

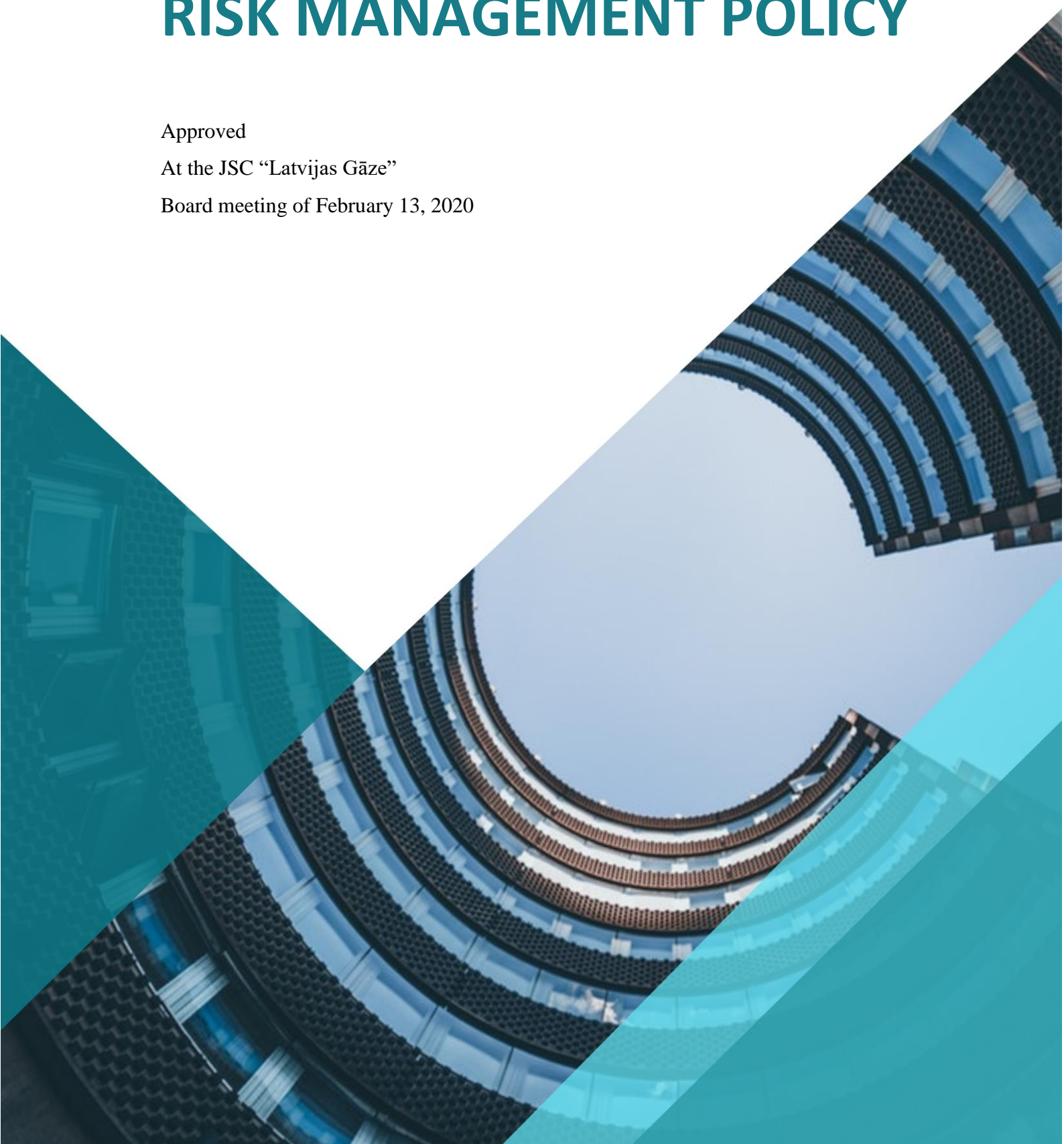


JSC “LATVIJAS GĀZE” RISK MANAGEMENT POLICY

Approved

At the JSC “Latvijas Gāze”

Board meeting of February 13, 2020



1. Purpose of the Policy

1.1. The purpose of the JSC "Latvijas Gāze" Risk management policy (hereinafter – the Policy) is to lay down common basic principles of risk management and the division of responsibilities within the JSC "Latvijas Gāze" in order to timely identify and manage the main adverse factors towards the company's performance, ensuring the accomplishment of strategic objectives, a successful development, and mitigating the potential losses and/or reputational harm.

1.2. The principles set out in the Policy are in conformity with the best international practice of risk management and the legal acts binding the Republic of Latvia.

2. Scope of the Policy

2.1. The Policy applies to the JSC "Latvijas Gāze" (hereinafter – the Company) in respect of business – natural gas sale and trading – insofar as not contrary to the regulatory enactments. The Company is active in natural gas purchase, trading and sale, which includes natural gas wholesale and sale to industrial and commercial customers as well as households.

2.2. The Policy sets forth the general elements and principles of risk management, their interaction and integration into the processes of the Company.

2.4. The exact course of processes and the division of duties and responsibilities within the framework of risk management measures is laid down by the Company's risk management regulations, methodologies and other regulatory documents.

2.5. For the purposes of risk management, the Company divides risks as follows:

- 2.5.1. strategic risks;
- 2.5.2. operational risks;
- 2.5.3. financial risks;
- 2.5.4. legal and compliance risks;
- 2.5.5. fraud and corruption risks.

3. Definition of terms

3.1. **Risk** – a possible event that may adversely affect the Company's ability to provide services or reach the business targets set and effectively implement the strategy.

3.2. **Major risks** – events that may substantially adversely affect the Company's ability to provide services or reach the strategic objectives set by the Company, events that may cause substantial financial losses or reputational harm to the Company, or events that may adversely affect the health and/or life of physical persons yet whose probability of occurrence and/or possible adverse impact cannot be precisely determined.

3.3. **Strategic risks** – risks associated with the setting and implementation of strategic objectives.

3.4. **Operational risks** – risks associated with employee errors, a non-compliant or incomplete course of internal processes, information systems, projects, environmental impact, working environment, and external threat.

3.5. **Financial risks** – market risk (that of price, interest rates and currency), credit risk, and liquidity risk.

3.6. **Legal and compliance risks** – risks caused by the influence of external conditions, which include legal and documentation-related risk, and that of failure to comply with laws, regulations and standards.

3.7. **Fraud and corruption risks** – risks of decisions being taken in one's own or another person's interests, gaining unmerited benefits to the detriment of the Company.

3.8. **Risk management** – the identification of existing and possible risks and their development scenarios, the analysis of causes, impact and probability of occurrence of risks, the identification of risk controls and critical controls, the assessment of risks before and after the existing risk controls, the exploration, assessment and, if necessary, implementation of additional risk mitigation measures towards the remaining risk, and the control of risks.

3.9. **Plan of implementation of major risk control measures** – a document listing the identified "critical" and "high" risk measures towards mitigating and/or controlling the major risks (the supervision of critical controls, the implementation of additional risk mitigation measures), the functions / structural units in charge of the implementation / performance of these measures, and the deadlines of submitting a report on the implementation / performance of the measures.

3.10. **Risk appetite** – the level and type of risk that the Company is prepared to undertake in order to accomplish the objectives set out in the strategy.

3.11. **Risk management system** – the combination of practice, tools and methods used by the Company to identify, analyse, assess, mitigate and manage risks.

4. Basic principles of risk management

4.1. Risk management at the Company is an integral part of day-to-day management processes, operational activities, functions and other processes, binding across all levels of the Company's management. The basis of risk management decisions is risk awareness.

Risk management principles of the Company:

4.1.1. risk management is integrated in the processes of strategy development and implementation as well as in the day-to-day operational activities;

4.1.2. the system and process of risk management is aligned with the Company's needs and risk specifics;

4.1.3. risk management responds appropriately and timely to external and internal changes and events;

4.1.4. risk management uses historical, current and expected future information;

- 4.1.5. employees are regularly and systematically educated, informed and provided explanations to raise awareness of risk and its management;
- 4.1.6. the risk management system is constantly improved in line with the principles of best practice and experience;
- 4.1.7. responsibility for risk management at the Company is determined at various management levels, clearly specifying the duties with a view to achieve an effective risk management;
- 4.1.8. relevant, impartial and sufficient information is timely passed to employees who need it;
- 4.1.9. intolerance towards fraud and corruption.

5. Implementation and supervision of the Policy

5.1. Council of the Company:

- 5.1.1. approves the Risk management policy of the Company;
- 5.1.2. supervises the performance of the Risk management system of the Company;
- 5.1.3. annually reviews the report by the Audit Committee of the Company on the effectiveness of the Risk management system of the Company;
- 5.1.4. annually reviews the Major risk management report by the Board of the Company.

5.2. Audit Committee of the Company:

- 5.2.1. supervises the effectiveness of the Risk management system of the Company;
- 5.2.2. gives recommendations to the Council of the Company for eliminating the flaws of the Risk management system;
- 5.2.3. at least once per year reports to the Council of the Company on the effectiveness of the Risk management system of the Company.

5.3. Internal audit of the Company:

- 5.3.1. regularly inspects the organisation and functioning of the Risk management system, assesses whether the major risks are sufficiently managed and whether risk assessment and risk and control reporting is appropriate and credible.
- 5.3.2. informs the Board and the Audit Committee of the Company whether the major risks are sufficiently managed and whether risk assessment and risk and control reporting is appropriate and credible.

5.4. Board of the Company:

- 5.4.1. sets up a comprehensive Risk management system at the Company;
- 5.4.2. develops the Risk management policy;
- 5.4.3. approves the annual major risk management report of the Company, including the topical major risks and the definition of the risk appetite of the Company;
- 5.4.4. at least once per year reports to the Council of the Company on major risk management at the Company.
- 5.4.5. provides risk management for the relevant Risk management system of the Company;
- 5.4.6. approves the internal regulatory documents for risk management at the Company;

5.4.7. confirms the Company's risks, including the major risks, and reviews the course of implementation of critical major risk controls and additional measures.

5.5. Risk Management Committee of the Company:

- 5.5.1. ensures a uniform risk management at the Company;
- 5.5.2. identifies the topical risks for the year and selects the major risks of the Company for a detailed analysis;
- 5.5.3. reviews the results of the detailed analysis of the major risks of the Company and the assessments of the topical major risks of the Company;
- 5.5.4. reviews and gives recommendations on the internal regulatory documents that govern risk management at the Company;
- 5.5.5. gives recommendations to the Board of the Company for the improvement of the Risk management system.

5.6. Risk manager of the Company:

- 5.6.1. under assignment of the Board of the Company, drafts the internal regulatory documents that govern risk management at the Company;
- 5.6.2. provides support towards the implementation of risk management at the Company and the availability of the related documentation;
- 5.6.3. promotes cooperation in matters of risk management and a common understanding of risk management at the Company;
- 5.6.4. maintains and updates a common Major risk register at the Company;
- 5.6.5. ensures an annual assessment of the major risks of the Company;
- 5.6.6. in cooperation with the structural units of the Company, conducts a detailed analysis of the major risks of the Company selected by the Risk Management Committee of the Company;
- 5.6.7. provides the management of the Company with comprehensive information on the major risks of the Company, their assessment and control measures.

5.7. Heads of functions / structural units of the Company:

- 5.7.1. constantly follow the processes of their functions / structural units and the external business environment in order to timely identify and manage the existing and potential risks as appropriate for the activity area of their function / structural unit – ensure the implementation of risk controls and the exploration, assessment and implementation of additional risk mitigation measures where necessary.

5.8. Employees of the Company:

- 5.8.1. perform risk management within the framework of their competence and the processes and/or procedures in place;
- 5.8.2. timely report to their direct superior upon identifying a new risk in their work.

5.9. Employees in charge of risk management at the Company:

- 5.9.1. collect information on the Company's risks, including major risks, their annual developments, assessment and risk management;
- 5.9.2. timely notify the Board of the Company and the Risk manager of the Company upon identifying a new major risk;

- 5.9.3. in cooperation with the Risk manager of the Company, conduct a detailed analysis and assessment of the major risks selected by the Risk Management Committee of the Company with relevance to the respective function / structural unit of the Company;
- 5.9.4. notify the Board of the Company of the analysis and assessment of the major risks selected by the Risk Management Committee of the Company with relevance to the respective function / structural unit of the Company and submit for approval proposals for the plan of implementation of major risk control measures, if one is necessary;
- 5.9.5. submit to the Risk manager of the Company a report on the results of the analysis of the major risks selected.

6. Risk management process

6.1. The Company's risk management process 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 supervision and risk revision;
- 6.1.6. reporting and notification.

6.2. The activities of the risk management process at the Company are distributed across three levels of protection:

- 6.2.1. the first level of protection – a continuous risk management in the company's operational activities and day-to-day decision making. The management of the Company is responsible for risk ownership and the observance of risk management in the areas of its responsibility, establishing an effective management system. The management of the Company is in charge of all risks within the scope of its responsibility, identification, monitoring and regular controls, as well as the fulfilment of the business plan as appropriate to the approved risk appetite;
- 6.2.2. the second level of protection – includes the supervision of risk management performed by the risk management function, the actuarial function, the operational compliance function, and the financial management function. The risk management function is in charge of the development and maintenance of the risk management system, making sure that all risks be properly supervised by the first level of protection – in their day-to-day work and decision making, as well as gives a prospective assessment of risk profile. The functions concerned give feedback to the Board and/or the Audit and Risk Management Committees of the Company regarding the effectiveness of the Risk management system and its observance by the first level of protection;
- 6.2.3. the third level of protection – performed by the internal audit function which provides an independent audit for the elements of the Risk management system and control of the company's operations.

7. Responsibility for maintaining the Policy

The risk management and insurance function at the Company is also in charge of maintaining this Policy and updating the Policy at least once in three years.
