Information on the methodology used to set the regulated revenue of the transmission system operator

In accordance with Article 19 and Annex I of European Union Regulation 2024/1789, to ensure transparency regarding the methodologies, parameters, and values used to determine the allowed or target revenues of transmission system operators.

JOINT STOCK COMPANY "CONEXUS BALTIC GRID"

2026

Table of Contents

1. Responsible entity

The Public Utilities Commission (hereinafter – the Regulator) develops and approves methodologies related to tariff calculation, capital cost, and the calculation of the regulatory asset base for the natural gas transmission system service. The Joint Stock Company "Conexus Baltic Grid" (hereinafter – the natural gas transmission system operator), in accordance with the methodologies established by the Regulator, performs the tariff calculation, which is reviewed and approved by the Regulator. The Regulator calculates and determines the rate of return on capital (the weighted average cost of capital, or WACC).

2. Methodology

a) Overall methodology

The revenues from the natural gas transmission system service are determined using the revenue cap method, in accordance with the Public Utilities Commission's Board Decision No. 1/10 of May 14, 2026, "Methodology for Calculating the Natural Gas Transmission System Service Tariff" (hereinafter – the tariff methodology). The calculation is based on a cost base that includes the following expenses necessary for the effective provision of the natural gas transmission system service:

1) Capital costs (depreciation and the cost of capital)

2) Operational costs (tax expenses, operating expenses)

3) Revenue adjustment for the previous regulatory period (if a new regulatory period begins) or tariff period (if a new tariff period begins).

4) Mutual compensation between transmission system operators of the unified natural gas transmission entry-exit system (hereinafter – ITC) (reduces allowed revenues).

Allowed revenues are equal to the eligible costs minus the mutual compensation within ITC. Allowed revenues apply to the national transmission system and the cross-border transmission system (exit to Lithuania). Revenues from the national transmission system are generated from the fee for using the exit point for supplying Latvian users, which is calculated by dividing the national transmission system revenues by the forecasted natural gas consumption.

The regulatory period is set from October 1, 2026, to September 30, 2031, and includes five tariff periods:

1) October 1, 2026, to September 30, 2027 (12 months)

2) October 1, 2027, to September 30, 2028 (12 months)

3) October 1, 2028, to September 30, 2029 (12 months)

4) October 1, 2029, to September 30, 2030 (12 months)

5) October 1, 2030, to September 30, 2031 (12 months)

b) Methodology to set the regulatory asset base (RAB)

The regulated asset base (RAB) is determined in accordance with the Public Utilities Commission's Board Decision No. 1/12 of August 29, 2022, "Methodology for Accounting and Calculating Capital Costs" (hereinafter – the capital cost methodology).

The value of the regulated asset base includes:

I. Intangible assets;

II. Fixed assets (land plots, real estate (buildings and structures); technological equipment and machinery; other fixed assets and inventory);

III. Payments recorded as assets for participation in international natural gas transmission infrastructure development projects;

IV. Liabilities arising from decisions on the allocation of investment costs adopted in accordance with Regulation (EU) No. 347/2013 of the European Parliament and of the Council of April 17, 2013, on guidelines for trans-European energy infrastructure, which repeals Decision No. 1364/2006/EC and amends Regulations (EC) No. 713/2009, No. 714/2009, and No. 715/2009.

RAB does not include financial investments, accounts receivable, securities and equity participations, cash, inventories, costs related to the creation of fixed assets and unfinished construction projects, costs related to the creation of intangible assets, as well as the portion of asset value financed by financial assistance or support from the state, municipality, foreign entities, the European Union, or other international organizations and institutions. It also excludes fixed assets or portions thereof acquired through user-paid connection fees, and fixed assets or portions thereof acquired free of charge. RAB does not include value changes resulting from the revaluation of assets or portions of assets created using funds from other parties.

i) Methodology to determine the initial (opening) value of the assets as applied at the start of the relevant regulatory period and when incorporating new assets to the RAB

Assets are recorded at their acquisition value in accordance with international accounting standards.

ii) Methodology to re-evaluate assets

1) Asset revaluation methodology – revaluation of fixed assets was carried out in 2020. The revaluation was performed by independent certified appraisers, who determined the depreciated replacement value: the initial value, accumulated

depreciation, and residual value for each revalued fixed asset. The cost approach method was used in the revaluation, based on average construction and acquisition costs in Latvia.

2) In RAB value calculations, the balance sheet value at year-end from the most recent publicly available annual financial statement is used for assets or parts of assets, excluding the impact of any revaluation performed after December 31, 2021.

3) According to capital cost methodology, natural gas transmission system operator that performed its most recent asset revaluation or partial revaluation by December 31, 2020, may use indexed RAB values for the period from the last revaluation until December 31, 2021, in the tariff project calculation for determining capital cost values, provided that justification is submitted to the Regulator and the average annual (January–December) change in the consumer price index is applied.

iii) Explanations of the evolution of the value of the assets

The RAB value is fixed for the entire regulatory period as at December 31, 2025, and is set at EUR 232 751,7 thousand.

iv) Treatment of decommissioned assets

Decommissioned assets are removed from the RAB after they are written off or sold.

The natural gas transmission system operator may recover asset write-off costs related to investments made before the end of the useful life of the written-off assets, if such investments were made in accordance with the 10-year development plan of the natural gas system operator approved by the Regulator. Asset write-off costs are adjusted by deducting revenues from the disposal of the written-off asset.

v) Depreciation methodology applied to the RAB, including any changes applied to the values

The minimum depreciation periods for different asset groups are specified in Annex 3 of the capital cost methodology.

c) Methodology to set the cost of capital

The cost of capital is determined based on the capital cost methodology, which defines the calculation of the return on capital (Weighted Average Cost of Capital or WACC).

d) Methodology to determine the total expenditure (TOTEX) or, if applicable, operational expenditure (OPEX) and capital expenditure (CAPEX)

Capital costs are calculated based on the capital cost methodology. The RAB base and WACC rate are fixed for the entire regulatory period. When determining the amount of revenue adjustment at the beginning of a new regulatory period, the capital cost adjustment is taken into account, which is defined as the difference between the planned and actual capital costs during the regulatory period.

Operational costs are calculated based on the tariff methodology. Operational costs include the natural gas transmission system operator's technologically and economically justified expenses necessary for the efficient provision of the transmission system service. Operational costs include:

- Operating expenses (costs of natural gas losses and technological processes, personnel and social costs, costs necessary for regular property maintenance and performed maintenance repairs, other business activity costs).
- Tax expenses.

Total costs consist of capital costs (depreciation and the cost of capital), operating costs, and tax expenses.

e) Methodology to determine the efficiency of the cost

No cost efficiency methodology is applied.

f) Methodology applied to set the inflation

The forecast for inflation and changes in nominal gross wage corresponds to the projections by the Bank of Latvia.

g) Methodology to determine premia and incentives

According to the tariff methodology, a cost efficiency factor is applied to the natural gas system operator. This factor applies to the sum of capital costs and operating expenses and is set at 50 % of the forecast consumer price index for the next calendar year following the year in which the efficiency factor is determined. The value of the efficiency factor may not be less than zero and may not exceed 1.5 %.

h) Non-controllable costs

Non-controllable costs include:

1) Cost increases caused by inflation.
2) Cost increases in personnel expenses due to changes in nominal gross wages.
3) Changes in the price of natural gas related to the gas consumed for technological processes and losses.
4) Natural gas costs related to energy security reserves.
5) Justified actual unforeseen costs due to changes in external regulatory acts or emergency situations, which occurred in the previous or current tariff period of the respective regulatory period and cannot be recovered otherwise.

i) Services provided within the company holding

The Joint Stock Company "Conexus Baltic Grid" operates as an independent company. Services from the group are purchased in insignificant volumes. Tariff methodology does not specify requirements regarding the purchase of services from a group company.

conexus BALTIC GRID

3. Values of the parameters used in the methodology

a) Detailed values of the parameters that are part of the cost of equity and cost of debt or weighted average cost of capital expressed in percentages

The rate of return on capital is calculated in accordance with the capital cost methodology.

The real WACC rate for the regulatory period from 01.10.2026 to 30.09.2031 is 5.82 %, which was in effect at the time of the tariff project approval, in accordance with the decision No. 49 of the Public Utilities Commission dated 3 July 2025, "On the rate of return on capital for the calculation of the tariff project for natural gas transmission system, natural gas distribution system, and natural gas storage services." Detailed information on the included values is available in the decision.

b) Depreciation periods in years applicable separately to pipelines and compressors

The minimum depreciation periods for the respective assets, as specified in Annex 3 of the capital cost methodology, are:

1) Natural gas pipelines and steel pipelines – 60 years
2) Compressors – 20 years

c) Changes to the depreciation period or in the acceleration of the depreciation applied to assets

There have been no changes to the depreciation period, and no accelerated depreciation has been applied to the RAB assets. The depreciation rates applied in the tariffs correspond to the minimum depreciation periods specified for different asset groups in the capital cost methodology.

d) Efficiency targets in percentages

According to the Regulator's decision No. 68 of 27 August 2026 "On the natural gas transmission system service tariffs of the Joint Stock Company Conexus Baltic Grid", the transmission system operator must achieve a 1.5 % cost savings during the regulatory period that reduces total costs by EUR 3 338 thousand during the regulatory period. The efficiency factor is applied to the sum of capital costs and operating expenses.

e) Inflation indices

The following indices are applied to operating costs during the regulatory period:

	2027	2028	2029	2030	2031
Consumer Price Index (CPI) (year-on-year), %	3.80 %	3.40 %	3.40 %	3.40 %	3.40 %
Nominal gross wage (annual change; %)	7.30 %	7.50 %	7.50 %	7.50 %	7.50 %

f) Premia and incentives

If, during the regulatory period, the natural gas transmission system operator achieves efficiency gains exceeding the efficiency level determined by the Regulator through the implementation of efficiency improvement measures, the operator may, subject to providing justification to the Regulator, reduce the balance of the regulatory account by the amount of savings exceeding the cost efficiency target established by the Regulator.

conexus BALTIC GRID

4. Values of costs and expenditure that are used for setting the allowed or target revenue in euro

a) RAB per asset type detailed per year until its full depreciation

Net value of RAB fixed assets at the end of the calendar year by asset type (thousand EUR):

Calendar year	Intangible assets	Land, buildings, and engineering structures	Technological equipment and devices	Other fixed assets
2025	16 479	197 850	15 988	2 435
2026	15 241	189 128	14 704	1 929
2027	14 166	180 424	13 518	1 516
2028	13 241	171 753	12 409	1 161
2029	12 345	163 123	11 334	853
2030	11 466	154 531	10 354	617
2031	10 595	145 975	9 416	430
2032	9 725	137 438	8 526	270
2033	8 854	128 911	7 667	142
2034	8 084	120 444	6 823	38
2035	7 314	112 137	5 991	0
2036	6 544	103 901	5 193	0
2037	5 774	95 778	4 440	0
2038	5 004	87 748	3 772	0
2039	4 235	80 015	3 166	0
2040	3 465	72 468	2 634	0

Calendar year	Intangible assets	Land, buildings, and engineering structures	Technological equipment and devices	Other fixed assets
2041	2 695	65 165	2 141	0
2042	1 925	58 048	1 679	0
2043	1 155	51 095	1 336	0
2044	385	45 313	1 068	0
2045	0	40 797	897	0
2046	0	36 598	749	0
2047	0	32 963	629	0
2048	0	29 873	509	0
2049	0	27 358	407	0
2050	0	25 365	308	0
2051	0	23 663	209	0
2052	0	21 968	149	0
2053	0	20 298	111	0
2054	0	18 655	80	0
2055	0	17 796	53	0
2056	0	16 937	38	0
2057	0	16 081	23	0
2058	0	15 227	8	0
2059	0	14 374	1	0
2060	0	13 522	0	0
2061	0	12 679	0	0
2062	0	11 929	0	0
2063	0	11 182	0	0

Calendar year	Intangible assets	Land, buildings, and engineering structures	Technological equipment and devices	Other fixed assets
2064	0	10 434	0	0
2065	0	9 739	0	0
2066	0	9 150	0	0
2067	0	8 562	0	0
2068	0	7 977	0	0
2069	0	7 393	0	0
2070	0	6 809	0	0
2071	0	6 245	0	0
2072	0	5 780	0	0
2073	0	5 317	0	0
2074	0	4 855	0	0
2075	0	4 403	0	0
2076	0	4 183	0	0
2077	0	4 064	0	0
2078	0	3 945	0	0
2079	0	3 836	0	0
2080	0	3 738	0	0
2081	0	3 684	0	0
2082	0	3 630	0	0
2083	0	3 581	0	0
2084	0	3 540	0	0
2085	0	3 498	0	0
2086	0	3 457	0	0

Calendar year	Intangible assets	Land, buildings, and engineering structures	Technological equipment and devices	Other fixed assets
2087	0	3 415	0	0
2088	0	3 374	0	0
2089	0	3 332	0	0
2090	0	3 291	0	0
2091	0	3 250	0	0
2092	0	3 208	0	0
2093	0	3 167	0	0
2094	0	3 125	0	0
2095	0	3 096	0	0
2096	0	3 067	0	0
2097	0	3 039	0	0
2098	0	3 012	0	0
2099	0	2 985	0	0
2100	0	2 958	0	0

i) Investments added to the RAB, per asset type

RAB is fixed as at 31.12.2025 for the entire regulatory period in the amount of EUR 232 751,7 thousand and investments are not added to it.

ii) Depreciation per asset type until the full depreciation of the assets

Depreciation by asset type in calendar years (thousand EUR):

Calendar year	Intangible assets	Land, buildings, and engineering structures	Technological equipment and devices	Other fixed assets
2026	1 198	8 722	1 284	502
2027	1 041	8 704	1 186	410
2028	925	8 671	1 109	353
2029	895	8 630	1 075	306
2030	878	8 592	980	235
2031	871	8 555	938	187
2032	871	8 537	890	159
2033	871	8 527	860	128
2034	770	8 467	844	104
2035	770	8 307	831	37
2036	770	8 236	799	0
2037	770	8 123	753	0
2038	770	8 031	668	0
2039	770	7 733	606	0
2040	770	7 546	531	0
2041	770	7 303	493	0
2042	770	7 117	462	0
2043	770	6 953	343	0
2044	770	5 782	268	0
2045	385	4 517	171	0
2046	0	4 199	148	0
2047	0	3 634	120	0

Calendar year	Intangible assets	Land, buildings, and engineering structures	Technological equipment and devices	Other fixed assets
2048	0	3 091	120	0
2049	0	2 515	102	0
2050	0	1 992	99	0
2051	0	1 703	98	0
2052	0	1 694	60	0
2053	0	1 671	39	0
2054	0	1 642	31	0
2055	0	860	27	0
2056	0	859	15	0
2057	0	856	15	0
2058	0	854	15	0
2059	0	853	6	0
2060	0	852	1	0
2061	0	843	0	0
2062	0	750	0	0
2063	0	747	0	0
2064	0	747	0	0
2065	0	695	0	0
2066	0	589	0	0
2067	0	588	0	0
2068	0	585	0	0
2069	0	584	0	0

Calendar year	Intangible assets	Land, buildings, and engineering structures	Technological equipment and devices	Other fixed assets
2070	0	584	0	0
2071	0	564	0	0
2072	0	465	0	0
2073	0	463	0	0
2074	0	462	0	0
2075	0	451	0	0
2076	0	221	0	0
2077	0	119	0	0
2078	0	119	0	0
2079	0	109	0	0
2080	0	98	0	0
2081	0	54	0	0
2082	0	54	0	0
2083	0	48	0	0
2084	0	41	0	0
2085	0	41	0	0
2086	0	41	0	0
2087	0	41	0	0
2088	0	41	0	0
2089	0	41	0	0
2090	0	41	0	0
2091	0	41	0	0

Calendar year	Intangible assets	Land, buildings, and engineering structures	Technological equipment and devices	Other fixed assets
2092	0	41	0	0
2093	0	41	0	0
2094	0	41	0	0
2095	0	30	0	0
2096	0	29	0	0
2097	0	28	0	0
2098	0	27	0	0
2099	0	27	0	0
2100	0	27	0	0
2101+	0	861	0	0

b) Cost of capital including the cost of equity and the cost of debt

WACC rate is determined by a decision of the Regulator's Board and is fixed for the entire regulatory period. For the regulatory period from 01.10.2026 to 30.09.2031, the real WACC rate is set at 5.82 %.

Indicator	Label	Set value
Nominal weighted average cost of capital	$WACC_n$	5,82 %
Risk-free rate	r_f	2,13 %
Equity beta	β_e	0,74
Market risk premium	r_m	5,33 %

Indicator	Label	Set value
Industry asset beta	β_a	0,41
Industry average debt-to-equity ratio[1]	D/E	1
Cost of debt	r_d	4,05 %
Cost of equity	r_e	6,07 %
Corpotate income tax rate	t	20 %
Equity-to-assets ratio[2]	$\frac{E}{(D+E)}$	0,5
Debt-to-assets ratio[3]	$\frac{D}{(D+E)}$	0,5

c) Operational expenditure

Expenditure (thousand EUR)	First tariff period (01.10.2026-30.09.2027.	Second tariff period (01.10.2027 - 30.09.2028)	Third tariff period (01.10.2028 - 30.09.2029)	Fourth tariff period (01.10.2029 - 30.09.2030)	Fifth tariff period (01.10.2030 - 30.09.2031)	Regulatory period (01.10.2026 - 30.09.2031)
Operating costs	**17 098.2**	**17 415.9**	**19 641.3**	**20 750.3**	**21 344.3**	**96 250.0**
Natural gas transmission loss and technological process support costs	495.7	402.0	352.6	332.8	330.8	1 913.9
Personnel and social costs	5 702.7	6 125.8	6 580.6	7 069.2	7 594.4	33 072.7

[1] Capital cost methodology assumes industry average debt-to-equity ratio fixed to 1.
[2] Capital cost methodology assumes equity-to-assets ratio fixed to 0.5.
[3] Capital cost methodology assumes debt-to-assets ratio fixed to 0.5.

Expenditure (thousand EUR)	First tariff period (01.10.2026-30.09.2027.	Second tariff period (01.10.2027 - 30.09.2028)	Third tariff period (01.10.2028 - 30.09.2029)	Fourth tariff period (01.10.2029 - 30.09.2030)	Fifth tariff period (01.10.2030 - 30.09.2031)	Regulatory period (01.10.2026 - 30.09.2031)
Costs for regular property maintenance and performed operational repairs	3 167.5	2 906.6	4 013.4	4 312.9	3 856.2	18 256.5
Other operating expenses (including support functions)	7 732.3	7 981.4	8 694.8	9 035.4	9 562.9	43 006.9
Taxes	**366.3**	**366.3**	**366.3**	**366.3**	**366.3**	**1 831.7**
Costs to be reduced through operational efficiency	**(635.2)**	**(640.0)**	**(673.4)**	**(690.0)**	**(698.9)**	**(3 337.6)**

d) Premia and incentives detailed separately per item

The natural gas transmission system operator is required to achieve cost savings of 1,5 % during the regulatory period, resulting in a reduction of the regulatory period costs by EUR 3 338 thousand. The efficiency factor is applied to the sum of capital costs and operating expenses. If, during the regulatory period, the natural gas transmission system operator exceeds the efficiency target set by the Regulator of EUR 3 338 thousand through the implementation of efficiency improvement measures, the natural gas transmission operator may, upon submitting appropriate justification to the Regulator, reduce the balance of the regulatory account by the amount exceeding the cost efficiency target established by the Regulator.

5. Financial indicators

Indicators	2022	2023	2024	2025
a) EBITDA (thousand EUR)	13 045	12 489	20 245	17 349
b) EBIT (thousand EUR)	2 945	2 529	5 106	7 269
c) EBITDA / RAB	7.59%	5.63%	9.13%	7.82%
d) EBIT / RAB	1.71%	1.14%	2.30%	3.28%
e) ROE	0.66%	0.60%	2.41%	3.93%
i) RoCE	1.36%	1.15%	2.41%	3.58%
ii) leverage ratio (net debt/equity)	0.33	0.27	0.17	0.22
iii) (net debt) / (net debt + equity)	0.25	0.21	0.14	0.18
iv) net debt / EBITDA	4.02	3.59	1.23	2.11

Definitions:

a) earnings before interest, taxes, depreciation and amortisation (EBITDA);
b) earnings before interest and taxes (EBIT);
c) return on assets I (ROA) = EBITDA / RAB;
d) return on assets II (ROA) = EBIT / RAB;
e) return on equity (ROE) = Net Profit / Equity:
i) return on capital employed (RoCE) = EBIT / (equity + long-term liabilities);
ii) leverage ratio = net debt[4] / equity;
iii) net debt / (net debt + equity);

[4] net debt = outstanding liabilities to financial institutions – cash and cash equivalents

iv) net debt / EBITDA.

6. Simplified tariff model.

A simplified calculation of the natural gas transmission system service tariff is available here.