

**Approved by
JSC RusHydro Board of Directors
Resolution dated 15 August 2007 (Minutes No. 37)
Schedule 5 to the Minutes**

**REGULATIONS
on the Internal Audit and Risk Management Department**

Article 1. General provisions

- 1.1. These Regulations on the internal audit and risk management department for Open Joint-Stock Company Federal Hydrogenerating Company (JSC RusHydro) (hereinafter referred to as the Company) shall be a local regulatory document setting up legal status, basic objectives, functions, rights and responsibilities of the Company's Department (hereinafter referred to as the Department). These Regulations shall also define specific operating functions of the Department's headperson related to making provisions for meeting the Department objectives and fulfilling its functions within the framework of the rights provided and responsibilities determined in compliance with the labor contract entered into with the Department's headperson.
- 1.2. Internal audit shall be understood as the Company's established activities regulated by the Company's internal documents pertaining to evaluation and enhancement of risk management procedures through fulfillment of functions related to control of observance of the Russian Federation legislation and the Company's by-laws for the purpose of protecting rights and vested interests of the Company's shareholders as well as the Company's assets.
- 1.3. The Department shall be a structural subdivision of the Company.
- 1.4. The Department operation shall be regulated by the following:
 - the effective legislation of the Russian Federation;
 - the Company's Articles of Association;
 - resolutions of the Company's Board of Directors;
 - the Company's internal control and risk management policy;
 - these Regulations;
 - Resolutions of the Company's Management Board, orders and directions issued by the Chairman of the Company's Management Board.
- 1.5. Organizational arrangement and staffing table of the Department shall be approved by the Chairman of the Company's Management Board.
- 1.6. The Department shall be supervised by the Department's Head. Head of the Department shall be appointed and dismissed by the Chairman of the Company's Management Board. The Audit Committee under the Company's Management Board shall be entitled to give recommendations to the Chairman of the Company's Management Board pertaining to candidates for Head of the Department.
- 1.7. Head of the Department shall have higher education in economy (finances) or law. Total service years of the Department's Head complying with his/her education shall be 5 years at the least.
- 1.8. Head of the Department shall select personnel for the Department according to the approved structure and staffing table of the Department.
- 1.9. Headpersons of the Department's structural subdivisions shall have higher education in economy (finances) or law.
- 1.10. Two thirds of the Department's employees shall have higher education in economy (finances) or law, it is also recommended that they shall have operational experience in auditing.

- 1.11. The Department's employees shall not have shares in other legal entities, be members of management boards or hold offices in other legal entities, which may cause conflict of interests.
- 1.12. The Department staff shall not include persons who were found guilty of committing crimes in economic field, offenses against state power, crimes against civil service interests or service in local government institutions or those who served criminal or administrative sentences for violation of law in the fields of entrepreneurial activities, finances, taxes and duties or in securities market.

Article 2. The Department objectives and functions

- 2.1. Main objectives and functions of the Department shall be the following:
 - 2.1.1. exercising control over compliance of the business and economic transactions entered into by the Company, the Company's branches or structural subdivisions with the Company's interests;
 - 2.1.2. verification of the Company's bookkeeping and operation-related information submitted by subdivisions of the Company's management structure¹ or the Company's branches;
 - 2.1.3. arrangement of the Company's property auditing;
 - 2.1.4. evaluation and analysis of the Company's financial standing in the aggregate and that of the Company's branches or structural subdivisions according to the directions issued by the Chairman of the Company's Management Board;
 - 2.1.5. exercising control over transactions of interest and material transactions;
 - 2.1.6. monitoring procedures for internal control over the Company's operation and analysis of the Company's internal control system efficiency;
 - 2.1.7. development and introduction of methodologies for internal control system arrangement in the Company, the Company's branches and structural subdivisions;
 - 2.1.8. identification, classification and analysis of risks connected with financial and economic activities, drafting proposals on the risk mitigation;
 - 2.1.9. cooperating with the Company's Audit Commission and outside auditors;
 - 2.1.10. timely provision of information to the Chairman of the Company's Management Board on the detected deviations or violations in the Company's operation and submitting proposals on rectification of deviations or elimination of violations in the Company's operation detected as a result of inspection and monitoring violations and drawbacks, and provision of recommendations on management efficiency upgrading;
 - 2.1.11. analysis and development of arrangements aimed at upgrading efficiency and productivity of the Company's financial and economic activities, assessment of applicability of the approved standards, regulations and techniques practiced in the Company;
 - 2.1.12. exercising internal control in the Company's subsidiaries and dependent companies (SDCs) through the SDCs Audit Commissions;

¹ The Company's management structure shall be understood as the Company's permanently operating management bodies and non-stand-alone structural subdivisions of JSC RusHydro (other than JSC RusHydro branches and representative offices) engaged in general management of JSC RusHydro activities.

- 2.1.13. arrangement of cooperation with the Accounts Chamber of the Russian Federation and other governmental agencies of financial control;
- 2.1.14. cooperating with the Audit Committee under the Company's Board of Directors;
- 2.1.15. exercising control over the Board of Directors members', the Company's management bodies' and other officers' complying with norms of the effective legislation and special requirements provided for in the Company's internal documents for the purposes of preventing conflict of interests and constraining insider information abuse.

Article 3. Procedures for internal control over the Company's activities

- 3.1. To fulfill the assigned functions, the Department shall employ the following procedures for internal control over the Company's activities:
 - 3.1.1. arrangement and performance of inspections and in-house investigations on the issues related to key lines of the Company's financial and economic activities;
 - 3.1.2. analysis and generalization of results received by inspections and in-house investigations on the issues related to key lines of the Company's financial and economic activities;
 - 3.1.3. efficiency analysis of the requirements posed to the operation of the Company's structural subdivisions, drafting proposals on the requirements improvement;
 - 3.1.4. coordination of the Company's structural subdivisions operation while taking measures of internal control;
 - 3.1.5. exercising control over remedying violations detected in the course of inspections and in-house investigations;
 - 3.1.6. analysis of the results obtained through the Company auditing, exercising control over drafting and implementation of action plans aimed at remedying violations detected in the course of audit inspections;
 - 3.1.7. analysis of the results of inspections performed by the Accounts Chamber of the Russian Federation, arrangement of work aimed at remedying violations detected in the course of the inspections;
 - 3.1.8. analysis of the Company's budget implementation on a quarterly basis and according to financial year results;
 - 3.1.9. analysis of the Company's internal and other documents governing the Company's financial and economic activities, drafting proposals on the above-mentioned documents improvement;
 - 3.1.10. consideration under instructions of the Chairman of the Company's Management Board, the Management Board or the Board of Directors of draft resolutions to be issued by the Company's governing bodies to verify their compliance with the Company's financial and economic interests;
 - 3.1.11. drafting proposals on improvement of procedures for internal control of the Company's activities;
 - 3.1.12. analysis of the Company's financial reports aimed at verification of their compliance with RAS and IFRS accounting standards for the purpose of exercising control of the Company's activities.

Article 4. Rights, obligations and responsibility of the Department's Head

- 4.1. General work arrangement in the Company's Department shall be assigned to the Department's Head.
- 4.2. Head of the Department shall operate in accordance with the contract entered into with the Head. The Chairman of the Company's Management Board shall on behalf of the Company sign the contract entered into with the Head of the Department.
- 4.3. Head of the Company's Department shall be entitled to do the following:
 - 4.3.1. submit proposals to the Chairman of the Management Board and Audit Committee under the Company's Board of Directors on the basic lines of the Department activities for the current period and for a long run;
 - 4.3.2. exercise control over execution of the orders issued by the Chairman of the Management Board, resolutions of the Company's Management Board, Board of Directors, recommendations and instructions given by the Company's Auditor and Audit Committee under the Company's Board of Directors;
 - 4.3.3. submit proposals to the Chairman of the Company's Management Board on rewarding the Department employees or imposing of disciplinary penalty for poor workmanship;
 - 4.3.4. maintain correspondence with SDCs on issues falling within the Department competence;
 - 4.3.5. submit proposals to the Chairman of the Management Board on appointment, rotation or dismissal of the Department employees;
 - 4.3.6. in the established manner request and obtain from headpersons of the Company's structural subdivisions and the Company's branches information, documents and other data required to fulfill the functions and implement objectives assigned to the Department;
 - 4.3.7. submit proposals to the Chairman of the Audit Committee under the Company's Board of Directors on considering any issues referred to the Committee competence;
 - 4.3.8. represent the Company's interests on the basis of the Power of Attorney issued by the Chairman of the Management Board.
- 4.4. Head of the Department shall have to do the following:
 - 4.4.1. submit written reports on the Department's operation to the Chairman of the Company's Management Board in accordance with the Chairman's instructions and according to Article 6 hereof;
 - 4.4.2. keep Audit Committee under the Company's Board of Directors or, in its absence, the Company's Board of Directors informed about detected material violations;
 - 4.4.3. analyze the Department's overall performance and provide for development of measures aimed at improvement of the internal control system in the Company;
 - 4.4.4. make provisions for improvement of the Department specialists' professional qualification;
 - 4.4.5. perform other functions within the framework of its powers, in compliance with these Regulations and the Company's internal documents regulating the control procedures implementation;

4.4.6. once (1) a quarter submit information (report) according to the attached form (Schedule 1) to the Audit Committee under the Company's Board of Directors. Should, on the initiative of the Audit Committee under the Company's Board of Directors, the Chairman of the Management Board take a decision on an inspection to be effected by the Department, a report on the inspection results shall be submitted to the Chairman of the Company's Management Board and Audit Committee under the Company's Board of Directors; the information (reports inclusive) shall be strictly confidential and constitute a commercial secret.

4.5. Head of the Department shall be responsible for the following:

- drawing up of a consolidated annual report as well as interim reports on the results of inspection of the Company's operation, risk control, monitoring of the financial and economic activities and the state of the internal control system in the Company;
- quality and timeliness of implementing the Department's objectives and functions;
- implementation of the approved Department operation plans;
- keeping inside information safe.

Article 5. Rights, obligations and responsibility of the Department employees

5.1. In pursuance of these Regulations, the Department employees shall have the rights and discharge obligations arising from the Department's functions and objectives and the employees' job description.

5.2. The Department employees shall take part in inspecting the Company's operation, monitoring of and control over financial and economic activities of the Company, its branches and structural subdivisions in the fields complying with the Department's objectives.

5.3. The Department employees shall be entitled to:

- have an unrestricted access to the office premises of inspected entities (inspected entities shall be understood as the Company's structural subdivisions, branches, representative offices, officials, assets and business processes). In respect of the office premises of inspected entities connected with issues constituting a commercial/state secret such right may be exercised in the manner established for handling documents, which constitute a commercial/state secret;
- seal the provided office premises of inspected entities for the purpose of ensuring safety of the documents kept therein;
- have an unrestricted access to the information available with the Company or the Company's branches including computer-based systems required for the fulfillment of the Department's functions. In respect of information containing data constituting a state secret such right may be exercised in the manner established for handling documents, which constitute a state secret;
- have an unrestricted access to the documents related to inspected subject. In respect of documents containing data constituting a commercial/state secret such right may be exercised in the manner established for handling documents, which constitute a commercial/state secret;

- receive outside auditors' reports, reports of the Audit Commission, the Company tax audit reports;
- extend the scope of audit when such extension is found necessary in the course of audit program implementation;
- receive copies of the documents signed by an authorized person concerned and certified with a seal;
- make copies of certain documents including obtaining copies of files, any records kept with the local computer networks and autonomous computer systems as well as deciphered records. Such actions may be only effected subject to approval of the headperson of JSC RusHydro Directory for security and internal control and preliminary notification of persons whose files or records are supposed to be copied or deciphered. In respect of information containing data constituting a state secret such right may be exercised in the manner established for handling documents, which constitute a state secret;
- subject to inspection manager's approval, request conducting (or conducting personally with the participation of persons concerned) a complete or partial inventory of fixed assets, commodity and material valuables for the purpose of verifying their actual availability and compliance with the data recorded in bookkeeping reports;
- receive oral or written explanations on the issues arising in the course of inspection from employees of the inspected entities.

5.4. The Department employees shall report to the Department Head on any cases of submitting unreliable documents, denying of information or written explanation provision, creating any other obstacles to conducting of inspection, and the Department Head shall refer to the Chairman of the Company's Management Board suggesting imposition of administrative punishment upon the persons guilty of creating obstacles to the conducting of inspection.

5.5. The Department employees shall be obliged to:

- adhere to the ethical principles of internal audit. Such principles shall include: independence, non-partiality, responsibility and confidentiality;
- comply with the requirements on protection of confidential information and information referred to commercial secret as established in the Company;
- in their operation be governed by the effective legislation, these Regulations and other in-house normative documents (acts) effective in the Company;
- observe labor discipline;
- provide for proper documentation of the internal audit procedures in compliance with the requirements of the in-house normative documents (acts) governing the Department operation.

5.6. The Department employees shall be liable for:

- any damage caused to the Company as a result of non-fulfillment or improper fulfillment of their functions, disclosure of confidential information or information referred to commercial secret or any other actions contradicting the effective legislation, the Company's Articles of Association of these Regulations or any other in-house normative documents (acts) of the Company;

- misrepresentation or concealment of material violations that may cause or have already caused material damage to the Company;
 - jobbery;
 - improper performance of official duties.
- 5.7. The Department employees shall not be liable for non-implementation of their recommendations on rectifying the violations discovered through audit inspection, monitoring or control of the Company's financial and economic activities.

Article 6. Arrangement of the Department operation

- 6.1. The Department shall operate in accordance with the plan, which shall include the following:
- a list (schedule) of inspections conducted in the Company;
 - risk control-related arrangements;
 - monitoring or control of the Company's financial and economic activities;
 - arrangements related to assessment of material aspects of the internal control system.
- 6.2. Head of the Department shall draw up operation plan for the Department on the basis of his/her own proposals, those provided by the Company's Board of Directors (represented by the Audit Committee under the Company's Board of Directors), the Chairman of the Company's Management Board and the Company's Audit Commission. The operation plan for the Department shall be approved by the Chairman of the Company's Management Board.
- 6.3. Amendments to the approved annual operation plan for the Department may be made by the Chairman of the Company's Management Board and Audit Committee under the Company's Board of Directors.
- 6.4. Audit inspection procedure:
- 6.4.1. the plan of audit inspection of the Company shall fix the date of inspection conduct and specify the person responsible for the inspection arrangement;
- 6.4.2. the general procedure and technique of the inspection conduct shall be regulated by certain normative documents (acts) of the Company developed by the Department Head in coordination with the Audit Committee under the Company's Board of Directors and approved by the Chairman of the Management Board;
- 6.4.3. in accordance with the audit inspection schedule, 5 days before the scheduled inspection start, the Chairman of the Company's Management Board shall provide the Department with Order to conduct audit inspection in which Order an official responsible for the inspection (inspection manager) shall be appointed;
- 6.4.4. the inspection manager shall prepare a specific inspection program to be approved by the Department Head where the range of the Company's branches and structural subdivisions subject to inspection shall be specified as well as business processes of the facility to be inspected, procedure and time of the inspection performance and the Department officials to be engaged in the inspection;
- 6.4.5. inspection may be conducted by the Department specialists, and, if necessary, specialists from other structural subdivisions and branches of the Company may be engaged as

experts. Experts shall be engaged on the initiative of the Department Head and subject to approval of the headperson of the structural subdivision concerned;

- 6.4.6. inspection shall be conducted by way of collecting and analyzing information related to the inspected business area of the inspected facility. The Department officers and engaged experts shall have to detect errors, imperfections and illegal actions made in the course of certain financial and economic operations performance;
- 6.4.7. on the Department's request, headpersons of the Company's structural subdivisions and branches shall within three days make necessary arrangements and submit the documents required for the conduct of inspection;
- 6.4.8. upon inspection completion, an inspection report shall be drawn up within ten days, which report shall contain comprehensive opinion of the specialists that took part in the inspection about the truthfulness of the submitted facility's financial or another information as well as recommendations and proposals on rectification of the violations and deficiencies detected in the course of the inspection;
- 6.4.9. inspection report shall be signed by the Department officers engaged in the inspection and headperson of the Company's structural subdivision or branch whose operation was inspected. In case that the headperson of the Company's inspected structural subdivision or branch refuses to sign the inspection report, Department officers shall make a relevant record in the inspection report. The report shall be attached with explanations related to the facts described in the report as well as copies of required documents signed by the headperson of the inspected structural subdivision or branch of the Company;
- 6.4.10. the inspection report shall be intended for official use only. The first copy of the inspection report shall be delivered to the Chairman of the Company's Management Board, the second copy shall be delivered to the management of the inspected facility, and the third copy shall be kept with the Department during 5 years from the inspection completion day and shall be made available on request of the Company's Board of Directors, Management Board and/or the Chairman of the Management Board. The Department shall be notified of the plan of measures aimed at rectification of the detected deficiencies or violations as well as responsible persons, which plan shall be drawn up in at the inspected facility. On the Department request, the Chairman of the Management Board may order another inspection of the facility to verify the above-mentioned plan implementation;
- 6.4.11. headpersons and other officials of the inspected facility shall be obliged to:
 - (a) create such conditions for inspectors that would facilitate effective conduct of the inspection, provide inspectors with transport vehicles (when necessary), all required documentation and give (on inspectors' oral or written requests) explanations in oral or written form;
 - (b) refrain from any actions that may limit the range of issues to be verified during inspection. The persons guilty of such limitation may be brought to disciplinary responsibility.

6.5. Risk control procedure:

- 6.5.1. general procedure and technique of risk control shall be regulated by the Company's in-house normative documents (acts) developed by the Department Head in coordination

with the Audit Committee under the Company's Board of Directors and approved by the Chairman of the Company's Management Board;

6.5.2. based on the results of risk control activities, the Department shall draw up quarterly and semi-annual reports containing the following information:

- review of the Company's operative, financial, strategic and other risks;
- evaluation and analysis of the detected risks;
- control over the Company's risk management system functioning.

6.5.3. The quarterly reports shall be submitted for consideration to the Chairman of the Company's Management Board.

6.6. Procedure for the financial and economic operation monitoring:

6.6.1. general procedure and technique of the financial and economic operation monitoring shall be regulated by the Company's in-house normative documents (acts) developed by the Department Head in coordination with the Audit Committee under the Company's Board of Directors and approved by the Chairman of the Company's Management Board;

6.6.2. the financial and economic operation monitoring shall include procedures providing for detection of any deviations in the Company's financial and economic operation through implementation of the following functions:

- verification of compliance with the (quarterly and annual) budgetary performance and other financial and economic benchmarks of the Company;
- control over the Company's liquidity, solvency and payables and receivables turnover performed on a quarterly basis;

6.6.3. intermediate results of the Company's financial and economic operation monitoring shall be immediately made known to the Chairman of the Company's Management Board in the manner and within the time limit established by the in-house normative documents (acts) regulating the procedure for and technique of the monitoring performance;

6.6.4. in case of finding any material deviation from controlled indices of the Company's financial and economic operation, the Head of the Department shall inform the Chairman of the Company's Management Board about a change in the controlled indices and specify possible causes of the deviation within 2 business days from the day the deviation was found;

6.6.5. the Department shall draw up a report on the monitoring of the Company's financial and economic operation and submit it for consideration to the Chairman of the Company's Management Board and the Company's Management Board.

6.7. Procedure for assessing essential elements of the internal control system:

6.7.1. general procedure and technique of assessing essential elements of the internal control system shall be regulated by the Company's in-house normative documents (acts) developed by the Department Head in coordination with the Audit Committee under the Company's Board of Directors and approved by the Chairman of the Company's Management Board;

- 6.7.2. based on the results of the work related to assessment of essential elements of the internal control system semi-annual and annual reports shall be compiled which shall contain the following information:
- description of the system for internal control over the business process being assessed and techniques employed for evaluation of the system efficiency;
 - evaluation of efficiency of the system for internal control over the business process being assessed;
 - measures aimed at increasing efficiency of the assessed element of the Company's financial and economic activities.
- 6.7.3. The semi-annual reports shall be submitted for consideration to the Chairman of the Company's Management Board.
- 6.7.4. The annual reports shall be submitted for consideration to the Audit Committee under the Company's Board of Directors.

Article 7. Final provisions

- 7.1. The Head of the Department shall when necessary draw up proposals on making amendments or supplements to these Regulations and submit them to the Audit Committee under the Company's Board of Directors for approval.
- 7.2. While considering the issues related to approval of the Company's organizational structure, principles of the Company employees motivation, when it concerns the Department officers, the Company's Board of Directors shall have to obtain the opinion of the Audit Committee under the Company's Board of Directors.

Schedule 1
to the Regulations on the Internal Audit and Risk
Management Department
Approved by JSC RusHydro Board of Directors
_____ 200__
Minutes No. _____

Form of a report to be drawn up by the Internal Audit and Risk Management Department

1. List of standard inspections performed by the Internal Audit and Risk Management Department (hereinafter referred to as the Department) (on a quarterly basis)
 - dates;
 - ground for conducting of inspections.
2. Summarized information on specific inspections conducted by the Department (on a quarterly basis).
3. Five typical material violations most frequently detected (twice a year in case such violations occur):
 - causes;
 - consequences;
 - evaluation of the imposed damage;
 - measures aimed at rectification of the violations.
4. Five most important violations (twice a year in case such violations occur):
 - causes;
 - consequences;
 - evaluation of the damage done;
 - measures aimed at rectification of the violations.
5. Most frequently detected (one or two) violations and proposals on their rectification as referred to the following activity areas (once a year in case such violations occur):
 - planning of production, financial and economic activities;
 - budget implementation;
 - electric energy (capacity) and heat energy sales;
 - management of receivables and payables;
 - procurement activities, tender procedures;
 - finance management;
 - investment activities and capital development projects;
 - repairs, retooling and modernization;
 - other.
6. Analysis of the work related to rectification of the violations detected within the framework of earlier conducted inspections (once a year).