

SUSTAINABILITY AND ANNUAL REPORT

2022

Riga 2023

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

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# MANAGEMENT'S STATEMENT

GRI 2-22

In 2022, the energy sector faced severe shocks. After years spent in the conditions of pandemic, the year of 2022 started with a number of new challenges caused by the war launched by Russia in Ukraine. AS "Conexus Baltic Grid" (hereinafter "Conexus" or "the Company") was obliged to reschedule works, in certain cases – replace suppliers or service providers by cutting the links to Russian and Belorussian companies. At the same time, in cooperation with the transmission operators and government authorities of the neighbouring countries, as well as the market participants, sufficient natural gas supply was provided, as well as development of reserves at Inčukalns Underground Gas Storage (hereinafter "Inčukalns UGS" or "storage"). However, regardless of the aforementioned changes, the Company successfully provided daily operation of the transmission system and storage facility, as well as continued implementation of all the ongoing investment projects and developed new medium-term strategic goals, taking into account the impact on the environment, community, employees and stakeholders.

Responding to the geopolitical events in Europe, this year, uninterrupted provision of two-way physical natural gas flow at Inčukalns underground gas storage was commenced. Already at the beginning of 2022 – during the withdrawal cycle – Conexus operatively prepared the storage facility for the commencement of injection in order to maintain maximum available volume of natural gas stored in the storage facility, thus seeing to the energy security of Latvia and the region.

Working in cooperation with the partners, in 2022, Conexus successfully developed projects of European importance by implementing significant, including technically complicated, improvement works at Inčukalns UGS, as well as a number of activities within the enhancement of Latvia-Lithuania interconnection project. Well reconstruction works were performed, and various equipment was purchased and installed within the framework of the modernisation of storage facility, thus improving security of the storage facility and operating flexibility. Whereas, within the enhancement of Latvia-Lithuania interconnection project, 70% of the total planned volume of works were completed in 2022, which, in cooperation with the Lithuanian colleagues from "Amber Grid", allowed to increase the interconnection point capacity from 1 November under an accelerated procedure in the direction from Lithuania to Latvia by 1/3 or up to 90 gigawatt hours (GWh) per day. The Latvian-Lithuanian interconnection is an important point for system users in the Baltic gas system, since in 2022, when deliveries from the Russian Federation were limited, more than 17 TWh of natural gas were delivered through the Latvian-Lithuanian interconnection point.

In 2022, Conexus approved strategy for 2023-2027, which was based on the Conexus mission – to ensure reliable gas transmission and storage operation promoting decarbonisation of the energy sector and market development. This was confirmed also by the cooperation contract signed by Conexus together with five other

European gas transmission system operators at the end of 2022 for the hydrogen infrastructure development, which would lay a foundation for a new hydrogen corridor of the Nordic Countries and the Baltic States in the future by uniting Finland, Estonia, Latvia, Lithuania, Poland and Germany in the project. Although the renewable energy resources will keep developing in the future, natural gas will also retain its significant importance in the field of energy supply in the nearest decades, therefore Conexus is obliged to continue maintaining conformity of the current system with all the technical safety criteria, as well as promoting integration of biomethane within the current infrastructure. Conexus is investing not only in the development of secure and sustainable infrastructure, but also continues investing and developing the Company's human resources, by providing training programmes that promote not only the transfer of expertise to new specialists but also acquisition of new knowledge.

Assessment of the international credit rating agency "S&P Global Ratings" should be pointed out as one of significant events in the second half of 2022 – for the first time, Conexus was assigned long-time credit rating BBB+ with a stable perspective.

Conexus financial performance in 2022 within the overall geopolitical context is also assessed as good, since the drop in revenue of the transmission segment, which was caused by 30% decrease in natural gas consumption in Latvia, was partially compensated by increase in the storage revenue, thus confirming its regional importance. This

ensured total revenue in the amount of 55.1 million euro, which is 3% less than in the previous year. In order to increase the Company's resistance to possible shocks in financial markets, at the end of 2022, Conexus entered into long-term loan contracts worth 55 million euro fully ensuring the funding required for implementation of the 2023 investment plans. Whereas, in order to provide short-term liquidity and risk management, credit facilities in the amount of 65 million euro are additionally available to Conexus.

Energy is a sector full of challenges, and 2022 demonstrated this once again. However, any new challenges may be overcome easier being aware that we are a team which always can be relied upon. Thank you to our employees, our customers and partners!



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



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

# GRI (GLOBAL REPORTING INITIATIVE) CONTENT INDEX

Conexus has reported in accordance with the GRI Standards for the period from 1 January 2022 – 31 December 2022.  
The report is prepared in accordance with GRI 1: Foundation 2021. Applicable GRI sector standard: GRI 11 "Oil and gas".

## GRI general standards

GRI INDICATOR		Section of the report
<b>The organization and its reporting practices</b>		
2-1	Organizational details	Information on the Company and report
2-2	Entities included in the organization's sustainability reporting	N/A
2-3	Reporting period, frequency and contact point	Information on the Company and report
2-4	Restatements of information	Conexus strategic sustainability framework
2-5	External assurance	Information on the Company and report, Annexes
<b>Activities and workers</b>		
2-6	Activities, value chain and other business relationships	Information on the Company and report, Operating segments, Sustainable procurement
2-7	Employees	Employment relations, employee inclusion and involvement
2-8	Workers who are not employees	Employment relations, employee inclusion and involvement

GRI INDICATOR		Section of the report
<b>Governance</b>		
2-9	Governance structure and composition	Organisational structure, Shareholders and meeting of shareholders, Council, Management Board
2-10	Nomination and selection of the highest governance body	Council, Management Board
2-11	Chair of the highest governance body	Council, Management Board
2-12	Role of the highest governance body in overseeing the management of impacts	Council, Management Board, Corporate governance, Internal audit
2-13	Delegation of responsibility for managing impacts	Council, Management Board
2-14	Role of the highest governance body in sustainability reporting	Council
2-15	Conflicts of interest	Ethics and prevention of corruption, Annexes
2-16	Communication of critical concerns	Council
2-17	Collective knowledge of the highest governance body	Council
2-18	Evaluation of the performance of the highest governance body	Council

GRI INDICATOR		Section of the report
2-19	Remuneration policies	Remuneration policy of the Council and the Management Board
2-20	Process to determine remuneration	Employment relations, employee inclusion and involvement
2-21	Annual total compensation ratio	Employment relations, employee inclusion and involvement
<b>Strategy, policies and practices</b>		
2-22	Statement on sustainable development strategy	Management's statement
2-23	Policy commitments	Corporate governance, Annexes
2-24	Embedding policy commitments	Corporate governance, Risk management, Annexes
2-25	Processes to remediate negative impacts	Ethics and prevention of corruption
2-26	Mechanisms for seeking advice and raising concerns	Ethics and prevention of corruption
2-27	Compliance with laws and regulations	Ethics and prevention of corruption, Environmental responsibility
2-28	Membership associations	Activities in industry and public organizations
<b>Stakeholder engagement</b>		
2-29	Approach to stakeholder engagement	Conexus strategic sustainability framework
2-30	Collective bargaining agreements	Employment relations, employee inclusion and involvement
<b>Material topics</b>		
3-1	Guidance to determine material topics	Conexus strategic sustainability framework
3-2	Disclosures on material topics	Conexus strategic sustainability framework

# GRI Specific standards

Aspect	GRI standard name	GRI indicator		Sector of the report	GRI sector standards (GRI 11 "Oil and gas")		
		Or the additionally developed Conexus-specific indicator (CXS), which is based on the package of material aspects					
Services	Security and safety of infrastructure	3-3	Management approach	Infrastructure safety and security			
		416	Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service categories 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Infrastructure safety and security Infrastructure safety and security	11.3.3	
		3-3	Management approach		Operating segments, Secure energy supply		
	Safe energy supply	203	Indirect economic impacts	203-1 Infrastructure investments and services supported	Operating segments, Secure energy supply	11.14.4	
Environment	Avoiding pollution	3-3	Management approach	Pollution prevention			
		303	Water and effluents	303-2 Management of water discharge-related impacts	Pollution prevention		
		305	Emissions	305-7 Nitrogen oxides (NO <sub>x</sub> ), sulphur oxides (SO <sub>x</sub> ), and other significant air emissions	Pollution prevention	11.3.2	
	Sustainable energy solutions	3-3	Management approach		The challenge of Conexus - transition to a more environmentally friendly energy sector		
		-	Conexus-specific indicator	CXS-1 Transition to a more environmentally friendly energy sector	The challenge of Conexus - transition to a more environmentally friendly energy sector		
	Climate impact and energy efficiency	3-3	Management approach		Impact on climate and energy efficiency	11.1.1	
		302	Energy	302-1 Energy consumption within the organization 302-3 Energy intensity	Impact on climate and energy efficiency Impact on climate and energy efficiency	11.1.2 11.1.4	
		305	Emissions	305-1	Direct (Scope 1) GHG emissions	Impact on climate and energy efficiency	11.1.5
				305-4	GHG emissions intensity	Impact on climate and energy efficiency	11.1.8
				3-3	Management approach		Responsible use of materials and waste management
	Responsible use of materials and waste management	303	Water and effluents	303-1	Interactions with water as a shared resource	Responsible use of materials and waste management	11.6.2
				303-3	Water withdrawal	Responsible use of materials and waste management	11.6.4
		306	Waste	306-2	Management of significant waste-related impacts	Responsible use of materials and waste management	11.5.3
306-3				Waste generated	Responsible use of materials and waste management	11.8.2; 11.5.4	
306-4	Waste diverted from disposal	Responsible use of materials and waste management	11.5.5				

Aspect	GRI standard name	GRI indicator Or the additionally developed Conexus-specific indicator (CXS), which is based on the package of material aspects	Sector of the report	GRI sector standards (GRI 11 "Oil and gas")	
Workplace	Workers' health and safety	3-3 Management approach	Occupational health and safety	11.9.1	
		403 Occupational health and safety	403-1 Worker health and safety management system	Occupational health and safety	11.9.2
			403-2 Hazard identification, risk assessment and accident investigation	Occupational health and safety	11.9.3
			403-3 Occupational health services	Occupational health and safety	11.9.4
			403-4 Worker participation, consultation and communication on occupational safety and health issues	Occupational health and safety	11.9.5
			403-5 Worker training on occupational health and safety	Occupational health and safety	11.9.6
			403-6 Promotion of worker health	Occupational health and safety	11.9.7
			403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Occupational health and safety	11.9.8
			403-8 Workers covered by an occupational health and safety management system	Occupational health and safety	11.9.9
			403-9 Work-related injuries	Occupational health and safety	11.9.10
	403-10 Work-related ill health		Occupational health and safety	11.9.11	
	Employee competence, qualified future workforce	3-3 Management approach	Development of employee competence and qualified future workforce		
		404 Training and education	404-2 Programmes for upgrading employee skills and transition assistance programmes	Development of employee competence and qualified future workforce	11.7.3
404-3 Percentage of employees receiving regular performance and career development reviews			Development of employee competence and qualified future workforce		
Fair and transparent remuneration	3-3 Management approach	Employee relations, employee inclusion and involvement			
	- Conexus-specific indicator	CXS-2 Remuneration	Employee relations, employee inclusion and involvement		

Aspect		GRI standard name		GRI indicator Or the additionally developed Conexus-specific indicator (CXS), which is based on the package of material aspects	Sector of the report	GRI sector standards (GRI 11 "Oil and gas")	
Workplace	Employee inclusion and diversity in the workplace	3-3	Management approach		Employee relations, employee inclusion and involvement	11.11.1	
		405	Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	Employee relations, employee inclusion and involvement	11.11.5
		406	Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	Equal and fair treatment	11.11.7
Governance	Transparent communication and stakeholder involvement	3-3	Management approach		Transparency and stakeholder involvement		
		-	Conexus-specific indicator	CXS-3	Transparent communication	Transparency and stakeholder involvement	
	Sustainable purchasing	3-3	Management approach		Sustainable procurement		
		204	Procurement practices	204-1	Proportion of spending on local suppliers	Sustainable procurement	11.14.6
		308	Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria ietekmes kritērijiem	Sustainable procurement	
	Fair and ethical management, prevention of corruption	3-3	Management approach		Ethics and prevention of corruption		
		205	Anti-corruption	205-1	Operations assessed for risks related to corruption	Ethics and prevention of corruption	11.20.2
				205-2	Communication and training about anti-corruption policies and procedures	Ethics and prevention of corruption	11.20.3
				205-3	Confirmed incidents of corruption and actions taken	Ethics and prevention of corruption	11.20.4

Topics in the applicable GRI Sector Standards determined as not material	
Topic	Explanation
GRI 11 11.1.6, 11.1.7, 11.2.2., 11.2.3., 11.2.4, 11.4.1, 11.4.2, 11.4.3, 11.4.4, 11.4.5, 11.5.2, 11.5.6, 11.6.1, 11.6.3, 11.6.5, 11.6.6, 11.7.1, 11.7.2, 11.7.4, 11.7.5, 11.7.6, 11.8.1, 11.8.3, 11.10.2, 11.10.3, 11.10.4, 11.10.5, 11.10.6, 11.10.7, 11.10.8, 11.10.9, 11.11.2, 11.11.3, 11.11.4, 11.11.6, 11.12.1, 11.12.2, 11.12.3, 11.13.1, 11.13.2, 11.14.1, 11.14.2, 11.14.3, 11.14.5, 11.15.1, 11.15.3, 11.15.4, 11.16.1, 11.16.2, 11.17.1, 11.17.2, 11.17.3, 11.17.4, 11.18.1, 11.18.2, 11.19.1, 11.19.2, 11.20.1, 11.20.5, 11.20.6, 11.21.1, 11.21.2, 11.21.3, 11.21.4, 11.21.5, 11.21.6, 11.21.7, 11.21.8, 11.22.1, 11.22.2	During determination of material aspects, the respective aspects were not deemed material. Therefore the listed topics were determined not applicable to the Company' operations or sufficient disclosures have been made on other relevant topics.



# INFORMATION ON THE COMPANY AND REPORT

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

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	<a href="http://www.conexus.lv">www.conexus.lv</a>
Major shareholders	AS "Augstsprieguma tīkls" (68,46 %) "MM Infrastructure Investments Europe Limited" (29,06 %)
Reporting period	1 January 2022 – 31 December 2022
Sustainability report	The Sustainability report for 2022 has been prepared in accordance with the requirements of the Global Reporting Initiative (GRI) standards. The reporting frequency is annual. The reporting process is described in the section "Conexus' strategic sustainability framework"
Financial statements	The Financial statements for 2022 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS)
Comparative data period	1 January 2021 – 31 December 2021
Contact information	Email address for sustainability report suggestions and questions: <a href="mailto:info@conexus.lv">info@conexus.lv</a>
Independent auditor's declaration	Independent Limited Assurance Report on Sustainability report 2022 has been provided by SIA "PricewaterhouseCoopers" Independent Auditor's Report on the Financial statements 2022 has been provided by SIA "PricewaterhouseCoopers"
Report format	The Sustainability and annual report is published on the Conexus website <a href="http://www.conexus.lv">www.conexus.lv</a> on 28 April 2023 (in Latvian and in English)



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AS “Conexus Baltic Grid” 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 UGS and the main natural gas transmission system connecting the Latvian natural gas market with Lithuania and Estonia.

The customers of Conexus – users of the natural gas transmission and storage system – come from several countries of the Baltic Sea region (Finland, Estonia, Latvia, Lithuania and Poland), as well as from other European countries (Norway, the Czech Republic and Switzerland). The users are 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 (hereinafter “PUC”, “the Regulator”).

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

Conexus is a socially responsible company that creates added economic value, provides for the overall development of the industry, the professional development of employees, sustainable employment, at the same time keeping the impact of technological processes on the environment to the minimum.

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# MEDIUM-TERM STRATEGY

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

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

Considering the significant occurrences in the natural gas sector, Conexus updated the strategic directions and priorities of the Company. The medium-term strategy for 2023-2027 sets strategic goals, defines medium-term priorities and the set of measures for achievement of the goals set by Conexus, which will ensure sustainable development of the company.

The strategic framework of the Company consists of the Company's values, mission, vision and strategic objectives. To define future priorities and strategic directions, it is important for the Company to define the motivation and future ambitions, while observing the principles of sustainability and the existing regulatory framework. Conexus' values, mission and vision set a moral compass for its strategic objectives, which will be achieved through a variety of strategic initiatives.

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

WHO DO WE WANT TO BE?

## Vision

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

WHY DO WE EXIST?

## Mission

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

WHAT IS IMPORTANT TO US?

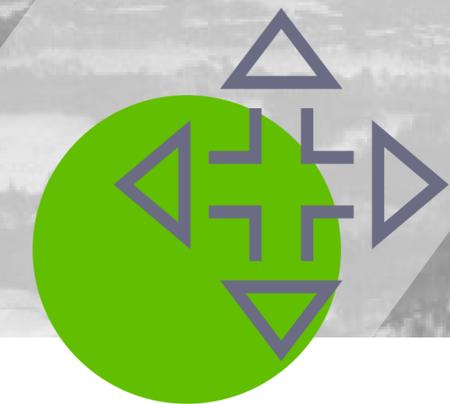
## Values

Safety and security



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

Competence



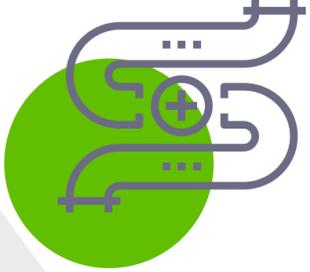
We value employees' competence, knowledge, professional experience, and orientation towards development.

Cooperation

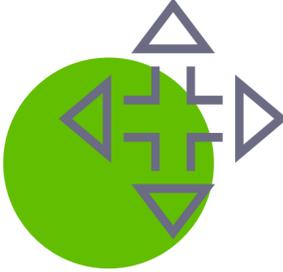


We support each other in decision making, we listen and search for common solutions internally, working with clients and partners.

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

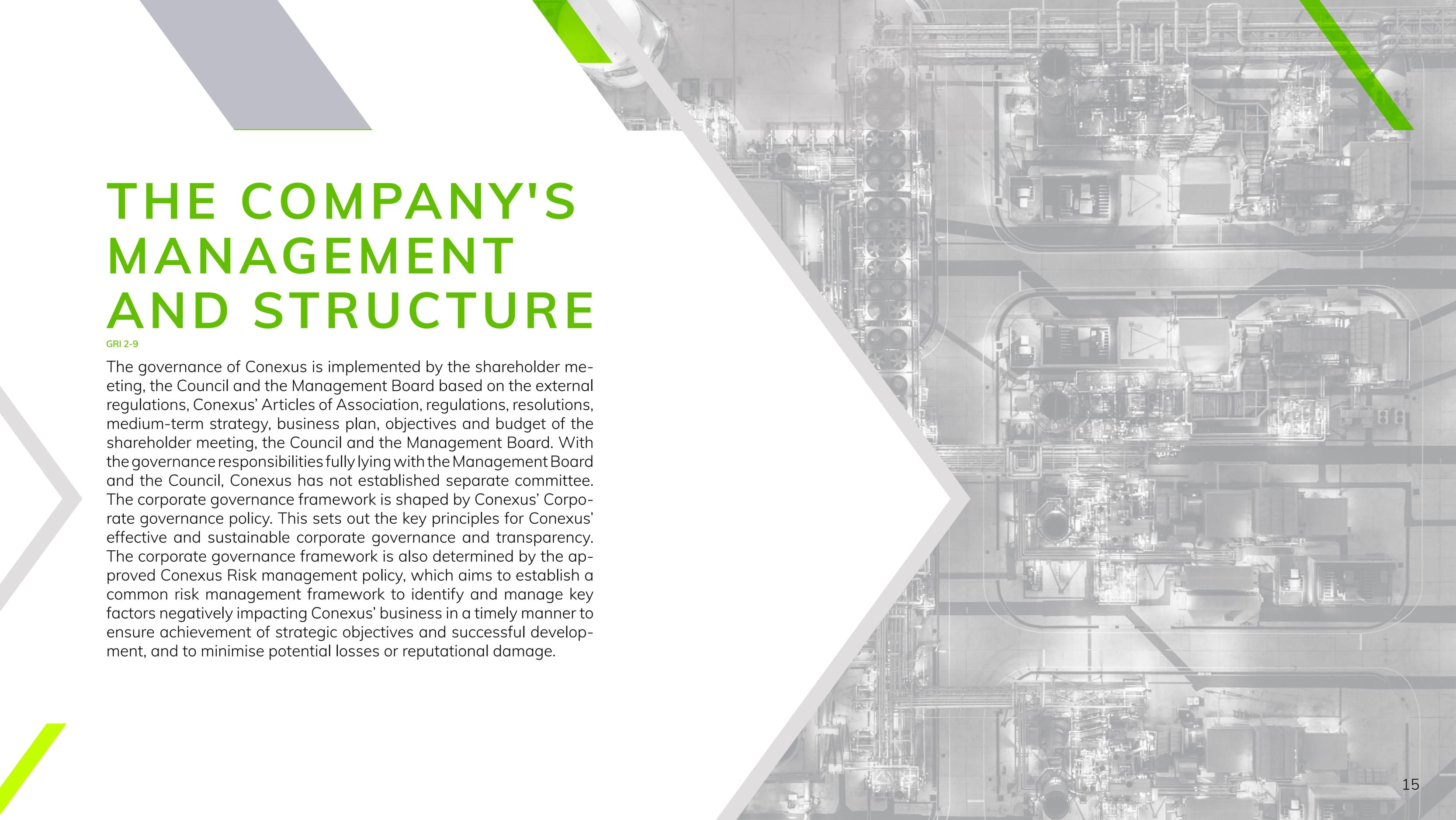
<p><b>MARKET DEVELOPMENT</b></p> 	<p>Promote development and further integration of gas market, including promotion for growth of biomethane, hydrogen and other gaseous energy carriers' markets</p>	<ul style="list-style-type: none"> <li>• <b>Facilitate integration of the regional market</b></li> <li>•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

Alongside strategic targets, Conexus has defined three horizontal targets closely related to and enhancing the achievement of all planned medium-term activities. These horizontal targets complement the strategic objectives and contribute to their implementation.

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

Stakeholders' benefits from Conexus' strategic activities:

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



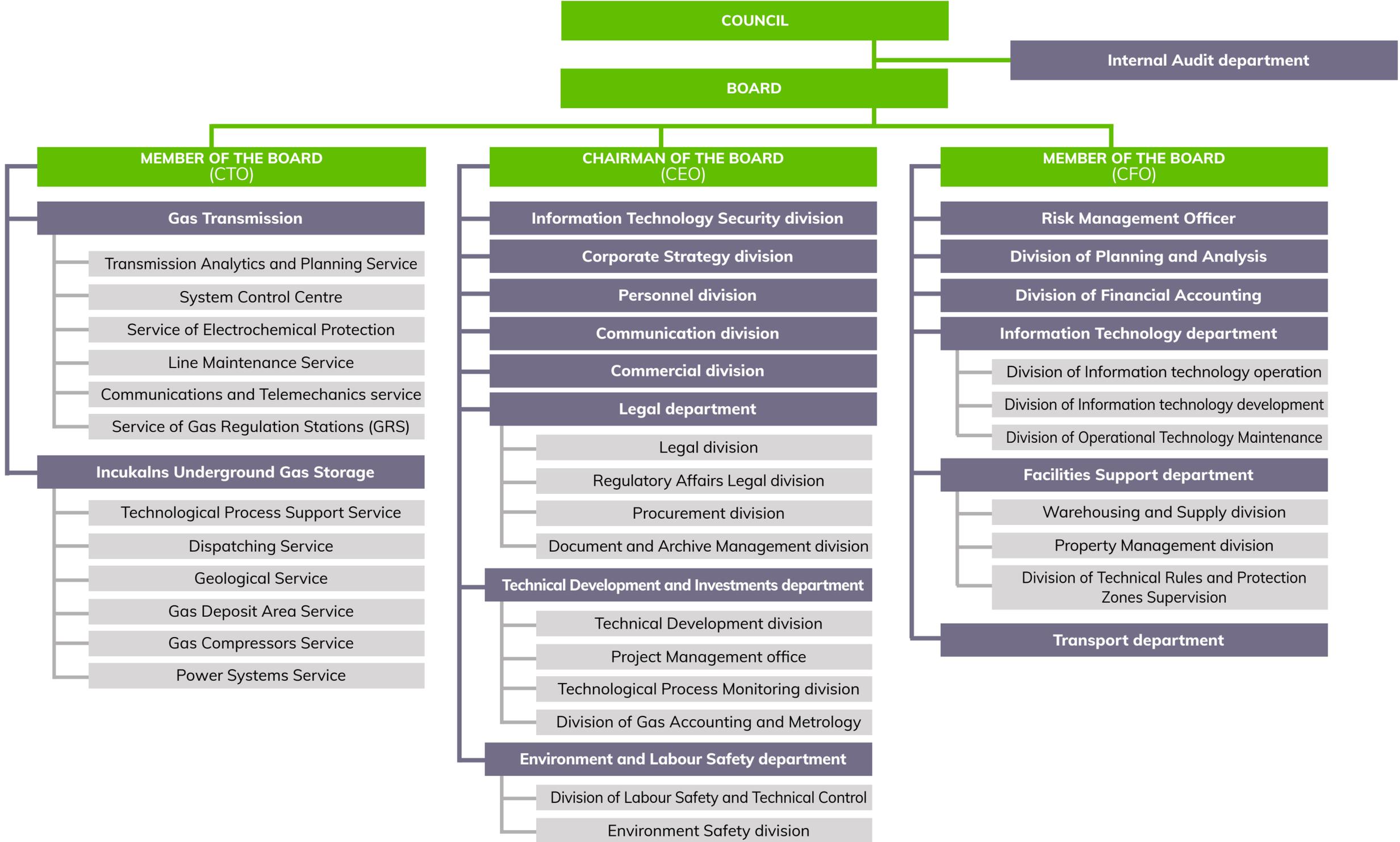
# THE COMPANY'S MANAGEMENT AND STRUCTURE

GRI 2-9

The governance of Conexus is implemented by the shareholder 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. With the governance responsibilities fully lying with the Management Board and the Council, Conexus has not established separate committee. 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 approved Conexus Risk management policy, which aims to establish a common risk management framework to identify and manage key factors negatively impacting Conexus' business in a timely manner to ensure achievement of strategic objectives and successful development, and to minimise potential losses or reputational damage.

# Organisational structure

GRI 2-9



# Shareholders and meeting of shareholders

GRI 2-9

The most important management 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, one share grants its holder one vote at the General Meeting of Shareholders. The total number of shareholders exceeds 4,8 thousand. 97.52 % of the total number of shares belong to the two largest shareholders - AS Augstsprieguma tīkls (68.46 %) and MM Infrastructure Investments Europe Limited (29.06 %).

Conexus' shareholders register is maintained electronically, which is ensured by Nasdaq CSD SE in accordance with the concluded agreement.

Shareholders as at 31 December 2022:

**AS „AUGSTSPRIEGUMA TĪKLS”**

**68,46%**

**MM INFRASTRUCTURE  
INVESTMENTS EUROPE LIMITED**

**29,06%**

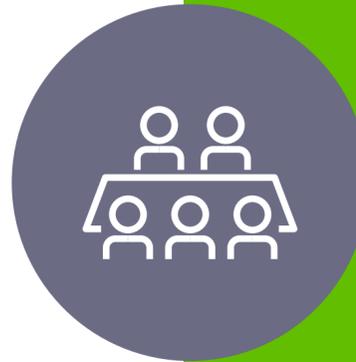
**PĀRĒJIE AKCIONĀRI**

**2,48%**



## The main responsibilities of the shareholder meeting:

- ✔ to approve the annual report and decide on the use of the profit of the previous year;
- ✔ to approve Conexus' Articles of Association, Board and Council Remuneration Policy and amendments to these documents;
- ✔ to decide on increasing or decreasing the share capital of Conexus;
- ✔ to elect and recall the Council;
- ✔ to elect the auditor.



Taking into account the spread of Covid-19 infection and in our effort to protect health of shareholders, un Conexus staff and public health in general, all the shareholders were invited to participate at the shareholder meeting in writing by filling in a voting form before the meeting which was sent together with the notice of the meeting. In 2022, the shareholder meeting was organised on-site with a possibility for the shareholders to participate at the meeting also remotely. In order to provide every shareholder with an opportunity to ask questions, as well as to receive impartial and comprehensive information for voting before the meeting, in 2022, a remote preliminary meeting was organised. Conexus provides its shareholders with communication in Latvian and English using also various digital solutions.



# Council

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

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. The Council has not established separate committees.

Members of the Council of Conexus are elected according to the procedures provided by the Commercial Law, with the members of the Council being nominated by both major shareholders (AS “Augstsprieguma tīkls” and “MM Infrastructure Investments Europe Limited”) according to the percentage of shares held. In conformity with the obligation set out in the Cabinet of Ministers’ regulation No. 175 “Regulations regarding the Corporate Governance Recommendations applicable to a public person in a capital company and a publicly private capital company” dated 15 March 2022, issued on the basis of the Law on the management of capital companies, the major shareholder of Conexus – AS “Augstsprieguma tīkls” – applies the Latvian Corporate Governance Code, which also stipulates the principles for election of council members: principle of ensuring an appropriate set of expertise and experience and the principle of diversity. According to the regulation of the law and Clauses 15.1.6 and 15.1.7 of the Company’s majority shareholder’s AS “Augstsprieguma tīkls” Corporate Governance Policy, within the selection and nomination process of members of the Council, the AS “Augstsprieguma tīkls” follows the binding laws, as well as the principles of good practice of corporate governance ensuring open, fair and professional selection of mem-

bers of the Council, thus facilitating establishment of professional and competent management body of the Company.

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

According to the Articles of Association of Conexus, the Council approves medium-term business strategy of Conexus and oversees implementation thereof. During the reporting period, the Council has examined and approved medium-term business strategy of Conexus 2023–2027 (hereinafter referred to as – the new strategy) with the set material sustainability fields (materiality matrix) with active participation in the strategy development process, including, additionally to the current Council meetings, in the session of sustainability work organised with the Board of Conexus and the responsible heads of the structural units and in the session of new strategy work by contributing to directing the development of the new strategy, including in the definition of Connexus objectives, values and mission related to sustainable development. During the reporting period, two day seminar was also organised for the Members of the Council of Conexus

on the current operational matters of Conexus, including matters of sustainable development and emissions. The Council also approves the annual Sustainability Reports of Conexus. The Council of Conexus has set sustainable (green) initiatives to be implemented as one of the indicators of the strategic objective both for 2022 and 2023, as well as defined the security and integrity indicators to be achieved. For the year of 2023, the Council of Conexus has additionally defined also the crisis management indicator to provide residents of Latvia with natural gas.

In order to ensure successful implementation of medium-term business strategy, every year, material Conexus performance indicators are set, which are subsequently approved by the Council and the achievement of which is responsibility of the Board of Conexus. Overall, performance of the performance indicators are assessed on annual basis, together with the approval of the annual report to assess performance of the Board, additionally, according to the Board Regulation of Conexus, the Council is provided with information on financial performance and material events at Conexus on monthly basis, whereas, a written report on material events at Conexus and the progress of performance of the objectives set by Conexus for the current meetings of the Council of Conexus is prepared on quarterly basis. According to the Commercial Law, the Board of Conexus is responsible for the management of the Conexus impact aspects. The Council of Conexus has approved the Board Regulation of Conexus, which defines general management of Conexus (including management of the Conexus impact aspects) as one of the key areas of competence of the Chairman of the Board of Conexus).

According to the Conexus Council Regulation, the Council conducts self-assessment of the Council performance on annual basis and examine results in the Council meeting. In 2022, the Council performance in 2021 was assessed, based on the criteria and good practice stipulated in the Corporate Governance Code of Latvia, assessing composition and performance of the Council, and organisation of meetings, whereas, the Council achievements of the reporting period will be assessed in March 2023. Average self-assessment for the performance in 2021, conducted by the Council of Conexus in 2022, is high. Self-assessment was conducted by filling in questionnaires and examining summary of anonymised results in the Council meeting. Based on the proposals expressed by the Members of the Council during the assessment, several awareness-raising seminars were organised for the Members of the Council in 2022, for example, about sustainability matters.

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

Term of office from 28 April 2022 until 27 April 2025



(Since 3 January 2018)

**ILMĀRS ŠŅUCINS**  
Chairman of the Council



(Since 30 April 2020)

**TOMOHIDE GOTO**  
Vice-Chairman of the Council



(Since 28 April 2022)

**IVARS MOISEJS**  
Member of the Council



(Since 12 May 2021)

**VIKTORS SENTUHOVSKIS**  
Member of the Council



(Since 30 April 2020)

**ZANE ĀBOLIŅA**  
Member of the Council



(Since 28 April 2021)

**YUKIKO FUJII**  
Member of the Council



(Since 30 April 2020)

**NORMUNDS ŠUKSTS**  
Member of the Council

Term of office until 28 April 2022

**ILMĀRS ŠŅUCINS**  
Chairman of the Council

(in Council since 3 January 2018)

**TOMOHIDE GOTO**  
Vice-Chairman 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)

**NORMUNDS ŠUKSTS**  
Member of the Council

(in Council since 30 April 2020)

**TAKUMI SASAKI**  
Member of the Council

(In Council since 12 May 2021)

**VIKTORS SENTUHOVSKIS**  
Member of the Council

(In Council since 12 May 2021)



## ILMĀRS ŠŅUCINS

AS "CONEXUS BALTIC GRID"  
CHAIRMAN OF THE COUNCIL

Born in 1974

### WORK EXPERIENCE

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

### EDUCATION

- 1999** Master's degree, Faculty of Economics and Management of University of Latvia
  - 1997-1998** Guest studies at University St.Gallen (Switzerland)
- Does not hold shares in AS "Conexus Baltic Grid".**



## TOMOHIDE GOTO

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

Born in 1969

### WORK EXPERIENCE

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

### EDUCATION

- 1987-1992** Bachelor's degree in Economics, Kobe University (Kobe)
- Does not hold shares in AS "Conexus Baltic Grid". Independent member of the Council.**



## ZANE ĀBOLIŅA

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE COUNCIL

Born in 1987

### WORK EXPERIENCE

- Since 2020** AS "Conexus Baltic Grid" – Member of the Council
- Since 2017** AS "Augstsprieguma tīkls" – Head of Regulatory Affairs unit
- 2016-2017** State Railway Administration – Deputy Director of the 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 Managing Enterprises and Institutions, 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 AS "Conexus Baltic Grid".**



## YUKIKO FUJII

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE COUNCIL

Born in 1976

### WORK EXPERIENCE

- Since 2022** AS "Conexus Baltic Grid" – Member of the Council
- Since 2019** MM Capital Partners Co., Ltd. – CFO (Tokyo)
- 2017-2018** Marubeni Corporation – General Manager, Plant Asset Management Section, Power Division (Tokyo)
- 2013-2016** Marubeni Corporation – Deputy General Manager, Investment team in Transport Infrastructure Dep. (Tokyo)
- 2010-2012** CFMC Management Company – Financial and Commercial Manager (Sydney)
- 2008-2009** Marubeni Corporation – Manager, Investment team in Transport Infrastructure Dep. (Tokyo)
- 2004-2007** Marubeni Corporation – Manager, Structured Finance team in Finance Dep. (Tokyo)
- 2001-2003** Marubeni Corporation – Assistant Manager, Risk Management team in IT Dep. (Tokyo)

### EDUCATION

- 2000-2001** Master's degree in International Studies, Tokyo University (Japan)
  - 1995-1999** Bachelor's degree in Civil Engineering, Tokyo University (Japan)
- Does not hold shares in AS "Conexus Baltic Grid". Independent member of the Council.**



## IVARS MOISEJS

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE COUNCIL

Born in 1970

### WORK EXPERIENCE

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

### EDUCATION

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

**Does not hold shares in AS "Conexus Baltic Grid".**



## VIKTORS SENTUHOVSKIS

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE COUNCIL

Born in 1984

### WORK EXPERIENCE

- Since 2021** AS "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, Transaction Advisory and M&A
- 2010-2011** Baltic International Bank – Head of Investment Department
- 2009-2010** Maximus Advisors – Director
- 2008-2009** KPMG – Associate, Corporate finance (Budapest)

### EDUCATION

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

**Does not hold shares in AS "Conexus Baltic Grid". Independent member of the Council.**



## NORMUNDS ŠUKSTS

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE COUNCIL

Born in 1973

### WORK EXPERIENCE

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

### EDUCATION

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

**Does not hold shares in AS "Conexus Baltic Grid". Independent member of the Council.**

# Management Board

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

Operational governance of Conexus on a day-to-day basis is implemented 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 (Chief Executive Officer), one member of the Management Board (Chief Financial Officer) and another member of the Management Board (Financial Director). The division of the main and other responsibilities of the members of the Management Board is determined by the organizational structure of Conexus. The duties

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 (Chief 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 (Technical Director) is responsible for the technical management of gas transmission and storage systems;
- ◆ The Member of the Management Board (Chief Financial Officer) is responsible for finance, risk management, information technology (IT), business support and transport.

and responsibilities of the Management Board of Conexus are regulated by law. The principles of operation of the Management 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. Two members of the Management Board are authorised to jointly represent Conexus. 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.

Structural units forming the organizational structure of Conexus are made according to the division of competences of the Members of the Management Board and subordinated thereto. Each structural unit has its own Regulation to follow, approved by the Board. Regulation of the Structural Unit lays down the structural unit's subordination, objection, structure, organisation of work, tasks, rights, duties and responsibilities of the head of structural unit. According to the Regulations of the Structural Units, head of the structural unit is obliged to prepare and provide reports regarding fulfilment of the tasks assigned to the structural unit.

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

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



## ULDIS BARISS

AS "CONEXUS BALTIC GRID"  
CHAIRMAN OF THE BOARD

Born in 1965

[valde@conexus.lv](mailto:valde@conexus.lv)

### WORK EXPERIENCE

- Since 2020** AS "Conexus Baltic Grid" - Chairman of the Board
- 2013-2020** AS "Latvenergo" – Chief Commercial Director
- 2010-2020** "Elektrum Eesti" OU – Chairman of the Council
- 2010-2020** "Elektrum Lietuva" UAB – Chairman of the Council
- 2005-2020** AS "Latvenergo" – Member of the Board
- 2005** AS "Latvenergo" – Project Director for Distribution Network Reorganization
- 2002-2004** AS "Latvenergo" – Director of Economics Department
- 1996-2002** SIA "Lattelekom" – Head of Financial Planning and Control Department, Head of Management Accounting Sector

### EDUCATION

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

Term of office: 16.11.2020–15.11.2023

Does not hold shares in AS "Conexus Baltic Grid".



## GINTS FREIBERGS

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE BOARD

Born in 1959

[valde@conexus.lv](mailto:valde@conexus.lv)

### WORK EXPERIENCE

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

### EDUCATION

- 1984** Engineer, thermal energy industry, Riga Polytechnic Institute

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

Holds 416 shares in AS "Conexus Baltic Grid".



## MĀRTIŅŠ GODE

AS "CONEXUS BALTIC GRID"  
MEMBER OF THE BOARD

Born in 1976

[valde@conexus.lv](mailto:valde@conexus.lv)

### WORK EXPERIENCE

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

### EDUCATION

- 2008** Professional Master's degree in Business Administration – Stockholm School of Economics in Riga
- 2002** Master's degree in Economics, University of Latvia
- 2000** Bachelor's degree in Economics, University of Latvia
- 1995 - 1997** Business management study programme, Stockholm School of Economics in Riga

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

Does not hold shares in AS "Conexus Baltic Grid".

# Remuneration policy of the Council and the Management Board

GRI 2-19

The remuneration and compensation of the members of the Management Board is determined by the Council of Conexus, taking into account the Company's Board and Council remuneration policy, the principles laid down in the Law on Governance of Capital Shares of a Public Person and Capital Companies, as well as the maximum amounts specified in the Cabinet of Ministers' regulation issued based on the aforementioned law, balancing the amount of remuneration with the scope of responsibilities of the Members of the Management Board. The remuneration of the Members of the Council is determined by the shareholders of the Company, making a relevant decision and considering the aforementioned internal and external laws. All the 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. Variable part of the remuneration is disbursed taking into account results of the audited annual report of the previous financial year and achievement of the performance indicators set for the Company. Amount of the remuneration is set by a resolution of the Company's Council (in relation to the Board) and the Company's current shareholder meeting (in relation to the Council).

The Conexus Board and Council remuneration policy stipulates the Board and Council members' fixed and variable pay. Board member's contract additionally stipulates termination payments and contributions to the private pension plan.

In accordance with Board and Council remuneration policy, the remuneration system is designed to ensure the competencies required to achieve the Company's objectives, promoting the implementation of the Company's mission, vision and strategy, remuneration system balance and competitiveness. The remuneration system is based on the following basic principles:

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

Management agreements are concluded with the members of the Management Board. Remuneration of the members of the Council is set by the shareholder meeting. The rules of the Collective Agreement do not apply to the members of the Management Board and the Council.

Remuneration paid to the Members of the Council for 2022 has been paid pro rate to the period of service. The remuneration paid in 2022 to the Members of the Council Takumi Sasaki and Ilze Aleksandroviča, who were in office until 27 April 2022, was EUR 8,956.29 for each of them; the remuneration paid to the Members of the Council, in office from 28 April 2022 – Yukiko Fujii and Ivars Moisejs – was EUR 18,643.71 and EUR 18,430.02, respectively; the remuneration paid to the Deputy Chairman of the Council Tomohide Goto – EUR 27,840.00; to the Member of the Council Viktors Sentuhovskis – EUR 26,723.81; to the Members of the Council Normunds Šuksts and Zane Āboliņa – EUR 27,600.00 for each of them.

The remuneration paid to the Chairman of the Management Board Uldis Bariss for 2022 was EUR 161,400.00; to the members of the Management Board Gints Freibergs and Mārtiņš Gode – EUR 146,100.00 for each of them.

# Corporate governance

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

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

In order to ensure good corporate governance, in accordance with the Corporate Governance Code of Latvia and good practice, during the previous reporting period, Conexus' key documents and policies were revised, whereas, in 2022, attention was paid to implementation of the new regulation and supervision of the implementation.

Conexus policies and other internal enactments stipulate the persons responsible for the implementation and supervision of policies, as well as set the deadlines for restoration of policies. In general, implementation of policies in the Company is the Management Board's responsibility (except for the Company's Internal Audit Policy, the implementation of which is the internal audit structural unit's responsibility, and the Company's Risk Management Policy the implementation of which is additional responsibility also of the Risk Management Manager), and so is the restoration of policies (mostly, the term set for revision of policies has been set at least once in three years), whereas, supervision of policy implementation is implemented by the Council. At the same time, according to the division of competencies, each policy has its specific Member of the Management Board who is responsible for the relevant field or who supervises the Company's structural unit which proposed preparation of the document and

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

Taking into account the fact that policies determine only the key Company governance or operating implementation and specific system establishment principles, for the purpose of introduction thereof, internal regulatory enactments are issued (regulations, procedures, instructions, including internal regulatory enactments applicable in business relations with external partners, for example, procedures for the conclusion of Contracts, procedures for the organisation of Procurements, procedures for the monitoring of execution of sanctions and business deals).

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

According to the list of the Company's governance processes approved by the Management Board, each process has a defined process owner, and, if they are concerned, also the applicable Company's policy. By developing or amending the internal regulatory enactments to ensure the process, their compliance with the Company's basic documents and policies is ensured, including by harmonising these internal regulatory enactments with the person responsible for the relevant policy. After the entry of a new policy or other internal regulatory enactment into effect, the person responsible for the relevant process is liable for all the employees subject to the regulatory enactment to be informed on their duties and rights arising from the regulatory enactment. Training is organised, where necessary, including assessing the necessity for and format of training (on-site, online, e-training platform Conexus academy) and training regularity. The Company cooperates with the Riga Technical University (RTU) to improve skills of the Company's employees in the specialised educational programmes (see more details in the "Development of employee competence and qualified future workforce" section). Necessity and efficiency of the training may be assessed based on whether and how often incompliances in application of internal regulatory enactments are found.

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

## Corporate Governance Code

GRI 2-12, 11.20.3

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

<sup>2</sup>[https://www.tm.gov.lv/en/corporate-governance-code?utm\\_source=https%3A%2F%2Fwww.google.com%2F](https://www.tm.gov.lv/en/corporate-governance-code?utm_source=https%3A%2F%2Fwww.google.com%2F)

# Internal audit

GRI-2-12

Internal audit department 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 subordinated to the Company's Council, but administratively – to the Management Board. The internal audit department is led by the head of the internal audit department with 17 years of experience in internal audit and education in computer systems, and one senior auditor with 9 years of experience and education in business administration and in management. Once a year, the internal audit department carries out and evaluation of the needs for raising competence, planning 10 training days per person. In 2022, members of the internal audit department participated in training for an average of 12 days.

The professional guidelines for internal audit are set out in the Internal Audit Policy, as well as the definition of Internal Audit, approved by the International Institute of Internal Auditors, the Code of Ethics and the International Standards on Internal Auditing. Activity of internal audit covers all the Company's risks, processes, structural units and employees.

The audit plan for the current year is prepared based on the perfor-

med risk assessment and the priorities set by the Company's management, 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 by a qualified external assessor every five years. Results of the performed internal audits are reported to the Company's Management Board, which prepares plans for the improvement of operations, as well as informs the Council on the audit results and approved proposals for the improvement of the Company's operations. Internal audit ensures regular monitoring of implementation of the recommendations.

The internal audit reports annually to the Company's Management Board and the Council on its operations. It includes information on the audits performed, the assessments of the areas audited, the recommendations made, quality assurance of the internal audit, as well as provides overall opinion on the effectiveness of the internal control and risk management systems. During 2022, all 8 planned audits were completed. The results showed that in 91% of the tested processes, controls were adequate or minor improvements were needed, and in 9% of the processes internal controls needed to be improved. Recommendations are given for improvement and follow-up is performed.

# Risk management

GRI 2-24

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

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

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

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

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

The Company believes that it uses prudent risk management techniques, supports risk management and an internal control system on three lines of defence, 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.



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

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

**2. Second line** - supervision and control of the risk management process. The function of supervision and control of the risk management process coordinates and oversees the identified risks, but there are not always necessarily any risk owners, including Human Resources Division, Legal Department, Information Technology Department, Environmental and Occupational Safety Department, Information Technology Security Division, Technical Development and Investment Department. Supervision and control of the risk management process is the responsibility of the Risk Management Manager in the Company.

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

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

- ◆ **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, sanction and transaction performance risks, personal data processing 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, interest rate risk;

- ◆ **environmental, occupational safety and physical security risks**, incl. environmental risks; work environment risks; physical security risks;

- ◆ **risks of fraud and corruption.**

**The Company constantly improves the risk management and internal control system, and the following internal regulatory documents have been approved in 2022:**

- ◆ AS "Conexus Baltic Grid" Information Technology Security Regulations;
- ◆ AS "Conexus Baltic Grid" Risk Management Procedure;
- ◆ AS "Conexus Baltic Grid" Tax Risk Management Manual;
- ◆ AS "Conexus Baltic Grid" Sanction and Transaction Performance Risk Monitoring Procedure.

In 2022, the Company performed an annual risk review, the framework of which included assessment and analysis of the most significant risks of Conexus operations in all risk groups, assessing the probability of risk occurrence and impact on strategic objectives, finances, tariffs, individuals and reputation, as well as determining the critical control and the necessary risk mitigation measures. The results obtained and the steps taken in risk management process are reported by the Company's Management Board to the Company's Council on annual basis.

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

### The most significant identified risks:

- ◆ Gas supply security risk;
- ◆ Risk of storage value loss;
- ◆ Risk of stock withdrawal;
- ◆ Risk of impairment of assets;
- ◆ Risk of rupture of transmission pipelines;
- ◆ Wells fountain risk;
- ◆ Cyber security risk;
- ◆ Risk of unfavourable energy regulation.

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

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

## Dividend policy

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

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

# ACTIVITIES IN INDUSTRY AND PUBLIC ORGANIZATIONS

GRI 2-28

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

	No.	Organisation	About the organisation	Details on the organisation
	1	AIB (Association of Issuing Bodies)	Association of bodies issuing certifications of origin with the mission to guarantee European origin of energy.	<a href="https://www.aib-net.org/">https://www.aib-net.org/</a>
	2	Baltic Institute of Corporate Governance	Baltic Institute of Corporate Governance is a non-profit non-governmental organisation which involves companies and political leaders to promote the best corporate governance practice in Lithuania, Latvia and Estonia.	<a href="https://www.bicg.eu/home">https://www.bicg.eu/home</a>
	3	EASEE-gas (European Association for the Streamlining of Energy Exchange-gas)	European Association for the Streamlining of Energy Exchange EA-SEE-gas was established in 2002 to develop and promote business practice for simplification and streamlining of gas transmission and trade.	<a href="https://easee-gas.eu/">https://easee-gas.eu/</a>
	4	ENTSO (European Network of Transmission System Operators for Gas)	Task of the European Network of Transmission System Operators for Gas (ENTSO) is to promote and facilitate cooperation between operators of gas transmission systems (PSO) in the entire Europe to ensure development of European scale transmission system in accordance with the energy and climate goals set by the European Union.	<a href="https://www.entsog.eu/">https://www.entsog.eu/</a>
	5	EHB (European Hydrogen Backbone)	European Hydrogen Backbone (EHB) initiative consists of a group of thirty-one energy infrastructure operators, which share common vision on climate-neutral Europe ensured by a prospering low-carbon hydrogen market.	<a href="https://ehb.eu/">https://ehb.eu/</a>

	No.	Organisation	About the organisation	Details on the organisation
	6	GIE (Gas Infrastructure Europe)	GIE represents 68 member organisations from 27 countries uniting gas infrastructure operators across the Europe: operators of transmission pipelines, storage facilities and SDG terminals.	<a href="https://www.gie.eu/">https://www.gie.eu/</a>
	7	LTK (Latvian Chamber of Commerce and Industry)	The Latvian Chamber of Commerce and Industry is the largest society of entrepreneurs in Latvia with nearly 6,000 members – micro-, small, medium and large companies or all regions and sectors, associations, city business clubs and other business unions. The society represents the interests of entrepreneurs, as well as provides services to have outstanding companies in outstanding business environment in Latvia.	<a href="https://www.ltk.lv/">https://www.ltk.lv/</a>
	8	PEP LNK (The World Energy Council Latvian National Committee)	The Committee unites leaders of energy sector across the globe to tackle various problems related to energy systems.	<a href="http://weclmc.lza.lv/">http://weclmc.lza.lv/</a>
	9	Biomethane Industrial Partnership	Biomethane Industrial Partnership is an initiative established by the European Commission with the task to promote policy planning reducing the obstacles of biomethane development, facilitate permit obtaining process, significantly expand biomethane production, promote sustainable use of energy resources, promote cost-effective production, as well as strengthen technological development through research and innovations.	<a href="https://bip-europe.eu/">https://bip-europe.eu/</a>

# OPERATING SEGMENTS

GRI 2-6, 203-1

## Storage of natural gas

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

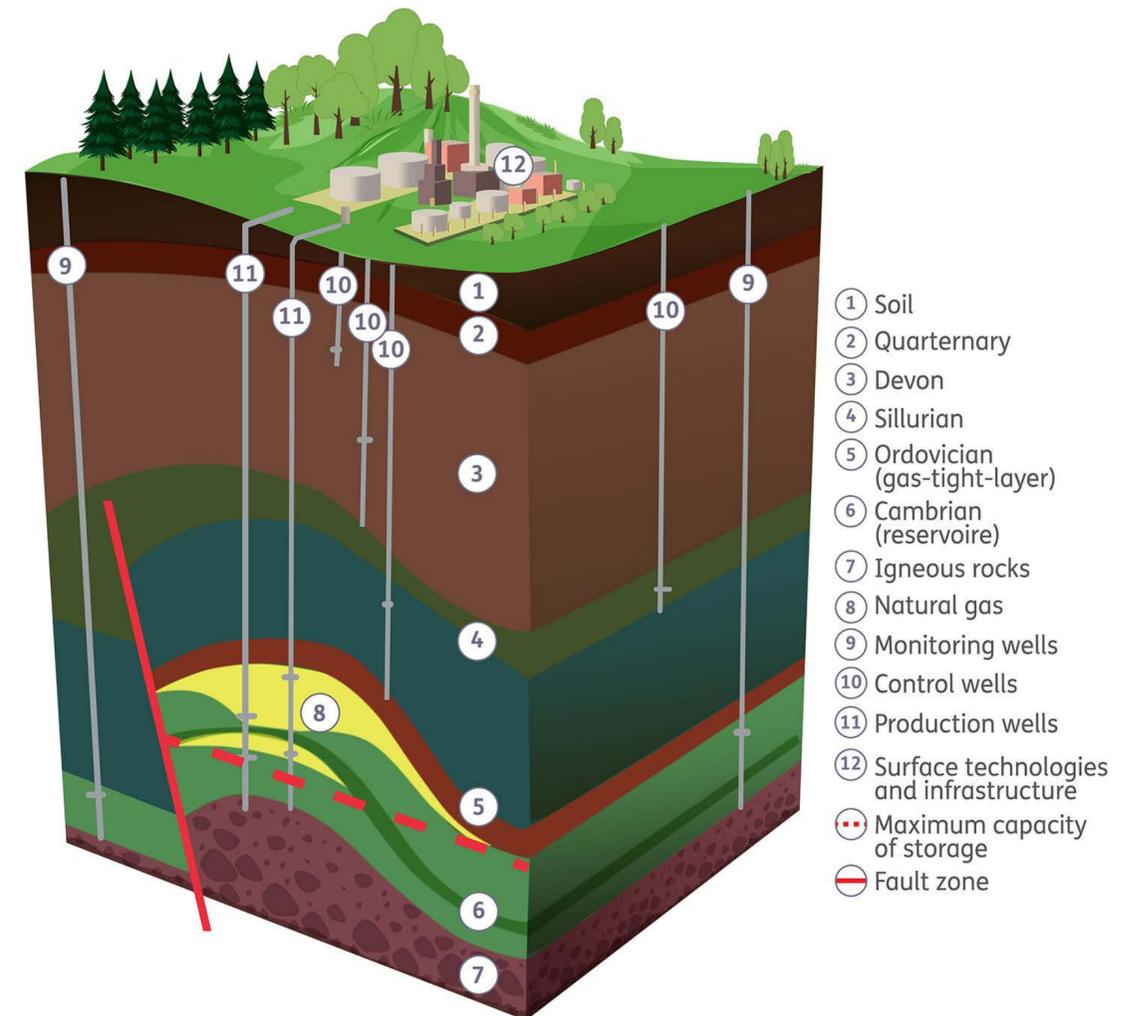
### Characterisation of storage facility

Inčukalns UGS, which is a 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 water-bearing horizon at a depth of approximately 600–750 meters.

The geological layer of Cambrian era sediments crosses Latvia. In Latvia, the porous sandstone sediment of the Cambrian era is characterised by extremely good properties, namely, 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 referred to as – GCP) and 180 gas storage wells (control and monitoring wells and 93 operating wells for injection and withdrawal of natural gas) – cover an area of about 8,400 hectares. The area of the geological structure (collector layer) of Inčukalns UGS is ~ 25 km<sup>2</sup> and belongs to Sigulda, Saulkrasti and Ropaži municipalities. According to the Cabinet Regulation No. 773 of 13 December 2016 “Regulation on the Determination of the Underground Area of National Importance “Inčukalns Natural Gas Storage””, the underground area is 83,722 km<sup>2</sup>.

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



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

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

## Storage of natural gas

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

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

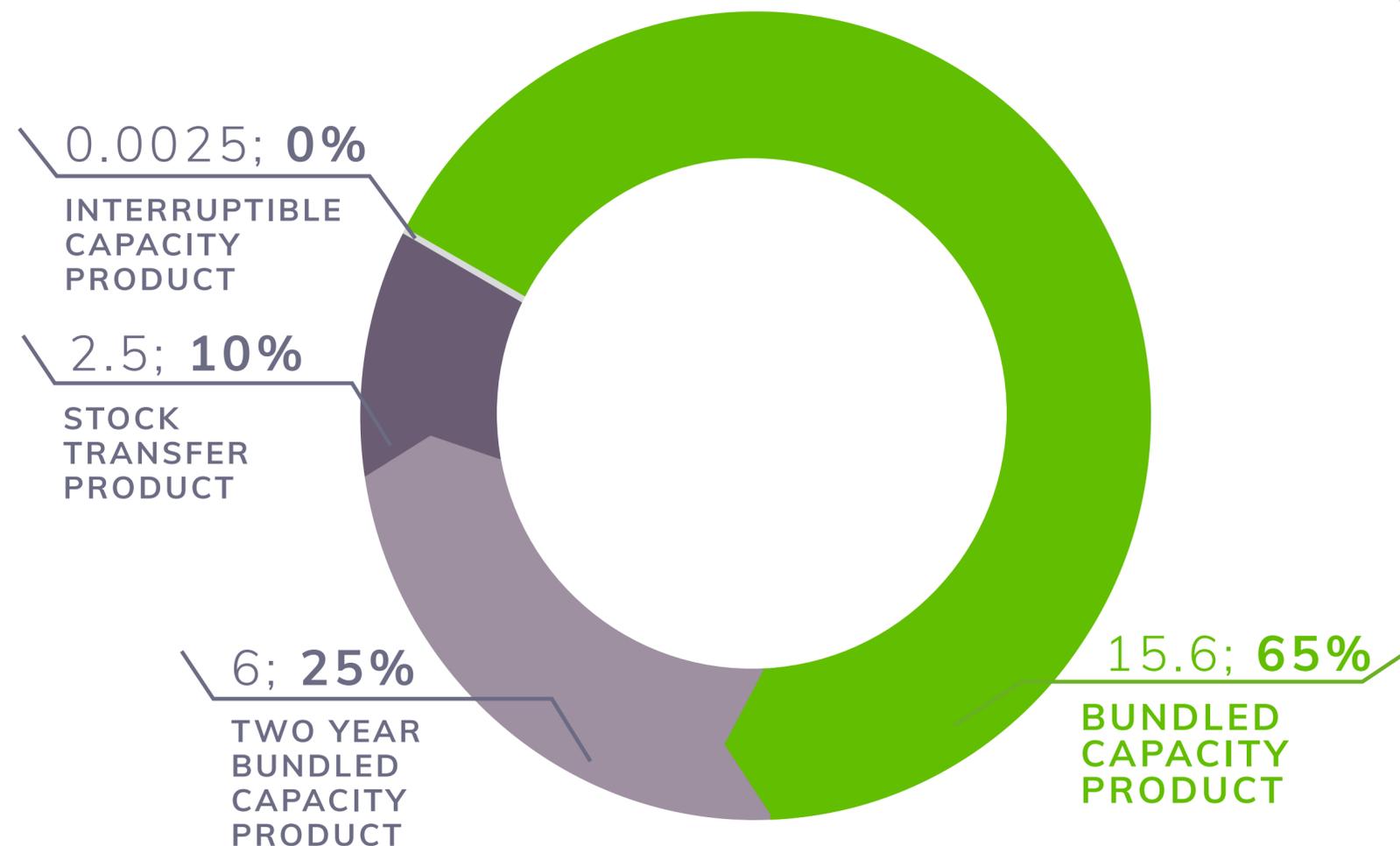
### Conexus as a storage operator:

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

Auctions for storage capacity with a single premium are used for reservation of storage capacity providing transparency of reservation of storage capacity according to the market situation and more equal access to storage services.

The storage capacity available during the 2022/2023 storage cycle was set at 24.1 TWh. In February 2022 – before the beginning of the injection season – the market participants showed great interest in the storage facility products.

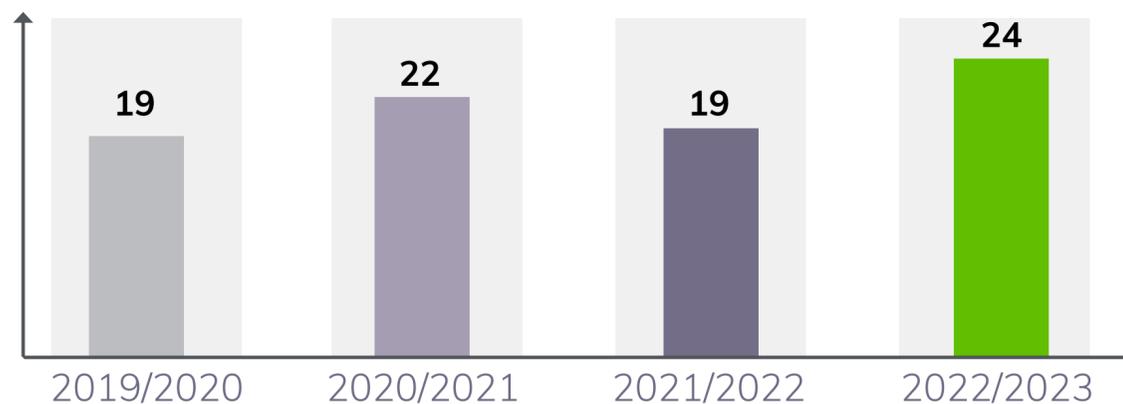
## Reserved storage capacity products for 2022/2023 cycle, TWh



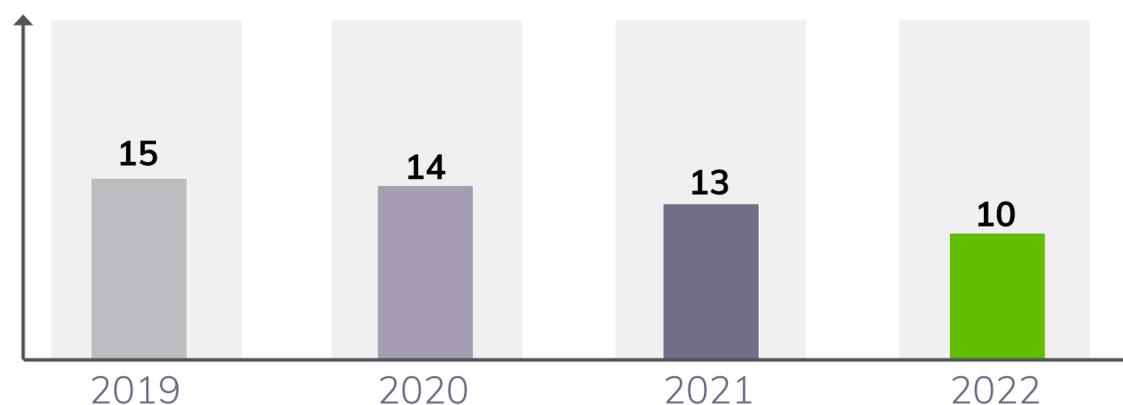
During the 2022/2023 storage cycle (May – April), out of 24.1 TWh, the reservation rate reached 100%, including bundled capacity product: 15.6 TWh (64.7%), two-year bundled capacity product: 6 TWh (24.9%), interruptible capacity product: 2.5 MWh (0.00001%) and stock transfer product: 2.5 TWh (10.4%). Storage tariffs for the 2022/2023 storage cycle were as follows:

- 📌 **maximum value of bundled capacity product**  
– 1.0226 EUR/MWh;
- 📌 **two-year bundled capacity product tariff**  
– 1.0865 EUR/MWh/cycle;
- 📌 **interruptible capacity product tariff**  
– 0.8147 EUR/MWh;
- 📌 **stock transfer product tariff**  
– 1.8081 EUR/MWh.

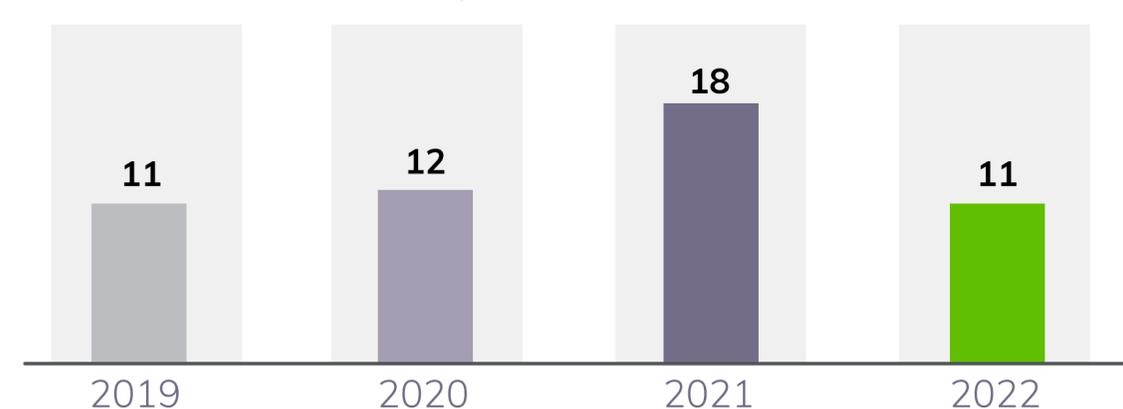
**Inčukalns UGS reserved capacity, TWh/storage cycle**



**Natural gas injected into Inčukalns UGS, TWh/calendar year**



**Amount of natural gas withdrawn from Inčukalns UGS, TWh/calendar year**



# 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 enhancement 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 volume of natural gas reserves during the withdrawal season. A new

compressor will be installed within the framework of the project to allow compression withdrawal from the storage, namely, it will be provide possibility to ensure an output pressure of 50-55 bar in Inčukalns UGS interconnection with the transmission system, even if the pressure in the reservoir 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 the storage facility by reducing CO<sub>2</sub>, NO<sub>x</sub> and other emissions.

## Inčukalns UGS development project

The total project funding is 99.5 million euro. The following sections are planned by 2025:



Co-financed by the European Union  
Connecting Europe Facility

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

**30,5**

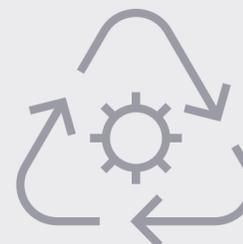
30.5 million euro



**RESTORATION OF 36 WELLS**

**25,5**

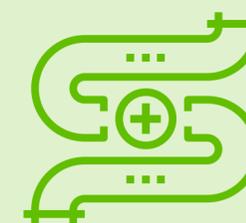
25.5 million euro



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

**43,5**

43.5 million euro.



# Transmission

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

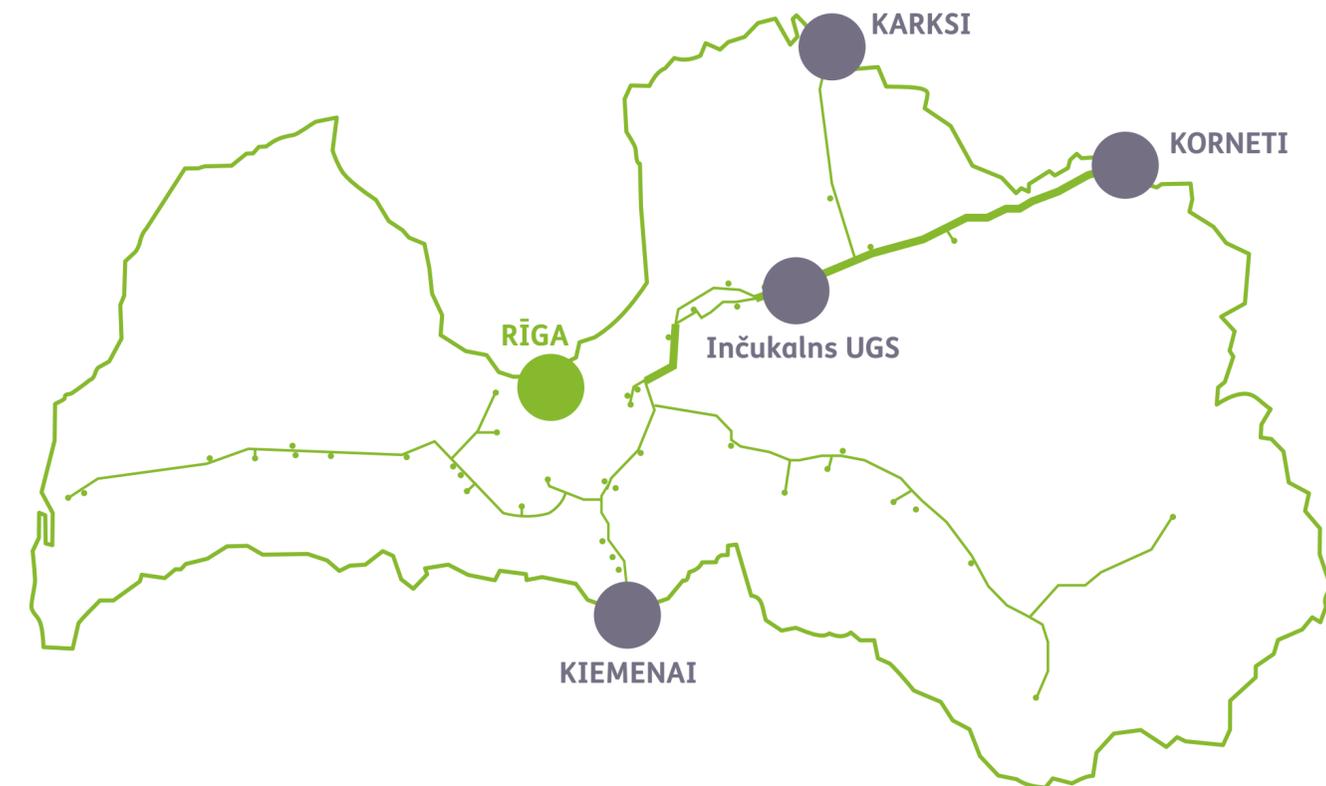
The Company's modern main natural gas transmission system is 1,190 km long and connected to the natural gas transmission systems of Lithuania, Estonia and Russia, ensuring both natural gas transmission through the regional gas pipelines on the territory of Latvia and through the interconnections with the natural gas transmission systems of neighbouring countries.

Diameter of the gas transit pipelines of the transmission network of the Latvian natural gas transmission system is 720 mm with an operating pressure within the range of 28 to 40 bars, while diameter of the regional gas pipelines intended for the supply of Latvia 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 the exit points intended for consumption in the territory of Latvia are combined in one exit point.

## 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 the system users;
- ◆ Ensures the continuity of natural gas service provision by maintaining the infrastructure in technically sound condition;
- ◆ Provides the system users with non-discriminatory access to the use of the gas transmission system through the sale of capacity products, in accordance with the conditions of the Latvian open natural gas market, so that traders could use the capacity of the main transmission networks for wholesale and supply of natural gas to customers;

## Natural gas transmission system of Latvia



- ◆ Together with the Estonian operator Elering, it maintains a virtual trading point (VTP) in the single natural gas balancing zone of Latvia-Estonia, which allows network users to transfer and receive ownership of the gas in the system.

In 2022, the total volume of transported gas reached 31.4 TWh, decrease of 20% compared to the previous year. The volume of gas transported for the needs of Latvian users (volume of natural gas injected into the natural distribution system) has decreased by 30% and amounts to 8.8 TWh.



# Development



**Co-financed by the European Union**

**Connecting Europe Facility**

At the end of 2019, the European Climate, Infrastructure and Environment Executive Agency (formerly named the Innovation and Networks Executive Agency) approved the allocation of funds for the Latvia-Lithuania gas pipeline capacity increase project with the planned total project investment of 10 million euro, 5.5 million euro of which were directed to Conexus. The European Commission has provided the EU support under the Connecting Europe Facility (CEF) for increase of capacity of the Latvia-Lithuania gas pipeline connection in the amount of 50% of the project implementation costs.

Increase in transmission capacity between Lithuania and Latvia will facilitate access to the Klaipėda LNG terminal, Inčukalns UGS and the Poland-Lithuania gas interconnection. The project aims to increase the capacity of the Lithuania-Latvia interconnection by 70–80% on average achieving this by improving the existing infrastructure. Works planned within the project on the side of Latvia will include reconstruction of individual sections of the main gas pipeline in order to increase the maximum allowed working pressure from 40 to 50 bar. By carrying out the relevant investments, Lithuania-Latvia interconnection point capacity has been increased to 90 GWh/day in the direction from Lithuania to Latvia. Following the complete implementation of the project, an additional dynamic capacity increase possibility up until approximately 100 GWh/d in the direction from Lithuania to Latvia is planned, as well as an increase of capacity up until 82 GWh/day, with a dynamic capacity increase possibility up until approximately 100 GWh/day in the direction from Latvia to Lithuania (currently 65.1 GWh per day). The project is scheduled to be completed by the end of 2023 through the implementation of 17 subprojects.

# Common natural gas market

The year of 2022 was significantly different from other years in terms of assessment of the period since the opening of the natural gas market in 2017. Despite the high natural gas prices, demand for the storage capacity during the Inčukalns UGS auctions in February exceeded the available capacity, which was related to the uncertainty in relation to availability of natural gas supplies given the geopolitical situation. With the absence of the usual winter-summer price differences, where the foreseeable winter price is higher than the summer price, the auction premiums did not exceed 0.03 EUR/MWh.

Participating in the auctions in February and obtaining the storage capacities were 15 market participants from the Baltics, Finland and Norway.

Most significant changes in the regional natural gas market took place immediately after the Russia's full-scale invasion of Ukraine on 24 February. Therefore, the usual approach changed, and, on 26 February 2022, injection of natural gas into the storage was technically provided. At the end of February, market participants commenced injection of natural gas contrary to the traditional withdrawal in February and March. Being concerned about possible interruption in supplies from Russia, in a matter of days, full Kiemėnai input capacity from Lithuania was reserved.

Natural gas flow from Finland through Balticconnector and from Klaipėda LNG terminal through the Kiemėnai point increased significantly, with the aim to store natural gas in the storage facility.

In March, the Cabinet of Ministers of the Republic of Latvia declared the early warning situation in the sector, which stipulated, inter alia, that Conexus was obliged to ensure injection priority for natural gas transported from Klaipėda LNG terminal and from Lithuania–Poland interconnection (GIPL), which was scheduled for opening on 1 May. The aforementioned procedure entered into effect on 1 April 2022 and was ensured up to 31 December, when the condition of the Energy

Law prohibiting natural gas supply from Russia entered into effect.

Overall, in 2022, traders imported significantly lower volume of natural gas than in other years, which was affected, inter alia, by a number of unscheduled repair works on the Russian side, which traditionally did not take place during the injection season. Regasification capacity from Klaipėda was reserved for 100%, and, 17.0 Twh in total were transmitted from Lithuania in the single Latvia-Estonia area (excluding Russian transit flows). As a result, the volume of natural gas supplied by Russia was under 20% of the total volume since March 2022.

In order to ensure regional gas supplies independently of the supplies from the Russian Federation, the responsible institutions and natural gas transmission operators of Finland and Estonia commenced work on building of LNG terminals in Finland and Estonia, whereas, in Latvia, discussions and work resumed on the possible building of Skulte LNG terminal and connection thereof with Inčukalns UGS. At the end of December, the floating LNG storage and regasification unit "Exemplar" arrived at the Finnish port Inkoo, using which will stabilise natural gas supplies in the region.

The year of 2022 came into sight with increased interest from the market participants and wish of new market participants to enter into transmission, balancing and storage service contracts. The growing market interest is related to building of natural gas emergency stocks, wish the natural gas users to independently control their stocks, as well as to the opening of the GIPL. Overall, 19 new service contracts with natural gas traders were entered into in 2022.

In 2022, in cooperation with the Lithuanian transmission operator Amber Grid, changes to the uniform transmission conditions were introduced, providing for a uniform capacity reservation procedure of the Latvia-Lithuania interconnection point Kiemėnai and reduction of administrative burden on the users of natural gas transmission system. Since 1 October 2022, as soon as the system users reserve





capacity in the IT platform managed by Conexus, corresponding capacity is reserved also in the Amber Grid system. Proportionality has been set as the principle for capacity allocation, which ensures better market clearness and transparency compared to the previous approach where the capacity was allocated according to the order of receipt of the trade notifications.

Following the harmonisation of transmission rules with the regulators of the Baltic States, in September 2022, reservation of Kiemenai capacity was commenced. This resulted in full reservation of Kiemenai input capacity in Latvia for the 1st, 3rd and 4th quarters of 2023. Transmission capacity was purchased by both local market participants from the Baltic States, and the new market participants. Kiemenai transmission capacity was reserved within the frameworks of a yearly, quarterly, monthly, daily and current daily Products.

Similarly as in 2021, also in 2022, the highest percentage of transmission capacity reservations of all the interconnection entry points in the area of Latvia-Estonia was for the quarterly products. In 2022, the system users opted to reserve also a longer term transmission capacity product – percentage of yearly product amounted to 8%.

# CONEXUS STRATEGIC SUSTAINABILITY FRAMEWORK

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

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.

## Material sustainability aspects

In order to improve sustainable development, define the framework and key aspects of sustainability, in 2020 the Company performed a materiality analysis of the sustainability aspects, 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 sustainability aspects. 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, nongovernmental organisations, business organizations and specialized consulting firms took part in the analysis. A total of 250 stakeholders and experts from around 200 organizations were addressed by sending an invitation to participate in the Conexus stakeholders' survey on sustainability. 104 external stakeholder answers and 150 answers from employees were received.

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

In 2021, review of the key sustainability aspects was carried out within the Company's management group, re-assessing the position of aspects on the Company's impact axis in accordance with the current situation. In 2022, the key sustainability aspects were once again reviewed and approved by the Company's council without changes.

There have been no changes in the comparative information in 2022 Sustainability Report.



## 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

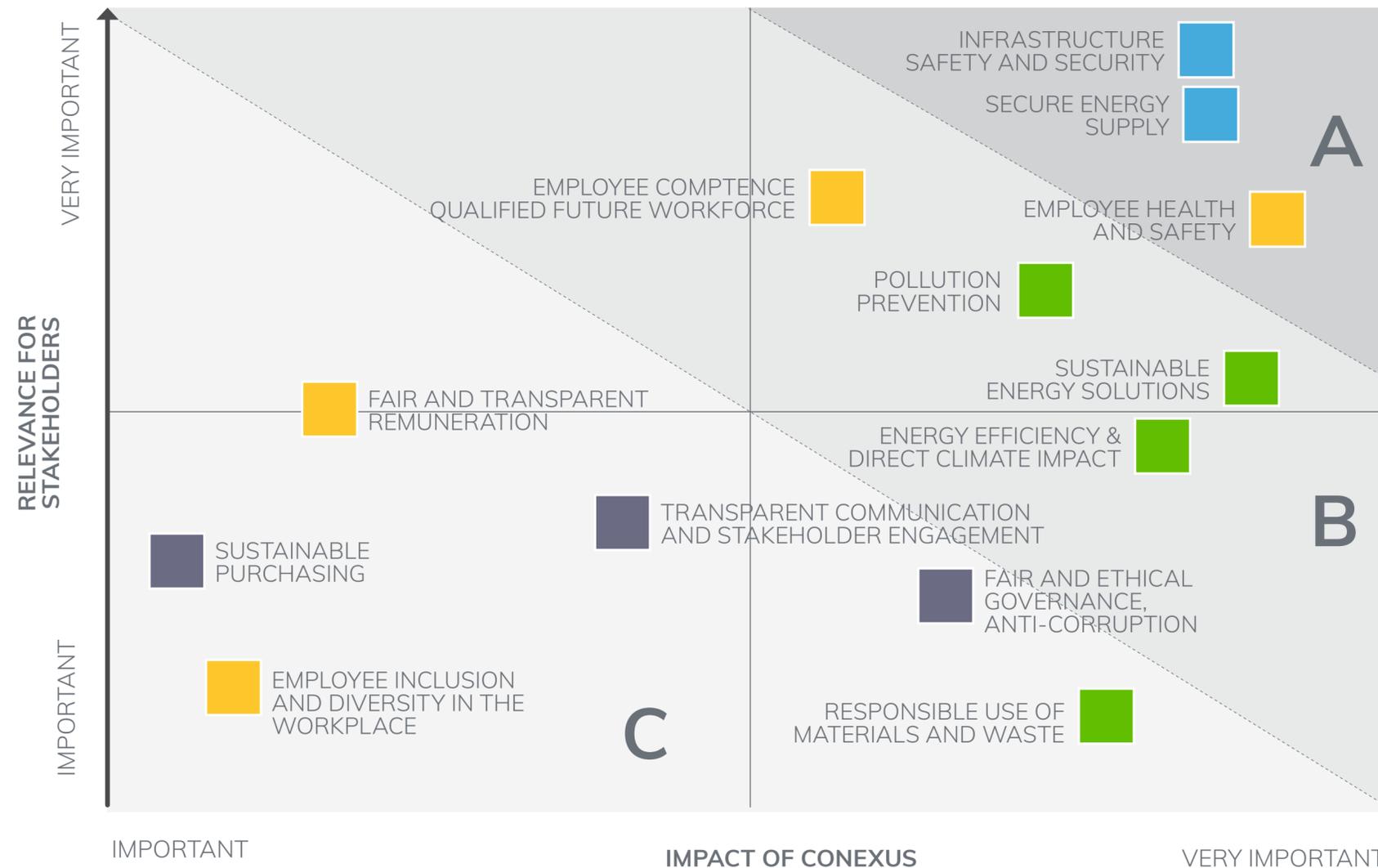
**The attached matrix shows the priority level of each aspect:**

**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

THE FOLLOWING MATRIX SHOWS THE PRIORITY LEVEL OF EACH ASPECT:



■ SERVICES   
 ■ MANAGEMENT   
 ■ ENVIRONMENT   
 ■ WORKPLACE

# RESPONSIBILITY FOR SERVICES

## Infrastructure safety and security

GRI 416-1, 416-2, 11.3.3

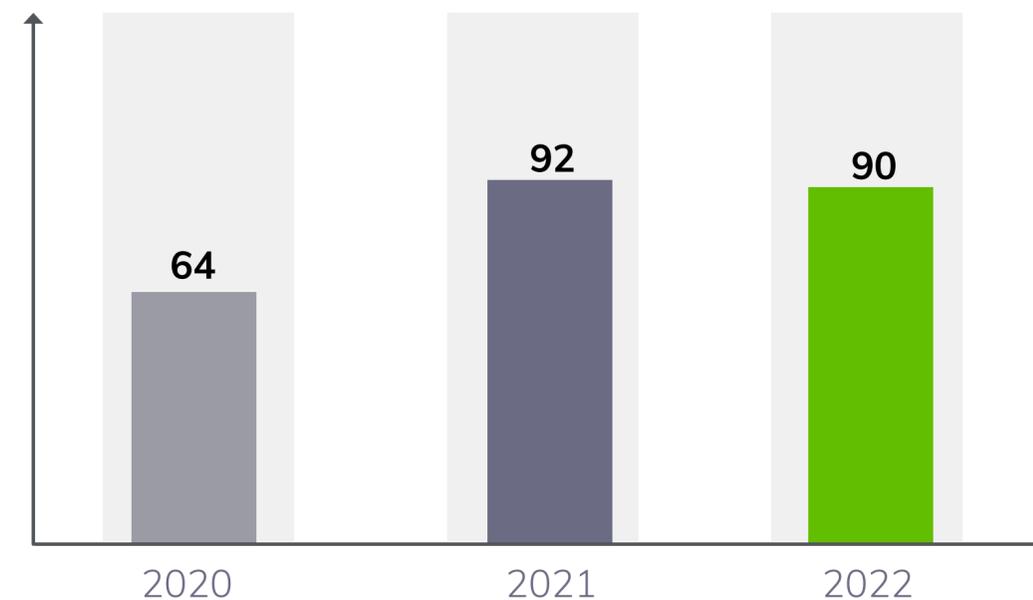
**Secure, accessible and market-compliant infrastructure is one of the Company's strategic goals, arising from the services provided by the Company. The technical order of systems and equipment, regular diagnostics and compliance with occupational protection requirements are the main factors that determine 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 civil protection plan for disaster prevention;
- ◆ Conexus adheres to binding standards and requirements for asset maintenance, inspections, diagnostics and repair;
- ◆ the Company has established work procedures and instructions for transmission and storage system diagnostics and analysis, operation and maintenance (e.g., repair), and effective response (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 trainings are conducted at least every three months in accordance with approved emergency response plans. In 2022, 90 trainings took place (in 2021 – 92). The Company follows the practical application of the policies developed and no cases of non-compliance have been identified.

### Number of emergency preparedness trainings



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. 3 material violations of protection zones were detected in 2022 (in 2021 – 4, in 2020 – 1), unauthorised excavation works, logging works were performed, and illegal construction was performed in the protected gas pipeline area. After detection of the violations, the Company responded rapidly; initially, where possible, consequences of violation were eliminated at the Company's expense, followed by sending a bill for the losses caused to the violator to claim for compensation. Where necessary, the responsible state and municipal authorities were informed for further decision-making.

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

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 individuals are classified at the highest level. In 2022, no level 2, level 3 or level 4 incidents were registered. 2,173 incidents of lower level were detected (in 2021 – 766). Significant decrease in the number of lower level incidents can be explained by commencement of active use of the management system, which enabled identification of all the possible incidents, which were not detected in the previous years, during gradual implementation of the system.



**In 2022, annual theoretical training on well emergency situation control plan was held at Inčukalns UGS. The training was conducted by Halliburton Company Germany GmbH, which has extensive experience in preventing such accidents worldwide. The training was attended by the responsible Conexus specialists.**

**In 2022, modernisation of the physical security systems of Inčukalns UGS and gas transmission infrastructure was commenced, and it will continue until 2024.**



# Secure energy supply

GRI 203-1. 11.14.4

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;
- ◆ extended cooperation with the regional operators to ensure security of supply.

During 2022, investments were made in total amount of 15 million EUR. For detailed information on the investments made, see the "Management Report" section, "Results of segments' operations" sub-section.

	2022	2021	2020	2019	2018	2017
Transmission supply performance (%)	100%	100%	100%	100%	100%	100%
<small>Ratio of completed network user nominations</small>						
Supply performance at Inčukalns UGS (%)	100%	100%	100%	96.87%	99.92%	100%
<small>The indicator is calculated by including the interrupted quantity above the guaranteed minimum volume within the congestion management of Inčukalns UGS</small>						
Number of unplanned changes in transmission capacity	150	27	17	41	44	1
Number of substantiated customer complaints received	0	0	0	0	0	0
Number of significant (Level 3 and 4) incidents related to IT systems	0	0	2	1	0	0

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



# ENVIRONMENTAL RESPONSIBILITY

GRI 2-27

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 development of natural gas storage and transmission systems and to reduce environmental risks associated with the operations. The implemented management systems are based on the requirements of the environmental management standard ISO 14001 and on the requirements of the energy management standards ISO 50001, which are duly certified. An internal audit is conducted annually to randomly 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 category C polluting activity have been received, and the seventh certificate has been received at the administration object for natural gas storage in an underground gas storage facility with a permit for category B polluting activity and a permit for greenhouse gas emissions. Conexus participates in the European Union Emissions Trading 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 2022, no violations against the environment were detected, and the conditions set in the environmental regulations were complied with.

## Impact on climate and energy efficiency

GRI 11.11.1

### Greenhouse gas emissions and reduction thereof

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

The main greenhouse gas emissions 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 regulation stations and incinerators-compressors and underground turbine storage processes, as well as combustion plants for heating purposes are sources of Conexus' greenhouse gas emissions. Emissions are caused by planned activities.

Methane emissions from the gas transmission process result from: the operation of natural gas pneumatic valves, inspection of pneumatic regulators, pressure reduction in gas regulation stations, emptying equipment from natural gas, blowing out natural gas cleaning equipment, natural gas leaks, natural gas blown from the gas pipelines in relation to repair works, repair and replacement of fittings, elimination of accidents and hydrate formation activities, and also as a part of economic activities, from combustion of natural gas for technological needs and heating of premises, which result in dioxide emissions.

During the gas storage process, methane emissions are created: by blowing loops and other pipelines with gas, removing condensate from various equipment, launching gas engine compressors, by partially reducing the gas pressure in gas pipelines and equipment, by releasing air-gas mixture from the pipelines connecting gas purification equipment (systems) by opening and closing the valving, by conducting geophysical studies. Emissions are also created as leakage from the gas pipeline parts in the locking devices, as a result of non-tightness of leakage compressors, leakage fountain in fittings, intercolumnar gas leaks, releasing gas from gas-operated engine compressors and the gas-air-cooling equipment. Carbon dioxide emissions are created from the equipment burning natural gas for technical needs and heating of the premises.

The most significant source of greenhouse gas emissions - methane - in the Company is the natural gas emitted during the repair works of the natural gas transmission system. In 2022, major part of emissions was caused by the processes at Inčukalns UGS – direct emission, leakage, incomplete combustion. Whereas, the most significant source of carbon dioxide emissions is the use of technical equipment – compressors and turbines for underground gas storage processes, while injecting natural gas.

Direct greenhouse gas emissions in the Company:

	2022	2021	2020	2019	2018
<b>Direct greenhouse gas emissions (CO<sub>2</sub> and CH<sub>4</sub> emissions), tCO<sub>2</sub> equivalent</b>	<b>37,184</b>	<b>45,478</b>	<b>51,975</b>	<b>49,104</b>	<b>29,735</b>
of which CO <sub>2</sub> emissions	20,771	27,545	27,127	31,775	23,436
of which CH <sub>4</sub> emissions (converted to CO <sub>2</sub> eq.)	16,414	17,933	24,849	17,328	6,300
<b>Greenhouse gas emission indicator for Inčukalns UGS (CO<sub>2</sub> and CH<sub>4</sub> emissions recalculated CO<sub>2</sub> eq.)</b>	<b>35.44</b>	<b>24.943</b>	<b>23.052</b>	<b>22.791</b>	<b>24.204</b>
Indicator = SEG emissions from processes Inčukalns UGS (CO <sub>2</sub> kg/g + CH <sub>4</sub> kg/g = SEG emissions expressed CO <sub>2</sub> eq. (kg))/ Volume of natural gas injected into Inčukalns UGS (1000 m <sup>3</sup> /year)					
<b>Greenhouse gas emission indicator for gas transmission system (CO<sub>2</sub> and CH<sub>4</sub> emissions converted to CO<sub>2</sub> eq.)</b>	<b>1.33</b>	<b>4.273</b>	<b>5.00</b>	<b>4.603</b>	<b>2.350</b>
Indicator = SEG emissions from processes in the transmission system (CO <sub>2</sub> kg/g + CH <sub>4</sub> kg/g = SEG emissions expressed in CO <sub>2</sub> eq. (kg))/ Volume of natural gas injected through the transmission system (1000 m <sup>3</sup> /year)					

Compared to the previous years, emissions have decreased, and this can be explained by the reduction of volume of the transmitted and injected natural gas.

In 2022, compared to 2021, greenhouse gas emission indicator at Inčukalns UGS has increased, since improvement of emission accounting has led to increase in methane emissions, and previously ignored emission sources have been identified. Although CO<sub>2</sub> emissions have decreased in 2022, since the modernised gas transmission equipment was operated at the compressor station, methane emissions have more significant impact on climate compared to CO<sub>2</sub> emissions, which was the reason why the indicator value increased significantly compared to the previous years, when indicator values were not affected by the volume of methane emissions to that high extent.

Greenhouse gas emission indicator in the gas transmission system has reduced because of significant decrease in methane emissions. Methane emissions directly depend on the scheduled gas pipeline repair works and the volume of blown-out, released natural gas. During the gas transmission, careful planning of works is implemented to prevent natural gas emissions to the extent possible, furthermore, as voluminous repair works as during the previous reporting years were not performed in 2022.

CO<sub>2</sub> emissions are calculated by applying the national methodology "Methodology for Calculation of CO<sub>2</sub> Emissions from Stationary Combustion of Fuel"<sup>3</sup>. Volume of methane emissions is calculated by using the methodologies of natural gas technological losses, approved by the Company in 2017, as well as by direct emission measurements.

For the calculation of CO<sub>2</sub> 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 related to the technical facilities concerned. To calculate the total volume of greenhouse gases emitted in terms of CO<sub>2</sub> equivalents, methane emissions are multiplied by 28<sup>4</sup> times the impact compared to CO<sub>2</sub> emissions.

In order to reduce the volume of blown natural gas as much as possible and to make efficient use of the natural gas in the gas pipelines to

be repaired, the works to be performed are carefully planned when performing repair works in the transmission system. Replacement works of outdated equipment, and regular inspections and prevention of leaks in the underground gas storage infrastructure are performed to minimize methane emissions.

The Company 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<sub>x</sub>, CO<sub>2</sub>, and CH<sub>4</sub> emissions and improving energy efficiency;
- ◆ Gas collection point modernisation project at Inčukalns UGS with the aim to reduce CH<sub>4</sub> emissions;
- ◆ Repair works of the natural gas transmission network are constantly planned aimed at reducing CH<sub>4</sub> emissions, and perfection of equipment of the gas regulation stations for the improvement of energy efficiency.

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

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



# Operational energy consumption and improving energy efficiency

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

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:

	2022	2021	2020	2019	2018
<b>Total energy consumption in the Company, MWh (including natural gas (for heating and technological processes), fuel and electricity)</b>	<b>122,765</b>	<b>161,323</b>	<b>161,382</b>	<b>183,566</b>	<b>137,118</b>
of which electricity consumption, MWh	4,947	5,522	5,889	5,611	4,852
of which heat consumption, MWh	115,422	153,351	152,965	175,378	130,438
<b>Underground gas storage energy consumption indicator</b>	<b>0.0102</b>	<b>0.0105</b>	<b>0.0101</b>	<b>0.0104</b>	<b>0.0105</b>
Indicator = natural gas consumption for process supply at Inčukalns UGS (m <sup>3</sup> /year)/ injected volume of natural gas at Inčukalns UGS (m <sup>3</sup> /year)					
<b>Energy consumption indicator of the natural gas transmission system</b>	<b>0.048</b>	<b>0.054</b>	<b>0.050</b>	<b>0.053</b>	<b>0.057</b>
Indicator = natural gas consumption for transmission system processes (m <sup>3</sup> /year)/ volume of natural gas injected through the transmission system (m <sup>3</sup> /year)					

The main energy resources in natural gas storage are natural gas and electricity, which are consumed during technological processes when injecting natural gas into the underground gas storage. Whereas, the main energy resource for the provision of natural

gas transmission processes is natural gas, which is consumed to ensure the technological processes of natural gas transmission. 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 volume of natural gas injected into the underground gas storage and natural gas consumption in relation to the volume of natural gas pumped into the transmission system.

The energy consumption indicator of the underground gas storage facility decreased in 2022 compared to 2021 because, in 2022, three modernised natural gas pumping aggregates in station No. 2 were in operation.

The energy consumption indicator for gas transmission in 2022 decreased compared to 2021. For the purposes of transmission, natural gas must be heated up, and this is done by using natural gas powered technological equipment. When adjusting processes or setting them in automatic mode, natural gas consumption does not increase to provide the process. Improvement is provided also by the commenced heat-insulation works of the gas regulation station equipment.

In order to reduce the consumption of energy resources for the provision of storage processes as much as possible, modernization of technological equipment is planned and implemented. In 2022, modernisation of two energy resource consuming gas pumping aggregates 12z330 was commenced for the provision of underground gas storage processes. This will result in savings of at least 5% of the volume of natural gas consumed per each piece of equipment so far.

Taking into account the fact that methane is a powerful greenhouse gas, reduction of its emissions may slow down the climate changes. The Company actively follows the emission management and reduction initiatives, and, in 2022, it continued its work on improvement of the methane emission sources and methane quantities.

# Pollution prevention

GRI 305-7, 303-2, 11.3.2

## Air pollutants

As other air pollutants from the Company's activities include nitrous oxide (NO<sub>x</sub>) and carbon monoxide (CO). These emissions result from the provision of natural gas transmission and storage operations, when combusting natural gas in technological equipment and heating boilers to provide heat supply. Combustion of natural gas leads to the emission of pollutants CO<sub>2</sub>, CO and NO<sub>x</sub>. Assessment of these emissions is determined by regulatory enactments.

As a result of Company's activity, emissions of other pollutants into the air, such as sulphur oxides (SO<sub>x</sub>), persistent organic pollutants (NOP), volatile organic compounds (VOC), hazardous air pollutants as well as particulate matter (PM) are not identified and not possible due to the nature of the operations.

Quantities of nitrogen oxide and carbon oxide emissions:

	2022	2021	2020	2019	2018
NO <sub>x</sub> emission quantity, tonnes	32	45	57	53	36
CO emission quantity, tonnes	57	83	118	105	69

The quantities of CO and NO<sub>x</sub> 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 developed a draft emission limit of stationary pollution sources for the specifically used incinerators at Inčukalns UGS, which was approved by the State Environmental Agency.

In 2022, the draft emission limit of stationary pollution sources was revised, and, as a result, accounting of emissions of these pollutants will be clarified in 2023. Emissions of these pollutants are affected

by a number of factors. The most important is the volume of natural gas injected. The more natural gas that needs to be injected into underground gas storage facilities, the more natural gas will be burnt in the technical equipment and the more pollutants will be emitted. Small and medium-sized combustion equipment that burns natural gas and emit air pollutants is also used in gas regulation stations to ensure the operation of the natural gas transmission system. Compared to the equipment used to inject natural gas, equipment used in the natural gas transmission system has 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, manufacturing 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 wastewater are generated by withdrawing gas from an underground gas storage facility – water is separated from the gas, and various chemicals that are a source of water contamination must be used to prevent hydrates. After the separation of natural gas, water is returned back into the well.

The risk of underground contamination is prevented by laboratory control of the water prior to discharge into the underground layer, followed by discharge back underground (injecting back into the wells). In the Company, in accordance with the conditions established in the permit for polluting activities and the underground use licence, the permissible limit was set both for the volume of such wastewater – 650 m<sup>3</sup>/year – and for the amount of pollutants contained therein – for methanol 90 m<sup>3</sup>/year, for diethylene glycol – 15 m<sup>3</sup>/year.



	2022	2021	2020	2019	2018
Amount of industrial (manufacturing) wastewater, m <sup>3</sup>	275	525	289	222	425

Compared to the previous year, the amount of industrial wastewater decreased in 2022, because the volume of natural gas, from which the layer water which was linked to natural gas underground was separated, also decreased. After the separation of natural gas, water was returned back into the well as industrial wastewater with methanol and diethylene glycol admixture. Amount of wastewater to be discharged and quantities of pollutants in the industrial wastewater are not exceeded.

Additionally to the industrial wastewater, household and manufacturing wastewater is also generated, and rainwater is collected, which is treated accordingly in the wastewater treatment plants installed in the underground gas storage area before discharge into the environment. Whereas, wastewater from natural gas transmission is transferred to an external service provider.

	2022	2021	2020	2019	2018
<b>Total amount of wastewater, m<sup>3</sup></b>	<b>31,572</b>	<b>30,307</b>	<b>25,416</b>	<b>33,203</b>	<b>24,323</b>
of which generated at Inčukalns UGS and discharged into the environment after treatment	30,360	28,732	24,039	29,054	21,918
of which transferred to service providers for relevant treatment	1,212	1,575	1,377	4,149	2,405

The Company treats domestic water and rainwater on the site of the underground gas storage facility. Pollution that remains in the environment

is subject to a limit, which the Company complies with by conducting regular monitoring and maintenance of the treatment facilities.

All the wastewater operations at Inčukalns UGS are carried out in accordance with a permit that specifies the permissible amount of wastewater and the degree of pollution, as well as strict conditions to reduce the environmental impact of extraction are in place. During the operation in 2022, the Company has not violated the specified amounts of domestic, manufacturing and rainwater and pollutants.

## Responsible use of materials and waste management

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

### Consumption of chemicals

The hazardous chemicals consumed by the Company include motor oil, methanol, diethylene glycol and odorant.

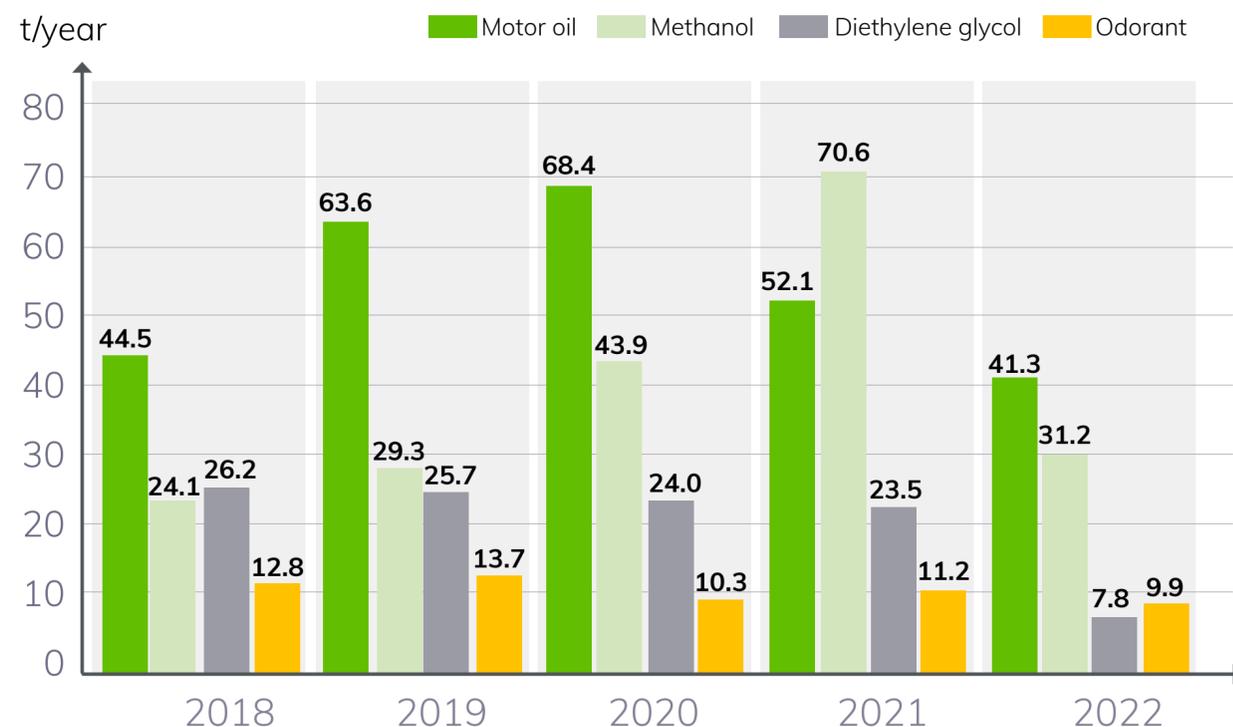
During the gas extraction, to prevent the formation of crystalline hydrates as a result of the throttling process, methanol is sprayed in the natural gas in winter period, where necessary. The natural gas is then directed to a gas drying facility where excess moisture is removed from it using diethylene 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 transmission system operator has to odorize it by adding odorant.

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



## Usage of main chemicals and mixtures



Decrease in consumption of the most significant chemicals in relation to 2021 is to be related to reduction of volume of the transmitted, injected and withdrawn natural gas, as well as the carefully conducted monitoring of technological processes to reduce amounts of the substances to be used to the maximum extent.

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

No leakages of chemicals were detected in 2022 (this indicator was 0 also in 2021).

## 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 m<sup>3</sup>/year.

Water at the administrative gas transmission facility is supplied by the utility service provider. Potable water at the underground storage facility and in the natural gas transmission system facilities is purchased from an external supplier.

Meters are used to register record the amount of groundwater received, while information on the amount of water received from an external water supplier is provided by the respective supplier.

	2022	2021	2020	2019	2018
<b>Total water acquisition, m<sup>3</sup></b>	<b>7,884</b>	<b>8,183</b>	<b>9,849</b>	<b>11,121</b>	<b>10,290</b>
of which underground water extraction at Inčukalns UGS	6,624	6,570	8,361	6,863	7,807
of which potable water acquisition from external supplier	48	38	43	50	45
of which household water acquisition from external supplier	1,212	1,575	1,445	4,208	2,438

Water consumption required for production processes in Inčukalns underground gas storage has been fluctuating. It is not expected to be constant in the coming years, as various projects have been initiated and are underway at the storage facility that involve technological improvements and are aimed at more efficient processes and 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 cooperates with various partners for appropriate waste management. The Company separately collects the used packaging materials, which are transferred to a participant of the manufacturers' responsibility system, besides, separately collected are the generated glass, metal, plastic, paper and cardboard materials, construction waste, biodegradable waste, large size waste, and hazardous waste. Every month, information is obtained from waste managers on the amount of non-hazardous municipal waste (m<sup>3</sup>) delivered, on the basis of which the Company recalculates the amount of waste (t), as well as information for reference as to how much of the waste generated is to be transferred for recycling and landfilling. Information on the amount of hazardous waste (t) is provided by the waste managers to whom the hazardous waste was transferred for further appropriate management:

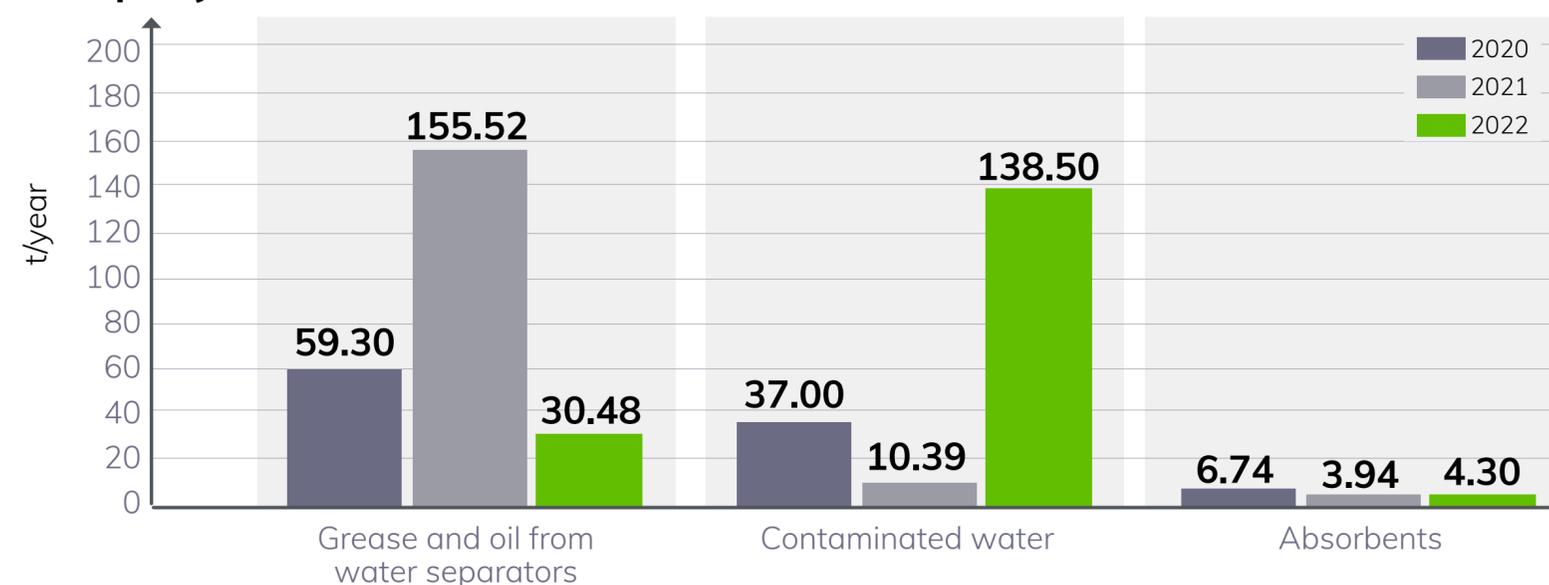
	2022	2021	2020	2019
<b>Total weight of hazardous waste generated, tonnes</b>	<b>186</b>	<b>172</b>	<b>111</b>	<b>154</b>
<b>Total weight of non-hazardous waste, tonnes</b>	<b>118</b>	<b>112</b>	<b>96</b>	<b>78</b>
Percentage of non-hazardous waste transferred for recycling	44%	51%	33%	13%
Percentage of non-hazardous waste transferred for landfilling	56%	49%	67%	87%

The increased amount of the household waste generated in 2022 can be explained by the fact that, up to the spring 2022, records excluded the share of waste generated on leased premises where administrative staff worked.

The Company generates different types of hazardous waste, which

are collected separately. Every year, the largest share of hazardous waste consists of mixture of water and oil products generated by the pumping works. Contaminated water is generated during hydraulic tests. In 2021 and in 2022, the major share of hazardous waste generated was grease and oils from water separators, as well as contaminated water:

**Quantity (t) and breakdown of major hazardous waste generated by the Company**



Increase in the amount of contaminated water in 2022 can be explained by performance of scheduled works – maintenance works and inspections of equipment, which are organised periodically and do not occur every year.

Taking into account the increase in waste landfilling tariffs, the Company informs and educates its employees on mandatory necessity of separate waste collection, reduction of hazardous waste, as well as conducts periodic controls 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. Waste generation is one of the environmental aspects assessed within the Company's bodies. The Company keeps moving towards implementing the principles of green procurement and, where possible, assesses the equipment lifecycle costs during the procurement procedures. Application of such procurement clearly demonstrates the Company's commitment to minimising its environmental impact and to working with sustainability-oriented partners. The Company is interested in lower consumption of resources and lower waste generation rates, choosing more energy-efficient and sustainable solutions to minimise the negative impact on the environment.

# The challenge for 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. In light of the European Green Deal, changes to the EU and national policy, plans and regulations, the importance of climate-friendly and sustainable energy solutions and stakeholder expectations have grown rapidly.**

In the Eastern Baltic region (Finland, Estonia, Latvia, and Lithuania), there was a significant decrease in natural gas consumption in the first half of 2010 due to overall improvements in energy efficiency in energy consumption and power generation, as well as shift to greener or renewable sources of electricity and heat production, thus reducing natural gas consumption. In the second half of the decade, demand for gas stabilised, with the fluctuations mainly reflecting the impact of climatic conditions and market-driven fluctuations in volumes of power generation.

In 2022, the reduced supplies, increase in natural gas prices, meteorological conditions resulting from the Russia's invasion of Ukraine, as well as preparation works for the heating season 2022/2023 led to reduction of national natural gas consumption. During the period from January 2022 to the end of the year, natural gas consumption in Latvia decreased by approximately a third. It is expected that, along with the normalisation of natural gas prices, consumption could return to the level of 2020/2021.

Despite the drop in consumption due to the aforementioned reasons, gas still takes significant position in the uniform primary energy consumption structure of Latvia.

Following the global trends, the Company has considered the risks of energy policy in its risk assessments, which must be taken into ac-

count in long-term strategic planning.

According to the Conexus mission, as well as the strategical sustainability aspects included in the Company's medium term business strategy, the Company is aware of its role in creation of climate-neutral, integrated energy system in the long term, paying the major attention to the development of renewable power, carbon neutral and low carbon emission gases organising its operating processes towards the circular economy.

## CONEXUS' WORK FOR THE ENERGY TRANSITION TO A MORE ENVIRONMENT-FRIENDLY ENERGY SECTOR IS BASED ON THE FOLLOWING PILLARS:



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



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



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



participation in national and regional policymaking processes.

## Latest events and investments in 2022:

- ◆ Developed standard solution for biomethane injection in the transmission system by using the system connections and container transport options, on which the Company conducted a public discussion<sup>5</sup>;
- ◆ Amendments made to the Energy Law provides for establishment of attestation system for the gas origin with the Company becoming the issuing institution thereof<sup>6</sup>;
- ◆ Natural gas transmission system operators of Latvia, Lithuania, Estonia and Finland consulted with the market participants on potential of attestation system for the origin of gases produced of renewable energy resources in the Baltic States and Finland<sup>7</sup>;
- ◆ The Company together with five other gas transmission system operators signed a cooperation agreement for the development of the Nordic-Baltic Hydrogen Corridor, which is a major step towards the development of hydrogen infrastructure in the region<sup>8</sup>;
- ◆ 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<sup>9</sup>;
- ◆ Commenced stage one of the research concerning assessment of injection of 100% hydrogen at Inčukalna UGS, assessing the possibility to attract the European Union funding;
- ◆ The Company has joined the European Hydrogen Backbone initiative<sup>10</sup>, 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;
- ◆ On 30 May 2022, the Regulation (EU) 2022/869 of the European Parliament and of the Council of 30 May 2022 on guidelines for trans-European energy infrastructure, amending Regulations (EC) No 715/2009, (EU) 2019/942 and (EU) 2019/943 and Directives 2009/73/EC and (EU) 2019/944, and repealing Regulation (EU) No 347/2013 (hereinafter referred to as – new TEN-E) was adopted. Taking into account the conditions of the new TEN-E, the Company decided to direct the following projects to the Projects of Common Interest (PCI)s:
  - Inčukalna UGS as a hydrogen seasonal storage with capacity above one TWh in Baltic region, changing the project title to “Hydrogen Seasonal Storage in the Baltic Region with the Capacity Above 10 TWh in Baltic region”;
  - Nordic-Baltic Hydrogen Corridor – Latvian part.
- ◆ International cooperation with gas transmission systems of other countries by participating in matters concerning low emission gases in the Association of Issuing Bodies, European Hydrogen Backbone, GIE, Biomethane Industrial Partnership, ENTSOG etc. (see the “Activity in Sectoral and Non-governmental Organisations” section).

<sup>5</sup> <https://www.conexus.lv/aktualitates-sistemas-lietotajiem/par-biometana-ievades-punktu-publiskas-apsprisanas-rezultatiem>

<sup>6</sup> <https://www.conexus.lv/aktualitates-sistemas-lietotajiem/energetikas-likuma-grozijumi-paredz-izveidot-gazes-izcelsmes-apliecinajumu-sistemu>

<sup>7</sup> <https://www.conexus.lv/aktualitates-sistemas-lietotajiem/tirgus-dalibnieku-aptauja-par-izcelsmes-apliecinajumu-potencialo-lomu-baltijas-valstis>

<sup>8</sup> <https://www.conexus.lv/zinas-presei/sesi-gazes-parvades-sistemas-operatori-paraksta-sadarbibas-ligumu-ziemelvalstu-un-baltijas-valstu-udenraza-koridora-attistibai>

<sup>9</sup> <https://www.conexus.lv/zinas-presei/conexus-ar-starptautiskajiem-partneriem-uzsak-vienotu-petniecibas-un-attistibas-projektu-udenraza-ievadisanai-un-transportesanai-gazes-parvade>

<sup>10</sup> <https://gasforclimate2050.eu/ehb/>

# RESPONSIBILITY TO 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, 11.9.1, 11.9.2, 11.9.3, 11.9.4, 11.9.5, 11.9.6, 11.9.7, 11.9.8, 11.9.9, 11.9.10, 11.9.11

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

- Constant compliance with the requirements of regulatory enactments, 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 protection management system

Accidents and occupational diseases of employees at the workplace can only be completely prevented if a safe working environment is ensured, therefore, every employee must comply with all the occupational protection requirements. In order to implement occupational protection measures, the Company has a certified management system, maintained and continuously improved in accordance with the requirements of the ISO 45001 Occupational Health and Safety Management System Standard.

The system is externally certified, which means regular and independent third party assessment. Gas storage system was initially certified back in 2005, but gas transmission system – in 2019. 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 situation.

## Occupational protection culture

Processes of the occupational protection management system enable timely detection of risks, non-compliances, collection of observations and suggestions. Employees are encouraged to report hazardous situations, hazardous acts, non-compliances, or improvements in the field of occupational protection to occupational protection specialists, heads of structural units, trade union, or through use of a dedicated e-mail [drosiba@conexus.lv](mailto:drosiba@conexus.lv). The information received is registered and managed by means of the Company's electronic document management system, where the necessary activities, responsible persons and deadlines are stipulated.

A number of initiatives have been proposed to improve occupational safety culture and promote engagement of employees in dealing with related issues. For example, safety patrols of managers were launched in 2019 to facilitate interaction between the management and employees. In 2022, these patrols were performed according to the schedule resulting in 68 observations and improvement proposals (in 2021 – 48).

## Internal control

Internal control is essential. Within the context of the pandemic, emergency situation, and national restrictions in 2022, internal control observations were of particular value – Ideas for possible improvements were offered, several situations related to unsafe work environment or action were eliminated, thus preventing the possibility of an accident or occupational disease. In 2022, all the planned internal audits and the risk assessment of the working environment were carried out resulting in 167 observations and suggestions for improvement (in 2021 – 149). It must be emphasised that safety of workers is a priority for Conexus, and managers are responsive to these observations and suggestions.

## Employee involvement and training

Employee participation is ensured by cooperating with employees who are involved in the assessment of risks of the work environment and making recommendations to improve the work environment. When choosing the means of labour protection, recommendations and references of employees are taken into account.

The Company has developed the necessary regulatory framework for the management of occupational protection processes, and regular training is provided to employees. The work instructions contain clauses covering situations in which commencement of work it is forbidden. An employee may refuse to work where safe working conditions are not provided, and he/she is obliged to inform head of the relevant structural unit.

## Accident investigation

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

## Assessment of working environment risks

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

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

- 1.** In this stage, methods for the assessment of the working environment risk and explosive working environment risk;
- 2.** In this stage, assessment of the working environment risk and explosive working environment risk, identification of factors takes place by surveying specific working places and objects, and compliance with the requirements of regulatory documents and the volume of the previously completed occupational protection measures are assessed;
- 3.** In this stage, measurements of the harmful factors of working environment, as well as assessment of other necessary information are carried out (analysis of safety data sheets of chemicals, analysis of accidents and occupational diseases, etc.);
- 4.** In this stage, documentation of assessment of the working environment risk and explosive working environment risk is prepared;
- 5.** In this stage, the necessary corrective and preventive measures are registered and managed in the Company's Electronic Document Management System.

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, remote work became more important, and, as a result, a methodology was developed and remote work environment risks and epidemiological safety measures for on-site work were identified.

Identification of risks of the working environment related to remote work mode was carried out in cooperation with remote workers using workplace self-assessment questionnaires. Following the assessment, recommendations were developed for the employees regarding performance of remote work, including correct arrangement of the workplace.

## Understanding of health and safety

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

Employees are trained in occupational protection, fire safety, civil protection, first aid, hazardous work, technical maintenance of gas transmission and storage systems, electrical safety and well-being. At the beginning of their work in the Company, employees receive initial training, which is later repeated in the course of their work, furthermore, other thematic training is also offered. The trainings are organised in cooperation with external service providers as well as by using internal teaching staff. In 2022, employee training was conducted both remotely and on-site depending on the epidemiological situation, training context and workplace of the persons to be taught. On-site training was organised in accordance with national epidemiological safety requirements.

In 2022, the Company paid special attention to the mental health and well-being of its employees and introduced several important initiatives: organised courses on communication, team psychology, life balance (in 16 lectures, experts shared their experiences on what it means to be a professional, on family relations with the loved ones, as well as on oneself as a personality), topicalities of physical security, propaganda and its impact on our emotions, and the annual leisure festival including five various sports activities also took place. In April 2022, new sports and recreation facility was opened at 14 Stigu Street, open to every employee, and training was organised regarding the available equipment and use thereof to improve exercising skills and health along with the development of physical abilities. By using the internal communication portal and information screens installed on the Company's premises, the employees were provided with information on risks and security measures related to ticks, slippery weather, winter and pre-celebration period.

The Company provides each Conexus employee with health insurance

policy that allows them to receive a wide range of outpatient and inpatient treatments as needed, reimburses part of the costs of medications, provides consultation with various specialists (e.g., nutritionist, psychotherapist, podiatrist), as well as reimburses costs related to Covid-19 (tests, antibodies).

Within the context of the pandemic, measures for the promotion of vaccination were continued, and collective vaccinations were organised in January and October (before the autumn virus season). Remote work conditions were provided, as well as the necessary personal protective equipment, disinfection of premises and workplaces, and response in case of. Furthermore, employees were provided with Covid-19 self-testing sets. Up-to-date information on epidemiological safety requirements was published on the internal communication portal and communicated via e-mails, information TV screens, meetings, as well as thematic trainings were conducted.

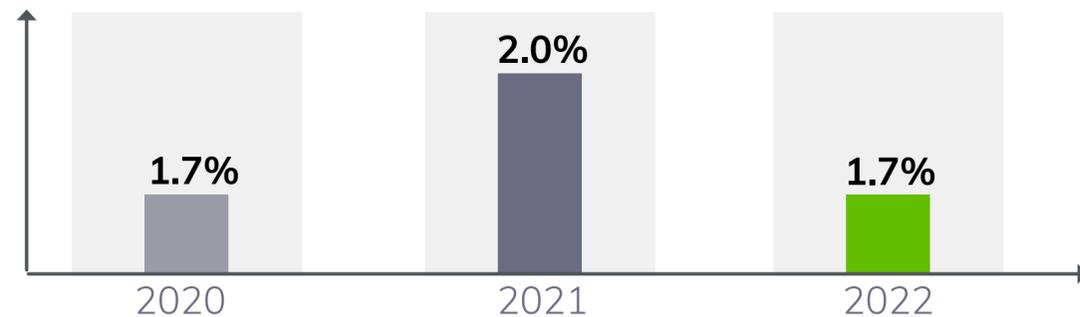
## Good practice in safety management

The Company's security activities have been highly valued by third parties. In 2022, recertification of the occupational protection management system was performed in accordance with the requirements of ISO 45001 Occupational Health and Safety Management System Standard, and a new certificate was received.

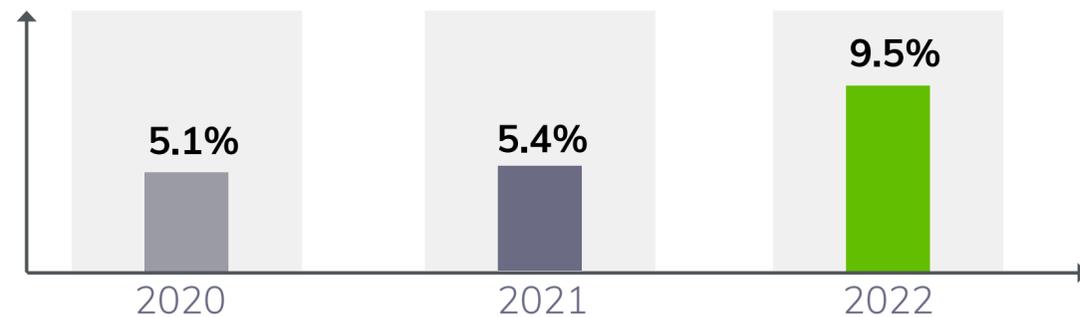
## Occupational safety and occupational health performance

Accidents at work are classified as serious accidents or mild accidents, in accordance with the requirements of Cabinet of Ministers' regulation No. 950 Procedures for the Investigation and Registration of Accidents at Work, dated 25 August 2009. The medical treatment institution makes the decision regarding the severity of the health disorders.

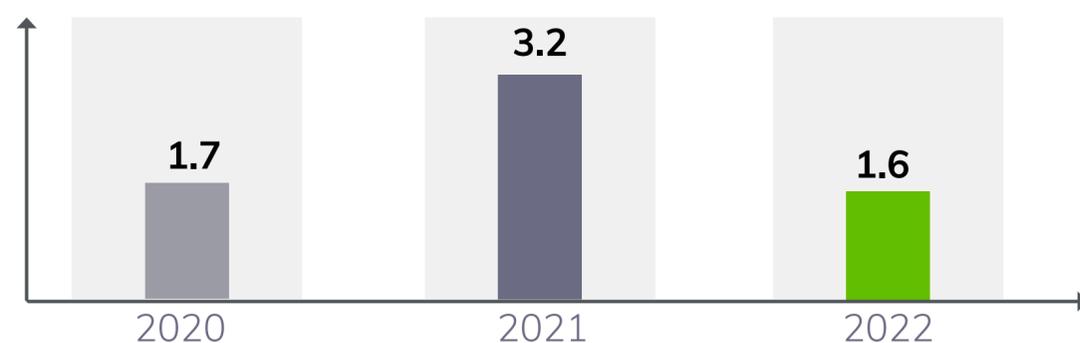
### Proportion of cases of active occupational diseases among employees, %



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



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



In 2022, no serious occupational accidents (in 2021, this indicator also was 0) or work-related fatalities (0 in 2021). In 2022, one accident at work was registered that resulted in lost workdays (in 2021 - 1). Conexus strives to keep these numbers at zero in the future.

In 2022, one minor accident at work was registered (in 2021– 1).

In 2022, no occupational diseases were confirmed. Total number of active occupational diseases in 2022 was 6 (in 2021 – 7).

In 2022, various awareness raising activities concerning the wellbeing were organised for the employees, totalling 49 hours (in 2021 – 55). Communication training was held – 1-hour webinar, team psychology – 1-hour webinar, life balance – 7-hour lectures, topicalities of physical security – 3-hour training, propaganda – 1-hour webinar, use of equipment on the sports and recreation premises – 6-hour coach consultations and 30-hour annual recreation festival.

According to the assessment of the work environment risks, employees were provided with mandatory health examinations. In 2022, 122 employees underwent mandatory health examinations. Special remarks and recommendations for the employer were provided by the occupational physicians:

- ◆ several employees who work with a computer needed glasses;
- ◆ the use of hearing protection in noisy environments was emphasised for some employees;
- ◆ necessity for the use of safety system and protective fencing when working at height was emphasised for some employees.

## Contract staff and visitors

Contract workers are instructed in the safe performance of the work in the Company's facilities prior to performing the work. Briefings are provided in accordance with regulatory enactments of Latvia in compliance with the Occupational Health, Safety and Environmental Management Policy. The Company monitors the work of contractual organisations, which contributes to creating safe working environment.

Visitors attending the Company's facilities move around the territory being escorted by Conexus employees. Prior to the visit, there is always a video briefing provided regarding safety requirements on the site.

# Employment relations, employee inclusion and involvement

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

## Remuneration policy

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

The goal of the Company's Human Resources and Remuneration Policy is to implement effective Company's practice in dealing with matters of human resources management to introduce sustainable management of internal resources, ensuring competitive and motivating remuneration, as well as employee succession and competence development.

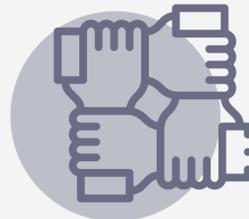
### Conexus human resources management guidelines are:

- ◆ **Professionalism** – employees are competent in their respective fields, focused on acquiring new skills and abilities, sharing knowledge and experience both nationally and internationally;
- ◆ **Quality** – employees ensure high quality 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, to the extent possible, adequate training and career development for them both in horizontal and vertical aspect;
- ◆ **Stability** – the Company's operations are stable and oriented

towards long term development. The Company takes care of its employees and strengthens their sense of security through stable work, adequate remuneration and social guarantees;

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

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



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



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



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



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

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

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

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

Budget of personnel costs is composed, and remuneration of the employees is determined according to the basic principles defined in the remuneration system. During the course of budget approval, the Council is provided with explanations and justification of the budgetary resources.

In 2022, work on the development of procedures for job evaluation and determination of remuneration has been commenced. Work group in cooperation with consultant of Figure Baltic Advisory conducted evaluation of the Company's jobs according to uniform principles and criteria based on the analytic evaluation method of

intellectual and manual jobs.

The commenced work will continue in 2023 – based on the conducted evaluation of jobs, process for the evaluation of the Company's jobs, determination and review of the employees' basic salary will be developed and implemented to ensure fair and competitive basic salary system adequate to the labour market trends, as well as uniform approach for the evaluation of the Company's jobs and determination of the basic salary.

## Remuneration of employees in 2022

The Company's strategy pays the key attention to sustainable development of natural gas transmission and storage business and ensuring of infrastructure operation. Ensuring operational continuity in the long term requires qualified workforce with special knowledge and specific experience. In order to ensure fulfilment of these tasks with relation to the current employees, as well as to attract fresh workforce, competitive remuneration must be offered.

Taking into account the results of the survey of the overall remuneration conducted by Figure Baltic Advisory in 2021, as well as the forecasts of the Bank of Latvia concerning increase in remuneration and inflation for 2022, at the beginning of 2022, basic salary of the employees was reviewed and increased. In order to ensure social protection of the lowest-paid employees, basic salary of the employees of this category was risen from January 2022. Remuneration of high-ranking specialists and managers was risen from February 2022. As a result, the total remuneration of the Company's employees increased by more than 8%.

Survey of the overall remuneration conducted by Figure Baltic Advisory in 2022 identified the labour market development forecasts, geopolitical situation and the sharp increase in inflation and energy prices related thereto was the reason why the Company reviewed the pay rise scheduled for 2023 already at the end of 2022 by increasing basic monthly salary of all the Company's employees for full-time job by EUR 200 in proportion to their workload.

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

Increase in remuneration		2022	
Increase in the total annual remuneration median for employees <sup>11</sup>		13.7%	
The highest-paid employee (increase in the total annual remuneration)		6.2%	
Relation of the total annual remuneration of the Company's highest-paid employee/official to the total annual remuneration median of the other employees		2022	2021
MEDIAN (total annual remuneration) = 100 %		100%	100%
The highest-paid employee (total annual salary)		409%	438%

Total annual salary of the highest-paid employee in 2022 was 4.09 times higher than the total annual remuneration median of the remaining employees.

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

- Involved in the analysis were all the employees who had active employment relations for the entire reporting year, except for the highest-paid employee;
- Members of the Management Board were excluded from the analysis;
- The highest-paid employee was determined by the total annual salary, not the basic salary;
- Calculation of the total annual salary includes all the elements of basic salary (salary, regular bonuses, payment of sick-leave certifi-

cate, payment of leave, one-off bonuses, etc.), bonus for annual/semi-annual results, contributions to the private pension fund;

Calculation of total annual salary excludes the benefits provided for the Collective Agreement and tax payments.

## Collective agreement

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

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

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

At the end of 2022, negotiation was commenced with the union regarding entry into a new collective agreement.

<sup>11</sup>The highest-paid employee was excluded from the calculation

## Employee diversity

Generations of the workforce are changing, so financial incentives cannot be the only tools used to motivate employees. Employer's reputation, prosperity, remote work, flexible working arrangements are some of the aspects that are increasingly important for the Company's employees. This is also confirmed by 81% of employees who participated in the survey conducted by the Company at the end of 2022. 254 employees or 72% of all the addressed Company's employees participated in the survey.

	2022	2021	2020	2019	2018
Total average number of employees during the reporting year	356	352	341	343	350
<b>Diversity of employees in the Company<sup>12</sup> (including Board and Council members)</b>					
Total number of employees at the end of the reporting year	356	350	349	335	347
Proportion of women	19%	19%	18%	19%	18%
Proportion of men	81%	81%	82%	81%	82%
Proportion of women in management and supporting structural units	16%	17%	19%	15%	21%
Proportion of men in management and supporting structural units	84%	83%	81%	85%	79%
Employees aged above 50 years	35%	34%	38%	42%	44%
Employees aged 30 to 50 years	55%	55%	52%	47%	46%
Employees under 30 years of age	10%	11%	10%	11%	10%
<b>Employee turnover and succession</b>					
Total staff turnover rate	8%	8%	12%	9%	11%
Vacant managerial positions taken by employees (career development within the Company)	100%	90%	56%	67%	87%
Number of trainees working at Conexus during the reporting year	9	3	8	2	0

Diversity of Board and Council members of the Company <sup>13</sup>	2022	2021
Proportion of women	20%	20%
Proportion of men	80%	80%
Employees aged above 50 years	40%	30%
Employees aged 30 to 50 years	60%	60%
Employees under 30 years of age	0%	10%

Workplaces of the Company's employees and contractual workers are in Riga Region, at two basic locations: Riga, 14 Stigu Street, and Inčukalns underground storage, Krimulda Parish, Sigulda Municipality.

The energy sector is characterised by a high number of employees in technical professions, therefore, proportion of men in the Conexus employee structure is relatively high – in 2022, 81% of employees are men and 19% are women. This figure has not changed significantly in recent years.

Job groups	2022		2021	
	Women %	Men %	Women %	Men %
Managers	19	81	22	78
Specialists	26	74	34	66
Qualified employees	1	99	0	100
Other	62	38	73	27
<b>Total</b>	<b>19</b>	<b>81</b>	<b>19</b>	<b>81</b>

<sup>12</sup> As at 31 December 2022

<sup>13</sup> As at 31 December 2022

Out of 356 Conexus employees (65 women and 281 men), the largest number of employees work in the gas transmission structure – 112 employees (5 women and 107 men). Whereas, 92 professionals (6 women and 86 men) take care of gas storage at Inčukalns UGS, but 142 employees (54 women and 88 men) provide the support function.

	Women %	Men %
Transmission	4	96
Storage	7	93
Support function	38	62
<b>Total</b>	<b>19</b>	<b>81</b>

Most employment contracts are full-time. In 2022, 3 employees were half-time, while 2 employees were part-time.

Employment mode in the Company	Number of contracts 31.12.2022	Number of contracts 31.12.2021
Half-time	3	1
Part-time	2	2
Aggregated working time	48	55
Normal full-time	293	282
Council, Management Board	10	10
<b>Total</b>	<b>356</b>	<b>350</b>

Employment contracts with employees are concluded open-ended, except for the situations, when employment relations have been established for the period of employee's continuous absence. At the end of 2022, one employee was employed under a fixed-term contract.

Term of the employment contract	Number of contracts 31.12.2022	Women %	Men %	Number of contracts 31.12.2021	Women %	Men %
Employees for an indefinite period (including on maternity leave)	345	19	81	350	19%	81%
Employees for a fixed-term	1	100%	0%	0	0%	0%
Contractual employees	2	0%	100%	3	0%	100%

Work-performance contracts are entered into with contractual employees for the performance of certain works. The contracts define specific work to be performed and the results to be achieved – deliverables. At the end of 2022, there are 2 active work-performance contracts. Total number of concluded work-performance contracts in 2022 were 14. 4 of them were concluded with persons for which the Company made tax payments, while 10 contractual employees were self-employed who made tax payments independently.

## Employee involvement

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

Conexus management has always been interested in the team's opinion regarding improvements of processes in the Company and feelings related to the working environment. Therefore, since the establishment of Conexus, the management has encouraged the employees to express their opinions and provide feedback regarding processes, evaluations and improvement in the Company. In 2022, employees' opinions were asked again regarding their satisfaction, motivation, loyalty, internal communication, remote work, team-building events, perspectives, cooperation within team and other matters concerning the working environment.

In 2022, 254 employees or 72% of all the addressed Conexus employees participated in the employee satisfaction survey. Compared to 2021, when proportion of the persons interested in the survey was 69%, interest of employees to express their opinions has increased.

Several indicators show significant increase compared to 2021. Overall, employees are more satisfied with the aspects of work organisation and internal communication, opinion in relation to leadership and planning aspects has improved. The Company's culture also has overall higher rating.

In 2022, Conexus employees gave the highest value to their role in the company (it was admitted by 88% of respondents, in 2021: 82%), especially accentuating the high work quality standards, being

aware of the necessity to improve their work quality while doing an exciting and satisfying job. High rating was given also to Conexus work organisation and internal communication (88%, 2021: 81%), which indicates that employees are satisfied with their colleagues, availability of information on current events within the Company, as well as clearly defined work tasks.

Overall, the leadership and planning rating is high (86%), moreover, significantly higher than in 2021 (73%). Majority of employees are of the opinion that Conexus is a company with great reputation. Overall, the employees feel care of the managers for their well-being, as well as agree to the opinion that employees' initiative is appreciated. Conexus long-term strategy is clear to the employees, and Conexus goals are clearly defined and understandable. Improvements since 2021 can be observed in all the aforementioned aspects.

Overall relations between the employees and line managers may be assessed as positive (84%, 2021: 79%). Employees express that the manager listens to the employees' opinion, furthermore, manager helps the employees to develop and provides the required training for the employees to be able to fully dedicate their effort to their duties, and the employees also receive their managers' feedback regarding their performance on regular basis.

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

Net Promoter Score (NPS) or the company's recommendation index shows the readiness of employees to recommend the Company to

others. In 2022, the employees' NPS indicator at Conexus was +17 points (2021: -0.4 points), which means that there was a higher number of Promoters than Deniers. In comparison to 2021, the indicator has improved significantly, since the proportion of Deniers has decreased. The employees' wish to recommend Conexus as a good place of work is affected to a greater extent by several aspects:

- ◆ Employees are satisfied with the fringe benefits of Conexus,
- ◆ Duties promoting professional growth of the employees affect their wish to recommend the Company to other people as a place of long-term employment,
- ◆ Conexus image and stability.

Significant improvements in the processes of communication, information exchange and team-building were promoted by the online conversations of the Conexus Board with the employees on the current events at the Company, which were commenced in 2021 and continued during 2022, during which the employees had an opportunity to participate in a free discussion and ask questions.

In 2022, New Employee Integration Program was launched. Integration programme is a set of measures aimed at providing support to the new employee to facilitate their integration into the team within the shortest possible time period, acquire the necessary knowledge and skills for effective performance. During the Integration Program, the new employee familiarises himself/herself with the Company's culture, values and goals, duties, gets acquainted with the colleagues and working environment under the supervision of a mentor appointed by the manager.

In 2022, Conexus started organising and managing recruitment process in the Visma EasyCruit system, thus reducing administrative burden, fastening and systemising the process. For the project "Implementation of the Recruitment Solution EasyCruit", the Company received the "Visma Digitalization Champion 2022" award.



# Equal and fair treatment

GRI 406-1, 11.11.7

The Conexus team is characterised by diversity, equal treatment and non-discrimination, and strives to create a truly inclusive work environment where employees can fully implement their potential. The equal role of each person in the development of the Company is recognised in the Company. Dignity and fairness are fundamental principles enshrined in the Company's Code of Ethics, furthermore, according to that code, the Company treats employees and business partners fairly and equitably. No cases of discrimination were reported or registered in 2022 (this indicator in 2021 was also 0).

In 2021, the Company received the status "Family-Friendly Workplace" for two years. The main criteria for selecting beneficiaries of this status were related to demonstration of 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 education. An important criterion was the division of workload and the process of completing work tasks and being obliging to the employees during the Covid-19 pandemic, where work was and is mostly done from home.

Of all the employees of Conexus, 37.4% are able to work remotely due to the specific character of their work, however, according to the employee satisfaction survey, 30% choose in favour of hybrid mode. In its effort to take care of the employees' well-being at work and in family, Conexus employees had a chance to participate in the forum "Life balance", where experts shared their experience on what it means to be a professional, on relationship within the family and the loved ones, as well as on themselves as personalities. The forum was attended by 99 Conexus employees.



# Development of employee competence and qualified future workforce

GRI 404-2, 404-3, 11.7.3

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

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

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

To ensure continuation of the business processes having regard to the specific knowledge and skills necessary to the Company's personnel, planning of employee succession plays significant role within the Company.

The Company's work organisation provides for short-time replaceability of employees at all levels, and the Company plans and implements employee training and change of generations. However, planning of systemic succession is a part of the risk management and helps planning the Company's further development highlighting the skills that will be necessary in the future and making sure of succession of the critical competences.

In 2022, within the framework of succession planning process, strategic goals of the Company's medium-term strategy, processes supporting achievement of the goals and positions of the structural units responsible for the processes were reviewed. Development of successors and potential successors is planned within the framework of the overall employee's development plan, however, additional attention is paid to the development of successors and potential successors, and the plan includes both development of the skills specifically defined for the position in question and development of broader skills. For the successors and potential successors, development plan was created with accent on improvement of languages, digital skills and managers's competences.

Staff training and growth is an important part of the Conexus human resources management, and its goal is to improve the employees' skills in such a way as to ensure successful development of the Company's operations in long-term and create satisfaction for the employees for the completed work. The Company promotes



improvement of the necessary employee's skills and knowledge according to the Conexus strategic goals and individual contribution of employees to achievement of these goals.

In 2022, already after lifting the restrictions related to the pandemic, both the internal and external trainings were mostly organised on-site. At the same time, e-learning platforms were still used, for example, the Company's e-learning platform Conexus Academy, Udemy.com, Excelknowhow.com. Professionalism of the Company's employees is improved also in the field of digital, management and public speaking skills, as well as foreign language learning by participating in courses, seminars and conferences.

More than 50 e-learning courses and programmes were developed in the Conexus Academy regarding both various professional fields, well-being topics, internal processes and normative regulations of the Company and international business training courses on the sectoral specifics. For the purposes of specific competences, in 2022, work was commenced on the development of four training programmes on the procedures of supervision of dangerous equipment and occupational protection requirements taking into account, respectively, types of dangerous equipment of Conexus, its compicacy and degree of dangerousness. Conexus also in 2022 continued facilitating self-learning opportunities for the employees by creating interactive e-learning modules available to all the Conexus employees at the Conexus academy.

In order to promote the development of the gas industry and the acquisition of specific knowledge, Conexus and Riga Technical University (RTU) continued their cooperation in the improvement of specialised educational programmes for the Company's employees, specialists in the operation and maintenance of natural gas transmission and storage systems, as well as dispatchers. In 2022, 72 employees and 33 new employees of Conexus completed these trainings (2021: 209 employees).

The average age of the Company's employees is 46 years, and, according to the analysis of the staff structure, 36% of employees

are over 50 years old, which also increases the importance of staff renewal, therefore, complex approach of purposeful activities to changing the age structure of employee is promoted by stimulating attraction of younger employees. In order to stimulate young people's interest in exact subjects and engineering professions, as well as to promote the development of the future workforce in Latvia, the Company's specialists and RTU lecturers implement study courses and participation of students within the framework of the Conexus Student Club, as well as organize trips to the Company's sites.

Age	Women	Men	Employees %
Up to 30	2%	8%	10%
31 to 40	6%	19%	26%
41 to 50	5%	25%	30%
51 to 60	4%	17%	21%
Over 60	2%	13%	15%
<b>Total</b>	<b>19%</b>	<b>81%</b>	<b>100%</b>



# RESPONSIBLE GOVERNANCE

## Ethics and prevention of corruption

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

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

The Code of Ethics stipulates that the Company does not allow conflict of interest situations and corrupt or fraudulent activities by introducing and implementing preventive supervision measures in the Company. The Company's employees behave fairly in their relations with the Company and other employees, as well as cooperation partners and do not engage in anti-competitive, corrupt or fraudulent transactions or activities, stipulating also specific principles for giving and receiving gifts. Furthermore, if the actions of a cooperation partner do not comply with the basic principles and norms of ethical conduct included in the Code of Ethics, the Company evaluates the commencement or continuation of cooperation with such a partner.

In accordance with the Code of Conduct, the Council manages conflict of interest situations involving Council and Board members or related persons. The Board manages conflict of interest situations involving employees of the company, as well as supervises the Company's dealings with former members of the Council and the Board and persons associated with them. Where a conflict of interest has been encountered in respect of a member of the

Council of the Board, this information is provided to the Council or the Board accordingly. If the conflict of interest situation is encountered in relation to the employee, the information shall be disclosed to the head of the unit and/or to the responsible member of the Board.

The Company has assessed the risk of corruption within the context of operation of the entire Company, and it has not identified any high level risks. The Company practices absolute intolerance in relation to any malicious, wrong or illegal action by employees and officials for personal benefit, and a "0" tolerance (risk appetite) to corruption and fraud risks has been set. Every year, with the internal auditing determining risk level for every business process, self-assessment of corruption and fraud risk is also conducted, thus allowing to distinguish processes with lower or higher potential fraud risk by auditing the latter processes more frequently. In addition to reducing the risk of corruption, the Code of Ethics provides that the Management Board of the Company approves the list of positions obliged to submit a declaration containing confirmation of absence of a conflict of interest, as well as contents 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 at whose disposal, for the purposes of performance of their professional duties, restricted information or information containing trade secrets is constantly transferred. Declarations must be prepared by the employees concerned on annual basis, and, where necessary, measures to avoid potential or actual conflict of interest may be taken after the assessment of the respective declaration.

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 Information protection regulations and the Whistle-Blower Regulations. Starting from 2022, upon commencement of work, all new employees are subject to “New employee handbook” which includes the information necessary in daily work and the main internal regulations, for example, Code of Ethics, Rules of procedure etc.

Employees are encouraged to seek advice on ethical issues and to be socially responsible and respond when breach of the Code or other violation is identified by notifying their line manager, Member of the Management Board or by filing a whistleblowing report in accordance with the internal whistleblowing procedures. Detailed information on the introduced whistleblowing mechanism as well as on the available communication channels is available on the Conexus website [www.conexus.lv](http://www.conexus.lv), “Whistleblowing” section. Employees are informed of this option in mandatory ethics training; the rules are also sent to all employees electronically, and information in paper format was placed on information boards when the system was introduced. The whistle-blowing rules were improved in 2022 and this information was sent out electronically to all employees. In the event of unethical conduct, the employee may be subject to disciplinary action in accordance with the Company's Rules of Procedure. The Company does not impose sanctions or other adverse consequences on the employee who has reported a breach of the Code or other violation unless the employee has knowingly made false information.

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 preferences in the internal recruitment competitions and in maintaining employment relationships.

The Code of Ethics is published on the Conexus website [www.conexus.lv](http://www.conexus.lv).

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

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

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

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

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

In 2022, no fines or non-monetary sanctions were imposed on the Company for non-compliance with laws and/or regulations (this indicator in 2020 and 2021 was also 0), and no whistleblowing reports or reports regarding breach of the Code of Ethics were received during the reporting period (number of registered reports in 2021 was also 0), and no cases of corruption related to the Company or its employees were confirmed (data for 2020 and 2021 – 0).

## Sustainable procurement

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

Conexus' procurement policy is focused on transparency of procurement procedures, free competition among suppliers, equal and fair treatment, and efficient use of Conexus' resources. Since 2021, fundamental principles of ethics of the suppliers were included in the Procurement Policy. The Procurement Policy is published on the Conexus website in Latvian and English.<sup>14</sup> In 2022, Conexus started summarising information about the suppliers who have confirmed familiarisation with the code of ethics of the suppliers. Of thirty-one suppliers interviewed, twenty-four (77%) confirmed that they had familiarised themselves with the suppliers' fundamental principles of ethics. It is planned to introduce a regulation into the procurement rules to stipulate that the procurement contract will be concluded with the applicant if the applicant has asserted that they are familiar with suppliers' principles of ethics.

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

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

As a public service provider, Conexus organizes procurement procedures in accordance with the Law on the Procurements of Public Service Providers, the Procurement Guidelines for Public Service Providers issued by the Procurement Monitoring Bureau, as well as the internal regulatory documents – Procurement Organization Procedures, where the expected transaction amount is below the threshold set in the Law on the Procurements of Public Service Providers (sub-threshold procurements). The Conexus Procurement Organization Procedures stipulate organisation of procurements of goods, services and construction works in the Company, procurement planning, procurement methods applicable in the sub-threshold procurements, procedures for the establishment and operation and duties of procurement commission, fundamental principles for determination of tenderer selection and proposal assessment criteria, registration, circulation and storage of procurement documentation, procedures for the examination of breaches of the procurement procedure, as well as preparation and submission of the statistical report on the performed procurements.

To ensure its economic activity, Conexus purchases energy resources as well as various types of construction works, goods, and services, including: technical equipment and materials, diagnostics, repair works, IT services and licenses, transport maintenance and fuel, utility services, legal, financial and advisory services, communication services, research. Majority of procurements is provided by suppliers in Latvia. Conexus ensures high-cost efficiency, transparency of procurement procedures, monitoring of corruption risks and promotes fair competition.

In 2022, Conexus concluded 287 procurement contracts, including 16 construction work contracts (100% of them with companies registered in Latvia) for the total contractual price of EUR 2,783,647; 154 service contracts (89% of which – with companies registered in Latvia) for the total contractual price of EUR 17,187,038, and 117 supply

contracts (86% of which – with companies registered in Latvia) for the total contractual price of EUR 30,639,347. Information on procurement is published on the Company's website [www.conexus.lv](http://www.conexus.lv), as well as in the Publication Management System of the Procurement Monitoring Bureau. Of all the contracts concluded in 2022, Conexus entered 33 contracts with 24 suppliers registered outside Latvia (with 22 suppliers registered in the European Union and 2 suppliers registered beyond its territory).

Since 2021, procurement archive is available on the Conexus website. Conexus does not cooperate with suppliers that are subject to international or national sanctions or sanctions of a Member State of the European Union or North Atlantic Treaty Organisation that affect significant financial and capital market interests that may affect the performance of the Cooperation Contract.

In 2022, Procedures for the Monitoring of Sanctions and Transaction Performance Risks was approved at Conexus. Prior to conclusion of each transaction, Conexus conducts verification on whether the suppliers and partners are subjects to international or national sanctions or sanctions of a Member State of the European Union or North Atlantic Treaty Organisation that affect significant financial and capital market interests. Monitoring of the suppliers' sanctions is performed by Conexus through the use of automated solution that ensures immediate receipt of notification, where, any of the suppliers or their officials have become subjects to international or national sanctions or sanctions of a Member State of the European Union or North Atlantic Treaty Organisation that affect significant financial and capital market interests.

Likewise, prior to conclusion of a transaction, Conexus conducts also the assessment of geographic risks taking into account also the international assessment of the cooperation jurisdiction, reputation risks of Conexus, security situation and whether any sanctions have been imposed on the state in general, risk investigation of the transaction in question, verifying whether the currency of the transaction or credit institution will not affect performance of payment, and whether the service or good in question is not included in the sanctions' list. Conexus conducts in-depth

analysis of the services creating the mediator's position (for example, logistics, transport etc., which supports one of the parties to perform economic activity without identifying the respective party to the transaction as the actual performer of actions).

Within the framework of the organised procurement procedures, Conexus demands the tenderers to specify information on their true beneficial owners, as well as verify this information by using the public databases. To the extent possible, Conexus cooperates only with such tenderers that or whose shareholders are not registered in a sanctioned country, or the country of origin of the good offered by whom or the country of origin of the contractor is not a sanctioned country. Conexus has identified the areas of supply management where risks to the Company and 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 construction works;
- ◆ compliance with tax obligations;
- ◆ civil liability;
- ◆ true beneficial owners of the of the supplier.

In addition to the current assessment, in 2022 Conexus continued collecting information on supplier compliance with environmental and occupational safety standards, which was started in the end of 2021. In 2022, 123 companies out of 198 (62%) were surveyed. The survey revealed that 20 of the surveyed companies (16%) had an occupational health and safety management system in place, while ten companies (8%) were certified to an environmental management standard or environmental management system. Conexus takes into account the results of the survey and risk prevention activities are carried out, for example, in case of construction works, there is a mandatory requirement for a labour helat and safety specialist's involvement in the construction site's health and safety supervision.

## Transparency and stakeholder involvement

GRI CXS-3

Transparency is an essential aspect of the Company's sustainability not only when building and maintaining relationships with key stakeholders but also when developing the Company's image and promoting its sustainable development. Conexus 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 the most suitable information to each category of stakeholders (for more information, see "Conexus' Strategic Framework for Sustainability" and "Compliance with the Corporate Governance Code" sections).

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



In addition to cooperation with stakeholders, great attention is paid to public communication and media relations providing information on important decisions, development, and investment projects. In addition to the usual communication channels, Conexus communicates also via the social networks [Facebook](https://www.facebook.com/conexusbaltic/)<sup>15</sup> and [LinkedIn](https://www.linkedin.com/company/conexus-baltic-grid/mycompany/)<sup>16</sup>. In order to assess the effectiveness of communication, Conexus on a daily basis carries out media monitoring that reflects the widespread rotation of news in the media room. In 2022, the Latvian media paid increased attention to the energy sector topics, therefore all information distributed by Conexus to the media was widely reflected in the Latvian media room. Also, activity in the social networks – sharing of the information and comments are monitored. Conexus always answers questions or critical remarks made on social networks.

<sup>15</sup> <https://www.facebook.com/conexusbaltic/>

<sup>16</sup> <https://www.linkedin.com/company/conexus-baltic-grid/mycompany/>

# Corporate Social Responsibility

In accordance with the the corporate strategy, Conexus selects Corporate Social Responsibility (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;
- ◆ are consistent with the direction of the Company's operations and promotes public understanding of the relevance of these activities;
- ◆ promote the involvement of a wide range of social groups as well as the Company's employees, have a wide scope;
- ◆ long-term, mutually enriching relationships with project implementors and all stakeholders; activities are focused on long-term benefits to society;
- ◆ promote the development of the Company's brand value and image;
- ◆ include communication potential and there is no need to invest additional resources in providing communication;
- ◆ reputation of the cooperation partners is consistent with the values and character of the Company's brand.

As part of its CSR activities, Conexus supports the local community by conducting educational activities for children studying at local schools, as well as by supporting local community activities. For example, in 2022, Conexus financially supported the association for children and young people with disabilities "Saulstariņi" located in Alūksne Municipality.



# ANNEXES

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

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

Latvian Corporate Governance Code principle		Conexus performance	
Company strategy			
	<b>1. The company has an up-to-date strategy that sets out the company's objectives and progress towards long-term value creation</b>	√	
*	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. In 2022, the medium-term strategy was reviewed by developing Conexus medium-term business strategy 2023–2027, approved by the decision of the Council meeting on 24 November 2022.
*	The supervisory board is involved in the strategy development process and approves the strategy at the supervisory board meeting	√	The Council actively engaged in the process of development of the Conexus medium-term business strategy 2023–2027, which was commenced back in 2021. In 2022, several informal working sessions on strategy and sustainability matters, the process of development was discussed also in the ordinary meetings of the Council. Final wording of the medium-term business strategy 2023–2027 was approved at the Council meeting on 24 November 2022.
*	The supervisory board 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 the performance which is the Management Board's responsibility. Performance of performance indicators is assessed annually, together with the approval of the annual report, to assess the performance of the Management Board.
*	The company management board implements the strategy and reports to the supervisory board on its implementation on a regular basis	√	Once a month, the Management Board prepares and submits to the Council information on the Company's financial performance and on significant events in the Company, whereas, to the ordinary Council meetings – written report on its activities, including performance of the key performance indicators (KPIs) set according to the medium-term strategy.

Latvian Corporate Governance Code principle		Conexus performance	
<b>Internal culture and ethical behaviour</b>			
	<b>2. The company develops an internal culture and ethics code which serves as a standard of conduct for the company's management and employees</b>	√	
*	The supervisory 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 supervisory board approves the code of internal culture and ethics	√	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 on a daily basis and reacts if there is a breach of the code	√	Upon commencement of employment at Conexus, all the Company's employees undergo the training of ethics. Compliance with the norms of the Code of Ethics is one of the employee evaluation criteria, and it is taken into account when performing the employee's performance. Employees are encouraged to be socially active and respond, if breach of the Code of Ethics is detected. No reports related to the breach of the Code of Ethics have been received in 2022. Furthermore, the Management Board organises regular online meetings with the employees concerning the current events related to Conexus (including matters related to mutual communication, ethics), and responses to the questions of employees are provided.
<b>Internal control system, risk management and internal audit</b>			
	<b>3. The company has an internal control system, the effectiveness of which is monitored by the supervisory board</b>	√	
*	The company has a documented internal control system, the establishment of which is the responsibility of the management board	√	Aspects are described in the Corporate Governance Policy.
*	The internal audit evaluates the effectiveness of the internal control system at least once a year, taking into account pre-defined criteria and reporting the results of the evaluation to the supervisory board	√	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 2022 was 95%; and the projected coverage for the end of 2024 is 100%.
*	The supervisory board, at least once a year, evaluates the provided evaluation of 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.

Latvian Corporate Governance Code principle		Conexus performance	
	<b>4. The company identifies, assesses and monitors the risks associated with its operations</b>	✓	
*	The management board develops and the supervisory board approves the company's risk management policy	✓	The current risk management policy was supported at the Management Board meeting on 11 August 2021 and approved at the Council meeting on 9 September 2021.
*	Based on the identified risk assessment, the management board implements risk management measures	✓	In 2022, the most significant risks affecting the operations of Conexus were assessed and analysed, assessing the probability and impact of each risk and determining the critical controls for each risk and the necessary risk mitigation measures. For identified risks, the Management Board of Conexus has determined the acceptable level or degree of risk that the Company is willing to take to achieve its strategic goals, as well as key risk indicators that provide an early indication of changes in the likelihood or impact of a particular risk.
*	At least once a year, the supervisory board reviews the management board's reports on riskmanagement measures and the implementation of the risk management policy	✓	The Management Board reports to the Council on the Company's risk management at least once a year.
	<b>5. An internal audit has been established in the company, it evaluates the company's operations independently and objectively</b>	✓	
*	The company has an internal auditor who is functionally independent of the management board and reports to the supervisory board	✓	Internal audit is functionally subordinated to the Company's Council. The professional guidelines for internal audit are set out in the International Institute of Internal Auditors' definition of Internal Audit, Conexus' Internal Audit Policy, the Code of Ethics, and the International Standards on Internal Auditing.
*	The supervisory board approves the internal auditor	✓	The candidature of the internal auditor has been approved by the Council.
*	The internal auditor develops a risk-based internal audit plan, which is approved by the supervisory board	✓	Clause 10.11 of the Conexus Council Regulation sets out the Council's duty to approve the annual internal audit plan and its amendments. The internal audit plan was approved at the meeting of the Company's Council on 25 November 2021.
*	The internal auditor informs the management board and supervisory board on the implementation of the internal audit plan, audit results and recommended actions to address deficiencies, if any	✓	Clauses 25 and 26 of the Internal Audit Policy require reporting to the Council on the results of the audit and the implementation of the recommendations. This information is prepared for each regular meeting of the Council in accordance with the approved Internal Audit Annual Plan.

Latvian Corporate Governance Code principle		Conexus performance	
<b>External auditor</b>			
	<b>6. The company has an independent external auditor</b>	√	
*	The supervisory board and the Audit Committee, (if established), determine 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 shareholder meeting after consideration at the meeting of the Council.
*	The company has an independent external auditor with appropriate qualifications	√	An agreement has been concluded with PricewaterhouseCoopers LLC (SIA) for the audit of the annual reports for 2021, 2022 and 2023 and the review of the dependency reports, as well as for the review of the sustainability report.
*	The term of office of one external auditor does not exceed 5 years	√	The agreement with PricewaterhouseCoopers LLC (SIA) has been concluded for a term of 3 years – 2021, 2022, 2023.
<b>Election of supervisory board members</b>			
	<b>7. The company ensures transparent procedures for the election and removal of supervisory board members</b>	√	
*	The company has approved the procedure for selection and removal of supervisory board members	X	<p>- 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 stipulated. However, Clauses 15.1.6 and 15.1.7 of the Corporate Governance Policy of the Company's majority shareholder AS "Augstsprieguma tīkls" provide for that during the selection and nomination process of the Members of the Council, the AS "Augstsprieguma tīkls" complies with the binding regulatory enactments, as well as the principles of good practice of the corporate governance providing open, fair and professional selection of the Members of the Council which promotes establishment of professional and competent administration body of the Company.</p> <p>- Furthermore, Clause 21 of the Company's Articles of Association stipulates that the shareholder meeting may elect only persons who are not subject to the restrictions laid down in the regulatory enactments, including those specified in the Energy Law.</p>
*	The company provides timely and sufficient information to the company's shareholders on the supervisory board members 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), information on the candidates for the Council is posted on the Conexus website.

Latvian Corporate Governance Code principle		Conexus performance	
*	The size of the supervisory board corresponds to the specifics of the company's operations	√	Seven Members of the Council shall be sufficient to ensure professional and competent supervision of the unified natural gas transmission and storage system operator, as well as to ensure the protection of the interests of shareholders.
*	A supervisory board member is elected for a term not exceeding 5 years	√	Clause 21 of the Articles of Association stipulates as follows: The Council shall be 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 shareholder meeting. Only persons who are not subject to the restrictions specified in the regulatory enactments, including the Energy Law, may be elected to the Council.
<b>8. Supervisory board members combined have relevant experience and competence</b>		√	
*	The supervisory board as a whole has a set of skills, experience and knowledge, including on the sector concerned, to be able to perform their duties fully	√	The published Sustainability and Annual Report and the Conexus website set out the experience of the members of the Council which is sufficient to oversee the operations of the unified natural gas transmission and storage system operator.
*	The principles of diversity are observed when forming the supervisory board	√	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 that, when dividing the voting capital represented by such a shareholder or group of shareholders by the number of candidates to be nominated, each of the candidates would have at least five per cent of the voting capital represented at the meeting. The Company's Articles of Association do not stipulate more stringent requirements on the composition of the Council, and the Company does not have a separate diversity policy for the nomination and election of the Members of the Council. At the same time, Sub-clause 15.1.7 of the Corporate Governance Policy of the Company's majority shareholder AS "Augstsprieguma tīkls", during the nominating process of the Members of the Council of subsidiaries, the AS "Augstsprieguma tīkls" complies with the principles of good practice of the corporate governance. The currently elected Council is composed of individuals with diverse, mutually complementary competence, education, and professional experience, representing several nationalities, different ages and both genders.

Latvian Corporate Governance Code principle		Conexus performance	
*	Both sexes are represented in the supervisory board	✓	The current composition of the Council is: five men and two women.
*	The management board develops an induction training programme and provides new supervisory board members with induction training	✓	In order to provide training, introductory sessions of the council are organised, including on the gas market, technical and financial matters.
<b>9. The company's supervisory board has independent supervisory board members</b>			
*	The company evaluates and the shareholders determine the proportion of independent supervisory board members	X	- There is no such a policy in place. - The Members of the Council comply with the requirements specified in the Commercial Law for the Members of the Council of a commercial company, as well as all the Members of the Council have confirmed in writing that they comply with the requirement specified in Section 111, Paragraph Three, Clause 4 of the Energy Law. Pursuant to Clause 58 of the Conexus Council Regulation, the Members of the Council shall inform Conexus on their participation and positions in other commercial companies, as well as that of their spouses and children.
*	At least half of the members of the board are independent	✓	The Members of the Council have assessed their compliance with the independence criteria stated by the Corporate Governance Code of Latvia. More than half of them are considered to be independent Members of the Council and have submitted an appropriate declaration of independence.
*	Independent candidates for supervisory board membership make a declaration that they meet the independence criteria	✓	All the Members of the Council have assessed their compliance with the independence criteria filling in and signing the questionnaires prepared to assess this compliance.
*	Prior to the election of the supervisory board, the company evaluates the independence of supervisory board members in accordance with the available information	X	
<b>Principles of determining the remuneration for the supervisory board and the management board</b>			
<b>10. The company has introduced a remuneration policy</b>		✓	
*	The company has introduced a remuneration policy, which has been developed by the management board, reviewed by the supervisory board and approved by the shareholders' meeting	✓	The Company has implemented the Board and Council Remuneration Policy (approved at the Company's annual shareholder meeting on 12 May 2021), as well as the Personnel and Remuneration Policy (approved by the decision of the Company's Council meeting on 25 November 2021).
*	Once a year, the supervisory board determines the financial and non-financial goals to be achieved by the management board, their impact on the variable part of remuneration and controls their fulfilment	✓	In order to ensure the successful implementation of the strategy, key performance indicators (KPIs) are set for the Company every year, which are approved by the Council and the achievement of which is the Management Board's responsibility. Performance is assessed annually, together with the approval of the annual report, to assess the performance of the Management Board and decide on the bonuses to be disbursed to the Management Board.

Latvian Corporate Governance Code principle		Conexus performance	
*	No variable part of remuneration is determined for supervisory board members, and no compensation is paid in case of removal or resignation from office	✓	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 Section 112 of the said Law, in 2022, no variable part of remuneration or any kind of compensations for the Members of the Council were determined.
*	Once a year, the management board prepares a report on the remuneration granted to each current and former management board and supervisory board member	✓	Information on the remuneration of the Members of the Management Board and the Council is included in the published sustainability reports and annual reports.
<b>Organisation of the supervisory board's work and decision-making</b>			
	<b>11. The company's supervisory board work organisation is clear and understandable</b>	✓	
*	The supervisory board organises its work in accordance with regulations of the supervisory board and the work calendar	✓	The work of the Council is organised in accordance with the Council Regulation and the work calendar. In 2022, eight Council meetings took place (four regular, four extraordinary). Attendance rate of the Council meetings – 100%.
*	The supervisory board holds at least one separate supervisory board meeting per year to discuss the company's strategy and its implementation	✓	In 2022, two separate Council work sessions were dedicated for the strategy, and the relevant matters were discussed at several Council meetings, including the Council meeting on 24 November 2022, when the Council approved the Conexus medium-term business strategy 2023–2027.
*	The company's budget provides the financing necessary to ensure the operation of the supervisory board	✓	The work of the Council is ensured in accordance with the Council Regulation, and the funding provided in the budget has been sufficient.
*	Once a year the supervisory board conducts a self-assessment of the work of the supervisory board and reviews its results at the supervisory board meeting	✓	Pursuant to Clause 62 of the Council Regulation, the Council conducts a self-assessment on annual basis. In 2022, the Council conducted self-assessment for 2021, and assessment for 2022 is scheduled to be conducted and examined at the Council meeting in March 2023.
*	The supervisory board has evaluated the need to set up committees (if a committee has been set up, see principle # 12.1.)	✓	Regulatory enactments do not provide for the mandatory establishment of Council committees, whereas, 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 regulatory enactments, a relevant committee will be established.
	<b>12. The supervisory board takes informed and well-balanced decisions</b>	✓	
*	The supervisory board has access to information prepared by the management board necessary for decision-making in a timely manner and in sufficient amount	✓	Information is submitted to all the 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 (Clause 25 of the Council Regulation).

Latvian Corporate Governance Code principle		Conexus performance	
*	The supervisory board determines the procedure for the circulation of information, including the right of the supervisory board to request from the management board information, which the supervisory board needs to make decisions	√	Procedures for circulation of information, including the right to request information, are set forth in Clause 11 of the Council Regulation.
*	A supervisory board member analyses the information and prepares proposals for decisions to be adopted by the supervisory board	√	A Member of the Council analyses the information and prepares proposals for decision-making in the Council.
*	When making decisions, the supervisory board assesses 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.
<b>12.1. A committee prepares proposals for supervisory board decision making</b>			
*	The supervisory board determines the tasks and the procedures for organisation of work of the committee	n/a	No separate committees have been set up.
*	The supervisory board establishes a committee of at least 3 supervisory board members with appropriate experience and expertise in the field of work of the committee (remuneration, nomination, audit or other field)	n/a	
*	The committee analyses the information and makes proposals for decisions by the supervisory board, as well as informs the supervisory board of the work of the committee	n/a	
<b>Prevention of conflicts of interest</b>			
<b>13. Management board and supervisory board members are clearly aware of the manifestations of conflicts of interest and are informed of the action to be taken in the event of a conflict of interest</b>		√	
*	The supervisory board defines the indications of a conflict of interest and identifies the conflict of interest prevention and management procedures	√	- The Council has approved the Council Regulation and Code of Ethics, which regulate matters related to conflict of interest. - In addition, at the Council meeting the Members of the Council fill in and review forms (Clause 58 of the Council Regulation), indicating their own and spouses' and children's workplaces, capital shares owned, 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 (Clause 59). The Council has examined the forms completed by the Members of the Council without finding any conflict of interest.
*	Supervisory board or management board members do not participate in decision-making on matters in which the company's interests conflict with the interests of the supervisory board, management board members or persons related to them	√	Pursuant to Clause 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, where conflict of interest has or may occur with regard to the specific matter on the agenda.

Latvian Corporate Governance Code principle		Conexus performance	
*	Persons subject to the conflict of interest obligation participate in training on dealing with conflicts of interest on a regular basis	√	<ul style="list-style-type: none"> <li>- Mandatory training for all employees on ethical issues has been introduced in the Company, including also the matters concerning the avoidance of conflicts of interest.</li> <li>- Individual training on conflict of interest for the Members of the Council has not been organised, however, the Council has approved the Council Regulation and the Code of Ethics governing the matters related to the conflict of interest, and the Members of the Council have been explained signs of the conflict of interest and actions to take in case of a conflict of interest.</li> </ul>
<b>Shareholders' meeting</b>			
	<b>14. The company provides shareholders with timely information on conduction of shareholders' meetings providing all the information necessary for decision-making</b>	√	
*	The company informs shareholders in a timely manner about the agenda, course and voting procedures of the shareholders' meeting, as well as about any related changes	√	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. Notice on the shareholder meeting is also published on the Conexus website.
*	Simultaneously with the announcement of the meeting, the company provides an opportunity for the shareholders to get acquainted with the draft decisions, which are initially planned to be voted on at the meeting. The company informs the shareholders immediately of any additional draft decisions submitted	√	Opportunity for the shareholders to familiarise themselves with the draft resolutions to be initially voted on at the meeting at the same time as the announcement of the meeting is provided where, for reasons of the restrictions imposed because 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 the notice and posted on the Conexus website. If the meeting is planned to be held on-site, draft resolutions are posted on the website as soon as they are prepared, but no later than 14 days before the meeting.
*	The company provides shareholders with an opportunity to submit questions on the matters included in the agenda and draft decisions before the shareholders' meeting	√	In accordance with the epidemiological safety regulations, a pre-shareholder meeting was held in 2022, two weeks prior to the shareholder meeting, where shareholders were familiarised with the topics to be discussed at the shareholders' meeting, as well as the Management Board provided answers to the shareholders' questions.
*	The draft decisions and the documents attached to them provide detailed, clear and complete information on the matter under consideration	√	The draft decisions and the documents attached thereto shall provide detailed, clear and complete information on the matter under consideration.

Latvian Corporate Governance Code principle		Conexus performance	
	<b>15. The company promotes effective shareholder involvement in decision-making and a participation in shareholders' meetings</b>	✓	
*	The shareholders' meeting is convened and held at a place and time 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 2022, the shareholder meeting was held on-site providing the shareholders also with the opportunity to participate remotely on the MS Teams platform. All the shareholders were asked to participate at the meeting in writing by filling in, prior to the meeting, a voting form sent with the meeting notice. A link to the participation in the meeting is sent to the address indicated in the application prior to the meeting.
*	The company determines the appropriate duration of the shareholders' meeting and provides the shareholders with the opportunity to express their opinions during the meeting and obtain the information necessary for decision-making	✓	
*	The company announces a new shareholders' meeting if the matters included on the agenda of the meeting cannot be considered at the expected time	n/a	So far Conexus has not encountered a situation where the matters included on the agenda of the shareholder meeting could not be examined within the planned time limit. Should such a situation arise in the future, Conexus would act in accordance with the procedures stipulated in the Commercial Law and the Articles of Association.
*	The company invites management board and supervisory board members, candidates for supervisory board members, auditors and internal auditors, as well as other persons to participate in the shareholders' meeting in accordance with the matters 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 shareholders' meeting makes decisions in accordance with the previously announced draft decision	✓	The resolutions of the shareholder meeting are available on the Conexus website. The key resolutions of the shareholder meeting in 2022: 1) approval of the annual report and the dependency report 2021, 2) use of the profits for 2021, 3) emission of bonds, offer and inclusion into the regulated market, 4) election of the Members of the Council, 5) changes in the remuneration stipulated for the auditor. The resolutions adopted were consistent with the previously announced draft resolutions.
	<b>16. The company develops and discusses dividend policy with shareholders</b>	✓	
*	The company has developed and published an up-to-date dividend policy	✓	Dividends are calculated in accordance with the Law on Governance of Capital Shares of a Public Person and Capital Companies, which stipulates that the share of profits to be paid in dividends shall be determined on the basis of the medium-term strategy of the capital company, the objectives of the capital company specified therein and the implementation thereof. Decision on the use of profits and the amount of dividends is adopted by the Company's shareholder meeting. In the approved medium-term business strategy, the dividend rate is set at 90% of profit.

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

Latvian Corporate Governance Code principle		Conexus performance	
<b>Shareholders and beneficial owners</b>			
*	Information on the company's shareholders holding at least 5% of the company's share capital (indicating the date on which this information was prepared)	✓	<a href="https://www.conexus.lv/shareholder-structure">https://www.conexus.lv/shareholder-structure</a>
*	Information on the beneficial owners of the company (indicating the date when this information was prepared)	✓	There is no such natural person considered to be the true beneficial owner of Conexus under the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing.
*	Number of company's issued, paid-up and voting shares, bonds or other financial instruments	✓	<a href="https://www.conexus.lv/information/informacija-par-akcijam">https://www.conexus.lv/information/informacija-par-akcijam</a>
<b>Supervisory board and management board</b>			
*	Regulations of the management board and the supervisory board or another similar document	✓	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Information on each supervisory board and management board member:		
	- term of office;	✓	<a href="https://www.conexus.lv/council">https://www.conexus.lv/council</a>
	- position and area of responsibility (if applicable/assigned);	✓	<a href="https://www.conexus.lv/board">https://www.conexus.lv/board</a>
	- professional work experience and education;	✓	The Company has assessed that the Members of the Management Board and the Council do not hold any other positions in such commercial companies that could create a conflict of interest.
	- up-to-date information on positions in other companies	✓	
	- up-to-date information on the company's shares;	✓	
	- statistics on attendance of supervisory board meetings.	✓	
		✓	
*	Information on independent supervisory board members:		
	- which supervisory board members are considered independent;	✓	Members of the Council to be considered as independent are: T. Goto, Y. Fujii, V. Sentuhovskis un N. Šuksts. Independence of the Members of the Council has been determined according to the criteria set in the Corporate Governance Code of Latvia.
	- according to what criteria the independence of a supervisory board member is determined;		
	- annual evaluation of dependence of supervisory board members		
*	Remuneration policy of the management board and the supervisory board and remuneration report	✓	Information on the remuneration of the Members of the Management Board and the Council for the reporting year is published in the Sustainability and Annual Report of the Company. <a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
*	Information on the selection (nomination) process of the management board and the supervisory board	✓	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 a recruitment company, conducted the selection in an open competition, presenting the results to the Council.

Latvian Corporate Governance Code principle		Conexus performance	
*	Information on supervisory board committees and the audit committee:		
	- committee regulations;	n/a	Regulatory enactments do not provide for the mandatory establishment of committees, whereas, 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 regulatory enactments, a relevant committee will be established.
	- information on committee members.	n/a	
<b>Financial and non-financial reports and information</b>			
*	Company's financial statements and reports for at least 3 last financial years:	√	
	- annual reports (including consolidated reports, if any) and auditor's reports (if any);	√	Published. Financial statements are prepared in accordance with IFRS. <a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
	- interim reports and quarterly reports.	√	Interim financial statements are published on a quarterly basis in accordance with the published financial calendar. <a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
*	The company's non-financial reports (on the company's environmental impact, social and employee aspects, respect for human rights and anti-corruption measures, including the sustainability report) for at least 3 last financial years	√	Sustainability reports are published since 2020 reporting year. The Sustainability Reports for 2021 and 2022 were prepared in accordance with the GRI (Global Reporting Initiative) guidelines and auditors' opinions were obtained. <a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
*	Corporate governance reports	√	The corporate governance report has been included in the Sustainability Report 2022.
*	Company's financial calendar or other calendar of significant and planned communication events	√	<a href="https://www.conexus.lv/financial-statements">https://www.conexus.lv/financial-statements</a>
<b>Information for shareholders and investors</b>			
*	Information on the planned shareholders' meetings:	√	<a href="https://www.conexus.lv/information">https://www.conexus.lv/information</a>
	- notices on convention of shareholders' meetings;	√	<a href="https://www.conexus.lv/information">https://www.conexus.lv/information</a>
	- draft decisions.	√	<a href="https://www.conexus.lv/information">https://www.conexus.lv/information</a>
*	Information on held shareholders' meetings:	√	In 2022, one shareholder meeting was held.
	- information on the decisions adopted at the shareholders' meetings	√	The key decisions of the shareholder meeting in 2022: 1) Approval of the Sustainability and Annual Report and the Dependency Report 2021, 2) use of profits for 2021, 3) emission of bonds, offer and inclusion into the regulated market, 4) election of the Members of the Council, 5) changes in the remuneration stipulated for the auditor.

Latvian Corporate Governance Code principle		Conexus performance	
*	Company's dividend policy and information on dividends paid (on at least 10 last years of the company's operations)	√	Dividends are calculated in accordance with the Law on Governance of Capital Shares of a Public Person and Capital Companies. The amount of dividends of each reporting year is published in the Annual Report.
*	Information on transactions of related parties	√	Information is published in the Sustainability and Annual Report.
*	Announcements published by the company and relevant information for investors, including presentations for investors, videos of events for investors, forecasts, if any, etc.	√	<a href="https://www.conexus.lv/aktualitates-sistemas-lietotajiem-eng-575">https://www.conexus.lv/aktualitates-sistemas-lietotajiem-eng-575</a>
*	Contacts of the investor relations person (if any)	√	Head of the Legal Division of the Legal Department Normunds Čižiks, phone 67087927, 26101807, <a href="mailto:IR@conexus.lv">IR@conexus.lv</a> . The e-mail address is provided both on the Conexus website and in the notice announcing the shareholder meeting. Advice to shareholders and potential shareholders is also provided by Nasdaq CSD SE, 67212431, <a href="mailto:csd.latvia@nasdaq.com">csd.latvia@nasdaq.com</a>

#### Annex No. 2 to the Latvian Corporate Governance Code: Key company policies

##### Key policies included in corporate governance principles or criteria

*	Risk Management Policy	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Remuneration Policy	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Dividend Policy	√	Dividends are calculated in accordance with the Law on Governance of Capital Shares of a Public Person and Capital Companies. The amount of dividends of each reporting year is published in the Annual Report.

##### Other key policies mentioned in the corporate governance code

*	Internal Audit Policy	√	<a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Conflict of Interest Prevention Policy	√	Matters of conflict of interest are stipulated in the Council Regulations, the Management Board Regulations, as well as in the Code of Ethics. <a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>
*	Information Disclosure, Circulation and Privacy Policy	√	Information disclosure, circulation and confidentiality matters are governed by the Code of Ethics. <a href="https://www.conexus.lv/other-binding-documents">https://www.conexus.lv/other-binding-documents</a>



## Independent Limited Assurance Report

To the Management of AS “Conexus Baltic Grid”:

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### Introduction

We have been engaged by the Management of AS “Conexus Baltic Grid” (the “Company”) to provide limited assurance on the selected information described below and included in the Sustainability report of the Company for the year ended 31 December 2022 on pages 2 to 90 of AS “Conexus Baltic Grid” Sustainability report 2022 (“the Sustainability report 2022”). The Sustainability report 2022 represents information related to the Company.

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### Selected information and Reporting criteria

We assessed the qualitative and quantitative information, that is disclosed in the Sustainability report 2022 and referred to and included in the GRI Content Index (hereinafter – the “Selected Information”). The Selected Information has been prepared in accordance with GRI Sustainability Reporting Standards (hereinafter – the “GRI Standards”), published by the Global Reporting Initiative (GRI).

The scope of our limited assurance procedures was limited to the Selected Information for the year ended 31 December 2022. We have not performed any procedures with respect to earlier periods or any other items included in the Sustainability report 2022 and, therefore, do not express any conclusion thereon.

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

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### Responsibilities of the management of the Company

The Management of the Company is responsible for:



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

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## Our Responsibilities

We are responsible for:

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

We performed the limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board.

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

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## Our independence and quality control

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



Our firm applies International Standard on Quality Management 1 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.

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### Summary of the Work Performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the Sustainability report 2022 in accordance with the GRI Standards.

Our work consisted of:

- interviewing the management and senior executives to evaluate the application of the GRI Standards and to obtain an understanding of the control environment related to sustainability reporting;
- obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the Sustainability report 2022;
- comparing data from Selected information to internal documentation and corroborate statements of management and senior executives in the interviews;
- comparing the financial data included in the Sustainability report 2022 to the financial statements 2022 of the Company; and
- evaluating the overall format and content of the Sustainability report 2022, taking into account the compliance of the disclosed information with the Reporting Criteria.

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### Reporting and measurement methodologies

Under the Reporting criteria there is a range of different, but acceptable, measurement and reporting techniques. The techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Selected Information should therefore be read in conjunction with the methodology used by the Management as described in the Sustainability report 2022, and for which the Company is solely responsible.



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## Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2022 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

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## Restriction of Use and Distribution

This report, including our conclusion, has been prepared solely for the Company's Management in accordance with the agreement between us, to assist the Management in reporting on the Company's sustainability performance and activities. We permit this report to be disclosed in the Sustainability report 2022, which will be published on the Company's website<sup>1</sup>, to assist the Management in responding to their governance responsibilities by obtaining an independent limited assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company for our work or this report except where the respective terms are expressly agreed in writing and our prior consent in writing is obtained.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

Ilandra Lejiņa  
Certified auditor in charge  
Certificate No. 168

Riga, Latvia  
8 March 2023

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

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



# ANNUAL REPORT for 2022

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

# MANAGEMENT REPORT

## Main activities

### Conexus provides the supply of natural gas in the complicated geopolitical circumstances

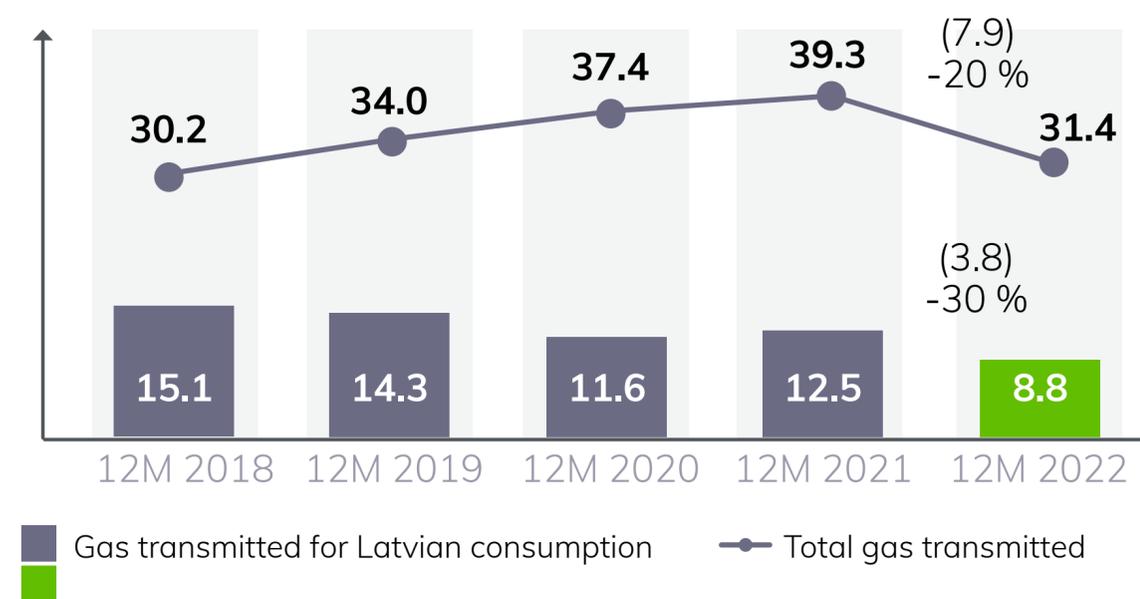
The energy sector experienced severe disturbance in 2022. The war launched by Russia in Ukraine created considerable uncertainty over natural gas supply sources, and natural gas prices in world markets were high. From the beginning of the year, Conexus, in cooperation with neighbouring transmission operators, government authorities and market participants, achieved sufficient supply of natural gas and the establishment of natural gas reserves in Inčukalns UGS. In 2022, Conexus ensured an uninterrupted supply of natural gas for Latvia, Lithuania, Estonia and Finland.

Total volume of gas transmitted in Latvia reached 31,4 TWh, which is 20 % less than in prior year. The largest decrease is due to an 83 % lower volume of natural gas received from Russia. During 2022, only 3,4 TWh of natural gas (excluding transit) were delivered from Russia, whereas during the previous year natural gas was received in amount of 19,7 TWh. Instead, natural gas traders actively increased delivery from Klaipēda liquefied natural gas terminal. In 2022, the volume of natural gas received from

Lithuania reached 17,0 TWh (excluding transit), almost 9 times more than in the prior year.

Due to the high gas prices, natural gas consumption by users in Latvia decreased to 8,8 TWh, which is 30 % less than in the last year. As a result of the significant increase in the natural gas price, volume of electricity generation at the country's largest thermal power plants also declined<sup>1</sup>. The drop in natural gas consumption has allowed for a reduction in the amount of natural

Transmitted natural gas, TWh



<sup>1</sup><https://ast.lv/lv/electricity-market-review>

gas withdrawn from Inčukalns UGS – 10,6 TWh of natural gas withdrawn in 2022, 41 % less than in the previous year.

Following the Russian invasion of Ukraine on 24 February 2022, the Parliament of Latvia adopted amendments to the Energy Law on 14 July 2022, which set a ban on natural gas supplies from Russia starting from 1 January 2023. After this date, Latvia can receive natural gas from the Klaipėda liquified natural gas terminal (Lithuania) and will also be able to obtain it in 2023 from the already built Inkoo liquified natural gas terminal (Finland).

## Inčukalns underground gas storage filled for 2022/2023 heating season

In response to the geopolitical situation in Europe, the injection of natural gas into the Inčukalns UGS was started already at the end of February 2022. Usually, the injection into the Inčukalns UGS is started after the end of withdrawal season, which was set for 30 April 2022. In order to promote the security and continuity of natural gas supply, injection of natural gas into storage will be ensured also during the 2022/2023 withdrawal season.

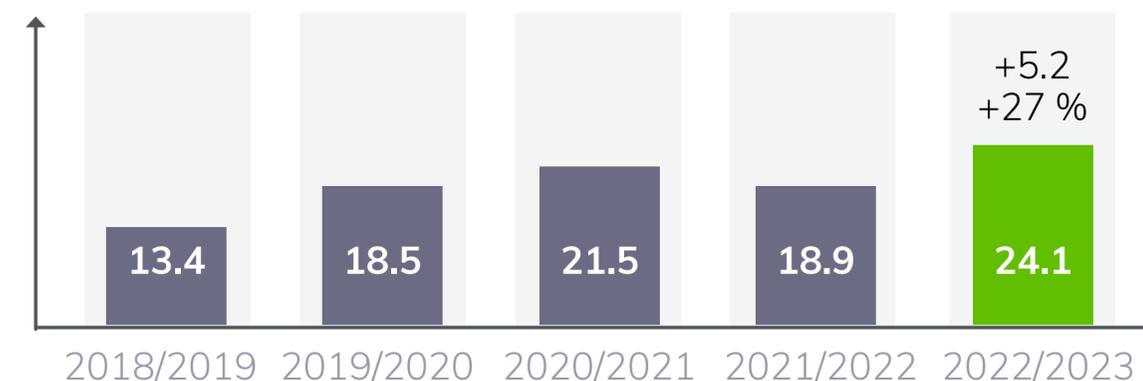
For 2022/2023 storage cycle, technical capacity of Inčukalns UGS available for the market was set at 24,1 TWh, which is 27 % more than the year before. During the reporting period, several Inčukalns UGS capacity auctions were held, as a result, system users were granted 19,6 TWh, thus fully booking all available storage capacity by 2 August 2022.

The injection of natural gas into the storage was completed on 15 November 2022 (in 2021 – on 14 October), reaching a storage fulfilment of 14,5 TWh, which is 18 % less than the previous year. As of 31 December 2022, Inčukalns UGS holds 11,3 TWh of natural gas stored by system users. It is 7 % less than the volume stored in Inčukalns UGS on the 31 December last year.

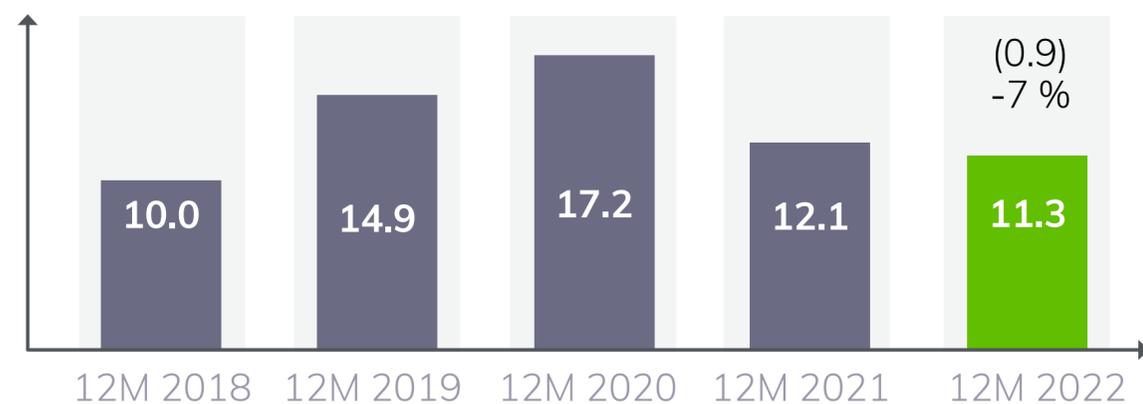
The European Union (EU) Gas Storage Regulation requires European gas reserves to be filled before winter and to be protected ag-

ainst external interference. The adopted regulation will strengthen the EU's security of gas supply also in upcoming winters. The regulation requires Latvia to fill its gas storage facilities to 35 % of the country's consumption. In order to comply with the Gas Storage Regulation, Latvia had to store 4,5 TWh. As of 31 October 2022, the total filling capacity of the Inčukalns UGS facility was 13,7 TWh, while the storage capacity of users registered in Latvia was 6 TWh, which is 44 % of the total natural gas storage capacity, therefore Latvia has complied with the requirements of the Regulation.

**Volume of booked capacity in Inčukalns UGS, TWh/storage cycle**



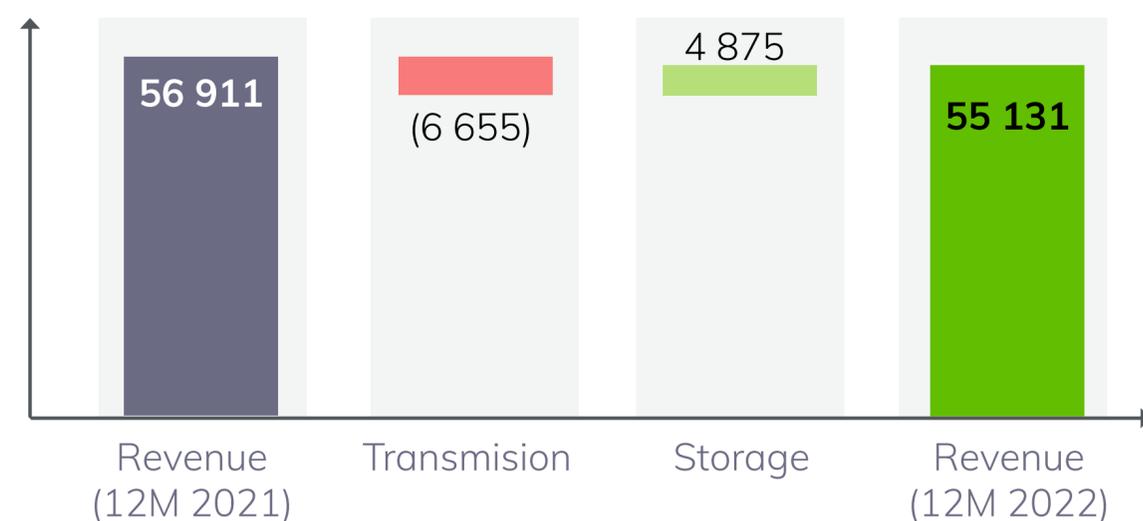
**Total amount of natural gas stored by system users in Inčukalns UGS at the end of the reporting period, TWh**



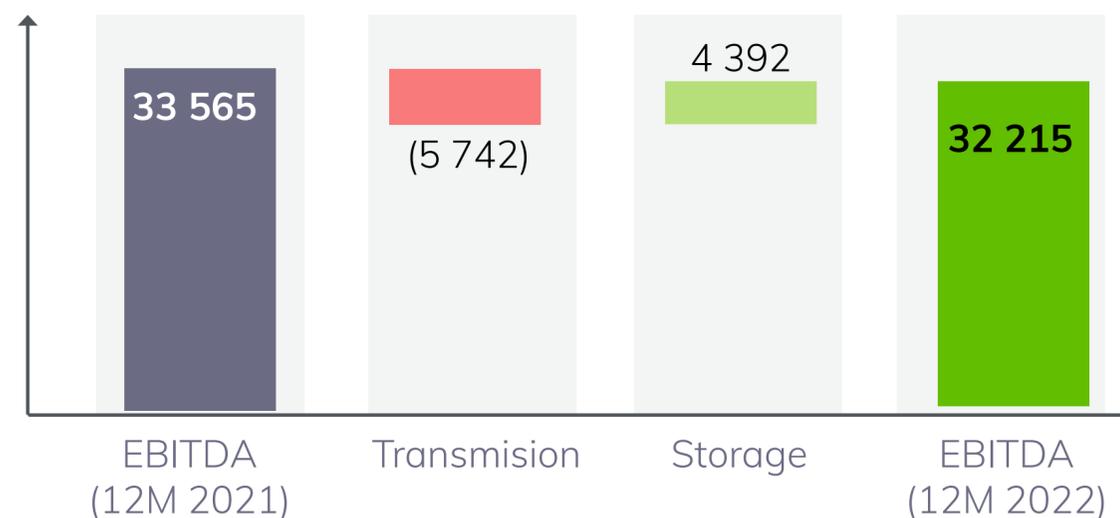
## Conexus' financial results

The net turnover in the reporting period was 55 131 thousand EUR, which is 3 % less than the prior year. Conexus' EBITDA during the reporting period decreased by 4 % in comparison to 2021, reaching 32 215 thousand EUR. Both revenue and EBITDA were negatively affected by decrease in the volume of transmission service, while the revenue and EBITDA of storage service exceed those of the previous year.

### Conexus revenue, `000 EUR



### Conexus EBITDA, `000 EUR



During the reporting period, Conexus' net profit was 11 365 thousand EUR, which is 1 852 thousand EUR less than in the prior year.

MAIN FINANCIAL INDICATORS	12M 2022 or 31.12.2022	12M 2021 or 31.12.2021	+/-	%
	EUR'000	EUR'000		
<b>Net turnover</b>	<b>55 131</b>	<b>56 911</b>	(1 780)	-3 %
EBITDA	32 215	33 565	(1 351)	-4 %
<b>Net profit</b>	<b>11 365</b>	<b>13 217</b>	(1 852)	-14 %
Total assets	463 809	468 070	(4 261)	-1 %
Investments	14 941	27 352	(12 411)	-45 %

## Financing and liquidity

International credit rating agency “S&P Global Ratings” (S&P) has evaluated Conexus for the first time and assigned long-term credit rating ‘BBB+’ with stable outlook. S&P points out in its report that the regulatory framework for the transmission and storage of gas in Latvia is assessed as supporting the sector and offers regulatory transparency until at least 2026. The S&P assessment also considers the company’s increased strategic importance in the context of the parent company AS “Augstsprieguma tīkls” (AST, A-), as well as indirectly in the context of the Latvian government. Considering the stable AST credit rating, S&P assumes that Conexus will maintain its credit metrics in line with the current rating.

The financial assets held by Conexus are sufficient to meet Conexus’ financing needs. At the end of the reporting period, the total amount of Conexus’ borrowings is 82 430 thousand EUR, overdraft has not been used. Conexus has available credit lines amounting to 65 000 thousand EUR, which provides a significant liquidity reserve. The duration of agreements for the overdraft facilities reaches beyond 1 year. At the end of the reporting period, Conexus has entered into long-term loan agreements amounting to 55 000 thousand EUR with expected receipt of funds during 2023. At the end of the reporting period the weighted average interest rate of long-term borrowings is 1.76 % (31.12.2021: 0.37 %).

All financial covenants set in Conexus’ loan agreement have been complied with during the reporting period.

<b>CONEXUS’ FINANCIAL COVENANTS</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
Shareholders’ equity ratio (>50%)	72 %	71 %
Net debt to EBITDA ratio (<5)	2.7	3.0
Debt-Service Coverage Ratio (DSCR) (>1.2)	2.9	3.7

## Regulatory activities

Amendments were made to the Energy Law on 21 April 2022 with the aim to establish energy supply security reserve to be stored in Inčukalns UGS in order to ensure the uninterrupted supply of natural gas. The reserves will ensure that natural gas is available in the country at an extent sufficient to prevent energy crisis. Energy supply security reserve is set at 1,8 TWh for 2023. The purchase and storage of the energy supply security reserve, ensuring injection in Inčukalns UGS, was organised by AS “Latvenergo” on behalf of the State.

On 1 September 2022, the new methodology for capital costs accounting and calculation entered into force. PUC has changed and unified the regulation of capital cost accounting from sectoral tariff methodologies to a common methodology of capital costs accounting. The capital costs accounting and calculating methodology provides for a number of changes to the accounting of regulated assets and depreciation and calculation of the capital return.

PUC has developed a new version of the natural gas transmission system tariffs calculation methodology and has launched public consultations in accordance with the European Commission Regulation, which establishes a network code on harmonised gas transmission tariff structures. The consultation was launched on 15 December 2022. The tariffs applicable for the next regulatory period will be calculated and submitted in accordance with the new methodology.

## Legal events

On 18 September 2018, Conexus filed an application to the Administrative district court against the decision No. 69 of the PUC council “On AS “Conexus Baltic Grid” natural gas transmission system tariffs” dated 18 June 2018, in relation to expenses not being included in the transmission system tariff project and issuance of a new administrative act, intending to include the excluded expenses in tariff project for the next period. With the decision of the Administrative district court dated 7 April 2020, the Conexus application was rejected. Conexus submitted cassation complaint to the Department of Administrative Cases of the Senate of the Supreme Court on 7 May 2020 and the cassation proceedings have been initiated, but the date of the hearing has not been set yet.

On 28 September 2020, Conexus filed an application to the Administrative district court regarding cancellation of the PUC Council’s decision No 109 dated 20 August 2020 “Regarding the Capital Return Rate for the Calculation of the Draft Tariff for Natural Gas Transmission System, Natural Gas Distribution System, and Natural Gas Storage Services”. The decision to refer the question to the Court of Justice of the European Union on the interpretation of the European Union law applicable in the case has still not been drawn up in the Administrative district court.

On 28 April 2022, the Shareholders’ meeting elected Conexus’ Council with changes in its current composition. Seven members of the Council have been approved for a term of three years. In addition to the election of Conexus’ Council, 2021 Sustainability and Annual Report and Dependency Report were approved, and the reports of Conexus’ Board, Council and independent auditor were reviewed. At the same time Shareholders’ meeting approved dividends in amount of 9 549 thousand EUR (0.24 EUR per share). Shareholders’ meeting decided to approve the offering and admission to the regulated market of unsecured bond issues with an issue volume of up to 80 million EUR for a term of at least two years. By the date of signing the annual report, no bonds have been issued.

# Key financial indicators

		12M 2018 or 31.12.2018	12M 2019 or 31.12.2019	12M 2020 or 31.12.2020	12M 2021 or 31.12.2021	12M 2022 or 31.12.2022	Δ	Δ %	
Operating indicators	Transmitted natural gas	TWh	30.2	34.0	37.4	39.3	31.4	(7.9)	-20 %
	Amount of natural gas stored by system users in Inčukalns UGS at the end of reporting period	TWh	10.0	14.9	17.2	12.1	11.3	(0.9)	-7 %
	Volume of natural gas consumed in Latvia*	TWh	15.1	14.3	11.6	12.5	8.8	(3.8)	-30 %
	Volume of natural gas withdrawn from Inčukalns UGS	TWh	12.6	10.5	11.6	17.9	10.6	(7.3)	-41 %
Financial indicators	Net turnover**	`000 EUR	56 162	60 526	54 283	56 911	55 131	(1 780)	-3 %
	EBITDA	`000 EUR	28 995	34 216	30 103	33 565	32 215	(1 351)	-4 %
	Net profit	`000 EUR	13 306	17 945	13 112	13 217	11 365	(1 852)	-14 %
	Total assets	`000 EUR	361 563	362 400	453 092	468 070	463 809	(4 261)	-1 %
	Investments	`000 EUR	14 837	13 944	22 118	27 352	14 941	(12 411)	-45 %
	Depreciation and amortisation	`000 EUR	15 500	16 080	16 823	17 806	17 859	53	0 %
Financial coefficients	EBITDA profitability	%	52 %	57 %	55 %	59 %	58 %	(1ppt)	
	Net profitability	%	24 %	30 %	24 %	23 %	21 %	(3ppt)	
	Return on Equity ratio (ROE)	%	4.3 %	5.8 %	3.5 %	3.6 %	3.4 %	(0.2ppt)	
	Shareholders' equity ratio***	%	86 %	87 %	89 %	71 %	72 %	1ppt	
	Net debt to EBITDA ratio****	coef.	0.9	0.6	0.8	3.0	2.7	(0.3)	-10 %
	Debt-service Coverage Ratio (DSCR)*****	coef.	7.9	9.3	8.3	3.7	2.9	(0.8)	-22 %
Average number of employees	number	350	343	341	352	356	4	1 %	

\* Volume of natural gas injected into the distribution system

\*\* Comparative figures reclassified to be comparable with 2022 figures

Financial covenants:

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

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

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

# Results of segments' operations

Conexus is operating in two segments: natural gas transmission and natural gas storage. The split of information included into operating segments agrees to the split of regulated services. This split is defined in the internal management accounting system and is applied both in the appraisal of results and in the decision-making.

## Natural gas transmission

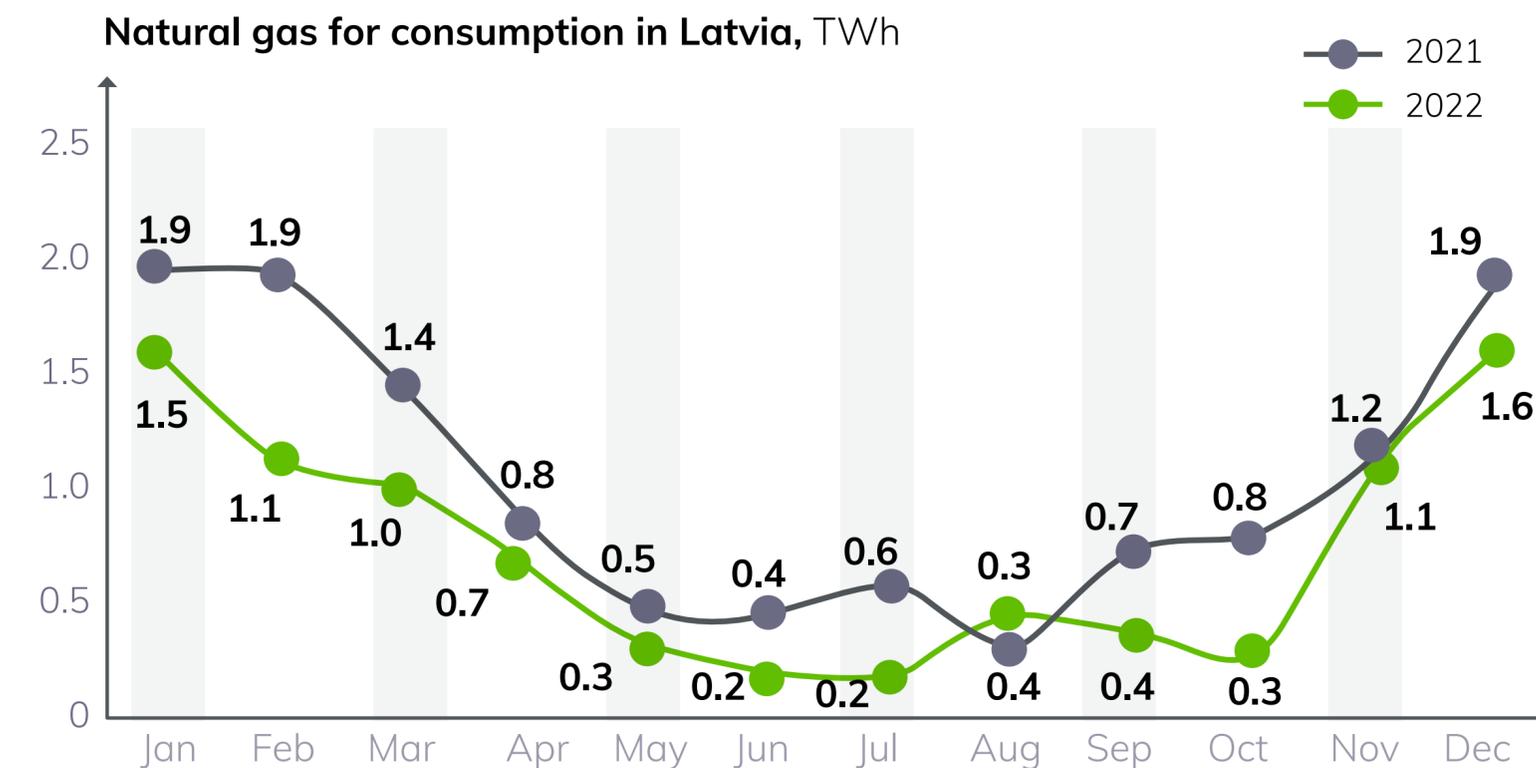
Conexus is the single natural gas transmission and storage operator in Latvia, which ensures the maintenance, as well as safe and continuous operation of the natural gas transmission system, and the interconnections with the transmission systems of other countries, enabling system users to use the natural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

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

- the diameter of gas pipelines which ensure gas transit to neighbouring countries is 720 mm with the operating pressure between 28 and 40 bars;
- the diameter of gas pipelines intended for the supply of Latvia is between 400 mm and 530 mm with the operating pressure up to 35 bars;
- 40 gas regulation stations are used to transport the natural gas to the local distribution system in Latvia. A virtual exit point is available for the supplies of natural gas to users in Latvia, which compiles information from all technically feasible exits in the territory of Latvia.

In 2022, revenue of the transmission segment was negatively impacted by several factors: the Russian invasion of Ukraine, which resulted in reduced deliveries, increase in natural gas prices, weather conditions, preparations for the heating season 2022/2023, as well as reduced production of electricity at the country's largest heat and power plants<sup>2</sup>. As a result, overall consumers' demand for natural gas was lower than in the same period of previous year, which led to 7 900 thousand EUR lower revenue from the use of exit point for supply of consumers of Latvia.

In 2022, the total volume of transmitted gas reached 31,4 TWh, 20 % decrease against the respective period of prior year. The volume of natural gas consumption in Latvia reached 8,8 TWh, it comprises 30 % decrease versus prior year.



<sup>2</sup> <https://ast.lv/lv/electricity-market-review>

Revenue of the transmission segment during the reporting period was 26 260 thousand EUR and EBITDA reached 13 045 thousand EUR, representing 41 % of the total EBITDA of Conexus. Net profit of the transmission segment amounted to 1 062 thousand EUR (85 % less than in prior year).

TRANSMISSION	12M 2022 or 31.12.2022	12M 2021 or 31.12.2021*	+/-	%
	EUR'000	EUR'000		
<b>Net turnover</b>	<b>26 260</b>	<b>32 915</b>	(6 655)	-20 %
EBITDA	13 045	18 787	(5 742)	-31 %
<b>Segment Net Profit</b>	<b>1 062</b>	<b>6 869</b>	(5 807)	-85 %
Segment assets	238 761	250 660	(11 899)	-5 %
Depreciation and amortisation	10 099	10 321	(221)	-2 %
Investments	5 452	10 579	(5 127)	-48 %

\* 2021 figures reclassified to be comparable with 2022 figures.

Operations of Conexus 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 the allowed ones, which will affect tariff values in the subsequent tariff cycles.

In transmission segment, such deviations can occur due to actual natural gas consumption differing from the one planned in tariff calculations, leading to revenue adjustment. Actual revenue of transmission segment, generated during gas year from 1 October 2021 until 30 September 2022, is 26,7 million EUR, which is 5,2 million EUR lower than planned in approved tariff. During the previous tariff periods from 1 January 2020 until 30 September 2021, the unearned revenue was 3,9 million EUR. Allowed revenue of the next regulatory period will be increased by the unearned revenue amount.

In accordance with the Regulator's decision No 171 of 27 November 2019, existing tariffs of transmission system service have been approved for the period from 1 January 2020 to 30 September 2022. The approved tariffs on the natural gas transmission system service are continued to be applied after 30 September 2022 until the beginning of a new regulatory period.

The transmission segment's assets at the end of the reporting period amounted to 239 million EUR, which comprised 51 % of the total assets of Conexus. During the reporting period, capital investments of 5 452 thousand EUR were made. The largest investments:

- Within the framework of the European project of common interest "Enhancement of Latvia-Lithuania Interconnection" (ELLI), Conexus invested a total of 1,3 million EUR in several sub-projects during 2022. 2 activities out of 17 planned activities of the project have been completed during 2022:
  - o rebuilding of the gas pipeline branch to the gas regulation station Baldone;
  - o rebuilding of the gas pipeline branch to the gas regulation station Krimulda.

11 out of 17 activities have been completed since the beginning of the project and a total of 4,3 million EUR has been invested.
- insulation replacement works completed on 16 km branch of transmission gas pipeline Izborsk - Inčukalns UGS in amount of 4,7 million EUR (in 2022 – 0,8 million EUR), including performing reconstruction works underneath 5 main roads and elimination of 83 defects detected during diagnostic;
- transmission gas pipelines repairs – 890 thousand EUR.



## Natural gas storage

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

During 2021/2022 storage cycle Inčukalns UGS capacity booking reached 18,9 TWh, which is 12 % less than previous year. However, during 2022/2023 storage cycle Inčukalns UGS capacity products amounted to 24,1 TWh, which is 27 % more than the year before. The varied types of capacity products booked by the market participants, storage tariffs and applicable auction premiums led to increased revenue from bookings of capacity products by 4 875 thousand EUR, in comparison to the previous year.

Revenue of the storage segment during the reporting period was 28 871 thousand EUR and EBITDA reached 19 170 thousand EUR. Net profit of storage segment reached 10 303 thousand EUR.

STORAGE	12M 2022 or 31.12.2022	12M 2021 or 31.12.2021*	+/-	%
	EUR'000	EUR'000		
<b>Net turnover</b>	<b>28 871</b>	<b>23 996</b>	4 875	20 %
EBITDA	19 170	14 778	4 392	30 %
<b>Segment Net Profit</b>	<b>10 303</b>	<b>6 348</b>	3 955	62 %
Segment assets	225 049	217 410	7 638	4 %
Depreciation and amortisation	7 759	7 485	274	4 %
Investments	9 488	16 772	(7 284)	-43 %

\* 2021 figures reclassified to be comparable with 2022 figures.

In accordance with Natural gas storage system service tariff calculation methodology, during the tariff cycle, deviations of income and expenses may occur against allowed ones, which will affect tariff values in subsequent tariff cycles. In storage segment, such deviations are accrued in a regulatory account. During the stora-

ge tariff period from 1 May 2022 until 30 April 2023, storage service revenue was generated in amount of 30,4 million EUR. It is 6,2 million EUR above the allowed revenue set for this period, so these 6,2 million EUR are included in the regulatory account of the storage service. During the previous tariff period from 1 May 2021 until 30 April 2022, the actual revenue was 1,8 million EUR more than allowed revenue for this period. Revenue included in the regulatory account will impact allowed revenue for the next tariff periods.

With the exception of stock transfer product tariff, the storage service tariffs have remained unchanged for the 2022/2023 storage season. The storage service tariffs applicable to the 2023/2024 storage season will be approved until the commencement of storage cycle, which is set for 1 May 2023.

Assets of storage segment at the end of the reporting period amounted to 225 million EUR, which comprised 49 % of total assets of Conexus. During the reporting period, capital investments were made in amount of 9 488 thousand EUR, which was 7 275 thousand EUR less than in prior year. The largest investments - reconstruction of wells, modernization of gas compression units at Compressor station No.2 and reconstruction of gas collection point No.3, in total amount of 7,2 million EUR, - were made within the framework of the European project of common interest PCI 8.2.4. "Enhancement of Inčukalns UGS":

As part of renovation of 36 wells, 8 wells were put in operation during 2022. Total of 29 out of 36 wells completed to date. During 2022, reconstruction of wells was made in amount of 1,1 million EUR. Total investments into well reconstruction since the beginning of the project reached 21 million EUR;

Within the modernisation of existing gas compression units (GCU), modernisation of compressor workshop's No.2 compression unit No.3, No.2 and No.4 was completed, investments during 2022 totalling to 1,2 million EUR. Equipment for the modernisation of the remaining compressor units No.5 and No.6 have been delivered in 2022. Total investments since the beginning of the project comprise 7,7 million EUR;

Enhancement of surface installations at gas collection point No.3: works performed in amount of 4,8 million EUR, which included finishing the project design works and partly delivery of the necessary equipment. Since the commencement of the project, a total of 7,3 million EUR was invested. Procurement of construction works is carried out at the end of 2022;

Construction permit was obtained after construction planning documentation has been devised for installation of gas compression unit in the gas compressor workshop No.1. A contract of 21,6 million EUR has been concluded for the delivery of gas compression unit. Total investments to date comprise 0,4 million EUR.

# Further development

Conexus will continue active work on the Inčukalns UGS modernisation project, 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. During continuing enhancement of Inčukalns UGS as part of the European Project of Common Interest, Conexus has concluded an agreement on the purchase and installation of a new gas compression unit. Supplier was determined as a result of an open tender and the total value of the contract is 21,6 million EUR.

Work will also continue on the increase of Latvia-Lithuania transmission gas pipe capacity with the aim to facilitate access to the Klaipėda liquid gas terminal, Latvia's Inčukalns UGS and Poland-Lithuania gas interconnection. The "Enhancement of Latvia-Lithuania Interconnection" (ELLI) project foresees a number of activities in both Latvia and Lithuania until the end of 2023, which will increase the gas interconnection capacity between Latvia and Lithuania in both directions. Since 1 November 2022 gas transmission capacity from Lithuania to Latvia has already been increased by one-third.

On 1 May 2022, the Gas Interconnection Poland-Lithuania (GIPL) commenced its operation transmitting natural gas in both directions. The new interconnection integrates the Baltic and Finnish single gas market into European Union's common gas market. It gives opportunity to system users to differentiate sources of gas supply, as well as it positively impacts the security of gas supply.

The European transmission system operators - Conexus, "Gasgrid Finland" (Finland), "Elering" (Estonia), "Amber Grid" (Lithuania), "GAZ-SYSTEM" (Poland) and "ONTRAS" (Germany) have signed a cooperation agreement to develop hydrogen infrastructure from Finland through Estonia, Latvia, Lithuania and Poland to Germany to meet the REPowerEU 2030 targets. The system operators have

initiated a project called Nordic-Baltic Hydrogen Corridor that will strengthen region's energy security, reduce the dependency on imported fossil energy and accelerate decarbonising activities in energy sector. It also has significant potential to contribute to the EU's greenhouse gas emission reduction target by replacing today's fossil-based production and fossil fuel consumption in industry, transport sector, electricity and heating, with the renewable energy, i.e., green hydrogen.

On 14 July 2022, the Parliament supported the amendments to the Energy Law, which provide for the establishment of gas guarantee of origin system in Latvia and designates Conexus to become issuing body and registry administrator for guarantees of origin. Guarantee of origin is a document that proves the gas has been produced from renewable energy sources and will therefore be applicable both in Latvia to provide a prove to the end consumer that the energy is environmentally friendly and will open up new opportunities for renewable gas producers to export it. Guarantee of origin system for gas will become operational on 1 July 2023 as required by the Energy Law.

Conexus has launched a development solution for the integration of biomethane into the gas transmission system in order to promote the development of renewable gases in Latvia and to give biomethane producers an unprecedented opportunity to enter produced biomethane into the gas transmission system without the construction of a separate direct connection. In 2022, Conexus has organised a public consultation on the intention of establishing regional biomethane entry points in the gas transmission system.

Conexus, together with the regional gas transmission system operators "Gasgrid Finland" (Finland), "Elering" (Estonia) and "Amber Grid" (Lithuania), will continue the ongoing research study on the possibilities of blending and transmitting hydrogen in the natural gas transmission system. Research activities will be launched on the possibility of storing hydrogen in Inčukalns UGS.

# Subsequent events

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 2022.

# Proposed distribution of the profit

The decision on the distribution of profit and the amount of dividends is made by the shareholders' meeting of AS "Conexus Baltic Grid". The profit of AS "Conexus Baltic Grid" for 2022 is 11 365 thousand EUR.

## 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, taxes, depreciation & amortisation
Net debt	loans including overdrafts minus cash and cash equivalents
EBITDA profitability	EBITDA / income
Net profitability	net profit / income
Return on equity ratio (ROE)	net profit / equity average value (over the reporting period)
Shareholders' equity	equity / total assets
Net debt to EBITDA ratio	net debt / EBITDA (over 12 months period)
Debt-Service Coverage Ratio (DSCR)	EBITDA (over 12 months period) / debt payments

# STATEMENT OF THE BOARD'S RESPONSIBILITY

The Board of the Company is responsible for preparing its financial statements. Based on the information available to the Management Board of AS "Conexus Baltic Grid", financial statements for the year ended 31 December 2022 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and in all material aspects present a true and fair view of AS "Conexus Baltic Grid" assets, liabilities, financial position, profit and loss and respective cash flows. Information provided in the Management Report is accurate.

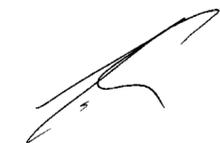
The financial statements are approved by the Company's Board on 8 March 2023 and signed by:



**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

	Note	2022 EUR	2021 (reclassified*) EUR
Revenue	2	55 131 399	56 911 284
Other income	3	881 767	638 293
Maintenance and service costs	4	(7 326 125)	(8 098 711)
Personnel expenses	5	(13 834 205)	(12 183 958)
Other operating costs	6	(2 638 298)	(3 701 730)
Depreciation, amortisation, and impairment of property, plant and equipment	8,9,12	(17 858 532)	(17 805 749)
<b>Operating profit</b>		<b>14 356 006</b>	<b>15 759 429</b>
Finance costs	7	(604 096)	(286 057)
<b>Profit before tax</b>		<b>13 751 910</b>	<b>15 473 372</b>
Corporate income tax	25	(2 387 165)	(2 256 640)
<b>Profit for the year</b>		<b>11 364 745</b>	<b>13 216 732</b>

\* see Note 32

## STATEMENT OF COMPREHENSIVE INCOME

	Note	2022 EUR	2021 EUR
<b>Profit for the year</b>		<b>11 364 745</b>	<b>13 216 732</b>
<b>Other comprehensive income / (loss):</b>			
Revaluations of post – employment benefits as a result of changes in actuarial assumptions	19	59 045	(328 222)
<b>Total other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>59 045</b>	<b>(328 222)</b>
<b>Total comprehensive income for the year</b>		<b>11 423 790</b>	<b>12 888 510</b>

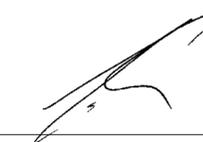
Notes on pages 113 to 155 form an integral part of these financial statements.



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Chairman of the Board



**GINTS FREIBERGS**  
Member of the Board



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Member of the Board

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## STATEMENT OF FINANCIAL POSITION

	Note	31.12.2022	31.12.2021
ASSETS		EUR	EUR
<b>Long-term investments</b>			
Intangible assets	8	2 108 009	2 041 249
Advances for intangible assets		-	6 720
Property, plant and equipment	9	427 077 998	430 671 322
Advances for property, plant and equipment		5 322 009	2 332 465
Long-term deferred expenses	11,16	1 007 865	1 108 651
Right-of-use assets	12	461 503	451 108
<b>Total long-term investments:</b>		<b>435 977 384</b>	<b>436 611 515</b>
<b>Current assets</b>			
Inventories	13	3 690 935	2 626 539
Receivables from contracts with customers	14	10 237 307	13 373 794
Other receivables	15	2 456 478	365 186
Deferred expenses	11, 16	480 075	417 139
Cash and cash equivalents	26, 30	10 967 116	14 676 110
<b>Total current assets:</b>		<b>27 831 911</b>	<b>31 458 768</b>
<b>TOTAL ASSETS:</b>		<b>463 809 295</b>	<b>468 070 283</b>

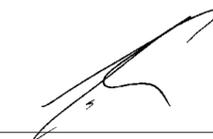
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## STATEMENT OF FINANCIAL POSITION (continued)

	Note	31.12.2022.	31.12.2021. (reclassified**)
EQUITY AND LIABILITIES		EUR	EUR
<b>Equity:</b>			
Share capital		39 786 089	39 786 089
Own shares		(24 270)	(25 320)
Reserves	17	207 960 842	216 230 918
Retained earnings		85 638 003	76 412 620
<b>Total equity:</b>		<b>333 360 664</b>	<b>332 404 307</b>
<b>Non-current liabilities</b>			
Borrowings from credit institutions	20	69 468 183	60 282 986
Deferred income	18	24 957 748	18 156 045
Employee benefit obligations	19	1 351 768	1 374 135
Non-current lease liabilities	12	459 358	447 940
<b>Total non-current liabilities:</b>		<b>96 237 057</b>	<b>80 261 106</b>
<b>Current liabilities</b>			
Borrowings from credit institutions	20	12 961 766	37 811 090
Trade payables	21	7 411 426	7 290 495
Other liabilities	22	2 204 749	2 458 791
Accrued liabilities	23	2 260 852	6 091 384
Deferred income from contracts with customers	18	-	237 284
Deferred income, other	18	767 335	539 618
Advances from customers	14	8 580 382	956 811
Current lease liabilities	12	25 064	19 397
<b>Total current liabilities:</b>		<b>34 211 574</b>	<b>55 404 870</b>
<b>TOTAL EQUITY AND LIABILITIES:</b>		<b>463 809 295</b>	<b>468 070 283</b>

\*\* see Note 32

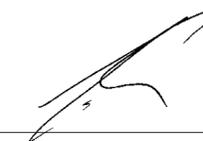
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Member of the Board



**MĀRTIŅŠ GODE**  
Member of the Board

## STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Own shares	Reserves	Retained earnings	Total
		EUR	EUR	EUR	EUR	EUR
<b>Opening balance at 01.01.2021</b>		<b>39 786 089</b>	<b>(34 678)</b>	<b>224 758 592</b>	<b>140 138 666</b>	<b>404 648 669</b>
Dividends		-	9 358	-	(85 142 230)	(85 132 872)
Reduction of revaluation reserve	17	-	-	(8 199 452)	8 199 452	-
<i>Other comprehensive income/(losses):</i>						
Revaluations of post-employment benefits as a result of changes in actuarial assumptions	19	-	-	(328 222)	-	(328 222)
<i>Total other comprehensive income/(losses)</i>		-	-	<i>(328 222)</i>	-	<i>(328 222)</i>
Profit for the year		-	-	-	13 216 732	13 216 732
<i>Total</i>		-	9 358	<i>(8 527 674)</i>	<i>(63 726 046)</i>	<i>(72 244 362)</i>
<b>At 31 December 2021</b>		<b>39 786 089</b>	<b>(25 320)</b>	<b>216 230 918</b>	<b>76 412 620</b>	<b>332 404 307</b>
<b>Opening balance at 01.01.2022</b>		<b>39 786 089</b>	<b>(25 320)</b>	<b>216 230 918</b>	<b>76 412 620</b>	<b>332 404 307</b>
Dividends		-	1 050	-	(9 548 661)	(9 547 611)
Reduction of revaluation reserve	17	-	-	(8 329 121)	7 409 299	(919 822)
<i>Other comprehensive income:</i>						
Revaluations of post-employment benefits as a result of changes in actuarial assumptions	19	-	-	59 045	-	59 045
<i>Total other comprehensive income</i>		-	-	<i>59 045</i>	-	<i>59 045</i>
Profit for the year		-	-	-	11 364 745	11 364 745
<i>Total</i>		-	1 050	<i>(8 270 076)</i>	9 225 383	956 357
<b>At 31 December 2022</b>		<b>39 786 089</b>	<b>(24 270)</b>	<b>207 960 842</b>	<b>85 638 003</b>	<b>333 360 664</b>

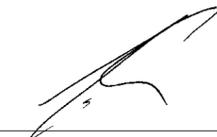
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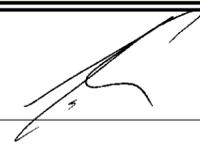
## STATEMENT OF CASH FLOWS

	Note	2022	2021
<b>Cash flow from operating activity</b>		<b>EUR</b>	<b>EUR</b>
<b>Profit before corporate income tax</b>		<b>13 751 910</b>	<b>15 473 372</b>
Adjustments:			
- depreciation of property, plant and equipment	9	17 123 684	17 043 338
- depreciation of the right-of-use assets	12	26 251	93 452
- amortisation of intangible assets	8	708 597	668 959
- (profit) / loss from disposal of PPEs		(34 135)	580 740
- changes in provisions	19	(22 367)	345 641
- recognized EU co-financing	3	(614 520)	(383 814)
- interest expense		609 927	284 845
Changes in the working capital:			
- decrease / (increase) of receivables from contracts with customers, other receivables and deferred expenses		1 083 048	(6 756 589)
- (increase) / decrease of inventories		(1 064 396)	394 464
- increase of lease liabilities, trade payables, accrued liabilities, advances from customers and other liabilities		3 036 874	2 402 154
Corporate income tax paid		(2 387 165)	(2 256 640)
<b>Net cash flow from operating activity</b>		<b>32 217 708</b>	<b>27 889 922</b>
<b>Cash flow from investing activity</b>			
Acquisition of property, plant and equipment	9	(16 873 561)	(26 777 566)
Acquisition of intangible assets	8	(926 543)	(850 614)
Proceeds from the sale of property, plant and equipment items		35 866	70 490
Received EU co-financing	18	7 643 940	7 817 508
<b>Cash flow from investing activity</b>		<b>(10 120 298)</b>	<b>(19 740 182)</b>
<b>Cash flow from financing activities</b>			
Interest paid	7	(563 790)	(224 627)
Borrowings received	20	20 000 000	84 949 950
Borrowings repaid	20	(35 688 383)	(8 769 097)
Lease payments	12	(40 217)	(110 560)
Dividends paid	25	(9 514 014)	(84 483 032)
<b>Net cash flow from financing activity</b>		<b>(25 806 404)</b>	<b>(8 637 366)</b>
<b>Net cash flow</b>		<b>(3 708 994)</b>	<b>(487 626)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>14 676 110</b>	<b>15 163 736</b>
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>10 967 116</b>	<b>14 676 110</b>

Notes on pages 113 to 155 form an integral part of these financial statements.

  
**ULDIS BARISS**  
 Chairman of the Board

  
**GINTS FREIBERGS**  
 Member of the Board

  
**MĀRTIŅŠ GODE**  
 Member of the Board

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SEGMENT INFORMATION

### Description of segments

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

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

✦ The natural gas **storage** segment, where Inčukalns UGS provides the storage of natural gas in the underground gas storage facility for consumption during the heating season and other needs of network users.

The split of information included into operating segments corresponds to the split of regulated services. This split is defined in the internal management accounting system and is applied both in the appraisal of results and in decision-making.

Segment information (segment profit or loss statements and investments made) is regularly submitted to Conexus' Management Board and Conexus' Council.

### Reconciliation of segment financial information to Conexus' financial information

Segment income statements for 2022:

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

Segment income statements for 2021:

	Transmission	Storage	Total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Revenue	32 914 919	23 996 365	56 911 284	-
Other income	202 412	435 881	638 293	-
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)	-
<b>Profit for the year</b>	<b>6 868 749</b>	<b>6 347 983</b>	<b>13 216 732</b>	<b>-</b>

Total assets by segments on 31.12.2022 and investments during 2022:

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

Total assets by segments on 31.12.2021 and investments during 2021:

	Transmission	Storage	Total	Difference between segments total and Conexus total
	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	-

**Geographical information**

All operating activities are held in Latvia.

**Major customers**

Revenue generated during 2022 from major customers, each of whom individually represent at least 10 % of Conexus' total revenue:

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

Revenue generated during 2021 from major customers, each of whom individually represent at least 10 % of Conexus' total revenue:

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

## 2. REVENUE

Revenue from contracts with customers recognised over time	IFRS applied	2022	2021 (reclassified*)
		EUR	EUR
Revenue from transmission services	15.SFPS	25 740 793	32 442 743
Balancing income, net**	15.SFPS	519 158	472 176
Revenue from transmission services		26 259 951	32 914 919
Revenue from storage services*	15.SFPS	28 871 448	23 996 365
Revenue from storage		28 871 448	23 996 365
<b>Kopā</b>		<b>55 131 399</b>	<b>56 911 284</b>

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

\*including deferred income in the amount of 237 284 EUR (2021: EUR 984 672) for reserved capacity recognised in revenue based on accruals principle.

\*\*gross income and cost from balancing activities are recognized in financial statements in net amount by applying agent accounting principle (reclassified from Other income, see note 32):

	2022	2021
	EUR	EUR
Income from balancing activities	35 537 104	18 810 250
Cost of balancing activities	(35 017 946)	(18 338 074)
	<b>519 158</b>	<b>472 176</b>

## 3. OTHER INCOME

	2022	2021 (reclassified*)
	EUR	EUR
Income from EU co-financing	614 520	383 814
Other income	267 247	254 479
	<b>881 767</b>	<b>638 293</b>

\*see Note 32

## 4. MAINTENANCE AND SERVICES COSTS

	2022	2021
	EUR	EUR
Transmission and storage system maintenance services	4 244 720	5 172 301
Cost of materials	1 571 426	1 218 831
Cost of natural gas	482 772	769 029
Maintenance of IT infrastructure	782 040	724 922
Maintenance of vehicles and machinery	245 167	213 628
	<b>7 326 125</b>	<b>8 098 711</b>

## 5. PERSONNEL EXPENSES

	2022	2021
	EUR	EUR
Salaries	10 741 147	9 421 927
State social insurance mandatory contributions	2 507 532	2 227 069
Life, health, and pension insurance	570 533	520 719
Other personnel costs	14 993	14 243
	<b>13 834 205</b>	<b>12 183 958</b>
Including remuneration of the Management Board and Council:		
- Remuneration for work	618 350	557 486
- State social insurance mandatory contributions	146 274	136 099
- Life, health, and pension insurance	45 358	45 097
- Other personnel costs	3 000	-
	<b>812 982</b>	<b>738 682</b>
The average number of employees	<b>356</b>	<b>352</b>

## 6. OTHER OPERATING COSTS

	2022	2021
	EUR	EUR
Taxes and duties*	874 632	1 334 936
Office and other administrative expenses	1 763 666	1 786 054
Net loss on disposal of property, plant and equipment	-	580 740
	<b>2 638 298</b>	<b>3 701 730</b>

\*Real estate tax, Natural resource tax, PUC fee, State and municipal fees, corporate income tax from deemed profit distribution.

## 7. FINANCE COSTS

	2022	2021
	EUR	EUR
Interest paid	589 271	261 995
Lease interest expense	20 656	22 851
(Gain) / losses from exchange rate fluctuations	(5 831)	1 211
	<b>604 096</b>	<b>286 057</b>

## 8. INTANGIBLE ASSETS

	Intangible assets	Intangible assets under development	TOTAL
		EUR	EUR
<b>Historical cost</b>			
<b>31.12.2020</b>	<b>7 698 984</b>	<b>6 370</b>	<b>7 705 354</b>
Additions	-	843 894	843 894
Transfers	789 210	(789 210)	-
Disposals	(298 905)	-	(298 905)
<b>31.12.2021</b>	<b>8 189 289</b>	<b>61 054</b>	<b>8 250 343</b>
<b>Amortisation</b>			
<b>31.12.2020</b>	<b>5 832 683</b>	<b>-</b>	<b>5 832 683</b>
Amortisation charge	668 959	-	668 959
Disposals	(292 548)	-	(292 548)
<b>31.12.2021</b>	<b>6 209 094</b>	<b>-</b>	<b>6 209 094</b>
<b>Net book value 31.12.2020</b>	<b>1 866 301</b>	<b>6 370</b>	<b>1 872 671</b>
<b>Net book value 31.12.2021</b>	<b>1 980 195</b>	<b>61 054</b>	<b>2 041 249</b>

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

Intangible assets at 31.12.2022 include fully amortised intangible assets with a historical cost of EUR 5 223 393 (at 31.12.2021: EUR 5 101 149). Intangible assets consist of software and software licences.

## 9. PROPERTY, PLANT AND EQUIPMENT (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
<b>Historical cost or revalued amount</b>								
<b>31.12.2020</b>	<b>1 033 354</b>	<b>760 911 633</b>	<b>131 882 990</b>	<b>6 403 695</b>	<b>1 563 188</b>	<b>10 708 163</b>	<b>10 698 459</b>	<b>923 201 482</b>
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)
<b>31.12.2021</b>	<b>1 084 168</b>	<b>771 087 875</b>	<b>134 044 906</b>	<b>7 790 227</b>	<b>1 538 779</b>	<b>10 708 163</b>	<b>20 027 015</b>	<b>946 281 133</b>
<b>Accumulated depreciation</b>								
<b>31.12.2020</b>	<b>-</b>	<b>438 591 735</b>	<b>58 311 555</b>	<b>4 328 314</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>501 231 604</b>
Calculated	-	11 405 968	4 984 802	652 568	-	-	-	17 043 338
Disposals	-	(1 207 276)	(1 024 866)	(432 989)	-	-	-	(2 665 131)
Reclassified*	-	(1 042 906)	(137 333)	1 180 239	-	-	-	-
<b>31.12.2021</b>	<b>-</b>	<b>447 747 521</b>	<b>62 134 158</b>	<b>5 728 132</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>515 609 811</b>
<b>Net book value 31.12.2020</b>	<b>1 033 354</b>	<b>322 319 898</b>	<b>73 571 435</b>	<b>2 075 381</b>	<b>1 563 188</b>	<b>10 708 163</b>	<b>10 698 459</b>	<b>421 969 878</b>
<b>Net book value 31.12.2021</b>	<b>1 084 168</b>	<b>323 340 354</b>	<b>71 910 748</b>	<b>2 062 095</b>	<b>1 538 779</b>	<b>10 708 163</b>	<b>20 027 015</b>	<b>430 671 322</b>

\*amounts include capitalised property, plant and equipment and reclassification between groups performed while 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.

## 9. PROPERTY, PLANT AND EQUIPMENT (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
<b>Historical cost or revalued amount</b>								
<b>31.12.2021</b>	<b>1 084 168</b>	<b>771 087 875</b>	<b>134 044 906</b>	<b>7 790 227</b>	<b>1 538 779</b>	<b>10 708 163</b>	<b>20 027 015</b>	<b>946 281 133</b>
Additions	8 306	44 902	1 245 908	1 131 296	-	-	11 734 895	14 165 307
Reclassified*	-	15 832 904	275 880	5 392 598	-	-	(21 501 382)	-
Disposals	-	(1 279 861)	(1 871 523)	(834 765)	-	-	-	(3 986 149)
Transfers**	-	-	-	-	286 605	-	-	286 605
<b>31.12.2022</b>	<b>1 092 474</b>	<b>785 685 820</b>	<b>133 695 171</b>	<b>13 479 356</b>	<b>1 825 384</b>	<b>10 708 163</b>	<b>10 260 528</b>	<b>956 746 896</b>
<b>Accumulated depreciation</b>								
<b>31.12.2021</b>	<b>-</b>	<b>447 747 521</b>	<b>62 134 158</b>	<b>5 728 132</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>515 609 811</b>
Calculated	-	11 347 304	4 919 732	856 648	-	-	-	17 123 684
Disposals	-	(940 900)	(1 325 061)	(798 636)	-	-	-	(3 064 597)
Reclassified*	-	(22 478)	(1 002 909)	1 025 387	-	-	-	-
<b>31.12.2022</b>	<b>-</b>	<b>458 131 447</b>	<b>64 725 920</b>	<b>6 811 531</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>529 668 898</b>
<b>Net book value 31.12.2021</b>	<b>1 084 168</b>	<b>323 340 354</b>	<b>71 910 748</b>	<b>2 062 095</b>	<b>1 538 779</b>	<b>10 708 163</b>	<b>20 027 015</b>	<b>430 671 322</b>
<b>Net book value 31.12.2022</b>	<b>1 092 474</b>	<b>327 554 373</b>	<b>68 969 251</b>	<b>6 667 825</b>	<b>1 825 384</b>	<b>10 708 163</b>	<b>10 260 528</b>	<b>427 077 998</b>

\*amounts include capitalised property, plant and equipment and reclassification between groups performed while synchronising accounting in financial and asset management systems - from buildings and structures to: machinery and equipment EUR 182 599, other property and equipment EUR 25 440; from machinery and equipment to: buildings and structures EUR 189 027, other property and equipment EUR 1 506 848;

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

At 31.12.2022, property, plant and equipment included fully depreciated assets with an original value of EUR 11 573 690 (31.12.2021: EUR 7 921 303). The cadastral value of the real estate is EUR 38 252 837 (31.12.2021: EUR 62 921 535). A significant reduction of the cadastral value has occurred due to the updating of depreciation data of engineering structures for the gas pipelines of the transmission system by the State Land Service in May 2021 and recalculation of cadastral values for 2022.

The total length of the transmission system pipelines is 1190 km.

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

Assets under construction	Planned project completion date	31.12.2022	31.12.2021
		EUR	EUR
Projects of common interest "Enhancement of Inčukalns UGS"	01.12.2025.	8 534 857	11 638 212
Projects of common interest "Enhancement of Latvia-Lithuania Interconnection"	31.12.2023.	1 180 131	488 232
<b>EU co-financed projects</b>		<b>9 714 988</b>	<b>12 126 444</b>
Other projects	2023. – 2024.	545 540	7 900 571
<b>Total:</b>		<b>10 260 528</b>	<b>20 027 015</b>

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

Advances for property, plant and equipment	31.12.2022	31.12.2021
	EUR	EUR
Projects of Inčukalns UGS	5 075 020	2 262 584
Projects of gas transmission	149 075	16 420
<b>EU co-financed projects</b>	<b>5 224 095</b>	<b>2 279 004</b>
Other projects	97 914	53 461
<b>Total</b>	<b>5 322 009</b>	<b>2 332 465</b>

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 collector layer and in gas pipelines in the transmission system, other property and equipment and assets under construction are not revalued. The accounting policies require property, plant and equipment to be revalued on a regular basis to ensure that the carrying amount of those assets does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

Historical cost	31.12.2022.	31.12.2021.
	EUR	EUR
Buildings, structures	168 144 521	159 022 487
Machinery and equipment	54 501 331	55 076 716

In 2022, the management has assessed the price level of pipelines, machinery and general construction and has identified significant increase in inflation, labor and material costs as compared to January 2020, when the revaluation was performed and fair value was determined, using the amortized replacement cost method. Thus there is a reason to believe that the fair value of PPE items could be significantly higher than the current carrying amount as at 31 December 2022. However, to comply with prudence principles and taking into account geopolitical situation and uncertainty in the gas sector, the assets' value in use was also calculated in order to determine the recoverable amount of the natural gas transmission and storage infrastructure (Note 10).

As a result of impairment assessment, the company's management has concluded that the value of property, plant and equipment in the financial statements does not differ materially from their recoverable amount, which is the higher of the fair value (less costs to sell) or value in use. Therefore, neither revaluation nor impairment of fixed assets was recognised.

## 10. ASSET IMPAIRMENT ASSESSMENT

Conexus can be separated into two cash generating units: natural gas transmission and natural gas storage. Once establishing the cash generating units, it is assumed that the elements of natural gas transmission and natural gas storage system infrastructure are unified, indivisible and required for the safe operation of natural gas transmission and natural gas storage systems and for the provision of services.

Considering the changes in the geopolitical situation, the sharp increase of interest rates and the ban on natural gas supplies from Russian Federation as from 1 January 2023, Conexus' management carried out an impairment assessment.

The calculation of the recoverable amount is based on the value-in-use of the cash generating units, which is determined by the discounting of future expected cash flows resulting from the permanent use of the cash generating units. Cash flows are based on the expected results of the cash generating units and management forecasts for the development of the business of cash generating units. Cash flow forecast of expected results of natural gas transmission includes assumption that recovery of natural gas consumption is expected in year 2023 against year 2022, however the consumption does not return to the pre-war level. Average annual consumption of natural gas in Latvia is forecasted at 11 TWh over 2023-2032, it represents 14 % reduction against the average consumption over 2019-2021. Cash flow forecast of expected results of natural gas storage includes assumption that storage service will be highly demanded (21.5 TWh) for the next three years. As the geopolitical situation stabilizes, the volume of storage capacity booking returns to 18.4 TWh. Calculations of cash flow forecasts have been developed by applying the norms set in the methodology for calculation of tariffs of the natural gas transmission system service, the methodology for calculation of tariffs of the natural gas storage system service and the methodology for accounting and calculation of capital costs. The forecast of regulated asset base

value includes both existing assets as well as planned investments in renewal of infrastructure and planned costs of depreciation of fixed assets. Since the regulated asset base of each cash-generating unit as a whole constitutes a single system, removal of certain elements from the single system is not foreseen. The rate of return on capital is expected to increase to the rate used for discounting needs. It is also foreseen that the unrecovered costs of segment operations included in the regulatory account will be recovered during the next tariff period. If any of these assumptions do not materialize, it may affect both the volume of the expected cash flow and the result of the asset impairment assessment.

Carrying value of Conexus' long term assets, as at 31 December 2022:

	million EUR
Natural gas transmission	216
Natural gas storage	193

Main assumptions used to determine the value-in-use:

Discount rate	6.55 %
Revenue growth rate, applicable from 2033	1.0 %
Transmission segment EBITDA compound annual growth rate during 2024 - 2032	6.8 %
Storage segment EBITDA compound annual growth rate during 2024 - 2032	3.3 %

The recoverable value of the natural gas transmission assets and natural gas storage assets is higher than their carrying value, therefore it is concluded that there is no impairment loss. With other factors unchanged, the recoverable value of the natural gas transmission assets equals to their carrying value once the discount rate reaches 9.7 %, whereas the recoverable value of the natural gas storage assets equals to their carrying value once the discount rate reaches 10.3 %. With discount rate unchanged at 6.55 %, the recoverable value of the natural gas transmission assets exceeds their carrying value if revenue growth rate equals 0 %, while the recoverable value of the long-term natural gas storage assets is just 0,2 million EUR less than their carrying value if revenue growth rate equals 0 %.

Conexus' management assumptions are based on the information available at the time of approval of these financial statements. The impact of future events on the future performance of Conexus may differ from the current assessment.

## 11. CO-FINANCED PROJECTS

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

### Increase of Capacity of Klaipeda-Kiemenai Pipeline in Lithuania

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

	31.12.2022	31.12.2021
	EUR	EUR
<b>Opening balance</b>	<b>1 209 438</b>	<b>1 310 224</b>
Recognised during the reporting period	(100 786)	(100 786)
<b>Carried forward to future periods</b>	<b>1 108 652</b>	<b>1 209 438</b>
Including short-term portion	100 786	100 786
Long-term portion	1 007 865	1 108 651

### Gas Interconnection Poland-Lithuania

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

Decision No. 1/2014 of the Agency for Cooperation of Energy Regulators of 11 August 2014 (hereinafter "the ACER Decision") on the investment application, including the terms of cross-border cost sharing in the GIPL project of common interest (No. 8.5), determines that the Member States with a significant overall positive impact are required to pay the full amount to the operator of the transmission system of that Member State, which is negatively affected by the implementation of the project. Compensation payment of 29 400 thousand EUR is to be paid immediately with a one-time payment after the commissioning of the GIPL project.

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

Conexus' share of costs for the project is planned to be 14 700 thousand EUR, with the expected completion term - 2023.

In accordance with the terms of the Agreement, Conexus has received a bank guarantee in favour of GAZ-SYSTEM S.A. to ensure fulfillment of its obligations of EUR 16 170 thousand valid until 16 October 2023.

## 12. LEASE

	31.12.2022	31.12.2021
	EUR	EUR
<b>Right-of-use assets</b>		
<b>Net book value at the beginning of the reporting period</b>	<b>451 108</b>	<b>503 584</b>
Recognised changes in the lease agreement	36 646	40 976
Depreciation recognised in the income statement	(26 251)	(93 452)
<b>Net book value at the end of the reporting period</b>	<b>461 503</b>	<b>451 108</b>
<b>Lease liabilities</b>		
<b>Net book value at the beginning of the reporting period</b>	<b>467 337</b>	<b>514 070</b>
Recognised changes in the lease agreements	36 646	40 976
Recognised reduction of the lease liability (lease payments made*)	(40 217)	(110 560)
Recognised lease interest expense	20 656	22 851
<b>Net book value at the end of the reporting period</b>	<b>484 422</b>	<b>467 337</b>
including: long-term lease liabilities	459 358	447 940
short-term lease liabilities	25 064	19 397

\*in the cash flow statement for 2022, lease payments in the amount of EUR 40 217 are included in the cash flow from financing activities (31.12.2021: EUR 110 560).

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

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

## 13. INVENTORIES

	31.12.2022	31.12.2021
	EUR	EUR
Natural gas	1 015 561	983 496
Materials and spare parts	2 814 519	1 697 215
Advance payments for inventories	665	30 051
Write-off of inventory to net realisable value	(139 810)	(84 223)
	<b>3 690 935</b>	<b>2 626 539</b>
<b>Write-off of inventory to net realisable value</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
	EUR	EUR
<b>Write-offs at the beginning of the period</b>	<b>(84 223)</b>	<b>(80 154)</b>
Write-offs during the reporting period	(55 587)	(4 069)
<b>Write-offs at the end of the period</b>	<b>(139 810)</b>	<b>(84 223)</b>

## 14. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	31.12.2022	31.12.2021
	EUR	EUR
Debt for transportation of natural gas	6 767 731	10 165 128
Debt for storage of natural gas	2 826 333	2 486 539
Debt for balancing activities	580 939	353 941
Debt for contractual fines and late payment fines	1 815	303
	<b>10 176 818</b>	<b>13 005 911</b>
<b>Accrued income</b>		
Accrued income for transportation of natural gas	-	367 883
Accrued income for balancing activities	60 489	-
	<b>60 489</b>	<b>367 883</b>
<b>Total receivables from contracts with customers</b>	<b>10 237 307</b>	<b>13 373 794</b>

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

Expected credit losses on contracts with customers are insignificant, during the last 3 years no debts have been written down, therefore, it was decided not to recognise allowances for doubtful debts. All receivables from contracts with customers on 31 December 2022 have been fully paid at the moment of preparing the financial statements.

The rules approved by PUC set strict criteria for providing debt repayment guarantees. One of such guarantees is security deposits - their amount at the end of the year is EUR 8 580 382 (2021: EUR 956 811).

## 15. OTHER RECEIVABLES

	31.12.2022	31.12.2021
	EUR	EUR
<b>Other current financial receivables</b>		
Other current financial receivables	12 253	32 300
<b>Total other current financial receivables</b>	<b>12 253</b>	<b>32 300</b>
<b>Other current non-financial receivables</b>		
Advances for services	125 623	10 533
Advance payments for balancing services in Gas Stock Exchange	2 000 000	-
Deferred value added tax	330 030	322 353
Provisions for doubtful advances made	(11 428)	-
<b>Total other current non-financial receivables</b>	<b>2 444 225</b>	<b>332 886</b>
<b>Total other receivables</b>	<b>2 456 478</b>	<b>365 186</b>

## 16. DEFERRED EXPENSES

	31.12.2022	31.12.2021
	EUR	EUR
<b>Non-current part</b>		
Deferred expenses related to participation in a transnational cross-border project (Note 11)	1 007 865	1 108 651
<b>Total non-current part</b>	<b>1 007 865</b>	<b>1 108 651</b>
<b>Current part</b>		
Deferred expenses related to participation in a transnational cross-border project (Note 11)	100 786	100 786
IT expenses	232 916	180 005
Insurance payments	75 993	53 786
Transport expenses	9 933	10 280
Other deferred expenses	60 447	72 282
<b>Total current part</b>	<b>480 075</b>	<b>417 139</b>
<b>Total deferred expenses</b>	<b>1 487 940</b>	<b>1 525 790</b>

## 17. RESERVES

	31.12.2022	31.12.2021
	EUR	EUR
Property, plant and equipment revaluation reserve	183 254 683	191 583 804
Revaluation reserve for post-employment benefits	58 899	(146)
Reorganisation reserve*	24 647 260	24 647 260
	<b>207 960 842</b>	<b>216 230 918</b>

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

Movement of revaluation reserves during the reporting period	Property, plant and equipment revaluation reserve	Post-employment benefits revaluation reserve
<b>Balance at 31.12.2020</b>	<b>199 783 256</b>	<b>328 076</b>
Reassessment of actuarial assumptions	-	(328 222)
Depreciation of the revalued portion of property, plant and equipment for the reporting period transferred to retained earnings	(7 604 453)	-
Disposed revalued items of property, plant and equipment	(594 999)	-
<b>Balance at 31.12.2021</b>	<b>191 583 804</b>	<b>(146)</b>
Reassessment of actuarial assumptions	-	59 045
Depreciation of the revalued portion of property, plant and equipment for the reporting period transferred to retained earnings	(7 407 875)	-
Disposed revalued items of property, plant and equipment*	(921 246)	-
<b>Balance at 31.12.2022</b>	<b>183 254 683</b>	<b>58 899</b>

\*disposed revalued items or parts thereof, including: buildings and technological equipment due to physical and technological wear and replacement of parts during repairs and renovations carried out amounting to EUR 885 147; and reclassification of other property and equipment of EUR 36 099.

## 18. DEFERRED INCOME

	31.12.2022	31.12.2021
	EUR	EUR
EU co-financed projects	24 957 748	18 156 045
<b>Non-current portion</b>	<b>24 957 748</b>	<b>18 156 045</b>
Current portion (other projects)	4 654	4 654
Current portion (EU co-financing)	762 681	534 964
Current portion (contract liabilities)	-	237 284
<b>Current portion</b>	<b>767 335</b>	<b>776 902</b>
<b>Total deferred income</b>	<b>25 725 083</b>	<b>18 932 947</b>

### Changes in deferred income

Deferred income (co-financing)	31.12.2022	31.12.2021
	EUR	EUR
<b>Opening balance</b>	<b>18 695 663</b>	<b>11 131 501</b>
EU co-financing received	7 643 940	7 817 508
Fixed asset received free of charge as part of co-financed project*	-	130 468
Recognised in other income for the reporting year (Note 3)	(614 520)	(383 814)
<b>Carried forward to future periods</b>	<b>25 725 083</b>	<b>18 695 663</b>

\*The co-financed project (the installation of the connection to the natural gas transmission system owned by Conexus) worth EUR 130 468 was finished and put into operations in 2021. In 2022, no such connections were installed.

Deferred income (contract liabilities)	31.12.2022	31.12.2021
	EUR	EUR
<b>Opening balance</b>	<b>237 284</b>	<b>903 165</b>
Recognised in deferred income	-	318 791
Recognised in revenue for the reporting year (Note 2)	(237 284)	(984 672)
<b>Carried forward to future periods</b>	<b>-</b>	<b>237 284</b>

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

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

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

Statement of deferred income for 2021 and 2022:

Project	Deferred income 31.12.2020	Received EU co-financing 2021	Recognised in other income (Note 3) 2021	Deferred income 31.12.2021	Received EU co-financing 2022	Recognised in other income (Note 3) 2022	Deferred income 31.12.2022
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Project of gas transmission from 2011	1 774 937	-	(79 459)	1 695 478	-	(79 329)	1 616 149
Project of Inčukalns UGS from 2011	5 724 564	-	(154 440)	5 570 124	-	(187 914)	5 382 210
Project of Inčukalns UGS from 2019 (Nr.8.2.4.)	2 932 000	7 812 405	(116 345)	10 628 060	6 373 053	(294 524)	16 706 589
Project of gas transmission from 2019 (Nr.8.2.1.)	700 000	5 103	(31 631)	673 472	1 270 887	(48 100)	1 896 259
Connection to Conexus` gas transmissions system	-	130 468	(1 939)	128 529	-	(4 653)	123 876
<b>Total</b>	<b>11 131 501</b>	<b>7 947 976</b>	<b>(383 814)</b>	<b>18 695 663</b>	<b>7 643 940</b>	<b>(614 520)</b>	<b>25 725 083</b>

## 19. EMPLOYEE BENEFIT OBLIGATIONS

	31.12.2022	31.12.2021
	EUR	EUR
Provisions for post – employment benefits	1 099 387	1 063 214
Provisions for other collective bargaining agreement costs*	252 381	310 921
	<b>1 351 768</b>	<b>1 374 135</b>

\* gifts on anniversaries of life and seniority

	31.12.2022.	31.12.2021.
Liabilities at the beginning of the period	1 374 135	1 028 494
Recognised in the income statement	136 225	120 312
Paid	(99 547)	(102 893)
Remeasurement of post - employment benefits as a result of changes in actuarial assumptions – in equity	(59 045)	328 222
<b>Liabilities at the end of the period</b>	<b>1 351 768</b>	<b>1 374 135</b>

Remeasurement of post - employment benefits is negative due to the following assumptions: increase in wages and salaries, changes in future increase of remuneration, slightly reduced labour turnover ratio. The revaluation was reduced by the higher discount rate used in the calculation. In the reporting year, the discount rate used to discount post-employment benefit obligations is 2.81 % (2021: 0.43 %).

Sensitivity analysis of the total value of post-employment benefit, EUR	2022		2021	
	Increase	Decrease	Increase	Decrease
Discount rate (-/+ 1% point)	125 856	(105 433)	149 122	(123 269)
	9 %	-8 %	11 %	-9 %
Labour turnover rate (-/+ 1% point)	142 275	(119 538)	164 469	(136 819)
	11 %	-9 %	12 %	-10 %
Monthly salary increase (+/- 1% point)	109 482	(92 846)	124 609	(104 540)
	8 %	-7 %	9 %	-8 %
Retirement age of employees, years (-/+ 1 year)	63 491	(69 302)	73 104	(-74 066)
	4.70 %	-5.13 %	5.32 %	-5.39 %

## 20. BORROWINGS FROM CREDIT INSTITUTIONS

	31.12.2022	31.12.2021 (reclassified*)
	EUR	EUR
Non-current borrowings from credit institutions	69 468 183	60 282 986
Current borrowings from credit institutions	12 899 286	37 772 866
Accrued interest on borrowings from credit institutions	62 480	38 224
	<b>82 429 949</b>	<b>98 094 076</b>

\* see Note 32

Conexus has borrowings both from local and international credit institutions. At the end of the reporting period, Conexus has available overdraft facility of 65 000 thousand EUR (31.12.2021: 90 000 thousand EUR). The overdraft has not been used at the end of 2022. The duration of agreements for the overdraft facilities in amount of 65 000 thousand EUR reaches beyond 1 year. At the end of the reporting period, the weighted average interest rate on long-term loans is 1.76 % (31.12.2021: 0.37 %), the weighted average interest rate on short-term loans is 2.77 % (31.12.2021: 0.24 %). At the end of the reporting period, 36 % of received and unpaid long-term borrowings have a fixed loan interest rate (31.12.2021: 41 %). All Conexus' borrowings are denominated in euros and are unsecured.

At the end of the reporting period, Conexus has signed long-term loan agreements in the amount of 55 000 thousand EUR, which is expected to be received during 2023. Conexus has not hold the un-drawn committed long term loan facilities at the end of 2021.

Changes in borrowings from credit institutions	31.12.2022	31.12.2021
	EUR	EUR
At the beginning of the reporting year	98 094 076	21 875 000
Received borrowings from credit institutions	20 000 000	60 000 000
Borrowings repaid to credit institutions	(10 738 433)	(8 769 098)
Overdraft received	-	24 949 950
Overdraft repaid	(24 949 950)	-
Accrued interest on loans from credit institutions	589 271	261 995
Paid interest on loans from credit institutions	(565 015)	(223 771)
<b>Borrowings at the end of the reporting year</b>	<b>82 429 949</b>	<b>98 094 076</b>

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

The limits of financial covenants specified in the existing agreements of Conexus during the reporting period have been complied with, information on financial covenants is disclosed in the section on Capital risk management (Note 30).

Lease liabilities are disclosed in Note 12.

## 21. TRADE PAYABLES

	31.12.2022	31.12.2021
	EUR	EUR
Payables for other operating costs	2 601 436	385 599
Payables for long-term investments	2 531 876	2 288 199
Related party payables (Note 27)	1 565 086	710 316
Payables for balancing operations	664 113	3 610 018
Payables for intangible assets	48 915	296 363
<b>Current financial liabilities</b>	<b>7 411 426</b>	<b>7 290 495</b>

## 22. OTHER LIABILITIES

	31.12.2022	31.12.2021
	EUR	EUR
Dividends unpaid for the previous years	531 555	497 957
<b>Current financial liabilities</b>	<b>531 555</b>	<b>497 957</b>
Value added tax	561 508	1 077 833
Employee remuneration	531 526	432 171
State social insurance mandatory contributions	299 923	204 733
Personal income tax	160 172	125 424
Other short-term liabilities	64 907	94 484
Natural resource tax	49 695	24 380
Corporate income tax on deemed distribution of profit	3 614	1 085
Excise tax, Real estate tax	1 849	724
<b>Current non-financial liabilities</b>	<b>1 673 194</b>	<b>1 960 834</b>
<b>Total other liabilities</b>	<b>2 204 749</b>	<b>2 458 791</b>

## 23. ACCRUED LIABILITIES

	31.12.2022	31.12.2021 (reclassified*)
Accrued liabilities for annual performance bonuses	1 553 601	1 649 232
Accrued liabilities for unused annual leave	674 228	562 162
<b>Non-financial accrued liabilities</b>	<b>2 227 829</b>	<b>2 211 394</b>
Accrued liabilities for invoices not received	14 723	3 857 490
Accrued liabilities for the audit of the annual report	18 300	22 500
<b>Financial accrued liabilities</b>	<b>33 024</b>	<b>3 879 990</b>
<b>Accrued liabilities total</b>	<b>2 260 852</b>	<b>6 091 384</b>

\* see Note 32

## 24. TAXES

	Liabilities 31.12.2021	Calculated	Paid	Liabilities 31.12.2022
	EUR	EUR	EUR	EUR
Corporate income tax	1 085	2 399 946	(2 397 417)	3 614
Value added tax	1 077 833	12 089 196	(12 605 521)	561 508
State social insurance mandatory contributions	204 733	3 634 735	(3 539 545)	299 923
Personal income tax	125 424	1 942 063	(1 907 315)	160 172
Natural resource tax	24 380	179 772	(154 457)	49 695
Excise tax	714	6 444	(5 381)	1 777
PUC fee	-	107 735	(107 735)	-
Real estate tax	10	572 207	(572 145)	72
	<b>1 434 179</b>	<b>20 932 098</b>	<b>(21 289 516)</b>	<b>1 076 761</b>

## 25. CORPORATE INCOME TAX

	31.12.2022	31.12.2021
	EUR	EUR
Shareholders' decision on dividends to be paid	9 548 661	85 142 231
Profit to be distributed (period till 31.12.2017.)	-	75 491 679
Profit to be distributed (period after 31.12.2017.)	9 548 661	9 650 552
Calculated corporate income tax	2 387 165	2 412 638
Tax relief applied on previously declared provisions	-	(155 998)
<b>Corporate income tax for the reporting period</b>	<b>2 387 165</b>	<b>2 256 640</b>

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

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.

## 26. CASH AND CASH EQUIVALENTS

	31.12.2022	31.12.2021
	EUR	EUR
Cash at bank	10 967 116	14 676 110
<b>Total cash and cash equivalents</b>	<b>10 967 116</b>	<b>14 676 110</b>

## 27. 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 over 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, Audit Committee Officers, their close family members, and companies in which they exercise control or significant influence. As all shares of the Parent company are 100 % owned by the Republic of Latvia, state-controlled companies are also considered related parties.

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

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

Related party transactions	2022 or 31.12.2022	2021 or 31.12.2021
	EUR	EUR
<b>Revenue from related parties:</b>		
AS “Latvenergo”	22 060 969	18 311 201
<b>Purchases of goods and services from related parties:</b>		
AS “Latvenergo”	5 408 435	2 864 545
AS “Augstsprieguma tīkls”	473	545
<b>Balances at the end of the year arising from sales/ purchases of goods and services:</b>		
<b>Receivables from contracts with customers</b>		
AS “Latvenergo”	3 781 454	3 303 886
<b>Trade payables</b>		
AS “Latvenergo”	1 565 086	710 143
AS “Augstsprieguma tīkls”	-	173

Information on dividends paid to shareholders is disclosed in Note 25.  
Conexus’ management remuneration is disclosed in Note 5.

## 28. COMMITMENTS AND CONTINGENCIES

As of 31 December 2022, Conexus has concluded, but not yet completed long-term asset construction contracts amounted EUR 34 910 221 (31.12.2021.: EUR 23 673 604).

In addition, according to signed inter-operator agreement for GIPL project cost sharing, investments amounting 14 700 thousand EUR are planned in 2023. Conexus has received a bank guarantee to ensure fulfillment of its obligations of EUR 16 170 thousand (Note 11).

The financial covenants specified in the existing agreements of Conexus during the reporting period have been complied with, information on financial covenants is disclosed in the section on Capital risk management in Note 30.

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

Remuneration to a commercial company of sworn auditors	31.12.2022	31.12.2021
	EUR	EUR
Audit of financial statements	24 000	17 000
Review of sustainability report	5 300	5 300
	<b>29 300</b>	<b>22 300</b>

### 30. 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.

<b>Financial assets and liabilities</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
<b>Financial assets at amortised cost</b>	EUR	EUR
Receivables from contracts with customers	10 237 306	13 373 794
Other receivables	12 253	32 300
Cash and cash equivalents	10 967 116	14 676 110
<b>Total financial assets at amortised cost</b>	<b>21 216 675</b>	<b>28 082 204</b>
<b>Financial liabilities at amortised cost</b>		
Borrowings from credit institutions	82 429 949	98 094 076
Trade payables	7 411 426	7 290 495
Other liabilities and accrued liabilities	564 578	4 377 947
Lease liabilities	484 422	467 336
<b>Total financial liabilities at amortised cost</b>	<b>90 890 374</b>	<b>110 229 855</b>

## LIQUIDITY RISK

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

At the end of 2022, Conexus has available and unused credit lines amounting to EUR 65 000 thousand, which provides a significant liquidity reserve. At the end of the reporting period, Conexus has signed long-term loan agreements amounting to 55 000 thousand EUR with expected withdrawal during 2023. Conexus did not have the un-drawn committed long term loan facilities at the end of 2021.

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

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

31.12.2021	Carrying value	Contractual cash flow	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years
	EUR	EUR	EUR	EUR	EUR	EUR
Borrowings from credit institutions	98 094 076	99 272 976	28 249 126	9 773 287	37 725 657	23 524 906
Trade payables, accrued liabilities	11 668 442	11 668 442	11 668 442	-	-	-
Lease liabilities	467 337	930 074	20 468	18 798	100 256	790 552
<b>Financial liabilities</b>	<b>110 229 855</b>	<b>111 871 492</b>	<b>39 938 036</b>	<b>9 792 085</b>	<b>37 825 913</b>	<b>24 315 458</b>

## RISK OF ATTRACTING FINANCING

### Interest rate risk

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

Interest rate risk is managed by entering into interest rate swaps (IRSs), in which floating interest rates are exchanged for fixed interest rates, or by obtaining new fixed rate borrowings or by issuing bonds as fixed rate instruments. At the end of the reporting period, Conexus had no interest rate swaps (IRS) or bonds issued as fixed rate instruments. 36 % of Conexus' received and unpaid long-term loans have a fixed interest rate.

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

If the base borrowing rate (EURIBOR) increased by 0.25 %, Conexus interest expenses on loans would increase by 118 thousand EUR (2021: 107 thousand EUR). If the base borrowing rate (EURIBOR) increased by 0.50 %, interest expenses on loans would increase by 235 thousand EUR (31.12.2021: 214 thousand EUR).

### Refinancing risk

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

To hedge refinancing risk, Conexus diversifies its loan portfolio

by setting limits for key financial indicators (limit values) and ensuring their monitoring by the source of borrowing - not more than 80 per cent from one credit institution. At the same time, Conexus ensures diversification of the maturity dates for the repayment of the borrowings.

### Risk of early repayment

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

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

### Credit risk

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

Conexus is exposed to a significant concentration of credit risk on receivables from contracts with customers, as credit risk is shared among the 10 largest customers, whose liabilities accounted for 90 % of Conexus' total receivables from contracts with customers (31.12.2021: 93 %). Conexus considers that receivables from customers are highly recoverable.

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

Assessment of maximum possible exposure to credit risk	31.12.2022	31.12.2021
	EUR	EUR
Receivables from contracts with customers	10 237 307	13 373 794
Other current financial receivables	12 253	32 300
Cash and cash equivalents	10 967 116	11 197 836
<b>Total</b>	<b>21 216 676</b>	<b>24 603 930</b>

To limit the credit risk of receivables, Conexus assesses the creditworthiness of counterparties and sets their credit limits. If a counterparty's creditworthiness is not sufficient to cover the credit limit set by Conexus, the Company requires security (a security deposit, bank guarantee). At the end of the reporting year, Conexus was not exposed to any significant credit risk related to its receivables, as all receivables were repaid in January 2023 (Note 14).

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

Moody's credit rating	31.12.2022	31.12.2021
	EUR	EUR
Aa3	10 964 963	2 478 275
Baa2	1 121	999 999
Baa1	1 032	11 197 836
<b>Total cash</b>	<b>10 967 116</b>	<b>14 676 110</b>

At 31 December 2022 and 31 December 2021, cash and cash equivalents consisted of cash held on current accounts with credit institutions.

### Capital risk management

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

Conexus regularly manages capital risk, based on the calculation and analysis of capital ratio. Capital ratio is calculated by dividing the amount of equity by total assets. Capital ratio must be maintained at the level of at least 50 percent. Capital ratio at 31 December 2022 is 72 %.

Conexus regularly calculates and analyses debt ratio. Debt ratio is calculated by dividing net debt (all non-current and current interest-bearing liabilities less cash and cash equivalents) by EBITDA (earnings before interest, taxes, depreciation and amortisation) for the past 12 months. The value of this ratio may not exceed five. Debt ratio at 31 December 2022 is 2.72.

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 leasing or other commercially similar transactions). The value of this coefficient should not be less than 1.2x. Debt service coverage ratio (DSCR) indicator at 31 December 2022 is 2.85.

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	31.12.2022	31.12.2021
Equity ratio > 50%	72 %	71 %
Net borrowings / EBITDA < 5	2.72	2.97
Debt service coverage ratio (DSCR) > 1.2x	2.85	3.73

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

#### Currency risk

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

#### Fair value

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

data whenever available. When carrying out revaluation, Conexus considers the relevant observable market prices whenever possible.

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

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

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

#### Quoted market prices – Level 1

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

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

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

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

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

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

	Level	31.12.2022	31.12.2021
		EUR	EUR
<b>Assets:</b>			
Receivables from contracts with customers	3.	10 237 306	13 373 794
Other receivables	3.	12 253	32 300
Cash and cash equivalents	2.	10 967 116	14 676 110
<b>Liabilities:</b>			
Borrowings from credit institutions	3.	82 429 949	98 094 076
Trade payables	3.	7 411 426	7 290 495
Other liabilities and accrued liabilities	3.	564 578	4 377 947
Lease liabilities	3.	484 422	467 336

### Assets and liabilities measured at fair value

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

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

### Assets measured at fair value

Conexus' buildings, structures, including gas pipeline infrastructure, machinery and equipment are stated at revalued amounts that approximate their fair values. The revaluation was carried out in 2020. Due to the unique nature and use of the assets, Level 3 inputs were used for the revaluation, which means that the data are not directly observable for the respective type of assets. This was a repetitive revaluation (the previous revaluation was carried out in 2016, when the assets were still owned by AS "Latvijas Gāze"), and the level of data used for 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. If the revalued assets are used significantly differently or are functionally depreciated, the value of the revalued assets may decrease or increase significantly.

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

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

Information on the reclassification of assets and assessment of impairment carried out in 2022 is disclosed in Notes 9 and 10.

### **NON-FINANCIAL RISKS**

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



## 31. INFORMATION ON THE COMPANY

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

Conexus is an independent 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.

Term of office until 28 April 2022		Term of office from 28 April 2022 until 27 April 2025	
<b>Ilmārs Šņucins</b>	Chairman of the Council (In Council since 3 January 2018)	<b>Ilmārs Šņucins</b>	Chairman of the Council (In Council since 3 January 2018)
<b>Tomohide Goto</b>	Deputy Chairman of the Council (In Council since 30 April 2020)	<b>Tomohide Goto</b>	Deputy Chairman of the Council (In Council since 30 April 2020)
<b>Zane Āboliņa</b>	Member of the Council (In Council since 30 April 2020)	<b>Zane Āboliņa</b>	Member of the Council (In Council since 30 April 2020)
<b>Ilze Aleksandroviča</b>	Member of the Council (In Council since 30 April 2020)	<b>Yukiko Fujii</b>	Member of the Council (In Council since 28 April 2022)
<b>Normunds Šuksts</b>	Member of the Council (In Council since 30 April 2020)	<b>Normunds Šuksts</b>	Member of the Council (In Council since 30 April 2020)
<b>Takumi Sasaki</b>	Member of the Council (In Council since 12 May 2021)	<b>Ivars Moisejs</b>	Member of the Council (In Council since 28 April 2022)
<b>Viktors Sentuhovskis</b>	Member of the Council (In Council since 12 May 2021)	<b>Viktors Sentuhovskis</b>	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 22 December 2016 until 31 December 2017, from 31 December 2017 until 31 December 2020 and from 1 January 2021 until 31 December 2023:

**Gints Freibergs** Member of the Board

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

**Mārtiņš Gode** Member of the Board

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

## 32. 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 and measurement principles set out in this section have been applied consistently for all periods covered by the financial statements.

Change of classification of several items was made in 2022, as a result of which corresponding reclassifications were made in comparatives for 2021:

Report / Item		Before reclassification	Reclassification	After reclassification
		<b>2021</b>		<b>2021</b>
		EUR	EUR	EUR
<b>INCOME STATEMENT</b>				
Revenue	*	56 439 108	472 177	56 911 284
Other income	*	1 110 469	(472 177)	638 293
<b>STATEMENT OF FINANCIAL POSITION</b>				
Equity and liabilities				
Current liabilities		<b>31.12.2021</b>		<b>31.12.2021</b>
Borrowings from credit institutions	**	37 772 866	38 224	37 811 090
Accrued liabilities	**	6 129 608	(38 224)	6 091 384
<b>9. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Historical cost or revalued amount</b>				
Machinery and equipment	***	133 081 253	963 653	134 044 906
Other property and equipment	***	8 753 880	(963 653)	7 790 227
<b>Accumulated depreciation</b>				
Machinery and equipment	***	61 527 891	606 267	62 134 158
Other property and equipment	***	6 334 399	(606 267)	5 728 132

\* on the basis that revenues from balancing activities are closely related to the provision of the transmission services and balancing services are one of the core services provided by Conexus to customers, income statement comparatives for 2021 were reclassified for the following line items: Revenue from balancing activities, net EUR 472 177, was reclassified from "Other income" to "Revenue";

\*\* in the statement of financial position, accrued interest on loans from credit institutions in the amount of EUR 38 224 have been reclassified from the line item "Accrued liabilities" to "Borrowings from credit institutions";

\*\*\* reclassification of Transport from Other property and equipment to Machinery and equipment in which all Transports are accounted (cost or revalued amount EUR 963 653, accumulated depreciation EUR 606 267).

At the end of the reporting period, Conexus has signed long-term loan agreements in the amount of 55 000 thousand EUR with expected withdrawal during 2023. More information on liquidity ratios is disclosed in Note 30 under section on Liquidity risk.

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

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

### **CURRENCY AND REVALUATION OF FOREIGN CURRENCIES**

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

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

### **SIGNIFICANT ESTIMATES AND JUDGMENTS**

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

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

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

##### *Useful life*

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

Taking into account Annex 3 to the Decision of the PUC No. 1/12 of 29 August 2022 "Methodology for accounting and calculation of capital costs", in 2022 the classification of fixed asset groups and the useful lives determined for them were revised in the financial accounting, based on the established classification of natural gas transmission and storage assets and minimum useful lives. The useful life was not revised for those fixed assets whose useful life exceeds the minimum period specified in the PUC and for fixed assets that are fully depreciated in the financial accounts as

of 31.12.2021, or for which replacement or renewal is planned in the near future (within five years).

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

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

#### **Recoverable value**

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

#### **Revaluation**

The revaluation of Conexus' property, plant and equipment is carried out by independent, external, certified experts and using the amortised replacement cost method. Under this method, the initial value of assets

is determined according to the prices and requirements and the materials used, as well as the accumulated depreciation of each asset is derived. The main assumptions in the revaluation process relate to the cost of materials used and average construction prices at the time of the revaluation. 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 income**

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

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

## NON-FINANCIAL ASSETS AND LIABILITIES

### INTANGIBLE ASSETS

Identifiable non-monetary assets that have no physical form and which Conexus uses to provide services or for own operational needs, are recognised as intangible assets. Conexus' intangible assets mainly consist of software licences and software.

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

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

### PROPERTY, PLANT AND EQUIPMENT

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

Buildings, structures, machinery and equipment are stated in the financial statements at revalued amounts. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the end of the reporting period. Other property, plant and equipment items, including land, cushion gas in the Inčukalns 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 historical cost.

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

Assets under construction, assembly or installation that are not ready for their intended use at the time of acquisition are recognised as construction

in progress in the financial statements. Subsequent costs are included in the asset's carrying amount based on the asset's recognition criteria.

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

The increase in value resulting from the revaluation of property, plant and equipment is recognised in the equity as "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. Once the property, plant and equipment item is written-off, corresponding amount of revaluation reserve is transferred from reserves to retained earnings. During the period in which the revalued asset is used, part of the revaluation reserve, calculated as the difference between the depreciation on the revalued carrying amount of the asset and the depreciation on the original cost of the asset, is transferred to retained earnings.

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

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

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

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

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

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

\*a new group of fixed assets has been created

## LEASES

At the time of concluding the agreement, Conexus assesses whether the agreement is a lease or includes a lease. A contract is a lease or includes a lease if the contract grants control of the use of an identifiable asset for a specified period in exchange for consideration. Leases and right-of-use assets are recognized for all long-term leases that meet the criteria in IFRS 16. The rights-of-use asset is recognized as a separate item in long-term investments, see Note 12. Low value or short-

term leases are not recognized as lease assets and liabilities under the exemption.

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

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

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

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

- ◆ by increasing the carrying amount to show the interest on the lease; and
- ◆ reducing the carrying amount to show lease payments made.

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

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

### **INVENTORIES**

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

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

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

### **PROVISIONS**

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

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

### **EMPLOYEE BENEFITS**

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

#### *Social insurance and pension contributions*

State social insurance mandatory contributions to the state-funded pension scheme are paid by Conexus in the amount provided for in

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

#### *Post-employment and other benefits*

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

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

#### *Employee benefit obligations*

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

The interest rate used to discount the liabilities 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 are attributable to future reporting periods.

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

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

## ACCRUED INCOME

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

Accrued income is the clearly known amount of the settlement obligation (contract assets) that is settled between the buyer and the customer.

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

## DEFERRED INCOME

Deferred income is recognised when payments are received in reporting period for services to be rendered by Conexus in subsequent periods. Amounts presented under deferred income are recognised in the income statement in the period in which the performance obligations are met.

### *Deferred income from contracts with customers*

In accordance with IFRS 15, Conexus recognizes the payments received for reserved capacity services as short-term deferred income. At the date of the service, Conexus recognizes receivables and income and at the same time reduces deferred income.

### *Asset - related grants*

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

## FINANCIAL INSTRUMENTS

Conexus' financial instruments consist of financial assets (financial assets at amortized cost) and financial liabilities (financial liabilities at amortized cost).

The classification of debt instruments depends on Conexus' business model for management of financial assets, as well as whether the contractual cash flows consist solely of payments of principal and interest (SPPI). If a debt instrument is being held to collect cash flows, it can be carried at amortised cost subject to meeting the SPPI requirements. Financial assets, the cash flows from which do not meet the SPPI requirements, must be measured at fair value through profit or loss (FVTPL) (e.g., derivative financial instruments).

## FINANCIAL ASSETS AND LIABILITIES

Financial assets are recognized when Conexus becomes a party to the transaction and meets the conditions of the transaction, i.e. on the trade date. Financial instruments are initially recognized at fair value. For financial assets and financial liabilities at amortized cost, the fair value at initial recognition is adjusted for transaction costs that are directly attributable to the financial instrument.

Financial assets include receivables, and cash and cash equivalents, a contractual right to receive cash or another financial asset, an exchange of financial assets or financial liabilities, and a contract that will be settled in equity instruments. The classification depends on the purpose for which the financial asset was acquired.

Financial assets are derecognised when the contractual obligations for the cash flows from the financial asset are extinguished or when Conexus transfers the financial asset to another party or transfers significant risks and rewards of ownership of the asset. Purchases and sales of financial assets in the ordinary course of business are accounted for on the trade date, i.e., the date on which Conexus decides to buy or sell the asset. Short-term receivables are not discounted.

Borrowings, payables to suppliers and other creditors are included in financial liabilities. Financial liabilities at amortized cost are initially recognized at fair value less transaction costs. In subsequent periods, financial liabilities at amortized cost are carried at amortized cost using the effective interest method. Financial liabilities at amortized cost are classified as current liabilities if the payment term is one year or less. If the payment term is longer than one year, they are presented as long-term liabilities.

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

When the contractual cash flows of financial liabilities are substantially modified, such a modification is treated as a derecognition of the original liabilities and a recognition of new financial liabilities, with the difference in respective carrying amounts recognised in the income statement.

Financial liabilities are considered “substantially modified” when the net present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, differs by at least 10 percent from the present value of the remaining cash flows under the original terms.

### *Receivables from contracts with customers and other debtors*

Receivables from contracts with customers and other debtors are financial assets with fixed or determinable payment schedules that are not quoted in an active market. Current receivables from contracts with customers are not discounted. Receivables from contracts with customers are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, and subtracting expected credit loss. To measure receivables from contracts with customers, Conexus uses the expected credit loss model, which provides for an allowance for impairment, regardless of whether a loss event has previously occurred.

Conexus applies a simplified approach to receivables from contracts with customers and contract assets and recognises lifetime expected credit loss on receivables based on a historical analysis of credit losses and considering expected future trends. Conexus uses a provision matrix based on the maturity structure of the receivables and based on a historical default rate of 3 (three) years, as supplemented by future forecasts. Expected credit losses on receivables are calculated based on assumptions about default risk and expected loss rates. In determining these assumptions and selecting the data for the impairment calculation, Conexus considers its experience, current market conditions, and future estimates at the end of each reporting period.

### *Cash and cash equivalents*

Cash and cash equivalents consist of cash held in Conexus accounts with the bank.

If Conexus’ current accounts with banks have been granted a credit line or credit facility (overdraft) and this has been used to create a negative balance in Conexus’ bank account at the end of the repor-

ting period, the credit line used is recognised in full under liabilities as loans from credit institutions.

While cash also is subject to the expected credit loss requirements of IFRS 9, the identified expected credit loss was immaterial, considering also the fact that almost all of cash is held in financial institutions with the credit rating grade of the institution or its parent bank at investment grade credit rating (mostly 'A level' credit rating, Stage 1 (see Note 30)).

#### Share capital and dividends

Conexus is a closed joint stock company with 100 % registered shares. The shares constitute the share capital and are fully paid. The total number of shares is 39 786 089, with a nominal value of EUR 1.00, one share grants its holder one vote at the General Meeting of Shareholders. The total number of shareholders exceeds 4.8 thousand. 97.52 % of the total number of shares belong to two largest shareholders - AS „Augstsprieguma tīkls” (68.46 %) and MM Infrastructure Investments Europe Limited (29.06 %). Conexus is a shareholder-owned company and pays dividends in accordance with the laws and regulations of the Republic of Latvia. Dividends are recognised as a liability in Conexus' financial statements in the period in which the shareholder approves the amount of dividends and the procedure for payment.

#### Corporate income tax

The corporate income tax rate is 20 % of the taxable base, which is determined by dividing the value of the taxable income by a factor of 0.8 and includes:

- ◆ distributed profits (calculated dividends, dividend-like costs, deemed dividends), and
- ◆ conditionally distributed profit (for example, non-business expenses, and other specific cases specified by law).

When distributing retained earnings that had been accrued until 31 December 2017, no corporate income tax is to be paid. The calculated

corporate income tax on conditionally distributed profits, in accordance with the requirements of IFRS, is classified as other operating expenses..

#### Borrowings

The borrowings are initially recognised at fair value less transaction costs incurred. In subsequent periods, the borrowings are carried at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless Conexus has an irrevocable right to defer settlement of the liability for at least 12 months after the balance sheet date. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Conexus' borrowings include a fixed and a variable rate component. Once a year, Conexus assesses changes in the fixed part of a credit institution's borrowing rate in accordance with the current market situation.

#### REVENUE

Conexus uses a five-step model to determine when and to what extent revenue should be recognised. The model assumes that revenue is recognised when Conexus transfers control of the goods or services to the customer, and in the amount that Conexus expects to receive in exchange. Depending on whether certain criteria are met, revenue is recognised:

- ◆ over time, reflecting the financial results of Conexus operations;
- ◆ when control of the goods or services is transferred to the customer or;
- ◆ according to the agent's accounting principle.

IFRS 15 sets out the principles that Conexus should follow to present qualitative and quantitative information that provides users of financial statements with useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

IFRS 15 requires recognition of an asset in respect of incremental costs incurred in obtaining contracts with customers and for which it is probable that they will be recovered. Due to specifics of operations of Conexus, no such expenses have occurred up to date.

Revenue from contracts with customers should be recognised based on the fulfilment of obligations to customers. Revenue represents the delivery of goods or services to customers for an amount that reflects the consideration Conexus expects to receive in exchange for those goods or services. Under this accounting model, a sale is recognised when the services are provided to and accepted by the customer, even if not invoiced, and there is a possibility that the economic benefits associated with the transaction will flow to Conexus. Conexus' accounting policies for the major types of revenue are set out below.

#### *Revenue from transmission*

The transmission service is treated as a single performance obligation under IFRS 15. The sale of transmission capacity products is a regulated service provided by Conexus to users of the transmission system applying the approved tariffs. Short-term (quarterly, monthly, daily, and same-day capacity) and long-term transmission capacity (annual capacity) products are offered. Revenue from trading transmission capacity products, which by the nature of the service includes the provision of transmission infrastructure and does not change over time for each unit of capacity depending on the product selected, is recognised in the income statement for each reporting month pro-rata to the transmission capacity reserved by the user.

#### *Revenue from storage*

The storage service is considered a single performance obligation under IFRS 15. Conexus provides the storage capacity of the Inčukalns underground gas storage capacity to storage users that have reserved natural gas storage capacity during the storage season, in accordance with the applicable tariffs. Revenue from the sale of storage capacity that, due to the nature of the service, represent the provision of Inčukalns underground gas storage infrastructure and do

not change during the storage season is recognised for each 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 term deposits is classified as other income. Interest income from cash – as financial income.

#### *Other income*

Other income from the rendering of services is recognised in the period in which they are rendered: REMIT services (The Regulation on Wholesale Energy Market Integrity and Transparency), platform maintenance.

Other income from the sale of materials is recognised when the buyer has accepted them: sale of used computer equipment, sale of used metal products.

Contractual penalties are calculated according to the concluded service contracts with suppliers. Contractual penalties are recognised as revenue when it is clear that Conexus will derive an economic benefit from them, i.e., the recognition of the revenue generally coincides with the receipt of the penalty.

#### *Balancing income*

Conexus maintains information on the amount of natural gas pumped into and out of from the transmission system by transmission system users and calculates the imbalance. The amount of daily imbalance is the difference between the input and output amounts.

Income from balancing is recognised for each reporting month when a negative imbalance occurs at the transmission system user, that has resulted in a shortage of natural gas in the transmission system. Expense from balancing is recognised for each reporting month when a positive imbalance occurs.

In the financial statements, income from balancing is reported un-

der Revenue at net value (less costs for periods when the balance is positive). The net result of balancing represents the amount of administrative costs.

In order to comply with the principle of profit neutrality, Conexus calculates a neutrality fee. The neutrality charge is a charge that the transmission system operator pays to or receives from transmission system users in connection with the balancing of the transmission system.

This charge consists of the difference between the transmission system operator's costs and the revenue from balancing activities.

Neutrality charges can be both positive and negative. In the event of a negative neutrality charge, the transmission system operator pays the neutrality charge to the transmission system users. In the event of a positive neutrality charge, the transmission system operator receives a neutrality charge from transmission system users. Common Regulations for the Natural Gas Balancing of Transmission System issued by PUC determines, that the purpose of neutrality charge is to ensure TSO's financial neutrality.

Conexus, in the performance of the functions of balancing administration, acts as an agent. Indicators that Conexus acts as an agent are as follows:

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

Evaluating the available information, Conexus considers itself to be an agent in these transactions, therefore the balancing income is recognized in the income statement on a net basis using the agent's accounting policy (Note 2).

## RECOGNITION OF COSTS

Costs are recognized on an accrual basis. The calculation of costs for the year takes into account all expected costs and contingent liabilities incurred in the year or in prior years, even if they became known between the balance sheet date and the date of the financial statements, regardless of the date of receipt of the invoice, because transactions in Conexus are accounted for and presented in the financial statements based on their economic substance and nature, rather than 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 less transaction costs and subsequently measured at amortized cost using the effective interest method. Liabilities to suppliers and contractors presented within financial statements are based on supporting documents and entries made in the accounting records for 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 can be calculated relatively accurately and the degree of uncertainty is much lower than for the provisions. Accrued liabilities are recognized: for services for which, due to the terms of the supply, purchase or company contract or for other reasons, a proof of payment (invoice) has not yet been received at the balance sheet date. These commitment amounts shall be calculated on the basis of the prices quoted in the contract and the actual receipt of the goods or services; settlements for annual leave and bonuses for employees.

## ADOPTION OF NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS

### **Standards or interpretations effective for the first time for the annual periods beginning 1 January 2022:**

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.

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 2023 or not yet adopted by the EU:**

◆ Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

◆ Amendments to IAS 8: Definition of Accounting Estimates (effective

for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

◆ Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

◆ Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

◆ Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer

requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

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

### 33. SUBSEQUENT EVENTS

According to management's assessment, there are no subsequent circumstances or events since the last date of the reporting year until the signing of this report, which would have a significant effect on the financial position of Conexus as at 31 December 2022.

The financial statements have been prepared by:



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**AIJA MARTINSONE-STAGE**  
Head of Financial Accounting Division

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



## Independent Auditor's Report

To the Shareholders of AS "Conexus Baltic Grid"

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### Our Opinion

In our opinion, the accompanying financial statements set out on pages 108 to 155 of the accompanying Sustainability and annual report 2022 give a true and fair view of the financial position of AS "Conexus Baltic Grid" (the "Company") as at 31 December 2022, and the Company's financial performance and cash flows for the year ended 31 December 2022 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 2022,
- the statement of comprehensive income for the year ended 31 December 2022,
- the statement of financial position as at 31 December 2022,
- the statement of changes in equity for the year ended 31 December 2022,
- the statement of cash flows for the year ended 31 December 2022, and
- the notes to the financial statements which include significant accounting policies and other explanatory information.

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### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

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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.



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## Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises

- the Management Report, as set out on pages 96 to 106 of the accompanying Sustainability and annual report 2022,
- the Statement on the Board's Responsibility, as set out on page 107 of the accompanying Sustainability and annual report 2022,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed the procedures required by the Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with requirements of the Law on Annual Reports and Consolidated Annual Reports.

In addition, in light of the knowledge and understanding of the entity and its operating environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

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## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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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Certified audit company  
Licence No. 5

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

Riga, Latvia  
8 March 2023

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

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