

CONTROL

INTERNAL AND RISK MANAGEMENT SYSTEM

The Board of Directors of the Company approved the Internal Control Policy (ICP) (Minutes dated 22.08.2014 No. 18/14). The Policy defines the goals, principles and elements of the internal control system (ICS), main functions and responsibility of its participants and procedure of evaluation of its efficiency.

ICS covers all areas of activities of the Company. Control procedures are performed permanently in all processes at all management levels and are aimed at ensuring reasonable guarantees of achievement of goals in the following focus areas:

- Efficiency and productivity of the Company's activities, preservation of the Company's assets;
- Compliance with applicable requirements of the laws and local normative documents of the Company, including when performing the facts of business activities and accounting;
- Assurance of reliable and timely accounting (financial) and other reporting.

The participants of the internal control system are the Board of Directors, Audit Commission, executive bodies and all employees of IDGC of Centre. Risk management is performed by managers and employees at all levels of the Company and includes identification and assessment of risks, their ranking and risk management for ensuring reasonable guarantees of achievement of the Company's strategic and operational goals.

The Company implemented the following key activities for improvement of ICS in the reporting year:

- The risk and control procedure matrices were developed and approved for 7 business processes and business services. As of December 31, 2015, 16 risk and control procedure matrices of business processes/business services were approved.
- Amendments were made in the Articles of Association of the Company with respect to the competence of the Board of Directors of IDGC of Centre, PJSC to determine the principles and approaches to arrangement of the risk management and internal control system, assessment of the key operating risks and determination of the acceptable risk for the Company, control and arrangement of activities of internal audit unit and others.
- The risk management system and business planning system were inter-linked through the additional format of the business plan "Information about Key Operating Risks of the Company" and the respective section of the Executive Summary.

The implementation of ICS improvement efforts in 2015 resulted in improvement of the ICS maturity level from "moderate" in 2014 to the intermediate level of maturity between "moderate" and "optimal" in 2015.

2016 PLANS

THE FOLLOWING ACTION ITEMS ARE PLANNED FOR IMPROVEMENT OF ICS IN 2016:

Approval and introduction of amended Internal Audit Policy, Internal Control Policy and Risk Management Policy.

Development and approval of risk and control procedure matrices for non-covered business processes and business services.

Fulfilment of provisions of Instruction "Internal Audits in IDGC of Centre, PJSC" RK BP 1/05-01/2016 (approved by Resolution dated January 27, 2016, No. TsA/18/6-r).

Fulfilment of provisions of Guideline "Evaluation of Efficiency of Internal Control and Risk Management System in IDGC of Centre, PJSC", MI BP 1/05-01/2016 (approved by Resolution dated January 29, 2016 No. TsA/18/7-r).

INTERNAL AUDIT

The Internal Audit and Control Department is responsible for implementation of the functions of internal audit in the Company. The department is controlled and coordinated by the Board of Directors.

The goals, principles, functions and authority of internal audit are defined in the Internal Audit Policy of IDGC of Centre approved by the Resolution of the Board of Directors (Minutes of meeting dated August 20, 2014 No.18/14).

Additionally, the internal audit function is regulated by the following documents:

- Regulation on Internal Audit and Control Department;
- Template and structure of the internal audit work plan fulfillment and performance report;
- Guideline "Development and Application of Uniform Classifier of Violations and Flaws".

AUDIT COMMISSION

The financial and business activities of the Company are controlled by the Audit Commission, which is elected by the General Meeting of Shareholders until the next annual General Meeting of Shareholders, and acts based on the Federal Law "On Joint-Stock Companies" Art. 24 of the Articles of Association of the Company and Regulation on the Audit Commission.

Tasks of the Audit Commission:

- Control over financial and business activities of the Company;
- Independent evaluation of the reliability of data contained in the annual report of the Company, annual accounting statements.

MEMBERS OF THE AUDIT COMMISSION

The current members of the Audit Commission were elected by the General Meeting of Shareholders on June 25, 2015. The Audit Commission is composed of five persons who are the members of management bodies or employees of the Company, which ensures objectivity and independence of their opinions.

The Internal Audit and Control Department performed 42 audits in the reporting year.

A total of 577 corrective actions were prescribed in 2015 for elimination and prevention of subsequent violations and flaws identified by the internal audit based on the results of the audits performed by the internal audit unit.

A total of 378 action items were delivered out of 378 action items which were supposed to be performed in the reporting year.

Delivery of corrective actions is controlled by the Audit Committee of the Board of Directors.

The Annual General Meeting of Shareholders approved the new version of Regulation on the Audit Commission in 2015.



The document is available on the Company's website.

Information about the members of the Audit Commission is provided as of December 31, 2015

<p>Svetlana Anatolievna Kim Chairman of the Audit Commission <i>First time elected to the Audit Commission on June 25, 2015</i></p>	<p>Born in 1981, she is a Russian Federation citizen. In 2004 Svetlana graduated from Moscow State University of Railway Engineering majoring in Commerce. Since 2013 Svetlana has managed the Audit Activities Division of Control and Audit Activities Department of PJSC Rosseti. In 2008 – 2013 she held the position of the head of investment control function of the Control and Audit Department of OJSC FGC UES.</p>
<p>Tatyana Viktorovna Zaytseva <i>First time elected to the Audit Commission on June 25, 2015</i></p>	<p>Born in 1969, she is a Russian Federation citizen. In 1991 she graduated from Novosibirsk Institute of National Economy qualified as Accountant of an Industrial Enterprise. Before 2012 – Head of the Internal Audit Service of Oil Company Magma. In 2012 – 2014 she managed the Internal Audit Service of OJSC Electrosetservice ENES. In 2014–2015 Tatyana Zaytseva worked in PJSC Rosseti and held the positions of Deputy Head of the Control and Risk Division of Control Activities Department, Chief Expert of the Methodology Section of Control and Risks Division of Internal Audit and Control Department.</p>
<p>Sergey Vladimirovich Malyshev <i>First time elected to the Audit Commission on June 26, 2014</i></p>	<p>Born in 1965, he is a Russian Federation citizen. In 1986 he graduated from Yaroslavl Higher Military Financial School qualified as Economist–Financier. Since 2013 he holds the position of Lead Expert of the Audit Activities Division of the Control and Audit Activities Department of PJSC Rosseti. Before that he worked in the Control and Audit Department of OJSC FGC UES, the Capital Construction Department of Gazpromneft–Aero, and Lead Consultant of Financial Inspection of the Ministry of Defense of the Russian Federation.</p>
<p>Oksana Alekseevna Medvedeva <i>First time elected to the Audit Commission on June 25, 2015</i></p>	<p>Born in 1978, she is a citizen of the Russian Federation. She graduated from the branch of the Russian Academy of Entrepreneurship in Magadan majoring in Accounting, Analysis and Audit. In 2010–2011 she managed Internal Audit Section of LLC Baikal Service TK. In 2011–2014 she held the position of the Head of Section of the Control and Audit Department of OJSC FGC UES. Since 2014 she has been a Chief Expert of the Audit Activities Division of the Control and Audit Activities Department, Head of the General Audit Section of Revision and Internal Audit Division of Internal Audit and Control Department of PJSC Rosseti.</p>
<p>Sergey Ivanovich Ochikov <i>First time elected to the Audit Commission on June 26, 2014</i></p>	<p>Born in 1983, citizen of Russia. In 2004 he graduated from Krasnoyarsk State Technical University majoring in Power Plants and Substations. In 2007 he graduated from Siberian Federal University with a major in Economics and Management in Power Companies. Since 2009 he has been working in power companies as an expert in internal audit and risk management. Since 2013 Sergey Ochikov has been working in PJSC Rosseti, holding the position of Lead Expert of General Audit and Revision Section of Revision Activity and Internal Audit Division of Internal Audit and Control Department. Currently he is Chief Expert of the Internal Audit Directorate of PJSC Rosseti.</p>

Members of the Audit Commission of IDGC of Centre do not hold shares of the Company and its subsidiaries and they did not commit any transactions for purchase or disposal of shares in 2015.

MEETINGS OF THE AUDIT COMMISSION

Six meetings of the Audit Commission of the Company were held in 2015 to review the approval of the work plan of the Audit Commission, election of the chairman and secretary of the Commission and items directly related to the audits.

The Audit Commission held one scheduled audit of 2014 financial and business activities of IDGC of Centre in the

reporting year, and issued a positive conclusion based on this audit.



The resolutions of the Audit Commission of the Company are published on the Company's website.

REMUNERATION OF THE MEMBERS OF THE AUDIT COMMISSION

Before June 25, 2015, the remuneration to the members of the Audit Commission was paid in accordance with the Regulation on remuneration and compensation to the members of the Audit Commission of the Company. In accordance with the Regulation, the remuneration in the amount of 25 MMTR was paid to the members of the Audit Commission for participation in the audit of financial and business activities. The remuneration to the Chairman of the Audit Commission is paid with a coefficient of 1.5.

The new version of Regulation on the payment of remuneration and compensation to the Audit Commission was enacted on June 25, 2015. In accordance with this Regulation, the base remuneration for a member of the Audit Commission is determined based on the Company revenue calculated according to RAS for the financial year. The maximum amount of the base remuneration is set at the amount of RUB 150 thou. The coefficient of personal

participation of a member of the Audit Commission is applied to the base remuneration. Also, the calculation takes into account the period during which the duties of a member of the Audit Commission were performed. The remuneration of the Chairman of the Audit Commission can be increased by 30%.

The Company paid RUB 558 thou. to members of the Audit Commission in 2015 for audits of financial and business activities. In addition, experts were hired to work in the Audit Commission in the reporting year and they received remuneration in the amount of RUB 319 thou. Payment was made in accordance with terms and conditions of contracts approved by the Board of Directors of IDGC of Centre, PJSC (Minutes dated July 27, 2015 No. 15/15).



Please, see this document on the website.

AUDITOR

The audit of 2015 accounting statements of IDGC of Centre according to RAS and 2015 IFRS consolidated financial statements was performed by independent auditor RSM RUS Ltd.

RSM RUS Ltd. was approved as an auditor on June 25, 2015, at the annual General Meeting of Shareholders of the Company.

The auditor is selected based on results of the competitive tender and is proposed by the Audit Committee. Subsequently the auditor passed preliminary approval of the Board of Directors of the Company.

The external auditor is selected based on the open tender procedure, which ensures independence and objectivity

of the auditor. The tender was performed using the electronic trading platform www.b2b-energo.ru. The tender criteria were defined in advance and stated in the tender conditions.

The amount of payment for the auditor services is determined by the Board of Directors of IDGC of Centre, PJSC in the amount of RUB 2.9 mln, with VAT. This amount includes the payment for the audit of both 2015 RAS statements and 2015 IFRS statements.



Detailed information about the auditor is provided on the Company's website.

CORRUPTION COUNTERACTION

Anti-corruption activities in IDGC of Centre, PJSC are performed in accordance with the best Russian and international standards. As confirmation of this fact, IDGC of Centre, PJSC joined the Anti-Corruption Charter of Russian Business in 2015.

Corruption counteraction is performed in accordance with Anti-Corruption Policy of IDGC of Centre, PJSC, approved by the Board of Directors on December 30, 2014.

The following measures were taken by the Company in 2015 for implementation of anti-corruption policy:

- Commission for Corporate Ethics Compliance and Settlement of Conflict of Interest of IDGC of Centre, PJSC was set up. The goal of this commission is the settlement of conflicts of interest, pre-conflict situations and other corrupt practices in the Company.
- Agreements on compliance with requirements of the Anti-Corruption Policy were signed by all employees. All Company employees are notified about available counter-corruption policies and methods.
- The employees' interest declaration was carried out to prevent the conflict of interests.
- Audits of the owners of the counterparties of IDGC of Centre, PJSC were performed for verification of reliability of information provided about legal entities and individuals, to correct the completion of the information disclosure forms and completeness of information disclosure.
- The anti-corruption expert examination of the documentation is performed as part of procurement activities for checking the affiliation and conflict of interest between counterparties (ultimate beneficiaries) and employees of IDGC of Centre, PJSC.
- The Guideline "Notification by employees of IDGC of Centre, PJSC about the receipt of a gift in connection with their position or their job duties performance, a submission of the gift, appraisal, disposal (buyback) and crediting of the proceeds from its disposal" was approved.

- The Guideline "Procedure for acceptance, review and settlement of claims from applicants (employees, counterparties of IDGC of Centre, PJSC and other individuals and legal entities) about possible facts of corruption" was enacted.
- The Guideline (regulation) "On the settlement of conflicts of interests of IDGC of Centre, PJSC, the Commission for Corporate Ethics Compliance and Settlement of Conflict of Interest of IDGC of Centre, PJSC" was approved.

Starting from September 2015, an anti-corruption clause is included in all signed contracts. The work on anti-corruption monitoring of the adequacy of efficiency of anti-corruption policy measures, for forming the consistent understanding of shareholders, the investment community, counterparties, management bodies, and employees about the intolerance of the Company to corruption in any forms is conducted on a permanent basis.

The Hot Line of IDGC of Centre, for calls with information about possible corruption cases and violation of the Corporate ethics continued operation in the Company in 2015.

Hot Line: +7 (495) 747-92-99, doverie@mrsk-1.ru.

No cases of corruption of employees of IDGC of Centre, PJSC were found in 2014–2015.



The current version of the document is published on the Company's website.