

INTERNAL AUDIT

The goal of the internal audit is supporting the Board of Directors and the Company's executive bodies in the improvement of the Company management, financial and business operations, including via systemic and consistent analysis and assessment of risk management, internal control and corporate governance systems as instruments of reasonable assurance in the achievement of goals set for the Company.

The Internal Audit Department is the unit responsible for the implementation of the internal audit function in the Company.

The Internal Audit Department is functionally accountable to the Board of Directors that:

- establishes principles and approaches of organization of the internal audit, as well as approves internal documents defining the Company's policy in terms of the internal audit;
- controls and organizes the Internal Audit Department activities, among other things, approves the Regulation on Internal Audit Department, action plan, report on action plan implementation, and internal audit budget, preliminarily approves the resolutions of the Company's sole executive body concerning the appointment or dismissal (at the employer's initiative) of the Internal Audit Head, disciplinary penalties, approves employment contract and remuneration provisions for the Internal Audit Head, considers the quality assessment results for internal audit.

The goals and objectives, organisational and functional principles, roles and responsibilities of the Internal Audit Department are set out in the Internal Audit Policy of the Company approved by the resolution of the Board of Directors (Minutes No.369/2019 dated December 25, 2019).

In 2020, the number of people performing the internal audit function was five.

The function of the Company's internal audit is regulated by the following key documents:

- Internal Audit Policy of the Company and the Code of Ethics for Internal Auditors approved by the resolution of the Board of Directors (Minutes No.369/2019 dated December 25, 2019);
- Regulation on the Internal Audit Department approved by the resolution of the Board of Directors (Minutes No.251/2016 dated September 23, 2016);
- Program on Assurance and Improvement of Internal Audit Quality approved by the resolution of the Company's Board of Directors (Minutes No.257/2016 dated December 5, 2016);

- corporate standards of internal audit and standards of practical application developed according to the International Professional Standards of Internal Audit.

The feedback from the Audit Committee is submitted to the Head of Internal Audit during the interactions with the Audit Committee including the participation in its meetings, the analysis of its resolutions/recommendations concerning the issues in the competence of the internal audit, including by way of polling the members of Audit Committee.

The satisfaction rate of the Audit Committee of the Board of Directors with the performance of the Internal Audit Department (according to questionnaires from the members of Audit Committee) was classified as adequate at the end of 2020 (resolution of the Audit Committee of Rosseti Kuban Board of Directors dated March 16, 2021, Minutes No.110/2021). The satisfaction assessment is conducted following the Program on Assurance and Improvement of Internal Audit Quality in the Company.

In 2019, KPMG JSC conducted the external independent assessment of the Company's internal audit, as per the results of which the Company's internal audit activity is recognized as generally corresponding to International Professional Standards of Internal Audit, Code of Ethics developed by Institute of Internal Auditors, Company's Internal Audit Policy.

According to the recommendations given by the independent external expert, the Company developed an action plan for improvement of its internal audit activities for the period of 2020–2024 approved by the resolution of the Board of Directors (Minutes No.383/2020 dated April 2, 2020). The action plan for improvement of Company's internal audit is implemented to the fullest extent in terms of events in 2020.