

# Audit and control

In pursuance of Federal Law No. 208-FZ On Joint-Stock Companies, RusHydro runs a control framework to oversee the Company's financial and business operations. This system embraces a wide range of organizational structures, procedures, regulations and methodologies.

Key stakeholders exercising control over the Company's financial and business operations include:

- Internal Audit Commission;
- the Company's auditor;
- Internal Audit Service;
- Internal Control and Risk Management Director - Chief Auditor, Control and Risk Management Department.

The key principles, goals, objectives, methods, and processes of the control framework are set forth in the following documents approved by RusHydro's General Meeting of Shareholders and Board of Directors:

- Corporate Governance Code;
- Code of Corporate Ethics;
- Anti-Corruption Policy;

- Internal Control and Risk Management Policy;
- Internal Audit Policy;
- Regulations on the Audit Committee under the Board of Directors of PJSC RusHydro;
- Regulations on the Internal Audit Commission.



All of the above documents are available on the Company's website at [www.eng.rushydro.ru](http://www.eng.rushydro.ru)

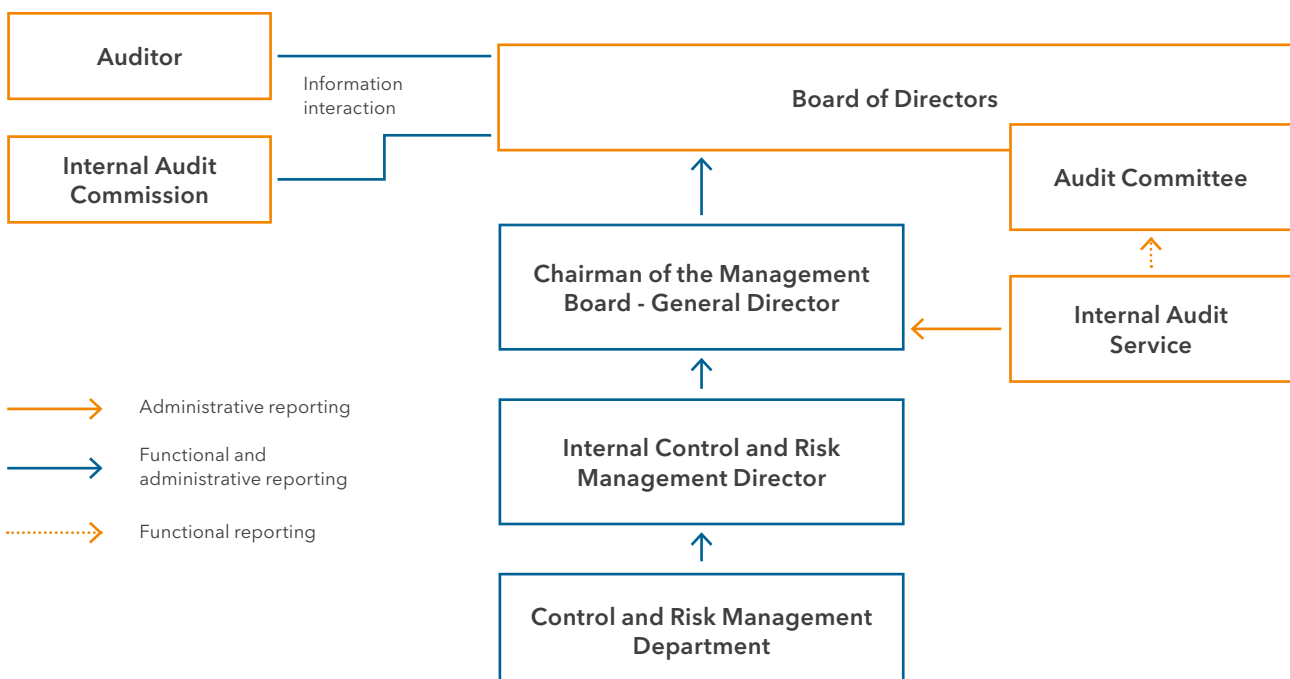
The Company's Internal Audit Commission reports to the General Meeting of Shareholders. The Internal Audit Commission's opinion is submitted to the Audit Committee of the Board of Directors of RusHydro. The

Internal Audit Commission's opinion issued after the audit of the annual report, RAS financial statements and report on the Company's related-party transactions is a mandatory document that must be submitted to the General Meeting of Shareholders.

Each year the General Meeting of Shareholders approves an auditor to review and confirm the Company's annual accounting (financial) statements. The auditor reviews the Company's financial and business operations in accordance with the applicable Russian laws and its service agreement. The auditor's opinion is an integral part of the Company's annual accounting (financial) statements.

An Auditor's opinion is submitted to the Board of Directors' Audit

## Financial and Business Operation Control Framework



Committee and to the Internal Audit Commission. The Audit Committee discusses the auditor's plan of annual audits of RusHydro Group.

The Board of Directors approves the Group's Internal Control and Risk Management Policy.

The Company's Internal Audit Service is in charge of assisting the governing bodies in enhancing the Group's management efficiency and improving its operations, among other things, by means of a systematic and consistent analysis and evaluation of the risk management, internal control and corporate governance systems.

The Board of Directors represented by its Audit Committee is responsible for the functional management of the Internal Audit Service, including approval of the annual schedule of control activities and quarterly reports on adherence to that schedule.

The Control and Risk Management Department is responsible for assisting the management team in developing risk response processes and tools to improve risk governance, implementing the risk management policy and ensuring internal controls, including by providing guidance and training in risk management.



RusHydro's Code of Corporate Ethics sets out key principles of professional ethics and ethics rules to be observed by the Company's employees (irrespective of their position in the Company) and members of the Board of Directors.

RusHydro takes the following steps to implement the Code:

- drafts uniform internal regulations specifying standards, requirements and limitations related to the implementation of the Code of Corporate Ethics. These are subject to approval at each Group company;
- familiarizes all employees with the above standards, rules and requirements, and provides advice as to their observance;
- sets up ethics committees at RusHydro and its subsidiaries, which help ensure compliance with corporate ethics rules by employees and managers, among other things, by reviewing identified breaches, issuing corrective recommendations and monitoring their implementation.

In their decisions, the governing bodies of PJSC RusHydro and its subsidiaries strictly abide by the principles and standards championed by the Code to promote the interests of the Company and avoid a conflict of interest. With a view to preventing, among other things, a conflict of interest, the Audit Committee of RusHydro's Board of Directors reviews, on a preliminary basis, the Company's transactions with persons affiliated with substantial shareholders of RusHydro (other than the Russian Federation) and makes sure that there is no conflict of interest involved.



For more information on key standards, principles of professional ethics and ethics rules, see RusHydro's<sup>1</sup> Code of Corporate Ethics: [www.eng.rushydro.ru](http://www.eng.rushydro.ru)

## Internal Audit Commission

The Internal Audit Commission is a permanent body elected annually by the General Meeting of Shareholders. It is responsible for the monitoring of the Company's financial and business operations. The Commission has

five members. Its key competencies are as follows:

- confirming the accuracy of data contained in the annual report, annual accounting (financial) statements and report on interested-party transactions;
- analyzing the Company's financial position, identifying areas for financial improvement and developing recommendations for the Company's governing bodies;
- organizing and running checks (audit) on the Company's financial

<sup>1</sup> Note: As amended by the resolution of RusHydro's Board of Directors (Minutes No. 281 of December 27, 2018).

and business operations (review of the Company's documents to confirm its compliance with the Russian laws, RusHydro's Charter and internal regulations). The audit confirmed that the data contained in the reports and financial

documents of the Company were reliable, the accounting and financial reporting functions were performed in compliance with applicable laws and internal regulations, and financial and business operations were conducted in the

best interests of the Company and its shareholders. The opinion also confirms the accuracy of data contained in the Company's annual report and the report on interested-party transactions consummated in 2019.

## Members of the Internal Audit Commission in 2019<sup>1</sup>

Full name	Position <sup>2</sup>	Nominated by	Term of office
<b>Membership effective since June 28, 2019</b>			
Tatyana Zobkova (Chair of the Internal Audit Commission)	Deputy Director of the Department of Corporate Governance, Price Environment and Control in the Energy Sector of the Russian Ministry of Energy	The Company's Board of Directors	June 27, 2017 - present
Natalia Annikova	First Deputy General Director, OJSC SU No. 308	The Company's Board of Directors	June 26, 2015 - present
Igor Repin	Deputy Executive Director, Association of Institutional Investors	The Company's Board of Directors	June 27, 2014 - present
Dmitry Simochkin	Head of Department, Federal Agency for State Property Management	The Company's Board of Directors	June 27, 2017 - present
Denis Konstantinov	Expert, Department of the Russian Ministry of Economic Development	The Company's Board of Directors	June 28, 2019 - present
<b>Members who were not re-elected to the new Internal Audit Commission effective since June 28, 2019</b>			
Marina Kostina	Deputy Director of the Corporate Governance Department of the Russian Ministry of Economic Development	The Russian Federation as represented by the Federal Agency for State Property Management	June 27, 2017 - June 27, 2019

For the full text of the Internal Audit Commission's opinion on the audit of financial and business operations of PJSC RusHydro for 2019, see [Appendix No. 17](#)



The Regulations on the Internal Audit Commission of PJSC RusHydro: <http://www.eng.rushydro.ru/>

For details on the independent auditor's remuneration, see the [Report on remuneration of the governing and control bodies](#)

<sup>1</sup> The listed members of the Internal Audit Commission hold no shares of the Company.

<sup>2</sup> The positions held by members of the Internal Audit Commission are stated as at the nomination date.

## Auditor

RusHydro's accounts (financial statements) prepared in accordance with Russian and international standards are audited on an annual basis. The auditor responsible for the independent audit of RusHydro's RAS and IFRS accounts (financial statements) for 2019 was selected through an open tender process<sup>1</sup>.

RusHydro's auditor was selected in a competitive process pursuant to Article 5 of Federal Law No. 307-FZ of December 30, 2008 On Auditing, Federal Law No. 44-FZ of April 5, 2013 On the Contract System in the

Federal and Municipal Procurement of Goods, Works and Services, the Charter, and internal regulations of RusHydro.

Following the tender procedures, JSC PricewaterhouseCoopers Audit (PwC Audit: 10, Butyrsky Val, 125047, Moscow) was declared the preferred bidder as was approved by resolution of RusHydro's General Meeting of Shareholders of June 27, 2018.

PwC Audit is a member of the self-regulated organization

Sodruzhestvo Association. Principal entry number in the Register of Auditors: 12006020338.

No consulting services were rendered by PwC Audit to the Company.

For details on the independent auditor's remuneration, see the [Report on remuneration of the governing and control bodies](#)

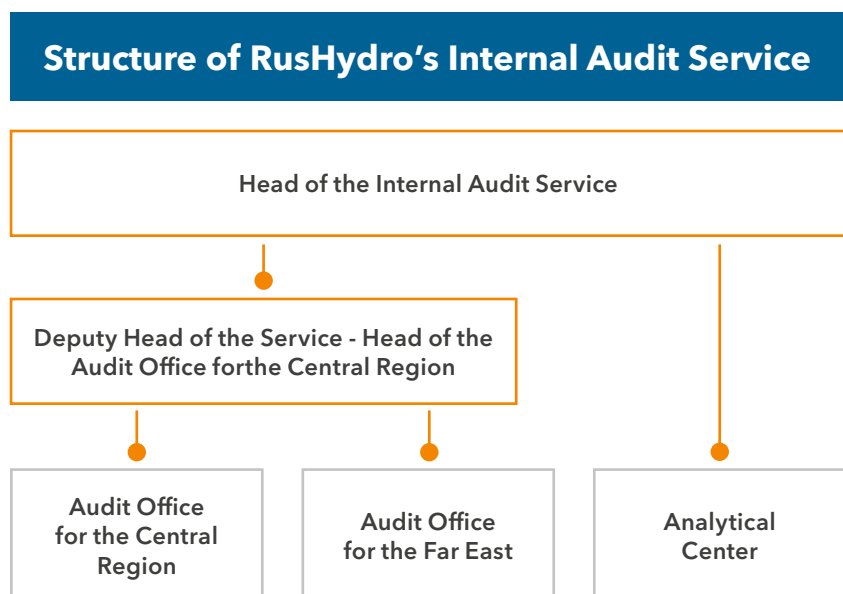
## Internal Audit Service

The key objective of RusHydro's internal audit function is to assist the Board of Directors and executive bodies of RusHydro Group in enhancing the Group's management efficiency and improving its operations, among other things, by means of a systematic and consistent analysis and evaluation of the risk management, internal control and corporate governance systems.

The Internal Audit Service is RusHydro's standalone business unit that reports to the Board of Directors through the Audit Committee and has an administrative reporting line to the Chairman of the Management Board - General Director of RusHydro. The Head of the Internal Audit Service was approved by resolution of RusHydro's Board of Directors. The Service has 15 members.

The Internal Audit Service has the following objectives and functions:

- to conduct regular audits of business units, Company's



branches/subsidiaries, processes, lines of business, projects of the Company/subsidiaries for an independent assessment and expression of opinion on the reliability and effectiveness of the:

- internal control system;
- risk management system;

- corporate governance system.
- to liaise with the Audit Committee of the Company's Board of Directors;
- to liaise with local executive authorities of the Russian Federation, Accounts Chamber of the Russian Federation, the

<sup>1</sup> The competition to select the Company's auditor for 2018-2020 was held in April 2018.

Company's Internal Audit Commission, and other supervisory bodies in connection with internal control issues and in the course of audits and inspections of the Company or its subsidiaries conducted by such bodies.

The general principles of, and approaches to the Company's internal audit system are set forth in the Internal Audit Policy approved by RusHydro's Board of Directors. The Policy is aligned with RusHydro's Corporate Governance Code, relevant Methodological Guidelines and Instructions of the Federal Agency for State Property Management, and is designed, inter alia, to ensure compliance of RusHydro's Internal Audit Service with the International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors (IIA).

The schedule of control activities is approved by the Audit Committee on an annual basis and defines the priorities of the internal audit work subject to RusHydro Group's strategic objectives, resources available, and risk-based approach to control activities.

In 2019, the Internal Audit Service conducted 14 scheduled control procedures and 7 unscheduled checks as provided by the schedule of control activities.

The Board of Directors reviewed the Internal Audit Service's assessment of the internal control, risk management and corporate governance systems of the

Company and recommendations on their improvement.

Based on the management's feedback on the results of control activities, the Group's management team assessed the internal audit function as highly (duly) effective in 2019 in terms of identifying gaps to be addressed order to reduce or eliminate any negative factors impairing the efficiency of RusHydro and its subsidiaries.

The results of the control activities carried out by the Internal Audit Service are used by RusHydro Group's management team to develop and roll out a corrective action plan to address the identified gaps, including their causes and consequences, improve the efficiency of the internal control, risk management and corporate governance system, and prevent repeated violations.

The Internal Audit Service also takes consistent steps to monitor implementation by the Group's management team of the corrective action plans developed based on the findings of control activities.

The Internal Audit Service is also responsible for the liaison with external supervisory authorities (Accounts Chamber of the Russian Federation, Prosecutor General's Office, and Russia's Ministry of Energy) in the course of their control activities. In 2019, the external supervisory bodies conducted 11 inspections of the Group's operations. The Company has put in place an electronic platform to exchange information

with external supervisory authorities (during their inspections) using a corporate file sharing service.

In 2019, RusHydro developed and introduced a software solution to automate monitoring of the efforts by the Group's management team to draft and implement corrective action plans based on the findings of external and internal inspections.

In 2019, the Internal Audit Service took steps to develop and update internal regulations governing the remit of the Internal Audit Service, including by:

- updating the Regulations on Planning and Conducting Control Activities by the Internal Audit Service;
- developing a Guarantee Map to streamline information about guarantees provided by internal and external service suppliers;
- updating the Regulations on Liaising with Supervisory Authorities as Part of Group Audits;
- developing the Regulations on Liaising with the Company's Internal Audit Commission and updating relevant interaction procedures.

In line with the approved Internal Audit Quality Assurance and Improvement Program, the Internal Audit Service conducted an annual self-assessment. As a result, the Audit Committee under RusHydro's Board of Directors recognized that the Company's internal audit function "meets the relevant requirements".

In 2019, LLC Ernst & Young Assurance & Consulting Services completed the first stage (diagnostics) of external independent assessment focusing on compliance of the Internal Audit Service with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics for internal auditors, producing an Interim Report on Diagnostics and Preliminary Assessment of the Company's Internal Audit Function reviewed by the Audit Committee of RusHydro's Board of Directors.

### Internal audit function development plans

In 2020, further steps will be taken to enhance the Company's internal audit function by:

- ensuring and improving efficiency of the internal audit system (based on the findings of external independent assessment);
- updating the regulatory framework of the Internal Audit Service in compliance with the International Standards for the Professional Practice of Internal Auditing;
- updating standard control activities and guidelines in the automated internal audit management system (CHH TeamMate);
- further automating RusHydro's internal audit function.

### Assessment of the efficiency of internal and external audit

On a quarterly basis, the Audit Committee reviews the report on the implementation of the schedule

of control activities prepared by Head of the Internal Audit Service. Report describes material violations, flaws and gaps identified in the operations of RusHydro and its subsidiaries, includes information on substantial risks and issues of controls and corporate governance, and provides recommendations on remedial actions and improvement of internal controls. On top of that, the report submitted by the Head of the Internal Audit Service provides an overview (in the part dedicated to corrective action plans) of the management team's progress on bridging the gaps identified as part of the internal and external checks.

In accordance with the Company's approved Internal Audit Quality Assurance and Improvement Program, in order to ensure adequate control and assessment of the internal audit function and to identify improvement areas, in 2019, the internal audit function underwent an annual self-assessment based on which the Audit Committee recognized that the internal audit function "meets the relevant requirements".

In 2019, an independent review of the Company's internal audit function was started to assess the effectiveness of internal auditing.

In 2019, LLC Ernst & Young Assurance & Consulting Services undertook a diagnostic review of the Company's internal audit to check its compliance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics

for internal auditors. The results of the review were considered at a meeting of the Audit Committee.

According to feedback received on control activities, the internal audit function performed very effectively in 2019 in terms of identifying matters to be resolved in order to mitigate or eradicate any negative factors impairing the efficiency of RusHydro and its subsidiaries. Throughout the reporting year, the Company's auditor regularly reported to the Audit Committee on plans and results of the audits, shared its vision on important qualitative aspects of RusHydro's accounting practices, including its accounting policy, estimates, and disclosures in financial statements, and raised matters that based on the auditor's professional judgement are important for the oversight over the financial reporting process.

In 2019, The Audit Committee assessed the performance of the Company's auditor (including the auditor's reports) and the effectiveness of external audit as a process. Based on the assessment, the Audit Committee found the process to be effective. The Company's auditor is unbiased and independent from RusHydro, has no conflict of interest or any circumstances that might challenge its independence. Materials that the external auditor prepares and presents to the Audit Committee are informative and help control the quality of the auditor's performance.