

Council's Report on Operational Results 2020

2020 has been a year full of challenges for Joint Stock Company "Conexus Baltic Grid" (hereinafter the "Company"); however, the Company has continued to successfully implement the strategic targets set by the Council, working on market development, infrastructure maintenance and effective management of resources, while at the same time ensuring continuous, safe gas transmission and storage services.

Last year was also the first year of the operation of the common gas market. As a result of it, not only the overall amount of the natural gas transmitted in Latvia has increased by 10 %, but also the interest about the services of Inčukalns Underground Gas Station, the total capacity reservations by system users exceeding the available capacity for reservations several times. Significant amount (35 % of the total Finland's entry flows) were transmitted through the common balancing zone of Estonia – Latvia, Inčukalns UGS satisfied more than 35 % from the total Finland's market demand. In 2020, Public Utilities Commission approved the Common Regulations for the Use of Natural Gas Transmission System drafted by the Company together with Elering AS, adopted the Regulations Regarding the Use of Natural Gas Transmission System drafted by the Company, as well as the Methodology for Calculation of Natural Gas Storage Service Tariffs. Moreover, intensive work has been done regarding the Natural Gas Company's Storage Service Tariffs. Council has actively followed the issues concerning the process of market development and preparation of regulations, tariffs, giving the necessary guidance.

Last year, the Council devoted a great deal of attention to the sustainability issues, determining sustainability reporting as one of the future strategic initiatives and overseeing the work on setting sustainability targets and assessing the reporting principles, as well as assessing the available options for sustainable business development of the Company and setting priorities for further research and action, including in the first priority group initiatives for the use of compressed natural gas (CNG) for transport, methane emission reduction, introduction of biomethane and guarantees of origin (resolution of the Council meeting of September 10, 2020, minutes No 6 (2020)).

Moreover, in order to ensure that good corporate governance is being implemented in the Company according to the current practice and guidelines, the Company's Council in the middle of 2020 for the first time organised evaluation of the Company's Board. A 360° assessment was carried out, as well as personality and competence tests. After considering the evaluation results, as well as the performance of the Board members in the previous years, the Council made a decision to continue cooperation with the Board members, at the same time reviewing the contracts concluded with the Board members and preparing new versions of the contracts. Taking into account the former Chairperson's of the Board decision to take one other professional challenges, the Council promptly elected a new, temporary Chairperson of the Board, thus ensuring that the Board of the Company does not have to continue their work without full capacity, the changes do not impact the Company in a negative way and the Company can continue operating under the guidance of professionals. Moreover, the Council actively participated in selecting the new Chairperson of the Board, selecting an executive most suitable for the Company. In addition, to ensure good corporate governance, as well as compliance with the regulatory framework that became applicable to the Company with the

change of the major shareholder, the Council, in close cooperation with the Company's Board, has overseen the review and drafting process of the new versions of the corporate governance documents. The council actively participated in the working group meetings, assessing and giving instructions regarding the prepared drafts of the Company's Articles of Association, Regulation of the Council and Regulation of the Board, as well as amendments to the Corporate Social Responsibility Policy. At the same time, work was being done to also update the Company's Business Plan 2019.-2023, reevaluate the assets and assess the possibilities for restructuring Company's capital. The Council has also approved the Internal Audit Plan and followed its execution closely. According to the annual internal audit report to the Council, the corporate governance, internal control and risk management in the Company is considered to be reasonable.

The Council has actively participated in the supervision of the Company's operational activities paying attention to the Company's processes, including following how the Board prevents and reduces the impact of COVID-19 on the Company and its operations. In 2020, nine Council meetings were convened. In each of the regular meetings, the Board reported to the Council on the fulfilment of the targets for 2020 set by the Council. The Council also continues monitoring the implementation of the European Union project of common interest PCI 8.2.4. "Inčukalns Underground Gas Station modernization project" initiated already in the beginning of 2019.

Considering the aforementioned, despite the challenges of 2020, the Company's operations in the 2020 comply with the Company's strategy and the targets set by the Council. Board's work is well appreciated, especially the thought-out action to minimize the risks caused by Covid-19. The financial results of the company, although comparatively lower than in 2019, corresponds to the situation and, together with the volume of the natural gas transmitted and stored in 2020, demonstrate the Company's long-term stability.

The audit of the Company's annual report 2020 was carried out by the international auditing company "KPMG Baltics AS". The Council has received the auditor's report recognising that the financial statements give a true and fair view on the Company, as well as the financial results of its operation and cash flows in 2020, in compliance with the International Financial Reporting Standards adopted by the European Union. The Council is acquainted with the annual report 2020 of the Company and the profit distribution proposal prepared by the Board and recommends both documents for approval to the Shareholders meeting.

Chairman of the Council

(personal signature*)

Ilmārs Šņucins

* Document is signed with secure electronic signature