



РОССИЙСКИЙ  
ИНСТИТУТ ДИРЕКТОРОВ

## National rating of corporate governance

### The report on practice of corporate governance in IDGC of Centre, PJSC 10.03.2016

IDGC of Centre, PJSC was assigned with

**NCGR 7++**

**«Developed practice of corporate governance»**

National rating of corporate governance (NCGR®) is an indicator of quality of corporate governance, allowing to correlate a level of development of corporate governance and risks connected with it in different companies; is a tool of estimation and enhancement of practice of corporate governance in companies and improvements of its mutual relations with stakeholders.

The company with NCGR 7++ observes requirements of the Russian legislation in the field of corporate governance and follows a considerable number of recommendations of the Russian Code of Corporate Governance. The company is characterised by low enough risks of losses of proprietors connected with quality of corporate governance.

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At the analysis of practice of corporate governance in IDGC of Centre, PJSC, experts were guided by the complex approach, including its indispensable condition of increase of efficiency of corporate governance and quality of activity of the Company.

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## GENERAL CHARACTERISTIC

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«Interregional Distribution Grid Company of Centre, Public Joint-Stock Company» (hereinafter – the Company, IDGC of Centre, PJSC) – a leading electric grid company of Russia. The company does business in territory of 11 regions of the Central part of Russia, providing with electric power the population, large industrial companies and transport and agriculture enterprises, socially significant facilities, performing connection of new consumers to electric grids.

The major shareholder of the Company is PJSC "Rosseti" with its share in authorised capital of 50,2%, the stockholder equity structure has also a number of minority shareholders.

IDGC of Centre, PJSC is a public company – the Company's common stocks are traded at Moscow Exchange and included in the First (Top) level of the List of securities of CJSC «MICEX».

The Russian Institute of Directors (RID) has reviewed the technique of the National rating of corporate governance (NCGR) acting since 2011 and has brought in it a number of essential changes reflecting, including:

- changes which have occurred in the Russian corporate legislation;
- recommendations of the new Russian Code of Corporate Governance<sup>1</sup>, including recommendations of the international advanced practice of corporate governance;
- requirements of the Rules of listing of Moscow Exchange<sup>2</sup>;
- principles of corporate governance of OECD (2015);
- principles of corporate governance of OECD for companies with the state participation (2015).

Besides, RID has adjusted the acting earlier rating scale, having provided in it new rating values and having provided with that higher degree of differentiation on the level of practice of corporate governance of companies.

Using the renewed NCGR technique, experts of RID have conducted revaluation of practice of corporate governance of IDGC of Centre, PJSC by four components:

- shareholders' rights,
- activity of management and control bodies,
- information disclosure,
- corporate social responsibility and sustainable development.

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*Results of the conducted estimation of IDGC of Centre, PJSC testify that the Company has developed the CG system enough, however a number of aspects demands more balanced approach and complex implementation of advanced standards.*

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<sup>1</sup>Recommended by Letter of the Bank of Russia from 10.04.2014 № 06-52/2463

<sup>2</sup> Rules of listing of CJSC «MICEX», confirmed by the Board of Directors of CJSC «MICEX» 26.08.2015, Minutes №27, registered by the Central Bank 08.10.2015

Each of the components, in turn, contains a kit of criteria, reflecting policies, procedures and structures of corporate governance specified by requirements of the legislation of the Russian Federation, the Rules of listing of CJSC «MICEX», recommendations of the Russian Code of Corporate Governance, and also the international advanced practice of corporate governance.

Practice of corporate governance of the Company from the point of view of protection of shareholder rights is estimated **well**. The Company follows requirements of the legislation and some standards of the advanced practice of corporate governance. Among the key positive moments of the given practice it is possible to allocate the expanded competence of the Board of Directors regarding approval of major transactions, attraction of universally recognized audit companies audit the Company's financial statements under IFRS and RAS, carrying out of rotation of external auditors.

At the same time, containing influence on estimation growth on the given component is given by non-observance by the Company of the majority of recommendations about granting to shareholders of additional materials for preparation for the General meeting, the fact that the size of dividends is calculated based on net profit specified according to RAS, instead of IFRS, and also there is no binding clause in the Provision about dividend policy on the minimum share of net profit allocated for dividend payout.

Practice of corporate governance of the Company from the point of view of activity of management and control bodies is estimated **well**. Among the key positive moments of the given practice it is possible to note availability of two independent directors as part of the Board of Directors, actively working key committees of the Board of Directors - on audit, on nomination and remuneration, availability of complex regulation of the conflict of interests of members of the Board of Directors and the Management Board, developed standard-methodological base of the risk-management, the accountable to the Board of Directors Internal Audit and Control Department, the developed institute of the Corporate secretary.

As lacks one can note mainly correspondence form of carrying out of sessions of the Board of Directors, absence of practice of liability insurance of members of the Board of Directors, practice of estimation by the Board of Directors of its work, short-term character of system of motivation of members of the Board of Directors and members of executive powers.

The Company shows **high** level of disclosing of financial and not financial information on the activity which is placed regularly on the renewed Internet site, in annual and quarterly reports.

On the given component it is possible to note as lacks nonparticipation of the Board of Directors in the control of realisation of the Company's information policy, absence of information on availability/absence of consulting services rendered by the external auditor, about key performance indicators of members of executive powers.

Practice of the Company in the field of corporate social responsibility is estimated **well**. The Company implements various social projects for its employees and members of their families, for local population, and also charitable and sponsor's projects.

At the same time, containing influence on estimation growth on the given component is given by absence of certification of activity of the Company on conformity to the standard ISO 140001 in the field of environment protection, and also non-preparation of a report on corporate social responsibility.

As a result of conducted estimation IDGC of Centre, PJSC was assigned with the corporate governance rating at the level **7++** «Developed practice of corporate governance».

The Company observes requirements of the Russian legislation in the field of corporate governance and follows a considerable number of recommendations of the Russian Code of Corporate Governance. The Company is characterised by low enough risks of losses of proprietors connected with quality of corporate governance.

## SHAREHOLDER RIGHTS

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By results of the analysis of practice of corporate governance of the Company experts note the following **positive aspects and lacks** of this practice:

*Level of practice of corporate governance of IDGC of Centre, PJSC with protection of shareholder rights is estimated well.*

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### OWNERSHIP RIGHT

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1. The Company has not established restrictions on acquisition and sale of stocks and restrictions by quantity of stocks belonging to one shareholder. It promotes appropriate realisation by shareholders of the ownership right.

2. The Company provides reliability and efficiency of accounting of ownership rights on the stock by transfer of storage and shareholder register conducting to an independent registrar - "Reestr-RN" Ltd. During the estimation no signs of affiliation of the Company and the given registrar were revealed.

Besides, the registrar "Reestr-RN" Ltd. corresponds to recommendations of the Russian Code of Corporate Governance (hereinafter - the Code of Corporate Governance, the Code) according to which, the key criteria, providing protection of ownership rights of shareholders and guarantees of freedom to dispose of stocks belonging to them, are availability at the registrar of high reputation and fine-tuned and reliable technologies, allowing in the most effective way to provide accounting of ownership rights and realisation of shareholder rights.

With the information given by IDGC of Centre, PJSC, the agreement with the registrar, and also relevant provisions about structural divisions of the Company and job descriptions of employees, it provides for regular realisation together with the registrar of actions on actualisation of out-of-date data on shareholders, the rights on whose stocks are accounted in the shareholder register.

3. IDGC of Centre, PJSC has a practice of carrying out of competitive selection of suppliers to provide the Company with goods or services for the sum exceeding specifications established by the Company. The Company's purchases are regulated by the Uniform standard of purchases (the Regulation about purchases) of PJSC "Rosseti" confirmed by the decision of the Board of Directors of IDGC of Centre, PJSC 28.12.2015. The Uniform standard of purchases determines kinds of purchasing procedures (including, tender, auction, request for proposals, request for quotations, simple purchase, small purchase, purchase from the single supplier) and conditions according to which those or other kinds of purchasing procedures should be applied, which provides for continuity of practice of purchases of goods and services.

The Board of Directors of IDGC of Centre, PJSC confirms the Plan of purchases of the Company for a year, as required introduces in it amendments, and also considers the report of General Director of the Company on its execution at sessions.

Protection of the ownership right of shareholders is promoted by expansion of the competence of the Board of Directors of the Company regarding decision making about approval of major transactions. In particular, the Board of Directors of the Company has the decision making competence for the Company to perform:

- one or more interconnected transactions of the Company relating to the acquisition or possible acquisition of options, notes, investment shares of mutual funds and/or bonds worth more than 1 000 000 000 (One billion) rubles;
- one or more interconnected transactions of the Company relating to the transfer or possibility of the transfer of property by the Company in trust management worth more than 1 000 000 000 (One billion) rubles;
- preliminary approval of one or more interconnected transactions of the Company relating to the receipt or possibility of the receipt of bank guarantees by the Company acting as the principal in the amount of more than 1 000 000 000 (One billion) rubles;

Besides, the Board of Directors tentatively approves decisions on fulfilment by the Company of transactions which subject are non-current assets of the Company at the rate above 10% of book value on the decision acceptance date to perform such a transaction, and also transactions to dispose in any manner of real estate property and/or equipment used directly for realisation of primary activities of the Company, with the book value over 5% from the Company book value of assets.

In aggregate the given practice provides to shareholders reasonable confidence in proper monitoring over process of purchases of goods and services, and also safety and efficiency of use of assets of IDGC of Centre, PJSC. Besides, recording of the specified practice in internal documents of the Company provides its continuity in the future.

4. The Company's Articles of Association provides availability of authorised shares, however their quantity is rather insignificant (about 0,000612% from the number of stocks in circulation). Besides, no shareholder of the Company possesses the qualified majority at voting at the Shareholders general meeting, no shareholder has in the Board of Directors absolute majority of votes. In aggregate it levels risk of dilution of shares of stockholders.

Availability of considerable number of the authorised shares with one of shareholders having absolute majority in the board of directors and the qualified majority at shareholders general meeting creates substantial risk of dilution of shares of stockholders.

5. The Company has an internal document directed on prevention of misuse of the insider information - Provision about the insider information, developed according to requirements of the legislation of the Russian Federation about the insider information. The Provision specifies the concept and contents of the insider information, the list of persons who are carriers of such information, an order of maintaining the list of insiders, responsibility for misuse of the insider information of the Company and an order of control over observance of requirements of the legislation of the Russian Federation about the insider information of the Company.

6. Under the information given by the Company, IDGC of Centre, PJSC involves independent appraisers by preparation and realisation of major transactions, including transactions on alienation of stocks (shares) of affiliated companies, and the corresponding requirement is fixed in the internal Regulation «Interaction of structural divisions of IDGC of Centre, PJSC concerning property appraisal». Attraction of an independent appraiser for such purposes corresponds to the advanced practice of corporate governance, and recording of this practice in internal documents provides its continuity.

*In cases of cost determination of the property alienated or acquired under the large transaction or the essential transaction, which is a related party transaction, it is recommended to the board of directors to involve an independent appraiser.*

*The code of corporate governance, item 313*

Attraction of independent appraisers allows to receive a fair estimation of assets with which essential actions are made. The

legislation specifies cases in which independent appraisers should be involved. Expansion of the number of cases, in which the Company involves independent appraisers, allows to receive a fair estimation of a bigger number of assets of the Company and, thereby, promotes larger protection of ownership rights of shareholders. In particular, the Company also can involve independent appraisers at reorganisation, and also at placing of an issue of securities.

Thus it is reasonable to fix corresponding requirements in internal documents as the legislation provides only possibility (instead of an obligation) of attraction of an appraiser in the specified cases.

*For determination of a ratio of converting of stocks by reorganisation it is recommended to involve an independent appraiser.*

*The code of corporate governance, item 330*

7. Experts noted that internal documents of IDGC of Centre, PJSC do not provide for acquisition and repurchase of shares by the Company on the equitable price, specified according to the following rules:

- for price determination an independent appraiser is involved occupying one of leading places in ratings of appraisers and possessing experience of estimation in the corresponding sphere,
- the price is determined taking into account weighted average price of stocks for a reasonable time frame, without the effect connected with fulfilment by the Company of the corresponding transaction (including without change of the price of stocks in connection with distribution of the information on fulfilment by the Company of the corresponding transaction), and also without discount for alienation of stocks as a part of noncontrolling interest.

*Acquisition and repurchase of shares by the company should be performed on the equitable price specified by the independent appraiser, possessing the faultless reputation recognised in the market and experience of estimation in the corresponding sphere.*

*The code of corporate governance, item 315*

At the same time the Russian Code of Corporate Governance recommends to fix in internal documents of a rule and procedures connected with realisation by the Company of essential corporate actions which the mentioned above transactions on acquisition and repurchase of shares refer to.

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## PARTICIPATION RIGHT IN MANAGEMENT AND VOTING POWER

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8. None of shareholders owns 75% and more of the Company's stocks (the qualified majority). Major shareholder PJSC "Rosseti" possesses 50,2% of stocks of the Company, Genhold Limited - 15% of stocks. The state owns 0,5% of stocks of IDGC of Centre, PJSC, and other 34,3% of the Company's common stocks are allocated among minority shareholders. Such structure of stockholder equity creates the appropriate balance of interests for accepting at Shareholders general meetings of decisions in interests of a larger number of shareholders.

9. Concerning the Company no special participation right is provided for the Russian Federation, subjects of the Russian Federation, municipal formations ("gold share") to manage the Company that reduces risk of receipt of the voting rights, disproportionate to internal shareholding and, hence, reduces risk of restriction of shareholder rights on participation in the Company's management.

10. The Company does not create obstacles for realisation by shareholders of the participation rights in shareholders meeting and holds it in Moscow not earlier than 9 hours and not later than 22 hours local time. The given practice provides convenience of a place and time of carrying out of Shareholders general meeting that reduces risk of physical inaccessibility of a place and inconvenience of time for realisation by shareholders of the participation right in General meeting.

11. The structure of stockholder equity of IDGC of Centre, PJSC is characterised by absence of stocks crossholding that warrants to shareholders appropriate observance of their participation rights in management.

As a rule, availability of crossholding allows a company's management to influence through affiliated and dependent companies decisions of shareholders general meeting. Essential crossholding testifies to abusing by the management of resources of the Company for receipt of control or rendering of influence on decisions of shareholders general meeting and makes negative impact on capability of shareholders to participate in management of the Company through voting at shareholders general meetings.

12. The regulations of work of Shareholders general meeting are determined by the Provision about Shareholders general meeting approved by the General meeting of shareholders of IDGC of Centre, PJSC that formalizes process of carrying out of Shareholders general meeting and, thereby, raises efficiency of its work, and also reduces risks of restriction of shareholder rights on participation in management of the Company which can arise in the absence of the uniform approach to Shareholders general meeting carrying out.

13. The Company's Articles of Association increases term of entering by shareholders of offers concerning the agenda of annual General meeting till 60 days after the termination of fiscal year that allows shareholders to implement relative rights without unjustified complexities.

However, IDGC of Centre, PJSC does not use electronic communication facilities and does not provide information interchange possibility in electronic form for creation of a convenient order of direction for shareholders to the Company of requests about convocation of General meeting, offers on promotion of candidates for bodies of the Company and entering of offers into the General meeting agenda.

14. Functions of the tabulation commission at General meetings are performed by an independent registrar of the Company that warrants to shareholders sufficient degree of transparency of a voting procedure and reliability of its results.

15. The Articles of Association of the Company and the Provision about General shareholders meeting of IDGC of Centre, PJSC provide that decisions accepted by Shareholders general meeting, and voting results can be disclosed at Shareholders general meeting in which course voting was taken, and also should be brought to the notice of persons included in the list of persons, having the right to participate in Shareholders general meeting, in the form of the Report on results of voting not later than four working days after Shareholders general meeting closing date.

Under the information given by the Company, voting results, as a rule, are disclosed during meeting carrying out.

*Voting results are recommended to be brought and disclosed before general meeting end. It will allow to exclude any doubts in correctness of summarising of voting and thereby to promote strengthening of trust of shareholders to a company.*

*The code of corporate governance, item 22*

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## THE RIGHT TO RECEIPT OF THE QUALITATIVE INFORMATION

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16. The Articles of Association of IDGC of Centre, PJSC has a provision according to which the message of Shareholders general meeting carrying out should be made not later than 30 days prior to date of its carrying out. The Company implements the given provision in practice, thereby providing shareholders with bigger time for preparation for Shareholders general meetings.

17. Materials for preparation of shareholders for General meetings are placed on a corporate Internet site of the Company that essentially facilitates access of shareholders to the given information.

Materials to meeting include annual statements of the Company with audit opinion and the conclusion of a audit commission, data on candidates for management and control bodies, the recommendation of the Board of Directors about some question of the agenda of meeting, drafts of the Articles of Association and internal documents, bulletins for voting and drafts of decisions of shareholders general meeting.

At the same time, the Russian Code of Corporate Governance recommends to expand volume of materials for preparation for Shareholders general meeting and to include in them, as well:

- 1) data on candidates to auditors of the Company, including the information on procedures of their selection and compensation;
- 2) position of the board of directors concerning the general meeting agenda, and also dissenting opinions of members of the Board of Directors for each question of the agenda at their availability;
- 3) tables of comparison of brought changes in the Articles of Association of the Company and its internal documents with current edition, justification of necessity of accepting of relevant decisions and explanation of consequences which can come for the Company and its shareholders in case of their accepting;

- 4) a list of related persons for transactions, with indication of bases on which such persons are recognized related
- 5) information sufficient for forming representation about personal and professional qualities of candidates for a post of members of the Board of Directors and other bodies of the Company;
- 6) justification of offered distribution of net profit and estimation of its conformity to the dividend policy accepted in the Company, including on dividend payout and own needs of the Company, with explanatories and an economic case of requirement for allocation of a certain part of net profit for own needs;
- 7) detailed data about a procedure of calculation of the size of dividend on preferred stocks in which relation the Company's Articles of Association establish the order of their determination.

In the materials given by the Company for preparation to AGM following the results of 2014, the experts noted only availability of the information specified in subitem 1) and 5). The recommendations of the Board of Directors included in materials about some questions cannot be estimated by experts as a position of the Board of Directors as they do not cover all questions of the agenda of meeting, and also do not contain the developed justification why the Board of Directors recommends to shareholders to vote that way.

18. According to the Company's Articles of Association, the information on the record date of the list of the persons, having the right to participate in Shareholders general meeting, is disclosed at least 7 days prior to this date.

However terms of granting of the information on the list of the persons, having the right to participate in Shareholders general meeting, are not fixed by internal documents of the Company, while the Russian Code of Corporate Governance recommends to provide to shareholders access to such list from the date of its receipt by a company.

19. The experts also noted non-observance by the Company of the recommendation of the Code of Corporate Governance by preparation of the agenda of General meeting to specify, who offered each of the questions included in it, and concerning the candidates proposed for election in management and control bodies of the Company, - who nominated them. Such practice could promote forming at shareholders a more objective opinion concerning the meeting agenda.

20. Under the information given by the Company, in preparation of annual General meeting it does not support the special telephone channel (hot line) for communication with shareholders, however it specifies the phone of the Corporate secretary, does not set up a special e-mail address and does not provide functioning of a forum concerning the meeting agenda on the Internet site.

Such tools are recommended for provision to shareholders in preparation for General meeting of possibility to ask members of executive powers and the Company's Board of Directors questions, and also publicly to express the opinion concerning the meeting agenda.

The Company, however, specifies the phone of the Corporate secretary on the site, which shareholders can call with questions, concerning the meeting carrying out.

21. Internal documents of the Company have a written possibility for shareholders to ask members of management and control bodies of the Company questions during General meeting carrying out, and also an accurate time period for answers to questions of shareholders.

22. The code of corporate governance recommends to invite members of management and control bodies, and also auditors of the Company for participation in the General meeting work so that shareholders could ask them their questions of interest.

*The order of conducting general meeting established by a company should provide equal possibility to all persons, who are present at the meeting, to express the opinion and to ask their questions of interest*

*The code of corporate governance, item 1.1.6.*

With the information given by IDGC of Centre, PJSC, the Company provides presence at Shareholders general meeting of members of the Board of Directors, members of executive powers, members of the Audit Commission, and also representatives of the external auditor, however the Company's internal documents have the corresponding obligation only concerning members of the Audit Commission that does not provide continuity of the developed practice concerning other specified persons.

23. The code of corporate governance recommends to companies to use telecommunication means for provision of remote access of shareholders to general meeting (for example to broadcast shareholders general meeting on the Company's site on the Internet, to use a video-multiport conference).

IDGC of Centre, PJSC has not used the specified tools so far. The experts consider that introduction of such practice could become an additional element of corporate culture of the Company and the certificate of its openness for shareholders and other interested persons.

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## EXTERNAL AUDIT

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24. "RSM Rus" LLC, entering in Top-20 of the rating of auditor and consulting groups by the Expert-RA is involved as the external auditor for the check of reliability of the reporting of the Company prepared according to International Financial Reporting Standards (IFRS), and the reporting prepared according to Russian Accounting Standards (RAS). The given practice provides reasonable confidence that auditors carry out all procedures necessary to bring their judgement about reliability of the financial (accounting) statement in all material aspects.

25. The Company does not provide for independent practice of competitive selection of the external auditor. The nominee of the auditor, confirmed at AGM 25.06.2015, was determined as a result of the competitive selection which was conducted by the major shareholder (PJSC "Rosseti"). Thus, the procedure to choose the external auditor is under the control of the major shareholder and does not provide transparency of the mechanism of a choice of the external auditor.

The given practice can be justified from the administrative point of view, however contradicts the advanced practice of corporate governance according to which the external

auditor of the company should be selected by results of the open competitive selection, conducted by the company independently.

26. Under the information presented by the Company, the external auditor did not render the Company non-auditor (consulting) services.

Rendering by the external auditor along with auditor, non-auditor (consulting) services, leads to risk of origin of the conflict of interests in work of the external auditor.

27. The Company actually performs rotation of auditing firms. So, following the results of 2014 the Company's statements under RAS and the consolidated financial statements under IFRS were audited by "Ernest & Young" LLC, and following the results of 2013 – CJSC "KPMG".

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#### RIGHT TO MAKE PROFIT

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28. The Board of Directors of IDGC of Centre, PJSC confirmed the Provision about dividend policy which specifies net profit from which dividends are paid, the formalized procedure of payments of dividends, the decision making order about dividend payout, the conditions which are a basis for nonpayment of dividends, restrictions on dividend payout and the order of their payment that allows to raise transparency and predictability of the Company's dividend policy, and also its continuity.

The Company's Articles of Association fix a provision according to which term of dividend payout to a nominal holder and a beneficial owner being a professional securities market participant who are registered in the shareholders' register, should not exceed 10 working days, and to other persons registered in the shareholders' register - 25 working days from the date on which persons having the right to receive dividends are recorded.

*For provision of transparency of the mechanism of determination of the size of dividends and their payment it is recommended to specify the rules regulating an order of determination of a part of net profit, allocated for dividend payout.*

*The code of corporate governance, item 31*

29. At the same time, internal documents of the Company the size of dividends is calculated from the net profit specified according to Russian Accounting Standards (RAS). At the same time, because the reporting under IFRS gives more objective estimation of results of financial and economic activity of the Company, at establishment of the size of dividends it is recommended to calculate with net profit determined according to IFRS.

Besides, the Provision about dividend policy confirmed by IDGC of Centre, PJSC does not specify the minimum share of net profit allocated for dividend payout.

30. The Company has positive dividend history. Dividends under common stocks have been regularly paid since 2010.

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#### ADDITIONAL TOOLS FOR PROTECTION OF SHAREHOLDER RIGHTS

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31. The Board of Directors of IDGC of Centre, PJSC confirmed the Code of Corporate Governance – a document which is a certain guarantee that the Company will adhere to the principles of corporate governance fixed in it, and also the certificate of high level of corporate culture of the Company.

However, the experts note that the aforementioned Code, the acting edition of which was confirmed in March, 2013, needs update according to recommendations of the new Russian Code of Corporate Governance, and also the changes which have occurred in practice of the Company.

32. The Company has a practice of work with minority shareholders: separate meetings/presentations are held for them that provides with possibility to receive the necessary information and to discuss questions of their interest.

33. Till the end of 2015 the Company was implementing the Program on corporate governance enhancement that confirms its understanding of the role and importance of corporate governance for the further development, and also readiness to implement the new corporate standards corresponding to the advanced practice.

However, the experts noted that the aforementioned Program was confirmed by a joint executive body of the Company whereas according to recommendations of the Code of Corporate Governance the board of directors should play the key role in development and control over practice of corporate governance of the Company.

The experts do not possess information on the approval of the new Program on enhancement of corporate governance of IDGC of Centre, PJSC.

## Shareholder rights

### Positive aspects

- The Company did not establish restrictions on acquisition and sale of stocks and restrictions on quantity of stocks belonging to one shareholder
- Storage and shareholder register maintenance is transferred to an independent registrar, possessing high reputation and reliable technologies
- The Company's internal documents provide for a procedure on update of out-of-date data on shareholders, which is periodically implemented together with the registrar
- The Company conducts competitive selection of suppliers of goods and services which cost exceeds a certain level that is fixed by a corresponding internal document
- The Board of Directors regularly considers questions of a purchasing policy
- Powers of the Board of Directors of the Company regarding decision making under major transactions are expanded
- The Company provided for authorised shares, however their quantity is minimum and does not create risk of dilution of shares of stockholders
- The Company has an internal document determining a list and an order of use of the insider information
- The Company involves independent appraisers in cases, besides provided by the legislation, and requirements of such attraction are fixed by internal regulations
- IDGC of Centre, PJSC has no prevailing participation of one shareholder or group of interconnected shareholders
- Concerning the Company there is no special participation right ("gold share") for the Russian Federation, subjects of the Russian Federation, municipal formations to manage the Company
- Crossholding of the Company's stocks is not fixed
- The Company does not create obstacles for realisation by shareholders of the participation rights in shareholders meeting
- The Company approved the Provision about the Shareholders general meeting, formalizing process of preparation and carrying out of meetings
- The Company's Articles of Association increase the term of entering by shareholders of offers concerning the agenda of annual General meeting
- Functions of the tabulation commission at Shareholders general meetings are performed by an independent registrar
- Results of Shareholders general meeting are disclosed directly during its carrying out
- Shareholders are informed on carrying out of General meetings in time more than 30 days that is fixed by the Company's Articles of Association
- Materials for preparation for Shareholders general meetings are placed on the Company's Internet site
- The Company's Articles of Association provide for disclosure of the information on date of recording the list of persons having the right to participate in shareholders meeting at least 7 days prior to this date
- Internal documents of the Company fix possibility for shareholders to ask members of management and control bodies questions during General meeting carrying out, and also the regulations to answer such questions
- The universally recognized audit company is involved to audit statements under IFRS and RAS
- The external auditor does not render to the Company consulting services
- The Company performs rotation of auditing firms
- The Company approved the Provision about dividend policy, fixing main principles of dividend policy, criteria of determination of the size of dividends, an order, terms and forms of payments
- The Company has positive dividend history
- The Company has a practice of work with minority shareholders

### Lacks

- Internal documents of the Company do not fix the rules recommended to application by the Code of Corporate Governance at acquisition and repurchase of shares
- The Company does not create a condition for use by shareholders of electronic communication facilities for sending requests about convocation of Shareholders general meeting, offers on promotion of candidates for management bodies of the Company and entering of offers into the general meeting agenda
- The Company does not include in the list of materials for preparation for Shareholders general meeting the majority of the additional materials recommended by the Russian Code of Corporate Governance
- Internal documents of the Company do not fix terms of provision of information on the list of persons having the right to participate in Shareholders general meeting
- The agenda of Shareholders general meeting the Company does not specify, who offered each of the questions included in it, and concerning the candidates nominated for election to management and control bodies – who nominated them
- In preparation of Shareholders general meeting the Company does not create special organizational and technical conditions for possibility of shareholders to ask members of the Company management bodies questions
- Internal documents of the Company do not provide an obligation for members of the Board of Directors, members of the Management Board, and also representatives of the external auditor to be present at Shareholders general meeting
- The Company has no independent practice of carrying out of the tender to choose the external auditor
- The size of dividends is calculated from the net profit specified according to RAS
- The Provision about dividend policy has no fixed minimum share of net profit allocated for dividend payout
- The Company's Code of Corporate Governance is not updated according to the new Russian Code of Corporate Governance and changes in the Company's practice



## ACTIVITY OF MANAGEMENT AND CONTROL BODIES

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By results of the analysis of practice of corporate governance of the Company experts note the following **positive aspects and lacks** of this practice:

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*Level of practice of corporate governance of IDGC of Centre, PJSC from the point of view of activity of management and control bodies is estimated well.*

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### BOARD OF DIRECTORS

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#### COMPOSITION OF THE BOARD OF DIRECTORS

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1. At the annual Shareholders general meeting 25.06.2015 the composition of the Board of Directors was elected, which included 11 members, from who one director (General Director, Chairman of the Management Board of IDGC of Centre, PJSC O.Y. Isaev) is executive, seven – non-executive from which five (Y.N. Mangarov, Y.N. Pankstyanov, D.A. Malkov, M.M. Saukh, N.I. Erpsher) – representatives of the majority shareholder - PJSC "Rosseti", and two (A.M. Branis, R.A. Filkin) – representatives of minority shareholders. One more non-executive director (A.N. Kharin) is a representative of the state – a public job holder.

Under the information received from the Company, two members of the Board of Directors (A.V. Shevchuk and T.P. Dronova) have independent status. At the same time, according to the available information on the ownership structure of IDGC of Centre, PJSC and information about professional activity of these members of the Board of Directors, they can be recognized as independent in accordance with the criteria laid down in the existing Listing Rules of CJSC «MICEX», and also the criteria fixed in the new Russian Code of Corporate Governance.

Thus, the acting Board of Directors of the Company includes one executive, two independent and eight non-executive directors.

That fact that only one member of executive powers of the Company is in the acting Board of Directors, provides appropriate level of independence of the Board from the Company's management, which allows to provide the due control of its work.

As a whole, by our estimation, it is possible to consider the composition of the Board of Directors of IDGC of Centre, PJSC balanced from the point of view of accounting of interests of all acting shareholders and restriction of dominating influence of representatives of the major shareholder on decisions made by the Board of Directors.

However, the given practice does not conform to requirements to corporate governance of the issuer, observance of which is a condition of inclusion of stocks in the First level of listing of CJSC «MICEX». According to the specified Rules,

*To make independent directors influence decisions accepted by the board of directors, it is recommended to have at least one third of independent directors in the composition of the board of directors.*

*The code of corporate governance, item 113*

the number of independent directors should be at least 3 persons.

The bigger number of independent directors, namely at least one third of the composition of the board of directors, is provided also by recommendations of the Russian Code of Corporate Governance.

Besides, according to experts, attraction of a bigger number of independent directors is significant not only from the point of view of conformity to the Rules of listing and to recommendations of the Russian Code of Corporate Governance, but also from the point of view of administrative expediency. The increase in number of independent directors would allow to introduce in the Board of Directors additional professional competence and a new view at the Company's work that as a result would promote increase of efficiency of the Company's activity as a whole.

2. Chairman of the Board of Directors of IDGC of Centre, PJSC (Y.N. Mangarov) has the status of a non-executive director.

Thus, the Russian Code of Corporate Governance recommends to elect an independent director as the chairman of the board of directors or to determine from among the elected independent directors the senior independent director co-ordinating work of independent directors and performing interaction with the chairman of the board of directors.

Now the senior independent director as a part of the Company's Board of Directors is not specified.

3. The composition of the Board of Directors of IDGC of Centre, PJSC as a whole is balanced from the point of view of availability at its members of the key skills necessary for effective work. Under the information given by the Company, members of the Board of Directors possess skills in the field of business accounting and corporate finances, strategic management, corporate governance and in the areas specific to the industry of the Company's activity.

4. IDGC of Centre, PJSC does not provide for regular advanced training for members of the Board of Directors. At the same time, the given practice could allow to receive by members of the Board of Directors missing knowledge on separate aspects of work of the Board of Directors.

So, the Russian Code of Corporate Governance recommends to refer to tasks of the committee on personnel/nomination forming of a program of training and advanced training for members of the Board of Directors, considering individual requirements of its separate members, and also supervision of practical realisation of this program.

5. The Company has a practice of initiation to a post of newly elected members of the Board of Directors: the order of their acquaintance with documents, providing guidance on the Company's activity, corporate governance system, distribution of obligations between executive powers, and also carrying out of their meetings with representatives of the management is developed. It allows new members of the Board of Directors to take the most active part in work of these control bodies directly from the moment of their election.

However, internal documents of the Company do not fix the corresponding procedures and an obligation of their carrying out that does not provide continuity of this practice.

6. One member of the Board of Directors of the Company belongs to professional communities of corporate directors: A.V. Shevchuk holds a post in Association of Professional Investors.

Participation of members of the board of directors in professional communities of corporate directors is one of certificates of their orientation to professional execution of the obligations.

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## PRACTICE OF CARRYING OUT OF SESSIONS OF THE BOARD OF DIRECTORS

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7. The Company approved the Provision about the Board of Directors, fixing the rights and obligations of members of the Board of Directors, their responsibility, an order of organisation of the work of the Board of Directors and accepting of decisions. Availability of the specified Provision formalizes work of the given control bodies and, thereby, promotes efficiency of its work.

8. Sessions of the Board of Directors of the Company are held according to in advance approved plan that allows all members of the Board of Directors to manage the personal time and beforehand to prepare for forthcoming sessions. The given practice promotes increase of efficiency of individual work of members of the Board of Directors and the Board of Directors as a whole.

9. Sessions of the Board of Directors are conducted on a regular basis at least once in six weeks that corresponds to the advanced practice of corporate governance.

At the same time, in 2015 only 4 from 28 sessions of the Board of Directors were conducted in the internally-correspondence form that, according to experts, reduces possibility of discussion of questions of the agenda, an exchange of opinions and estimations of members of the Board of Directors. Such discussion is possible only in case of joint presence of members of the Board of Directors at a session venue.

*Sessions of the board of directors are recommended to be conducted as required, as a rule, at least once in two months, and according to the confirmed work plan of the board of directors.*

The Russian Code of Corporate Governance also recommends to hold sessions of the board of directors on the most important questions of the Company in the internal form. The code contains also the approximate list of such questions, which include:

*The code of corporate governance, item 156*

- 1) approval of priority lines of business and the financial and economic plan of the Company;
- 2) election and re-election of the chairman of the board of directors;
- 3) formation of executive powers of the Company and early termination of their powers if it is carried by the Articles of Association of the company to the competence of the board of directors;
- 4) approval of major transactions of the Company;
- 5) consideration of material aspects of activity of legal entities under control of the company;
- 6) consideration of financial activity of the Company for an accounting period (quarter, year);
- 7) consideration of results of estimation of executive powers of the Company of both key executives and decision making about compensation of members of executive powers of the Company and other key executives.

The Articles of Association of IDGC of Centre, PJSC provide for consideration only two questions (approval of the business plan including the investment program, and consideration of reports on results of their accomplishment, and also approval and change of conditions of large and average investment projects) at sessions of the Board of Directors in the form of joint presence, and in practice these questions basically were considered at the sessions which are conducted in the internally-correspondence form though consideration of reports on accomplishment of the business plan and the investment program at correspondence sessions. Decisions on other important questions for the Company were accepted by exclusively correspondence voting.

In aggregate the minimum number of internal sessions and consideration of important questions at correspondence sessions contradicts recommendations of the advanced practice of corporate governance and, according to experts, creates risk for efficiency of activity of the Board of Directors of the Company.

10. The Articles of Association of IDGC of Centre, PJSC provide that on a number of important questions, besides provided by the legislation, the decision of the Board of Directors is accepted by the qualified majority. Such questions, in particular, concern vital issues of activity of legal entities under control of the Company that corresponds to recommendations of the Russian Code of Corporate Governance.

11. The order of preparation of a session of the Board of Directors of the Company provides to members of the Board of Directors possibility properly to be prepared for its carrying out.

According to the Provision about the Board of Directors the notification of carrying out of a session of the Board of Directors is sent by the Corporate secretary to each member of the Board of Directors in writing not later than 11 working days before date of carrying out of a session of the Board of Directors. Simultaneously with the notification of carrying out of a session of the Board of Directors required materials (information), including drafts of decisions concerning the session agenda, are sent to members of the Board of Directors.

12. The Provision about the Company's Board of Directors provides that in case of presence at a session of at least half of members of the Board of Directors written opinions of members of the Board of Directors who are absent at the session are considered at determination of results of voting by agenda questions. The order of receipt of written opinion is also recorded in the specified Provision.

Besides, absent in a session venue members of the Board of Directors are given a possibility of participation in discussion of questions of the agenda and voting remotely - by means of a conference- and a video-multiport conference.

13. Under the information given by the Company, external experts are not involved in work of the Board of Directors. At the same time, attraction to work of the board of directors of external experts for consultations on separate most important questions of activity of the board of directors allows to conduct more detailed study of questions that, finally, has favourable influence on efficiency of activity of the board and provides validity of decisions accepted by it.

It is necessary to note, however, that attraction possibility to work of experts is provided for Committees of the Board of Directors that is fixed in the relevant provisions regulating activity of the Committees.

14. Minutes of sessions of the Board of Directors, among other things, specify the information on how each member of the Board of Directors concerning the session agenda voted. Besides, dissenting opinions of members of the Board of Directors (at their availability) are attached to the Minutes and are their integral part. In aggregate such practice promotes increase of responsibility of members of the Board of Directors of the Company.

Experts, however, note that the obligation to attach dissenting opinions of members of the Board of Directors to Minutes is not fixed by internal documents of the Company that does not provide continuity of the given practice.

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## STRATEGIC FUNCTIONS OF THE BOARD OF DIRECTORS

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15. The analysis of Minutes of sessions of the Board of Directors of the Company, conducted in 2015, shows that the Board of Directors of IDGC of Centre, PJSC during the reporting period:

- approved the annual budget, the business plan and the investment program of the Company, and also performed the control of a course of their execution;
- approved planned values of key performance indicators and supervised their achievement.

*The board of directors should establish the basic reference points of activity of a company on long-term prospect, estimate and confirm key indicators of activity and the basic business objectives of a company, estimate and approve strategy and business plans on the company's primary activities.*

*The code of corporate governance, 2.1.2*

However, questions of approval and implementation of the Company's strategy by the Board of Directors during the analyzed period were not considered, and the confirmed performance indicators had exclusively short-term character that in aggregate testifies to insufficiency of realisation by the Board of Directors of IDGC of Centre, PJSC of the key function of the Company's strategic management.

16. The competence of the Board of Directors of IDGC of Centre, PJSC also covers the questions, concerning determination of strategy of development and performance appraisal of organisations under control, and also promotion of nominees for formation of executive powers and candidates for a composition of boards of directors of such organisations and control over major transactions performed by them.

During the reporting period the Company's Board of Directors regularly considered the corresponding questions.

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## COMPENSATION AND MOTIVATION OF MEMBERS OF THE BOARD OF DIRECTORS

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17. The Company accepted the practice of payment of remuneration to members of the Board of Directors that is a necessary condition of their interest in work of the Board of Directors.

*The system of compensation of members of the board of directors should provide rapprochement of financial interests of directors with long-term financial interests of shareholders*

18. The AGM decision from 25.06.2015 confirmed the Provision about payment to members of the Board of Directors of IDGC of Centre, PJSC of remuneration and compensation. According to the specified Provision the size of the basic compensation of members of the Board of Directors of the Company depends on attendance by members of the Board of

*The code of corporate governance, item 313*

Directors of sessions, and also from accomplishment of functions of the chairman of the Board of Directors/committee and from participation in work of committees.

The specified Provision provides also for an additional compensation to members of the Board of Directors of the Company which size depends on percent of a gain of market value of the Company calculated during work of the Board of Directors, i.e. for corporate year.

At the same time, according to recommendations of the Russian Code of Corporate Governance, the fixed annual compensation is the preferable form of monetary compensation of members of the Board of Directors. Concerning members of the Board of Directors application of any forms of short-term motivation and additional material stimulation is not recommended.

As to forms of long-term motivation, the Code of Corporate Governance recommends only long-term stockholding, excluding thus conditionality of the right of disposal of stocks with achievement of certain indicators of activity or participation of members of the Board of Directors in optional programs.

For today the above-stated forms of motivation of members of the Board of Directors in the Company are absent.

19. IDGC of Centre, PJSC has no practice of liability insurance of members of the Board of Directors. The experts noted that this point in question was placed for consideration at AGM 25.06.2015, however the decision on it was not accepted.

Thus, the advanced practice of corporate governance considers liability insurance of members of the board of directors as a rather important tool allowing not only to compensate to the Company possible losses caused by actions of members of the board of directors, but also to involve in a composition of the board of directors of competent specialists who otherwise would be afraid of possible large claims submitted to them.

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## CONFLICT OF INTERESTS OF MEMBERS OF THE BOARD OF DIRECTORS

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20. The Company has a complex regulation of the conflict of interests of members of the Board of Directors.

The Code of Corporate Ethics of IDGC of Centre, PJSC fixes determination of the conflict of interests of members of control bodies of the Company which members of the Board of Directors also refer to, and describes cases which can be regarded as the conflict of interests.

The Company's Code of Corporate Governance provides that members of the Board of Directors undertake to abstain from actions which can lead to conflict origin between their interests and interests of the Company. In case of origin of such conflict the member of the Board of Directors undertakes to report about it to other members of the Board, and also to refrain from voting on corresponding questions.

The Provision about the Corporate secretary of the Company fixes an obligation of the Corporate secretary to receive from members of the Board of Directors data about their affiliation, and also about stockholding of the Company, its affiliated companies and other organisations.

The Provision about insider information of IDGC of Centre, PJSC fixes an obligation of insiders of category 1, who members of the Board of Directors refer to, within 30 days from end date of a reporting quarter to give the confirmatory letter about quantity belonging to them on the end of reporting quarter of insider financial tools of the Company and made by them for the reporting quarter (directly or through other persons acting under their instruction) transactions with insider financial tools of the Company to the insider information control department.

The Code of Corporate Ethics of IDGC of Centre, PJSC provides a prohibition for members of the Board of Directors to accept gifts from the parties interested in decision making, along with use of any other direct or indirect benefits given by such persons.

It is necessary to note that availability in internal documents of the Company of the complex regulation of the conflict of interests provides reasonable confidence that the situation of the conflict of interests with members of the Board of Directors will be settled on an initiation stage, and interests of the Company will not be restrained.

21. Two members of the Board of Directors of the Company (Y.N. Mangarov and R.A. Filkin) are included into boards of directors for more than other 5 companies.

As a rule, excessive participation of the member of the board of directors in work of boards of directors of other companies can create risk of reducing of time which the given member of the Board of Directors has, and can promote origin of the conflict of interests.

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## COMMITTEES OF THE BOARD OF DIRECTORS

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22. In the structure of the Board of Directors of the Company committees for preliminary consideration of the most important questions which are within the competence of the Board of Directors are created: Committee on audit, Committee on nomination and remuneration, Committee on reliability, Committee on strategy and development, Committee on grid connection. It promotes increase of efficiency and quality of work of the Board of Directors.

Activity of all Committees is regulated by separate Provisions confirmed by the Board of Directors of IDGC of Centre, PJSC.

23. In 2015 the Committee on audit of the Board of Directors of the Company conducted 13 sessions and Committee on nomination and remuneration – 11 sessions that allows to speak about regular work of the specified committees. Besides, work plans of both Committees were approved that provides to their members possibility to plan the personal time, and to Committees to determine in advance a circle of questions which demand their decision.

24. As to the Committee on audit, the functions fixed to it completely correspond to both requirements to corporate governance of the issuer the observance of which is a condition of inclusion of stocks in the First level of listing of CJSC «MICEX», and to recommendations of the Russian Code of Corporate Governance.

The functions, fixed to the Committee on nomination and remuneration, not to the full extent conform to the requirements shown to issuers of stocks, included in the First level of listing of CJSC «MICEX», and also to recommendations of the Russian Code of Corporate Governance.

In particular, it is recommended to fix to the Committee on nomination and remuneration:

regarding the questions connected with forming of effective practice of compensation:

- supervision of introduction and realisation of a policy of the Company on compensation and various programs of motivation;
- development of conditions of early termination of employment contracts with members of executive powers of the Company and other key executives, including all material obligations of the Company and a condition of their provision;
- development of recommendations to the board of directors to determine rate of compensation and principles of awarding of the corporate secretary of the Company, and also a provisional estimate of work of the corporate secretary of the Company following the results of a year and an offer on awarding of the corporate secretary of the Company;
- supervision of disclosing of the information on the policy and practice of compensation and about stockholding of the Company by members of the Board of Directors, members of executive powers and other key executives in the annual report and on a corporate site of the Company on the Internet;

regarding the questions connected with realisation of human resources planning:

- analysis of professional qualification and independence of all candidates nominated to the board of directors of the Company, on the basis of all information accessible to the committee; forming and communicating to shareholders recommendations concerning voting on a question of election of candidates for the Company's board of directors;
- annual carrying out of a detailed formalized procedure of self-estimation or external estimation of the board of directors and committees of the board of directors from positions of efficiency of their work as a whole, and also the individual contribution of directors to work of the board of directors and its



committees, development of recommendations to the board of directors concerning enhancement of procedures of work of the board of directors and its committees, preparation of the report on results of self-estimation or external estimation for inclusion in the Company's annual report;

- forming of the program of an introduction course for newly elected members of the board of directors, directed on acquaintance of new directors with key assets of the Company, its strategy, the business practice accepted in the Company, organizational structure of the Company and key executives of the Company, and also with procedures of work of the board of directors; realisation of supervision of practical realisation of the introduction course;
- forming of recommendations to the board of directors concerning candidates for a post of the corporate secretary of the Company;
- determination of methodology of self-estimation and offers for choice of an independent adviser for carrying out of assessment of work of the board of directors.

25. Compositions of the Committee on audit and the Committee on nomination and remuneration of the Board of Directors not to the full extent conform to requirements of the Rules of listing of CJSC «MICEX» shown to the Company, and also to recommendations of the Russian Code of Corporate Governance.

So, the composition of both Committees consists of seven members of the Board of Directors of IDGC of Centre, PJSC, including two independent directors. Both Committees are headed by non-executive directors.

Thus, according to requirements of the Rules of listing, and also recommendations of the Code of Corporate Governance all or the majority of members of the specified committees should be independent directors, and their chairmen should be exclusively independent directors.

*The dominant role in the organisation of activity of committee belongs to its chairman whose main task is objectivity provision at development by committee of recommendations to the board of directors. In this connection it is recommended that committees of the board of directors to be headed by independent directors.*

*The code of corporate governance, item 201*

26. One director (T.P. Dronova) among the directors of the Committee on audit possesses experience and knowledge in the field of preparation, analysis, estimation and audit of the accounting (financial) reporting that corresponds to recommendations of the Russian Code of Corporate Governance.

At the same time the experts consider that taking into account the acting quantitative composition of the Committee on audit (7 persons) the presence in it of only one specialist in the specified area seems to be insufficient.

27. The Provision about the Committee on audit of the Board of Directors of IDGC of Centre, PJSC provides that the Chairman of the Committee annually gives to the Board of Directors of the Company the report of the Committee on the done work.

Under the information given by the Company, the relevant provision is implemented in practice.

At the same time, the Russian Code of Corporate Governance recommends that all committees annually should report about the work to the Board of Directors.

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## ASSESSMENT OF WORK OF THE BOARD OF DIRECTORS

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28. The Board of Directors of IDGC of Centre, PJSC does not perform estimation of the work and individual work of the members.

Carrying out of estimation by the board of directors of its work, and also individual work of members promotes increase of efficiency of their work, and also allows to reveal problems in the organisations of work of the board of directors and separate lacks in the work of members of the Board of Directors.

Under the information given by the Company, the corresponding practice is planned to introduction. At carrying out of the further monitoring of practice of corporate governance IDGC of Centre, PJSC the experts will trace realisation of these plans.

*Performance evaluation of work of the board of directors can be conducted by the board of directors independently (self-estimation) or with attraction of an independent external organisation (adviser) possessing necessary qualification for carrying out of such estimation. The specified estimation should be conducted annually, and it is recommended to involve an independent adviser at least once in three years.*

*The code of corporate governance, item 210*

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## EXECUTIVE POWERS

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### COLLECTIVE NATURE OF DECISION MAKING BY EXECUTIVE OFFICE

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1. The Company created a joint executive office – the Management Board that is necessary to decide on the most complicated questions of management of current activity of the Company, demanding joint discussion and decision making.

Creation in the structure of control bodies of the Company of a joint executive office (the Management Board) allows to provide more weighted management decisions of executive powers. It promotes decrease in level of entrepreneurial risk on key questions of activity of the Company.

2. The Company approved the Provision about the Management Board – an internal document fixing the purposes and principles of activity of the joint executive office of the Company, terms and an order of convocation and carrying out of its sessions, rights and obligations of its members.

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### CONFLICT OF INTERESTS OF EXECUTIVE MANAGEMENT

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3. IDGC of Centre, PJSC has a complex regulation of the conflict of interests of members of executive powers.

The Code of Corporate Ethics of IDGC of Centre, PJSC fixes determination of the conflict of interests of members of control bodies of the Company which include General Director and members of the Management Board, and describes cases which can be regarded as the conflict of interests.

The Company's Code of Corporate Governance provides that members of the Management Board and General Director undertake to abstain from actions which can lead to conflict origin between their interests and interests of the Company. In case of origin of such conflict members of the Management Board and General Director undertake to report about it

to the Board of Directors, and also to abstain from discussion and voting on corresponding questions.

The Provision about the Company's Management Board fixes the obligation of members of the Management Board in time not later than 15 days after the beginning of a quarter to bring in writing to the notice of the Board of Directors, the Audit Commission of the Company and the auditor of the Company the information:

- a) about legal entities in whom the member of the Management Board owns independently or jointly with an affiliated person (persons) 20 or more percent of voting shares (stocks, interest);
- b) about legal entities in which control bodies the member of the Management Board occupies posts;
- c) about known to the member of the Management Board made or expected transactions in which he can be recognised related.

Besides, according to the specified Provision combination by members of the Management Board of IDGC of Centre, PJSC of posts in control bodies of other organisations, and also other paid posts in other organisations is allowed only with the consent of the Board of Directors.

The Provision about insider information of IDGC of Centre, PJSC fixes an obligation of insiders of category 1, who General Director and members of the Management Board refer to, within 30 days from end date of a reporting quarter to give the confirmatory letter about quantity belonging to them on the end of reporting quarter of insider financial tools of the Company and made by them for the reporting quarter (directly or through other persons acting under their instruction) transactions with insider financial tools of the Company to the insider information control department.

All it testifies to availability in IDGC of Centre, PJSC of understanding of threats which are created by presence of the conflict of interests with members of executive powers.

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#### MOTIVATION AND ACCOUNTABILITY OF EXECUTIVE POWERS

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4. Questions of compensation of General Director and members of the Management Board of IDGC of Centre, PJSC are regulated by the Provision about material stimulation of General Director and the Provision about material stimulation and a social packet of senior managers approved by the Board of Directors of the Company. Members of the Management Board are referred to the category of senior managers.

5. The variable part of compensation of members of executive powers depends on results of financial and economic activity of the Company - degree of accomplishment of key performance indicators (KPI) for reporting periods (quarter and year), i.e. the system of motivation acting in the Company has short-term character.

At the same time, the Russian Code of Corporate Governance recommends to create such compensatory packet which would provide the necessary balance between short-term and long-term indicators of activity of the Company. Thus

*The system of compensation of members of executive powers and other key executives of a company should provide dependence of compensation on result of work of a company and their personal contribution to achievement of this result.*

*The code of corporate governance, 4.3.*

within the limits of the program of short-term motivation it is recommended to estimate results following the results of year or the period from one till three years.

It is recommended to companies stocks of which are admitted to organised trading to implement a program of long-term motivation of members of executive powers and other key executives with use of stocks of the Company (options or other derivative financial tools, a basic asset on which are the company's stocks), thus it is necessary to provide that the right of disposal of stocks comes not earlier than in three years from the moment of their provision.

6. The code of corporate governance also recommends that the size of severance pay in case of early termination of powers and (or) termination of the employment contract with members of executive powers and other key executives, so-called golden parachutes, not to exceed the double size of the annual fixed compensation. For realisation of higher payments it is necessary to present weighty justifications, to confirm the relevant decision at a session of the board of directors and to disclose the information on reasons of granting such payments.

Under the information given by the Company, IDGC of Centre, PJSC does not make payments exceeding the size as recommended by the Code.

7. According to the Company's Articles of Association the competence of the Board of Directors of the Company covers election of General Director and members of the Management Board, early termination of their powers, decision making about suspension of powers of the managing organisation of the Company, consideration of reports of General Director about the Company's activity, about accomplishment of decisions of Shareholders general meeting and the Company's Board of Directors. The given practice allows the Board of Directors, which bears common responsibility for the control over the management work, effectively to perform monitoring of work of executive management of the Company and to take adequate measures by its results.

Besides, approval of agreement provisions with chief executive officer of the Company, including conditions of compensation and other payments, are also in the competence of the Board of Directors.

8. The Provision about the Board of Directors of IDGC of Centre, PJSC fixes the right of members of the Board of Directors to request documents and information necessary for decision making under questions of the competence of the Board of Directors both directly from General Director of the Company, and through the Corporate secretary. The specified information and documents should be given to the member of the Board of Directors not later than 5 working days from the moment of receipt of corresponding request.

According to the Articles of Association of IDGC of Centre, PJSC, the Board of Directors considers reports of General Director on the Company's activity, on accomplishment of decisions of Shareholders general meeting and the Board of Directors, moreover, executive powers on a regular basis report to the Board of Directors for creation and functioning of an effective internal control and risk management system.

*In a company the system should be created providing regular receipt by members of the board of directors of information on the most important events in financial and economic activity of a company and legal persons under its control, and also about other events infringing on interests of shareholders.*

*The code of corporate governance, item 147*

At the same time internal documents of the Company do not fix inadmissibility of refusal to the member of the Board of Directors in granting of the information or documents on the ground that they do not concern the agenda of a session of the board of directors or the competence of the board of directors.

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#### PLANNING OF SUCCESSION OF EXECUTIVE MANAGEMENT

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8. Under the information given by the Company, the Board of Directors of IDGC of Centre, PJSC approved the Policy of development of personnel reserve, and for the reporting year the Board considered questions of development of personnel reserve at the sessions

9. At the level of the executive office the Company created the administrative personnel reserve for posts of Deputies to General Director, heads of structural divisions of direct reporting to General Director;

At the level of branches the personnel reserve is created for posts of Deputies to General Director-director of branches, heads of structural divisions of direct reporting to directors of branches, chiefs and chief engineers of Distribution Zones.

At the same time, the Company has no personnel reserve for replacement of the post of General Director.

One of prominent aspects of practice of corporate governance of the company, which influences long-term success of development, is availability in the company of a personnel reserve and programs of planning of the management succession. Corresponding mechanisms allow to provide continuity of the management in case of leave of general director, reduce risks of loss of controllability of the company with the management change, and promote the company's sustainable development. Thereupon, the company should create some personnel reserve for key executive positions (at least, general director and members of the Management Board). Availability of practice of continuity allows to provide stability of business of the company in long-term prospect.

## SYSTEM OF CONTROL OVER FINANCIAL AND ECONOMIC ACTIVITY AND RISK MANAGEMENT

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### AUDIT COMMISSION

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1. The composition of the Audit Commission of IDGC of Centre, PJSC do not include persons occupying posts in control bodies of the Company or its employees. The given practice allows to provide objectivity and independence of this control facility.

### INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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2. The Board of Directors of IDGC of Centre, PJSC approved the Policy of internal control and the Risk management policy – the basic documents determining conceptual bases of an internal control and risk management system (the internal control and risk management system) of the Company: the purposes, principles of functioning and procedure of the internal control and risk management system, control bodies and divisions of the Company which are participants of the internal control and risk management system, their functions, order of interaction and responsibility.

*The board of directors of a company bears responsibility for determination of principles and approaches to the organisation of an internal control and risk management system in a company.*

*The code of corporate governance, item 251*

Accepting of corresponding documents provides transparency and formalisation of an internal control and risk management system of the company, provides continuity of the practice and principles laid in these documents, is the tool for corresponding structural divisions on enhancement of the internal control and risk management system.

### ESTIMATION OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM BY THE BOARD OF DIRECTORS

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3. According to the Company's Articles of Association, the competence of the Board of Directors of IDGC of Centre, PJSC includes the organisation of carrying out at least 1 time a year of analysis and estimation of functioning of the internal control and risk management system, and also annual consideration of questions of the organisation, functioning and effectiveness the internal control and risk management system in the Company.

*The board of directors should at least once a year organise carrying out of analysis and estimation of functioning of an internal control and risk management system.*

*The code of corporate governance, item 72*

During the reporting period the Company's Board of Directors considered questions of performance evaluation of the internal control system and the risk management system at the sessions, and tentatively these questions were considered by the Committee on audit which prepared corresponding recommendations for the Board of Directors.

### INTERNAL AUDIT SERVICE

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4. The Company created a special structural division performing internal audit functions – the Internal Audit and Control Department, which activity is regulated by the

relevant provision. The Internal Audit and Control Department performs a wide set of the functions recommended by the advanced practice of corporate governance, in particular:

- internal control system performance evaluation, preparation of offers on its enhancement;
- estimation of financial and economic activity of the Company and its information systems regarding reliability and completeness of information on financial and economic activity, efficiency and productivity of economic activities, safety of assets;
- check of observance of laws, regulations and agreement obligations of the Company;
- analysis and evaluation of the risk management system performance, development of methods to decrease risks.

5. For provision of independence of internal audit functional and administrative subordination of the Internal Audit and Control Department is differentiated: administratively the Internal Audit and Control Department is accountable directly to General Director of the Company, and functionally – to the Board of Directors (to the Committee on audit of the Board of Directors) of the Company.

*For provision of independence of a division of internal audit its functional and administrative accountability should be differentiated. It is recommended to subordinate the internal audit division functionally to the board of directors, and administratively —directly to chief executive officer of a company.*

The functional accountability thus provides the following:

*The code of corporate governance, 5.2.1.*

- The Board of Directors of IDGC of Centre, PJSC confirms the Policy of internal audit – an internal document determining the purposes, principles and functions of internal audit, and also the organisation of activity and power of internal auditors.
- The Board of Directors confirms (the Committee on audit does preliminary review) the plan of activity of internal audit and the report on its accomplishment and on implementation of the budget of the internal audit division.
- The Committee on audit considers and agrees upon the budget of the Internal Audit and Control Department and changes to it.
- The Board of directors confirms decisions (the Committee on audit does preliminary approval) about appointment and dismissal from a post of the head of the Internal Audit and Control Department, and also determines his compensation.
- The Committee on audit receives the information on results of activity of internal audit, including results of separate checks, essential lacks of the internal control and risk management system, the report on internal audit activities for the period, etc.
- The Committee on audit considers essential restrictions of powers of the Internal Audit and Control Department and other restrictions capable negatively to affect execution of the internal audit function.

The given practice promotes to provision of a certain level of independence of the Internal Audit and Control Department from the Company's management and to increase of

objectivity of the information given to the Board of Directors, and also corresponds to recommendations of the Russian Code of Corporate Governance.

However, the experts noted that for today there is some inconsistency of provisions of the Articles of Association and internal documents of the Company in questions of regulation of the internal audit function. Thereupon the Company is recommended to bring all documents into accord with each other and with the practice of IDGC of Centre, PJSC.

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## RISK MANAGEMENT

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6. According to the information given IDGC of Centre, PJSC, the Company developed a standard-methodological base of risk-management. Except for the aforementioned Risk management policy the Company accepted the risk management methodology (regulations, forms of reports), created and maintains the risk register and the card of risks, owners of risks are specified.

Availability in the Company of the developed standard-methodological base of risk-management testifies to understanding of possibility of origin of adverse results in the Company and realisation of external factors, and also aspiration to their minimisation in the course of activity.

*The internal control and risk management system in a company should provide objective, fair and clear vision of a current condition and the company's prospects, integrity and transparency of the company's reporting, rationality and acceptability of risks taken by the company.*

7. IDGC of Centre, PJSC created an internal division which is responsible for accomplishment of key functions on risk management – the Section of organisation of internal control and risk management of the Internal Audit and Control Department. The Section's competence, in particular, includes:

*The code of corporate governance, 5.1.3.*

- organisation in the Company and SDC of a uniform internal control and risk management system;
- estimation of reliability and efficiency of functioning of an internal control and risk management system;
- organisation and coordination of activity of divisions of the executive office and the Company's branches on revealing, estimation and management of risks;
- estimation of sufficiency and efficiency of events for risk management, control over accomplishment of action plans on risk management;
- issue of recommendations to owners of risks and to the Company's management concerning risk management, efficiency of implementable events;
- organisation of consideration and approval by control bodies of the Company of events for risk management, risk-appetite and strategy of reaction to external threats;
- provision of informing of control bodies of the Company about results of risk management, tendencies and a risk management system condition;
- development of recommendations about enhancement of risk management processes.



However, the experts did not find in the list of the functions, fixed to the specified Section, such functions recommended by the Code of Corporate Governance, as:

- development of methodological documents in the field of risk management process provision;
- analysis of a portfolio of risks of the Company and development of offers on strategy of reaction and redistribution of resources concerning management of corresponding risks;
- forming of the summary reporting on risks.

8. The Committee on audit of the Board of Directors of the Company regularly considers reports of the Internal Audit and Control Department, and also other questions connected with the Company's risk management system at sessions. The Board of Directors of IDGC of Centre, PJSC considered the questions connected with key operational risks of the Company at the sessions.

## CORPORATE SECRETARY

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### REGULATION OF ACTIVITY AND ACCOUNTABILITY OF THE CORPORATE SECRETARY

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1. The Company created a separate post of the Corporate secretary, and this post has an assignee:

- not being affiliated with the Company, not connected with the person supervising the Company and with the Company's executive management;
- not combining the work as the Corporate secretary with accomplishment of other functions in the Company.

*Effective current interaction with shareholders, coordination of actions of a company on protection of the rights and interests of shareholders, support of effective work of the board of directors are provided by the corporate secretary.*

*The code of corporate governance, 3.1.*

2. Activity of the Corporate secretary of the Company is regulated by the Articles of Association and the Provision about the Corporate secretary, confirmed by the Board of Directors of IDGC of Centre, PJSC.

The Provision about the Corporate secretary specifies:

- 1) requirements to a nominee of the Corporate secretary;
- 2) order of appointment of the Corporate secretary and termination of powers;
- 3) functions, rights and obligations of the Corporate secretary;
- 4) conditions and payment of compensation to the Corporate secretary.
- 5) responsibility of the Corporate secretary.

At the same time the Russian Code of Corporate Governance recommends to provide in the Provision about the corporate secretary also the rates, concerning subordination of the corporate secretary and an order of his or her interaction with control bodies and structural divisions of the Company.

3. For provision of independence of the corporate secretary of the company the Code of Corporate Governance recommends that he should report in the activity directly to the board of directors. For these purposes it is necessary to bring the following questions to the competence of the board of directors:

- 1) approval of a nominee for the post of the corporate secretary and termination of powers;
- 2) approval of the provision about the corporate secretary;
- 3) assessment of work of the corporate secretary and approval of reports on his or her work;
- 4) payment of an additional compensation to the corporate secretary.

As to the competence of the Board of Directors of IDGC of Centre, PJSC, fixed by the Articles of Association, concerning the Corporate secretary of the Company for today it includes election of the Corporate secretary and early termination of his or her powers, and also approval of the provision about the corporate secretary (regarding approval of internal documents of the Company).

Thus, the Provision about the Corporate secretary provides that under the decision of the Board of Directors of the Company the Corporate secretary can be awarded following the results of work for a quarter and year.

According to experts, it is necessary for the Company to fix in the Articles of Association all questions of competence of the Board of Directors concerning the Corporate secretary which are implemented in practice.

4. According to recommendations of the Russian Code of Corporate Governance it is necessary to perform the functions by the Corporate secretary as follows:

- participation in the organisation of preparation and carrying out of general meetings;
- provision of work of the board of directors and committees of the board of directors;
- participation in realisation of a policy of the Company on information disclosing, and also provision of storage of corporate documents of the Company;
- provision of interaction of the Company with its shareholders and participation in prevention of corporate conflicts;
- provision of interaction of the Company with regulating bodies, organizers of trade, the registrar, other professional participants of a securities market within the limits of the powers assigned to the corporate secretary;
- provision of realisation of procedures established by the legislation and internal documents of the Company providing realisation of the rights and legitimate interests of shareholders, and the control over their execution;
- immediate informing of the board of directors on all revealed infringements of the legislation, and also provisions of internal documents of the Company, observance of which refers to the functions of the secretary of the company;

- participation in enhancement of a system and practice of corporate governance of the company.

For today the list of functions of the Corporate secretary of IDGC of Centre, PJSC, fixed by the Provision about the Corporate secretary, does not completely correspond to recommendations of the Code of Corporate Governance. At the same time a number of the additional functions, not recorded in the specified Provision, is provided by the Company's Articles of Association.

Taking into account the aforesaid, the experts consider necessary for the Company to bring the Articles of Association and internal documents in conformity with each other regarding the description of functions of the Corporate secretary.

5. According to internal documents of the Company the Corporate secretary has a number of powers, however they not to the full correspond to recommendations of the Code of Corporate Governance. So, the Corporate secretary of IDGC of Centre, PJSC does not have the power fixed within the limits of the competence to place questions for consideration by the Company's control bodies.

## Activity of management and control bodies

### Positive aspects

- The composition of the Board of Directors of the Company is balanced from the point of view of accounting of interests of all shareholders and restriction of dominating influence of representatives of the major shareholder on decisions made by the Board of Directors, and also provides the necessary balance for its independence from the management
- Two independent directors enter into the composition of the Board of Directors
- The composition of the Board of Directors is balanced from the point of view of availability with its members of the key skills necessary for effective work of the Board of Directors
- The Company has a practice of initiation for a post of newly elected members of the Board of Directors
- One member of the Board of Directors is in a professional community of corporate directors
- The Company approved the Provision about the Board of Directors
- Sessions of the Board of Directors are conducted regularly and in plenty, at least once in six weeks, and according to in advance confirmed work plan
- The Company's Articles of Association provide that on a number of important questions, besides provided by the legislation, the decision of the Board of Directors is accepted by the qualified majority
- The order of preparation of carrying out of a session of the Board of Directors provides to members of the Board of Directors possibility to be properly prepared for its carrying out
- The Company creates conditions for all-round participation of members of the Board of Directors in sessions of the Board of Directors
- Internal documents of the Company provide possibility for Committees of the Board of Directors to employ external experts
- Minutes of sessions of the Board of Directors specify the information on how each member of the Board of Directors voted, and dissenting opinions of members of the Board of Directors, at their availability, and are an integral part of Minutes
- The Board of Directors at sessions considers the questions connected with approval and control over accomplishment of the annual budget, the business plan and the investment program
- The questions, concerning determination of strategy of development, estimation of results, and also promotion of nominees to the management and control bodies of organisations under control, are in the competence of the Board of Directors
- The compensation which size depends on attendance of sessions and participation in work of committees is paid to members of the Board of Directors
- IDGC of Centre, PJSC has a complex regulation of the conflict of interests of members of the Board of Directors and executive powers
- Within the limits of the Board of Directors the Committee on audit, Committee on nomination and remuneration, Committee on reliability, Committee on strategy and development, Committee on grid connection are created. Activity of the Committees is regulated by relevant provisions
- Functions of the Committee on audit conform to requirements to corporate governance established for the companies, whose stocks are traded in the first level of listing of CJSC «MICEX», and also to recommendations of the Code of Corporate Governance
- The number of the sessions, which have been conducted by the Committee on audit and Committee on nomination and remuneration, speaks about regularity of work of the specified Committees
- One independent director, who is in the Committee on audit, possesses experience and knowledge in the field of preparation, analysis, estimation and audit financial statements
- The Committee on audit annually reports about the work to the Board of Directors
- The Company has a joint executive office functioning – the Management Board which activity is regulated by the relevant Provision
- The Company's Board of Directors approved the internal documents regulating questions of

<p>compensation and motivation of members of executive powers of the Company</p> <ul style="list-style-type: none"> <li>▪ Election of individual and joint executive powers is carried to the competence of the Board of Directors of the Company</li> <li>▪ Internal documents of the Company fix a number of the requirements providing granting by members of executive powers of information to the Board of Directors</li> <li>▪ The Company approved the Policy of development of personnel reserve and the personnel reserve is created for a post of Deputies to General Director, heads of structural divisions, directors of branches</li> <li>▪ The composition of the Audit Commission of IDGC of Centre, PJSC does not include persons occupying posts in control bodies of the Company or its employees</li> <li>▪ The Company's Board of Directors approved the internal documents determining main principles, elements and procedures of the internal control system and the risk management system and – the Policy of internal control and the Risk management policy</li> <li>▪ The Company's Board of Directors annually conducts evaluation of the internal control and risk management system performance</li> <li>▪ The Company created the structural division which performs internal audit functions – the Internal Audit and Control Department which activity is regulated by the relevant Provision</li> <li>▪ Functions of the Internal Audit and Control Department correspond to recommendations of the advanced practice of corporate governance</li> <li>▪ The Company provides for functional accountability of the Internal Audit and Control Department to the Board of Directors</li> <li>▪ The Company developed standard-methodological base of risk-management and it is in place</li> <li>▪ The structure of the Internal Audit and Control Department includes the created internal subdivision which is responsible for accomplishment of key functions on risk management – the Section of organisation of internal control and risk management</li> <li>▪ The Company created the post of the Corporate secretary, and the Provision about the Corporate secretary was approved</li> <li>▪ Functions and powers of the Corporate secretary are fixed by internal documents of the Company, as a whole they correspond to recommendations of the Russian Code of Corporate Governance</li> </ul>
<p><b>Lacks</b></p>
<ul style="list-style-type: none"> <li>▪ The number of independent directors as a part of the Board of Directors of the Company does not conform to requirements of applicable rules of listing, and also recommendations of the Russian Code of Corporate Governance</li> <li>▪ Chairman of the Board of Directors has the non-executive director status, and from among independent directors the senior independent director is not specified</li> <li>▪ The Company does not provide possibility of increase of qualification for members of the Board of Directors</li> <li>▪ Internal documents of the Company do not fix initiation procedures for a post of newly elected members of the Board of Directors</li> <li>▪ The most part of sessions of the Board of Directors is held in the form of correspondence voting</li> <li>▪ The majority of the important questions, recommended by the Code of Corporate Governance to consideration at internal sessions, is considered by the Company's Board of Directors at correspondence sessions</li> <li>▪ The Board of Directors does not consider questions of approval and implementation of the Company's strategy at its sessions, and key performance indicators confirmed by it have exclusively short-term character</li> <li>▪ The size of an additional compensation of members of the Board of Directors depends on short-term results of activity of the Company</li> <li>▪ IDGC of Centre, PJSC does not provide for liability insurance of members of the Board of Directors</li> <li>▪ Two members of the Board of Directors of the Company are included into more than 5 boards of directors of other companies</li> <li>▪ Functions of the Committee on nomination and remuneration are insufficiently expanded according</li> </ul>

to recommendations of the Russian Code of Corporate Governance

- The composition of the Committee on audit and the composition of the Committee on nomination and remuneration not to the full extent conform to applicable requirements of rules of listing and recommendations of the Code of Corporate Governance, both Committees are headed by non-executive directors
- The Board of Directors of IDGC of Centre, PJSC does not perform estimation of its work and individual work of the members
- The system of motivation of members of executive powers accepted in the Company has exclusively short-term character
- The Company has no personnel reserve for replacement of the post of General Director
- The functions of the Company's division, which is responsible for risk management, fixed by internal documents, not to the full correspond to recommendations of the Code of Corporate Governance

## INFORMATION DISCLOSURE

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By results of the analysis of practice of corporate governance of the Company the experts note the following **positive aspects and lacks** of this practice:

*Level of practice of corporate governance of IDGC of Centre, PJSC from the point of view of disclosing by the Company of financial and not financial information on the activity is estimated highly.*

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### AVAILABILITY OF INFORMATION POLICY AND ROLE OF THE BOARD OF DIRECTORS

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1. The Company's Board of Directors confirmed the Provision about information policy of IDGC of Centre, PJSC which determines the purposes and principles of disclosing of information by the Company, establishes the information list, besides provided by the legislation, the disclosing obligation on which is undertaken by the Company, and also an order of disclosing of the information (including information channels through which disclosing should be performed, and disclosure forms), terms during which access to the disclosed information should be provided, an order of communications of members of control bodies, office holders and employees of the Company with shareholders and investors.

*Realisation by a company of an information policy is performed by the company executive powers. The control over observance of an information policy is performed by the company's board of directors.*

*The code of corporate governance, item 275*

However, the Provision does not establish measures on provision of the control over observance of the Company's information policy.

2. Under the information given by the Company, the Board of Directors of IDGC of Centre, PJSC does not consider questions of realisation of the Company's information policy at its sessions that does not correspond to recommendations of the Code of Corporate Governance.

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### INTERACTION WITH SHAREHOLDERS AND INVESTORS

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3. The Company created a division on interaction with shareholders and investors (IR Division) contacts of the head of which (phone and e-mail address) are placed on the Company's site.

Besides, the Company regularly holds presentations (including in the form of teleconferences, webcasts) and meetings with participation of members of control bodies and other key executives, including accompanying disclosing (publication) of accounting (financial) statements of the Company and connected with the main investment projects and plans of strategic development of IDGC of Centre, PJSC. All presentations and IR-news are placed on a site in a corresponding section.

4. Besides, experts consider the disclosing of the information on the Corporate secretary as an important element of interaction with shareholders.

The site of IDGC of Centre, PJSC contains personal data about the Corporate secretary of the Company, including data on education and work experience, and also her contact information (phone number and e-mail address).

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## DISCLOSURE OF NOT FINANCIAL INFORMATION

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### TRANSPARENCY OF STRUCTURE OF SHAREHOLDERS

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5. The Company discloses the information about beneficiary proprietors owning 71,9% of common stocks of the Company.

The major shareholder, PJSC "Rosseti", possesses 50,2% of stocks of the Company, Genhold Limited - 15% of stocks, the state owns 0,5% of stocks of IDGC of Centre, PJSC, and the other 34,3% are allocated among minority shareholders the information about which the Company does not disclose.

The site of the Company discloses the information that the company Prosperity Capital Management Limited has indirectly the right to dispose of 21,21% of the stocks constituting the authorised capital of the Company.

The site has also the statement for absence in the Company of data on existence of stockholding shares exceeding 5%, besides the disclosed by the Company.

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### AVAILABILITY OF THE INFORMATION ON THE COMPOSITION OF MANAGEMENT BODIES

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6. IDGC of Centre, PJSC discloses in quarterly reports, and also in the annual report for 2014 all the essential information on members of the Board of Directors and members of executive powers of the Company.

On the corporate Internet site and in the annual report the information on the status of each member of the Board of Directors and on date of his or her first election in the composition of these control bodies of the Company is also disclosed.

However, the experts noted absence on the site of the information on work experience of each member of the Board of Directors and member of the Management Board of IDGC of Centre, PJSC for last five years.

7. The Company discloses on the corporate Internet site the information on the composition of all created committees of the Board of Directors with indication of the chairman and independent directors as a part of the committees.

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### AVAILABILITY OF THE INFORMATION ON COMPENSATION OF MEMBERS OF MANAGEMENT BODIES

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8. The Company discloses publicly on the Internet site the Provision about payment of remuneration and compensation to members of the Board of Directors of IDGC of Centre, JSC that allows interested persons to receive the information on the structure and criteria of payment of remuneration to members of the Board of Directors.



Besides, the Annual Report for 2014, and also in a separate section on the Internet site of IDGC of Centre, PJSC the information on individual rate of compensation of each member of the Board of Directors is disclosed.

In the quarterly report, the annual report for 2014 and on the Company's site the information on the size of the monthly compensation paid to members of the Management Board is disclosed. However, the Company does not disclose the information on individual bonus payments by results of accomplishment of KPI to members of executive powers, being limited to disclosing of total rate of compensation of members of the Management Board.

The information on the compensation paid to chief executive officer – General Director, is not disclosed either.

The given practice partially corresponds to the advanced practice of corporate governance. According to this practice, companies are recommended to disclose the information on individual rate of compensation of members of the board of directors and the general director of the company, and in the absence of their consent to disclosing of such information<sup>3</sup>, the information on criteria of determination of the size of individual remuneration paid to each member of control bodies, in particular the confirmed key performance indicators which it depends on.

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## DISCLOSURE OF FINANCIAL INFORMATION

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### DISCLOSURE OF FINANCIAL AND ACCOUNTING STATEMENTS

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9. In a special section on the Internet site the Company discloses all basic forms of annual financial statements prepared according to RAS, including, the balance sheet, the profit and loss statement, the cash flow statement, and also the audit opinion on the presented reporting.

10. In a special section on the Internet site the Company discloses annual and interim financial statements prepared according to IFRS. The annual statements are accompanied by a corresponding audit opinion and is disclosed in Russian prior to annual Shareholders general meeting of IDGC of Centre, PJSC.

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### DISCLOSURE OF EXPLANATORIES TO THE FINANCIAL REPORTING

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11. As a part of the annual report for 2014 the Company discloses explanatories of executive powers of the Company to the Company's annual statements, including financial analysis and results of its activity (MD&A), including the analysis of indicators of profitability, financial soundness, estimation of changes in the composition and structure of assets and liabilities, estimation of current and perspective liquidity of assets.

This fact is positively estimated by the experts, however, it is necessary to note that the Company analyzes the reporting prepared under RAS, while the Code of Corporate Governance recommends to disclose corresponding explanatories to the annual and interim financial statements prepared according to IFRS.

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### AVAILABILITY OF INFORMATION ON COMPENSATION OF THE AUDITOR

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<sup>3</sup> According to Article 6 of Federal Law № 152-FZ «About personal data» from 27.07.2006.

12. In the quarterly report of the Company for 3 quarter 2015 the information on the general rate of compensation paid to the external auditor (LLC "Ernest & Young") for the audit of accounting statements under RAS and financial statements under IFRS for 2014 is disclosed that conforms to the legislation requirements. At the same time the Company does not disclose the information on availability/absence of not auditor (consulting) services rendered by the external auditor.

According to recommendations of the advanced practice of corporate governance, the company should disclose the information on structure of compensation of the external auditor, in particular, about cost of not auditor (consulting) services rendered by the external auditor. It allows interested persons to receive representation about adequacy of the rate of compensation paid to the external auditor, to the volume of transactions of the company.

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#### AVAILABILITY OF INFORMATION ON TRANSACTIONS

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13. In a special section on the Internet site the Company quarterly discloses the information on all major transactions (subject of the party of the transaction, price of the agreement, data on related parties, data on approval). Thus, the information on the following transactions is disclosed:

- 1) about related party transactions;
- 2) about transactions made by the Company with state companies (transactions the size of obligations on which constitutes 1 bln and more);
- 3) about transactions of the Company with shareholders of the Company owning not less than 5% of voting shares of the Company;
- 4) about intracorporate transactions;
- 5) about major transactions (transactions the size of obligations on which constitutes 2 and more percent of book value of assets of the Company according to its accounting statements for last reporting quarter before the date of fulfilment of the transaction);
- 6) about transactions of the Company with members of the Board of Directors and members of executive management bodies of the Company.

## CHANNELS OF DISCLOSURE

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### QUALITY OF THE ANNUAL REPORT

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14. On the Company's Internet site the annual report for 2014, prepared for annual Shareholders general meeting according to requirements of the legislation, is available. The given annual report contains great volume of qualitative information for shareholders, potential investors and other stakeholder

*The annual report, being one of the most important tools of information interaction with shareholders and other stakeholders, should contain the information, allowing to estimate results of activity of a company for a year.*

*The code of corporate governance, 6.2.3.*

groups, conforms to requirements of the legislation and takes some recommendations of the advanced practice to the annual report contents into account.

So, the annual report of IDGC of Centre, PJSC for 2014 contains the description of investment projects and strategic tasks of the Company, the information on the Company's securities, the description of the internal control and risk management system with indication of powers and responsibility of participants of this system.

At the same time the Code of Corporate Governance recommends to include in the annual report, inter alia, annual financial statements prepared according to IFRS, together with an audit opinion concerning such statements, information on results achieved for a year in comparison with planned, results of estimation by the committee on audit of efficiency of the process of carrying out of external and internal audit.

### INFORMATION DISCLOSURE ON THE INTERNET SITE

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15. The Company's Internet site is regularly added and updated, on which great volume of the actual information on it and results of its activity is placed. In specially created sections of the Internet site there are the Articles of Association and changes for it, the basic internal documents regulating activity of control bodies of the Company, the

*The company's site on the Internet is the key source of disclosing of the information by a company, therefore the company's site on the Internet should have the information placed, sufficient for forming of objective representation about essential aspects of activity of the company.*

*The code of corporate governance, item 284*

information on corporate notices, affiliated persons, securities, quarterly and annual reports, decisions accepted at general meetings, at sessions of the Board of Directors and other essential information disclosed.

The site IDGC of Centre, PJSC is well structured that facilitates to interested persons to search information on it.

16. The Company created the English-speaking version of the corporate Internet site on which the essential information on the Company's activity, the information addressed to shareholders and investors is disclosed.

<b>Information disclosure</b>
<b>Positive aspects</b>
<ul style="list-style-type: none"> <li>▪ The Company's Board of Directors approved the Provision about the information policy which contents as a whole corresponds to recommendations of the Code of Corporate Governance</li> <li>▪ The Company created the structural division on interaction with shareholders and investors, contacts of its head are placed on the Company's site</li> <li>▪ The Company regularly holds meetings and presentations with participation of members of control bodies</li> <li>▪ The information on the Corporate secretary and her contacts are disclosed on the Company's site</li> <li>▪ The Company discloses the information about beneficiary proprietors owning 71,9% of stocks</li> <li>▪ The Company discloses the detailed information about members of the Board of Directors and members of executive powers</li> <li>▪ On the Company's site the information on the composition of committees of the Board of Directors with indication of the chairman and independent directors as a part of committees is disclosed</li> <li>▪ On the site and in the Annual Report the Company discloses the information on individual rate of compensation of each member of the Board of Directors</li> <li>▪ The Company discloses all basic forms of the financial statements prepared according to IFRS and RAS. The disclosed statements are accompanied by corresponding audit opinions</li> <li>▪ The Company discloses the interim financial statements prepared under IFRS, and the annual statements under IFRS are disclosed before carrying out of annual Shareholders general meeting following the results of a corresponding year</li> <li>▪ As a part of the annual report the Company discloses explanatories of executive powers to annual statements, including financial analysis and results of activity</li> <li>▪ The Company discloses the information on the rate of compensation paid to the external auditor for audit of financial statements under RAS and IFRS</li> <li>▪ The Company discloses the detailed information about all major transactions, and also about related party transactions</li> <li>▪ On the Company's Internet site the annual report for 2014, prepared for annual meeting of shareholders according to requirements of the legislation, is available, some supplementary information according to recommendations of the Code of Corporate Governance is also disclosed in it</li> <li>▪ The Company's Internet site is regularly added and updated, on which great volume of the actual information on it and results of its activity is placed</li> <li>▪ On the Company's Internet site the information on decisions accepted by Shareholders general meeting and the Board of Directors of IDGC of Centre, PJSC is disclosed</li> <li>▪ The Company created the English-speaking version of the Internet site.</li> </ul>
<b>Lacks</b>
<ul style="list-style-type: none"> <li>▪ The Board of Directors of the Company does not consider questions of realisation of the Company's information policy at its sessions</li> <li>▪ On the Company's site the information on work experience of members of the Board of Directors and members of the Management Board for last five years is not disclosed</li> <li>▪ IDGC of Centre, PJSC does not disclose the information on key performance indicators of members of executive powers of the Company, and does not disclose the information on the compensation paid to chief executive officer either</li> <li>▪ The Company does not disclose the information on availability/absence of consulting services rendered by the external auditor</li> </ul>

## CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

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By results of the analysis of practice of corporate governance of the Company the experts note the following **positive aspects and lacks** of this practice:

*Practice of corporate governance of IDGC of Centre, PJSC from the point of view of corporate social responsibility and sustainable development is estimated well.*

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### DOCUMENTS REGULATING QUESTIONS OF CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

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1. The Company approved documents regulating questions of social responsibility and accounting of interests of other stakeholders – the Personnel and social policy of IDGC of Centre, PJSC, the Ecological policy, the Policy of interaction with the company, consumers and authorities, the Quality standards of servicing of consumers. Accepting of the given documents allows to formalize implementation of projects of corporate social responsibility and, thereby, promotes reasonableness and purposefulness of the policy of corporate social responsibility of the Company. The specified documents (except for the Ecological policy) are also available on the Company's Internet site.

However, the Company has no documents regulating questions of social responsibility in such sphere, as charitable and sponsor's activity.

2. The Board of Directors of IDGC of Centre, PJSC approved the Code of Conduct, which also is a publicly available document.

The properly prepared Code of Conduct, and also the regular control over knowledge and execution of provisions of the Code of Conduct allows to implement principles of ethical behaviour in practice of the company and to establish the developed corporate culture that is a factor of sustainable development and favourable image of the company.

3. The Company, according to the decision of the Board of Directors of IDGC of Centre, PJSC, has the Anticorruption policy of PJSC "Rosseti" and SDCs of PJSC "Rosseti" in place as an internal document.

*A company is recommended to approve the anticorruption policy of the company determining measures, directed on forming of elements of corporate culture, organizational structure, rules and procedures providing non-admission of corruption.*

*The code of corporate governance, item 260*

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## IMPLEMENTATION OF PROJECTS OF CORPORATE SOCIAL RESPONSIBILITY

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4. IDGC of Centre, PJSC corporate implements corporate social projects for employees of the Company and members of their families. So, the Company on a constant basis realises privileges and social security, provided by the Collective agreement, aimed to support, including, young, needy and large families, pensioners. Besides, voluntary medical insurance of employees and insurance upon accidents is in place, a housing program and a program of not state provision of pensions are implemented. The Company holds Sports Games and competitions with participation of employees, organises excursion trips, team's rest on weekend and holidays.

All the aforesaid is an additional certificate of reasonableness and elaborateness of the social policy of IDGC of Centre, PJSC in relation to its personnel.

5. During the year preceding the estimation performance, the Company implemented projects of corporate social responsibility for the population in its service area. In particular, the Company holds a set of events for prevention of cases of electric injuries among inhabitants of regions of its service area, promotes development of sports infrastructure of regions, connecting new large sports facilities to the electric grid in regions of its service area, supplies electricity to agricultural facilities. The given practice promotes sustainable development and forming of a socially responsible image of IDGC of Centre, PJSC.

6. The Company regularly carries out charitable and sponsor's events: help to children's homes and other social security organisations, active support of the donor movement including forming of base of donors from the number of persons employed and carrying out of "Day of the donor" in the Company's branches.

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## AVAILABILITY OF CONFLICTS AND CASES OF UNFAIR BEHAVIOUR

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7. For the year preceding the estimation performance, the experts did not find in public sources any information testifying to availability of cases of conflicts of the Company with the labour team.

8. There is no information on significant conflicts of the Company with competitors and counterparts either that testifies to diligent business dealing of IDGC of Centre, PJSC.

9. For the year preceding the estimation performance, no penalties in connection with adverse actions of the Company in relation to environment were imposed on the Company.

10. The Code of Corporate Governance of IDGC of Centre, PJSC has a separate chapter devoted to questions of settlement of corporate conflicts. Corporate conflicts, including conflicts of the management with shareholders and shareholders with shareholders, can cause an essential damage to reputation and sustainable development of the Company. Thereupon availability in the Company of understanding of existence of such threats and their early settlement allows to prevent or, at least, essentially to lower costs of origin of such conflicts.

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## AVAILABILITY OF CERTIFICATES

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11. The Company implemented the system of quality management corresponding to the standard ISO 9001. In 2013 by results of the conducted recertification audit by the

International Certification Body BSI issued the positive conclusion about conformity of the quality management system of the Executive office and three branches of IDGC of Centre, PJSC to requirements of the standard ISO 9001:2008. In 2015 in the Executive office and three other branches the inspection audit for the purposes of confirmation of integrity of the System of management of the Company and conformity to requirements of the standard ISO 9001:2008 was held.

12. The Company's activity, despite availability of ecological risks connected with it, is not certificated on conformity to the standard in the field of protection of environment ISO 14001 «Environmental management systems. Requirements and guidance to application».

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#### PREPARATION OF SOCIAL ACCOUNTABILITY

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13. IDGC of Centre, PJSC does not prepare social accountability that reduces the information transparency of the Company concerning corporate social responsibility of IDGC of Centre, PJSC and accounting of interests of stakeholders.

Preparation of the social accountability according to standards of Global Reporting Initiative and/or AA1000 gives the chance to estimate efficiency of a policy of corporate social accountability of the Company and its influence on the Company's sustainable development. The systematised provision of such information on the basis of standards GRI and/or AA1000 allows to facilitate search of the specified information and allows to conduct its comparison with the information given by peers.

<b>Corporate social accountability and sustainable development</b>
<b>Positive aspects</b>
<ul style="list-style-type: none"> <li>▪ The Company confirmed the internal documents, regulating policies of corporate social accountability</li> <li>▪ The Company's Board of Directors confirmed the Code of Conduct, the document is publicly available</li> <li>▪ According to the decision of the Board of Directors of the Company IDGC of Centre, PJSC has the Anticorruption policy of PJSC "Rosseti" in place</li> <li>▪ The Company for the year preceding the estimation performance implemented corporate social projects for employees of IDGC of Centre, PJSC, the population in the Company's service area, and also charitable and sponsor's projects</li> <li>▪ For the year preceding the estimation performance the experts did not find any information in public sources testifying availability of conflicts of the Company with the labour team, significant conflicts with competitors and counterparts</li> <li>▪ For the year preceding the estimation performance no penalties in connection with adverse actions of the Company in relation to environment were imposed on the Company</li> <li>▪ The Company's activity is certificated on conformity to the standard ISO 9001 in the field of quality management</li> <li>▪ Standards in the field of settlement of corporate conflicts in case of their origin are fixed in the Company's internal documents</li> </ul>
<b>Lacks</b>
<ul style="list-style-type: none"> <li>▪ The Company has no documents regulating questions of corporate social responsibility in such spheres, as charitable and sponsor's activity</li> <li>▪ The Company's activity, despite availability of ecological risks connected with it, is not certificated on conformity to the standard ISO 14001 in the field of environment protection</li> <li>▪ The Company does not perform preparation of social accountability</li> </ul>

Verbitsky V.K.  
First Deputy Director of the Russian Institute of Directors

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

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

Date of the rating assignment: 10.03.2016



## APPENDIX 1. THE SCALE OF THE NATIONAL RATING OF CORPORATE GOVERNANCE

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 is, the lower risks of corporate governance in the assessed company are.

NCGR is assigned according to the scale from CGR 1 (the lowest rating) to CGR 10 (the highest rating). The rating scale has 10 rating classes and 7 qualitative levels (characteristics) of practice of corporate governance. Two subclasses are provided in each class: if indicators of quality of corporate governance of the company have average values for a corresponding class the sign «+» is added to its rating class, and if the specified indicators above averages and are close to indicators of a next rating class the sign «++» is added.

<b>NCGR 10</b>	<b>Best practice of corporate governance</b>
<b>NCGR 9 ++</b> <b>NCGR 9 +</b> <b>NCGR 9</b>	<b>Best practice of corporate governance</b>
<b>NCGR 8 ++</b> <b>NCGR 8 +</b> <b>NCGR 8</b>	<b>Advanced practice of corporate governance</b>
<b>NCGR 7 ++</b> <b>NCGR 7 +</b> <b>NCGR 7</b>	<b>Developed practice of corporate governance</b>
<b>NCGR 6 ++</b> <b>NCGR 6 +</b> <b>NCGR 6</b>	<b>Good practice of corporate governance</b>
<b>NCGR 4 – NCGR 5 ++</b>	<b>Average practice of corporate governance</b>
<b>NCGR 1 – NCGR 3 ++</b>	<b>Low practice of corporate governance</b>

**NCGR 10** is assigned to a company, which complies with the requirements of the Russian legislation in the field of corporate governance and to the full follows recommendations of the Russian Code of Corporate Governance. There are no risks of losses of proprietors connected with quality of corporate governance.

**NCGR 9** is assigned to a company, which complies with the requirements of the Russian legislation in the field of corporate governance and follows a greater part of recommendations of the Russian Code of Corporate Governance. Risks of losses of proprietors, connected with quality of corporate governance, are minimum.

**NCGR 8** is assigned to a company, which complies with the requirements of the Russian legislation in the field of corporate governance, follows a significant part of recommendations of the Russian Code of Corporate Governance. Risks of losses of proprietors, connected with quality of corporate governance, are insignificant.

**NCGR 7** is assigned to a company, which complies with the requirements of the Russian legislation in the field of corporate governance, follows a considerable number of recommendations of the Russian Code of Corporate Governance. The company is characterised by low enough risks of losses of proprietors connected with quality of corporate governance.

**NCGR 6** is assigned to a company, which complies with the requirements of the Russian legislation in the field of corporate governance, follows a number of key recommendations of the Russian Code of Corporate Governance. The company is characterised by acceptable risks of losses of proprietors connected with quality of corporate governance.

**NCGR 5** is assigned to a company, which complies with the requirements of the Russian legislation in the field of corporate governance, however, initiatives on implementation of basic recommendations of the Russian Code of Corporate Governance have insignificant character. The company is characterised by moderate risks of losses of proprietors connected with quality of corporate governance.

**NCGR 4** is assigned to a company, which complies with the requirements of the Russian legislation in the field of corporate governance, however, initiatives on implementation of basic recommendations of the Russian Code of Corporate Governance have minimum character. The company is characterised by average risks of losses of proprietors connected with quality of corporate governance.

**NCGR 3** is assigned to a company which supposes non-observance of separate rates of the Russian legislation in the field of corporate governance, current practice of corporate governance of the company does not correspond to the majority of recommendations of the Russian Code of Corporate Governance. The company is characterised by high risks of losses of proprietors connected with quality of corporate governance.

**NCGR 2** is assigned to a company, which 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 correspond to the majority of recommendations of the Russian Code of Corporate Governance. The company is characterised by very high risks of losses of proprietors connected with quality of corporate governance.

**NCGR 1** is assigned to a company, allows for non-compliance with norms of the Russian legislation in the field of corporate governance and does not implement in the practice of corporate governance recommendation of the Russian Code of Corporate Governance. The company is characterised by extremely high risks of losses of proprietors connected with quality of corporate governance.