

# CORPORATE GOVERNANCE PRACTICES

The Company interprets corporate governance as a set of processes fostering management and oversight of its operations and encapsulating relations between stockholders, Board of Directors and executive bodies in the best interests of stockholders. The Company views corporate governance as a tool to enhance its performance efficiency and reputation and reduce the cost of capital.

**Our corporate governance is premised on the principles, described below:**

ACCOUNTABILITY	FAIRNESS	TRANSPARENCY	RESPONSIBILITY
Our bylaw stipulates accountability of the Company's Board of Directors to all stockholders in line with the Russian laws and serves as guidance for the Board of Directors in formulating the strategy and administering executive bodies of the Company.	The Company is voluntarily committed to protect stockholder rights and enforce equal treatment of all stockholders. The Board of Directors affords all stockholders an opportunity of viable defense if their rights are disregarded.	The Company enforces just-in-time disclosure of reliable information regarding all corporate events or actions, including but not limited to its financial position, performance, ownership structure and management, and oversees that any stakeholder has an unhindered access to such information.	The Company recognizes its liability to all stockholders of the Company.

Its corporate governance practices kept upgraded, the Company keeps its fingers on the pulse of corporate governance trends evolving in Russia. The Company highlights the importance of the Corporate Governance Code, adopted and enforced by the Central Bank since 2014. Principles and recommendations of the Code set the bar high and serve as a guidemark for further development of corporate governance system by the Company. We also focus hard on regulatory requirements to reflect them in our corporate governance practices.

## **The corporate governance practice of IDGC of Urals (OAO) features the following positive aspects through the lens of the protection of stockholder rights:**

- Information for the annual general meeting of stockholders is posted on the Company's web-site;
- The Company has successfully paid dividends for 2010-2015;
- To determine dividend payments, the Company focuses on RAS net profit figures;
- RSM RUS (OOO), a known leader in auditor and advisory services operating in Russia since 1992, elected on a competitive basis, was hired to audit the Company's RAS and IFRS financials statements.

## **The corporate governance practice of IDGC of Urals (OAO) features the following positive aspects through the lens of management and oversight bodies:**

- Independent directors are elected to the Board of Directors;
- Meetings of the Board of Directors are conducted regularly, attended by a sufficient number of participants and consistent with previously adopted action plan;

- The preparation procedure for meetings of the Board of Directors provides the Board of Directors members with the opportunity to properly prepare for a meeting;
- We have set up 5 committees (Audit Committee, Personnel and Remunerations Committee, Strategy and Development Committee, Reliability Committee, Technological Connection Committee) to be governed by the relevant Regulations;
- The Company has set up a unit performing internal audit functions - Internal Audit Department - that is responsible to the Board of Directors;
- The Company has set up a unit, liable for key risk management functions.

## **The financial and non-financial information disclosure practice features the following positive aspects:**

- The Company's web-site is regularly maintained and updated with large quantities of useful information on the Company and its performance;
- The Company discloses information on its major stockholder with 51.52% interest in the Company's capital;
- The Company discloses detailed information on members of the Board of Directors and Executive Board of the Company;

- The Company discloses all mandatory forms of financial (accounting) statements prepared under International Financial Reporting Standards (IFRS) and Russian Accounting Standards (RAS).

## **Corporate social responsibility and sustainable development of IDGC of Urals (OAO) features the following positive aspects:**

- The Company has adopted bylaws regulating corporate social responsibility matters;
- IDGC of Urals (OAO) has adopted the Corporate Ethics Code that envisages mission, values, principles of intracorporate conduct, principles of relations with stakeholders, conservation of resources and assets of the Company;
- The Company implements corporate social projects for IDGC of Urals (OAO) employees and their families, people residing in regions where the Company operates as well as charity and sponsorship programs;
- The Company's operations are certified for compliance with ISO 9001, 14001, 50001 and OHSAS 18001.

### Compliance with the principles of the Corporate Governance Code

Aspects	Principles, recommended by the Code	Principles complied with in full	Principles complied with in part	Principles that are not complied with by the Company
Rights of stockholders and equal treatment of stockholders in the exercising of their rights	13	11	2	0
Board of Directors	36	13	14	9
Corporate Secretary	2	2	0	0
Remuneration system	10	7	1	2
Risk Management and Internal Control System	6	6	0	0
Information disclosure, information policy	7	5	2	0
Significant and important corporate actions and events	5	4	0	1
<b>Total</b>	<b>79</b>	<b>48</b>	<b>19</b>	<b>12</b>

Examine Appendix for more details on the Company's compliance with the principles and recommendations of the Corporate Governance Code.

## CORPORATE GOVERNANCE SYSTEM

The corporate governance system of IDGC of Urals (OAO) is based on principles designed to multiply assets, enhance investment prospects and market value, maintain the Company's financial stability and profitability as well as respect the rights and interests of stockholders and stakeholders.

Disclosure and transparency of financial information aligned with preservation of the Company's interests in terms of commercial secrets and confidential information play a significant role in the IDGC of Urals corporate governance system. One of the most important channels for distribution of information, available to the majority of stakeholders, is the Company's official web-site [www.mrsk-ural.ru/en/](http://www.mrsk-ural.ru/en/), containing Investor Relations Section [www.mrsk-ural.ru/en/ir/](http://www.mrsk-ural.ru/en/ir/) and Company's official web-page at the Interfax newswire system [www.e-disclosure.ru/portal/company.aspx?id=12105](http://www.e-disclosure.ru/portal/company.aspx?id=12105).

These resources can freely be used to view the latest Company's news, financial and operational performance, variety of statements, reports and other useful information on the Company's operations as well as bylaws regulating management and oversight bodies of the Company (The Charter, Regulations on the General Meeting of Stockholders, Regulations on the Board of Directors, Regulations on the Executive Board, Regulations on the Board of Internal Auditors, etc.). Adhering to the principle of equal access to the information for all stakeholders, IDGC of Urals (OAO) publishes information on its official web-site both in Russian and English.



### THE STRUCTURE OF THE MANAGEMENT AND OVERSIGHT BODIES AT IDGC OF URALS (OAO)

#### Basic Definitions:

**GENERAL MEETING OF STOCKHOLDERS** is the supreme governing body which purview covers the most significant aspects of the Company's activities.

**BOARD OF DIRECTORS** is the governing body, designed to handle the overall management of the Company and liable for strategic management focusing on enhanced shareholder value of the Company. The Board of Directors oversees the Company's executive bodies and supervises their efficiency.

**BOARD OF DIRECTORS COMMITTEES** are consultative and advisory bodies assisting the Board of Directors in its overall charge of the Company.

**CORPORATE SECRETARY** is a Company's official enforcing Company's compliance with Russian laws, Charter and bylaws of the Company that guarantee implementation of rights and interests of stockholders.

**EXECUTIVE BOARD** is the collegiate executive body that manages the Company's day-to-day operations.

**GENERAL DIRECTOR** is the sole executive body that performs the functions of the Chair of the Company's Executive Board.

**BOARD OF INTERNAL AUDITORS** is the supervisory body that oversees the Company's financial and operational activities and is elected by the General Meeting of Stockholders.

**EXTERNAL AUDITOR** is the supervisory body, approved by the General Meeting at the suggestion of the Board of Directors to conduct annual audits of the Company's RAS and IFRS financial statements.

**INTERNAL CONTROL** is a process carried out by the Company's Board of Directors, Board of Internal Auditors, officers and employees of all Company's management levels to enforce reasonable assurance of goal achievement.

**INTERNAL AUDIT (DEPARTMENT)** is a unit of the Company, liable for analysis and evaluation of the Company's business processes.