

INTERNAL AUDIT

The purpose of internal audit is to assist the Board of Directors and the executive bodies of the Company in increasing the efficiency of the Company's management, improving its financial and business activities, including through a systematic and consistent approach to the analysis and evaluation of risk management systems, internal control and corporate governance as instruments for ensuring reasonable confidence in reaching goals set by the Company. The Internal Audit Department is a subdivision, responsible for performing the internal audit function in the Company.

Internal audit is functionally accountable to the Board of Directors of the Company, which means that the Board of Directors controls and arranges the activities of the internal audit subdivision, including (subclause 60, clause 15.1, article 15 of the Charter):

- approval of plan and report for the plan realization,
- approval of budget
- approval of decisions on the appointment, dismissal of an executive person, and defining his/her remuneration.

The goals and objectives, functions, basic principles of organization and functioning, the powers of internal audit are determined by the Internal Audit Policy of Kubanenergo PJSC, approved in a new edition by the decision of the Board of Directors dated 17.03.2016 (minutes No. 233/2016).

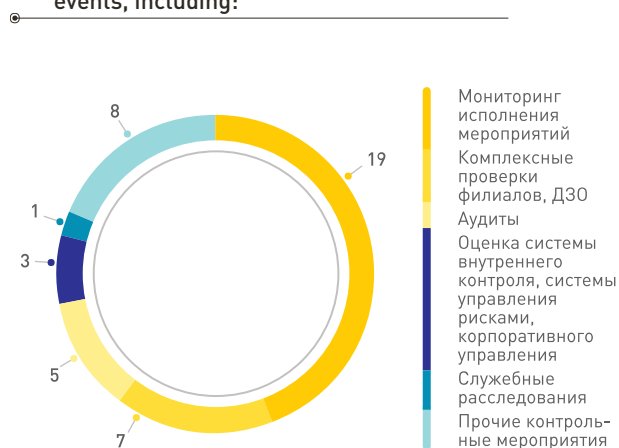
The functions of internal audit are also regulated by the following documents:

- The Code of Ethics for Internal Auditors of the Rosseti Group of Companies, approved by the decision of the Company's Board of Directors, minutes No. 233/2016, dated 18.03.2016;
- Regulation for the Internal Audit Department, approved by the decision of the Board of Directors of the Company, minutes No. 251/2016, dated 23.09.2016;
- Guidelines for internal audits and the Glossary of Internal Audit of Kubanenergo PJSC;
- Protocol for interaction of the internal audit department with structural subdivisions of Kubanenergo PJSC during inspections and monitoring the implementation of corrective action plans;
- Guidelines for monitoring the implementation of corrective action plans to eliminate violations and deficiencies identified by the results of internal audits of Kubanenergo PJSC;
- Methods for efficiency evaluation of the internal control system and the risk management system of the Rosseti Group of Companies;
- Planning Instructions for the Internal Audit Department of Kubanenergo PJSC;
- Guidelines for the preparation of reports for the accomplishment of the work plan and the results of the internal audit of Kubanenergo PJSC;
- Instructions for the compilation and use of the Uniform Classifier of Violations and Defects of Kubanenergo PJSC;
- The Program for the Guarantee and Improvement of the Quality of Internal Audit, approved by the decision of the

Company's Board of Directors, Minutes No. 257/2016, dated 06.12.2016.

In 2018, the number of the Company's employees performing the duties of internal audit was five.

In the reporting year, the internal audit department conducted 43 monitoring events, including:



245 corrective measures aimed at eliminating and preventing further identified violations and shortcomings were appointed for execution following the results of control measures carried out by an internal audit in 2018.

Of the 227 events that were completed in the reporting year, all were performed, 18 activities are being implemented with deadlines in 2019.

Corrective actions performed in 2018



The accomplishment of corrective actions is monitored by the Audit Committee of the Board of Directors, periodically reviewing reports of the Company's management on the implementation of corrective action plans to remedy deficiencies identified by the Company's Auditing Commission, the Company's internal auditor, and external control bodies.

Receiving feedback from the Audit Committee is carried out by the internal audit manager in various forms during the interaction with the Audit Committee, including analyzing the decisions/recommendations of the Audit Committee on issues related to the competence of internal audit, as well as through questioning the members of the Audit Committee.

Evaluation of internal audit by members of the Audit Committee of the Board of Directors of the Company, conducted under the Program for the Guarantee and Improvement of the Quality of Internal Audit of Kubanenergo PJSC, has identified the "admissible" level at the end of 2018.

As a part of the guarantee program and improving the quality of the internal audit, an Operating Plan has been developed and is being implemented to develop and enhance the Company's internal audit procedures for 2017–2019. Of the 24 planned activities of this plan in 2018, 23 were completed on time, one planned activity relates to a later date of execution and is underway.

