

## **Internal Audit Policy of Latvenergo Group**

### **1. Objective and Scope of the Policy**

1.1. The objective of the Internal Audit Policy of Latvenergo Group (hereinafter referred to as the Policy) is to establish uniform principles and tasks of internal audit, requirements for independence and objectivity of internal audit, and requirements for quality assurance.

1.2. This Policy is relevant to Latvenergo Group. The implementation of this Policy is overseen by the Supervisory Board of Latvenergo AS (hereinafter referred to as the Supervisory Board) and the Audit Committee of Latvenergo AS (hereinafter referred to as the Audit Committee). This Policy is implemented within Latvenergo Group by the Internal Audit of Latvenergo AS (hereinafter referred to as IA).

1.3. In regard to the owner of the electricity [transmission] system and the distribution system operator, this Policy applies to the extent that it does not conflict with the independence requirements for the owner of the electricity [transmission] system and the distribution system operator laid down by legislation.

### **2. Terms and Definitions**

2.1. **Internal Audit** – an independent and objective assurance and consulting activity designed to add value and improve the operations of Latvenergo Group and the Companies. It helps Latvenergo Group and the Companies to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes, thereby helping to achieve the goals of Latvenergo Group and the Companies.

2.2. **Latvenergo Group** – Latvenergo AS and the totality of all its subsidiaries.

2.3. **Assurance** – an objective examination of evidence for the purpose of providing an independent and objective assessment on governance, risk management and control processes for Latvenergo Group or a Company.

2.4. **Consulting** – advisory and similar services, the nature and scope of which have been agreed with the Company's Shareholders' Meeting, Supervisory Board, Audit Committee, Management Board, Chief Officer, or Director of a Unit and which are designed to add value and improve the governance, risk management and internal control processes of Latvenergo Group or a Company, without the internal auditor assuming the decision-making duty.

2.5. **Risk** – a possible event which may have a negative impact on the ability of Latvenergo Group or a Company to provide services or meet their business objectives and effectively implement their strategy.

2.6. **Company** – a capital company of Latvenergo Group.

### **3. Operating Principles of Internal Audit**

3.1. The mission of internal audit is to protect and strengthen the value of Latvenergo Group and the Companies, by providing a risk based, independent, and objective assurance as well as advice (consulting) and insight.

3.2. In its activities, IA complies with the International Standards for the Professional Practice of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors as well as the Code of Ethics of the Institute of Internal Auditors.

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3.3. Internal audits are performed based on a uniform methodology in accordance with the Internal Audit Manual of Latvenergo Group approved by the Internal Audit Director of Latvenergo AS (hereinafter referred to as IA Director).

3.4. IA staff carry out their work in good faith, diligently, and responsibly, respect the information confidentiality requirements, and avoid situations that may impede the provision of an independent, objective, and competent assessment.

3.5. While performing internal audits, IA staff have access to all documents and computer system records of the audited area and a right to participate in meetings/sittings/discussions. IA has a right to request any explanations and information from the staff involved in the area under review. IA employees are responsible for the unlawful disclosure of any information they receive during the performance of their duties.

3.6. The internal audit plan of Latvenergo Group is prepared by IAD, reviewed by the Management Board of Latvenergo AS and the Audit Committee and approved by the Supervisory Board. Prior to submitting the Latvenergo Group's internal audit plan for approval, the management boards and the supervisory boards of each Company or, if not established, the shareholders' meeting of each Company are informed about the relevant parts of the internal audit plan.

3.7. The internal audit reports on Latvenergo AS are submitted to the Audit Committee, while reports on internal audits in other Companies are submitted to the supervisory board of this capital company or, if the supervisory board is not established, to the shareholders' meeting. Prior to submitting internal audit reports, they are presented to the Management Board of the respective Company. All internal audit reports are available to the Audit Committee.

3.8. IA Director regularly reports to the Audit Committee on the progress of the implementation of the internal audit plan and makes a report to the Supervisory Board on the activities of IA once a year.

## **4. Independence and Objectivity of Internal Audit**

4.1. IA takes care to ensure its independence and objectivity.

4.2. The independence and objectivity of an IA employee has been impaired if:

4.2.1. he or she has, or may have in the future, a conflict of personal and professional interests (a personal or economic interest to perform job duties based on a family or other personal relationship or based on a business relationship with an employee, customer or supplier of the audited area);

4.2.2. over the past year, he or she has been in charge of, or has carried out, a task or consulting activity concerning the object of internal audit.

4.3. The responsibility of an IA employee is to disclose all known material facts and circumstances that may affect the independence and objectivity of internal audit. If independence or objectivity of an IA employee has been impaired or is under threat pursuant to Paragraph 4.2, he or she shall inform IA Director thereof. If the independence or objectivity of IA Director has been impaired or is under threat, he or she shall assign his or her duties in relation to the respective task, where his or her independence or objectivity has been impaired or is under threat, to another IA employee, informing the Audit Committee thereof accordingly.

4.4. An IA employee may carry out consulting activities by participating in the working groups if this does not impair the independence and objectivity of internal audit. The decision on the involvement of an IA employee in consulting activities is made by IA Director.

4.5. An IA employee is not entitled:

4.5.1. to carry out day-to-day processes of any Company, except for the processes of IAD;

4.5.2. to approve the transactions of Companies, except for the IA transactions, or to keep records of transactions;

4.5.3. to give orders to other employees of Companies.

4.6. Once a year, upon reporting to the Supervisory Board and the Audit Committee, IA Director confirms the independence of IA or informs about circumstances that have impaired it.

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### **5. Tasks of Internal Audit**

5.1. To prepare and submit the Latvenergo Group's internal audit plan based on a risk assessment to the Management Board, the Audit Committee and the Supervisory Board of Latvenergo AS for review and approval.

5.2. To carry out internal audits of Latvenergo Group in accordance with the approved internal audit plan as well as to carry out *ad hoc* internal audits at the instruction of a Company's shareholders' meeting, supervisory board, audit committee or management board.

5.3. To assess the adequacy and effectiveness of governance, risk management and internal control processes of Latvenergo Group and a Company and make recommendations for improvements, in particular regarding:

5.3.1. achievement of the strategic and annual targets;

5.3.2. reliability, timeliness and accuracy of information;

5.3.3. effectiveness and efficiency of functions, processes, and programs, including segregation of duties and performance appraisal;

5.3.4. safeguarding of assets;

5.3.5. compliance with laws, internal regulations, decisions, contracts and other documents as well as understanding of ethical norms and values of Latvenergo Group.

5.4. To provide consulting on governance, risk management and internal control processes of Latvenergo Group and Companies and identify opportunities for their improvement when such services are requested by a Company's shareholders' meeting, supervisory board, audit committee, management board, chief officer or director of a unit on condition that the requirements for the independence and objectivity of internal audit are observed and the implementation of the internal audit plan is not compromised.

5.5. On an annual basis, to prepare an overall opinion on the effectiveness of Latvenergo Group's internal control and risk management systems during the reporting year and submit it to the Management Board and the Audit Committee of Latvenergo AS.

### **6. Quality Assurance of Internal Audit**

6.1. The Internal Audit Quality Assurance and Improvement Programme is a set of measures to ensure the monitoring of the internal audit operating values, effectiveness, competence and compliance with the International Standards for the Professional Practice of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing and the Code of Ethics developed by the Institute of Internal Auditors.

6.2. The Internal Audit Quality Assurance and Improvement Programme is developed and implemented by IAD.

6.3. An essential part of the Internal Audit Quality Assurance and Improvement Programme is the knowledge and skills of the IA staff, which should be maintained at a level and to the extent that internal audits can be carried out in a due quality. For this reason, IA Director may involve other specialists of Latvenergo Group or external experts in carrying out an internal audit, if necessary.

6.4. An IA employee constantly enhances his or her knowledge and skills and improves his or her qualification at least in the scope and areas set by IA Director.

6.5. The Internal Audit Quality Assurance and Improvement Programme comprises an internal ongoing assessment, an internal periodic assessment and an external assessment.

6.6. IA Director conducts the internal ongoing assessment through performing the day-to-day supervision of the internal audit process and assessing the IA activities.

6.7. The internal periodic assessment is conducted no later than two years after the last internal periodic assessment or external assessment.

6.8. The external assessment is conducted at least once every five years by a qualified external assessor.

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6.9. Based on the results of the internal periodic assessment or external assessment, IA Director prepares an action plan for the internal audit quality improvements and submits it to the Audit Committee.

**7. Maintenance and Control of the Policy**

- 7.1. The Internal Audit Policy of Latvenergo Group is developed and updated by IAD.
- 7.2. The Policy is reviewed and updated as necessary, but at least once every 3 (three) years.

**8. Related Documents**

The following external and internal regulations as well as other documents not specifically mentioned below are applied in the implementation of the Policy.

<b>External</b>	<b>Internal</b>
<ul style="list-style-type: none"><li>• International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors</li><li>• Core Principles for the Professional Practice of Internal Auditing of the Institute of Internal Auditors</li><li>• Code of Ethics of the Institute of Internal Auditors</li></ul>	<ul style="list-style-type: none"><li>• Regulations of the Supervisory Board of Latvenergo AS</li><li>• Regulations of the Audit Committee of Latvenergo AS</li><li>• Regulations of the Internal Audit of Latvenergo AS</li><li>• Corporate Governance Policy of Latvenergo Group</li></ul>