

APPROVED  
by the decision of the Board of Directors of  
Joint-Stock Company  
“Moscow United Electric Grid Company”  
as of December 26<sup>th</sup>, 2008  
(minutes No. 78 as of December 26<sup>th</sup>, 2008)

**REGULATIONS**  
**for the internal control procedures of**  
Joint-Stock Company  
“Moscow United Electric Grid Company”

## 1. GENERAL PROVISIONS

1.1. The present Regulations are developed in accordance with active legislation of the Russian Federation, Corporate Code of Conduct, recommended for application by Decree of FSC of Russia #421/r as of April, 4<sup>th</sup> of 2002, Articles of JSC “Moscow United Electric Grid Company” (hereinafter, the Company), other internal documents of the Company.

1.2. The present Regulations is the internal document of the Company defining targets and objectives of internal control, internal control procedures, subjects responsible for implementation of internal control procedures as well as persons responsible for the control over realization of internal control procedures.

## 2. BASIC TERMS AND DEFINITIONS

**Internal control** is a process aimed at implementation of reasonable guarantee for achieving aims of efficient and resultative usage of Company’s resources, asset safety, observance of legislative requirements and submission of authentic reporting.

**Internal control procedures** are a documentary fixed system of measures for implementation of efficient internal control over execution of Company’s financial and economic activities and revealing and settlement of non-typical operations, and also revelation, limitation and prevention of financial and operating risks and possible abuses by executive officers of the Company.

**Internal control subjects** are the Board of Directors, Audit Committee of the Board of Directors, the Director General, Company’s department authorized to exercise internal control/audit as well as other departments and personnel of the Company, responsible for execution of internal control functions assigned to them (by Company’s internal documents).

**Risk** is an event, possessing two characteristics: 1) probability of event occurrence (its beginning); 2) damage as a consequence of the event occurrence.

**Audit** is a control action or investigation of financial standing at a certain sphere of Company’s activity.

## 3. TARGETS AND OBJECTIVES OF INTERNAL CONTROL

3.1. Internal control is aimed at prevention of risks in Company’s financial and economic activity, at timely measure-taking for it’s removal, at revelation and mobilization of intraeconomic facilities and reserves of income earning and at rendering assistance to the Company’s management in efficient execution of administrative functions.

3.2. Internal control calls upon to provide the execution of following functions:

- ensuring of investors’ confidence in the Company and its’ managing bodies, protection of shareholders’ capital investments and Company’s assets.
- provision of fullness, reliability and authenticity of financial, accounting, statistic, administrative information and reporting of the Company;
- provision of observation of normative legal acts of the Russian Federation, resolutions of Company’s managing bodies and Company’s internal documents;
- ensuring of asset safety and efficient usage of Company’s resources;
- provision of implementation of strategic goals development in the most efficient way;
- provision of timely revelation and analysis of financial and operating risks which are able to have a significant impact on achieving the Company’s aims regarding to financial and economic activities.

#### **4. MANAGING BODIES AND DEPARTMENTS OF THE COMPANY RESPONSIBLE FOR INTERNAL CONTROL**

- 4.1. Company's Board of Directors determines internal control policy and realizes estimation of efficiency of internal control procedures.
- 4.2. Audit Committee of the Board of Directors realizes overall estimation of efficiency of internal control procedures in the Company (including estimation on the base of announcements and reports of Company's Department authorized to exercise internal control/audit).
- 4.3. The Director General of the Company bears responsibility for the functioning of Company's internal control procedures.
- 4.4. Internal control is implemented over main financial and economic activities of the Company, including:
- financial activity;
  - economic activity;
  - investment activity;
  - other activities of the Company.
- 4.5. Direct estimation of adequacy, sufficiency and effectiveness of internal control procedures as well as control over observance of internal control procedures are implemented by a separate structural department of Company's executive body - Company's department authorized to exercise internal control/audit.
- 4.6. For the purpose of provision of systematic control over financial and economic activities of the Company internal control procedures are carried out by a department authorized to exercise internal control/audit in close interaction with other bodies and departments of the Company.
- 4.7. Functions, rights and liabilities, responsibilities of Company's department authorized to exercise internal control/audit are stipulated by the Company's internal documents. These documents as well as other documents directly or indirectly concerning issues of internal control can not contradict the present Regulations.

#### **5. INTERNAL CONTROL PROCEDURES**

- 5.1. Internal control of the Company includes the procedure below:
- exercise of a control over development and execution of business plan approved by the Board of Directors;
  - revelation of infringements by inspection, monitoring and analysis of auditor results at the Company's Branches, representative offices and structural departments;
  - activities on prevention of infringements by submitting information on revealed significant infringements and defects to the Company's structural departments;
  - control over elimination of revealed infringements;
  - revelation and analysis of risks in financial and economic activities of the Company;
  - monitoring and development of measures taken to minimize risks in financial and economic activities;
  - arrangement of collection, processing and transmission of operating, financial and other information, including forming reports containing operating, financial and other information on the Company's activities as well as establishment of effective channels and communication means, ensuring vertical and horizontal relations inside the Company;
  - determination and dissemination between the Company's employees of their liabilities in internal control;
  - execution of internal control procedures approved by the Company's;
  - proper recording of internal control procedures.

## 6. FUNCTIONS OF INTERNAL CONTROL SUBJECTS

6.1. A department authorized to exercise internal control/audit according to its competence executes the following internal control functions:

- audit of accounting and financial information submitted by departments of the executive office, the branches and representative offices of the Company, including expertise of means and methods used for identification, evaluation, classification of such information and accounting as well as special study of separate statement items, including detailed audit of operations and account balances;
- inspections on observance of legislation and internal normative documents of the Company as well as execution of resolutions made by managing bodies and Company's management instructions;
- audit of availability, condition, protection and usage of the Company's property;
- special investigations of separate cases, for instance, suspicion in abuse;
- development and submission, in a stipulated order to Company's managing bodies, of conclusions on audit results as well as proposals on elimination of infringements, violations revealed in the course of the audit and recommendations on increase in management efficiency;
- executes other functions set forth by the Company's internal documents.

6.1.1. A department of the Company authorized to exercise internal control/audit makes inspections in accordance with a developed annual/quarterly audit schedule being a subject to agreement with Audit Committee of the Board of Directors and approved (adjusted) by the Company's Director General (another person by his order) as well as unscheduled inspections on a resolution of the Company's Director General (a person authorized by him).

In case of necessity, employees of the core departments as well as independent experts are engaged to make an inspection.

A department authorized to exercise internal control/audit forms and approves a plan for each inspection.

6.1.2. Organizational facilities and submission of required documents for inspection are managed by heads of Company's departments, the branches and representative offices within 3 (three) days upon requests of Company's department authorized to exercise internal control/audit.

6.1.3. Results of the inspections carried out by Company's department authorized to exercise internal control/audit are presented in an inspection report signed by employees of the department authorized to exercise internal control/audit and heads of departments, the branches and representative offices that underwent audit. The act is accompanied by explanations on the facts disclosed in it as well as copies of the required documents signed by the head of Company's department that underwent inspection.

6.1.4. Company's department authorized to exercise internal control/audit according to the form in the Appendix to the Regulations annually informs Audit Committee of the Board of Directors on infringements in financial and economic activities revealed during inspections, including failures to fulfill, improper (non-effective) fulfillment of the Company's internal documents.

6.1.5. Following review of the Board of Directors of inspection reports the Director General issues a decree on measures aimed at elimination of infringements revealed during inspections.

Control over elimination of infringements revealed during inspections is exercised by Company's department authorized for internal control/ audit.

6.2. The Board of Directors:

- entrusts the Director General with a task to make an inspection within internal control procedures;

- reviews and takes a decision on reports on the internal control procedures submitted by the Director General and/or Audit Committee of the Board of Directors;
- reviews results of internal control (reports and other materials of Company's department authorized for internal control/ audit);
- evaluates main risks for the Company and determine an acceptable level of the risks, exercise control over measures required for measurement, monitoring and control of the risks;
- evaluates efficiency of internal control procedures and constant perfection of internal control procedures.

6.3. Audit Committee of the Board of Directors supervises:

- internal control procedures in accounting and finance;
- timely preparation of the Company's reporting by Company's executive bodies and objectiveness of such reporting;
- control procedures as well as observance of legal and normative acts;
- fulfill other functions stipulated by the Regulations concerning Audit Committee of the Board of Directors.

Within its functions Audit Committee of the Board of Directors:

- reviews information on the results of inspections carried out during the year submitted by a department authorized for internal control/audit;
- analyzes annual financial (accounting) statements prior to submitting it for the Board of Directors review and interim financial (accounting) reporting prior to its publication.

6.4. The Director General:

- managerially enables internal control procedures realization;
- is liable for implementation and development of the system aimed at revealing, measuring, monitoring and control of the Company's risks;
- approves (adjusts) schedule of inspections carried out by a department authorized for internal control/ audit (or entrust to approve by another person);
- reviews information on inspection results submitted by a department authorized for internal control/ audit;
- reports on elimination of infringements revealed during internal control procedures to the Company's Board of Directors;
- submits proposals on improving internal control procedures to the Board of Directors.

## **7. FINAL PROVISIONS**

7.1. The present Regulations as well as all supplements and changes to it are approved by the Company's Board of Directors.

7.2. Issues uncovered by the present Regulations are stipulated by the legislation in force, resolutions of the Company's Board of Directors and other internal documents.

7.3. If the legislation or normative documents of the Russian Federation change and separate provisions of the present Regulations contradict them, these provisions cease to be force and till the changes are introduced, the Company adheres to the laws and subordinate legislation of the Russian Federation.

Appendix  
to the Regulations for the Internal Control Procedures of  
JSC “Moscow United Electric Grid Company”

A form for report  
to Audit Committee of the Board of Directors of JSC “Moscow United Electric Grid Company”

- the list of typical and special inspections (reasons for such inspections);
- the most significant material infringements on the whole Company (reasons, consequences, measures to eliminate infringements);
- typical (the most widespread) material infringements on the whole Company (reasons, consequences, measures to eliminate infringements);
- the most significant material and most widespread infringements on each from of the main business process (planning of operating and financial and economic activities, administration of budget, tariff policy, payables and receivables management, purchases, cash management, property management, investment activity, capital construction, repair and technical update);
- proposals on elimination of revealed systematic infringements.