2021

CONSOLIDATED CORPORATE SOCIAL RESPONSIBILITY REPORT

Prepared under Section 56.4 of the Financial Instrument Market Law

Latvijas gāze

JSC “Latvijas Gāze”

Place of registration	Riga, Latvia
Registration number	40003000642
Address	Aristida Briāna iela 6, Riga, Latvia, LV-1001
Website	www.lg.lv

JSC “Gaso”

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

Abbreviations

UN	United Nations
CNG	Compressed natural gas
CSB	Central Statistics Bureau
EU	European Union
GRP	Gas regulation point
CSR	Corporate social responsibility
ILO	International Labour Organisation
GHG	Greenhouse gases

Contact details

E-mail address for suggestions and questions regarding the report:
investor.relations@lg.lv

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BOARD STATEMENT

The JSC “Latvijas Gāze” has been the leading and most reliable natural gas supplier 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 the JSC “Latvijas Gāze”, the JSC “Gaso”, is the only natural gas distribution system operator in Latvia.

The JSC “Latvijas Gāze” has prepared its fifth corporate social responsibility report. The report explains the key risks and measures taken and assesses the impact of the measures. On a Group level, by corporate social responsibility the JSC “Latvijas Gāze” understands a systematic process analysis where it assesses the impact of its actions upon the environment, employees, customers, business and society and sets the principles that follow from its impact assessment and values. The analysis of the existing processes of corporate social responsibility and the implementation of new processes at the company is a kind of brand of the company’s reputation and quality, ensuring as transparent corporate environment as possible and thus enhancing the company’s reputation, recognition and employees’ satisfaction, reducing the business risks and raising the company’s value. The JSC “Latvijas Gāze” fully supports the values of the UN Global Compact in the domains of human rights, labour rights, environment and anti-corruption and is committed 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 the JSC “Latvijas Gāze” on April __, 2022 (Board meeting minute No. __) 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	**Inga Āboliņa** Member of the Board	**Elita Dreimane** Member of the Board

INTRODUCTION

The consolidated Corporate social responsibility report of the JSC "Latvijas Gāze" for the year 2021 is its fifth, follows the guidelines of the UN *Global Compact* (*www.unglobalcompact.org*), and contains 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 exchange[1].

The description of the business model of the JSC "Latvijas Gāze" and the JSC "Gaso" and other general information regarding the Group and its operations is included in the Management report of the consolidated financial statements. Information on the corporate governance model of the JSC "Latvijas Gāze" and its elements is presented in the Corporate governance report. The report details the Group's policy in the respective domain, the main risks, the measures for prevention or mitigation thereof, and the relevant performance indicators. The report is connected with other documents of the JSC "Latvijas Gāze" where the values of the *UN Global Compact* are integrated, such as the *Employees' Code of Conduct* and the *Whistleblowing system, the Sanction risk assessment and the Risk management policy*. 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

10 PRINCIPLES OF UN GLOBAL COMPACT

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.

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.

ENVIRONMENT

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

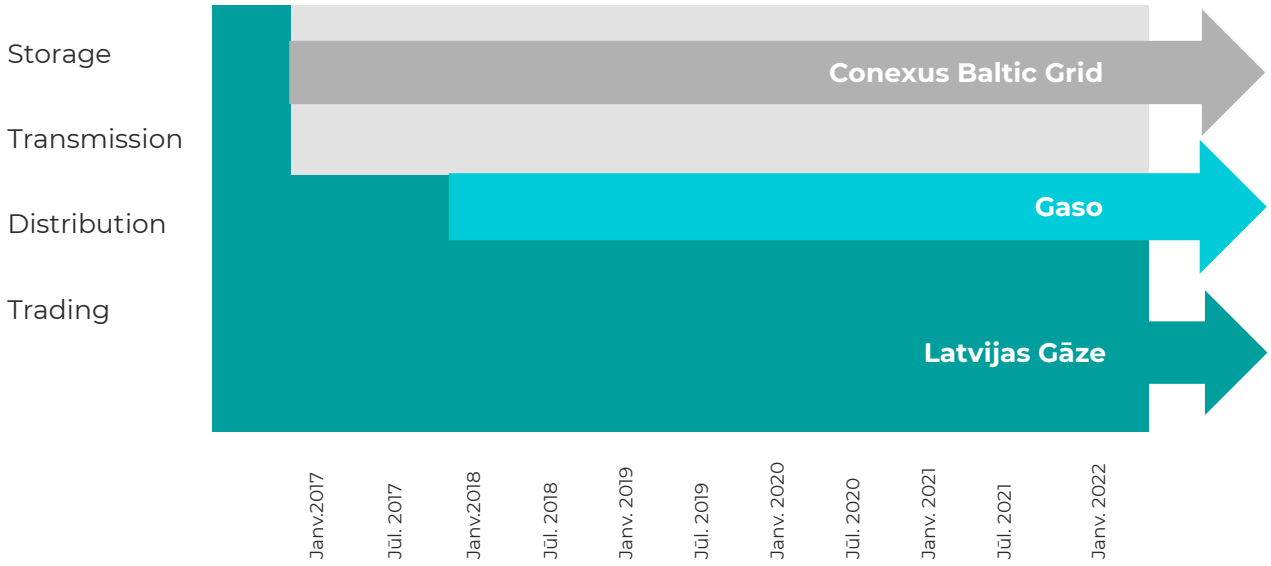
Principle 8 undertake initiatives to promote greater environment responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

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

REORGANIZATION OF LATVIJAS GĀZE



The last six years represent three major stages of development of the JSC “Latvijas Gāze” – (1) operation as a monopoly, (2) unbundling into a transmission operator, distribution operator and natural gas trader, as well as (3) the present operation in the open market.

From its foundation in 1991 onwards, the JSC “Latvijas Gāze” operated as the sole and unified natural gas storage, transmission, distribution and trading operator. In fulfilment of the natural gas market transformation requirements of the European Union, since January 1, 2017, transmission and storage has been unbundled into the JSC “Conexus Baltic Grid” which is currently unrelated to the JSC “Latvijas Gāze” and the JSC “Gaso”. Furthermore, since December 1, 2017, natural gas distribution has been entirely transferred to the JSC “Gaso” whose sole owner is the JSC “Latvijas Gāze” which, in turn, remains active in natural gas trading.

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 the JSC "Latvijas Gāze" and the JSC "Gaso" fully meet these requirements.

The Group's objective is not to allow any violations of human rights in its business and to take an active stance towards customers, partners and employees, and to facilitate eradication of such violations in any action and partnership via the Corporate social responsibility report as well as the *Code of Conduct* and the *Whistleblowing system*.

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

MEASURES

The JSC "Latvijas Gāze" and the JSC "Gaso" 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 become 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.

The professional qualification and experience of the Board members of the JSC "Latvijas Gāze" and the JSC "Gaso" proves the management's profound understanding of the role of human rights in the Group's work. The Group fully ensures the 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, the Group regularly conducts 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 2017.

There has also been implemented the *Whistleblowing system* at the JSC "Latvijas Gāze" and the *Whistleblowing procedure* at the JSC "Gaso" which provide an option to report violations, including those of human rights.

STAFF HEALTH AND SAFETY

WORKING HOURS, REMUNERATION AND ABSENCES

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 corporate social responsibility, especially given the specific nature of the JSC "Gaso". Specifically, more than a half of employees at the JSC "Gaso" 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 so as to avoid any working environment risk 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 and 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 and accident 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, it is also possible to report violations that endanger employees' health and safety.

The main challenges of 2021 in terms of staff health and safety were the same as in 2020, i.e., the COVID-19 pandemic which left impact upon the internal labour organisation and the organisation of interaction with customers and partners.

Already in 2020, the JSC “Latvijas Gāze” successfully implemented – and in 2021 further improved – a number of measures on a Group level that have enabled it to prevent the spread of the said disease at the company and expose employees to minimum risk by allowing them to work remotely and providing them with the technical supply necessary. It has also implemented an efficient procedure of reporting possible illness, maintaining the company’s operational effectiveness and continuity.

PRIVACY AND DATA SECURITY

POLICY AND RISKS

Given the substantial number of employees and customers, the Group pays special attention to privacy and personal data protection and security. 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 developed 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.

Due to the COVID-19 pandemic the Group faces the challenge of balancing a person's right to medical data protection and the public interests. In this situation the Group follows the regulatory framework issued in the country and the recommendations of the Latvian Centre for Disease Prevention and Control (SPKC) and the Data State Inspectorate that envisage a variety of measures to be taken (the necessity to notify SPKC of cases of disease at work, identify the contact persons, notify the head of the structural unit and the Personnel Department of the person's possible illness etc.) and data submission to SPKC.

MEASURES

The Group both complies with the regulatory requirements and takes reasonable and proactive measures to streamline processes. The Group has implemented the improvements put forward following the audit of personal data processing and carries out assessments of legitimacy and protection of personal data processing. The processes envisaged in the internal regulatory enactments governing personal data protection and their 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 an IT security manager and personal data processing specialists who regularly analyse the personal data protection and security system and take the measures needed for its improvement.

The Group systematically analyses the contractual obligations previously entered into, updating the contracting parties' duties in terms of personal data protection where necessary.

The JSC "Latvijas Gāze" has annually 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 of the JSC “Latvijas Gāze”, each employee having started working for the company undergoes a test of knowledge on personal data protection, followed by additional individual training if necessary.

The *Whistleblowing system* implemented at the Group envisages an option of reporting violations of personal data protection and security.

PERFORMANCE INDICATORS

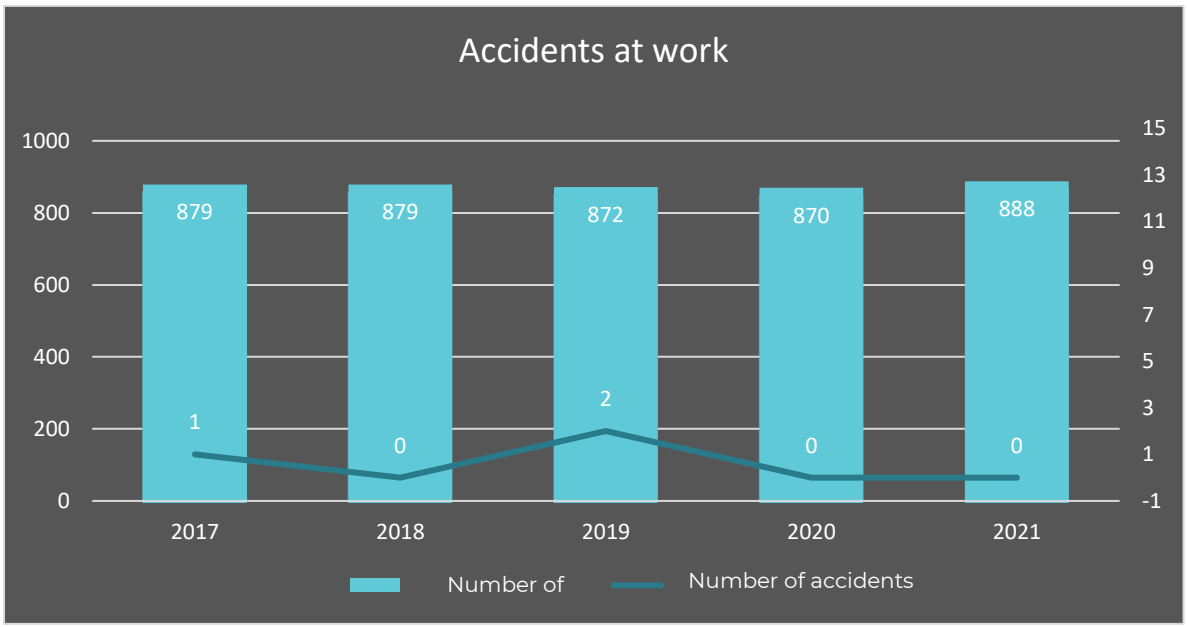
VIOLATIONS

In 2021, 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. Nor were there infringements found by the supervisory institutions.

ACCIDENTS AT WORK

In 2021, no employees suffered injuries in a road accident or while performing maintenance of the natural gas distribution network. There have been no lethal accidents in the period covered.

Accidents at work at the Group



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. A representative of the trade union as member of the procurement commission takes part in the selection of health insurance policy for employees.

In late 2021, there were amendments made to the collective agreement signed in 2019 among the JSC "Latvijas Gāze", the JSC "Gaso" and the trade union of Latvian public utility and transport employees "LAKRS", extending it for another year – till the end of 2022.

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

The high-intensity routine and relatively low remuneration of employees directly tasked with customer attendance is a challenge for successful work in this field. Furthermore, both the implementation of a new billing system and the impact of the COVID-19 pandemic exposes employees to increased stress, also affecting staff turnover. As for the company, losing qualified specialists exposes it to threat of failure to meet the industry standards and maintain the operational continuity, thus causing both quality risks and financial burden. In order to mitigate the said risks, the company has implemented remote work and other forms of performing professional duties.

In terms of remote work organisation, the JSC "Latvijas Gāze" has managed to recruit qualified employees away from the JSC "Latvijas Gāze" headquarters, in the regions. Furthermore, since the spring of 2020 the customer service of the JSC "Latvijas Gāze" has been working entirely remotely. Although the number of customer inquiries has grown due to gas tariff changes, the JSC "Latvijas Gāze" has successfully separated the internal functions and processes the inquiries received in a timely and quality manner.

Employees predominantly have a normal working time of 40 hours per week. Depending on the specifics and need, time credits and shift work are occasionally used. Employees are also afforded appropriate breaks and rest. 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.

Limiting overtime hours is a line strictly maintained on a Group level.

The number of overtime hours is monitored and controlled, with jobs scheduled so as to avoid overtime work as much as possible.

The Group's objective is to maintain a competitive staff motivation system with fair and appropriate remuneration, balance between work and rest, and targeted social guarantees, including a contract on the health, life and accident insurance of employees.

MEASURES

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

Depending on the specifics and need, time credits are occasionally used. If necessary, employees work overtime and are remunerated for it in the amount and pursuant to the procedure stipulated in the Latvian laws.

The JSC "Gaso" has set up a standing pension management committee, composed of two Board members and two staff representatives and tasked with controlling the compliance of 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 be based on appropriate and objective criteria. A prohibition of discrimination is also stipulated by the Employees' Code of Conduct, focusing on the core principles of fair treatment and prohibition of insult. It details the guidelines for building the professional relationship among employees, including attitude and conduct, and models of actions for the settlement of possible disagreements and disputes in daily work.

The Group sees the risks associated with discrimination as low.

MEASURES

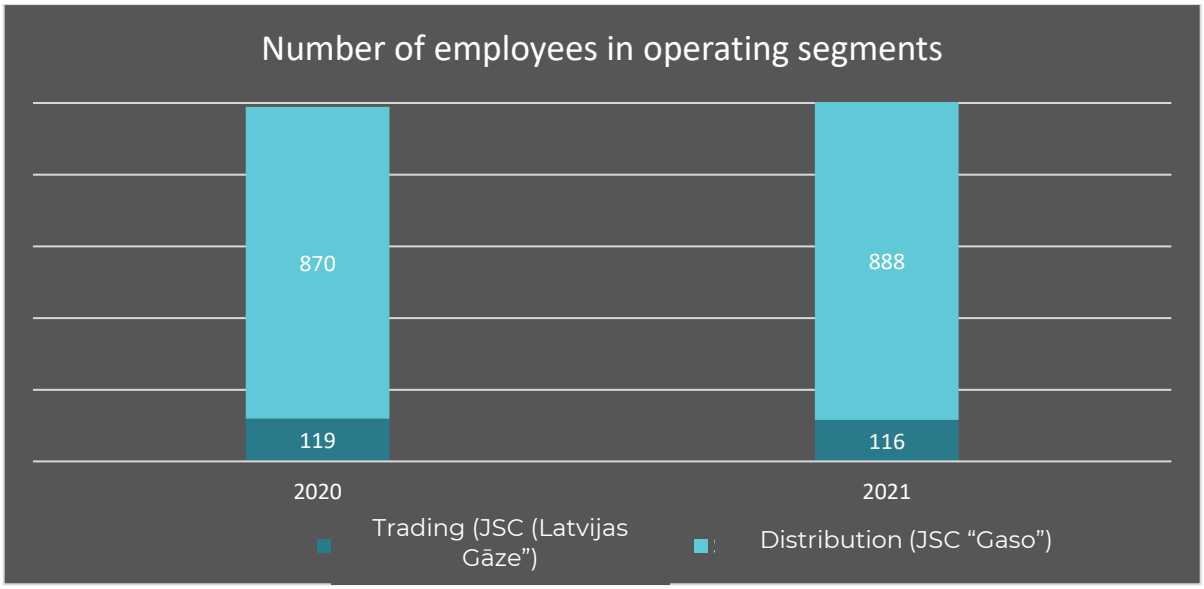
Job advertisements set out specific requirements for candidates based on the professional competences needed by the Group and are worded in a non-discriminatory way. During the recruitment process, no sensitive information about applicants, including their religious or political conviction, family status, sexual orientation, ethnic origin, political beliefs etc., is requested.

PERFORMANCE INDICATORS

INVOLVEMENT OF TRADE UNIONS

In 2021, there was no need to involve trade unions in the settlement of disputes.

NUMBER OF EMPLOYEES IN OPERATING SEGMENTS

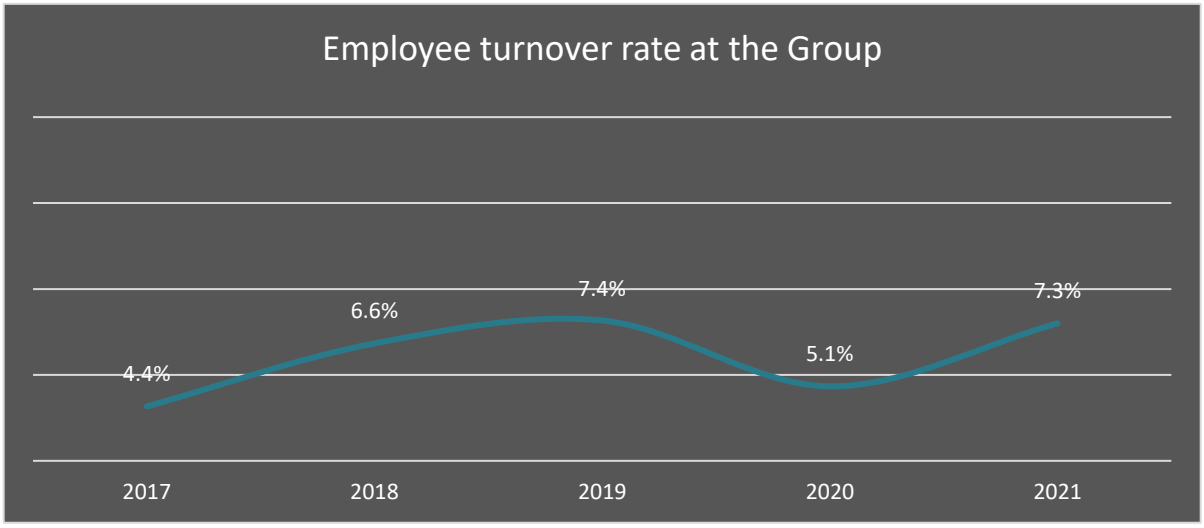


NUMBER OF EMPLOYEES SUBJECT TO THE COLLECTIVE AGREEMENT

The collective agreement is applicable to all employees of the Group. It ensures an equal treatment of employees in terms of social guarantees and envisages additional social guarantees not stipulated in the Labour Law – additional leave, additional off-days, benefits, monetary bonuses etc.

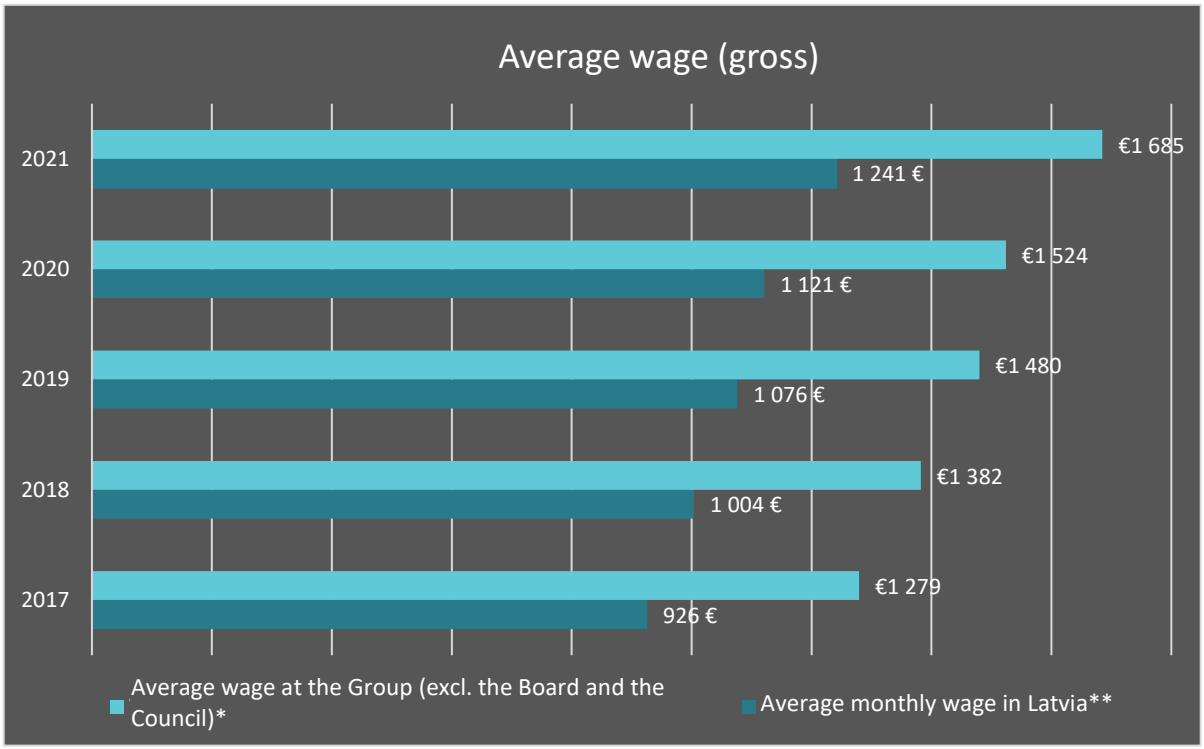
EMPLOYEE TURNOVER RATE

The dynamics of the employee rotation ratio reflects the current events in the Group and the situation in the labor market. The increase in employee rotation is related to the significant turnover of employees in the customer service sector of JSC "Latvijas gāze", taking into account the challenges caused by Covid-19 (remote customer service, thus - increasing volume of incoming calls and correspondence, etc.).



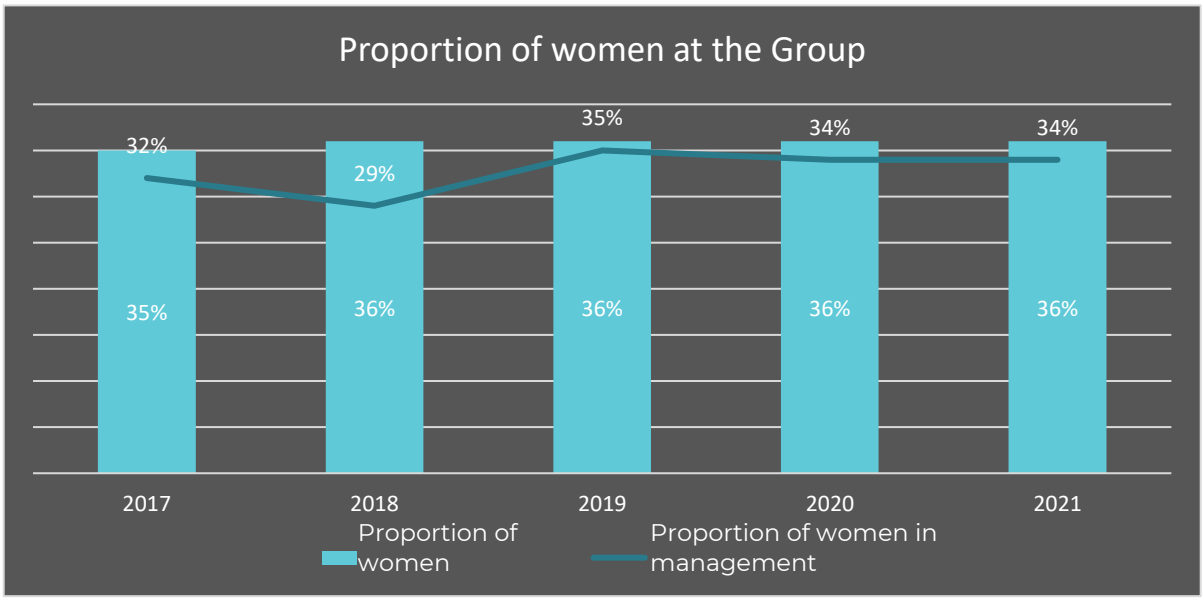
AVERAGE WAGE

The average wage at the Group is on par with the industry level.



GENDER DIVERSITY – PROPORTION OF WOMEN

The proportion of women at the Group is appropriate to the specifics of the industry. The proportion of women in management is consistent with the overall proportion of women at the Group.



VIOLATIONS In 2021, there were no complaints received, including from whistleblowers, over discrimination at work. Nor 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 acquire 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 is less carbon dioxide (CO_2) emitted in the process of transportation compared to other fuels. When it comes to usage, natural gas again involves much lower CO_2 emissions than other fuels, thus creating less of a greenhouse effect. Specifically, compared to 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 lungs [2]. Thus, the Group works on a sustainable basis and contributes to the environmental protection.

Nationally, the most substantial environmental pollution across the natural gas usage cycle occurs at final consumers where there are natural gas losses in the internal pipeline systems and where natural gas is combusted and CO_2, nitrogen oxide and other emissions are released into the atmosphere. Overall, natural gas as product is the most environmentally friendly fuel and as replacement of other fuels improves the quality of the environment.

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

[2] Source: *NGVA Europe*: https://www.ngva.eu/policy-priorities/air-quality/.

MEASURES

In line with the climate neutrality targets for 2050 set out by the European Union, the JSC "Latvijas Gāze" focuses on offsetting the environmental impact generated by customers through creating projects that allow to reduce the GHG emissions. In light of the regulatory package drafted as part of the European Union's "Fit for 55", the European Commission's Hydrogen and Gas Market Decarbonisation Package, the Methane strategy and the objectives set out in the Renewables Directive, the ambition of the JSC "Latvijas Gāze" is to develop renewable resource projects, including ones using the natural gas network infrastructure and its possibilities. In 2021, apart from the ISO 50 001 energy management standard, the JSC "Latvijas Gāze" implemented an environment management control system pursuant to the ISO 14 001 standard and calculated its CO_2 emissions. Having regard to the environmental policy and the results of the calculations, the JSC "Latvijas Gāze" has planted 2,000 birches, thus neutralising its CO_2 emissions of 3 years.

Taking responsibility for the environmental impact of the Group's business, an *Environmental policy* and *Environmental code* has been implemented. It analyses the potential of mitigating the environmental impact of the product sold by the Group – natural gas – and identifies the resulting objectives. It is the business of the JSC "Gaso" that accounts for almost all environmental impact of the Group. The human impact of the product and the services provided is one of the key risks in the domain of corporate social responsibility since natural gas is inflammable, explosive and asphyxiant in enclosed spaces. The consequences of a natural gas explosion are potentially disastrous. 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. These risks are minimised through regular and systematic technical supervision of the natural gas distribution system and audits and tightness tests of internal gas pipelines pursuant to the regulatory requirements.

Across the natural gas supply and usage chain, it is the final consumers that can contribute significantly to the mitigation of the 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 updates the company's employees and its followers on social media about specific energy resource saving methods ("education through communication"). The websites of the Group's companies – www.lg.lv and www.gaso.lv – feature dedicated energy efficiency sections.

In 2021, a section on economic driving was added to the Energy efficiency brochure. 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 occurring due to looseness.

CO_2 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 CO_2 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.

Together with a number of energy and transport businesses, the Group has launched an initiative "Vide rītdienai!" ('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 year 2021 saw installation of new CNG refuel stations at the regional units of Liepāja, Jūrmala Ogre, Cēsis, Jelgava and Bauska, bringing potential savings of 10.5 MWh per year.

The Group has over 70 CNG vehicles of various applications and manufacturers available for use by its employees, as well as its own CNG refuel station.

NATURAL RESOURCE CONSUMPTION AND GHG

POLICY AND RISKS

The Group essentially uses energy and water to provide 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 65% 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 has low risks when it comes to energy consumption and production, since natural gas distribution and trading does not require industry-scale manufacturing, just energy consumption for housekeeping purposes – heating, electricity supply, vehicles. The JSC "Gaso" has been issued three environmental pollution permits of category C – for the boiler houses and the cogeneration stations in Riga, Bauska and Ogre, but all these facilities produce energy for own consumption.

Overall, the key risk of the environmental impact is associated with natural gas emission from the distribution systems. In other areas, the Group's environmental impact is relatively low. The contribution of the main component of natural gas – methane – to the greenhouse effect over 100 years is rated as at least 25 times higher than that of CO_2, which is why its emission into the atmosphere needs to be limited as much as possible. There are three ways how natural gas from the distribution system ends up in the atmosphere: regular losses from the distribution networks, during repairs, and upon accidents. The most substantial pollution occurs in the first scenario. In 2020, methane accounted for 84% of the total GHG emissions of the JSC "Gaso".

In certain areas there are ways for the JSC "Gaso" to gradually reduce its environmental impact, thus contributing to the improvement of environmental quality and the mitigation of climate change. Expanding the distribution system where natural gas replaces more environmentally harmful fuels contributes to the overall reduction of pollution. However, since methane emissions are inevitable, a number of measures are taken to keep them optimally low. The JSC "Gaso" constantly monitors the networks, implements several long-term investment programmes, such as the reconstruction of service pipes and other technological assemblies, and uses state-of-the-art methods and equipment in repairs and accident elimination.

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 cars being equipped with the GPS and fuel metering devices has yielded fuel savings of one third, as such measurements allow for more efficient planning, selecting the optimum routes, and individual consumption tracking.

The Group sees its GHG-related risks as low since it has no industrial sources of pollution, such as high-capacity manufacturing equipment or 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 the regional units of the JSC "Gaso" 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 and servicing of buildings in choosing energy-efficient solutions for the supply of goods and services.

The Group's energy management system has been certified and is due to be recertified in early 2022 as conforming to the new LVS EN ISO 500001:2018 standard. In addition to the energy management system implemented in compliance with the LVS EN ISO 5001 standard, the Group is also committed to a well-considered management of buildings and therefore will go for the green office certification of its buildings.

The management has put forward and approved four main objectives for 2022:

- to reduce the total electricity consumption by 1% in 2022 compared to 2021;
- to reduce the total natural gas consumption by 1% in 2022 compared to 2021;
- to reduce the average fuel consumption (litres per 100 km) by 1% in 2022 compared to 2021;
- to promote a change in staff attitude in favour of electricity and fuel saving.

Within the framework of the energy management system the Group completed 33 energy efficiency tasks in 2021 with planned energy savings of 185 MWh per year. Such activities will bring an estimated 1-2% reduction of the total energy consumption.

In 2022, the company intends to complete 35 energy efficiency tasks with planned energy savings of 130 MWh per year.

There is an internal energy audit conducted once per year and a standing working in charge of energy efficiency. A person responsible for environmental monitoring has been appointed. Quarterly there is a report 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 systematically renewed on an annual basis, thus ensuring that as a whole it meets the current environmental requirements. About one-

fourth of the Group's cars use natural gas as fuel. The Group also uses smart systems for fuel consumption monitoring.

In 2022, the Group intends to consider installing an additional cogeneration plant at 20 Vagonu Street and solar panels for electricity production at regional units.

BIODIVERSITY

POLICY AND RISKS

The development of the natural gas distribution infrastructure is subject to extensive regulation, and the JSC "Gaso" complies with all regulatory requirements at the project preparation and construction stage alike. On a daily basis the JSC "Gaso" 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 JSC "Gaso" 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 material impact of infrastructure construction upon animal species, however, are immaterial.

The risks associated with material impact of infrastructure construction upon protected areas, species and habitats are low because there is a stringent regulatory framework in Latvia in terms of environmental protection which envisages seeking environmentally friendly solutions.

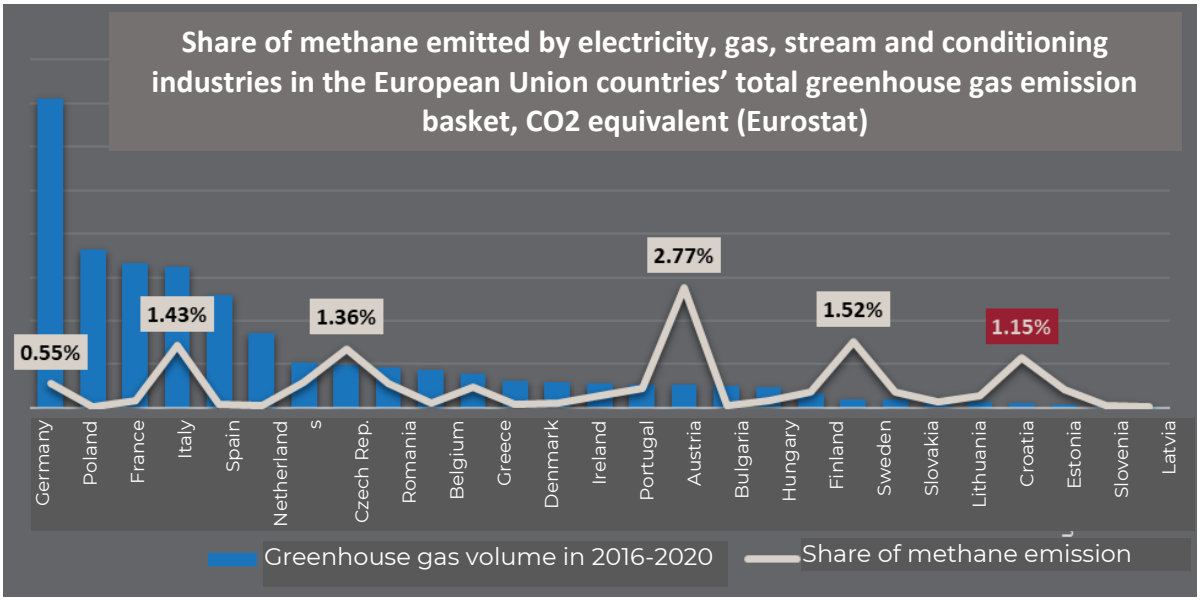
The Group's objectives are to gain broad support for the infrastructure development projects implemented by involving residents, businesses, local governments and the responsible public authorities and to ensure compliance with the environmental impact requirements and consequently a smooth course of 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 and ensure a continuous supply of natural gas.

MEASURES

The prospective distribution 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.

CONTRIBUTION OF NATURAL GAS LEAKAGES TO THE GREENHOUSE EFFECTU

Methane (the core element of natural gas) is a greenhouse gas, so its emission (occurring as continuous losses from the system or leakages upon gas pipeline ruptures or repairs) into the atmosphere is recalculated as the carbon dioxide (CO_2) emission equivalent. Compared with other European Union member states, Latvia generates low total GHG emissions, and those of methane are also low. As shown in the chart, the methane emission by the industry represented by the JSC "Gaso" accounts for just 1.55% of Latvia's total CO_2 emission equivalent, and specifically the methane emission by the distribution system operator in Latvia is just 0.11% of the total greenhouse gas emission volume[3].



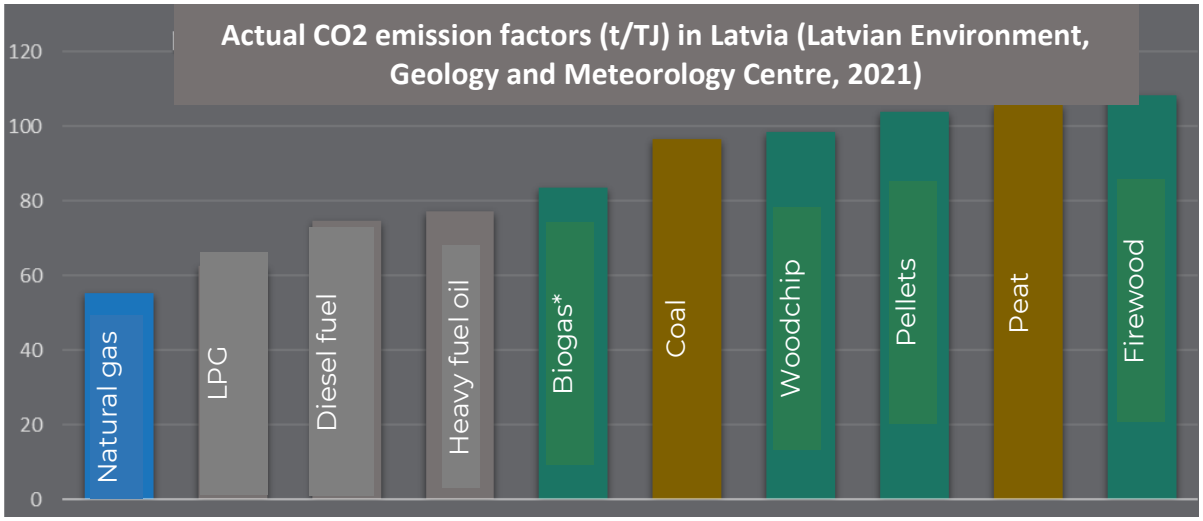
The high proportion of methane emission in Latvia as compared with the figures of other European Union member states stems not so much from the scale of consuming or transporting natural gas itself (the 2016-2020 average percentage in the total consumption balance is 23% in Latvia and 23% in the European Union[4]) as from the relatively low CO_2 emission volume of other sectors in Latvia. For instance, industry in Latvia is relatively small, and the electricity consumed has been produced with relatively low CO_2 emissions.

[3] The calculation uses Eurostat data on Latvia's total CO2 equivalent emissions; the Latvian Environment, Geology and Meteorology Centre report *LATVIA'S NATIONAL INVENTORY REPORT, Submission under UNFCCC and the Kyoto Protocol, Common Reporting Formats (CRF), 1990-2017*, pp.167-170 and Emission data appendices https://www.meteo.lv/lapas/sagatavotie-un-iesniegtie-zinojumi?&id=1153&nid=396 (accessed on 08.02.2021)

[4] Eurostat

Contribution of natural gas burning to the greenhouse effect

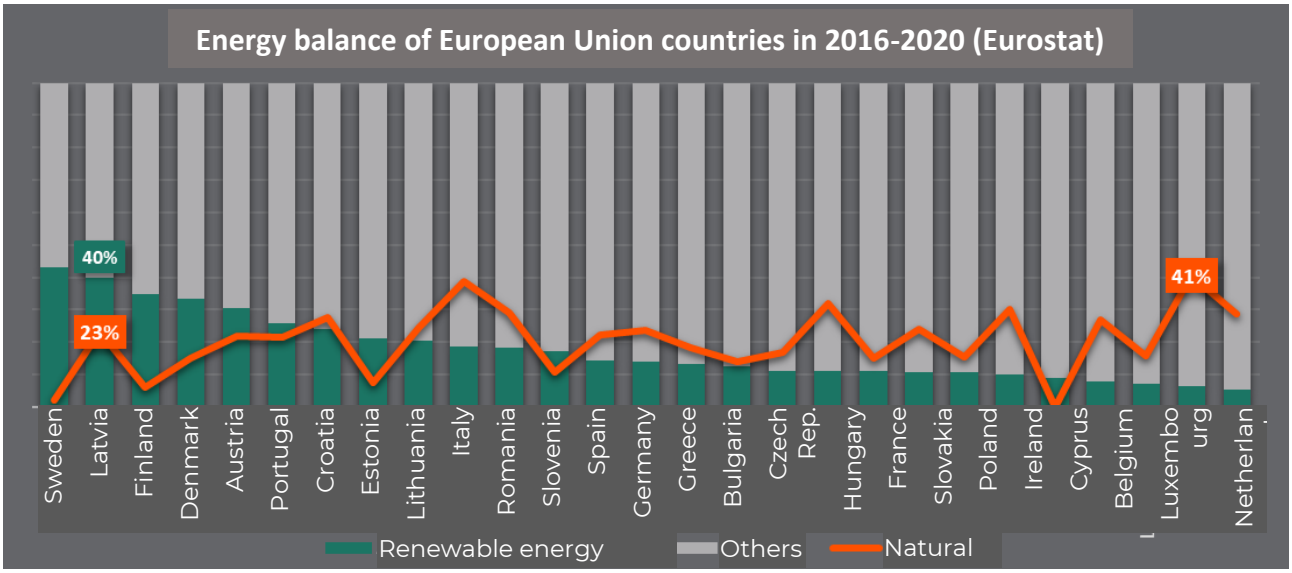
Given the properties of natural gas, its way of burning is particularly friendly to the environment. Hence, the JSC "Gaso", through developing the availability of natural gas in the country and using natural gas for own consumption, sees itself as a contributor to the quality of environment and to sustainability, especially where natural gas replaces other types of fuel, as the actual CO_2 emissions of natural gas burning are lower than those of oil products and substantially lower than those of coal, peat and renewable fuels – biogas and biomass.



*Based on the Danish example: DANISH EMISSION INVENTORIES FOR STATIONARY COMBUSTION PLANTS, Scientific Report from DCE – Danish Centre for Environment and Energy, No. 102 (2014), p.107.

With 40% of renewable energy resources in the total consumption balance, Latvia is among the leaders in the European Union in the use of renewables. However, a major part – about 80% – of the volume of renewables consumed in Latvia are solid biomass fuels which generate a substantial pollution of CO_2 and other substances. Meanwhile, emission-free (hydro, solar, wind) consumption in Latvia accounts for just 14% of renewables and 6% of the total consumption.[5]

[5] Eurostat; average data for 2016-2020



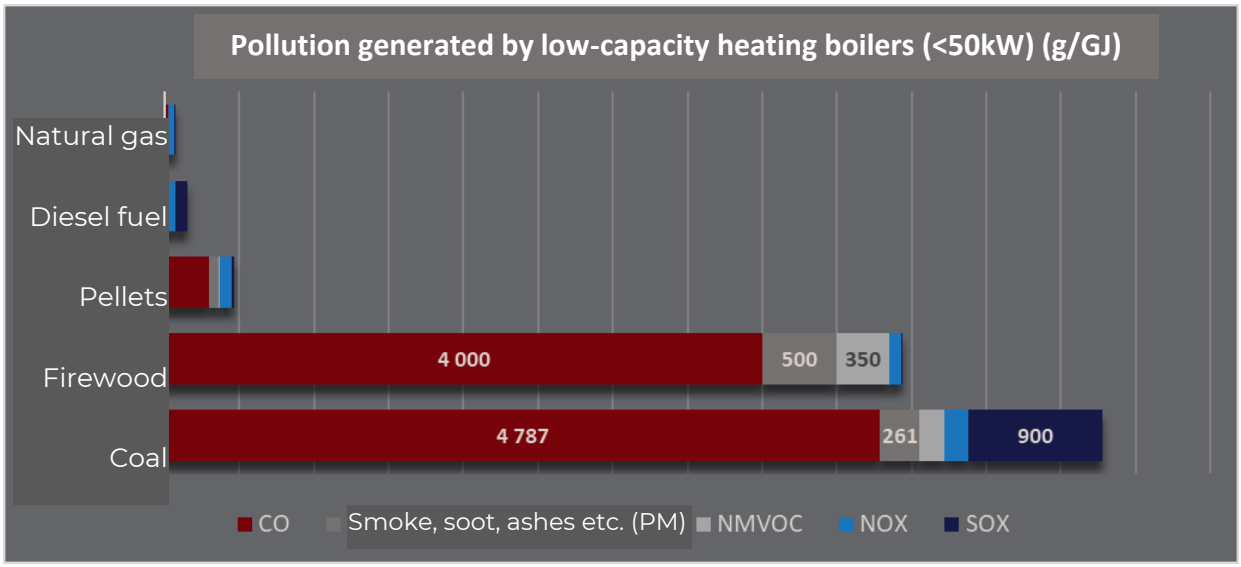
NOx, SOx, PM, heavy metal and other pollution

The burning of fuels not only generates GHG emissions and contributes to the greenhouse effect but also has a direct adverse impact locally upon human health and biological organisms, as fuel combustion results in a number of emissions.

There can be identified several categories or elements of pollution that pose threat to one's health or even life when in high concentrations. CO or carbon monoxide in a closed space is a direct threat to human life[6], PM or particle matter pollution (smoke, soot, ashes etc.) are a major contributor to human respiratory diseases[7], NMVOC or non-methane volatile organic compounds directly affect one's health in closed spaces and contribute to smog in the atmosphere[8], NOx or nitrogen oxides in high concentrations cause respiratory inflammations and contribute to smog and particulate matter pollution[9], while SOx or sulphur oxides contribute to acid precipitation and particulate matter pollution[10].

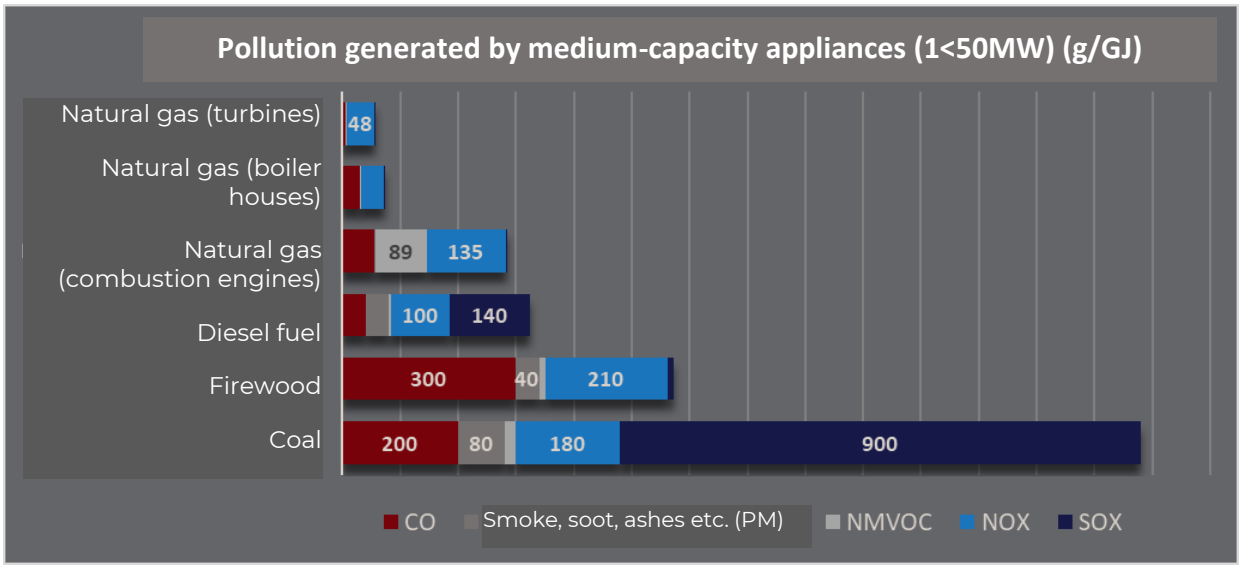
According to the data collected by the European Environment Agency, pellets and especially firewood – both widespread in Latvia – cause a substantial local pollution when used in the heating of private houses or other small areas, whereas natural gas essentially does not cause such pollution.

[6] European Environment Agency, https://www.eea.europa.eu/publications/2-9167-057-X
[7] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/emissions-of-primary-particles-and-5
[8] European Commission, Science for Environment Policy, Individual non-methane VOCs have large impacts on human health, 10 April 2014, Issue 369, https://ec.europa.eu/environment/integration/research/newsalert/pdf/369na5_en.pdf
[9] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/eea-32-nitrogen-oxides-nox-emissions-1
[10] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/eea-32-sulphur-dioxide-so2-emissions-1

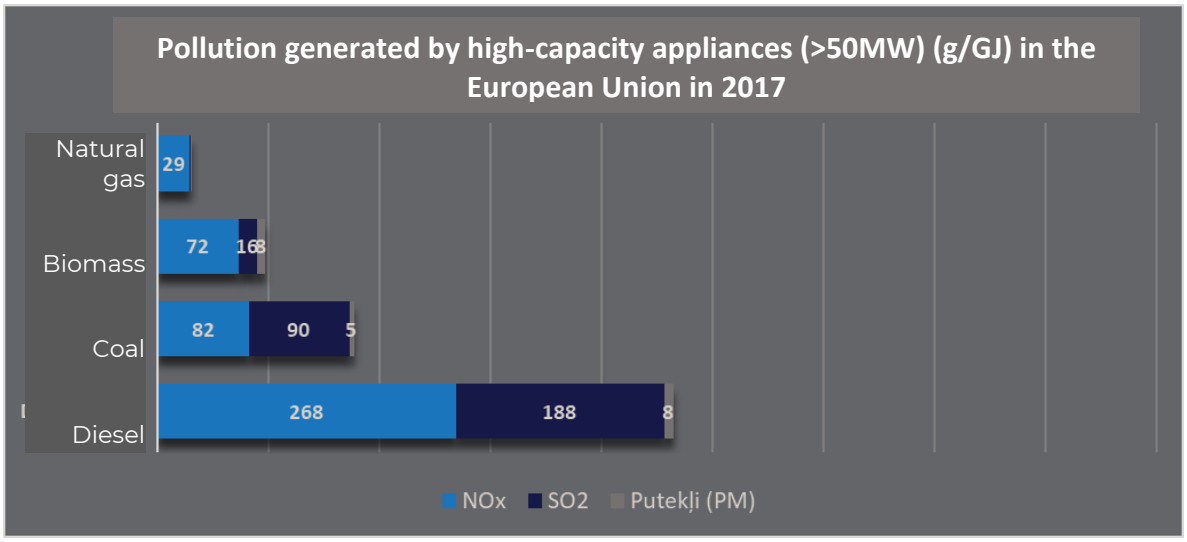


Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 2016

In terms of local pollution, the same goes for medium- and high-capacity appliances – natural gas generates a lower overall pollution than other fossil fuels or biomass.



Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 2016



Source: European Environment Agency, https://www.eea.europa.eu/data-and-maps/daviz/evolution-of-environmental-performance-of-14#tab-dashboard-01

There is another kind of pollution brought by the burning process – heavy metals, dioxins, polychlorinated biphenyls (hydrocarbon and chlorine compounds) and other substances. In the energy sector overall, the emission of these substances does not pose a substantial harm to the environment and human health, but the scale of emissions differs greatly among different kinds of fuel. In order to acquire a general idea of the extent and impact of such pollution, one can take a look at the group of heavy metals and one hazardous substance – benzopyrene.

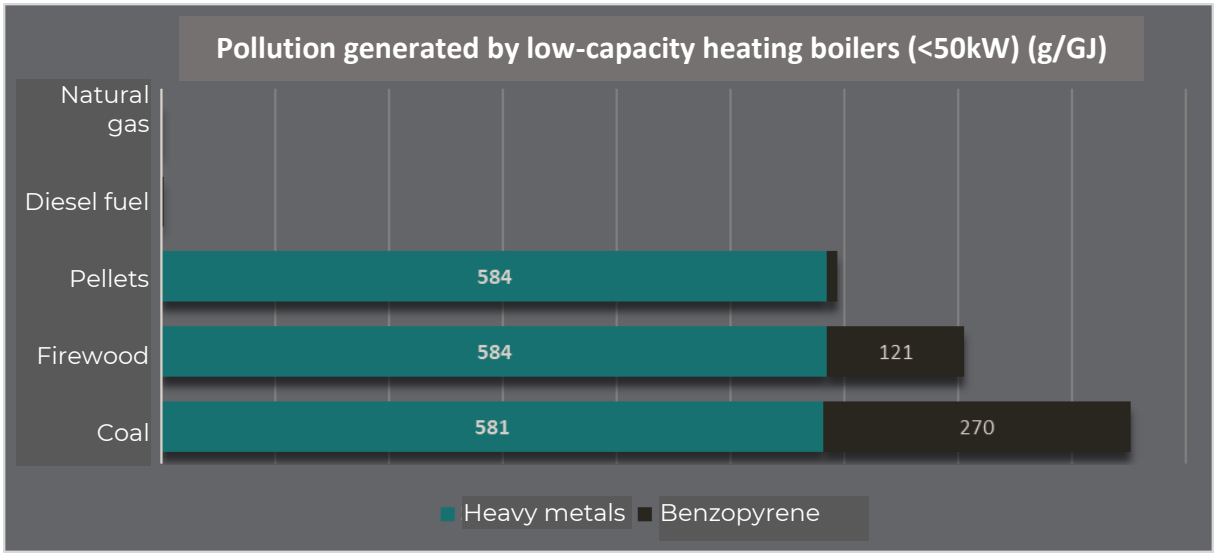
Heavy metals (lead, cadmium, mercury, arsenic, chromium, copper, nickel, selenium and zincs) affect ecosystems where they accumulate in the food chain and end up in the human body to the detriment health.[11] Overall, natural gas burning does not cause a considerable heavy metal pollution on an individual or national scale, as the emission of heavy metals depends directly on the presence of these metals in the raw material and there is very little of them in natural gas.

Benzopyrene (C20H12) affects human health, for instance, as a cancerogene[12]. Hence, there is attention paid to its emissions. Overall, natural gas burning does not cause a considerable benzopyrene pollution on an individual or national scale.

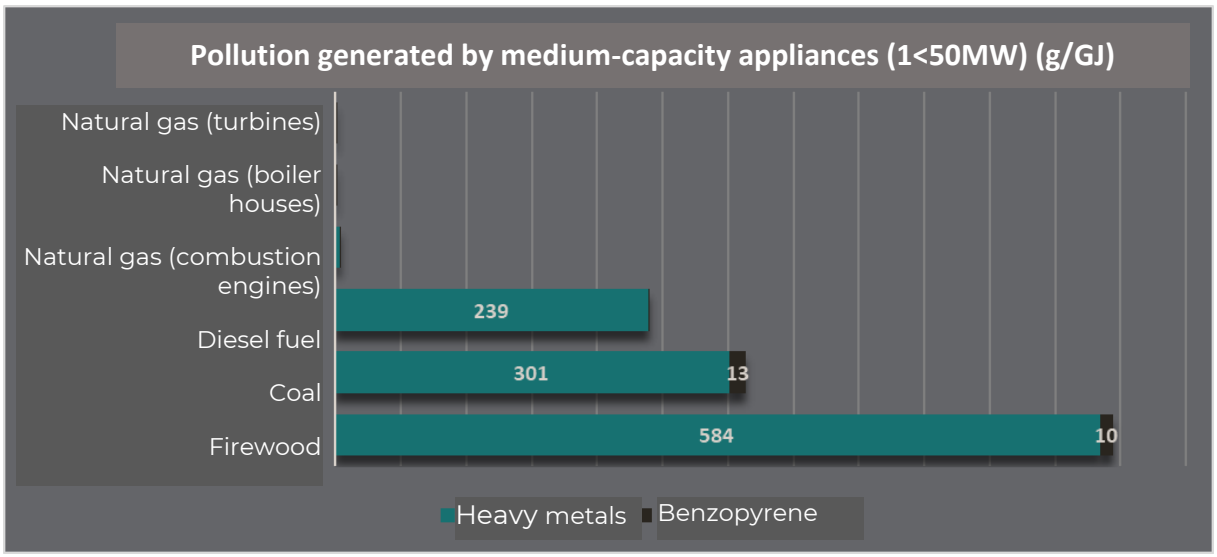
As shown in the charts, natural gas essentially does not cause heavy metal and benzopyrene pollution, and the same is true in respect of emissions of

[11] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/eea32-heavy-metal-hm-emissions-1/assessment-9
[12] https://pubchem.ncbi.nlm.nih.gov/compound/benzo%28a%29pyrene

other substances. The burning of biomass, in turn, results in pollution of heavy metals, benzopyrene, and other elements.



Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 2016



Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 2016

OPERATION AND POLLUTION OF NATURAL GAS DISTRIBUTION NETWORKS

POLICY AND RISKS

Overall, apart from emissions, the operation of the previously built distribution system has a negligible environmental impact, as the deforestation of protective zones and the cutting of trees takes place during the construction of system facilities and gas pipelines are predominantly located in accessible places outside forests. The key risks of environmental impact lie in natural gas emission from the distribution system. There are three ways how natural gas from the distribution system ends up in the atmosphere: regular losses from the distribution networks, during repairs, and upon accidents. The most substantial pollution occurs in the first scenario. 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 tightness 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 in the work of the JSC "Gaso". It is therefore one of the main tasks of the JSC "Gaso" 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 the JSC "Gaso". Natural gas is inflammable, explosive and asphyxiant in enclosed spaces. In the event of natural gas leakage, methane release occurs.

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.

MEASURES

There is only one distribution system operator active throughout the territory of Latvia, taking care of the operation of the system and the elimination of accidents. This has a number of advantages. Firstly, there is a single Emergency service phone number for natural gas system users. Secondly, all processes are managed in a centralised manner which makes it easier to cooperate with different services and local governments in emergency situations. Thirdly, this allows for an efficient planning of routine events, such as maintenance works, equipment, vehicles etc.

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 JSC "Gaso" website and the major media and distributed in the form of booklets. The JSC "Gaso" 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*.

A “Gaso gas school” has been established – lectures on the origin, use, appliances and danger of natural gas for three different age groups of children, an interactive mobile stand and informational materials. In 2021, due to the circumstances related to COVID-19, the operations of „Gaso gas school” were rearranged and, taking advantage of the opportunity to address the pupils remotely, there were nine “Labā gāze” (‘Good Gas’) lessons delivered, with several thousands of pupils receiving a “Gaso gas school” booklets in the shape of a gas stove. In cooperation with the Gaso Training Centre, six informational “Gāzes ABC” (‘Gas ABC’) videos have been produced, addressing topics such as different gases, danger, safety, action. A number of additional informational videos are planned in 2022 regarding the advantages and dangers of natural gas. The clips will be used during the remote events of “Gaso gas school”, at the customer service centre of the JSC “Gaso”, and published on the websites of the JSC “Gaso” and other emergency services and on social media. In 2022, remote lessons of “Gaso gas school” will also be held in cooperation with „Skolas soma“ and „Iespējamā misija“, and there are safety booklets set to be distributed.

For many years, the company has been using technologies that allow installation and repairs of natural gas connections to be done 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 tightness tests of internal pipelines.

At the Riga unit of the JSC “Gaso”, 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 the JSC “Gaso”.

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

The Emergency Service and local natural gas supply units of the JSC “Gaso” 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, the JSC “Gaso” 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.

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 construction and running of the natural gas distribution system, and trading in natural gas – does not generate hazardous waste.

The JSC "Gaso" 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. The JSC "Latvijas Gāze" has one – for the boiler house at 6 Aristida Briāna Street, 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

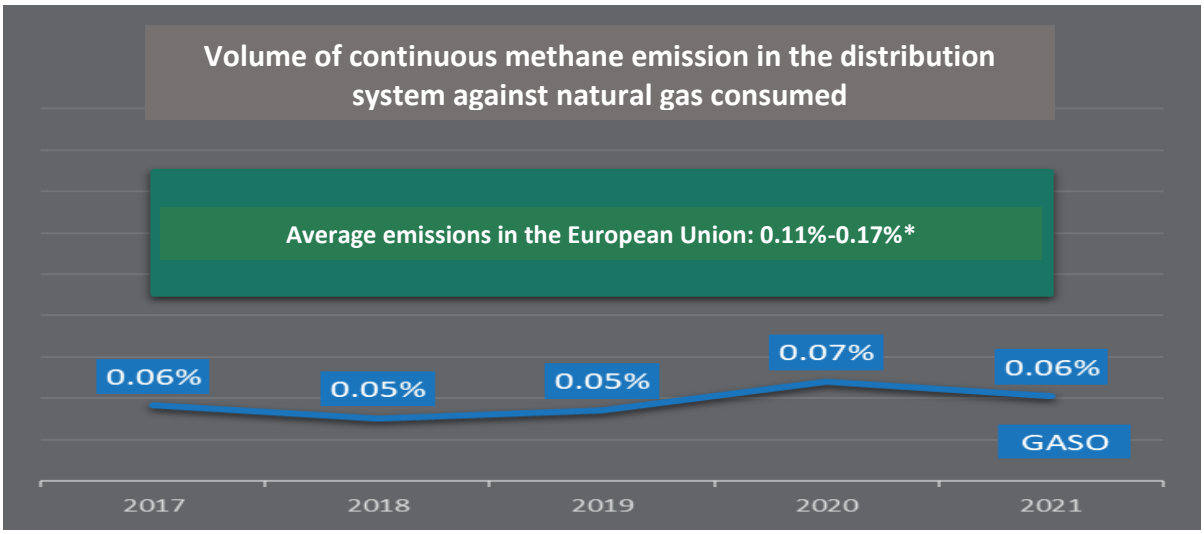
In 2021, there were no complaints received, including from whistleblowers, over environmental infringements. Nor were there infringements found by the supervisory institutions. No substantial environmental harm has been inflicted and no areas have been deforested in the course of construction and running of the distribution system.

METHANE LOSSES IN THE DISTRIBUTION SYSTEM (COMPARISON WITHIN THE INDUSTRY)

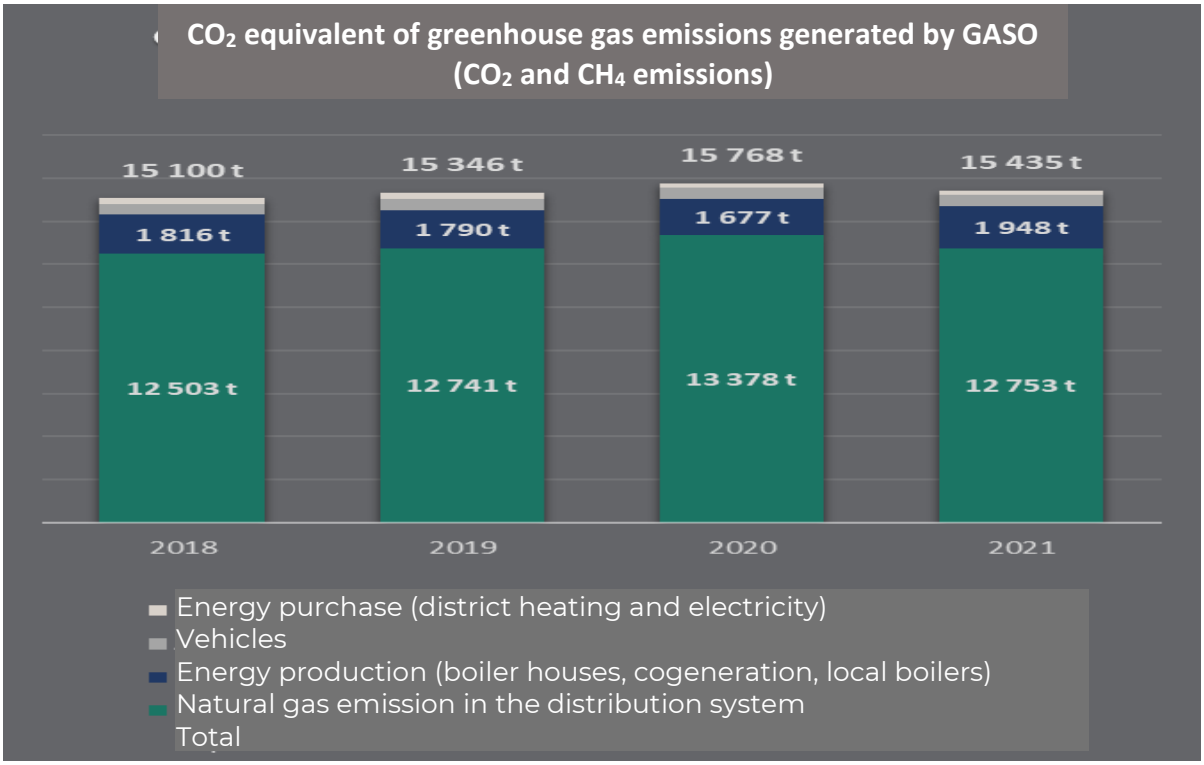
Methane, or natural gas, is a greenhouse gas. Compared to other European Union member states, Latvia generates low emissions of GHG as a whole, and the same goes for methane individually. The calculated amount of methane emission in the Latvian natural gas distribution system is approximately 2-3 times 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.

The increase in the proportion of methane emission in 2021 stems from the decrease in the natural gas supply volume while the regular emissions changed very little.

Amount of methane emission in the JSC "Gaso" distribution system against natural gas consumed



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



The carbon footprint of the JSC "Gaso" primarily stems from the release of natural gas (methane) into the atmosphere (a CO_2 equivalent factor of 25 has been used for methane in the calculations).

The own-produced heat is much more environmentally friendly that the one supplied.

Overall, the JSC "Gaso" has a small carbon footprint given the relatively low natural gas losses in the system and the use of natural gas in own energy production and vehicles.

The increase in CO_2 emissions in 2021 results from the damage inflicted by third parties (gas pipeline rupture while digging trenches, during construction works etc.).

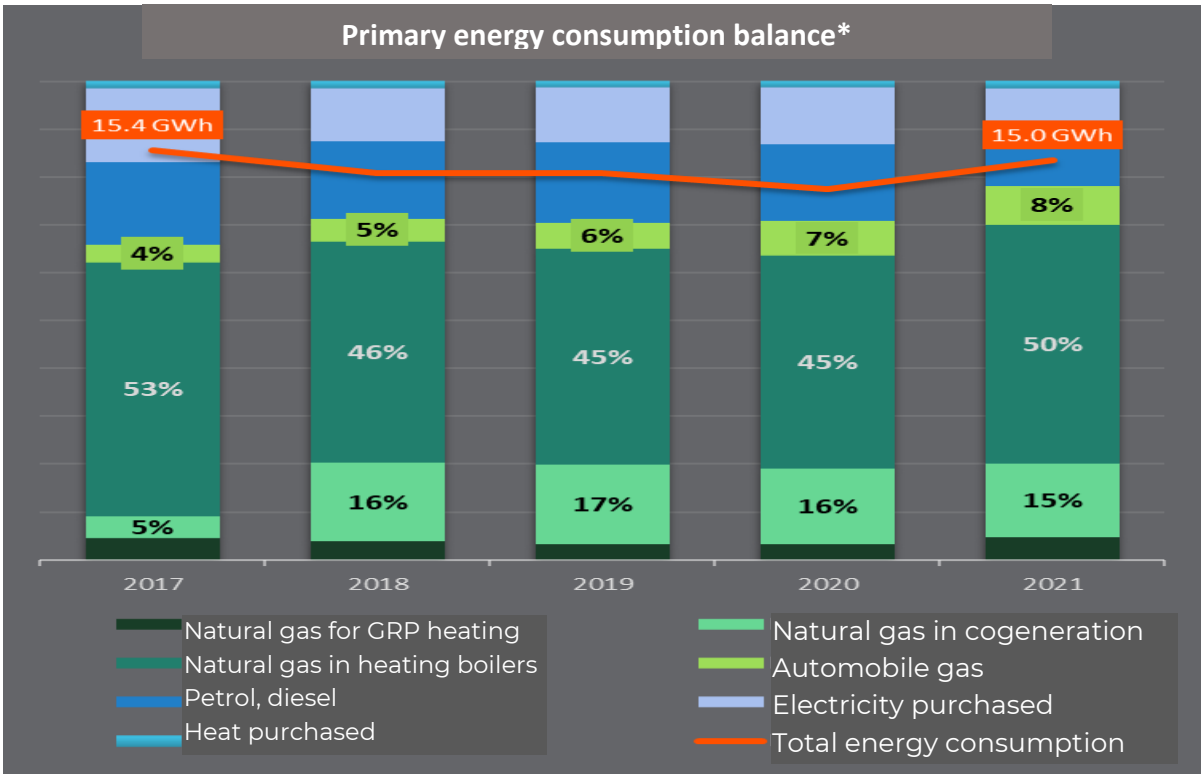
PRIMARY ENERGY CONSUMPTION BALANCE

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 2016, the share of natural gas in the primary energy consumption basket has grown from 64% to 71%.

In 2021, the JSC "Gaso" itself produced of natural gas 97% of its consumed heat and 31% of its consumed electricity. Natural gas also accounted for 45% in the vehicle consumption balance, which is a substantial rise from 18% in 2017.

Overall, natural gas accounted for 78% in the primary energy consumption balance of the JSC "Gaso" in 2021, which is a substantial rise from 66% in 2017.

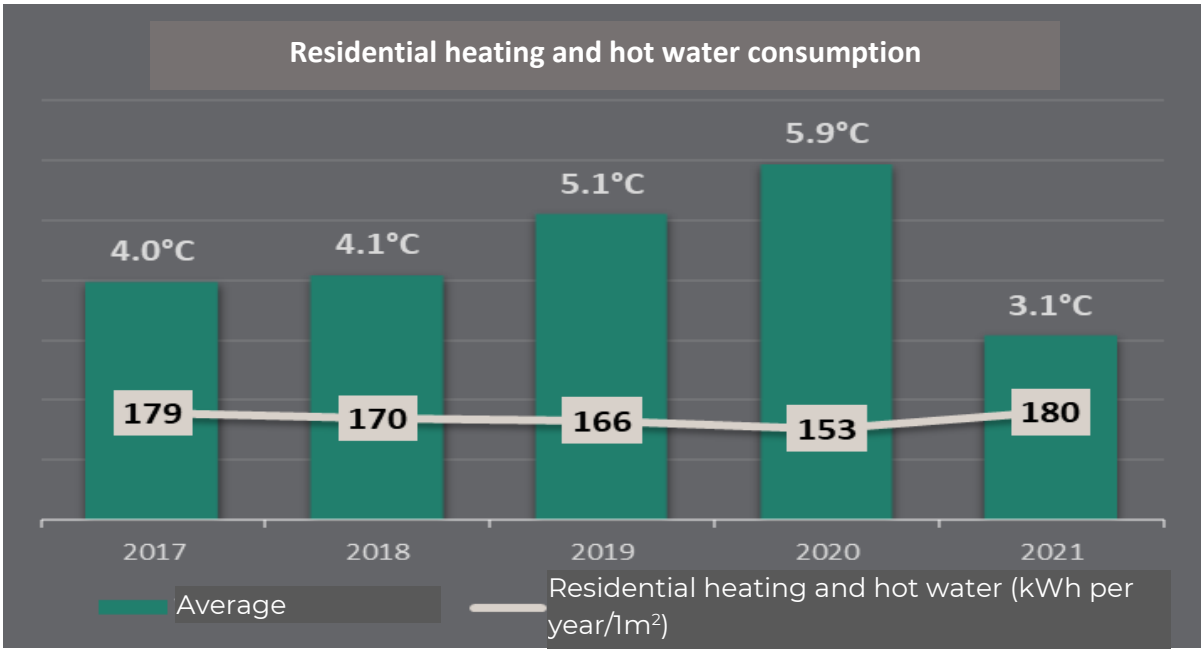
The Group also invests in the energy efficiency of buildings and equipment, which contributes to a lower or more efficient consumption. The total energy consumption has decreased by 3% since 2017. It should be noted, though, that there has been an increase against 2018-2019 due to changes in the outdoor air temperature and heating.



*The calculations for 2017 include the data of the trader and the DSO. The DSO's consumption in 2016-2017 accounted for over 90%. 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.

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 (a lower air temperature results in a higher consumption).

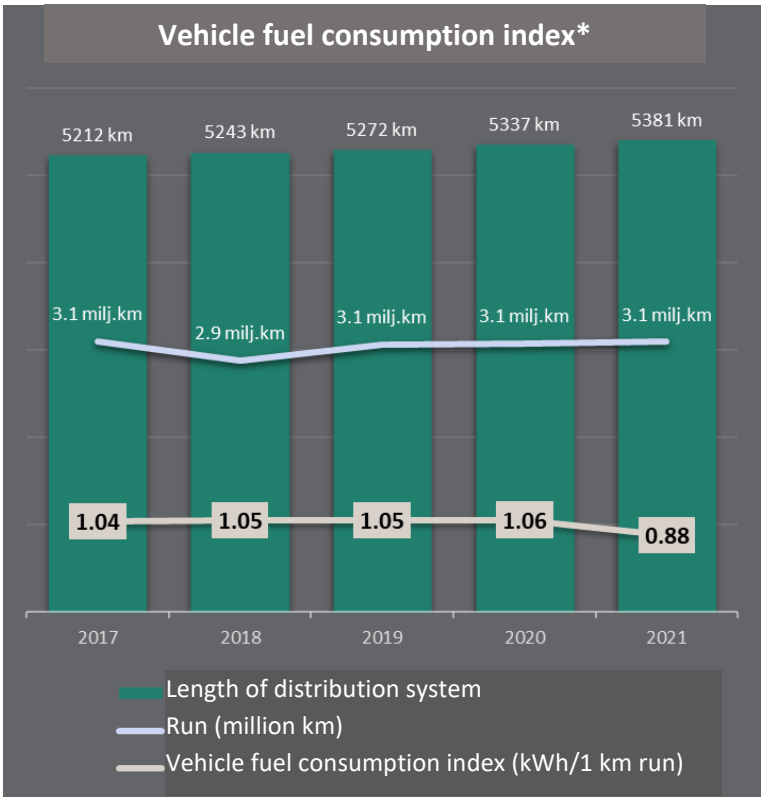


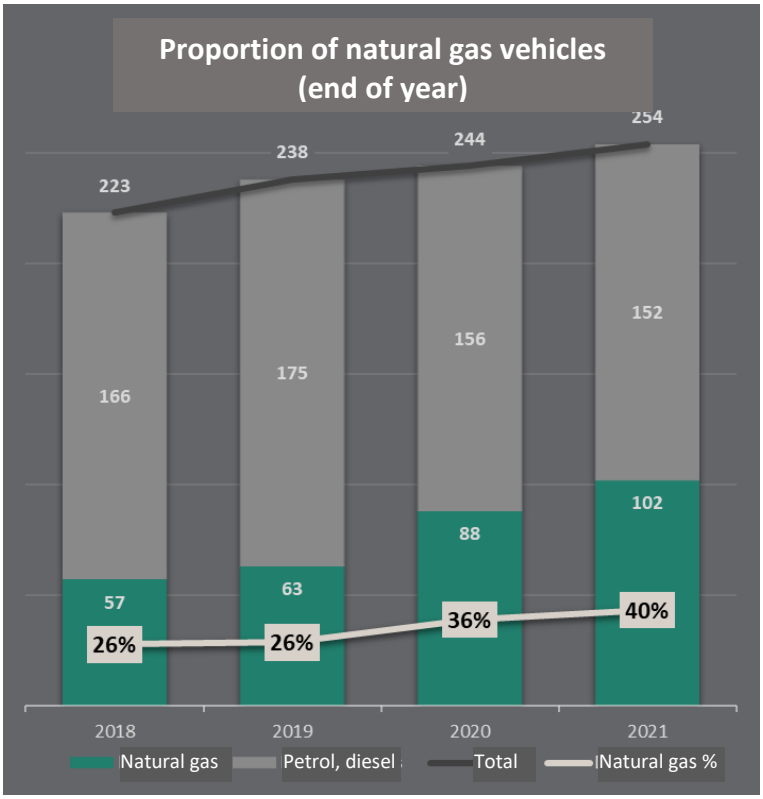
* Average air temperature in Latvia during the heating season (Jan-May and Sep-Dec); source: CSB

VEHICLE FUEL CONSUMPTION

The positive changes in the vehicle fuel consumption index in 2021 primarily stem from changes in the car fleet as a result of buying cars with smaller sized engines – for instance, switching from 1.6 l petrol engines to 1 l natural gas engines which consume less fuel for the same run.

In 2020 and 2021, the number of vehicles with natural gas engines has grown substantially (from 57 to 105), as has their proportion (from 26% to 40%). This also leaves a positive impact on the amount of both energy consumption (mostly due to engine size) and CO2 emissions (due to both engine size and natural gas).


Vehicle fuel consumption index*
5212 km
5243 km
5272 km
5337 km
5381 km
3.1 milj.km
2.9 milj.km
3.1 milj.km
3.1 milj.km
3.1 milj.km
1.04
1.05
1.05
1.06
0.88
2017
2018
2019
2020
2021
Length of distribution system
Run (million km)
Vehicle fuel consumption index (kWh/1 km run)

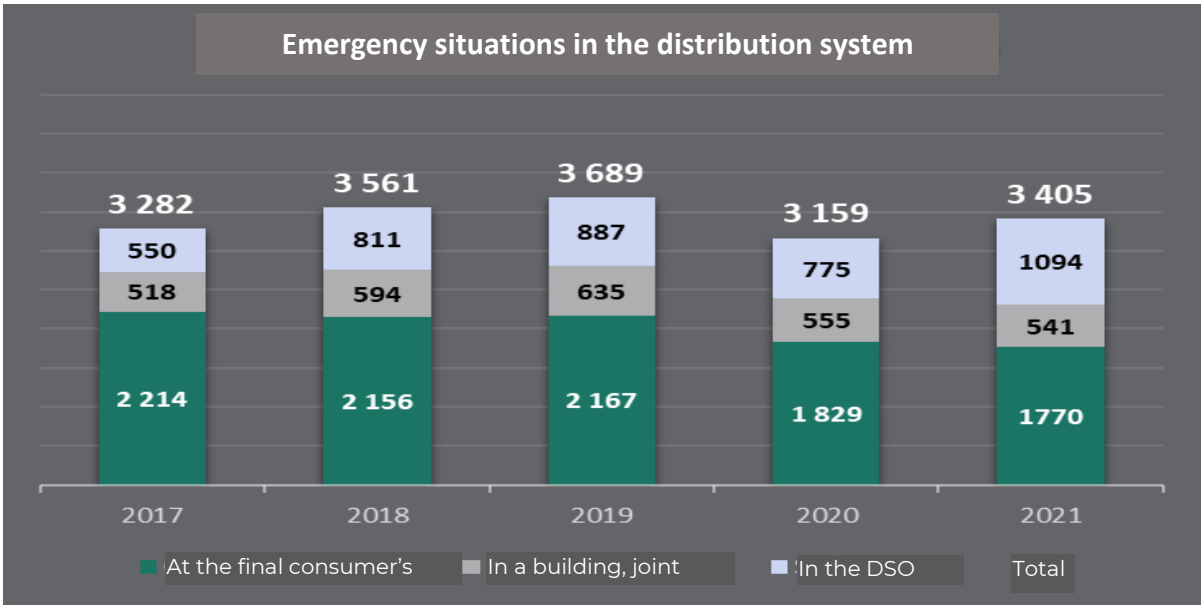

Proportion of natural gas vehicles (end of year)
223
238
244
254
166
175
156
152
57
63
88
102
26%
26%
36%
40%
2018
2019
2020
2021
Natural gas
Petrol, diesel
Total
Natural gas %

EMERGENCY SITUATIONS IN THE NATURAL GAS DISTRIBUTION SYSTEM

Since 2017, the number of final consumers has not changed much, yet the number of emergency calls has varied. The most part of emergency situations are damages to the equipment owned by final consumers. The number of those saw a gradual decrease, possibly due to several reasons, such as a gradual decrease in the number of apartment connections, consumers installing more modern hardware or being better informed how to handle natural gas etc.

The number of emergency situations in joint estates and the DSO system is highly variable regardless of other known circumstances.

Accidents (emergency situations with severe consequences) in the distribution system occur very rarely overall.

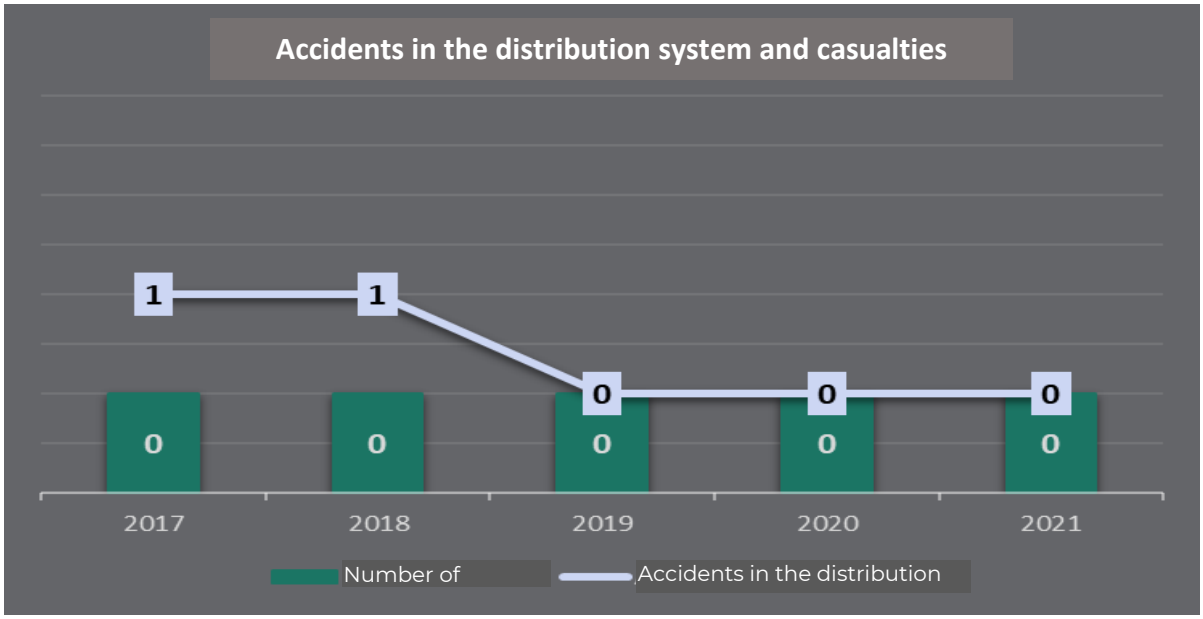


*Includes equipment whose operation falls under the final consumer's responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and gas pipelines within the final consumer's premises

** 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, 2020 and 2021, there were no emergency situations in Latvia 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 (23 m^3) found in a natural gas distribution system pipeline and subsequently disposed of. There were no other incidents involving hazardous waste.

ANTI-CORRUPTION

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

COMPANY'S CULTURE, PROCEDURES AND MEASURES

POLICY AND RISKS

Compliance with the regulatory requirements is one of the cornerstones of the Group's corporate governance and encompasses implementation of anti-corruption requirements. 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 ethical principles enshrined in the said codes are binding to all employees of the Group, and the Group also urges its partners to observe equivalent principles.

When it comes to procurements regarding captive household consumers, the JSC "Latvijas Gāze" and the JSC "Gaso" are public utilities and apply procurement procedures in respect of supplier selection pursuant to the Law On Procurements of Public Service Providers if the expected contract price is above the threshold set by the Cabinet of Ministers. With supplies of goods and services where the expected contract price is below this threshold, the companies apply their internal regulatory framework which lays down a detailed procedure of supplier selection, ensuring process transparency.

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 or supplier selection and in the rendering of services. Currently being the sole provider of natural gas distribution system services, the JSC "Gaso" 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 for a transparent process of supplier selection, decision-making, contract award and performance control. The measures implemented by the company substantially reduce the risks of commercial bribery.

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 corruption or commercial bribery in every facet of business in respect of both services provided and services received.

Under the Articles of Association of the 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 the JSC "Gaso", at least two Board members are required for representation.

The JSC "Gaso" has set up standing and *ad hoc* procurement commissions. Open tenders are announced on the company's website and through the Procurement Supervision Bureau's system. The outsourced electronic procurement system MERCELL is now used with most procurements. It gives more transparency and an electronic control over tender stages and information flows, mitigating the risks of unwarranted intervention in the processes.

The companies within the Group have drawn up a procedure of drafting, conclusion, performance, control and storage of contracts. In 2021, the JSC "Gaso" drew up and approved a procurement organisation procedure.

Both financial and human resources are allotted towards maintaining the Group's compliance with the regulatory requirements and reducing the probability of the risks of non-conformity 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 entrepreneurs – 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, the 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 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, assessed the risks of sanctions and money laundering, and prepared a *Sanction risk policy* and a Sanction risk assessment covering international and national sanction risks. In this regard, the JSC “Latvijas Gāze” as a company listed on stock exchange (participant of the financial market) is monitored by the Financial and Capital Market Commission.

The JSC “Latvijas Gāze” has approved an updated general *Risk management policy* with a view to support the company’s Council, Board, heads of structural units, and employees in running an effective risk management system. It defines a variety of strategic, operational and compliance risks as material to the company and lays down specific service provision and costing procedures and documentation, and establishes internal control mechanisms for identifying and managing such risks.

The Group has implemented a whistleblowing scheme enabling anyone to report possible compliance issues without fear of identification.

PERFORMANCE INDICATORS

VIOLATIONS

In 2021, 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 the JSC “Latvijas Gāze” and/or the JSC “Gaso” resolved in 2021 or currently pending over anti-competitive or competition-restrictive behaviour.

TRAINING

In 2021, all employees of the 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 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.