

Approved by the resolution of the Board of Directors of  
IDGC of the South JSC (Minutes No.142/2014 dd 08.09.2014)

**Internal Control Policy**  
**IDGC of the South JSC**  
(restated)

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## **1. General provisions**

1.1. The Internal Control Policy of Open joint stock company IDGC of the South (hereinafter - the Policy) is an internal document of IDGC of the South JSC (hereinafter - the Company) and is developed according to:

- the legislation of the Russian Federation, including Federal law from 26.12.1995 No.208-FZ “On Joint Stock Companies”, the Code of Corporate Governance, approved by the Board of Directors of the Bank of Russia on 21.03.2014 and recommended for application by joint stock companies;
- the Charter and internal regulation documents of the Company.

1.2. The Policy is based on the best practices, experience of advanced world and Russian companies, on the Strategy of development of the company to manage the electric grid complex of the Russian Federation - Rosseti JSC and the Strategy of development and enhancement of the internal control system of Rosseti JSC and affiliated and dependent companies of Rosseti JSC and is developed to continue and implement provisions of the Strategy of development of the electric grid complex of the Russian Federation, confirmed by Order of the Government of the Russian Federation No.No. 511-r dated 03.04.2013.

1.3. The Policy determines objectives, functioning principles and elements of the internal control system of the Company, the basic functions and responsibility of participants of the internal control system, the procedure of performance evaluation of the internal control system.

## **2. Terms and definitions**

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

**Control procedures** are actions and events aimed at reduction of risk and also on prevention and revealing of errors and abusing.

**Risk** is a potentially possible action or event, able to prevent the Company from achieving its goals or separate processes (activities) and involving negative

consequences. The risk is characterized by probability and importance of consequences.

**Internal audit**<sup>1</sup> is provision of objective and independent guarantees and consultations aimed at enhancement of organization's activity. Internal audit helps the Company achieve its goals, using a systematized and consecutive approach to performance evaluation of risk management processes, control and corporate management.

**The Company** - open joint stock company IDGC of the South JSC.

**Subsidiaries and affiliates** – affiliated and dependent companies of IDGC of the South JSC.

In respect of affiliates and dependent companies the Policy contains regulations of general (methodological) character describing the process of interaction between the Company and affiliates when arranging activity in the sphere of risks management.

The Policy (as well as its particular chapters) is recommended for use by the affiliated and dependent companies as a basis for development of internal documents of subsidiaries and affiliates, regulating questions of the organization of work on implementation of the internal control in the affiliated and dependent companies.

### **3. The objectives of the internal control**

3.1. The control function is one of elements of the management system. Efficiency of the control function and the internal control system as a whole is provided with interrelation of 3 constituting managerial processes:

- Organization of the effective internal control of business processes for achievement of the maximum effect of all lines of business of the Company - control procedures, performed at the level of business processes, promote timely and effective revealing of deviations and infringements and raise efficiency of operational environment and reliability of the financial reporting.

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<sup>1</sup> In definition of International Standards for the Professional Practice of Internal Auditing, published by International institute of internal auditors

- Risk management - risk management as part of the internal control system promotes decrease in risks to fail to reach the objectives by the Company, creation of protective barriers and prevention of abusing.

- Audit and independent evaluation - internal audit gives independent and objective judgment on reliability and effectiveness of the internal control and risk management system of the Company.

3.2. The internal control is a process performed by the Board of Directors of the Company, Audit Commission of the Company, executive bodies and all employees of the Company, directed on provision of reasonable guarantees of goal achievement in the following directions:

- efficiency, profitability and productivity of the organization of the Company's activity;

- observance of requirements of the legislation, applicable to the Company's activity, and also requirements of internal documents of the Company;

- prevention of wrongful acts of employees of the Company and the third parties concerning assets of the Company;

- reliability, completeness and timeliness of preparation of all kinds of the reporting.

3.3. The objectives regarding efficiency, profitability and productivity of the organization of activity:

– provision of trust of investors to the Company and subsidiaries and affiliates and to bodies of their management;

– provision of achievement of the set strategic targets of development, accomplishment of financial and economic plans of the Company and its subsidiaries and affiliates in the most effective and economic way (by forming of effective business processes, including by means of corporate management methods);

– provision of effective prevention, timely revealing and reaction to threats in the of the Company's activity and its subsidiaries and affiliates;

- provision of effective prevention, revealing and elimination of infringements at carrying out of financial and economic operations of the Company and its subsidiaries and affiliates;
- provision of effective usage of resources of the Company and its subsidiaries and affiliates.

3.4. The objectives regarding accomplishment of requirements, applicable to the of the Company's activity:

- provision of reliable, qualitative and accessible power supply to consumers;
- provision of environment preservation and safety of the personnel;
- provision of observance of requirements of the current legislation, both Russian, and foreign, in areas and types of the Company's activity and subsidiaries and affiliates, subject to regulation, observance of internal policies, regulations and procedures of the Company and subsidiaries and affiliates.

3.5. The objectives regarding the prevention of wrongful acts concerning assets of the Company:

- provision of safe keeping of assets of the Company;
- provision of transparency of the Company's activity.

3.6. The objectives regarding reliability, completeness and timeliness of preparation of all kinds of the reporting of the Company:

- provision of completeness, reliability, accuracy and timeliness of forming and distribution of financial, accounting and management information and all kinds of the reporting of the Company and subsidiaries and affiliates.

#### **4. Principles of functioning and procedures of the internal control**

4.1. When establishing and maintaining the internal control system the Company is guided by the following principles:

Integrity – internal control system is an integral component of the management system of the Company at all its levels.

Integrated approach – internal control system covers all business activities of the Company, control procedures are carried out in all business processes of the Company at all levels of the management system.

Applicability – the possibility to use to approaches to forming effective internal control system in various in scale and character of activity companies.

Continuity - the internal control is performed constantly for the purpose of timely revealing of risks or confirmation of observance of the established requirements or restrictions.

Unity of methodological base - the internal control system functioning is performed on the basis of uniform approaches and standards at all levels of the Company's corporate governance.

Timeliness - control procedures will be organized mainly taking into account possibility of preventive revealing of risks or infringements for the purpose of their elimination or minimization of undesirable consequences.

Transparency - trustworthy information is communicated to employees of the Company and all stakeholders in due time, in necessary volume and in a clear format for perception.

Responsibility - all participants of internal control system bear responsibility for the proper organization and implementation of control procedures within the limits of the powers fixed in internal normative documents of the Company.

Responsibility differentiation - the internal control is directed on fixing each control function to one subject of the internal control.

Differentiation of powers - the internal control is directed on non-admission of fixing to one person powers on fulfillment of a control procedure and control over its implementation, and also differentiation of powers on realization of functions: initiation, authorizations, executions, accounting, realization and control over operations.

Documenting of procedures - control procedures at all levels of management and in all processes (lines of business) should be formalized in internal documents of the Company.

Documenting of results - results of accomplishment of financial and economic operations and control procedures in the Company are properly documented and safe kept.

Authorization - all financial and economic operations in the Company should be approved or confirmed (permitted) by office holders within their competence.

Resource endowment - control procedures are provided with necessary resources and powers for their accomplishment.

Expediency - control procedures are performed taking into account their practicability and cost efficiency that is control procedures should be developed with the cost accounting on their realization and effect from their implementation.

Development and enhancement - control procedures are continuously improved and adapted for changes in internal and external environment.

Coordination and interaction - accomplishment of control procedures and enhancement of internal control system is based on the effective and coordinated interaction of all participants of internal control system at all levels of the Company's management.

#### 4.2. Procedures of the internal control

4.2.1. Creation of the control environment of processes (lines of business), development and introduction of control procedures, including:

- performance evaluation of existing control procedures (check of sufficiency of control procedures for the prevention, non-admission or decrease in consequences of realization of risks of business processes);
- development and introduction of new or change of existing control procedures (taking into account existing risks);
- formalization of control procedures in internal documents of the Company.

4.2.2. Accomplishment of control procedures:

- accomplishment of the control procedures provided within the limits of realization of a process (a line of business).

4.2.3. Performance evaluation of control procedures and an internal control system of processes as a whole, including:

- check of efficiency of the organization of control procedures;
- check of actual accomplishment of control procedures;

- development of recommendations by results of performance evaluation of the organization and actual accomplishment of control procedures.

#### 4.2.4. Reaction:

- implementation by employees of the recommendations developed by results of the performance evaluation of control procedures and the internal control system of processes as a whole;
- control over execution of the recommendations of the management and internal audit and risk management department.

### **5. Internal control system elements**

5.1. The Company aspires to that the system of corporate management and decision making includes an all-round risks assessment, and also aspires to forming its business processes, including an internal control system of the given processes, being based on the best practices and with use of experience of the advanced world and Russian companies.

5.2. The most widely used and clear mechanism of realization of the internal control system, stated in the report of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO Internal Control (1992, 2013), COSO Enterprise Risk Management (2004), is supposed to use as the best practice.

5.3. Crucial elements of internal control system are:

#### 5.3.1. The control environment

It is a basis of other elements of the internal control, providing discipline and structure. It represents a set of principles and standards of the Company's activity which determine general understanding of the internal control and requirements to the internal control at the Company's level as a whole. The control environment reflects culture of management of the Company and creates the appropriate attitude of the personnel to the organization and realization of the internal control.

The control environment includes the following components:

- internal control system philosophy of the Company;

- honesty and ethical values;
- importance of the competence;
- organizational structure;
- delegation of powers and responsibility distribution;
- staff management standards.

Effective functioning of the given element of internal control system assumes conformity to the following requirements:

Regarding the component “Internal Control System Philosophy”:

- 1) The standard and methodological base in the direction of the internal control, internal audit and risk management is developed (if necessary updated) and communicated to all employees of the Company.
- 2) Both the Board of Directors and the Audit Committee of the Company give due attention to plans and management actions of the Company, directed on creation of an effective internal control system.
- 3) The internal control system completely covers all the activity: of the Company, subsidiaries and affiliates and the electric grid complex of the Russian Federation in whole (including local grid companies (TGOs) and other participants), - all processes/ lines of business.

Regarding the component “Honesty and ethical values”:

- 4) There is an effective system of revealing and fixing of facts of infringements, abusing and plunders, and also the reporting about the revealed facts and the accepted measures.
- 5) Measures on prevention of various infringements and abusing are taken.
- 6) Adequate preventive measures in reply to the facts of a deviation from the confirmed internal documents are taken.

Regarding the components of “Organizational structure”, “Delegation of powers and responsibility distribution”:

- 7) The organizational structure is approved and updated in due time.
- 8) Effective differentiation and delegation of powers is in place and formalized.

9) The optimum vertically integrated model of realization of control functions is created in the Company and in all subsidiaries and affiliates. Internal audit functions with observance of principles of objectivity and independence of operational management.

10) Regulations on structural subdivisions and job descriptions of employees are developed, confirmed properly, in due time reviewed at any change in the organizational structure and-or in the job pattern of the Company, are accessible to all employees of the Company.

11) Job responsibilities and decision-making powers are accurately formulated taking into account correct differentiation of incompatible authorities.

12) Objectives of the Company's activity, its structural subdivisions and key employees are fixed, coordinated among themselves and with risks of corresponding lines of business, provide some fair performance evaluation. The specified objectives in an accessible form are informed to employees and leaders. There are mechanisms of adjustment/updating and tracing of accomplishment of the objectives.

Regarding the component "Staff management standards":

13) Appropriate standards in sphere of hiring, motivation, estimation, promotion, granting of compensations, transfer between divisions and dismissals of employees are documentary arranged, strictly observed and aimed at recruitment, promotion and keeping of highly-skilled personnel.

14) For each post a job description is accurately composed determining duties and expected efficiency of their accomplishment.

15) New employees are provided with accurate and clear instructions concerning the organizational-administrative documents accepted in the Company and the procedures concerning the given employees.

#### 5.3.2. Risks assessment

It reflects process of revealing, estimation and reaction to potential events (risks) which can affect the Company's activity and subsidiaries and affiliates and achievement of the planned objectives by the Company.

As efficiency of the internal control decreases at excess by the Company's employees of the ex-officio full powers, one of important directions of risks assessment is the risk assessment of origin of abusing and fraud. The estimation of the given risk assumes revealing of sites (areas, processes) in which there can be abusing and fraud, and also possibilities for their commitment, including connected with deficiencies in the control environment and procedures of the internal control of the Company.

The order of functioning, objectives and tasks of the given element of internal control system are detailed in the Risk Management Policy of IDGC of the South JSC.

### 5.3.3. Control events

Control events are measures and control procedures developed and established so that to provide "a reasonable" guarantee that reaction to arising risk occurs effectively and in due time.

Effective functioning of the given element of internal control system assumes conformity to the following requirements:

- 1) Differentiation of incompatible obligations is developed and implemented: any of employees does not supervise all key aspects of a certain operation or event, the effective control is provided.
- 2) The transparent scheme of the organization of business process management is established and acts: interaction of structural subdivisions throughout the entire vertical on the basis of described (regulated) and uniform (unified in the Company and subsidiaries and affiliates) standards, regulations, rules and techniques based on the best practice and including minimum necessary control procedures, developed with the cost accounting on their realization and effect from their introduction.
- 3) Control procedures where it is possible, are automated, and also are developed and established so that to provide "a reasonable" guarantee that reaction to arising risk occurs effectively and in due time.

4) At revealing of insufficient efficiency of implementable processes their optimization is provided.

5) The optimum IT infrastructure is created and used. Means of activity management automation are used in full.

#### 5.3.4. Information and communications

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

Effective functioning of the given element of internal control system assumes conformity to the following requirements:

1) The quantity, frequency and formats of submitting the reports on activity of divisions of the Company and subsidiaries and affiliates are specified; reports are unified, not excessive.

2) The information necessary for effective accomplishment of their labor obligations is communicated to all interested persons in due time, in a necessary format and volume. Acting requirements and internal documents (policies, standards, regulations, provisions etc.) are informed to employees of the Company by placing in an accessible form.

3) Access is differentiated and safe keeping of the information is organized, including for software and data.

4) All operations and significant events are accurately documented and are accessible for audit inspection or check to other persons performing the analysis of activity.

5) The reporting, given by any person in the Company, should meet the following requirements:

- exact information, on the basis of authentic and impartial vision of the given phenomenon, is given;
- information is given from the best accessible sources of the information;
- found out omissions, discrepancies and errors should be corrected, and corresponding reporting should be given on them.

6) The effective system of continuity of the information is in place, including databases, developments, knowledge, etc.

7) The effective mechanism of communicating orders to responsible persons and interested employees is in place.

#### 5.3.5. Monitoring

Monitoring is a process of quality evaluation of the internal control system for all lines of business of the Company and subsidiaries and affiliates, and also estimations of accomplishment of control events.

Effective functioning of the given element of internal control system assumes conformity to the following requirements:

1) Activity of the internal audit division is directed on provision of independent and objective judgments about the internal control system condition. Internal audit is independent, does not participate in operational activity and has the right to check any aspect of the Company's activity.

2) Control events are planned on the basis of risks assessment with concentration of attention on the most vulnerable objects and lines of business, are performed on the basis of a system reasonable process of objective collection, analysis and estimation of evidence on economic actions and events for the purpose of revealing of degree of conformity to their established criteria of performance, development of recommendations about optimization of the activity, expenses and profit increase.

3) Monitoring and estimation of the following is regularly carried out:

- accomplishment of the requirements and procedures established in the Company;
- efficiency of the organization of activity and business processes of the Company;
- efficiency of the current state of the internal control system.

4) Heads of a corresponding level in due time eliminate weak links or defects of the internal control system which have been found out by auditors, by estimation

of the facts revealed by auditors, and their recommendations, determining optimum retaliatory actions.

5) Self-evaluation of efficiency of the business processes (actualization of objectives, optimization of processes: requirements and control procedures) is entered into practice by owners of processes.

6) Accomplishment of the objectives and criteria of performance of divisions and all employees of the Company is traced.

7) The deviation from plans and budgets is traced, the reasons of such deviations are analyzed, measures are taken if necessary. The information on deviations and analysis of the reasons in due time and properly is communicated to the management.

8) Effective control of execution of orders of the management and executive bodies of the Company, and also execution of instructions, elimination of infringements and lacks revealed by external control and supervision facilities, and also the Audit Commission is in place.

9) Safe keeping of assets is checked with sufficient periodicity.

## **6. Kinds of control and control procedures. Documenting of procedures**

6.1. Within the internal control system the following kinds of the control are performed:

### **6.1.1. The preventive (precautionary) control**

The preventive (precautionary) control is performed prior the actual beginning of a process (operation) and is, as a matter of fact, the organizational control. Its task is provision of required conditions for uninterrupted and qualitative work of the Company.

Within the preventive control the following is performed:

-creation and optimization of business processes with forming its minimum necessary control procedures developed with the cost accounting on their realization and effect from their introduction;

- formalization (regulation) of the activity - processes of the Company are described in internal documents, participants, their powers and responsibility are fixed in documents, control points and events are identified;
- events for risk management - the Company performs monitoring, identification and risks assessment, development and accomplishment of events for risk management.

6.1.2. The current control is performed directly in the course of fulfillment of economic operations. Its task is timely revealing and immediate elimination of infringements arising in the work progress and deviations from the set parameters.

Within the current control the following is performed:

- accomplishment of control procedures by owners of business processes (heads of subdivisions) and employees of the Company within performance of their main functional obligations;
- control over achievement of quantitative and qualitative indicators of the Company's activity and separate lines of business (monitoring of efficiency of current business processes). By results of monitoring corrective actions are performed.

6.1.3. Subsequent control is performed after fulfillment of economic operations. It is directed on identification of reliability of the reporting data, revealing of lacks or positive experience, conformity assessment of the performance to the established target indicators.

Within the subsequent control the following is performed:

- internal audit - it is performed by carrying out:
  - estimations of reliability and efficiency of functioning of the internal control system in the Company and subsidiaries and affiliates;
  - checks of structural subdivisions, business processes, projects and lines of business in the Company and subsidiaries and affiliates;

- participation in special (official) investigations on the facts of abusing (fraud), causing damage to the Company and subsidiaries and affiliates, no-purpose, inefficient resource use;
  - external audit - it is performed by an external auditor of the Company by means of auditing annual statements of the Company under RAS and estimation of a condition of the internal control system of the Company;
  - auditing activity - it is performed by the Company's Audit Commission by means of control over the Company's financial and economic activity on conformity to the legislation of the Russian Federation, to the Articles of Association and internal documents of the Company;
  - self-evaluation is performed by heads of structural subdivisions or the Company's management by carrying out of estimation of reliability and efficiency of functioning of the internal control system of lines of business (processes) supervised by them, including evaluation of performance, profitability and productivity of supervised processes and observance of applicable requirements of the legislation of the Russian Federation and internal documents of the Company.

## 6.2. Kinds of control procedures

### 6.2.1. By time of performance:

- preventing (precautionary, preliminary) control procedures - they are performed prior to the beginning of fulfillment of economic operations or before accepting a management decision and directed on prevention of errors or cases of deliberate infringements which can arise;
- revealing (subsequent) control procedures - they are performed after fulfillment of economic operations or accepting a management decision and directed on revealing of errors or cases of deliberate infringements which already exist.

### 6.2.2. By automation degree:

- automated control procedures - the control procedures, performed in an automated mode, without participation of a performer (access control, choice of values from the fixed list, automated check of categories of an account number,

use of control sums for the control of completeness of data transmission between systems etc.);

- semi-automatic (IT-dependent manual) control procedures - the control procedures, performed in an automated mode, but with participation of a performer, - should be initiated or finished manually (for example, at the coordination of a contract draft the performer independently analyzes the draft of the document and then puts down the corresponding authorization in an IT system - Automated Docflow Management System).

- manual control procedures - the control procedures, performed by a performer out of information systems (a document signing on the paper carrier, authorization putting down about the coordination on the paper carrier, verification of registers of accounting etc.).

The most reliable are the automated control procedures.

6.2.3. By significance value:

- key control procedures - procedures at which absence of an error and infringement would not be identified through other control means. The main characteristics of the key control procedures:

- they cover a bigger number of tasks of the control, than others; o they control exceptions and non-standard/non-routine operations; o they control the areas subject to fraud risk;

- they control manual data input in a system and data transmission between systems;

- they have no compensating control, but they are compensating for others themselves;

- secondary control procedures - procedures at which absence of an error would be identified by other control means.

The control procedures should be developed with the cost accounting on their realization and effect from their introduction. Hence, the Company should aspire to reducing the number of not key control procedures.

6.2.4. By a realization method:

- approval (authorization);
- verification;
- check;
- differentiation of powers (division of obligations);
- measures for safe keeping of assets (physical control);
- procedures connected with computer information processing and information systems, etc.

The division of obligations assumes that the same employee should not supervise operation in full. The following obligations (critical powers, combination of which within one post raises risk of abusing, should be divided): authorization (approval) of operations, recognition of operations in accounting, safe keeping of assets, etc. One of the most effective control procedures are approval (authorization) of economic operations, differentiation of powers (division of obligations) and the physical control.

### 6.3. Documenting of procedures

6.3.1. The procedure of concrete processes (lines of business) and requirements to processes should be formalized in internal documents of the Company (policies, standards, regulations, provisions, etc.). Control procedures should be included in the specified internal documents. The Company aspires to reducing the number of the organizational-administrative documents regulating the same process (line of business).

6.3.2. The auxiliary tool for development and analysis of sufficiency, adequacy and efficiency of creation of control procedures and the control environment of processes (lines of business) is forming:

- graphical schemes of processes;
- matrixes of powers;
- matrixes of control.

### 6.3.3. Development of graphical schemes of processes

The objectives of development of graphical schemes of processes:

- visual display of a process (sequence of actions made within the process),

- creation of a detailed scheme of a process on a basis a before stated text description of the process in the regulating document allows to reveal blanks and overlapping in the text description, that is to estimate correctness of the process statement in the regulating document (a draft of the regulating document).

It is reasonable to attach the graphical scheme of the process as an appendix to developed internal documents of the Company (to standards, regulations, provisions etc.).

#### 6.3.4. Development of matrixes of powers

The objectives of development of matrixes of powers:

- presentation of the information on powers at decision making;
- possibility operatively to trace the facts of combination of critical powers, and also discrepancy of various internal documents fixing powers of concrete employees / structural subdivisions / bodies.

Matrixes of powers for concrete processes (lines of business) can determine:

- kinds of actions / documents (for example, kinds of contracts, kinds of projects, etc.);
- decision making limits;
- powers (roles) of concrete divisions / employees;
- other important criteria for identification of powers;
- profiles of coordination of documents (if necessary).

It is reasonable to form and attach the matrix of powers as an appendix to internal documents of the Company, regulating key processes (lines of business).

#### 6.3.5. Development of matrixes of control

The objectives of development of matrixes of control:

- correlation of control procedures existing or planned to introduction with risks or control tasks. For example, in the absence of risk, corresponding to the given control procedure, there is a question in necessity of existence of such a control procedure. Such correlation also gives the chance to analyze covering of risks with necessary control procedures;

- data in one document and agreement of various elements (the objectives, risks, control procedures), and also characteristics of control procedures allow to conduct a complex performance analysis of creation and regulation of processes (lines of business).

Matrixes of controls for concrete processes (lines of business) can determine:

- division of a concrete process into subprocesses with indication of owners of the sub-processes;
- objectives inherent in the process and sub-processes;
- risks interfering goal achievement of the process and sub-processes;
- control procedures directed on risk minimization;
- performers of control procedures;
- regulating documents fixing a procedure of control procedures and responsible persons for their execution;
- characteristics of control procedures (item 6.2 of this Policy), etc.

It is reasonable to form the matrix of control so that heads of structural subdivisions could perform self-examination of transparency and efficiency of processes (lines of business) supervised by them, and also at carrying out of internal audit of processes (lines of business) performance.

## **7. Distribution of functions and responsibility of participants of the internal control system in the Company**

7.1. Participants of the internal control system are:

- the Board of Directors of the Company and its committees (for audit and others);
- the Audit Commission of the Company;
- the joint executive body (Management Board) of the Company;
- the Sole executive body (General Director) of the Company;
- joint consulting and advisory bodies, created by the Sole executive body of the Company for accomplishment of concrete functions (committees, commissions, etc.);
- heads of units and structural subdivisions of the Company;

- employees of structural subdivisions of the Company, carrying out control procedures owing to the job responsibilities;
- divisions which are responsible for implementation of an internal control, risk management and internal audit function.

7.2. Powers and responsibility of the main participants of the internal control system:

7.2.1. Creation provision, control of functioning and determination of the general strategy of development of the internal control system refers to the competence of the Board of Directors of the Company within the internal control system in the Company:

- determination of the strategy of development of the internal control system of the Company;
- approval of the main internal documents of the Company in sphere of the internal control, risk management, and internal audit;
- creation of effective mechanisms of the internal control in the Company, including consideration of reports and decision making on the system, key and problem questions of the internal control revealed within the limits of work of the Audit Commission of the Company, the division which is responsible for implementation of the internal audit, internal control and risk management function, and other divisions of the Company, authorized to check performance of the Company's financial and economic activity and efficiency of control procedures.

The activity of the Board of Directors is regulated by the Federal law "On joint stock companies", the Charter and the Regulations on the Board of Directors and other internal documents of the Company.

7.2.2. The Audit Commission's competence of the Company refers to:

- control of the Company's financial and economic activity;
- independent estimation of reliability of the data contained in the annual report of the Company, annual accounting statements.

The activity of the Audit Commission is regulated by the Federal law «About joint stock companies», the Articles of Association of the Company and the Regulations on the Audit Commission of IDGC of the South JSC .

7.2.3. The Audit Committee of the Board of Directors of the Company within the internal control system performs:

- preliminary consideration of before approved by the Board of Directors internal documents of the Company, determining the strategy, organization and development of the Company's internal control system;
- control over provision of completeness, accuracy and reliability of the accounting (financial) reporting of the company;
- control over reliability and effectiveness of the internal control system, including the internal control system performance evaluation, preparation of offers on its enhancement;
- provision of independence and objectivity of implementation of the internal audit function;
- control over selection of an external auditor, quality evaluation of work of the external auditor, its independence, and also efficiency of the external audit process as a whole;
- control over observance of standard and legal requirements and informing executive bodies on infringements.

The activity of the Audit Committee is regulated by the Regulations on the Audit Committee of the Board of Directors of IDGC of the South JSC.

7.2.4. The Management Board of the Company performs preparation of reports about the Company's activity in the field of internal control system, including consideration and analysis of reports on the internal control and risk management system status.

The activity of the Management Board is regulated by the Regulations on the Management Board of IDGC of the South JSC.

7.2.5. The Sole executive body (General Director) of the Company within the internal control system:

- provides creation and daily functioning of an effective and reliable internal control system in the Company;
- proposes offers to the Board of Directors to enhance the internal control system of the Company and subsidiaries and affiliates.

7.2.6. Heads of units and structural subdivisions of the Company within the internal control system:

- provide realization of principles of the internal control system;
- organize the effective control environment of supervised processes (lines of business);
- bear responsibility for efficiency of achievement of the operational objectives of supervised processes (lines of business);
- provide regulation of supervised processes (lines of business);
- estimate supervised processes (lines of business) if it is necessary to optimize them for efficiency increase and if they conform to changing conditions of the external and internal environment and organize development of offers on control procedures enhancement;
- provide elimination of revealed lacks of control procedures and the control environment of processes;
- manage risks of supervised processes (lines of business) and organize execution of control procedures.

7.2.7. Employees of structural subdivisions of the Company, carrying out control procedures owing to their job responsibilities:

- perform control procedures within the internal control system functioning, according to their job descriptions and established regulating documents;
- perform monitoring of accomplishment of control procedures;
- do self-evaluation of efficiency of performed control procedures and participate in the internal control system enhancement;
- provide timely informing of direct heads on cases, when execution of control procedures and events for risk management for any reasons became impossible and-or it is required to modify the design of control

procedures/actions on risk management in connection with a change of internal and-or external operating conditions of the Company, including provision of development and representation of offers to be considered by the management to implement control procedures and events on risk management in corresponding spheres of activity.

7.2.8. The divisions, which are responsible for the internal control and risk management function, perform the preventive and current control by accomplishment of the following functions:

- development and provision of introduction of the basic and methodological documents on creation and enhancement of the internal control, risk management and internal audit system;
- assistance to the management in creation of the control environment, development of recommendations regarding description and introduction of control procedures into business processes and fixing responsibility to office holders;
- activity coordination on maintenance and monitoring of a target condition of the internal control and risk management system;
- carrying out of supplementary procedures of the current control in key and high risk business processes (finance, investments, purchases, electric power delivery activity and grid connection, etc.) by participation in working groups, commissions, collegial bodies, provision of carrying out of the analysis, issue of conclusions and preparation of expert opinions;
- disclosing information on a condition of the internal control system for external users;
- interaction with the state control and supervising bodies concerning the internal control;
- interaction with the external auditor of the Company and subsidiaries and affiliates concerning performance evaluation of the internal control and risk management system.

7.2.9. The division, which is responsible for implementation of the internal audit function, performs the subsequent control by accomplishment of the following functions:

- estimation of reliability and efficiency of functioning of the internal control and risk management system;
- planning, organisation and carrying out of internal audits of structural subdivisions, branches, business processes, projects and lines of business, audits of execution of orders of state structures of the Russian Federation concerning functioning and development of the electric grid complex;
- development of recommendations to increase efficiency and productivity of the activity, enhancement of corporate management, efficiency of internal control and risk management processes by results of internal audits and evaluations;
- participation in special (office) investigations on the facts of abusing (fraud), damaging, no-purpose and inefficient resource use;
- organization, participation in carrying out and coordination of audits of subsidiaries and affiliates;
- informing management bodies about results of audit and the condition of the internal control and risk management system, the main tendencies and changes in the activity, representation of offers to increase efficiency of the activity.

## **8. Internal control system performance evaluation**

8.1. To guarantee that the internal control system is efficient and conforms to objectively changing requirements and conditions, the Company periodically conducts performance evaluation of the internal control system about its conformity to a target condition and maturity level. The maturity shows how much activity or systems are specified, managed, supervised and effective, and the very maturity model gives the main principles of management necessary for maturity increase. A higher maturity level testifies to conducting more productive activity and a more effective condition of the system.

8.2. For condition estimation (maturity level) of the internal control systems it is supposed to use the following criteria.

<b>Maturity level</b>	<b>Characteristics corresponding to a certain maturity level</b>
Zero (Level 1)	<ol style="list-style-type: none"> <li>1. There is no comprehension of problems of the activity management.</li> <li>2. There is no description (regulation) of processes.</li> </ol>
Base (Level 2)	<ol style="list-style-type: none"> <li>1. There are documentary fixed certificates of comprehension by the Company of problems of the activity management. The general approach to the activity management is not developed.</li> <li>2. The applied managerial processes of the activity are not regulated; they are applied incidentally and at random.</li> </ol>
Satisfactory (Level 3)	<ol style="list-style-type: none"> <li>1. There are documentary fixed certificates of comprehension by the Company of problems of the activity management. The general approach to the activity management is developed.</li> <li>2. Processes are regulated partially. Responsibility basically is assigned to performers, which involves high probability of possible errors.</li> </ol>
Moderate (Level 4)	<ol style="list-style-type: none"> <li>1. Problems (risks) of the activity management are revealed. However the risk management system is not completely integrated into the decision making process.</li> <li>2. Processes are regulated and informed to the personnel. However the order of using the given processes is left at the discretion of the personnel. It determines probability of deviations from standard procedures, which can be not revealed. Applied procedures are not optimum and insufficiently modern, but they reflect the practice used in the Company.</li> </ol>
Optimum (Level 5)	<ol style="list-style-type: none"> <li>1. Problems (risks) of the activity management are revealed. The risk management system is integrated into the planning and decision making processes. However the risk management system is not automated, not all possible types of control are automated.</li> <li>2. Processes are regulated, unified in the Company, the executive</li> </ol>

	body and branches of subsidiaries and affiliates, they
High (Level 6)	<p>1. Problems (risks) of the activity management are revealed. The risk management system is integrated into the planning and decision making processes. Risk management and control procedures are automated where it is possible.</p> <p>2. Processes are elaborated to a level of the best practice based on results of continual improvement and comparison of the maturity level concerning other organizations, regulated, unified in the company, executive body and affiliates, brought to the notice of employees. Monitoring of implementation and evaluation of efficiency of management are carried out. The Company is capable to quickly apply process in case of changes in business.</p>

8.3. To guarantee that the internal control system is effective and conforms to objectively changing requirements and conditions, it is necessary to conduct an internal control system performance evaluation periodically: its conformity to a target condition and maturity level.

8.4. Carrying out of such estimation is performed:

- by the division which is responsible for realization of the internal audit function, - annually;
- an independent party - external consultants - at least once in three years.

## **9. The reporting on the state of internal control system**

9.1. The divisions which are responsible for realization of the internal audit, internal control and risk management function, provide informing of the Sole executive body (General Director) of the Company:

- about results of conducted checks (internal audit, inspections, special (office) investigations, other kinds of internal checks and control events), about revealed substantial risks, control and corporate management problems, with submitting offers on elimination of the revealed infringements and lacks and the reasons contributing to their origin;

- about results and quality of accomplishment of events (corrective actions) performed by the Company / subsidiaries and affiliates following the conducted checks.

9.2. The Sole executive body (General Director) of the Company informs management bodies of the Company (the Board of Directors, the Management Board), and also the Audit Committee on the internal control system condition in the Company and subsidiaries and affiliates by proposing corresponding kinds of reports to the specified bodies.

9.3. The division which is responsible for realization of the internal audit function, according to the best practice, regularly informs the Audit Committee under the Board of Directors on essential lacks of the internal control and risk management system, and also represents the annual report on the internal control and risk management system status to the Audit Committee.

9.4. The information on the internal control system in accordance with requirements of the legislation of the Russian Federation is disclosed to external interested persons:

- in the quarterly report of the issuer of securities;
- in the annual report of the Company.