

Risk Management Policy of Latvenergo Group

1. Objective of the Policy

- 1.1. The objective of the Risk Management Policy (hereinafter referred to as the Policy) of Latvenergo Group (hereinafter referred to as the Group) is to establish uniform basic risk management principles and distribution of responsibilities within the Group in order to timely identify and manage the key factors that affect the operations of the Group in a negative way, ensuring the achievement of the strategic goals of the Group and its successful development and reducing potential losses and/or harm to reputation.
- 1.2. The principles set out in the Policy correspond to the best international practices regarding risk management and the binding laws and regulations of the Republic of Latvia.

2. Scope of the Policy

- 2.1. This Policy is relevant to Latvenergo AS and the capital companies, all shares/capital shares of which are owned by Latvenergo AS (hereinafter referred to as the Group Companies).
- 2.2. With regard to the owner of the electricity [transmission] system and the distribution system operator, this Policy applies to the extent that it does not conflict with the independence requirements for the owner of the electricity [transmission] system and the distribution system operator laid down by legislation.
- 2.3. The principles of this Policy are relevant to the capital companies registered in foreign countries, all shares/capital shares of which are owned by Latvenergo AS in so far as they do not contradict the legislation of the respective country.
- 2.4. This Policy sets forth the general basic elements and principles of risk management, their interaction and integration into the processes of the Group.
- 2.5. The exact course of the processes as well as the distribution of duties and responsibilities within the risk management measures are determined in the Risk Management Regulations, methodologies and other regulatory documents of the Group Companies.
- 2.6. In implementing risk management, the Group divides the risks into the following groups:
 - 2.6.1. strategic risks;
 - 2.6.2. operational risks;
 - 2.6.3. financial risks;
 - 2.6.4. legal and compliance risks;
 - 2.6.5. fraud and corruption risks.

3. Terms and Definitions

- 3.1. **Risk** – a possible event which may have a negative impact on the ability of the Group to provide services or meet its business objectives and effectively implement its strategy.
- 3.2. **Major risks** – events which may have a significant negative impact on the ability of the Group to provide services or meet its strategic objectives; events that may cause significant financial loss to the Group or substantial harm to its reputation; or events that may have a negative impact on the health and/or life of individuals but the probability of the occurrence and/or the potential negative impact of which cannot be determined precisely.
- 3.3. **Strategic risks** – risks associated with setting and implementing strategic goals.

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- 3.4. **Operational risks** – risks associated with employees’ errors, non-conforming or incomplete internal processes, information systems, projects, environmental impact, work environment and external threats.
- 3.5. **Financial risks** – market risk (price, interest rate and currency risk), credit risk and liquidity risk.
- 3.6. **Legal and compliance risks** – risks due to the impact of external circumstances, including legal and documentation-related risks, and non-observance or violation of compliance laws, regulations and standards.
- 3.7. **Fraud and corruption risks** – risks when decisions may be adopted for the benefit of one’s own or another person’s interests or undue benefits are acquired, causing damage to the Group.
- 3.8. **Risk management** – identification of existing and potential risks and their development scenarios, analysis of risk causes, impact and probability of occurrence, identification of risk controls and critical controls, risk assessment before and after the existing risk controls, identification, assessment and implementation of additional risk mitigation measures for reducing the residual risk, if necessary, and risk control.
- 3.9. **Plan for Implementation of Major Risk Control Measures** – a document containing identified “critical” and “high” risk measures to mitigate and/control Major Risks (monitoring of critical controls, implementation of additional risk mitigation measures), business divisions/organisational units responsible for implementation/execution of these measures as well as deadlines for reporting on the implementation/execution of these measures.
- 3.10. **Risk appetite** – the amount and the types of risk the Group is willing to accept to achieve its strategic objectives.
- 3.11. **Risk Management System** - a combination of practices, tools and methods used by the Group to identify, analyze, evaluate, mitigate and manage risks.

4. Basic Principles of Risk Management

- 4.1. Risk management within the Group is an integral part of day-to-day management processes, operational activities, functions and other processes that is binding on all levels of the governance of the Group. Risk management decisions are based on risk awareness. Risk management principles of the Group:
 - 4.1.1. risk management is integrated into both strategy development and implementation processes and day-to-day operational activities;
 - 4.1.2. the Risk Management System and Process are aligned with the needs of the Group and risk specifics;
 - 4.1.3. risk management responds adequately and in a timely manner to external and internal changes and events;
 - 4.1.4. historical, current as well as expected future information is used for risk management;
 - 4.1.5. regular and systematic training of employees and provision of information and explanation, promoting risk awareness and management;
 - 4.1.6. the Risk Management System is being constantly improved according to the principles of the best practices and experience;
 - 4.1.7. the responsibility for risk management is determined at various levels of the management of the Group, precisely defining responsibilities to achieve effective risk management of the Group;
 - 4.1.8. objective and sufficient information which is important for risk management is communicated in a timely manner to those employees who need it;
 - 4.1.9. no tolerance of fraud and corruption.

5. Implementation and Monitoring of the Policy

5.1. Supervisory Board of Latvenergo AS:

- 5.1.1. approves the Risk Management Policy of the Group;
- 5.1.2. supervises the operation of the Risk Management System of the Group;
- 5.1.3. reviews the report of the Audit Committee of Latvenergo AS on the effectiveness of the Risk Management System of the Group on a yearly basis;
- 5.1.4. reviews the Major Risk Management Report of the Group on a yearly basis.

5.2. Audit Committee of Latvenergo AS:

- 5.2.1. monitors the effectiveness of the Risk Management System of the Group;
- 5.2.2. provides the Supervisory Board of Latvenergo AS with proposals for eliminating the deficiencies of the Risk Management System;
- 5.2.3. reports to the Supervisory Board of Latvenergo AS on the effectiveness of the risk management system of the Group at least once a year.

5.3. Internal Audit of Latvenergo AS:

- 5.3.1. checks the organisation and operation of the Risk Management System on a regular basis and assesses whether the Major Risks are adequately managed and whether the risk assessment and reporting on risks and controls are compliant and reliable.

5.4. Management Board of Latvenergo AS:

- 5.4.1. establishes a comprehensive Risk Management System of the Group;
- 5.4.2. develops the Risk Management Policy;
- 5.4.3. approves the annual Major Risk Management Report of the Group, including the current Major Risks and the definition of the risk appetite of the Group;
- 5.4.4. reports to the Supervisory Board of Latvenergo AS on the Major Risk Management of the Group at least once a year.

5.5. Management Board of the Group Company:

- 5.5.1. provides risk management in accordance with the Risk Management System of the Group;
- 5.5.2. approves internal regulatory documents for Risk Management in the Group Company;
- 5.5.3. approves the risks of the Group Company, inc. Major Risks and reviews the implementation of critical controls and additional measures of Major Risks.

5.6. Chief Officers of the Group Company:

- 5.6.1. coordinate and supervise the risk management activities in the business divisions under their responsibility;
- 5.6.2. supervise the implementation of the Major Risks critical controls and additional measures in the business divisions under their responsibility.

5.7. Risk Management Committee of Latvenergo AS:

- 5.7.1. ensures unified risk management within the Group;
- 5.7.2. identifies the actual risks of the year and selects of the Major Risks for detailed analysis;
- 5.7.3. reviews the results of the detailed analysis of the Major Risks and the assessments of the actual Major Risks;
- 5.7.4. reviews and provides recommendations for internal regulations governing the risk management of the Group;
- 5.7.5. provides recommendations to the Management Board of Latvenergo AS regarding improvement and enhancement of the Risk Management System.

5.8. Risk Manager of Latvenergo AS:

- 5.8.1. ensures the development of the internal regulations governing the risk management of the Group at the instruction of the Management Board of Latvenergo AS;
- 5.8.2. provides support to the Group Companies in the implementation of risk management and provision of the related documentation;

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- 5.8.3. promotes cooperation between the Group Companies in risk management matters and contributes to uniform understanding of risk management within the Group;
- 5.8.4. maintains and updates the single Major Risk Register of the Group;
- 5.8.5. provides an annual assessment of the Major Risks of the Group;
- 5.8.6. in cooperation with the Group Companies, provides a detailed analysis of the Major Risks of the Group selected by the Risk Management Committee of Latvenergo AS;
- 5.8.7. provides the management of Latvenergo AS with comprehensive information on the Major Risks of the Group, their assessment and control measures.
- 5.9. **Managers of Business Divisions/Organisational Units of the Group Company:**
 - 5.9.1. continuously monitor the processes of business divisions/organisational units under their supervision and the external business environment in order to identify and manage the existing and potential risks in a timely manner in accordance with the scope of their business divisions/organisational units – to ensure the implementation of risk controls and the identification, assessment and implementation of additional risk mitigation measures, if necessary.
- 5.10. **Employees of the Group Company:**
 - 5.10.1. carry out risk management within their competence and established processes and/or procedures;
 - 5.10.2. notify their immediate supervisor in a timely manner of the identification of a new risk in their work.
- 5.11. **Employees Responsible for Risk Management in the Group Companies:**
 - 5.11.1. compile information about the Major Risks of the Group Company, their annual developments, assessment and risk management;
 - 5.11.2. inform the Management Board of the Group Company and the Risk Manager of Latvenergo AS in a timely manner about the identification of a new Major Risk;
 - 5.11.3. in cooperation with the Group Companies and the Risk Manager of Latvenergo AS, perform a detailed assessment of the Major Risks applying to the relevant Group Company that have been selected by the Risk Management Committee of Latvenergo AS;
 - 5.11.4. inform the Management Board of the Group Company of the analysis and assessment of the Major Risks applying to the relevant Group Company that have been selected by the Risk Management Committee of Latvenergo AS and submit proposals for the Plan for Implementation of Major Risk Control Measures for approval, if necessary;
 - 5.11.5. submit a report on the results of the analysis of the selected Major Risks to the Risk Manager of Latvenergo AS.

6. Risk Management Process

- 6.1. The risk management process of the Group includes the following elements:
 - 6.1.1. risk identification;
 - 6.1.2. risk analysis;
 - 6.1.3. risk assessment;
 - 6.1.4. planning of additional risk mitigation measures;
 - 6.1.5. risk management monitoring and risk review;
 - 6.1.6. reporting and information.

7. Responsibility for Maintaining the Policy

Risk Management & Insurance Business Division of Latvenergo AS has responsibility for maintaining this Policy and updates this Policy at least every three years.

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8. Related Documents

- 8.1. Corporate Governance Policy of Latvenergo Group.
- 8.2. Fraud and Corruption Risk Management Policy of Latvenergo Group.

9. Subordinate Documents

Risk Management Regulations of the Group Companies.
