

APPROVED

by the decision of the Board of Directors

of IDGC of Centre

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**Internal Control Policy
of IDGC of Centre, JSC**

(new edition)

Moscow

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1. General provisions

1.1. Internal Control Policy of IDGC of Centre (further – the Policy) is developed according to the legislation of the Russian Federation, Articles of Association of IDGC of Centre (further – the Company), the Company’s Code of Corporate Governance, other internal documents of the Company and is based on recommendations of the best world experts in the field of the internal control system organisation.

1.2. The Policy is the internal document of the Company and determines procedures, the targets and principles of the organisation of the internal control system, the roles, responsibility and interaction of its participants, kinds and levels of realisation of the internal control of financial and economic activity of the Company.

1.3. The Policy provisions are obligatory to application for all structural divisions of the Company.

2. The basic terms and definitions

The internal control is the process directed on provision of reasonable confidence of achievement of the strategic and operational targets of the Company, effective and productive resource utilisation of the Company, safety of assets, observance by the Company of requirements of the legislation of the Russian Federation, branch standards, internal normative documents of the Company and presenting authentic reporting.

Internal control system (ICS) - all range of procedures, methods and mechanisms of the control created by executive powers and Board of Directors of the Company for provision of effective realisation of the internal control of financial and economic activity of the Company.

Risk management system (RMS) - set of procedures, techniques, information systems directed on goal achievement and tasks of risk management.

Control procedures – set of actions and events directed on exception (decrease) of probability of realisation of risks of the Company. Control procedures are an integral part of business processes of the Company.

Control points - criteria of the control which connect factors of risks of a business process with strategic targets of the Company and the business process targets.

Participants of the internal control system (ICS) – Board of Directors, Internal Audit Commission, Audit Committee of Board of Directors, the General director, Company’s Management Board, internal audit and risk management Division, and also officers and employees of the Company responsible for accomplishment of control procedures, fixed to them with internal documents of the Company.

Company – IDGC of Centre.

Structural division – division in the organizational structure of the Company.

Subsidiaries and associates of the company – an affiliated dependent company of IDGC of Centre, performing activity on electric power transmission, grid connection, power retail, energy service and repair activity.

Internal Audit and Risk Management Division – internal audit and risk management Division.

Business process - a steady, purposeful, controllable set of the interconnected operations ordered on time and performers with exact determination of input and output of a business process.

Risk - uncertainty concerning Company's goal achievement. Within the limits of this document the risk (risk event) is understood as a probable event which can affect achievement of strategic and operational targets of the Company.

Matrix of risks and control procedures - the document describing the control environment of process in the form of a table, containing the description of steps of a process, the description of risks of a process and the description of control procedures.

COSO - The Committee of Sponsoring Organizations of the Treadway Commission, COSO — is the voluntary private institution created in the United States and intended for development of corresponding recommendations for corporate governance on the major aspects of organizational management, business ethics, financial reporting, internal control, risk management of companies and counteractions to swindle.

COSO Conceptual bases of the internal control - Model of COSO determines the internal control as the process performed by Board of Directors, management and other personnel of the company, intended for provision of "reasonable confidence» of achievement of strategic and operational targets of the Company.

COSO ERM – an enterprise risk management model of the Committee of Sponsoring Organizations of the Treadway Commission, widely used in world risk management practice.

Internal audit – the activity directed on estimation of reliability and efficiency of ICS and RMS in the Company.

3. The internal control system targets

The Company's internal control system (further - ICS) - all range of procedures, methods and mechanisms of the control created by executive powers and Board of Directors of the Company for provision of effective realisation of the internal control of financial and economic activity of the Company. ICS is an element of system of corporate governance of the Company.

Main objectives of ICS are:

1. Enhancement of system of corporate governance of the Company and subsidiaries and associates of the company for provision of reasonable confidence of observance of interests and rights of shareholders and investors of the Company and subsidiaries and associates of the company in terms of:

- effective and productive resource utilisation of the Company and subsidiaries and associates of the company;
- safety of assets of the Company and subsidiaries and associates of the company;
- observance of requirements of the legislation of the Russian Federation, local regulations of the Company and subsidiaries and associates of the company (compliance-control);
- reliability, objectivity of the administrative and accounting (financial) reporting and reliability of their preparation system.

2. Increase of efficiency and productivity of activity of the Company and subsidiaries and associates of the company at the expense of enhancement of risk management processes and introduction of effective control procedures.

3. Assistance of timely adaptation of activity of the Company to changes of the external and internal environment.

4. Bases of the organisation of the internal control system

4.1. ICS in corporate governance system

ICS is one of elements of corporate governance system of the Company, providing acceptance of reasoned decisions by governing bodies of the Company, directed on increase in shareholder value of the Company at the expense of increase of degree of responsibility and the accountability of participants of system of corporate governance at all levels of management of the Company.

Enhancement of ICS is implemented by the Company in subsidiaries and associates of the company by means of methods of corporate governance within the limits of realisation of the rights of a shareholder of subsidiaries and associates of the company and is based on the principles described in this Policy.

The control over financial and economic activity of subsidiaries and associates of the Company is performed by the Company according to Articles of Association of the Company, the Code of corporate governance of the Company and other internal documents of the Company.

4.2. Principles of the organisation of the internal control system

Basis of effective and reliable functioning of the internal control system of the Company is observance of following principles of ICS:

- integrity: ICS - an integral component of governance system of the Company at all its levels;
- integrated approach: ICS covers all lines of business of the Company, control procedures are performed in all business - processes of the Company at all levels of governance system;
- functioning continuity: constant effective functioning of the internal control system allows to warn in time of possibilities of origin of infringements and risks and in due time to reveal them;
- responsibility: all participants of ICS bear responsibility for proper execution of control procedures within the limits of the powers fixed in internal normative documents of the Company;
- indivisibility of responsibility: responsibility for execution of each separate control procedure is fixed only to one participant of ICS according to division of functional obligations in the Company;
- division of obligations: obligations are allocated proceeding from differentiation of powers on realisation of functions: initiation, authorisations, executions, accounting and control of fulfilment of financial and economic operations.
- unity of methodological base: internal control system functioning is performed on the basis of uniform approaches and standards at all levels of corporate governance of the Company;
- transparency: disclosing of the information for stakeholders in full;
- regulation: control procedures at all levels of management and in all business processes are formalized by local and internal normative documents of the Company;

- document recording: results of accomplishment of financial and economic operations and control procedures in the Company are properly documented and kept;
- authorisation: all financial and economic operations in the Company should be authorised (approved) or confirmed (permitted) by officers within their competence;
- resource capability: control procedures are provided with necessary resources and powers for their accomplishment;
- expediency: control procedures are performed taking into account their expediency and cost efficiency, that is costs for realisation of control procedures do not exceed effect from their realisation, as expressed in risk decrease;
- constant development and enhancement: control procedures continuously are improved and adapt for changes of internal and external environment.
- coordination and interaction: accomplishment of control procedures and enhancement of ICS is based on the effective and co-ordinated interaction of all participants of ICS at all levels of management of the Company.

4.3. Internal control system components

According to ICS COSO model the Company's internal control system consists of five interconnected components. These components provide an effective basis for the description and analysis of the internal control system performed in the Company. Five components include:

1. control environment;
2. risk assessment;
3. control procedures;
4. information and communications;
5. monitoring.

The description of elements of each component of ICS is given in Table 1.

Table 1. Components of the internal control

| Component of ICS | Elements of the internal control in the Company |
|------------------------------|--|
| Control environment | <p>The code of corporate governance of the Company approved by Board of Directors of the Company (Minutes # 009/06 of 18.10.2006):</p> <ul style="list-style-type: none"> – ethical principles; – internal policy and procedures. <p>Organizational structure:</p> <ul style="list-style-type: none"> – identification of the interconnected and consistent targets and tasks at various levels of management of the Company; – distribution and delegation of key powers and responsibility in the Company, provision of effective interaction of structural divisions and employees of the Company; <p>Distribution of powers and obligations:</p> <ul style="list-style-type: none"> – system of confirmation of powers in which frameworks employees act at accomplishment of their obligations; – division of key obligations between employees of the Company (including obligations on approval (permission) and approval of financial and economic operations, accounting of operations, provision, storage and reception of resources, analysis and check of operations); – dissemination to all employees of the Company of their obligations and responsibility in the field of the internal control; <p>Human Resources Policy:</p> <ul style="list-style-type: none"> – professional qualities and competence of employees; – hiring procedures; – performance evaluation of activity of employees; – training. <p>Documenting financial and economic operations and their recording in system of accounts.</p> <p>Local and normative documents of the Company.</p> |
| Risk assessment and analysis | <p>The risk management cycle is defined by Risk Management Policy of IDGC of Centre, approved by the Company’s Board of Directors</p> |
| Control procedures | <p>Auditing (subsequent) – the procedures directed on revealing lacks of processes and negative events after the</p> |

| Component of ICS | Elements of the internal control in the Company |
|--------------------------------|--|
| | <p>fact of their fulfilment.</p> <p>Directive – the procedures which target is the instructions on operations procedure for employees of the Company.</p> <p>Remedial – the procedures directed on corrective actions to or after origin of negative events.</p> <p>Preventive – the procedures directed on exclusion or sharp decrease of probability of negative events.</p> <p>Compensating – the procedures directed on compensation of lacks of the current control.</p> |
| Information and communications | <ul style="list-style-type: none"> – the organisation of system of collection, handling and information transfer, including forming of reports and messages containing the information on financial and economic and other activity of the Company, and also establishment of effective channels and the communication media providing vertical and horizontal communications in the Company; – establishment of effective communication of the Company with third parties; – access to the information received from internal and external sources; – revealing, registration, communicating to interested persons the necessary management information; – communicating to employees the acting policies of the Company, plans, instructions etc. |
| Monitoring | <ul style="list-style-type: none"> – determination of criteria and performance evaluation of activity of structural divisions, officers and employees of the Company; – risk-focused audit of business processes; – auditing checks; – analysis of conformity of actual indicators of financial and economic activity to planned targets; – regular self-evaluation of quality of the internal control system. |

4.4. Distribution of roles and responsibility of Participants of the internal control system

Distribution of roles and responsibility of Participants of ICS is presented in Table 2.

Table 2. Distribution of roles and obligations of Participants of ICS

| Participant | Role | Functions and obligations |
|---------------------------|----------------|---|
| Board of Directors | Sponsor | <ul style="list-style-type: none"> – determines the necessary level of development of ICS; – approves and makes changes in the Internal Control |

| Participant | Role | Functions and obligations |
|---|--|---|
| | | <p>Policy;</p> <ul style="list-style-type: none"> – gives instructions to Company executive powers about enhancement and development of ICS directions. |
| Audit Committee of Board of Directors of the Company | Controller | <ul style="list-style-type: none"> – performs supervision of efficiency of ICS, including gives evaluation of ICS performance; – performs compliance-supervision with laws of the Russian Federation and internal normative documents; – performs analysis of the annual financial (accounting) reporting, including estimation of an auditor's opinion, before its submission for consideration by Board of Directors of the Company and the interim (quarterly) financial (accounting) reporting before its disclosing; – considers a report of Internal Audit and Risk Management Division about results of the conducted control events and control procedures within the limits of performance evaluation of ICS and RMS; – prepares offers (recommendations) about enhancement of ICS at interaction with Internal Audit Commission. |
| General Director (Management Board) | Guarantor | <ul style="list-style-type: none"> – organises and bears responsibility for effective functioning of ICS in the Company. |
| Officers | Managers | <ul style="list-style-type: none"> – provide realisation of principles of ICS; – manage and own business processes; – bear responsibility for efficiency of achievement of operational targets of business processes; – organise the effective control environment of business processes, including provision of availability of effective control procedures and "embedding" of control procedures in the Company's business processes, and also realisation of the preliminary and current control; – provide timely inclusion of developed by Internal Audit and Risk Management Division control procedures in the local normative documents of the Company regulating activity of an accountable division/business process and job descriptions of accountable employees; – manage risks of business processes and organise execution of control procedures of business processes. |
| Internal audit and risk management division | Expert-controller, Methodology Expert-Coordinator | <ul style="list-style-type: none"> – performs the subsequent control in the Company; – carries out events for direct performance evaluation of ICS and RMS, reveals infringements at accomplishment of control procedures with presentation of results to Audit Committee¹ for realisation of functions by it on performance evaluation of procedures of ICS; – estimates quality of regulation of business processes; – performs the control of observance of procedures of internal control of ICS and reports about the revealed |

¹ in the presence of such Committee in the Company

| Participant | Role | Functions and obligations |
|---|-------------------|---|
| | | infringements to Audit Committee; – performs monitoring of elimination of infringements revealed as a results of risk-focused audits; – supervises documenting of financial and economic operations and their recording in system of accounts; – supports and develops methodological and normative base of ICS, and also approaches and criteria of estimation of its efficiency; – at the introduction stage co-ordinates standardization of the control environment of business processes of the Company and estimates quality of regulation of control procedures; – provides stakeholders with the information about ICS. |
| Employees of structural subdivisions | Performers | – perform control procedures within the limits of functioning of ICS, according to job descriptions and the established local normative documents; – perform monitoring of accomplishment of control procedures; – perform self-evaluation of efficiency of performed control procedures and participate in enhancement of ICS; – inform officers of both Internal Audit and Risk Management Division on revealed risks and infringements in functioning of business processes. |

5. Control procedures of ICS

5.1. Kinds of the control within the limits of ICS

Within the limits of ICS the following kinds of the control are performed:

- 1) **the preliminary** (preventive) control, is performed prior to the beginning of fulfilment of economic operations and directed on prevention and restriction of negative influence of events and factors which can affect achievement of the strategic and operational targets of the Company and subsidiaries and associates of the company, procedures of the preventive control are performed within the limits of the risk management system of the Company and subsidiaries and associates of the company;
- 2) **the current** control, is performed directly in the course of fulfilment of economic operations, directed on goal achievement of business process and provision of effective utilisation of resources at accomplishment of business processes;
- 3) **the subsequent** control, is performed after fulfilment of economic operations, directed on establishment of reliability of the reporting data, revealing of infringements, lacks or positive experience, conformity assessment of results of activity to the established target indicators.

5.2. The basic control procedures

Within the limits of **the preliminary control** the following control procedures are performed:

- the control of procedure of selection of the external auditor with a view of provision of its independence and estimation of the work plan of the external auditor;
- the analysis of business processes for the purpose of revealing "bottlenecks", estimation of existing control procedures, and also revealing the missing control procedures, the absence of which leads to origin of risky events;
- measures for risk management of the Company and performance evaluation of RMS.

The control procedures of the preliminary control are detailed in the Risk Management Policy of the Company approved by Board of Directors of the Company.

Within the limits of **the current control** the control procedures, which have been "embedded" in the business processes of the Company and described in the Regulations about the control environment and risks of the business processes, approved by Board of Directors of the Company, are performed.

The detailed elaboration of control procedures of the current control is performed in Matrixes of risks and control procedures of the business processes which are the appendix to the Regulations about the control environment and risks of the business processes, approved by Board of Directors of the Company.

Within the limits of **the subsequent control** the following control procedures are performed:

- the analysis and estimation of reliability and objectivity of the administrative and accounting (financial) reporting of the Company;
- the control of documenting of financial and economic operations and their recording in system of accounts;
- the analysis (monitoring) and performance evaluation and reliability of the internal control system. Testing of control procedures in terms of their availability, being documented and quality of execution;
- the compliance-control directed on provision of conformity of activity of the Company to requirements of the legislation of the Russian Federation, industry standards, internal normative documents, including requirements about counteraction to misuse of the insider information and market manipulation;
- consideration of results of investigations and measures undertaken by the Company on non-admission of the facts of corporate swindle and counteraction to cases of corruption.

The control procedures **of the subsequent control** are detailed in the Standards of internal audit approved by the executive office of the Company.

6. The normative base and standards of the Company in the field of the internal control

The internal documents of the Company, regulating ICS, are developed taking into account the provisions of this Policy.

In Table 3 the necessary² list of documentation of ICS and their purpose is presented.

² The list of normative documents of ICS can be supplemented with other documents if necessary.

Table 3. The list of normative documents

| Document | Purpose of document |
|---|---|
| Internal Control Policy | The internal document of the Company determining main principles of the organisation and strategy of development of ICS. |
| Regulations about the control environment and risks of business process (including the matrix of risks and control procedures) | The internal document describing the control environment and risks of business process of the Company. |
| Uniform provisions, regulations, instructions, normative-reference materials | The internal documents regulating ICS and obligatory to execution by all participants of ICS. |
| Forms of reporting on control procedures | Forms of the reporting of Structural divisions of the Company about accomplishment of control procedures. |
| Internal audit standards | The internal documents regulating the procedure and methods of realisation of internal audit, applied by Internal Audit and Risk Management Division at performing audit procedures |

7. Strategy of development of the internal control system

7.1. Strategy of development of ICS

Development and enhancement of ICS in the Company is directed on:

- provision of conformity of ICS to scales of activity of the Company and complexity of performed financial and economic operations;
- provision of due level of protection of interests of shareholders, investors and others interested in activity of the Company persons;
- application of the best International and Russian practice in the field of the internal control and risk management.

7.2. Process approach of ICS

The Company is focused on development of the process approach of activity management and building ICS for the purpose of achievement:

- unification, optimisation and efficiency of business processes and organizational structure;
- balanced actions of structural divisions;
- synergy effect from the joint, agreed activity of structural divisions and the Company's control bodies.

7.3. Levels of development of ICS

The internal control system level of development in the Company is determined according to the following criteria:

Level 1. The standardised internal control system:

- simple administering principles are established;
- the control environment and business processes (procedures and control mechanisms) are documentary arranged;
- control procedures are performed and traced;
- control procedures adapt for changes of internal and external environment;
- internal audit performs risk-focused audit of separate business processes;
- dissemination of the best practice is performed in the Company;
- human resources training on enhancement of ICS is performed.

Level 2. The optimised internal control system:

- administering principles are described in detail;
- regular and accessible for analysis monitoring of accomplishment of control procedures is performed and their continuous improvement by results of risk-focused audits of business processes;
- control procedures constantly adapt for change of risks and are documented;
- the documentary procedure of registration of control procedures is standardised;
- the risk-focused audit and monitoring of ICS is performed on a regular basis.

Level 3. The automated internal control system:

- control procedures are completely in agreement with other control and auditing functions;
- RMS and ICS act as one integrated system;
- continuous improvement of ICS;
- accomplishment of control procedures is automated;
- monitoring of execution of control procedures is automated;
- monitoring of risks and efficiency of control procedures is performed on the basis of the automated tools of monitoring of key risk indicators in a constant mode.

In subsidiaries and associates of the company the Strategy of development of the internal control system and process approaches of ICS are implemented by the Company by means of corporate governance methods, within the limits of realisation of the rights of a shareholder of subsidiaries and associates of the company.

8. Final provisions

8.1. This Policy and also all additions and changes for it are approved by the Company's Management Board of Directors according to internal documents of the Company.

8.2. The issues, which have been not settled by this Policy, are regulated by the current legislation, decisions of Board of Directors of the Company, internal regulations of the Company.

8.3. If as a result of change of the legislation or standard legal acts of the Russian Federation separate provisions of this Policy conflict to them, these clauses become invalid, and until the modification of this Policy the Company is guided by the current legislation and regulatory legal acts of the Russian Federation.