

APPROVED

By the resolution of
the Board of Directors of
OJSC The Fifth Power Generation Company'
Minutes No 1 dd February 02, 2009

**Regulation
of Internal Audit department
JSC "OGK-5"**

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1. Objective of Regulation and scope of application

1.1. This document defines guidelines for JSC OGK-5 (hereinafter “OGK-5” or “the Company”) internal processes, in particular sets out and specifies the purpose, authority, scope and responsibilities of the Internal Audit department of OGK-5.

1.2. This regulation is approved by the OGK-5 Board of Directors, it applies to the Company and is binding for all the Company’s staff involved in the internal audit process.

2. Responsibility for the procedure

2.1. The OGK-5 Internal Audit department is responsible for the preparation, interpretation, updating and implementation of the present regulation.

3. Reference documentation and amendment order of the procedure

3.1. References for the activity of the OGK-5 Internal Audit department are represented by:

- Russian legislation in force
- OGK-5 Charter document
- Resolutions of the OGK-5 Board of Directors
- OGK-5 Code of Ethics (CoE) and Zero Tolerance to Corruption Plan (ZTC), adopted by OGK-5 Board of Directors on 8th August 2008
- Regulation on the OGK-5 Internal Control System, approved by OGK-5 Board of Directors with minutes n. 2 dated 20/02/2007
- Rules of procedure for interaction of internal audit department of OGK-5 with Audit Committee, Internal Audit Commission and Executive bodies of OGK-5, approved by OGK-5 Board of Directors with minutes n. 2 dated 20/02/2007
- Regulation on Internal Audit Department
- OGK-5 Internal Audit Manual
- International Standards for Professional Practices in Internal Auditing, issued by the Institute of Internal Auditors (available at www.theiia.org)
- Code of Ethics for the Internal Audit profession, issued by the Institute of Internal Auditors (available at www.theiia.org)
- Any other internal related document, order, instruction, decision of OGK-5 corporate bodies.

3.2. Activities not covered in the present regulation are disclosed in the Internal Audit Manual.

3.3. Amendments and additions to the present Regulation are introduced on an as-needed basis as a result of contradictions between the provisions of the Regulation and current legislation, the OGK-5 Articles of Association or changing conditions of OGK-5 activity.

3.4. All amendments and additions to the Regulation shall be subject to obligatory approval by the OGK-5 Board of Directors.

4. Terms and Definitions

Action Plan – document containing the plan of action defined by the auditee in receipt of the suggestions made at the end of an audit activity in order to mitigate risks pointed out in the audit itself. The action plan describes the actions to be taken, indicating the deadlines and the person responsible for carrying them out. The action plan is inserted into an appropriate section in the Audit Report.

Annual Audit Plan – document which contains the areas, description, objectives and the schedule of audits to be performed in the calendar year.

Audit Committee – a committee formed within OGK-5 Board of Directors, with a consultative and advisory function on the systems of risk management, governance and internal controls.

Audit Director – Director of OGK-5 Audit Department.

Audit Report – document which provides for the formal results of the audit activity, summarizing the findings, conclusions and recommendations. The Audit Report contains an overall audit opinion as regards the effectiveness and adequacy of the control system, risk management and governance of the audited areas/processes.

Audit team – group of auditors responsible for carrying out audit activities.

Risk – the possibility of failing to achieve objectives pursued by the company structure, understood in broad terms (including for example economic, financial, operational, company image or market objectives, among others) and in general associated with maintenance and enhancement of the value of the company.

Consultancy services – the range of services, beyond internal audit's assurance services, provided to assist management in achieving its objectives. The nature and scope of work are agreed upon with the business. Examples include facilitation, process design, training, and advisory services.

Control – Any action taken by Executive Board, the Board of Directors, and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved. Management plans, organises, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control environment – the attitude and actions of the Board of Directors and Executive Board regarding the significance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes (i) Integrity and ethical values, (ii) Management's philosophy and operating style, (iii) Organisational structure, (iv) Assignment of authority and responsibility, (v) Human resource policies and practices, (vi) Competence of personnel.

Ethical auditing – audit activities involving identifying and promoting improvements in ethical practice within the company, through an analysis and evaluation of the ethic risk control processes.

Follow-up – execution of a specific audit activity, aiming at verifying the adequacy, effectiveness and speed of corrective actions undertaken by the management in regard to audit findings pointed out during an audit already performed.

Fraud – Any illegal acts characterised by deceit, concealment or violation of trust. Frauds are perpetrated to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage

Internal Audit Manual – internal document which provides for methodological guidelines and procedures used to carry out audit activities in OGK-5 and constitutes the operating framework for the Internal Audit dept.

Quality Assurance Review – A program to evaluate operations of the internal auditing service, with the purpose to provide reasonable assurance that Internal Audit dept work conforms with the Standards for the Professional Practice of Internal Auditing, the Charter, and other applicable standards.

Risk Assessment – process periodically performed by the Audit function, in order to identify and evaluate the main risk factors that could affect the achievement of the specific objectives in the various company processes/areas. The Annual Audit plan is drawn up also on the basis of this process.

Special audit - audit action not included in the annual audit plan, undertaken following specific notifications or requests from the top management.

5. Internal Control System

5.1. **Definition of the Internal Control System:** The internal control system is the process, effected by OGK-5 Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives:

- ensuring the adequacy of the various **company processes** in terms of **effectiveness, efficiency and economy**;
- guaranteeing the **reliability** and the **correctness** of **accounting records** and the **safeguard of company assets**;
- ensuring **compliance of operational procedures** with internal and external standards, and with company directives and guidelines.

6. Internal Auditing definition

6.1. The Institute of Internal Auditors provides for the following definition of Internal Auditing:

- “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

6.2. The OGK-5 Internal Audit department adheres to the framework of reference for the auditing profession defined by the Institute of Internal Auditors, which is composed of:

- the “Code of Ethics” for the Internal Auditor profession, which stipulates the fundamental principles for the profession;
- the “International Standards for Professional Practice” which ensure that internal audit activities are conducted in a uniform manner.

7. Internal Audit Department mission and tasks

7.1. The OGK-5 Internal Audit department key **mission** is to provide assurance to the OGK-5 Audit Committee, OGK-5 General Director, OGK-5 Audit Commission and Executive Bodies of the company that effective and efficient internal control processes are in place to identify and manage business risks.

7.2. The **key tasks** of the Internal Audit department are to:

- perform audit activities in order to verify:
 - the efficiency, effectiveness and cost-effectiveness of the Company’s processes;
 - the reliability and the correctness of accounting records and management information and the safeguard of Company’s assets;
- - compliance of operational procedures with internal and external standards, and with company directives and guidelines for ensuring safe and efficient management. As a result suggest appropriate improvements and communicate the control culture.
- analyze risks and the way those are managed in the company, recommending corrective actions for risk mitigation system, control procedures and systems;
- indicate actions required for constant improvement of the internal control system and to perform the follow-up activities in order to verify the results of the corrective actions implemented by the processes owners;
- execute the special management requests on specific topics, and recommend appropriate improvement actions;
- support the various internal control bodies (e.g. Audit Committee, Internal Audit Commission);
- carry out the tasks specifically assigned by the Code of Ethics adopted in OGK-5.

8. Principles of Internal Auditing

8.1. The internal auditors of OGK-5 Internal Audit department are expected to apply and uphold the following principles:

8.1.1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Internal auditors shall:

- perform their work with honesty, diligence and responsibility;
- observe the law and make disclosures expected by the law and the profession;
- not knowingly be a part to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization;
- respect and contribute to the legitimate and ethical objectives of the organization.

8.1.2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information within their activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests and by others in formulating their professional judgements.

Internal auditors shall:

- not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- not accept anything that may impair or be presumed to impair their professional judgement.
- disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

8.1.3. Confidentiality

Internal auditors respect the value and ownership of information received and do not disclose such information without appropriate authority unless there is a legal or professional obligation to do so.

Internal auditors shall:

- be prudent in the use and protection of information acquired in the course of their duties.
- not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

8.1.4. Competency

Internal Auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Internal Auditors shall:

- engage only in those services of which they have the necessary knowledge, skills, and experience.
- perform internal auditing services in accordance with their International Standards for the Professional Practice of Internal Auditing.
- continually improve their proficiency and the effectiveness and quality of their services.

9. Internal Audit Department organization

9.1. The internal audit is independent in performing its work as described in International Standards for Professional Practices in Internal Auditing, issued by the Institute of Internal Auditors (Attribute Standard 1100, PA 1100-1, PA 1110-1). In order to ensure the necessary independence in the performance of the activities the Internal Audit department reports functionally to the Audit Committee of OGK-5 Board of Directors and administratively to the General Director. A further functional report to ENEL Audit Corporate Function is established to enforce the independency from other OGK-5 Functions/Divisions.

9.2. The Audit Director is appointed and removed from office with the approval of the Audit Committee followed by formal order of the General Director.

9.3. The organization structure and staff of the Internal Audit department are defined by the Audit Director, taking into due account the recommendations received by the Audit Committee, General Director and ENEL Audit Corporate Function.

9.4. The annual budget for the Internal Audit department is approved by the Audit Committee and General Director.

9.5. The Audit Director together with Company's HR are responsible for selection, recruiting, coordination, training and performance assessment of resources within the Internal Audit department.

10. Audit activities

10.1. The Audit Director is responsible for drafting the Annual Audit Plan, which constitutes the basis of the Internal Audit department activities.

The major **inputs** to the annual planning process are:

- the risk assessment process, performed by the Internal Audit department, which allows to identify the main risk factors that may affect the achievement of defined objectives. In particular the Internal Audit department identifies the audit universe, analyzing the processes and their related risks, and subsequently selects the key audit processes based on the priority of the identified risk factors and the control systems in place to manage them;

- the various suggestions and/or additions from OGK-5 internal control bodies (Audit Committee, Internal Audit Commission), and from OGK-5 management (General Director, executive bodies, line management) for the areas within their respective competence;

- further recommendations / guidelines from ENEL Audit Corporate Function.

10.2. The Annual Audit Plan is approved by the OGK-5 Audit Committee, and shared with the OGK-5 General Director. The audit plan will be consolidated in the Enel S.p.A. Annual audit plan and definitely approved by Enel Audit Committee.

10.3. In case of need, (e.g. special management request, investigation on certain violations) adjustments can be made to the initially approved Annual Audit Plan, provided that proper communication is given to the Audit Committee and a General Director order is issued for the execution of the unplanned audit activity.

10.4. The Internal Audit department is responsible for planning, conducting, reporting and follow-up on the audit activities included in the Annual Audit Plan, and decides on the scope and timing of the audits. The details regarding the audit process are defined in the OGK-5 Internal Audit Manual.

10.5. Audit fieldwork shall be conducted in a professional and timely manner.

A formal **Audit Report** is issued after each audit activity, containing the objectives and scope of the audit, the issues emerged in the internal control system, and the recommendations.

All audit reports are discussed with the relevant management to agree on the facts, recommendations and the appropriate actions plan to put in place. Urgent matters arising during the audit activity are brought to the management's attention as soon as possible.

10.6. The official Audit Report is issued to the attention of the OGK-5 General Director, Chairman of the OGK-5 Board of Directors, to the relevant audited management, ENEL Head of International Division and ENEL Audit Corporate Function.¹

10.7. For all audit activities, the Internal Audit department performs periodic **follow-up** work to ensure adequate audit action plans are implemented by the management.

10.8. The OGK-5 Internal Audit department provides the following periodic reporting:

¹ for audit activities of strategic relevance for the management, copy of the audit reports shall be addressed, in addition, to Enel CEO and Enel Chairman of Board of Directors.

- on a **quarterly basis**, addressing the Audit Committee with the results of the audit activities performed during the quarter, the results of the audit activities performed during the quarter, the major findings detected and the corrective actions agreed with the management, the update on the activities to be performed in the following quarter.

- on an **annual basis**, submits a report to the General Director and to the Audit Committee on the results of the audit activities performed during the year, highlighting significant issues in terms of risk exposures and missing control systems.

11. Consulting Activities

11.1 The resources of the OGK-5 Internal Audit department can provide internal consultancy services for other corporate structures or for internal projects. In particular, consultancy services are support services aiming at adding value and improving the governance, risk management and internal control processes of the organization, although the auditor does not assume managerial responsibilities through them.

12. Internal Audit Authority

12.1. The OGK-5 Internal Audit department is authorized, in the course of its audit activities, to

- enter all areas of the company and have access to any documents and records considered necessary for the performance of its functions;

- make and retain copies of any information it required for the purpose of the audit work, having responsibility for the safekeeping and confidentiality of all information received;

- require all members of staff and management to supply such information and explanations as may be needed within a reasonable period of time.

12.2. The official document which allows the execution of the above mentioned activities is the Terms of Reference. The Terms of the Reference is approved by the Audit Director.

13. OGK-5 Code of Ethics

13.1. In accordance with the adopted **OGK-5 Code of Ethics**, the OGK-5 Audit Department is assigned the following tasks:

- confirming that the Code of Ethics is applied and respected through ethical auditing activities, that consists of controlling and promoting ongoing improvement in the area of ethics within the company;

- monitoring initiatives meant to increase awareness and understanding of the Code of Ethics; in particular:

- guaranteeing the development and communications of ethical training;

- analyzing proposals for the revision of the corporate procedures and policies with a significant impact on corporate ethics.

- receiving and analyzing reports of violations of the Code of Ethics coming from stakeholders of the company, providing adequate information to Audit Committee, General Director and other internal control bodies of the company;

- propose to the Audit Committee and the Board of Directors modifications and additions to be made to the Code of Ethics.

14. Professional Update

14.1. All resources in the OGK-5 Internal Audit department shall receive an adequate training program. Such training includes both auditing training and general OGK-5 training with reference to the company's activities, organization and internal rules. Also participation to meetings and seminars is to be considered an integral part of the training plans.

14.2. Auditing training focuses on auditing courses tailored on the qualifications of the resources level in order to enable them to achieve professional autonomy and achieve the best practice standards.

14.3. The Audit Director is responsible for identifying the most appropriate training initiatives for the human resources entrusted to the Internal Audit department, providing proper planning of the training requirements.

15. Assessment of Internal Audit Performance

15.1. Quality Assurance Reviews are performed periodically, on the initiative of the Audit Director, on individual audit activities in order to monitor and improve the effectiveness, efficiency and quality of the audit activities.

The Reviews can be the following:

- SELF-ASSESSMENT – carried out by the audit team that has carried out the audit activity;

- INTERNAL ASSESSMENT – carried out by auditors not belonging to the audit team responsible for carrying out the audit action;

- INDEPENDENT ASSESSMENT – performed by external professionals (Enel / Audit firm)

- AUDITEE ASSESSMENT - furthermore, following the completion of an audit activity, the Internal Audit department requests the **auditee** to provide formal **feedback**, in order to assess departmental performance at an overall level and improving the quality of audit service.