



RISK MANAGEMENT POLICY

GRUPO EQUATORIAL



CONTENTS

1. PURPOSE	5
2. FIELD OF APPLICATION	5
3. RESPONSABILITIES	5
3.1 Board of Directors	5
3.2 Audit and Risk Committee (ARC)	6
3.3 Risk Management and Internal Controls Area (RMIC)	6
3.4 Presidents and Superintendents	7
3.5 Business Area Managers (Risk Owners)	
3.6 Internal aud	8
4. DEFINITIONS	8
4.1 Audit	8
4.2 Risk Appetite	8
4.3 Risk Assessment	9
4.4 BoD	9
4.5 IAC	9
4.6 Internal Control	9
4.7 Criticality	9
4.8 Damage	9
4.9 Event	9
4.10 Risk Management	9
4.11 Impact	10



CONTENTS

4.12 Corporate Risk Matrix	10
4.13 Process	10
4.14 Probability	10
4.15 Response to Risk	10
4.16 Risk	10
4.17 Corporate Risk	10
4.18 Inherent Risk	11
4.19 Residual Risk	11
4.20 Stakeholder	11
4.21 Vulnerability	11
4.22 Key Risk Indicators (KRIs)	11
5. RISK MANAGEMENT GUIDELINES	12
5.1 Establish, disseminate and cultivate a culture focused on Risk Management	12
6. OBJECTIVES OF RISK MANAGEMENT	12
7. RISK CATEGORY	13
7.1 Strategic	13
7.2 Financial	13
7.3 Compliance	13
7.4 Operational	14
7.5 Cybernetics	14



CONTENTS

8. RISK MANAGEMENT STRUCTURE	14
8.1 Three Lines Mode	16
9. RISK MANAGEMENT STEPS	16
9.1 Identification and Analysis of Risks	16
9.2 Risk Assessment	17
9.3 Response to Risks	19
9.4 Monitoring Risks	20
10. REFERENCES	21



1.0 - PURPOSE

Establishing guidelines that ensure the best practices of Corporate Risk Management related to the identification, assessment, monitoring and reporting of risks, which may affect the strategic objectives of the Grupo Equatorial.



2.0 - FIELD OF APPLICATION

It applies to Grupo Equatorial Energia and its subsidiaries

In the case of companies in which the Grupo Equatorial exercises significant influence, including joint ventures and corporations in which the Company holds a minority interest, the content of this Policy shall be brought to the attention of the stakeholders, allowing the incorporation, whenever possible, of the guidelines recommended by it.



3.0 - RESPONSIBILITIES

3.1 Board of Directors

- a) Define the strategies to achieve the business objectives;
- b) Approve the Risk Management Policy and its revisions when necessary;
- c) Evaluate and approve the corporate risk matrix, establishing acceptable limits on the Grupo Equatorial's risk appetite;

d) Approve risk response plans with an extreme degree of exposure or risks prioritized by senior management.

3.2 Audit and Risk Committee (ARC)

a) Ensure that the Grupo Equatorial maintains a culture focused on Risk Management, encouraging compliance with the Risk Management Policy and Procedure Standard;

b) Analyze the Risk Management Policy, methodology and key documents to be used in the Group's risk management process and submit them to the Board of Directors for approval;

c) Analyze the risk appetite and submit it to the Board of Directors for approval;

d) Periodically report the level of exposure of the priority risks to the Board of Directors;

e) Evaluate the effectiveness of the risk management process and suggest improvements, whenever necessary;

f) Approve the Annual Risk Plan.

3.3 Risk Management and Internal Controls Area (RMIC)

a) Define the structure and methodology, and execute the Grupo Equatorial Corporate Risk Management strategy;

b) Evaluate and monitor risk exposures, monitoring the implementation of mitigation actions in the business areas and reporting the scenario periodically to Senior Management and the Audit and Risk Committee;

c) Advising Senior Management in proposing the Risk Appetite, as well as assisting business areas in identifying risks, assessing Impact and providing guidance to Risk Responses (accepting, sharing, avoiding and reducing);

d) Support the Audit and Risk Committee in the ongoing evaluation of the Management Structure and Corporate Risks, keeping the base updated with the records of losses that materialize in the Company;

e) In conjunction with the business areas, develop indicators for monitoring risks, as well as proposing tolerance limits;

f) Support the business areas in the design and improvement of Internal Controls for the treatment of non-conformities identified in the Internal Audit work and risk mapping.

3.4 Presidents and Superintendents

a) Foster the culture of Risk Management with the business areas;

b) Incorporate Risk Management in the planning and management of critical processes;

c) Monitor the Key Risk Indicators (KRIs), which exceed the tolerance limits or require mitigating actions.

3.5 Business Area Managers (Risk Owners)

a) Directly or indirectly monitor the risks involved in the operations under its management based on the identification of the causes and consequences associated with the materialization;

b) Assume and ensure that the risks are within the tolerance limits defined by the Board of Directors;

c) Periodic reporting to the Audit and Risk Committee or RMIC Area of the relevant events, which affect the degree of exposure of Grupo Equatorial to risks, including the results of the priority risk indicators;

d) Ensure that risk management is put into operation, as it is an integral part of the process of identification, assessment and measurement, as well as the implementation of actions

and response plans related to the risks involved in the operations under its management, in accordance with the resolutions taken along with the RMIC Area and the Audit and Risk Committee.

3.6 Internal audit

- a) Evaluate the adequacy and effectiveness of the internal controls of the units that make up Grupo Equatorial;
- b) Present recommendations to minimize risks through the improvement of existing control structures;
- c) Point out the occurrence of non-compliances, opportunities to improve processes and controls, flaws, deviations, irregularities and/or illegalities observed to the Audit and Risk Committee.

4.0 - DEFINITIONS



4.1 Audit

The process of examining and validating a system, activity or information.

4.2 Risk Appetite

The level of risk that an organization is willing to accept to achieve its goals.

4.3 Risk Assessment

The significance of the identified risk, related to the impact and vulnerability of internal controls.

4.4 BoD

Board of Directors.

4.5 IAC

Internal Audit Committee.

4.6 Internal Control

Set of activities, methods or routines that are meant to bestow reliability to business processes, comply with applicable laws and regulations, protect assets and assist management in achieving the Company's objectives.

4.7 Criticality

The level of implicit risk in a process or activity. The higher the intrinsic risk, the more critical the process or activity becomes.

4.8 Damage

Any loss or injury suffered due to someone's action, omission or influence.

4.9 Event

The occurrence or change in a specific set of circumstances, which may pose a risk to the objectives of the process or the Company's policy if materialized.

4.10 Risk Management

A coordinated activity that aims to identify, evaluate, prioritize and monitor the organization with regard to risks.

4.11 Impact

Level of severity of effects caused by a certain action or event. It is the magnitude of the damage taking into account the severity of the consequences on the Company's business.

4.12 Corporate Risk Matrix

A tool that helps Senior Management measure, evaluate and prioritize strategic risk events that may affect the Group achieving its objectives, classifying risks as low, medium, high or very high.

4.13 Process

Set of interdependent and interconnected macro-activities, aiming to perform a corporate function.

4.14 Probability

The materialization potential of a given Risk.

4.15 Response to Risk

Decisions taken by the Company to develop a series of measures in order to align risks with their risk appetite.

4.16 Risk

The uncertainties in achieving the objectives, and the combination of impact and probability of occurrence.

4.17 Corporate Risk

Risks that may affect the Company as a whole, directly impacting the strategic objectives of the organization.

4.18 Inherent Risk

Risks that are always present in the business, processes or activity, regardless of the internal administrative controls that are adopted.

4.19 Residual Risk

Remaining risk after mitigation by internal controls.

4.20 Stakeholder

Strategic target; describes a person or group that has an interest in a company, business or industry, and may or may not have made an investment in them.

4.21 Vulnerability

Refers to the company's willingness to face a risk event in terms of criteria related to agility and adaptability, as well as the Control Activities performed in each risk.

4.22 Key Risk Indicators (KRI's)

Components of the risk monitoring process used to verify the evolution of a risk or potential risk conditions, providing the risk profile in relation to risk appetite (tolerable risk level), signaling to managers the need for actions to be taken in relation to risk appetite (tolerable risk level), signaling to managers the need for actions to be taken.

5.0 - RISK MANAGEMENT GUIDELINES



5.1 Establish, disseminate and cultivate a culture focused on Risk Management

- a)** Identify the risks inherent to the business, prioritize them, evaluate and respond according to the risk appetite of Grupo Equatorial;
- b)** Provide that all employees understand the objectives, roles, duties and responsibilities assigned to each agent involved in the risk management process;
- c)** Establish risk response plans that are promptly monitored by the appropriate authorities at the Group;
- d)** Report the KRIs in accordance with the limits of risk tolerance, previously approved by the Board of Directors and risk mitigation strategies.

6.0 - RISK MANAGEMENT OBJECTIVES



- a)** Work in line with the best market practices in risk management;
- b)** Protection against loss of value;
- c)** Identification and treatment of risks that may threaten the implementation of the Group's strategic objectives;
- d)** Recognition and reputation. Improve stakeholder confidence;

e) Reduction of the possibility of fraud and errors in operational processes;

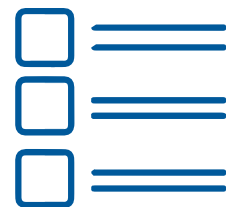
f) Identification of opportunities for improvement, aimed at reducing manual activities, delays and bottlenecks in processes;

g) Greater alignment and synergy between managers and processes within the company;

h) Ensure the alignment of Senior Management guidelines with operational processes.



7.0 - CATEGORY OF RISKS



The Corporate Risk Dictionary focuses on the characteristics and business environment of the company, classifying the risks into five categories:

7.1 Strategic

Potential impact arising from fragile governance practices, decisions not based on strategic planning, improper investments and lack of responsiveness to changes in the environment, or negative publicity about the organization's practices and/or business.

7.2 Financial

Potential impact derived from financial transactions that are inconsistent with the best market practices, or in discordance with the Company's values.

7.3 Compliance

Potential impact originating from non-compliance with laws/regulations, or lawsuits brought by customers or counterparties, or complaints.

7.4 Operational

Possible impact from operational problems, such as breakdowns in internal controls.

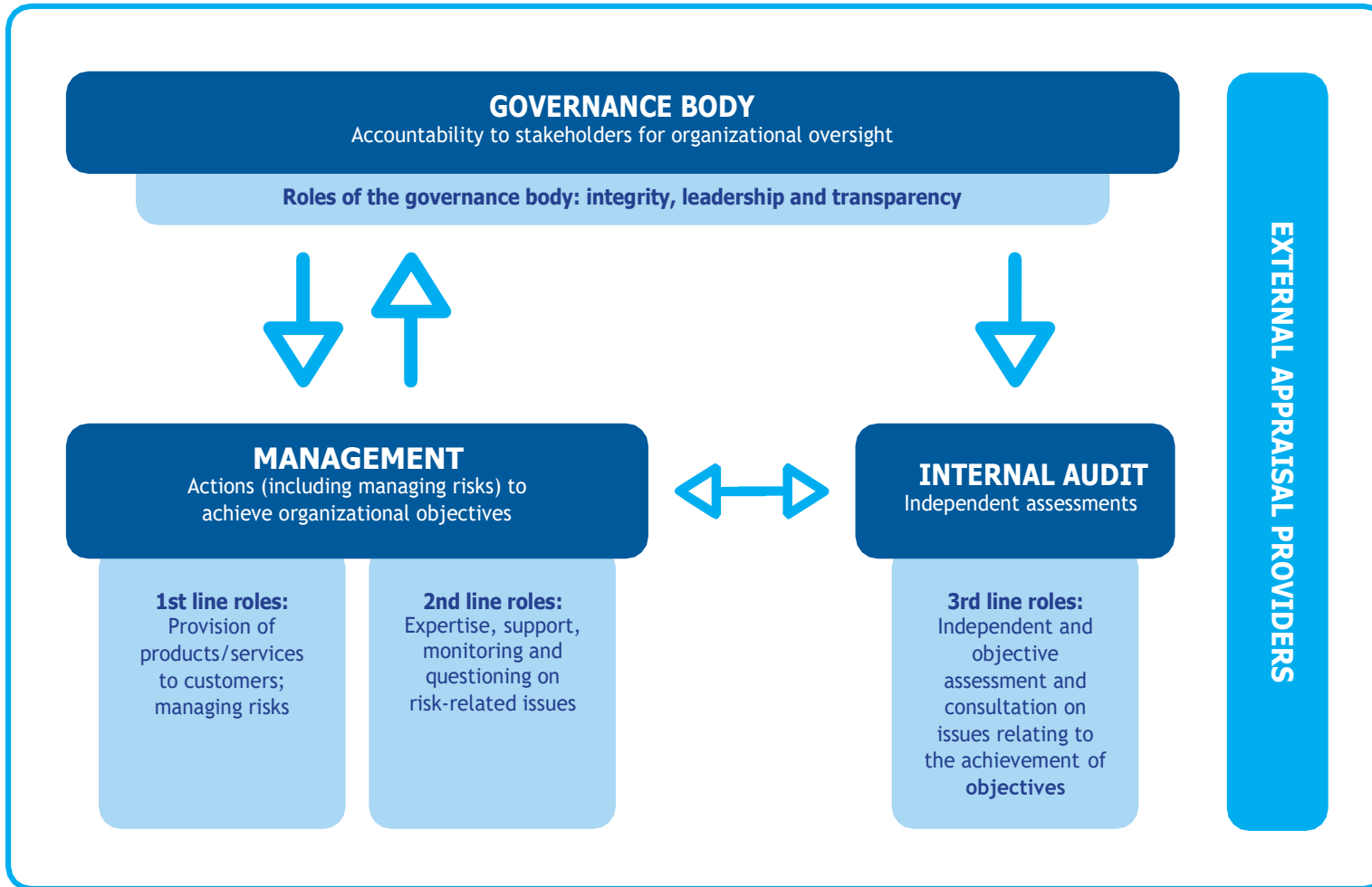
7.5 Cybernetics

Potential impact from the strategic misalignment of information technology (IT) with business objectives, cyberattacks and compromised information security, unavailability of systems and loss of integrity.



8.0 - RISK MANAGEMENT STRUCTURE

The definition of Grupo Equatorial Risk Management structure accounts for the company's current context, best market practices and the integration of risks into the Group's processes, reinforcing the responsibility of all employees of managing corporate risks and helping the Group achieve its objectives, as adopted in the three lines model:



- KEY**
- ↑ Accountability, distribution
 - ↓ Delegation, guidance, resources, supervision
 - ↔ Alignment, communication, coordination, collaboration

8.1 Three Lines Models

8.1.1 For the first line, the Company's Business Areas and Units are responsible for continuous risk management and exploration of opportunities, propagating a culture of development of processes, systems and internal controls, to achieve the goals and strategic objectives of Grupo Equatorial.

8.1.2 For the second line, the goal is to provide complementary knowledge, supporting the implementation and maintenance of response plans associated with risks and internal controls, as well as the development of continuous improvement of risk management practices.

8.1.3 For the third line, the Internal Audit Area acts in the management's advisory, focused on the examination and evaluation of the adequacy, efficiency and effectiveness of control systems, based on the concepts of business risk management.

9.0 - RISK MANAGEMENT STEPS



Grupo Equatorial's risk management process considers the following steps:

9.1 Identification and Analysis of Risks

9.1.1 Identification of Risk and Risk Factors

The identified risks need to be mapped out to detect risk factors and provide a better understanding of the main causes, which potentially lead to their materialization, as well as the main aggravating and related mitigating factors, which serve as input for risk assessment. This activity needs to be coordinated and consolidated by the RMIC Area along with the business units and areas that are primarily responsible for the risks.

9.1.2 General Risk Analysis (GRA)

In a structured way, the GRA reflects the perceptions of Senior Management, as well as of the executives (areas and business units) in relation to the main management and risk aspects involved in the Company's operations, business areas/processes and characteristics;

The GRC Area will assist the Company's Business Areas and Units in identifying risks, and the potential loss scenarios for Grupo Equatorial need to be accounted for, linking to these respective causes and consequences related to the materialization of the risk.

9.2 Risk Assessment

The risk assessment aims to assign a level of risk exposure based on defined vectors and criteria. The main vectors used by Grupo Equatorial are Impact and Vulnerability.

9.2.1 Impact

The impact refers to the extent that a risk event may affect the Company. The Grupo Equatorial's impact classification considers a main financial vector and qualitative auxiliary vectors;

The impact assessment can be performed exclusively in a qualitative or quantitative manner, depending on the risk being assessed. Preferably, the qualitative method should be applied if the Company does not have reliable, complete data, or if there is no recognized model capable of quantifying the risk, or if the model is too complex and the return on the quantification does not outweigh the effort of the calculation.

9.2.2 Vulnerability

Vulnerability refers to how prepared the organization's defenses are in the face of risk events. The classification of vulnerability in Grupo Equatorial considers three auxiliary vectors: Internal Controls, Action Plans and/or Response and External Events, and then the residual value of the risk will be obtained.

9.2.3 Risk Exposure and Prioritization

The result of the impact and vulnerability vectors will be the risk exposure, as shown below:

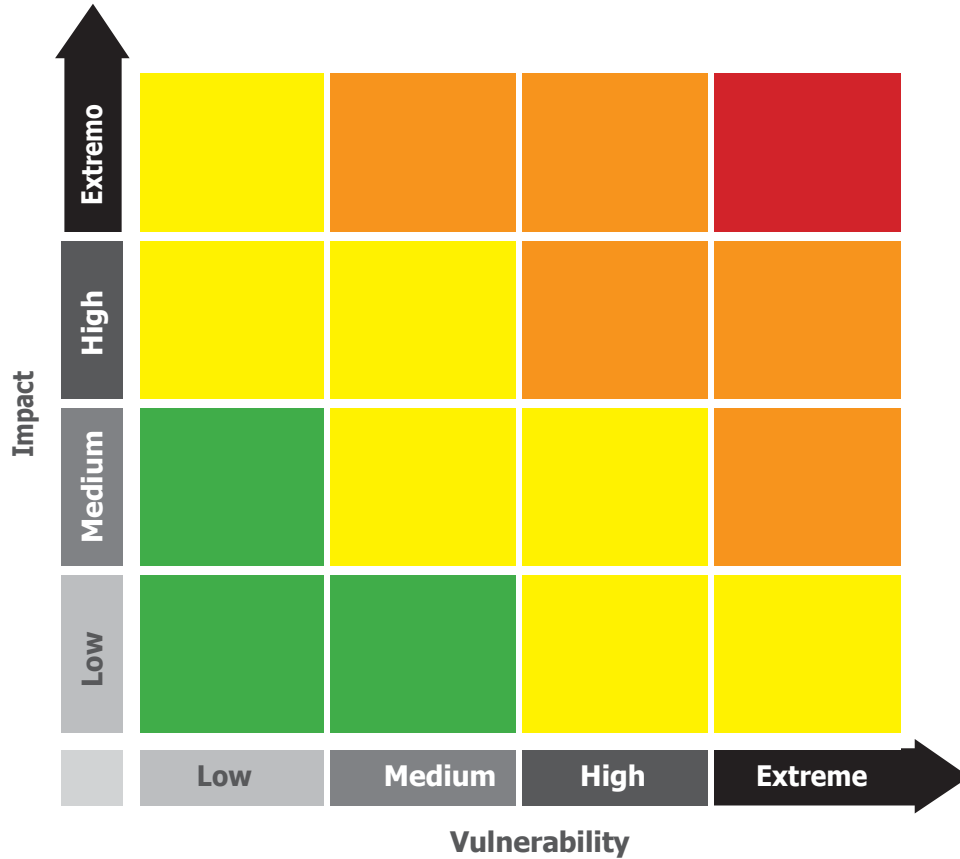


Figure 2: Risk Map

From the result obtained in the assessment of Impact and Vulnerability vectors, the risks should be classified according to the degree below:

a) EXTREME: It poses an extreme potential threat, it is an intolerable event, this activity should not be initiated or continued until the risk is reduced. If the risk cannot be reduced, even using high-level resources, the activity should be prohibited.

b) HIGH: It represents a major potential threat, so the activity should not be started until the risk is reduced. Efforts and resources must be allocated to mitigate it. For an ongoing activity, urgent action has to be taken.

c) MEDIUM: Make efforts to reduce risk, but the cost of prevention must be evaluated and limited, as it features a lower level of criticality in terms of the impact on the Group's business. Risk reduction measures need to be implemented within a defined period of time.

d) LOW: It does not require additional controls for those that already exist. Existing monitoring and information is required. There is a need for instruction and monitoring by those responsible for the activities.

The prioritized risks should undergo a different workflow process, considering:

Greater criticality in the implementation of response plans and actions to remediate control gaps;

Definition of Risk Indicators for monitoring;

Higher reporting frequency of risk status and ARC and BoD response plans.

9.3 Response to Risk

After the risks prioritized in the previous stage, the Company defines the strategies for decision-making, developing a series of measures to mitigate the threats to the objectives of Grupo Equatorial, in order to align the risks with the respective risk appetite, developing formal response plans defined by the Risk Owner with support from the RMIC Area. Potential risk responses are to accept, share, avoid and reduce:

a) Accept: Senior Management agrees to confront the risk if and when it materializes. A solution plan, or contingency can be developed for this eventuality. Strategy used when it is not possible or practical to respond to the risk, or a response is not justified by the importance of the risk;

b) Share: transferring or sharing a portion of the risk in order to reduce the probability or impact (Example: In fire risk, where the cost of the insurance claim could be transferred to Insurance Companies);

c) Avoid: is related to an action that totally eliminates the source of a specific risk (Example: Sale of a specific operation);

d) Reduce: measures are taken to reduce the level of exposure of an adverse risk event to an acceptable limit to Grupo Equatorial Energia;

Response Plans also need to define corrective actions or emergency plans in the event that risks materialize, even if the response has been “accept it”.

9.4 Monitoring Risks

Monitoring risks is an ongoing process related to Risk Management. It consists of defining, monitoring and periodically updating the Risk Indicators, which are directly related to risk factors, as well as monitoring and updating the implementation status of response plans and/or action together with stakeholders in risk management.

Results of the indicators should be periodically reported to the Executive Board, according to the frequency established for each risk, and to the Audit and Risk Committee and to the Board of Directors, in accordance with the respective meeting calendars and regulations.

10 - REFERENCES



10.1 Gerenciamento de Riscos Corporativos - Enterprise Risk Management - Aligning Risk with Strategy and Performance - COSO 2017;

10.2 Risk Assessment in Practice by Deloitte Touche Tohmatsu Services, Inc. - COSO 2012;

10.3 Developing Key Risk Indicators to Strengthen Enterprise Risk Management - COSO 2010;

10.4 Implementing Enterprise Risk Management - John R.S. Fraser - 2015;

10.5 Gerenciamento de Riscos Corporativos - Risk Assessment in Practice - COSO 2013;

10.6 Regulamento do Novo Mercado da B3;

10.7 ABNT NBR 31.000 ISO - Technical Management Board Working Group on Risk Management.

GRUPO
equatorial
ENERGIA