



## **BASIC INTERNAL AUDIT REGULATIONS OF NEOENERGIA S.A. AND ITS GROUP**

October 24, 2018

### **INTRODUCTION**

These *Basic Internal Audit Regulations* (the “**Basic Regulations**”) govern the nature, organization, competencies, powers and duties of the Internal Audit Area of Neoenergia, S.A. (the “**Internal Audit Area**” and “**Neoenergia**” or the “**Company**”, respectively) which affects the various companies of the group of which Neoenergia is the controlling entity, within the meaning established by law (the “**Internal Audit Divisions**” and the “**Group**”, respectively).

These Basic Regulations have been approved by the Company’s Board of Directors upon the terms proposed by the chairman thereof pursuant to the proposal of the Audit and Risk Supervision Committee (the “**ARSC**”), all in accordance with the provisions of the Regulations of the Audit and Risk Supervision Committee, and are included within Neoenergia’s Corporate Governance System.

### **TITLE I. NATURE AND REGULATION**

#### **Article 1 - Nature of the Internal Audit Area.**

The Internal Audit Area is an internal unit of the Company that hierarchically reports to the chairman of Neoenergia’s Board of Directors and functionally reports to the ARSC. Its basic activity consists of independently and proactively endeavoring to ensure the effectiveness of the governance, risk management and internal control processes of the Group.

For their part, the Internal Audit Divisions of each of the Group’s companies shall guarantee the fundamental activities and shall perform duties equivalent to those of the Internal Audit Area.

#### **Article 2 - Regulation**

##### **1. Internal regulations:**

The Internal Audit Area is governed by the provisions of these Basic Regulations and, if applicable, by the applicable provisions of the bylaws or regulations of the companies of the Group of which they are a part.



## **2. External regulations:**

Without prejudice to the provisions of the Corporate Governance System, these Basic Regulations and the other internal rules of the Company, the Internal Audit Area and the Internal Audit Divisions, as well as the professionals assigned thereto, shall conform their activities to the International Standards for the Professional Practice of Internal Auditing approved by the Institute of Internal Auditors (IIA), which contains, among other things: (i) the definition of internal auditing; (ii) the International Standards for the Professional Practice of Internal Auditing in effect from time to time; and (iii) the Code of Ethics.

### **TITLE II. ORGANIZATION OF THE INTERNAL AUDIT AREA**

#### **Article 3 - Director of the Internal Audit Area**

The head of the Internal Audit Area will be the Director of Internal Audit, who will report to the Board of Administration directly or through the ARSC.

The ARSC is the body that evaluates the operation of the Internal Audit Area and the performance of the director thereof pursuant to the provisions of the Regulations of the Audit and Risk Supervision Committee.

The director of the Internal Audit Area shall manage the operation and the budget of the Internal Audit Area, under the principles of independence and efficiency in management, and shall be responsible for implementing the relevant measures and action plans and endeavoring to ensure the proper performance of the duties thereof.

#### **Article 4 - Director of the Internal Audit Area and Heads of the Internal Audit Divisions**

The director of the Internal Audit Area and the heads of the Internal Audit Divisions should have the knowledge, skills and experience appropriate to the duties they are asked to perform, especially with respect to internal audit, risk management, internal control and governance, and shall have the powers required for the performance thereof.

Pursuant to the provisions of the Corporate Governance System, the Company's Board of Directors is responsible for the appointment and removal of the director of the Internal Audit Area, upon a proposal of the ARSC and after a report of the Appointments Committee.



## **Article 5 - Framework for Relations of Coordination and Information in the Internal Audit Area**

The director of the Internal Audit Area shall establish an appropriate framework for relations of coordination and information with the Internal Audit managers in the Group's different businesses and shall develop the strategy, guidelines and overall supervision of the Internal Audit function at the Group level.

Specifically, the director of the Internal Audit Area shall:

- a. Define the strategic lines and scale of the Internal Audit function at the Group level;
- b. Participate in defining the processes for determining and evaluating the objectives of the heads of the Internal Audit Divisions in different companies of the Group and for setting the remuneration thereof, as well as in determining the profiles and development and career plans of its team;
- c. Supervise and coordinate the annual activities plans of the Internal Audit Area, to which it shall transmit the guidelines and directives of the Board of Administration and of the ARSC of the Company.
- d. Elaborate the annual activity reports of the Internal Audit Divisions.
- e. Establish directives regarding quality requirements and the promotion of global certifications, and promote periodic evaluations of the Internal Audit Divisions.

## **TITLE III. POWERS OF THE INTERNAL AUDIT AREA**

### **Article 6 - Scope**

The Internal Audit Area shall independently and objectively provide assurance and consulting services to add value and improve the operations of the Company and of the Group, providing a systematic and disciplined focus in order to evaluate and improve the efficiency of the risk management, control and governance processes of the Group.

The nature and scope of any consulting work performed by the Internal Audit Area shall be previously agreed with the relevant Division of the Group. In no case may the Internal Audit Area assume management responsibilities or participate in making executive decisions.

### **Article 7 - Powers relating to the Audit Committee**

The Internal Audit Area shall assist the ARSC (and, in the Group companies that do not have their own ARSC, the Internal Audit Officer of these companies) in developing the powers of said committee, especially as regards supervision of the effectiveness of the internal control and risk management system, relations with the statutory auditor, and



supervision of the process of preparing the economic/financial information of the companies of the Group.

The director of the Internal Audit Area shall be in charge of preparing the information requested of them by the relevant ARSC. He shall also attend the meetings of the ARSC to which he was called when dealing with issues within his respective domains (including meetings held to formulate or approve annual or interim financial information).

In particular, the director of the Internal Audit Area shall provide to the ARSC, as appropriate, and within his respective areas of competence, the information required for him to: (i) supervise the effectiveness of the internal control and risk management systems; (ii) reach a conclusion as to whether the accounting policies have been properly applied; and (iii) know the significant adjustments identified by the Internal Audit Area, as applicable, in the review of the economic/financial information.

The Internal Audit Area shall be the regular body for communication between the ARSC and the rest of the Company's organization, without prejudice to provisions of the Regulations of the Audit Committee regarding the duties entrusted to other areas, particularly the Office of the Secretary of the Board of Administration and other Divisions (like the Corporate Risk Division).

#### **Article 8 - Powers to Supervise the Effectiveness of the Internal Control System**

The Internal Audit Area shall objectively and independently supervise the effectiveness of the Group's internal control system, which is made up of a set of risk management and control mechanisms and systems. By way of example and not limitation, and within the scope of their respective domains, it shall be particularly responsible for supervising:

- i. The effective operation of the comprehensive risk control and management system of the Group, as described in the General Risk Control and Management Policy, and the adaptation thereof to ensure compliance with the risk policies;
- ii. The effective operation of the Internal Control over Financial Reporting (ICFR) System established by the Company for preparing and presenting the economic/financial information of the Group, including information that the Company must regularly publish due to its status as a listed company;
- iii. The effective application of the rules, protocols and procedures making up the Group's Compliance System, which is intended to prevent action or conduct that is improper or contrary to ethics or the law, including, without limitation, supervision of the measures established to prevent corruption, fraud and conduct constituting bribery, as well as programs to prevent the commission of crimes;
- iv. The effective operation of the overall framework for the control and management of the Group's cybersecurity risks, as well as the framework for the governance and



management of the processes and actions relating to information technology (IT) within the Group.

v. The effective operation of the mechanisms established by the Group for implementing the Corporate Sustainable Development policies;

vi. Verification that the investment and divestment procedures comply with applicable risk policies and guidelines and that the procedures pursuant to which they are performed ensure proper internal control and effective management of the related risks.

The Internal Audit Area shall also engage in any other actions needed to perform their duty of ensuring the effective operation of the Group's internal control system.

The Internal Audit Area shall also have such other powers of a singular or permanent nature as are assigned thereto by the Board of Administration of the relevant company or that are vested therein by the Corporate Governance System.

In performing the above duties, as well as in preparing the annual activities plans provided for in article 10 of these Basic Regulations, they must take into account the powers of assurance of other areas of the Company and of the Group in order for the responsibilities of the Internal Audit Area to be clearly defined and in order for there to be proper mechanisms of coordination with other assurance functions.

Along these lines, the powers of the Internal Audit Area set out in this article 8 shall not include the duties assigned to the Corporate Risk Division in relation to the management and supervision of the Group's risks, and particularly the development and implementation of the risk policies.

Furthermore, the Internal Audit Area, as applicable, must be informed of the provision of any assurance services to the Group by outside service providers. When appropriate, the Internal Audit Area shall coordinate such services when related to their respective domains.

#### **TITLE IV. RESOURCES, BUDGET AND ANNUAL ACTIVITIES PLAN**

##### **Article 9 - Material and Human Resources**

The Internal Audit Area shall have access to the human, financial and technological resources necessary to perform their duties.

##### **Article 10 - Annual Activities Plan and Budget**

The director of the Internal Audit Area shall prepare a proposed Annual Activities Plan of the Internal Audit Area ("Activities Plan") and shall submit it for the approval of the ARSC. Such proposal:



- i. shall contain the budget of the Internal Audit Area for engaging in its activities during the next financial year;
- ii. shall take into account the principal financial and non-financial risk areas of the business;
- iii. shall clearly identify and define the responsibilities of each business for proper coordination with any other assurance functions, like the risk management and control, financial information control, compliance and external audit units.
- iv. shall establish the audit objectives and the work to be performed, as well as the resources necessary for the implementation thereof, both human (internal and external) and financial and technological; and
- v. shall take into account any suggestions that the Board of Directors, the ARSC and the members of senior management have communicated thereto.

Once approved by the ARSC, the Activities Plan and the budget for the Internal Audit Area shall be sent to the chairman of the Company's Board of Administration for approval.

In companies with their own ARSC, the heads of the Internal Audit Divisions shall present to the relevant ARSC the proposed Activities Plan and budget for the performance of their activities during the next financial year, for approval thereof and submission to the chair of the relevant Board of Administration, who shall submit it to such Board of Administration for review in the case of the Activities Plan and for approval with respect to the budget.

In the case of a company of the Group without ARSC, the board of directors of such company shall be in charge of approving the Activities Plan and budget proposed by such Audit Division.

The director of the Internal Audit Area shall periodically review his respective annual Activity Plans in order to evaluate the adequacy thereof to cover the risks identified and, if applicable, propose to the ARSC for approval the changes he deems appropriate.

Compliance with the annual Activities Plan shall be one of the objectives of the director of the Internal Audit Area.

#### **Article 11 - Activities Report and Recommendations**

The director of the Internal Audit Area shall directly report to the ARSC incidents occurring during the implementation of the budget and the Activities Plan, and shall submit thereto a report on its activities at the end of each financial year. The report must contain at least a summary of the activities performed and reports issued during the financial year, explaining what work provided for in the Activities Plan has not been



carried or performed without being provided for in the initial plan, as well as an inventory of weaknesses, recommendations and action plans.

In particular, the director of the Internal Audit Area shall regularly report to the ARSC the recommendations resulting from the audit work thereof and on the status thereof, if applicable.

The director of the Internal Audit Area shall also regularly report to the ARSC on whether the members of senior management of the Company take into account the conclusions and recommendations contained in its reports.

## **TITLE V. POWERS AND DUTIES**

### **Article 12 - Powers**

The Internal Audit Area, through its director, shall have access to the documentation, information or information systems it deems necessary or appropriate for the exercise of its powers, without prejudice to observing the law and the internal rules of the Company and its Group.

In the exercise of its powers, the Internal Audit Area may obtain assistance from any officer or employee of the Company, as well as from other specialized areas both within and outside of the Company.

The director of the Internal Audit Area shall act transparently, informing the affected parties of the purpose and scope of its activities whenever practicable.

### **Article 13 - Duties**

The members of the Internal Audit Area must:

Act with independence of judgement and action with respect to the rest of the organization and perform their work with the utmost diligence and professional competence.

Refrain from disclosing any information, data, reports or background information to which they may have access while in office, nor use any of the foregoing for their own benefit or that of third parties, without prejudice to any applicable duties of transparency and reporting. This duty of confidentiality shall survive even after the members no longer hold such position.

## **TITLE VI. COMPLIANCE, INTERPRETATION AND AMENDMENT**

### **Article 14 - Compliance**



The members of the Internal Audit Area have the obligation to know and comply with these Basic Regulations, for which purpose they shall be permanently published on the employee portal of the Group and shall form part of the Group's management tools. The Internal Audit Area shall also inform all of their members of any change in these Basic Regulations.

The professionals of the Group have the obligation to know these Basic Regulations to the extent they are affected hereby and to comply with the provisions applicable thereto, for which reason the director of the Internal Audit Area shall ensure the proper dissemination hereof.

The director of the Internal Audit Area shall have the duty to ensure compliance with these Basic Regulations.

### **Article 15 - Interpretation**

Any questions or disputes regarding the interpretation of the Basic Regulations shall be resolved by the director of the Internal Audit Area, who shall take into consideration the provisions of the Corporate Governance System, and if none apply, to the International Standards for the Professional Practice of Internal Auditing approved by the Institute of Internal Auditors (IIA). In the event of questions or conflicts, the director shall request the opinion of the ARSC.

The director of the Internal Audit Area shall inform the following of the standards of interpretation that have been adopted: (i) the heads of the Internal Audit Divisions; and (ii) the secretary of the ARSC, who in turn shall communicate them to the secretary of the Board of Directors.

### **Article 16 - Amendment of the Basic Regulations**

Any amendment to these Basic Regulations must be approved by Company's Board of Directors, which amendment shall be submitted thereto by its chairman, at the proposal of the ARSC.

Without prejudice to the foregoing, the Board of Directors may make amendments to these Basic Regulations without a prior proposal from the ARSC within the context of reforms to the Corporate Governance System that make advisable or require technical non-substantive amendments to the Basic Regulations.