

Corporate Control

INTERNAL CONTROL SYSTEM

Company Internal control system (hereinafter – ICS) is an element of the general control system of the Company aimed at provision of reasonable guarantees for achievement of goals in the following directions:

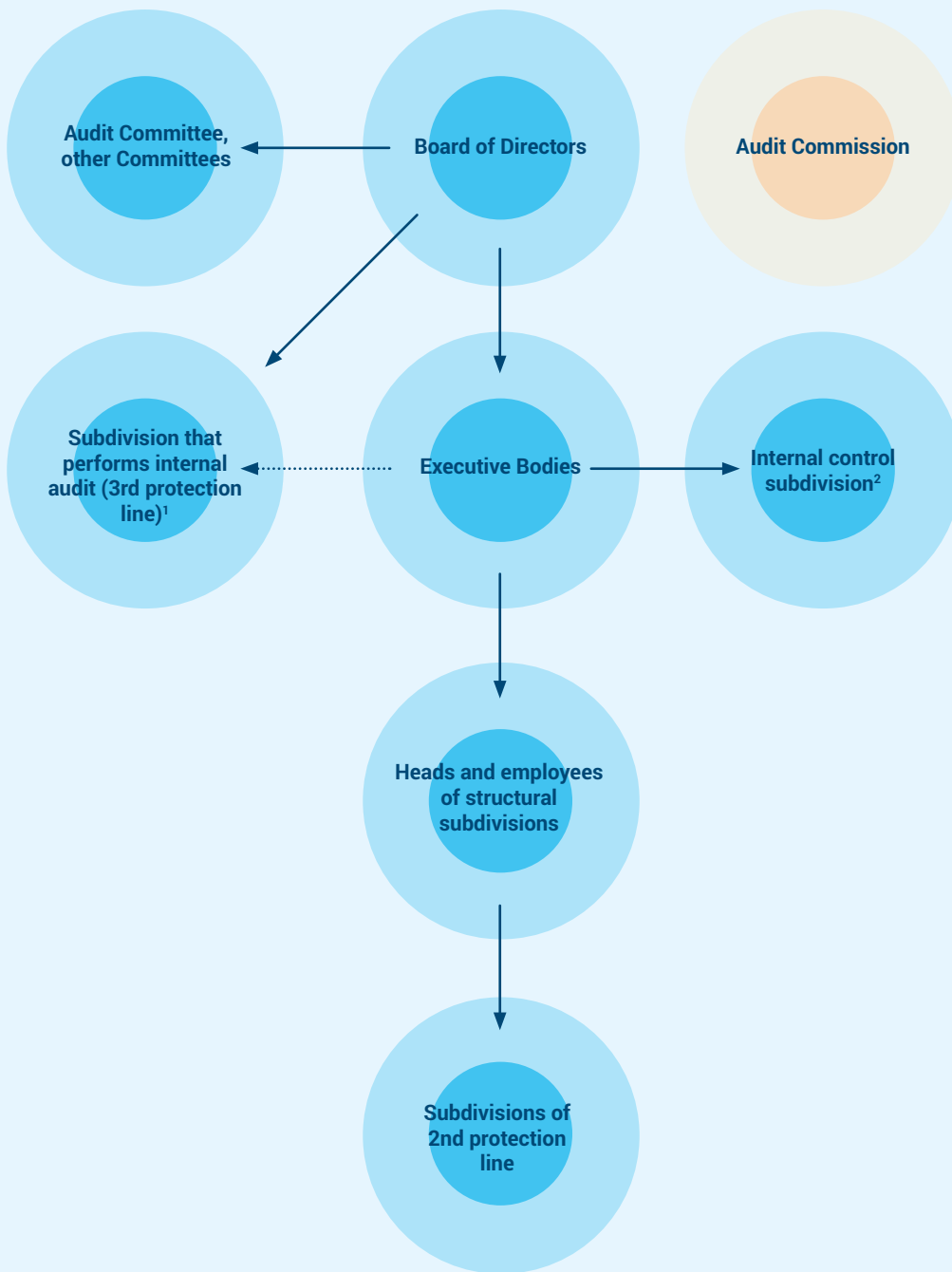
- Efficiency and effectiveness of Company activity, including achievement of financial and operational indicators, preservation of Company assets
- Compliance with applicable legislative norms and local regulatory acts of the Company, including during performance of economic activity and accounting
- Ensuring credibility and promptitude of accounting (financial) and other statements

ICS covers all directions of Company activity, control procedures shall be constantly fulfilled in all processes (directions of Company activity) at all levels of management.

Company ICS shall function in compliance with a model of “three protection lines”. This model means implementation of internal control in the Company at three levels:

1. Level of management bodies (sole and collective executive bodies), blocks and subdivisions of the Company performing control procedures due to their functions and official duties – first protection line
2. Level of controlled Company subdivisions – second protection line
3. Level of Internal Audit Subdivision – third protection line

Participants of the Internal Control System and Their Functions



1. Department of Internal Audit.

2. Department of Internal Control, Risk and Quality Management.

Functions performed by participants of ICS are stated in the Company Internal Control Policy¹ and regulations on structural subdivisions.

Name of a participant	Main functions in the field of ICS
1st protection line	
Audit Commission	<ul style="list-style-type: none"> controls financial and economic activity of the Company and based on these results prepares offers / recommendations on ICS improvement; performs independent evaluation of reliability of data contained in the annual report and annual financial statements of the Company
Board of Directors	<ul style="list-style-type: none"> defines principles and approaches to ICS organization, including approval of Company internal documents defining organization and the strategy of ICS development and improvement, approves Company Internal Audit Policy; controls activity of Company executive bodies in the main (priority) directions; reviews report made by the Management Board on organization and functioning of Company ICS; annually reviews reports of an internal auditor on ICS efficiency; reviews results of external independent evaluation of ICS efficiency
Audit Committee within the Board of Directors	<ul style="list-style-type: none"> preliminary reviews internal documents of the Company before their approval by the Board of Directors, defining structure and strategy of development and improvement of Company ICS, Policy of Internal Control and future amendments thereto; preliminary, before consideration by the Board of Directors, reviews results of assessment of ICS efficiency according to internal auditor's report on ICS efficiency and reports following results of making external independent assessment of ICS, prepares offers / recommendations on Company ICS improvement; supervises ICS in a part of consideration of issues related to supervision over reliability of Company bookkeeping (financial) reporting of the Company, over election of an external auditor and conduct of external audit, and over ensuring compliance with regulatory legal requirements, in a part of consideration of a report of the Management Board on ICS organization and functioning, and in a part of consideration of issues related to analysis and evaluation of compliance with the Policy of Internal Control
Other committees within the Board of Directors	<ul style="list-style-type: none"> supervise implementation of the established financial and operational indicators, compliance with applicable law, rules and procedures established by local regulatory acts, as well as reliability and timeliness of reporting formed by the Company
Executive bodies of the Company (the Management Board, the Sole Executive Body)	<ul style="list-style-type: none"> secure creation and efficient functioning of ICS; are in charge of execution of decisions made by the Board of Directors in the sphere of ICS organization
Management Board	<ul style="list-style-type: none"> forms directions and plans of ICS development and improvement; prepares reports on Company financial and economic activity and on Company ICS organization and functioning; studies results of independent external assessment of ICS efficiency, forms measures on ICS development and improvement

1. Approved by resolution of the Board of Directors dated 29.02.2016 (Minutes No. 180/16)

Name of a participant	Main functions in the field of ICS
Sole Executive Body	<ul style="list-style-type: none"> • approves regulating and methodological documents of the Company on the issues of ICS organization and functioning, except for documents approval of which is included within the competence of Company Board of Directors; • ensures fulfillment of Company action plans needed to solve its tasks; • organizes bookkeeping and management accounting and preparation of bookkeeping (financial) and other reporting; • submits for consideration of the Company Board of Directors reports on Company financial and economic activity and on Company ICS organization and functioning
Collegial working bodies created by Company executive bodies for the purpose of fulfilling particular functions (commissions, work groups):	<ul style="list-style-type: none"> • implement control procedures and/or develop recommendations on the improvement of control procedures, separate components (elements) of internal audit and internal audit system
Commission for Monitoring of a Situation with Payments for Services on Power Transmission	<ul style="list-style-type: none"> • control over a situation with payments for rendered services on power transmission for troubled debtors
Commission for Control over Accounts Receivable and Payable	<ul style="list-style-type: none"> • control over execution of planned indicators of cancellation of accounts receivable/payable
Commission for Observation of Norms of Corporate Ethics and Settlement of Conflicts of Interests	<ul style="list-style-type: none"> • control over settlement of issues related to observation of norms of corporate ethics and settlement of conflicts of interests in regard to chairmen and members of Commissions of branches
Investment Commission	<ul style="list-style-type: none"> • evaluation of economic justification of considered investment plans and target investment programs
Central Tender Commission	<ul style="list-style-type: none"> • considers and approves purchases in accordance with the Uniform Purchase Standard; • initiates holding of internal audit, official investigations and submits suggestions to Company Director General on holding Company employees liable for nonperformance or improper implementation of standards of purchase activity
Deputies of the Director General, directors in various fields of activity, heads with immediate subordination to the Director General, heads of structural subdivisions of Company executive body / Deputies of the Director General – directors of branches, deputies of directors of branches, heads of structural subdivisions of Company branches	<p>Fulfill functions on design, documentation, implementation, monitoring and development of ICS in the functional spheres of Company activity responsibility for organization and coordination / implementation under which is vested on them by regulatory documents of the Company / provisions on structural subdivisions, including:</p> <ul style="list-style-type: none"> • Ensure implementation of internal audit principles • Organize formation of efficient processes (directions of activity), including development and implementation inclusive of the newly identified risks or change in the existing control procedures • Ensure regulation of processes (directions of activity) supervised • Organize performance of control procedures • Perform evaluation (monitoring) of control procedures performance • Evaluate processes (directions of activity) supervised on the subject of a need for their optimization aimed at improvement of efficiency and correspondence to the changing conditions of the external and internal environment, organize development of offers on control procedures improvement • Ensure elimination of drawbacks revealed in control procedures and processes (directions of activity)

Name of a participant	Main functions in the field of ICS
Employees of structural subdivisions of executive body of Company branches, who execute control procedures as their official duties	<ul style="list-style-type: none"> • Execute control procedures • Ensure timely informing of immediate managers about cases when performance of control procedures has become impossible for some reasons and/or a design of control procedures shall be changed due to alteration of internal and/or external conditions of Company functioning • Submit offers on introduction of control procedures in corresponding activity areas for the review by immediate managers
2nd protection line	
Department of Internal Control, Risk and Quality Management	<ul style="list-style-type: none"> • Develops and ensures implementation of main and methodological documents on creation and improvement of ICS • Facilitates management in the process of control environment building, develops recommendations on description and implementation in the processes (directions of activity) of control procedures and assignment of responsibilities to officials • Coordinates activity on maintenance and monitoring of target state of ICS • Prepares information about ICS state for the interested parties • Interacts with state control and revision bodies on the issues of internal control • Audits quality management system
Security Department	<ul style="list-style-type: none"> • Controls execution of commercial transactions in terms of economic security and degree of contractors' reliability • Fulfills control measures aimed at identification of corruption breaches of law by Company employees
Department of Legal Support	<ul style="list-style-type: none"> • Ensures protection of Company rights and legal interests in courts, in relations with law enforcement, supervisory and controlling bodies and other organizations • Carries out legal examination of draft contracts and local regulatory acts of the Company
Department of Affairs Management	<ul style="list-style-type: none"> • Exercises control over implementation of instructions contained in the Minutes of the Management Board, Company orders, minutes of the meetings and instructions of Company Director General, thus, minimizing risks related to untimely implementation of major instructions
Department of Corporate Management and Shareholder Interaction	<ul style="list-style-type: none"> • Exercises control over compliance of resolutions passed by executive authorities of Company management with the legislation of the Russian Federation, Company standards, Company organization-administrative documents and Company interests, thus, minimizing risks of noncompliance with requirements of legislation on shareholding and internal regulatory documents on Company management
Department of Production Security and Production Control	<ul style="list-style-type: none"> • Control over compliance with requirements of rules and regulations of production security, laws and other regulatory and legal acts in the field of labor protection
3rd protection line	
Department of Internal Audit	<ul style="list-style-type: none"> • Following the results of internal audit, designs recommendations on improvement of control procedures, particular components (elements) of internal control and ICS; • Exercises independent internal evaluation of ICS efficiency and issues recommendations for improvement of ICS efficiency and performance

In order to implement Strategy for Development and Improvement of ICS of PJSC "Russian Grids" and S&A of PJSC "Russian Grids"¹, the Company approved restated Policy on PJSC IDGC of Siberia Internal Control².

Internal Control Policy shall determine goals, principles of functioning and elements of Company ICS, main functions and responsibility of participants of ICS, and procedure for evaluation of ICS efficiency.

The Company has the Procedure for implementation of Policy of Internal Control that describes applied aspects of application of norms stated by Policy of Internal Control (CS 3.008/0).

Control procedures for processes and sub-processes of main and supporting activity and Company management processes are stated in risk and control matrices.

The Company approved³ and implemented action plans for improvement of internal audit and risk management efficiency in the Company.

Improvement and Evaluation of ICS Efficiency in 2018

In the reporting year the Company implemented the following activities aimed at ICS improvement:

- Implemented methods of corruption risk evaluation, inclusive of the existing methods of Company risk management
- Offers training on the subject "Internal Audit and Risk Management" in order to improve Company personnel awareness, the relevant article is printed
- Responsibility for prevention, evaluation, monitoring and accountability for risks is introduced
- Analysis of execution of tasks given by the administration and managerial bodies of the Company, as well as of execution of instructions of external bodies and the Audit Commission, was carried out

To guarantee efficiency and correspondence of ICS to requirements and conditions being objectively changed, Company internal auditor assesses efficiency of ICS: its correspondence to a target state and maturity level.

Efficiency of ICS following the results of 2018 was considered at the meeting of the Board of Directors of PJSC IDGC of Siberia⁴. These resolutions proved "Optimal" (5.1 points) level of ICS maturity in the conditions of positive dynamics preservation (a gain of 0.1 point).

In accordance with the requirements of the Policy of Internal Control, independent external evaluation of ICS will be performed in 2019.

1. Approved by Resolution of the Board of Directors of PJSC "Russian Grids" dated 10.02.2014 (Minutes No. 143)

2. Resolution of the Board of Directors dated 29.02.2016 (No. 180/16)

3. Company Decree dated 17.07.2018 No. 500 "On Approval of the Action Plan Aimed at the Improvement of Appraisal of the Internal Audit and Risk Management Systems"

4. Minutes No. 111 on 29.03.2019 with preliminary discussion of the issue by the Audit Committee within the Board of Directors, Minutes No321/19 dated 08.05.2019