РОССИЙСКИЙ
ИНСТИТУТ ДИРЕКТОРОВ

National Corporate Governance Rating

Notice of rating affirmation of IDGC of Centre, PJSC

15.08.2018

NCGR 7+
"Developed Corporate Governance Practice"

The Company meets the requirements of the Russian Federation legislation in the field of corporate governance, follows most of the recommendations of the Russian Corporate Governance Code. The Company is characterized by rather low risks of losses of owners related to the quality of corporate governance.

During the monitoring period (21.02.2018 - 15.08.2018) of the corporate governance practice in IDGC of Centre, PJSC (hereinafter referred to as the Company) a number of corporate events has passed.

On 30 March 2018, the Board of Directors of the Company approved a new version of the Regulation on the Information Policy of IDGC of Centre. The document was updated in accordance with the current practice of the Company and the recommendations of the Russian Corporate Governance Code.

On 30 May 2018, the Board of Directors of IDGC of Centre approved in a new version the Regulation on the insider information of the Company.

31 May 2018, the Annual General Meeting of Shareholders on the results of 2017 was held.

The experts noted that shareholders for the first time were able to implement in practice the previously stated in the internal documents of the Company the possibility of electronic voting. They were provided with technical conditions for voting at the General Meeting by filling out the electronic form of the bulletin on the website of VTB Registrar, which is the holder of the register of holders of the Company's securities.

In addition, the experts noted that during the preparation for the meeting, the Company supported not only a telephone channel and a special e-mail address for communication with shareholders, but also ensured the work of the forum on the agenda of the meeting on the Company's website on the Internet.

In accordance with the agenda of the meeting, the shareholders approved the Annual Report and the annual accounting statements, a decision was made to pay dividends on the results of 2017, new members of the Board of Directors and the Audit Commission were elected, the external auditor of the Company for 2018 was approved.

In addition, the following documents were approved in a new version at the meeting: the Articles of Association of IDGC of Centre, the Regulation on the Board of Directors of IDGC of Centre, the Regulation on the Management Board of IDGC of Centre, and the Regulation on the payment of remuneration and compensation to members of the Audit Commission of IDGC of Centre.

The Audit Commission included five people who are not members of the management bodies or employees of the Company, which ensures the objectivity and independence of judgments of this control body.

As for the new composition of the Board of Directors of IDGC of Centre, it included 11 members, of which one director (General Director, Chairman of the Management Board of IDGC of Centre O.Y. Isaev) is executive, eight are non-executive, of which five (D.B. Akopyan, A.I. Pavlov, A.V. Rakov, L.A. Romanovskaya and M.M. Saukh) are representatives of the majority shareholder - PJSC «Rosseti», and two (D.A. Spirin and R.A. Filkin) - are representatives of minority shareholders. Another non-executive director (A.I Kazakov) was also nominated by the majority shareholder and has

the status of non-executive director.

Two members of the Board of Directors (A.V. Varvarin and A.V. Shevchuk) were recognized by the Board of Directors of the Company as independent directors despite their formal criteria of connection with the Company and the substantial shareholder of the Company (PJSC «Rosseti»).

Thus, the new Board of Directors of IDGC of Centre includes one executive, two independent and eight non-executive directors.

After the election of the new members of the Board of Directors Committees of the Board of Directors of IDGC of Centre with new members were created.

The Audit Committee was headed by an independent director (A.V. Varvarin), the Committee included another independent (A.V. Shevchuk) and one non-executive (M.M. Saukh) directors.

A non-executive director (A.V. Rakov) was elected as the Chair of the Personnel and Remuneration Committee, the Committee included another independent (A.V. Shevchuk) and three non-executive (A.I. Pavlov, M.M. Saukh and R.A. Filkin) directors.

The experts note that such practice is consistent with the recommendations of the Russian Corporate Governance Code only with regard to the status of the Chair of the Audit Committee.

Five persons were elected to the Audit Commission, who are neither members of management bodies nor employees of the Company, which ensures the objectivity and independence of judgment of this control body. However, it should be noted that all of them are employees of the majority shareholder of the Company - PJSC «Rosseti» or its SDC.

The exerts did not note any other changes in the corporate governance practices in IDGC of Centre during the reporting period.

At the same time, the following positive moments are preserved in the practice of corporate governance of IDGC of Centre:

- the functions for recording the ownership of the Company's shares are carried out by an independent registrar with a high reputation and reliable technologies;
- the powers of the Board of Directors of the Company in terms of making decisions on material transactions have been expanded;
- the Company attracts independent appraisers in cases, in addition to those stipulated by law, requirements of such attraction are fixed by internal documents;
- materials for the preparation for the General Meeting of Shareholders are posted on the Company's website in Russian and English, while the list of materials is expanded taking into account the recommendations of the Russian Corporate Governance Code;
- the Company adopted the practice of rotating external auditors at least once every five years, and in addition, the external auditor does not provide non-audit services to IDGC of Centre;

- the Company has a positive dividend history: during the last eight years, dividends were declared and paid on time;
- meetings of the Board of Directors are held regularly in accordance with the pre-approved work plan, and members of the Board of Directors are provided with information in advance in order to prepare for the meetings;
- minutes of meetings of the Board of Directors specify information on how each member of the Board of Directors voted, and dissenting opinions, if any, are an integral part of the minutes;
- the Company has a complex regulation of the conflict of interests of members of the Board of Directors and members of executive bodies;
- the Board of Directors of the Company approved internal documents that define the main principles, elements and procedures of the internal control system and risk management system. The Board of Directors annually assesses the effectiveness of the internal control system and risk management system;
- the functions of the Internal Audit Department of the Company comply with the recommendations of the best practice of corporate governance, the Department is functionally accountable to the Board of Directors of IDGC of Centre;
- the Company has approved a regulatory and methodological framework for risk management, there is an internal division that performs key functions for risk management;
- the position of the Corporate Secretary has been created in the Company, whose functions and powers correspond to the recommendations of the Russian Corporate Governance Code;
- on the website and in the Annual Report the Company discloses information on the individual amount of remuneration of members of the Board of Directors;
- the Company provides free and easy access of interested persons to the financial and accounting statements of the Company prepared under RAS and IFRS (annual and interim);
- the corporate website of the Company is highly informative for all interested parties: including information on decisions of the General Meeting of Shareholders and the Board of Directors, as well as detailed information on all material transactions and related party transactions;
- the Company implements various social projects for its employees and members of their families, consumers of services, actively participates in charitable and sponsorship activities.

However, the practice of corporate governance of IDGC of Centre is till characterized by a number of significant shortcomings, including:

- predominantly the correspondence form of meetings of the Board of Directors and Committees of the Board of Directors (from the beginning of 2018 only one of 23 meetings of the Board of Directors was held in the form of joint presence, all 7 meetings of the Personnel and Remuneration Committee took place in the form of absentee voting;
- dependence of remuneration of members of the Board of Directors on short-term performance of the Company;
- lack of practice of liability insurance for members of the Board of Directors and evaluation of performance of the Board of Directors;
- lack of practice to prepare corporate social reporting in the Company,

which does not allow the experts to upgrade the Company's rating.

In this regard, RID confirms the NCGR rating of IDGC of Centre, PJSC at the level of 7+.

Analysts:

N.G. Likhacheva
Deputy Head of the Expert Centre of the Russian Institute of Directors

E.V. Nikitchanova
Deputy Director - Head of the Expert Centre of the Russian Institute of Directors

I.V. Belikov
Director of the Russian Institute of Directors

Date of rating affirmation 15.08.2018

Appendix 1. SCALE OF NATIONAL CORPORATE GOVERNANCE RATING

National Corporate Governance Rating (NCGR) reflects the opinion of experts on corporate governance practices in a particular company.

NCGR is also a risk assessment of corporate governance of a specific company. The higher the rating, the lower, according to experts, risks of corporate governance in the assessed company.

NCGR is assigned according to the scale from CGR 1 (lowest rating) to CGR 10 (highest rating). The rating scale has 10 rating classes. If the quality of corporate governance of the company is above the average for the class, then its rating class adds a "+" sign.

NCGR 10	Best corporate governance practice
NCGR 9+ NCGR 9 NCGR 8+ NCGR 8	Leading corporate governance practice
NCGR 7+ NCGR 7 NCGR 6+ NCGR 6	Developed corporate governance practice
NCGR 5+ NCGR 5 NCGR 4+ NCGR 4	Moderate corporate governance practice
NCGR 3+ NCGR 3 NCGR 2+ NCGR 2 NCGR 1+ NCGR 1	Low corporate governance practice

NCGR 10 is assigned to the company, which complies with the requirements of the Russian legislation on corporate governance and fully follows the recommendations of the Russian Code of Corporate Conduct, as well as complying with the provisions of international best practices in corporate governance. Risks of loss of ownership related to the quality of corporate governance are close to zero

NCGR 9 is assigned to the company that complies with the requirements of the Russian legislation on corporate governance and fully follows the recommendations of the Russian Code of Corporate Conduct, as well as complying with a significant number of the recommendations of the international best practices in corporate governance. Risks of loss of ownership related to the quality of corporate governance are minimal.

NCGR 8 is assigned to the company that complies with the requirements of the Russian legislation on corporate governance, follows most of the recommendations of the Russian Code of Corporate Conduct and is in compliance with a significant number of the recommendations of the international best practices in corporate governance. Risks of loss of ownership related to the quality of corporate governance are insignificant.

NCGR 7 is assigned to the company that complies with the requirements of the Russian legislation on corporate governance, follows most of the recommendations of the Russian Code of Corporate Conduct and certain recommendations of international best practices in corporate governance. The company is characterized by relatively low risk of losses by owners related to the quality of corporate governance.

NCGR 6 is assigned to the company that complies with the requirements of the Russian legislation on corporate governance, follows the main recommendations of the Russian Code of Corporate Conduct and certain recommendations of international best practices in corporate governance. The company is characterized by acceptable risks of losses by owners related to the quality of corporate governance.

NCGR 5 is assigned to the company that complies with the requirements of the Russian legislation in the field of corporate governance, but the initiatives to implement the basic recommendations of the Russian Code of Corporate Conduct are of insignificant character. The company is characterized by a moderate risk of losses by owners related to the quality of corporate governance.

NCGR 4 is assigned to the company that complies with the requirements of the Russian legislation in the field of corporate governance, but the initiatives to implement the basic recommendations of the Russian Code of Corporate Conduct are of insignificant character. The company is characterized by average risks of losses by owners related to the quality of corporate governance.

NCGR 3 is assigned to the company that allows for non-compliance with certain norms of the Russian legislation in the field of corporate governance, the current practice of corporate governance of the company does not comply with most of the recommendations of the Russian Code of Corporate Conduct. The company is characterized by high risks of losses by owners related to the quality of corporate governance.

NCGR 2 is assigned to the company, which, according to experts, allows for non-compliance with certain norms of the Russian legislation in the field of corporate governance, the current practice of corporate governance of the company does not comply with most of the recommendations of the Russian Code of Corporate Conduct. The company has very high risks of losses by owners related to the quality of corporate governance.

NCGR 1 is assigned to the company that allows for non-compliance with certain norms of the Russian legislation in the field of corporate governance, the current practice of corporate governance of the company does not comply with most of the recommendations of the Russian Code of Corporate Conduct. The company is characterized by extremely high risks of losses by owners related to the quality of corporate governance.