

# PERFORMANCE AUDITING FRAMEWORK

## Corporate Governance

### Executive Summary

This framework intends to facilitate the practical implementation of rules and practices of good corporate governance on transparency and accountability from the shareholder to the “Hellenic Corporation of Assets and Participations S.A.” (the “Corporation”), its direct subsidiaries and their subsidiaries, including companies whose shares are held directly or indirectly, in whole or in part by the direct subsidiaries.

Specifically, the subject of this framework is the establishment of audit functions in order to audit the performance of the Corporation and its direct subsidiaries in respect to public property management and of the quality of financial information prepared by them. The scope of this framework includes also the auditing of reports with regard to the “performance contracts” concluded between the Greek State and the Corporation, its direct subsidiaries or their subsidiaries.

The framework for the performance audit is part of Corporation’s system of internal control, consists of the internal audit function and the external auditors, and supervised by the Audit Committee of the Board of Directors. The principles and guidelines of this framework apply also to Corporation’s direct subsidiaries. In particular:

The **internal audit function** supports Corporation’s governing bodies in carrying out its duties and in achieving the objectives set by ensuring the application of procedures and operations, as well as of risk management function, information systems and corporate governance. The internal audit function is performed by the internal audit department that is independent, reporting to the Board of Directors through the Audit Committee and supervised by the Audit Committee. The internal audit department confirms the application of governing bodies’ directives and guidelines through ordinary and extraordinary audits of procedures, financial reporting, information systems and submission of reports to management and to the Board of Directors. In case that it is not required by law or other regulation, it is possible that a direct subsidiary do not have to establish an internal audit department. In this case, the necessary responsibilities are executed by the Corporation’s internal audit department. In the rest of this document, where there is a reference to the direct subsidiary’s internal audit department, could be substituted by the Corporation’s internal audit department, depending on direct subsidiary’s structure.

In order to achieve the above purpose, the Corporation ensures to the staff of the internal audit department complete freedom and unrestricted access to files, services, accounts and records, physical assets and staff.

Furthermore, external annual audit should be performed by **independent and external auditors**. The external audit shall provide the governing bodies (General Meeting, Supervisory Board, Board of Directors) with an independent, critical and objective report in order to ensure that accounts fairly represent financial position and performance of the Corporation in all material aspects.

The General Meeting chooses the external auditors with criteria their experience and competence, from a candidates' list proposed by the Supervisory Board. The selection procedure should be such as to meet independence requirements and standards, as well as to avoid any conflicts of interest, according to Regulation (EU) 537/2014, and Law 4449/2017 implementing EU Directive 2014/56/EU. [*insert independence standard*].

The Board of Directors establishes an **Audit Committee** composed by non-executive members of the Board of Directors with at least one of them with proven, adequate auditing and accounting experience.

The Audit Committee supports Board of Directors in supervising the internal audit function, the external auditors, in monitoring financial reporting and in supervising other control mechanisms.

Finally, the State as the only shareholder of the Corporation has the right to exercise regular and extraordinary **state audits**. The Corporation has to be ready to respond to state audits and has to give appropriate access to corporate information and to staff.

The Corporation is responsible for the proper functioning of the internal control systems and thus of the internal audit function of its direct subsidiaries. In this context, the Corporation's internal audit department must have access to its direct subsidiaries to carry out audits in order to evaluate the functioning of internal audit departments of direct subsidiaries and to recommend changes in internal audit procedures and practices.

In turn, companies whose shares are held directly or indirectly, in whole or in part by the direct subsidiaries should be supervised by the direct subsidiaries' internal audit departments about their internal audit function.

## **1 Introduction**

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### **1.1 General Description**

Effective and reliable monitoring of the performance of a company requires the design and implementation of a system of internal control with responsibilities, among others, the evaluation of reliability and integrity of financial and operational information and data, effectiveness and efficiency of operations and procedures, safeguarding of assets and compliance with laws, regulations, policies, procedures, and contracts.

Particularly, companies that among other purposes, are serving the public interest, should comply with high standards of corporate governance and transparency and should apply high quality accounting and auditing standards as well as compliance procedures. The corporate governance should be at least at equivalent level of that provided by listed companies.

In particular, an internal audit department is established, which operates under written terms of reference and this function should be supervised for its effectiveness from a company's governing body.

This document refers to the main principles, rules and guidelines set by the "Hellenic Corporation of Assets and Participations S.A." (the "Corporation") in order to audit its performance as well as direct subsidiaries', according to the purpose described to the Law and the Internal Rulebook. Direct subsidiaries are the ones mentioned in Article 188 of Law 4389/2016.

Apart from the operation of the internal audit department, Board of Directors establishes an Audit Committee with responsibility for monitoring the Corporation's internal control system.

In case that it is not required by law or other regulation, it is possible that a direct subsidiary do not have to establish an internal audit department. In this case, the necessary responsibilities are executed by the Corporation's internal audit department. In the rest of this document, where there is a reference to the direct subsidiary's internal audit department, could be substituted by the Corporation's internal audit department, depending on direct subsidiary's structure.

### **1.2 Legal and regulatory framework**

This document reflects the framework adopted by the Corporation in order to be in compliance with the relevant legal framework (in particular Law «4389/2016») and it is a part of the regulatory framework for the performance auditing of the Corporation and its subsidiaries,

according to its Internal Rulebook. In particular, the specific articles of Law 4389/2016, state the following provisions:

Article 190 §1, 190 §2δ, 191 §4α, 193: The external auditors are body of the Corporation and they are elected by the General Meeting from a list of candidates proposed by the Supervisory Board.

Article 192 §26: The Board of Directors is responsible for the appointment and dismissal of the Director of internal audit department.

Article 192 §4ιθ: The Board of Directors is responsible for establishing the Audit Committee.

Article 197 §10δ: Establishment of mechanism for the identification of operational targets and performance indicators.

In addition, several provisions of audit legislation (Regulation (EU) 537/2014, and Law 4449/2017 implementing EU Directive 2014/56/EU) complete the legal and regulatory framework for the performance audit function of the Corporation and its subsidiaries.

### **1.3 Purpose**

This document sets the general framework about internal governance principles for the Corporation and its direct subsidiaries, concerning the performance auditing from their governing bodies (General Meeting, Supervisory Board, Board of Directors). Specifically, the purpose of this framework is the setting of principles and guidelines on:

- Organization, authorization and limitations, independence, responsibilities and accountability of the internal audit function
- Selection process and accountability of external auditors
- Composition, function and responsibilities of the Audit Committee
- Response to state audits
- Response to possible audits by competent regulatory authorities responsible for the Corporation, its subsidiaries or any of their subsidiaries.

### **1.4 Scope**

This framework concerns mainly the “Hellenic Corporation of Assets and Participations S.A.” (the Corporation) which has the obligation for the establishment of Audit Committee and internal audit department as well as the appointment of external auditors. The same obligations / responsibilities, as described below, may apply to the Corporation's direct subsidiaries with the adaptations necessary to reflect each entity’s characteristics and structure.

The Corporation is responsible for the proper functioning of the internal control systems and thus of the internal audit function of its direct subsidiaries. For this reason, the Corporation's internal audit department must have access to its direct subsidiaries to carry out audits.

The Corporation's internal audit department must ensure uniform development and implementation of internal audit in its direct subsidiaries.

Specifically, assuming the cooperation between the governing bodies (or Audit Committees) of Corporation and its direct subsidiaries, the Corporation's internal audit department should be able to evaluate the functioning of the internal audit departments of direct subsidiaries and to recommend changes in internal audit procedures and practices. In turn, companies whose shares are held directly or indirectly, in whole or in part by the direct subsidiaries should be supervised by the direct subsidiaries' internal audit departments about their internal audit function, as defined in the relevant legal and regulatory framework.

### **1.5 Definitions**

Corporate Governance: The way companies are managed and controlled. According to OECD, corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders.

Internal Controls: Internal control has been defined as a process, effected by an entity's board, management and other personnel, designed to provide reasonable assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

Risk Management: It is the set of processes implemented by the Board, management, and employees of any company in the formulation of the strategy, in order to identify potential events that may affect the company, the risk management within the desired limits, and the reasonable assurance regarding the achievement of company objectives.

Internal Auditing: It is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

State Owned Enterprise (SOE): any corporate entity recognized by national law as an enterprise, and in which the state exercises ownership through the Corporation and its direct subsidiaries.

General Meeting: the supreme body of the company. The responsibilities of the General Meeting of the Hellenic Corporation of Assets and Participations S.A. defined by the relevant legislation (Law 4389/2016).

Supervisory Board: governing body, responsible for the supervision of the Board of Directors of the Hellenic Corporation of Assets and Participations S.A. in order to ensure that it operates in accordance with the provisions of Law 4389/2016, of the Articles of Association, and the Internal Rulebook, in the Corporation's and in the public interest.

Board of Directors: governing body, responsible for the management of the Hellenic Corporation of Assets and Participations S.A. and for the achievement of its statutory objectives.

## **2 Internal Audit Function**

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### **2.1 Internal audit purpose and basic principles**

The main purpose of the internal audit is to support the Corporation's governing bodies in the performance of their duties and the achievement of the specific targets set including special purpose targets.

This is achieved primarily by ensuring proper implementation of the procedures and operations of all organizational units, as well as by checking the implementation of effective systems and procedures of internal audit, risk management, information systems and corporate governance.

In particular, the internal audit aims to add value to and generally improve the operations by:

- Reviewing the internal control system by examining the effectiveness of the design and operation of control activities as well as the evaluation of existing business processes in achieving all business goals.
- Identifying, analyzing and measuring the potential operational or other risks in a systematic and structured manner.
- Constantly trying to improve the effectiveness of all risk management operations and systems, as well as of all activities associated with the Corporation's businesses.
- Assisting the compliance function in facilitating any audits conducted by the competent regulatory authorities.

For the implementation of the internal audit function, an internal audit department should be set up whose head (Director) is appointed by the Board of Directors. The internal audit function should meet and apply the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal

### **2.2 Auditors Independence of Internal auditors**

- When performing their duties, the internal auditors are independent and should not subordinate to any organizational unit within the Corporation.
- The internal audit department reports to the Board of Directors through the Audit Committee and it is supervised by the Audit Committee.
- All the activities of the internal audit function, including issues related to the audit scope and objectives, procedures, frequency, as well as the content of audit reports, should be independent of any Corporation's influence.
- The internal auditors are considered independent when they are able to complete their work freely and objectively. Independence from any commitment, relationship or authority is

necessary for the internal auditors to be able to provide objective and impartial views, for the best possible completion of the audits conducted.

- Finally, internal auditors should not have any power relating to the Corporation's daily activities, nor should they have any power over the procedures inspected.

### **2.3 Activities and duties of internal audit department**

The internal audit department conducts periodical, scheduled and/or extraordinary reviews of all the activities of the Corporation's organizational units, to ensure proper compliance with the instructions and guidelines of governing bodies.

Reviews are conducted by auditing procedures, financial information, information systems and quality control inspections.

The above activities are implemented through audits and submission of audit reports to senior management and to the Board of Directors.

In this context, the internal audit department is responsible for:

- Reporting to the Board of Directors any conflicts of interest between members of governing bodies and/or management and the Corporation.
- Providing any information that may be requested officially (*via a relevant request to the HCAP BoD*) by the only shareholder, cooperating with and facilitating, by any possible means, the monitoring of the shareholder.
- Ensuring that corporate policies, rules, systems and internal procedures and roles are in line and comply with the legal and regulatory framework.
- Reviewing the proper and efficient implementation of the system of internal control.
- Assessing the degree of implementation and effectiveness of the procedures established for risk management and compliance.
- Ensuring that all Corporation assets are secure.
- Examining whether all corporate available resources are used in the most appropriate and cost-effective manner.
- Reviewing for improvements to the current corporate policies, rules, procedures, systems, techniques and control activities.
- Monitoring for any irregularities, fraudulent activity or infringements.
- Developing and implementing arrangements by which staff of the corporation may, in confidence, raise concerns about possible illegalities or improprieties in matters of financial reporting or other matters relating to the normal business of the corporation.

## **2.4 Power and authorization of internal auditors**

- Internal auditors are absolutely autonomous and have unimpeded access to all corporate files, services, accounting books and records, natural assets and staff given that these activities facilitate achievement of the goals of the audit.
- Internal auditors bear no liability whatsoever for the activities they audit, or for any irregularities, deficiencies or infringements found during the audits.
- Assisting employees to perform their tasks is not a part of the internal auditors' duties.
- Internal auditors are entitled to full and unreserved cooperation and assistance from the employees of the Corporation organizational units, as well as to access to specialized out-of-corporation services or information sources related to their work.
- The management should establish an organizational structure and an internal environment that will promote and protect the effective and unimpeded operation of the internal audit department.
- The Board of Directors should provide internal auditors all necessary means that will facilitate the conduct of proper and effective internal audits.
- The internal audit department must be notified immediately of any orders or corrective measures by the Chief Executive Officer (CEO), regarding either the observations and recommendations from internal auditors or the implementation of any new policy or procedure. The internal audit department must monitor and verify strict compliance with and implementation of the above orders or measures.

## **2.5 Obligations and liability of internal auditors**

- Establishing corporate policy and procedures on internal audit issues.
- Preparing an annual audit plan summarizing activities, man-hours and annual financial budget for the audit function based on a risk assessment, which are both submitted to the Audit Committee and the Board of Directors for approval.
- Conducting periodic, scheduled and/or extraordinary audits at the Corporation's organizational units, the frequency and depth of which are determined according to the annual audit plan.
- Auditing the procedure of financial information including the relevant information systems.
- Communication and cooperation with the external auditors including the relevant regulatory authorities for the Corporation, direct or other subsidiaries.
- Informing in writing, at least once a quarter or earlier where necessary, the Audit Committee, and thus the Board of Directors, of the audits conducted, their findings and the degree of implementation of management decisions.
- Constantly monitoring whether the appropriate actions agreed have taken place, in order to correct any deficiencies or resolve any problems found during previous audits.



- In case of special circumstances (e.g. arisen conflicts, fraud cases etc.) where the internal auditors deem the board of directors' reports to the supervisory board inadequate, the internal auditors can escalate and report the issue directly to the supervisory board.

### **3 External Audit Function**

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External audit is performed annually and provide to the Board of Directors, Supervisory Board and the only shareholder with an independent report about the preparation and presentation of the financial statements in order to ensure that accounts are fairly represent the financial position and performance of the Corporation in all material aspects.

It is expected that the external auditors have the appropriate competence, qualifications and expertise as well as independence. In order to achieve these qualities, the selection process and their accountability are the main issues. Principles for the selection of external auditors and suggestions about whom the external auditors are accountable to are follow.

#### **3.1 Procedures for external auditors' selection**

##### process guidelines

The Corporation must develop specific procedures in order to select the proper external auditors. The Corporation's procurement and outsourcing policies and procedures must be implemented in the selection process.

The main stakeholder in the selection process must be the Audit Committee in cooperation with the internal auditors. Among other things, the Audit Committee, with the approval of the Board of Directors, supports the Supervisory Board in establishing list of eligible external auditors which will be submitted by the Supervisory Board to the General Meeting for final selection.

Selection criteria, among others, in order to achieve competence as well as independence of the finally selected external auditors, are the experience, qualifications and standard certifications of the candidates. Other criteria especially for independence could include limits on providing consulting or other non-audit services to the Corporation or its subsidiaries, as well as periodic rotation of external audit firms. Specifically, the relevant legislation for statutory audit of public-interest entities must be followed (Regulation (EU) 537/2014, Directive 2006/43/EC and its implementing Law 4449/2017).

Finally, it is required that the International Financial Reporting Standards will be adopted and in any case the external auditors will have the responsibilities established by the applicable legislation.

##### 3.1.2 Accountability

The external auditors are accountable to the Board of Directors through the Audit Committee. The Audit Committee is in charge to oversight the work of the external auditors, with the assistance of the internal auditors. Also, the Audit Committee, with the assignment to internal

auditors, must follow up the implementation of the findings of the external audit. Finally, the Audit Committee is responsible for the assessment of the work of the external auditors.

#### **4 State Audit**

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The State, as the only shareholder of the Corporation has the right to exercise regular and extraordinary state audits. These audits can be performed by the bodies and within the scope as stated at the relevant legal framework (Law 4389/2016). The Corporation must be ready to respond to these audits and has to give appropriate access to corporate information and to staff.

The Board of Directors must take appropriate measures to respond to audit findings. In order to respond effectively and timely to these findings, the Corporation must set procedures to communicate and discuss the findings with the management and to develop appropriate action plans to address the issues identified by the audit.

Consideration must be given not to be disclosed confidential information such as personal or sensitive data, or other protected government, commercial, industrial or trade secrets.

## 5 Audit Committee

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### 5.1 *Composition and function of Audit Committee*

The Audit Committee operates as a supervisory committee of the Board of Directors and reports to the Board of Directors. It aims mainly at the supervision of the accounting and audit functions ensuring quality and integrity, as well as of operations pertaining to preparation of financial statements. The Committee assists the Board of Directors in its duties pertaining to the provision of financial information and external audit supervision. Within its scope of operation, the Board of Directors should authorize the Audit Committee to:

- Have total, free and unlimited access to all operations, files, physical installations and personnel of the Corporation
- Freely inspect and assess all policies, procedures, audit structures and practices concerning any Corporation activities, as well as any plan of actions or operation pertaining to audit tasks
- Ask for any kind of professional advice or opinion from external bodies, where appropriate, and invite external bodies to meetings or assign audit tasks to such bodies, when necessary due to extraordinary circumstances.

The composition and the functioning of the Audit Committee are in accordance with the relevant legal and regulatory framework (Law 4389/2016, articles of association etc.) as well as the principles of the corporate governance code adopted. In any case, the Audit Committee should be composed of non-executive members of the Board of Directors and a chair person should be appointed. It is recommended (depending on the structure, the Board of Directors' size as well as the corporate governance code adopted) that the size of the Audit Committee will be at least three (3) among the non-executive members of the Board of Directors. The Committee should include at least one member with proven, adequate auditing and accounting experience.

The Audit Committee freely and openly communicates with external auditors, internal auditors and the Corporation's management and governing bodies.

### 5.2 *Main responsibilities of the Audit Committee*

#### 5.2.1 *Supervision of the internal audit function*

- It reviews and approves the policies and procedures of the internal audit department in order to ensure their compliance with the selected standards of internal auditing.
- It ensures the independence and impartiality of the internal audit department, suggesting to the Board of Directors the appointment or the removal of the Corporation's Director of internal audit department as well as its staff.
- It assesses the internal auditors and suggests their remuneration or any adjustments that should be made to it.

- It examines and reviews, where necessary, the operation, structure, objectives and procedures of the internal audit function.
- It reviews the audit plan in order to ensure its effectiveness.
- It examines and assesses the audit reports, as well as the comments by the management.
- At least once a year, it assesses the adequacy, quality and effectiveness of the internal audit department, in order to promote more effective approaches, where necessary, without breaching its independence.

### 5.2.2 Supervision of external auditors

- It is responsible for the preparation and procedure for the selection of external auditors in accordance with art.193 of HCAP Law; it submits to the Board of Directors proposals on the appointment, re-appointment and removal of external auditors, as well as on the approval of their remuneration and terms of hiring.
- It assures the Board of Directors that the work carried out by external auditors is proper and sufficient in terms of scope and quality.
- It informs the Board of Directors of the outcome of the external audit and explains how the external audit contributed to the integrity of financial reporting and what the role of the Audit Committee was in that process.
- It reviews and monitors the independence of external auditors, as well as the objectivity and effectiveness of the audit procedure, taking into account professional and regulatory requirements.
- It approves the provision of any non-audit services from the external auditors after it has properly assessed threats to independence and the safeguards applied in accordance to the relevant legislation (Regulation (EU) 537/2014, Directive 2006/43/EC and its implementing Law 4449/2017).
- It discusses any material audit differences that may arise during the audit with the external auditors, whether such differences have been settled or not.
- It discusses any deficiencies in the internal controls system that may have been found by the external auditors, in particular those regarding the provision of financial information and preparation of financial statements.
- It monitors the external audit of the annual and consolidated financial statements, as well as the performance of the external audit.
- It assists the Board of Directors so as to ensure that the Corporation's financial statements are reliable and in line with accounting standards, tax authorities and applicable legislation.
- It supports the Board of Directors in preparing the financial statements submitted to the Supervisory Board.

- It monitors the implementation of effective procedures for the provision of financial information and submits proposals and recommendations to ensure its integrity.
- It ensures, on behalf of the Board of Directors, that there are no significant differences between the management and the external auditors.
- It submits to the Board of Directors the external auditors' reports.
- It informs the Board of Directors of any issues about which the external auditors express serious concerns.

#### 5.2.4 Supervision of internal control mechanisms

- It assures the Board of Directors that the Corporation's internal quality control, internal audit, compliance and risk management systems, regarding mainly the financial reporting, are properly and systematically reviewed and that the Corporation complies with the relevant laws and regulations.
- It participates in the monitoring and implementation of recommendations from the audit department for improvements to the internal control mechanisms and the production process, in order to review the course of the implementation of recommendations and any problems arising from the relevant action plans.
- It supports the Board of Directors in obtaining sufficient information in order to make decisions regarding transactions between associated parties and informs the Board of Directors for any conflicts of interest arisen.
- It ensures the implementation of procedures by which the Corporation's staff may express their concerns, in confidence, regarding any unlawful acts or irregularities concerning financial information or any other issues pertaining to the running of the Corporation.

## 6 Document management

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### 6.1 Responsibilities

Participants	Responsibilities
General Meeting	Approval of document and updates.
Organizational units	Compliance with the principles of this document.
Board of Directors, compliance and legal services (and other relevant units)	Coordination and monitoring of the implementation of the rules and principles of this document. Provision of guidance, advice and proposals to the management and governing bodies about incidents that may cause violations to the principles of this document and about harmonization with the relevant legislation.
Internal audit	Definition of the subject and revision of this document in order to be aligned with the applicable legislation. Audits about the implementation of the document's principles and the procedures resulting from this framework.
Human resource management	Dissemination to staff of the new versions of the document.

### 6.2 Exceptions

Exceptions from the application of this document rules for certain liable persons, made only in exceptional cases, upon approval by the General Meeting (upon suggestion from the Board of Directors after Supervisory Board approval) and if such exceptions do not conflict with the spirit of the main rules of this document.

Requests for exemption from the rules and principles set by this document are submitted sufficiently documented to the governing bodies by the interested persons.

In the event of an exception, this should be regarded as an isolated incident without creating a precedent for future decisions for the application or exemption from the requirements of this document.