

During the reported period the Company has carried out the following activities focusing on ICS perfection:

- Adoption of the Procedure of Implementation of the OAO IDGC of Urals Internal Control Policy, providing detailed disclosures related to implementation of the Policy's provisions.
- Continuation of description of all core processes in line with the project-based approach (26 processes have control procedures schemes and matrices).
- Implementation of project-based approach philosophy into development, implementation and enhancement of performance of the integrated management system, with a need of risk identification and management being enshrined.
- Arrangement of centralized training of ICS and RMS participants (595 employees).
- Process owners are set to conduct efficiency and control procedures execution evaluation.

The Internal Audit Department is a unit, liable for internal audit. The Internal Audit Department is responsible to the Company's Board of Directors. 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 approach to analysis and evaluation of the systems of risk management, internal control and corporate governance as instruments 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 Policy⁸⁴.

The Company had 6 employees in charge of the internal audit in 2017.

The Company has adopted the following bylaws regulating internal audit function:

- The Company's Internal Audit Policy and Internal Auditor Ethics Code⁸⁴;
- The Regulations on the Internal Audit Department⁸⁵;
- The Guarantee and Enhanced Quality of Internal Audit Program⁸⁶;
- The Internal audit standards and standards of practical application, developed to comply with the International Professional Internal Audit Standards.

The Board of Directors Audit Committee evaluates the efficiency of internal audit. The Committee's feedback is delivered to the head of the internal audit unit through 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 Committee members) in 2017 corresponds with "compliance" estimation value, as stated in the Guarantee and Enhanced Quality of Internal Audit Program⁸⁶.

The Company's Internal Audit Enhancement Action Plan for 2017-2019 was prepared and adopted by the Board of Directors on 26.06.2017⁸⁷.



SECURITY AND ANTI-CORRUPTION

Anti-corruption policy

Pursuant to the OAO IDGC of Urals FY2017 Anti-corruption Program, the Company's Anti-corruption Compliance Procedures unit:

- has conducted two declaration campaigns:
 - i) declaration campaign on directors' property, income and property-related obligations (65 filers and 274 filers' relatives underwent scrutiny). The scrutiny exposed 1 potential conflict of interests that was examined by the Company's panel, liable for compliance with corporate ethics norms and settlement of conflicts of interest.
 - ii) annual declaration campaign on 2016 employees' competing interests (3,407 employees checked, incl. 294 employees checked by the AC AISS module). 9 pre-conflict situations were exposed, examined and settled by the Company's panel.



- has implemented commitment-enforcing standards and procedures into Company's practices:
 - i) revision of the Company's regulations on combat against corruption, Anticorruption Policy of PAO Rosseti and its SACs⁸⁸, Settlement of Conflicts of Interests⁸⁹, Corporate Ethics and On-duty Conduct Code⁹⁰, its visualized version⁹¹;
 - ii) OAO IDGC of Urals has confirmed its compliance with the Anticorruption Charter by filing a declaration with the Russia's Chamber of Commerce and Industry on 05.06.2017, as a part of monitoring of the progress in anti-corruption activities by representatives of public organizations with charter objectives stating participation in anti-corruption activities, pursuant to the regulations on the register of the Charter participants;
 - iii) arrangement of inclusion of anti-corruption additional agreements into employees' labor contracts (15,318 additional agreements concluded).
- has exposed and settled conflicts of interests:
 - i) 102 nominees checked (incl. 46 cases of personnel reshuffling), 2 nominees were rejected due to unsettled pre-conflict situation;
 - ii) 3 meetings of the Company's panel, liable for compliance with corporate ethics norms and settlement of conflicts of interest.

During the reported period 269 employees underwent anti-corruption trainings.

Pursuant to the decree⁹² a representative of the Company's Anti-corruption Compliance Procedures unit has attended 7 meetings of the work group dealing with improvement of anti-corruption methodology support.

The unit's anti-corruption hotline received 2 whistleblowing reports but no substantiation of the reported facts was discovered. 1,926 contractors were scrutinized in terms of disclosures related to the ownership chain and ultimate beneficiaries and were input into the AC AISS. The total number of contractors in the AC AISS is 21,249.

Security of operations

Audits of financial and economic operations revealed 30 cases of abuse, improper execution of duties and other misconduct of the employees during 2017. As a result, 59 employees were brought to disciplinary responsibility, 3 employees were dismissed and bonuses for 25 employees were deducted. We handed over 2 criminal complaints on 2 legal entities to the law enforcements that were dismissed afterwards, police orders to dismiss criminal complaints being challenged.

To enforce economic resilience of tenders and contracts we have checked 14,392 legal entities and individuals, 92 adverse opinions prepared. During the reported period we examined 1,635 nominees (potential employees or employees being transferred to other positions), 181 adverse opinions prepared.

We handed over 159 reports with facts of economic damage (115 inventory thefts, 30 cases of unmetered electricity consumption, 6 cases of overdue receivables, 8 other offences) to the law enforcements for inspections, stated by Article 144 of the Russian Federal Code of Criminal Procedure. As a result, 79 criminal cases related to inventory thefts and 2 criminal cases related to unmetered electricity consumption were launched. 8 persons who stole our property from grid facilities were prosecuted.

As for administrative proceedings, 660 offenders were held administratively liable: 599 persons for unmetered electricity consumption and 61 persons for other administrative offences.