff is determined by the previous season's auction results for the two-year bundled capacity product, which in turn is determined by the market demand.

The largest investments of the storage system service during the reporting year are the modernization of gas compression units at compressor station No. 2, reconstruction of gas collection point No. 3 and installation of the new gas compression unit, EUR 18 653 thousand in total. These investments were made within the framework of the European project of common interest PCI 8.2.4 “Enhancement of Inčukalns UGS”. At the end of 2023, modernization of gas compression units has been completed.

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<sup>5</sup> <https://www.sprk.gov.lv/events/apstiprinatas-conexus-baltic-grid-dabasgazes-uzglabanas-sistemas-pakalpojuma-tarifu>

## Reconciliation of segment financial information to Conexus financial information

Segment income statements for 2023:

	Trans- mission	Storage	Conexus total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Revenue	26 225 544	50 242 335	76 467 879	-
Other income	240 442	809 299	1 049 741	-
Maintenance and service costs	(3 116 399)	(4 962 869)	(8 079 268)	-
Personnel expenses	(9 073 248)	(6 912 405)	(15 985 653)	-
Other operating costs	(1 787 737)	(1 162 912)	(2 950 649)	-
Depreciation, amortisation, and impairment of property, plant and equipment	(9 959 630)	(19 978 571)	(29 938 201)	-
Finance costs	(1 356 442)	(946 872)	(2 303 314)	-
Corporate income tax	(195 219)	(1 893 551)	(2 088 770)	-
<b>Profit for the reporting period</b>	<b>977 311</b>	<b>15 194 454</b>	<b>16 171 765</b>	<b>-</b>

Total assets by segments as at 31.12.2023 and investments during 2023:

	Trans- mission	Storage	Conexus total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Segment assets	251 881 527	217 402 947	469 284 474	-
Investments in property, plant and equipment and intangible assets	10 964 317	22 604 137	33 568 454	-

Segment income statements for 2022:

	Trans- mission	Storage	Conexus total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Revenue	26 259 950	28 871 449	55 131 399	-
Other income	275 959	605 808	881 767	-
Maintenance and service costs	(3 651 234)	(3 674 891)	(7 326 125)	-
Personnel expenses	(8 076 816)	(5 757 389)	(13 834 205)	-
Other operating costs	(1 763 143)	(875 155)	(2 638 298)	-
Depreciation, amortisation, and impairment of property, plant and equipment	(10 099 447)	(7 759 085)	(17 858 532)	-
Finance costs	(382 773)	(221 323)	(604 096)	-
Corporate income tax	(1 500 333)	(886 832)	(2 387 165)	-
<b>Profit for the reporting period</b>	<b>1 062 163</b>	<b>10 302 582</b>	<b>11 364 745</b>	<b>-</b>

Total assets by segments as at 31.12.2022 and investments during 2022:

	Trans- mission	Storage	Conexus total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Segment assets	238 760 565	225 048 730	463 809 295	-
Investments in property, plant and equipment and intangible assets	5 452 438	9 488 226	14 940 664	-

## Geographical information

All operating activities are held in Latvia.

## Major customers

Revenue generated during 2023 from the largest customers, each individually representing at least 10 % of the total revenue of Conexus:

	Transmission	Storage	Conexus total
	EUR	EUR	EUR
Revenue from major customers	18 519 770	24 044 083	42 563 853

Revenue generated during 2022 from the largest customers, each individually representing at least 10 % of the total revenue of Conexus:

	Transmission	Storage	Conexus total
	EUR	EUR	EUR
Revenue from major customers	25 592 141	18 204 528	43 796 669

## 2. REVENUE

Revenue from contracts with customers recognised over time	IFRS applied	2023	2022
		EUR	EUR
Revenue from transmission services	15. IFRS	25 309 428	25 740 793
Balancing income, net	15. IFRS	916 116	519 158
<b>Revenue from transmission services</b>		<b>26 225 544</b>	<b>26 259 951</b>
Revenue from storage services*	15. IFRS	50 242 335	28 871 448
<b>Revenue from storage</b>		<b>50 242 335</b>	<b>28 871 448</b>
<b>Total</b>		<b>76 467 879</b>	<b>55 131 399</b>

Conexus generated all of its revenue in the territory of Latvia.

\* including deferred income in the amount of EUR 4 475 (2022: EUR 237 284) for reserved capacity recognised in revenue based on accruals principle.

	2023	2022
	EUR	EUR
Income from balancing activities	12 008 790	35 537 104
Cost of balancing activities	(11 092 674)	(35 017 946)
	<b>916 116</b>	<b>519 158</b>

## 3. OTHER INCOME

	2023	2022
	EUR	EUR
Revenue from EU co-financing	820 890	614 520
Other income	228 851	267 247
	<b>1 049 741</b>	<b>881 767</b>



## 4. MAINTENANCE AND OPERATING COSTS

	2023	2022
	EUR	EUR
Transmission and storage system maintenance services	4 583 143	4 244 720
Cost of materials	1 255 515	1 571 426
Cost of natural gas	959 116	482 772
Maintenance of IT infrastructure	998 324	782 040
Maintenance of vehicles and machinery	283 170	245 167
	<b>8 079 268</b>	<b>7 326 125</b>

## 5. PERSONNEL EXPENSES

	2023	2022
	EUR	EUR
Salaries	12 335 255	10 741 147
State social insurance mandatory contributions	2 905 033	2 507 532
Life, health, and pension insurance	732 503	570 533
Other personnel costs	12 862	14 993
	<b>15 985 653</b>	<b>13 834 205</b>
Including remuneration of the Management Board and Supervisory Council:		
- Remuneration for work	682 255	618 350
- State social insurance mandatory contributions	160 945	146 274
- Life, health and pension insurance	45 798	45 358
- Other personnel costs	2 400	3 000
	<b>891 398</b>	<b>812 982</b>
The average number of employees	<b>361</b>	<b>356</b>

## 6. OTHER OPERATING EXPENSES

	2023	2022
	EUR	EUR
Taxes and duties*	965 453	874 632
Office and other administrative costs	1 832 429	1 763 666
Net loss on disposal of property, plant and equipment	152 767	-
	<b>2 950 649</b>	<b>2 638 298</b>

\* Real estate tax, Natural resources tax, PUC fee, State and municipal fees, Corporate income tax from deemed profit distribution

## 7. FINANCIAL EXPENSES, NET

	2023	2022
	EUR	EUR
Interest paid	2 581 510	589 271
Capitalised borrowing costs	(212 403)	-
Lease interest expense	20 783	20 656
Gain of interest on bank account balances, deposits	(85 919)	-
Gain from exchange rate fluctuations	(657)	(5 831)
	<b>2 303 314</b>	<b>604 096</b>

## 8. INTANGIBLE ASSETS

	Patents, software, licences	Intangible assets under development	TOTAL
		EUR	EUR
<b>Historical cost</b>			
<b>31.12.2021</b>	<b>8 189 289</b>	<b>61 054</b>	<b>8 250 343</b>
Additions	-	775 357	775 357
Transfers	787 416	(787 416)	-
Disposals	(185 204)	-	(185 204)
<b>31.12.2022</b>	<b>8 791 501</b>	<b>48 995</b>	<b>8 840 496</b>
<b>Amortisation</b>			
<b>31.12.2021</b>	<b>6 209 094</b>	<b>-</b>	<b>6 209 094</b>
Amortisation charge	708 597	-	708 597
Disposals	(185 204)	-	(185 204)
<b>31.12.2022</b>	<b>6 732 487</b>	<b>-</b>	<b>6 732 487</b>
<b>Net book value 31.12.2021</b>	<b>1 980 195</b>	<b>61 054</b>	<b>2 041 249</b>
<b>Net book value 31.12.2022</b>	<b>2 059 014</b>	<b>48 995</b>	<b>2 108 009</b>

	Patents, software, licences	Co-financed assets	Intangible assets under development	TOTAL
			EUR	EUR
<b>Historical cost</b>				
<b>31.12.2022</b>	<b>8 791 501</b>	<b>-</b>	<b>48 995</b>	<b>8 840 496</b>
Additions	-	-	15 605 024	15 605 024
Transfers	473 837	-	(473 837)	-
Disposals	(1 525 025)	-	-	(1 525 025)
Transfers	-	1 007 865	-	1 007 865
<b>31.12.2023</b>	<b>7 740 313</b>	<b>1 007 865</b>	<b>15 180 182</b>	<b>23 928 360</b>
<b>Amortisation</b>				
<b>31.12.2022</b>	<b>6 732 487</b>	<b>-</b>	<b>-</b>	<b>6 732 487</b>
Amortisation charge	730 319	-	-	730 319
Disposals	(1 525 025)	-	-	(1 525 025)
<b>31.12.2023</b>	<b>5 937 781</b>	<b>-</b>	<b>-</b>	<b>5 937 781</b>
<b>Net book value 31.12.2022</b>	<b>2 059 014</b>	<b>-</b>	<b>48 995</b>	<b>2 108 009</b>
<b>Net book value 31.12.2023</b>	<b>1 802 532</b>	<b>1 007 865</b>	<b>15 180 182</b>	<b>17 990 579</b>

Intangible assets as at 31 December 2023 include fully amortised intangible assets with a historical cost of EUR 3 685 071 (at 31.12.2022: EUR 5 223 393). Intangible assets consist of software and software licences.

In 2023, capitalised borrowing costs amounted to EUR 3 453 (2022: EUR 0).

As at 31 December 2023 in the financial accounting, co-financing of the project “Increase of Capacity of Klaipėda-Kiemėnai Pipeline in Lithuania” for the remaining amount of EUR 1 007 865 has been reclassified from the deferred expenses to intangible assets. According to the PUC’s decision of 30 April, 2014 No. 97 (minutes No. 16, p. 4) On Distribution of Investment Costs for the Project of Common Interest “Increase of Capacity of Klaipėda-Kiemėnai Pipeline in Lithuania” in 2017, a payment in the amount of EUR 1 713 370 was made to Amber Grid AB. In accordance with IFRIC 12 “Service Concession Agreements”, the payment shall be recognized in the financial accounts in intangible assets. The amortisation period of the asset is set until 2033, according to the estimated payback period of the investments.

On the basis of the decision of ACER (Agency for the Cooperation of Energy Regulators) of 11 August 2014 “On the investment request including cross-border cost allocation for the Gas Interconnection Poland-Lithuania project of common interest No 8.5” and the inter-operator agreement of 11 May 2018 on sharing the costs of the GIPL project “Gas Interconnection Poland – Lithuania” (GIPL) with “GAZ-System” A.S., “Amber Grid AB” and “Elering” AS, the planned Conexus’ co-financing for the construction of the interconnector is set at EUR 14 700 000.

Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 lays down an obligation to make this payment, thereby gaining access to a wider range of potential customers in the future and reducing dependence on a single supplier.

According to the information received from the Polish operator “GAZ-System” A.S., investments in the construction of a cross-border gas interconnector have been made, but documents justifying the payments have not yet been received. Thus, at 31 December 2023 the Polish-Lithuanian interconnection GIPL should be recognized in the financial accounts as part of the costs of intangible assets under development and accrued liabilities in the amount of planned co-financing of EUR 14 700 000.

Although the Conexus business model does not generally fall within the scope of the IFRIC 12, the IFRIC 12 can be applied to the recognition of co-financing of a project of common interest, because the PUC and the Regulation of the European Parliament and the Council stipulate the obligation to make these co-payments for the construction of infrastructure, thus gaining access to a wider range of potential clients in the future and reducing dependence on a single supplier. Co-financing payments are not recognized in the income statement, as IFRIC 12 is applied by analogy. Conexus does not have ownership rights to the co-financed assets, therefore they are not recognized as fixed assets.

## 9. PROPERTY, PLANT AND EQUIPMENT (PPE)

Net book amounts and movements of property, plant and equipment by groups, including groups of revalued categories:

	Land	Buildings, structures	Plant and equipment	Other property and equipment	Wells	Gas compression units	Automatic equipment control systems	Emergency spare parts	Cushion gas	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>Historical cost or revalued amount</b>											
<b>31.12.2021</b>	<b>1 084 168</b>	<b>616 248 276</b>	<b>96 827 897</b>	<b>4 241 222</b>	<b>154 839 599</b>	<b>37 217 009</b>	<b>3 549 005</b>	<b>1 538 779</b>	<b>10 708 163</b>	<b>20 027 015</b>	<b>946 281 133</b>
Additions	8 306	-	1 236 523	1 131 296	44 902	9 385	-	-	-	11 734 895	14 165 307
Reclassified*	-	10 546 995	(862 088)	1 543 493	5 285 909	1 137 968	3 849 105	-	-	(21 501 382)	-
Disposals	-	(874 961)	(721 223)	(692 560)	(404 900)	(1 150 300)	(142 205)	-	-	-	(3 986 149)
Transfers**	-	-	-	-	-	-	-	286 605	-	-	286 605
<b>31.12.2022</b>	<b>1 092 474</b>	<b>625 920 310</b>	<b>96 481 109</b>	<b>6 223 451</b>	<b>159 765 510</b>	<b>37 214 062</b>	<b>7 255 905</b>	<b>1 825 384</b>	<b>10 708 163</b>	<b>10 260 528</b>	<b>956 746 896</b>
<b>Accumulated depreciation</b>											
<b>31.12.2021</b>	<b>-</b>	<b>403 306 997</b>	<b>41 832 595</b>	<b>3 018 836</b>	<b>44 440 524</b>	<b>20 301 563</b>	<b>2 709 296</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>515 609 811</b>
Calculated	-	8 635 488	4 027 099	486 928	2 711 816	892 633	369 720	-	-	-	17 123 684
Disposals	-	(672 482)	(718 388)	(656 431)	(268 418)	(606 673)	(142 205)	-	-	-	(3 064 597)
Transfers*	-	(22 478)	(905 699)	1 311 838	-	(97 210)	(286 451)	-	-	-	-
<b>31.12.2022</b>	<b>-</b>	<b>411 247 525</b>	<b>44 235 607</b>	<b>4 161 171</b>	<b>46 883 922</b>	<b>20 490 313</b>	<b>2 650 360</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>529 668 898</b>
<b>Net balance value 31.12.2021</b>	<b>1 084 168</b>	<b>212 941 279</b>	<b>54 995 302</b>	<b>1 222 386</b>	<b>110 399 075</b>	<b>16 915 446</b>	<b>839 709</b>	<b>1 538 779</b>	<b>10 708 163</b>	<b>20 027 015</b>	<b>430 671 322</b>
<b>Net balance value 31.12.2022</b>	<b>1 092 474</b>	<b>214 672 785</b>	<b>52 245 502</b>	<b>2 062 280</b>	<b>112 881 588</b>	<b>16 723 749</b>	<b>4 605 545</b>	<b>1 825 384</b>	<b>10 708 163</b>	<b>10 260 528</b>	<b>427 077 998</b>

\* amounts include capitalised property, plant and equipment and reclassification between groups by synchronising accounting in financial and asset management systems – from Buildings, structures to: Plant and equipment EUR 182 599, Other property and equipment EUR 25 440; from Plant and equipment to: Buildings, structures EUR 189 027, Other property and equipment EUR 1 506 848.;

\*\* emergency spare parts in the amount of EUR 286 605 were reclassified to the inventories of materials in warehouses.

## 9. PROPERTY, PLANT AND EQUIPMENT (PPE) (continued)

Net book amounts and movements of property, plant and equipment by groups, including groups of revalued categories:

	Land	Buildings, structures	Plant and equipment	Other property and equipment	Wells*	Gas compression units*	Automatic equipment control systems*	Emergency spare parts	Cushion gas	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>Historical cost or revalued amount</b>											
<b>31.12.2022</b>	<b>1 092 474</b>	<b>625 920 310</b>	<b>96 481 109</b>	<b>6 223 451</b>	<b>159 765 510</b>	<b>37 214 062</b>	<b>7 255 905</b>	<b>1 825 384</b>	<b>10 708 163</b>	<b>10 260 528</b>	<b>956 746 896</b>
Additions	-	7 250	315 546	606 236	-	8 837	18 187	-	-	31 707 374	32 663 430
Reclassified	12 037	4 593 456	415 850	180 378	489 140	2 380 662	4 079 164	-	-	(12 150 687)	-
Disposals	-	(926 923)	(661 581)	(442 759)	(13 000)	(1 166 220)	(1 688)	(12 395)	-	(97 395)	(3 321 961)
Recognized impairment*	-	-	-	-	(21 468 279)	(8 061 251)	(3 727 322)	-	-	-	(33 256 852)
Transfers**	-	-	-	-	-	-	-	146 719	-	-	146 719
<b>31.12.2023</b>	<b>1 104 511</b>	<b>629 594 093</b>	<b>96 550 924</b>	<b>6 567 306</b>	<b>138 773 371</b>	<b>30 376 090</b>	<b>7 624 246</b>	<b>1 959 708</b>	<b>10 708 163</b>	<b>29 719 820</b>	<b>952 978 232</b>
<b>Accumulated depreciation</b>											
<b>31.12.2022</b>	<b>-</b>	<b>411 247 525</b>	<b>44 235 607</b>	<b>4 161 171</b>	<b>46 883 922</b>	<b>20 490 313</b>	<b>2 650 360</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>529 668 898</b>
Calculated	-	8 825 608	3 794 240	558 433	2 732 666	914 339	624 285	-	-	-	17 449 571
Disposals	-	(812 278)	(640 906)	(441 741)	(10 452)	(693 891)	(1 688)	-	-	-	(2 600 956)
Excluded as a result of revaluation*	-	-	-	-	(5 287 570)	(4 089 877)	(391 561)	-	-	-	(9 769 008)
Reclassified	-	41 509	(3 284)	(34 223)	-	-	(4 002)	-	-	-	-
<b>31.12.2023</b>	<b>-</b>	<b>419 302 364</b>	<b>47 385 657</b>	<b>4 243 640</b>	<b>44 318 566</b>	<b>16 620 884</b>	<b>2 877 394</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>534 748 505</b>
<b>Net balance value 31.12.2022</b>	<b>1 092 474</b>	<b>214 672 785</b>	<b>52 245 502</b>	<b>2 062 280</b>	<b>112 881 588</b>	<b>16 723 749</b>	<b>4 605 545</b>	<b>1 825 384</b>	<b>10 708 163</b>	<b>10 260 528</b>	<b>427 077 998</b>
<b>Net balance value 31.12.2023</b>	<b>1 104 511</b>	<b>210 291 729</b>	<b>49 165 267</b>	<b>2 323 666</b>	<b>94 454 805</b>	<b>13 755 206</b>	<b>4 746 852</b>	<b>1 959 708</b>	<b>10 708 163</b>	<b>29 719 820</b>	<b>418 229 727</b>

\* The Company has revised the carrying amount of property, wells, gas compression units and automatic equipment control systems, determining their value at fair value. The carrying amount of property, plant and equipment reduced by EUR 23 487 844. The reduction in the carrying amount of EUR 11 742 677 is recognised in the reduction of the revaluation reserve and included in the statement of "Comprehensive income" in position of "Revaluation reserves decrease in property, plant and equipment", EUR 11 745 167 recognised in the "Income statement" under the position "Depreciation, amortisation, and PPE impairment".

\*\* inventories of materials in warehouses in the amount of EUR 146 719 were transferred to the Emergency spare parts.

At 31.12.2023, property, plant and equipment included fully depreciated assets with an original value of EUR 13 438 560 (31.12.2022: EUR 11 573 690). In 2023, capitalised borrowing costs amounted to EUR 208 949 (2022: EUR 0). The cadastral value of the real estate is EUR 37 742 239 (31.12.2022: EUR 38 252 837). The total length of the transmission system pipelines is 1190 km.

At the end of the reporting period significant part of the construction in progress consists of projects co-financed by the EU (Note 18). The balance of Assets under construction by projects:

Assets under construction	Planned project completion date	31.12.2023	31.12.2022
		EUR	EUR
Projects of common interest "Enhancement of Inčukalns UGS"	01.12.2025.	22 080 453	8 534 857
Projects of common interest "Enhancement of Latvia-Lithuania Interconnection"	31.12.2023.	-	1 180 131
<b>EU co-financed projects</b>		<b>22 080 453</b>	<b>9 714 988</b>
Other projects	2024. – 2025.	7 639 367	545 540
<b>Total</b>		<b>29 719 820</b>	<b>10 260 528</b>

At the end of the reporting period significant part of the construction in progress consists of projects co-financed by the EU (Note 18). The balance of advances for property, plant and equipment by projects:

Advances for property, plant and equipment	31.12.2023	31.12.2022
	EUR	EUR
Projects of Inčukalns UGS	2 217 520	5 075 020
Projects of gas transmission	-	149 075
<b>EU co-financed projects</b>	<b>2 217 520</b>	<b>5 224 095</b>
Other projects	266 026	97 914
<b>Total</b>	<b>2 483 546</b>	<b>5 322 009</b>

The following groups of property, plant and equipment are carried at revalued amounts: buildings and structures, machinery and equipment, wells, gas compression units, automatic equipment control systems. Land plots, emergency spare parts, cushion gas in the Inčukalns UGS collector layer and in gas pipelines in the transmission system, other property and equipment and assets under construction are not revalued. The accounting policies require property, plant and equipment to be revalued on a regular basis to ensure that the carrying amount of those assets does not differ materially from that which would be determined using fair value at the end of the reporting period.

The revaluation of property, plant and equipment was carried out in 2020. The revaluation was performed by independent certified appraisers from SIA Grant Thornton Baltic. As a result of the revaluation, the carrying amount of the revalued assets as of 1 January 2020 was increased by EUR 92 311 666. The revaluation reserve was increased by EUR 92 100 425, the positive effect of EUR 211 241 was included in the 2020 income statement.

The biggest part of revalued assets consisted of assets classified as buildings and structures (underground gas pipelines, storage wells and valves), and PPE items classified as machinery and equipment (gas regulation stations, motor vehicles and machinery, compression units, gas purification equipment).

The following table summarises the carrying amounts for the revalued asset categories, assuming that the assets would be carried at historical cost.

<b>Historical cost</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
	<b>EUR</b>	<b>EUR</b>
Buildings and structures	105 284 870	104 938 465
Machinery and equipment	41 353 189	43 808 930
Wells	54 636 874	63 206 056
Gas compression units	11 817 155	10 692 301
Automatic equipment control systems	4 746 852	4 605 545

In 2023 the management has assessed the price level of pipelines, machinery and general construction and has identified significant increase in inflation, labour and material costs as compared to January 2020, when the revaluation was performed and fair value was determined, using the amortized replacement cost method. Thus, there is a reason to believe that the fair value of PPE items could be significantly higher than the current carrying amount as at 31 December 2023. However, to comply with prudence principles and taking into account geopolitical situation and uncertainty in the gas sector, the assets' value in use was also calculated in order to determine the recoverable amount of the natural gas transmission and storage infrastructure.

In accordance with the requirements of paragraph 31 of IAS 16 "Property, Plant and Equipment," if the Company has opted to revalue its assets, such revaluations must be conducted at intervals sufficient to ensure that the carrying values of the assets on the balance sheet date do not materially deviate from their fair values. The standard also mandates that the Company should group assets with similar nature in use in the Company's operations in one group. While reviewing the classification of property, plant and equipment into groups in 2023, the Company identified specific groups of property, plant and equipment, which by their nature and use should be reported separately. The Company split wells, gas compression units, automatic equipment control systems into separate groups.

Decision of the Council of the Public Utilities Commission No. 162 of 28 December 2023 on the "Allocation of the AS "Conexus Baltic Grid" natural gas storage system service regulatory account" specifies that 50 % of the regulatory account balance can be allocated to finance assets of the storage system service set up in the current regulatory period. As a result of this decision, value of the assets set up by the investment in the storage system service will not be included in RAB value and will not provide a return.

The Company has decided to allocate part of the balance of the regulatory account to assets created during the regulatory period in the Inčukalns UGS modernisation project that are not financed by EU co-financing - wells, gas compression units and automatic equipment control systems.

In order to determine whether the fair value of groups of PPE corresponds to the carrying amount at the end of the reporting year, the Company performed an internal assessment of the fair value of assets as at 31 December, 2023 for those groups of PPE that were carried at revalued amount and showed signs of impairment. According to paragraph 62 of IFRS 13 "Fair Value Measurement," the Company assessed that the most appropriate valuation method is the income approach.

As a result of the revaluation, a decrease in value of EUR 23 487 844 was identified. A reduction in the carrying amount of EUR 11 742 677 of wells, gas compression units, and automatic equipment control systems, has been recognized as a decrease in the revaluation reserve and included in the Statement of Comprehensive Income in the line item "Decrease in PPE revaluation reserve." Additionally, EUR 11 745 167 has been recognized in the Income Statement in the line item "Depreciation, amortisation, and PPE impairment."

In determining the fair value of wells, gas compression units, and automatic equipment control systems groups, the Company has applied the rate of return on equity approved for the existing regulatory period and has assumed that after the end of the regulatory period, the rate of return on equity will reach the estimated market rate. A discount rate of 7.25 % is used in the calculation. If this rate were 6.25 %, then the carrying amount of certain groups of fixed assets should be reduced by EUR 21 459 thousand. If this rate were 8.25 %, then the asset value of these groups of fixed assets should be reduced by EUR 25 461 thousand.

## 10. CO-FINANCED PROJECTS

In order to support integration of gas markets, competition and security of gas supply, the European union coordinates and partially finances the construction of cross-border gas interconnections between European Union countries. Typically, the construction is performed by the Transmission System Operator (TSO) of the country where the pipe is physically located, but the cost is spread to all the countries, which are deemed to benefit from the connection. The benefits are monetarily assessed by the European union, and they include components such as expected savings on lower gas price and avoided gas disruptions, access to new suppliers/markets etc. The cost of cross-country interconnections is allocated to the TSOs of the countries benefitting, based on the proportions calculated by the EU. Co-financing is included in long-term assets because the estimated payback period of the investments is determined to be over a long period of time.

### *Increase of Capacity of Klaipeda-Kiemenui Pipeline in Lithuania*

According to the PUC Decision of 30 April, 2014 No. 97 (minutes No 16, p. 4) On Distribution of Investment Costs for the Project of Common Interest "Increase of Capacity of Klaipeda-Kiemenui Pipeline in Lithuania" in 2017, a payment in the amount of EUR 1 713 370 was made to Amber Grid AB. Deferred expenses are expensed during estimated period of return on investment till 2033.

	31.12.2023	31.12.2022
	EUR	EUR
<b>Opening balance</b>	1 108 652	1 209 438
Recognised during the reporting period	(100 786)	(100 786)
Reclassified to intangible assets (Note 8)	(1 007 866)	-
<b>Carried forward to future periods</b>	<b>-</b>	<b>1 108 652</b>
Including short-term portion	-	100 786
Long-term portion	-	1 007 865

### *Gas Interconnection Poland-Lithuania*

The list of projects of common interest included in Annex to Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 includes the Gas Interconnection Poland-Lithuania project (No 8.5) (hereinafter "GIPL").

Decision No. 1/2014 of the Agency for Cooperation of Energy Regulators of 11 August 2014 (hereinafter "the ACER Decision") on the investment application, including the terms of cross-border cost sharing in the GIPL project of common interest (No. 8.5), determines that the Member States with a significant overall positive impact are required to pay the full amount to the operator of the transmission system of that Member State, which is negatively affected by the implementation of the project. Compensation payment of EUR 14 700 thousand is to be paid immediately with a one-time payment after the commissioning of the GIPL project. On 11 May 2018, Conexus signed an inter-operator agreement on sharing the costs of the GIPL project (hereinafter "the Agreement") with GAZ-System A.S., Amber Grid AB and Elering AS.

In accordance with IFRIC 12 "Service Concession Agreements", payments for co-financing of projects in financial accounting from the deferred expenses have been reclassified to intangible assets (Note 8).



## 11. LEASE

	31.12.2023	31.12.2022
	EUR	EUR
<b>Right-of-use assets</b>		
<b>Net book value at the beginning of the reporting period</b>	<b>461 503</b>	<b>451 108</b>
Recognised changes in lease agreements	-	36 646
Depreciation recognised in the income statement	(13 145)	(26 251)
<b>Net book value at the end of the reporting period</b>	<b>448 358</b>	<b>461 503</b>
<b>Lease liabilities</b>		
<b>Net book value at the beginning of the reporting period</b>	<b>484 422</b>	<b>467 337</b>
Recognised changes in lease agreements	-	36 646
Recognised reduction of the lease liability (lease payments made*)	(27 203)	(40 217)
Recognised lease interest expense	20 783	20 656
<b>Net balance value at 31.12.2023</b>	<b>478 002</b>	<b>484 422</b>
Incl.: Long-term lease liabilities	450 798	459 358
Short-term lease liabilities	27 204	25 064

\* in the cash flow statement for 2023, lease payments in the amount of EUR 27 204 are included in the cash flow from financing activities (31.12.2022: EUR 40 217)

Conexus' right-of-use assets include land, premises and construction rights.

	Term	Maturity date
Land lease, Inčukalns underground gas storage	36 years	31.12.2054
Land lease, Stigu street 14	36 years	31.12.2054
Construction rights, Stigu street 14	70 years	31.12.2089

## 12. INVENTORIES

	31.12.2023	31.12.2022
	EUR	EUR
Natural gas	2 272 259	1 015 561
Materials and spare parts	2 542 897	2 814 519
Advance payments for inventories	1 433	665
Write-off of inventory to net realisable value	(138 980)	(139 810)
	<b>4 677 609</b>	<b>3 690 935</b>
<b>Write-off of inventory to net realisable value</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
	EUR	EUR
<b>Write-offs at the beginning of the period</b>	<b>(139 810)</b>	<b>(84 223)</b>
Write-offs during the reporting period	830	(55 587)
<b>Write-offs at the end of the period</b>	<b>(138 980)</b>	<b>(139 810)</b>

## 13. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	31.12.2023	31.12.2022
	EUR	EUR
Debt for transportation of natural gas	6 138 523	6 767 731
Debt for storage of natural gas	5 416 596	2 826 333
Debt for balancing activities	-	580 939
Debt for contractual fines and late payment fines	-	1815
	<b>11 555 119</b>	<b>10 176 818</b>
<b>Accrued income</b>		
Accrued income for balancing activities	-	60 489
	-	<b>60 489</b>
<b>Total receivables from contracts with customers</b>	<b>11 555 119</b>	<b>10 237 307</b>

Accrued income refers to the clearly known settlement amounts with buyers and customers for the transportation, storage and balancing of natural gas in the reporting year, for which, in accordance with the terms of the contract, the due date for the issuance of supporting document (invoice) has not yet come at the balance sheet date.

Expected credit losses on contracts with customers are insignificant, during the last 3 years no debts have been written down, therefore, it was decided not to recognise allowances for doubtful debts.

The rules approved by PUC set strict criteria for providing debt repayment guarantees. Additional information is disclosed in the Credit risk section of Note 28.

## 14. OTHER RECEIVABLES

	31.12.2023	31.12.2022
	EUR	EUR
<b>Other current financial receivables</b>		
Other current financial receivables	20 400	12 253
<b>Total other current financial receivables</b>	<b>20 400</b>	<b>12 253</b>
<b>Other current non-financial receivables</b>		
Advances for services	181 590	125 623
Advance payment for balancing services in Gas Stock Exchange	-	2 000 000
Deferred value added tax	63 170	330 030
Provisions for doubtful advances made	-	(11 428)
<b>Total other current non-financial receivables</b>	<b>244 760</b>	<b>2 444 225</b>
<b>Total other receivables</b>	<b>265 160</b>	<b>2 456 478</b>

## 15. DEFERRED EXPENSES

	31.12.2023	31.12.2022
	EUR	EUR
<b>Non-current part</b>		
Deferred expenses related to participation in a transnational cross-border project reclassified (Note 8)	-	1 007 865
<b>Total non-term part</b>	<b>-</b>	<b>1 007 865</b>
<b>Current part</b>		
Deferred expenses related to participation in a transnational cross-border project reclassified (Note 8)	-	100 786
IT expenses	481 344	232 916
Insurance payments	78 925	75 993
Transport expenses	8 824	9 933
Other deferred expenses	71 133	60 447
<b>Total short-term part</b>	<b>640 226</b>	<b>480 075</b>
<b>Total deferred expenses</b>	<b>640 226</b>	<b>1 487 940</b>

## 16. RESERVES

	31.12.2023	31.12.2022
	EUR	EUR
PPE revaluation reserve	163 915 291	183 254 683
Revaluation reserve for post-employment benefits	88 379	58 899
Reorganisation reserve*	24 647 260	24 647 260
	<b>188 650 930</b>	<b>207 960 842</b>

\* due to the reorganization of AS "Latvijas Gāze" in two separate companies (in 2017) – AS "Latvijas Gāze" and Conexus, the assets and liabilities related to the core business were transferred to Conexus, including the reorganization reserve.

Movement of revaluation reserves during the reporting period	Property, plant and equipment revaluation reserve	Post-employment benefit revaluation reserve
<b>Balance at 31.12.2021</b>	<b>191 583 804</b>	<b>(146)</b>
Reassessment of actuarial assumptions	-	59 045
Depreciation of the revalued portion of property, plant and equipment for the reporting period transferred to retained earnings	(7 407 875)	-
Disposed revalued items of property, plant and equipment	(921 246)	-
<b>Balance at 31.12.2022</b>	<b>183 254 683</b>	<b>58 899</b>
Reassessment of actuarial assumptions	-	29 480
Depreciation of the revalued portion of property, plant and equipment for the reporting period transferred to retained earnings	(7 048 351)	-
Reduction of the revaluation reserve as a result of revaluation (Note 9)	(11 742 677)	-
Disposed revalued items of property, plant and equipment*	(548 364)	-
<b>Balance at 31.12.2023</b>	<b>163 915 291</b>	<b>88 379</b>

\* disposed revalued items of PPE – complete or partial replacement of buildings and technological equipment due to physical and technological wear and tear.

## 17. DEFERRED INCOME

	31.12.2023	31.12.2022
	EUR	EUR
EU co-financed projects	26 070 874	24 957 748
<b>Non-current portion</b>	<b>26 070 874</b>	<b>24 957 748</b>
Current portion (other projects)	4 654	4 654
Current portion (EU co-financing)	969 829	762 681
Current portion (contractual liabilities)	4 475	-
<b>Current portion</b>	<b>978 958</b>	<b>767 335</b>
<b>Total deferred income</b>	<b>27 049 832</b>	<b>25 725 083</b>

### Changes in deferred income

Changes in deferred income (EU co-financing)	31.12.2023	31.12.2022
	EUR	EUR
<b>Opening balance</b>	<b>25 725 083</b>	<b>18 695 663</b>
EU co-financing received	2 141 164	7 643 940
Recognised in other income for the reporting year (Note 3)	(820 890)	(614 520)
Recognized deferred income from contracts with customers*	4 475	-
<b>Carried forward to future periods</b>	<b>27 049 832</b>	<b>25 725 083</b>

\* Payment for full storage cycle received in 2023

Changes in deferred income (contract liabilities)	31.12.2023	31.12.2022
	EUR	EUR
<b>Opening balance</b>	<b>-</b>	<b>237 284</b>
Recognised in deferred income	12 305	-
Recognised in revenue for the reporting year (Note 2)	(7 830)	(237 284)
<b>Carried forward to future periods</b>	<b>4 475</b>	<b>-</b>

In accordance with the European Commission resolution No.C(2010) 5554 dated August 13, 2008 on the award of a financial grant under the EC Regulation (EC) No.663/2009 on gas and electricity interconnections, the Company has received co-financing of 50 %, but not more than EUR 10 000 thousand for realization of Actions No.EEPR-2009-INTg-RF-LV-LT-I2.566527 “Modernization of 15 wells at the Inčukalns UGS” and SI2.566531 “Construction of a gas passage below the River Daugava and a pig receiver”.

In May 2019, the European Commission approved the granting of co-financing in the amount of 50 % or EUR 44 000 thousand for the project of common European interest No 8.2.4 “Improvement of the operation of the Inčukalns underground gas storage”.

In December 2019, the European Commission approved the co-financing of 50 % or EUR 2 750 thousand for the project of common European interest No 8.2.1. “Improvement of the operation of the Latvian-Lithuanian interconnection”.

Statement of deferred income for 2021 and 2022:

Project	Deferred income 31.12.2021	Received EU co-financing 2022	Recognised in other income (Note 3) 2022	Deferred income 31.12.2022	Received EU co-financing 2023	Recognised in other income (Note 3) 2023	Deferred income 31.12.2023
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Project of gas transmission from 2011	<b>1 695 478</b>	-	(79 329)	<b>1 616 149</b>	-	(66 487)	<b>1 549 662</b>
Project of Inčukalns UGS from 2011	<b>5 570 124</b>	-	(187 914)	<b>5 382 210</b>	-	(187 914)	<b>5 194 296</b>
Project of Inčukalns UGS from 2019 (Nr.8.2.4.)	<b>10 628 060</b>	6 373 053	(294 524)	<b>16 706 589</b>	2 001 477	(502 936)	<b>18 205 130</b>
Project of gas transmission from 2019 (Nr.8.2.1.)	<b>673 472</b>	1 270 887	(48 100)	<b>1 896 259</b>	139 687	(58 900)	<b>1 977 046</b>
Connection to Conexus` gas transmissions system	<b>128 529</b>	-	(4 653)	<b>123 876</b>	-	(4 653)	<b>119 223</b>
<b>Total</b>	<b>18 695 663</b>	<b>7 643 940</b>	<b>(614 520)</b>	<b>25 725 083</b>	<b>2 141 164</b>	<b>(820 890)</b>	<b>27 045 357</b>

## 18. EMPLOYEE BENEFIT OBLIGATIONS

	31.12.2023	31.12.2022
	EUR	EUR
Provisions for post-employment benefits	1 097 224	1 099 387
Provisions for other collective bargaining agreement costs*	234 253	252 381
	<b>1 331 477</b>	<b>1 351 768</b>

\* gifts on anniversaries of life and seniority

	31.12.2023	31.12.2022
Liabilities at the beginning of the period	1 351 768	1 374 135
Recognised in the income statement	164 245	136 225
Paid	(155 056)	(99 547)
Remeasurement of post – employment benefits as a result of changes in actuarial assumptions – in equity	(29 480)	(59 045)
<b>Liabilities at the end of the period</b>	<b>1 331 477</b>	<b>1 351 768</b>

Remeasurement of post – employment benefits is negative due to the following assumptions: increase in wages and salaries, changes in future increase of remuneration, slightly reduced labour turnover ratio. The revaluation was reduced by the higher discount rate used in the calculation. In the reporting year, the discount rate used to discount post-employment benefit obligations is 3.43 % (2022.: 2.81 %).

Sensitivity analysis of the total value of post-employment benefit, EUR	2023		2022	
	Increase	Decrease	Increase	Decrease
Discount rate (-/+ 1 % point)	118 972	(100 348)	125 856	(105 433)
	9%	-8%	9%	-8%
Labour turnover rate (-/+ 1 % point)	135 994	(114 985)	142 275	(119 538)
	10%	-9%	11%	-9%
Monthly salary increase (+/- 1 % point)	105 159	(89 713)	109 482	(92 846)
	8%	-7%	8%	-7%
Retirement age of employees, years (-/+ 1 year)	73 402	(73 203)	63 491	(69 302)
	6%	-5%	4.70%	-5.13%

## 19. BORROWINGS

	31.12.2023	31.12.2022
	EUR	EUR
Non-current borrowings from credit institutions	65 568 897	69 468 183
Current borrowings from credit institutions	13 899 286	12 899 286
Accrued interest on borrowings from credit institutions	75 493	62 480
	<b>79 543 676</b>	<b>82 429 949</b>

Conexus has borrowings both from local and international credit institutions. The weighted average interest rate is 3.30 % at the end of reporting year (31.12.2022: 1.76 %). At the end of the reporting year, 35 % of borrowings outstanding have a fixed loan interest rate (31.12.2022: 36 %). All borrowings of Conexus are denominated in euros and are unsecured.

At the end of the reporting year, committed long-term loan agreements in the amount of EUR 45 000 thousand are available to Conexus, with expected withdrawal during 2024.

	EUR	EUR
<b>At the beginning of the reporting year</b>	<b>82 429 949</b>	<b>98 094 076</b>
Received borrowings from credit institutions	10 000 000	20 000 000
Borrowings repaid to credit institutions	(12 899 286)	(10 738 433)
Overdraft repaid	-	(24 949 950)
Accrued interest on loans from credit institutions	2 581 509	589 271
Paid interest on loans from credit institutions	(2 568 496)	(565 015)
	<b>79 543 676</b>	<b>82 429 949</b>

All changes in borrowings, except accrued interest liabilities, are presented in the Statement of cash flows as Cash flows from financing activities.

The limits of financial covenants specified in the existing agreements of Conexus during the reporting year have been complied with, information on financial covenants is disclosed in the section on Capital risk management (Note 28).

Lease liabilities are disclosed in Note 11.

## 20. TRADE PAYABLES

	31.12.2023	31.12.2022
	EUR	EUR
Payables for other operating costs	1 154 837	2 601 436
Payables for long-term investments	3 279 422	2 531 876
Related party payables (Note 25)	344 466	1 565 086
Payables for balancing operations	515 600	664 113
Payables for intangible assets	487 266	48 915
<b>Current financial liabilities</b>	<b>5 781 591</b>	<b>7 411 426</b>

## 21. OTHER LIABILITIES

	31.12.2023	31.12.2022
	EUR	EUR
Dividends unpaid for the previous years	554 446	531 555
<b>Current financial liabilities</b>	<b>554 446</b>	<b>531 555</b>
Value added tax	544 168	561 508
Employee remuneration	578 327	531 526
State social insurance mandatory contributions	345 292	299 923
Personal income tax	129 291	160 172
Other short-term liabilities	188 907	64 907
Natural resource tax	31 272	49 695
Corporate income tax on deemed distribution of profit	511	3 614
Excise tax, Real estate tax	1 720	1 849
<b>Current non-financial liabilities</b>	<b>1 819 488</b>	<b>1 673 194</b>
<b>Other liabilities total</b>	<b>2 373 934</b>	<b>2 204 749</b>

## 22. ACCRUED LIABILITIES

	31.12.2023	31.12.2022
Accrued liabilities for annual performance bonuses	1 549 356	1 553 601
Accrued liabilities for unused annual leave	691 249	674 228
<b>Non-Financial accrued liabilities</b>	<b>2 240 605</b>	<b>2 227 829</b>
Accrued liabilities for invoices not received*	15 433 492	14 723
Accrued liabilities for the audit of the annual report	22 300	18 300
<b>Financial accrued liabilities</b>	<b>15 455 792</b>	<b>33 023</b>
<b>Accrued liabilities total</b>	<b>17 696 397</b>	<b>2 260 852</b>

\* According to the information received from the Polish operator "GAZ-System" A.S., investments in the construction of a cross-border gas interconnector have been made, but documents justifying the payments have not yet been received. Thus, in the financial accounting as of 31.12.2023 Polish-Lithuanian interconnector GIPL is recognised in the costs of intangible assets under development (Note 8) and accrued liabilities in the amount of planned co-financing of EUR 14 700 000.

## 23. CORPORATE INCOME TAX

	31.12.2023	31.12.2022
	EUR	EUR
Shareholders' decision on dividends to be paid	8 355 079	9 548 661
Profit to be distributed (period after 31.12.2017.)	8 355 079	9 548 661
Calculated corporate income tax	2 088 770	2 387 165
<b>Tax relief applied on previously declared provisions</b>	<b>2 088 770</b>	<b>2 387 165</b>

In 2023, the amount of dividends declared to Conexus' shareholders was EUR 8 355 079 or EUR 0.21 per share. In 2022, the amount of dividends declared to Conexus' shareholders was EUR 9 548 661 or EUR 0.24 per share.



## 24. CASH AND CASH EQUIVALENTS

	31.12.2023	31.12.2022
	EUR	EUR
Cash at bank	12 953 450	10 967 116
<b>Total cash and cash equivalents</b>	<b>12 953 450</b>	<b>10 967 116</b>

## 25. RELATED PARTY TRANSACTIONS

Related parties include Conexus' shareholders, members of the Supervisory Council and Management Board, their close family members, and companies in which they exercise control or significant influence; Parent company AS "Augstsprieguma tīkls", its members of the Supervisory Council and Management Board, Audit Committee Officers, their close family members, and companies in which they exercise control or significant influence. As all shares of the Parent company are 100 % owned by the Republic of Latvia, state-controlled companies are also considered related parties.

Conexus has no ordinary service transactions with the Government of Latvia, including ministries and state agencies, as well as no transactions with state-controlled companies, which are considered as other related parties, except for AS "Augstsprieguma tīkls" (Parent company) and AS "Latvenergo" (Other related parties).

Transactions with AS "Latvenergo", according to the principle of fair competition, include storage and transmission services, but do not include individually significant transactions.

Related party transactions	2023 or 31.12.2023	2022 or 31.12.2022
	EUR	EUR
<b>Income from related parties:</b>		
AS "Latvenergo"	26 320 745	22 060 969
<b>Purchases of goods and services from related parties:</b>		
AS "Latvenergo"	3 542 946	5 408 435
AS "Augstsprieguma tīkls"	694	473
<b>Balances at the end of the year arising from sales/ purchases of goods and services:</b>		
<b>Receivables from contracts with customers</b>		
AS "Latvenergo"	4 590 132	3 781 454
<b>Trade payables</b>		
AS "Latvenergo"	344 466	1 565 086

Information on dividends paid to shareholders is disclosed in Note 23.

Conexus' management remuneration is disclosed in Note 5.

## 26. COMMITMENTS AND CONTINGENCIES

As of 31 December 2023, Conexus has concluded, but not yet completed long-term asset construction contracts amounted EUR 43 335 131 (31.12.2022: EUR 34 910 221).

The financial covenants specified in the existing agreements of Conexus during the reporting period have been complied with, information on financial covenants is disclosed in the section on Capital risk management in Note 28.

## 27. REMUNERATION TO A COMMERCIAL COMPANY OF SWORN AUDITORS

Remuneration to a commercial company of sworn auditors	31.12.2023	31.12.2022
	EUR	EUR
Audit of financial statements	21 000	24 000
Review of sustainability report	5 300	5 300
	<b>26 300</b>	<b>29 300</b>

## 28. RISK MANAGEMENT AND FAIR VALUES

The principles and guidelines for general financial risk management are set out in Conexus' Financial Risk Management Policy. The Management Board is responsible for implementing this policy within the Company.

Conexus is exposed to the following financial risks: capital risk, financing risk (including interest rate risk, refinancing risk and early redemption risk), currency risk, credit risk and liquidity risk.

Conexus' financial instruments are divided into the following categories:

Financial assets and liabilities	31.12.2023	31.12.2022
<b>Financial assets at amortised cost</b>	EUR	EUR
Receivables from contracts with customers	11 555 119	10 237 306
Other receivables	20 400	12 253
Cash and cash equivalents	12 953 450	10 967 116
<b>Total financial assets at amortised cost</b>	<b>24 528 969</b>	<b>21 216 675</b>
<b>Financial liabilities at amortised cost</b>		
Borrowings from credit institutions	79 543 677	82 429 949
Trade payables	5 781 591	7 411 426
Other liabilities and accrued liabilities	16 010 238	564 578
Lease liabilities	478 002	484 422
<b>Total financial liabilities at amortised cost</b>	<b>101 813 508</b>	<b>90 890 374</b>

### LIQUIDITY RISK

Liquidity risk is associated with the ability of Conexus to meet its liabilities within set deadlines. Conexus pursues prudent liquidity risk management by forecasting annual, quarterly and monthly cash flows to ensure adequate financial resources for its operations. If necessary, Conexus intends to take out short – term and long – term loans. Conexus' liquidity reserve consists of the Conexus' cash and cash equivalents as well as unused lines of credit granted by credit institutions.

At the end of 2023, Conexus has available and unused credit lines amounting to EUR 65 000 thousand, which provides a significant liquidity reserve. At the end of the reporting period, committed long-term loan agreements amounting to EUR 45 000 thousand (31.12.2022: EUR 55 000 thousand) are available to Conexus, with expected withdrawal during 2024.

Maturity analysis of financial liabilities by their contractual cash flows, including interest payments:

31.12.2023	Carrying value	Contractual cash flow	1 – 3 months	3 months – 1 year	1 – 5 years	> 5 gadi
	EUR	EUR	EUR	EUR	EUR	EUR
Borrowings from credit institutions	79 543 677	88 832 528	4 494 899	11 782 660	51 165 568	21 389 401
Trade payables, accrued liabilities	21 791 829	21 791 829	21 791 829	-	-	-
Lease liabilities	478 002	994 560	6 801	20 403	108 816	858 540
<b>Financial liabilities</b>	<b>101 813 508</b>	<b>111 618 917</b>	<b>26 293 529</b>	<b>11 803 063</b>	<b>51 274 384</b>	<b>22 247 941</b>

31.12.2022	Carrying value	Contractual cash flow	1 – 3 months	3 months – 1 year	1 – 5 years	> 5 years
	EUR	EUR	EUR	EUR	EUR	EUR
Borrowings from credit institutions	82 429 949	94 837 865	4 294 830	10 876 192	54 551 740	25 115 102
Trade payables, accrued liabilities	7 976 003	7 976 003	7 976 003	-	-	-
Lease liabilities	484 422	943 076	6 801	20 403	108 816	807 056
<b>Financial liabilities</b>	<b>90 890 374</b>	<b>103 756 944</b>	<b>12 277 634</b>	<b>10 896 595</b>	<b>54 660 556</b>	<b>25 922 158</b>

## FUNDING RISK

### Interest rate risk

Interest rate risk arises because Conexus uses borrowed funds. Interest rate risk for Conexus arises from borrowings with a floating interest rate (hereinafter referred to as the reference interest rate) consisting of three, six or 12-month EURIBOR plus interest rate, with the risk that Conexus' financial costs will increase significantly when the reference rate surges.

Interest rate risk is managed by entering into interest rate swaps (IRSs), in which floating interest rates are exchanged for fixed interest rates, or by obtaining new fixed rate borrowings or by issuing bonds as fixed rate instruments. At the end of the reporting period, Conexus had no interest rate swaps (IRS) or bonds issued as fixed rate instruments. 35 % of Conexus' received and unpaid long-term loans have a fixed interest rate.

Conexus' financial risk management policy requires the level, amount and maturity of interest rate risk management to be assessed in accordance with the approved Conexus service tariff cycles.

If the base borrowing rate (EURIBOR) increased by 0.25 %, Conexus interest expenses on loans would increase by EUR 124 thousand (2022: EUR 118 thousand). If the base borrowing rate (EURIBOR) increased by 0.50 %, interest expenses on loans would increase by EUR 249 thousand (31.12.2022: EUR 235 thousand).

### Refinancing risk

Refinancing risk may arise from external macroeconomic and political circumstances, the onset of a financial crisis, or a significant deterioration in Conexus' operations and financial indicators.

To hedge refinancing risk, Conexus diversifies its loan portfolio by setting limits for key financial indicators (limit values) and ensuring their monitoring by the source of borrowing - not more than 80 per

cent from one credit institution. At the same time, Conexus ensures diversification of the maturity dates for the repayment of the borrowings.

### Risk of early repayment

The risk of early repayment of the debt may arise if one of the lenders exercises its right to demand early repayment under the loan agreement, which would automatically entitle all of Conexus' other lenders to demand early repayment of their loans.

In order to prevent the risk of early repayment of the debt, Conexus regularly performs calculations and analyses the indicators (covenants) laid down in the loan agreements and pays special attention to timely prevention the occurrence of defaults on payments. Conexus maintains relations with its lenders on a regular basis, informing them in a timely manner of changes affecting Conexus' business and reputation.

### Credit risk

Conexus is exposed to credit risk, which is the risk that Conexus will incur a loss if a counterparty fails to meet its contractual obligations. Credit risk may arise from cash and cash equivalents, receivables from contracts with customers and other financial receivables.

Conexus is exposed to a significant concentration of credit risk on receivables from contracts with customers, as credit risk is shared among the 10 largest customers, whose liabilities accounted for 86 % of Conexus' total receivables from contracts with customers (31.12.2022: 90 %). Conexus considers that receivables from customers are highly recoverable.

The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (Note 26), receivables from contracts with customers and other receivables (Note 14, 15).

Assessment of maximum possible exposure to credit risk	31.12.2023	31.12.2022
	EUR	EUR
Receivables from contracts with customers	11 555 119	10 237 307
Other current financial receivables	20 400	12 253
Cash and cash equivalents	12 953 450	10 967 116
<b>Total</b>	<b>24 528 969</b>	<b>21 216 676</b>

To limit the credit risk of receivables, Conexus assesses the creditworthiness of counterparties and sets their credit limits. If a counterparty's creditworthiness is not sufficient to cover the credit limit set by Conexus, the Company requires security (a security deposit, bank guarantee). One of such guarantees is security deposits – their amount at the end of the year is EUR 6 112 857 (2022: EUR 8 580 382) (Note 13).

Credit risk in relation to financial assets with credit institutions is managed through a balanced placement of financial assets with at least two credit institutions. The credit institutions with which cooperation exists or is contemplated must have a rating of at least A- or A3 by an international rating agency. To ensure execution of financial transactions for operations, Conexus may also invest in credit institutions with a credit rating of at least BBB- or Baa3. Based on these considerations, cash and cash equivalents can be described as follows (categorized by long-term rating):

Moody's credit rating	31.12.2023	31.12.2022
	EUR	EUR
Aa3	12 950 436	10 964 963
Baa2	1 055	1 121
Baa1	1 959	1 032
<b>Total cash</b>	<b>12 953 450</b>	<b>10 967 116</b>

At 31 December 2023 and 31 December 2022, cash and cash equivalents consisted of cash held on current accounts with credit institutions.

### Capital risk management

Conexus carries out its capital risk management with to the aim of ensuring the sustainable operations of Conexus, maintaining an optimal capital structure, and thus reducing the cost of capital. Conexus takes a balanced approach to risk in relation to its creditworthiness and capital structure.

Conexus regularly manages capital risk, based on the calculation and analysis of capital ratio. Capital ratio is calculated by dividing the amount of equity by total assets. Capital ratio must be maintained at the level of at least 50 percent. Capital ratio at 31 December 2023 is 70 %.

Conexus regularly calculates and analyses debt ratio. Debt ratio is calculated by dividing net debt (all non-current and current interest-bearing liabilities less cash and cash equivalents) by EBITDA (earnings before interest, taxes, depreciation and amortisation) for the past 12 months. The value of this ratio may not exceed five. Debt ratio at 31 December 2023 is 1.3.

Debt service coverage ratio (DSCR) is determined by dividing EBITDA for the last 12 months by the amount of commitment payments (principal, interest or other payments related to loans, loans, financial leasing or other commercially similar transactions). The value of this coefficient should not be less than 1.2x. Debt service coverage ratio (DSCR) indicator at 31 December 2023 is 3.3.

The financial covenants specified in the existing Conexus' borrowing agreements with credit institutions during the reporting period and at the time of approval of the report have been complied with. Actual ratios of the financial covenants:

Financial covenants	31.12.2023	31.12.2022
Equity ratio > 50 %	70%	72%
Net borrowings / EBITDA < 5	1.3	2.7
Debt service coverage ratio (DSCR) > 1.2	3.3	2.9

In planning for funding, Conexus follows the prudence principle, keeping open the possibilities of raising additional funding quickly if necessary.

### Currency risk

The policy of Conexus is to focus on transactions, assets, or liabilities denominated in the functional currency of Conexus, i.e., the euro. Foreign currency risk is viewed as low. Conexus has no significant foreign currency balances.

### Fair value

IFRS 13 sets out a hierarchy of valuation techniques based on whether the valuation technique uses observable market data or unobservable market data. Observable market data is obtained from independent sources. If no market data is observable, the valuation technique reflects Conexus management's assumptions about the market circumstances. This hierarchy requires the use of observable market data whenever available. When carrying out revaluation, Conexus considers the relevant observable market prices whenever possible.

The objective of determining fair value, even when the market is not active, is to establish the transaction price at which market participants would be willing to sell the asset or incur a liability at a particular measurement date under current market conditions. Several methods are used to determine the fair value of a financial instrument: quoted prices or valuation techniques that incorporate observable market data and are based on internal models. Based on the fair value hierarchy, all inputs used in valuation techniques are categorised into Level 1, Level 2, and Level 3 inputs. The level of the fair value hierarchy of a financial instrument should be determined to be the lowest level if a significant portion of its value consists of lower-level data.

The classification of a financial instrument in the fair value hierarchy is made in two levels:

1. Classify the inputs at each level to determine the fair value hierarchy;
2. Classify the financial instrument itself on the basis of the lowest level if a significant part of its value consists of inputs from the lower level.

#### Quoted market prices – Level 1

Level 1 valuation techniques use unadjusted quoted prices in an active market for identical assets or liabilities when quoted prices are readily available and the price represents the actual market circumstances for transactions under fair competitive circumstances.

#### Valuation techniques using market data – Level 2

In the models used in the Level 2 valuation technique, all significant inputs are directly or indirectly observable on the asset or liability side. The market data used in the model is not quoted in Level 1 but is observable directly (i.e., price) or indirectly (i.e., derived from price).

#### Valuation techniques using market data that are not based on observable market data – Level 3

Valuation techniques that use market data that is not based on observable market data (unobservable market data) are classified within Level 3. Unobservable market data is data that is not readily available in an active market due to the complexity of an illiquid market or financial instrument. Level 3 inputs are generally determined based on observable market data of a similar nature, historical observations, or analytical approaches.

Classification of financial assets and liabilities by the fair value hierarchy levels:

	Level	31.12.2023	31.12.2022
		EUR	EUR
<b>Assets</b>			
Receivables from contracts with customers	3.	11 555 119	10 237 306
Other receivables	3.	20 400	12 253
Cash and cash equivalents	2.	12 953 450	10 967 116
<b>Liabilities</b>			
Borrowings from credit institutions	3.	79 543 677	82 429 949
Trade payables	3.	5 781 591	7 411 426
Other liabilities and accrued liabilities	3.	16 010 238	564 578
Lease liabilities	3.	478 002	484 422

#### Assets and liabilities measured at fair value

The carrying amounts of liquid and short-term (with a maturity of less than three months) financial instruments, such as cash and cash equivalents, short-term receivables from contracts with customers and current trade payables, approximate their fair values.

The fair value of borrowings from banks is determined by discounting future cash flows at market interest rates. As the interest rates (incl. a fixed loan rate) applied to borrowings from banks largely do not differ significantly from market rates and the risk premium applied by Conexus has not changed significantly, the fair value of non-current liabilities approximates their carrying amount.

#### Assets measured at fair value

Conexus' buildings, structures, including gas pipeline infrastructure, machinery and equipment are stated at revalued amounts that approximate their fair values. The revaluation was carried out in 2020. Due to the unique nature and use of the assets, Level 3 inputs were used for the revaluation, which means that the data are not directly observable for the respective type of assets.

The revaluation of fixed assets was performed with the help of an independent expert and using the amortized replacement cost method. Under this method, the initial value of the assets is determined according to the current prices and requirements and the materials used. The main assumptions in the revaluation process relate to the cost of materials used and the average construction cost at the time of the revaluation. Data on the construction of similar facilities in recent years available to Conexus are also used to determine the values. If the average construction costs in the country increase or the cost of materials used increases significantly, the value of the assets will also increase. If construction costs fall or material costs fall, the value of the assets will also fall.

In addition to the initial value, the accumulated depreciation of each asset was determined, taking into account the physical, functional and technical depreciation of the asset as the main factors. If the revalued assets are used significantly differently or are functionally depreciated, the value of the revalued assets may decrease or increase significantly.

When an item of property, plant and equipment is revalued in accordance with IAS 16, the carrying amount of the asset is adjusted for the revalued amount. In recognizing the results of revaluation of property, plant and equipment, the initial value and residual value of the property, plant and equipment are replaced by revalued amounts. The accumulated depreciation on a disproportionate basis at the revaluation date is adjusted to equal the difference between the initial carrying amount of the asset and the remaining carrying amount of the asset, after deducting any accumulated impairment losses.

The average increase in construction costs was determined on the basis of various sources, including projects implemented by Conexus, comparative indicators of equivalent market participants, data of the Central Statistical Bureau (hereinafter - CSB). Changes in material, labour and machinery costs were taken into account. The average cost increase was calculated taking into account the impact percentage of each calculation model. Overall, the average cost increase applied in the revaluation of gas pipelines compared to the valuation performed in 2016 was 19 %. The increase in the value of wells was determined by analysing the information provided by Conexus on well reconstruction works and CSB information (2017-2019). The prudence principle has been observed in the calculations, applying the increase of the CSB average construction costs (materials, labour, machinery) in 2017-2019, i.e., ~ 12 %.

In order to determine whether the fair value of groups of PPE differs from the financial carrying amount at the end of the reporting year, the Company performed an internal assessment of the fair value of assets as of December 31, 2023 for those groups of PPE that were valued at revalued value and showed signs of impairment. According to paragraph 62 of IFRS 13 "Fair Value Measurement," the Company assessed that the most appropriate valuation method is the income approach.

More information on the revaluation of property, plant and equipment is disclosed in the Note 9.

#### *Non-financial risks*

Conexus risk management includes several risk groups, such as corporate governance, environmental management and social responsibility related risks. The management of these risks is described in Conexus Sustainability report.



## 29. INFORMATION ON THE COMPANY

The legal address of AS “Conexus Baltic Grid” is Stigu street 14, Riga, LV-1021, Latvia. The Company is registered in Commercial Register of Latvia with common registration number 40203041605. The Company’s largest shareholders are its parent company AS “Augstsprieguma tīkls” (68,46 % of share capital) and MM Infrastructure Investments Europe Limited (29,06 % of share capital).

Conexus is a unified natural gas transmission and storage operator in Latvia that manages one of the most modern natural gas storage facilities in Europe, the Inčukalns Underground Storage Facility (hereinafter referred to as “the Inčukalns UGS” or “the storage facility”), and the main natural gas transmission system, which directly connects Latvia’s natural gas market to Lithuania and Estonia.

### Supervisory Council

Term of office until 27 April 2023		Term of office from 27 April 2023 until 26 April 2026	
<b>Ilmārs Šņucins</b>	Chairman of the Supervisory Council (In the Supervisory Council since 3 January 2018)	<b>Ilmārs Šņucins</b>	Chairman of the Supervisory Council (In the Supervisory Council since 3 January 2018)
<b>Tomohide Goto</b>	Deputy Chairman of the Supervisory Council (In the Supervisory Council since 30 April 2020)	<b>Tomohide Goto</b>	Deputy Chairman of the Supervisory Council (In the Supervisory Council since 30 April 2020)
<b>Yukiko Fujii</b>	Member of the Supervisory Council (In the Supervisory Council since 28 April 2022)	<b>Masanobu Furuya</b>	Member of the Supervisory Council (In the Supervisory Council since 30 April 2023)
<b>Zane Āboliņa</b>	Member of the Supervisory Council (In the Supervisory Council since 30 April 2020)	<b>Zane Āboliņa</b>	Member of the Supervisory Council (In the Supervisory Council since 30 April 2020)
<b>Ivars Moisejs</b>	Member of the Supervisory Council (In the Supervisory Council since 28 April 2022)	<b>Ivars Moisejs</b>	Member of the Supervisory Council (In the Supervisory Council since 28 April 2022)
<b>Viktors Sentuhovskis</b>	Member of the Supervisory Council (In the Supervisory Council since 12 May 2021)	<b>Viktors Sentuhovskis</b>	Member of the Supervisory Council (In the Supervisory Council since 12 May 2021)
<b>Normunds Šuksts</b>	Member of the Supervisory Council (In the Supervisory Council since 30 April 2020)	<b>Normunds Šuksts</b>	Member of the Supervisory Council (In the Supervisory Council since 30 April 2020)

### Management Board

Term of office from 16 November 2023 until 15 November 2028 (previous term of office: 16.11.2020–15.11.2023):

<b>Uldis Bariss</b>	Chairman of the Management Board
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Term of office from 1 January 2021 until 31 Decembrer 2023 (previous term of office: 22.12.2016–31.12.2020):

<b>Gints Freibergs</b>	Member of the Management Board
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Term of office from 1 January 2024 until 31 Decembrer 2028 (previous term of office: 31.12.2017–31.12.2023):

<b>Mārtiņš Gode</b>	Member of the Management Board
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Term of office from 1 January 2024 until 31 Decembrer 2028:

<b>Rinalds Dimiņš</b>	Member of the Management Board
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The Company’s auditor is the certified audit company PricewaterhouseCoopers SIA and certified auditor in charge Ilandra Lejiņa.

## 30. ACCOUNTING POLICIES

### BASIS OF PREPARATION

The financial statements of Conexus have been prepared in accordance with IFRS Accounting standards as adopted by the European Union. The general accounting and measurement principles set out in this section have been applied consistently for all periods covered by the financial statements.

The financial statements have been prepared on a going concern basis. As at 31 December 2023, Conexus' liabilities exceed its current assets by EUR 16 854 thousand (2021: EUR 6 380 thousand). Conexus' management considers that Conexus will have no liquidity problems and will be able to settle with creditors within the set deadlines, since at the end of the reporting year, Conexus' total borrowing amount is EUR 79 544 thousand, bank credit lines are unused. In total, bank credit lines of EUR 65 000 thousand are available at Conexus, which provides a significant liquidity reserve. The terms of credit line agreements are up to 1 year.

At the end of the reporting period, Conexus has signed long-term loan agreements in the amount of EUR 45 000 thousand with expected withdrawal during 2024. More information on liquidity ratios is disclosed in Note 28 under section on Liquidity risk.

Assets and liabilities in the financial statements are measured at amortised cost. Some groups of fixed assets are recognised at revalued amounts. The statement of cash flows has been prepared in accordance with the indirect method. Financial statements of Conexus are presented in EUR.

While preparing Conexus' financial statements in conformity with IFRS, financial statement line items are valued as accurately as possible based on the management information about current events and actions, as well as based on estimates and assumptions. The areas involving a higher degree of judgement or complexity are disclosed in the notes.

### CURRENCY AND REVALUATION OF FOREIGN CURRENCIES

Items presented in the financial statements are denominated in EUR, which is the functional currency of Conexus' business environment and the official currency of the Republic of Latvia.

All foreign currency transactions are translated into EUR using the exchange rate of the European Central Bank effective on the date of the relevant transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate effective on the last day of the reporting year. Foreign currency gains and losses are recognised in the income statement for the respective period.

### SIGNIFICANT ESTIMATES AND JUDGMENTS

Preparation of the financial statements of Conexus in conformity with IFRS, requires using significant estimates and assumptions that affect the value of the assets and liabilities within financial statements and the presentation of contingent assets and liabilities, as well as the revenue and expenses of the reporting year. While such estimates are based on the most reliable information available to Conexus' management on the relevant events and activities, actual results may differ from these estimates and assumptions about the outcome of future events.

Management has identified the following areas as subject to a higher degree of judgement or complexity or areas for which the assumptions and estimates applied are material in the context of the financial statements.

#### *Estimates related to property, plant and equipment and intangible assets*

##### **Useful life**

Conexus makes estimates of useful life of property, plant and equipment and intangible assets and their residual value. These estimates are derived from past experience and industry practice. The estimated useful life is assessed at the end of each reporting year. Past experience has shown that the actual useful life of property, plant and equipment and intangible assets sometimes is longer than estimated.

Taking into account Annex 3 to the Decision of the PUC No. 1/12 of 29 August 2022 “Methodology for accounting and calculation of capital costs”, in 2022 the classification of fixed asset groups and the useful lives determined for them were revised in the financial accounting, based on the established classification of natural gas transmission and storage assets and minimum useful lives. The useful life was not revised for those fixed assets whose useful life exceeds the minimum period specified in the PUC and for fixed assets that are fully depreciated in the financial accounts as of 31.12.2021, or for which replacement or renewal is planned in the near future (within five years).

The period of useful life and classification on 1 January 2022 were revised for 660 property, plant and equipment items. Total reduction of the calculated depreciation in the profit and loss account is EUR 261 899, of which decrease in depreciation of buildings and structures EUR 222 349, decrease in depreciation of technological equipment EUR 135 820, increase in depreciation of other fixed assets EUR 96 270. Changes in the period of useful life and classification causes changes in the depreciation from 1.5 % to 2.8 % for the following years, and it considered as not significant.

The values of fully depreciated fixed assets are disclosed in Note 9. The assessment of the impact of the expected change in useful life is not accurately estimated and therefore the impact of the sensitivity analysis of

changes in depreciation rates on subsequent periods is not disclosed.

##### **Recoverable value**

Impairment of Conexus’ property, plant and equipment is assessed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If necessary, assets are written down to their recoverable amount. In assessing impairment, management uses various estimates for cash flows arising from the use of assets, maintenance and repairs of property, plant and equipment, as well as for inflation and interest rate increases. Estimates are based on the methodology for calculation of tariffs for natural gas storage and transmission system service approved by the Council of the PUC. No impairment of property, plant and equipment was recognised in the reporting year.

##### **Revaluation**

The revaluation of Conexus’ property, plant and equipment is carried out by independent, external, certified experts and using the amortised replacement cost method. Under this method, the initial value of assets is determined according to the prices and requirements and the materials used, as well as the accumulated depreciation of each asset is derived. The main assumptions in the revaluation process relate to the cost of materials used and average construction prices at the time of the revaluation.

In order to determine whether the fair value of groups of PPE corresponds to the carrying amount at the end of the reporting year, the Company performed an internal assessment of the fair value of assets as of December 31, 2023 for those groups of PPE that were valued at revalued value and showed signs of impairment. According to paragraph 62 of IFRS 13 “Fair Value Measurement,” the Company assessed that the most appropriate valuation method is the income approach.

More information on the revaluation of property, plant and equipment is disclosed in chapter Assets measured at fair value and in the Note 9.

## Recognition of intangible assets

The Company recognizes co-financed assets as intangible assets in accordance with IFRIC 12 "Service Concession Agreements", see described in Note 8.

### Recognition and measurement of provisions

Conexus has made provisions for post-employment benefits. The extent and timing of the fulfilment of these obligations are uncertain. Certain assumptions and estimates, including expected future costs, inflation rates and cost timelines, are used to determine the present value of these provisions. Actual costs may differ from established provisions due to changes in legal provisions, as well as costs covered by third parties. In order to assess provisions for post-employment benefits, the probability of termination of employment in different age groups of employees is estimated, based on past experience as well as different assumptions about variable demographic and financial factors (including the expected increase in wages and salaries and certain changes in the amount of benefits). Probability and other factors are determined on the basis of previous experience (Note 18).

### Recognition of balancing income

Conexus has assessed that, in the performance of the balancing administration functions, it acts as an agent (Note 2). Indicators that Conexus acts as an agent are as follows:

- ✦ Conexus has no control over the services before handing them over to customers;
- ✦ Conexus is required to invoice clients for services provided and charge a fee, but is not entitled to revenue for these services;
- ✦ Conexus does not have the right to determine the price of the services either directly or indirectly.

## NON-FINANCIAL ASSETS AND LIABILITIES INTANGIBLE ASSETS

Identifiable non-monetary assets that have no physical form and which Conexus uses to provide services or for own operational needs, are recognised as intangible assets. Conexus' intangible assets mainly consist of software licences and software and co-financed projects. Co-financed projects of common interest are recognized according to IFRIC 12. More information on the recognition of co-payments in intangible investments is disclosed in the Note 8.

Intangible assets are carried at their historical cost less accumulated amortisation and impairment loss.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The useful life of intangible assets is 5 – 20 years.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment refers to tangible assets that are intended to be used over more than one period to provide services and goods or for own operating use. Conexus' main property, plant and equipment groups are land, buildings, structures, machinery and equipment, other property and equipment, wells, gas compression units, and automatic equipment control systems. Property, plant and equipment also includes cushion gas in the collector layer of the Inčukalns UGS and the transmission gas pipelines, emergency spare parts and costs of unfinished construction objects.

Buildings, structures, machinery and equipment, wells, gas compression units, and automatic equipment control systems are stated in the financial statements at revalued amounts. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the end of the reporting period. Other property, plant and equipment items, including land, cushion gas in the Inčukalns UGS facility, technological natural gas in the transmission gas pipelines and the emergency reserve for fixed assets spare parts are accounted for at historical cost.

Property, plant and equipment item is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Property, plant and equipment items are stated in financial statements at cost or revalued amounts less accumulated depreciation and impairment loss.

Assets under construction, assembly or installation that are not ready for their intended use at the time of acquisition are recognised as construction in progress in the financial statements. Subsequent costs are included in the asset's carrying amount based on the asset's recognition criteria.

The cost of maintaining or repairing an item of property, plant and equipment is recognised in the income statement in the period in which it is incurred.

The increase in value resulting from the revaluation of property, plant and equipment is recognised in the equity as "PPE revaluation reserve". The revaluation reserve is reduced when the revalued asset is disposed of or liquidated, or when, in the opinion of management, there is no longer any basis for an increase in its carrying amount. Once the property, plant and equipment item is written-off, corresponding amount of revaluation reserve is transferred from reserves to retained earnings. During the period in which the revalued asset is used, part of the revaluation reserve, calculated as the difference between the depreciation on the revalued carrying amount of the asset and the depreciation on the original cost of the asset, is transferred to retained earnings.

From the date the asset is ready for its intended use, it is depreciated over its estimated useful life in order to reduce its cost or revalued amount to its residual value.

Where the carrying amount of an item of PPE exceeds its recoverable amount, the asset is written down immediately to its recoverable amount. Impairment of asset is recognised in the income statement of the period, except for revalued fixed assets, for which the revaluation reserve is written down first. The gain or loss on the disposal of an item of PPE is calculated as the difference between the carrying amount of the asset and the proceeds on disposal.

Depreciation is not calculated for land, cushion gas in Inčukalns UGS collector layer and transmission pipelines, spare parts for emergencies and construction in progress.

Emergency spare parts are the minimum amount of spare parts required to be stored in the warehouse, approved by the Conexus' Management Board, to ensure that Conexus is ready to locate accidents or prevent their consequences, as well as to carry out urgent repairs. The balance of emergency spare parts is reviewed once a year and if necessary reclassification to or from inventory is made.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the PPE items:

Types of PPE	Estimated useful life in years
<b>Buildings</b>	<b>20-150</b>
- Monolithic buildings with a reinforced concrete or concrete frame*	150
- Brick, reinforced concrete	100
- Brick, reinforced concrete	60-80
- Brick, reinforced concrete	20-30
<b>Brick, reinforced concrete</b>	<b>15-65</b>
- Brick, reinforced concrete	60-65
- Brick, reinforced concrete	20-30
- Groundings	150
<b>Machinery and equipment</b>	<b>5-35</b>
- Pressure regulation stations	35
- Gas compression units	25-30
- Transport and machinery, cathodic protection station	5-20
<b>Other PPE</b>	<b>3-15</b>
- Machine tools	15
- Furniture, computer equipment, communication equipment	3-10
- Tools	3-7

## LEASES

At the time of concluding the agreement, Conexus assesses whether the agreement is a lease or includes a lease. A contract is a lease or includes a lease if the contract grants control of the use of an identifiable asset for a specified period in exchange for consideration. Leases and right-of-use assets are recognized for all long-term leases that meet the criteria in IFRS 16. The rights-of-use asset is recognized as a separate item in long-term investments, see Note 12. Low value or short-term leases are not recognized as lease assets and liabilities under the exemption.

Lease liabilities are reassessed if there is a change in future lease payments due to a change in the rate used to determine these payments, if there is a change in the estimated amount of the lease payments, or if the lease is extended or terminated. When a lease liability is remeasured, an adjustment is made to the carrying amount of the corresponding right-of-use asset.

The right-of-use assets are initially measured at the present value of the lease payments and the initial direct costs associated with the lease. Lease payments are discounted using the interest rate implied by the Conexus' lease. If this rate cannot be readily determined, Conexus uses its comparable interest rate.

Subsequent to initial recognition, right-of-use assets are measured using the cost model. Under the cost model, right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses. Assets are depreciated using the straight-line method from the inception date of the lease to the end of their lease term. The period of use is estimated according to the term of the contract - 70 years for construction rights and 36 years for land lease.

Lease liabilities are measured at the present value of future lease payments that are discounted with interest rate implied by the Conexus' lease. If this rate cannot be readily determined, Conexus uses its comparable interest rate. Subsequent to initial recognition, a lease liability is measured:

- by increasing the carrying amount to show the interest on the lease; and

- reducing the carrying amount to show lease payments made.

In the statement of financial position, the right-of-use assets are presented separately from other assets, and the lease liability is presented separately from other liabilities. In the income statement, interest expense on the lease liability is presented separately from the depreciation expense on the right-of-use asset.

During the reporting period, Conexus did not use exemptions for short-term and low-value leases, as such lease agreements were not concluded during the reporting period.

## INVENTORIES

In the financial statements, inventories are stated at the lower of cost and net realisable value. Net realisable value is the selling price of inventory determined over the course of Conexus' operations, less variable selling costs.

Inventories are expensed in the income statement in the period in which they are consumed.

Inventories of materials and spare parts included in inventories are valued at weighted average prices, except for natural gas, which is accounted for according to the FIFO method. In cases where the net realisable value of inventories is lower than their cost price, provisions are made for these inventories to reduce their value to net realisable value.

## PROVISIONS

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

Provisions are measured at their present value using the best estimate available at the end of the reporting period. The required level of provisions is reviewed regularly, but at least once a year.

## EMPLOYEE BENEFITS

Conexus recognises accruals for employees when they arise from a contract or there is a past practice that results in a justified obligation.

### *Social insurance and pension contributions*

State social insurance mandatory contributions to the state-funded pension scheme are paid by Conexus in the amount provided for in the laws of the Republic of Latvia. In addition, Conexus makes contributions to an external defined-contribution private pension plan. Conexus does not incur any additional legal or constructive obligations if the state-funded pension scheme or private pension plan is unable to meet its obligations to Conexus' employees. Contributions to the social security and pension plans are expensed on an accrual basis and are presented as employee costs.

### *Post-employment and other benefits*

Under the terms of the collective bargaining agreement, Conexus provides certain benefits to employees whose terms of employment meet certain criteria in the event of termination of employment and for the remainder of their lives. Post-employment benefit obligations are calculated based on current salary levels, the number of employees who are or will be eligible for future benefits, and actuarial assumptions. The benefit obligations are calculated once a year.

The present value of the benefit obligation is determined by discounting the expected cash flows using market rates for government bonds. Actuarial gain or loss arising from adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income in the period in which they occur.

### *Employee benefit obligations*

Management's best estimates of the amount of employee benefit obligations are based on an assessment of key financial and demographic assumptions made through periodic actuarial advice.

## DEFERRED EXPENSES

Deferred expenses are costs incurred before the annual reporting date but are attributable to future reporting periods.

Non-current deferred expenses are payments made by Conexus that, because of their economic nature, relate to future periods beginning more than one year after the balance sheet date.

Recognition period is determined for all non-current deferred expenses and they are recognised in the income statement on a straight-line basis in line with their economic nature. Those deferred expenses that are to be recognised in the income statement over a period of 12 months are presented in financial statements as current assets, while the remaining amount is presented under non-current assets.

## ACCRUED INCOME

Accrued income includes the right to be reimbursed for services rendered that have not yet been invoiced at the reporting date. These rights are recognized in the balances of receivables from contracts with customers.

Accrued income is the clearly known amount of the settlement obligation (contract assets) that is settled between the buyer and the customer.

Accrued income refers to the clearly known settlement amounts with buyers and customers for the transportation, storage and balancing of natural gas in the reporting year, for which, in accordance with the terms of the contract, the due date for the issuance of supporting document (invoice) has not yet come at the balance sheet date. These amounts are calculated on the basis of the service fee specified in the concluded contracts.

## DEFERRED INCOME

Deferred income is recognised when payments are received in reporting period for services to be rendered by Conexus in subsequent periods. Amounts presented under deferred income are recognised in the income statement in the period in which the performance obligations are met.

### *Deferred income from contracts with customers*

In accordance with IFRS 15, Conexus recognizes the payments received for reserved capacity services as short-term deferred income. At the date of the service, Conexus recognizes receivables and income and at the same time reduces deferred income.

### *Asset - related grants*

Conexus initially recognizes asset-related European Union funding for long-term investments as part of long-term deferred income, in accordance with IAS 20. Financing subsequently is recognized as income in the income statement over the useful life of the related item of property, plant and equipment.

### *Financial instruments*

Conexus' financial instruments consist of financial assets (financial assets at amortized cost) and financial liabilities (financial liabilities at amortized cost).

The classification of debt instruments depends on Conexus' business model for management of financial assets, as well as whether the contractual cash flows consist solely of payments of principal and interest (SPPI). If a debt instrument is being held to collect cash flows, it can be carried at amortised cost subject to meeting the SPPI requirements. Financial assets, the cash flows from which do not meet the SPPI requirements, must be measured at fair value through profit or loss (FVTPL) (e.g., derivative financial instruments).

## FINANCIAL ASSETS AND LIABILITIES

Financial assets are recognized when Conexus becomes a party to the transaction and meets the conditions of the transaction, i.e., on the trade date. Financial instruments are initially recognized at fair value. For financial assets and financial liabilities at amortized cost, the fair value at initial recognition is adjusted for transaction costs that are directly attributable to the financial instrument.

Financial assets include receivables, and cash and cash equivalents, a contractual right to receive cash or another financial asset, an exchange of financial assets or financial liabilities, and a contract that will be settled in equity instruments. The classification depends on the purpose for which the financial asset was acquired.

Financial assets are derecognised when the contractual obligations for the cash flows from the financial asset are extinguished or when Conexus transfers the financial asset to another party or transfers significant risks and rewards of ownership of the asset. Purchases and sales of financial assets in the ordinary course of business are accounted for on the trade date, i.e., the date on which Conexus decides to buy or sell the asset. Short-term receivables are not discounted.

Borrowings, payables to suppliers and other creditors are included in financial liabilities. Financial liabilities at amortized cost are initially recognized at fair value less transaction costs. In subsequent periods, financial liabilities at amortized cost are carried at amortized cost using the effective interest method. Financial liabilities at amortized cost are classified as current liabilities if the payment term is one year or less. If the payment term is longer than one year, they are presented as long-term liabilities.

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

When the contractual cash flows of financial liabilities are substantially modified, such a modification is treated as a derecognition of the original liabilities and a recognition of new financial liabilities, with the difference in respective carrying amounts recognised in the income statement.



Financial liabilities are considered “substantially modified” when the net present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, differs by at least 10 percent from the present value of the remaining cash flows under the original terms.

#### *Receivables from contracts with customers and other debtors*

Receivables from contracts with customers and other debtors are financial assets with fixed or determinable payment schedule that are not quoted in an active market. Current receivables from contracts with customers are not discounted. Receivables from contracts with customers are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method and subtracting expected credit loss. To measure receivables from contracts with customers, Conexus uses the expected credit loss model, which provides for an allowance for impairment, regardless of whether a loss event has previously occurred.

Conexus applies a simplified approach to receivables from contracts with customers and contract assets and recognises lifetime expected credit loss on receivables based on a historical analysis of credit losses and considering expected future trends. Conexus uses a provision matrix based on the maturity structure of the receivables and based on a historical default rate of 3 (three) years, as supplemented by future forecasts. Expected credit losses on receivables are calculated based on assumptions about default risk and expected loss rates. In determining these assumptions and selecting the data for the impairment calculation, Conexus considers its experience, current market conditions, and future estimates at the end of each reporting period.

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash held in Conexus accounts with the bank.

If Conexus' current accounts with banks have been granted a credit line or credit facility (overdraft) and this has been used to create a

negative balance in Conexus' bank account at the end of the reporting period, the credit line used is recognised in full under liabilities as loans from credit institutions.

While cash also is subject to the expected credit loss requirements of IFRS 9, the identified expected credit loss was immaterial, considering also the fact that almost all of cash is held in financial institutions with the credit rating grade of the institution or its parent bank at investment grade credit rating (mostly 'A level' credit rating, Stage 1 (see Note 28)).

#### *Share capital and dividends*

Conexus is a closed joint stock company with 100 % registered shares. The shares constitute the share capital and are fully paid. The total number of shares is 39 786 089, with a nominal value of EUR 1.00, one share grants its holder one vote at the General Meeting of Shareholders. The total number of shareholders exceeds 4.8 thousand. 97.52 % of the total number of shares belong to two largest shareholders - AS „Augstsprieguma tīkls” (68.46 %) and MM Infrastructure Investments Europe Limited (29.06 %). Conexus is a shareholder-owned company and pays dividends in accordance with the laws and regulations of the Republic of Latvia. Dividends are recognised as a liability in Conexus' financial statements in the period in which the shareholder approves the amount of dividends and the procedure for payment.

#### *Corporate income tax*

The corporate income tax rate is 20 % of the taxable base, which is determined by dividing the value of the taxable income by a factor of 0.8 and includes:

- ◆ distributed profits (calculated dividends, dividend-like costs, deemed dividends), and
- ◆ conditionally distributed profit (for example, non-business expenses, and other specific cases specified by law).

When distributing retained earnings that had been accrued until 31 December 2017, no corporate income tax is to be paid. The calculated corporate income tax on conditionally distributed profits, in accordance with the requirements of IFRS, is classified as other operating expenses.

### *Borrowings*

The borrowings are initially recognised at fair value less transaction costs incurred. In subsequent periods, the borrowings are carried at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless Conexus has an irrevocable right to defer settlement of the liability for at least 12 months after the balance sheet date. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Conexus' borrowings include a fixed and a variable rate component. Once a year, Conexus assesses changes in the fixed part of a credit institution's borrowing rate in accordance with the current market situation.

General and specific borrowing costs that relate directly to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their expected use or sale, are added to the cost of constructing or acquiring those assets until they are actually ready for their expected use.

## **REVENUE**

Conexus uses a five-step model to determine when and to what extent revenue should be recognized. The model assumes that revenue is recognised when Conexus transfers control of the goods or services to the customer, and in the amount that Conexus expects to receive in exchange. Depending on whether certain criteria are met, revenue is recognised:

- ◆ over time, reflecting the financial results of Conexus operations;
- ◆ when control of the goods or services is transferred to the customer or;
- ◆ according to the agent's accounting principle.

IFRS 15 sets out the principles that Conexus should follow to present qualitative and quantitative information that provides users of financial statements with useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

IFRS 15 requires recognition of an asset in respect of incremental costs incurred in obtaining contracts with customers and for which it is probable that they will be recovered. Due to specifics of operations of Conexus, no such expenses have occurred up to date.

Revenue from contracts with customers should be recognised based on the fulfilment of obligations to customers. Revenue represents the delivery of goods or services to customers for an amount that reflects the consideration Conexus expects to receive in exchange for those goods or services. Under this accounting model, a sale is recognised when the services are provided to and accepted by the customer, even if not invoiced, and there is a possibility that the economic benefits associated with the transaction will flow to Conexus. Conexus' accounting policies for the major types of revenue are set out below.

### *Revenue from transmission*

The transmission service is treated as a single performance obligation under IFRS 15. The sale of transmission capacity products is a regulated service provided by Conexus to users of the transmission system applying the approved tariffs. Short-term (quarterly, monthly, daily, and same-day capacity) and long-term transmission capacity (annual capacity) products are offered. Revenue from trading transmission capacity products, which by the nature of the service includes the provision of transmission infrastructure and does not change over time for each unit of capacity depending on the product selected, is recognised in the income statement for each reporting month pro-rata to the transmission capacity reserved by the user.

### *Revenue from storage*

The storage service is considered a single performance obligation under IFRS 15. Conexus provides the storage capacity of the Inčukalns underground gas storage capacity to storage users that have reserved natural gas storage capacity during the storage season, in accordance with the applicable tariffs. Revenue from the sale of storage capacity that, due to the nature of the service, represent the provision of Inčukalns underground gas storage infrastructure and do not change during the storage season is recognised for each repor-

ting month in accordance with the storage tariffs and pro-rata to the remaining months until the end of the storage season.

#### *Interest income*

Interest income is recognised using the effective interest method. Interest income from term deposits is classified as other income. Interest income from cash – as financial income.

#### *Other income*

Other income from the rendering of services is recognised in the period in which they are rendered: REMIT services (The Regulation on Wholesale Energy Market Integrity and Transparency), platform maintenance.

Other income from the sale of materials is recognised when the buyer has accepted them: sale of used computer equipment, sale of used metal products.

Contractual penalties are calculated according to the concluded service contracts with suppliers. Contractual penalties are recognised as revenue when it is clear that Conexus will derive an economic benefit from them, i.e., the recognition of the revenue generally coincides with the receipt of the penalty.

#### *Balancing income*

Conexus maintains information on the amount of natural gas pumped into and out of from the transmission system by transmission system users and calculates the imbalance. The amount of daily imbalance is the difference between the input and output amounts.

Income from balancing is recognised for each reporting month when a negative imbalance occurs at the transmission system user, that has resulted in a shortage of natural gas in the transmission system. Expense from balancing is recognised for each reporting month when a positive imbalance occurs.

In the financial statements, income from balancing is reported under Revenue at net value (less costs for periods when the balance is positive). The net result of balancing represents the amount of administrative costs.

In order to comply with the principle of profit neutrality, Conexus calculates a neutrality fee. The neutrality charge is a charge that the transmission system operator pays to or receives from transmission system users in connection with the balancing of the transmission system. This charge consists of the difference between the transmission system operator's costs and the revenue from balancing activities.

Neutrality charges can be both positive and negative. In the event of a negative neutrality charge, the transmission system operator pays the neutrality charge to the transmission system users. In the event of a positive neutrality charge, the transmission system operator receives a neutrality charge from transmission system users. Common Regulations for the Natural Gas Balancing of Transmission System issued by PUC determines, that the purpose of neutrality charge is to ensure TSO's financial neutrality.

Conexus, in the performance of the functions of balancing administration, acts as an agent. Indicators that Conexus acts as an agent are as follows:

- ◆ Conexus has no control over the services before handing them over to customers;
- ◆ Conexus is required to invoice clients for services provided and charge a fee, but is not entitled to revenue for these services;
- ◆ Conexus does not have the right to determine the price of the services either directly or indirectly.

Evaluating the available information, Conexus considers itself to be an agent in these transactions, therefore the balancing income is recognized in the income statement on a net basis using the agent's accounting policy (Note 2).

### **RECOGNITION OF COSTS**

Costs are recognized on an accrual basis. The calculation of costs for the year takes into account all expected costs and contingent liabilities incurred in the year or in prior years, even if they became known between the balance sheet date and the date of the financial statements, regardless of the date of receipt of the invoices,

because Conexus Transactions are accounted for and presented in the financial statements based on their economic substance and substance, and not merely their legal form. Maintenance and operating costs and other operating expenses recognized in the income statement are disclosed in the notes to the financial statements in more detail.

#### *Long - term and short - term liabilities*

Conexus payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Liabilities to suppliers and contractors are reflected in the financial statements in accordance with the supporting documents and entries in the accounting records of invoices received from Conexus suppliers but not paid at the end of the reporting period.

#### *Accrued liabilities*

Accrued liabilities incurred during the reporting year, if the amount of these expenses or the date of payment during the reporting period is clearly known, but for which no invoices have been received from suppliers, are included in the item “Accrued liabilities”.

Accrued liabilities are recognized when the amount and maturity of the liabilities are relatively accurate and the degree of uncertainty is much lower than for the provisions. Accrued liabilities are recognized: for services for which, due to the terms of the supply, purchase or company contract or for other reasons, a proof of payment (invoice) has not yet been received at the balance sheet date. These commitment amounts shall be calculated on the basis of the prices quoted in the contract and the actual receipt of the goods or services; settlements for annual leave and bonuses for employees.

## **ADOPTION OF NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS**

### **Standards or interpretations effective for the first time for the annual periods beginning 1 January 2022:**

◆ Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity’s financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2 “Making Materiality Judgements” was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

◆ Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how

to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

◆ Amendments to IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (effective for annual periods beginning on or after 1 January 2023). In May 2023 the International Accounting Standards Board IASB issued narrow-scope amendments to IAS 12 “Income Taxes”. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development’s (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. In accordance with IASB effective date, the companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

The management considers that the introduction of new standards, amendments and interpretations have no impact on Conexus’ financial statements.

**Standards or interpretations effective for the first time for the annual periods beginning after 1 January 2024 or not yet adopted by the EU:**

◆ Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January

2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

◆ Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management’s expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. “Settlement” is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity’s own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

◆ Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (effective for annual periods beginning on or after 1 January 2024, not yet endorsed

by the EU). In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023 the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

◆ Amendments to IAS 21 Lack of Exchangeability (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). In August 2023 the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences.

Conexus is currently assessing the impact of the amendments on its financial statements.

## 31. SUBSEQUENT EVENTS

According to management's assessment, there are no subsequent circumstances or events since the last date of the reporting year until the signing of this report, which would have a significant effect on the financial position of Conexus as at 31 December 2023.

The financial statements have been prepared by:



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**AIJA MARTINSONE-STAJE**  
Head of Financial Accounting Division

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



## Independent Auditor's Report

To the Shareholders of AS "Conexus Baltic Grid"

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### Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS "Conexus Baltic Grid" (the "Company") as at 31 December 2023, and the Company's financial performance and cash flows for the year ended 31 December 2023 in accordance with IFRS Accounting Standards as adopted by the European Union (EU).

### What we have audited

The Company's financial statements comprise:

- the income statement for the year ended 31 December 2023,
  - the statement of comprehensive income for the year ended 31 December 2023,
  - the statement of financial position as at 31 December 2023,
  - the statement of changes in equity for the year ended 31 December 2023,
  - the statement of cash flows for the year ended 31 December 2023, and
  - the notes to the financial statements, comprising material accounting policy information and other explanatory information.
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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

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### Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 101 to 107 of the Sustainability and Annual report,
- the Statement of the Management Board's responsibility, as set out on page 108 of the Sustainability and Annual report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with

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Translation note: This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.





the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed the procedures required by the Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with requirements of the Law on Annual Reports and Consolidated Annual Reports.

In addition, in light of the knowledge and understanding of the entity and its operating environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

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## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the IFRS Accounting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

Ilandra Lejiņa  
Member of the Board  
Certified auditor in charge  
Certificate No.168

Riga, Latvia  
4 March 2024

Independent Auditor's Report is signed electronically with a secure electronic signature and contains a time stamp.

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