

# **Internal Control Policy of JSC IDGC Holding**

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# 1. General Provisions

The Internal Control Policy of JSC IDGC Holding (hereinafter the "Policy") defines the binding fundamental principles for organizing the internal control system of JSC IDGC Holding (hereinafter the "Company") and forming a common approach to implementing internal control processes within the Company.

The Policy is formulated in accordance with the provisions of the Concept of Developing and Improving the Internal Control and Audit System and the Risk Management System of JSC IDGC Holding (hereinafter the "Concept"), describing top-priority actions for building internal control system.

The terms used in this document correspond to the definitions set forth in the Concept.

This document is intended for executives and employees at all levels of management of the Company, its functions, subsidiaries and dependent companies (SDCs) and subsidiaries and other participants in risk management processes and stakeholders.

The Company's policy is based on the recommendations of global best practices and is not in conflict with the requirements of Russian laws.

This document covers the following areas:

- Strategy for developing the internal control system;
- Principles of internal control;
- Goals and lines of internal control;
- Internal control processes;
- Architecture of the internal control system.

## 2. Internal Control Development Strategy

The Company shall aim to develop a process-based approach to managing its activities and building ICS for the purpose of realizing its opportunities in:

- determining and managing key processes and results of the Company's activities,
- integrating non-aligned actions of its functions,
- directing its efforts towards achieving a common result.

The Company's internal control system shall be build in accordance with the following maturity levels:

### **Level 1. Standardized internal control system:**

- Simple guidelines shall be established;
- Control environment and business processes (control procedures and mechanisms) shall be documented;
- Control procedures shall be monitored;
- Control procedures shall be adapted to risk changes on a regular basis;
- The internal audit function shall audit individual business processes;
- Experience exchange;
- Personnel training.

### **Level 2. Internal control system being managed:**

- Guidelines shall be described in detail;
- Monitoring of the implementation of control procedures shall be conducted on a regular basis and shall be available for analysis;
- Control procedures shall be adapted to risk changes on an ongoing basis and shall be documented regularly;
- Standardized approach to documenting control procedures shall apply;
- The internal audit function shall monitor ICS.

### **3 уровень. Optimized internal control system:**

- Control procedures shall be fully aligned with other control and audit functions;
- Risk management and ICS shall operate as a single integrated system;
- Ongoing improvement of ICS;
- Automated control procedures.

## 3. Fundamentals of Internal Control

### 3.1. Principles of Internal Control

The Company's internal control system shall be based on the following principles:

- Uninterruptible functioning;
- Responsibility of all units and individuals exercising internal control for the proper performance of control functions;
- Clear segregation of functional duties and responsibilities among the Company's divisions and functions in exercising internal control;
- Integrated approach. Coverage of all business processes of the Company at all levels of management;
- Common methodology framework. Internal control processes shall be implemented based on common approaches and standards for all structural units of the Company;
- Transparency. Disclosure of the necessary amount of information to stakeholders;
- Balance. Control functions shall be supported by tools and authority for their performance;
- Prioritization. Control procedures shall be established in the areas of the Company's activity in order of priority;
- Timely communication of the status of implementation of control procedures and functions by the persons authorized to adopt relevant decisions;
- Ongoing development and improvement.

### 3.2. Goals and Lines of Internal Control

#### 3.2.1. Goals of Internal Control System

The internal control system shall pursue the following goals:

- to ensure that activities are managed and the formulated strategic goals are achieved as efficiently as possible;
- to ensure compliance with the requirements of laws of the Russian Federation and the requirements of the applicable regulations and internal procedures established by the Company;
- timely identification and analysis of risk associated with the Company's activities;
- to ensure the reliability of financial and managerial information, statements and reports of the Company;
- to ensure the implementation of the Company's financial and business plans;
- to ensure high level of investor confidence in the Company and its management bodies;
- to protect the investments of shareholders and investors;

- to ensure that the Company's assets are safe and the Company's resources are used efficiently;
- to contribute to building optimal organizational structure of the Company.

### 3.2.2. Lines of Internal Control:

- control of compliance with the matrix of authority and the segregation of responsibility among the divisions and managers of the Company and its structural units;
- control of efficiency of the Company's financing and economic activities and the analysis of their results;
- control of the performance of investing activities and proper use of investments made by the shareholders;
- control of the establishment of effective flows of information about the activities of the Company's structural units ensuring vertical and horizontal information ties within the Company;
- control of the implementation of decisions adopted by the Company's management bodies and executives and the elimination of identified breaches;
- ensuring sufficient certainty concerning the reliability of the Company's financial statements, the observation of their preparation procedure and compliance with the requirements for maintaining the Company's accounting records;
- control of the implementation of budgets of the Company and its structural units;
- control of conformity of agreements between the Company and third parties to the Company's financial and economic interests;
- control of conformity of the internal documents and draft resolutions of the Company's management bodies to the Company's financial and economic interests.

### 3.3. Internal Control Processes:

COSO Internal Control-Integrated Framework shall include five components of internal control, used as a basis for classifying internal control processes:

**Table 3.3 Internal Control Processes**

Component	Internal Control Processes
<b>Control Environment</b>	<p><b>Assessment of internal environment in the Company and its structural units.</b></p> <ul style="list-style-type: none"> <li>○ Code of Corporate Conduct:               <ul style="list-style-type: none"> <li>-ethical principles;</li> <li>-internal policies and procedures.</li> </ul> </li> <li>○ Organizational structure:               <ul style="list-style-type: none"> <li>-identification of interrelated and consistent goals and objectives at various Company management levels;</li> <li>-segregation and delegation of key authority and responsibilities within the Company; ensuring effective interaction among the Company's functions and employees;</li> </ul> </li> <li>○ Segregation of authority and responsibilities:               <ul style="list-style-type: none"> <li>-segregation of key responsibilities among the Company's employees (including</li> </ul> </li> </ul>

Component	Internal Control Processes
	responsibilities for approving and authorizing operations, accounting for operations, allocating, storing and receiving resources, analyzing and verifying operations); - communication to all employees of the Company of their responsibilities in the field of internal control; o Personnel policy: - professionalism of employees; -recruitment procedures; -employee performance assessment; -training. o Fraud prevention:
<b>Risk Assessment and Analysis</b>	<b>Identification and analysis of potential risks which may prevent the Company from achieving the goals of its activities.</b> The processes are specified in the Risk Management Policy of JSC IDGC Holding.
<b>Control Procedures</b>	<b>Assessment of the availability and effectiveness of policies and procedures ensuring the correct and complete fulfillment of the management's instructions ensuring that control procedures cover all levels of the Company and all of its functions.</b> Control procedures: <b>Detective procedures</b> mean procedures aimed at identifying the drawbacks of processes and negative events after their occurrence (data reconciliation, report analysis, etc). <b>Directive procedures</b> mean procedures aimed at indicating practical procedures for personnel and outsiders (regulations, orders, etc). <b>Corrective procedures</b> mean procedures aimed at taking corrective action before or after the occurrence of negative events (for example, locking authentication in the information system after several attempts to gain access). <b>Preventive procedures</b> mean procedures aimed at excluding or sharply reducing the likelihood of negative events (restricting access, authorizing access, etc). <b>Counterbalancing procedures</b> mean procedures aimed at counterbalancing the drawbacks of ongoing controls (for example, those supplementing the existing identification procedures).
<b>Information and Communication</b>	<b>Assessment of whether information and communication are reliable and updated:</b> -organization of the system of gathering, processing and transmission of information, including the generation of reports and messages containing operational, financial and other information about the Company's activities; establishment of effective communication channels and tools ensuring vertical and horizontal communication ties within the Company; -establishment of effective communication between the Company and third parties; -access to information received from internal and external sources; -identification, registration of the necessary management information and its communication to stakeholders; -communication to employees of the existing policies of the Company, plans, instructions, etc
<b>Monitoring</b>	<b>Assessment of the efficiency of functioning of the internal control system:</b> -determination of criteria and the assessment of performance of functions, executives

Component	Internal Control Processes
	and other employees of the Company; -risk-oriented audit of business processes; -audits of asset safety; -regular assessments of the internal control system quality by divisions (control self-assessment).

## 4. Architecture of Internal Control System

### 4.1. ICS Implementation Levels

Internal control shall be exercised by the Company at multiple levels.

The multiplicity of internal control levels shall be divided into two categories:

**Multiplicity of business unit levels** shall correspond to the corporate structure of the Company. There shall be three levels of management within the Company:

- Executive arm of the Company.
- SDCs of the Company.
- Branches of SDCs.

**Multiplicity of business unit sub-levels** shall correspond to the goals of operations management and shall be divided into 2 levels:

- Level of the Management Board (decisions on risks shall be adopted at the level of the Management Board or Director General);
- Level of linear management (decisions on risks shall be adopted by the heads of functions).

### 4.2. Divisions and Participants

The underlying principle of the internal control system shall be the application of **common standards** of business processes and control procedures at all levels of management. It means that the common standards of business processes shall contain control procedures carried out at the level of SDCs, their branches and EA (executive arm) of the Company in accordance with vertical functional ties.

The standardization of business processes shall be organized by a specialized internal control division (Unit for Risk Management and Internal Control Organization) of the Internal Audit and Risk Management Department of the Company, coordinator of the standardization of business processes. The principal functions of the Unit for Risk Management and Internal Control Organization (URMICO) shall be to analyze the existing ICS, elaborate common standards and requirements and to render methodology support at all levels of ICS.

At SDC level, the coordinators of interaction among the functions participating in the business process and the coordinators of the Company rendering methodology support for



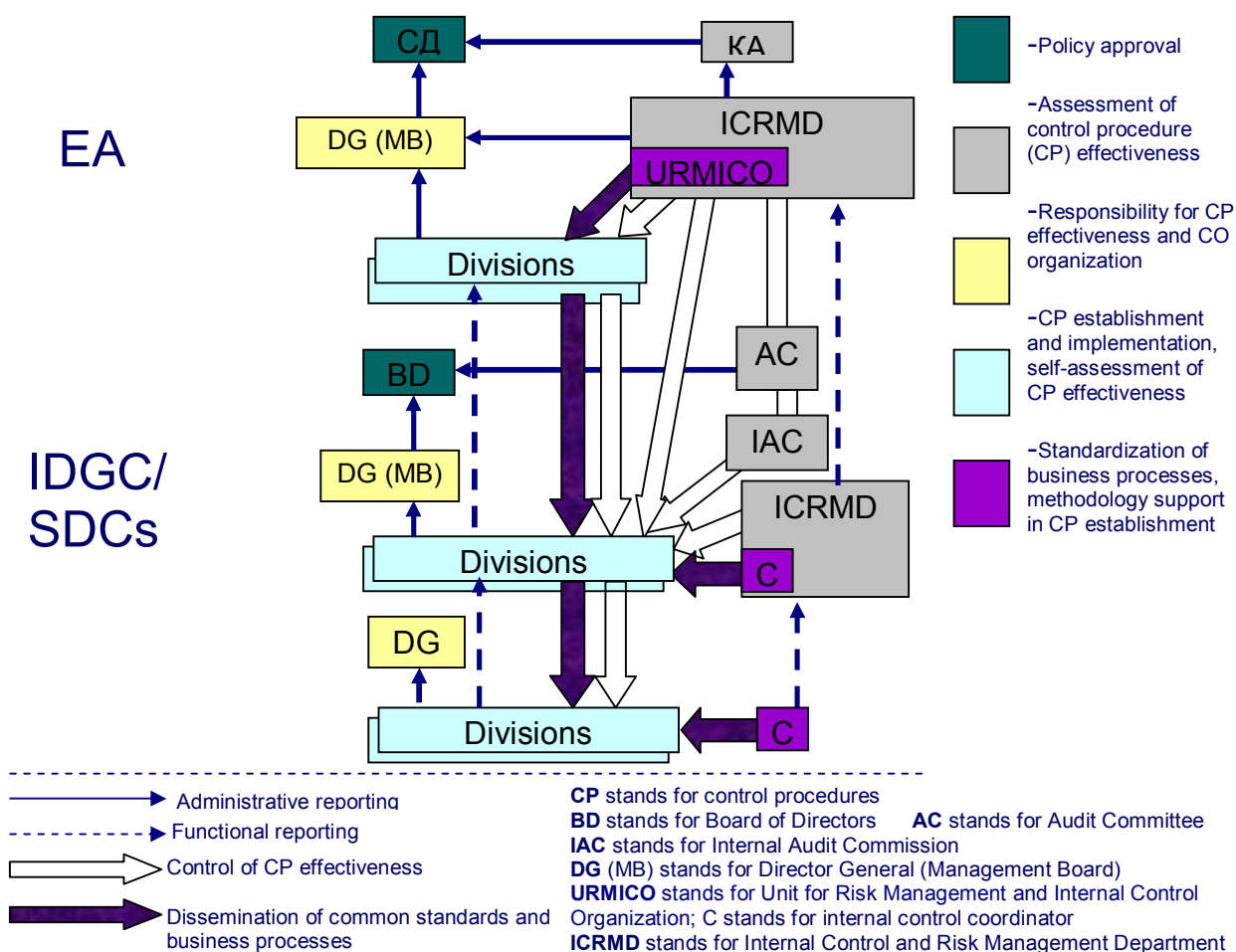
standardization and control-setting, may be similar structures or individual employees on whom the above-mentioned duties shall be imposed.

In the branches of SDCs, the coordinators of business process standardization may be individual units of a functional directorate or managers/employees performing this function on a part-time basis.

All structural units of the Company shall perform their respective functions based on common standards and methods implying that internal control shall be exercised both within the same level of management and through functional ties among the divisions of EA and regional SDC.

Figure 4.1 shows the organizational structure of internal control participants at all levels of the Company management.

**Figure 4.1. Organizational Structure of the Internal Control System**



### 4.3. Roles and Responsibilities of Participants in Internal Control System

Roles and responsibilities shall be divided in accordance with the following principles:

- The Board of Directors of the Company shall approve the internal control policy and assess its effectiveness and shall be responsible for the approval and regular revision of the general internal control strategy. At the level of SDCs and their branches, internal control policies shall be approved by the Boards of Directors of SDCs.
- The Audit Committee of the Board of Directors of the Company shall be responsible for the general assessment of effectiveness of the Company's internal control procedure (specifically based on messages and reports of the Internal Audit and Risk Management Department). The Audit Committee of the Board of Directors of SDCs shall perform a similar function for SDCs.<sup>1</sup>
- The Director General of the Company (Management Board) shall assume responsibility for the implementation of this Policy approved by the Board of Directors, the functioning and effectiveness procedure of the Company's internal control procedure. Responsibility for the functioning and effectiveness of the Company's internal control procedure at lower levels of the Company management shall be assumed by the Directors General (Management Boards) of the structural business units (SDCs, Branches) concerned.
- The Internal Audit and Risk Management Department (IARMD) of the Company and similar structures of SDCs shall give direct assessment of the adequacy, sufficiency and effectiveness of control procedures and assess the observation of control procedures by business process participants of the management levels concerned. Moreover, based on the assessment of control procedure effectiveness by the Audit Committees of SDCs, the IARMD of SDCs and self-assessment of ICS functioning, the Company's IARMD shall give general systemic assessment of ICS, the degree of its standardization and optimization at all levels of management.
- The Unit for Risk Management and Internal Control Organization (URMICO) shall assume responsibility for organizing the standardization of business processes and rendering methodology support for the process of establishing control procedures and shall interact with ICS coordinators for SDCs.
- ICS Coordinators (specialized divisions of SDCs or structural units entrusted with the obligations to coordinate business process standardization activities) shall ensure interaction with the business process owners with regard to building standardized and optimized ICS, render methodology support and coordination of the timely gathering of information about business processes for the purposes of proving it to the Company's ICU.
- The managers of functions and other employees of the Company in accordance with their functional responsibilities shall exercise internal control through functional ties with the functions of SDCs, which shall be set forth in formal standards and regulatory documents. The Company's functions shall enforce control procedures and assume responsibility for carrying out control procedures in conformity with prescriptions.

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<sup>1</sup> For the purpose of exercising effective control of the results of ICS integration into the Audit Committee of SDCs, the employees of the Company's Internal Audit and Risk Management Department shall be seconded as observers representing BD.

- The managers of functions and other employees of SDCs and their branches shall be responsible for establishing and implementing control procedures and shall give self-assessment of the effectiveness of control procedures and improve them.

Table 4.2 summarizes the segregation of roles and responsibilities among ICS participants.

**Таблица 4.2 Segregation of Roles and Responsibilities Among ICS Participants.**

<b>Participant</b>	<b>Role</b>	<b>Functions and Responsibilities</b>
<b>Board of Directors</b>	<b>Sponsor</b>	<ul style="list-style-type: none"> <li>○ Determines the necessary status of ICS development;</li> <li>○ Responsible for the approval and regular revision of the general strategy for documents on various policy aspects;</li> <li>○ Instructs the Director General to perform an audit as part of the internal control procedure;</li> <li>○ Considers the results of internal control (reports and other materials from the Company division authorized to exercise internal control/perform internal audit).</li> </ul>
<b>Audit Committees of BD</b>	<b>Controller</b>	<ul style="list-style-type: none"> <li>• Control of the effectiveness of internal control and audit;</li> <li>• Supervises control procedures and compliance with legislative acts and regulations;</li> <li>• Supervises the timely preparation of reports by executive bodies and the objectiveness of these reports;</li> <li>• Considers the information provided by the division authorized to exercise internal control/perform internal audit and information about the results of audits conducted during the year;</li> <li>• Analyzes annual financial (accounting) statements prior to their submission for approval by the Board of Directors of the Company and interim (quarterly) financial (accounting) statements prior to their disclosure;</li> <li>• Interacts with the Internal Audit Commission in the elaboration of joint recommendations for material issues related to financing and economic activities.</li> </ul>
<b>Director General (Management Board)</b>	<b>Guarantor</b>	<ul style="list-style-type: none"> <li>• Organization of the effective functioning of internal control and audit within his/her structural unit;</li> <li>• Organizational support for the implementation of internal control procedures;</li> <li>• Approval of the schedule of audits conducted by the division authorized to exercise internal control/perform internal audit (delegates approval to a different person);</li> <li>• Initiation of the unscheduled audits of IARMD;</li> <li>• Consideration of information about the results of audits provided by the division authorized to exercise internal control/perform internal audit;</li> <li>• Reports to the Board of Directors of the Company on the elimination of breaches identified during the course of internal control procedures;</li> <li>• Submission for consideration by the Board of Directors of the Company of the proposal for improving internal control procedures.</li> </ul>
<b>Internal Audit and Risk Management Department</b>	<b>Control Expert Coordinator<sup>2</sup></b>	<ul style="list-style-type: none"> <li>○ Assessment of the internal control system;</li> <li>○ Monitoring of the implementation of control procedures;</li> <li>○ Coordination of checks of the effectiveness of internal control procedures;</li> <li>○ Exercising control of the elimination of breaches identified as a result of audits and in-house investigations;</li> <li>○ Preparation of proposals for improving internal control procedures;</li> <li>○ Assessment of the regulation of business processes and the availability of control procedures in by-laws and regulations;</li> <li>○ Assessment of the conformity of executed financial and economic operations to the interests of shareholders;</li> <li>○ Development of documents governing internal audit activities;</li> <li>○ Verification of the reliability and completeness of operational, accounting, tax and management reports and the condition of accounting and reporting;</li> </ul>

<sup>2</sup> During the phase of building standardized ICS

<b>Participant</b>	<b>Role</b>	<b>Functions and Responsibilities</b>
		<ul style="list-style-type: none"> <li>○ Training and advising on the checks of effectiveness of internal control procedures;</li> <li>○ Supporting and developing methodology and regulatory framework for ICS audits;</li> <li>○ Assessment of effectiveness of the risk management system;</li> <li>○ Performing special audits at the requests of EA (executive arm) of the Company, the Audit Committee and the Board of Directors, specifically participating in investigations into abuses and fraud discovery.</li> </ul>
<b>Internal Audit and Risk Management Department (Unit for Risk Management and Internal Control Organization)</b>	<b>Methodologist</b>	<ul style="list-style-type: none"> <li>○ Selection of the methodology and tools for control procedures (CP);</li> <li>○ Coordination of CP standardization process;</li> <li>○ Activities aimed at integrating CP into business processes, specifically forming integrated CP database, ensuring dialog between the headquarters and SDCs for the purposes of building standardized ICS;</li> <li>○ Elaboration and control of the quality of business process description; business process standardization;</li> <li>○ Development of common rules and standards for CPs;</li> <li>○ Monitoring of ICS operability (timely implementation and fulfillment);</li> <li>○ Training and advising on ICS methodology;</li> <li>○ Supporting and developing methodology and regulatory framework for ICS;</li> <li>○ Provision of information about ICS to stakeholders.</li> </ul>
<b>Department for Organizational Development</b>	<b>Methodologist</b>	<ul style="list-style-type: none"> <li>○ Building an organizational structure which clearly distinguishes between the areas of responsibility, authority and reporting (preparation of the order on the segregation of functions among Managers).</li> </ul>
<b>Specialized divisions of ICS (units, project offices, individuals)</b>	<b>Coordinator</b>	<ul style="list-style-type: none"> <li>○ Coordination of the standardization of internal control procedures;</li> <li>○ Interaction with functions in establishing CPs;</li> <li>○ Timely and high-quality promotion and implementation of standardized ICS.</li> </ul>
<b>Heads of divisions</b>	<b>Responsible employees</b>	<ul style="list-style-type: none"> <li>○ Development of CPs based on the standards of by-laws and regulations for exercising internal control;</li> <li>○ Ensuring the conformity of business process parameters to pre-set parameters;</li> <li>○ Carrying out ICS procedures in accordance with the adopted regulatory documents;</li> <li>○ self-assessment of CP effectiveness; CP improvement;</li> <li>○ timely transmission of information about CP implementation status.</li> </ul>

#### **4.4. Regulatory Documents and Standards**

The regulatory framework of the internal control system shall be based on the provisions hereof and shall be aligned and compatible with this Policy.

ICS regulatory framework shall be formed for each of the two levels of management: the Company's executive arm and its SDCs.

Table 4.3 provides mandatory<sup>3</sup> list of ICS documentation and its purpose.

<sup>3</sup> The list of ICS regulatory documents may be supplemented with other documents as needed

**Table 4.3. List of Regulatory Documents**

<b>Document</b>	<b>Document Purpose</b>
<b>ICS Policy</b>	Principal strategy and principles of the organization and implementation of internal control.
<b>Business Process Classifier</b>	Key standard business processes and their decomposition into levels.
<b>Business Process Description Standard</b>	Formats for documenting business processes: form of business process description (process chart), common requirements, etc
<b>Business Process Regulation Guidelines</b>	Description of the approaches and methods for describing a business process and carrying out control and identification procedures.
<b>Regulations, instructions, regulatory and reference materials</b>	Common and standardized regulatory documents binding upon all divisions, which allow making a process controllable and transparent at all levels of business process decomposition.
<b>Control Procedure Reporting Forms</b>	Forms of representation of ICS information by divisions.