

# **Report of the Internal Auditor of Rosseti North-West, PJSC based on the results of assessing the reliability and efficiency of the internal control system and the risk management system, the efficiency of the Company's corporate governance**

## **1. Basis for preparation of the Report of the Internal Auditor**

The report is prepared in accordance with the requirements of Federal Law No. 208-FZ dated 26.12.1995 “On Joint Stock Companies”, recommendations of the Bank of Russia (letter dated 01.10.2020 No. IN-06-28/143) “On Recommendations for Organizing Risk Management, Internal Control, Internal Audit, Work of the Audit Committee under the Board of Directors (supervisory board) in Public Joint-stock Companies”, as well as in pursuance of the provisions of the Internal Audit Policy of Rosseti North-West, PJSC, approved by the resolution of the Board of Directors of Rosseti North-West, PJSC, Minutes No. 406/7 dd. 30.09.2021.

The assessment was carried out to determine the reliability and efficiency of the internal control system, the risk management system (hereinafter referred to as ICS, RMS), and the efficiency of corporate governance.

## **2. The methodology and criteria for assessing the internal control system, risk management system, corporate governance of Rosseti North-West, PJSC**

**Criteria of efficiency of ICS and RMS:** efficiency of ICS and RMS of the Company is assessed by determining the level of maturity of ICS and RMS, in accordance with the Methodology for assessing the reliability and effectiveness of the internal control system and the risk management system of the Company, approved by order of Rosseti North-West, PJSC No. 654 dated 21.12.2021.

### **Assessment components:**

- 1) Assessment of the Company's ICS efficiency:
  - control environment;
  - risk assessment;
  - control events;
  - Information and communication;
  - monitoring.
- 2) Assessment of the Company's RMS efficiency:
  - corporate governance and culture;
  - strategy and goal setting;
  - performance efficiency;
  - analysis and revision;
  - information, communication and reporting.

**Corporate Governance efficiency criteria:** the criterion for assessing corporate governance is the compliance of corporate governance with the principles and recommendations set forth in the Corporate Governance Code, Listing Rules and best corporate practices. Assessment of corporate governance efficiency was carried out in accordance with the Corporate Governance Assessment Methodology approved by order of Rosseti North-West, PJSC No. 342 dated 05.08.2020.

**Assessment components:**

- shareholder rights;
- Board of Directors;
- executives;
- transparency and disclosure of information;
- risk management, internal control and internal audit;
- corporate social responsibility, business ethics, compliance.

### **3. Assessment of reliability and efficiency of the internal control system of Rosseti North-West, PJSC**

The level of maturity of the internal control system of Rosseti North-West, PJSC, based on the results of averaging the assessments of the compliance of the current state with the criteria for the target state based on the results of 2021, was estimated at **“4.8” out of “6”**.

This assessment corresponds to the **“BEST POSSIBLE”** maturity level, which is characterized by:

1. Problems (risks) of activity management are identified. The RMS is integrated into the planning and decision-making processes. There is an increase in the efficiency and effectiveness of the risk management process by risk owners (risk realization is not systematic).

The executive management bodies review the results of risk management on a quarterly basis and make management decisions. However, RMS is not automated, not all possible controls are automated.

2. The processes are regulated, unified in the Company, the executive body and branches of subsidiaries and affiliates of the Company and communicated to the personnel by posting on a public resource. Monitoring the implementation and assessment of efficiency of organization of the processes used in the Company is ensured. When low efficiency of the implemented processes is revealed, their optimization and improvement of indicators is ensured. The processes are under continuous improvement and are based on best practices. Operation management automation tools are used partially and to a limited extent.

### **4. Assessment of reliability and efficiency of the risk management system of Rosseti North-West, PJSC**

The level of maturity of the risk management system of Rosseti North-West, PJSC, based on the results of averaging the assessments of the compliance of the current state with the criteria for the target state based on the results of 2021, was estimated at **“4.3” out of “6.0”**.

This assessment corresponds to the **“INTERMEDIATE” maturity level between “MODERATE” and “BEST POSSIBLE”**, maturity level, which is characterized by:

- Problems (risks) of activity management are identified. However, the RMS is not fully integrated into the decision-making process.
- The processes are regulated and communicated to the personnel. However, the procedure of use of these processes is left to the discretion of the staff. The above leads to possible

deviations from standard procedures that may not be detected. The procedures used are not the best possible ones and not up-to-date, however, are indicative of the practices applicable by the public.

- Problems (risks) of activity management are identified. The RMS is integrated into the planning and decision-making processes. There is an increase in the efficiency and effectiveness of the risk management process by risk owners (risk realization is not systematic). The executive management bodies review the results of risk management on a quarterly basis and make management decisions. However, RMS is not automated, not all possible controls are automated.

- The processes are regulated, unified in the Company, the executive body and branches of subsidiaries and affiliates of the Company and communicated to the personnel by posting on a public resource. Monitoring the implementation and assessment of efficiency of organization of the processes used in the Company is ensured. When low efficiency of the implemented processes is revealed, their optimization and improvement of indicators is ensured. The processes are under continuous improvement and are based on best practices. Operation management automation tools are used partially and to a limited extent.

## **5. Assessment of efficiency of corporate governance of Rosseti North-West, PJSC**

Based on the analysis of compliance of the current state of corporate governance elements for 2020-2021 corporate year, it was established that, in accordance with the specified criteria for the target state of corporate governance elements, the principles and recommendations set forth in the Corporate Governance Code, in the Listing Rules and best corporate practices:

- the corporate governance of the Company based on the results of 2020-2021 corporate year corresponds to the “**Developed Practice**” (the score was 465,5 points out of 525 points, 89%).