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IDGC of the South JSC on 04.09.2014
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**Internal Audit Policy of
IDGC of the South JSC**

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1. General provisions

1.1. The Internal Audit Policy of Open Joint-Stock Company of IDGC of the South (hereinafter - the Policy) is an internal document of IDGC of the South, JSC (hereinafter - the Company) and is developed according to:

- the legislation of the Russian Federation, including Federal law from 26.12.1995 № 208-FZ “On joint stock companies”, the Code of Corporate Governance, approved by the Board of Directors of the Bank of Russia on 21.03.2014 and recommended for application by joint stock companies;
- the International bases of professional practice of the internal audit, developed and published by the International institute of internal auditors;
- the Charter of the Company and internal normative documents of the Company.

1.2. The Policy is based on the best practices, experience of advanced world and Russian companies, on the Strategy of development of the company to manage the electric grid complex of the Russian Federation - Rosseti JSC and the Strategy of development and enhancement of the internal control system of Rosseti JSC and affiliated and dependent companies of Rosseti JSC, takes into account requirements of the Russian legislation and it is developed to continue the development and with a view of implementation of provisions of the Strategy of development of the electric grid complex of the Russian Federation, confirmed by Order of the Government of the Russian Federation No. 511-r dated 03.04.2013.

1.3. The Policy determines:

- internal audit objectives;
- principles of implementation of internal audit;
- internal audit functions;
- powers of internal auditors and their corresponding obligations of the management and employees of audited divisions / companies;
- the code of ethics and requirements to internal auditors of the Company;
- control over the activity of internal auditors and reporting provision.

1.4. In regard of affiliates of IDGC of the South JSC the Policy contains

requirements of general (methodological) character with description of process of interaction between the Company and its affiliates when arranging internal audit.

1.5. The Policy is recommended for use by the Company as a basis for development of internal documents of the Company, regulating questions of the implementation of work on internal audit.

2. Terms and definitions

Internal audit¹ - activity on provision of objective and independent guarantees and consultations directed on enhancement of the Company's activity. Internal audit is aimed to promote achievement of the Company's objectives in view with the most effective and economically reasonable method, with use of the systematized and phased approach to estimation and increase of efficiency of risk management, internal control and corporate management systems.

In the Policy the term "Internal audit" is also used for determination of a corresponding function or a structural unit which performs the specified function.

Group of companies Rosseti – Rosseti JSC and affiliated and dependent companies of Rosseti JSC.

Company – IDGC of the South JSC

Subsidiaries and affiliates - affiliated and dependent companies of IDGC of the South, JSC.

CIA - Certified Internal Auditor - the international certificate for specialists in the field of internal audit.

IFAC - the International Federation of Accountants.

3. The internal audit objectives

The internal audit objectives are:

3.1. Provision to the Board of Directors / to the Audit Committee attached to the Board of Directors and executive bodies of the Company independent and objective guarantees that the Company and affiliates have adequate internal control, risk

¹ According to definition of International Professional Standards for the Practice of Internal Auditing, published by International institute of internal auditors.

management and corporate management systems, ensuring the following:

- efficiency, profitability and productivity of the activity;
- observance of requirements of the legislation of the Russian Federation, and also decisions of management bodies and organizational-administrative documents of the Company;
- prevention of wrongful acts of employees of the Company and third parties concerning assets of the Company;
- reliability, completeness and timeliness of preparation of all kinds of reporting.

Thus:

- Internal audit cannot guarantee revealing of all substantial risks and drawbacks, even at carrying out of checks up to the mark by professionals;
- the management of the Company is responsible for creation and maintenance of a reliable and effective internal control and risk management system.

3.2. The assistance to the management of the Company in creation of effective internal control, risk management and corporate management systems - by provision of consultations: recommendations, conclusions and other practical help having recommendatory character.

Consultations, as a rule, are given by Internal audit by results of carrying out of audits, seldom - by special inquiry (in that case consultations are given only at availability of necessary resources at the disposal of Internal audit).

By provision of consultations an internal auditor should not undertake obligations of the management on decision making and implementation of recommendations.

4. Principles of internal audit

4.1. Internal audit in the Company is performed on the basis of observance of the following main principles:

- honesty;
- objectivity;
- confidentiality;
- professional competence;

- independence.

The specified principles are disclosed in the Code of Ethics of internal auditors (the appendix to the Policy).

4.2. Internal audit should be organizationally independent, and persons, performing it, should be objective, unbiased and professional at accomplishment of their obligations.

4.3. Internal audit does not cancel and does not duplicate functions of other employees and divisions of the Company, including regarding realization of functions of the current and preventive control by them. Internal audit has no right to participate in the coordination and decision making within the limits of realization of the financial and economic activity of the Company and subsidiaries and affiliates.

4.4. The Company introduces a risk-focused approach to implementation of the internal audit providing planning and carrying out of verifying events on the basis of risk assessment - for concentration of attention on the most vulnerable objects and lines of business (transition from "periodic" checks to check on key problems and questions).

4.5. When carrying out audit the approaches providing an optimum ratio of chosen measures and resources and also reasonable sufficiency of volume and character of used audit procedures for audit goal achievement should be observed.

4.6. The Company strives not to exceed costs for internal audit over the advantages received as a result of the performed audit.

5. Requirements to internal auditors

The following requirements are made to internal auditors of the Company:

5.1. Requirements to qualification

Internal auditors, preferably, should have:

- higher economic (financial) or legal education received in Russian institutions of higher education, having the state accreditation, conventional foreign organizations of higher education;

- the certificate of an auditor (issued by the Ministry of Finance of Russia till January, 1st, 2011 or issued in the order established by sections 1-8 of articles 11 and section 4 of article 23 of the Federal law “On the auditor’s activity” since January, 1st, 2011), or the certificate of a professional accountant (issued by the Institute of Professional Accountants and Auditors of Russia), or the CIA certificate of the International Institute of Internal Auditors, or the internal auditor qualification (confirmed with the International Federation of Accountants - IFAC);
- knowledge and skills necessary for accomplishment of the objectives of internal audit, including, about key risks and control procedures in the volume sufficient for performance of tasks in view;
- membership in a professional association of internal auditors.

5.2. Requirements to personal qualities

Internal auditors should possess set of following personal qualities:

- faultless business (professional) reputation;
- decency - being truthful, sincere, fair, constrained and reasonable;
- openness - perceiving alternative ideas or points of view;
- diplomacy - being able to co-operate tactfully with people;
- attentiveness and observation - noticing characteristic and essential details;
- persistence - being persevering, focused on goal achievement;
- resoluteness - in due time making decisions on the basis of logic reasons and analysis;
- independence - acting and carrying out the functions independently, at the same time productively to co-operate with others.

5.3. Requirements to observance of the Code of Ethics of internal auditors

When performing their professional obligations the internal auditors should be guided by the Code of Ethics of internal auditors (the appendix to this Policy). Conformity assessment of the activity of internal auditors to requirements of the Code of Ethics is conducted according to organizational-administrative documents approved in the Company.

6. Internal audit functions

For the goal achievement, specified in item 3 of this Policy, Internal audit carries out the following functions:

6.1. Performance of internal audits in the Company and subsidiaries and affiliates.

Internal audits are performed in the form of checks of structural units, processes, lines of business, projects in the Company (with the current legislation observance) on the questions:

- efficiency of creation of processes and goal achievement of the processes;
- implementation of provisions of a policy in the field of internal control, efficiency of accomplishment internal control built in a process;
- implementation of provisions of a risk management policy, estimation and risk analysis in processes;
- observance of requirements of the legislation, industry regulatory and legal acts, internal regulations, standards and other administrative documents, except for technical regulations, standards and rules regulating the activity to operate electric grid facilities;
- formation and execution of plans and budgets, achievement of target indicators;
- revealing reasons of deviations of the planned and target indicators, the latent losses in resource usage;
- target, rational and effective use of resources;
- arrangement of safe keeping of assets;
- reliability, accuracy and completeness of the financial and administrative reporting;
- execution of decisions of management bodies and instructions (orders) of the Sole executive body of the Company;
- implementation by the Company of orders of public authorities of the Russian Federation concerning functioning and development of the electric grid complex.

6.2. Participation in carrying out of audits of subsidiaries and affiliates. Internal auditors, participating in verifying activity of Audit Commissions of subsidiaries and affiliates as members or experts, use received during audits the information and

documents for making conclusions within the accomplishment of the functions specified in this item of the Policy.

6.3. Participation in expert and analytical events under instructions of the Sole executive body (General Director) of the Company.

6.4. Participation in special (office) investigations on facts of abusing (fraud), causing to the Company and subsidiaries and affiliates some damage, no-purpose, inefficient resource usage.

6.5. Revealing directions of enhancement of corporate management, efficiency of internal control and risk management processes by results of internal audits and estimations, development of reasonable offers on elimination of the revealed lacks and recommendations about increase of efficiency and productivity of the activity of the Company and subsidiaries and affiliates.

6.6. Control over elimination of infringements and lacks revealed following the results of internal audits and checks.

6.7. Estimation of reliability and efficiency of functioning of internal control, risk management and corporate management systems in the Company and subsidiaries and affiliates.

6.8. Interaction with the Board of Directors / Audit Committee of the Board of Directors, the Audit Commission, executive bodies of the Company, external auditors and advisers for the questions, concerning internal audit, internal control, risk management and corporate management.

6.9. Informing shareholders on a condition of internal control, risk management and corporate management systems, the main problems, tendencies and changes in the activity of the Company and subsidiaries and affiliates.

6.10. Other functions directed to solve the tasks, specified in the Policy.

7. Organization of activity of Internal audit

7.1. For most effective fulfillment of the obligations the Internal audit should:

- be independent of the Company's operational management;

- have unlimited² access to all types of activity, documents, information systems, structural units and subsidiaries and affiliates of the Company.

The head of Internal audit should have the right of direct and unobstructed informing the Sole executive body (General Director) of the Company and Audit Committee of the Board of Directors of the Company.

7.2. The candidature of the head of Internal audit is to approved by the Audit Committee.

7.3. Internal audit function is performed by carrying out planned and unscheduled checks.

7.3.1 Scheduled checks are determined by the annual plan of work of Internal audit. The annual plan of work of Internal audit is formed taking into account the analysis of the main tendencies and risks, the requirements contained in internal documents of the Company, and also recommendations of executive bodies of the Company and offers of structural units of the Company. The Annual plan is coordinated with the Sole executive body (General Director) of the Company and approved by the Audit Committee of the Board of Directors of the Company.

7.3.2. Unscheduled checks and consultations are conducted under separate tasks of the Audit Committee of the Board of Directors and executive bodies of the Company, stated in decisions of the Audit Committee and a joint executive body³, orders of the Sole executive body (General Director) and other documents. Thus unscheduled checks and consultations under separate tasks of executive bodies are conducted at observance of the following conditions:

- availability of necessary resources at the disposal of Internal audit;
- coherence of tasks with the internal audit objectives and functions.

7.4. The head of Internal audit should provide appropriate quality of work of

² Taking into account organizational and administrative documents acting in the Company on protection of the information of the limited access. Concerning the information constituting the state secret, the rights listed in this item, are implemented only at availability with corresponding employees of Internal audit or involved advisers of the necessary form of admission to the state secret.

³ If present

internal audit, and also monitoring of general efficiency of events for quality assurance of work of internal audit. The specified process shall include independent control and external evaluation. External evaluation shall be carried out at least once in five years.

7.5. Regulating documents are developed for quality provision of internal audit, its enhancement and application of new approaches, increasing efficiency and rationality of internal audit and carrying out in the Company.

The specified documents are developed on the basis of uniform approaches in the field of internal audit, implemented in the Group of companies Rosseti JSC, taking into account the best practice, including on the basis of prepared by the International Institute of internal auditors International professional standards of internal audit, including standards of quality characteristics of internal audit, standards of the activity of internal audit, and practical application standards.

The objectives of development of the specified documents:

- quality provision of internal audit, contribution to its enhancement and application of new approaches;
- assistance in the use of scientific achievements and new technologies in the work;
- increase of efficiency and rationality of organization and carrying out of internal audit;
- strengthening the internal audit and control prestige in the Company.

8. Powers of internal auditors

When carrying out its activity the Internal audit has the right:

8.1. Taking into account the restrictions established by regulations of the Russian Federation, the Charter and internal documents of the Company and subsidiaries and affiliates⁴:

- to enquire and in due time to receive in an oral or written form (on the paper or electronic carrier) any information according to tasks of checks, and also

⁴ Taking into account organizational and administrative documents acting in the Company on protection of the information of the limited access. Concerning the information constituting the state secret, the rights listed in this item, are implemented only at availability with corresponding employees of Internal audit or involved advisers of the necessary form of admission to the state secret.

explanations on revealed facts during the checks;

- to get access to all information systems, organizational, production, financial, economic documents for accomplishment of tasks of checks;
- to copy any documents, as in paper, and in electronic form, concerning the check;
- to get access to all buildings, constructions, premises, offices, production areas of economic and household purpose for accomplishment of tasks of checks;
- to perform a photo and video shooting and to produce a sound recording during carrying out of check after informing corresponding employees on it;
- to interview employees of the Company and subsidiaries and affiliates (in coordination with the head of a corresponding structural unit) on the questions connected with the check;
- to receive necessary assistance from personnel of the Company and subsidiaries and affiliates where the check is conducted to involve employees of structural units of the Company and subsidiaries and affiliates as experts;
- to enquire in the Company and subsidiaries and affiliates any information necessary for control over the course of accomplishment of the work plan on elimination of remarks, made by results of audits, and estimation of results of the work;
- to use expert and consulting services at internal audit carrying out.

8.2. To demand from persons responsible for elimination of revealed lacks:

- timely development, approval and execution of action plans on elimination of the revealed lacks;
- timely provision of status reports of accomplishment of events;
- provision of the specifying or confirming information and documents for the status of accomplishment of action plans.

9. Relations with audited structural units of the Company and subsidiaries and affiliates

9.1. At planning of its work the Internal audit should closely cooperate with the management of the Company to cause the least inconveniences in the course of

realization of the current activity by it.

9.2. The management of the Company and subsidiaries and affiliates should take measures to provide implementation of the functions and powers of the Internal audit envisaged by item 8 of this Policy.

Any interference with the work of the internal auditor by employees and the management of the Company and subsidiaries and affiliates is inadmissible.

In case of prevention (restriction) of the internal audit activity the corresponding act is arranged, which is a basis for taking the following measures by the management of the Company and subsidiaries and affiliates:

- bringing the persons, who have admitted such restriction, to a disciplinary responsibility according to the labour law and organizational-administrative documents acting in the Company;
- carrying out office investigation (check) concerning the persons, who have admitted such restriction, and also concerning information and documents, which have not been given;
- suspending the persons, who have admitted such restriction, from duty for the period of carrying out the office investigation (check).

9.3. Any written request, made the internal auditor, should contain reasonable terms during which the information, demanded by him or her, should be prepared and given.

Any non-observance of terms can be presented as a restriction of the internal auditor activity, and the given fact can be brought to the notice of the top management of the Company. The specified infringement can be a basis for drawing up an act about restricting the auditor's activity and accomplishment of the subsequent actions provided by subparagraph 2 of item 9.2 of the Policy.

Any changes of the terms of provision of the information, demanded by the auditor, should be agreed with the person, who has signed the inquiry, or with the superior head of the person, who has signed the request.

9.4. Before issuance of a final report by results of the internal audit some discussion

is conducted with the management of the audited structural unit of the Company / subsidiaries and affiliates with a view of the coordination of remarks and recommendations about their elimination.

9.5. Reports by results of the internal audit are sent to the Sole executive body (General Director) of the Company, to the Sole executive body of subsidiaries and affiliates. The questions demanding immediate action are passed in the shortest terms.

9.6. The Internal audit, conducting independent checks, gives reports by results of work to those managers of the Company for who the given information is necessary and who are authorized to accept relevant decisions.

9.7. The management of the Company / subsidiaries and affiliates is responsible for elimination of infringements and lacks revealed during checks, conducted by the Internal audit.

10. Control of activity of internal auditors and reporting provision

10.1. Within the organization of the current activity of the Company the Internal audit is administratively subordinated to the Sole executive body (General Director) of the Company and functionally subordinated to the Audit Committee of the Board of Directors of the Company.

10.2. The Audit Committee of the Board of Directors of the Company estimates the activity of internal audit.

10.3. The head of the Internal audit:

10.3.1. Regularly informs the Audit Committee of the Board of Directors and executive bodies of the Company on essential lacks of an internal control and risk management system.

10.3.2. Quarterly reports to the Audit Committee of the Board of Directors of the Company about execution of the Internal audit work plan and results of the internal audit function, and also about other aspects referring to the Internal audit activity.

10.3.3. Annually informs the Audit Committee of the Board of Directors and executive bodies of the Company about the internal control and risk management

system performance evaluation, and also informs the Sole executive body (General Director) of the Company and reports to the Audit Committee of the Board of Directors of the Company about the activity within the program of guarantees and improvement of quality of the Internal audit and its results.

The Code of Ethics of internal auditors of IDGC of the South, JSC

The Code of Ethics of internal auditors is a document determining professional principles of the Internal audit activity and establishing rules of behaviour of internal auditors.

The objective of this Code is maintenance and distribution of high ethical standards of the internal auditor profession in the Group of companies Rosseti JSC. This Code is intended for all employees who carry out internal audit functions.

This Code includes two main components:

- 1) principles concerning the profession and practice of internal audit;
- 2) rules of behaviour, which determine norms of behaviour of internal auditors, help them interpret and put the professional principles into practice.

The trust to the Internal audit and confidence of its reliability is largely a consequence of observance by internal auditors of the professional principles and rules of behaviour established by this Code.

The Audit Committee of the Board of Directors and the management of the Company, audited subsidiaries and affiliates and structural units of the Company should be completely assured of accuracy and reliability of reports and conclusions of the Internal audit, and also justice and impartiality of internal auditors.

1. Internal audit

principles 1.1.

Independence

Independence is understood as organizational independence from an audited entity. Internal auditors should be free from conditions which create threat of impartial accomplishment of their obligations. The given principle helps perform audit without prejudice and express objective judgments.

1.2. Honesty

Honesty of the internal auditor is the base on which the trust to opinion of the auditor is based.

1.3. Objectivity

Internal auditors show the highest level of professional objectivity in the course of collection, estimation and transfer of information about the audited entity. Internal auditors do the weighed estimation of all relevant circumstances and in their judgments are not subject to influence of own interests or interests of other persons.

1.4. Confidentiality

Internal auditors validly concern confidential information which they receive in the course of their activity, and do not disclose the information without corresponding authorisations for that, except as specified, when disclosing of such information is dictated by legal or professional obligations.

1.5. Professional competence

Internal auditors apply knowledge, skills and experience, necessary to render services in the internal audit sphere.

2. Rules of behaviour of the internal auditor 2.1.

Independence

2.1.1. For achievement of the independence degree necessary for effective accomplishment of the obligations:

- internal auditors should perform the activity with observance of the principle of independence of operational management;
- the head of internal audit should have the right of direct and unobstructed informing of the top executive management and the Audit Committee of the Board of Directors of the Company.

2.1.2. Internal auditors express the opinion which is not dependent on influence of factors, capable to compromise it, and act fairly, showing objectivity and professional skepticism. Professional skepticism is a critical estimation of weightiness of received proofs and studying of the proofs contradicting any documents or statements of the management or casting some doubt on reliability of such documents or statements.

2.1.3. Internal audit has no right to participate in the coordination and decision

making within realisation of the financial and economic activity of the Company and subsidiaries and affiliates. For objectivity provision at carrying out of the subsequent control the internal auditor has no right to vote at sessions of committees and commissions, to participate in the coordination of drafts of budget, contracts and payments, etc.

2.1.4. Internal audit cannot be performed by persons performing activity and-or functions, subject to check, during the audited period and within 12 months after end of such activity and realisation of the functions.

2.2. Honesty

Internal auditors:

2.2.1. Should perform the work fairly, honesty and responsibly.

2.2.2. Should act within the limits of regulatory and legal acts and if that is demanded by the regulatory and legal acts or professional standards, disclose the corresponding information.

2.2.3. Should not participate in campaigns or actions discrediting the profession of an internal auditor or an organisation, included in the Group of companies Rosseti.

2.2.4. Should respect legally and ethically the justified goals of the activity of the Group of companies Rosseti and bring the contribution to their achievement.

2.3. Objectivity

Objectivity is an individual quality of the internal auditor.

Internal auditors:

2.3.1. Should not allow any conflict of interests, participate in any activity which could cause damage of their impartiality or be perceived as causing such damage. It also covers some activity and relations which can contradict interests of the Company and/or subsidiaries and affiliates.

2.3.2. Should disclose all material facts known to them which, without being disclosed, can deform reports on the audited entity.

2.3.3. Should separate facts from conjectures.

2.3.4. Should refuse carrying out of checks in case of finding persons, holding executive positions in the audited divisions of the Company / audited subsidiaries

and affiliates, having relationship with them.

2.4. Confidentiality

Internal auditors:

2.4.1. Should observe rules of confidentiality of the information received during the course of performance of their obligations.

2.4.2. Should not use the information in personal interests or in any other way, contradicting the law or able to cause damage to goal achievement of the Company and-or subsidiaries and affiliates.

2.4.3. Should observe the principle of confidentiality after the termination of labour relations with the employer. At change of a place of work internal auditors have the right to make use of the previous experience, however they should not use or disclose any confidential information received as a result of their professional or business relations.

2.5. Professional competence

Internal auditors should:

2.5.1. participate only in those tasks for which accomplishment they possess sufficient professional knowledge, skills and experience.

2.5.2. perform the functions only according to this Code of Ethics of internal auditors of IDGC of the South JSC, and also the professional standards of internal audit acting in the Company.

2.5.3. consider complexity, significance and importance of questions, in which relation the Board of Directors / the Audit Committee of the Board of Directors and executive bodies of the Company are given guarantees to, and also estimate probability of material mistakes, illegal actions or non-observance of procedures.

2.5.4. Continuously raise professional skills, and also efficiency and quality of rendered services.