RISK MANAGEMENT POLICY
EMPRESAS COPEC S.A.

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INTRODUCTION

The development of any activity is exposed to situations that might have a negative impact on and affect the objectives set. As a result of risk diversity, a deeper, more methodological and systematic analysis of their management is needed.

This document contains the policy and a methodology so the Company can formally manage its risks, i.e., the process of identifying and assessing them, weighting their impact, mitigating and monitoring them, all with the aim of improving decision-making.

1. RISK MANAGEMENT POLICY

The Company has decided to implement a policy that systematically recognizes internal or external events that might pose risks for achieving the business objectives.

This requires putting tools in place to consistently appraise risks, determine their consequences and be able to develop mitigation action to maintain them at an acceptable level.

The Company's policy is to:

- Establish, formalize and implement a comprehensive risk management methodology.
- Define and establish the acceptable risk level.
- Have the explicit approval of the risk mitigation plans.
- Undertake periodic assessments of the risk control procedures in use.
- Keep the parties involved informed about the Company's risk status and profile.

This policy must be applied to the whole Company.

The guidelines, principles and definitions outlined and the management model to be used explained below underpin the application of the risk management policy.

1.1 Principles

Business risks arise from the threat of something undesired occurring or something good not happening.

Risk is inherent to the business and must be administered and managed suitably, and for this it is necessary to analyze and consider the presence of conditions, situations or events that might unfold and lead to negative consequences for the company, its employees, the environment, community or its shareholders.

The principles mentioned apply to all the action areas of the company: operations, finance, projects, the environment, human resources, health and safety of employees and contractors, legal and regulatory and to issues related to the community, reputation and social issues.

The Company must have risk policies and a comprehensive risk control and management system. To such end, it should establish the strategic business objectives, undertake a top rate analysis of the strategic risks that might affect them and allocate resources for the right execution of mitigation action according to the nature, complexity, business volume, operations and activities of the Company.

Management is responsible for developing and applying the policies and procedures needed for the right risk management and control. Each unit/function and employee must apply control or mitigation measures to keep risk exposure at an acceptable level.

2. DEFINITIONS

2.1 Risk

Risk is defined as the uncertainty arising from the possible occurrence of an event that might have a negative impact on the achievement of the Company's objectives.

Since it is such a broad definition, it is necessary to analyze how to identify the general scope of risks to then limit them to the type of business, company, environment, structure and organizational culture. This process necessarily entails selecting the set of major risks applicable to the Company.

2.2 Risk Categories

2.2.1 Strategic

These are those normally managed by the Board and are long-term.

E.g.: Economic cycle, market changes, new technology, etc.

2.2.2 Environment

These are those normally managed by management as decided by the Board and they are medium-term.

E.g.: Legal regulation, stakeholder relations, social and cultural environment, etc.

2.2.3 Processes

These are performing usual tasks and are managed by management.

E.g.: Liquidity management, Reports, Investments, etc.

2.3 Types of Risks

2.3.1 Inherent Risk

Just for doing any activity in itself has a related underlying risk (i.e., before applying controls). It is also called pure risk.

2.3.2 Residual Risk

Applying controls is aimed at mitigating the risks identified, which can be eliminated or continue to exist, with the lowest impact on the organization. It is called residual risk. The result of controls must be reflected by a lower likelihood of occurrence, by a lower impact or both effects at the same time.

2.4 Risk Assessment

This process entails identifying a risk, relating it to an environment or environments it impacts, assigning it a level of damage it might cause called impact, and the likelihood of occurrence. This process must be undertaken by a group of people with experience and who know the business, seeking individual support not only in their area of expertise, but also as part of a team in which the decisions made by one person can impact the activities of others.

The pages below explain and show the concepts of impact areas, likelihood of occurrence, definition of effects, risk registry and map.

The criterion to define likelihood can be statistical, based on the experience and/or knowledge of managers on the issue, or be determined by means of simulation or other techniques.

3. COMPREHENSIVE RISK MANAGEMENT MODEL

This model includes a series of concepts, definitions, tools and processes which identify, categorize and assess the risk of the business processes, define the control measures needed to mitigate them, monitor their application and report the results to the Company's Board.

The conceptual framework applied is the ISO 31.000 standard.

3.1 Risk Management

This is a continuous process comprising a set of tools and actions that systematically enable the Company to identify, assess and take rational action on a wide range of events that might affect the organization and are a threat to achieving current or future objectives. It allows the Company to improve knowledge of possible events, focusing on those defined as significant for it and include them in daily management to minimize their impact and/or the likelihood of occurrence.

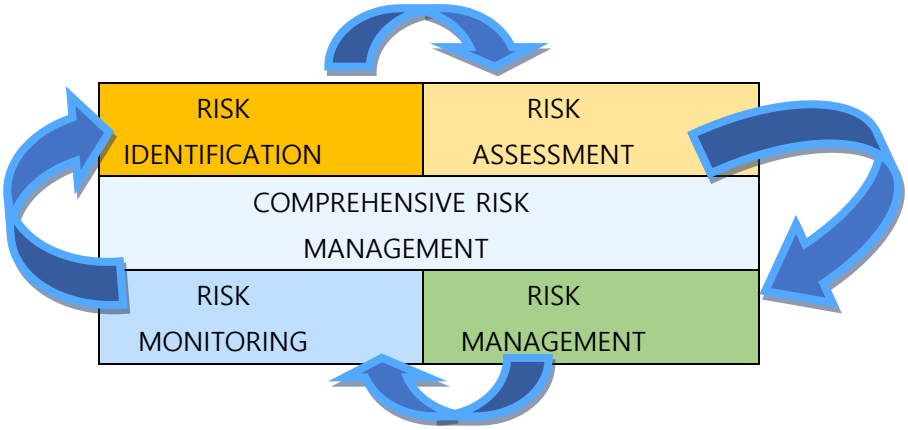
Risk management is mainly the responsibility of management and allows for:

- Responsible acceptance of the risk.
- Support from the Board or management in decision-making.
- Better results.
- Organizational alignment with the objectives set.

3.2 Risk Identification

Risks must be identified by groups of people with experience and who know the Company's business.

The model is shown as a continuous sequence of activities in the figure below:



This model is based on assigning a "likelihood of occurrence" and value of the "consequence" or "impact" of each of the events identified to thereby assign priorities and establish the mitigation action to be put in place. The result of this analysis is summarized in a risk registry and map.

3.3 Risk Registry

This is an inventory of events or situations that the Company's senior management has deemed as significant risks for the business.

To draw this up, the registry firstly includes a description of each event and its natural consequences, i.e., without considering mitigation measures. This thereby enables the Company to determine those risks which, should they occur, could lead to loss or damage. A risk event could affect more than one area, and therefore have multiple consequences, which in turn generate more than one control activity. It is important to consider all the possible losses.

The next stage involves identifying the current controls for each of the risks already identified, analyzing their effectiveness to mitigate them and assessing each of them to determine the residual level. These steps should be undertaken at least once a year.

Those risks whose controls do not manage to reduce them to levels deemed acceptable by senior management require additional (mitigation) controls to be executed, with dates and those responsible for them until they are at an acceptable level.

3.4 Risk Quantification Criteria

3.4.1 Impact / Consequence

It is important to note that the occurrence of an event might have an impact on more than one aspect or business area, which is why all the areas of activity impacted must be analyzed, then assigning a value for each of them.

The Company has defined various of its areas where damage might arise like:

- People – health and safety
- Environment
- Interruption of the operation, material damage, financial loss, others
- Legal and regulatory
- Reputation, social, communities

3.4.2 Likelihood of Occurrence

Events that have risks for the company do not necessarily occur with the same frequency. For this reason, when analyzing them it is necessary to define criteria to estimate the likelihood of them occurring.

Annex Nº1 shows referential tables on the quantification of the risk impact and the criterion to establish the likelihood of occurrence.

3.5 Risk Matrix (Classification)

Each risk is classified according to a combination of the impact generated by the occurrence of the event and the defined likelihood of occurrence.

The model uses a "traffic light" system, which is shown in Annex Nº2, as result of applying the parameters mentioned in the previous paragraph to each event. This matrix is the basis for building the Company's risk map.

The values indicated in the interior boxes of the risk matrix show the residual risk and they imply that the impact variable gets a higher weighting than that given to the likelihood of the risk event occurring.

3.6 Risk Map

The risk map is a graphical representation of the different events, processes or activities identified by the Company's senior management as factors that affect or might undermine the achievement of the objectives.

The information in the map is obtained from the outcome of the risk analysis undertaken, with the highest risks in the boxes on the upper right side and those of less importance in the boxes on the lower left side.

3.7 Risk Monitoring

The Company's management is responsible for the process of continually monitoring the risks of its daily activities. Moreover, the Internal Audit area will draw up an annual review program to assess the effectiveness of the controls established based on the significant risks analyzed.

Throughout all the steps of this process there must be constant monitoring of the suitability of activities, and it is also necessary that there is permanent communication and consultation with directors, senior management, functional managers, committees, etc.

4. APPROVAL AND MODIFICATIONS

This policy was approved by the Company Board in a meeting held on November 21, 2017. Should any modifications be made, the date of the Company Board meeting approving such modification shall be stated in this section.

5. EFFECTIVENESS

This document shall come into force as of December 21, 2017, it shall replace the previous document that was in force as of December, 2015, and shall have indefinite duration unless the Company Board reaches another decision about it.

6. DISCLOSURE MECHANISMS

The full and updated text of this policy shall be made and kept available for interested parties on the Company website (www.empresascopec.cl).

ANNEX N°1: RISK QUANTIFICATION CRITERIA

Impact / Consequence

Quantification Matrix	**Impact/Consequence** Should there be more than one type of loss, use the most serious consequence				
Type of Loss (There may be more than one type of loss). Identify and assess the impact of each one	**1** **Insignificant**	**2** **Minor**	**3** **Moderate**	**4** **High**	**5** **Disastrous**
Damage to people Health and Safety	This case requires first aid/minor health exposure.	This case requires medical treatment/major health exposure.	This case leads to lost time/reversible health impact.	This case leads to 1 fatality or quality of life loss/irreversible health impact.	This case leads to multiple fatalities/health impact with fatal results.
Environment Environmental Impact	Minor environmental damage - remediable in a 6-month term.	Material environmental damage – incident remediable in the short term (6 months – 1 year).	Serious environmental damage - incident remediable in a term of 1 to 3 years.	Major environmental damage - incident remediable in a term of over 3 years.	Extreme environmental damage. This is a major incident that could be irremediable or irreversible.
Interruption of the operation/ material/financial damage and other related losses Interruption of the operation/ material/financial damage Other damage	Economic losses less than US$100,000.	Economic losses between US$100,000 and US$ 1,000,000.	Economic losses between US$1,000,000 and US$ 10,000,000.	Economic losses between US$10,000,000 and US$ 100,000,000.	Economic losses over than US$100,000,000.
Legal and/or regulatory Legal/Regulatory	Legal or regulatory issue of minor importance. Report to authority / Possibility of trial and / or penalty.	Minor legal issue/breach of a regulation or the law. Report to authority / Possibility of trial and / or penalty.	Major breach of the law/investigation/report to the authority, possibility of a lawsuit and/or moderate penalty. Partial loss of tax benefits or absolute prohibition of receiving them for a specific period.	Serious breach of law, major indictment and penalties. Prohibition of the State to hire the company's services. Total loss of tax benefits or absolute prohibition of receiving them for a specific period. Possibility of trial and / or penalty.	Considerable indictment and penalties. Dissolution/annulment of the legal status
Reputation, Social, Communities	Minor impact – public attention but without concern.	Limited impact – public concern about the case.	Considerable impact – regional concern about the situation.	National impact – national concern about the situation.	International impact – international public attention.

Likelihood of Occurrence

Likelihood of Occurrence	
Estimate Level	**Definition Parameters**
5 - Almost Certain	The event will occur within 10 years. Probability from 90% to 100%.
4 - Expectable	The event is expected to occur within 10 years. Probability from 50% to 90%.
3 - Likely	The event is likely to happen within 10 years. Probability from 20% to 50%.
2 - Unlikely	The event could occur sometime in 10 years. Probability from 10% to 20%.
1 - Remote	The event could occur under exceptional circumstances within 10 years. Probability less than 10%.

ANNEX N°2: RISK CLASSIFICATION MATRIX

The impact and likelihood of occurrence of each of the risks identified and assessed are combined in a weighted way in the table below.

The values from combining the impact and likelihood in the boxes of the table show that the major factor is the risk impact.

Risk Matrix						
Likelihood of Occurrence		Impact				
Estimate Level		1 Insignificant	2 Minor	3 Moderate	4 High	5 Disastrous
5 - Almost Certain		5	7	9	11	13
4 - Expectable		4	6	8	10	12
3 - Likely		3	5	7	9	11
2 - Unlikely		2	4	6	8	10
1 - Remote		1	3	5	7	9

Classification Parameters	Risk Classification	Action/Mitigation to be implemented
10 to 13	**(A)** – High	There is a high risk of not achieving the objectives. A mitigation strategy must be implemented immediately.
8 to 9	**(S)** - Significant	There is a significant risk of not achieving the objectives. A mitigation strategy must be implemented as soon as possible.
5 to 7	**(M)** - Moderate	There is a moderate risk of not achieving the objectives. A mitigation strategy must be implemented in the normal process of managing the business.
1 to 4	**(B)** - Low	There is a low risk of not achieving the objectives. Additional mitigation is not needed. These risks must be monitored regularly.