

Joint-stock company

conexus
B A L T I C G R I D

SUSTAINABILITY AND ANNUAL REPORT

2021

Riga 2022

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2021 ANNUAL REPORT

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MANAGEMENT'S STATEMENT

GRI 102-14

In 2021, in Latvia and around the world, we lived in the conditions of the pandemic COVID -19 and adapted to the new standard of living. In addition, the escalation of prices on the global energy market made the year even more challenging. Nevertheless, the joint stock company “Conexus Baltic Grid” was able to achieve a great performance in 2021, continue to implement the initiated projects and set new strategic goals.

The energy sector plays an important role in the future of society towards a sustainable and carbon-neutral future. With the Green Deal of Europe, changes in EU and national policies, plans and regulations, the importance of climate-friendly and sustainable energy solutions and stakeholder expectations have increased rapidly. Conexus' work in the transition to a greener energy sector is based on a number of pillars, including improving the understanding, knowledge and skills of the company's employees and improving the infrastructure for storing and transporting sustainable gases, as well as cooperation with other stakeholders in the development of a sustainable gas market and participating in national and regional policy-making processes.

The investments and efforts made in recent years in the development of the systems of IT have helped Conexus to shift its focus to the practice of remote work in the business processes where such a business model was applicable. The development of the latest technologies and continuous modernisation have been key to ensuring that current processes do not stall and continue to evolve successfully. In addition, rapid digitisation has actually accelerated some of the work that has been started. The digitisation of documents, plans and

projects accumulated over the past decades, the introduction of an asset management system, the modernisation and development of a geographic information system are a step towards the digital transformation of daily work.

In the year under review, Conexus was active in the defined strategic directions:

- ◆ In the area of market development, the Baltic and Finnish transmission system operators have developed a model for the development of the internal natural gas market in 2021, which has been submitted to the regulatory authorities of all participating countries for review;
- ◆ In order to ensure safe, accessible and market-oriented infrastructure, the modernization of the storage facility continued and the study on sustainable gases in the injection of hydrogen into the gas transmission and storage system started;
- ◆ In the area of development activities, the renewal of the mid-level strategy of Conexus was started, as well as the launch of the projects “Modernisation of the Transmission and Inčukalns UGS SCADA” and “Modernization of the Physical Security and Fire Safety Systems”.

As for the implemented projects in 2021, the implementation of the initiated projects of European importance continued. As part of the European project of common interest “Enhancement of the Latvia-Lithuania Interconnection” (ELLI), Conexus invested a total of 1.2 million EUR in several subprojects in 2021.

Since the start of the project, a total of 9 out of 17 planned activities of the project have been completed. However, the largest investments in 2021 were made in the ambitious European Union project of common interest PCI 8.2.4 “Enhancement of Inčukalns underground gas storage”. In 2021, 1.9 million EUR was invested in the improvement of gas extraction point No. 3. As part of the renewal of 36 wells, 12 wells were put into operation in 2021. In total, the reconstruction of wells was carried out in 2021 at a cost of 8.4 million EUR. As part of the modernisation of existing gas compression units, modernisation of gas compression unit No. 3 of the first compressor workshop No. 2 was completed, spending a total of 3.6 million EUR.

In any case, it is worth noting that in 2021 a possibility was created to remove natural gas compression from the storage facility in the spring months when there is a smaller amount of active natural gas in the storage facility and the technical capabilities of the storage facility without compression are limited. The use of the compressor will significantly improve the continuity and security of natural gas supply under conditions of high natural gas demand, including at the end of the natural gas withdrawal season.

Conexus continued to take effective corporate governance measures last year, in line with best practices, by significantly refining its underlying documents and approving new versions of its Articles of Association, Council, Management Board, and key management and implementation policies, developing and implementing new policies (Compensation Policy for Members of the Management Board and Council). The Company’s cooperation with shareholders under the terms of COVID -19 was evaluated at the corporate level by awarding the Corporate Governance Award to Conexus Baltic Grid in the category “Most Successful Shareholder Engagement in Digital Format”.

The greatest value of Conexus is its professional and motivated employees who ensure the continuous maintenance, operation, and achievement of the strategic goals of the natural gas infrastructure. In 2021, special training programmes for new employees and for the operation and maintenance of natural gas transmission and storage systems were developed and implemented in cooperation with Riga Technical University. In 2021, 209 Conexus employees completed the training. In line with the current salary trends in Latvia, the Company increased salaries accordingly. It should be noted that Conexus received the status of a “family-friendly workplace” in 2021.

The financial performance of Conexus in 2021 can be considered good - total net turnover increased by 5% and reached 54 million EUR, whereas the net profit reached 13 million EUR, which is 1% more than in 2020. In 2021, the Company’s capital structure was optimised by increasing the debt ratio, bringing it closer to the level typical of the energy sector, while maintaining a high capital adequacy ratio, which made it possible to distribute higher dividends from retained earnings.

We would like to thank all our employees for their commitment and our customers and counterparties for their trust under the difficult conditions of the past year!

ILMĀRS ŠŅUCINS

Chairman of the Council
AS “Conexus Baltic Grid”

ULDIS BARISS

Chairman of the Management Board
AS “Conexus Baltic Grid”

GRI INDICATOR TABLE

GRI 102-55

General standards information

GRI INDICATOR		Pp.	GRI INDICATOR		Pp.	GRI INDIKATORS		Lpp.
General disclosures			Ethics and integrity					
102-1	Name of organisation	8	102-16	Values, principles, standards, and norms of behaviour	8	102-46	Defining report content and topic boundaries	49
102-2	Activities, brands, products, and services	8; 39	102-17	Mechanisms for advice and concerns about ethics	76	102-47	List of material topics	49
102-3	Location of headquarters	8	Governance			102-48	Restatements of information provided in previous financial statements	49
102-4	Location of operations	8	102-18	Governance structure	12; 13	102-49	Changes in reporting	49
102-5	Ownership and legal form	8	102-25	Conflicts of interest	21	Reporting practice		
102-6	Markets served	8	102-26	Role of highest governance body in setting purpose, values, and strategy	21	102-50	Reporting period	8
102-7	Scale of the organization	83	Stakeholder engagement			102-51	Date of most recent report	8
102-8	Information on employees and other workers	69	102-40	List of stakeholder groups	49	102-52	Reporting cycle	8
102-9	Supply chain	77	102-41	Collective bargaining agreements	69	102-53	Contact point for questions regarding the report	8
102-11	Precautionary principle or approach	36	102-42	Identifying and selecting stakeholders	49	102-54	Claims of reporting in accordance with the GRI Standards	8
102-12	External initiatives	38	102-43	Approach to stakeholder engagement	49	102-55	GRI indicator table	4
102-13	Membership of associations	38	102-44	Key topics and concerns raised	49	102-56	External assurance	8
Strategy								
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Specific standard information

Aspect	Name of the GRI standard	GRI indicator		PP.
			Or the additionally developed Conexus-specific indicator (CXS), which is based on the package of material aspects	
Services	Security and safety of infrastructure	103 Management approach		52
		416 Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service categories	52
			416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	52
	Safe energy supply	103 Management approach 203 Indirect economic impact	203-1 Infrastructure investments and services supported	39; 54 39; 54
Environment	Avoiding pollution	103 Management approach		59
		303 Water	303-2 Water sources significantly affected by withdrawal of water	59
		307 Compliance with environmental laws and regulations	307-1 Non-compliance with environmental laws and regulations	55
		305 Emissions	305-7 Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	59
	Sustainable energy solutions	103 Management approach		63
		- Conexus-specific indicator	CXS-1 Moving towards a greener energy sector	63
	Climate impact and energy efficiency	103 Management approach		57
		302 Energy	302-1 Energy consumption within the organization 302-3 Energy intensity	57 57
		305 Emissions	305-1 Direct (Scope 1) GHG emissions	55
			305-4 GHG emissions intensity	55
	Responsible use of materials and waste management	103 Management approach		60
		303 Water	303-1 Reduction of energy consumption	60
			303-3 Water consumption	60
		306 Wastewater and waste	306-2 Waste by type and disposal method	60
306-3 Significant spills			60	
306-4 Waste not aimed for elimination	60			

Aspect	Name of the GRI standard	GRI indicator Or the additionally developed Conexus-specific indicator (CXS), which is based on the package of material aspects	PP.	
Workplace	103 Management approach		65	
	Worker health and safety	403 Occupational diseases and work safety	403-1 Worker health and safety management system	65
		403-2 Hazard identification, risk assessment and accident investigation	65	
		403-3 Occupational health promotion measures	65	
		403-4 Employee participation, consultation and communication on occupational safety and health issues	65	
		403-5 Occupational safety and health training for employees	65	
		403-6 Promoting the health of workers	65	
		403-7 Prevention of occupational health and safety violations	65	
		403-8 Employees covered by the health and safety management system	65	
		403-9 Accidents at work	65	
		403-10 Occupational diseases	65	
	103 Management approach		74	
	Employee competence, qualified future workforce	404 Training and education	404-2 Programmes for upgrading employee skills and transition assistance programmes	74
		404-3 Percentage of employees receiving regular performance and career development reviews	74	
Fair and transparent remuneration	103 Management approach		69	
	- Conexus-specific indicator	CXS-2 Remuneration	69	
Employee inclusion and diversity in the workplace	103 Management approach		69	
	405 Diversity and Equal Opportunity	405-1 Diversity of governance bodies and employees	69	
	406 Non-discrimination	406-1 Incidents of discrimination and corrective actions taken	73	

Aspect		Name of the GRI standard		GRI indicator Or the additionally developed Conexus-specific indicator (CXS), which is based on the package of material aspects	PP.
Governance	Transparent communication and stakeholder involvement	103	Management approach		78
		413	Local communities	413-1 Activities with local community involvement, impact assessments, development programs	78
				CXS-3 Transparent communication	78
	Sustainable purchases	103	Management approach		77
		204	Procurement practice	204-1 Proportion of spending on local suppliers	77
	Fair and ethical management, prevention of corruption	103	Management approach		76
		205	Anti-corruption	205-3 Confirmed cases of corruption and follow - up action	76
		419	Socioeconomic Compliance	419-1 Non-compliance with laws and regulations in the social and economic area	76

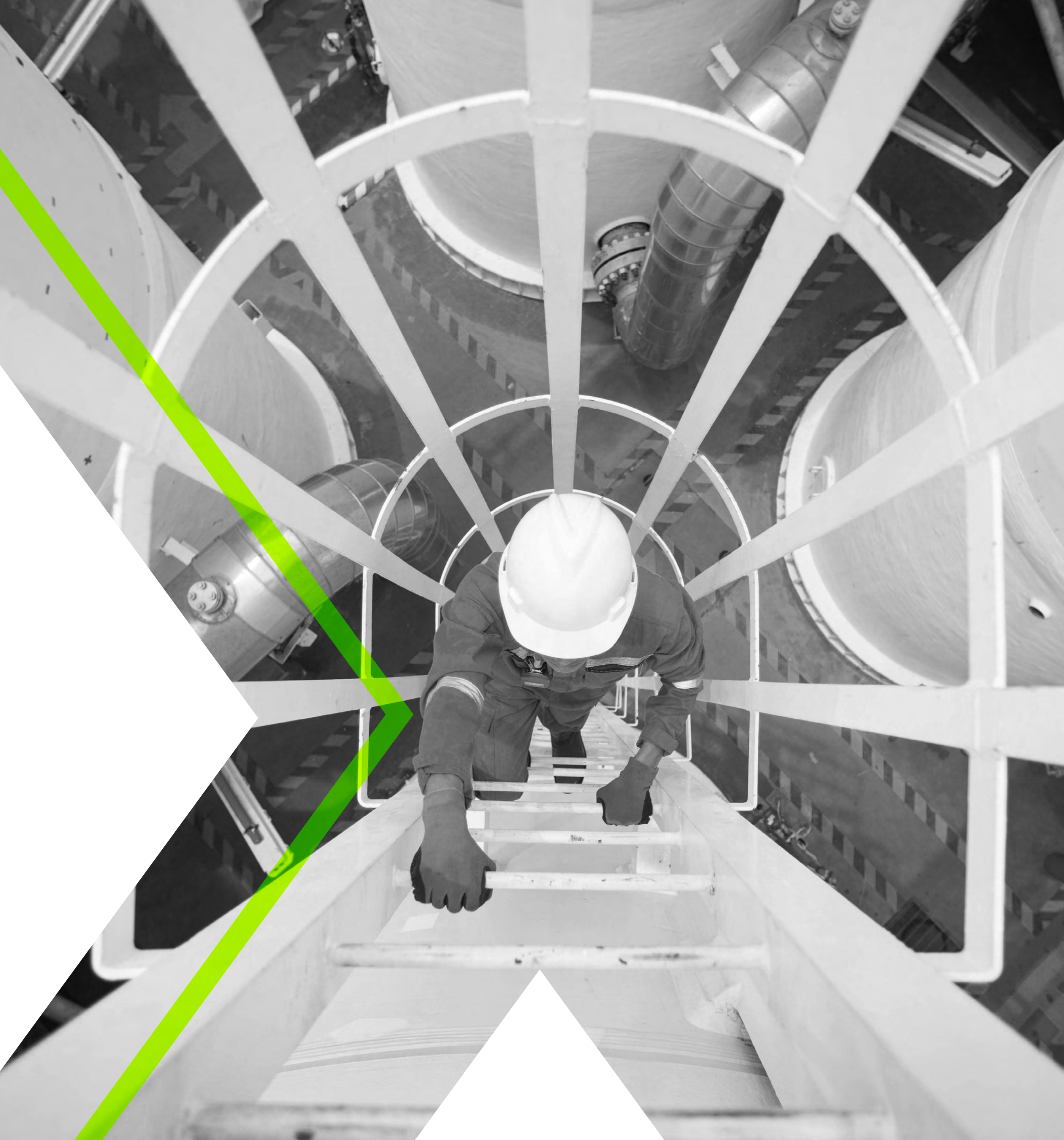




INFORMATION ON THE COMPANY AND ANNUAL REPORT

GRI 102-1, 102-2, 102-3, 102-4, 102-5, 102-6, 102-16, 102-50, 102-51, 102-52, 102-53, 102-54, 102-56

Company	Joint-stock company AS "Conexus Baltic Grid"
Registration number	40203041605
LEI code	485100YDVP9E8GT6PJ90
Date and place of registration	Riga, 2 January 2017
Address	Stigu iela 14, Riga, LV-1021, Latvia
Website	www.conexus.lv
Major shareholders	Joint-stock company "Augstsprieguma tīkls" (68,46 %) "MM Infrastructure Investments Europe Limited" (29,06 %)
Reporting period	1 January 2021 – 31 December 2021
Sustainability report	The Sustainability Report for 2021 has been prepared in accordance with the requirements of the Global Reporting Initiative (GRI) standards' Core option. The reporting frequency is annual. The reporting process is described in the Conexus Strategic Framework for Sustainability.
Financial statements	The financial statements for 2021 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union
Comparative data period	1 January 2020 – 31 December 2020
Contact information	Email address for sustainability report suggestions and questions: ksa@conexus.lv
Independent auditor's declaration	Limited assurance report on Sustainability Report for 2021 has been provided by SIA "PricewaterhouseCoopers" The auditor's report on the financial statements for 2021 has been provided by SIA "PricewaterhouseCoopers"
Sustainability report format	The sustainability report is available in digital format: - At the Conexus website www.conexus.lv (in Latvian and English) - In the GRI international sustainability report data base http://database.globalreporting.org/ (in English)



Joint-stock company (JSC) “Conexus Baltic Grid” (hereinafter “Conexus” or “the Company”) 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 “Inčukalns UGS”) - and the main natural gas transmission system connecting the Latvian natural gas market with Lithuania, Estonia and Russia.

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 both private and state-owned, local and international companies, and represent 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 regulated by the Public Utilities Commission (hereafter “PUC”, “the Regulator”).

Conexus ensures the sustainability and safety of the infrastructure, the top quality service that promotes the development of the market and provides economic benefits to customers and society as a whole.

Conexus is a socially responsible company that not only creates added economic value but also provides for the overall development of the industry, the professional development of employees, and sustainable employment, considering the minimal impact of technological processes on the environment.

WHO DO WE WANT TO BE?

Vision

To become the most reliable energy source in the region.

WHY DO WE EXIST?

Mission

To promote sustainable energy market in the region, offering reliable operation of natural gas transmission and storage system.

WHAT IS IMPORTANT TO US?

Values



Secure operation of the system



Professional and united team



Flexibility and openness through competent solutions



Sustainable development

Goals of Conexus

The main medium-term goals for Conexus (for the years 2019-2023) relate to three areas: **Market Development, Infrastructure Provision, and Operational Development.** Conexus' strategic objectives are consistent with its values, vision and mission **to promote a sustainable energy market in the region by ensuring the reliable operation of the natural gas transmission and storage system.**

1 Development of regional natural gas market to achieve sustainable operation of Inčukalns UGS in market conditions

2 Provide safe, accessible and market-based infrastructure

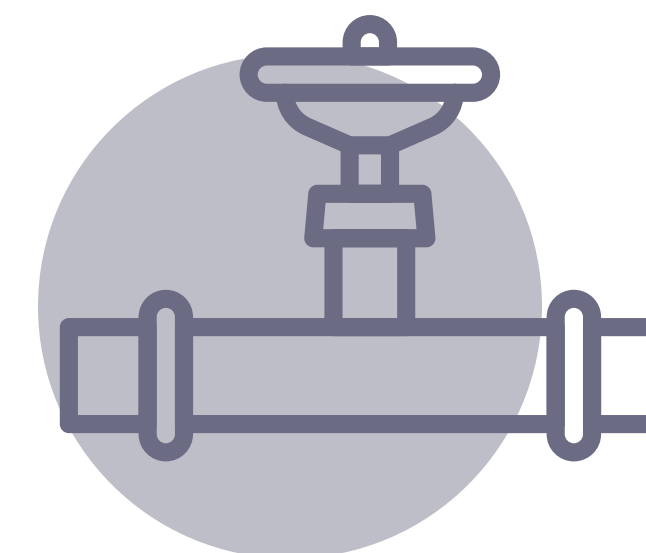
3 Implement sustainable management of the working capacity of internal and external resources

In addition to its strategic objectives, Conexus has identified three development directions that run through all planned medium-term activities, complement the strategic objectives set and contribute to their implementation.



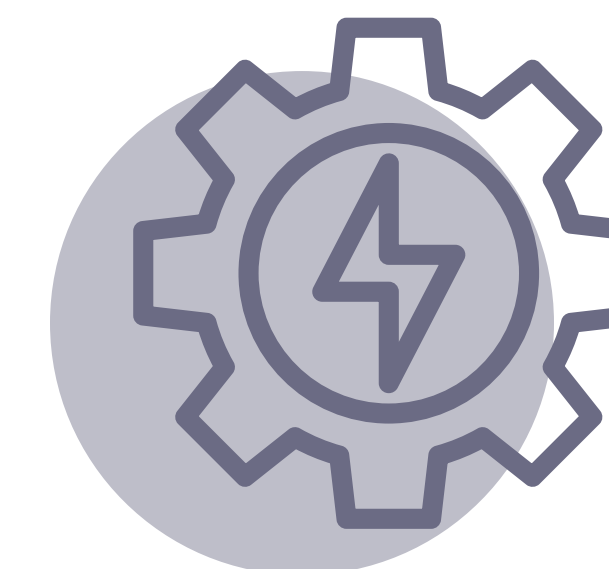
DIGItisation

Conexus will focus on modernisation and development of technologies as well as centralized asset, personnel and financial management and implementation of effective resource management



COOPERATION WITH OTHER REGIONAL TSOs

In the medium term, Conexus plans to facilitate cooperation with other TSOs in the region by coordinating operational cooperation and introducing a periodic benchmarking system with other regional TSOs



CONEXUS – ENERGY PROVIDER

To become the most reliable energy source in the region and gradually introduce services not only for natural gas users, but also for electricity users.

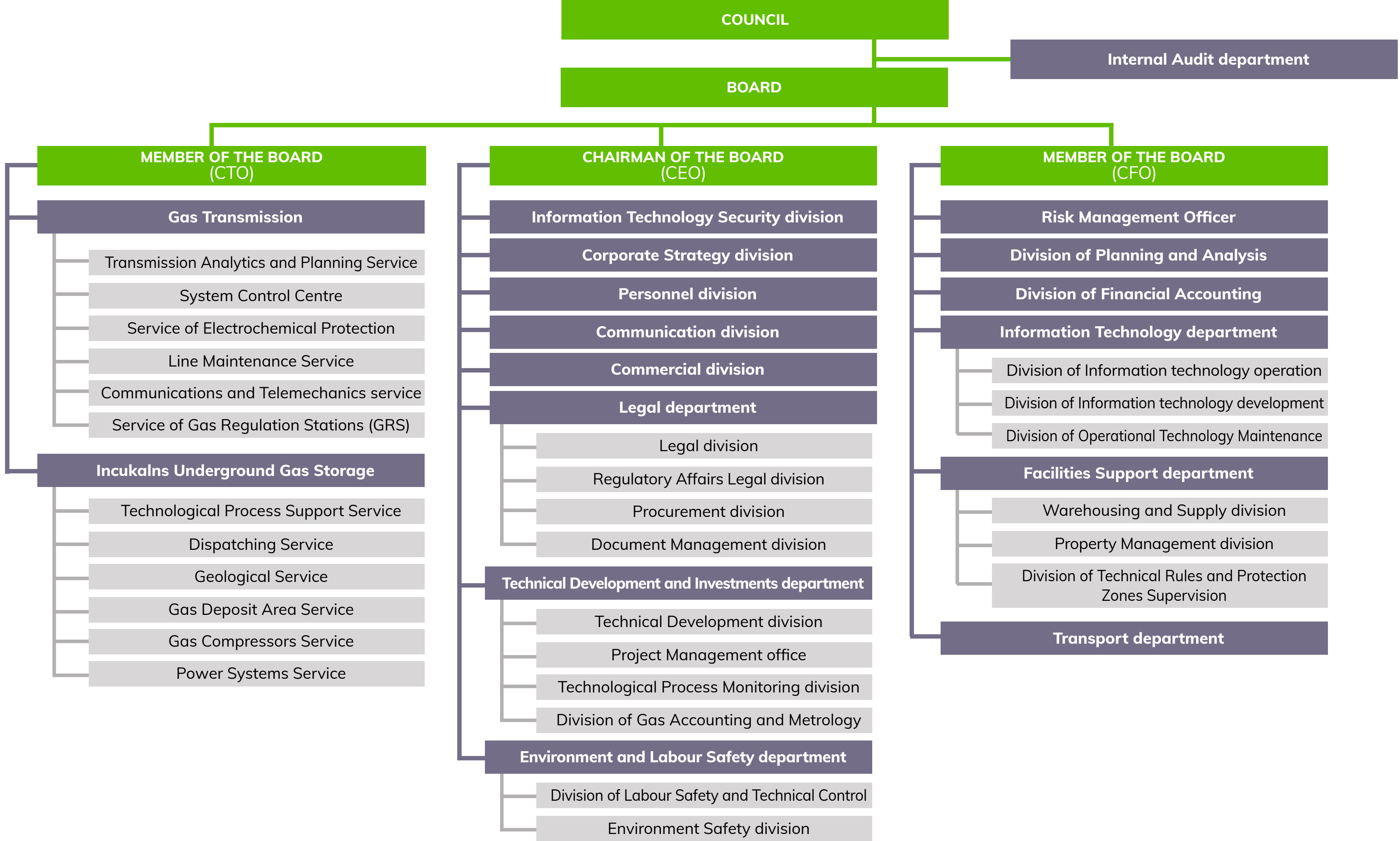
THE COMPANY'S MANAGEMENT AND STRUCTURE

GRI 102-18

The governance of Conexus is performed by the shareholder meeting, the Council and the Management Board based on the external regulations, Conexus' Articles of Association, regulations, resolutions, medium-term strategy, business plan, objectives and budget of the shareholder meeting, the Council and the Management Board. Conexus has not established separate committee, where the governance responsibilities lie with Management Board and the Council in full. The corporate governance framework is shaped by Conexus' Corporate governance policy. This sets out the key principles for Conexus' effective and sustainable corporate governance and transparency. The corporate governance framework is also determined by the Risk management policy approved by Conexus, which aims to establish a common risk management framework to identify and manage key factors impacting Conexus' business in a timely manner to ensure strategic objectives and successful development, and to minimise potential losses or reputational damage.

Organizational structure

GRI 102-18



Shareholders and shareholder meeting

The most important body of Conexus is the shareholder meeting, which appoints the Council of Conexus.

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

The register of the shareholders of Conexus is maintained electronically and provided by Nasdaq CSD SE in accordance with the concluded agreement.

Shareholders as at 31 December 2021:



The main responsibilities of the shareholder meeting:

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



Under the epidemiological safety rules, in 2021, the shareholder meeting was held remotely. In order to provide any shareholder with an opportunity to ask questions, a remote pre-meeting was held in 2021 for the first time. Conexus communicates information to its shareholders in three languages (Latvian, English and Russian), using also digital solutions.

In 2021, Conexus received recognition from both Conexus shareholders and the Financial and Capital Market Commission for its ability to adapt its work with shareholders to the digital environment, promoting effective shareholder involvement in shareholder meetings, decision-making, and information transfer, winning the Latvian Corporate Governance Award “Most Successful Involvement of Shareholders in Digital Format”.



Council

The Council of Conexus represents the interests of shareholders between shareholder meetings and oversees the activities of the Management Board of Conexus. The operating principles of the Council of Conexus and primary responsibilities of the Council of Conexus are set forth in the Articles of Association and the Council Regulation. The duties and responsibilities of the Council of Conexus are regulated by law.

During the reporting period, there were changes in the composition of the Council of Conexus.

Term of office from 12 May 2021 until 11 May 2024



(in Council from 3 January 2018)

ILMĀRS ŠŅUCINS
Chairman of the Council



(in Council from 30 April 2020)

TOMOHIDE GOTO
Vice-Chairman of the Council



(In Council from 12 May 2021)

TAKUMI SASAKI
Member of the Council



(In Council from 12 May 2021)

VIKTORS SENTUHOVSKIS
Member of the Council



(in Council from 30 April 2020)

ILZE ALEKSANDROVIČA
Member of the Council



(in Council from 30 April 2020)

ZANE ĀBOLIŅA
Member of the Council



(in Council from 30 April 2020)

NORMUNDS ŠUKSTS
Member of the Council

Term of office from 30 April 2020 until 11 May 2021

ILMĀRS ŠŅUCINS
Chairman of the Council

(in Council from 3 January 2018)

TOMOHIDE GOTO
Vice-Chairman of the Council

(in Council from 30 April 2020)

IPPEI KOJIMA
Member of the Council

(in Council from 30 April 2020)

JUN MATSUMOTO
Member of the Council

(in Council from 30 April 2020)

ILZE ALEKSANDROVIČA
Member of the Council

(in Council from 30 April 2020)

ZANE ĀBOLIŅA
Member of the Council

(in Council from 30 April 2020)

NORMUNDS ŠUKSTS
Member of the Council

(in Council from 30 April 2020)



ILMĀRS ŠŅUCINS

JSC "CONEXUS BALTIC GRID"
CHAIRMAN OF THE COUNCIL

Born in 1974

WORK EXPERIENCE

- Since 2018** JSC "Conexus Baltic Grid" – member of the Council (Chairman of the Council from 2020)
- Since 2012** Ministry of Finance - Deputy State Secretary on Tax, Customs and Accounting issues
- 2010-2013** Ministry of Finance - Head of the Tax Analysis Department
- 2006-2010** Ministry of Finance - Deputy Head of the Economic Analysis and Fiscal Policy Department
- 1999-2006** Ministry of Finance - Head of the Macroeconomics Division of the Economic Analysis and Fiscal Policy Department

EDUCATION

- 1999** Master's degree, University of Latvia, Faculty of Economics and Management
- 1997-1998** Visiting Studies at the University of St. Gallen (Switzerland)

Does not hold shares in
JSC "Conexus Baltic Grid"



TOMOHIDE GOTO

JSC "CONEXUS BALTIC GRID"
MEMBER OF THE COUNCIL

Born in 1969

WORK EXPERIENCE

- Since 2020** Deputy Chairman of the Council of JSC "Conexus Baltic Grid"
- 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 equipment & natural resources (Tokyo)
- 2000-2001** American Iron Oxide Company – Vice President, Finance (Pennsylvania)
- 1992-1999** Marubeni Corporation – Assistant Manager, heavy equipment (Tokyo)

EDUCATION

- 1987-1992** Bachelor's degree in Economics, Kobe University (Kobe)

Does not hold shares in
JSC "Conexus Baltic Grid"



ILZE ALEKSANDROVIČA

JSC "CONEXUS BALTIC GRID"
MEMBER OF THE COUNCIL

Born in 1979

WORK EXPERIENCE

- Since 2020** Member of the Council of JSC "Conexus Baltic Grid"
- Since 2012** Member of the Management Board of SJSC "Latvijas Gaisa satiksme"
- 2012-2020** Ministry of Transport of the Republic of Latvia – deputy State Secretary
- 2011-2012** Member of the Council of JSC "Air Baltic Corporation"
- 2009-2011** Member of the Management Board of SJSC "Latvijas Pasts"
- 2009-2012** Ministry of Transport of the Republic of Latvia – Head of Investment Department
- 2007-2009** Ministry of Finance of the Republic of Latvia – Deputy Director of the EU Funds Strategy Department, Head of the Entrepreneurship and Innovation Planning Division
- 2007-2007** Ministry of Finance of the Republic of Latvia – Deputy Director of the EU Funds Department, Head of the EU Funds Control Division
- 2004-2007** Ministry of Finance of the Republic of Latvia – Head of the Control and Development Division
- 2003-2004** Central Finance and Contracting Agency - Deputy Head of the Non-Investment Division
- 2002-2003** Central Finance and Contracting Agency - Procurement Specialist
- 2002-2002** SIA "Trivest" – market analyst
- 2000-2001** OU "Age Com" – market analyst

EDUCATION

- 2006-2007** Master's degree in international and European law, Riga Graduate School of Law
- 1999-2002** Bachelor's degree in International Business, Concordia International University (Estonia)

Does not hold shares in
JSC "Conexus Baltic Grid"



ZANE ĀBOLIŅA

JSC "CONEXUS BALTIC GRID"
MEMBER OF THE COUNCIL

Born in 1987

WORK EXPERIENCE

- Since 2020** JSC "Conexus Baltic Grid" – member of the Council
- Since 2017** JSC "Augstsprieguma tīkls" – Head of the Regulation Affairs Department
- 2016-2017** State Railway Administration - Deputy Head of Administration
- 2012-2016** Public Utilities Commission – Head of Railway Transport Division
- 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 business and administration management, Riga Technical University
- 2010-2012** Professional Master's Degree in Law, University of Latvia
- 2006-2009** Bachelor's degree in law, University of Latvia

Does not hold shares in
JSC "Conexus Baltic Grid"



TAKUMI SASAKI

JSC "CONEXUS BALTIC GRID"
MEMBER OF THE COUNCIL

Born in 1992

WORK EXPERIENCE

- Since 2021** JSC "Conexus Baltic Grid" – member of the Council
- Since 2021** MM Capital Partners Co., Ltd. – Director of Investments (Tokyo)
- 2019-2020** Marubeni Corporation – Assistant Manager, Energy Infrastructure (Tokyo)
- 2016-2018** Marubeni Corporation – Associate, Energy Infrastructure (Tokyo)

EDUCATION

- 2014-2016** Master's Degree in Agro-biological Resources Science, Tsukuba University (Tokyo)
- 2010-2012** Bachelor's degree in Biological Resources Science, Tsukuba University (Tokyo)

Does not hold shares in
JSC "Conexus Baltic Grid"



VIKTORS SENTUHOVSKIS

JSC "CONEXUS BALTIC GRID"
MEMBER OF THE COUNCIL

Born in 1984

WORK EXPERIENCE

- Since 2021** JSC "Conexus Baltic Grid" – member of the 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, Transactions Advisory and M&A
- 2010-2011** Baltic International Bank – Head of Investment Department
- 2009-2010** Maximus Advisors – director
- 2008-2009** KPMG – Associate (Budapest)

EDUCATION

- 2002-2006** Bachelor's degree in Business Administration and Finance, Concordia International University (Estonia)

Does not hold shares in
JSC "Conexus Baltic Grid"



NORMUNDS ŠUKSTS

JSC "CONEXUS BALTIC GRID"
MEMBER OF THE COUNCIL

Born in 1973

WORK EXPERIENCE

- Since 2020** JSC "Conexus Baltic Grid" – member of the Council
- 2019-2019** AS AIF "Hipo Fondu aktīvu pārvalde" – Chairman of the Management Board
- 2003-2013** SJSC "Latvijas Hipotēku un zemes banka" – Head of the Financial Management Department
- 2008-2011** AS IPS "Hipo Fondu" – Chairman of the Management Board
- 2001-2002** JSC "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

Does not hold shares in
JSC "Conexus Baltic Grid"

Management Board

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. The members of the Management Board are elected by the Council of Conexus and define their main competences: the Chairman of the Management Board (Managing Director), one member of the Management Board (Technical Director) and another member of the Management Board (Financial Director). The division of the main and other responsibilities of the Board members is determined by the organizational structure of Conexus. The duties and responsibilities of the Management Board of Conexus are regulated by law. The principles of operation of the Management

The Management Board of Conexus organises its work according to a functional principle: each of its members is responsible for a specific line of business lying within their professional knowledge, experience, and competencies in their respective areas of responsibility:

✦ The Chairman of the Management Board (Executive Officer) is responsible for general management, including strategic management, personnel and legal matters, commercial matters, technical development and investment management, communications and environmental and occupational safety;

✦ The member of the Management Board (Chief Financial Officer) is responsible for finance, risk management, information technology (IT), business support and transport;

✦ The member of the Management Board (Technical Director) is responsible for the technical management of gas transmission and storage systems.

Board and the main responsibilities are set out in the Articles of Association and the Board Regulation. The members of the Management Board jointly manage Conexus and are independent in their decision-making. Conexus is jointly represented by two members of the Management Board. The members of the Management Board comply with the restrictions imposed on them by law with regard to entering into transactions, holding positions, and shareholdings in other commercial companies.

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

- ✦ manage and represent Conexus;
- ✦ manage Conexus property;
- ✦ develop proposals for Conexus' medium-term business strategy and business plan;
- ✦ implement Conexus management and implementation policies, medium-term business strategy, business plan;
- ✦ ensure that the operational objectives for Conexus set for the current year and approved by the Management Board are met;
- ✦ prepare reports for the Conexus Council and the shareholder meeting on the activities of Conexus;
- ✦ be responsible for the operation of Conexus.



ULDIS BARISS

JOINT-STOCK COMPANY
"CONEXUS BALTIC GRID"
CHAIRMAN OF THE BOARD

Born in 1965

valde@conexus.lv

WORK EXPERIENCE

- no 2020** Chairman of the Management Board of JSC "Conexus Baltic Grid"
- 2013-2020** Commercial director of JSC "Latvenergo"
- 2010-2020** Chairman of the Council of "Elektrum Eesti" OU
- 2010-2020** Chairman of the Council of "Elektrum Lietuva" UAB
- 2005-2020** Member of the Management Board of JSC "Latvenergo"
- 2005** Distribution Network Reorganization Project Director of JSC "Latvenergo"
- 2002-2004** JSC "Latvenergo" Director of the Department of Economics
- 1996-2002** SIA "Lattelecom" Head of Financial Planning and Control Department, Head of Management Accounting Sector

EDUCATION

- 2017** Riga Technical University, engineering doctoral degree in environmental science
- 2008** Riga Graduate School of Economics, professional master's degree in business administration
- 2004** University of Latvia, master's degree in economics

Term of office: 16.11.2020 - 15.11.2023.

Does not hold shares in JSC "Conexus Baltic Grid"



GINTS FREIBERGS

JOINT-STOCK COMPANY
"CONEXUS BALTIC GRID"
MEMBER OF THE BOARD

Born in 1959

valde@conexus.lv

WORK EXPERIENCE

- Since 2016** Member of the Management Board of JSC "Conexus Baltic Grid"
- 1997 - 2017** JSC "Latvijas Gāze" - member of the Management Board
- Since 1984** Worked in the gas industry

EDUCATION

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

Term of office: 01.01.2021 - 31.12.2023
(previous term of office: 22.12.2016-31.12.2020)

Holds 416 shares in JSC "Conexus Baltic Grid"



MĀRTIŅŠ GODE

JOINT-STOCK COMPANY
"CONEXUS BALTIC GRID"
MEMBER OF THE BOARD

Born in 1976

valde@conexus.lv

WORK EXPERIENCE

- Since 2018** Member of the Management Board of JSC "Conexus Baltic Grid"
- 2017** SIA "Narvesen Baltija" - Finance director
- 2005 - 2017** SIA "Latvijas Mobilais Telefons" - director of the Finance management service
- 2000 - 2005** SIA "Latvijas Mobilais Telefons" - Head of Management Accounts Department
- 1998 - 2000** SIA "Latvijas Mobilais Telefons" - finance analyst
- 1996 - 1998** SIA "Lattelecom" - finance analyst

EDUCATION

- 2008** Riga Graduate School of Economics - Professional Master's Degree in Business Administration
- 2002** University of Latvia, Master of Social Sciences in Economics
- 2000** University of Latvia Bachelor of Social Sciences in Economics
- 1995 - 1997** Riga Graduate School of Economics Business Management study programme

Term of office: 01.01.2021 - 31.12.2023
(previous term of office: 31.12.2017-31.12.2020)

Does not hold shares in JSC "Conexus Baltic Grid"

Remuneration policy of the Council and the Management Board

The remuneration of the members of the Management Board is determined by the Council of Conexus, taking into account the Board and Council remuneration policy, as well as the principles laid down in the principles specified in the Law on the Management of Capital Shares and Capital Companies of Public Persons, as well as the maximum amounts specified in the Cabinet's regulations, balancing the amount of remuneration with the amount of duties of the members of the board. The remuneration of the members of the 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 shareholder meeting are publicly available on the Company's website. Information on the remuneration of the Company's Management Board and Council is published in the Company's annual report.

In accordance with Board and Council remuneration policy, the remuneration system is designed to ensure the competencies required to achieve the Company's goals, promoting 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 Council;
- 🔥 **competitiveness** – the level of remuneration is in line with market trends;
- 🔥 **transparency** – the remuneration system is understandable to the Company's shareholders, Council and Management Board members, as well as employees
- 🔥 **motivation** – promotes development and the desire to continue cooperation with the Company.

Management agreements are concluded with the members of the Management Board, and the remuneration of the members of the Council is set by the shareholder meeting. The rules of the collective bargaining agreement do not apply to the members of the Management Board and the Council.

Remuneration paid to the members of the Council for 2021 has been paid pro rate to the period of service. The remuneration paid in 2021 to the member of the Council Jun Matsumoto, who was in office until 11.05.2021, was 9 764.15 EUR; to the members of the Council, who are in the office from 12.05.2021. – to Takumi Sasaki and Viktor Sentukovsky: 17 720.13 EUR each; to Tomohide Goto, Deputy Chairman of the Council - 27 840.00 EUR; to the members of the Council Normunds Šuksts and Ilze Aleksandroviča –27 600 EUR each, to Zane Āboliņa – 21 784.02 EUR.

The remuneration paid to the Chairman of the Management Board Uldis Bariss for 2021 was 132 978.17 EUR; to the members of the Management Board Gints Freibergs and Mārtiņš Gode –146 100 EUR each.

Corporate governance

GRI 102-25, 102-26

In order to ensure good corporate governance, in accordance with the Corporate Governance Code and good practice of the Corporate Governance Advisory Board of the Ministry of Justice and the regulatory framework that became applicable to Conexus with the change of majority shareholder in 2020, Conexus' key documents have been revised. The Articles of Association, Council Regulation and the Board Regulation were renewed, as well as the main policies for the management and implementation of Conexus: Corporate Governance Policy, Code of Ethics, Internal Audit Policy, Accounting Policy, Procurement Policy, Human Resources and Remuneration Policy, Corporate Social Responsibility Policy, Asset Management Policy, and Information Technology Security Policy. Pursuant to the best practices and legal requirements, two new policies were also approved: Remuneration Policy for Members of the Management and the Council and the Risk Management Policy.

Conexus has three lines of defence for effective management and risk management:

- 🔥 **First-line** – (heads of structural units) – identifies, assesses and analyses risks, develops and ensures compliance with internal controls, identifies and analyses incidents by reporting risks;
- 🔥 **Second-line** – (risk management manager) – coordinates, monitors and verifies the operation of control measures, helps to identify risks, develops internal risk management regulations and reports on risks in a systematic way;
- 🔥 **Third-line** – (internal audit) – coordinates, monitors, and reviews the operation of control measures; assists in identifying risks; develops internal risk management policies; and systematically reports risks.

The Company ensures corporate governance according to the following corporate governance principles: sustainable development, openness and transparency, compliance, performance, horizontal cooperation, professionalism, initiative, growth, four eyes principle, ethics, equal opportunity, stakeholder communication, high-quality internal communication and trustworthy external communication.

Corporate Governance Code

The Company has assessed compliance with the Corporate Governance Code, which was developed in December 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice. The Code consists of 17 principles that promote the long-term enhancement of the Company's value, its efficient management and transparency.

Principle of the Corporate Governance Code		Conexus performance	
The Company's strategy			
	1. The Company has an up-to-date strategy that sets out the Company's objectives and progress towards long-term value creation	√	
*	The Company has an up-to-date strategy, the draft of which is developed by the Management Board	√	The Council approves the medium-term strategy presented by the Management Board. The Council approved the current strategy by decision of its meeting of 9 August 2018.
*	The Council is involved in the strategy development process and approves the strategy at the Council meeting	√	On 10 June 2021 , the Council took notice of the information provided by the Board on the need to renew the strategy and the proposed timetable for the renewal, the first informal working session on the renewal of the strategy has taken place . Strategy matters were also discussed with the Council at the meeting on 25.11.2021, presenting the draft of the business plan.
*	The Council monitors the implementation of the strategy	√	In order to ensure the successful implementation of the strategy, key performance indicators (KPIs) are set for the Company each year, which are approved by the Council and for which the Management Board is responsible. Performance is assessed annually, together with the approval of the annual report, to assess the performance of the Management Board.
*	The Company's Management Board implements the strategy and reports regularly to the board on its implementation	√	The Management Board prepares and submits to the Council, once a month, information on the results of the Company's financial activities and on significant events in the Company, while the Council submits a written report on its activities, including the achievement of the key performance indicators (KPIs) set out in the medium-term strategy, at its regular meetings.

Principle of the Corporate Governance Code		Conexus performance	
Internal culture and ethical behaviour			
	2. The Company develops an internal culture and ethics code that serves as a standard of conduct for the Company's management and employees.	√	
*	The Management Board 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 Council approves an internal culture and ethics code	√	The updated Code of Ethics was approved by the decision of the Council meeting of 9 September 2021.
*	The Management Board ensures compliance with the Company's internal culture and ethics code and reacts if there is a breach of the code	√	In accordance with the Code of Ethics, the first mandatory ethics trainings for the Company's employees were held in 2021, which covered both the Code of Ethics and certain matters of the Internal Regulation, the Information Protection Regulations and the Whistle-Blower Regulations.
Internal control system, risk management and internal audit			
	3. The Company has an internal control system, the effectiveness of which is monitored by the Council	√	
*	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.
*	Internal audit assesses the effectiveness of the internal control system at least once a year on the basis of predefined criteria and reports the results of the evaluation to the Council.	√	An assessment 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 2021: 77%; projected coverage at the end of 2022: 95% and at the end of 2023: 100%.
*	The Council shall, at least once a year, evaluate the evaluation provided on the effectiveness of the internal control system	√	Once a year, the 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.

Principle of the Corporate Governance Code		Conexus performance
4. The Company identifies, evaluates and monitors the risks associated with its business activities		
*	The Management Board develops and the council approves the company's risk management policy	✓
*	Based on the identified risk assessment, the Management Board implements risk management measures	✓
*	At least once a year, the Council reviews the reports of the Management Board on risk management measures and the implementation of risk management policy	✓
5. The Company has an internal audit unit that independently and objectively evaluates the Company's operations		
*	The Company has an internal auditor who is functionally independent of the Management Board and is accountable to the Council	✓
*	The position of the internal auditor shall be approved by the Council	✓
*	The internal auditor shall develop a risk-based internal audit plan which shall be approved by the Council	✓
*	The internal auditor shall inform the Management Board and the Council of the implementation of the internal audit plan, the results of the audit, and the recommended actions to address deficiencies if any.	✓

Principle of the Corporate Governance Code		Conexus performance	
External auditor			
	6. The Company has an independent external auditor	√	
*	The Council and the Audit Committee, if any, shall establish the selection criteria for the external auditor	√	The Articles of Association of the Company provide for the annual financial statements to be audited by an internationally recognised independent auditor. The auditor is elected by the shareholders' meeting after consideration at the meeting of the council.
*	The Company has an independently qualified external auditor	√	An agreement has been concluded with PricewaterhouseCoopers SIA for the audit of the annual accounts for 2021, 2022 and 2023 and the review of the dependency report, as well as for the review of the sustainability report.
*	The term of office of one external auditor shall not exceed 5 years	√	The agreement with PricewaterhouseCoopers SIA has been concluded for a term of 3 years - 2021, 2022, 2023.
Election of members of the Council			
	7. The Company shall ensure transparent procedures for the election and removal of members of the Council	√	
*	The Company has approved the procedure for the selection and removal of Council members	X	-The procedure for recalling members of the Council is regulated by external regulatory enactments (Commercial Law), however, a separate procedure for the selection of members of the Council is not specified. -However, Article 21 of the Company's Articles of Association stipulates that the shareholders' meeting may elect only persons who are not subject to the limitations laid down in the laws and regulations, including restrictions specified in the Energy Law.
*	The Company shall provide timely and sufficient information to the shareholders of the company regarding the members of the Council who are nominated for election or re-election.	√	No later than 14 days before the shareholder meeting (if the meeting is scheduled on-site) or no later than 30 days before the shareholder meeting (if, due to epidemiological safety restrictions, the meeting is to be put to the vote by prior written vote remotely), the Conexus website contains information on the candidates for the Council members,.
*	The size of the Council corresponds to the specifics of the Company's operations	√	7 members of the Council shall be sufficient to ensure the professional and competent supervision of the unified natural gas transmission and storage system operator, as well as to ensure the protection of the interests of shareholders.
*	A member of the Council shall be elected for a term not exceeding 5 years	√	Under Clause 21 of the Articles of Association: The Council is elected by the shareholder meeting for a term of three years, determining the remuneration of the members of the 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 Council.
	8. The members of the Council jointly have relevant experience and competence	√	
*	The Council as a whole has a body of skills, experience and knowledge, including in the relevant field, in order to be able to play its full role.	√	The published Annual Report and the Conexus website set out the experience of the members of the Management Board which is sufficient to oversee the activities of the single natural gas transmission and storage system operator.

Principle of the Corporate Governance Code		Conexus performance	
*	The principles of diversity are observed when forming the composition of the council	√	Pursuant to Section 296, Paragraph four of the Commercial Law, a shareholder or group of shareholders may propose its candidate(s) for election to the Council with a calculation such that the voting capital represented by such shareholder or group of shareholders is divided by the voting capital represented. The Company's Articles of Association do not impose more stringent requirements on the composition of the Council, and the Company does not have a separate diversity policy for the nomination and election of Council, however, the currently elected Council is composed of individuals with diverse, complementary skills, education, and professional experience, representing both genders as well as people of different ages and nationalities.
*	Both genders are represented on the Council	√	The current composition of the Council is five men and two women.
*	The Management Board shall develop an induction programme and provide induction training for new members of the Council.	√	In order to provide training, introductory sessions of the council are organised, including on the gas market, technical and financial matters.
9. The Company's Council has independent council members			
*	The Company evaluates and the shareholders determine the proportion of independent Council members	X	- No such policy is in place - The members of the Council comply with the requirements specified in the Commercial Law for the members of the Council, as well as all members of the Council have confirmed in writing that they comply with the requirements specified in the Energy Law Article 111, section 3, clause 4. Pursuant to Article 58 of the Council Regulation, the members of the Council inform Conexus of their participation and positions in other companies, as well as that of their spouses and children.
*	At least half of the members of the Council must be independent	√	The members of the Council have assessed their compliance with the independence criteria stated by the Corporate Governance Code prepared by the Corporate Governance Advisory Board established by the Ministry of Justice. More than half of them are considered to be independent members of the Council and have submitted an appropriate declaration of independence.
*	Independent candidates for membership on the Council shall provide evidence of their compliance with the independence criteria	X	Independent Council membership candidates did not provide proof of eligibility to the independence criteria prior to elections.
*	Prior to the election of the Council, the Company conducts an assessment of the independence of the members of the Council in accordance with the available information	X	
Principles for determining the remuneration of the Council and the Management Board			
10. The Company has implemented a remuneration policy			
*	The Company has implemented a remuneration policy, which has been developed by the Management Board, reviewed by the Council and approved by the shareholder meeting.	√	The Company has implemented the Board and Council Remuneration Policy (approved at the Company's annual meeting on 12 May 2021), as well as the Personnel and Remuneration Policy (approved by the decision of the Council meeting on 25 November 2021).

Principle of the Corporate Governance Code		Conexus performance	
*	Once a year, the Council determines the financial and non-financial goals to be achieved by the Management Board, their impact on the variable part of remuneration and monitors their fulfilment.	✓	In order to ensure the successful implementation of the strategy, key performance indicators (KPIs) are set for the Company each year, which are approved by the Council and for the achievement of which the Management Board is responsible. Performance is assessed annually, together with the approval of the annual report, to assess the performance of the Board and decide on the bonuses to be applied to the Board.
*	No variable remuneration shall be determined for the members of the Council, nor shall any compensation be paid in the event of resignation or resignation.	✓	The Board and Council Remuneration policy stipulates that the principles specified in the Law on Governance of Capital Shares of a Public Person and Capital Companies must be followed. Pursuant to the provisions of Article 112 of the said Law, in 2021 the variable part of remuneration or any kind of compensation of the members of the Council was not determined.
*	The Management Board shall prepare an annual report on the remuneration granted to each current and former member of the Management Board and the Council.	✓	Information on the remuneration of the members of the Management Board and the Council is included in the published sustainability reports and annual reports.
Organization of the Council's work and decision-making			
	11. The organization of the work of the council is defined and understood in the Company	✓	
*	The Council organizes its work in accordance with the council regulations and work calendar	✓	The work of the Council is organised in accordance with the regulations of the Council and the work calendar. In 2021, seven council meetings took place (four regular, three extraordinary). Proportion of attendance at Council meetings - 100%.
*	The Council holds at least one separate meeting of the Council per year to discuss the company's strategy and its implementation	✓	Information provided on the strategy and the updating in work session and Council meetings
*	The Company's budget provides the necessary funding to ensure the operation of the council	✓	The work of the Council is ensured in accordance with the regulations of the Council, and the funding provided in the budget has been sufficient.
*	Once a year, the council conducts a self-assessment of the council's work and discusses the results at a council meeting	✓	Pursuant to Article 62 of the Council Regulation, the Council conducted a self-assessment for the first time for the year 2021. The Council's self-assessment was conducted by each member of the Council completing an anonymous questionnaire prepared in accordance with the criteria of the Corporate Governance Code of the Corporate Governance Advisory Board of the Ministry of Justice and the OECD Review of International Practice. The questionnaire includes the following categories of questions: the composition of the Council, the work of the Council, and the organization of Council meetings. The results of the self-assessment were discussed at the Council's meeting on 24 February 2022. The overall score is 3.38 out of 4, which is more than good. The work of the Council team and the collaboration with the Board are highly appreciated. In reviewing the results of the self-assessment and the comments of the members of the Council, the competence of the members of the Council and the introductory events organized for the members of the Council were appreciated, but at the same time the need to further deepen the knowledge of the members of the Council was also established.

Principle of the Corporate Governance Code		Conexus performance	
*	The Council has assessed the need to set up committees (if principle has been set up, see principle # 12.1.)	√	The regulations do not provide for the mandatory establishment of Council committees, moreover, the existing structure of the Company ensures proper management and supervision of processes. The Council has discussed and assessed the establishment of an audit committee and, if required by law, a relevant committee will be established.
	12. The Council must take informed and balanced decisions	√	
*	The Council must have timely and sufficient information prepared by the Management Board for decision making	√	The information must be sent to all members of the Council two weeks before the meeting or, in the case of extraordinary meetings, at least one week before the meeting unless a different deadline has been agreed (Article 25 of the Council Regulation).
*	The Council must establish the procedure for the disclosure of information, including the right of the Council to request information from the Management Board that is necessary for the Council's decision-making process	√	Procedures for disclosure of information, including the right to request information, are set forth in the Council Regulation (paragraph 11: "The members of the Council may, at any time, to request a report from the Management Board on the situation of the Company and on individual matters, to receive complete information on the Company and its business, to examine the budget, the balance sheet, the auditors' reports, and to inspect other registers and documents of the Company as well as securities. The member of the Council concerned shall be obliged to inform the other members of the Council of any such request for information, and the information requested shall be made available to all members of the Council.")
*	A member of the Council analyses the information and prepares proposals for decision-making in the Council	√	A member of the Council analyses the information and prepares proposals for decision-making in the Council
*	When making decisions, the Council must assess the risks, short-term and long-term impact on the Company's value, sustainability, and responsible development	√	When making decisions, the Council assesses the risks, short-term and long-term impact on the Company's value, sustainability, and responsible development
	12.1. The committee shall make proposals for decisions of the Council		
*	The Council shall determine the tasks of the Committee and the arrangements for its operation	n/a	No separate committees have been set up.
*	The Council establish a committee consisting of at least 3 members of the Council with relevant experience and knowledge in the specified field of activity of the committee (remuneration, nomination, audit or other area).	n/a	
*	The committee analyses the information and prepares proposals for decision-making in the Council, as well as informs the council about the work of the committee	n/a	

Principle of the Corporate Governance Code		Conexus performance
Prevention of conflicts of interest		
	13. The members of the Management Board and the Council must be clearly aware of the manifestations of conflict of interest and are informed about the necessary actions in case of conflict of interest	√
*	The Council must define the indications of a conflict of interest and shall establish procedures for the prevention and management of such a conflict of interest	<div style="text-align: center;">√</div> <p>- The Council has approved the Council Regulation and Code of Ethics, which regulates matters of conflict of interest. - In addition, at the Council meeting the members of the Council fill in and re-view forms (Item 58 of the Council Regulation), indicating their and spouses' and children's workplaces, shares, positions with the right of representation. The members of the Council are obliged to provide information in case the information provided in the forms has changed (paragraph 59). The Council has examined the forms completed by the members of the Council without finding any conflict of interest.</p>
*	The members of the Council or Management Board must not participate in decision-making on matters in which the interests of the company conflict with the interests of the Council, members of the Management Board, or persons related to them.	<div style="text-align: center;">√</div> <p>Pursuant to Paragraph 39 of the Council Regulation, a member of the Council is obliged to inform the Council no later than before the approval of the agenda of the Council meeting.</p>
*	Persons subject to the obligation to prevent conflicts of interest regularly participate in training on how to deal with conflicts of interest	<div style="text-align: center;">√</div> <p>-In 2021, mandatory training on ethical issues was organised for all employees and board members, including the avoidance of conflicts of interest. An additional seminar was organised for managers, in which these issues were discussed in more depth. - The members of the Council have not received any training on conflicts of interest. However, the Council has approved the Company's Articles of Association and the Company's Code of Ethics governing conflict of interest issues, as well as the members of the Council.</p>
Shareholder meeting		
	14. The Company informs shareholders in good time about the course of the Annual General Meeting and provides all information required for decision-making.	√
*	The Company shall inform the shareholders in good time of the agenda, the procedure and the voting modalities of the shareholder meeting and of any changes thereto.	<div style="text-align: center;">√</div> <p>The notice on the shareholder meeting shall be sent by post to all shareholders not later than 30 days before the shareholder meeting, indicating in the notice the agenda, the procedure, the procedure for submission of proposals. Announcement about the shareholder meeting is also published on the Conexus website.</p>
*	At the same time as announcing the meeting, the Company offers shareholders the opportunity to familiarise themselves with the draft resolutions that will initially be voted on at the meeting. The Company will inform the shareholders without delay of the additional draft resolutions submitted	<div style="text-align: center;">√</div> <p>Shareholders have the opportunity to familiarise themselves with the draft resolutions to be initially voted on at the meeting at the same time as the announcement of the meeting if, for reasons of epidemiological safety, it is planned to vote at the meeting by prior written ballot (without being present in person). The information is sent with a notification and posted on the Conexus website. If the meeting is held in person, draft resolutions will be posted on the website as soon as they are prepared, but no later than 14 days before the meeting.</p>

Principle of the Corporate Governance Code		Conexus performance
	14. The Company informs shareholders in good time about the course of the Annual General Meeting and provides all information required for decision-making.	√
*	The Company offers shareholders the opportunity to submit questions on the agenda and draft resolutions before the Annual General Meeting	√ In accordance with epidemiological safety regulations, a pre-shareholder meeting was held in 2021, two weeks prior to the shareholder meeting, where shareholders were presented with the topics to be discussed at the shareholders' meeting, as well as the Management Board provided answers to the shareholders' questions. Conexus received the Latvian Corporate Governance Award 2021 in the nomination "Most Successful Shareholder Involvement in Digital Format".
*	The draft decisions and the documents enclosed to them shall provide detailed, clear, and complete information on the matter under consideration	√ The draft decisions and the documents attached to them shall provide detailed, clear and complete information on the matter under consideration
	15. The Company promotes the effective involvement of shareholders in decision-making and the greatest possible participation of shareholders in general meetings	√
*	The shareholder meeting must be convened and held at a place and time that is easily accessible to the shareholders	√ Shareholder meetings are held on working days at 10.00 am. Time is selected taking into account the different time zones.
*	The Company provides shareholders with the opportunity to participate in the shareholders' meeting remotely	√ In 2021, the shareholders' meeting was held on the MS Teams platform. Shareholders who wish to attend the meeting remotely submit a request (a pre-printed form that is sent with the meeting notice), and a link to the meeting is sent to the address indicated in the application prior to the meeting.
*	The Company shall determine the appropriate duration of the shareholders' meeting and shall give shareholders the opportunity to express their views and receive the information necessary for decision-making during the meeting.	√
*	The Company announces a new shareholders' meeting if the issues on the agenda of the meeting cannot be considered in due time	n/a So far Conexus has not encountered a situation where the questions on the agenda of the shareholders' meeting could not be covered in time. Should such a situation arise in the future, Conexus would act in accordance with the Commercial Law and the Articles of Association.
*	The company invites members of the Management Board and the Council, candidates for members of the Council, the auditor, and the internal auditor, as well as other persons to participate in the shareholder meeting in accordance with the issues to be considered at the meeting.	√ The entire Management Board and the Chairman of the Council attend the shareholder meeting; the external auditor and the head of Internal Auditing are also invited to discuss certain issues.
*	The shareholder meeting resolves in accordance with the previously announced proposed resolutions	√ The resolutions of the shareholder meeting are available on the Conexus website. The most important decisions of the shareholder meeting in 2021: 1) approval of the annual report and the dependency report, 2) appropriation of profits, 3) approval of the revised Articles of Association, 4) approval of the Board and Council Remuneration policy, 5) election of the members of the Management Board, 6) election of the auditors. The decisions adopted were consistent with the previously announced draft decisions.

Principle of the Corporate Governance Code		Conexus performance	
	16. The Company develops and discusses dividend policy with shareholders	√	
*	The Company has developed and published an up-to-date dividend policy	√	Dividends shall be calculated in accordance with the Law on Management of Capital Shares of Public Entities and Corporations. The decision on the appropriation of profit and the amount of dividends is made by the shareholder meeting of the Company. In the approved medium-term operating strategy, the dividend rate is set at 90% of profit.
*	The dividend policy has been discussed with the shareholders during the shareholder meeting	√	The decision on the dividend policy, the use of profits and the amount of dividends is made by the Company's shareholders' meeting
Transparency of the Company's operations			
	17. The Company provides shareholders and other interested parties with regular and timely information about the Company's business, financial results, corporate governance, and other relevant matters.	√	In 2021, Conexus received the Gold category in the Latvian Sustainability Index.
*	The Company discloses complete, accurate, objective, current and truthful information in a timely manner	√	Complete, accurate, objective, current and true information is published in a timely manner.
*	The Company discloses information to all shareholders at the same time and to the same extent	√	The information is provided simultaneously and to the same extent to all shareholders.
*	The Company publishes information about the Company's management, strategy, or activities on the website and publishes the financial statements and other information in accordance with Annex No. 1	√	See Annex No. 2
*	The Company provides information both in Latvian and in at least one other language understandable to the majority of the Company's foreign shareholders and other interested parties.	√	In accordance with the Articles of Association of the Company information for shareholders is provided in Latvian and English.
Annex No. 1 to the Corporate Governance Code: Information to be published on the Company's website			
Company			
*	Information on the Company - history of 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	√	https://www.conexus.lv/merkis-un-strategija
*	The Company's Articles of Association	√	https://www.conexus.lv/citi-saistosie-dokumenti
*	Information on the Company's corporate governance structure (interaction between the shareholder meeting, the board, its committees, the Council, the auditor, the internal auditor, the audit committee, etc.)	√	Published on the website and in the annual reports
*	Company Code of Internal Culture and Ethical Conduct	√	https://www.conexus.lv/citi-saistosie-dokumenti
*	Key corporate policies (Information disclosure, sharing and confidentiality policies, Conflict of interest policies, Risk management policies, etc.) as per Annex No. 2.	√	See Annex No.2.

Principle of the Corporate Governance Code		Conexus performance	
Shareholders and beneficial owners			
*	Information on the Company's shareholders holding at least 5% of the Company's share capital (specifying the date when this information is prepared)	√	https://www.conexus.lv/akcionaru-struktura
*	Information on the Company's beneficial owners (specifying the date when this information is prepared)	√	There is no such person considered to be the true beneficiary of Conexus under the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing.
*	Number of shares, bonds, or other financial instruments issued, paid for and carrying a voting right by the Company.	√	https://conexus.lv/informacija/informacija-par-akcijam
Council and Management Board			
*	Regulations of the Management Board and the Council or other similar document	√	https://www.conexus.lv/citi-saistosie-dokumenti
*	Information about each member of the Company's Council and Management Board:		
	- term of powers;	√	
	- position and area of responsibility (if any);	√	https://www.conexus.lv/padome
	- professional work experience and education;	√	https://www.conexus.lv/valde
	- up-to-date information on positions in other companies;	√	The Company has assessed that the members of the Management Board and the Council do not hold any other positions in such companies that could create a conflict of interest.
	- up-to-date information on the company's shares owned;	√	
	- statistics on attendance at council meetings (only for council members)	√	In 2021, seven council meetings were held, including three emergency meetings. The meetings were attended by all Council members.
*	Information on the independent Council members:		
	- which members of the Council are considered independent;	X	Information on which members of the Council are considered independent is not published.
	- the criteria for determining the independence of a member of the Council;		
	- annual assessment of the independence of the members of the Council		
*	Remuneration policy and remuneration report of the Management Board and the Council	√	Information on the remuneration of the members of the Management Board and the Council for the current year is published in the Annual Report. https://www.conexus.lv/finansu-parskati
*	Information on the Management Board and the Council selection (nomination) process	√	The Management Board is elected by the Council. For the selection of the Chairman of the Management Board, the Council established a Nomination Commission, which, in cooperation with the personnel selection company, conducted the selection in an open competition, presenting the results to the Council.
*	Information on the committees and the audit committee:		
	- the bylaws of the committee;	n/a	The regulations do not provide for the mandatory establishment of Council committees, moreover, the existing structure of the Company ensures proper management and supervision of processes. The Council has discussed and assessed the establishment of an audit committee and, if required by law, a relevant committee will be established
	- information on committee members.	n/a	

Principle of the Corporate Governance Code		Conexus performance	
Financial and non - financial reports and information			
*	Financial statements and reports of the company for at least the last 3 fiscal years:	✓	
	- Annual reports (including consolidated financial statements, if any) and auditors' reports (if any);	✓	Published. The financial statements are prepared in accordance with IFRS. https://www.conexus.lv/finansu-parskati
	- interim reports and quarterly reports.	✓	Interim financial statements are published on a quarterly basis in accordance with the published financial calendar. https://www.conexus.lv/finansu-parskati
*	The Company's non-financial reports (on the Company's impact on the environment, social and employee aspects, respect for human rights, and anti-corruption measures, including a sustainability report) for at least the last 3 financial years	✓	Sustainability reports are published. The Sustainability Report for 2021 was prepared in accordance with the GRI (Global Reporting Initiative) guidelines and obtained the auditor's report. https://www.conexus.lv/finansu-parskati
*	Corporate governance reports	n/a	The corporate governance report is due for 2022. The required information is included voluntarily in the 2021 Sustainability Report, ahead of schedule.
*	The Company's financial calendar or other calendar of significant and planned communication events	✓	https://www.conexus.lv/finansu-parskati
Information for shareholders and investors			
*	Information on the planned shareholders' meetings:	✓	https://www.conexus.lv/informacija
	- notices regarding the convening of shareholder meetings;	✓	https://www.conexus.lv/informacija
	- draft decisions.	✓	https://www.conexus.lv/informacija
*	Information about the shareholder meetings:	✓	In 2021, one shareholders' meeting was held
	- information on the decisions adopted at shareholder meetings	✓	The most important decisions of the shareholder meeting in 2021: 1) approval of the annual report and the dependency report, 2) appropriation of profits, 3) approval of the revised Articles of Association, 4) approval of the Board and Council Remuneration policy, 5) election of the members of the Management Board, 6) election of the auditors.
*	Dividend policy of the company and information on dividends paid (at least for the last 10 years of operation)	✓	Dividends are calculated in accordance with the Law on Management of Capital Shares of Public Entities and Companies. The amount of dividends is published in the Annual Report for each current year.
*	Information on related party transactions	✓	Information published in the Annual Report.

Principle of the Corporate Governance Code		Conexus performance	
Information for shareholders and investors			
*	The Company's published announcements and important information for investors, including presentations to investors, videos of events for investors, forecasts, if any, etc.	√	https://www.conexus.lv/aktualitates-sistemas-lietotajiem
*	Contacts of the investor relations specialist (if any)	√	Head of the Legal Division of the Legal Department Normunds Čižiks, 67087927, 26101807, IR@conexus.lv . The e-mail address is provided both on the Conexus website and in the notice announcing the shareholder meeting. Advice to shareholders and potential shareholders is also provided by Nasdaq CSD SE, +371-67212431, csd.latvia@nasdaq.com
Annex No. 2 to the Corporate Governance Code: The most important Company policies			
Key policies included in the corporate governance principles or criteria:			
*	Risk management policy	√	https://www.conexus.lv/citi-saistosie-dokumenti
*	Remuneration policy	√	https://www.conexus.lv/citi-saistosie-dokumenti
*	Dividend policy	√	Dividends are calculated in accordance with the Law on Management of Capital Shares of Public Entities and Companies. The amount of dividends is published in the Annual Report for each current year.
Other key policies mentioned in the Corporate Governance Code:			
*	Internal audit policy	√	https://www.conexus.lv/citi-saistosie-dokumenti
*	Conflict of interest policy	√	Issues of conflict of interest are stipulated in the Regulations of the Council, the Regulations of the Management Board, as well as in the Code of Ethics. https://www.conexus.lv/citi-saistosie-dokumenti
*	Information disclosure, sharing and confidentiality policy	√	Information disclosure, sharing and confidentiality policy matters are governed by a published Code of Ethics. https://www.conexus.lv/citi-saistosie-dokumenti

Internal audit

Internal audit is an independent structural unit of the Company, whose task is to assess and improve the effectiveness of internal control, risk management and governance processes. Internal audit is functionally subordinate to the Company's Council and administratively to the Management Board. The guidelines for the professional activities of internal audit are determined by the Internal Audit Policy, 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 internal audit activity covers all risks, processes, departments and employees of the Company.

The audit plan for the current year is prepared on the basis of the performed risk assessment and the priorities set by the Company's management, which are approved by the Company's Council. Internal audits are performed in accordance with the International Standards for the Professional Practice of Internal Auditing. The compliance of the internal audit activity with these standards is assessed every five years by a qualified external evaluator. The results of the performed internal audits are submitted to the Board of the Company, which prepares plans for the improvement of operations, as well as informs the Council about the results of the audit and approved proposals for the improvement of the Company's operations. Internal audit ensures regular monitoring of the implementation of recommendations.

The internal audit reports annually to the Company's Council and Management Board on its operations. It provides information on the audits performed, the assessments of the areas audited, the recommendations made, the quality assurance of the internal audit, as well as an overall opinion on the effectiveness of the internal control and risk management systems.

Risk management

GRI 102-11

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

The objectives and basic principles of risk management are determined by the Company's Risk Management Policy approved by the Conexus Council in 2021, according to which risk management is implemented in the Company.

The objective of Conexus' risk management is to establish a common risk management framework to timely identify and manage key factors impacting the Company's operations and loss of opportunities to ensure 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 day-to-day operations, with the aim of promoting the Company's functions, goals and sustainability.

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 objectives, strategies and guidelines that are appropriate to the Company's operations and aim to ensure effective overall risk mitigation.

The Company promotes business operations based on fair principles, compliance with ethical norms, as well as takes the necessary actions to prevent the risks of corrupt and fraudulent activities and to promote the improvement of the control environment.

In order to ensure effective risk management, the Company's risks are divided into risk groups, in which they are grouped under the responsibility of the managed functions:



- ◆ **strategic and corporate risks**, incl. strategy risks; regulatory risks; market, competition, economic risks; project management risks; reputation risks; political risks; communication risks; personnel management and organizational risks; legal and compliance risks;
- ◆ **information technology and cybersecurity risks;**
- ◆ **transmission operational risks;**
- ◆ **storage operation risks;**
- ◆ **financial risks**, incl. capital risk; risk of attracting financing; currency risk; credit risk; liquidity risk; tax risk; accounting risk;
- ◆ **environmental and occupational safety risks**, incl. environmental risks; work environment risks; physical security risks;
- ◆ **risks of fraud and corruption.**

In 2021, the Company's risk officers performed an annual risk review,

which assessed and analysed the most significant risks of Conexus operations in all risk groups in internal working groups, assessing the probability of risk occurrence and impact on strategic objectives, finances, tariffs, individuals and reputation, critical control and the necessary risk mitigation measures.

Overall, the risks identified are well monitored 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 operational risks.

The most significant identified risks:

- ◆ Risk of storage value loss;
- ◆ Risk of stock withdrawal;
- ◆ Risk of impairment of assets;
- ◆ Risk of rupture of transmission pipelines;
- ◆ Wells fountain risk;
- ◆ Critical infrastructure cyber security risk;
- ◆ Risk of unfavourable energy regulation;
- ◆ IT downtime risk;
- ◆ Risk of non-compliance with environmental sustainability requirements.

The Management Board of Conexus has defined the acceptable level or degree of risk that the Company is prepared to take in achieving its strategic objectives, as well as key risk indicators that provide an ear-

ly warning of changes in the likelihood or impact of a particular risk.

A responsible business culture is growing in the business environment. Sustainability, efficiency and development are increasingly being considered. Ongoing climate change is a signal that the necessary changes will be introduced as soon as possible, with the aim of mitigating the environmental changes caused by human activity and gradually moving towards a carbon-neutral economy. The Company has identified the risks that the risks of climate change will affect as a result of changes in the regulatory environment.

The identified risks are linked to the internal audit system, allowing risk assessments to be used 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 person and Capital Companies;
- ◆ The decision on the use of profit and the amount of dividends is made by the Company's shareholder meeting;
- ◆ The approved medium-term operating strategy sets the dividend ratio at 90% of profits.

Activities in industry and public organizations

GRI 102-12, 102-13



<https://www.entsog.eu/>



<https://www.gie.eu/>



<https://easee-gas.eu/>



https://ec.europa.eu/growth/industry/strategy/industrial-alliances/european-clean-hydrogen-alliance_en

European Clean Hydrogen Alliance



<https://www.ech2a.eu/>



<https://www.ltrk.lv/>

WORLD ENERGY COUNCIL | LATVIA

<http://weclmc.lza.lv/>



<https://www.bicg.eu/home/>



<https://lpva.lv/>

OPERATING SEGMENTS

GRI 102-2, 203-1

Storage of natural gas

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

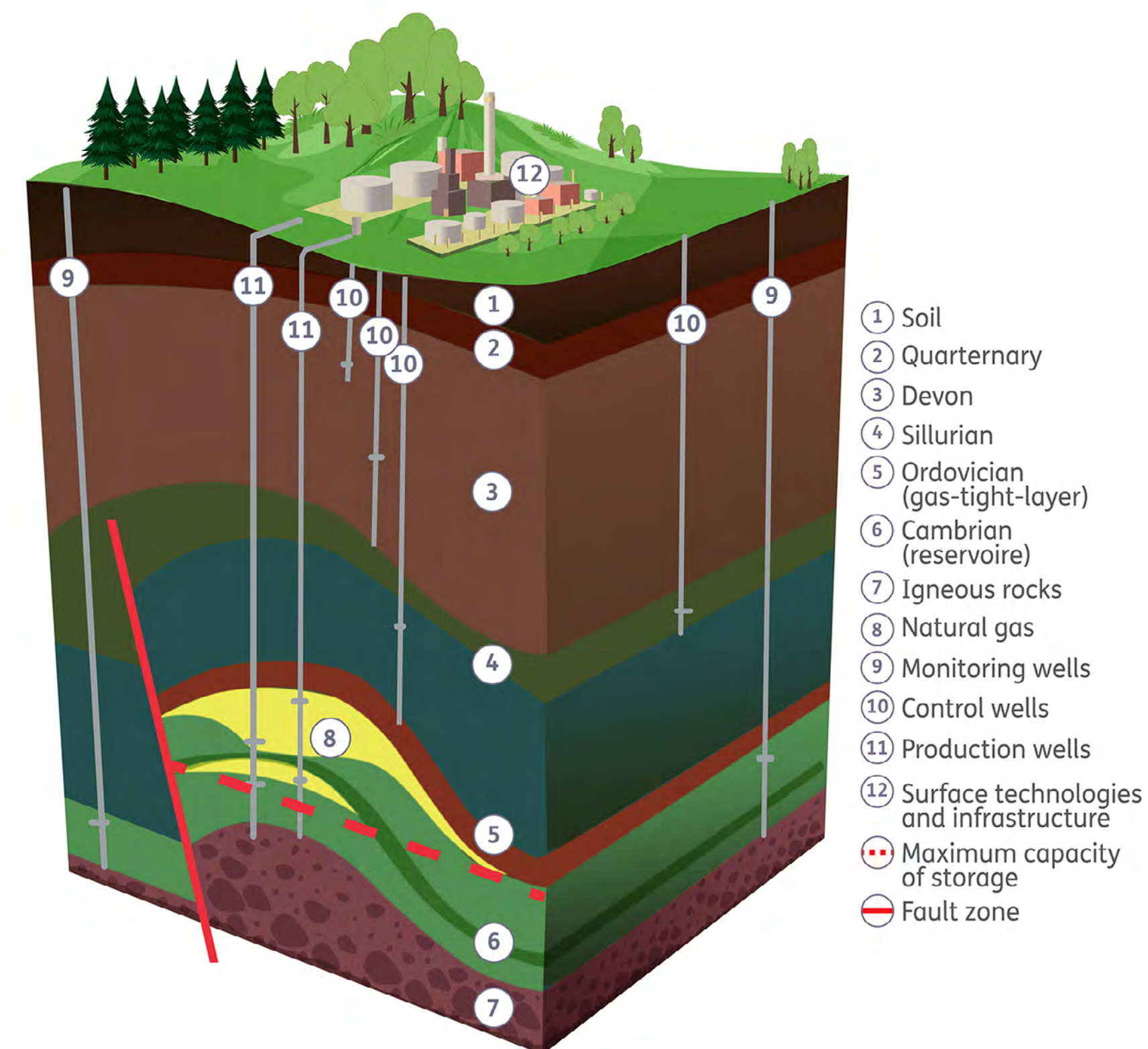
Characterisation of storage

The Inčukalns UGS, which is part of the Conexus structure, consists of overground technological equipment, wells and an underground reservoir. The reservoir is a naturally formed Cambrian sedimentary rock in the aquatic medium 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 characterised by extremely good properties. In fact, its porosity reaches up to 30%, which allows 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 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 km² and belongs to Sigulda, Saulkrasti and Ropaži districts. According to the Cabinet Regulation No. 773 "Regulation on the Determination of the Underground Area of National Importance" that was issued on 13 December 2016, the underground area of Inčukalns natural gas reservoir is 83 722 km².

The maximum possible amount 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 amount of natural gas stored in it are influenced by several technological factors, but most im-



portantly by the actual filling of natural gas in Inčukalns UGS in previous storage cycles and the intensity of injection during a given storage cycle. The filling of Inčukalns UGS in the last three full storage cycles was less than 85% of the intended active gas volume. At the same time, the stability of the injection mode has changed fundamentally, guided by the current commercial considerations of the system users.

Inčukalns UGS is a complex engineering-geological object whose operation is associated with specific risks. The resulting operating conditions must not exceed the maximum allowable pressure in the collector layer (pressure at which the reservoir top layer remains impermeable). This can lead to gas leaks in the higher layers, i.e., causing gas loss and fouling. Also, do not exceed the maximum allowable injection pressure, which can cause hydraulic fracture of the collector layer – the collapse of the sandstone crystal grid and damage to the 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 storing 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 in the region since 1968.

Natural gas is injected into the Inčukalns UGS by means of compressors, and withdrawal is 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 single natural gas market, Inčukalns UGS promotes competition among suppliers and ensures the stabilization of natural gas prices in the region..

Storage operator:

- ◆ Ensures the continuous operation of Inčukalns UGS, monitors and controls the stability of the storage facility, inspects and prevents damage to the infrastructure, and invests in the development and safety of the storage facility;
- ◆ Ensures fair and equal access of network users to Inčukalns UGS and provides traders with the opportunity to store natural gas in accordance with the terms of use of Inčukalns UGS approved by the PUC.

In 2021, a new procedure for reserving storage capacity was introduced - auctions for storage capacity with a single premium, which, in contrast to the proportionality method used previously, provides better transparency of reserving storage capacity according to the market situation and more equal access to storage services.

In 2021/2022, storage capacity initially available for the storage cycle was set at 23.2 TWh. However, as some market participants postponed injection due to unfavourable gas prices, Conexus reduced the technical capacity of the storage facility to 21.8 TWh in order to ensure the injection of natural gas to the full extent of the reserved capacity in the event of a full reservation.

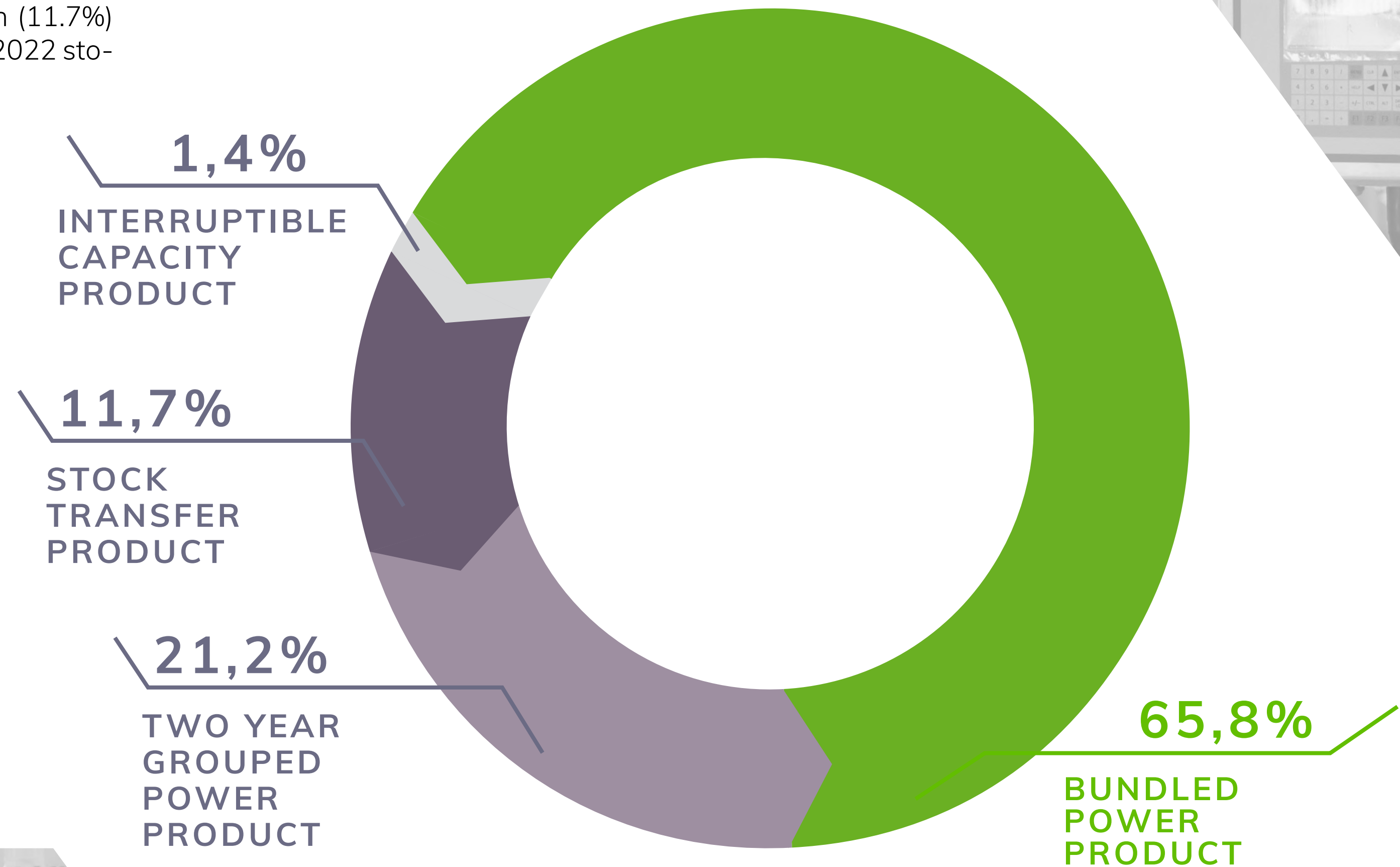
In March 2021, before the start of the injection season, market participants showed great interest in storage products, but when the difference between the winter and summer prices of natural gas became relatively smaller than the storage service fee, the interest decreased. Only a few bids were received at the final bundled capacity auction on 6 May 2021. No capacity was reserved for the first auctions of the interruptible capacity product in June and early July, and only a small amount of the interruptible capacity product was reserved in the second half of the summer due to strong market planning conditions for direct deliveries.



In 2021/2022 storage cycle 87% or 18.9 TWh of 21.8 TWh were reserved, of which 12.4 TWh (65.8%) was the bundled capacity product, 4 TWh (21.2%) was the two-year bundled capacity product, 0.3 TWh (1.4%) was the interruptible capacity product and 2.2 TWh (11.7%) was the stock transfer product. Storage tariffs for the 2021/2022 storage cycle was as follows:

- ◆ **bundled capacity product**
(maximum value 1.0226 EUR/MWh);
- ◆ **two-year bundled capacity product**
(tariff – 1.0865EUR/MWh/ciklā);
- ◆ **interruptible capacity product**
(tariff - 0.8147 EUR/MWh);
- ◆ **stock transfer product**
(tariff - 1.7796 EUR/MWh).

Reserved storage capacity products for 2021/2022 cycle

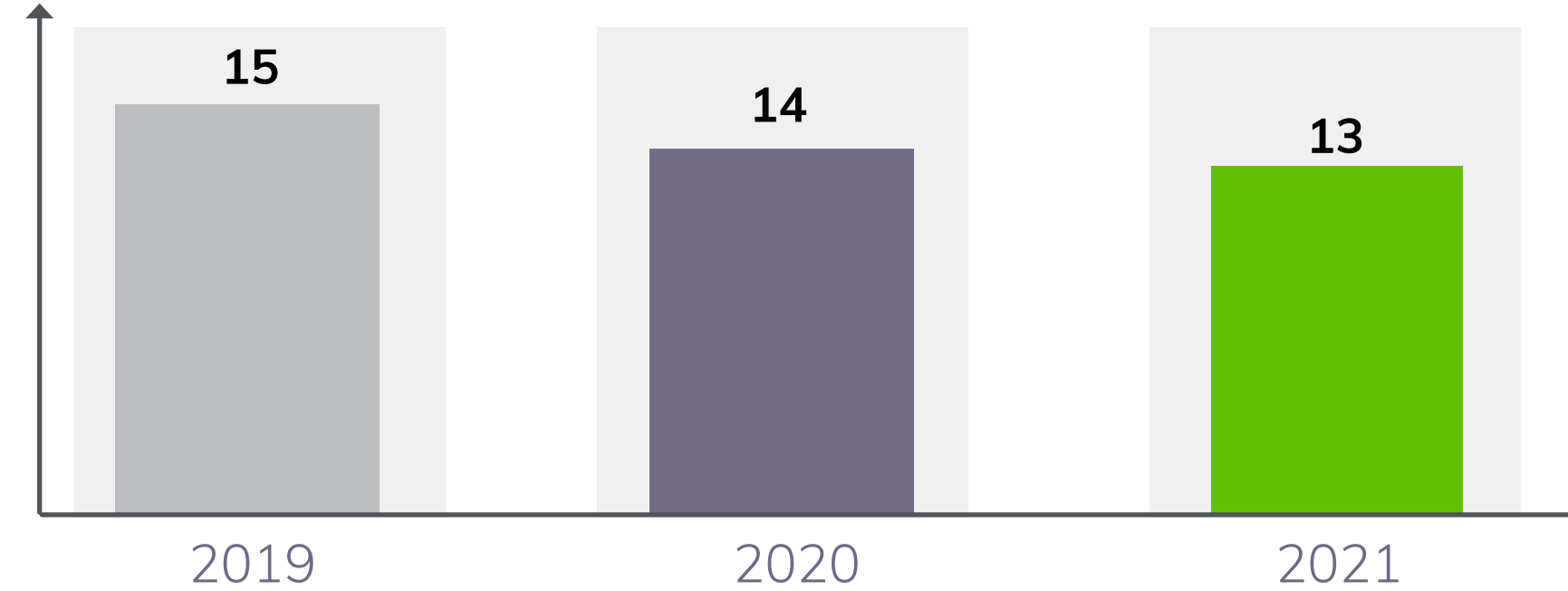


The creation of a single natural gas market has stimulated the interest of system users in storage. The Balticconnector interconnection between Estonia and Finland, opened in early 2020, has had a positive impact on total traffic flows, enabling the supply of 7.5 TWh of natural gas to Finnish users in 2021, also using the services provided by Inčukalns UGS. This represents about one third of Finland's total natural gas consumption. However, compared to 2020, this amount has decreased by 18% due to the decrease in Finnish domestic consumption due to high natural gas prices.

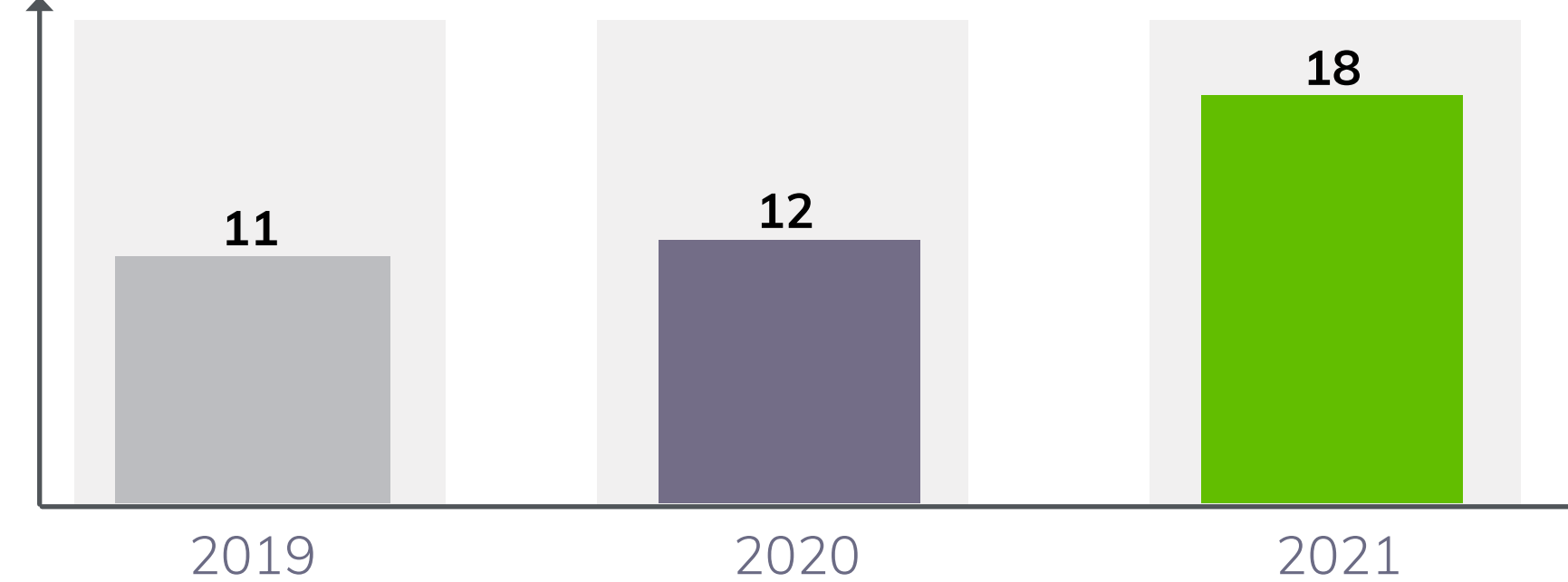
In the 2021/2022 storage cycle, storage capacity was reserved by users from the Baltic States, Finland and Norway. In total, the number of active users has decreased from 20 to 17 users compared to the 2020/2021 storage season. During the injection season, several market participants transferred their reserved storage capacity to other market participants as high natural gas prices made it difficult to purchase and fully utilise reserved storage capacity.

In preparation for the next storage cycle, in November 2021 published forecast for technical storage capacity for 2022/2023 storage cycle is 20.3 TWh. With high natural gas prices on world markets and a small winter/summer price differential, user interest in storage services may be lower than in previous years. In turn, the launch of the Gas Interconnection Poland–Lithuania (GIPL) in mid-2022 has the potential to attract new storage users from European countries.

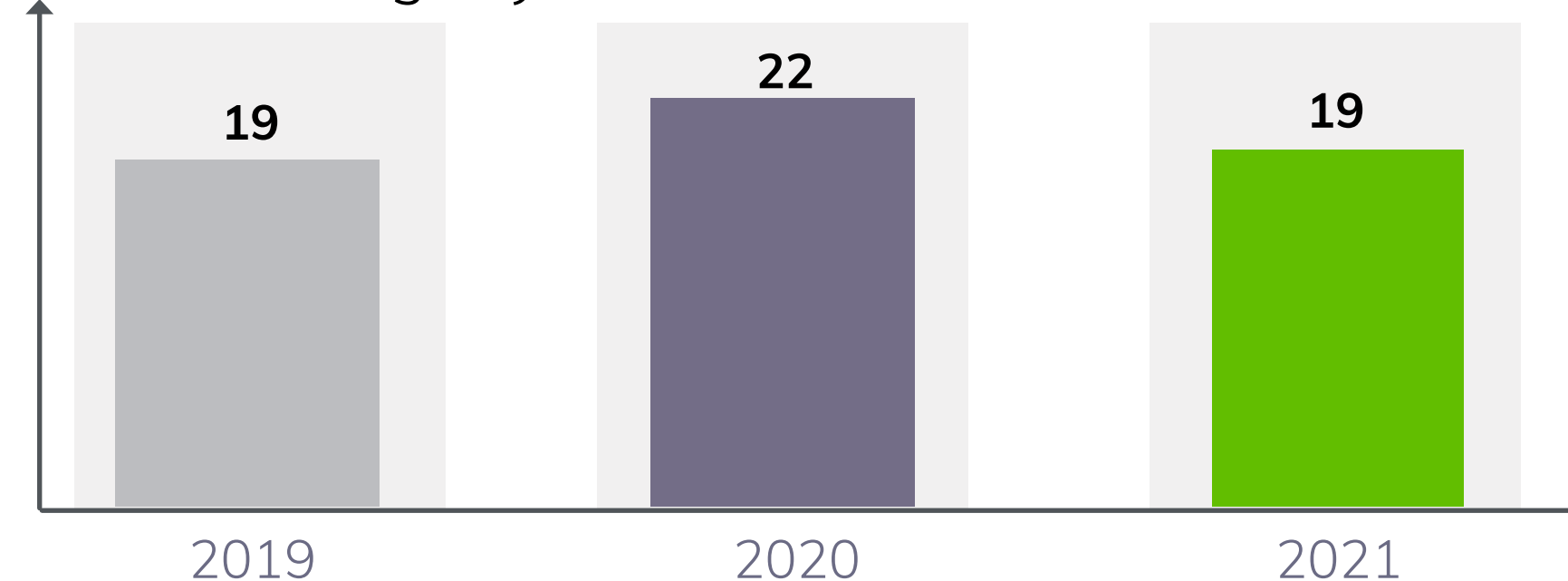
Natural gas injected into Inčukalns UGS, TWh



Volume of natural gas withdrawn from Inčukalns UGS, TWh



Volume of reserved capacity in Inčukalns UGS, TWh/storage cycle



Development

On 23 January 2019, the European Commission approved 50% co-financing for the modernisation 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 aim of the Inčukalns UGS development project is to improve the operation of the storage facility so that it will be functional even after the pressure in the Baltic gas transmission system is increased, as well as to reduce the dependence of the storage facility on the amount of natural gas reserves during the withdrawal season. A new com-

pressor will be installed within the framework of the project to allow compression removal from the storage, i.e., it will be possible to ensure an output pressure of 50-55 bar in Inčukalns UGS connection with the transmission system, even if the pressure in the storage is lower than in the transmission system. In order for the wells and overground technical facilities to operate at sufficient capacity in the new mode, certain improvements are required, which are an integral part of this project. In addition, the project will reduce the environmental impact of storage by reducing CO₂, NO_x, SO_x and other emissions.

Inčukalns UGS development project

The total project funding is 88 million EUR. The following sections of the project are planned for 2025:



Co-financed by the European Union
Connecting Europe Facility

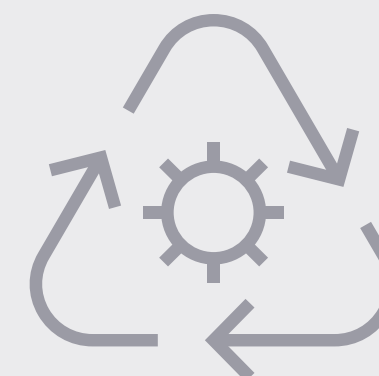
IMPROVEMENT OF OVERGROUND EQUIPMENT (RECONSTRUCTION OF THE GAS COLLECTION POINT NO.3)

29,0
29 million EUR



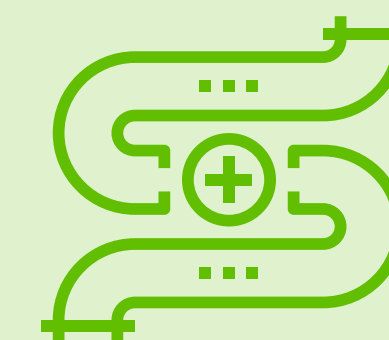
RESTORATION OF 36 WELLS

26,0
29 million EUR



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

33,0
29 million EUR



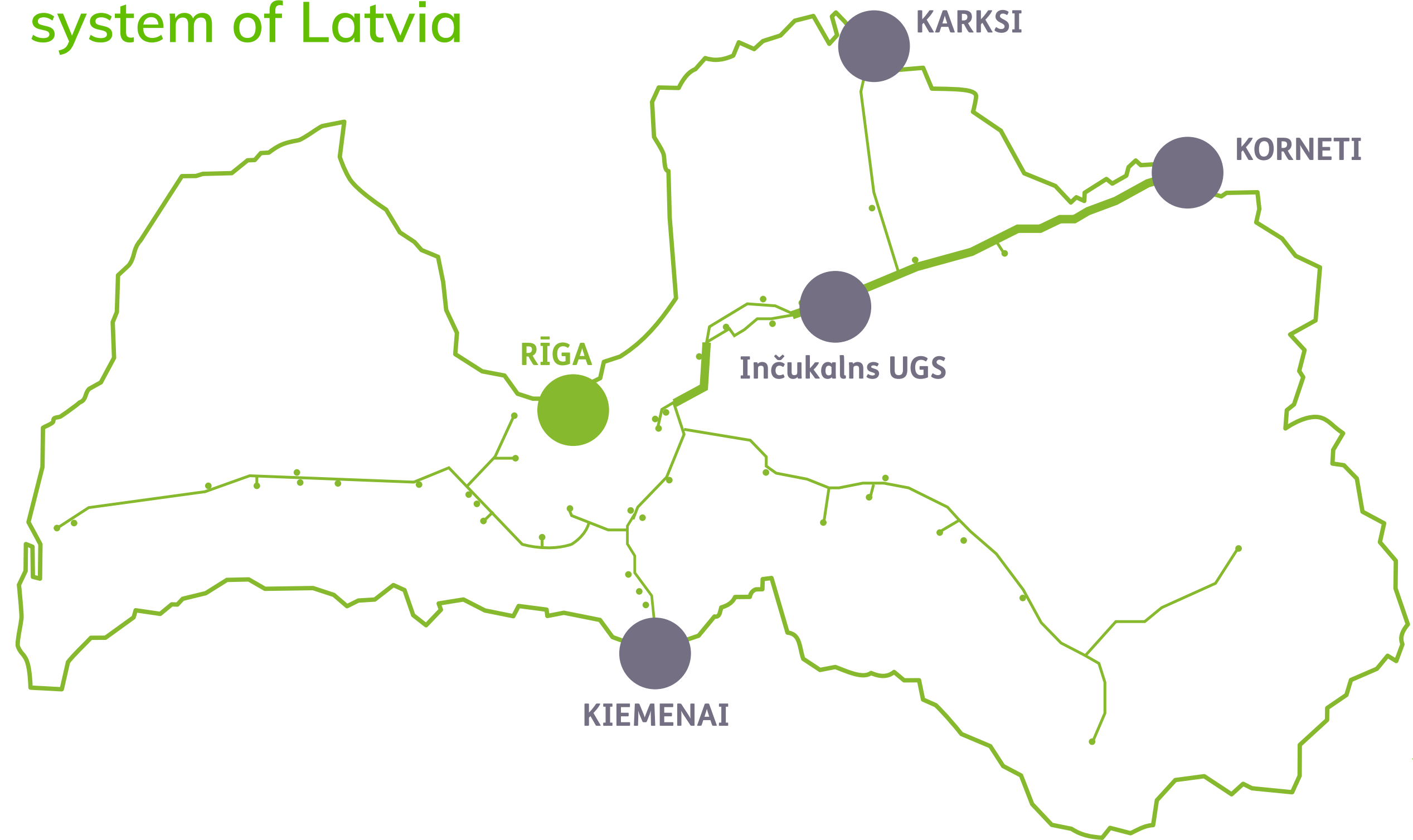
Transmission

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 main natural gas transmission system is 1 190 km long and is connected to the natural gas transmission systems of Lithuania, Estonia and Russia, ensuring both natural gas transmission in regional gas pipelines on the territory of Latvia and connection with the natural gas transmission systems of neighbouring countries.

The diameter of the international gas pipelines of the transmission network of the Latvian natural gas transmission system is 720 mm with an operating pressure in the range of 28 to 40 bars, while the diameter of the regional gas pipelines is from 400 mm to 530 mm with an operating pressure of up to 35 bars. 40 gas regulation stations are used to transport natural gas to the local distribution system in Latvia. For the supply of natural gas to Latvian consumers, all consumption points on the territory of Latvia are combined into one point.

Natural gas transmission system of Latvia

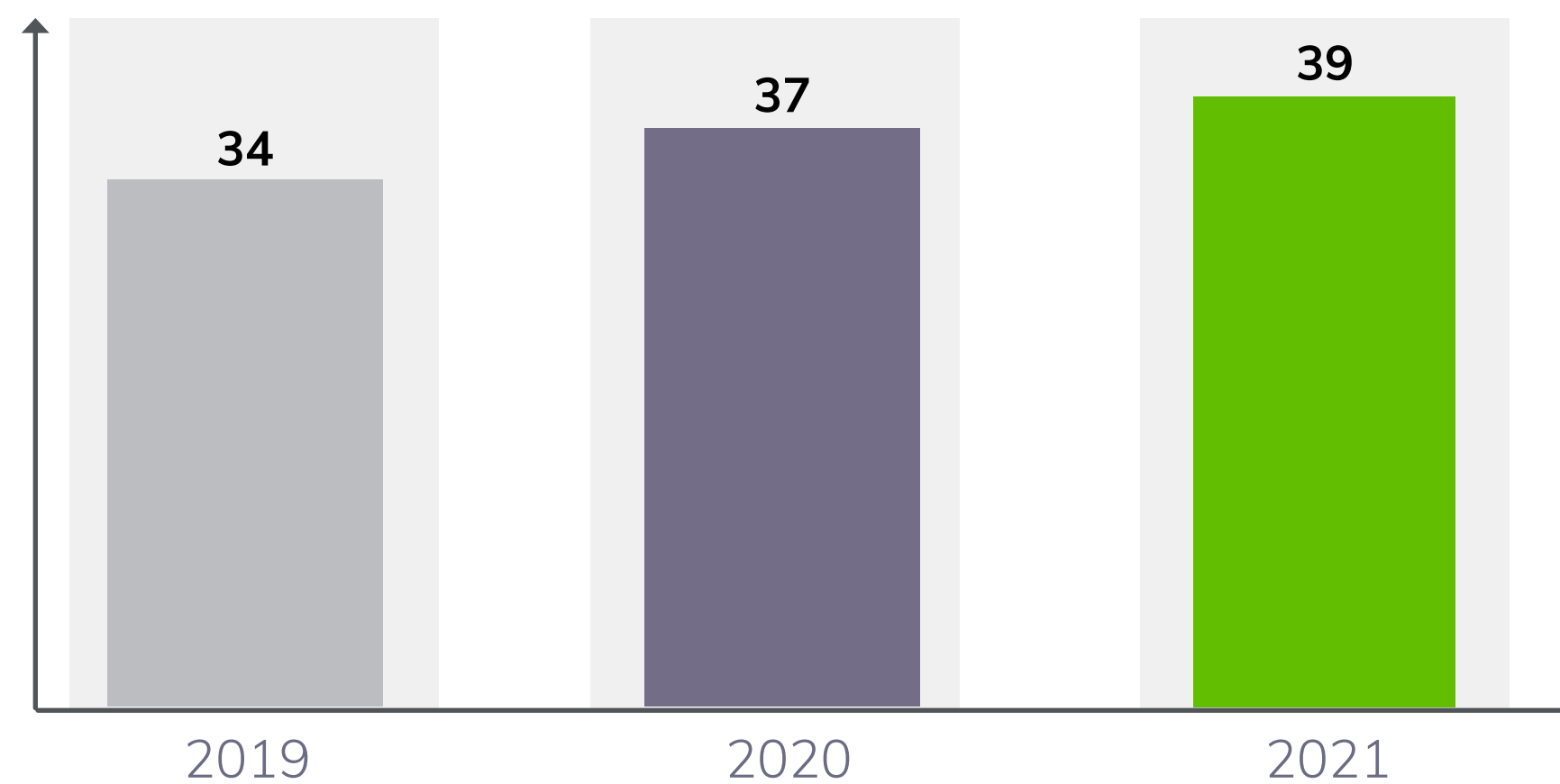


Conexus as the transmission system operator:

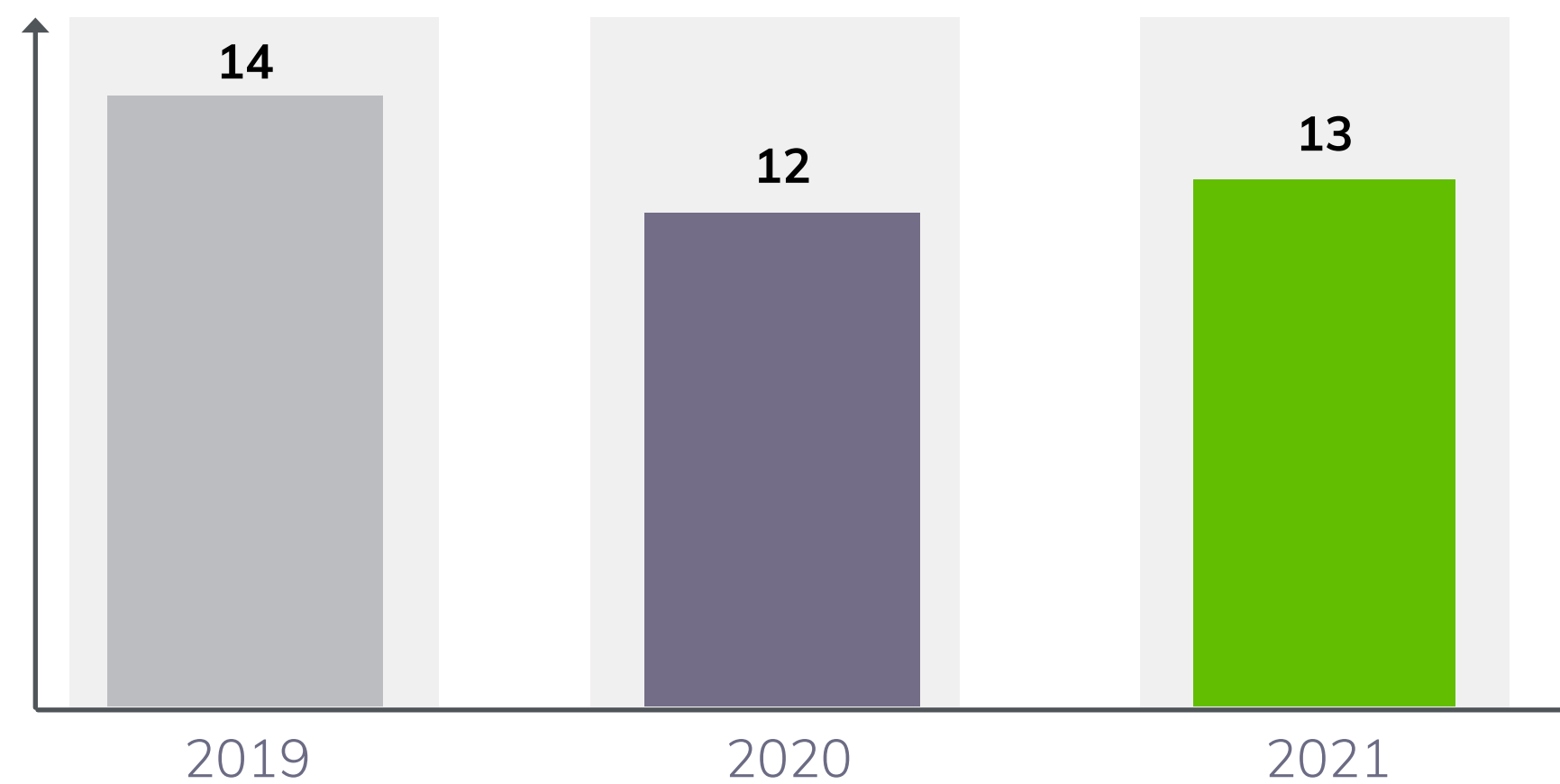
- Ensures the stability of the transmission network and is responsible for the technical balancing that provides uninterrupted and secure supply to network users;
- Ensures the continuity of natural gas service provision by maintaining the infrastructure in technically sound condition;
- Provides network users with non-discriminatory access to the use of the gas transmission network through the sale of capacity products, in accordance with the conditions of the Latvian open natural gas market, so that traders can use the capacity of the main transmission network for wholesale and supply of natural gas to customers;
- Together with the Estonian operator Elering, it maintains a virtual trading point (VTP) in the single natural gas balancing zone of Latvia-Estonia, which allows network users to transfer and maintain ownership of the gas on the network.

In 2021, the total volume of transported gas reached 39 TWh, an increase of 5% compared to the previous year. The volumes of gas transported for the needs of Latvian users have also increased (by 8%) and amount to 12.5 TWh.

Natural gas transported, TWh



Natural gas for Latvian consumption, TWh



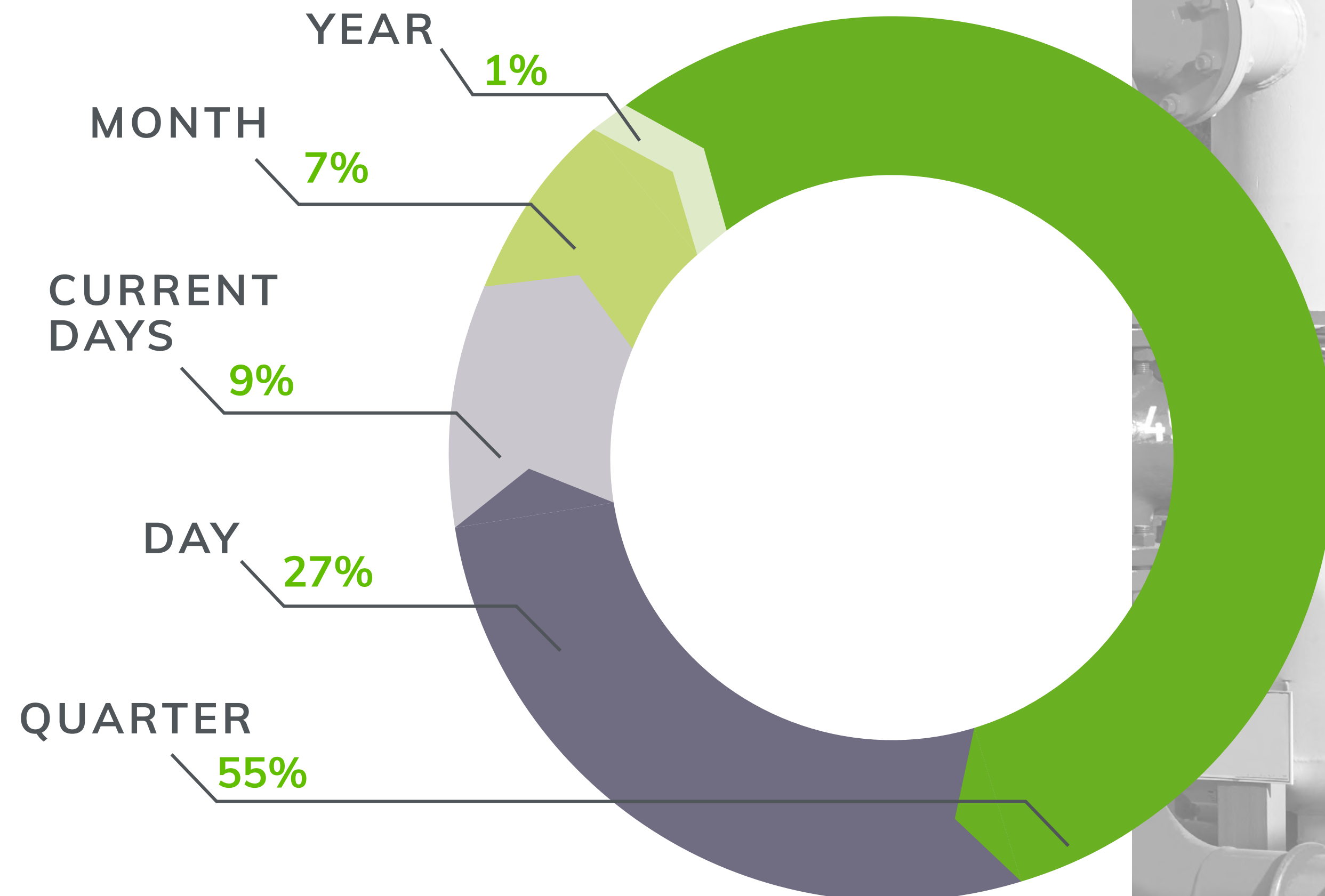
The single natural gas market

The single natural gas market created by the gas transmission system operators in Finland, Estonia and Latvia - Gasgrid Finland, Elering and Conexus - has been operational since 1 January 2020. It is the first single market region of its kind in the European Union, where Latvia and Estonia form a common balancing zone, while Latvia, Estonia and Finland form a common entry tariff zone. On 5 December 2014, the Prime Ministers of Estonia, Latvia and Lithuania decided on the need for a single natural gas market. The single natural gas market is intended to strengthen national energy independence and make more efficient use of transnational infrastructure for natural gas transmission and storage. The choice of supplier has increased significantly for natural gas transmission systems and gas end-users, as the creation of a single entry tariff zone has led to the abolition of cross-border charges in this area, thus promoting competition between natural gas traders.

In 2021, work continued on regional market integration within the RGMCG (Regional Gas Market Integration Group), including market expansion and regulatory harmonization. The transmission system operators of Latvia, Lithuania, Estonia, and Finland, Conexus, Amber Grid, Elering AS, and Gasgrid Finland, respectively, are working on a solution that would allow Lithuania to be included in the single zone without internal tariff boundaries, thus creating better conditions for market participants to operate throughout the region, while providing greater added value for natural gas end users. The proposed tariff zone model provides for a harmonised, uniform tariff structure at the external borders, allowing for rebates at entry points from alternative gas sources. A single tariff zone would provide greater access to alternative gas sources and a competitive natural gas market in the region.

Market integration is an important step for Latvia's energy independence, sustainable and efficient use and availability of infrastructure, especially the Inčukalns UGS, and greater opportunities to promote the development of sustainable or renewable energy gases.

Reserved transmission capacity products in 2021



Revenues of the operators of the entry points of the single tariff area are distributed among the transmission system operators of Finland, Estonia and Latvia by jointly applying uniform entry tariffs in all three countries and agreeing on redistribution of the received revenues between operators in proportion to each country's natural gas consumption.

Compared to 2020, when the number of reservations was higher for monthly products, in 2021 system users chose to book longer-term transmission capacity products.

The interest of the system users in the reservation of longer-term - monthly, quarterly and annual - capacity can be explained by the product multipliers included in the tariffs, which ensure cheaper transmission costs per MWh when reserving longer-term capacity products. This improves the overall performance of the system. In 2021, more than half of the total capacity in the customer portfolios was purchased as quarterly capacity, which indicates the desire of merchants to optimize costs by reducing them by reserving longer-term products as much as possible. This allows transmission system operators to plan the supply of transmission products for a longer period of time.



Development



Co-financed by the European Union
Connecting Europe Facility

At the end of 2019, the European Climate, Infrastructure and Environment Executive Agency (formerly named the Innovation and Networks Executive Agency) approved the allocation of funds for the Lithuanian-Latvia gas pipeline capacity increase project, which envisages a total investment of 10 million EUR, of which 5.5 million EUR was transferred to Conexus. The European Commission has provided EU support under the Connecting Europe Facility (CEF) for increasing the capacity of the Latvian-Lithuanian gas pipeline interconnection in the amount of 50% of the project implementation costs.

The increase in transmission capacity between Lithuania and Latvia will facilitate market access to the Klaipeda LNG terminal, the Inčukalns UGS and the Polish-Lithuanian gas interconnector. The project aims to increase the capacity of the Lithuanian-Latvian interconnector by 70-80% on average and to achieve this by improving the existing infrastructure. As part of the project, on the Latvian side, it is planned to reconstruct individual sections of the main gas pipeline in order to increase the maximum working pressure from 40 to 50 bar. The investments will increase the gas connection capacity to 130.47 GWh per day towards Latvia (currently 67.6 GWh per day) and to 119.5 GWh per day towards Lithuania (currently 65.1 GWh per day). The project is scheduled to be completed by the end of 2023 with 17 subprojects.

CONEXUS STRATEGIC FRAMEWORK FOR SUSTAINABILITY

GRI 102-40, 102-42, 102-43, 102-44, 102-46, 102-47, 102-48, 102-49

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

In recognition of the Company's efforts to address environmental, social and governance issues, in 2021 Conexus was awarded a gold category in the Latvian Sustainability Index. In 2021, Conexus participated in the Latvian Sustainability Index assessment organised by the Institute of Corporate Sustainability and Responsibility for the third time.

Key aspects of sustainability

In order to improve sustainable development, define the framework and key aspects of sustainability, in 2020 the Company performed a materiality analysis of the aspects of sustainability, involving representatives of all major stakeholder categories. Within the working group, stakeholder categories were defined and, in consultation with the responsible structural units of the Company, specific organizations and their representatives were identified to be involved in the process of evaluating the most important aspects of sustainability. The assessment was carried out on the relevant environmental, social and governance aspects, considering the views of stakeholders, compliance with management assessments, trends from other industry players and external expertise.

Sustainability, energy, and society experts from universities, NGOs, business organizations and specialist consultancies took part in the analysis. A total of 250 stakeholders and experts from around 200 organizations were addressed.

There was also a discussion between the leaders of the groups affected by Conexus' activities, whose decisions and opinions affect the Company, through an online survey and one-on-one interviews conducted by neutral third-party consultants.

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 authorities and community organizations	Financial institutions	Educational and scientific institutions	Shareholder, Council	Employees and trade union
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TYPE OF ENGAGEMENT: Online survey and interviews to assess the relevance of sustainability in 2020

Business relations	Business relations, networking	Business relations	Meeting with representatives (as required)	Meeting with representatives (as required)	Meeting with representatives (as required)	Joint projects	Council meetings, seminar sessions (as appropriate)	Engagement 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	Worker health and safety
Fair and ethical corporate governance, prevention of corruption	Worker health and safety	Worker health and safety	Secure energy supply, network access	Prevention of land, air and water pollution	Secure energy supply, network access	Protection of biodiversity and the natural environment	Worker health and safety	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)	Worker health and safety		Sustainable purchases	Secure energy supply, network access	Sustainable purchases

Environmental aspects - green colour. Employment and workplace aspects - yellow colour. Service liability aspects - blue colour. Management aspects - grey colour

During 2021, the Company’s management team reviewed the significant aspects of sustainability, re-evaluating the location of the aspects on the Company’s axis of influence in accordance with the current situation. The title of the aspect “Infrastructure Security and Safety” has been clarified, previously “Network Security and Safety”. The aspects “Security and safety of infrastructure” and “Secure energy supply” have been merged. Priority has been increased for the aspects “Transparent communication and stakeholder involvement”, “Fair and ethical governance, anti-corruption”. Priority is slightly reduced for the aspect “Employee competence, qualified future workforce”, “Sustainable purchasing”. The “Community involvement” aspect defined previously is hereinafter included under the “Transparent communication and stakeholder involvement” aspect.

The attached matrix shows the priority level of each aspect :

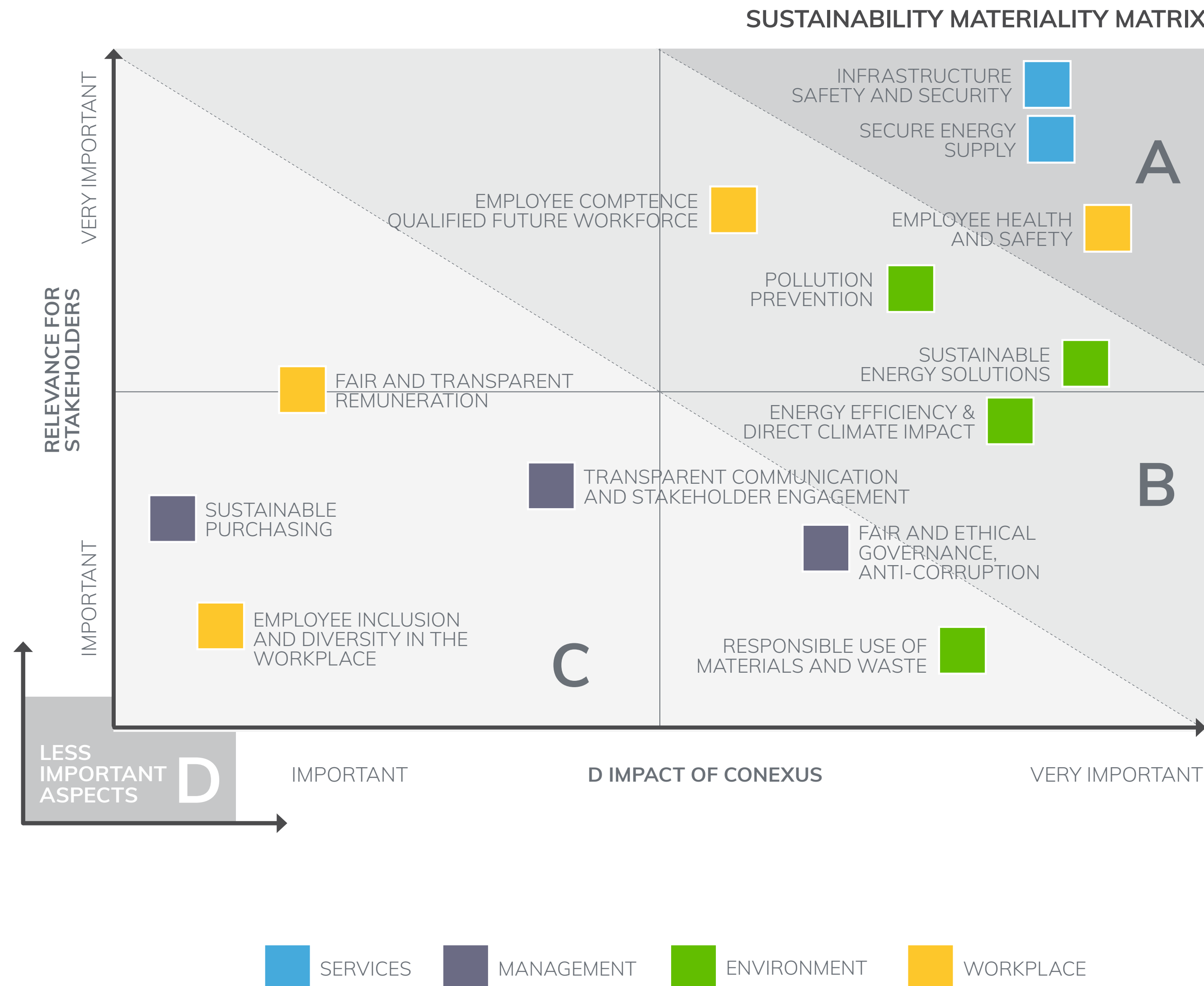
A - priority aspects that ensure safe and continued provision of the service

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

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

D - other aspects of liability where Conexus must ensure compliance and a sufficient level of performance

Work is ongoing on the Conexus Sustainable Development Programme, setting out objectives, targets and key initiatives. The Sustainable Development Programme will be integrated into the Company’s medium-term strategy in 2022.



RESPONSIBILITY FOR SERVICES

Infrastructure safety and security

GRI 416-1, 416-2

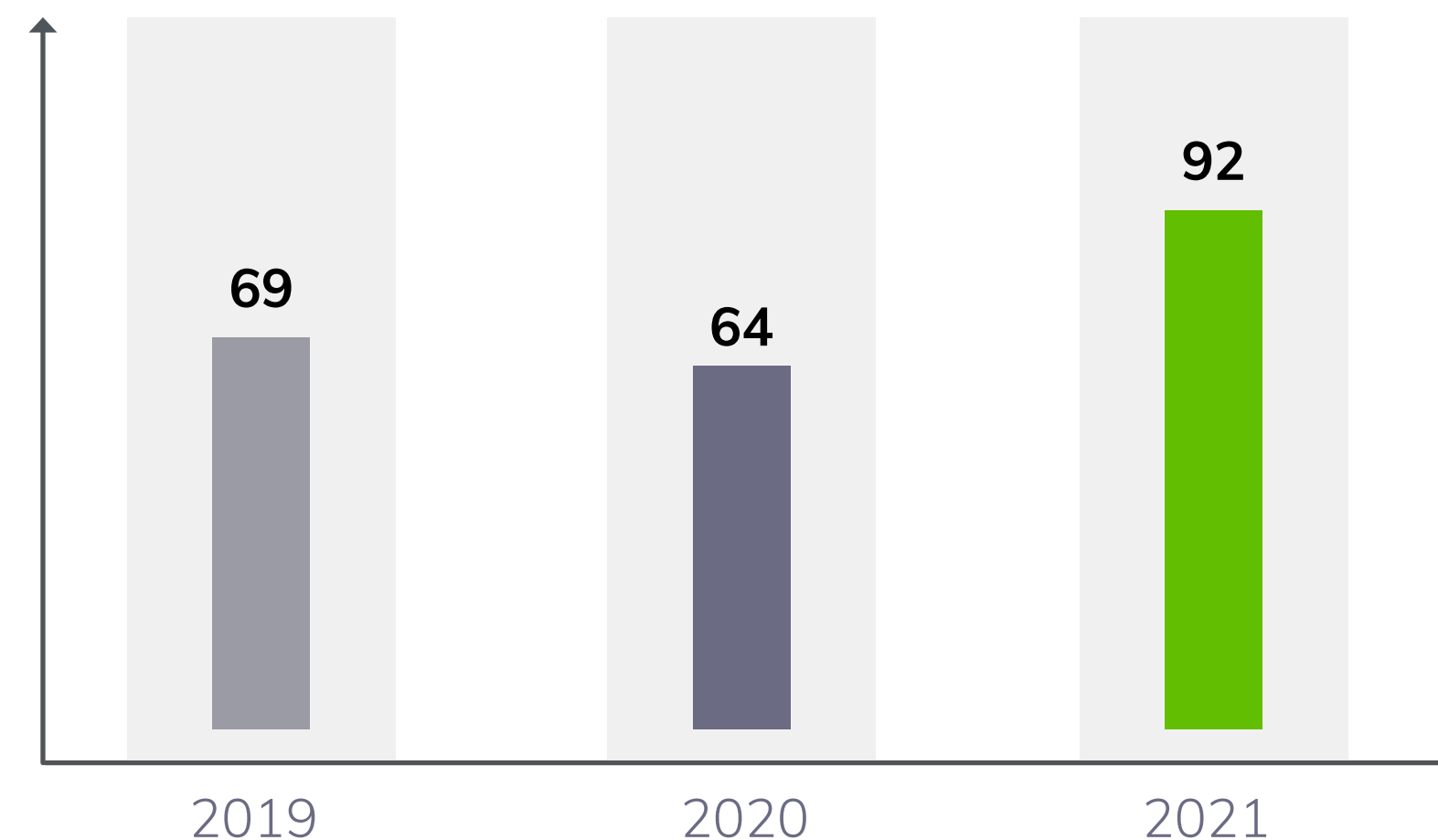
Secure, accessible and market-compliant infrastructure is one of the Company's strategic goals, arising from the services provided by the Company. The technical order of systems and equipment, regular diagnostics and compliance with occupational safety requirements are the main factors that determine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

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

- the Company has a safety management system, a plan for measures to reduce the risk of occupational accidents, and a plan for disaster prevention;
- Conexus adheres to mandatory standards and requirements for asset maintenance, inspection, diagnosis and repair;
- the Company has established work procedures and instructions for transmission and storage system diagnosis and analysis, operation and maintenance (e.g., repair), and operations (e.g., emergency and accident response) that ensure identification of potential hazards;
- employees are regularly informed and trained on occupational safety issues;
- civil protection trainings are organised every three years together with other participating organizations.

Emergency preparedness exercises shall be conducted at least every three months in accordance with approved emergency response plans. In 2021, 92 trainings took place. The Company follows the practical application of the policies developed and no cases of non-compliance have been identified.

Number of trainings for readiness of emergency



Protected 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 violations of protection zones were detected in 2021 (2020 - 1; 2019 - 10). In 2021, one violation was reprimanded and the violation were remedied. In three cases, in accordance with the Protection Zone Law, information was sent to initiate administrative proceedings.

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

In 2021, a theoretical training on well emergency response plan was held at Inčukalns UGS. The training was conducted on a contractual basis by Halliburton Company Germany GmbH, which has extensive experience in preventing such accidents worldwide. Conexus specialists attended the training, and representatives of the state fire and rescue service were also invited.



In recent years, the physical security systems of Inčukalns UGS and gas transmission infrastructure have been assessed and system modernisation planning has been initiated. In 2021, a construction project for upgrading the physical security and fire protection systems of the Inčukalns UGS and gas transmission infrastructure was developed and approved by the Company's Management Board and Council, and procurement of system supply and installation was started.



In accordance with the Company's emergency management and notification procedures, level 3 and level 4 incidents involving damage to technical equipment, power outages, impact on the environment, or people are classified at the highest level. In 2021, a total of 766 incidents were detected. 1 of which was a high-level incident (level 3) - a GSM outage that resulted in an urgent market messaging (UMM) to market participants. The damage was successfully repaired within three days. The other incidents were classified as level 1. In 2020, two level 2 incidents and 0 top level incidents were detected.

Secure energy supply

GRI 203-1

According to the services provided by the Company - natural gas storage and transmission (more information in the section "Operating segments"). The Company's strategic task is to also guarantee a secure and uninterrupted energy supply, aiming material investments at this purpose. The Company shall ensure transparent, equal, and stable access to transmission and storage services.

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

- ◆ maintenance and modernization of appropriate technical, information technology and cyber security infrastructure;
- ◆ implementation of a digital asset management system and projects of common interest to the European Union;
- ◆ independent internal system diagnostics and reduction of detected incidents, striving to completely prevent incidents;
- ◆ optimised maintenance planning to reduce capacity constraints;
- ◆ establishment of a common balancing zone with Estonia;
- ◆ Supply and demand trends are regularly monitored and evaluated to ensure a decrease during the period of higher consumption (winter);
- ◆ integration of the well emergency plan into the civil protection plan;
- ◆ coordinate repair plan and publish coordinated UMM (Urgent Market Messaging) on a single website with neighbouring transmission operators;
- ◆ compliance with third party access (TPA) rules - capacity reservation, nomination, balancing, billing, timely and correct market information;
- ◆ open communication with market participants.

Increasing its investments by a quarter more than last year, in 2021 Conexus made one of the largest investments in recent years - 27.4 million EUR. For more information, see the "Management Report" section and the "Results of segments' operations" section.

	2021	2020	2019	2018	2017
Deliverability (%)					
Ratio of completed network user nominations	100%	100%	100%	100%	100%
Availability of Inčukalns UGS (%)					
The indicator is calculated by including the interrupted quantity above the guaranteed minimum amount within the congestion management of Inčukalns UGS	100%	100%	96.87%	99.92%	100%
Number of unplanned changes in transmission capacity	27	17	41	44	1
Number of substantiated customer complaints received	0	0	0	0	0
Number of significant (Level 3 and 4) incidents related to IT systems	0	2	1	0	0

In accordance with the Company's Emergency management and notification procedures.



ENVIRONMENTAL RESPONSIBILITY

GRI 307-1

The basic principle of Company's environmental management is to assess the impact of the activities carried out on the environment and to plan and implement measures to mitigate the impact. The Company has implemented an environmental management and energy management system to ensure the sustainable and environmentally friendly operation and expansion of natural gas storage and transmission systems and to reduce environmental risks associated with 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 check employee understanding and performance of work in accordance with the requirements of the standards. Compliance with these standards is voluntary but demonstrates the company's responsible 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 pollutant category C are available (the seventh certificate has been received by the administration), natural gas storage in an underground gas storage facility with a permit of pollutant category B and a permit for greenhouse gas emissions. Conexus participates in the European Union Emissions Trading Scheme.

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

In 2021, no significant violations of the environment were detected, and the conditions set in the environmental regulations were complied with, without imposing any penalties (2020 - 0).

Impact on climate and energy efficiency Greenhouse gas emissions and their reduction

GRI 305-1, 305-4

The main greenhouse gas emissions resulting from and associated with the Company's operations are methane and carbon dioxide emissions. Both direct methane emissions from the repair and daily operation of natural gas transmission and storage systems and carbon dioxide emissions from combustion equipment at gas regulators and incinerators-compressors and underground turbine storage processes-are the primary sources of Conexus' greenhouse gas emissions. The majority of emissions are from planned activities.

Emissions from the gas transmission process result from: the operation of natural gas pneumatic valves, inspection of pneumatic regulators, pressure reduction in GRS, freeing equipment from natural gas, blowing out natural gas cleaning equipment, filling the



odorant system, natural gas leaks, blowing natural gas out of gas pipelines for repairs, repair and replacement of valves, elimination of accidents and hydration activities, and, as part of economic activities, the combustion of natural gas for technical needs and heating of premises.

Greenhouse gas emissions occur during gas storage: by blowing gathering and other pipelines with gas, removing condensate from various equipment, starting gas engine compressors, by partially reducing the gas pressure in gas pipelines and equipment, by releasing pipelines connecting gas purification equipment (systems) by opening and closing the isolation valve, by conducting geophysical studies. Emissions also occur as leakage from the gas pipeline parts isolation valves, as a result escape compressors non-tightness, escape fountain fittings, intercolumnar gas leaks, escaping gas from gas-operated compressors and the gas-air-cooling equipment, as well as equipment burning natural gas for technical needs and space heating.

The most significant source of greenhouse gas emissions - methane - in the Company is the natural gas blown out during the repair of the natural gas transmission system, while the most significant source of carbon dioxide emissions is the use of technical equipment - compressors and turbines for underground gas storage.

Direct amount of greenhouse gas emissions in the Company:

	2021	2020	2019	2018
Direct greenhouse gas emissions (CO₂ and CH₄ emissions), tCO₂ equivalent	45 478	51 975	49 104	29 735
of which CO ₂ emissions	27 545	27 127	31 775	23 436
of which CH ₄ emissions (converted to CO ₂ eq.)	17 933	24 849	17 328	6 300
Greenhouse gas emission indicator for Inčukalns UGS (CO₂ and CH₄ emissions recalculated CO₂ eq.)	24.943	23.052	22.791	24.204
Indicator = GHG emissions from processes Inčukalns UGS (CO ₂ kg / g + CH ₄ kg / g = GHG emissions expressed in CO ₂ eq. (Kg)) / Amount of natural gas injected into Inčukalns UGS (1000 m ³ / year).				
Greenhouse gas emission indicator for gas transmission system (CO₂ and CH₄ emissions converted into CO₂ eq.)	4.273	6.196* 6.297	4.783* 4.603	1.196* 2.350
Indicator = GHG emissions from processes in the transmission system (CO ₂ kg / g + CH ₄ kg / g = GHG emissions expressed in CO ₂ eq (kg)) / amount of natural gas injected through the transmission system (1000m ³ / year).				

*In 2021 regarding the GHG indicator of the gas transmission network published in the 2020 report, the calculation of the input data used has been revised and the indicator has also been recalculated for the previous years.

CO₂ emissions are calculated using the national methodology "Methodology for calculating CO₂ emissions from stationary combustion of fuels"¹. The amount of methane emissions is calculated using the methodology for technological loss of natural gas approved by the Company in 2017.

¹ <https://videscentrs.lv/gmc.lv/lapas/gaisa-piesarnojums>



For the calculation of CO₂ emissions, information on the quantities of natural gas burned in the facilities and the factors specified in the methodology are used, while the quantity of methane emissions is determined and calculated on the basis of the legal and technical documentation for the technical facilities concerned. To calculate the total amount of greenhouse gases emitted in terms of CO₂ equivalents, methane emissions are multiplied by 28² times the impact.

In order to reduce the amount 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 works to be performed are carefully planned when performing repair works in the transmission system. Similarly, improvements are being made to the underground gas storage infrastructure to minimize methane emissions by replacing outdated equipment. In addition, repairs to the storage facility are carefully planned to minimise the need to siphon off natural gas.

The Company is constantly working to find more efficient solutions, evaluating the best available technical solutions for technological improvements in order to find ways to reduce greenhouse gas emissions.

The most important related activities and development projects:

- ◆ Compressor workshop modernization project (aimed at reducing NO_x, CO₂, and CH₄ emissions in flue gases to improve energy efficiency) to be completed in 2024;
- ◆ Gas collection point modernisation project (with the aim to reduce CH₄ emissions);
- ◆ Repairs to the natural gas transmission network are constantly being planned (with the aim of reducing CH₄ emissions).

Operational energy consumption and energy efficiency improvement

GRI 302-1, 302-3

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

Annual key energy consumption and indicators for the Company's energy consumption:

	2021	2020	2019	2018
Total energy consumption in the Company, MWh (including natural gas (for heating and technological processes), fuel and electricity)	161 323	161 382	183 566	137 118
of which electricity consumption, MWh	5 522	5 889	5 611	4 852
of which heat consumption, MWh	153 351	152 965	175 378	130 438
Underground gas storage energy consumption indicator	0.0105	0.0101	0.0104	0.0105
Indicator = natural gas consumption for process supply Inčukalns UGS (m ³ /year)/ injected volume of natural gas at Inčukalns UGS (m ³ /year).				
Energy consumption indicator of the natural gas transmission system	0.054	0.016* 0.050	0.022* 0.053	0.028* 0.057
Indicator = natural gas consumption for transmission system processes (m ³ / year)/amount of natural gas injected through the transmission system (m ³ /year)				

* In 2021, in relation to the energy consumption indicator of the gas transmission system published in the 2020 report, the used input data were revised and the indicator was recalculated for previous years as well.

² https://www.ghgprotocol.org/sites/default/files/ghgp/Global-Warming-Potential-Values%20%28Feb%2016%202016%29_1.pdf

The main energy resources in natural gas storage are natural gas and electricity, which are consumed during technological processes by injecting natural gas into the underground gas storage. In turn, 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. Data on electricity consumption is obtained from the electricity supplier, while heat energy data is calculated in terms of MWh using the monthly calorific value of natural gas.

Considering the fact that the main energy resource used to ensure 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 amount of natural gas injected into the underground gas storage and natural gas consumption in relation to the amount of natural gas injected into the transmission system.

The energy consumption indicator of the underground gas storage facility increased in 2021 compared to 2020 because in 2020 com-

pressor station No. 1 was not in operation, consuming more natural gas than compressor station No. 2 to ensure its operation. In turn, in 2021 both compressor stations were in operation.

The energy consumption indicator for gas transmission in 2021 increased compared to 2020. The increase in consumption can be explained by climatic conditions - in 2021, the winter months were slightly cooler than in the previous year. In order to transport natural gas, it must be heated with technical equipment that consumes natural gas.

In order to reduce the consumption of energy resources for the provision of storage processes as much as possible, the modernization of technical equipment is planned and implemented. In 2021, the modernization of one and two additional energy-intensive gas collection units 12z330 for the provision of underground gas storage processes was completed. This will save at least 5% of the natural gas previously consumed per unit.

Since methane is a potent greenhouse gas, reducing its emissions can slow climate change. The Company is actively pursuing initiatives to manage and reduce methane emissions, and methane accounting improvements are planned for 2022.



Pollution prevention

Air pollutants

GRI 305-7, 303-2

Other air pollutants from the Company's activities include nitrous oxide (NO_x) and carbon monoxide (CO). These emissions result from the provision of natural gas transmission and storage operations. In general, these emissions occur in society through the combustion of natural gas in technological equipment and boilers for heat supply. The combustion of natural gas produces the pollutants CO₂, CO, and NO_x. The assessment of the amount of these emissions is determined by legal regulations. No other pollutants were detected in the air due to the Company's activities.

Nitrogen oxide and carbon monoxide emissions:

	2021	2020	2019	2018
NO _x emissions, tonnes	45	57	53	36
CO ₂ emissions, tonnes	83	118	104	69

The quantities of CO and NO_x emissions are determined using a calculation methodology. In 2018, in order to obtain a permit for polluting activities from the State Environmental Agency, the Company must develop a draft emission limit for the specifically used incinerators, approved by the State Environmental Agency, as confirmed by the Decree Law.

In 2021, the Company began revising the methodology for calculating NO_x and CO emissions, which will determine the amount of emissions of these pollutants in 2022. Emissions of these pollutants are affected by a number of factors. The most important is the amount of natural gas injected. The more natural gas that needs to be injected

into underground gas storage facilities, the more natural gas will be burned in the technical facilities and the more pollutants will be emitted. Small and medium-sized combustion plants that burn natural gas and emit air pollutants are also used in gas regulation stations to ensure the operation of the natural gas transmission system. Compared to facilities used to inject natural gas, facilities used in the natural gas transmission system have lower capacity and use natural gas resources more efficiently, resulting in fewer emissions. Natural resource tax is paid for the air pollution caused.

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

Wastewater

According to the technological procedures, Conexus generates industrial and domestic wastewater by providing safe storage and transmission processes of natural gas. The underground gas storage also treats the rainwater produced in the area.

Industrial (production) wastewater is generated by withdrawing gas from an underground gas storage facility - water is separated from the gas, and certain chemicals that are a source of water contamination must be used to prevent hydrates.

The risk of subsurface contamination is prevented by testing the industrial wastewater and then reinjecting it into the subsurface (by injecting it back into the wells). In the Company, in accordance with the conditions established in the permit for polluting activities, the permissible limit was set both for the volume of these wastewaters - 650 m³/year - and for the amount of pollutants contained in them - methanol 90 m³/year, diethylene glycol - 15 m³/year.



	2021	2020	2019	2018	2017
Amount of industrial (production) wastewater, m ³	525	289	222	425	148

Compared to previous years, the amount of industrial wastewater increased in 2021 because the volume of natural gas withdrawn increased. To ensure the processes, more wells were drilled than in previous years and more natural gas was withdrawn, from which the underground water layer associated with the natural gas was removed. After the natural gas was removed, the water was returned to the well as industrial wastewater with a mixture of methanol and diethylene glycol.

The amount of discharged wastewater and the amount of pollutants in the industrial wastewater (industrial wastewater) is not exceeded. In addition to industrial wastewater, domestic wastewater is also generated, and rainwater is collected and properly treated in treatment plants installed in the underground gas storage tank before being discharged into the environment. In turn, wastewater from natural gas transmission and administration is diverted out.

	2021	2020	2019	2018	2017
Total amount of wastewater, m³	30 307	25 416	33 203	24 323	43 007
of which Inčukalns UGS was created and discharged into the environment after purification	28 732	24 039	29 054	21 918	41 370
of which handed over for appropriate treatment to service providers	1 575	1 377	4 149	2 405	1 637

The Company treats domestic water and rainwater on the site of the underground gas storage tank. There is a limit to the pollution that remains in the environment, which the Company complies with the regular monitoring and maintenance of the treatment facilities.

All wastewater operations are carried out in accordance with a permit that specifies the allowable amount of wastewater and the degree of pollution, as well as strict requirements to reduce the environmental impact of extraction. The Company has not violated the specified amounts of domestic and rain water and pollutants by taking the necessary measures.

Responsible use of materials and waste

GRI 303-1, 303-3, 306-2, 306-3, 306-4

Consumption of chemicals

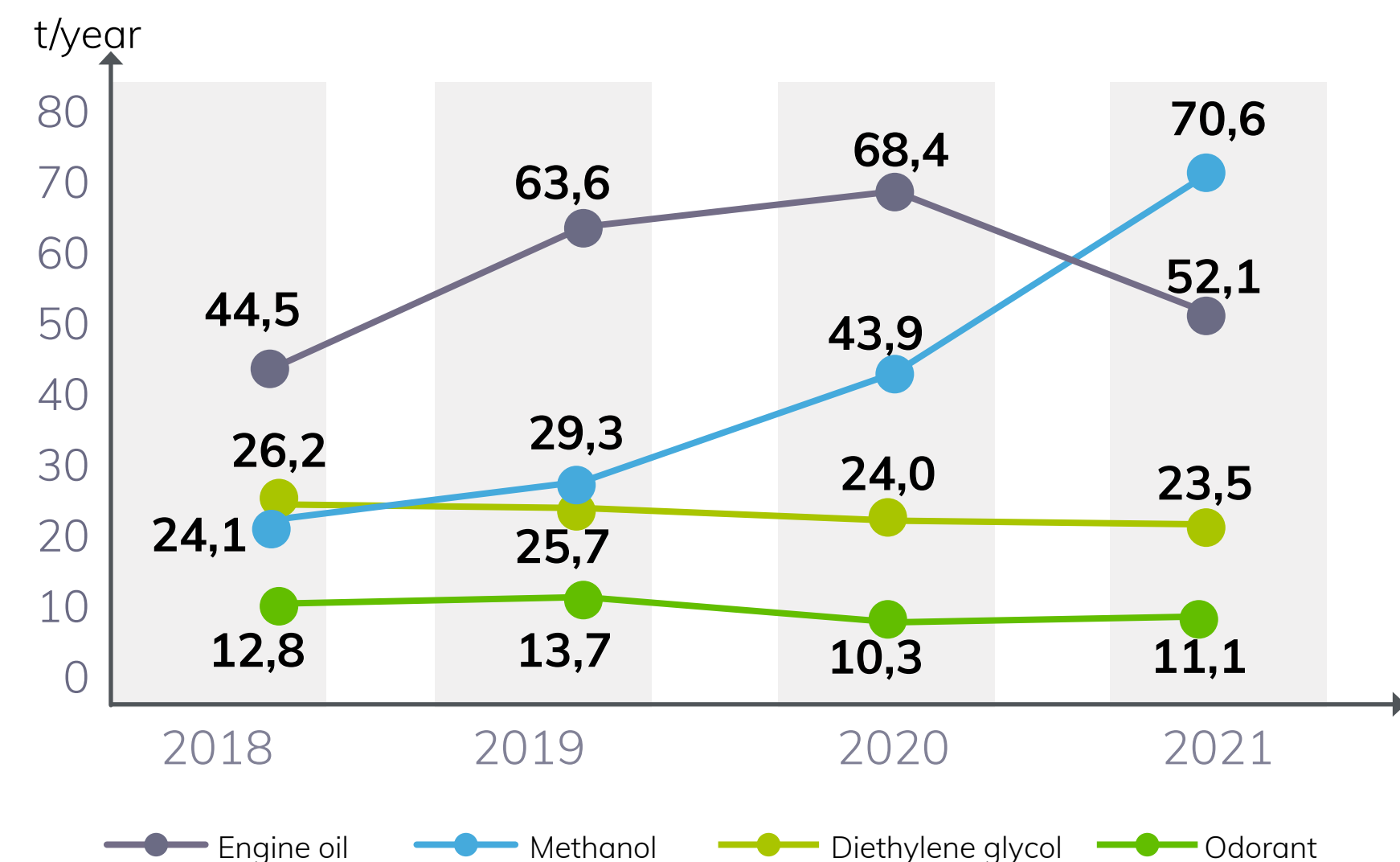
The Company contains motor oil, methanol, diethylene glycol and odorant in hazardous chemicals with significant consumption.

To prevent the formation of crystalline hydrates as a result of the throttling process, methanol can be added to the natural gas in winter. The natural gas is then sent to a gas drying facility where excess moisture is removed from it using diethylene glycol. After drying, the diethylene glycol is recovered in a non-standard evaporator and reused in the natural gas drying process.

Natural gas is odourless in the transmission system. To make it perceptible to humans, the operator of the transmission system has to odorize it by adding odorants.

Engine oil is consumed to operate the main gas injection system.

Consumption of Conexus essential chemicals and mixtures



During the coldest months of 2021, January and February, methanol consumption increased significantly due to intensive natural gas production, as the winter of 2021 was the coldest in the last eight years³. In addition, intensive well overhaul operations were conducted in 2021, and methanol was also used to ensure transmission processes.

Other hazardous and non-hazardous chemical substances and mixtures are also used to ensure the Company's business processes, but their volume and hazardousness are not as large as those mentioned above. The main materials used by the Company are steel pipes, pipe insulation materials and various other chemicals.

No releases of chemicals were detected in 2021.

³ https://klimats.meteo.lv/laika_apstaklu_raksturojums/2021/ziema/

Use of water

In the underground gas storage facility, water is extracted from five wells for operational processes and internal consumption. The maximum possible volume for water withdrawal for production processes and household needs is regulated – 43 000 m³/year. The water used in the underground gas storage tanks is properly treated and returned to the environment. In 2021, the reconstruction of the water treatment plant of the compressor workshop of the underground gas storage facility was completed, which will allow improvements in the efficient use of natural resources and the reduction of environmental pollution.

Water at natural gas transmission system facilities is purchased from utility service providers. Potable water for the natural gas transmission system facilities is purchased from an external supplier.

Meters are used to register record the amount of groundwater extracted, while the respective supplier provides information on the amount of water purchased from external water suppliers.

	2021	2020	2019	2018	2017
Total water abstraction, m³	8 183	9 849	11 121	10 290	9 487
of which groundwater abstraction in Inčukalns UGS	6 570	8 361	6 863	7 807	7 773
of which extraction of drinking water from an external supplier	38	43	50	45	42
of which the extraction of domestic water from an external supplier	1 575	1 445	4 208	2 438	1 672

Water consumption required for production processes in Inčukalns underground gas storage facility fluctuates. 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 a reduction in resource consumption.

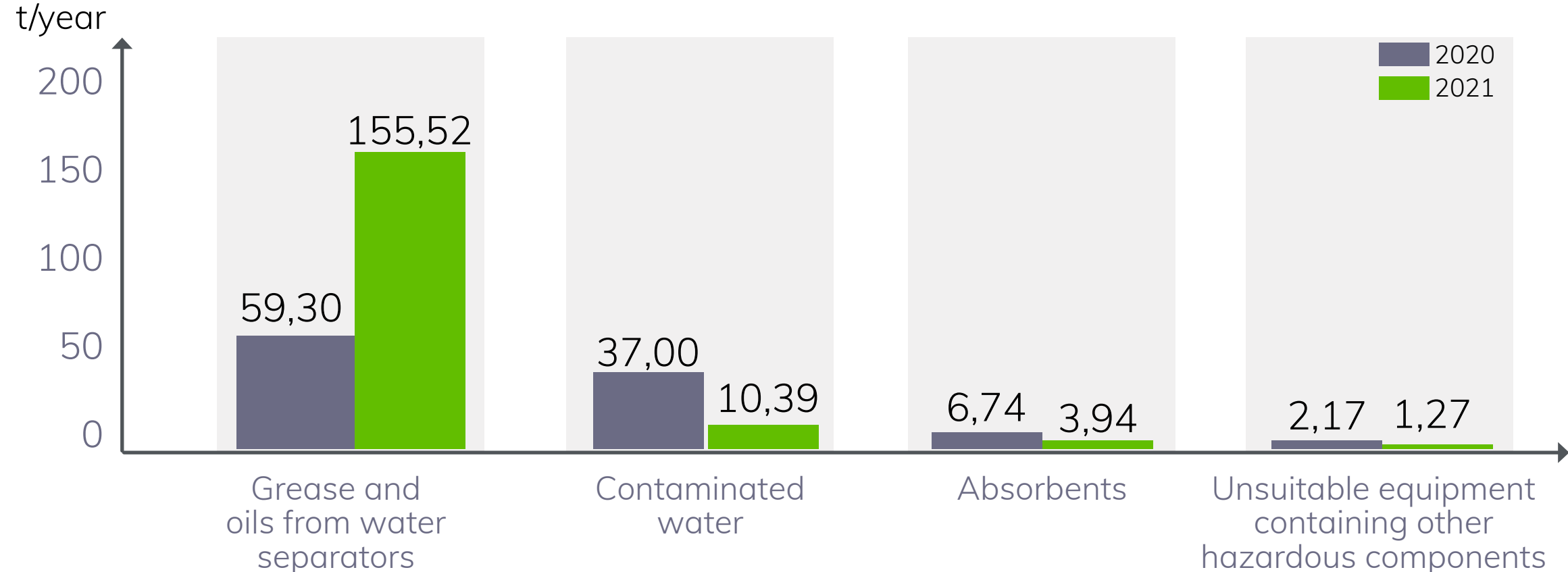
Waste Management

The Company has established procedures for waste management, including agreements for the collection of hazardous waste, separately collected waste and unsorted waste, and uses various cooperation partners for appropriate waste management. The Company distributes the collected packaging materials handed over to a participant of the producer responsibility system, separately collected accumulating glass, metal, plastic, paper and cardboard materials, construction waste, biodegradable waste, large waste, hazardous waste. Each year, information is obtained from waste managers on the amount of non-hazardous municipal waste (m³) delivered, after which the Company recalculates the amount of waste (t), as well as information on how much of the waste generated is to be recycled and landfilled. The amount of hazardous waste (t) is provided by the waste disposers to whom the hazardous waste was transferred for further appropriate disposal:

	2021	2020	2019
Total weight of hazardous waste generated, tonnes	172	111	154
Total weight of hazardous waste, tonnes	112	96	78
Percentage share of hazardous waste sent for recycling	51%	33%	13%
Percentage of hazardous waste transferred to a landfill	49%	67%	87%

The Company generates different types of hazardous waste, which are collected separately. The largest type of hazardous waste each year is a mixture of water and oil products from compression stations. Contaminated water is generated during hydraulic tests. The main types of hazardous waste generated in 2020 and 2021 are grease and oil from water separators and contaminated water:

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



The increase in grease and oils separated from water in 2021 can be explained by the implementation of regular scheduled works - maintenance of equipment and inspections, which are organised periodically and do not take place every year. Considering that waste fees are increasing every year, the Company informs and trains its employees about mandatory separate waste collection and hazardous waste reduction and conducts periodic inspections to evaluate performance. However, the most effective way to reduce waste is through waste prevention. The amount of materials purchased is carefully planned to ensure efficient use of materials and avoid excess. The Company has taken the first steps towards implementing the principles of green public procurement by aggregating data on suppliers' compliance with environmental and occupational health and safety standards (see section "Responsible procurement"). The application of such procurement clearly demonstrates the Company's commitment to minimising its impact on the environment and to working with partners who are committed to sustainability. It is in the Company's interest to use fewer resources and generate less waste, to choose more energy-efficient and sustainable solutions in order to minimise the negative impact on the environment.

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

CXS-1

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

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 decade, due to overall improvements in energy efficiency in energy consumption and power generation, as well as a shift to greener or renewable sources of electricity and heat. In the second half of the decade, gas demand stabilised, mainly due to the impact of climatic conditions and market-driven fluctuations in power generation.

According to the draft scenario report TYNDP (Ten-Year Network Development Plan) 2022 of the European Network of Transmission System Operators for Gas and Electricity (ENTSO-G and ENTSO-E)⁴, there are three distinctly different potential scenarios for the development of the energy sector in the EU until 2050:

- 1.** national trend scenario;
- 2.** global ambition scenario;
- 3.** shared energy scenario.

Despite the decline in consumption due to the above-mentioned conditions, gas continues to play an important role in the overall structure of Latvia's primary energy consumption.

⁴<https://2022.entsos-tyndp-scenarios.eu/foreword/>

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

The Company recognises its role in creating a carbon-neutral, integrated energy system in the long term and is focused on developing renewable electricity, carbon-neutral and low-carbon gases, and organising business processes toward a circular economy.

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



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



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



collaboration with other stakeholders to develop a sustainable gas market;



participation in national and regional policy-making processes.

The National Energy and Climate Plan (NECP) for 2021-2030 is a strategically important energy policy document in Latvia. Latvia has set a target to obtain 50% of consumed energy from renewable energy sources and reduce greenhouse gas emissions by 65% (compared to 1990) in 2030. In July 2021, the European Commission launched the “Fit for 55”⁵ energy and climate change package, which aims to reduce greenhouse gas emissions by 55% by 2030 and achieve climate neutrality by 2050. In 2021, the Ministry of Economy announced an impact assessment for the “Fit for 55” package. The review of the Latvian NEC will begin in 2022, with the goal of submitting the Latvian NECP to the European Commission by June 2023.

Recent events and investments in 2021:

- ◆ The natural gas transmission system operators of Latvia, Lithuania, Estonia and Finland have signed a memorandum of understanding⁶, which envisages the promotion of the development of green or renewable energy gases, including the establishment of a regionally harmonised system of guarantees of origin;
- ◆ The Company has launched a joint research and development project with its international partners - the natural gas network operators of Lithuania, Estonia and Finland - for the injection and transmission of hydrogen into the gas transmission system.⁷;
- ◆ The Company has joined the European Hydrogen Backbone Initiative⁸, a group of European gas transmission system operators that has developed proposals for the development of a hydrogen infrastructure based largely on the conversion of natural gas pipelines;
- ◆ The Company submitted six projects for inclusion in ENTSOG TYNDP 2022, of which:
 - The projects "Enhancement of the Inčukalns underground gas storage" and " Enhancement of Latvia - Lithuania Interconnection " - are included in the European Parliament's list of projects of common interest under Regulation (EU) No. 347/2013 (April 17, 2013) and are being implemented;
 - The project “Skulte LNG Terminal with Supply Pipeline” - was resubmitted to TYNDP (was included in TYNDP 2020);
 - The new projects “Implementation of Smart Integrated Solutions for Renewable Gas Supply in the Transmission System”, “Adaptation of the Cross-Border Gas Transmission System for Hydrogen Transportation” and “Inčukalns Underground Gas Storage as a Seasonal Storage of Hydrogen in the Baltic Region above 1 TWh” - new projects submitted for clean energy as defined by the European Green Course.
- ◆ The Company is participating in the European Gas Infrastructure (GIE) Gas Storage Working Group study “Demonstration of Underground Hydrogen Storage Paths and Values Relevant to the Future Hydrogen Energy Market.”
- ◆ The Company acts as coordinator of the regional group of operators in matters related to the injection of hydrogen into the gas infrastructure;
- ◆ the first direct user connection to the gas transmission network has been put into operation⁹;
- ◆ International cooperation with other countries' gas transmission system operators, involving the Green Gas Coordination Group, the European Hydrogen Backbone, the European Hydrogen Alliance, GIE, and ENTSOG on low-emission gas issues.

⁵ <https://www.consilium.europa.eu/lv/policies/green-deal/eu-plan-for-a-green-transition/>

⁶ <https://conexus.lv/zinas-presei/pso-paraksta-saprasanas-memorandu-par-zalaku-energoresursu-attistibu>

⁷ <https://conexus.lv/zinas-presei/conexus-ar-starptautiskajiem-partneriem-uzsak-vienotu-petniecibas-un-attistibas-projektu-udenraza-ievadisana-un-transportesana-gazes-parvade>

⁸ <https://gasforclimate2050.eu/ehb/>

⁹ <https://conexus.lv/zinas-presei/ekspluatacija-nodots-pirmais-tiesais-pieslegums-gazes-parvades-sistemai>

RESPONSIBILITY FOR THE EMPLOYEES AND THE WORKING ENVIRONMENT

Occupational health and safety

GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-8, 403-9, 403-10

The main objective of Conexus Occupational Health and Safety is to prevent accidents and occupational diseases among employees and subcontractors. The Company actively pursues this goal, focusing on the provisions of the Directive on Health, Safety, and Environmental Management at Work:

- ◆ Constant compliance with the requirements of legislation, 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 in the workplace can only be completely prevented if a safe working environment is ensured. Therefore, every employee must comply with all occupational safety requirements. To implement occupational health and safety measures, the Company has a certified, maintained and continuously improved management system that meets the requirements of the ISO 45001 standard on Occupational Health and Safety Management

System. The system is externally certified, i.e., it is regularly audited by independent third parties. The gas storage system was first 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 emergency situations.

Occupational safety culture

The processes of the occupational health and safety management system enable timely detection of risks, violations, collection of observations and suggestions. Occupational health and safety employees are encouraged to report hazardous situations, hazardous acts, violations, or improvements to occupational health and safety specialists, structural unit leaders, unions, or through a dedicated email drosiba@conexus.lv. The information received is registered and managed by means of the electronic tool in the system of internal circulation of the company's documents and accumulation of legislation, in which the necessary actions, the responsible persons and the deadlines are defined.

A number of initiatives have been proposed to improve safety culture and engage employees on related issues. For example, driving safety walk-throughs were launched in 2019 to facilitate interaction between management and employees. In 2021, these walk-throughs were conducted as planned, resulting in 48 observations and suggestions for improvement.

Internal control

Internal control is essential. In the context of the pandemic, emergency situation, and national restrictions in 2021, internal control observations were particularly valuable - ideas for possible improvements were offered, several situations related to unsafe work environments or behaviours were eliminated, and the possibility of an accident or occupational illness was prevented. In 2021, both the planned internal audits and the risk assessment of the working environment, and thematic inspections for compliance with the requirements of Covid-19 were carried out, resulting in 83 observations and suggestions for improvement. It must be emphasised that worker safety is a priority for Conexos and managers are open to these observations and suggestions.

Employee engagement and training

Employee participation is ensured by working with employees who are involved in assessing risks in the work environment and making recommendations to improve the work environment.

The Company has developed the necessary legal framework for the management of occupational health and safety processes, and regular training is provided to employees. The work instructions contain clauses on situations in which it is forbidden to start work. An employee may refuse to work if he/she does not find safe working conditions by informing the head of the structural unit.

Accident investigation

Accident investigations are conducted in accordance with the law. In addition, near misses are listed and analysed. The results of the case investigation and the corrective and preventive measures taken on their basis are used to improve the occupational safety system.

Work environment risk assessment

The risk assessment of the work environment is one of the phases of the Company's internal monitoring of the work environment, on which

the preventive and corrective occupational health and safety measures are based. The assessment of these risks is carried out by a competent institution with the involvement of the Company's occupational safety specialists, structural unit managers, and employees, based on an annually updated assessment methodology that considers the current requirements of legal regulations. The risk assessment of the working environment identifies all workplaces and all types of work.

The methodology of the work environment risk assessment provides for an assessment in several stages:

- 1.** In this phase risk factors in the work environment are identified by inspecting specific workplaces and evaluating compliance with regulatory requirements and the extent to which occupational safety and health measures have already been implemented;
- 2.** In this phase, the necessary measurements of the harmful factors of the working environment are carried out, as well as the evaluation of other necessary information (analysis of the safety data sheets of chemical substances, analysis of accidents and occupational diseases, etc.);
- 3.** The explosion hazard of the working environment is reviewed and evaluated at the stage;
- 4.** The significance of the risk to the working environment is determined in the phase;
- 5.** The necessary corrective and preventive measures are determined in the phase.

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

As a result of the Covid-19 pandemic, telework has become more important. As a result, a methodology was developed and remote work environment risks and epidemiological safety measures for telework were identified.

The identification of risks to the work environment was done in collaboration with remote workers using workplace self-assessment questionnaires. Following the evaluation, recommendations for workers to telework were developed, including appropriate workplace design.

Understanding health and safety

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

Employees are trained in occupational safety, fire safety, disaster prevention, 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, but in the course of their work, training is repeated, and other thematic training is also provided. The trainings are organised in cooperation with external service providers as well as internal sneakers. In 2021, employee training was conducted remotely as much as possible. On-site training was organised in accordance with national epidemiological safety requirements.

In 2021, the Company paid special attention to the mental health and well-being of its employees and introduced several important initiatives: organised courses for sedentary people to reduce stress and physical fatigue, physiotherapy courses, annual sports games for employees. Every employee had the opportunity to participate in an eight-week training programme entitled 'Strengthening Employee Wellbeing', which offered a variety of appealing topics such as social, mental, emotional, physical and environmental well-being.

The Company provides each Conexus employee with health insurance that allows them to receive a wide range of outpatient and inpatient treatments as needed, reimburses part of the cost of medications,

provides consultation with various specialists (e.g., nutritionists, psychotherapists, podiatrists), and reimburses costs related to COVID -19 (tests, antibodies).

In connection with the pandemic, a comprehensive information campaign was carried out to promote vaccination and a series of collective vaccinations were organised, so that the coverage of the Company's employees who have a vaccination and disease certificate was 94.5%. The work was done remotely, and the necessary personal protective equipment, disinfection and measures in case of infection were provided. In addition, COVID -19 testing was provided with laboratory saliva testing and antigen self-testing. Up-to-date information on epidemiological safety requirements is published on the internal communication portal and communicated via e-mails, informative TV screens, departmental meetings, and thematic training and seminars.

Good practice in security management

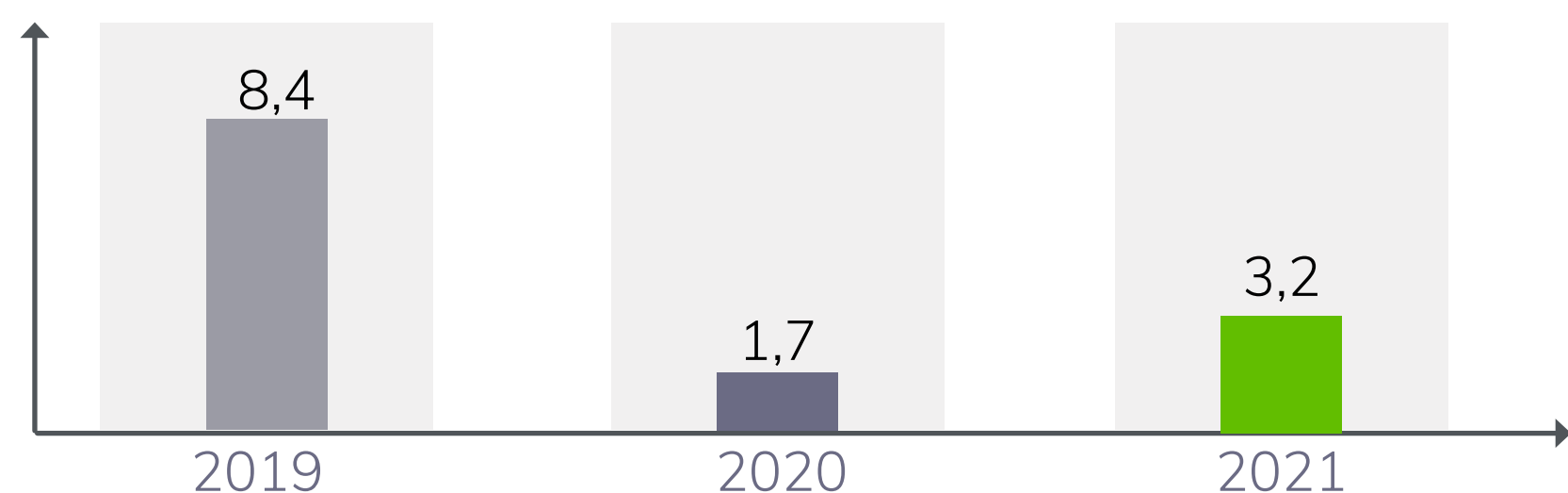
The Company's security activities have been highly valued by third parties. In 2021, Conexus won a gold award in the category "Local (Baltic) Freight Carriers and Specialised Vehicle Fleets" in the competition "Safest Corporate Fleet 2021" organised by the insurance Company BALTA, the Ministry of Transport and the automotive industry.



Occupational safety and health performance

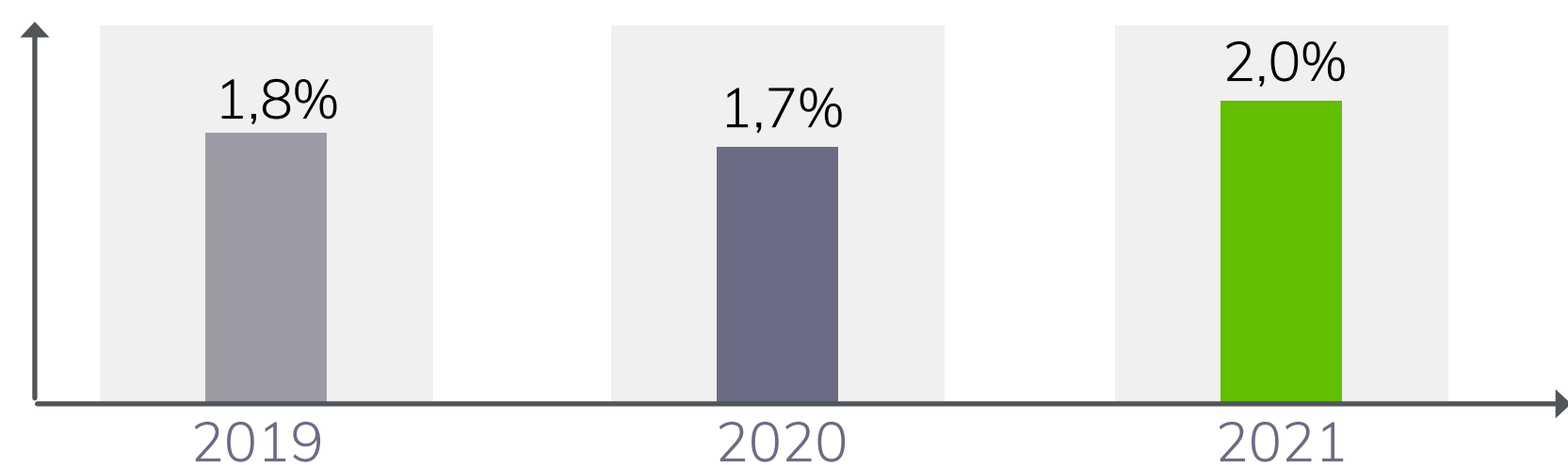
In 2021, no serious occupational accidents were recorded (0 in 2020; 0 in 2019) and the number of work-related fatalities (0 in 2020; 0 in 2019). In 2021, one occupational accident was recorded that resulted in lost workdays (2020 - 0; 2019 - 3). Conexus strives to keep these numbers at zero in the future.

Total frequency or registered accidents (per 1 million working hours)

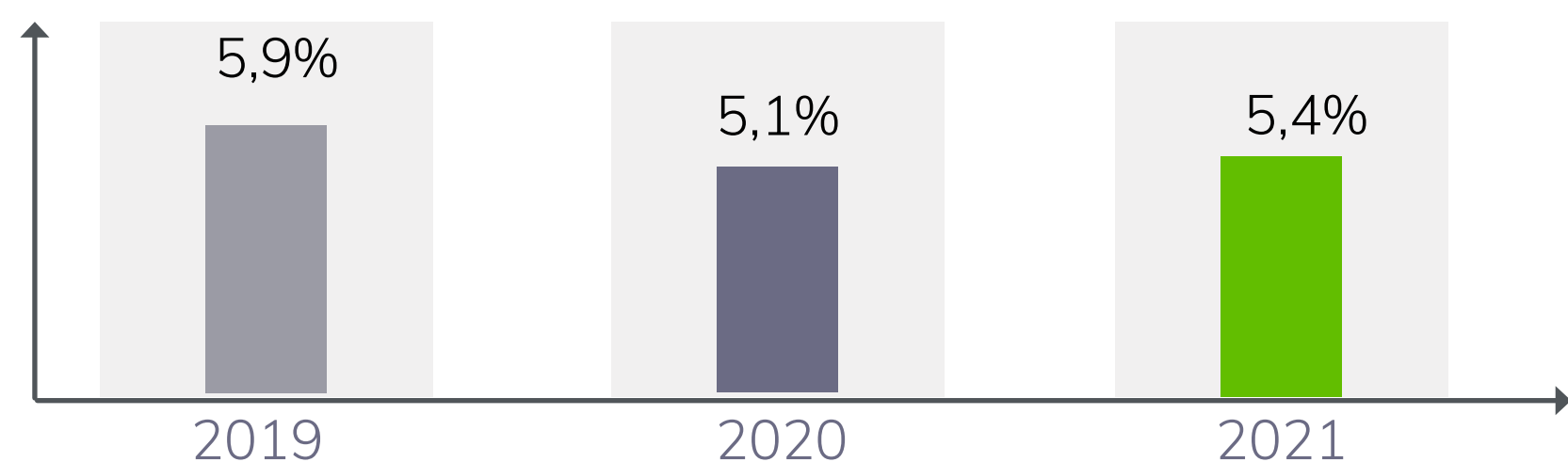


In 2021, a minor accident at work was registered (in 2020 - 1, in 2019 - 5).

Proportion of cases of active occupational diseases among employees, %



Proportion of work absence among employees (illness days as a percentage of total working days), %



In 2021, an employee was diagnosed with an occupational disease and changes were made to his work organization to comply with the recommendations of the State Labour Inspectorate. The total number of active occupational diseases in 2021 is 7 employees (2% of the total number of employees).

In 2021, various kindness awareness activities were organised for employees, totalling 55 hours (31 in 2020; 27 in 2019). There was a 7-hour training for sedentary workers on stress and physical fatigue reduction, a 2-hour workshop on COVID -19 infection and vaccination, 16 hours of physical therapy, and 30 hours of annual sports games for employees.

According to the risk assessment of the work environment, employees undergo mandatory health examinations. In 2021, 150 employees underwent mandatory health examinations. Special remarks and recommendations of the occupational physicians for the employer:

- several employees who work with a computer need glasses;
- the use of hearing protection in noisy environments is emphasised for some employees;
- compliance with ergonomic requirements in the workplace is emphasised for some employees.

Contract workers and visitors

Contract workers shall be instructed in the safe performance of the work in the Company's facilities prior to performing the work. Instruction is provided in accordance with Latvian legislation and in compliance with the Occupational Health, Safety and Environmental Management Policy. The Company monitors the work of contractors, which contributes to the creation of a safe working environment.

Visitors touring the Company's facilities are shown around by Conexus employees. There is always a video briefing on site safety requirements prior to the tour. Before the tour, there is always a video briefing on the safety requirements at the site.

Employment relations, employee involvement and involvement

GRI 102-8, 102-41, 405-1, CXS-2

Remuneration policy

The great value of Conexus is its professional, qualified, competent, responsible, loyal and motivated employees who use their knowledge and skills to contribute to the strategic goals of Conexus. Employees are one of Conexus' most important strategic resources and contribute to Conexus' high efficiency.

In 2021, the Conexus Management Board approved the Human Resources and Compensation Policy, which aims to ensure effective human resources management to implement sustainable management of internal resources in the Company, ensure competitive and motivating compensation, and promote employee succession and skills development.

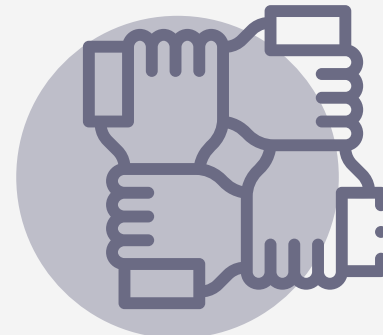
The human resources management policies are:

- ◆ **Professionalism** - employees are competent in their respective fields, focus on acquiring new skills and abilities, sharing knowledge and experience both nationally and internationally;
- ◆ **Quality** - the employees ensure high quality in the execution of the specified tasks through accurate, prompt and professional performance of their duties and an 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 horizontally and vertically;
- ◆ **Stability** - The Company's operations are stable and develop-

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

- ◆ **Prohibition of discrimination** - recognizes the equal role of each person in the development of the Company, regardless of race, colour, gender, religious, political or other beliefs, national or social origin, wealth or marital status and other circumstances All employees have the same rights.

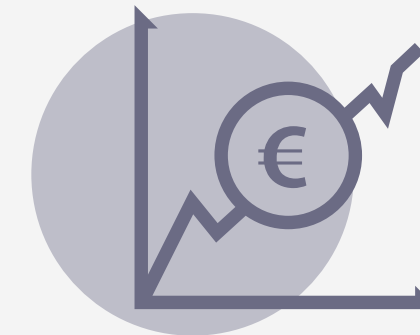
CONEXUS' COMPENSATION SYSTEM IS BASED ON THE FOLLOWING FUNDAMENTAL PRINCIPLES:



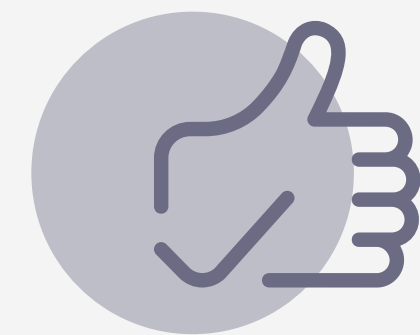
FAIRNESS - the remuneration system is proportionate and based on uniform principles throughout the Company. Compensation is commensurate with the employee's qualifications and investment;



TRANSPARENCY - the remuneration system is understandable for all employees of the Company;



COMPETITIVENESS - the level of compensation is in line with labour market trends;



MOTIVATION - promotes the professional growth of employees and motivates employees to perform quality work and achieve goals.

Employee compensation depends on the position, qualifications, amount of work to be performed, skills, attitude and investment in the Company, achievement of the structural unit and individual goals (the link between the work invested and the compensation received), as well as the Company's performance indicators. In order to remain competitive and in line with current compensation trends, the Company annually evaluates its practices in this area by conducting a survey in collaboration with the human resources management consulting firm Fontes. Considering current compensation trends in Latvia, Conexus evaluates and reviews compensation accordingly.

Conexus compensation structure consists of three components:

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

◆ **Variable portion of pay** - the portion of pay paid to an employee for work performance. An employee may receive it in addition to his/her basic salary in the form of a bonus, the amount of which depends on the achievement of the Company's overall goals and the employee's individual performance, as well as an irregular individual bonus for additional work;

◆ **Additional benefits** and benefits under the collective bargaining agreement.

Employee diversity

Generations of the workforce are changing, so financial incentives cannot be the only tools used to motivate employees. Employer reputation, prosperity, telecommuting, flexible working are some of the aspects that are increasingly important for Conexus employees. This is also confirmed by 72% of employees in a survey conducted by the Company. 234 employees or 66% of all Conexus employees participated in the survey.

	2021	2020	2019	2018	2017
Diversity of employees in the Company					
Total number of employees at the end of the reporting year	350	349	335	347	359
Proportion of women	19%	18%	19%	18%	19%
Proportion of men	81%	82%	81%	82%	81%
proportion of women in management and support units	17%	19%	15%	21%	27%
Proportion of men in management and support units	83%	81%	85%	79%	73%
Employees in the age group over 50 years	34%	38%	42%	44%	47%
Employees aged 30 to 50 years	55%	52%	47%	46%	43%
Employees under 30 years of age	11%	10%	11%	10%	10%
Employee turnover and succession					
Total staff turnover rate	8%	12%	9%	11%	8%
Vacant managerial positions filled by employees (career development within the Company)	90%	56%	67%	87%	0%
Number of trainees working for Conexus during the reporting year	3	8	2	0	0

The energy sector is characterised by a high number of employees in technical professions, so the share of Conexus employees in the structure of men is relatively high - in 2021, 81% of employees are men and 19% are women. This figure has not changed significantly in recent years.

Job groups	Women %	Men %
Managers	22	78
Specialists	34	66
White-collar workers	0	100
Other	73	27
Total	19	81

Out of 350 Conexus employees (65 women and 285 men), the largest number of employees work in the Gas Transmission Structure - 114 employees (5 women and 109 men). In turn, 91 professionals (6 women and 85 men) take care of gas storage at Inčukalns UGS, but 145 employees (54 women and 91 men) provide the support function.

	Women %	Men %
Transmission	4	96
Storage	7	93
Support function	37	63
Total	19	81

Most employment contracts are full-time. All of the signed work contracts in 2021 were open-ended.

Mode of operation in the Company	Number of contracts * at 31.12.2021
Half-time	1
Part-time	2
Aggregated work time	55
Full-time normal working hours	282
Council, Management Board	10
Total	350

Engagement of workers

In 2021, a business travel module was added to the digital HR and salary management system, which allows each employee to access and manage all relevant data (salary, appraisal results, etc.) (request for leave or benefits, etc.), and the evaluation of employee performance in this system was also launched.

Various employee engagement surveys give employees the opportunity to express their opinions and provide feedback to Conexus management in order to improve collaboration. Each year, employees' opinions are asked on employee satisfaction, loyalty, motivation, internal communication, development, compensation, direct supervisor's work style, etc. In the 2021 survey, 237 employees (69%) participated, which is a significant increase in the number of respondents compared to 2020 (53%). In the survey, employees rated the following aspects the highest:

🔥 **The role of the employee at Conexus (82%)** – employees value their role in the Company, especially emphasize the high-quality standards for their work, are aware of the need to improve the quality of their work by doing work that is interesting and rewarding;

🔥 **Conexus work organization and internal communication (81%)** – employees are satisfied with their colleagues, information about current events is available and work tasks are understandable;

🔥 **Relationship of the employee with the supervisor (79%)** – employees highly valued the relationship with the supervisor and emphasised that the supervisor listens to the employee's opinion;

🔥 **Conexus company culture (73%)** – employees appreciated the support for free discussion and a non-discriminatory environment.

62% of employees consider their work-life balance is good (**66%** agree in 2020).

The Net Promoter Score (NPS) shows the willingness of employees to recommend the Company to others. As of 2021, the calculation methodology has been changed based on the internationally recognised and accepted NPS (previously, the NPS was calculated as an average value). This indicator more accurately reflects employees' willingness to recommend the company as a good place to work and also enables more accurate comparisons. The NPS method divides employees into Promoters (those who rated 9 or 10), Neutrals (those who rated 7 or 8), and Deniers (those who rated 0 or 1 to 6). The index is calculated by subtracting the Proportion of deniers from the proportion of supporters. The index can range from -100 (if all are Deniers) to +100 (if all are Promoters).

In 2021, the NPS of Conexus employees was -0.4, which means that there are slightly more Deniers than Promoters. Compared to 2020, the indicator has not changed statistically, although in numerical terms it is +8.3 points. On the positive side, the proportion of promoters has remained stable in both years (almost a third of employees), but in 2021 the proportion of neutrals has fallen.

In the survey, employees had the opportunity to express comments, suggestions for improving their work, and objections to the work environment. Employees are actively involved in shaping the work environment - employees also submit their suggestions for improving the work environment and work processes in writing to ideja@conexus.lv, where it is possible to track the progress of these suggestions. About 20% of the ideas submitted by employees are already implemented at Conexus on a daily basis.

To keep employees informed of current developments at Conexus, the Conexus Management Board conducted online interviews with employees on current events in 2021, where employees had the opportunity to participate in discussions and ask questions. Conexus also sent the Company's internal newspaper, "Conexus Kods", to all employees twice a year to inform them of current events at the Company and provide explanations of issues important to Conexus.

The Company respects the right of employees to collective representation. In 2021, 28% of employees were members of a trade union. Conexus has concluded a collective agreement with a trade union that protects the economic and social interests of employees beyond the legal requirements. The collective agreement applies not only to members of the union, but also to all Conexus employees.

Equal and fair treatment

GRI 406-1

The Conexus team is characterised by diversity, equal treatment and non-discrimination, and strives to create a truly inclusive work environment where employees can reach their full potential. The equal role of each person in the development of Conexus is recognised in the Company. Dignity and fairness are fundamental principles enshrined in Conexus' Code of Ethics, which states that the Company treats employees and business partners fairly and equitably. No cases of discrimination were reported or registered in 2021 (the indicator for 2020 is also 0).

Conexus participated in the self-assessment of the employers' movement "Diversity is strength", which allows to assess the Company's openness to diversity in accordance with the criteria, demonstrating a genuine desire to take care of its employees, ensuring equal opportunities for all. Employer experts welcomed Conexus' support measures to promote an inclusive and non-discriminatory work environment and provided recommendations for improving diversity management.

In 2021, Conexus received the status of "Family-Friendly Workplace". The main criteria for selecting beneficiaries were to demonstrate the employer's understanding of the work environment and work-life balance by introducing various support mechanisms in the work environment - additional leave to spend time with family, additional days off, and support for training. An important criterion was the division of workload and the process of completing work tasks and greeting employees during the Covid-19 pandemic, where work was and is mostly done from home.



Development of employee competence and qualified future workforce

GRI 404-2, 404-3

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

The Company has developed and implemented an employee performance appraisal system that defines the performance appraisal process for department managers and employees, its types, criteria, responsibilities and deadlines. Performance appraisal is one of the most important means by which Conexus supports its employees, ensuring that they perform their professional duties responsibly and identifying their professional development needs.

The Company's staff appraisal system is results-based, and under this system, employee performance is regularly planned, managed and evaluated over a period of time. Each year, all employees and managers receive a review of their activities and professional development to identify areas for improvement. The evaluation promotes employee accountability for individual performance and ensures that compensation is linked to performance. Evaluation promotes the employee's responsibility for individual achievements and ensures that remuneration is linked to performance.

Conexus is a Company with history and tradition, its employees are loyal, and they have unique, rare and durable skills and competences for a specific business. Preserving these competences and passing

them on to future generations is a very important task for the Company. To ensure the continuation of the business through professional, experienced and competent personnel, a Conexus Succession Plan was developed to identify critical positions, identify potential successors and develop guidelines for the implementation of the succession plan. As part of the succession process, the knowledge and skills acquired and developed by experienced staff are passed on to new staff to ensure a high level of professionalism within the Company. Conexus has defined critical positions whose responsibilities include the unique, rare and long-term skills of a specific business, where obtaining a suitable specialist from external resources is a complex and expensive process.

Depending on the identified needs, the Company provides appropriate training for employees at all levels. Special attention is paid to technical innovations in the field of gas technology, and employees also participate in training organised by international companies. Depending on identified needs, the Company provides appropriate training for employees at all levels.

In order to promote the development of the gas industry and the acquisition of specific knowledge, special training programmes for Conexus employees, specialists in the operation and maintenance of natural gas transmission and storage systems, and skilled workers were established as part of the cooperation between Conexus and Riga Technical University (RTU) and implemented in 2021. In 2021,



209 Conexus employees completed these training courses. In addition, more than 20 training courses were developed in the Conexus e-learning environment, mainly on professional topics.

The average age of Conexus employees is 45 years, and the analysis of the staff structure shows that 34% of employees are over 50 years old, which also increases the importance of staff renewal and promotes a targeted approach to changing the age structure of employee attraction. In order to stimulate young people's interest in exact subjects and engineering professions and to promote the development of the future workforce in Latvia, Conexus specialists and RTU lecturers conduct study courses for students and organize trips to Conexus sites.

Age	Women	Men	Workers %
Up to 30	3%	8%	11%
31 to 40	5%	21%	25%
41 to 50	5%	24%	30%
51 to 60	4%	17%	21%
Over 60	2%	11%	13%
Total	19%	81%	100%



RESPONSIBLE GOVERNANCE

Ethics and prevention of corruption

GRI 102-17, 205-3, 419-1

Conexus has a Code of Ethics in place. The purpose of the Code of Ethics is to create a unified set of ethical 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 to the Company as a whole and to every employee and elected person 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, setting out the principles for giving and receiving gifts. In addition, 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 evaluates the commencement or continuation of cooperation with such a partner.

In addition to reducing the risk of corruption, the Code of Ethics provides that the Management Board of the Company approves the list of positions for which a declaration must be made in which the employee confirms the absence of a conflict of interest and the content of this declaration. The list includes auditors of structural units, senior 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 who are constantly provided with restricted information or information containing business secrets in order to perform their work duties. The declarations must be made annually by the employees concerned. If necessary, measures may be taken to avoid potential or actual conflicts of interest after the respective declaration has been evaluated.

In accordance with the Code of Ethics, the first mandatory ethics training for the Company's employees was organised in 2021, which covered both the Code of Ethics and certain topics of the Rules of Procedure, the Data Protection Regulation and the Alarm Regulation. During the training, employees had to discuss ethical situations and answer checklists to consolidate the knowledge they had acquired. A separate training session was dedicated to the role and responsibilities of department heads in upholding and reinforcing the Code of Ethics in the Company. The purpose and procedure for the declaration of the absence of a conflict of interest were explained to employees during an awareness-raising seminar.

Employees are encouraged to seek guidance on ethical issues and to act and respond in a socially responsible manner when violations or other breaches of the rules are identified by notifying their supervisor or a member of the Management Board or by filing a whistle-blower report in accordance with internal reporting procedures. In the event of unethical conduct, the employee may be subject to disciplinary action in accordance with the Company's regulations. The Company will not impose sanctions or other adverse consequences on an employee who reports a violation of a Code or other violation unless the employee knowingly made false statements.

Compliance with the standards of the Code of Ethics is one of the criteria for evaluating employees and is considered when evaluating the employee's performance and considering the employee's performance in internal personnel selection processes and in maintaining employment relationships.

The Code of Ethics is published on the Conexus website www.conexus.lv.

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

- ◆ Regulation of the Council and Regulation of the Management Board (there is an obligation for the respective member of the Management Board or the Council not to participate in the consideration of a matter in which there is a conflict between a first or second-degree relative, an adopter, an adoptee and a person with whom there is a common court and the interests of the Company);
- ◆ Corporate governance policy (definition of the internal control system and its purpose);
- ◆ Procurement policy (basic principles of supplier ethics have been established, including prevention of corruption practices);
- ◆ Financial risk management policy (regarding the possibility of corruption risk in case of refinancing risk, defining measures to limit refinancing risk).

In 2021, no fines or non-monetary sanctions were imposed on the Company for non-compliance with laws and/or regulations (this indicator was also 0 in 2020), and no cases of corruption related to the Company and its employees were confirmed (2020 - 0).

Sustainable procurement

GRI 102-9, 204-1

Conexus' current procurement policy focuses on openness of procurement procedures, free competition among suppliers, equal and fair treatment, and efficient use of Conexus' resources. In 2021, Procurement Policy was rewritten to include the basic ethics principles for suppliers. The Procurement Policy is published on the Conexus website in Latvian and English. Conexus continues to strive for green procurement and evaluates the life cycle costs of equip-

ment wherever possible in procurement procedures.

As a public service provider, Conexus organizes procurement transactions in accordance with the Law on Procurement of Public Services, as well as the internal set of rules - Procurement Organization Procedures, when the expected transaction amount is below the thresholds set in the Law on Procurement of Public Services.

To ensure its economic activity, Conexus purchases energy resources as well as various types of construction works, goods, and services, with the majority of purchases being made from suppliers in Latvia. Conexus ensures high-cost efficiency, transparency of procurement procedures, monitoring of corruption risks and promotes fair competition.

In 2021, Conexus concluded 343 procurement contracts, including 25 construction contracts (100% of them with companies registered in Latvia) with a total contract value of 5 971 301 EUR, 199 service contracts (84.3% of which with companies registered in Latvia) with a total contract value of 6 023 582 EUR, and 119 supply contracts (77% of which with companies registered in Latvia) with a total contract value of 13 800 242 EUR. Information on procurement is published on the Company's website www.conexus.lv and in the publication management system of the Procurement Monitoring Office. In 2021, the opportunity to view the procurement archive on the Conexus website has been developed.

Conexus does not work with suppliers that are subject to international or national sanctions or sanctions imposed by a member state of the European Union or the North Atlantic Treaty Organization that may significantly affect financial and capital market interests and interfere with the performance of the Cooperation Agreement.

Conexus has identified the areas of supply management where risks to the Company and Conexus' shareholders may arise.



These areas include economic as well as ethical, environmental, and social aspects and form the basis for Conexus' evaluation of suppliers in various procurement processes.

Conexus continuously assesses information on:

- ◆ the quality of goods, services and/or works;
- ◆ compliance with tax obligations;
- ◆ civil liability;
- ◆ the actual beneficiaries of the supplier.

In addition to the current assessment, in 2021 Conexus began collecting information on supplier compliance with environmental and safety standards by surveying 14 companies. The survey revealed that one of these companies has an occupational health and safety management system, while five companies are certified to an environmental management standard or system.

Transparency and stakeholder involvement

GRI 413-2, CXS-3

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

stakeholder. For more information, see the sections: Conexus' Strategic Framework for Sustainability and Compliance with the Corporate Governance Code.

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

As part of its corporate social responsibility (CSR) activities, Conexus supports the local community by conducting educational activities for local school children when epidemiological conditions permit and by supporting local community activities. For example, in 2021, Conexus financially supported the production of the chamber opera "Currently" by the young composer Kristis Auznieks, who was born in the Krimulda region, and provided financial support to the association for children and young people with special needs "Saulstariņi" in the Aluksne region.



In addition to cooperation with stakeholders, great attention is paid to public communication and media relations to inform about important decisions, development, and investment projects. In addition to the usual communication channels, Conexus also communicates via the social networks [Facebook](#) and [LinkedIn](#).



CORPORATE SOCIAL RESPONSIBILITY

The objective of Conexus Corporate Social Responsibility (CSR) is to develop and implement the most appropriate CSR activities for the company's activities, in order to promote the implementation of the corporate strategy and sustainable development. In accordance with the corporate social responsibility policy and the corporate strategy, Conexus selects CSR activities that meet one or more of the following criteria:

- ✦ They are in line with the Company's long-term strategic objectives and promote their achievement;
- ✦ Is consistent with the direction of the Company's activities and promotes public understanding of the relevance of these activities;
- ✦ Promotes the involvement of a wide range of social groups as well as the Company's employees, it has a wide scope;
- ✦ Ensures long-term, mutually enriching relationships with project sponsors and all stakeholders; activities are focused on long-term benefits to society;
- ✦ promotes the development of the company's brand value and image;
- ✦ includes communication potential and there is no need to invest additional resources in providing communication;
- ✦ The reputation of the cooperation partners must be consistent with the values and character of the Company's brand.

In 2021, Conexus cooperated with the Atis Kronvalds Foundation to financially support the awarding of Latvian education outstanding figures. The Atis Kronvalds Award has been presented since 1989, and by 2021, a total of 165 outstanding educators have received the awards. The prize is awarded annually to scientists, professionals, educators, and students for their significant and long-term contribution to the identification and education of talented pupils and to the management and/or organization of school children's research.





Independent Limited Assurance Report

To the Management of AS Conexus Baltic Grid:

Introduction

We have been engaged by the Management of AS Conexus Baltic Grid ('the Company') to provide limited assurance on the selected information described below and included in the Sustainability report 2021 of AS Conexus Baltic Grid ('the Sustainability report 2021') on pages 2 to 79. The Sustainability report 2021 represents information related to the Company.

Selected information

We assessed the qualitative and quantitative information, that is disclosed in the Sustainability report 2021 and referred to or included in the GRI Content Index (hereinafter – the "Selected Information"). The Selected Information has been prepared in accordance with GRI Sustainability Reporting Standards (Core option), 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 2021. We have not performed any procedures with respect to earlier periods or any other items included in the Sustainability report 2021 and, therefore, do not express any conclusion thereon.

Reporting criteria

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.



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.

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.

This report, including our conclusion, has been prepared solely for the Company's management in accordance with the agreement between us, to assist management in reporting on the Conexus Baltic Grid AS sustainability performance and activities. We permit this report to be disclosed in the Sustainability report 2021, which will be published on the Company's website¹, to assist 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.

¹ 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.



Professional standards applied and level of assurance

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. 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.

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 Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of the Work Performed

Our procedures included examination, on a test basis, of evidence relevant to the Sustainability report 2021. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the Sustainability report 2021 in accordance with the GRI guidelines.

Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines 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 2021;



- Comparing data from selected information to internal documentation to corroborate statements of management and senior executives in our interviews;
- Comparing the financial data included in the Sustainability report 2021 to the financial statements 2021 of Conexus Baltic Grid AS; and
- Evaluating the overall format and content of the Sustainability report 2021, taking into account the compliance of the disclosed information with the applicable criteria.

Reporting and measurement methodologies

Under the GRI Standards 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 management as described in the Sustainability report 2021, and for which the Company is solely responsible.

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 2021 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
18 March 2022

Joint-stock company

conexus
B A L T I C G R I D

2021 ANNUAL REPORT

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

MANAGEMENT REPORT

Main activities

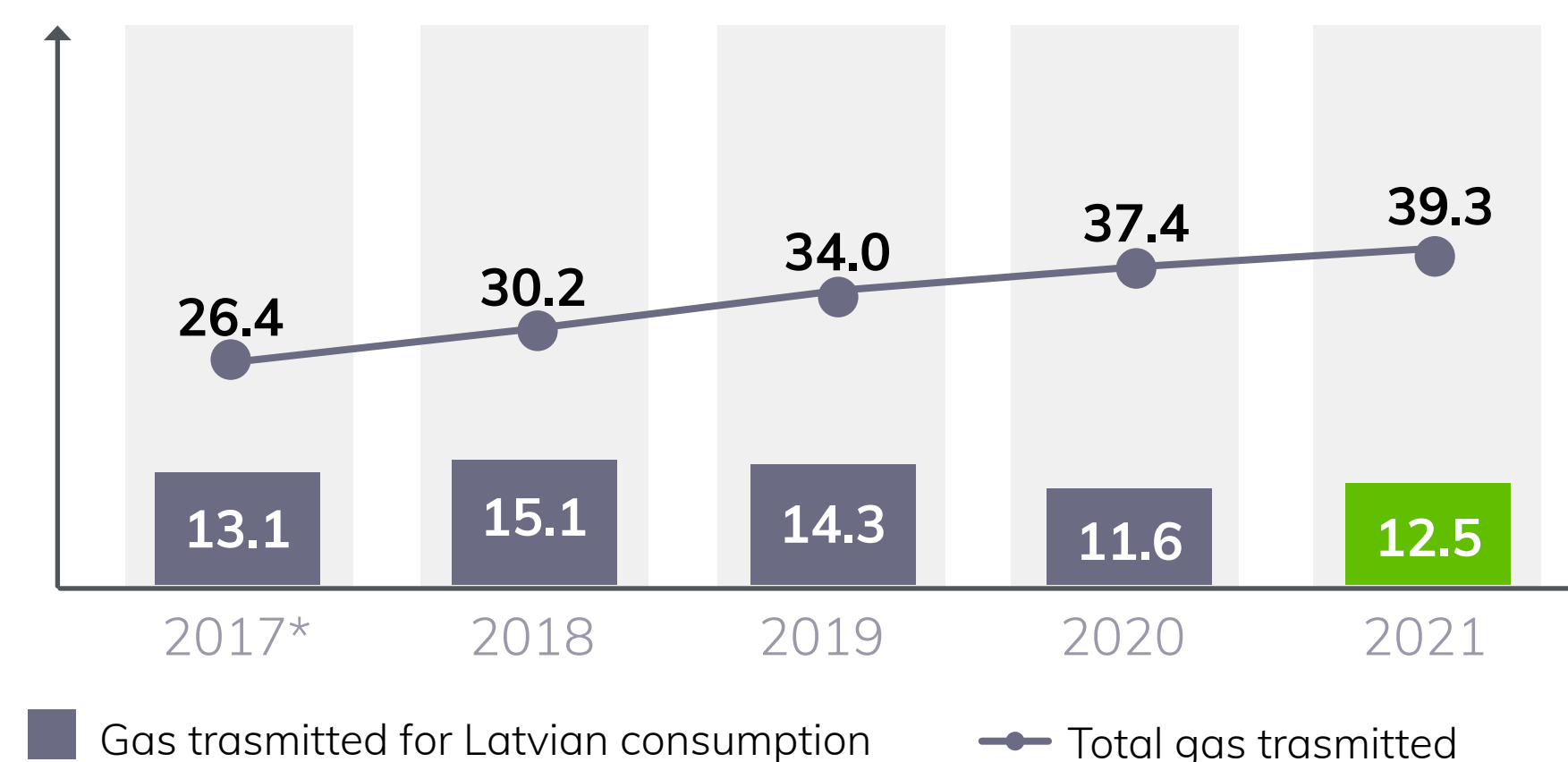
Total volume of natural gas 5% higher than prior year

Conexus successfully adapted its activities to the emergency conditions created by Covid-19 pandemic, thanks to the digitalisation activities carried out in recent years. Despite the difficult conditions at global and national level, the Company was able to ensure safe operation of infrastructure and access to natural gas transmission and storage services. Thus, the emergency situation related to Covid-19 did not significantly affect the Company's operational and financial results.

In 2021, Conexus provided safe and uninterrupted natural gas supply for the consumption of Latvia, Lithuania, Estonia and Finland. Total volume of gas transmitted reached 39,3 TWh, which is 5% more than in prior year. Volume withdrawn from Inčukalns UGS reached 17,9 TWh, which is 55% more than the year before. However, natural gas transmitted from Lithuania has decreased by 78%, reaching only 1,7 TWh. Natural gas transmitted for consumption in Latvia reached 12,5 TWh, which is 8% more than the respective period the year before. This increase is attributed to this year's weather conditions, as winter in Latvia was colder than in previous years. During the reporting period, 13 TWh of natural gas were injected into Inčukalns UGS,

6% less than previous year. The natural gas transmitted for Lithuania's consumption during the reporting period increased 1.8 times, reaching 3 TWh. This increase happened in the first quarter of the year, when, in accordance with information of Klaipėda oil terminal tankers' schedule, at the end of January one gas delivery was cancelled and the required gas volume was provided using Inčukalns UGS.

Transmitted gas, TWh



*04.01.2017-31.12.2017

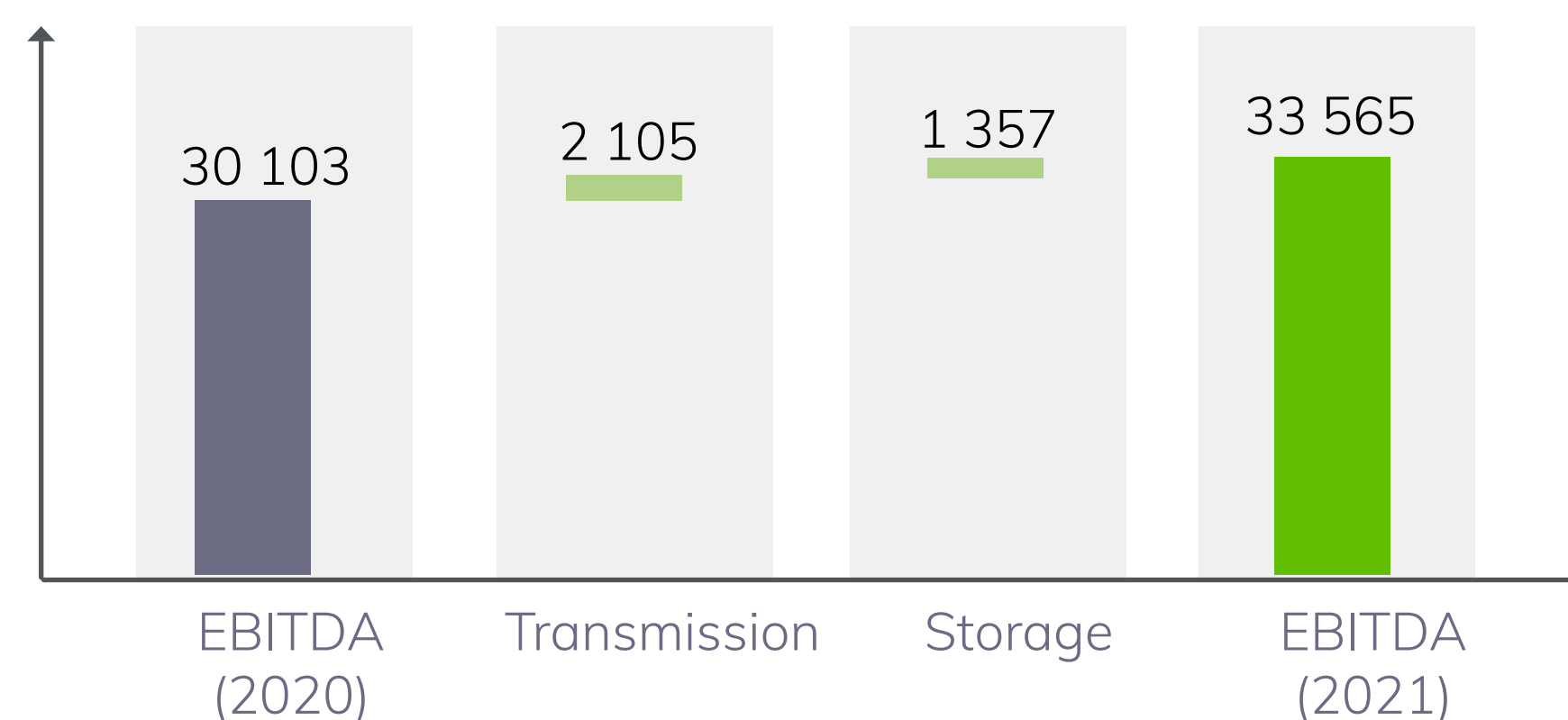
Financial indicators are positively affected by the Inčukalns UGS capacity product reservations

The 2021/2022 Inčukalns UGS storage service capacity reservations reached 18.9 TWh, which is 12% less than in 2020/2021. However, the varied product types reserved by the market participants, as well as storage tariffs ensured increase of 10% to the capacity product revenue.

Profit generated during the reporting year is on a similar level as prior year

The net turnover in the reporting period was 56 439 thousand EUR, which is 5% more than in the prior year's respective period. The Company's EBITDA during the reporting period increased by 12% in comparison to 2020, reaching 33 565 thousand EUR. Both revenue and EBITDA were positively affected by revenue from storage services. Although Inčukalns UGS storage service reserved capacity has decreased from 21,5 TWh in 2020/2021 storage cycle to 18,9 TWh in 2021/2022 storage cycle, the variations of products reserved by market participants and different applicable tariffs ensured an increase of the reporting period's revenue by 2 201 thousand EUR, in comparison to the previous year. EBITDA was positively affected by the auction expenses in relation to ensuring the natural gas supply, which were significantly lower (by 1 445 thousand EUR), in comparison to the previous year.

EBITDA, '000 EUR



During the reporting period, the Company's net profit was 13 217 thousand EUR, which is 105 thousand EUR more than in prior year.

MAIN FINANCIAL INDICATORS	2021 or 31.12.2021	2020 or 31.12.2020	+/-	%
	EUR'000	EUR'000		
Net turnover	56 439	53 867	2 572	5%
EBITDA	33 565	30 103	3 462	12%
Net profit	13 217	13 112	105	1%
Segment assets	468 070	453 092	14 978	3%
Investments	27 352	22 118	5 234	24%

Dividends

During 2021, the capital structure of the Company was optimised by increasing the share of borrowed capital, bringing it closer to energy sector's characteristic level. At the same time, high capital adequacy ratio was maintained, which allowed to pay out higher dividends to shareholders from previous years' retained earnings in amount of 85 142 thousand EUR (2,14 EUR per share).

Financing and liquidity

The financial assets at the Company's disposal are sufficient to meet the Company's needs. During the reporting period Company has received long term loans from Nordic Investment Bank and AS "SEB banka", concluded overdraft agreements with JSC "Swedbank", AS "SEB banka" and OP Corporate Bank plc Latvia, as well as extended the repayment term of the loan from OP Corporate Bank plc Latvia. At the end of the reporting period, the total amount of the Company's borrowings is 98 056 thousand EUR, including overdraft in amount of 24 950 thousand EUR. Out of overdraft facilities available to Co-

nexus in total amount of 90 million EUR, 65 million EUR are unused at 2021 year end, which ensures a significant liquidity reserve. The agreement terms for the unused overdrafts reach beyond 1 year.

At the end of the reporting period the weighted average interest rate of long-term borrowings is 0.37% (2020: 0.6%).

All financial covenants set in the Company's loan agreement have been complied with during the reporting period.

CONEXUS FINANCIAL COVENANTS	31.12.2021	31.12.2020
Shareholders' equity ratio (>50%)	71%	89%
Net debt to EBITDA ratio (<5)	2.97	0.76
Debt-Service Coverage Ratio (DSCR) (>1.2)	3.73	8.26

Regulatory activities

New storage service tariffs for the next five years

On 1 March 2021, PUC approved new storage service tariffs, which are effective from 1 May 2021 and are intended for a regulative period of 5 years (from 1 May 2021 until 30 April 2026). Such period allows to equalize the future revenue over the whole regulative period and provides stability and predictability for market participants. The PUC's decision determines several tariff periods, at the same time the Company was granted a permission by PUC council decision No "1/15 Natural gas storage system service tariff calculation methodology" dated 8 October 2020, to determine storage service tariffs for each tariff period independently, if in accordance with the Methodology the planned revenue required adjustments.

Approved tariffs for storage service products are published on the Company's website: <https://www.conexus.lv/uzglabasanas-pakalpojumu-tarifi-20212022>

Along with the approval of new storage tariffs for the next five years, an auction principle for capacity reservations has been introduced, which was a necessary solution to ensure transparency of capacity reservations for market participants. The auction mechanism is a widely used solution in Europe and has showed its efficiency, at the same time enabling the Company as the service provider to ensure transparent usage of the storage for market participants.

During the reporting period, several Inčukalna UGS capacity auctions were held, as a result, system users were granted 13,9 TWh – 11,6 TWh for one year bundled capacity product of 2021/2022 storage cycle, 2 TWh for two year bundled capacity product of 2021/2023 storage cycle and 0,26 TWh interruptible capacity product.

The fee for the use of exit point for the supply of natural gas users in Latvia has decreased by 3,7%

The new tariff for the use of the exit point for Latvian natural gas users 1.9296946 EUR/MWh is in effect from 1 October 2021 until 30 September 2022, thus a slight price reduction for end-users is ensured in line with the increase in natural gas costs. The tariff level is closely linked to the auction expenses for ensuring the natural gas supply and is recalculated annually accordingly.

Legal events

- ◆ On 18 September 2018 Conexus filed an application to the District administrative court against the decision No. 69 of the Regulator council “On JSC “Conexus Baltic Grid” natural gas transmission system tariffs” dated 18 June 2018, in relation to expenses not being included in the transmission system tariff project and issuance of a new administrative act, intending to include the excluded expenses in tariff project in the next period. With the decision of the District administrative dated on 7 April 2020 the application was rejected. Conexus submitted an appeal in cassation to the Department of Administrative Cases of the Senate on 7 May 2020 and the cassation proceedings have been initiated, but the date of the hearing is not known 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 on the capital rate of return for the calculation of the tariff project for natural gas transmission system, natural gas distribution system and natural gas storage services. By the decision of the Regional Administrative Court of 12 October 2021, the proceedings on the merits have been re-initiated and the next proceeding is scheduled for the 26 May 2022.

Other activities

In 2021, for the fourth year in the row, Conexus arranged several auctions for storage of active natural gas and availability thereof in Inčukalns UGS during the season 2021/2022, which is required to ensure the Latvian natural gas supply during an energy crisis or in case of national threats.

These auctions are required to fulfil Regulation No. 312 “Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State” adopted by the Cabinet of Ministers on 19 April 2011. As a result of several auctions, total natural gas volume ensured by storage obligations reached 2 350 thousand MWh at the end of injection season. In accordance with the regulations, this volume has been agreed with both Ministry of Economics and PUC.

The volume of natural gas in Inčukalns UGS as at 31 December was 12,3 TWh. Supplies of natural gas from Inčukalns UGS to traders and users are not limited, therefore the natural gas balance is sufficient for withdrawal for Latvian consumption during the season.

In 2021 active work continues on implementation of European common interest projects

Total investments into Inčukalns UGS enhancement project and Enhancement of Latvia-Lithuania Interconnection (ELLI) comprise 93,5 million EUR, and for their fulfilment a loan agreement with Nordic Investment Bank in amount of 30 million EUR was concluded on 26 February 2021, with repayment term until 4 March 2038.

As part of Inčukalns UGS enhancement project, during 2021 modernisation of existing gas compression unit 12x330 No.3 was successfully completed. In addition, technical measures were taken to enable the plant to be further used, for the first time in storage facility’s history, for natural gas compression withdrawal from storage during spring months, when the available active natural gas balance in storage is low. Usage of compressor will significantly improve the continuity and security of natural gas supply in high demand conditions also at the end of withdrawal season.

During the reporting period, investments were made in amount of 27,4 million EUR, 55% of which were as part of European common interest projects.

Transmission system operators sign memorandum of understanding on promoting the development of green gases

The gas transmission system operators Conexus (Latvia), Elering AS (Estonia), AB Amber Grid (Lithuania) and Gasgrid Finland Oy (Finland) have signed a Memorandum of Understanding (MoU) on promoting the development of green gases (also called renewable gases).

Green gases, for example, biomethane, synthetic methane or renewable hydrogen, are gases that are produced from renewable energy sources. Green gases contribute to diversification of renewable energies and higher flexibility of the European Union’s (EU) energy system. Considering the goals of National Energy and Climate Plans, European Green Deal and by signing the MoU, transmission system operators of Latvia, Lithuania, Estonia and Finland identified potential areas of green gas research, development and cooperation to work towards decarbonisation and sustainability.

The gas transmission system operators of Estonia, Finland, Latvia, and Lithuania started preparation of research and development study of technical capabilities for injection and transportation of hydrogen in gas grid

Conexus has begun a research of integration of hydrogen technology in the current gas infrastructure, as part of the European Green Course. By union of four national gas transmission system operators – JSC Conexus Baltic Grid, Elering AS (Estonia), AB Amber Grid (Lithuania) and Gasgrid Finland Oy (Finland), a Hydrogen Baltic Coordination group (H2BCG) has been set up, the first aim of which will be to carry out a joint study on the transport and input of hydrogen into the existing gas transmission system.

Operators from the four countries mentioned above have carried out a joint cross-border public procurement procedure for the preparation of a Project Plan that will provide a basis for the transmission system operators to carry out a procurement for a research and development project regarding hydrogen blending possibilities in the Estonian, Finnish, Latvian and Lithuanian gas transmission systems and the investigation of necessary investments according to different hydrogen blending volumes. On 13 October the agreement to prepare a Project Plan was signed with the procurement winner GRTGaz's dedicated Research & Innovation Center for Energy (RICE).

The first direct connection to the gas transmission system has been put into service

The connection was constructed in Priekuļi and its construction was carried out by the company of compressed natural gas - "GasOn" LTD, project investment reached around 1 million EUR. Thanks to the

installation of a direct connection, the gas producer of compressed natural gas "GasOn" LTD will have the possibility to receive gas from transmission system, which provides several benefits in the production process – higher starting pressure and lower energy consumption. The result is lower costs and the overall solution is more environmentally friendly.

Fulfilment of the storage at the beginning of withdrawal season reaches 80%

At the end of 2021/2022 natural gas injection season, in Inčukalns UGS stored 17,4 TWh of natural gas. Reaching 80% of maximum volume of stored active natural gas, despite unfavourable commercial conditions, the volume in storage is higher than in 2017-2018 storage cycles. During the last three years, average consumption in Latvia during heating season has been 8,7 TWh. This allows to conclude that the volume of injected natural gas significantly exceeds the heating season consumption in Latvia.

Changes in the Council

On May 12, the shareholders' meeting elected the Company's Council with changes in its current composition. 7 members of the Council have been approved for a term of three years. Also, the shareholders' meeting approved new version of statutes, as well as board and council members' remuneration policy.

Main financial indicators

		2017 or 31.12.2017	2018 or 31.12.2018	2019 or 31.12.2019	2020 or 31.12.2020	2021 or 31.12.2021	Δ	Δ %	
Operating indicators	Transmitted natural gas	TWh	26.4	30.2	34.0	37.4	39.3	1.9	5%
	Total amount of natural gas stored by system users in Inčukalns UGS at the beginning of withdrawal session	TWh	15.0	13.2	17.7	21.5	17.4	(4.1)	-19%
	Natural gas for consumption in Latvia	TWh	13.1	15.1	14.3	11.6	12.5	1.0	8%
	Volume of natural gas withdrawn from Inčukalns UGS	TWh	10.0	12.6	10.5	11.6	17.9	6.4	55%
Financial indicators	Net turnover	`000 EUR	49 356	54 174	59 343	53 867	56 439	2 572	5%
	EBITDA	`000 EUR	24 963	28 995	34 216	30 103	33 565	3 462	12%
	Net profit	`000 EUR	17 021	13 306	17 945	13 112	13 217	105	1%
	Segment assets	`000 EUR	362 988	361 563	362 400	453 092	468 070	14 978	3%
	Investments	`000 EUR	15 364	14 837	13 944	22 118	27 352	5 234	24%
	Depreciation	`000 EUR	18 544	15 500	16 080	16 823	17 806	983	6%
Financial coefficients	EBITDA profitability	%	51%	54%	58%	56%	59%	4%	6%
	Net profitability	%	34%	25%	30%	24%	23%	-1%	-4%
	Return on Equity ratio (ROE)	%	5.9%	4.3%	5.8%	3.5%	3.6%	0.1%	3.3%
	Shareholders' equity ratio*	%	86%	86%	87%	89%	71%	-18%	-20%
	Net debt to EBITDA ratio**	coef.	0.58	0.93	0.59	0.76	2.97	2.21	290%
	Debt-service Coverage Ratio (DSCR)***	coef.	-	7.86	9.33	8.26	3.73	(4.53)	-55%
Average number of employees	number	356	350	343	341	352	11	3%	

Financial covenants:

*Shareholders' equity ratio > 50%

** Net debt to EBITDA ratio < 5

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

Results of segments' operations

Business of the Company is organized in two segments: transmission and storage of natural gas. This division is based on internal organizational structure of the Company, which serves as a basis for regular supervision of its business results, for making decisions on assignment of resources to segments, and for assessing the Company's operating performance. Information in the operating segments matches the information used by the persons responsible for taking operational decisions.

Transmission

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

The main natural gas transmission system is 1 190 km long and is directly connected to the natural gas transmission systems of Lithuania, Estonia and Russia, ensuring both the transmission of natural gas in regional gas pipelines in the territory of Latvia and interconnections with the natural gas transmission systems of neighbouring countries:

- the diameter of international gas pipelines is 720 mm with the operating pressure between 28 and 40 bars;
- the diameter of regional gas pipelines is between 400 mm and 530 mm with the operating pressure up to 30 bars;
- a virtual exit point is provided for the supplies of natural gas to Latvian users, which compiles all technically feasible exits in the territory of Latvia. To transport the natural gas to the local distribution system in Latvia, 40 gas adjustment stations are used.

54% of Conexus assets are attributed to Transmission segment, and also in terms of revenue and EBITDA it is the largest.

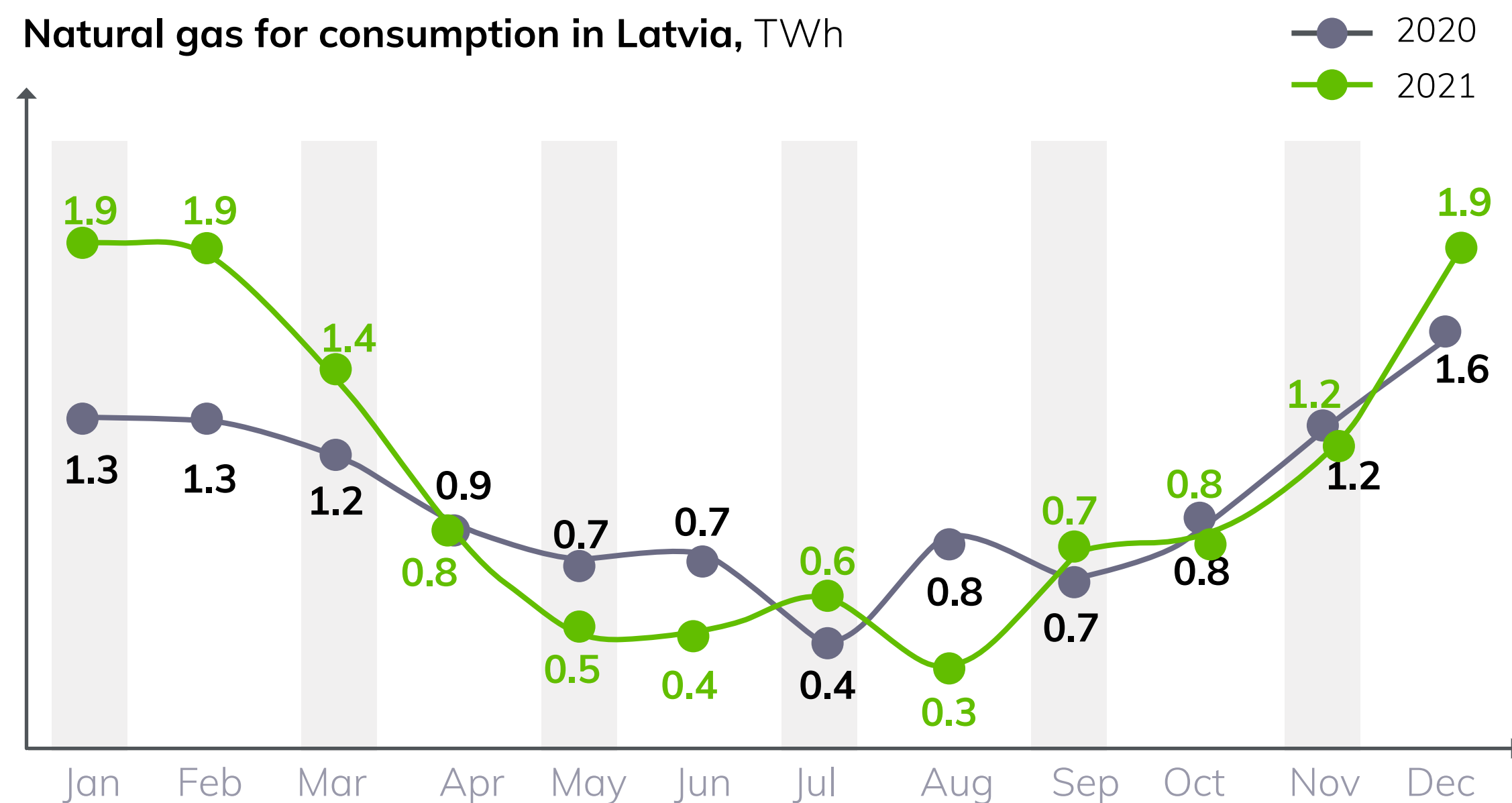
In 2021, Conexus provided safe and uninterrupted natural gas supply for the consumption of Latvia, Lithuania, Estonia and Finland. Total volume of gas transmitted reached 39,3 TWh, which is 5% more than in prior year. Volume withdrawn from Inčukalns UGS reached 17,9 TWh, which is 55% more than the year before. However, natural gas transmitted from Lithuania has decreased by 78%, reaching only 1,7 TWh. Natural gas transmitted for consumption in Latvia reached 12,5 TWh, which is 8% more than the respective period the year before. This increase is attributed to colder weather this year. During the reporting period, 13 TWh of natural gas were injected into Inčukalns UGS, 6% less than previous year. The natural gas transmitted for Lithuania's consumption during the reporting period increased 1,8 times, reaching 3 TWh. This increase happened in the first quarter of the year, when, in accordance with information of Klaipėda oil terminal tankers' schedule, at the end of January one gas delivery was cancelled and the required gas volume was provided using Inčukalns UGS.

In 2021, transmission revenue was positively affected by the actual air temperatures, which were lower than in 2020. As a result, the total demand for gas for heating purposes was higher than in the respective period of prior year, which ensured 806 thousand EUR higher revenue from the usage of exit point for consumption in Latvia.

Increase of volume of natural gas transmitted to Lithuania led to increase of transmission service revenue from Kiemenai (Lithuania) exit point. Revenue increased by 624 thousand EUR.



Natural gas for consumption in Latvia, TWh



At the end of 2020/2021 Inčukalns UGS withdrawal season, system users had left 5 TWh of natural gas at the storage, therefore this year's regional entry capacity decreased by 19% in comparison to the previous period. As a result, Latvia's share of the regional entry capacity product reservation revenue (ITC revenue) decreased by 1 059 thousand EUR.

The auction expenses in relation to ensuring the natural gas supply in 2021 were 1 445 thousand EUR lower than the comparative period the year before. This was the main factor that led to transmission segment's EBITDA increase by 2,1 million EUR, in comparison to the respective period of 2020.

The revenue of the transmission segment during the reporting period was 32,4 million EUR and EBITDA reached 18,8 million EUR, representing 56% of the Company's total EBITDA.

Net profit of the transmission segment amounted to 6,9 million EUR (1% more than in prior year).

TRANSMISSION	2021 or 31.12.2021	2020 or 31.12.2020	+/-	%
	EUR'000	EUR'000		
Net turnover	32 443	32 072	371	1%
EBITDA	18 787	16 682	2 105	13%
Segment Net Profit	6 869	6 829	40	1%
Segment assets	250 660	242 138	8 522	4%
Depreciation and amortisation	10 321	9 758	563	6%
Investments	10 579	9 062	1 518	17%

The Company's activities are regulated, and the regulatory periods differ from the financial year. In accordance with Natural gas transmission system service tariff calculation methodology, during the tariff cycle, deviations of income and expenses may occur against allowed revenues, which will affect tariff values in subsequent tariff cycles.

In transmission segment, such deviations can occur due to actual natural gas consumption differing from that planned in tariff calculations, which leads to revenue adjustment. Actual transmission segment revenue, generated during gas year from 1 October 2020 until 30 September 2021, is 31,9 million EUR, which is 2,4 million EUR lower than planned as per approved tariff project. During the previous tariff period from 1 January 2020 until 30 September 2021, the ungained revenue was EUR 1,5 million EUR. Next transmission tariff period's allowed revenue will be increased by the ungained revenue amount.



The transmission segment's assets at the end of the reporting period amounted to 251 million EUR, which comprised 54% of the total assets of the Company. During the reporting period, capital investments were made in amount of 10,6 million EUR. Largest investments:

- ◆ Within the framework of the European project of common interest "Enhancement of Latvia -Lithuania Interconnection" (ELLI), the Company invested a total of 1,2 million EUR in several sub-projects during 2021. During the reporting period 3 activities out of 17 planned activities have been completed:
 - Complex diagnostics of transmission gas pipelines (TGP);
 - Reconstruction of TGP Riga-Inčukalns UGS branches at the connection valve to the gas regulation station "Riga-1"
 - Reconstruction of TGP Rīga-Paņevēža connection valve.
- ◆ Replacement works of 16 km branch of TGP Izborska-Inčukalns UGS were completed in amount of 4 million EUR, including performing reconstruction works underneath 5 main roads and elimination of 65 defects that were detected during diagnostics.
- ◆ TGP repairs and anti-corrosion isolation renewal works were performed in amount of 2 million EUR.

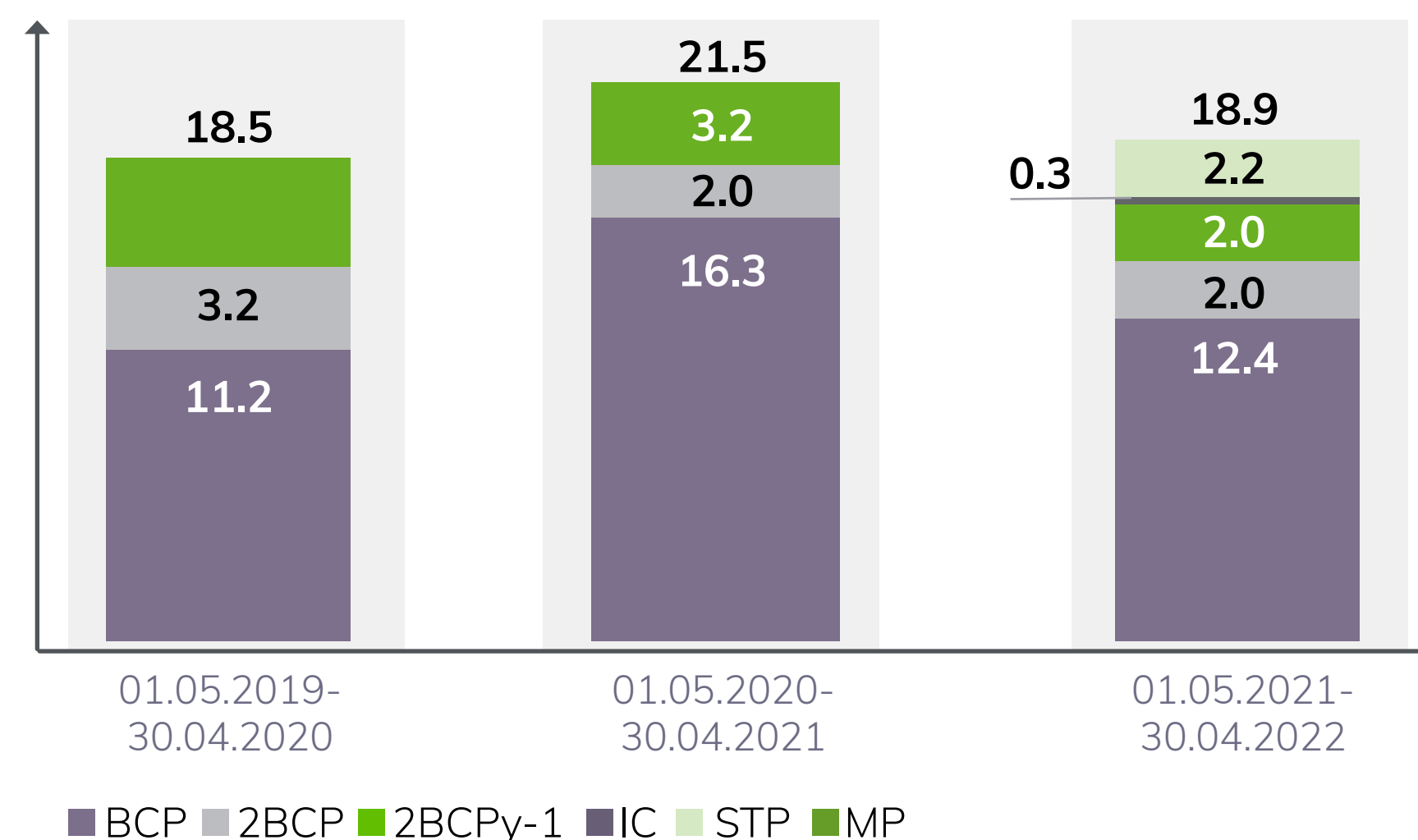
During 2021, a construction project "Reconstruction of 2,15 km branch of transmission gas pipeline Valdaja-Pleskava-Rīga" was devised. Project's implementation is planned in 2022.

Storage

The natural gas storage segment provides the natural gas storage required for the heating season and other needs of the system users in the Inčukalns UGS.

The 2021/2022 Inčukalns UGS capacity reservations reached 18,9 TWh, which is 12% less than previous year. However, the varied product types reserved by the market participants, as well as storage tariffs ensured increase of capacity product revenue by 2 201 thousand EUR, in comparison to the previous year. Most of this increase in revenue is due to the reserved capacity of the stock transfer product (STP) in amount of 2,2 TWh.

Storage reservations by products, TWh



As part of Inčukalns UGS modernisation project fulfilment, assets in amount of 0,4 million EUR were written off, which directly impacts storage segment's expenses and consequently reduced EBITDA and profit.

The storage segment revenue during the reporting period was 24 million EUR and EBITDA reached 14,8 million EUR. The storage segment profit reached 6,3 million EUR.

STORAGE	2021 or 31.12.2021	2020 or 31.12.2020	+/-	%
	EUR'000	EUR'000		
Net turnover	23 996	21 795	2 201	10%
EBITDA	14 778	13 421	1 357	10%
Segment Net Profit	6 348	6 283	65	1%
Segment assets	217 410	210 954	6 457	3%
Depreciation and amortisation	7 485	7 065	420	6%
Investments	16 772	13 056	3 716	28%

In accordance with Natural gas storage system service tariff calculation methodology, during the tariff cycle, deviations of income and expenses may occur against allowed revenues, which will affect tariff values in subsequent tariff cycles. In storage segment, such deviations are accrued in a regulatory account. During the storage tariff period from 1 May 2021 until 30 April 2022, storage service revenue was generated in amount of EUR 26 million, which is EUR 1,8 million more than allowed revenue for this period. These EUR 1,8 million are included in the regulatory account. Revenue included in the regulatory account will impact next tariff period's allowed revenue.

Storage segment's assets at the end of the reporting period amounted to 217 million EUR, which comprised 46% of the total assets of the Company. During 2021, capital investments were made in amount of 16,8 million EUR, which was 3,7 million EUR more than in prior year. Largest investments - reconstruction of bores, gas compression unit of Compressor Unit 2 modernization and gas collection point 3, in total amount of 14 million EUR, were made within the framework of the European major project of common interest PCI 8.2.4. "Enhancement of Inčukalns UGS":

- As part of renovation of 36 wells, during 2021, 12 wells were accepted into use, comprising a total of 21 out of 36 wells completed to date. During 2021, reconstruction of wells was made in amount of EUR 8,4 million EUR. Total investments into well reconstruction since the beginning of the project reached 19,9 million EUR.
- Within the modernisation of existing gas compression units (GCU), modernisation of compressor workshop's No.2 compression unit No.3 was completed, investments during 2021 totalling 3,6 million EUR. Equipment purchases and modernisation works have been commenced on compressor workshop's No.2 compressor units No.2 and 4. Total investments since the beginning of the project comprise 6,5 million EUR.
- During 2021, contracts were concluded for purchase of necessary equipment for improvement of gas collection point's No.3 surface plants, in total amount on 9,5 million EUR. Delivery of equipment is planned in 2022. Total amount of all contracts concluded to date for development of the construction project, project supervision and equipment is 11,1 million EUR. Until now, works have been completed for total amount of 2,5 million EUR, including 1,9 million EUR during 2021. As part of the project, two construction permits were obtained for two stages of construction works.
- Construction planning documentation has been devised for installation of gas compression unit in the gas compressor workshop No.1, as a result of which, construction permit was obtained. At the same time, procurement is in process for purchase of gas compression unit complex. Total investments to date comprise 0,4 million EUR.

Further development

- ◆ In 2022, active work will continue on the project “Enhancement of Inčukalns UGS”, during which by 2025 it is planned to significantly improve the technical infrastructure and equipment safety, for the purpose of the Inčukalns UGS retaining its functionality after increase of pressure within the Baltic transmission network;
- ◆ Work will continue on the increase of Latvia-Lithuania transmission gas pipe capacity with the aim of facilitate access to the Klaipėda liquid gas terminal, Latvia’s Inčukalns UGS and Poland-Lithuania’s gas interconnection, which is planned to be put into operation in 2022;
- ◆ To finance further transmission and Inčukalns UGS capital investments programme, Conexus plans to issue bonds in 2022. This will be a significant step for the Company which will allow to differentiate financing sources and to gain recognition in the capital markets.
- ◆ In accordance with the European green deal to Europe climate neutral by 2050, Conexus has joined the *European Hydrogen Backbone* initiative, which is comprised of European gas transmission system operators’ group that has developed proposals for development of hydrogen-related infrastructure, as well as participates in European gas infrastructure (GIE) gas storage research project “Demonstration of underground hydrogen storage roads and values corresponding to the future hydrogen energy market”.

- ◆ Finnish and Baltic gas transmission system operators continue regional market integration:

Natural gas market participants have expressed the need to extend the current Estonia-Finland-Latvia entry tariff area to include Lithuania in order to remove the current tariff barrier at the Lithuania-Latvia interconnector Kiemėnai. Further to the regional market integration initiated in 2019, the transmission system operators of Latvia, Lithuania, Estonia and Finland, Conexus, AB Amber Grid, Elering AS and Gasgrid Finland Oy, are working on a solution to include Lithuania in the zone without internal tariff barriers. This would create better conditions for market participants to operate across the region while providing more added value to end consumers of natural gas. The proposed tariff area model foresees harmonised, uniform tariff setting for external borders, allowing for discounts at entry points from alternative gas sources.

- ◆ During 2021, construction of Conexus new office building took place at Stigu street 14 in Riga, according to schedule. The building is scheduled to be put into operation in March 2022. The office building project was developed with the aim to reduce fragmentation of employees’ locations.

Subsequent events

In response to geopolitical developments in Europe, Conexus, as a critical infrastructure company, is conducting enhanced risk assessments in the areas of cyber security and securing natural gas transmission and storage. In order to reduce energy supply risks, Conexus has taken the necessary actions to increase the volume of natural gas in the storage facility and has started pumping gas into the Inčukalns UGS as of February 27, 2022. Conexus management handles administrative matters promptly to ensure the continuity of supply of goods and services required for its core business. Although uncertainty about the impact of events on Conexus' future operations has increased, no circumstances have been identified to date that would affect the value of the assets or jeopardize the going concern basis. According to management's assessment, there are no subsequent events since the last date of the reporting year, which would have a significant effect on Conexus financial statements for 2021.

Proposed distribution of the profit

The decision on the distribution of profit and the amount of dividends is made by the shareholders' meeting of JSC Conexus Baltic Grid. The profit of JSC Conexus Baltic Grid for 2021 is EUR 13 217 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
RAB	regulated asset base
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 (over the reporting period)/equity average value
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
BCP	1 year bundled capacity product
2BCP	2 year bundled capacity product
2BCP-1	2 year bundled capacity product from previous storage cycle
ICP	interruptible capacity product
STP	stock transfer product
MP	market product (no longer offered)

STATEMENT OF THE BOARD'S RESPONSIBILITY

The Board of the Company is responsible for preparing its financial statements. The financial statements of the Company for 2021 were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, providing true and fair view of the financial position of the Company, its operational results and cash flow.

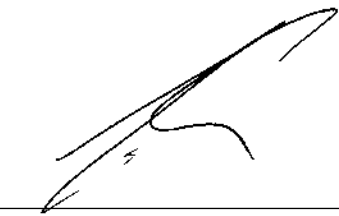
The financial statements are approved by the Company's Board on 18 March 2022 and signed by:



ULDIS BARISS
Chairman of the Board



GINTS FREIBERGS
Member of the Board



MĀRTIŅŠ GODE
Member of the Board

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FINANCIAL STATEMENTS

INCOME STATEMENT

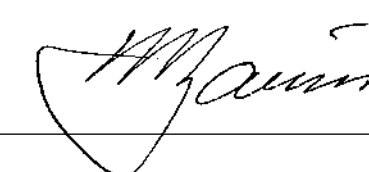
	Notes	2021	2020 (reclassified*)
		EUR	EUR
Revenue	2	56 439 108	53 867 296
Other income	3	1 110 469	1 352 349
Maintenance and service costs	4	(8 098 711)	(9 746 733)
Personnel expenses	5	(12 183 958)	(12 067 353)
Other operating costs	6	(3 701 730)	(3 302 286)
Depreciation, amortisation, and impairment of property, plant and equipment	8, 9, 11	(17 805 749)	(16 822 935)
Operating profit		15 759 429	13 280 338
Finance costs	7	(286 057)	(168 532)
Profit before tax		15 473 372	13 111 806
Corporate income tax	23	(2 256 640)	-
Profit for the year		13 216 732	13 111 806

*See note 29

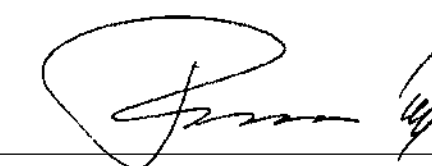
STATEMENT OF COMPREHENSIVE INCOME

	Notes	2021	2020
		EUR	EUR
Profit for the year		13 216 732	13 111 806
Other comprehensive income / (loss):			
Property, plant and equipment revaluation	16	-	92 100 425
Remeasurement of post - employment benefits as a result of changes in actuarial assumptions	18	(328 222)	26 238
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		(328 222)	92 126 663
Total comprehensive income for the year		12 888 510	105 238 469

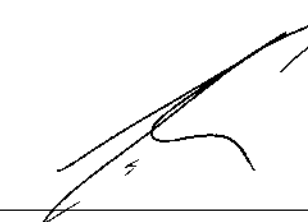
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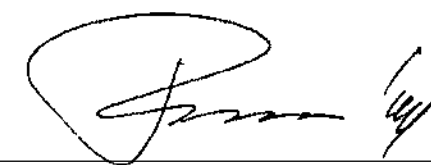
STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2021.	31.12.2020.
ASSETS		EUR	EUR
Long-term investments			
Intangible assets	8	2 041 249	1 872 671
Advances for intangible assets		6 720	-
Property, plant and equipment	9	430 671 322	421 969 878
Advances for property, plant and equipment		2 332 465	2 052 901
Long-term deferred expenses	10, 15	1 108 651	1 209 438
Right-of-use assets	11	451 108	503 584
Total long-term investments:		436 611 515	427 608 472
Current assets			
Inventories	12	2 626 539	3 021 003
Receivables from contracts with customers	13	13 373 794	6 855 249
Other receivables	14	365 186	93 002
Deferred expenses	10,15	417 139	350 493
Cash and cash equivalents	27	14 676 110	15 163 736
Total current assets:		31 458 768	25 483 483
TOTAL ASSETS:		468 070 283	453 091 955

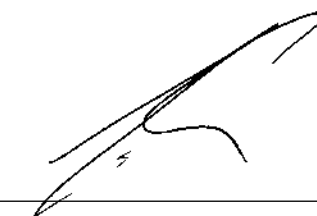
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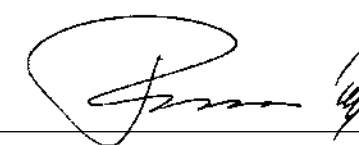
STATEMENT OF FINANCIAL POSITION (continued)

	Notes	31.12.2021.	31.12.2020.
EQUITY AND LIABILITIES		EUR	EUR
Equity:			
Share capital		39 786 089	39 786 089
Own shares		(25 320)	(34 678)
Reserves	16	216 230 918	224 758 592
Retained earnings		76 412 620	140 138 666
Total equity:		332 404 307	404 648 669
Non-current liabilities			
Borrowings from credit institutions	19	60 282 986	-
Deferred income	17	18 156 045	10 781 736
Employee benefit obligations	18	1 374 135	1 028 494
Non-current lease liabilities	11	447 940	453 852
Total non-current liabilities:		80 261 106	12 264 082
Current liabilities			
Borrowings from credit institutions	19	37 772 866	21 875 000
Trade payables	20	7 290 495	7 637 032
Other liabilities	20	2 458 791	1 787 955
Accrued liabilities	21	6 129 608	2 912 784
Deferred income from contracts with customers	17	237 284	903 165
Deferred income, other	17	539 618	349 765
Advances from customers		956 811	653 285
Current lease liabilities	11	19 397	60 218
Total current liabilities:		55 404 870	36 179 204
TOTAL EQUITY AND LIABILITIES:		468 070 283	453 091 955

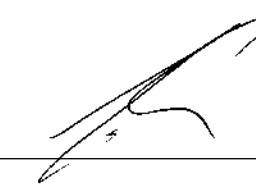
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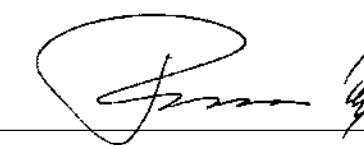
STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Own shares	Reserves	Retained earnings	Total
		EUR	EUR	EUR	EUR	EUR
Opening balance at 01.01.2020		39 786 089	(36 471)	140 629 827	135 341 259	315 720 704
Dividends		-	1 793	-	(16 312 297)	(16 310 504)
Reduction of revaluation reserve	16	-	-	(7 997 898)	7 997 898	-
<i>Other comprehensive income:</i>						
Increase of revaluation reserve	16	-	-	92 100 425	-	92 100 425
Revaluations of post-employment benefits as a result of changes in actuarial assumptions	18	-	-	26 238	-	26 238
<i>Total other comprehensive income</i>		-	-	<i>92 126 663</i>	-	<i>92 126 663</i>
Profit for the year		-	-	-	13 111 806	13 111 806
<i>Total</i>		-	1 793	84 128 765	4 797 407	88 927 965
At 31 December 2020		39 786 089	(34 678)	224 758 592	140 138 666	404 648 669
Opening balance at 01.01.2021		39 786 089	(34 678)	224 758 592	140 138 666	404 648 669
Dividends		-	9 358	-	(85 142 230)	(85 132 872)
Reduction of revaluation reserve	16	-	-	(8 199 452)	8 199 452	-
<i>Other comprehensive income:</i>						
Revaluations of post-employment benefits as a result of changes in actuarial assumptions	18	-	-	(328 222)	-	(328 222)
<i>Total other comprehensive income</i>		-	-	<i>(328 222)</i>	-	<i>(328 222)</i>
Profit for the year		-	-	-	13 216 732	13 216 732
<i>Total</i>		-	9 358	(8 527 674)	(63 726 046)	(72 244 362)
At 31 December 2021		39 786 089	(25 320)	216 230 918	76 412 620	332 404 307

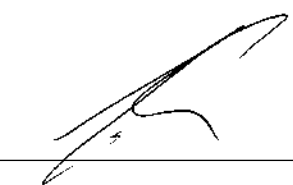
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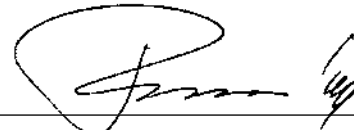
STATEMENT OF CASH FLOWS

	Notes	2021	2020
		EUR	EUR
Cash flow from operating activity			
Profit before corporate income tax		15 473 372	13 111 806
Adjustments:			
- depreciation of property, plant and equipment	9	17 043 338	16 191 661
- depreciation of the right-of-use assets	11	93 452	86 547
- amortisation of intangible assets	8	668 959	544 726
- loss from disposal of PPEs		580 740	631 746
- changes in provisions	12,18	345 641	(74 207)
- recognised EU co-financing	3	(383 814)	(300 970)
- interest expense		284 845	169 875
Changes in the working capital:			
- (increase) of receivables from contracts with customers, other receivables and deferred expenses		(6 756 589)	(487 785)
- decrease of inventories		394 464	384 428
- increase of lease liabilities, trade payables, accrued liabilities, advances from customers and other liabilities		2 402 154	5 272 964
Paid corporate income tax		(2 256 640)	-
Net cash flow from operating activity		27 889 922	35 530 791
Cash flow from investing activity			
Acquisition of property, plant and equipment	9	(26 777 566)	(21 095 066)
Acquisition of intangible assets	8	(850 614)	(771 934)
Proceeds from the sale of property, plant and equipment items		70 490	64 499
Received EU co-financing	17	7 817 508	-
Cash flow from investing activity		(19 740 182)	(21 802 501)
Cash flow from financing activity			
Interest paid	19	(224 627)	(144 939)
Borrowings received	19	84 949 950	-
Borrowings repaid	19	(8 769 097)	(3 500 000)
Lease payments	11	(110 560)	(111 718)
Dividends paid	23	(84 483 032)	(16 312 297)
Net cash flow from financing activity		(8 637 366)	(20 068 954)
Net cash flow		(487 626)	(6 340 664)
Cash and cash equivalents at the beginning of the reporting period		15 163 736	21 504 400
Cash and cash equivalents at the end of the reporting period		14 676 110	15 163 736

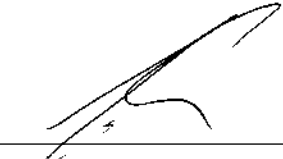
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NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE INCOME STATEMENT

1. SEGMENT INFORMATION A

Description of segments

Conexus derives all of its revenue from regulated services applying the rates established by the regulatory authority. Conexus has two segments:

✦ The natural gas **transmission** segment provides transportation of natural gas through high-pressure pipelines for delivery to Inčukalns UGS, other countries, and the distribution network. The transmission segment generates revenue from capacity trading for natural gas consumption in Latvia as well as international natural gas transportation

✦ The natural gas **storage** segment provides the storage of natural gas required for the heating season and other needs of network users in the Inčukalns underground gas storage facility.

Segmentation is based on Conexus' internal organisational structure, which forms the basis for regular monitoring of operating result making decisions about the resources allocated to the segments and evaluating its performance. The information included in the operating segments coincides with the information used by the person responsible for taking operational decisions. Segment information (segment profit or loss statements and investments made) is regularly submitted to Conexus' Management Board and Supervisory Board.

Reconciliation of segment financial information to Conexus financial information

Segment profit and loss statements for 2021:

	Transmission	Storage	Total	Difference
	EUR	EUR	EUR	EUR
Revenue	32 442 743	23 996 365	56 439 108	-
Other income	674 588	435 881	1 110 469	-
Maintenance and service costs	(4 780 854)	(3 317 857)	(8 098 711)	-
Personnel expenses	(7 255 739)	(4 928 219)	(12 183 958)	-
Other operating costs	(2 293 658)	(1 408 072)	(3 701 730)	-
Depreciation, amortisation, and impairment of property, plant and equipment	(10 320 671)	(7 485 078)	(17 805 749)	-
Finance costs	(179 362)	(106 695)	(286 057)	-
Corporate income tax	(1 418 298)	(838 342)	(2 256 640)	-
Profit for the year	6 868 749	6 347 983	13 216 732	-

Segment profit and loss statements for 2020:

	Transmission	Storage	Total	Difference
	EUR	EUR	EUR	EUR
Revenue	32 072 101	21 795 195	53 867 296	-
Other income	642 201	613 358	1 255 559	-
Maintenance and service costs	(6 353 539)	(3 296 404)	(9 649 943)	-
Personnel expenses	(7 231 841)	(4 835 512)	(12 067 353)	-
Other operating costs	(2 446 772)	(855 514)	(3 302 286)	-
Depreciation, amortisation, and impairment of property, plant and equipment	(9 758 271)	(7 064 664)	(16 822 935)	-
Finance costs	(94 884)	(73 648)	(168 532)	-
Corporate income tax	-	-	-	-
Profit for the year	6 828 995	6 282 811	13 111 806	-

Total assets by segments at 31.12.2021. and investments during 2021:

	Transmission	Storage	Total	Difference
	EUR	EUR	EUR	EUR
Segment assets	250 659 943	217 410 340	468 070 283	-
Investments in property, plant and equipment and intangible assets	10 579 496	16 772 102	27 351 598	-

Total assets by segments at 31.12.2020. and investments during 2020:

	Transmission	Storage	Total	Difference	Starpibas
	EUR	EUR	EUR	EUR	EUR
Segment assets	242 138 220	210 953 735	453 091 955	-	-
Investments in property, plant and equipment and intangible assets	9 061 630	13 055 870	22 117 500	-	-

Geographical information

All operating activities are held in Latvia.

Major customers

Revenue generated during 2021 from the 3 largest customers, which represent at least 10% of the segment's total revenue:

	Transmission	Storage	Total
	EUR	EUR	EUR
Revenue from major customers	26 424 607	17 074 136	43 074 612

Revenue generated during 2020 from the 3 largest customers, which represent at least 10% of the segment's total revenue:

	Transmission	Storage	Total
	EUR	EUR	EUR
Revenue from major customers	26 381 693	15 641 575	42 023 268

2. REVENUE

	IFRS applied	2021	2020
		EUR	EUR
Revenue from transmission services	15.SFPS	32 442 743	32 072 101
Revenue from storage services*	15.SFPS	23 996 365	21 795 195
		56 439 108	53 867 296

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

*including deferred income in the amount of 984 672 EUR (2020: EUR 106 112) for reserved capacity recognised in revenue based on accruals principle. According to the storage cycle, the natural gas withdrawal season begins on October 15 of the respective year and ends on April 30 of the following year.

3. OTHER INCOME

	2021	2020
	EUR	EUR
Balancing income, net	472 176	415 738
Income from EU co-financing	383 814	300 970
Other income	254 479	635 641
	1 110 469	1 352 349

Gross income and cost from balancing activities by applying agent accounting principle recognized in financial statements in net amount:

	2021	2020
	EUR	EUR
Income from balancing activities	18 810 250	4 780 418
Cost of balancing activities	18 338 074	4 364 680
	472 176	415 738

4. MAINTENANCE AND SERVICES COSTS

	2021	2020 (reclassified*)
	EUR	EUR
Transmission and storage system maintenance services	5 172 301	6 997 486
Cost of materials	1 218 831	1 081 903
Cost of natural gas	769 029	783 784
Maintenance of IT infrastructure	724 922	656 975
Maintenance of vehicles and machinery	213 628	226 585
	8 098 711	9 746 733

*See note 29

5. PERSONNEL EXPENSES

	2021	2020
	EUR	EUR
Salaries	9 421 927	9 261 571
State social insurance contributions	2 227 069	2 285 894
Life, health, and pension insurance	520 719	505 388
Other personnel costs	14 243	14 500
	12 183 958	12 067 353
Including remuneration of the Management Board and Council:		
- Remuneration for work	557 486	672 908
- State social insurance contributions	136 099	149 544
- Life, health, and pension insurance	45 097	47 625
- Other personnel costs	-	3 000
	738 682	873 077
The average number of employees	352	341

6. OTHER OPERATING COSTS

	2021	2020 (reclassified*)
	EUR	EUR
Taxes and duties**	1 334 936	1 346 092
Office and other administrative expenses	1 786 054	1 388 946
Net loss on disposal of PPE	580 740	567 248
	3 701 730	3 302 286

*See note 29

**Real estate tax, Natural resource tax, Public Utilities Commission fee, State and municipal fees, corporate income tax from deemed profit distribution.

7. FINANCE COSTS

	2021	2020
	EUR	EUR
Interest paid	261 995	144 939
Lease interest expense	22 851	24 936
Other financial costs	1 211	(1 343)
	286 057	168 532

NOTES TO THE STATEMENT OF FINANCIAL POSITION

8. INTANGIBLE ASSETS

	Software	Assets under development	TOTAL
	EUR	EUR	EUR
Cost at the beginning of the period 31.12.2019	6 967 183	21 304	6 988 487
Additions	-	771 934	771 934
Transfers	786 868	(786 868)	-
Disposals	(55 067)	-	(55 067)
Cost at the end of the period 31.12.2020	7 698 984	6 370	7 705 354
Amortisation			
Accumulated amortisation at the beginning of the period 31.12.2019	5 342 742	-	5 342 742
Amortisation charge	544 727	-	544 727
Disposals	(54 786)	-	(54 786)
Accumulated amortisation at the beginning of the period 31.12.2020	5 832 683	-	5 832 683
Net book value 31.12.2019	1 624 441	21 304	1 645 745
Net book value 31.12.2020	1 866 301	6 370	1 872 671

8. INTANGIBLE ASSETS (continued)

	Software	Assets under developmen	TOTAL
	EUR	EUR	EUR
Cost at the beginning of the period 31.12.2020	7 698 984	6 370	7 705 354
Additions		843 894	843 894
Transfers	789 210	(789 210)	-
Disposals	(298 905)	-	(298 905)
Cost at the end of the period 31.12.2021	8 189 289	61 054	8 250 343
Amortisation			
Accumulated amortisation at the beginning of the period 31.12.2020	5 832 683	-	5 832 683
Amortisation charge	668 959	-	668 959
Disposals	(292 548)	-	(292 548)
Accumulated amortisation at the beginning of the period 31.12.2021	6 209 094	-	6 209 094
Net book value 31.12.2020	1 866 301	6 370	1 872 671
Net book value 31.12.2021	1 980 195	61 054	2 041 249

Intangible assets at 31.12.2021 include fully amortised intangible assets with a historical cost of EUR 5 101 149 (at 31.12.2020: EUR 4 419 426).
Intangible assets consist of software and software licences.

9. PROPERTY, PLANT, AND MACHINERY (PPE)

	Land	Buildings, structures	Machinery and equipment	Other property and equipment	Emergency spare parts	Cushion gas	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost or revalued amount								
31.12.2019	1 023 841	644 889 415	128 162 878	5 654 456	1 404 727	10 708 163	2 353 359	794 196 839
Additions	-	-	411 689	825 755	-	-	20 109 018	21 346 462
Revaluated	-	108 395 378	2 790 863	-	-	-	-	111 186 241
Reclassified	9 513	9 929 641	1 824 764	-	-	-	(11 763 918)	-
Disposals	-	(2 302 838)	(1 307 204)	(76 516)	-	-	-	(3 686 558)
Transfers*	-	37	-	-	158 461	-	-	158 498
31.12.2020	1 033 354	760 911 633	131 882 990	6 403 695	1 563 188	10 708 163	10 698 459	923 201 482
Accumulated depreciation								
31.12.2019	-	397 085 635	68 215 648	3 920 221	-	-	-	469 221 504
Calculated depreciation	-	10 999 985	4 709 304	482 372	-	-	-	16 191 661
Impairment/(reversed impairment)	-	82 628	(293 869)	-	-	-	-	(211 241)
Revaluated	-	32 214 500	(13 128 684)	-	-	-	-	19 085 816
Disposals	-	(1 791 013)	(1 190 844)	(74 279)	-	-	-	(3 056 136)
31.12.2020	-	438 591 735	58 311 555	4 328 314	-	-	-	501 231 604
Net book value 31.12.2019	1 023 841	247 803 780	59 947 230	1 734 235	1 404 727	10 708 163	2 353 359	324 975 335
Net book value 31.12.2020	1 033 354	322 319 898	73 571 435	2 075 381	1 563 188	10 708 163	10 698 459	421 969 878

*emergency spare parts in the amount of 158 461 EUR have been transferred from inventory in warehouses;

9. PPE (continued)

	Land	Buildings, structures	Machinery and equipment	Other property and equipment	Emergency spare parts	Cushion gas	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost or revalued amount								
31.12.2020	1 033 354	760 911 633	130 919 337	7 367 348	1 563 188	10 708 163	10 698 459	923 201 482
Additions	-	-	398 067	509 446	-	-	25 590 489	26 498 002
Reclassified*	50 814	11 809 706	3 005 303	1 312 172	-	-	(16 177 995)	-
Disposals**	-	(1 633 464)	(1 241 454)	(435 086)	-	-	(83 938)	(3 393 942)
Transfers***	-	-	-	-	(24 409)	-	-	(24 409)
31.12.2021	1 084 168	771 087 875	133 081 253	8 753 880	1 538 779	10 708 163	20 027 015	946 281 133
Accumulated depreciation								
31.12.2020	-	438 591 735	57 778 659	4 861 210	-	-	-	501 231 604
Calculated	-	11 405 968	4 881 231	756 139	-	-	-	17 043 338
Disposals	-	(1 207 276)	(994 666)	(463 189)	-	-	-	(2 665 131)
Transfers	-	(1 042 906)	(137 333)	1 180 239	-	-	-	-
31.12.2021	-	447 747 521	61 527 891	6 334 399	-	-	-	515 609 811
Net book value 31.12.2020	1 033 354	322 319 898	73 140 678	2 506 138	1 563 188	10 708 163	10 698 459	421 969 878
Net book value 31.12.2021	1 084 168	323 340 354	71 553 362	2 419 481	1 538 779	10 708 163	20 027 015	430 671 322

*Amounts include capitalised property, plant and equipment and reclassification between groups by synchronising accounting in financial and asset management systems.

**Owing to the decision not to continue the projects, the assets under construction projects in the amount of EUR 83,938 were recognised in expenses for the reporting period.

***Emergency spare parts in the amount of EUR 24 409 were reclassified to the inventories of materials in warehouses.

At 31.12.2021, property, plant and equipment included fully depreciated tangible assets with an original value of EUR 7 921 303 (31.12.2020: EUR 4 898 677). The cadastral value of the real estate is EUR 62 921 535 (31.12.2020: EUR 63 558 370). The total length of the transmission system pipelines is 1190 km.

The following groups of property, plant and equipment are carried at revalued amounts: buildings and structures, machinery and equipment. Land plots, emergency spare parts, cushion gas in the Inčukalns UGS and 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 (as at 01.01.2020.). The revaluation of fixed assets was performed by independent certified appraisers of the company 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 most important part of revaluation consists of underground gas pipelines, storage wells and valves listed in the composition of buildings and structures, and fixed assets (gas regulation stations, motor vehicles and machinery, compression units, gas purification equipment) listed in the composition of technological equipment and devices.

The increase in the book value of gas pipelines in 2020 was 73 912 thousand EUR, the increase in the value of storage wells was 22 253 thousand EUR, and the increase in the value of valves 4 043 thousand EUR.

In 2021, the management has assessed the price level of pipelines and general construction and has not identified any significant changes compared to January 2020, when the revaluation was performed. In the absence of any other significant changes, the management concluded that the carrying amount of revalued property, plant and equipment does not differ materially from the amount that would have been determined using fair value at the end of the reporting year.

In the course of the revaluation, the useful lives of the property, plant and equipment in 2020 were estimated and, based on experience and industry practice, were extended to the following categories of property, plant and equipment: gas pipelines, wells, gas regulation equipment, and specialised technological equipment.

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

Historical cost	31.12.2021	31.12.2020
	EUR	EUR
Buildings and structures	159 022 487	151 686 892
Machinery and equipment	55 076 716	54 719 982

10. CO-FINANCED PROJECTS

Increase of Capacity of Klaipeda-Kiemenai Pipeline in Lithuania

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.

According to the PUC Decision No. 97 (minutes No. 16, p. 4) On Distribution of Investment Costs for the Project of Common Interest “Increase of Capacity of Klaipeda-Kiemenai Pipeline in Lithuania” in 2017, a payment in the amount of EUR 1 713 370 was made to AB Amber Grid. Deferred expenses will be recognised in profit and loss statement during estimated period of return of investment till 2033.

	31.12.2021	31.12.2020
	EUR	EUR
Opening balance	1 310 224	1 411 010
Recognised during the reporting year	(100 786)	(100 786)
Carried forward to future periods	1 209 438	1 310 224
including short-term portion (Note 15)	100 786	100 786
long-term portion (Note 15)	1 108 651	1 209 438

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 in the terms of cross-border cost sharing in the GIPL project of common interest (No. 8.5), 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. GIPL project participants’ total compensation payment of EUR 29 400 thousand is to be paid immediately after the start of the GIPL project.

The Conexus costs for the project is planned to be EUR 14 700 thousand, with the expected completion date - 2023.

On 11 May 2018, Conexus signed an inter-operator agreement on sharing the costs of the GIPL project (hereinafter “the Agreement”) with GAZ System, AB Amber Grid and Elering AS. Under the Agreement, Conexus is required to provide financial security (guarantee) to meet its obligations.

In accordance with the terms of the Agreement, in favour of GAZ-SYSTEM S.A., Conexus has received a bank guarantee to ensure fulfilment of its obligations of EUR 16 170 thousand with a duration of 16 May 2022. It is planned to extend the term until 2023.

11. LEASE

	31.12.2021	31.12.2020
	EUR	EUR
Right-of-use assets		
Net book value at the beginning of the reporting period	503 584	532 734
Recognised changes in the lease agreement	40 976	57 397
Depreciation recognised in the income statement	(93 452)	(86 547)
Net book value at the end of the reporting period	451 108	503 584
Lease liabilities		
At the beginning of the reporting period	514 070	543 455
Recognised changes in the lease agreements	40 976	57 397
Recognised reduction of the lease liability (lease payments*)	(110 560)	(111 718)
Recognised lease interest expense	22 851	24 936
at the end of the reporting period	467 337	514 070
including: long-term lease liabilities	447 940	453 852
short-term lease liabilities	19 397	60 218

*in the cash flow statement for 2021, lease payments in the amount of EUR 110 560 are included in the cash flow from financing activities (31.12.2020: EUR 111 718).

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

	Term	Maturity date
Land	36 gadi	31.12.2054
Construction rights	70 gadi	31.12.2089
Premises (2 agreements)	2 gadi	28.02.2022

12. INVENTORIES

	31.12.2021	31.12.2020
	EUR	EUR
Natural gas	983 496	1 477 709
Materials and spare parts	1 697 215	1 623 448
Advance payments for inventories	30 051	-
Write-off of inventory value to net realisable value	(84 223)	(80 154)
	2 626 539	3 021 003
Write-offs of inventory value to net realisable value	31.12.2021	31.12.2020
	EUR	EUR
Write-offs at the beginning of the period	(80 154)	(68 339)
Write-offs during the reporting period	(4 069)	(11 815)
Write-offs at the end of the period	(84 223)	(80 154)

13. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	31.12.2021	31.12.2020
	EUR	EUR
Payments for transportation of natural gas	10 165 128	2 290 269
Payments for storage of natural gas	2 486 539	438 463
Payments for balancing activities	353 941	107 250
Payments for contractual fines and late payment fines	303	929
	13 005 911	2 836 911
Accrued income		
For transportation of natural gas	367 883	2 335 550
For storage of natural gas	-	1 571 515
For balancing activities	-	111 273
	367 883	4 018 338
Receivables from contracts with customers	13 373 794	6 855 249

Accrued income is 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 submission of the verification document (invoice) has not yet passed. There has been a change within the process in the reporting year, i.e., invoices for services are now issued on the last date of the respective period.

Receivables from contract with customers according to the expected credit loss (ECL) assessment model:

Overdue days under IFRS 9	ECL rate	31.12.2021		31.12.2020	
		Receivable	Impairment	Receivable	Impairment
not yet due	0.000%	13 373 366	-	7 484 262	-
overdue for 1-10 days	0.343%	428	-	-	-
overdue for 11-20 days	0.051%	-	-	200	-
overdue for 21-30 days	0.014%	-	-	-	-
overdue >31 days	0.042%	-	-	1 636	-
Insolvent debtors	100%	-	-	-	-
Total		13 373 794	-	7 486 098	-

Expected credit losses on contracts with customers are insignificant - 0.113% on average per year (31.12.2020: 0.04%), therefore it was decided not to recognise allowances for doubtful debts.

The rules approved by Public Utilities Commission set strict criteria for securing obligations. One of the types of liability settlement is security deposits - their amount at the end of the year amounts to EUR 956 811 (2020: EUR 653 285).

14. OTHER RECEIVABLES

	31.12.2021	31.12.2020
	EUR	EUR
Other current financial receivables:		
Other current financial receivables	32 300	45 522
Other current non-financial receivables:		
Advances for services	10 533	17 557
Deferred value added tax	322 353	29 923
	365 186	93 002

15. DEFERRED EXPENSES

	31.12.2021	31.12.2020
	EUR	EUR
Non-current part		
Participation in a transnational cross-border project (Note 10)	1 108 651	1 209 438
Total non-current part	1 108 651	1 209 438
Current part		
Participation in a transnational cross-border project (Note 10)	100 786	100 786
IT expenses	180 005	162 095
Insurance expenses	53 786	66 537
Transport expenses	10 280	11 408
Other deferred expenses	72 282	9 667
Total current part	417 139	350 493
Total deferred expenses	1 525 790	1 559 931

16. RESERVES

	31.12.2021	31.12.2020
	EUR	EUR
Property, plant and equipment revaluation reserve	191 583 804	199 783 256
Revaluation reserve for post-employment benefits	(146)	328 076
Reorganisation reserve*	24 647 260	24 647 260
	216 230 918	224 758 592

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

Movement in revaluation reserves	Property, plant and equipment revaluation reserve	Post-employment benefits revaluation reserve
Balance at 31.12.2019	115 680 729	301 838
Reassessment of actuarial assumptions	-	26 238
Increase in revaluation reserve as a result of revaluation	92 100 425	-
Disposed revalued items of property, plant and equipment	(347 390)	-
Depreciation of the revalued portion of property, plant and equipment for the reporting period transferred to retained earnings	(7 650 508)	-
Balance at 31.12.2020	199 783 256	328 076
Reassessment of actuarial assumptions	-	(328 222)
Depreciation of the revalued portion of property, plant and equipment for the reporting period transferred to retained earnings	(8 199 452)	-
Balance at 31.12.2021	191 583 804	(146)

17. DEFERRED INCOME

	31.12.2021	31.12.2020
	EUR	EUR
EU co-financing	18 156 045	10 781 736
Non-current portion	18 156 045	10 781 736
Current portion (other projects)	4 654	-
Current portion (EU co-financing)	534 964	349 765
Current portion (contract liabilities)	237 284	903 165
Current portion	776 902	1 252 930
	18 932 947	12 034 666

Changes in deferred income

Changes in deferred income (EU co-financing)	31.12.2021	31.12.2020
	EUR	EUR
Opening balance	11 131 501	11 432 471
EU co-financing received	7 817 508	-
Received a fixed asset free of charge within the framework of a co-financed project	130 468	-
Included in the other income for the reporting year (Note 3)	(383 814)	(300 970)
Carried forward to future periods	18 695 663	11 131 501

Changes in deferred income (contract liabilities)	31.12.2021	31.12.2020
	EUR	EUR
Opening balance	903 165	-
Recognised in deferred income	318 791	1 009 277
Included in the revenue for the reporting year (Note 2)	(984 672)	(106 112)
Carried forward to future periods	237 284	903 165

In May 2019, the European Commission approved the granting of co-financing in the amount of 50% for the project of common European interest No. 8.2.4 "Improvement of the operation of the Inčukalns underground gas storage". In 2019, the project received funding of EUR 2 932 thousand, whereas in 2021, funding of EUR 7 818 thousand was received.

In December 2019, the European Commission approved the co-financing of 50% of the project of common European interest No. 8.2.1. "Improvement of the operation of the Latvian-Lithuanian interconnection". In 2019, EUR 751 thousand were received under this project.

Projects completed in 2019 amounted to EUR 3 938 250 (EU co-financing EUR 1 969 125), projects completed in 2020 amounted to EUR 3 300 953 (EU co-financing EUR 1 650 477), projects completed in 2021 amounted to EUR 12 838 633 (EU co-financing EUR 6 549 785).

In accordance with the Connection Agreement No. CON -2020/416 of 3 November 2020 signed between Conexus and SIA GasON for the installation of the connection to the natural gas transmission system owned by the transmission system operator from the connection point to the ownership boundary of the natural gas transmission system, a co-financed project worth EUR 130 468 was finished and put into exploitation in 2021.

18. EMPLOYEE BENEFIT OBLIGATIONS

	31.12.2021	31.12.2020
	EUR	EUR
Provisions for post – employment benefits	1 063 214	925 691
Provisions for other collective bargaining agreement costs	310 921	102 803
	1 374 135	1 028 494

	31.12.2021	31.12.2020
Liabilities at the beginning of the period	1 028 494	1 114 516
Recognised in the income statement	120 312	92 947
Paid	(102 893)	(152 731)
Remeasurement of post - employment Benefits as a result of changes in actuarial assumptions - equity	328 222	(26 238)
Liabilities at the end of the period	1 374 135	1 028 494

Assumptions used in the calculation of liabilities	2021	2020
Discount rate, %	0.43%	-0.13%
Labour turnover rate, %	4.79%	4.59%
Retirement age of employees, years	65*	65
Salary increase, %	4.10%	3.00%
Contributions to the private pension fund, %	5.00%	5.00%
State social insurance contributions (employees),%	23.59%	23.59%
State social insurance contributions (persons that have reached the retirement age),%	20.77%	20.77%

*Under Section 11 of the Law on State Pensions

Assumptions used in the calculation of liabilities	Changes in the assumptions	Impact on liabilities as a result of changes in assumptions	2021	2020
Discount rate	+0.5%	Provision decreased by	-4.69%	-4.88%
Labour turnover rate	+0.5%	Provision decreased by	-5.20%	-5.37%
Employee retirement age	+1 gads	Provisions decreased by	-5.39%	-5.47%
An increase in salaries	+0.5%	Provisions increased by	4.33%	5.00%
Contributions into the private pension fund	+0.5%	Provisions increased by	0.39%	0.39%
State social insurance contributions (employees)	+0.5%	Provisions increased by	0.39%	0.39%

Assumptions used in the calculation of liabilities	Changes in the assumptions	Impact on liabilities as a result of changes in assumptions	2021	2020
Discount rate	-0.5%	Provisions increased by	5.16%	5.38%
Labour turnover rate	-0.5%	Provisions increased by	5.70%	5.90%
Employee retirement age	-1 gads	Provisions increased by	5.32%	5.58%
An increase in salaries	-0.5%	Provisions decreased by	-3.97%	-4.59%
Contributions into private pension fund	-0.5%	Provisions decreased by	-0.39%	-0.39%
State social insurance contributions (employees)	-0.5%	Provisions decreased by	-0.39%	-0.39%

19. BORROWINGS FROM CREDIT INSTITUTIONS

	31.12.2021	31.12.2020
	EUR	EUR
Non-current borrowings from credit institutions	60 282 986	-
Current borrowings from credit institutions	37 772 866	21 875 000
	98 055 852	21 875 000

Conexus has borrowings from Nordic Investment Bank, AS SEB banka, the Latvian branch of OP Corporate Bank plc and Swedbank AS. At the end of the reporting period, Conexus has an available overdraft facility of 90 000 thousand EUR (31.12.2020: EUR 0), of which overdraft of 25 000 thousand EUR has been used at the year end, while the remaining 65 000 thousand EUR overdraft is unused and available. The agreement terms for the unused overdrafts reach beyond 1 year. At the end of the reporting period, the weighted average interest rate on long-term loans was 0.37% (31.12.2020: 0.6%), the weighted average interest rate on short-term loans is 0.24% (at the end of 2020, there were no overdraft agreements). At the end of the reporting period 41% of non-current borrowings have a fixed loan interest rate (at the end of 2020, there were no borrowings with fixed loan interest rate). All Conexus borrowings are denominated in euros and are unsecured.

On March 29, 2021, the previously concluded loan agreement with the Latvian branch of OP Corporate Bank plc was extended for two years. The original loan agreement expiry date before the extension was November 30, 2021.

If the base loan rate (EURIBOR) increased by 0.25%, the cost of the Conexus loan interest rate would increase by 107 thousand EUR (2020: 61 thousand EUR). On the other hand, if the base loan rate (EURIBOR) increased by 0.50%, the cost of the Conexus loan interest rate would increase by 214 thousand EUR (31.12.2020: 121 thousand EUR).

Changes in borrowings from credit institutions	31.12.2021	31.12.2020
	EUR	EUR
At the beginning of the reporting year	21 875 000	25 375 000
Received borrowings from credit institutions	84 949 950	-
Calculated interest on borrowings	261 995	144 939
Interest on borrowings paid	(224 627)	(144 939)
Borrowings repaid	(8 769 097)	(3 500 000)
	98 093 221	21 875 000

The financial covenants specified in the existing agreements of Conexus during the reporting period have been complied with, information on restrictions on indicators is disclosed in the section on Capital risk management (Note 27).

20. TRADE PAYABLES

	31.12.2021	31.12.2020
	EUR	EUR
Payables for balancing operations	3 610 018	1 305 607
Payables for long-term investments	2 288 199	5 471 318
Related party payables (Note 24)	710 316	85 374
Payables for intangible assets	296 363	493 746
Payables for operating costs	385 599	280 987
Current financial liabilities	7 290 495	7 637 032
Other liabilities	31.12.2021	31.12.2020
Dividends unpaid for the previous years	497 957	190 355
Current financial liabilities	497 957	190 355
Value added tax	1 077 833	611 962
Employee remuneration	432 171	382 599
State social insurance contributions	204 733	267 146
Personal income tax	125 424	131 367
Other short-term liabilities	94 484	157 740
Natural resource tax	24 380	43 237
Corporate income tax on deemed distribution of profit	1 085	3 539
Excise tax, Real estate tax	724	10
Current non-financial liabilities	1 960 834	1 597 600
Other liabilities total	2 458 791	1 787 955

21. ACCRUED LIABILITIES

	31.12.2021	31.12.2020
	EUR	EUR
Accrued liabilities for annual performance bonuses	1 649 232	1 739 251
Accrued liabilities for unused leaves	562 162	516 421
Non-financial liabilities	2 211 394	2 255 672
Accrued liabilities for invoices not received	3 895 714	640 972
Accrued liabilities for the annual report	22 500	16 140
Financial liabilities	3 918 214	657 112
Accrued liabilities total	6 129 608	2 912 784

22. TAXES

	Saistības 31.12.2020.	Aprēķināts	Samaksāts	Saistības 31.12.2021.
	EUR	EUR	EUR	EUR
Corporate income tax	3 539	2 268 966	(2 271 420)	1 085
Value added tax	611 962	10 222 656	(9 756 785)	1 077 833
State social insurance contributions	267 146	3 295 055	(3 357 468)	204 733
Personal income tax	131 367	2 060 655	(2 066 598)	125 424
Natural resource tax	43 237	274 052	(292 909)	24 380
Excise tax	-	4 285	(3 571)	714
Public Utilities Commission fee	-	118 686	(118 686)	-
Real estate tax	10	943 871	(943 871)	10
	1 057 261	19 188 226	(18 811 308)	1 434 179

23. CORPORATE INCOME TAX

	31.12.2021.	31.12.2020.
	EUR	EUR
Shareholders decision for profit distribution	85 142 231	16 312 297
Profit to be distributed (period till 31.12.2017.)	75 491 679	16 312 297
Profit to be distributed (period after 31.12.2017.)	9 650 552	-
Calculated corporate income tax	2 412 638	-
Tax relief applied on previously declared accruals	(155 998)	-
Corporate income tax for the reporting period	2 256 640	-

In 2021, the amount of dividends declared to Conexus shareholders was EUR 85 142 231 or EUR 2.14 per share. Thus, the profit in the amount of EUR 75 491 679, which was made until 31 December 2017, and in the amount of EUR 9 650 552 for the period, which was made after 31 December 2017, was distributed as dividends.

24. RELATED PARTY TRANSACTIONS

On 21 July 2020, changes were made in the register of shareholders of Conexus, where a change in ownership was registered in the amount of 34.0991% of the paid-up share capital of Conexus - the shares were disposed of by PAS Gazprom, they were acquired by AS Augstsprieguma tīkls. Thus, AS Augstsprieguma tīkls has significantly increased its stake in the company (currently 68.46% of the total paid-up share capital of Conexus) and has control on the company.

Related parties include Conexus shareholders, members of the 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 Council and Management Board, 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 transactions with state-controlled companies, which are considered as other related parties, except for AS “Augstsprieguma tīkls” and AS “Latvenergo”.

Related party transactions	2021 or 31.12.2021	2020 or 31.12.2020
	EUR	EUR
Revenue from related parties:		
AS “Latvenergo”	18 311 201	18 342 834
Purchases of goods and services from related parties:		
AS “Latvenergo”	2 864 545	3 728 019
AS “Augstsprieguma tīkls”	545	593
Balances at the end of the year arising from sales/ purchases of goods and services:		
Receivables from contracts with customers		
AS “Latvenergo”	3 303 886	2 413 202
Trade payables		
AS “Latvenergo”	710 143	85 374
AS “Augstsprieguma tīkls”	173	-

25. COMMITMENTS AND CONTINGENCIES

As of 31 December 2021, long-term investment agreements contracted for, but not yet delivered amounted EUR 23 673 604 (31.12.2020.: EUR 27 107 443)

In addition, according to signed inter-operator agreement for GIPL project cost sharing, investments amounting 14 700 thousand EUR are planned (Note 10).

26. REMUNERATION TO THE CERTIFIED AUDITORS' COMPANY

Remuneration to the certified auditors' company	31.12.2021.	31.12.2020.
	EUR	EUR
Statutory audit	17 000	23 700
	17 000	23 700

27. FINANCIAL 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	31.12.2021.	31.12.2020.
	EUR	EUR
Trade receivables	13 373 794	6 855 249
Other receivables	32 300	45 522
Cash and cash equivalents	14 676 110	15 163 736
Total financial assets	28 082 204	22 064 507
Borrowings from credit institutions	98 055 852	21 875 000
Trade payables	7 290 495	7 637 032
Other liabilities and accrued liabilities	4 416 171	847 467
Lease liabilities	467 336	514 071
Total financial liabilities	110 229 855	30 873 569

LIQUIDITY RISK

Liquidity risk is associated with the ability of the Company 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 Company's cash and cash equivalents as well as unused lines of credit granted by credit institutions.

Of the total bank credit lines available to Conexus amounting EUR 90 000 thousand, EUR 65 000 thousand have not been used at the end of 2021, which provides a significant liquidity reserve.

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

31.12.2021	Carrying value	Contractual cash flow	1-3 months	3 mo.- 1 year	1-5 years	> 5 years
	EUR	EUR	EUR	EUR	EUR	EUR
Borrowings	98 055 852	99 272 976	28 249 126	9 773 287	37 725 657	23 524 906
Trade payables, accrued liabilities	11 706 666	11 706 666	11 706 666	-	-	-
Lease liabilities	467 336	930 074	20 468	18 798	100 256	790 552
Financial liabilities	110 229 855	111 909 716	39 976 260	9 792 085	37 825 913	24 315 458

31.12.2020	Carrying value	Contractual cash flow	1-3 months	3 mo.- 1 year	1-5 years	> 5 years
	EUR	EUR	EUR	EUR	EUR	EUR
Borrowings	21 875 000	21 988 944	907 365	21 081 579	-	-
Trade payables, accrued liabilities	8 484 499	8 484 499	8 484 499	-	-	-
Lease liabilities	514 071	1 040 353	27 570	82 709	114 458	815 616
Financial liabilities	30 873 569	31 513 796	9 419 434	21 164 288	114 458	815 616

RISK OF ATTRACTING FINANCING

Interest rate risk

Interest rate risk arises because Conexus uses borrowed funds. Interest rate risk 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's 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, the Company had no interest rate swaps (IRS) or bonds issued as fixed rate instruments. 41% of the Company's 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.

Refinancing risk

The occurrence of refinancing risk may be related to external macroeconomic and political circumstances, the onset of a financial crisis, or a significant deterioration in the Company's operations and financial performance.

To hedge refinancing risk, the Company diversifies its loan portfolio by setting key financial limits (limit values) and ensuring their monitoring:

- ◆ by the type of borrowings: balanced distribution between the amount of credit and bonds;
- ◆ by the source of borrowings: not more than 80 per cent of one credit institution.

At the same time, the Company 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 the Company's other lenders to demand early repayment of their loans.

In order to prevent the risk of early repayment of the debt, the Company regularly performs calculations and analyses of the indicators (covenants) laid down in the loan agreements and pays special attention to preventing the occurrence of defaults on payments in a timely manner. The Company maintains relations with its lenders on a regular basis, informing them in a timely manner of changes affecting the Company's 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 93% of Conexus' total receivables from contracts with customers (31.12.2020: 100%). Conexus considers that receivables from customers are highly recoverable.

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 the Company, the Company requires security (a security deposit, bank guarantee). At the end of the reporting year, Conexus was not exposed to any significant credit risk related to its receivables, as none of the receivables were overdue and all receivables were paid in January 2022.

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 operating financial transactions, the Company may also invest in credit institutions with a credit rating of at least BBB- or Baa3.

Based on this rating, cash and cash equivalents can be described as follows (categorised by long-term rating)

Bank	Moody's rating	31.12.2021	31.12.2020
		EUR	EUR
Swedbank*	Aa3	551 998	11 082 180
OP Corporate bank plc branch in Latvia*	Aa3	996 872	696 523
Citadele banka	Baa2	999 999	949 544
SEB banka*	Aa3	929 405	935 582
Luminor Bank AS Latvijas branch*	Baa1	11 197 836	1 499 907
Total cash:		14 676 110	15 163 736

* Credit rating assigned to the parent bank.

At 31 December 2021 and 31 December 2020, 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 a view to ensuring the sustainable operation of Conexus, maintaining an optimal capital structure, and thus reducing the cost of capital. The Company takes a balanced approach to risk in relation to the Company's creditworthiness and capital structure.

The Company customarily manages capital risk, based on the calculation and analysis of the capital ratio. The capital ratio is calculated by dividing the amount of equity by total assets. The capital ratio must be maintained at the level of at least 50 percent. Capital ratio at 31 December 2021 is 71%.

The Company customarily calculates and analyses the debt ratio. The 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 2021 is 2.97.

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, financial leases 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 2021 is 3.73.

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	31.12.2021	31.12.2020
	EUR	EUR
Equity ratio > 50%	71%	89%
Net borrowings / EBITDA < 5	2.97	0.76
Debt service coverage ratio (DSCR) > 1.2x	3.73	8.26

In planning the funding, the Company 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 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 at the levels of the fair value hierarchy:

	Level	31.12.2021	31.12.2020
		EUR	EUR
Assets:			
Trade receivables	3.	13 373 794	6 855 249
Other receivables	3.	32 300	45 523
Cash and cash equivalents	2.	14 676 110	15 163 736
Liabilities:			
Borrowings from credit institutions	3.	98 055 852	21 875 000
Trade payables	3.	7 290 495	7 637 032
Other liabilities and accrued liabilities	3.	4 416 171	847 467
Lease liabilities	3.	467 336	514 071

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The carrying amounts of liquid and short-term (with a maturity of fewer 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 and other property 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 freely observable for the respective type of assets. This was a revaluation (the previous revaluation was carried out in 2016, when the assets were still owned by AS Latvijas Gāze), and the level of data of the used assumptions was not changed.

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 here. 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 valuation values. 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 precautionary 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%.

Management has assessed the price level of pipelines and general construction in 2021 and has not identified any significant changes compared to January 2020, when the revaluation was performed. In the absence of any other significant changes, the management concluded that the carrying amount of revalued property, plant and equipment does not differ materially from the amount that would have been determined using fair value at the end of the reporting year.

28. 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” (64,46%) and MM Infrastructure Investments Europe Limited (29,06%).

Conexus is a unified Latvian natural gas transmission and storage operator 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 as the storage facility), and the main natural gas transmission system, which directly connects Latvia’s natural gas market with Lithuania, Estonia, and the north-west of Russia.

THE COUNCIL

Term of office until 11 May 2021		Term of office from 12 May 2021 until 11 May 2024	
Ilmārs Šņucins	Chairman of the Council (In Council from 3 January 2018)	Ilmārs Šņucins	Chairman of the Council (In Council from 3 January 2018)
Tomohide Goto	Deputy Chairman of the Council (In Council since 30 April 2020)	Tomohide Goto	Deputy Chairman of the Council (In Council since 30 April 2020)
Zane Āboliņa	Member of the Council (In Council since 30 April 2020)	Zane Āboliņa	Member of the Council (In Council since 30 April 2020)
Ilze Aleksandroviča	Member of the Council (In Council since 30 April 2020)	Ilze Aleksandroviča	Member of the Council (In Council since 30 April 2020)
Normunds Šuksts	Member of the Council (In Council since 30 April 2020)	Normunds Šuksts	Member of the Council (In Council since 30 April 2020)
Ippei Kojima	Member of the Council (In Council since 30 April 2020 till 11 May 2021)	Takumi Sasaki	Member of the Council (In Council since 12 May 2021)
Jun Matsumoto	Member of the Council (In Council since 30 April 2020 till 11 May 2021)	Viktors Sentuhovskis	Member of the Council (In Council since 12 May 2021)

THE BOARD

Term of office from 16 November 2020 until 15 November 2023



Uldis Bariss
Chairman of the Board

Terms of office from 31 December 2017 until 31 December 2020 and from 1 January 2021 until 31 December 2023:



Gints Freibergs
Member of the Board



Mārtiņš Gode
Member of the Board

The Company's auditor is the certified audit company PricewaterhouseCoopers SIA and certified auditor in charge Ilandra Lejiņa.

29. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Conexus have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The general accounting principles set out in this section have been applied consistently throughout the reporting period.

In order to more accurately reflect the nature of costs and the model of cost groups used in the tariff calculation methodology, a reclassification was made in the comparative indicators of 2020 between the following income statement items: 1) Depreciation of lease assets 87 thousand. EUR was reclassified from the item "Other operating expenses" to the item "Depreciation, amortization and impairment of property, plant and equipment"; 2) Electricity, Water supply and sewerage, Security, Maintenance of territories, buildings, premises, equipment and household inventory, Waste removal, Rent, Asset insurance, Business insurance, Board liability insurance, Labor protection expenses, Company and management system certifications and certification expenses, for a total amount of 1 402 thousand EUR were reclassified from the item "Other operating expenses" to the item "Maintenance and service costs".

These financial statements were approved by the Board of Directors of Conexus on 18th March 2022 and will be approved by the share-

holders of Conexus. Shareholders have the right to reject the financial statements prepared and submitted by Conexus and to request that new financial statements be prepared.

The financial statements have been prepared on a going concern basis. As at 31 December 2021, the Company's liabilities exceed current assets by EUR 23 9246 thousand. Conexus management considers that Conexus will have no liquidity problems and will be able to settle with creditors within the set deadlines, as of the total bank credit lines available to Conexus amounting EUR 90 000 thousand, EUR 65 000 thousand have not been used at the end of 2021, which provides a significant liquidity reserve. More information on liquidity ratios is disclosed in annex 27 section on Liquidity risk.

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

The preparation of Conexus's financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in 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 ruling on the date of the relevant transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date. Foreign currency gains and losses are recognised in the income statement for the respective period.

SIGNIFICANT ESTIMATES AND JUDGMENTS

The financial statements have been prepared in accordance with IFRS using significant estimates and assumptions that affect the value of the assets and liabilities presented in the financial statement 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 relevant for the preparation of the financial statements.

Estimates of property, plant and equipment and intangible assets

Useful life

Conexus makes estimates of useful use of property, plant and equipment and intangible investments and residual value. These estimates are derived from past experience and industry practice. The esti-

mated 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 investments sometimes longer than estimated. 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 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 flow 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 Public Utilities Commission. Impairment of property, plant and equipment not recognised in the reporting year.

Revaluation

The revaluation of Conexus property, plant and equipment is carried out by independent, external, certified expert 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. The main assumptions in the revaluation process relate to the cost of the materials used and the average construction prices at the time of the revaluation. More detailed information on the revaluation of property, plant and equipment is disclosed in the section Assets measured at fair value and in Note 9.

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 revenue

Conexus has assessed that, in the performance of the functions of balancing administration, it acts as an agent (Note 3). Signs that Conexus acts as an agent are as follows:

- ◆ Conexus has no control over the services before handing them over to customers;
- ◆ Conexus is obliged to include services in invoices issued to customers and charge a fee, but is not entitled to revenue;
- ◆ Conexus does not have the right to determine the price of the services directly or indirectly.

NON-FINANCIAL ASSETS AND LIABILITIES

INTANGIBLE ASSETS

Identifiable non-monetary assets that are not in physical form and that Conexus uses to provide services or for economic purposes are recognised as intangible assets. Conexus' intangible assets mainly consist of software licences and software.

Intangible assets are carried at 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 years.

PROPERTY, PLANT AND MACHINERY

Property, plant and equipment are tangible assets that are intended to be used in more than one period to provide services and goods or for economic purposes. Conexus' main fixed asset groups are land, buildings, structures, machinery and equipment, other property and equipment. Fixed assets also include cushion gas in the collector layer of the Inčukalns UGS and in the transmission gas pipelines, emergency spare parts and costs of unfinished construction objects.

Buildings, structures, machinery and equipment are stated at revalued amount in the financial statements. 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 fixed assets, including land, cushion gas in the Inčukalns underground gas storage facility, technological natural gas in the transmission gas pipelines and the emergency reserve for fixed assets spare parts are accounted for at cost.

Fixed asset item is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Property, plant equipment are stated at cost 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 item “Reserves”. 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. The balance of the revaluation reserve for the PPE item that is depreciated in the financial statements is included in 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 recognised in equity.

From the date the asset is ready for its intended use, it is depreciated over its estimated useful life.

Where the carrying amount of an item of PPE exceeds its recoverable amount, the asset is written down immediately to its recoverable amount. 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, technological gas in long-distance 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 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 shall be reviewed once a year and the necessary reclassification to or from material stocks.

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
Buildings	20-100
- Brick, reinforced concrete	100
- Wooden, prefabricated reinforced concrete	60-80
- Sheds, metal containers	20-30
Engineering structures	15-65
- Storage wells, gas pipelines	60-65
- Service laterals, valves	20-30
- Groundings	15
Plant and machinery	5-35
- Pressure regulation stations	35
- Gas compression units	25-30
- Transport and machinery, cathodic protection station	5-20
Other PPE	3-15
- Machine tools	15
- Furniture, computer equipment, communication equipment	3-10
- Tools	3-5

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 rights to use assets are recognized for all long-term leases that meet

the criteria in IFRS 16. The right to use the asset is recognized as a separate item in long-term investments, see Note 11. Low value or short-term leases are not recognized as rental assets and liabilities under the exemption.

Lease obligations 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 asset for the right to use it.

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 Conexus' average effective interest rate.

Subsequent to initial recognition, rights-of-use assets are measured using the cost model. Under the cost model, rights to use assets are measured at cost less accumulated depreciation and accumulated impairment losses. Assets are depreciated from the inception date 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.

The assets are depreciated from the commencement date to the maturity of the lease. 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 balance sheet, 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 take advantage of any practical reliefs for short-term and low-value leases, as no such leases were entered into 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 in the ordinary course of business of Conexus, less costs to complete and costs to sell.

Inventories of materials and spare parts included in inventories are valued at weighted average prices, except for natural gas, which is accounted for using the FIFO method. Inventories are expensed in the income statement in the period in which they are consumed.

Cost is calculated using the weighted average method. At the end of the reporting period, inventories are reviewed for signs of obsolescence.

PROVISIONS

Provisions for obligations are recognised when due to past events the Company 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 if the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the 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 security and pension contributions

National social security mandatory contributions to Conexus' state-funded pension scheme are made 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 scheme. 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 benefits.

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.

The interest rate used to discount the liabilities of the Scheme represents the average yield on government bonds with an original maturity of 5 years or more, as determined in the last two auctions (source: Treasury). The inflation rate is determined with reference to the CSB of Latvia data for the 12 months of the year and reflects the % change in average consumer prices compared to the previous period.

Assumptions on mortality are determined in accordance with actuarial advice based on statistics published in 2016 (CSB of Latvia).

DEFERRED EXPENSES

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

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.

Non-current deferred expenses are subject to an amortisation period and are amortised in the income statement on a straight-line basis over their economic nature. The financial statements include current assets that are amortised to profit and loss over a period of 12 months and the remaining amount is included in 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 amount of the settlement obligation (contract assets) that is settled between the buyer and the customer.

Accrued income includes clearly known settlement amounts with buyers and customers for natural gas transportation, storage and balancing activities in the reporting year, for which, in accordance with the terms of the agreement, the due date for submission of the justification document (invoice) has not yet expired. 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 for services to be rendered by Conexus in subsequent periods. Payments 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

As part of long-term deferred income, in accordance with IAS 20, Conexus initially recognizes asset-related European Union funding for Conexus' long-term investments. Financing is recognized as income in the income statement over the useful life of the item of property, plant and equipment acquired.

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 the Company's financial asset management business model that has been put in place, 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. Such debt instruments, which meet the SPPI requirements held in the portfolio with a view to collecting cash flows from assets as well as selling them, may be classified as fair value through other comprehensive income (FVOCI). 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, an equity instrument of another person, 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.

Borrowing, payables to suppliers and other creditors are included in financial liabilities. Financial liabilities at amortized cost are initially recognized at fair value. In subsequent periods, financial liabilities at amortized cost are carried at amortized cost using the effective interest method, less provision for impairment. 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. Short-term receivables are not discounted.

A financial liability is derecognised when the obligation under the liability is discharged or canceled or expires.

TRADE RECEIVABLES AND OTHER DEBTORS

Trade receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Current trade receivables are not discounted. Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any allowance for impairment. To measure trade receivables, 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 trade receivables and recognises lifetime 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 the accounts with the bank.

If the Company's 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 the Company's bank account at the end of the reporting period, the credit line used is recognised in full in creditors as loans from credit institutions.

SHARE CAPITAL AND DIVIDENDS

Conexus is a closed-emission joint stock company with 100% registered shares. The shares constitute the share capital. The total number of shares is 39 786 089, with a nominal value of EUR 1.00. The total number of shareholders exceeds 4.8 thousand. 97.52% of the total number of shares belong to two largest shareholders - JSC „Augstsprieguma tīkls” (68.46 %), 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

Starting 1 January 2018, the Law on Corporate Income Tax has been effective in the Republic of Latvia, which provides for a new regime for the payment of this tax. The 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 and subject to corporate income tax under the previous legislation, the new tax regime does not apply to these dividends. The calculated corporate income tax on retained earnings, in accordance with the requirements of IFRS, is classified as other operating expenses.

As at 31 December 2021, Conexus had fully utilised the provisions presented in previous periods in the amount of EUR 1 039 986, reducing the corporate income tax taxable base in the 2021 taxation period.

BORROWINGS

The borrowings are initially recorded 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 or 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.

REVENUE

Conexus uses a five-step model to determine when and to what extent to recognise revenue. 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, consistent with Conexus' financial performance;
- ✔ 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 that an asset be recognised as incremental costs incurred in obtaining such contracts with customers and for which it is probable that they will be recovered. The current practice followed by Conexus means that there are no contract costs that can be capitalised.

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 approved 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 reporting 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 time deposits is classified as other income. Interest income from cash funds – financial income.

Income from fines

Contractual fines and penalties for late payment 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.

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, compensation.

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.

Revenue 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 at the transmission system user, that has resulted in an excess of natural gas in the transmission system.

In the financial statements, revenue from balancing is reported under the Other income section 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 paid by or to the transmission system operator for 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. Signs that Conexus acts as an agent are as follows:

- ◆ Conexus has no control over the services before handing them over to customers;
- ◆ Conexus is obliged to include services in invoices issued to customers and charge a fee, but is not entitled to revenue;
- ◆ Conexus does not have the right to determine the price of the services 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 3).

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 2021

◆ Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification.

◆ Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments solve the problems arising from the implementation of the reforms, including the replacement of one ethalon by an alternative.

◆ 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 2021 or not yet adopted by the EU

◆ Amendments to IFRS 4 – deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2023).

◆ Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU).

◆ IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).

◆ Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU). These narrow scope 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. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. 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.

◆ Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope

amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022).

◆ The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

◆ The amendment to IAS 37 clarifies the meaning of ‘costs to fulfil a contract’. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

◆ IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS

37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

◆ The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

◆ Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

◆ IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent’s consolidated financial statements, based on the parent’s date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Conexus is currently assessing the impact of the amendments on its financial statements.

30. SUBSEQUENT EVENTS

In response to geopolitical developments in Europe, Conexus, as a critical infrastructure company, is conducting enhanced risk assessments in the areas of cyber security and securing natural gas transmission and storage.

In order to reduce energy supply risks, Conexus has taken the necessary actions to increase the volume of natural gas in the storage facility and has started pumping gas into the Inčukalns UGS as of February 27, 2022.

Conexus management handles administrative matters promptly to ensure the continuity of supply of goods and services required for its core business.

Although uncertainty about the impact of events on Conexus' future operations has increased, no circumstances have been identified to date that would affect the value of the assets or jeopardize the going concern basis.

According to management's assessment, there are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2021.

The financial statements have been prepared by:



AIJA MARTINSONE-STAGE
Head of Finance Department

* THIS DOCUMENT HAS BEEN SIGNED WITH SECURE ELECTRONIC SIGNATURE AND BEARS THE TIME STAMP



Independent Auditor's Report

To the Shareholders of Joint Stock Company Conexus Baltic Grid

Our opinion

In our opinion, the accompanying financial statements set out on pages 100 to 144 of the accompanying sustainability and annual report for 2021 give a true and fair view of the financial position of Joint Stock Company Conexus Baltic Grid (the "Company") as at 31 December 2021, and the Company's financial performance and cash flows for the year ended 31 December 2021 in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's financial statements comprise:

- the income statement for the year ended 31 December 2021,
- the statement of comprehensive income for the year ended 31 December 2021,
- the statement of financial position as at 31 December 2021,
- the statement of changes in equity for the year ended 31 December 2021,
- the statement of cash flows for the year ended 31 December 2021, and
- the notes to the financial statements which include significant accounting policies and other explanatory information.

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

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 21-21, Rīga, LV-1010, Latvia, LV40003142793
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv

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.



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.

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 85 to 98 of the accompanying sustainability and annual report for 2021,
- the Statement on Management Responsibility, as set out on page 99 of the accompanying sustainability and annual report for 2021,

but does not include the financial statements and our auditor's report thereon, and the sustainability report as set out on pages 2 to 79 of the accompanying sustainability and annual report for 2021 to which we have issued separately a limited assurance report on pages 80 to 83.

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 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 and information on the Company 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 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.

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 International Financial Reporting Standards as adopted by the European Union 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.

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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.

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 judgment 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.
- 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.

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PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Riga, Latvia
18 March 2022

Independent Auditor's Report is signed electronically with a secure electronic signature and contains a time stamp.

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