

Council’s Report on Operational Results 2021

2021 for Joint Stock Company “Conexus Baltic Grid” (hereinafter “Conexus”) has been important. Despite the impact of the pandemic, Conexus continued to successfully implement the strategic targets set by the Council, as well as dealt with a number of important and previously unplanned issues finding solutions for market and service development suitable for Conexus targets, as well as for ensuring continuous, safe gas transmission and storage services.

Establishing the common gas market in 2020 has raised system users’ interest in the storage, the total volume of gas transmitted increased by 5 % (reaching 39.3 TWh), ensuring natural gas supply for the needs of the Baltic States and Finland. In 2021, Public Utilities Commission approved the new Conexus’s natural gas storage tariffs and the Regulation for the Auction of Capacity of the Inčukalns Underground Gas Station, setting up a more transparent procedure for reserving storage capacity – storage capacity auctions with uniform pricing (“pay-as-clear”). Conexus has also made significant improvements in publishing market information. From 2021, the urgent market messages regarding Conexus’s transmission system and storage are published also on the GET Baltic inside information platform. From February 2021, Conexus, according to the ITC (Inter – TSO Compensation Mechanism Agreement) agreement, also took over the role of the data administrator.

Last year was challenging for Conexus and also for the society as a whole in relation to the considerable rise of natural gas prices in the world. The Council actively followed the developments overseeing and providing guidance on finding solutions. Conexus has actively participated in the development of changes to the legal framework related to the provision of reserves at the Inčukalns underground gas storage, at the same time receiving approval for the evaluation of the reserves calculated on the basis of the new regulation and approval for changes in the Regulation Regarding the Use of the Inčukalns Underground Gas Storage.

In the reporting period, work continued on the sustainability targets, together with the neighbouring gas transmission operators collaborating on a joint research regarding possible gas transmission infrastructure decarbonisation solutions, including research and development of hydrogen, as well as working on proposals for amendments to the regulatory enactments to support the injection of biomethane into the gas transmission system in the future and introduce gas guarantees of origin.

Council has also continued monitoring the implementation of the European Union project of common interest PCI 8.2.4. “Inčukalns Underground Gas Station modernization project” and CINEA co-financed project “Enhancement of Latvia-Lithuania interconnection project” (“ELLI”). Various new projects important for the operations of the company have also been launched: modernization of gas transmission’s and Inčukalns Underground Gas Storage’s Supervisory Control and Data Acquisition System SCADA, modernization of physical security and fire safety systems, as well as renovation and re-insulation of the gas transmission pipeline Izborsk-Inčukalns underground gas station.

In the reporting period, intensive work has been carried out on drafting the Business plan for 2022-2023 and updating Conexus’s medium-term strategy, as well as preparing a bond issuance plan. Work initiated already in 2020 has been continued on improving the corporate governance of Conexus in line with the regulatory enactments and best practice, in particular the guidelines of the Corporate Governance Code prepared by the Advisory Board for Corporate Governance to the Ministry of Justice. In 2021, not only new versions of the Articles of Association,

Regulations of the Council and the Board were approved, but also the main operation implementation policies were reviewed, revised and improved, conceptually aligning them also with the existing policies of the majority shareholder: Code of Ethics, Corporate Governance Policy, Internal Audit Policy, Information Technology Security Policy, Financial Risk Management Policy, Asset Management Policy, Corporate Social Responsibility Policy, Accounting Policy, Procurement Policy, Human Resources and Remuneration Policy. New internal regulations were also developed, including the Remuneration Policy of the Board and the Council and Regulations for Use of the Immovable Property of and Immovable Property Necessary to Conexus.

According to the new Regulation of the Council, for the first time the Council has carried out a self-assessment of its work. Results of the self-assessment indicate both highly valued competence of the Council and its effective performance as a team, as well as a successful cooperation with the Board. The overall self-assessment of the Council's work is high (3.38 points from 4). In 2021, seven Council meetings were convened and in each of the regular meetings, the Board reported to the Council on the fulfilment of the targets for 2021 set by the Council, current financial and operational management issues. As every year, the Council has also approved the Internal Audit Plan and performance indicators, following their execution closely. According to the annual internal audit report to the Council, the corporate governance, internal control and risk management in Conexus is considered to be reasonable.

In 2021, Conexus continued to improve its risk management and internal control systems. A new risk management policy was developed and approved, which will ensure more efficient and objective risk management processes within the company. The approved Risk Management Policy inter alia stipulates: the creation of a permanent full-time position of Risk Management Officer in the company, a comprehensive classification of risks according to their materiality, regular risk monitoring and an early warning system, mitigating and preventive measures.

Last year, optimization of the capital structure of Conexus was carried out, at the same time maintaining high capital adequacy ratio and ensuring financing possibilities for strategically important capital investment projects. Several medium-term financial agreements were concluded with credit institutions, as a result of which Conexus has created substantial liquidity reserves to support both current and investment cash flows for the next 1.5-2 years, during which the company must issue long-term bonds or refinance existing liabilities with new loans. The company has sufficient flexibility over the medium term, both to choose new sources of funding and to smooth unexpected fluctuations in cash flow.

The total operating revenue and profit of Conexus in 2021 exceeds the budgeted and prior year results. Conexus's operations are in line with the strategy and targets set by the Council.

It is expected that 2022 for Conexus will bring challenges, and the Council, in close cooperation with the Board, is ready to continue the work already started also on assessing the risks posed by the geopolitical events, rapid updating of the action plans and, if necessary, their implementation. Conexus has already taken the first steps to mitigate the energy supply risks by drafting amendments to the Inčukalns underground gas storage regulation, so that the gas stock transfer product would not be applied to the storage's users and higher volume of natural gas would be ensured in the underground gas storage. The Board has acted swiftly and thoughtfully to mitigate not only the risks posed by Covid-19, but also the rise of natural gas prices in the world and geopolitical events.

The financial and non-financial results, including the actions taken for the development of gases from renewable energy sources, as well as the role of Conexus as a strategically important

company in ensuring the energy security in the region and rapidly taken actions to mitigate the identified risks, demonstrate Conexus's ability to adapt to the changing circumstances and ensure stable operation of the company in the long term.

The audit of Conexus's annual report 2021 was carried out by the international commercial company of certified auditors PricewaterhouseCoopers SIA. The Council has received the auditor's report recognising that the financial statements give a true and fair view on Conexus, as well as the financial results of its operation and cash flows in 2021 in compliance with the International Financial Reporting Standards adopted by the European Union. The Council is acquainted with Conexus's annual report 2021 and the profit distribution proposal prepared by the Board and recommends both documents for approval to the Shareholders meeting.

Chairman of the Council

Ilmārs Šņucins