

**REPORT**  
**of the RusHydro Internal Audit Service**  
**on the Results of Assessment of Reliability and Efficiency**  
**of the Internal Control, Risk Management, and Corporate**  
**Governance System of RusHydro for 2021**

May 11, 2022

**1. Overall Opinion**

The internal control, risk management, and corporate governance system of RusHydro functions properly in all material respects.

In the course of control activities, the Internal Audit Service has identified certain areas for improvement, communicated to the executive body, and the Board of Directors / the Audit Committee under the Board of Directors of RusHydro.

**2. Assessment Justification and Subject**

The Report has been drafted in accordance with the requirements of Federal Law No. 208-FZ dated December 26, 1995 “On Joint-Stock Companies”.

In pursuance of the RusHydro’s Internal Audit Policy and the Timetable of Control Measures for 2021 to 2022, RusHydro’s Internal Audit Service has assessed the reliability and efficiency of the internal control and risk management system, and has assessed corporate governance, for 2021.

The assessment of the reliability and efficiency of internal control and risk management system and corporate governance system is based on the results of a separate assurance engagement<sup>1</sup>, as well as information obtained in the course of internal controls conducted by RusHydro’s Internal Audit Service during 2021<sup>2</sup>.

RusHydro’s executive body is responsible for the creation and effective functioning of the risk management, internal control and corporate governance system in RusHydro.

RusHydro’s Board of Directors plays a key role in defining principles and approaches to the organization of the risk management, internal control and corporate governance system, and oversees efficient operation thereof.

**2.1. Assessment of Reliability and Efficiency of the Internal Control System**

The reliability and efficiency of internal controls have been assessed by analyzing the following core elements of the internal control system, which are related to each other within the framework of common goals and objectives: “*Control Environment*”, “*Control Measures*”, “*Information and Communications*”, “*Monitoring*”, and “*Risk Assessment*.”

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<sup>1</sup> Assessment at the “macro” level

<sup>2</sup> Assessment at the “micro” level

According to the assessment results, the level of internal control development at RusHydro has increased. The average score for the assessment of elements of internal control for 2021 have amounted to 5.3 points out of the maximum possible 6 points, which corresponds to the development level “Optimal”<sup>3</sup>.

## **2.2. Assessment of Reliability and Efficiency of Risk Management**

Reliability and efficiency of risk management system have been assessed against the following core elements: “*Risk Assessment*”, “*Implementation of Risk Management Activities*”, “*Controls*”, “*Information and Communications*”, “*Monitoring*”, “*Internal Environment*”, “*Goal Setting*”, and “*Event Definition*.”

According to the assessment results, the level of risk management development at RusHydro has increased. The average score for the assessment of elements of risk management for 2021 has amounted to 5.1 points out of the maximum possible 6 points, which corresponds to the development level “Optimal”<sup>3</sup>.

The high level of RusHydro’s internal control and risk management system was also confirmed by an independent assessment conducted by EY in 2021.

## **2.3. Assessment of Corporate Governance Practices**

The corporate governance practices have been assessed against the following elements: “*Enforcement of Shareholders’ Rights*”, “*Composition and Activity of the Board of Directors*”, “*Composition and Activity of Executive Bodies*”, “*Disclosure of Information on the Company’s Activity*”, “*Risk Management, Internal Control, and Internal Auditing*”, and “*Corporate Social Responsibility and Business Ethics*.”

According to the assessment results the RusHydro’s corporate governance system has been recognized as “Efficient”<sup>4</sup>, with the overall assessment at year-end 2021 being 94% out of 100%.

High level of RusHydro’s corporate governance in 2021 has been confirmed by the Russian Institute of Directors based on the results of the National Corporate Governance Rating.

## **3. Basis for Our Opinion**

The Internal Audit Service has conducted this assessment in accordance with RusHydro’s local regulatory documents<sup>1,2</sup>, developed in accordance with the Code of Corporate Governance<sup>5</sup>, the Methodology for Self-Assessment of Corporate

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<sup>3</sup> Under the RusHydro’s Methodology for Assessing the Efficiency of Internal Control and Risk Management System.

<sup>4</sup> Under the RusHydro’s Methodology for Assessing Corporate Governance.

<sup>5</sup> Recommended by Letter No. 06-52/2463 of the Bank of Russia dated April 10, 2014.

Governance Quality in Companies Partially Owned by the State<sup>6</sup>, and other regulatory documents.

The scope of assessment is determined to the extent sufficient for expressing an opinion, taking into account RusHydro's structure, and accounting processes and controls used, as well as the specificities of the industry wherein RusHydro carries out its activities. The audit evidence obtained by the Internal Audit Service is reliable and sufficient to provide a basis for an opinion.

The Executive Body, the Audit Committee under the Board of Directors, and the Board of Directors of RusHydro regularly review issues of improving the reliability and efficiency of internal control and risk management systems, as well as those of corporate governance, including subject to the results of control measures as carried out by the Internal Audit Service. RusHydro's Management develops necessary corrective actions for identified shortcomings and areas for improvement. The Internal Audit Service monitors the completeness of the development of such corrective actions and their status.

#### **4. Organizational Independence of the Internal Audit Service**

In terms of reporting, the Internal Audit Service is functionally subordinate to the RusHydro's Board of Directors, while being administratively subordinate to the Chairman of the Management Board – General Director of RusHydro, and carries out its activities in line with the principles laid down in the RusHydro's Internal Audit Policy.

The Timetable of Control Measures of the Internal Audit Service for 2021 has been fulfilled in full. There have been no limitations on powers in implementing the internal audit function that could adversely affect the efficient performance of the function.

The Audit Committee under the RusHydro's Board of Directors confirmed the independence and efficiency of the Internal Audit Service in 2021.

Head of the RusHydro Internal Audit Service

O. E. Azhimov

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<sup>6</sup> Approved by Order No. 306 of the (Russian) Federal Agency for State Property Management dated August 22, 2014.