

Public Joint Stock Company  
of Power Industry and Electrification of Kuban  
Kubanenergo PJSC

Approved by  
decision of Kubanenergo PJSC Board of Directors  
(minutes of meeting No. 233/2016 dated 18.03.2016)

Regulations on Internal Control  
of Kubanenergo PJSC  
(restated)

2016

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## **1. General provisions**

1.1. Internal Control Policy of “Kubanenergo” (hereinafter – the Policy) is a document of Kubanenergo PJSC (hereinafter – the Company), scoping the general principles of internal control system (hereinafter – the Internal Control System), its purposes and tasks, general approaches to organization, distribution of responsibility among participants of the Internal Control System and character of their interaction.

1.2. The Policy is based on the best practices, experience of the advanced global and Russian companies and is further developed and with a view of implementation of provisions of the Strategy of development and enhancement of the internal control system of Rosseti PJSC and its affiliated and dependent companies, approved by the decision of Rosseti PJSC Board of Directors on 10.02.2014 (Minutes of meeting No.143), the Strategy of development of the electric grid complex of the Russian Federation approved by Order of the Government of the Russian Federation from 03.04.2013 № 511-r.

### **1.3. Terms and definitions**

In order to uniformly understand and use terms in the sphere of internal control the terms and definitions are specified in Appendix 1 to this Policy.

Terms and definitions in the sphere of internal audit are fixed by the Policy of internal audit of the Company, approved by the Company’s Board of Directors.

The terms and definitions in the field of management of risks are determined by the Risk Management Policy of the Company, approved by the Company’s Board of Directors.

### **1.4. The purposes of the Internal Control Policy**

The Policy is developed in order to ensure implementation and maintenance of functioning of effective internal control system corresponding to conventional practices and standards of activity in the field of internal control, and also to requirements of regulators, and promoting achievement of the purposes of activity of the Company.

### **1.5. Scope of the Policy of internal control**

The Policy is applied to all participants of the internal control process, specified in

section 4 of the Policy. The Policy is obligatory for all structural divisions and the Company's branches.

The internal documents of the Company regulating activity that influences the system of internal control should correspond to the Policy provisions.

#### 1.6. Procedure for preparation and approval of the Policy of internal control

The Policy is approved by the Board of Directors of the Company with preliminary consideration by the Audit Committee of the Board of Directors of the Company.

#### 1.7. Procedure for introduction of amendments to the Internal Control Policy

Amendments to the Internal Control Policy are introduced in case of changes in:

- goals and objectives of the internal control system;
- functions of participants of the internal control process;
- requirements of legislation and instructions of the regulating bodies of executive power;
- other internal and external factors affecting the Company's internal control activities and system.

When introducing amendments a new edition of the Policy shall be approved.

Initiators of amendments of the Policy can be heads of structural divisions of the Company, executive bodies of the Company, the Audit Committee under the Board of Directors of the Company, the Board of Directors of the Company and the Auditing Commission of the Company.

Preparation and consolidation of offers on amendments to the Policy and development of a new edition of the Policy is assigned to the head of the internal control division.

1.8. The list of documents, legal acts and accepted standards according to which the Policy is developed and which are applied during the internal control process in the Company:

- the Charter and internal regulatory documents of the Company
- Federal Law No.208-FZ "On Joint-Stock Companies" dated 26.12.1995
- Federal Law No.402 "On Accounting" dated 06.12.2011
- Federal Law No.273 "On fighting corruption" dated 25.12.2008

- Corporate Governance Code recommended by Letter No. 06-52/2463 of the Bank of Russia “On the Corporate Governance Code” dated 10.04.2014
- Resolution No. 696 of the Government of the Russian Federation “On approval of federal rules (standards) governing auditor activities” dated 23.09.2002
- Order No. 13-62/pz-n of the FFMS of Russia “On the procedure of securities admission to organized trading” dated 30.07.2013
- Recommendations No. PZ-11/2013 of the Ministry of Finance of Russia “Economic actor organizing and carrying out internal control of facts of economic life as may be executes, maintaining accounting records and drawing accounting (financial) statements”(Letter No. 07-04-15/57289 of the Ministry of Finance of Russia dated 26.12.2013)
- Order No. 357 of the Federal Agency for State Property Management “On approval of the methodological recommendations on organization of work of the Board of Directors within a joint-stock company” dated 21.11.2013
- Order No. 86 of the Federal Agency for State Property Management “On approval of the methodological recommendations on organization of work of Audit Committees under the Board of Directors within a joint-stock company with participation of the Russian Federation” dated 20.03.2014
- Order No. 350 of the Federal Agency for State Property Management “On approval of the methodological recommendations on generation of Regulations on the Auditing Commission of a joint-stock company with participation of the Russian Federation” dated 16.09.2014
- Order No. 249 of the Federal Agency for State Property Management “On approval of the methodological recommendations on organization of internal audit work within joint-stock companies with participation of the Russian Federation” dated 04.07.2014
- Methodological guidelines of the Federal Agency for State Property Management on preparation of regulations on internal audit endorsed by Instruction No. ISh-P13-4148 of the Government of the Russian Federation dated 24.06.2015

- Methodological guidelines of the Federal Agency for State Property Management on preparation of regulations on a risk management system endorsed by Instruction No. ISh-P13-4148 of the Government of the Russian Federation dated 24.06.2015
- National Standard GOST R ISO 31000:2010 “Risk management. Principles and regulations”(Order No. 883-st of the State Committee for Standardization, Metrology and Certification dated 21.12.2010-)
- National Standard GOST R ISO 31010:2011 “Risk management. Risk evaluation methods”(Order No. 680-st of the Federal Agency for Technical Regulation and Metrology dated 01.12.2011)
- COSO concept “Guidance on monitoring internal control systems” (2009)
- COSO concept “Internal control - integrated framework”(2013)
- COSO concept “Enterprise risk management - integrated framework”(2004)
- International bases of the professional practices of internal auditors adopted by the international Institute of Internal Auditors (inclusive of the International Professional Standards of Internal Audit).

1.9. The Policy is the basis for elaboration of internal methodological and administrative documents regulating the process of organization of the internal control system and describing in details the internal control methodologies and tools

## **2. Definition, Goals and Objectives of Internal Control System**

2.1. The system of internal control of the Company is the full range of procedures, methods and controls that are created by the executive authorities and the Board of Directors to ensure effective implementation of the internal control.

The internal control is a process performed by the Company’s Board of Directors, the Company’s Audit Commission, collegiate and individual Company’s executive bodies, heads and employees at all levels of management of the Company, aimed at provision of reasonable guarantees of achievement of the Company’s purposes.

The internal control is a continuous and cyclic process that is as a part of general control system of the Company. The internal control is a component of Company’s risk management system.

The system of internal control covers all activities of the Company, control procedures should be carried out constantly in all processes (activities) of the Company at all levels of management.

## 2.2. Goals of the internal control system

The goal of the internal control system is ensuring of reasonable confidence in achieving the aims set for the Company:

- provision of efficiency and productivity of the Company activity, safety of the Company's assets
- observance of applicable to the Company requirements of the legislation and local documents of the Company, including at fulfilment of economic activities and accounting
- provision of reliability and timeliness of accounting (financial) and other reporting.

Strategic targets are not part of the internal control. Approval of strategy is a necessary condition for implementation of the internal control.

The system of internal control should provide an objective, fair and clear vision of current state of the Company, integrity and transparency of the Company's reports.

## 2.3. Tasks of the internal control system

The tasks of the internal control system are:

- provision of reliable, qualitative and accessible power supply to consumers
- provision of environmental safety and safety of personnel and third parties when implementing Company activities
- provision of accomplishment of financial and economic plans of the Company by the most effective and economic way (by construction of effective processes (activities))
- provision of development and implementation of effective control procedures, allowing to lower the risks connected with activity of the Company, to a level, not above a preferable risk (risk-appetite)
- provision of effective prevention, revealing and elimination of violations when the Company implements its activity and carries out financial and economic operations
- provision of safety of the Company's assets, provision of effective use of the



Company's resources, provision of protection of interests of the Company, counteraction to unfair actions of the Company's employees and third parties

- provision of prevention or revealing of deviations from the established rules and procedures, and also distortions of accounting data, accounting (financial) and other reporting

- provision of observance of requirements of the legislation, applicable to the Company's activity, observance of internal policies, regulations and procedures of the Company

- provision of accuracy, completeness, reliability and timeliness of forming, submitting / representing information and all kinds of reports by the Company, established by the applicable legislation and standard documents of the Company.

2.4. The goals and tasks of the internal control system may change in the process of development and enhancement of the internal control process. Revision of the goals and tasks of the internal control system for the purpose of proving their relevance and conformity to current level of development is performed with at least once in 5 years.

2.5. Subjects of the internal control system are participants of the internal control process, composition and functions of which are specified in section 4 of the Policy.

Objects of the internal control are production, financial and economic and other activity of the Company, assets, obligations, accounting and other reports.

2.6. Activity of the Company in the sphere of internal control and efficiency of achievement of goals of the Internal Control System is influenced by the following restrictions:

- Environmental restrictions. The internal control is applied at various levels and is aimed at achieving various goals. Some events and conditions, having considerable influence on achievement of the goals, are beyond the Company's control.

- Restriction of the internal environment, including efficiency of corporate governance, degree of adequacy of the goals specified as initial conditions for implementation of the internal control, subjectivity of judgements at decision-making concerning a choice of control measures, action of the human factor, restriction of resources and necessity connected with it to consider costs for the internal control and

benefits from development of actions within the limits of any of components of the internal control.

### **3. Components and principles of the internal control**

3.1. The basic components (elements) of the internal control are:

- Control environment is a set of principles and standards of activity of the Company that determine general idea of the internal control and the requirements to the internal control at the Company's level in general and serve as a basis for implementation of the internal control.
- Estimation of risks is a process of revealing and analyzing risks.
- Control events (procedures of the internal control, control procedures) are actions and events aimed at decrease of risks to a level, not above a preferable risk (risk-appetite), and also on prevention and revealing of deviations, errors and irregularities, developed and established in such a way as to provide a reasonable guarantee that reaction to arising risk is effective and in due time. Control procedures will be arranged mainly taking into account possibility of preventive revealing of risks or infringements and are performed taking into account their expediency and cost efficiency.
- Information and communication are systems of information and communication help perform the search, collection and information interchange in volume, a format and terms allowing the management and other employees to carry out their obligations. Trustworthy information is communicated to employees of the Company and all interested parties in due time, in necessary volume and in a clear format for perception. Communication represents distribution of information necessary for accepting of administrative decisions and implementation of the internal control. Communication is performed both inside, and outside the Company.
- Monitoring is constant check, supervision, critical examination, inspection and determination of a condition of control procedures, separate components (elements) of the internal control and system of internal control to reveal changes concerning a required or expected level.
- It is necessary that all components (elements) function in a joint integrated way.

Joint functioning means that all five components are interdependent and jointly reduce risks of non-achievement of a specific goal to an acceptable level.

3.2. The basic concepts connected with components (elements) of the internal control are the principles of internal control, applicable to the Company's goals, reasonable confidence in achievement of which the Internal Control System is intended to provide.

3.3. Principles of the internal control:

3.3.1. The Company acts honestly and sticks to ethical values.

3.3.2. The Company's Board of Directors does not depend on the management and performs the control over development and functioning of the internal control system.

3.3.3. The Board of Directors determines organizational structure of the Company, including subordination lines, and Director General assigns corresponding powers, obligations and responsibility in the course of achievement of the goals.

3.3.4. The Company strives to attract, develop and keep competent employees according to the set targets.

3.3.5. The Company assigns responsibility of control bodies and employees for fulfillment of their obligations in the sphere of the internal control in the course of achieving the goals.

3.3.6. The Company clearly defines goals, which allows to identify and estimate risks that may become obstacle for their achievement.

3.3.7. The Company identifies risks that hinder achievement of a complete spectrum of the goals, performs analysis and estimation of risks for decision-making on necessity of influence on risk, establishment of a priority of influence on risk, and also decision-making on methods of reaction to risk.

3.3.8. The Company considers the possibility of fraud at estimation of risks interfering achievement of the set targets.

3.3.9. The Company defines and estimates changes which can have considerable influence on the internal control system.

3.3.10. The Company chooses and develops control procedures that allow to lower risks preventing achievement of the goals to acceptable level.

3.3.11. The Company chooses and elaborates general procedures of control over corporate and technological automated systems for achievement of the set targets.

3.3.12. The Company implements control procedures by establishing standard documents that determine estimated results, and procedures by means of which requirements of standard documents are implemented.

3.3.13. The Company receives or forms and uses significant and high-quality information for maintaining the functioning of the internal control.

3.3.14. The Company performs internal information interchange, including information on the goals and obligations in the sphere of internal control that is necessary for its functioning.

3.3.15. The Company performs information interchange with third-parties concerning the questions influencing functioning of the internal control.

3.3.16. The Company arranges and conducts continuous and/or regular estimation of components (elements) of the internal control to make sure that they are available and function.

3.3.17. The Company estimates drawbacks of the internal control and in due time informs the parties responsible for implementation of correcting actions, including executive bodies and the Board of Directors.

3.4. When arranging, functioning and developing the internal control system the Company strives to adhere to the main principles and approaches reflected in the Concept COSO “Internal Control – Integrated Framework” (2013), Recommendations of the Ministry of Finance of Russia No.pz-11/2013 “Organization and implementation by an economic subject of internal control of made facts of economic activity, conducting the business accounting and drawing up of accounting (financial) statements” (Letter of the Ministry of Finance of the Russian Federation dated 26.12.2013 No. 07-04-15/57289).

3.5. The specified in the section components and the principles, underlying construction and functioning of the Internal Control System, are uniform and should be observed at all levels of the Company.

#### **4. Participants of the internal control process and their functions**

#### 4.1. Participants of the internal control process are:

- the Company’s Audit Commission
- the Company’s Board of Directors
- the Audit Committee attached to the Company’s Board of Directors
- other committees attached to the Board of Directors of the Company
- executive bodies (the Company’s Management Board, Director General of the Company)
- collegiate working bodies established by executive bodies of the Company for accomplishment of specific functions (commissions, working groups, etc.)
- heads of units and structural subdivisions of the Company
- employees of structural subdivisions of the Company who perform control procedures under of their job duties
- internal control subdivision; internal audit subdivision

Roles of participants of the internal control process are differentiated depending on their participation in corresponding stages of the internal control process.

Enhancement of the Internal Control System and accomplishment of control procedures is based on the effective and coordinated interaction of all participants of the internal control process at all levels of management.

Thus, responsibility should be differentiated; each control function should be assigned to one participant of the internal control process.

4.2. The Company’s Audit Commission controls financial and economic activity of the Company by results of which it prepares offers/recommendations about enhancement of the internal control system, and also performs independent estimation of reliability of the data contained in the annual report of the Company and in annual accounting statements of the Company.

#### 4.3. The Company’s Board of Directors:

- determines principles and approaches to the organization of the internal control system of the Company, as well as approves the internal documents of the Company determining the organization and strategy of development and

enhancement of the Internal Control System, approves the Policy of internal control of the Company

- controls activity of executive bodies of the Company in their main (priority) activities
- considers the report of the Management Board on the organization and functioning of the internal control system of the Company
- annually considers reports of the internal auditor on effectiveness of the internal control system
- considers results of an external independent estimation of effectiveness of the internal control system.

#### 4.4. The Audit Committee of the Board of Directors:

- preliminary considers, before the approval by the Board of Directors, of the internal documents of the Company determining the organization and strategy of development and enhancement of the internal control system of the Company, Policy of internal control and subsequent amendments to them
- preliminary considers, before consideration by the Board of Directors, of results of estimation of effectiveness of the internal control system according to the report of the internal auditor on effectiveness of the internal control system, and the information on results of carrying out of external independent estimation of effectiveness of the internal control system, prepares offers/recommendations for enhancement of the internal control system of the Company
- controls the internal control system regarding consideration of the questions connected with the control over reliability of the accounting (financial) reporting of the Company, the choice of the external auditor and external audit carrying out, the provision of observance of standard legal requirements, regarding consideration of the report of the Management Board on the organization and functioning of the internal control system, and also regarding consideration of the questions connected with analysis and estimation of implementation of the Policy.

4.5. Other committees attached to the Board of Directors of the Company within the limits of their competence, established by the Board of Directors, control the accomplishment of the established financial and operational indicators, supervise the observance of the applicable legislation, the rules established by local regulations and procedures, and also supervision of reliability and timeliness of the reporting formed by the Company.

4.6. Executive bodies (the Company's Management Board, Director General of the Company):

4.6.1. The Company's executive bodies perform the following functions in the sphere of internal control:

- provide creation and effective functioning of the Internal Control System
- are responsible for implementation of decisions of the Board of Directors in the field of organization of the Internal Control System.

4.6.2. The Company's Management Board:

- forms directions and plans for development and enhancement of the Internal Control System
- prepares reports on financial and economic activity of the Company, on organization and functioning of the internal control system of the Company
- considers results of external independent estimation of efficiency of the Internal Control System, develops measures for development and enhancement of the Internal Control System.

4.6.3. General Director of the Company:

- approves regulating and methodological documents of the Company concerning the organization and functioning of the Internal Control System, except for the documents which approval is assigned to the competence of the Board of Directors of the Company
- provides accomplishment of plans of activity of the Company, necessary to solve tasks;
- organizes conducting of accounting and management reporting, preparation of accounting (financial) and other reports;

– submits for consideration of the Company’s Board of Directors reports on financial and economic activity of the Company, on organization and functioning of the internal control system of the Company.

4.7. The collegiate working bodies established by executive bodies of the Company for fulfillment of specific functions (commissions, working groups, etc.), within the limits of their powers perform control procedures and/or provide recommendations on enhancement of the control procedures, particular components (elements) of the internal control and the system of internal control.

4.8. Heads of units and structural subdivisions of the Company perform functions of development, documenting, implementation, monitoring and development of the internal control system in functional spheres of activity of the Company, responsibility for the organization and coordination/implementation of which is assigned to them by standard documents of the Company/provisions about structural divisions, including:

- ensure implementation of principles of the internal control
- organize creation of effective processes (activities), including development and implementation taking into account of revealed risks of new or change of existing control procedures
- provide regulation of supervised processes (activities)
- organize implementation of control procedures
- perform estimation (monitoring) of accomplishment of control procedures
- conduct estimation of supervised processes (activities) on necessity of their optimization to increase efficiency and conformity to changing conditions of the external and internal environment, organize development of offers on enhancement of control procedures
- provide elimination of revealed drawbacks of control procedures and processes (activities).

4.9. Employees of structural subdivisions the Company, performing control procedures in accordance with their functions:

- perform control procedures;



- timely inform direct heads on cases when implementation of control procedures for any reasons became impossible and/or change of design of control procedures in connection with change of internal and /or external operating conditions of the Company is required;
- submit for consideration to their direct management of offer on implementation of control procedures in corresponding spheres of activity.

4.10. The internal control division performs:

- development and provision of implementation of the basic and methodological documents on construction and enhancement of the internal control system
- assistance to the management in construction of the control environment, development of recommendations by description and implementation in processes (activities) of control procedures and assigning responsibility to officials
- activity coordination on maintenance and monitoring of a target condition of the internal control system
- preparation of the information on a condition of the internal control system for interested parties
- interaction with the state control-supervising bodies concerning the internal control.

4.11. The internal audit division:

- develops, by results of internal audit, recommendations on enhancement of the control procedures, specific components (elements) of the internal control and the system of internal control;
- carries out internal independent estimation of effectiveness of the internal control system and issues recommendations on increase of efficiency and productivity of the internal control system.

4.12. The system of internal control functions according to “three lines of defense” model.

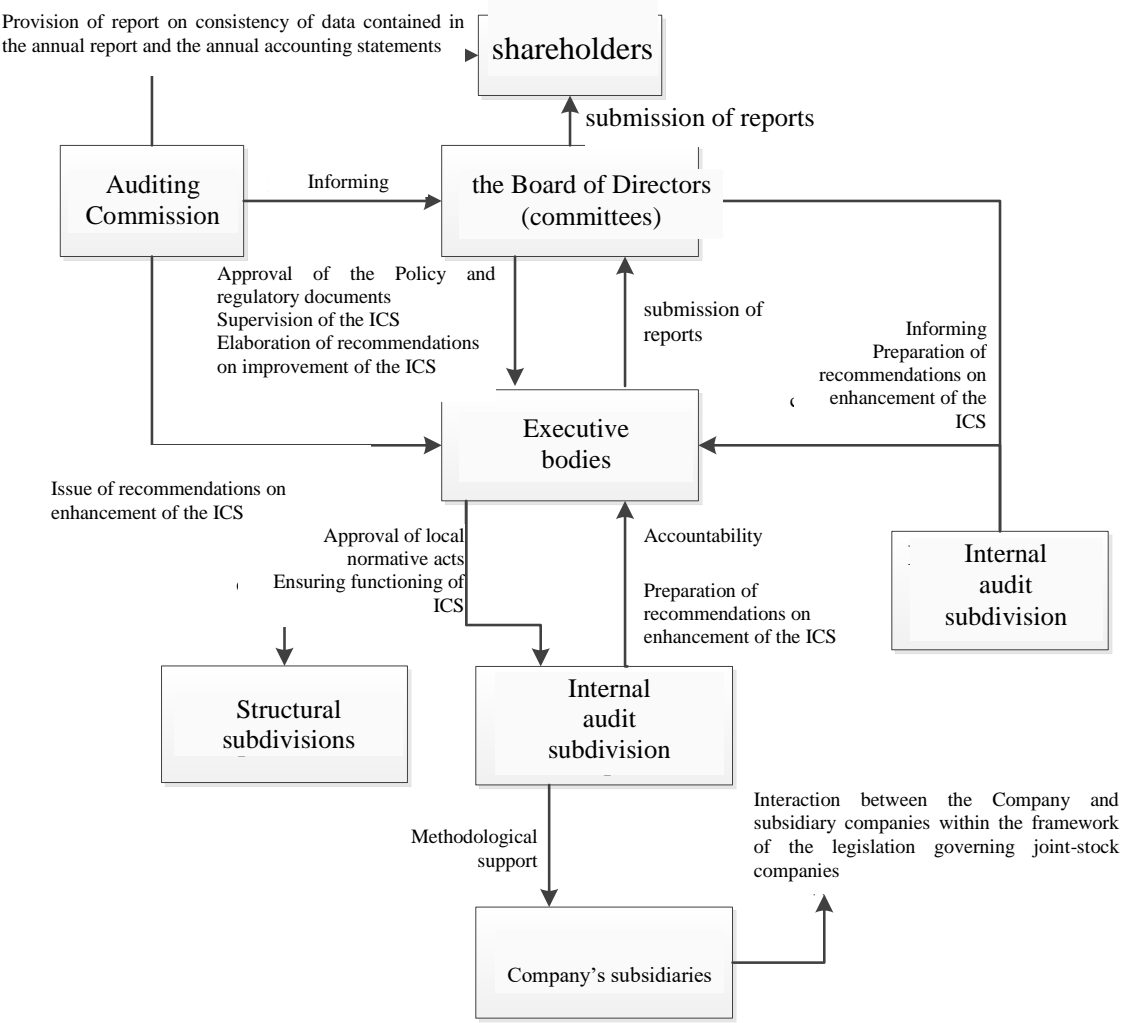
The model means implementation of the internal control in the Company at three levels:

- at the level of control bodies (individual and collegiate executive bodies), units and subdivisions of the Company that perform control procedures in accordance with their functions and duties – the first line of defense;
- at the level of control subdivisions of the Company – the second line of defense;
- at the level of the internal audit subdivision –the third line of defense.

4.13. All participants of the Internal Control System are responsible for proper organization and implementation of control procedures within the limits of the powers specified in the Charter of the Company, in the Policy, local regulations of the Company, provisions about structural divisions and duty regulations.

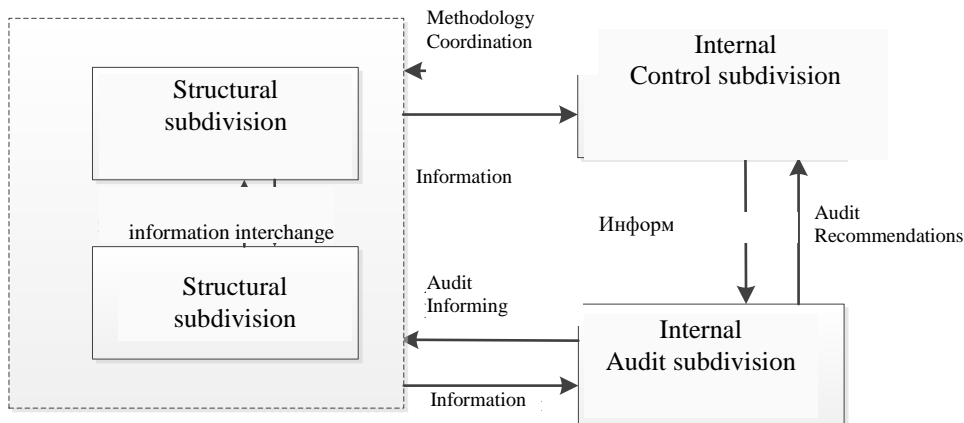
**5. Interaction within the Internal Control System**

5.1. Interaction between participants of the Internal Control System at various levels of hierarchy (vertical interaction within the Internal Control System):



Vertical interaction within the Internal Control System is performed with regard of the norms established in the Policy and internal documents, regulating activity of participants of the Internal Control System.

5.2. Interaction between structural subdivisions of the Company within the Internal Control System (horizontal interaction within the Internal Control System):



Horizontal interaction within the Internal Control System is performed with regard of the norms specified in the Policy and in internal documents of the Company, governing the procedure of interaction between structural subdivisions of the Company in the internal control process.

5.3. Interaction with external interested parties concerning the internal control.

The Company cooperates with external control (supervision) bodies, external auditors, and with other external interested parties concerning the internal control in order provided by the legislation of the Russian Federation and corresponding standard documents of the Company.

## 6. Main stages of the internal control process

The internal control is a continuous and cyclic process integrated in general management system of the Company, including the following main stages:

6.1. Construction of the control environment of processes (activities), development and implementation of control procedures

6.1.1. Construction of the control environment of processes (activities), development and implementation of control procedures, including:

- estimation of efficiency of existing processes (check of sufficiency of standard documents and control procedures to avoid and prevent risks, decrease in risks to a level not above a preferable risk (risk-appetite), or decrease in

consequences of implementation of risks;

- development and implementation with regard of the revealed risks of new or change of the existing control procedures performed at various levels of management, including development of general procedures of the control of corporate and technological automated systems. At development of control procedures the conditions of the external and internal environment influencing activity of the Company are considered. Control procedures should be improved and adapted continuously for changes of the internal and external environment;
- formalization of control procedures in standard documents of the Company. Control procedures at all levels of management and in all processes (lines of activity) should be formalized in standard documents of the Company. Thus formulations of control procedures included in the standard document should, whenever possible, include information on the performer of a control procedure (his or her post), actions made by him or her within the implementation of the control procedure, frequency of accomplishment of the control procedure, sources of the information, documents or objects, subject to the control, and also about documents confirming the fact of accomplishment of the control procedure. The information on control procedures should be reflected in control matrixes the order of forming which is established by a separate methodological document.

6.1.2. Within the Internal Control System preventive, current and subsequent controls are performed.

6.1.3. Kinds of the control procedures applied by the Company are grouped by:

- implementation time: preventing and revealing;
- automation degree: automated, semi-automatic (IT dependent manual) and manual;
- value of significance: key and not key;
- method of implementation: authorization (approval, confirmation), verification, check, differentiation of powers (division of obligations),

measures to safeguard assets (physical control), the procedures connected with computer processing of the information and information systems, etc.

6.1.4. The internal control is aimed at impossibility of assignment to one person of authorities on fulfillment of a control procedure and control of its implementation, and also on differentiation of authorities on implementation of functions: initiation, authorization, implementation, recording and control of operations.

If differentiation of incompatible authorities (division of incompatible obligations) is almost impossible, it is required to develop alternative control procedures.

6.1.5. Control procedures in the field of information processing should provide completeness, correctness, reliability and timeliness of this information.

## 6.2. Implementation of control procedures

6.2.1. On the basis of regulatory documents of the Company determining estimated results and procedure of implementation of processes (activities), the control procedures are implemented that have been embedded in processes (activities) and current activity of employees.

Along with it, responsibility and accountability of the head (or another appointed employee) of the unit/division, in which revealed risks take place, should be established for implementation of control procedures.

6.2.2. Control procedures should be well-timed, be carried out carefully and consistently by competent employees.

6.2.3. Results of accomplishment of financial and economic operations and control procedures in the Company should be documented and stored properly.

6.2.4. By results of accomplishment of control procedures questions on necessity for correcting or other actions, including directed on elimination of the revealed deviations, errors and abusing, are considered.

## 6.3. Estimation (monitoring) of efficiency of control procedures.

6.3.1. The estimation (monitoring) of efficiency of control procedures includes:

- check of efficiency of design of control procedures;
- check of actual implementation of control procedures.

6.3.2. The estimation (monitoring) of efficiency of control procedures can be

performed by means of continuous estimation and periodic estimation or their combination.

6.3.3 Continuous estimation of efficiency of control procedures represents certain routine embedded in process (activities) procedures, performed in real time mode as a response to changing conditions.

6.3.4. Regular estimation of efficiency of control procedures (at specific time intervals) can be conducted by heads of units/structural divisions on processes (activities) supervised by them, and also internal auditors within the limits of carrying out of internal audits.

#### 6.4. Response

6.4.1. If by results of carrying out of estimation (monitoring) of efficiency of control procedures drawbacks had been revealed, the following steps should be performed: analysis of character and reasons of the revealed drawbacks; carrying out, if necessity, of additional check or testing; determination of priorities and making a plan of elimination of the revealed drawbacks

6.4.2. The control of completeness and timeliness of elimination of the revealed drawbacks is performed by heads of units/structural divisions of the Company.

6.4.3. By results of carrying out of estimation (monitoring) of efficiency of control procedures questions on necessity of enhancement of control procedures are considered.

### **7. Estimation of efficiency of the Internal Control System**

7.1. In order to guarantee that the system of internal control is efficient and complies with the changing requirements and conditions, the Company occasionally conducts estimation of effectiveness of the internal control system for conformity to a target condition and maturity level. The maturity shows, how the system of internal control is defined, managed, supervised and effective. The higher level of a maturity shows a more effective condition of the internal control system.

7.2. In order to estimate condition (maturity level) of the internal control system the company uses criteria that have been established by the Strategy of development and

enhancement of the internal control system of Rosseti PJSC and SDCs, approved by the decision of the Board of Directors of Rosseti PJSC on 10.02.2014 (Minutes of meeting No.143).

7.3.Forms of assessment of efficiency of the Internal Control System:

- self-assessment;
- internal independent assessment;
- external independent assessment.

7.4.The self-assessment of efficiency of the internal control system of a specific process (activities) is performed by the head of the unit/structural division, supervising corresponding process (activities).

During the self- assessment availability and work of components (elements) of the internal control within the supervised process (activities) are assessed.

The decision on periodicity of self-assessment (but at least once a year) is accepted by the head of the unit/structural division, supervising corresponding process (activities), taking into account the speed of changes in the supervised process and in the Company's activity, and also taking into account the balance between continuous (routine, built in a process (activities), the procedures performed in a real time mode for reaction to changing conditions) and occasional estimations.

7.5.The internal independent assessment of effectiveness of the internal control system is performed annually by the internal audit division. The report of the internal auditor on effectiveness of the internal control system is submitted to the Board of Directors of the Company (with preliminary consideration by the Audit Committee of the Board of Directors of the Company).

7.6.The external independent estimation of effectiveness of the internal control system is performed by the external independent adviser at least once in three years depending on changes in organizational activity and a general level of development, reliability and efficiency of the Internal Control System. Information on the results of external independent estimation is submitted to the internal control division and internal audit division.

The internal control division provides bringing of the results of external independent

estimation of efficiency of the Internal Control System for consideration to the Management Board of the Company and the Board of Directors of the Company (with preliminary consideration by the Audit Committee of the Board of Directors of the Company).

## **8. Standard maintenance of activity of the Company in the sphere of internal control**

8.1. The regulation and methodological support of the process of internal control is carried out by the Company by means of development and approval of:

- this Policy;
- a regulatory document defining the procedure of application of the Internal Control Policy;
- methodological documents scoping the internal control, including documents determining the form and procedure of filling in and application of control matrixes.

Appendix 1

to the Internal Control Policy of Kubanenergo PJSC

### **Definitions**

**The internal control** is a process performed by the Board of Directors of the Company, the Company's Audit Commission, collegiate and sole executive bodies of the Company, heads and employees at all levels of Company management, aimed at provision of reasonable assurances of achieving the goals of the Company.

**Reasonable assurances (reasonable confidence)** are the concept according to which no matter how proper the internal control is elaborated and functions, it cannot guarantee achievement of the Company's goals. It is explained by the restrictions specific in the internal control system.

**The internal control system** is a set of organizational measures, methods and procedures established and used for effective implementation of the internal control.

**Efficient internal control** is a process ensuring reasonable assurance in achievement of the Company's goals. For this purpose it is necessary that each of the five components of the internal control and corresponding principles are available and function, and also that the five components of the internal control function



simultaneously.

**Available and function** is a conclusion that the components and corresponding principles of the internal control have been used when developing design and introducing the internal control system for achievement of the set targets. “Function” means the conclusion that the components and corresponding principles still exist and are used to manage the internal control system for achievement of the set targets.

**Simultaneous functioning** is a conclusion that all five components of the internal control are interdependent and jointly reduce to an acceptable level the risks of failure to achieve a specific goal.

**Environment** is external conditions in which the Company works and achieves its goals connected with cultural, social, political, legislative, regulating, economic, natural, competitive and other spheres at the international, national, regional or local level, main criteria and tendencies that can influence achievement of the Company’s goals and also with mutual relations with external interested parties, their perception of risk and importance of these external interested persons for the Company.

**Internal environment** is internal conditions in which the Company works and achieves its goals, including management, corporate structure, obligations and accountability, key policies, goals and tasks as well as strategy of their achievement, resource capacities of the Company and knowledge, information processes, information flows and decision-making processes, mutual relations with internal interested parties, their perception of risk and importance for the Company of these internal interested persons, culture of organization, standards, administering principles and other documents regulating activity of the Company on various aspects.

**Control environment** is a set of principles and standards of the Company’s activity that define the general understanding of the internal control and the requirement to the internal control at the Company’s level in general and serve as a basis for implementation of the internal control.

**Estimation of risks** is a process of revealing and analyzing of risks.

**Control events (internal control procedures, control procedures)** are actions and

events aimed at decrease of risks to a level, not above a preferable risk (risk-appetite), as well as on prevention and revealing of deviations, errors and excessive use, developed and established in such a way as to provide a reasonable guarantee of reaction to arising risk effectively and in due time.

**Information and communication:** systems of information and communication help perform search, collection and interchange of information in volume, format and terms allowing the management and other employees to carry out their obligations.

**Monitoring** is a constant check, supervision, critical examination, inspection and determination of condition of control procedures, specific components (elements) of the internal control and system of internal control to reveal changes concerning a required or estimated level.

**Subjects of the internal control system** are participants of the internal control process.

**Objects of the internal control** are production, financial and economic and other activity of the Company, assets, obligations, accounting and other reports.

**Interested party** is a person or an entity that can influence or can be influenced or considering that any decision or activity influences them.

**Internal control division** is the Company's division that is has the function of coordination and methodological provision in the field of internal control.

**Supervised process (activities)** is functional sphere of the Company's activity, responsibility for the arrangement and coordination/implementation of which is assigned to the head of the unit/the head of the structural division by regulatory documents of the Company/provision on the structural division.

**Preventive (preliminary) control** is a form of control intended for prevention of deviations, errors and misuse, carried out prior to the actual beginning of a process (operation).

**Current control** is the control intended for timely revealing and immediate prevention or elimination of deviations, errors and misuse, carried out in real time mode during implementation of the routine procedures embedded in a process (activities).

**Follow-up control** is the control intended for revealing and elimination of deviations, errors and misuse.

**Design of a control procedure** is a planned procedure of implementing control procedure (as distinct from actual implementation of control procedure).

**Automated control procedures are** control procedures, performed in an automatically without participation of the performer (choice of values from the fixed list, automated check of categories of an account number, use of control sums for the control over completeness of data transmission between systems, etc.).

**Semi-automated (IT dependent, manual) control procedures** are control procedures, performed in an automated way, but with participation of the performer.

**Manual control procedures are** control procedures performed by the performer without use of IT systems.

**Revealing control procedures** are procedures whose task is to reveal deviations, errors and misuse.

**Preventing (precautionary) control procedures** are control procedures whose task is to prevent deviations, errors and misuse which can arise.

**Key control procedures** are procedures in case of absence of which errors and violation would not be revealed by other means of control.

**Non-key control procedures** are procedures in case of absence of which errors would be revealed by other means of control.

**Control matrix** is form of recording data on control procedures established in the Company.