

Internal Audit Charter

revision January 2017

approval Executive Board: 13 February 2017

approval Supervisory Board: 6 March 2017

1. Purpose

The Internal Audit Department (“Audit”) provides the Executive Board and management of TenneT with assurance about the quality of risk management and internal control. It is the auditor's task to evaluate the design and the operation of the internal risk management and control systems by performing audits, reporting and giving advice on findings to responsible management and to report to the Executive Board and the Audit, Risk & Compliance Committee (“ARCC”) periodically.

This is reflected in the following mission statement:

“Audit is an independent, objective assurance and consulting department designed to add value to the operations of the TenneT Group. Audit helps the TenneT Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

TenneT has adopted a risk management and internal control structure, referred to as the “Three Lines of Defence”, to ensure it achieves its aims while meeting regulatory and legal requirements and its responsibilities to shareholders, customers and staff. Audit's role as the third line of defence is independent of the first and second lines of defence. In cases where Audit performs similar testing or monitoring activities to those undertaken by the first or second lines of defence, these are undertaken as part of Audit's independent assurance role and are not to be relied upon by management as a substitute for, or supplement to, first or second line of defence activities.

2. Authority

2.1 Organisation

Audit derives its authority from the ARCC, sub-committee of the Supervisory Board, to which it has open access. The ARCC oversees the independence and performance of Audit, reviewing the effectiveness of the function, including its strategic focus, activities and plans, staffing, qualifications and budget. The Executive Board assesses the way in which Audit fulfils its responsibility on an annual basis, taking into account the ARCC's opinion.

Audit is positioned directly under the CEO. In addition, Audit has a functional reporting line to the CFO. Audit will have direct access to the chairman of the ARCC and the external auditor. Regular bilateral meetings of the Senior Manager Audit with the CEO, CFO and Chairman of the ARCC take place. Additionally the Senior Manager Audit attends all the meetings of the ARCC. The Senior Manager Audit will confirm to the ARCC, at least annually, the organisational independence of the Audit Function.

In meetings with the CFO and the CEO the role of the Senior Manager Audit will be assessed at least yearly to address potential impairments regarding objectivity and independence. This includes evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to any areas of additional responsibility.

The department has the possibility to report directly to the ARCC on matters that concern the Executive Board. This escalation line is only used if the Senior Manager Audit has reasonable

concern that the findings cannot, or will not be addressed by the Executive Board.

Audit is a single team that operates in all entities that are part of TenneT. To be able to do this, Audit ensures to have sufficient local knowledge available in its team. Currently, team members are based in Arnhem and Bayreuth. All team members¹ report to the Senior Manager Audit.

2.2 Committees

The Senior Manager Audit is part of the following internal committees:

- Risk management committee;
- Compliance committee (replacement of the Fraud & Integrity committee)

2.3 Appointment Senior Manager Audit

The job description, as well as appointment and resignation of the Senior Manager Audit are approved by the Executive Board. Both the appointment and the dismissal of the Senior Manager Audit shall be submitted to the supervisory board for approval, along with the recommendation of the ARCC.

3. Responsibility

3.1 Audit object

The Audit object entails all activities of companies that are part of the consolidated financial statements of TenneT. All internal audits within the TenneT group are performed or directed by Audit.

3.2 Type of audit assignments

3.2.1 Assurance assignments

The standard for this type of assignment is an integrated audit. The audit will include operational, compliance and financial aspects, as well as safety, security, integrity and fraud detection. The frequency depends on the outcome of the risk assessment process. The default frequency is once every three years. High-risk processes may be audited more frequently.

3.2.2 Advisory assignments

An advisory assignment may be taken on to support a unit or department on request from management in resolving certain issues or design challenges. Internal Audit cannot take responsibility for any final deliverable, only for the quality of its advice.

3.2.3 Integrity investigations

An integrity investigation will be started if there is sufficient reason for concern. The investigation will be led by the Compliance Officer after consultation with a member of the Executive Board and may

¹ The team consists of the senior manager, auditors and technical compliance officers. The technical compliance officers have their own review calendar agreed with the COO and are not obliged to follow the audit procedures for these reviews. When they are involved in audits, the auditing standards apply to them as well.

be executed in cooperation with 'Safety and Security Corporate' (SSC). An integrity investigation may result in a forensic audit which will be performed by an external party.

3.3 Planning

Audits are performed according to an annual plan in which input of the Executive Board, the ARCC and the external auditor is taken into account. The audit plan together with the budget and staffing plan is submitted to the Executive Board, and then to the Supervisory Board, for approval.

The basis for the annual audit planning is a three-year audit plan for all material processes. Priorities are determined based on annual risk assessments.

The risk assessments and audit plans are shared and discussed between ARCC, Executive Board, the external Auditor and Audit. Where possible and valuable, the activities of the internal and external Auditors shall be coordinated, and results shared.

On request Audit can perform additional audits or take on advisory assignments. For consultancy work done by Internal Audit capacity is reserved in the audit plan. A list of advisory assignments is kept to document performed activities. For investigating (suspected) breaches of integrity a separate guideline is applicable.

3.4 Reporting

The research findings of the internal audit function should, at least, include the following:

- i. any flaws in the effectiveness of the internal risk management and control systems;
- ii. any findings and observations with a material impact on the risk profile of the company and its affiliated enterprise; and
- iii. any failings in the follow-up of recommendations made by the internal audit function

Each audit is concluded with a report to the responsible (senior) manager(s) and the Executive Board. A summary of the results, via a periodic report, is reported to the ARCC; the external accountant will also be informed. Additionally Audit will inform the ARCC and the external auditor on shortcomings in the following up on findings and recommendation of the internal auditor. Periodically, a summary of all actions and the follow-up on these actions is reported to, and discussed with the Executive Board.

It is agreed upon between the ARCC and the Senior Manager Audit how the ARCC wants to be informed by the internal audit function.

4. Guiding principles

4.1 Right of information

Audit has access to all information, people, documents and assets, both tangible and intangible, necessary for the execution of audits. To this end, Audit has access to all buildings, spaces and installations within the TenneT-group. In addition, the auditor is free to require any official and unofficial information that is relevant to perform his task. Each staff member is obliged to respond in a comprehensive way and deliver all relevant information and documentation as deemed necessary by the auditor.

4.2 Confidentiality

All information Audit receives is treated strictly confidential. Audit will protect both confidentiality of data and anonymity of sources. In Audit reports these two are carefully weighed against the importance of reporting a finding.

If external parties request documents, it is decided by the Senior Manager Audit if and how the documents are released. If needed approval of senior management and/or legal counsel is requested.

4.3 Quality and professional practice

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. In performing their duties, internal auditors must at all times exercise due professional care. Audit is not responsible for the activities it examines. The auditors are not responsible for designing, installing, executing or managing processes and procedures, outside of Audit itself.

Audit adheres to The Institute of Internal Auditors' (IIA) mandatory Standards including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards) and other professional bodies (like the NBA²). As part of its professional practice, Audit maintains a quality system for the audit processes, which is documented in the audit manual.

To demonstrate conformance with the IIA standards and Audit's policies and procedures a quality assurance and improvement program is set up. On a yearly basis conformance to the standards and the effectiveness of the audit performance will be evaluated through this program and the results will be reported to the Executive Board and the ARCC.

4.4 Audit Manual

Audit maintains an Audit Manual in which the steps and instruments to be used in any audit have been detailed. All internal auditors shall comply with the procedures, rules and regulations in this Manual.

5. Status of the document

5.1 Responsibility

Audit is responsible for drafting this Charter and keeping it up-to-date by performing a yearly review. All adjustments shall be discussed with, and agreed by the Executive Board.

Senior management will be informed on the updated version of the audit charter.

5.2 Validity

This Charter applies to all companies within the TenneT group.

² Nederlandse beroepsorganisatie van accountants

The relationship with the external auditor is stipulated in the *Audit Charter TenneT*. This charter applies in addition to the Internal Audit Charter.

5.3 Effective date

This Charter takes effect as of 1st March 2017.