

AS "Augstsprieguma tīkls"
Corporate Governance
Report
2021

The Corporate Governance Report of AS "Augstsprieguma tīkls" for the year 2021 has been prepared in accordance with the requirements of Section 56.² of the Law on the Market of Financial Instruments (hereinafter "LMFI"), taking into account the Corporate Governance Code developed by the Advisory Board of the Ministry of Justice of the Republic of Latvia (hereinafter "Corporate Governance Code"), the recommendations of the European Union and the Organization for Economic Cooperation and Development on corporate governance of a corporation.

At AS "Augstsprieguma tīkls", corporate governance is implemented by taking into account the laws and regulations of the Republic of Latvia, the recommendations of the European Union and the Organization for Economic Cooperation and Development on corporate governance of a capital company, as well as the "Corporate Governance Code" developed by the Advisory Board of the Ministry of Justice.

For more information on corporate governance, please refer to the Sustainability Report of AS "Augstsprieguma tīkls" (hereinafter also "AST" or "the Company"). The Corporate Governance Report is publicly available on the AST website: <https://www.ast.lv/lv/content/korporativas-parvaldibas-modelis>

Management Report

On compliance with the corporate governance principles

The Board of AS "Augstsprieguma tīkls" has reviewed the Company's compliance with the corporate governance principles set forth in the Corporate Governance Code. Having assessed the corporate governance system and compliance with the principles in 2021, the Board is of the opinion that AS "Augstsprieguma tīkls" has complied, in material respects, with all the corporate governance principles applicable to its activities.

Pursuant to the requirements of Section 56.² of the FIML, in the Corporate Governance Report, the Company provides additional information on the key elements of the internal control and risk management system applied in the preparation of the financial statements.

The Company has implemented an effective internal control system that, among other things, ensures control in the preparation of the financial statements. The control environment includes both preventive and detective controls that ensure timely detection and correction of errors and inaccuracies. As part of the preventive control system, the Company has approved and put in place a number of internal documents that define the direction of operations and processes. Examples of this system include adherence to the "four-eyes principle," regular internal reporting to management, and segregation of duties.

The internal control function is performed by the Board and supervised by the Internal audit unit and the governance bodies, i.e., the Council and its Audit Committee.

External and internal control of the Company's operations is carried out in accordance with the prescribed procedure, which provides for regular and independent oversight.

The Company's auditor is prohibited from providing services that could undermine or impair his/her independence. The general criteria of the selection auditor: it must be an internationally recognised auditing firm that has not provided financial reporting services to the Company in recent years, and the price quote.

The Company and its subsidiary must obtain the prior approval of the AST Audit Committee in order to use the services of the sworn auditor and sworn auditing firm to audit the financial statements and sustainability report of AST. The Company shall ensure that the term of office of an external auditor does not exceed five years.

The Company's Audit Committee has oversight of the preparation and audit of the Company's annual financial statements and the consolidated financial statements.

The Board approved the Corporate Governance Report of AS "Augstsprieguma tīkls" for the year 2021 in Riga on 18 April 2022.

Legends:

- ❖ The principle/criterion has been fully met
- ❖ The principle/criterion does not apply to the Company's activities

Corporate Strategy

1. The Company pursues a current strategy that outlines the Company's goals and the long-term value growth objective

Criteria:

- ❖ The Company pursues its current strategy, the draft of which is developed by the Board
- ❖ The Council is involved in the strategy development process and approves the strategy at the Council meeting
- ❖ The Council has oversight of the implementation of the strategy
- ❖ The Company's Board implements the strategy and reports regularly to the Council on the implementation thereof

Facts:

- To ensure the main activity of the Company, strategic, tactical, and operational plans for the transmission system and the ten-year plan for the development of the transmission system are developed.
- The medium-term operational strategy of the Augstsprieguma Tīkls Group defines the strategic development of the Group's operations for a period of at least three years and ensures the process of evaluating its implementation and the fulfilment of the defined objectives.

- The non-financial and financial goals of the Augstsprieguma Tīkls Group and its performance indicators are set out in the medium-term operational strategy. The medium-term operational objectives set out in the strategy are contained in a subordinate document, namely the annual action plan. The annual action plan is approved at the same time as the Company's budget for the following year, after analysing the potential risks and allocating the necessary resources to achieve the objectives.
- In order to control the set goals, the progress of their fulfilment is monitored regularly, i.e., control of the fulfilment of the objectives set in the medium-term operational strategy (once a year) and control of the fulfilment of the goals for the calendar year (once a quarter).
- The continuity of the process of implementing the medium-term operational strategy is ensured, which includes the timely start of the strategic planning process for the upcoming period.

In 2021, the Company developed the medium-term operational strategy of the Augstsprieguma Tīkls Group for the years 2021-2025 (hereinafter "the Strategy"). The Strategy was developed in accordance with the requirements of the Law on Management of Capital Shares of Public Persons and Capital Companies and in accordance with the "Guidelines for Development of Medium-Term Operational Strategy for State Capital Companies" of the Inter-Ministerial Coordination Centre (hereinafter "IMCC"). The draft strategy was approved by the resolutions of the Company's Board on 28 July 2021 and the Company's Council on 2 August 2021. After obtaining the opinions of the IMCC and the Ministry of the relevant industry, the Strategy was approved by the resolution of the Company's Council on 21 December 2021.

The Strategy defines the financial and non-financial goals of the Augstsprieguma Tīkls Group and its performance indicators for 2021-2025.

Based on the goals defined in the Strategy, the Company's Board develops, and the Council approves the Company's goals for the current year.

The Company ensures regular monitoring of the achievement of the goals, once a quarter, by reviewing the progress in meeting the goals at the Board meeting and reporting to the Council.

Internal culture and ethical conduct

2. The Company develops a code of internal culture and ethical conduct that serves as a standard of conduct for management and employees

Criteria:

- ❖ The Council defines the Company's core values
- ❖ The Board prepares, and the Council approves the code of internal culture and ethical conduct

- ❖ The Board ensures compliance with the Code of Internal Culture and Ethical Conduct in the day-to-day operations of the Company and responds when a violation of the Code of Ethical Conduct is identified

Facts:

- The mission, vision, and values of AST are defined in accordance with the strategic goal and the role of AST as a transmission system operator in the Latvian economy.
- The Company defines corporate values, as well as high standards of professional conduct and ethics, ensuring that they are directed against corruption, avoidance of conflicts of interest in day-to-day business, illegal use of insider information, and any other illegal and unethical actions.
- The Company's Board has developed the Code of Corporate Values and Ethics and the Council has approved it.
- The Code of Ethics of AS "Augstsprieguma tīkls" is available on the Company's website <https://www.ast.lv/lv/content/etikas-kodekss>.

The internal control system, risk management, and internal audit

3. The Company has an internal control system in place, the effectiveness of which is overseen by the Council

Criteria:

- ❖ The Company has a documented internal control system, establishing which is the responsibility of the Board
- ❖ The internal audit assesses the effectiveness of the internal control system at least once a year on the basis of predefined criteria and reports the results of the assessment to the Council
- ❖ The Council evaluates the provided assessment of the effectiveness of the internal control system at least once a year

Facts:

- The Company has established and continuously improves the internal control system (including internal audit) and risk management.
- Since the end of 2002, AST has implemented, certified, maintained, and elaborated the Integrated Management System. Currently, the Integrated Management System is maintained in accordance with the requirements of ISO 9001, ISO 14001, ISO 45001, and ISO 50001 and the Company's priorities. Information about the implemented Quality Management System can be found on the AST website: <https://www.ast.lv/lv/content/kvalitates-sistema>.
- The implemented Integrated Management System ensures the efficient operation of AST in accordance with internationally agreed operational mechanisms for

quality, occupational health and safety, energy efficiency, and environmental management, ensures the identification and fulfilment of regulatory requirements, and facilitates the identification and fulfilment of customer and stakeholder expectations, by viewing developments in the Company through the prism of risk management and processes.

- The Council provides oversight of the effectiveness of the Company's internal control, risk management, and compliance systems and the work of the internal audit activity. The Audit Committee ensures monitoring insofar as it relates to the reliability and objectivity of the annual financial statements and consolidated financial statements.
- The implementation of the Company's internal control, risk management and compliance systems is ensured by the Board and independently and objectively assessed by the internal audit activity.
- The internal audit activity prepares, and the AST Board approves the internal audit plan for the following year and the internal audit strategic plan for the forthcoming five years. The internal audit plan for the year 2022 and the internal audit strategic plan for the years 2022-2026 were approved by the resolution of the AST Council on 10 December 2021.
- In accordance with the requirements of the International Standard for Professional Practice in Internal Auditing issued by the Institute of Internal Auditors, the internal audit activity of AST reports to the Company's Council at least annually on the internal audit activity's activities and provides a general opinion on the effectiveness of the internal control and risk management systems of AS "Augstsprieguma tīkls".
- The general opinion on the effectiveness of the internal control and risk management systems of AS "Augstsprieguma tīkls" includes an opinion on the effectiveness of the internal control activities implemented by AST and recommendations for further improvement of the internal control system.
- The general opinion of the internal audit activity on the effectiveness of the internal control and risk management system of AS "Augstsprieguma tīkls" in 2021 (Opinion) was assessed at the Council meeting of AS "Augstsprieguma tīkls" on 25 February 2022. According to the Opinion, the internal control activities put in place by AST are sufficiently effective to ensure the achievement of AST's strategy and objectives and to manage strategic risks.
- The Council of AST has oversight of the implementation of the AST Internal Audit Policy, and the internal audit activity regularly reports to the Council on the implementation and progress of the approved audit recommendations.

4. The Company identifies, assesses, and monitors the risks associated with its operations

Criteria:

- ❖ The Board develops and the Council approves the Company's risk management policy
- ❖ Based on the assessment of identified risks, the Board takes risk management measures
- ❖ At least once a year, the Council reviews the Board's reports on risk management measures and the implementation of the risk management policy

Facts:

- AST promotes commercial activity that is based on fair principles and adherence to ethical standards, and takes the necessary steps to prevent corruption and fraud risks and improve the control environment.
- In 2021, a new edition of the AST Risk Management Policy was drafted, adopted by the resolution of the AST Board on 21 April 2021, and approved by the resolution of the AST Council on 30 April 2021. In order to improve financial risk management, a new edition of the Financial Risk Management Policy has been developed, adopted by the resolution of the AST Board on 20 January 2021 and approved by the Board of AST on 29 January 2021.
- The risk management of AS "Augstsprieguma tīkls" is governed by the Risk Management Policy and Concept of AS "Augstsprieguma tīkls", as well as by the governance of certain risk areas.
- AST manages its risks in accordance with the precautionary principle and in line with its risk appetite.
- With a view to ensuring more dynamic and efficient risk management, it was decided in 2021 to establish a list of key risks for AST. The list of key risks for AST includes the risks with the highest residual risk values from all risk areas. Within the scope of monitoring of the key risks, a report is submitted to the Board at least once per quarter, assessing compliance with the risk appetite and risk indicators.
- The Company ensures regular monitoring of risks. A report is prepared for the Board on the regular or extraordinary review of risks in each area. Once a year, a report on risk management for the relevant year is prepared for the Board and subsequently for the Council.

5. An internal audit activity has been established within the Company to provide an independent and objective assessment of the Company's operations

Criteria:

- ❖ The Company employs an internal auditor who is functionally independent of the Board and is accountable to the Council
- ❖ The Council approves the internal auditor for the position
- ❖ The internal auditor develops a risk-based internal audit plan that is approved by the Council
- ❖ The internal auditor reports to the Board and Council on the implementation of the previous internal audit plan, the results of the audit, and recommended actions to eliminate deficiencies if any

Facts:

- In carrying out its activity, the Company's internal audit activity adheres to the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics.
- In accordance with the Company's Corporate Governance Policy, the Council and the Audit Committee of AS "Augstsprieguma tīkls" have a functional oversight of the internal audit activity, whereas administratively it is accountable to the Chairman of the AST Board.
- The Council is involved in the selection process of the internal auditor and subsequently decides on the assessment of the performance during the probationary period at the AST Council meeting.
- Based on the risk assessment performed, a strategic and annual internal audit plan is prepared, which is reviewed by the Board of AST and the Audit Committee, and approved by the Council of AST.
- The internal auditor reports to the Board and the Council on the implementation of the previous internal audit plan, the results of the audit, and recommended actions to eliminate deficiencies if any.
- The internal auditor prepares an overall assessment of the effectiveness of the internal control and risk management systems of AST during the reporting year and presents it to the Council, the Audit Committee, and the Board.

External auditor

6. The Company has an independent external auditor

Criteria:

- ❖ The Council and, if applicable, the Audit Committee defines the criteria for selecting an external auditor
- ❖ The Company has an independent external auditor with appropriate qualifications
- ❖ The tenure of the external auditor must not exceed five years

Facts:

- The Company's financial statements are audited by an independent sworn auditor. The AST Audit Committee has oversight of the preparation and audit of AST's annual and consolidated financial statements.
- The financial statements of AST are audited by international auditing companies represented in Latvia, thus ensuring the provision of highly qualified services. The Company's financial statements are audited by an independent sworn auditor. AST's Audit Committee has oversight of the preparation and audit of the annual report and consolidated financial statements of AST. The current auditor of AST was selected to audit the annual report, consolidated annual report and sustainability report of AS "Augstsprieguma tīkls" for the years 2021-2023 as part of the procurement procedure conducted in February-March 2021. This procurement procedure took place before the election of AST's Audit Committee. The next award procedure is planned for the end of 2023 after the selection criteria for the auditors have been agreed with the Audit Committee.
- A sworn auditor is prohibited from providing services that could undermine or impair their independence. AST and its subsidiary must obtain the prior approval of the AST Audit Committee in order to engage services from a sworn auditor and a firm of sworn auditors to audit the financial statements and sustainability report of AST.
- The Company shall ensure that the tenure of an external auditor does not exceed five years. The auditor of the Company's annual report for 2021 is SIA "PricewaterhouseCoopers". From 2018 to 2020 (a three-year period), the auditor of the Company's annual report was SIA "Deloitte Audits Latvia".

Election of the members of the Council

7. The Company shall ensure transparent procedures for the election and revoking of Council members.

Criteria:

- ❖ The Company has approved the procedure for the election and revoking of Council members

- ❖ The Company informs the Company's shareholders in a timely and sufficient manner about the members of the Council who are nominated for election or re-election
- ❖ The size of the Council is appropriate for the nature of the Company's business
- ❖ A Council member is elected for a term not exceeding five years

Facts:

- The AST Council represents the interests of shareholders between the shareholder meetings and has oversight of the activities of the AST Board, participates in the strategic development of AST, and has oversight of the financial and risk management system.
- The principles of the functioning of the AST Council as well as the main responsibilities are set out in the Articles of Association and the Rules of Procedure of the Council, which are available on the AST website: <https://www.ast.lv/lv/content/padome>.
- The Council consists of five Council members, who are elected for a term of five years, <https://www.ast.lv/lv/content/korporativas-parvaldibas-modelis>.
- The AST Council members are selected through a selection procedure. By resolution of the Extraordinary General Meeting of Shareholders of AST, held on 30 December 2019, four members of the Council were elected: Kaspars Āboliņš, Armands Eberhards, Madara Melne and Aigars Ģērmanis. As concerns Olga Bogdanova, the shareholder meeting decided to extend the term of office, having assessed her past performance.
- Madara Melne, the AST Council member, resigned effective 26 January 2022. Until a new board member is elected, the four members will continue to serve on the AST Council. The Inter-Ministerial Coordination Centre will carry out an open competition for the vacant position of the independent Council member.
- In 2021, 19 Council meetings were held, during which more than 100 agenda items were discussed, and 63 decisions were made.

8. The Council members collectively have relevant experience and competence

Criteria:

- ❖ The Council collectively has a range of skills, experience, and knowledge, including in this area, to fully carry out its role
- ❖ The principles of diversity are respected in the composition of the Council
- ❖ Both genders are represented on the Council
- ❖ The Council develops an induction programme and provides induction training for new Council members

Facts:

- The AST Council is elected through a selection process that attracts highly qualified individuals. The description of the education and professional experience of the Council members can be found on the AST website.
- The AST Council members are selected in accordance with Cabinet Regulation No. 20 of 7 January 2020, "Procedures for Appointment of Board and Council Members in Corporations Owned by the State or a Derived Public Person", Guidelines of the Inter-Ministerial Coordination Centre, nominations of the AST Council members in the procedure all candidates are given equal opportunities, the candidate is not treated differently because of gender, age, religious beliefs or other characteristics.
- Both genders are represented on the AST Council.
- At the beginning of their tenure, the Board provides the new Council members with information about the main aspects of the Company's business.

9. The Company's Council is composed of independent Council members**Criteria:**

- ❖ The Company evaluates and the shareholders determine the share of independent members of the Council
- ❖ At least half of the Council members are independent members
- ❖ Independent Council member candidates must submit representations that they meet the independence criteria
- ❖ Prior to the Council election, the Company assesses the independence of the Council members according to the available information

Facts:

- The nomination and appointment of the current members of the AST Council, as well as the requirements for candidates, were established in accordance with the Law on Management of Shares in Public Enterprises (prior to the amendments that came into force on 1 January 2020), the Cabinet Regulations issued on the basis of this Law, and the recommendations set forth in the IMCC Guidelines. The AST Council has two independent members who, prior to their appointment, were evaluated for meeting independence requirements in accordance with the regulations in force at that time.
- The nomination process for the members of the AST Council was organised by the shareholder, the Ministry of Finance, in accordance with the principles of good corporate governance, in order to ensure an open, fair and professional selection of the Council members, thus facilitating the establishment of a professional and competent supervisory body. The composition of the AST Council (consisting of five Council members) has been designed to ensure all the

necessary competencies, a sufficiently critical and independent attitude in the evaluation and decision making.

- Information on the evaluation process of the candidates and the adopted decision regarding the positions of the Council members in AST:
<https://www.fm.gov.lv/lv/media/2159/download>;
<https://www.ast.lv/lv/events/iecelti-jauni-ast-padomes-locekli>.
- In accordance with the recommendations of the Inter-Ministerial Coordination Centre established by the Ministry of Finance and the Latvian Trade Union "Enerģija", the shareholder meeting of AST has elected as council members of AST those council members who, collectively, have the skills, experience, and knowledge of the relevant industry to fully perform their duties and are considered highly professional. Among the five members of the AST Council, both genders are represented.
- The term of office of the Council members of AST runs until 30 December 2024.

Principles for determining the remuneration of the Council and the Board

10. The Company has a remuneration policy in place

Criteria:

- ❖ The Company has a remuneration policy in place, which has been developed by the Board, reviewed by the Council, and approved by the Shareholder Meeting
- ❖ Once a year, the Council sets the financial and non-financial goals to be achieved by the Board and their impact on the variable part of the remuneration and monitors their achievement
- ❖ Council members do not have variable remuneration, nor is any compensation paid in the event of their resignation or departure
- ❖ The Board prepares an annual report on the remuneration to each current and former member of the Board and the Council

Facts:

- The remuneration policy of the Board and the Council is prescribed by the laws of the Republic of Latvia, which regulate both the maximum amount of the remuneration of the Board and the Council and the variable part thereof.
- The underlying principles of the Company's remuneration policy, including the remuneration policy of the Board and the Council, are set out in the Company's Corporate Governance Policy.
- In accordance with the Cabinet Regulations of the Republic of Latvia, the amount of remuneration of the Board and the Council in State-owned companies is determined on the basis of the indicators characterising the size of the company: turnover, total assets, and number of employees.

- The maximum amount of remuneration is determined by applying a factor based on the indicators characterizing the size of the company and considering the level of average monthly earnings of employees in the country in the previous year published in the official statistical bulletin of the Central Bureau of Statistics.
- In accordance with the participation in the capital of a public person and Section 79, Paragraph 7 of the In the Law on Management of Capital Shares and Capital Companies of Public Persons, the variable part of the remuneration of a member of the Board may not exceed the amount of two months' salary.
- When adopting the budget for the next year, the Council approves the Company's financial and non-financial goals for the next year and the performance indicators to be achieved. In addition, the Council approves the individual goals indicators for each Board member and their impact on the variable portion of compensation. The Company's financial and non-financial goals for 2021 were approved at the Council meeting on 11 December 2020. Once a quarter, the Company's Board reports to the Council on progress in meeting the goals.
- In deciding whether to award a bonus to the Board, the Council evaluates the performance of AST in the previous financial year, the achievement of the financial and non-financial goals set for the Company, and the achievement of the individual goals set for the Board member.
- The Company's Council members do not receive variable remuneration, bonuses, or compensation in the event of resignation or departure.
- A report on the remuneration policy implemented in the Company is included in the Company's non-financial statement "Sustainability Report". The report on the remuneration policy in 2021 is included in the Sustainability Report 2021 of AST, which is available on the AST website: <https://www.ast.lv/lv/content/ilgtspejas-parskati>.

Organization of the work of the Council and decision-making

11. The organization of the work of the Council is defined and understood in the Company

Criteria:

- ❖ The Council organises its work in accordance with the Rules of Procedure of the Council and the work calendar
- ❖ The Council holds at least one separate Council meeting per year to discuss the Company's strategy and its implementation
- ❖ The Company's budget provides the necessary resources to ensure the work of the Council
- ❖ The Council conducts a self-assessment of the Council's performance once a year and reviews the results thereof at the Council meeting

- ❖ The Council has considered the need to establish committees

Facts:

- The AST Council organises its work in accordance with the Rules of Procedure of the Council, which are available on the AST website: <https://www.ast.lv/lv/content/padome>.
- In 2021, the AST Council approved the Medium-Term Operational Strategy of the Augstsprieguma Tikls Group for the years 2021-2025 (Strategy).
- The current annual budget of the Company provides the necessary funds to ensure the work of the Council.
- In order to manage the set goals, the progress of their fulfilment is monitored regularly - control of the goals set in the medium-term operational strategy (once a year) and control of the fulfilment of the calendar year goals (once a quarter).
- Once a year, concurrently with the approval of the previous year's financial statements, the Council conducts a self-assessment of its work and presents the results to the Shareholder Meeting of AST. The self-assessment of the Council's performance was reviewed at the Shareholder Meeting of AST on 28 May 2021.
- AST Audit Committee was established by the resolution of the Shareholder Meeting of AST on 22 September 2021.

12. The Council makes sound and balanced decisions

Criteria:

- ❖ The Council has timely and sufficient information that the Board prepares for decision making
- ❖ The Council establishes the process for sharing information, including the Council's right to request information from the Board that is necessary for Council decision-making
- ❖ A Council member analyses the information and prepares proposals for decision-making by the Council
- ❖ In making decisions, the Council evaluates the risks and the short- and long-term impact on shareholder value, sustainability, and responsible development

Facts:

- The Rules of Procedure of the AST Council set out the procedure for preparing and submitting documents to the Council, for convening meetings, and for decision-making.
- Pursuant to Paragraph 5.9 of the Council's Rules of Procedure, the documents and draft resolutions required to deal with the matters on the agenda of the Council meeting must be submitted to the Council members no later than 3 (three) working days before the ordinary Council meeting.

- Pursuant to Paragraphs 7.5 and 7.6 of the Council's Rules of Procedure, a draft resolution and the documents supporting the adoption of the resolution shall be attached to the item submitted to the Council for consideration. A draft decision shall be accompanied by an explanatory note (report), a presentation and other materials justifying the need for a decision of the Council and setting out the possible economic, social, legal, and other consequences of the decision.
- Pursuant to Paragraph 3.3.5 and Paragraph 3.4 of the Council's Rules of Procedure, the Council shall have the right to request from the Board information necessary for the oversight of the Company and the performance of the Council's duties, which information shall be presented to the Council in a form that will enable the Council to achieve the objectives set forth in the information request.

12.1. The Committee prepares decision-making proposals for the Council

Criteria:

- ❖ The Council shall prescribe the duties of the committee and the procedures for its operation
- ❖ The Council establishes a committee consisting of at least three Council members who have relevant experience and knowledge in the specified area of the committee's activity (remuneration, nomination, audit, or another area)
- ❖ The committee analyses the information and prepares proposals for decision-making in the Council, as well as informs the Council about the work of the committee

Facts:

- The AST Audit Committee is composed of three members: two independent members and one member dependent on the AST Council. The Audit Committee is accountable to the AST Council for its activities and the performance of its duties.
- The main task of the AST Audit Committee is to ensure the protection of the interests of the shareholder and the Shareholder Meeting in relation to the preparation of the annual financial statements, their audit, and the effectiveness of the internal control, risk management, and internal audit system to ensure the reliability and objectivity of the annual financial statements to ensure the reliability and objectivity of the annual report and the consolidated annual report.
- The objectives and tasks of the AST Audit Committee, its working methods, rights and duties are set out in the Rules of Procedure of the AST Audit Committee, which are available on the website: <https://www.ast.lv/en/content/audit-committee>.

Avoidance of Conflicts of Interest

13. The Board and Council members are clearly aware of the manifestations of conflicts of interest and are informed of the necessary measures in the event of a conflict of interest.

Criteria:

- ❖ The Council defines the characteristics that indicate a conflict of interest and establishes procedures to prevent and manage conflicts of interest
- ❖ The Council or Board members do not participate in decision-making on issues where the interests of the company conflict with those of the Council, Board members, or persons related to them
- ❖ Persons subject to the obligation to avoid conflicts of interest receive regular training on how to deal with conflicts of interest

Facts:

- The AST Council and Board members, as well as the members of the Audit Committee, are public officials within the meaning of the Law on the Prevention of Conflicts of Interest in the Activities of Public Officials and are subject to general and specific regulations on the acceptance of other jobs, the generation of income, the exercise of commercial activities, the acceptance of gifts and donations, and other restrictions. The members of the AST Board require prior approval from the Council to accept other jobs, while the Council members require prior approval from the shareholder. The members of the AST Board and the Council make annual declarations on holding public office.
- The members of the AST Board comply with the restrictions on related party transactions set forth in the Commercial Law, as well as the restrictions on competition and the restrictions on the prevention of conflicts of interest in the activities of public officials in their activities.
- The Company regularly trains the persons subject to the obligation to avoid conflicts of interest on how to behave in situations of conflicts of interest. Training material is sent electronically once a year, and a training session is held every three years, engaging professionals from the Corruption Prevention and Combating Bureau (CPCB). On 26 November 2021, the Company organised training on the prevention of fraud, corruption, and conflict of interest, which was attended by professionals from the CPCB.
- Detailed information on the Company's risk management in relation to fraud, corruption, and conflicts of interest can be found on the AST website: <https://www.ast.lv/en/content/management-risks-fraud-corruption-and-conflicts-interest>.

Shareholder meeting

14. The Company provides shareholders with timely information on the holding of the shareholder meeting, providing all the necessary information for decision-making

Criteria:

- ❖ The Company shall inform the shareholders in due time about the agenda, the course of the meeting, and the voting procedure of the shareholder meeting, as well as about any changes related thereto
- ❖ Simultaneously with the announcement of the meeting, the Company shall offer shareholders the opportunity to familiarise themselves with the draft resolutions to be initially voted on at the meeting. The Company shall inform the shareholders without undue delay about the additionally submitted draft resolutions
- ❖ The Company shall give shareholders the opportunity to ask questions about the agenda and the draft resolutions before the shareholder meeting
- ❖ The draft resolutions and the documents attached to them contain detailed, clear, and complete information on the matters to be discussed

Facts:

- The interests of the shareholder are represented at the AST Shareholder Meeting by the State Secretary of the Ministry of Finance or another official of the Ministry appointed by order of the State Secretary, who has all the rights, duties, and responsibilities of the shareholder.
- The AST Shareholder Meeting shall make decisions within the scope of authority set forth in the Governance Law.
- Internal regulations of the Ministry of Finance prescribe the procedure by which the Ministry of Finance organises the management of state capital shares in order to ensure a coordinated and predictable system of management of state capital shares and cooperation between the Ministry of Finance, as the holder of state capital shares, and the capital companies.
- Four shareholder meetings were held in 2021, at which several important decisions were made in connection with the approval of the 2020 financial statements and the appropriation of profits, the establishment of the audit committee and the election of members of the audit committee, amendments to the Articles of Association, and the issuance of bonds.
- The agenda and resolutions of the shareholders' meeting can be found on the AST website: <https://www.ast.lv/en/content/shareholder-and-shareholders-meeting>.

15. The Company encourages effective involvement of shareholders in decision-making and the widest possible participation of shareholders in shareholder meetings

Criteria:

- ❖ A shareholder meeting is convened and held at a place and time that is easily accessible to shareholders
- ❖ The Company offers shareholders the opportunity to participate in the shareholder meeting remotely
- ❖ The Company determines the appropriate duration of the shareholders' meeting and gives shareholders the opportunity to express their opinions during the meeting and to obtain the information necessary for decision-making
- ❖ The Company announces a new shareholder meeting if the issues on the agenda of the meeting cannot be dealt with within the allotted time
- ❖ The Company invites the members of the Management Board and the Council, the candidates for the Council, the auditor, and the internal auditor, as well as other persons to participate in the shareholder meeting, depending on the issues to be dealt with at the meeting
- ❖ The shareholder meeting makes its decisions in accordance with the previously announced draft resolutions

Facts:

- All capital shares of AS "Augstsprieguma tīkls" (100%) are owned by the State and are held by the Ministry of Finance of the Republic of Latvia (MoF).
- The jurisdiction of the AST shareholder is exercised by the Cabinet. The interests of the shareholder at the AST Shareholder Meeting are represented by the State Secretary of the Ministry of Finance or another official of the Ministry appointed by order of the State Secretary, who has all the rights, duties and responsibilities of the shareholder.
- Extraordinary and ordinary shareholder meetings of AST shall be convened in accordance with the procedure set forth in the Law on Management of Shares in Public Enterprises and the Commercial Code. The initiators of convening the shareholders' meeting shall state the reasons for convening the meeting and the agenda in the letter requesting the convening of AST and shall submit draft resolutions on the topics of the agenda.
- With the permission of the shareholder's representative, invited persons who are directly involved in the agenda item and can provide additional reasoned answers to the shareholder representative's questions may be invited to the shareholder meetings of AST.
- The Shareholder Meeting of AST shall make decisions within the scope of powers set forth in the Law on Governance of Capital Shares of a Public Person and Capital

Companies. After considering each item on the agenda, the shareholder's representative shall announce its decision on the item considered. Minutes of the shareholders' meetings AST are prepared. As the entire voting share capital is represented at the AST shareholder meeting, it is deemed to be approved regardless of the time, manner, and place of convening (Section 276 of the Commercial Law). Information on the announced AST shareholder meetings and the resolutions adopted are published on the AST website in accordance with the statutory publication requirements. <https://www.ast.lv/lv/content/akcionars-un-akcionaru-sapulce>.

- To date, the agenda items for all shareholder meetings have been dealt with by AST within the scheduled timetable. However, if a situation arises where it is not possible to discuss the agenda items of any of the meetings in a timely manner, a new shareholder meeting will be announced to ensure that the necessary issues are addressed. If necessary, shareholders will be offered the opportunity to participate in the meeting remotely.

16. The Company develops and discusses dividend policy with shareholders

Criteria:

- ❖ The Company has developed and published a current dividend policy
- ❖ The dividend policy has been discussed with shareholders at the shareholders' meeting

Facts:

- The Augstsprieguma tīkls Group's medium-term operational strategy for the years 2021-2025, approved by the resolution of the AST Council on 12 December 2021, includes the Company's dividend policy.
- The Company's dividend policy was discussed at the shareholders' meeting on 9 August 2021.
- The Company's dividend policy is published on the AST website: <https://www.ast.lv/en/content/goal-and-strategy>.

Transparency of the Company's Operations

17. The Company provided shareholders and other interested parties with regular and timely information regarding the Company's operations, financial performance, corporate governance and other relevant matters.

Criteria:

- ❖ The Company discloses complete, accurate, objective, current and truthful information in a timely manner
- ❖ The Company provides information to all shareholders at the same time and in the same amount

- ❖ The Company discloses information about the Company's governance, strategy or activities on its website and publishes its financial statements and other information in accordance with Annex 1.
- ❖ The Company provides information both in Latvian and in at least one other language understandable to the majority of the Company's foreign shareholders and other interested parties.

Facts:

- The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).
- The Sustainability Report is prepared in accordance with the GRI guidelines and audited by an independent auditor.
- In 2021, AS "Augstsprieguma tīkls" was awarded the platinum category in the Latvian Sustainability Index.
- In the TOP 101 most valuable companies in Latvia, AS "Augstsprieguma tīkls" ranked 7th most valuable company in Latvia. In terms of the results of the assessment of corporate governance aspects, AS "Augstsprieguma tīkls" was ranked second among Latvian companies.
- The Augstsprieguma tīkls Group and its subsidiary publish interim financial statements on a quarterly basis in accordance with the published Financial calendar.