

CORPORATE CONTROL

Risk Management and Internal Control Framework

The Group has introduced and employs a Risk Management and Internal Control Framework that encompasses key assets, business processes, lines of business, and all levels of the Group's management.

Detailed information about the operation of the RMICF is available in the Strategic Report in the 'Risk management and internal control' section.

Internal audit functions

The internal audit division of the Inter RAO Group includes the Internal Audit Unit of PJSC Inter RAO (IAU) and the internal audit units of the Company's controlled entities. The IAU is functionally subordinate to the PJSC Inter RAO Board of Directors and administratively subordinate to the Chairman of the PJSC Inter RAO Management Board. The head of the IAU functionally coordinates the activities of the internal audit units of the controlled entities: LLC Inter RAO – Power Generation Management and JSC Mosenergosbyt.

STRUCTURE OF THE INTERNAL AUDIT DIVISION OF THE INTER RAO GROUP

| Legal entity | Structural unit |
|---|---|
| PJSC Inter RAO | Audit Department for Supply Assets and Trading of the Internal Audit Unit |
| PJSC Inter RAO | Engineering Audit Department of the Internal Audit Unit |
| LLC Inter RAO – Power Generation Management LLC | Technical Activities Audit Office |
| LLC Inter RAO – Power Generation Management LLC | Financial Audit Division |
| LLC Inter RAO – Power Generation Management LLC | Procurement Activities Audit Division |
| JSC Mosenergosbyt | Internal Audit Office |

Main functions of the IAU:

- conducting audits of PJSC Inter RAO and its controlled entities
- assessing the effectiveness of the Risk Management and Internal Control Framework, including as regards countering and preventing corruption and assessing corporate governance

- consulting the Company's executive bodies on issues concerning risk management, internal control, and corporate governance
- organizing and engaging in interaction with the Company's external auditor as part of the exchange of information on the results of work and the discussions of activity plans
- researching and monitoring information about the subjects of audits in order to analyze the results of the fulfillment of the IAU's recommendations

Self-assessment results

The internal audit division conducts a self-assessment each year when a report is prepared on the activities of the IAU. The results of the self-assessment conducted based on the 2018 results confirm that internal audit activities are generally consistent with the International Professional Practices Framework adopted by the Institute of Internal Auditors, including the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors. No circumstances have been identified that could have an impact on the scope and content of internal audits or prevent internal auditors from carrying out their duties.

Results of work in 2018

The IAU carries out its activities in accordance with the work plan approved by the PJSC Inter RAO Board of Directors. The work plan for 2018 was fully implemented within the allotted time.

The priority areas of the IAU's activities are determined in accordance with the Company's objectives taking into account the results of a risk assessment. The audit plan encompasses all major segments of the Group's activities – supply, generation, trading, and engineering as well as the risks inherent therein. Based on the audit results, recommendations were made to eliminate the violations and shortcomings that were identified and corrective action plans were developed and approved by orders on the basis of these recommendations.

As part of its day-to-day monitoring activities, the internal audit division monitors the implementation of the corrective measures. The IAU works with inquiries received via a special information resource – the PJSC Inter RAO hotline.

The head of the IAU liaisons between the internal audit division and the Company's external auditor. IAU auditors and the Company's external auditors meet on a quarterly basis.

The IAU and the external auditor interact to:

- exchange information on the results of an effectiveness assessment of the Company's internal control system, including when preparing accounting (financial) statements
- hold discussions of external and internal audit plans

In 2018, the Audit Committee of the PJSC Inter RAO Board of Directors held three in-person meetings with the simultaneous participation of external auditors, internal auditors, and members of Company management concerning the review of the consolidated financial statements of PJSC Inter RAO, the results of the external audit of statements, an assessment of the independence, objectivity, and the lack of conflicts of interests among the external auditors, the identification of the Auditor's candidacy and the amount of payment for its services, the scope of Risk Appetite, the Critical Risk Map, and the Critical Risk Management Action Plan of the Inter RAO Group.

NUMBER AND FOCUSES OF AUDITS IN 2018

| Type of measures | Number |
|---|--------|
| Audits of PJSC Inter RAO and its subsidiaries | 103 |
| Effectiveness assessments: | 5 |
| <ul style="list-style-type: none"> • the internal control system of the Inter RAO Group • the corporate risk management system of the Inter RAO Group • the risk management and internal control process in preventing and combating corruption at PJSC Inter RAO • corporate governance practices of PJSC Inter RAO • the internal control system of PJSC Inter RAO in accordance with the requirements of the Russian Federal Tax Service for those involved in tax monitoring | |
| Monitoring the implementation of corrective measures based on the audit results | 25 |
| Consultations for management | 15 |

Implementation of development programs for internal audit functions

As part of the implementation of the Program for Ensuring and Improving the Quality of Internal Audit, internal assessments resulted in the drafting and implementation of measures to improve the activities of the internal audit division and bring it into line with the requirements of the International Professional Standards and the Code of Ethics of the Institute of Internal Auditors. A plan is drafted each year to develop the internal audit function and is approved by the PJSC Inter RAO Board of Directors. The development plan for internal audit functions for 2018¹ has been fully implemented, including measures to develop the regulatory and methodological framework, automate internal audit activities as well as train and improve the professional skills of auditors.

¹ Minutes No. 212 dated November 1, 2017.