

CONSOLIDATED NON-FINANCIAL REPORT

2017

Prepared under Section 56⁴ of the Financial Instrument Market Law

Riga
2018

Joint Stock Company “Latvijas Gāze”

Place of registration	Rīga, Latvia
Registration number	40003000642
Address	Vagonu iela 20, Rīga, Latvia, LV-1009
Website	www.lg.lv

Joint Stock Company “Gaso”

Place of registration	Rīga, Latvija
Registration number	40203108921
Address	Vagonu iela 20, Rīga, Latvia, LV-1009
Website	www.gaso.lv

Abbreviations

Joint Stock Company “Latvijas Gāze”	Latvijas Gāze
Joint Stock Company “GASO”	GASO
United Nations	UN
Corporate social responsibility	CSR
Transmission system operator	TSO
Public Utilities Commission	PUC
Distribution system operator (GASO)	DSO

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INTRODUCTION

This Consolidated non-financial report of Latvijas Gāze concerns the group's operation in 2017.

The report consists of two parts encompassing:

- a general description of the group's business model; and
- a consolidated corporate social responsibility report.

The corporate social responsibility report is the group's first and follows the guidelines of the UN *Global Compact* programme (www.unglobalcompact.org) insofar as the matters of the guidelines are relevant to the group's actual operation. The report has been prepared using the *Global Compact* self-assessment tool (www.globalcompactselfassessment.org).

The report was reviewed and approved at the meeting of the Management Board of Latvijas Gāze on April 25 and is signed on behalf of the Board by:

Aigars Kalvītis

Chairman of the Board

Sebastian Gröblichhoff

Vice-Chairman of the Board

Elita Dreimane

Member of the Board

I. BRIEF DESCRIPTION OF THE GROUP'S BUSINESS MODEL

The year 2017 was probably the most significant in the history of Latvijas Gāze, as it presented the challenge of separating business segments that had been a single entity for years. The company dedicated massive intellectual and financial resources for this task. However, the restructuring of the business has enabled Latvijas Gāze to reassess a number of processes and practices, thus giving a new quality to the services provided by the company – now already as a group. It intends to maintain this direction in 2018 with a goal of becoming one of the most efficient and customer-appreciated businesses in Latvia and a competitive and recognised energy enterprise on a Baltic scale.

Formation and structure of the group

From its foundation up to the year 2017, Latvijas Gāze operated as the sole and unified natural gas storage, transmission, distribution and trading operator in Latvia. As of the beginning of 2017, natural gas storage and transmission was spun-off into the JSC “Conexus Baltic Grid”, which is currently not associated with Latvijas Gāze (and GASO). The second step of the reorganisation of Latvijas Gāze saw foundation of its subsidiary GASO, which has been transferred the function of natural gas distribution. Since December 1, 2017 GASO operates independently and **Latvijas Gāze** is a natural gas trading company comprising a group with the subsidiary **GASO** which carries out the distribution of natural gas.

However, while both companies make a group, there is a peculiarity about their specific business – natural gas supply to consumers through pipelines – in that GASO as DSO has to be independent from Latvijas Gāze in taking decisions concerning natural gas distribution. Compliance with the independence requirements is supervised by the PUC.

Operating segments and geographical markets

Since the first quarter of 2017 when the Latvian natural gas market was opened, over 30 natural gas traders have enrolled with the Latvian register of natural gas traders, with Latvijas Gāze as a separate company being one of them. In the household segment there remains the option to keep buying natural gas for a regulated price, while the rest of natural gas consumers and/or resellers (the wholesale segment) enter into individual and voluntary agreements on pricing and delivery terms. Although already in 2017 natural gas consumers in Latvia could freely choose their supplier, the decrease in the total sales volume of Latvijas Gāze was just around 10%, which suggests a high degree of customer trust and loyalty and the ability of Latvijas Gāze to adapt to new challenges and offer effective products. In 2017 Latvijas Gāze also obtained licenses for natural gas trading in Lithuania and Estonia.

GASO, in turn, is the only natural gas DSO in Latvia, ensuring the supply of natural gas from the transmission system to the final consumers. GASO ensures the development of the distribution infrastructure, the installation of natural gas connections, the operation of the system and the metering of natural gas, as well as the activity of the emergency service. GASO only operates within Latvia and is a fully regulated company.

For more detailed information on the group's business performance please refer to the *Audited consolidated and separate Annual reports 2017* of Latvijas Gāze in the *Management report* section.

II. CONSOLIDATED CORPORATE SOCIAL RESPONSIBILITY REPORT 2017

The group is fully supportive of the values in respect of human rights, employment rights, environment and anti-corruption encompassed by the UN *Global Compact*. The group also supports the principles contained by the UN *Universal Convention of Human Rights*, the International Labour Organisation's *Declaration of Fundamental Principles and Rights at Work*, and the environmental policies of the European Union. We stand against corruption in the public and private sector.

This report details the main risks, the measures for prevention or mitigation thereof, and assesses the impact of those measures to the extent possible. Various specialists and trade union representatives were involved in the preparation of the report. We commit to continue expanding the scope of the company's operation within the framework of issues covered and further integrate the values of the UN *Global Compact* in the group's decisions and action.

The report has been prepared in Latvian, English and Russian.

The graphic information of the report primarily concerns a five-year period, unless there is data on the reporting period available at the time of drafting the report.

Human rights

- Principle 1** Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2** make sure that they are not complicit in human rights abuses.

Latvijas Gāze and GASO fully comply with the regulatory framework of Latvia and the European Union which meets high standards of human rights. The companies do not in any way get involved in the abuse of human rights and are committed to show an active stance in this regard to customers, partners and employees as well.

Staff health and safety

Overall assessment

The Latvian regulatory framework of labour safety is essentially designed to be directly applied within organisations, and both Latvijas Gāze and GASO fully meet these requirements. Given the specific nature of work at GASO, the health and safety of staff are among priorities of GASO in CSR. GASO provides its employees with a safe and harmless working environment, a proper equipment and training, and involves employees in the performance of health and safety measures.

Risks

More than a half of employees at GASO are tasked with the direct maintenance of the natural gas distribution system, which entails an increased risk in itself because of the explosiveness and inflammability of gas and the health impact of other harmful working environmental factors. Hence, possible accidents pose a substantial risk to both the employees' health and the company's operation. A safe working environment makes for efficient work.

Measures

There is a labour protection system in place, and there have been responsible persons designated for specific duties in labour protection, fire safety and civil protection. Employees are instructed on labour protection and fire safety pursuant to a schedule depending on work specifics and acquainted with civil protection measure plans. At least once per year there is training held on how to act in the event of fire. An assessment of risks of working and explosive environment are also conducted once per year. Based on such assessment, the deficiencies found are either eliminated or mitigated and plans of risk prevention measures are drawn up. Employees have elected trustees who attend events related to labour protection.

Accidents at work are constantly registered and analysed. Employees undergo mandatory health checks pursuant to a schedule depending on work specifics. In daily work employees are provided with the necessary collective and individual safety equipment. The work equipment and machinery is regularly inspected and serviced in line with the manufacturer requirements. Employees are provided with health insurance.

In order to improve accessibility for disabled persons throughout the premises, regular reconstructions and enhancements take place towards this purpose. These requirements have been met at all buildings reconstructed since 2016 and will be met in all further reconstructions.

In 2017 there have been no complaints over labour safety received from employees*.

*Complaints that are registered if the conflict or situation is not settled within a reasonable timeframe or satisfying the parties.

Hours, wages and leave

Overall assessment

Both companies operate in compliance with the Latvian regulatory framework which meets the requirements of the UN International Labour Organisation. Apart from meeting the minimum state requirements, there are additional measures taken. All the social protection measures set out in the Labour Law are implemented.

Employees predominantly have 40 working hours per week. Where necessary, there is work in shifts. The number of overtime hours is limited, employees are given appropriate break and rest time. They also have a paid annual leave and paid off-days for children, for length of service etc. on top of those stipulated by the legislation. Under the Latvian laws, employees are allowed incapacity absence, including one related to pregnancy and birth, and a maternity leave. All employees have written employment contracts signed and issued and all taxes related to the employment relationship paid.

Risks

The recruitment policy is implemented so as to avoid the risk of the lack of qualified specialists jeopardising compliance with the industry standards in respect of the safety and operational continuity of the natural gas distribution system. A fully recruited staff ensures a balanced regime of work and rest, which results in an improved overall performance.

Measures

The personnel management function is entrusted to professional structural units, with a centralised management of this function, review of and advising on employment relationship matters.

There have been labour dispute commissions set up including representatives of the employer and trade unions. An appropriate number of trustees have been elected who can be contacted on labour-related matters. Relevant matters are reviewed and discussed at collective agreement meetings. Membership in the Latvian Association of Personnel Management contributes to the

development of labour rights and the implementation of various measures. Once per quarter, the financial and operational efficiency of GASO employees is analysed in detail to avoid potential risks and assess the current situation.

In 2018 it is planned to revise and separate Rules of Procedure from the (single) Collective Agreement at both companies. This would make any future improvements in labour procedural matters easier. Work has begun on a new Collective Agreement in response to the reorganisation in compliance with the provisions of the Labour Law applicable to such documents (including in respect of statutory requirements on the procedure of amendments to previously effective regulations).

Key indicators

The employee turnover rate is generally steady and low. The increase in 2017 stems from the reorganisation process which saw restructuring of functions and jobs.



At Latvijas Gāze, incl. the distribution system, the average wage exceeds the minimum wage multiple times, is higher than both the official average monthly wage and slightly higher than the wage paid in similar industries.



*According to profit or loss statement

** Central Statistics Bureau

*** Ministry of Welfare (<http://www.lm.gov.lv/text/648>)

In comparison with the guidelines of the International Labour Organisation, the distribution system operator has a very low number of overtime hours worked. It is a strict policy of GASO to limit overtime hours.



In 2017 there have been no complaints received over violations of working hours, wages or leave of absence that would qualify as infringement of human rights*.

* Complaints that are registered if the conflict or situation is not settled within a reasonable timeframe or satisfying the parties; complaints that would meet the criteria of infringement of human rights, e.g., a disproportionate number of overtime hours, a disproportionately low wage, or a disproportionate refusal of leave of absence etc.

Fair treatment and privacy

Overall assessment

The companies have an Ethical Code of Conduct that lays down general guidelines for building the working relationship among employees, including the preferable attitude and conduct, as well as models of action for handling possible disagreements and conflicts at work.

There is a strict regulatory framework in the field of personal data protection both at national and European Union level. These requirements are met, and there are proportionate and proactive measures taken to streamline processes.

Risks

Given the reorganisation process stretching over multiple years and resulting in the foundation of GASO, employees are surveyed on a regular basis to make sure that GASO operates independently and the group's employees are capable of performing their duties properly under the new circumstances.

Risks in the field of personal data protection are low, as there is a clear regulatory framework which both companies comply with. Appropriate technical and organisational measures are taken to mitigate the risks.

Measures

The Ethical Code of Conduct sets out the core principles of interpersonal relationship in the working environment and includes specific directions on how employees should act in the event of various infringements.

IT resources may be used for work purposes only.

Both companies have appointed certified personal data protection specialists. Employees are notified of processing of their personal data. The year 2017 saw extensive training of employees on personal data protection and a compliance assessment for all purposes of personal data processing.

Due for revision in 2018 is the Ethical Code of Conduct applied at GASO and there will be further work done on the personal data protection system given the new regulatory framework. In 2017 there have been no complaints received over infringements or privacy violations*.

* Complaints that are registered if the conflict or situation is not settled within a reasonable timeframe or satisfying the parties.

Impact of the development of distribution networks upon surrounding residents

Overall assessment

The field of infrastructure development is subject to extensive regulation, and GASO complies with all regulatory requirements at both design and construction stages. On a daily basis GASO communicates with a broad range of persons involved in development projects, thus gaining support and ensuring the implementation of projects.

Risks

When building infrastructure, GASO is subject to private owners' right to property and usage thereof and may affect natural sites. Hence, it is essential to cooperate with the public, the local governments, and the state authorities in charge of environmental matters. The gasification of new housing estates frequently requires building gas pipelines through areas where there have been no usage restrictions before, with the owners discontent due to encumbrance. It is therefore of particular importance to involve all landowners, notifying them of the common practical benefits from the infrastructure. Risks associated with the impact of construction upon protected areas, however, are low, as Latvia has a stringent regulatory framework in respect of environmental protection.

Measures

The prospective system development plans take into account the municipal territorial plans, the wishes of local governments and their residents and businesses, and the national and municipal restrictions on protected areas. Before launching design for gas supply in new areas, there are notification measures taken, i.e., informational outdoor advertisements, individual letters to all the residents and businesses whose property gas pipelines are to be built along, thus enabling them to both apply for connections and have their say on the development. If necessary, public meetings are held with the residents and businesses of areas where it is planned to develop a natural gas distribution system.

If an infrastructure development stretches into private property, negotiations are held with the landowners and, where it is necessary to cross the land property, the parties make a written agreement, including material compensation in some cases. In Latvia there is a forced expropriation envisaged if required for building objects of national importance. During the reporting period, however, such procedure has not been applied in respect to the distribution system operator's infrastructure.

Upon infrastructure reconstruction or repairs, GASO always timely notifies of planned supply interruptions and ensures a continuous gas supply as far as possible.

In 2017 GASO has not received complaints from residents of the territories affected.

* Complaints that are registered if the conflict or situation is not settled within a reasonable timeframe or satisfying the parties.

Notification of people on precautionary measures when using natural gas

Overall assessment

If used improperly, natural gas is a dangerous substance. Hence, one of the main tasks of both companies is to instruct people on how to act in the event of an accident or threats thereof (for information on the Emergency service of GASO and the measures to avoid emergency situations, see the “Environment” section).

Risks

The potential danger of natural gas is one of the key aspects in the operation of GASO. A lack of knowledge on the physical properties of natural gas and its use may cause adverse effects to the consumers themselves and their assets, an increase in the number of emergency calls and accidents, and additional expenditures on the Emergency service.

Measures

Information on the website of GASO on the usage of natural gas and emergency situations. Informational materials in the major Latvian media and participation in the exhibition “Māja” and events held by local governments to educate on the safe usage of natural gas. Informational booklets for adults and children on the usage of natural gas and emergency situations.

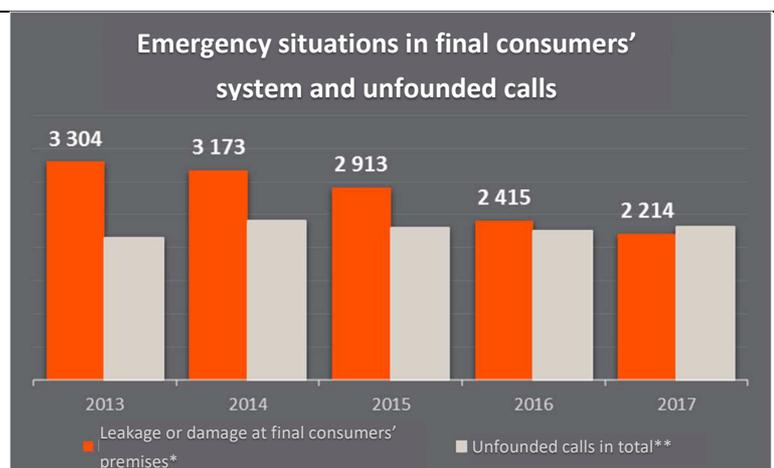
In 2017 the Training Centre of GASO held five classes of “Gas school” for everyone interested to learn about the physical properties of gas and the proper daily use of hardware. Educational events have taken place at 22 schools, with children explained the danger of natural gas, the proper use thereof, and the adverse effects of illegal and improper actions. Participation in the annual contest for schools “Esi drošs, neesi pādrošs” (‘Be Brave, Not Rash’) and “Superpuika” (‘Superboy’).

In 2018 GASO intends to continue regular safety-themed educational activities at schools, youth contests, public state and municipal events. It is planned to make a new information booklet on the safe usage of natural gas for adults – “Kas jāzina dabasgāzes lietotājam” (‘What Natural Gas Consumers Should Know’), and for children – “Gatis, es un Gāzēns” (‘Gatis, Me and Gāzēns’). Video stories on the past “Gas school” will be prepared for publishing.

Key indicators

Since 2013 there has been a sharp decrease in the number of emergency calls caused by the consumer’s own action or leakages or damage at the final consumer’s premises. This has a number of reasons, such as a gradual decrease in the number of connections specifically at apartments, consumers upgrading their appliances, being more aware of how to treat natural gas.

On the other hand, the total number of unfounded calls remains steady, but this is not a negative trend, as GASO is supportive of precautionary calls to the emergency service.



*Emergency situations include consumer action and equipment whose operation falls under the final consumer’s responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and pipelines within the final consumer’s premises.

**Unfounded calls are calls where there is no relevance to the natural gas system or there proves to be no emergency situation.

Labour

- Principle 3** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4** the elimination of all forms of forced and compulsory labour;
- Principle 5** the effective abolition of child labour; and
- Principle 6** the elimination of discrimination in respect of employment and occupation.

Both companies fully observe the employees' rights in terms of freedom of association and non-discrimination and promulgate this to their customers, partners and employees through the CSR report and the Ethical Code of Conduct.

In line with the legislation, forced or compulsory work or child labour is not conceivable within the group. Hence, these matters are not further discussed in the report.

Trade unions

Overall assessment

Employees are enabled and encouraged to join trade unions and collectively discuss collective agreements.

Risks

No substantial risks are seen in this field.

Measures

There are collective agreement discussion meetings held, attended by representatives of the company's management, employees and trade unions. Once per year there is a joint report made on the performance of the obligations due under the Collective Agreement.

A labour dispute commission has been set up, featuring representatives of the employer and trade unions.

Premises are made available for holding trade union meetings, as are permanent premises and means of communication for the head of the trade union. At the trade union's request, the required information about the company's operation is provided. The trade union uses the company's IT resources for distributing its information to the union members. The trade union also takes part in the selection of health insurance policy for employees.

In 2017 the trade union was involved in the settlement of a disagreement on one occasion*.

*These may be various kinds of disagreements, including ones not concerning infringements of human rights; the trade union only gets involved in matters of its members.

Prohibition of discrimination

Overall assessment

The prohibition of discrimination is observed. No specific groups of people are obstructed. The current staff has been recruited by balancing the required professional competences against supply on the labour market. It is made sure that decisions in respect of employees be based on appropriate and objective criteria.

Risks

Overall, the risks associated with discrimination are low. Given the specific nature of the business of GASO, there is a relatively low proportion of women amongst employees.

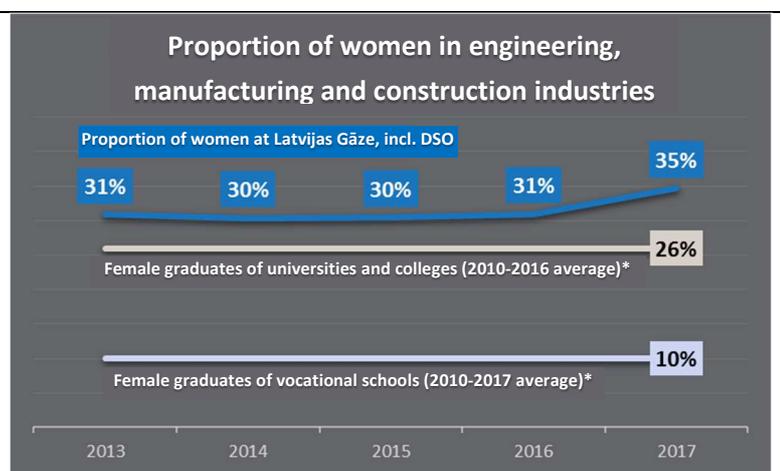
Measures

Job advertisements set out specific requirements for employees based on the professional competences required for the company and are worded in a non-discriminatory way. During the recruitment process, no sensitive information about applicants, including their religious or political conviction, family status, sexual orientation, ethnic origin, political beliefs etc., is requested and no external features, like skin colour, gender, age, are taken into consideration.

The Ethical Code of Conduct prohibits discrimination of individuals based on external features, beliefs, or social standing.

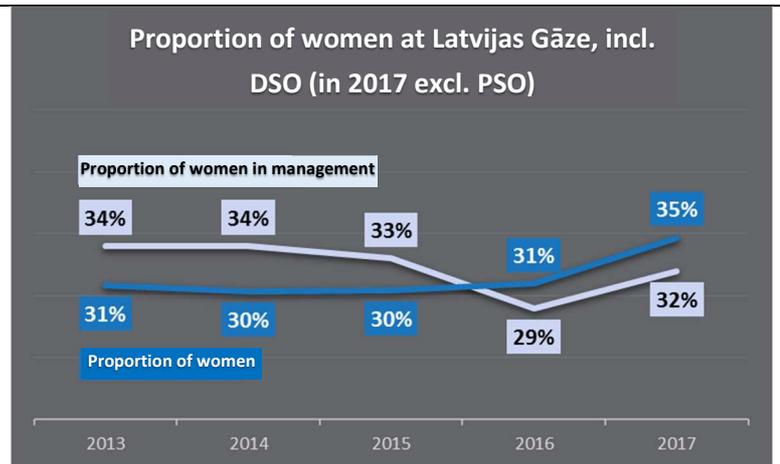
Key indicators

The proportion of female employees highly depends on the professional orientation of youth. As shown by the chart, in this decade (and, while older data is not available, very likely in the previous decades as well) there is a very low proportion of women among graduates in the related industries. Hence, there is a small share of women at Latvijas Gāze, in reflection of the labour market.



*Central Statistics Bureau

Despite the low proportion of women at Latvijas Gāze compared with the overall supply of the labour market across all industries, at managerial level the share of woman is as large as at the company overall.



During the reporting period of 2017 there have been no complaints received over discrimination at work.

Environment

Principle 7 Businesses should support a precautionary approach to environmental challenges;

Principle 8	undertake initiatives to promote greater environmental responsibility; and
Principle 9	encourage the development and diffusion of environmentally friendly technologies.

The product – natural gas – is the most environment friendly fuel that emits the least amount of greenhouse gases in the combustion process. Hence, this business has sustainable foundations and contributes substantially to environmental protection.

GASO strictly controls the operation and maintenance of the natural gas system and methane emissions and takes care of system safety. The operational sphere is highly regulated, there is a natural resource tax for methane emission into the atmosphere which further incentivises limitation of emissions.

GASO both helps others acquire environment-friendly fuel and related technologies and itself actively makes use of the benefits of the technologies involving natural gas – cogeneration and vehicle gas.

Overall, the greatest concern of GASO is the limitation of methane emissions. In other fields though, the environmental impact of GASO is rather low, especially from the viewpoint of potential risks.

Accident prevention and network safety

Overall assessment

Natural gas may be very dangerous in use, inflicting harm on people, property, and the environment. Therefore, GASO ensures a safe supply of natural gas, the education of people, and a prompt response to emergency situations.

Latvia has the peculiarity of having just one distribution system operator in charge of system operation and accident prevention. There are several benefits to this. Firstly, there is a single emergency phone number for natural gas consumers throughout the country. Secondly, all processes are managed on a centralised basis which simplifies cooperation with various services and local governments in emergency situations. Thirdly, this enables an efficient planning of daily activities, such as those related to maintenance, equipment, vehicles etc.

Risks

The impact of the product and the services rendered upon people is one of the major risks of GASO when it comes to CSR, as natural gas is inflammable, explosive and asphyxiant in enclosed spaces. The main risks are associated with outdated infrastructure and gas appliances owned by consumers and human action both when consuming natural gas and making unwarranted manipulations of gas appliances. However, the most severe losses are caused to GASO by bursts of underground pipelines resulting from third-party activity.

Measures

At the Riga Unit of GASO, which is in charge of more than half of consumers, there is a separate emergency service, while other units have separate emergency teams. In addition to the unified emergency phone 112, there is a dedicated natural gas emergency number 114 where calls are forwarded to the call operators of the Emergency Service of GASO. Emergency calls and solution of emergency situations is free of charge, so there is no financial burden put on consumers. The employees of the Emergency Service and teams regularly undergo certification and are equipped with modern devices for the detection of gas leakages and the

elimination of consequences. The Emergency service and units of GASO are under contract with the operational services of state and administrative areas and other communication holders on cooperation in emergency situations. In 2017 there have been 404 test calls that include training together with other operational services. Where there is disruption to a centralised natural gas supply to multiple consumers at a time, GASO notifies the customers.

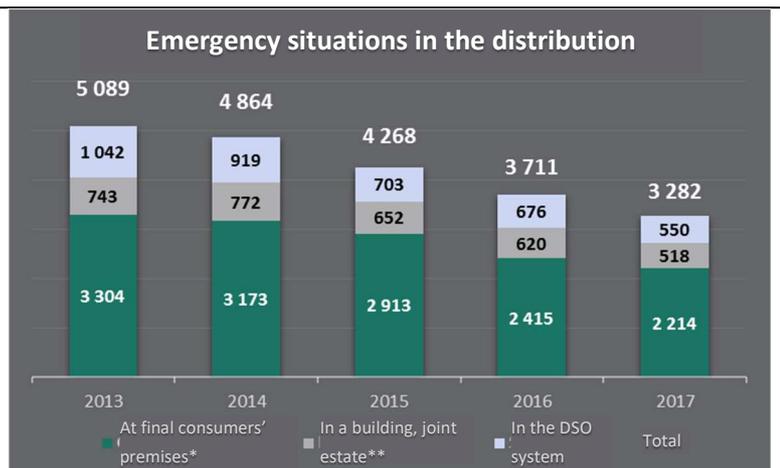
GASO regularly performs the technical monitoring of the natural gas distribution system and the audit and leakage test of internal gas pipelines in compliance with laws and state standards.

Key indicators

Since 2013 the number of final consumers has not changed much, yet the number of emergency calls has substantially dropped, including a double decrease in the number of calls to facilities owned by GASO.

As shown by the chart, the most part of emergency situations are damages to the equipment owned by final consumers, so it is extremely important to instruct people on how to act in the event of leakage or equipment damage.

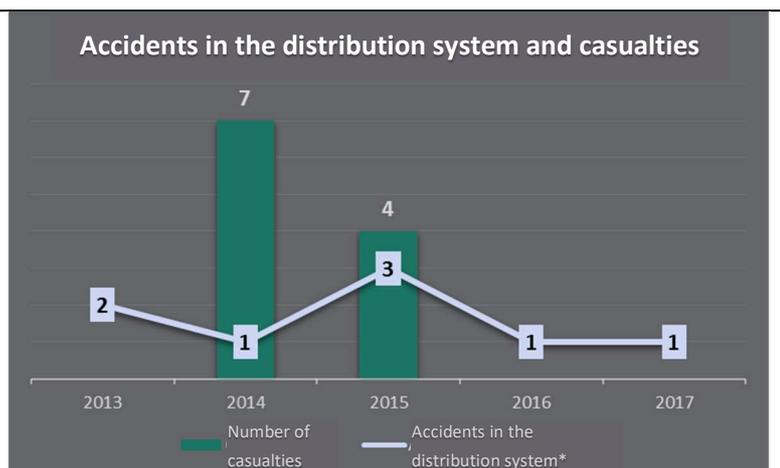
In 2017, there were 9 emergency calls per day received on average.



*Includes equipment whose operation falls under the final consumer's responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and gas pipelines within the final consumer's premises.

**Includes facade gas pipelines at individual and apartment houses, as well as riser and internal pipes up to the meter at apartment houses.

Overall in the distribution system there are very few accidents that qualify as emergency situations with severe consequences.



*Accidents are understood as situations where natural gas has caused a fire, an explosion, where there have been substantial supply disruptions, a substantial harm to the environment, where premises have been filled with gas above the lower threshold of explosion hazard or there are human casualties.

Environmental impact

Overall assessment

The group constantly monitors and takes action to limit the emission of substances causing the greenhouse effect and improve energy efficiency. Waste sorting and disposal for processing takes place as well.

The distribution system has two operational aspects with a substantial environmental impact – the emission of methane (natural gas) and the environmental impact of economic activity or energy efficiency in residential heating, electricity consumption, and vehicles.

The contribution of the main component of natural gas – methane – to the greenhouse effect over a 100-year stretch is estimated as 25 times that of carbon dioxide¹, which is why its emission into the atmosphere must be limited to the extent possible. However, calculations suggest that the total emissions from the distribution system in the European Union account for just 0.21% of the total amount of greenhouse gas emissions². In order to motivate businesses to reduce emissions, the Latvian Natural Resources Tax Law envisages a natural resources tax for methane emission into the atmosphere.

The distribution system does not use high-capacity equipment, unlike, for instance, natural gas transmission systems or storages where internal combustion engines or turbines provide pressure. Hence, GASO emits CO₂ primarily through heating its premises and driving vehicles. In order to reduce the environmental impact and boost the economic efficiency of its business, GASO devotes effort to increasing the share of natural gas in its own consumption by purchasing natural gas powered cars and installing a natural gas cogeneration plant.

There are neither harmful chemicals used nor atmosphere-polluting substances generated in the operation of the distribution system. Furthermore, there are no natural resources used and no material amounts of waste generated. Gas pipeline leakage tests use nitrogen, which ousts oxygen under normal conditions and is therefore asphyxiant. However, nitrogen is the predominant gas in the atmosphere and does not cause the greenhouse effect. As nitrogen is slightly lighter than air, it gets vented in an open space.

Risks

The main environmental risk of GASO is associated with methane emissions during pipeline repairs, during operation, and as a result of accidents. While during natural gas distribution and repairs the expected amount of emissions is known and may be limited long-term through processes and technologies, accidents are unpredictable and uncontrollable with an increased risk of emissions. Methane emissions entail not only an environmental impact, but also financial risks from losing the product and the natural resources tax calculated. As concerns CO₂ emissions, the risks are low, as GASO has no high-capacity manufacturing equipment.

Measures

Methane emission

GASO has appointed a person in charge of monitoring the environmental issues. A calculation of natural gas release into the environment is made quarterly.

Business activity

¹ Intergovernmental Panel on Climate Change; *IPCC Fourth Assessment Report: Climate Change 2007 - Climate Change 2007: Working Group I: The Physical Science Basis - 2.10.2 Direct Global Warming Potentials*; https://www.ipcc.ch/publications_and_data/ar4/wg1/en/ch2s2-10-2.html (accessed on 02.03.2018)

² Technical Association of the European Natural Gas Industry MARCOGAZ; Position Paper *CH₄ emissions in the European Natural Gas midstream sectors*, 2017; http://www.marco gaz.org/index.php/component/docman/doc_download/5359 (accessed on 02.03.2018)

Since 2016 there is an energy management system compliant with the LVS EN ISO 5001 standard in place. An in-depth analysis of the company's energy resources has been made, resulting in identification of the major energy consumption processes and definition of the main energy indicators. An energy audit takes place once per year. From 2013 till 2017, 27 energy efficiency measures were implemented at the company, and the total energy consumption has dropped by 12,585 MWh.

The company systematically upgrades part of its vehicle fleet, ensuring that the current environmental requirements are met.

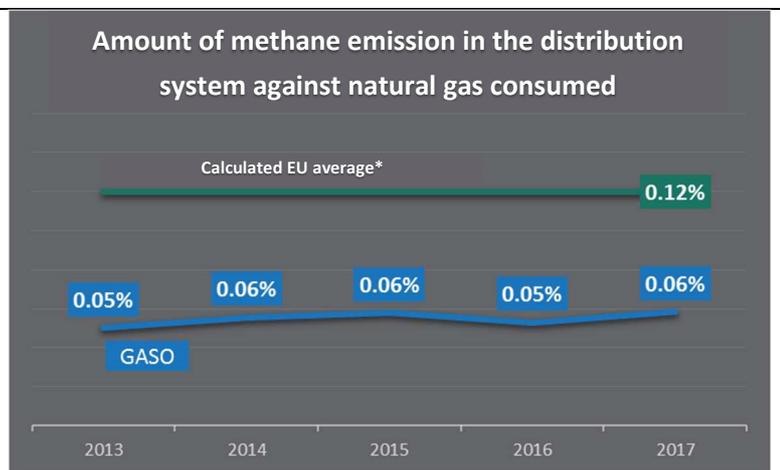
Waste management

GASO sorts and separately disposes of the following waste: scrap metal, construction materials and tyres. The majority of units of GASO sort and separately dispose of the following waste: lamps, batteries, computer equipment. Some units of GASO sort and separately dispose of the following waste: paper and plastic.

Key indicators

The calculated amount of methane emission in the Latvian natural gas distribution system is approximately twice below the EU average.

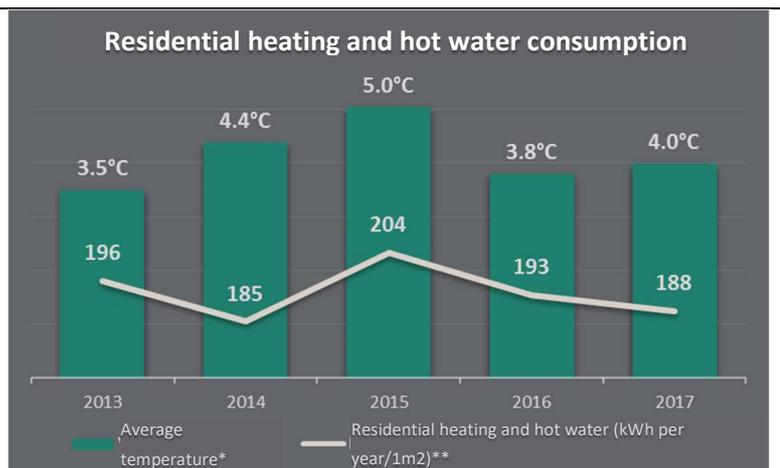
Natural gas emission from the distribution system is inevitable, so only emissions above the EU average could be considered a bad result.



*MARGOGAZ; Position Paper *CH4 emissions in the European Natural Gas midstream sectors*, 2017 (margogaz.org)

There is little correlation between the energy consumption of GASO in heat supply and the outdoor air temperature due to the volatility of weather and the energy efficiency measures taken in previous years.

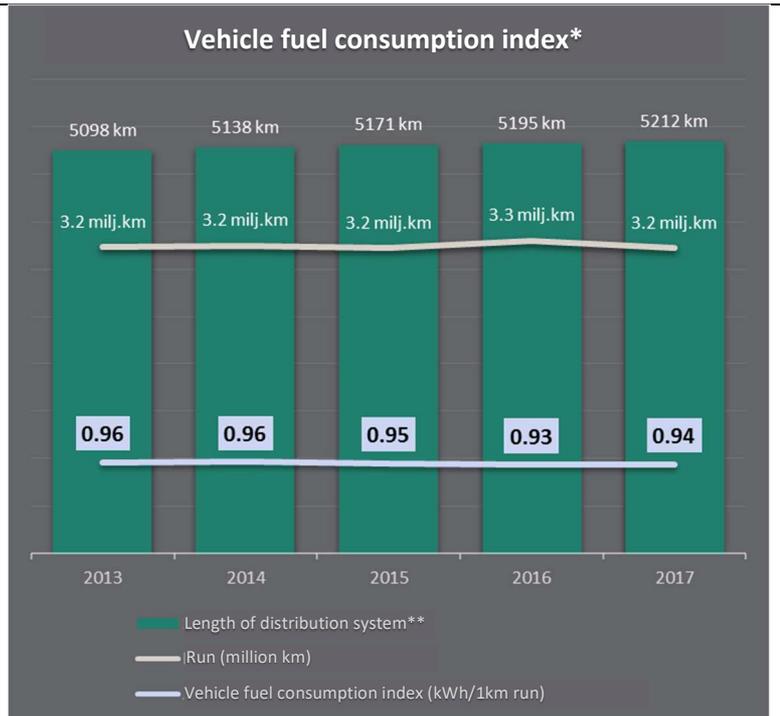
By all means, the whole set of measures suggests that the consumption of energy at GASO is decreasing.



*The average air temperature in Latvia during the heating season (Jan-May and Sep-Dec); source: Central Statistics Bureau.

**The heat purchased in 2013-2015 has been calculated on the basis of the average consumptions of 2016-2017.

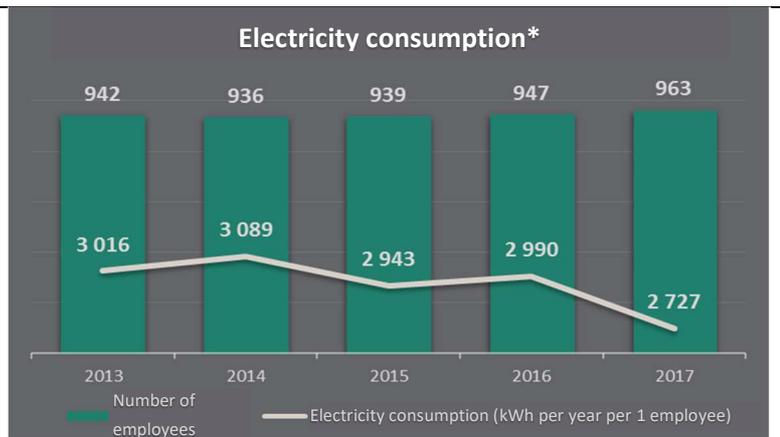
Although the total length of gas pipelines and the number of customers has slightly increased since 2013, the total run of vehicles has barely changed, while the average fuel consumption has slightly decreased.



*Up to the year 2017 includes the trader which accounts for about 10% of vehicles.

**The data has been adjusted against the 2016 annual report of Latvijas Gāze.

Since 2013 the consumption of electricity has decreased by approximately 10%, which proves the effectiveness of the measures referred to in the report.



*Latvijas Gāze and GASO together.

Technologies

Overall assessment

There is support for the use of new and environment-friendly technologies in the natural gas distribution system and in the provision of its functionality.

There are no energy resources used to ensure the supply of natural, as natural gas is received from the transmission system with a sufficient pressure.

Risks

Given the technologies and processes used in the natural gas distribution system, the overall emission risks associated with technologies are low.

Measures

For many years the company has been using technologies that allow installation and repairs of natural gas connections with a negligible release of natural gas into the atmosphere. Gas pressure regulation devices of various categories have been fully reconstructed. Since 2011 there has been a programme for reconstruction of domestic service pipe assemblies, which results in a substantially reduced likelihood of natural gas leakage from service pipe assemblies. Advanced gas leakage detectors are used, such as car-mounted laser gas detectors for inspecting gas distribution system pipelines.

In Riga and at almost all regional units of GASO, the environment-friendly natural gas is used for heating. Most units have individual heating boiler houses that have been gradually upgraded over several years, thus making energy supply efficient. September 2017 saw launch of a natural gas powered cogeneration plant (125 KWel and 189 KWth) at the Vagonu Street complex in Riga. During the heating season it provides electricity for own consumption (about 50% of the total consumption of the complex, with the total electricity purchase of GASO from external sources thus reduced by 30%), and the basic heat load, whereas in summer it is planned to produce electricity and hot water. All the regular lighting within the premises has had bulbs replaced with energy-efficient ones, and there is an ongoing replacement of bulbs throughout the company. At the Vagonu Street complex, control electricity meters are installed for each individual building to implement monitoring and assess consumption. In the long run, GASO gradually heat-insulates buildings and replaces windows and doors to improve energy efficiency.

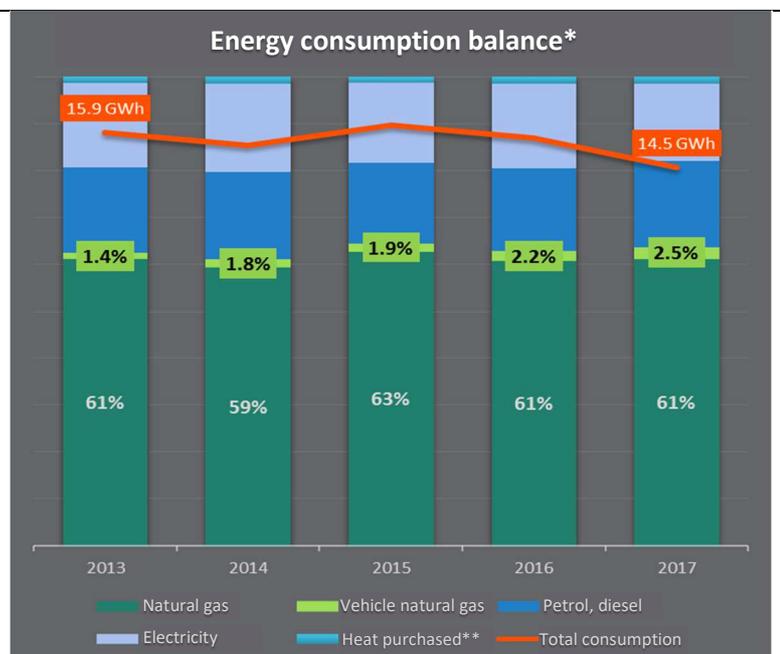
Around ¼ of the companies' cars use natural gas as fuel. This is not only efficient from the cost viewpoint, but also positive from the emission viewpoint. The cars of GASO are equipped with GPS and fuel metering devices which has enabled savings of one third in terms of fuel consumption.

Key indicators

GASO sees natural gas as a resource for a green and financially efficient housekeeping and therefore purposefully increases the use of natural gas for its own needs.

GASO also invests in the energy efficiency of buildings and buildings and equipment which, in turn, reduces the proportion of natural gas consumption.

The total energy consumption has dropped by 8% since 2013, while the share of natural gas has slightly risen due to purchasing natural gas powered vehicles.



*Energy consumption at Latvijas Gāze and GASO together. Following the reorganisation, almost the entire balance remains with GASO.

** The heat purchased in 2013-2015 has been calculated on the basis of the average consumptions of 2016-2017.

Anti-corruption

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

Latvia is ranked 40th in the Corruption perception index by *Transparency International*³. Although the index refers to corruption in the public sector, it also gives a glimpse into the overall public perception towards corruption.

Latvijas Gāze and GASO do not engage in corruptive activities and bribery and make a clear statement thereof to its customers, partners and employees through the CSR report and the Ethical Code of Conduct.

As a company quoted at stock exchange, Latvijas Gāze is subject to and strictly observes a number of requirements in respect of transparency and openness of corporate governance⁴, circulation and disclosure of inside information etc.

Currently being the sole DSO, GASO is aware of the risks associated with decisions in respect of construction of the infrastructure necessary for customers, granting permits etc. and is actively working to prevent bribery or extortion in the employees' dealings with customers.

Company's culture, procedures and measures

Overall assessment

The companies have implemented specific procedures and requirements that prevent the risks of corruption. As part of a good corporate governance, the companies pay a special attention to removing any possibility of corruption and bribery in business in respect of services rendered and received by both companies.

As public service providers, both companies comply with the requirements of the Law On Procurements of Public Service Providers in respect of announcement of public procurements and selection of bids. Procurements that do not reach the threshold set by the law are held in compliance with detailed internal regulations.

The companies' general approach envisages no use of intermediaries, while agents are only hired for clear purposes defined in mutual contracts (debt collection etc.).

There are no active legal proceedings against the companies over anti-competitive or competition-restrictive activities.

Measures

Under the Articles of Association of Latvijas Gāze, the company shall be represented by the Chairman of the Board or by at least two Members of the Board together. In the case of GASO, at least two Board members are required for representation.

The Articles of Association, the Regulations of the Council, and the Regulations of the Board specify the officials and institutions which, based on the contract price in the procurement, decide upon entering into contracts. In the process of negotiation of business contracts, there

³ Transparency International Corruption Perceptions Index 2017. https://www.transparency.org/news/feature/corruption_perceptions_index_2017

⁴ For further details see the Corporate governance report of Latvijas Gāze published on the company's website and on the NASDAQ Riga website together with the audited Annual report for the previous year, as well as the announcement of key events at the company published through the same channels.

are always multiple persons involved. Regular and ad-hoc procurement commissions have been set up. Open tenders are published on the respective company's website and in the system of the Procurement Supervision Bureau.

In 2018 GASO implements a Business Code of Conduct, which covers the commitments and requirements of GASO towards partners, and intends to revise the Ethical Code of Conduct to describe the requirements for employees. There is an assessment of corruption risks planned as well. Also in the works is the procedure of submission and review of natural gas consumers' and employees' complaints over corruptive situations specifically in respect of interaction between employees of GASO and final consumers. GASO has set up a division tasked with the prevention of corruption in communication with customers.

In 2017 there have been no complaints received over bribery at either company and no investigations launched over such activities or violations of competition law by the companies.