



THE CORPORATE GOVERNANCE POLICY OF AUGSTPRIEGUMA TĪKLS AS

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THE CORPORATE GOVERNANCE POLICY OF *AUGSTSPRIEGUMA TĪKLS AS* HAS BEEN DEVELOPED TAKING INTO ACCOUNT THE REGULATORY ENACTMENTS OF THE REPUBLIC OF LATVIA, THE PRINCIPLES OF CORPORATE GOVERNANCE AND RECOMMENDATIONS REGARDING THEIR IMPLEMENTATION DEVELOPED BY NASDAQ OMX RIGA AS, AND DEVELOPMENT RECOMMENDATIONS FOR CORPORATE GOVERNANCE MADE BY THE EUROPEAN UNION AND ORGANIZATION FOR ECONOMIC CO-OPERATION, AS WELL AS BY REVIEWING AND SUMMARISING THE CORPORATE GOVERNANCE PRACTICES OF *AUGSTSPRIEGUMA TĪKLS AS*.



1. TERMINOLOGY

THE FOLLOWING TERMS ARE USED IN THE POLICY:

AST AS – joint stock company *Augstsprieguma tīkls*;

Cabinet of Ministers – the Cabinet of Ministers of the Republic of Latvia;

Ministry of Finance (MoF) – the Ministry of Finance of the Republic of Latvia;

Coordination Centre – Cross-Sectoral Coordination Centre;

PUC – Public Utilities Commission;

Governance Law – Law on Governance of Capital Shares of a Public Person and Capital Companies;

MoF Governance Procedure – Procedure on Governance of the Capital Companies of the Ministry of Finance;

Company – a capital company in which AST is the shareholder, including:

a) a company in which AST holds shares and the said participation does not ensure the status of a subsidiary or dependent company within the meaning of the Governance Law;

b) subsidiary – a capital company in which AST has acquired direct decisive influence on the basis of participation for the purposes of the Group of Companies Law;

c) dependent company – the company in which AST has acquired all shares or voting rights.

Policy – *Augstsprieguma tīkls* AS Corporate Governance Policy.



2. PURPOSE OF THE POLICY

To establish uniform principles for the Corporate Governance of AST to promote ethical, accountable and transparent practices of corporate governance.



3. SCOPE OF THE POLICY

3.1. The Policy applies to AST as well as to the Companies taking into account the restrictions set forth in this Policy.

3.2. In the case of Companies in which AST does not have direct decisive influence on the basis of participation within the meaning of the Group of Companies Law, AST applies the provisions of this Policy in accordance with the rights conferred by the amount of voting rights.

3.3. For the foreign-registered companies in which AST is a member or a shareholder, the Policy applies to the extent it does not contradict the national legislation.

3.4. The Policy does not apply to the participation of AST in pension funds, investment funds, associations and foundations.



4. CORPORATE VALUES AND CODE OF ETHICS

4.1. AST and the Companies have set corporate values as well as high standards of professional conduct and ethics ensuring that they are directed against corruption, prevention of conflicts of interest in day-to-day operations, illegal use of inside information and any other illegal and unethical conduct.

4.2. The mission, vision and values of AST are determined in accordance with the strategic objectives and the role of AST as a transmission system operator in the Latvian economy.



5. ORGANISATIONAL STRUCTURE AND GOVERNANCE

5.1. The business model of AST is a joint stock company operating in accordance with the Statutes, the Governance Law, the Commercial Law and other applicable laws and regulations.

5.2. The owner of all AST shares is the Ministry of Finance of the Republic of Latvia (100%).

5.3. The Cabinet of Ministers exercises the competence of the AST Shareholder. The shareholder implements the governance of AST together with the Shareholders' Meeting, the Management Board and the Supervisory Board within the competence specified in the Governance Law.

5.4. The representative of the State's share makes decisions within the competence of the AST Shareholders' Meeting.

5.5. During the intervals between Shareholders' Meetings, the interests of the shareholder of AST are represented by the Supervisory Board that uses carefully selected and effective management tools to supervise the activities of the AST Management Board. The Cabinet of Ministers, in accordance with the size indicators of AST, determines the number of members of the AST Supervisory Board. Applicable binding laws and regulations determine the term of the members of the AST Supervisory Board.

5.6. The day-to-day management of AST shares, jointly managing and representing AST, is carried out by its executive body, the Management Board. The Cabinet of Ministers in accordance with the size indicators of AST determines the number of members of the AST Management Board. Applicable binding laws and regulations determine the term of the members of the AST Management Board.

5.7. An appropriate and transparent organisational structure is established for the size indicators of AST, for strategic development and for the effective management of operational risks.

5.8. The AST Management Board organises its work according to the functional principle: each board member is responsible for a certain field of activity according to their professional knowledge, experience and competencies in the respective area of responsibility: the chairman - management, and members of the board - system management, development, support, and operation.



6. STRATEGIC OBJECTIVE AND BUSINESS STRATEGY

6.1. The justification for state participation in AST is prescribed by the order of the Cabinet of Ministers, approving the overall strategic objective of AST.

6.2. In order to ensure the core business of AST, the development of strategic, tactical and operational plans of the transmission network and the development of the ten-year development plan of the transmission system are carried out.

6.3. The strategic development of AST, its subsidiaries and dependent companies for a period of at least three years is set out in a medium-term business strategy, as well as the process for the evaluation of its implementation and the achievement of the set objectives is provided.

6.4. The objectives for the governance of the Company are set by AST once a year upon the receipt of information on the planned Company's budget for the following year. The objectives set by AST for the governance of the Company should be included in the medium-term business strategy of the respective Company, if the participation of AST provides such rights. If necessary, the objectives may be altered or set within an additional evaluation period.

6.5. The implementation process of the medium-term business strategy includes:

6.5.1. the review and development of planning documents necessary for the achievement of the set objectives;

6.5.2. the development of the budget and work plan, capital investment plan, as well as long-term financial management plan for each subsequent calendar year;

6.5.3. the linking of the medium-term objectives with the short-term objectives and tasks, setting the objectives to be achieved within the calendar year, the fulfilment of which is to be assessed with specific performance indicators;

6.5.4. the control of the objectives set in the medium-term business strategy (once a year) and control of the fulfilment of the objectives of the calendar year (once a quarter);

6.5.5. the review of the medium-term business strategy in the event of significant changes in the business environment or in the business of AST, its subsidiaries or dependent companies;

6.5.6. the evaluation of the results of the previous period, and the analysis of the business environment and expected changes.

6.6. The continuity of the implementation process of the medium-term business strategy is ensured, including the timely commencement of the strategy planning process for the next period.



7. CORPORATE GOVERNANCE TOOLS

7.1. The corporate governance of AST and the Companies is implemented in accordance with the regulatory enactments, implementation policies of the capital company and other planning documents.

7.2. The implementation policies of AST and the Companies set out the principles on which the business decisions are based to ensure/promote the efficient and effective use of resources and to limit the risks intrinsic to each of the areas considered.

7.3. In cases where AST policies shall be specified in the context of the Company's business or where an AST policy has not been developed in a relevant area of importance to that Company, the Company develops its own policy.

7.4. The policies of the Company shall not conflict with the policies of AST. In the event of a conflict between the policy of the Company and the policy of AST, the latter policy shall prevail. The implementation of the principles included in this policy in the Companies is ensured to the extent provided by the amount of voting rights in the respective Company.

7.5. The obligation of the officials of the companies to implement and to comply with the AST policies is determined by the Regulations of the Management Board of the Companies, the Regulations of the Supervisory Board and the respective authorisation agreements.

7.6. The members of the Supervisory Board of the Company inform the Management Board of the Company regarding AST policies in a timely and appropriate manner and promote the implementation of AST policies within the Company.



8. CORPORATE SOCIAL RESPONSIBILITY

8.1. The financial resources of AST and the Companies are donated, and presented, as well as the property is transferred for use free of charge in accordance with the directions defined in the corporate social responsibility policy, observing the requirements specified in the regulatory enactments.

8.2. During the process of the planning of their corporate social responsibility activities, AST and the Companies take into account the ten principles of the United Nations Global Compact and Corporate Social Responsibility, which encourage organisations to respect human rights, ensure good working conditions, protect the environment, and fight corruption.



9. REMUNERATION POLICY

9.1. In AST and the Companies, the remuneration policy is developed and improved in order to provide the competencies necessary to achieve the company's objectives, to attract and to motivate suitably qualified employees in the long term, to increase the level of responsibility and initiative of the employees, and to use financial resources efficiently and rationally.

9.2. The salaries of the members of both boards of AST are determined in accordance with Governance Law and the Cabinet Regulations issued on the basis thereof, following the recommendations of the guidelines issued by the Coordination Centre.

9.3. The members of the Management Board of AST and the Companies are not remunerated for another paid position within the same Company (no single monthly remuneration is set).

9.4. Authorisation agreements are concluded with the members of the AST Supervisory and Management Boards, as well as they are not subject to the provisions of the AST Collective Bargaining Agreement.

9.5. In order to determine the amount of the bonus for the members of the AST Management Board or the Companies respectively, the legally permissible amount of the bonus, the performance of AST or the Companies in the previous reporting year, the fulfilment of the objectives of the strategy and work plan, as well as individually determined achievable performance indicators are taken into account.

9.6. No bonuses are paid to members of the Supervisory Boards of AST and the Companies.



10. AST SHAREHOLDER AND SHAREHOLDERS' MEETING

10.1. AST Shareholder

The Cabinet of Ministers takes decisions within the competence of the AST Shareholder on the acquisition, continuation and termination of the state in AST, on the need to acquire or terminate the participation and decisive influence, as well as on granting permission to the subsidiaries and dependent companies of AST to acquire participation in another company.

10.2. AST Shareholders' Meeting

10.2.1 During the Shareholders' Meeting, the interests of the shareholder of AST are represented by the State Secretary of the MoF or another official of the Ministry appointed by the order of the State Secretary, who has all the rights, duties and responsibilities of the shareholder's representative provided by the law.

10.2.2 The AST Shareholders' Meeting makes decisions within the competence specified in the Governance Law.

10.2.3 The internal regulations issued by the MoF determine the procedure by which the MoF organises the governance of state capital shares in order to ensure a coordinated and predictable governance system of state capital shares and cooperation between the MoF as the holder of state capital shares and capital companies.



11. AST MANAGEMENT BOARD

11.1. Duties and Responsibilities of the AST Management Board

11.1.1 The AST Management Board manages and directs the business of AST, and is responsible for accounting in accordance with the regulatory enactments. The Management Board manages the property of AST and handles its funds in accordance with the regulatory enactments, the Statutes, and the decisions of the Shareholder and the Shareholders' Meeting. The tasks and responsibility of the AST Management Board are subject to the laws and regulations. The operating principles of the AST Management Board, as well as its main responsibilities are set out in the Statutes and the Statutes of the Management Board.

11.1.2 The AST Management Board jointly represents AST. The members of the Management Board may authorise one or more members of the Management Board to enter into certain transactions or certain types of transactions.



12. AST SUPERVISORY BOARD

12.1. Duties and Responsibilities of the AST Supervisory Board

12.1.1 The AST Supervisory Board represents the interests of the Shareholder between the Shareholders' Meetings and supervises the activities of the AST Management Board, participates in the strategic development of AST, as well as in the supervision of the financial and risk management system.

12.1.2 The operating principles of the AST Supervisory Board, as well as its main responsibilities are set out in the Statutes and the regulations of the Supervisory Board. The tasks and responsibilities of the AST Supervisory Board are subject to the laws and regulations.

12.1.3 The AST Supervisory Board does not take decisions on matters falling within the competence of the AST Management Board.

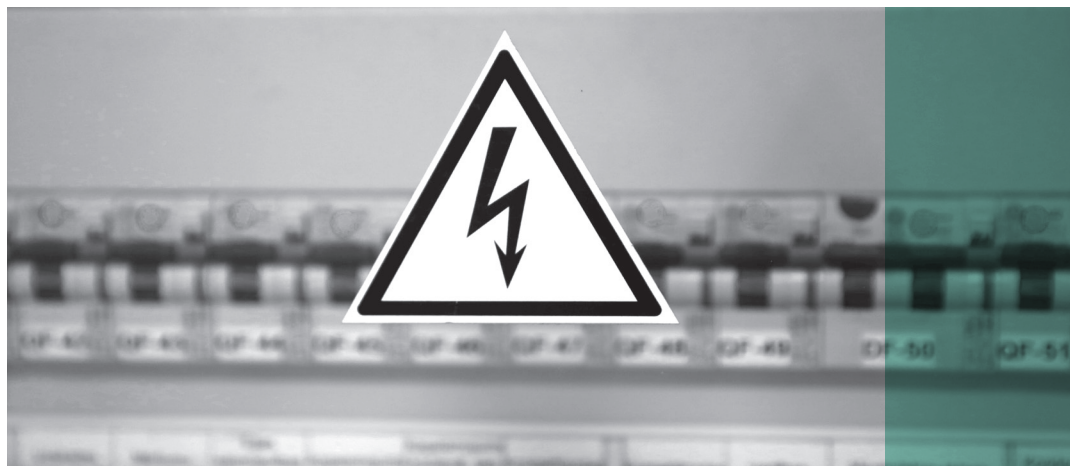


13. NOMINATION AND APPOINTMENT OF MEMBERS OF THE AST MANAGEMENT AND SUPERVISORY BOARDS

13.1 The procedure for nominating and appointing the members of the AST Board and Supervisory Board as well as the requirements for the candidates are determined by the Governance Law, regulations of the Cabinet of Ministers issued on the basis thereof, as well as by the recommendations of the guidelines issued by the Coordination Centre.

13.2 In the process of nominating the members of the Supervisory Board and Management Board, AST observes the principles of good corporate governance practice, ensuring the open, fair and professional selection of the members of the Supervisory Board, therefore promoting the establishment of a professional and competent management body.

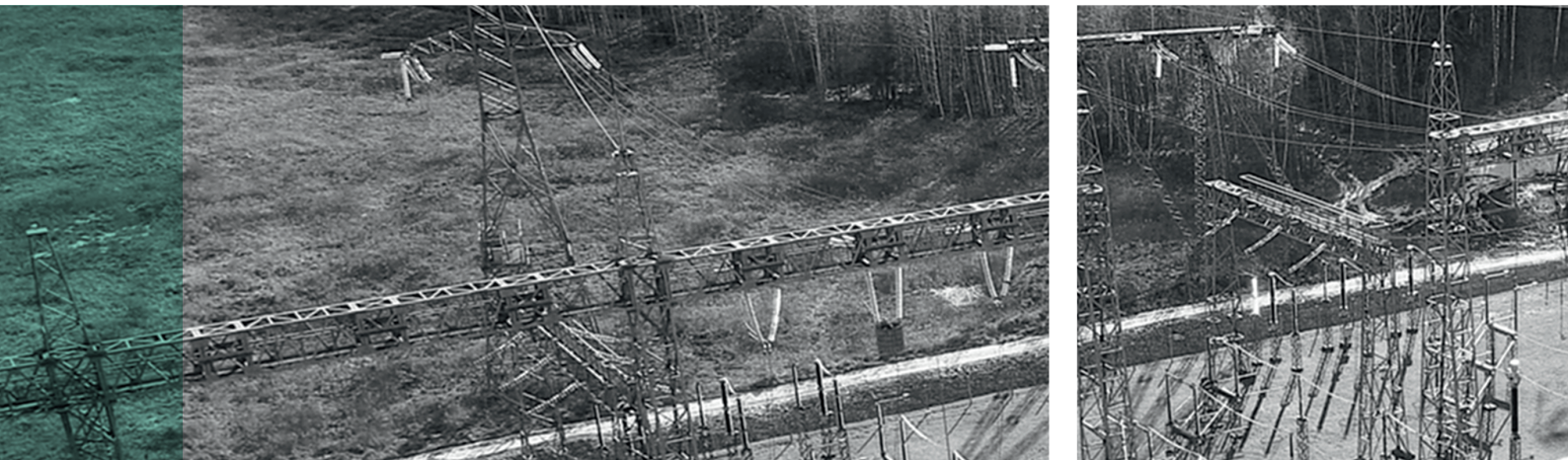
13.3 The composition of the AST Management Board and Supervisory Board is designed to ensure all necessary competencies, a sufficiently critical and independent attitude regarding evaluation and decision-making.



14. IDENTIFICATION OF CONFLICTS OF INTEREST IN THE ACTIVITIES OF THE AST SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS

14.1. The members of both AST Boards are public officials within the meaning of the Law on the Prevention of Conflicts of Interest in the Activities of Public Officials and shall comply with the general restrictions on combining offices, on obtaining an income, on commercial activities, on accepting gifts and donations, and other restrictions set out in the above-mentioned law.

14.2. In their activities, the members of the AST Management Board comply with the restrictions specified in the Commercial Law on concluding transactions with related parties, as well as the prohibitions on competition and the restrictions specified in the Law "On the Prevention of Conflicts of Interest in the Activities of Public Officials".



15. PARTICIPATION OF AST IN THE COMPANIES

15.1. Governance Institutions of the Companies

15.1.1. Each Company has the following governance institutions: Shareholders/Participants' Meeting, Supervisory Board, if any, and Management Board.

15.1.2. The Shareholder/Participant's Meeting is the highest decision-making authority of the Company through which AST exercises its shareholder/participant's rights.

15.1.3. The AST Management Board performs the functions of a shareholder/participant of the Company.

15.1.4. If the Company has several shareholders/participants, at the Shareholders/Participants' Meeting of the Company, the AST shall be represented by a person authorised by the AST Management Board, who shall make decisions in accordance with the decision of the AST Management Board.

15.1.5. If the proportion of AST shares allows and unless otherwise stipulated in the shareholders' agreement, AST shall exercise its right to participate in the formation of the Supervisory Board in proportion to the number of AST shares.

15.1.6. AST nominates the members of the Supervisory Board of its dependent companies or in the absence of such a board – members of the board in accordance with the Governance Law and the regulations of the Cabinet of Ministers issued on the basis thereof. AST nominates the members of the Supervisory Board of its subsidiaries or in absence of such a board – members of the board taking into

account the principles set out in the Governance Law and the regulations of the Cabinet of Ministers issued on the basis thereof. During the process of nomination, the involvement of the Coordination Centre takes place in accordance with the tasks and functions to be performed specified in legislation.

15.1.7. In the process of nominating the members of the Supervisory Board and the Management Board, AST observes the principles of good corporate governance practice, ensuring the open, fair and professional selection of the members of the Supervisory Board, which promotes the establishment of a professional and competent management body.

15.1.8. AST, through its nominated members of the Supervisory Board, exercises its shareholder's rights and interests between Shareholders/Participants' Meetings, as well as in matters within the competence of the Supervisory Board.

15.1.9. The members of the supervisory board nominated by AST are AST trustees who, in the course of their activities, shall comply with their duty of loyalty towards the interests of AST.

15.1.10. The members of both boards of subsidiaries and dependent companies (of AST) are public officials within the meaning of the Law on the Prevention of Conflicts of Interest in the Activities of Public Officials and must comply with the general restrictions on combining offices, on obtaining an income, on commercial activities, on accepting gifts and donations, and other restrictions set out in the above-mentioned law.



15.2. Governance Procedures of the Companies

15.2.1. The companies are managed in accordance with the regulatory enactments and the conditions of good corporate governance practice.

15.2.2. The management of companies in which AST does not have a direct decisive influence based on participation within the meaning of the Group of Companies Law may be stipulated in the Shareholder's Agreement.

15.2.3. AST, as a shareholder/participant and the members of the Supervisory and Management Boards nominated by AST, exercise their activities and their voting rights in a manner that ensures the widest possible implementation of AST interests and the Company's stated objectives.

15.2.4. The Supervisory Board of the Company implements its activities independently. The members of the supervisory board or the members of the management board respectively, nominated by AST shall report to the AST Management Board on all matters of particular importance on the agenda of the Supervisory Board or, if the latter has not been established, of the Management Board, giving their assessment of compliance of the possible decisions with the interests of AST. The following matters should be regarded as particularly important:

- the matters that should be considered at the Company's Shareholders/Participants' Meeting;
- the matters that affect the Company's medium-term business strategy;

- the matters that change the composition of the Board of the Company;
- the matters that affect the tariffs for publicly regulated services;
- the matters regarding the approval of the Company's interim quarterly reports;
- other matters which AST has identified as being of particular importance, including, but not limited to, the provision of consent to the matters referred to in the Company's Statutes.

15.2.5. 15.2.5. Until the annual accounts are cleared, the members of the Supervisory Board nominated by AST submit a self-assessment of their activities to AST once a year.

15.2.6. The projected profit margin of the Company that should be paid in dividends and the profit margin to be paid in dividends shall be determined in accordance with the regulatory enactments.



16. DISCLOSURE AND EXCHANGE OF INFORMATION

16.1. AST, as well as the Companies, publish information on their website in accordance with the laws and regulations, ensuring that the published information is timely and gives a true and fair view of the governance, economic activities and financial results of the capital company.

16.2. In addition to the regulatory requirements, AST prepares and publishes an annual corporate governance report and sustainability report. The Sustainability Report is prepared in accordance with the internationally recognised Global Reporting Initiative (GRI) guidelines.

16.3. The financial statements of AST and the Companies are prepared in accordance with the International Financial Reporting Standards and are audited in accordance with international audit standards.



17. INTERNAL CONTROL AND RISK MANAGEMENT

17.1. AST and the Companies establish and continuously improve the system of internal control (including internal audit) and risk management. It is managed by AST and the Management Board of those companies, while supervision is carried out by AST and the Supervisory Board of the companies concerned.

17.2. AST and the Companies engage external auditors to carry out audits in specific areas and to provide opinions and/or recommendations.

17.3. An independent qualified auditor audits the financial statements of AST and the Companies.



18. COOPERATION WITH RELATED AND INTERESTED PARTIES

18.1. AST and the Companies ensure fair and equal treatment in their dealings with the stakeholders, preventing conflicts of interest, fraud, and corruption. Ethical principles for cooperation with contractual partners are made public and equally honest principles of cooperation are called upon.

18.2. All transactions with related parties that have a significant effect on AST are disclosed in the financial statements to the extent and in accordance with the procedures prescribed by the law and regulations.

