

APPROVED by
Resolution of the BoD of
OAO “IDGC of Urals”
Protocol #49 dated December
26, 2008

**REGULATIONS ON
INTERNAL CONTROL PROCEDURES
OAO “IDGC OF URALS”**

Ekaterinburg, 2008

1. GENERAL PROVISIONS

1.1. The present Regulations are prepared pursuant to the Russian legislation, Corporate Governance Code recommended for implementation by FSC's Decree#421/r dated April 04, 2002, the Charter of OAO "IDGC of Urals" (hereinafter referred to as the Company) as well as other internal documents.

1.2. The present Regulations shall be the internal document of the Company defining aims and goals of internal control, internal control procedures, subjects responsible for internal control procedures as well as persons responsible for control over realization of internal control procedures.

2. MAIN DEFINITIONS AND TERMS

Internal control shall be a process aimed at ensuring reasonable guarantee for achieving aims of efficient and effective use of the Company's resources, asset safety, and observance of legislative requirements and submission of authentic reporting.

Internal control procedures shall be a documentary fixed system of activities on effective internal control over the Company's financial activities, revealing and settlement of irregular operations as well as on prevention and limitation of financial and operating risks and possible abuses by executive officers of the Company.

Internal control subjects shall be the Board of Directors, BoD Audit Committee, CEO as well as a Company's department authorized to execute internal control/ audit as well as other structural subdivisions and employees of the Company responsible for executing internal control functions set forth by the Company's internal documents.

Risk shall be events possessing two characteristics: 1) possibility of event occurrence (its beginning); 2) damage as a consequence of the event occurrence.

Audit (Inspection) shall be a control action or investigation of financial standing at a certain sphere of the Company's business.

3. AIMS AND GOALS OF INTERNAL CONTROL

3.1. Internal control shall be aimed at risk prevention in financial and operating activities of the Company, at timely measures for elimination of the risks, at revelation and mobilization of in-house possibilities and reserves of income earning as well as at rendering assistance to the Company's management in effective execution of managing functions.

3.2. Internal control shall ensure the following:

- Trust of investors to the Company and its managing bodies, protection of shareholder investments as well as the Company's assets;
- Completeness, reliability and authenticity of financial, accounting, statistic, administrative information and reporting of the Company;
- Observation of statutory acts of the Russian Federation, resolutions of managing bodies and internal documents of the Company;
- Asset safety and efficient usage of the Company's resources;
- Ensuring most effective execution of strategic development aims;
- Timely revelation and analysis of financial and operating risks able to have a significant impact on achieving the Company's aims regarding to financial and operating activities.

4. MANAGING BODIES AND DEPARTMENTS RESPONSIBLE FOR INTERNAL CONTROL

4.1. The Board of Directors of the Company shall determine internal control policy and evaluate efficiency of internal control procedures.

4.2. The BoD Audit Committee shall generally evaluate efficiency of the Company's internal control procedures (including evaluation on the basis of messages and reports of a department authorized for internal control/ audit).

4.3. The Company's CEO shall be liable for functioning of the Company's internal control procedures.

4.4. Internal control shall be over main financial and operating activities, including:

- Financial activities;
- Economic activities;
- Investment activities;
- Other activities of the Company.

4.5. Direct valuation of adequacy, sufficiency and effectiveness of internal control procedures as well as control over observance of internal control procedures shall be made by a separate structural division of the executive office of the Company, by a department authorized to exercise internal control/ audit.

4.6. With a view to ensure systematic control over financial and operating activities of the Company internal control procedures shall be carried out by a department authorized to exercise internal control/ audit in close interaction with other bodies and divisions of the Company.

4.7. Functions, rights and liabilities as well as responsibilities of a department authorized to exercise internal control/ audit shall be stipulated by the Company's internal documents. These documents as well as other documents directly or indirectly concerning issues of internal control shall not contradict the present Regulations.

5. INTERNAL CONTROL PROCEDURES

5.1. Internal control of the Company shall include the procedure below:

- Control over development and execution of business plan approved by the BoD;
- Revelation of infringements by inspection, monitoring and analysis of auditor results at the Company's subsidiaries, representative offices and structural divisions;
- Activities on prevention of infringements by submitting information on revealed significant infringements and defects to the Company's structural divisions;
- Control over revealed infringements and violations;
- Revelation and analysis of risks in financial and operating activities of the Company;
- Monitoring and development of measures taken to minimize risks in financial and operating 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 SUBJECT

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

- Audit of accounting and financial information submitted by structural divisions of the executive office, subsidiary and representative offices of the Company, including expertise of means 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 statutory documents as well as execution of resolutions made by managing bodies and 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 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;
- Execute other functions set forth by the Company's internal documents.

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

In case of necessity, employees of the core divisions as well as independent experts shall be engaged to make an inspection.

A department authorized to exercise internal control/ audit shall form and approve a plan for each inspection.

6.1.2. Organizational facilities and submission of required documents for inspection shall be managed by heads of divisions, subsidiaries and representative offices within 3 (Three) days upon requests of the department authorized to exercise internal control/ audit.

6.1.3. Results of the inspections carried out by a department authorized to exercise internal control/ audit shall be presented in an inspection report signed by employees of the department authorized to exercise internal control/ audit and heads of divisions, subsidiaries and representative offices that underwent audit. The act shall be accompanied by explanations on the facts disclosed in it as well as copies of the required documents signed by the head of a division that underwent inspection.

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

6.1.5. Following BoD's review of inspection reports the CEO shall issue a decree on measures aimed at elimination of infringements revealed during inspections.

Control over elimination of infringements revealed during inspections shall be exercised by a department authorized for internal control/ audit.

6.2. The Board of Directors shall:

- entrust the CEO with a task to make an inspection within internal control procedures;
- review and take a decision on reports on the internal control procedures submitted by the CEO and/or BoD Audit Committee;
- review results of internal control (reports and other materials of a department authorized for internal control/audit);
- evaluate 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;
- evaluate efficiency of internal control procedures and constant perfection of internal control procedures.

6.3. The BoD Audit Committee shall supervise:

- Internal control procedures in accounting and finance;
- Timely preparation of the Company's reporting by the executive bodies and objectiveness of such reporting;
- Control procedures as well as observance of legal and statutory acts;
- Fulfill other functions stipulated by the Regulations on the BoD Audit Committee.

Within its functions the BoD Audit Committee shall:

- Review information on the results of inspections carried out during the year submitted by a department authorized for internal control/ audit;

- Analyze annual financial (accounting) statements prior to submitting it for the BoD review and interim financial (accounting) reporting prior to its publication.

6.4. The CEO shall:

- Managerially enable internal control procedures realization;
- Be liable for implementation and development of the system aimed at revealing, measuring, monitoring and control of the Company's risks;
- Approve (adjust) schedule of inspections carried out by a department authorized for internal control/ audit (or shall entrust to approve by another person);
- Review information on inspection results submitted by a department authorized for internal control/ audit;
- Report on elimination of infringements revealed during internal control procedures to the Company's Board of Directors;
- Submit 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 shall be approved by the Company's Board of Directors.

7.2. Issues uncovered by the present Regulations shall be stipulated by the legislation in force, resolutions of the Company's BoD and other internal documents.

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

A form for a report
To the BoD Audit Committee of the OAO "IDGC of Urals"

- The list of typical and special inspections (reasons for such inspections);
- The most significant material infringements on the whole (reasons, consequences, measures to eliminate infringements);
- Typical (the most widespread) material infringements on the whole (reasons, consequences, measures to eliminate infringements);
- The most significant material and most widespread infringements on each business process (planning of operating and financial 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.