

AUDIT COMMITTEE

MINUTES OF THE COMMITTEE MEETING No.KA-65 IDGC of Urals (OAO)

Meeting form – in-presentia (VC).

Meeting date: 27 February 2017.

Minutes date: 28 February 2017.

Meeting started at: 13:00 (Moscow time).

Meeting ended at: 13:55 (Moscow time).

Meeting location: 4/1 Ulitsa Belovezhskaya, Moscow, Rosseti HQ, Room A2-017.

Attending members:

Aleksandr Viktorovich Shevchuk	Executive Director of Association of Institutional Investors, Chair of the Committee;
Roman Avgustovich Dmitrik	General Director at RRSK (OOO);
Yulia Vitalyevna Yascheritsyna	Director of Economic Planning and Budgeting Department at Rosseti (PAO);
Vladimir Vladimirovich Sofyin	Director of Technological Development and Innovations Department at Rosseti (PAO).

4 out of 4 members have participated in the meeting. A quorum for decision-making on agenda issues is duly constituted.

Invitees:

Anzhelika Aleksandrovna Zadorozhnaya	Head of Oversight and Analysis Directorate of Oversight Department at Rosseti (PAO) – Committee’s expert;
Vadim Anatolyevich Loktin	First Deputy General Director – Chief Operating Officer at IDGC of Urals (OAO);
Alla Aleksandrovna Petrova	Deputy General Director for Corporate Governance at IDGC of Urals (OAO);
Aleksandr Mikhailovich Krivyakov	Deputy General Director at IDGC of Urals (OAO);
Vladimir Mikhailovich Matyuk	Head of HR and Organizational Structure Department at IDGC of Urals (OAO);
Ekaterina Aleksandrovna Shishkina	Deputy Head of Internal Audit Department at IDGC of Urals (OAO);
Polina Vladimirovna Krivonogova	A nominee to serve as the Head of Internal Audit Department at IDGC of Urals (OAO).

The Committee Secretary:

Dmitry Vyacheslavovich Tikhanov	Head of Corporate Events Section of Corporate Governance and Stockholder Relations Department at IDGC of Urals (OAO)
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Agenda:

1. Preliminary examination of an Internal Audit Department Head nominee and her remunerations.
2. Examination of management's information regarding progress in remedial actions to eliminate weaknesses, detected by the Board of Internal Auditors, Internal Audit, watchdogs; in measures enforced after whistle blowing on unethical practices of employees and 2016 investigation outcomes.
3. Preliminary examination of the Internal Audit's progress report regarding working plan and 2016 Internal Audit's performance, including self-evaluation of 2016 Internal Audit's performance and internal audit improvement plans.
4. Recommendations to the Board of Directors regarding the following agenda item: Revision of the Internal Audit Policy of IDGC of Urals (OAO).

Agenda item No.1: Preliminary examination of an Internal Audit Department Head nominee and her remunerations.

Report by: Vladimir Mikhailovich Matyuk, Head of HR and Organizational Structure Department at IDGC of Urals (OAO).

Resolution:

1. To approve Polina Vladimirovna Krivonogova as the Internal Audit Department Head and her remunerations, as stated in Appendix No.1.
2. To recommend the Board of Directors to adopt the following resolution:
 - 2.1. To approve Polina Vladimirovna Krivonogova as the Internal Audit Department Head and her remunerations, as stated in the Appendix.
 - 2.2. To entrust the Company's General Director to appoint Polina Vladimirovna Krivonogova as the Internal Audit Department Head at IDGC of Urals (OAO).

Voting results:

"FOR" - 4 (Four) votes: Y.V. Yascheritsyna, V.V. Sofyin, A.V. Shevchuk, R.A. Dmitrik.

"AGAINST" - 0 (Zero) votes.

"ABSTAIN" - 0 (Zero) votes.

PASSED UNANIMOUSLY.

Agenda item No.2: Examination of management's information regarding progress in remedial actions to eliminate weaknesses, detected by the Board of Internal Auditors, Internal Audit, watchdogs; in measures enforced after whistle blowing on unethical practices of employees and 2016 investigation outcomes.

Report by: Alla Aleksandrovna Petrova, Deputy General Director for Corporate Governance at IDGC of Urals (OAO).

In the course of the meeting the management commented on measures against rise of administrative expenses and existing channels for whistle blowing on unethical practices, on 2016 reports received through the channels, on damages revealed during investigations and post-investigation measures.

Resolution:

To take note of management's information regarding progress in remedial actions to eliminate weaknesses, detected by the Board of Internal Auditors, Internal Audit, watchdogs; in measures enforced after whistle blowing on unethical practices of employees and 2016 investigation outcomes.

Voting results:

"FOR" - 4 (Four) votes: Y.V. Yascheritsyna, V.V. Sofyin, A.V. Shevchuk, R.A. Dmitrik.

"AGAINST" - 0 (Zero) votes.

"ABSTAIN" - 0 (Zero) votes.

PASSED UNANIMOUSLY.

Agenda item No.3: Preliminary examination of the Internal Audit's progress report regarding working plan and 2016 Internal Audit's performance, including self-evaluation of 2016 Internal Audit's performance and internal audit improvement plans.

Report by: Ekaterina Aleksandrovna Shishkina, Deputy Head of Internal Audit Department at IDGC of Urals (OAO).

To be noted:

The 2016 action plan of the Internal Audit Department is underperformed in the aspects below:

- Formation of net supply and streamlining of volumes with sales company were not analyzed;
- In-house capital construction (incl. activities of design centers in branches) was not audited for efficiency.

Resolution:

1. To take note that the 2016 action plan of the Internal Audit Department, adopted by the Audit Committee on 16.12.2015 (Minutes No.KA-49) is underperformed.
2. To underline the following internal audit functions of vital importance, non-compliant with the internal audit standards:
 - Organizational independence,
 - Professionalism,
 - Guarantee and Enhanced Quality of Internal Audit Program,
 - Planning, resource management, scheduling of internal audit,
 - Post-audit reporting, monitoring and required revision of the internal audit improvement plan.
3. To recommend the Board of Directors to adopt the following resolution:
 - 3.1. To adopt the Internal Audit's progress report regarding working plan and 2016 Internal Audit's performance, including self-evaluation of 2016 Internal Audit's performance, as stated in the Appendices hereof.
 - 3.2. To entrust the Company's Internal Audit to revise the internal audit improvement plan factoring in comments from the Appendix hereof.

Voting results:

"FOR" - 4 (Four) votes: Y.V. Yascheritsyna, V.V. Sofyin, A.V. Shevchuk, R.A. Dmitrik.

"AGAINST" - 0 (Zero) votes.

"ABSTAIN" - 0 (Zero) votes.

PASSED UNANIMOUSLY.

Agenda item No.4: Recommendations to the Board of Directors regarding the following agenda item: Revision of the Internal Audit Policy of IDGC of Urals (OAO).

Report by: Ekaterina Aleksandrovna Shishkina, Deputy Head of Internal Audit Department at IDGC of Urals (OAO).

Resolution:

To recommend the Board of Directors to adopt the following resolution:

To adopt the Amended and Restated Internal Audit Policy of IDGC of Urals, as stated in the Appendix hereof.

Voting results:

"FOR" - 4 (Four) votes: Y.V. Yascheritsyna, V.V. Sofyin, A.V. Shevchuk, R.A. Dmitrik.

"AGAINST" - 0 (Zero) votes.

"ABSTAIN" - 0 (Zero) votes.

PASSED UNANIMOUSLY.

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| Appendix No.1 | Information on the Internal Audit Department Head nominee and her remunerations. |
| Appendix No.2 | Management's information regarding progress in remedial actions to eliminate weaknesses, detected by the Board of Internal Auditors, Internal Audit, watchdogs; in measures enforced after whistle blowing on unethical practices of employees and 2016 investigation outcomes. |
| Appendix No.3 | Internal Audit's progress report regarding working plan and 2016 Internal Audit's performance, including self-evaluation of 2016 Internal Audit's performance and internal audit improvement plans. |
| Appendix No.4 | Amended and Restated Internal Audit Policy of IDGC of Urals. |

The Chair

A.V. Shevchuk

The Secretary

D.V. Tikhanov