



The Regulations on the Executive Board at OAO IDGC of Urals\* state that the Executive Board members shall:

- Within 2 (Two) months after they have or should have come to know of circumstances by virtue of which they may be identified as interested in Company's transactions, the members shall notify the Company of:
  - a) legal entities in which they, their spouses, parents, children, siblings and half-siblings, adoptive parents and adoptees and (or) their controlled firms, are controlling entities or entitled to instruct;
  - b) legal entities in which governing bodies are occupied by them, their spouses, parents, children, siblings and half-siblings, adoptive parents and adoptees and (or) their controlled firms;
  - c) implemented or future transactions, known to them, in which they may be identified as interested entities.
- Should this information, already filed with the Company, change, the members shall notify the Company of the changes within 14 (Fourteen) days after they have or should have come to know of the changes.

In addition, simultaneous service of EB members on the management bodies or other paid positions in other companies shall be possible only if approved by the Board of Directors.

\* Visit the official web-site of the Company to read the Regulations (Section Incorporating Documents and Bylaws (Main/About us/ Incorporating Documents and Bylaws).

## INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

### Internal Control System

The Company's internal control system is an integral element of the Company's governing system, focused to ensure reasonable guarantees that the goals below are achieved:

- Company's efficiency and performance, including achievement of financial and operational indicators, soundness of assets;
- Company's compliance with applicable laws and Company's enactments, incl. Company's operations and accounting;
- Provision of integrity and timeliness of financial and other reporting.

The internal control system is risk-oriented, its control procedures shaped by risks and set in a way to ensure reasonable guarantee of an efficient and timely response to risks. The ICS covers all lines of Company's operations, with all processes regularly controlled at all management levels, under the "three lines of defense" model:

- First line of defense: management bodies (sole and collegiate executive bodies) and units in charge of control procedures due to their duties;
- Second line of defense: Company's control units;
- Third line of defense: internal audit unit.

The Company has set up the Internal Control and Risk Management Section, which, under the Internal Control Policy and the Regulations on the Structural Unit, is liable for:

- development and enforcement of fundamental documents related to the roll-out and improvement of the ICS;
- assistance to Company's management in building the ICS of business processes, elaboration of recommendations on description and implementation of control procedures in the processes and assignment of responsibility to officials;
- development of recommendations regarding improvement of control procedures, separate components (elements) of internal control and internal control system following internal audit of the process;
- preparation of information on the ICS status for stakeholders.

To enforce implementation and maintenance of the efficient internal control system, consistent with generally accepted practices and standards of internal control and requirements of regulators as well as promoting the Company's goals the Company has adopted the Internal Control Policy<sup>68</sup>, that stipulates goals, operational principles and elements of the ICS, primary functions and responsibilities of ICS participants, ICS efficiency assessment procedure

The Company enforced the Procedure of implementation of the Internal Control Policy, disclosing practical aspects related to application of the norms, set by the Internal Control Policy<sup>69</sup>. Control procedures on core and auxiliary processes and subprocesses as well as governance processes are stipulated by control and risk matrices. The Board of Directors has adopted the action plan to maintain efficiency and develop internal control and risk management systems<sup>70</sup> (enforced by the decree<sup>71</sup>). To guarantee the ICS efficiency and compliance with changing requirements and conditions, the Company's internal auditor evaluates the efficiency of the system (whether it complies with its target status and maturity level). The maturity level in 2022, in comparison to 2021, was assessed between "Optimal" and "High" (5.3 points in 2021 and 5.3 points in 2022).

During the reported period the Company has implemented the following key measures related to ICS improvement:

- the Procedure of implementation of the Internal Control Policy was updated<sup>72</sup>.
- the Regulations on registration of external watchdogs' inspections<sup>73</sup>.
- the Procedure of implementation of the Internal Control Policy was updated in terms of updates of checklists on self-evaluation of control procedures and ICS of processes/subprocesses<sup>74</sup>.
- control and risk matrices, integrated in regulatory documents on processes and subprocesses due to the enactment of new business process model, were upgraded.
- trainings for management and employees on the roll-out and functioning of the ICS were conducted.
- annual anonymous survey to improve practices combating corruption and preventing corruption risks was arranged and conducted<sup>75</sup>.
- Integration of the existing system of anti-corruption compliance into the IC&RMS: participation in anti-corruption control of procurements; examination of regulatory documents in terms of compliance with internal control requirements.

In 2023, we plan to implement the following measures to improve the ICS:

1. Revision of the regulatory documents on internal control.
2. Conduct of trainings for management and employees on the roll-out and functioning of the ICS.
3. Improvement of the tool for the control of financial stability, legal support of contractors' liquidation and bankruptcy.

### Risk Management System

The Company has the risk management system focusing on reduction of uncertainty in relation to the achievement of the goals, set at all management levels of the Company, incl. by the Rosseti Group's Development Strategy and tactical and operational planning documents (business plans, budgets, etc.). The RMS is focused on determining events, that may influence the Company's activities, and managing risks related to these events as well as maintaining integral risk of the Company at preferred level.

The RMS develops and functions using unified principles that are accepted and complied with by management bodies and employees of the Company at all management levels: consistency and complexity; goal orientation; integration into management; formation and conservation (protection) of the Company's value; balance between risks and profitability; uncertainty; systematic approach; quality of information; concern and leadership; assignment of responsibility for risk management; efficiency; cross-functional interaction; reasonable assurance; agility; responsiveness; constant improvement.

To enforce the functioning of the RMS the Company has adopted the Risk Management Policy<sup>76</sup>, stipulating the goals, principles of operation and elements of the Company's RMS, primary functions and responsibilities of the RMS participants, forms of evaluation of the RMS efficiency. In 2022, the Company adopted the risk appetite<sup>77</sup>. The risk appetite is a combination of risk appetite targets which the company strives to maintain in the course of its operations.

Besides, the Company adopted the Risk Appetite Determination Procedure<sup>78</sup>, and also has the following RMS-related regulatory documents<sup>79</sup>:

- Regulations on risk management.
- Risk tree model.
- RMS maturity model.

As stated in the Risk Management Policy and Regulations on the Structural Unit, the Company's Internal Control and Risk Management Section is liable for general coordination of risk management processes, crafting of the RM-related methodology, preparation of reporting on outcomes of risk management and evaluation of the RMS efficiency. Functions of the RMS participants are stipulated by the Risk Management Policy, Regulations on structural units and job descriptions.

To guarantee the RMS efficiency and compliance with changing requirements and conditions, the Company's internal auditor evaluates the RMS efficiency. The maturity level in 2022, in comparison to 2021, was assessed between "Moderate" and "Optimal" (4.2 points in 2021, 4.6 points in 2022). The Board of Directors has adopted the action plan to maintain efficiency and develop internal control and risk management systems<sup>80</sup> (enforced by the decree<sup>81</sup>).

During the reported period, the Company implemented the following key measures to improve the RMS:

- The action plan on risk culture was adopted<sup>82</sup>.
- The Risk Appetite Determination Procedure was updated<sup>83</sup>.
- The Regulations on the preparation of reporting on risk management in terms of consolidation of information on the occurrence of risks impacting the achievement of the Company's goals were revised<sup>84</sup>.
- Trainings for C-level executives and employees on the roll-out and functioning of the RMS were conducted.

In 2023, we plan to implement the following measures to improve the RMS:

1. Revision of the regulatory documents on risk management.
2. Specification of key indicators using unified methodology for specification of key indicators for Rosseti Group.
3. Conduct of trainings for C-level executives and employees on the roll-out and functioning of the RMS.

Metrics	2020	2021	2022	2022/ 2021, %
Internal evaluation of ICS efficiency	-	5.3	5.3	0 %
Internal evaluation of RMS efficiency	-	4.2	4.6	9.5 %
Number of conducted control activities aimed at exposure and minimization of risks, pcs	383	455	302	-33,6 %
Number of examined procurement-related materials (items), pcs	3,375	3,462	2,179	-37 %
Number of rectified violations after inspections conducted by external watchdogs, %	49.3	74.6	86,0	11.4 %
Total sum of annulled fines after appeals against decisions to impose administrative sanctions, RUB million	6.2	9.6	7.6	-20.8 %
Total funds received by the Company from contractors under liquidation and bankruptcy procedures, RUB million	No statistics	18.985	200	953.5 %

### Internal audit

The Internal Audit Department is a unit, liable for internal audit. The Internal Audit Department is responsible to the Company's Board of Directors (via the Audit Committee). This means that the Board of Directors oversees and administers the unit (namely, adoption of the unit's action plan, progress report, its budget as well as assignment, dismissal and remuneration of the unit head). The goal of internal audit is to assist the Board of Directors and executive bodies of the Company in enhancing efficacy of governance and improving its financial and economic performance, by enforcing systematic and coherent approaches to analysis and evaluation of the systems of risk management, internal control and corporate governance as tools of reasonable assurance in Company's goal achievement. Goals and objectives, principles of IA rollout and functioning, functions and authorities of the internal audit are stipulated by the Internal Audit Policy<sup>85</sup>. In 2022, 8 employees performed internal audit functions.

The Company has adopted the following principal documents regulating internal audit performance:

- Internal Audit Policy and Internal Auditor Ethics Code<sup>85</sup>;
- Regulations on the OAO IDGC of Urals Internal Audit Department<sup>86</sup>;
- Guarantee and Enhanced Quality of Internal Audit Program<sup>87</sup>;
- Internal audit standards and standards of practical application, developed in compliance with the International Professional Internal Audit Standards.

Pursuant to the Regulations on the Board of Directors' Audit Committee<sup>53</sup> arrangement, efficiency evaluation and enforcement of independency and neutrality of internal audit fall within the remit of the Board of Directors' Audit Committee. The Audit Committee's feedback is delivered to the head of the internal audit unit through the head's interaction with the Committee, incl. analysis of resolutions/ recommendations of the Committee on matters falling under the competence of the internal audit unit and questionnaire survey of the Committee members. Satisfaction of the Audit Committee with the performance of the internal audit unit (average weighted total points from the questionnaires / quantity of votes of the Committee members) in 2022 corresponds with "full compliance" estimation value in line with the Guarantee and Enhanced Quality of Internal Audit Program.

Pursuant to the Guarantee and Enhanced Quality of Internal Audit Program, the quality of the Company's internal audit is evaluated by independent external expert at least once in 5 years. External independent evaluation of the IA's performance was carried out by AO KPMG in 2019. After the evaluation, AO KPMG presented a report, certifying general compliance of the Company's internal audit performance with the International Professional Internal Audit Standards, Ethics Code, Internal Audit Policy, and issued recommendations regarding improvements of internal audit practices. Using feedback from the Audit Committee's questionnaires regarding areas of improvement and recommendations from the external independent expert, the Company has prepared and enforces the action plan on the development and improvement of the Company's internal audit performance<sup>88</sup>. Pursuant to the action plan on the development and improvement of the Company's internal audit performance we prepared the action plan on professional development of internal auditors for 2021-2024<sup>89</sup>.