

Risk Management Policy of Latvenergo Group

1. POLICY OBJECTIVE

The objective of the policy is to establish the common basic principles of risk management and the division of responsibilities within the Group in order to timely identify and manage the most significant risk factors negatively affecting the operations of the Group, as well as opportunities, thus ensuring the achievement of the strategic goals of the Group, the successful development of the Group, and the reduction of potential losses and/or reputational damage.

2. EXPLANATION OF TERMS

Term	Meaning
Residual risk	the level of risk, taking the impact of current control measures into account
Key risk indicators (KRI)	indicators that provide an early warning of changes in the likelihood or impact of a specific risk
Group	Latvenergo AS and the totality of all its subsidiaries and dependent companies
Group Companies	Latvenergo AS and its subsidiaries, as well as dependent companies
Group Risk	risk, the Residual risk level of which is assessed as “critical” or “high” at the level of the Group, or which has been defined by the Management Board of the Parent Company (Latvenergo AS)
Risk	a potential event, which may have a negative and/or positive impact on the ability of Group companies to provide services or meet their business objectives and effectively implement their strategy
Risk appetite	the amount of risk and the type of risk that the Group and/or Group company is willing to take in order to achieve the goals set in the strategy
Risk Register System	a single database where information on identified incidents and risks is accumulated ¹

¹ 1 Currently <https://riski.energo.lv>

Risk management	identification of existing and potential risks, identification of risk development scenarios, analysis of causes, impact and likelihood of occurrence of risks, identification of risk control measures and critical control measures, assessment of risks before and after current risk control measures, identification, assessment and implementation of additional mitigating actions to reduce Residual risk, if required, as well as risk control
Risk management framework	a combination of the practices, tools and methods used by the Group to identify, analyse, assess, mitigate, and manage risks

3. SCOPE OF THE POLICY

3.1. The Policy applies to Latvenergo and capital companies, all the shares of which belong to Latvenergo AS.

3.2. In regard to the electricity distribution system operator, this Policy applies to the extent that it does not conflict with the independence requirements for the electricity distribution system operator laid down by the laws and regulations.

3.3. In the case of Group companies where Latvenergo AS holds shares together with other members or shareholders, the provisions of the Policy shall be applied to the extent possible, by agreement with the other members of such company or with the consent of the Supervisory Board of the Group company or the meeting of members/shareholders for the application of this Policy or its individual principles.

3.4. The principles of the Policy apply to the Group companies which are registered abroad and all shares/capital shares of which belong to Latvenergo AS to the extent they are not in conflict with the laws of the respective country, the laws and regulations of the European Union and the norms of international law.

3.5. The precise procedures of processes, as well as the allocation of duties and responsibilities within the framework of risk management activities at a Group company are determined by the risk management rules, methodologies and other regulatory documents.

3.6. If a Company uses the services provided by Latvenergo AS to ensure the risk management process, it does not need to draw up its own separate internal regulatory documents and may establish, by a regulatory document, the procedure whereby the relevant documents approved by Latvenergo AS are applied in the risk management of the respective Company.

4. BASIC PRINCIPLES OF RISK MANAGEMENT

4.1. Risk management is an integral part of day-to-day management processes, operational activities, functions and other processes of a Group company, which is binding at all levels of the company management. Risk management decisions are based on risk awareness.

4.2. In accordance with international best practices of risk management, the companies of the Group shall adhere to the following risk management principles:

4.2.1. risk management is integrated into strategic development and implementation as well as daily operational activities;

- 4.2.2. the risk management framework and process are coordinated with the needs of the Group or Group company and the specific nature of their risks;
 - 4.2.3. risk management responds appropriately and in a timely manner to external and internal changes and events;
 - 4.2.4. historical, current, as well as expected future information is used in risk management;
 - 4.2.5. regular and systematic education of the employee is in progress, as well as the provision and explanation of information that promotes the understanding of risks and risk management;
 - 4.2.6. the risk management framework is constantly improved in accordance with the principles and experience of best practice;
 - 4.2.7. responsibility for risk management is determined at different levels of the Group company management by clearly defining the responsibilities for achieving effective risk management of the Group company;
 - 4.2.8. important, objective and sufficient information for risk management is provided in a timely manner to those employees who need it;
 - 4.2.9. zero tolerance of fraud and corruption.
- 4.3. The risk management framework implemented by the Group companies is as coherent and integrated as possible. It comprises an approved set of practices, tools and methods that is used to systematically identify, analyse, assess, mitigate, and manage risks across the entire Group. This approach ensures effective risk management and contributes to the achievement of the strategic objectives of the Group.

5. RISK MANAGEMENT PROCESS

The risk management process at group companies includes the following elements:

5.1. Risk identification

Risk identification is carried out by the Management Board or business unit of each Group company by using various risk identification methods. This includes the identification of sources and causes of risk, potential events that may interfere with the achievement of the objectives, and/or targets of the Group company. All identified risks are classified into the following categories:

Strategic risks	risks related to the definition and implementation of strategic objectives
Operational risks	risks related to personnel errors, non-compliant or incomplete performance of internal processes, information systems, projects, environmental impact, working environment, and external threats
Financial risks ²	market risk (price, interest rate and currency risk), credit risk and liquidity risk
Legal and compliance risks	risks due to the influences of external conditions, which include legal and documentation-related risks, as well as the risks caused by non-compliance or a breach of compliance with laws, regulations and standards

² Financial Risk Management Policy of Latvenergo Group

Fraud and corruption risks ³	risks that involve the probability of employees making decisions for the benefit of their own interests or for the benefit of another person related to the employee, which results in undue benefits to the detriment of the Group company and the Group (including reputational damage)
---	---

Risks related to environmental, social or governance factors (ESG risks) are included in the overall risk assessment and are not isolated as an individual risk group. Risk appetite is defined for each group of risk, which may be done both qualitatively (descriptively) and quantitatively (indicator).

5.2. Risk analysis

The risk analysis is performed by each business unit of the Group company, taking statistical data, observations and expert risk assessment under current conditions into account, with the purpose of identifying the most significant current control measures, which may include a wide range of organisational or technical measures that help to prevent, mitigate and/or control the likelihood and/or impact of the risk occurring, and determines the degree of impact and likelihood of the Residual risk, taking existing control measures into account.

5.3. Risk assessment

Depending on the impact and likelihood of the risk, a risk level is determined, categorising the risk as critical, high, medium, low, and very low. For each risk level, a risk tolerance level and the required further action is defined. Key risk indicators (KR) are defined for “critical” and “high” risks. The thresholds (low, medium, high) and frequency of measurements are defined for each KRI.

5.4. Planning of additional risk mitigation measures

It aims to reduce the level of Residual risk by selecting the most appropriate action to mitigate the risk and identifying the measures required for the implementation of the selected action. This includes measures to improve existing risk controls and/or new risk control measures.

5.5. Recording risk information

Information obtained in the course of risk management shall be compiled in the Risk Register System or the risk register of the Group company.

The Risk Management & Insurance, the Internal Audit and the Compliance Control business units of Latvenergo AS shall only have the right to access the information contained in the Risk Register System or the risk register of the Group company to the extent that is required for the performance of the duties assigned to the function while respecting the confidentiality of the information thus received.

5.6. Risk Monitoring and Review

Risk monitoring and review is an ongoing process aimed at ensuring that the management of the risk is implemented in accordance with the needs of the Group company while ensuring the optimal use of resources. The Company shall review risks at least once annually and reassess them in the event of a material change in the internal or external environment and/or a material incident to ensure that correct risk assessment that is consistent with the current situation is available to the

³ Fraud and Corruption Risk Management Policy of Latvenergo Group

Company. As part of this process, additional risk mitigation measures shall also be identified and implemented.

5.7. Reporting and information

Mutual cooperation between Group companies and business units is essential for the functioning of an effective and comprehensive Risk Management Framework of the Group.

To facilitate this, Group companies are required to provide regular and periodic reports with comprehensive information on the risks, the assessment thereof, control measures, risk appetite and key risk indicators (if such have been developed and monitored), as well as major incidents.

In the event of a major incident, the Group companies shall immediately inform the stakeholders.

When required, the Group companies shall provide the Risk Management & Insurance business unit of Latvenergo AS with the necessary information regarding risk assessment and incidents. The Group maintains confidentiality with regard to information received from Group companies in the course of risk management.

The aim of the above activities is to promptly provide stakeholders with all the necessary information on risks and the risk management process.

6. POLICY IMPLEMENTATION AND MONITORING

6.1. The Supervisory Board of a Group company (or the meeting of shareholders/participants if the Supervisory Board has not been established) shall:

- 6.1.1. oversee the operation of the Risk Management Framework at the Group company;
- 6.1.2. review the annual risk management report of the Management Board of the Group company;
- 6.1.3. as well as the Supervisory Board of Latvenergo AS subsidiaries and dependent companies (or the meeting of shareholders/participants, if the Supervisory Board has not been established) informs the Management Board of the Parent Company (Latvenergo AS) about new significant risks / significant incidents that have occurred, and the action plan developed by the Group company.

6.2. The Management Board of a Group Company shall:

- 6.2.1. develop a comprehensive Risk Management Framework at the Group company;
- 6.2.2. ensure risk management at the relevant Group company in accordance with the Risk Management Framework;
- 6.2.3. approve the internal regulatory documents for the risk management process;
- 6.2.4. approve the annual Risk Management Report;
- 6.2.5. validate risks and review progress in implementing controls and additional measures;
- 6.2.6. at least annually, provide a Risk Management Report to the Supervisory Board of the Group company (or to the meeting of shareholders/participants if the Supervisory Board has not been established).

6.3. The Management Board of the Group company or the Heads of Units shall:

- 6.3.1. identify and manage risks;
- 6.3.2. promptly inform the Supervisory Board or the Management Board of the Group company and the Risk Manager (or the person responsible for risk management) on new material risks/material incidents that have occurred and the developed action plan.

6.4. Employees of the Group company shall:

6.4.1. manage risks within the framework of their own competence and established processes and/or procedures;

6.4.2. promptly report the identification of new risks or incidents in their work to their line manager.

6.5. The risk manager or the person responsible for risk management at the Group company shall:

6.5.1. ensure compliance with the principles of the Policy and promote a risk-awareness culture;

6.5.2. develop internal regulatory documents governing risk management pursuant to the orders of the Management Board of the Group company;

6.5.3. collect information on risks and incidents;

6.5.4. provide the Management Board of the Group company with comprehensive information on risks, their assessment and control measures. promptly inform the Management Board of the Group company regarding any new “critical” or “high” risk;

6.5.5. organise an annual risk assessment;

6.5.6. submit a quarterly report to the Risk Management of the Parent Company regarding the latest developments in risk management at the Group company;

6.5.7. maintain and develop the Risk Management Framework of the Group company.

6.6. Risk Manager of the Parent Company (Latvenergo AS)

In addition to the duties set out in Section 6.5, the Risk Manager of the Parent Company shall:

6.6.1. maintain and update risks at the Group level, taking the risks of all Companies into account;

6.6.2. ensure that the risk appetite and key risk indicators (KRIs) of the Group are defined for the “critical” and “high” risks of the Group;

6.6.3. organise periodic risk analysis in work groups for the “critical”, “high” and “medium” risks of the Group;

6.6.4. report monthly to the Supervisory Board of the Parent Company and quarterly to the Audit Committee regarding the latest developments in risk management at the Group companies.

7. LIABILITY FOR THE MAINTENANCE OF THE POLICY

The Risk Management & Insurance business unit of Latvenergo AS is responsible for the updates to this Policy. It shall review the Policy at least every five years and, if necessary, submit amendments for approval.