APPROVED at the
LLC "Rīgas ūdens"
Supervisory Board meeting on 19 November 2025
Minutes No 2.4.5/2025/19

INTERNAL CONTROL, COMPLIANCE AND RISK MANAGEMENT POLICY

Riga 2025
Version 1.0

PURPOSE AND SCOPE

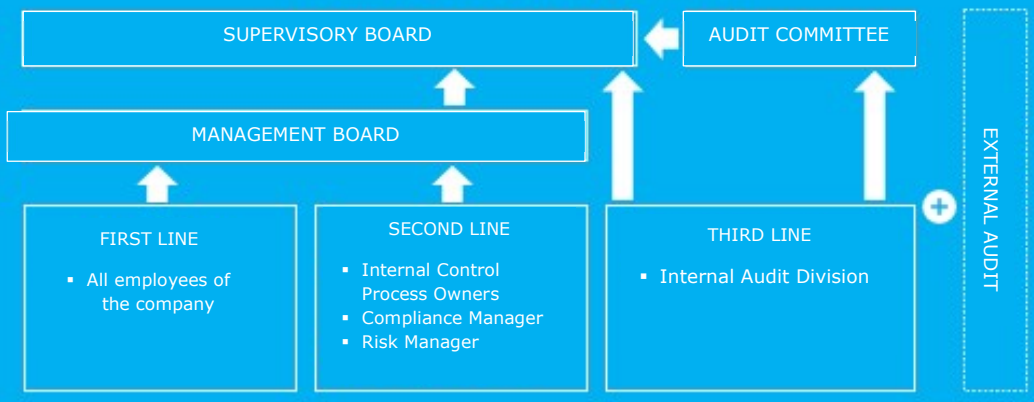
To establish **common guiding principles** for internal control, compliance and risk management, as well as division of responsibility.

THE GUIDING PRINCIPLES OF THE INTERNAL CONTROL SYSTEM

- Efficient, effective and economical operation of Riga Water
- Operating in the public interest through good governance
- Operating in accordance with the competence and requirements laid down in
- Preventing potential risks of corruption and conflicts of interest
- Preventing waste of property and financial resources
- Identifying and preventing errors and foreseeable risks
- Obtaining, protecting timely financial and management information

OPERATION OF THE INTERNAL CONTROL SYSTEM

Implemented according to a three-line model



ALLOCATION OF INTERNAL CONTROL SYSTEM FUNCTIONS

Line 1	Ensuring day-to-day operations according to internal and external regulatory enactments
Line 2	Continuous monitoring of Line 1; ensuring compliance and common risk management processes across all the relevant processes
Line 3	Periodic monitoring of Lines 1 and 2
External Audit	Periodic external evaluation of the ICS or specific elements thereof
Management Board	Ensuring the establishment of the ICS; approving the compliance and risk management plan, reviewing reports on compliance, risks and other process reports; reporting to the Supervisory Board
Auditing Committee	Examination of issues related to the functioning of the ICS, including internal audit reports
Supervisory Board	Approval of policies; review of the Management Board's Compliance Reports; assessment of ICS performance; ensuring the independence of internal audit

CONTENTS

OUR COMMITMENT

We provide an internal control system that enables us to effectively manage the water management infrastructure under the Company's responsibility, to ensure sustainable, safe and uninterrupted access to high quality water for the residents, to identify and manage risks related to safety of water handling facilities, service continuity and environmental protection in a timely manner, as well as to ensure that all the Company's functions are performed in compliance with external and internal regulatory enactments.

We maintain a consistent culture of integrity, accountability and compliance that is implemented at all levels of the Company, from senior management to every employee. Effective internal control, regulatory compliance and risk management are essential to protect the Company, manage risks and maintain public confidence.

We provide the resources and independent monitoring required for implementation of internal control. We expect all the employees to behave ethically, to comply with the Policy as well as with external and internal regulatory enactments, and to report incidents, irregularities and concerns by applying to the responsible employees or through appropriate reporting channels. This commitment reflects our core values and is essential for our long-term success.

We treat and encourage every employee to treat suggestions, complaints or other reports from customers and business partners responsibly. Particular attention is paid to reports that signal potential risks, compliance or internal control shortcomings, so that required improvements can be made in a timely manner.

1 PURPOSE AND SCOPE

1 The purpose of the Policy is to establish common guiding principles for internal control, compliance and risk management and division of responsibility within the Company to ensure the achievement of objectives, efficient, sustainable and successful operation, rational and economically sound use of resources, reliability of data and information and compliance of operations with external and internal regulatory enactments.

2 The Policy is developed in accordance with the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies Thereof and includes the requirements set in the Riga City Council Internal Regulation No 4 of 21.08.2020 "Procedures for the Governance of Capital Shares and Management of Capital Companies Owned by the Riga City Municipality".

I. TERMS USED

Compliance – compliance of the Company's activities, decisions and internal processes with applicable external and internal regulatory enactments, requirements of competent authorities, as well as ethical and good governance standards.
Internal audit — an independent and objective activity of the internal auditor that provides an assessment of the effectiveness of the internal control system, risk management and governance in all areas of the Company's activities through the preparation of an internal audit report.
Internal Control Process Owners — process owners in specific horizontal oversight areas who ensure that appropriate controls are designed, implemented and maintained in that area, promoting compliance by all structural units (e.g. cyber security, data protection and other horizontally applicable controls).
Internal Control System, ICS — an integrated set of measures, including policies, procedures and mechanisms, that contribute to the achievement of the Company's objectives while ensuring risk management, asset protection, responsible use of resources and compliance with regulatory requirements.
Internal Control Environment — a set of standards, processes and structures that provide a framework for the implementation of internal control throughout the Company.
Policy — Internal Control, Compliance and Risk Management Policy.
Risk — a potential event that may affect the Company's ability to provide high quality and reliable public water management services, sustainable and safe use of water resources and management of strategic infrastructure, or to achieve the set objectives and implement the strategy. It is the impact of uncertainty (threats or opportunities) on the expected outcomes.
Risk management — continuous and coordinated activities to identify existing and potential risks, their development scenarios, to analyse causes of risks, impact and likelihood of occurrence, to identify and implement actions required for risk management.

Risk Owner — a head of any structural unit of the Company, a designated position or an employee authorised by the Management Board, in whose area of responsibility the risk may occur.
Company — We, LLC "Rīgas ūdens".

II. GUIDING PRINCIPLES OF THE INTERNAL CONTROL SYSTEM

3 The ICS is based on the international internal control model developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), emphasising three main objectives of the ICS:
- 3.1 efficiency of work processes;
- 3.2 reliability of the information provided;
- 3.3 compliance with regulatory enactments.

4 The ICS guiding principles are:
- 4.1 efficient, effective and economical operation in accordance with its competence, set objectives, tasks and available resources, in particular with regard to safe and uninterrupted provision of water management services;
- 4.2 operating in the public interest through good governance;
- 4.3 operating in accordance with the competence and requirements laid down in regulatory enactments;
- 4.4 preventing potential risks of corruption and conflicts of interest;
- 4.5 preventing waste, inefficiency and misuse of property and financial resources;
- 4.6 identifying and preventing errors and foreseeable risks in a timely manner and taking the necessary actions, especially where the safe and uninterrupted provision of water management services may be compromised;
- 4.7 obtaining timely, reliable financial and management information and protecting against unauthorised disclosure, including considering the securities issued by the Company and disclosure requirements related thereto.

5 The Company has effective internal communication in place that ensures the exchange of information between employees and management, both horizontally and vertically, providing timely information on non-compliances, incidents, potential risks and other events that may affect the Company's operations.

6 The ICS is continuously improved by amending policies and other internal regulations, where necessary, in line with changes in the Company's operations and circumstances affecting such operations.

III. OPERATION OF THE INTERNAL CONTROL SYSTEM

7 Elements of the ICS are division of governance and accountability, the control environment, risk management, implementation of control measures, information exchange.

8 The ICS is implemented through a three-line model, with clear responsibilities for implementing controls, monitoring and providing independent assurance: first line — operational control; second line — monitoring and compliance functions; third line — internal audit. The Company's senior management bodies — the Management Board, the Audit Committee and the Supervisory Board — are responsible for the consistent implementation of monitoring, including external audit as necessary.

9 The three-line model consists of:

9.1 **first line operational control** performed by all the employees in accordance with procedures or other internal regulatory enactments binding on their functions, and provided by heads of structural units and Process Owners, including:
- by complying with all the relevant external and internal regulatory enactments;
- by ensuring compliance of the action with external and internal regulatory enactments;
- by following instructions given by senior organisational staff;
- by identifying and reporting risks relevant to their activities to their line manager, and/or engaging in the defined risk identification and assessment or compliance assessment processes;
- by defining and ensuring compliance with internal control, compliance and risk management measures that are appropriate to their activities;
- by reporting deficiencies in the field of internal control, compliance or risk management and/or potential challenges to the implementation of measures determined in these areas;
- by reporting the need to develop new internal regulatory enactments or to amend the existing ones;

9.2 **monitoring and control measures (second line)** are included in the processes of the Company's management, main activity and supporting action processes, monitoring elements introduced in information systems, self-assessment statements and data analyses affecting the decision-making. The second line of defence consists of the following:

9.2.1 **Compliance function** ensures that the Company's activities comply with external and internal regulatory enactments, and monitors horizontal compliance areas, ensuring their effective functioning and mutual exchange of information. Compliance function is ensured by the Compliance Manager according to the procedure approved by the Management Board. Compliance function ensures the following:

9.2.1.1 assessing compliance risks on a regular basis, at least annually, by summarising and analysing previous assessments, inspections, complaints, incidents, non-compliances and irregularities, as well as developing a compliance assessment plan for the following year to be approved by the Management Board;

9.2.1.2 compliance with external and internal regulatory enactments, including in specific horizontal areas:

- procedures for the application of sanctions;
- compliance with anti-corruption measures;
- requirements for double jobbing;
- requirements for status of public officials and declaration;
- prevention of the conflicts of interest;
- protection of personal data;
- compliance with competition law;
- cybersecurity requirements;
- requirements of the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies Thereof, including disclosure and publication of information;

9.2.1.3 identifying changes to external regulatory enactments in a timely manner and reflecting them in internal regulatory enactments by drafting or amending them as required;

9.2.1.4 a coherent and mutually consistent system of internal regulatory enactments, respecting the guiding principles set out therein;

9.2.1.5 identifying non-compliances and deficiencies in compliance with the requirements of the external or internal regulatory enactments;

9.2.1.6 regular compliance assessments of areas of activity, identification of deficiencies and required improvements and monitoring of their implementation; in the case of critical or high-risk non-compliances, their submission for examination to the Management Board;

9.2.1.7 preparing and submitting regular, comprehensive compliance reports to the Management Board and the Supervisory Board.

9.3 **Risk management function**, which is maintained and managed by the Risk Manager according to the procedures approved by the Management Board.

9.3.1.1 **The following principles are applied to the risk management function**:

- integrated approach — Risk management through definition of the responsibility of every person involved, integrated at all levels and processes of the Company, from strategy to day-to-day decision-making;
- proportionality — use of resources for risk management is carried out efficiently and proportionately to the significance of the risk, assessing investments against potential losses;
- transparency — employees are encouraged to disclose risks, and concealment of risks is not allowed;
- responsiveness and adaptability — We monitor changes and developments in the external and internal environment, identify changes in existing risks and identify new ones, adapting our risk management methodology as necessary;
- structured and comprehensive approach — We ensure that all types of risks are identified, analysed, managed, monitored and communicated systematically, in a planned manner and at all levels of the organisation;
- involvement — Risk management process is implemented with appropriate and timely involvement of stakeholders to ensure the integration of diverse opinions, knowledge and experience into decision-making, to promote a better understanding of risks and more informed management solutions;

- the best available information — Risk management is based on historical data, experience, feedback, current information and future forecast;
- continuous improvement — Risk management is reviewed and updated on a regular basis, based on previous experience and regular training of the parties involved.

9.3.1.2 **Risks are categorised as follows**:

- Strategic — related to strategy definition and execution;
- Environmental — environmental and climate impacts of operations and the impact of climate change on operations;
- Operational — inappropriate internal processes as a result of human or system activity or external impacts;
- Financial — related to financial planning and management, as well as possible changes in the area of finance that may cause planned costs to differ significantly from actual costs.

9.3.1.3 **Risk management process includes the following steps**:

- Risk identification — involves identifying and describing risks;
- Risk assessment — includes an analysis of each identified risk (determination of probability, impact and risk value);
- Risk response — determines the actions required to make each identified risk exposure acceptable to the Company;
- Monitoring and reporting the risk management process — includes monitoring the implementation of identified risk management measures, reviewing previously identified risk information and reporting the risk information to the Management Board and the Supervisory Board.

9.3.1.4 **Risk Manager's responsibility in risk management**:

- developing a common internal framework for risk management;
- coordinating and supporting staff, as necessary, in identifying and assessing risks and determining control measures;
- coordinating the definition and monitoring of material risk indicators;
- establishing, maintaining and updating common risk and incident registers;
- coordinating the reassessment of previously identified risks and identifying new risks, as necessary, but at least on an annual basis;
- preparing and presenting risk and incident management reports to the Management Board on a quarterly basis;
- advising staff involved in risk management, providing them with the necessary theoretical support and proposing the necessary trainings on risk management issues;
- making proposals for the improvement of the risk management system.

9.3.1.5 **Risk Owners' responsibility in risk management**:

- identifying and assessing risks in its area of responsibility, and identifying mitigation and control measures to address those risks according to the established procedures;
- ensuring the availability of relevant, timely and truthful information to identify risks;
- ensuring and monitoring the implementation of risk mitigation and control measures;
- carrying out routine monitoring of previously identified risks.

9.3.1.6 Responsibility of other staff in risk management:

- participating in risk identification and assessment processes, as well as in the determination and implementation of risk mitigation measures within the framework of their official duties;
- reporting in a timely manner to the line manager about any identified new risks and incidents in their work.

9.3.2 **Other internal control processes**, implemented by their owners (except for the Internal Audit) according to the Company's Map of Processes, each of them within the framework of their own processes and according to the relevant procedures by uninterruptedly monitoring the first line of protection;

9.4 **Providing independent assurance/internal audit (third line)**, which is provided by the Internal Audit Division directly reporting to the Supervisory Board, according to the Regulation approved by the Supervisory Board, the Internal Audit Manual, General Internal Audit Standards and the mandatory thematic requirements for the Professional Practice of Internal Auditing:

- periodic monitoring of performance of the first and second levels of protection;
- carrying out internal audits and advisory tasks, when preparing their reports;
- providing information to the Management Board, the Audit Committee and/or the Supervisory Board on significant deficiencies identified and improvements required;
- monitoring the implementation of audit recommendations;
- preparing an assessment on the effectiveness of the internal control system and risk management, at least on an annual basis, for the Management Board, the Audit Committee and the Supervisory Board.

10 An independent external evaluation of the ICS or individual elements thereof shall be carried out, as appropriate, at the request of the Supervisory Board or the Management Board. Independent external audit is also carried out in other cases according to the requirements of regulatory enactments.

11 **The Company's senior management bodies** shall perform the following management functions within the ICS:

11.1 **The Management Board** shall:

- ensure the establishment, introduction and implementation of the ICS, including the provision of necessary resources to carry out the functions of the ICS, as well as develop and approve internal regulatory enactments related to the introduction of the ICS;
- report the irregularities, errors or other shortcomings in the ICS to the Supervisory Board, where solution thereof require action by the Supervisory Board and/or the information provided is such that the Supervisory Board needs to be informed on;
- submit a report to the Supervisory Board on compliance and risk management as necessary, but at least on an annual basis;
- define a risk appetite;
- identify and assess any risks with regard to compliance of the chosen strategy with the Company's vision, mission and strategic objectives, as well as risks that could affect the achievement of the determined strategic objectives, ensuring an appropriate response to them;
- approve plans and risk indicators for material risk management activities;
- reassess previously identified risks and identify new risks as necessary, but at least on an annual basis;

11.2 The Supervisory Board shall:

- monitor and assess the ICS performance through an annual report prepared by the Management Board. If an external assessment of the ICS has been carried out in a respective year, the Supervisory Board shall assess results thereof and consider any improvements necessary in the functioning of the ICS;
- approve the Internal Audit regulation;
- monitor the functioning of the risk management system, review its adequacy and effectiveness based on the risk information provided by the Management Board, self-assessment or independent evaluation performed, approve the risk appetite, review the information on a quarterly basis provided by the Management Board on material risks and their management, and identify any risks related to the performance of the tasks assigned to the Supervisory Board.

11.3 **The Audit Committee** shall examine matters related to the functioning of the ICS, including internal audit reports and other information provided according to the competence set in the regulation of the Audit Committee.

IV. FINAL ISSUES

12 We develop procedures and internal regulatory enactments that detail the principles set out in the Policy, ensuring their consistent compliance and effective application across all areas of the Company's activities.

13 The Policy shall be made available to all the Company's employees. The Policy is available on the Company's website.

14 Management of the Company shall review the Policy on an annual basis and make necessary changes to ensure the effective application of the Policy and internal regulatory enactments.

REGISTER OF AMENDMENTS

Version	Date	Author	Modified sections	Summary of changes	Approved by
1.0	19 November 2025	Internal Audit	-	Original document.	Supervisory Board, Minutes No 2.4.5/2025/19