



JSC “LATVIJAS GĀZE”

CONSOLIDATED CORPORATE SOCIAL RESPONSIBILITY REPORT 2019

Prepared in accordance with Section 56⁴ of the Financial Instrument Market Law

RIGA 2020



JSC “Latvijas Gāze”

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JSC “Gaso”

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Abbreviations

UN	United Nations
CNG	Compressed natural gas
CSB	Central Statistics Bureau
EU	European Union
GAP	Gas Adjustment Point
CSR	Corporate social responsibility
ILO	International Labour Organization
GHG	Greenhouse gases

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BOARD STATEMENT

The JSC “Latvijas Gāze” has been the leading and most reliable natural gas supplier in Latvia for many years and is now actively expanding its presence in other countries of the region in a bid to become the customers’ first choice in the Baltic and Finnish natural gas market. The subsidiary of JSC “Latvijas Gāze”, the JSC “Gaso”, is the only natural gas distribution system operator in Latvia.

By corporate social responsibility we understand a systematic process where the company assesses the impact of its actions upon the environment, employees, customers, business and society and sets the operating principles that follow from the company’s impact assessment and values. Furthermore, the company’s reputation and employees’ satisfaction is enhanced, business risks are reduced, and consequently the company’s value is raised. JSC “Latvijas Gāze” undertakes to continue paying attention to improving the performance of the companies covered as far as the matters discussed in the report are concerned.

The report was reviewed and approved by the Board of JSC “Latvijas Gāze” on April 1, 2020 as part of the consolidated annual accounts (non-financial report) and its preparation in accordance with the law has been verified by a certified auditor.

The report is signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Sebastian Groeblichhoff
Vice-Chairman of the Board

Elita Dreimane
Member of the Board

INTRODUCTION

The consolidated Corporate Social Responsibility Report of Latvijas Gāze Group for the year 2019 is its third report and follows [the guidelines of the UN Global Compact](#), and includes the non-financial information set out in [Directive 2014/95/EU of the European Parliament and of the Council](#) and [the Financial Instrument Market Law](#). This report, as the methodology of its preparation evolves, uses a number of new key performance indicators, also considering the recommendations included in [Nasdaq ESG Reporting Guide 2.0 \(2019\)](#) for companies listed on stock exchange¹.

The description of the business model of JSC “Latvijas Gāze” and JSC “Gasol” and other general information regarding the Group and its operations is included in [the Management report of the consolidated annual accounts](#). Information on the corporate governance model of JSC “Latvijas Gāze” and its elements is presented in [the Corporate Governance Report](#). The report details the Group’s policy in the respective area, the main risks, the measures for prevention or mitigation thereof, and the relevant performance indicators.

The report has been prepared in Latvian, English and Russian and is published on [Nasdaq Baltic](#), as well as permanently available on the [Latvijas Gāze website](#). The performance indicators refer to a five- or two-year period depending on data availability. The data calculation methods have not been substantially changed from the previous report.

¹ The report presents the following indicators of *Nasdaq ESG Metrics*: E3, E5, E7, S3, S4, S6 – S10, G4, G7 – G10

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.

RESPECT FOR HUMAN RIGHTS AT THE COMPANY POLICY AND RISKS

The Latvian regulatory framework of human rights is essentially designed to be directly applied within organisations and both JSC “Latvijas Gāze” and JSC “Gasol” fully meet these requirements.

The Group’s objective is not to allow any violation of human rights in its business and to facilitate their eradication in any partner’s business.

Respect for human rights is closely linked with the Group’s effectiveness and substantially reduces the Group’s operational risks.

MEASURES

JSC “Latvijas Gāze” and JSC “Gasol” see respect for human rights as the very minimum of any company’s standard of conduct. The Group fully complies with the regulatory framework of Latvia, the European Union, the Council of Europe and the UN (contained by the Universal Declaration of Human Rights) that meets the highest human rights standards. The Group does not in any way get involved in and is opposed to any violations of human rights and takes an active stance in this regard towards customers, partners and employees as well.

protection of first-generation (right to life, health and political beliefs), second-generation (socioeconomic rights) and third-generation (solidarity, right to environment, personal data protection etc.) human rights in respect of both its employees and customers.

In addition to the regulatory stipulations, JSC “Latvijas Gāze” regularly conducts working environment quality measurements at workplaces. As concerns customers, in order to enable disabled persons to enter all facilities, environmental reconstruction and improvement takes place on a regular basis. Such access options are in place at all facilities reconstructed since 2016.

The professional qualification and experience of the management of JSC “Latvijas Gāze” and JSC “Gasol” proves the management’s profound understanding of the role of human rights in the Group’s work. The Group fully ensures the

The year 2019 saw the implementation of both the [whistleblowing system at JSC “Latvijas Gāze”](#) and [the whistleblowing procedure at JSC “Gasol”](#) which enable sounding alarm over human rights violations, too.

STAFF HEALTH AND SAFETY POLICY AND RISKS

The Latvian regulatory framework of labour protection is directly applicable and the Group devotes substantial resources towards fully meeting these requirements. This is one of the Group’s priority areas of CSR given the specific nature of JSC “Gasol”. Specifically, more than a half of employees at JSC “Gasol” are tasked with

the direct maintenance of the natural gas distribution system which entails an increased risk because of the explosiveness and inflammability of gas and the health impact of other harmful working environment factors.

The Group’s objective is to provide a safe working environment that helps avoid the risk of working

environment or mitigate its impact to the extent possible.

MEASURES

Employees are ensured a safe working environment harmless to health, including appropriate workplaces, technical resources, and individual means of protection. As required under regulations, the Group develops a labour protection and fire safety plan and conducts an internal monitoring of working environment. Employees are instructed on labour protection and fire safety pursuant to a schedule depending on work specifics. At least once per year there is training held on how to act in the event of fire. An assessment of risks of working environment and explosive environment is also conducted once per

year. Based on such assessments, the deficiencies found are either eliminated or mitigated.

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

Under the whistleblowing system introduced at the Group in 2019 it is also possible to report on violations that endanger employees' health and safety.

PERSONAL DATA PROTECTION AND DATA SECURITY

POLICY AND RISKS

Given the substantial number of employees and customers, the Group pays special attention to the protection of privacy and personal data. When it comes to personal data protection, Latvia has a stringent regulatory framework based on the directly applicable EU General Data

Protection Regulation 2016/679. In line with the principles of the regulation, the Group has drawn up an internal procedure of personal data protection that encompasses a policy of personal data protection and rules of its implementation.

The Group's objective is to ensure a full protection and security of personal data for both employees and customers.

MEASURES

The Group both complies with the regulatory requirements and takes reasonable and proactive measures to improve processes. A comprehensive personal data processing audit has been carried out, and the improvements put forward have been effected. The internal regulatory enactments governing the processes of personal data processing have been revised, and the relevant processes with control mechanisms have been implemented. Much attention is devoted to staff training in the field of personal data protection, explaining the regulatory requirements and analysing examples and case studies. The Group employs personal data processing specialists who regularly analyse the personal data protection and security system and take the measures needed for its improvement.

In 2019 the Group completed a systematic analysis of contractual obligations previously entered into, updating the contracting parties' duties in terms of personal data protection where necessary.

JSC “Latvijas Gāze” has repeatedly instructed all employees on personal data protection, discussing issues relevant to the company, especially in the segment of (individual) customer attendance. As part of the introductory training of new employees at JSC “Latvijas Gāze”, each employee having started working for the company undergoes a test of knowledge on personal data protection, followed by additional training if necessary.

The whistleblowing system within the Group envisages an option of reporting violations of personal data protection and security.

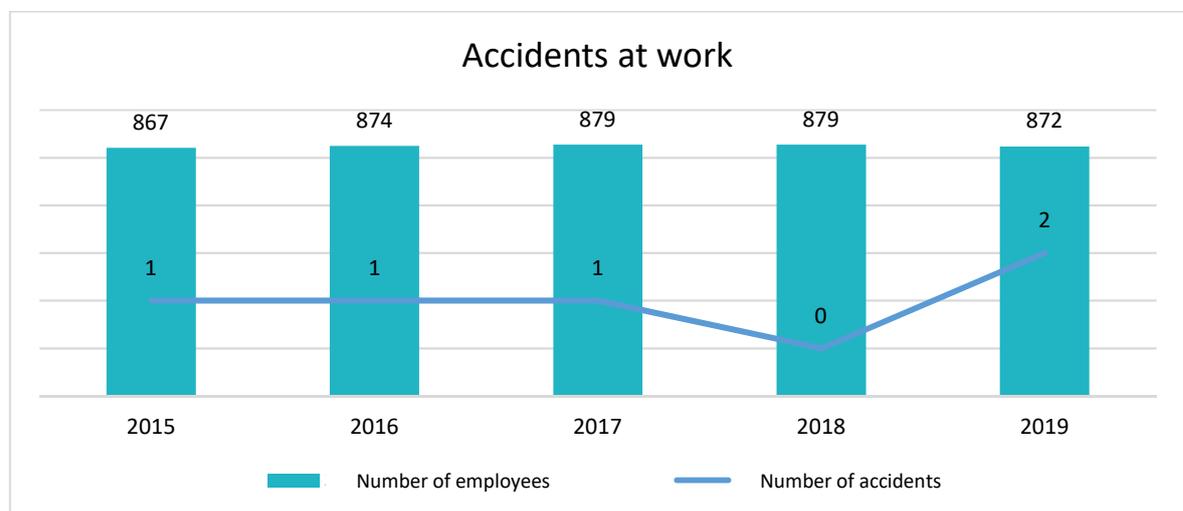
PERFORMANCE INDICATORS

Violations

In 2019 there were no complaints received, including from whistleblowers, over general human rights infringements in the field of staff health and labour safety or personal data protection and data security. Neither were there infringements found by the supervisory institutions.

Accidents at work

In 2019 employees suffered injuries in a road accident and while performing maintenance of the natural gas distribution network. There were no lethal accidents in the period covered.



Complaints over violations of customer privacy or data protection in 2019

Founded complaints	0
Partially founded complaints	0
Unfounded complaints	8
Total:	8

EMPLOYEES

- 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.

TRADE UNIONS

POLICY AND RISKS

The employees’ rights to engage in trade unions and collectively bargain employment matters are ensured and bolstered.

The Group’s objective is to ensure a mutually beneficial cooperation and collective bargaining in respect of decisions on the social protection of employees.

MEASURES

There are collective agreement discussion meetings held, attended by representatives of the Group’s management, employees and trade unions. 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. The trade union takes part in the selection of health insurance policy for employees.

In 2019 a new collective agreement took effect among JSC “Latvijas Gāze”, JSC “Gasol” and the trade union of Latvian public utility and transport employees “LAKRS”, and its current version is valid for two years.

FORCED AND CHILD LABOUR

POLICY AND RISKS

Forced and compulsory labour is nationally prohibited, as is forced child labour. The Group is

firmly opposed to such forms of employment and strictly adheres to such policy.

EMPLOYMENT CONDITIONS

POLICY AND RISKS

Employees predominantly have a normal working time of 40 hours per week. Depending on the specifics and need, time credits are occasionally used. There is a paid annual leave and, on top of what is stipulated by the legislation, a paid additional leave for length of service, dangerous working conditions, and additional off-days to heads of structural units.

All employees have written employment contracts signed and issued and all taxes pertaining to the employment relationship paid.

The recruitment policy is implemented so as to avoid the risk of lack of qualified specialists jeopardising compliance with the industry standards in terms of the safety and operational continuity of the natural gas distribution system.

The Group’s objective is to maintain a competitive staff motivation system with fair and

appropriate remuneration, work life balance, and targeted social guarantees.

MEASURES

A number of matters pertaining to employment relationship and employees’ social guarantees are governed by the collective agreement and internal rules of procedure.

JSC “Gasol” has set up a standing pension management committee, composed of two Board

members and two staff representatives and tasked with controlling the compliance of the 3rd level pension contributions for employees.

Employees are systematically assessed and remunerated based on their work quality, initiative, intensity and contribution.

PREVENTION OF DISCRIMINATION

POLICY AND RISKS

The Latvian legislation extensively prohibits discrimination, and the Group complies with it, making sure that decisions in respect of employees are based on appropriate and objective criteria. A prohibition of discrimination

is also stipulated by the Employees’ Code of Conduct.

The Group sees the risks associated with discrimination as low. Given the specific nature of JSC “Gasol”, there is a relatively low proportion of female employees.

MEASURES

Job advertisements set out specific requirements for candidates based on the professional competences needed by the Group 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.

PERFORMANCE INDICATORS

Involvement of trade unions

In 2019 there was no need to involve trade unions in the settlement of disputes.

Number of employees in operating segments

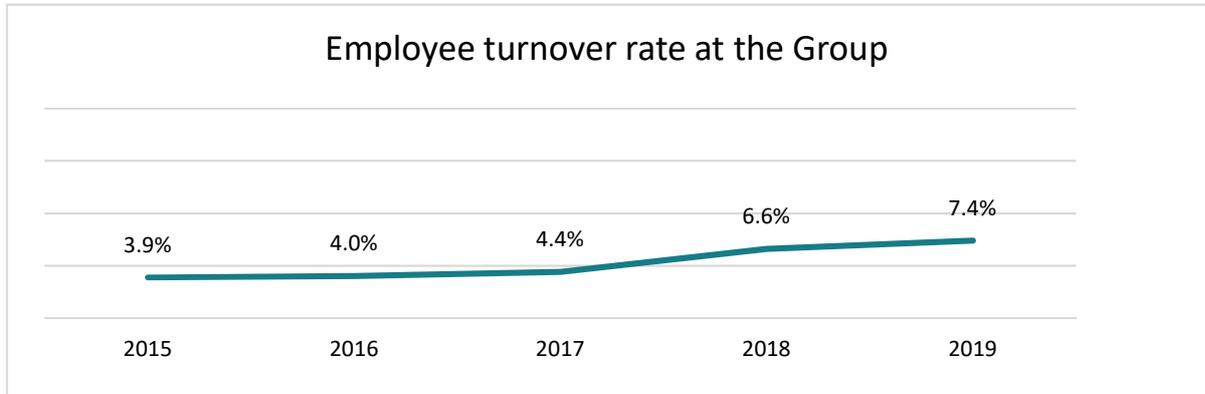
	2018	2019
Trading (JSC “Latvijas Gāze”)	117	116
Distribution (JSC “Gasol”)	879	872
Total:	996	988

Number of employees subject to the collective agreement

The collective agreement is applicable to all employees of JSC “Latvijas Gāze” and JSC “Gasol”. It ensures an equal treatment of employees in terms of social guarantees.

Employee turnover rate

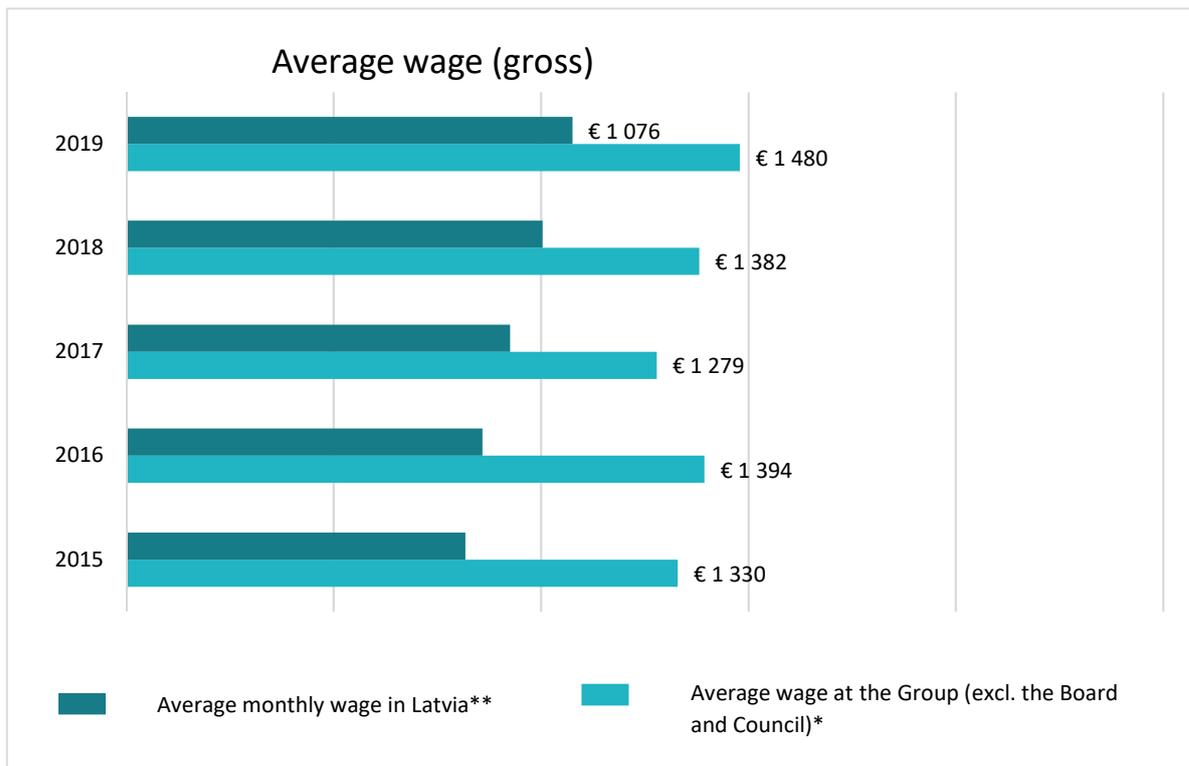
The development of the employee turnover rate reflects the events at the Group and the situation on the labour market. The increased employee turnover results from the reorganisation of the Group.



In comparison with the previous report, the data for 2017 and 2018 are revised.

Average wage

The average wage at the Group is higher than the national average and the average wage in the electricity, gas and heating industry (in 2019 – 1,366 EUR).

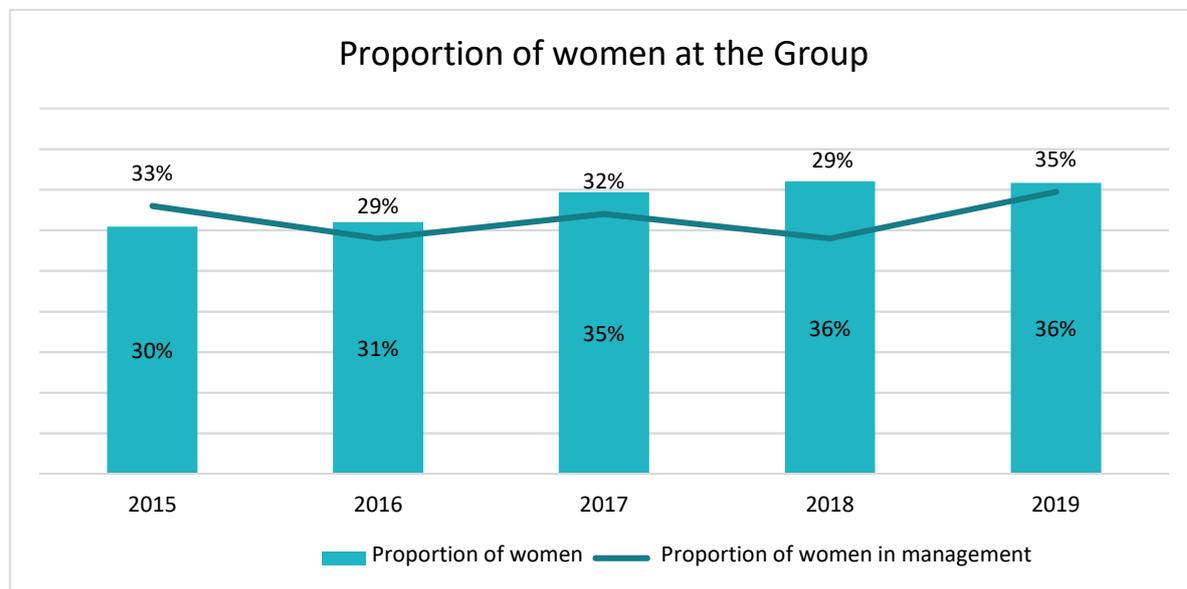


*As per profit or loss statement

** Source: CSB

Gender diversity – proportion of women

The proportion of women at the Group is in line with the average in the industry. The proportion of women in management is consistent with the overall proportion of women at the Group.



Violations

In 2019 there were no complaints received, including from whistleblowers, over discrimination at work. Neither were there infringements found by the supervisory institutions.

ENVIRONMENT

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 undertake initiatives to promote greater environment responsibility; and
- Principle 9 encourage the development and diffusion of environmentally friendly technologies.

NATURAL GAS USAGE AND SUSTAINABILITY POLICY AND RISKS

The Group both helps others obtain an environmentally friendly source of energy – natural gas – and itself takes advantage of the development of environmentally friendly technologies. As natural gas is transmitted over pipelines, its delivery does not involve substantial loss of energy and there are less carbon dioxide (CO₂) emitted in the process of transportation compared with other fuels. When it comes to usage, natural gas again involves much lower CO₂ emissions than other fuels, thus creating less of a greenhouse effect. Specifically, compared with wood products, coal and liquid fuels, natural gas generates a substantially lower permanent pollution of carbon oxide, sulphur oxides, nitrogen oxides, smoke, soot, ash and heavy

metals regardless of whether used in local boilers, large boiler houses or cogeneration plants.

The use of natural gas in motor transport, too, as replacement of petrol and diesel contributes significantly towards the reduction of carbon dioxide emissions and the improvement of air quality. For instance, natural gas-powered cars generate by as much as 70% lower nitrogen oxide emissions which is important for the health of human lungs². Thus the Group works on a sustainable basis and contributes to the environmental protection.

In line with the above policy, the Group strives to increase the use of natural gas in areas where other fossil resources are currently preferred.

MEASURES

Taking responsibility for the environmental impact of the Group’s business and in a bid to reduce it, [an environmental policy and environmental code](#) for JSC “Gaso”, whose business accounts for almost entire environmental impact of the Group, was developed in 2018 and 2019. On February 11, 2020 the environmental policy was reviewed and approved by the Board of JSC “Gaso”. The document analyses the potential of mitigating the environmental impact of the product sold by the Group – natural gas – and identifies the resulting objectives.

Across the natural gas supply and usage chain, it is the final consumers that can contribute significantly to the mitigation of its environmental impact. The Group believes that through educational and information measures it is possible to achieve a decisive improvement in public awareness of the positive and negative impact of natural gas usage in areas where individual contributions and efforts can yield a material reduction in the environmental impact.

In order to educate its customers and other stakeholders on ways of saving energy resources, including natural gas, the Group has drawn up an [Energy efficiency brochure](#) and systematically

² Source: NGVA Europe: <https://www.ngva.eu/policy-priorities/air-quality/>.

updates its followers on social media about specific energy saving methods (“education through communication”). The Group also believes that much difference can be made by replacing inefficient natural gas appliances with more efficient ones, and not just among households but also in the commercial, manufacturing and energy sectors. Hence, customers are regularly informed of the latest developments in the design and construction of gas pipelines and gas-powered facilities. Customers are also encouraged to do a regular maintenance of internal natural gas pipelines and appliances to reduce natural gas loss due to looseness.

CO₂ and other emissions may be further reduced by replacing petrol and diesel cars with ones powered with natural gas. CNG used in transportation generates up to 30% lower CO₂ emissions than diesel or petrol, and for other harmful emissions this difference is up 90%. It is therefore one of the current objectives of the Group to actively promote the development of CNG infrastructure in Latvia,

also providing technical support and competences to businesses who invest in building CNG refuel stations.

In 2019 the Group together with a number of other energy and transport businesses launched an initiative “Vide rīt dienai!” (‘Environment for tomorrow’) in order to discuss the use of more cost-effective and environmentally friendly energy in transport and to seek solutions towards accomplishing the global climate policy goals. In May 2019, with a direct involvement of the Group through CNG deliveries, a first publicly available CNG refuel station in Latvia in 14 years opened in Jēkabpils. A second such station opened in January 2020 in Riga, continuing a purposeful expansion of CNG facilities in Latvia.

The Group has over 70 CNG vehicles for various uses and from different manufacturers available for use by its employees, as well as its own CNG refuel station within the company’s territory.

NATURAL RESOURCE CONSUMPTION AND GHG POLICY AND RISKS

The Group essentially uses energy and water for providing for daily needs. The Group’s business – natural gas distribution and trading – does not necessitate availability of vast natural resources.

A key role in the total consumption of energy resources is played by energy efficiency of buildings, as heating accounts for approximately 50% of the Group’s energy consumption. Electricity consuming appliances may be divided into a number of categories – lighting, computer hardware, household appliances, climate control appliances, technical equipment (natural gas filling equipment, compressors, instruments etc.), cathodic protection of gas pipelines. With

some categories, such as cathodic protection of gas pipelines, no substantial improvement in energy efficiency is possible, while a systematic selection of, for instance, computer hardware and household appliances, yields reduction in electricity consumption.

The Group’s car fleet is renewed on a regular basis to secure mid-term compliance with the environmental requirements of the European Union for vehicles.

The Group sees its GHG-related risks as low since it has no industrial sources of pollution, such as high-capacity manufacturing equipment and massive boiler houses.

MEASURES

For heating purposes, the environmentally friendly natural gas is used – the Group produces almost all the heat it needs of natural gas and, through its cogeneration plant, about 30% of the electricity needed for own consumption. The premises at 20 Vagonu Street and 6 Aristida Briāna Street in Riga as well as most of the regional units of JSC “Gasol”

have their own individual heating boiler houses that have been gradually upgraded over several years, thus making energy supply efficient.

The Group takes care of the technical condition of buildings as well as their regulatory compliance in terms of energy efficiency. It also advises external partners dealing with the maintenance of servicing of buildings in choosing energy-efficient solutions for the supply of goods and services.

The Group has introduced a corporate energy management system compliant with the LVS EN ISO 5001 standard and continues to apply this standard. An internal energy audit is conducted once per year, and there is a standing working group in charge of energy efficiency. A person responsible for environmental monitoring has been appointed. Quarterly a report is prepared on the release of GHG, predominantly methane, into the atmosphere.

In 2019 the Group acquired and late in the year started using for office purposes the administrative

building at 6 Aristida Briāna Street, Riga. The building has been assessed for energy efficiency and issued a valid energy certificate.

Part of the company’s car fleet is renewed every year, thus ensuring that the fleet as a whole meets the current environmental requirements. About one fourth of the Group’s vehicles are fuelled by natural gas. The Group also uses smart systems to monitor fuel consumption.

BIODIVERSITY

POLICY AND RISKS

The development of the natural gas distribution infrastructure is subject to extensive regulation, and JSC “Gasol” complies with all regulatory requirements at the project preparation and construction stage alike. On a daily basis JSC “Gasol” communicates with a wide range of individuals involved in development projects, gaining support and securing project completion.

When building infrastructure (natural gas distribution networks), the company is subject to the private owners’ right to property and its usage and may affect protected 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 often requires building gas pipelines through areas

where there have been no usage restrictions before, with encumbrance caused to the owners and potential discontent to the public. It is therefore of particular importance to involve all landowners in the process, advising them of the common practical benefits from the infrastructure. The risks associated with the impact of construction of material infrastructure upon animal species, however, are immaterial.

The Group’s objectives – to gain broad support for the infrastructure development projects implemented by involving residents, businesses, local governments and the responsible public authorities and to ensure compliance with the environmental impact requirements and consequently a smooth course of projects, as well as to complete the construction of natural gas systems by the beginning of the heating season so as to satisfy the primary need for heating.

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.

OPERATION AND POLLUTION OF NATURAL GAS DISTRIBUTION NETWORKS

POLICY AND RISKS

There are no harmful chemicals used, no natural resources used, and no material amounts of waste generated in the operation of the natural gas distribution system. Gas pipeline leakage tests use nitrogen which is lighter than air and therefore vented out.

However, natural gas is a dangerous product when used improperly – the potential danger of natural gas is one of the key aspects of the work of JSC “Gasol”. It is therefore one of the main tasks of JSC “Gasol” to instruct people on proper conduct in the event of an accident or threat thereof. Lack of knowledge on the physical properties and use of natural gas may cause

adverse consequences to consumers themselves and their property and an increased number of emergency calls and accidents to JSC “Gasol”. Natural gas is inflammable, explosive and asphyxiant in enclosed spaces. In the event of natural gas leakage, methane release occurs.

MEASURES

Information on the safety measures to be taken when using natural gas and guidelines on the proper use of gas appliances and instructions for emergency situations are provided on the website of JSC “Gasol” and the major media and distributed in the form of booklets. JSC “Gasol” takes part in events held by local governments, public organisations and operational services to raise public awareness of the safe usage of natural gas. There are educational events held regularly at schools and various forums. The danger and composition of natural gas, conduct in the event of accidents and other crucial information is published in the [Natural gas safety data sheet](#).

The year 2019 saw the establishment of the “Gasol gas school” – lectures on the origin, use, appliances and danger of natural gas for three different age groups of children, and interactive mobile stand and informational materials. Part was also taken in the annual contest for schools “Esi drošs, neesi pādrošs” (‘Be Brave, Not Rash’) and twenty similar events across Latvia.

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. The technical monitoring of the natural gas distribution system takes place regularly, as do audits and leakage tests of internal pipelines.

CHEMICAL SUBSTANCES AND WASTE POLICY AND RISKS

The Group generates various kinds of waste in the course of its business – municipal, constructional, biological, hazardous, and environmentally harmful. However, the hazardous waste is associated with the use of domestic goods – batteries, motor oils, hazardous electrical appliances etc., while the Group’s direct business

The operation of the natural gas distribution system within the meaning of the law “On Pollution” does not constitute a polluting activity and does not require a pollution permit of category A, B or C or a GHG emission permit.

At the Riga Unit of JSC “Gasol” which is in charge of more than a half of natural gas consumers there is a separate emergency service, while other regional units have separate emergency teams. In addition to the common 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 JSC “Gasol”.



Emergency calls and solution of emergency situations are free of charge for consumers.

The Emergency Service of JSC “Gasol” and its local units are under contract with the operational services and communication holders on cooperation in emergency situations. Where there is disruption to a centralised natural gas supply to multiple consumers at a time, JSC “Gasol” notifies the customers.

The employees of the Emergency Service and the teams regularly undergo certification. Every year there are approximately 400 test calls made that include training together with other operational services. The employees are equipped with modern devices for the detection of gas leakages and the elimination of consequences.

– the construction and maintenance of the natural gas distribution system and gas trade – does not generate hazardous waste.

JSC “Gasol” has three environmental pollution permits of category C – for the boiler houses heating the premises of the company’s regional units in Riga, Bauska and Ogre. JSC “Latvijas Gāze”

has one – for the boiler house heating the premises at Aristida Briana iela 6, Riga.

When it comes to waste management, the regulatory requirements are met, but in some

areas a goal has been set to reduce the amount of waste, for instance, by reducing the circulation of paper through implementing an electronic document circulation system.

MEASURES

Every year there is data submitted to the State Environmental Service on the pollution of category C generated by boiler houses. Quarterly reports are made on the hazardous waste (such as accumulators) and packaging used in business, for which the Group pays natural resource tax.

The following hazardous waste is sorted and separately submitted for recycling: computer hardware, scrap metal, construction materials, tyres and batteries. Paper and plastic, too, is sorted and submitted for recycling.

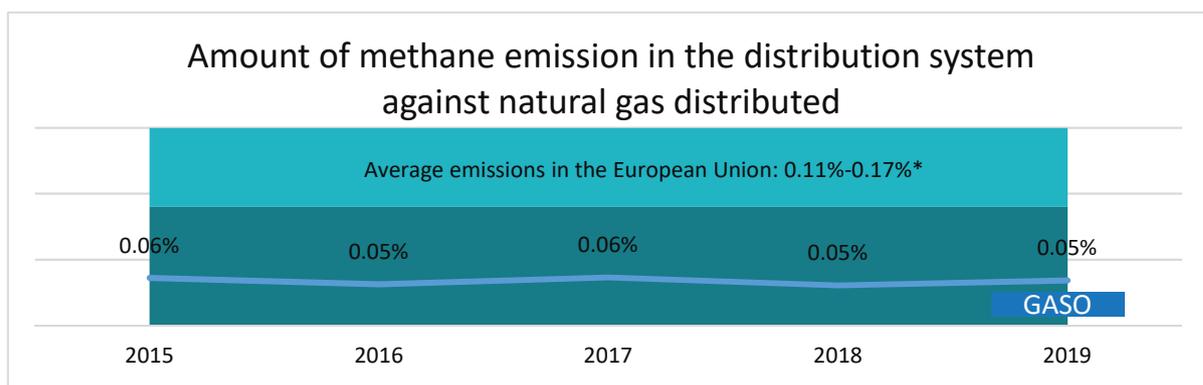
PERFORMANCE INDICATORS

Violations

In 2019 there were no complaints received, including from whistleblowers, over environmental infringements. Neither were there infringements found by the supervisory institutions. No substantial environmental harm has been inflicted and no areas have been deforested in the course of construction and running of the distribution system.

Methane losses in the distribution system (comparison within the industry)

The calculated amount of methane emission in the Latvian natural gas distribution system is approximately 2-3 times below the EU average. As natural gas emission from the distribution system is inevitable, only emissions above the EU average would represent a bad result.

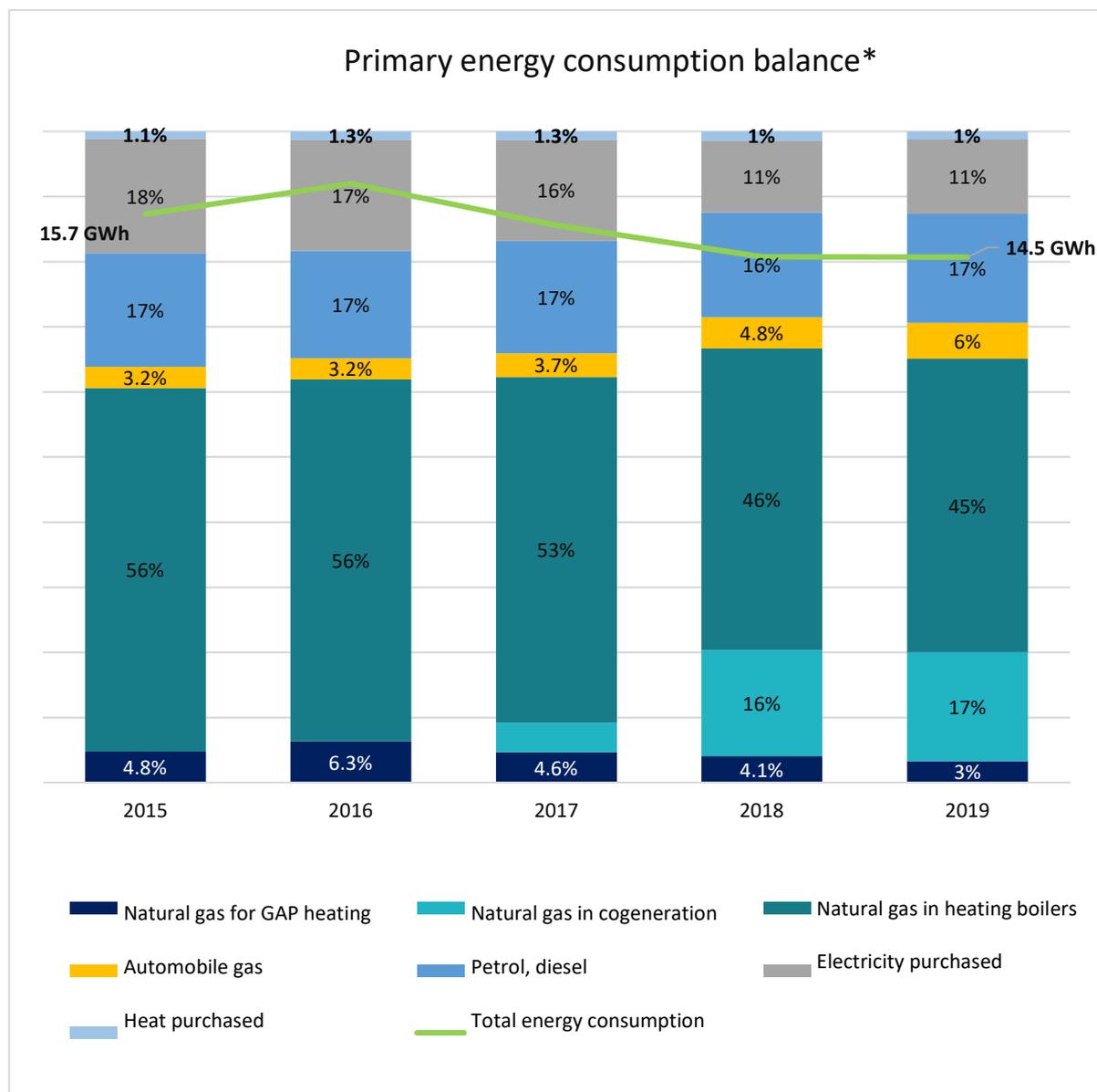


*Technical Association of the European Natural Gas Industry MARCOGAZ; Survey methane emissions for gas distribution in Europe, Update 2017, 2018

Primary energy consumption balance

The Group sees natural gas as a resource for a green and financially efficient housekeeping and therefore purposefully increases the use of natural gas for own consumption. Since 2015 the share of natural gas in the primary energy consumption basket has grown from 64% to 71%.

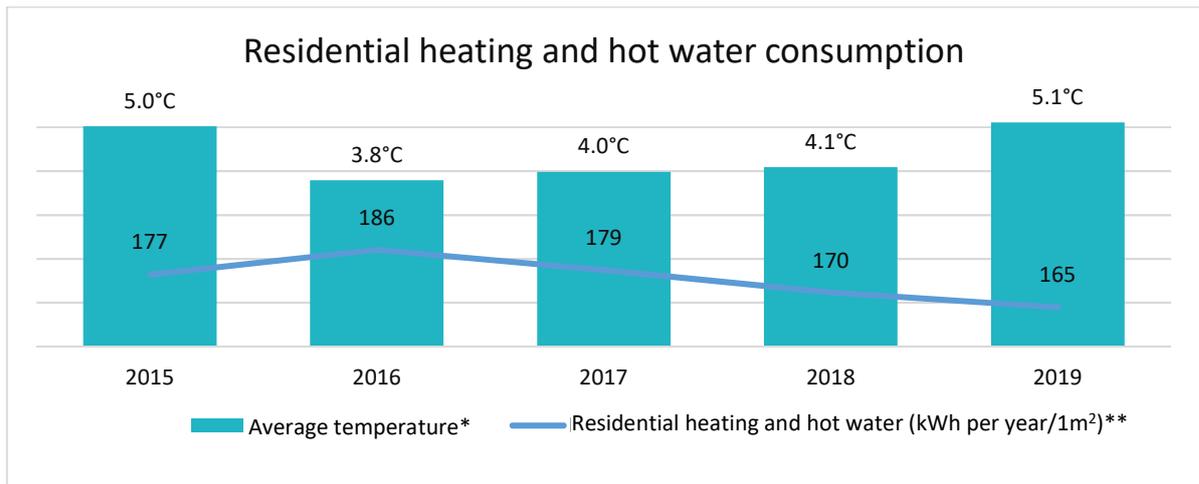
It also invests in the energy efficiency of buildings and equipment, which, in turn, facilitates a decrease in the total energy consumption. Since 2015 the total energy consumption has dropped by 8%, though the weather conditions (the air temperature) have contributed to this.



*The primary energy consumption balance shows the energy quantity consumed, so the electricity and heat generated by the cogeneration plant is represented by the natural gas quantity consumed by the cogeneration plant. In comparison with the previous report, certain data (in particular, “Natural gas in cogeneration”, “Natural gas in heating boilers”, “Electricity purchased”) for 2017 and 2018 have been revised thus having an impact on the other data as well as regards the specific period.

Residential heating and hot water consumption

A key role in residential heating and hot water consumption is played by thermal energy in the heating season. Data suggests that overall there is a correlation between the air temperature and the total consumption.

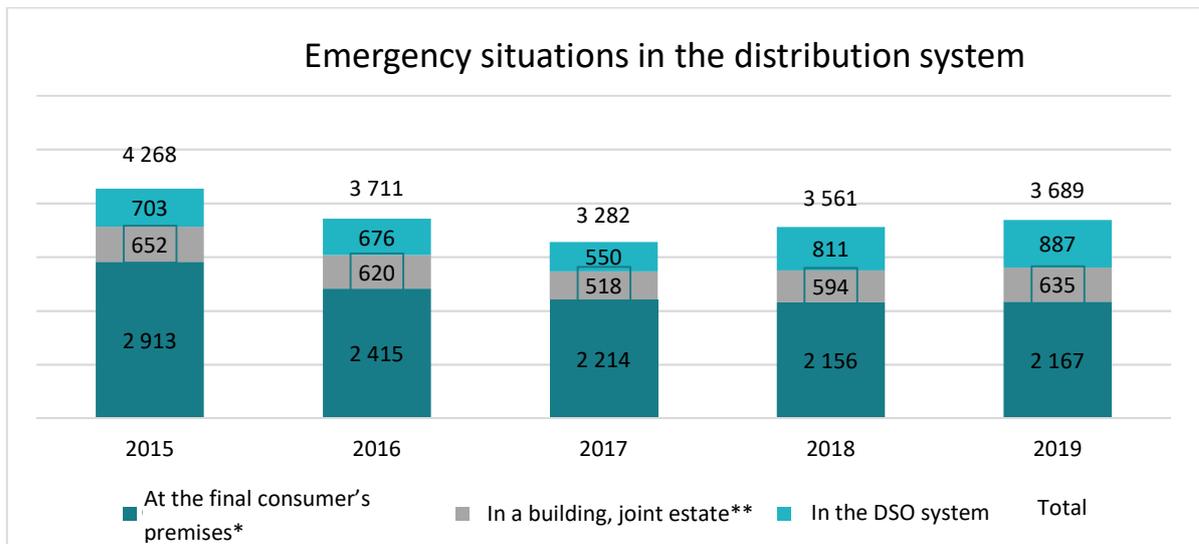


*Average air temperature in Latvia during the heating season (Jan-May and Sep-Dec); source: CSB

**The heat purchased in 2015 has been calculated on the basis of the average consumption in 2016-2019.

Emergency situations in the natural gas distribution system

Since 2015 the number of final natural gas consumers has not changed much, yet the number of emergency calls has dropped. The most part of emergency situations are damages to the equipment owned by final consumers. In 2019 there were 10 emergency calls per day received on average.

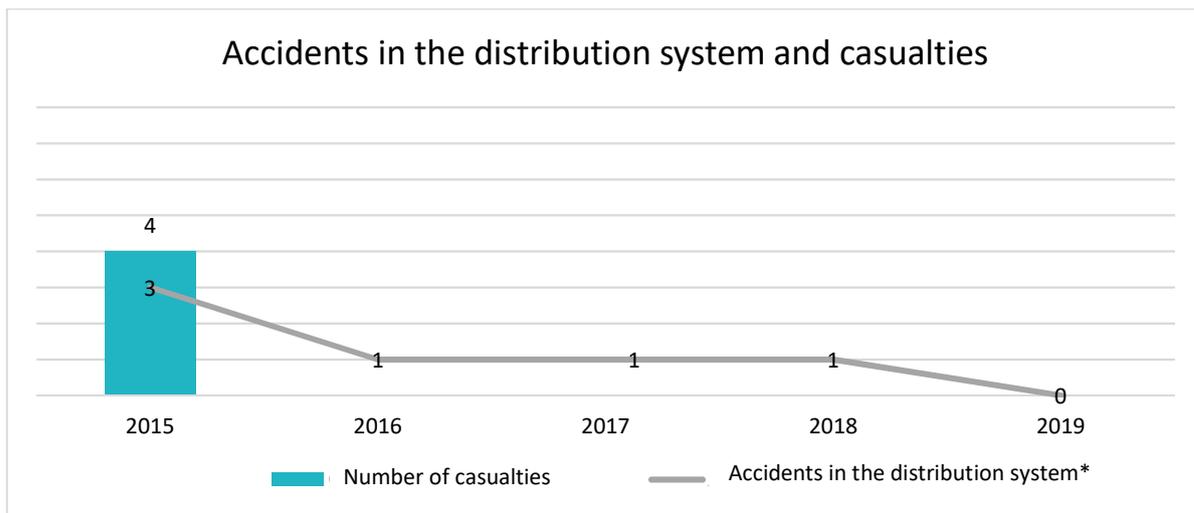


*Includes equipment whose operation falls under the final consumer's responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and gas pipelines within the final consumer's premises

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

Accidents in the distribution system and casualties

Overall there are very few accidents (emergency situations with severe consequences) in the distribution system. In 2019 in Latvia there were no emergency situations that qualify as accident.



*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

Incidents involving hazardous waste

During the reporting period, while replacing a high-pressure shut-off device, there were residues of oil products (23m³) found in a natural gas distribution system pipeline and subsequently utilised. There were no other incidents involving hazardous waste.

COMPLIANCE

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

BRIBERY, PROCUREMENTS, CONFLICTS OF INTEREST, ETHICS, SANCTIONS AND COMBATING MONEY LAUNDERING, FAIR COMPETITION

POLICY AND RISKS

Compliance with the regulatory requirements is one of the cornerstones of the Group’s corporate governance. The Group does not engage in corruption or commercial bribery, fully condemns such actions, and makes a clear statement thereof to its customers, partners and employees through this report and the [Employees’ Code of Conduct and Business Code of Conduct](#). The Group urges its partners to observe equivalent principles of ethics.

Both JSC “Latvijas Gāze” and JSC “Gasol” are public service providers and comply with the requirements of the Law On Procurements of Public Service Providers in terms of procedure of tender announcement and bid selection. Procurements below the threshold set by the law are held in compliance with detailed internal regulations.

The Group’s general approach envisages no use of intermediaries where the Group has the required competence, while agents and advisors are only hired for clear purposes defined in mutual contracts (debt collection etc.).

There is an internal regulatory framework applied whereby multiple people are involved in decision-making, thus reducing corruption risks in procurements and in the rendering of services.

MEASURES

There are specific internal procedures and requirements in place that substantially reduce the risks of corruption and commercial bribery. As part of good corporate governance, particular attention is devoted to precluding the possibility of corruption or commercial bribery in every facet of

Currently being the sole provider of natural gas distribution system services, JSC “Gasol” is aware of the risks associated with decisions on building the infrastructure necessary for customers, giving permissions etc.

Overall, potential risks of commercial bribery are present in two areas – services provided and procurements. Crucially, as concerns natural gas distribution and natural gas trading to households, these services are fully regulated by the state, including common service tariffs. Hence, the risks associated with corrupt dealings involving these services are very low.

Risks also exist in the provision of technical services of the natural gas distribution system, but, again, major decisions are not taken by one person, there are specific procedures and documentation of service provision and costing, as well as internal control mechanisms. In order for a poor bid selection in tenders not to adversely affect the company’s reputation, effectiveness and service prices, the field of procurements has always been subject to detailed regulation, including through the Articles of Association, and the measures implemented substantially reduce the risks of commercial bribery.

business in respect of both services provided and services received.

Under the Articles of Association of JSC “Latvijas Gāze”, the company is to be represented by the Chairman of the Board or by at least two Members of the Board together. In the case of JSC “Gasol”, at least two Board members are required for representation.

JSC “Gasol” has set up standing and *ad hoc* procurement commissions. Open tenders are announced on the company’s website and in the Procurement Supervision Bureau’s system. An outsourced electronic procurement system is now used with most procurements. It gives more transparency and an electric control over stages of tenders and information flows, mitigating the risks of unwarranted intervention in the processes.

Both financial and human resources are allocated towards maintaining compliance with the regulatory requirements and reducing the probability of the risks of non-compliance materialising. The Group regularly and actively keeps track of legislative changes using the public participation options in the process of drafting of regulatory enactments, attends public meetings, and cooperates with the responsible authorities. The Group takes an active part in the work of both major organisations of Latvian businesses – the Latvian Confederation of Employers and the Latvian Chamber of Trade and Commerce. Furthermore, there are internal regulatory documents for operational compliance drawn up and maintained.

As an issuer of publicly traded shares JSC “Latvijas Gāze” is subject to and strictly observes a number of requirements in respect of transparency and openness of corporate governance and [circulation and disclosure of inside information](#).

Given the increased attention paid to Latvia in 2019 in the context of compliance with global economic sanctions and prevention of money laundering, the Group has followed the statutory procedure in disclosing information on the ultimate beneficial owners, assessing the risks of sanctions and money laundering, and drawing up a policy of compliance with sanctions. When it comes to sanction control, JSC “Latvijas Gāze” as a company listed on stock exchange (participant of the financial market) is monitored by the Financial and Capital Market Commission.

In 2019 JSC “Latvijas Gāze” drafted and in 2020 approved an updated general risk management policy where a variety of strategic, operational and compliance risks are defined as material to the company.

In 2019 the Group implemented a whistleblowing scheme enabling anyone to report on possible compliance issues without fear of identification.

PERFORMANCE INDICATORS

Violations

In 2019 there were no complaints received, including from whistleblowers, over possible infringements in the field of corruption, commercial bribery, procurements, conflicts of interest, sanctions and money laundering or competition, or manipulations on the natural gas wholesale market, and no such cases were found. There are no legal proceedings against JSC “Latvijas Gāze” or JSC “Gasol” resolved in 2019 or currently pending over anti-competitive or competition restrictive behaviour.

Training

In 2019 all employees of JSC “Latvijas Gāze” were provided in-person training on the whistleblowing system and possibilities as well as on the main duties of the employees of the company as issuer of publicly traded shares. The employees of JSC “Latvijas Gāze” subject to monitoring for compliance with sanctions were provided a number of courses on the system of sanctions and money laundering prevention and the measures and actions to be taken.