

Approved by  
decision of “Kubanenergo” JSC  
Board of Directors dated 6 March 2013 (Minutes  
of meeting No.154/2013 dated 07.03.2013)

Corporate Governance Code  
of Open Joint Stock Company of  
Power Industry and Electrification of Kuban  
(new edition)

Krasnodar  
2013

## **Contents**

### **1. Introduction**

### **2. Information on the Company**

### **3. Principles and Structure of Corporate Management of the Company**

3.1. Definition and Principles

3.2. Internal Documents

3.3. General Structure of Corporate Management

### **4. Practice of Corporate Management to Be Implemented in the Company**

4.1. Board of Directors

4.2. Management Board and General Director

4.3. Interaction between Board of Directors and Executive Bodies

4.4. Settlement of conflict of interest

### **5. Shareholders of the Company**

5.1. Rights of Shareholders and Protection of Rights of Shareholders

5.2. General Meeting of Shareholders

5.3. Dividend Policy

### **6. Information Disclosure and Transparency**

6.1. Policy and Practice of Information Disclosure

6.2. Financial Statements

6.3. Control over Financial and Economic Activity of the Company

6.4. Ownership Structure

### **7. Principles and Practice of Interaction with Subsidiaries and Associates**

### **8. Final Provisions**

## **1. Introduction**

The aim of the present Corporate Management Code (hereinafter referred to as the Code) shall be improvement and systematization of Corporate Management of Open Joint Stock Company of Power Industry and Electrification of Kuban (hereinafter referred to as the Company), ensuring more transparent management of the Company and confirming invariable willingness of the Company to adhere to requirements of proper Corporate Management. In particular:

- management of the Company shall be carried out with proper responsibility and accountability, in order to maximize shareholder value;
- Board of Directors and executive bodies shall work efficiently, in the interests of the Company and its shareholders (including minority shareholders) and create conditions for steady increase of shareholder value;
- proper information disclosure, transparency and efficient activity of risk control and internal check systems shall be provided.

The Company shall confirm its intention to promote development and improvement of practice of proper Corporate Management by accepting, steadily improving and strictly adhering to provisions of the present Code, Charter of the Company and other internal documents.

In order to further increase confidence of shareholders, employees, investors and society, when developing the Code the Company has not confined itself to norms of legislation of the Russian Federation and included in the Code additional provisions, based on universally recognized Russian and international<sup>1</sup> standards of Corporate Management.

The Company shall undertake obligations stipulated by the Code and shall observe norms and principles set by the Code.

## **2. Information on the Company**

Open joint stock company of power Industry and electrification of Kuban was established in accordance with Orders of the President of the Russian Federation dated 14 August 1992 No.922 “On peculiarities of transforming the state enterprises, associations and organizations of fuel and energy complex into joint stock companies”, No.923 dated 15 August 1992 “On organization of management of electric grid complex in the Russian Federation in the conditions of privatization”, No.1334 dated 5 November 1992 “On implementing in power industry the Order of the President of the Russian Federation dated 14 August 1992 No.922 “On peculiarities of transforming the state enterprises, associations and organizations of fuel and energy complex into joint stock companies”.

The Company has the following branches: Krasnodarskiye electric grids, Sochi electric grids, Armavirskiye electric grids, Adygeiskiye electric grids, Timashevskiye electric grids, Tikhoretskiye electric grids, Leningradskiye electric grids, Slavyanskiye electric grids, South-Western electric grids, Labinskiye electric grids, Ust-Labinskiye electric grids.

The Company is affiliated (dependent) company of “Holding of Distribution Grid Companies” JSC, and also executes the rights of shareholders (participants) in other business entities owning their shares.

The Company is an energy company, the shareholders of which are Russian as well as foreign legal and physical persons.

The main goal of the Company is creation of effective management of distribution electric grid business by using modern solutions in the sphere of management and production technologies with purpose of increasing company’s capitalization, ensuring transparency of the business and increasing investment attractiveness with regard of interests of other subjects of power industry

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<sup>1</sup> Principals of corporate governance of Organization of economic cooperation and development

market, Company, its shareholders and the government.

Activity of the Company is associated with responsibility to shareholders, as well as to the State, employees of the Company, suppliers, consumers and society on the whole.

Realizing this responsibility and admitting importance of high level of Corporate Management in order to ensure successful business of the Company and to reach mutual understanding between all the persons interested in the Company's activity, the

Company shall undertake the obligation to follow in its activity the principles specified herein and to exert all reasonable efforts for their observance by the Company in its current activity.

### **3. Principles and Structure of Corporate Management in the Company**

#### **3.1. Definition and Principles**

By "Corporate Management" the Company shall mean the whole range of processes ensuring management of and control over the Company's activity and including relationships between the Company and its shareholders in the interests of shareholders. The Company shall regard Corporate Management as a means of increasing the Company's efficiency, raising its reputation and reducing its capital attraction costs.

The present Code, according to which Corporate Management in the Company shall be carried out, has been developed in accordance with the Russian Federation legislation, Code of Corporate Conduct, recommended to be applied by FCSM of Russia by Decree No.421/r dated April 04, 2002 (hereinafter referred to as the Code of FCSM) and internationally recognized principles of Corporate Management, such as Corporate Management Principles of the OECD (Organization for Economic Cooperation and Development).

Corporate Management principles in the Company shall be as follows:

- **Accountability.** The Code shall stipulate accountability of Board of Directors of the Company to all the shareholders according to the current legislation and shall be a guidance for Board of Directors when developing strategy and carrying out management and control over executive bodies of the Company.
- **Justice.** The Company shall be obliged to protect the rights of shareholders and ensure equal treatment of all the shareholders. Board of Directors shall provide all shareholders with an opportunity to be effectively protected in case of violation of their rights.
- **Transparency.** The Company shall provide timely disclosure of reliable information on all material facts related to its activity, including its financial situation, social and ecological indicators, results of its activity, structure of share capital and management of the Company, as well as free access of all the interested persons to such information.
- **Responsibility.** The Company shall recognize the rights of Company's shareholders.

#### **3.2. Internal Documents**

The present Code is a set of principles. Concrete structures, procedures and practice of Corporate Management shall be regulated by Charter and internal documents of the Company, including:

- Regulations on Procedure for Preparing and Holding of General Meeting of Shareholders;
- Regulations on Procedure for Convening and Holding of Meetings of Board of Directors;
- Regulations on Management Board;
- Regulations on Auditing Committee.

The above-listed internal documents of the Company have been developed according to the legislation, as well as taking into account the basic provisions of Code of Corporate Conduct, recommended to be applied by FCSM of Russia. All the above-listed documents are available on the Company's website on the Internet at: <http://www.kubanenergo.ru>.

#### **3.3. General Structure of Corporate Management**

System of management bodies of the Company includes:

- General Meeting of Shareholders – supreme body of the Company management through which the shareholders exercise their right to participation in the Company management;

- Board of Directors –management body providing development of the Company’s strategy, general guidance for its activity and control of activity of executive bodies. Board of Directors of the Company shall be entitled to establish Committees attached to Board of Directors.
- Committees attached to Board of Directors – consulting-deliberative bodies of Board of Directors of the Company established for the purpose of preliminary consideration of the most important issues within the competence of Board of Directors.
- Management Board and General Director – management bodies managing the company’s current activity and implementing the strategy determined by Board of Directors and shareholders of the Company.
- Auditing Committee – body of control over the Company’s financial and economic activity, accountable directly to General Meeting of Shareholders of the Company.

#### **4. Practice of Corporate Management to Be Implemented in the Company**

The Company considers existence of professional Board of Directors to be the important element of effective corporate governance.

Board of Directors influences the results of the Company’s activity, providing general strategic guidance for and exercising control over the activity of executive bodies for the benefit of the Company and its shareholders.

Executive bodies of the Company responsible for management of the Company’s current activity also play the important role in the process of management. Effective interaction between these bodies and clear delineation of their authorities are among the key factors ensuring the appropriate practice of Corporate Management.

##### **4.1. Board of Directors**

###### **4.1.1. Election, term and termination of powers of members of Board of Directors.**

Members of Board of Directors shall be elected for the term until the next annual meeting of shareholders. Board of Directors of the Company shall be elected by cumulative voting. Authorities of all members of the BoD can be early terminated by decision of Company’s shareholders meeting.

The Company does not consider the introduction of restrictions in relation to the amount of times the Board of Directors members can be reelected to be for the benefit of the Company and the shareholders. Experienced members of the Board, thoroughly familiar with the Company’s activity, play important role in providing proper management.

Powers of Board of Directors shall be regulated by Charter of the Company according to the current legislation and recommendations of the Code of FCSM.

Number of members of the Board is stipulated by Charter of the Company.

General meeting of shareholders can terminate the powers only of the whole Board of Directors.

###### **4.1.2. Independence**

Law prohibits simultaneous holding of the position of sole executive body and Chairman of Board of Directors. The Company considers that Board of Directors shall be led by a director<sup>2</sup> who is not sole executive body and (or) member of collegiate executive body of the Company at the same time, since it allows Board of Directors to perform the functions more effectively.

The Board of Directors composition shall ensure proper execution of obligations related to exercise of control and determination of strategy and main directions of the Company’s development.

The list of members of Board of Directors shall include no more than 25% of executive directors being at the same time employees of the Company.

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<sup>2</sup> Hereafter – member of Company Board of Directors

For the purpose of ensuring objectivity of decisions to be taken and maintenance of balance of interests of different groups of shareholders, the Company aims to have no less than 3 (Three) independent directors in the list of members of Board of Directors. According to the present Code the Company defines that those directors are considered to be independent who meet the following requirements of independence:

- who are not officials or employees of the Company at the moment of election and within 3 years preceding the election;
- who are not officials of other economic entity in which any official of the Company is a member of Personnel and Remuneration Committee attached to Board of Directors;
- who are not spouses, parents, children, brothers and sisters of the Company's officials;
- who are not affiliated persons of the Company, except for a member of Board of Directors of the Company;
- who are not parties to obligations with the Issuer according to terms of which they can purchase property (receive cash assets) the value of which amounts to 10 or more percent of total annual income of aforementioned persons except for the receipt of remuneration for participation in the activity of the Company's Board of Directors;
- who are not representatives of the State and/or bodies of local self-government, that is persons who shall vote on the basis of written directives (instructions etc.) of authorized federal bodies of state power, bodies of state power of constituent territories of the Russian Federation or bodies of local self-government.

#### **4.1.3. Structure of Board of Directors and Committees attached to Board of Directors.**

Committees under the Board of Directors are formed by the decision of the Board of Directors. The Company has established the following Committees of the Board of Directors:

- Audit Committee;
- The Personnel and Remuneration Committee;
- The Committee for Strategy, Development, Investments and Reform;
- Committee on Technological Connection;
- Reliability Committee.

Committees of the Board of Directors are established to work out the issues within the competence of the Board of Directors or studied by the Board of Directors in order to control the executive body of the Company, and to provide the necessary recommendations to the Board of Directors and executive bodies.

Activity of the Committees under the Board of Directors is governed by the Charter of the Company, the Company's internal regulations, the regulations on the Committees of the Board of Directors which contain provisions on the composition, method of work of the committees, as well as the rights and responsibilities of its members.

Key functions of the Audit Committee are to ensure the process of the auditor selection and evaluation of the reliability of financial statements (including the auditor's report), to establish an effective system of internal control in the prevention and resolution of conflict of interest situations in the Company, as well as in the evaluation of the effectiveness of internal control procedures and preparation of proposals for their improvement.

The functions of the Personnel and Remuneration Committee include the improvement of HR policy, attraction to the Company the skilled professionals and the development of appropriate incentives for their successful work.

Composition and Chair of the Audit Committee and the Personnel and Remuneration Committee shall be elected only from the members of the Board of Directors who meet the requirements of clause 4.1.2 (Independent Director). Failing compliance with section 4.1.2 for objective reasons - only independent directors and members of the Board of Directors who are not members of the Board of the Company and (or) the Director General of the Company, the sole executive body or members of other governance and control of Company's management organization<sup>3</sup>

The task of the Committee for Strategy, Development, Investments and Reform is the preparation and submission of recommendations to the Board on the strategic development of the Company within the scope of authority of the Board of Directors or studied by the Board of Directors in order to control the activities of the executive bodies of the Company

The purpose of the Committee on Technological Connection is to ensure transparency of and non-discriminatory access to services for technological connection to electric grids.

The main objectives of the Reliability Committee is to develop and provide recommendations to the Board of Directors in fulfilling its responsibilities for the examination of investment programs and plans for the repair of power, assess the completeness and adequacy of measures to accidents and major technological failures, analysis of the contractual arrangements and the cost of reliability management .

#### **4.1.4. Work Procedure**

Board of Directors shall hold meetings according to the plan that has been worked out at the beginning of term of office, what ensures proper implementation of the obligations. Board of Directors shall hold meetings at least once every quarter. Board of Directors shall hold the meetings according to the schedule that has been worked out at the beginning of term of office and as the need arises, this ensures proper discharge of obligations. Extraordinary meetings of Board of Directors can be held if necessary.

Work Procedure of Board of Directors shall be regulated by Regulations on Procedure for Convening and Holding of Meetings of Board of Directors. Secretary of Board of Directors shall provide timely receipt of concise but comprehensive information by all the directors, along with notification of holding a Board of Directors meeting no later than 11 working days before holding each meeting.

Board of Directors shall draw up minutes of its meetings. Minutes shall be signed by Chairman and Secretary of Board of Directors.

#### **4.1.5. Remuneration**

Remuneration to members of Board of Directors shall be paid according to the market conditions and shall be set in such a way as to get highly skilled specialists involved in the work of Board of Directors, to motivate them to perform faithful and effective activity.

The Company shall publicly disclose the information on remuneration to members of Board of Directors.

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<sup>3</sup> Paragraph 3 is applied in the case of circulation shares in the quotation list "A" of the stock exchange. In the case of treatment of the Company's shares in the quotation list "B" and "B", the data requirements for the composition of the Human Resources and Compensation Committee shall not apply, and the composition of the Audit Committee shall be elected only from the members of the Board of Directors, not the sole executive body and (or) members of the collegial executive body. In the Audit Committee must be an independent director.

The Company shall not grant loans to members of Board of Directors.<sup>4</sup>

#### **4.1.6. Obligations of members of Board of Directors**

Board of Directors members shall act in good faith and with proper thoroughness for the benefit of the Company and all of its shareholders. Each director shall aim to participate in all the Board of Directors meetings.

Board of Directors members shall realize the responsibility to the shareholders and consider faithful and competent implementation of their obligations concerning management of the Company ensuring maintenance and increase of its share value as well as protection and possibility for shareholders to exercise their rights to be their main purpose.

Members of Board of Directors shall always be open to dialogue with shareholders.

Members of Board of Directors shall provide formation and carrying out of development strategy of the Company.

Board of Directors shall establish and maintain the necessary mechanisms of control over activity of Management Board of the Company, including monitoring and assessment of its results.

Board of Directors shall create a system of clear and transparent criteria and procedures for appointment and replacement of members of Management Board of the Company, as well as effective remuneration system of its members.

Members of Board of Directors shall not disclose or use for personal advantage confidential information on the Company.

Members of Board of Directors shall refrain from any actions which may lead to outbreak of conflict between their interests and the interests of the Company. Shall such a conflict outbreak, a member of Board of Directors shall be obliged to inform other members of the Board and to refrain from voting on the corresponding issues.

#### **4.2. Management Board and General Director**

The Company realizes that sole executive body is essential in the person of General Director to manage the current activity of the Company. It also admits that in the process of management complicated tasks have to be solved and it is necessary to use collective approach, not individual one, to solve them. Following this, the Company forms Management Board led by Chairman of Management Board. The functions of Chairman of Management Board shall be performed by General Director of the Company.

By decision of the General Meeting of Shareholders of the Company the functions of the Director General may be transferred to the managing organization. In such case, the provisions of this Code relating to the General Director of the Company, respectively, will be applied to the management of the organization.

##### **4.2.1. Powers**

General Director and Management Board shall provide management of the Company's activity in order to solve tasks and carry out strategy of the Company.

##### **4.2.2. Number of Members**

General Director of the Company recommends the amount of members elected to the Management Board and the Board of Directors makes the decision.

##### **4.2.3. Election, terms and termination of powers of members of General Director and Members of Management Board**

General Director and members of Management Board shall be elected by a majority vote of

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<sup>4</sup> except for the case when a member of Board of Directors is sole executive body or a member of collegiate executive body at the same time.



members Board of Directors of the Company participating in a meeting. Board of Directors shall be entitled to take decision on termination of powers of General Director and members of Management Board of the Company at any time.

#### **4.2.4. Composition of Management Board**

Composition of Management Board that consists of competent and experienced persons shall provide effective management of current activity of the Company. Each member of Management Board including Chairman of Management Board shall have experience, knowledge and qualification necessary for proper execution of entrusted obligations.

#### **4.2.5. Work Procedure of Management Board**

Management Board shall hold scheduled meetings, members of Management Board shall receive information on agenda items in advance. Work Procedure of Management Board shall be regulated by Regulations on Management Board of the Company.

#### **4.2.6. Remuneration of members of Management Board and Director General**

System of remuneration and compensation to members of the Management Board is determined by the Board of Directors of the Company. The employment contract with the CEO is signed on behalf of the Company by the Chairman of the Board of Directors or by a person authorized by the Board of Directors of the Company.

The incentive system is determined by the Director-General of the Board of Directors or by a person authorized by the Board of Directors. Remuneration consists of fixed and variable parts, the latter depends on the performance of a certain indicators (hereinafter - the indicators) of the Company and shall be connected with his personal contribution to the long-term development of the Company for the benefit of its shareholders.

The indicators are understood as a system of financial and non-financial indicators that affect the quantitative and qualitative changes in performance in relation to the strategic objectives of the Company.

#### **4.2.7. Obligations of Executive Bodies**

General Director and members of Management Board shall act in good faith and with proper thoroughness for the benefit of the Company and all of its shareholders.

General Director and members of Management Board shall refrain from any actions which may lead to outbreak of conflict between their interests and the interests of the Company. Shall such a conflict outbreak, General Director and members of Management Board shall be obliged to inform Board of Directors on it and to refrain from deliberating and voting on the corresponding issues.

The Company realizes that experience, social ties, knowledge and qualification of the Management Board members including those that have been acquired by them in course of work in the Company, enable them to perform commercial activity (both private and collective – holding share fractions, shares) that is not connected with interests of the Company.

At the same time members of Management Board shall guarantee that performance of such activity:

- does not impede somehow execution of functions of member of Management Board of the Company;
- is not connected with use of material and intellectual resources of the Company;
- will not inflict material damage to the Company;
- will not inflict damage to the Company's professional reputation;
- does not provoke competition for the Company.

Shall at least one of the aforementioned conditions not be satisfied or precondition for default on fulfillment have been created, a member of Management Board shall terminate performance of any activity connected with such non-execution.

In order to prevent possible negative consequences for the Company, members of Management

Board shall disclose to the Company information on performance of commercial activity that is not connected with the Company's interests according to the procedure established by local regulatory documents of the Company.

#### **4.3. Interaction between Board of Directors and Executive Bodies**

Effective Corporate Management requires open dialogue between Board of Directors and executive bodies of the Company. For this purpose General Director of the Company shall submit to Board of Directors quarterly reports on his activity.

#### **4.4. Settlement of Conflicts of Interests**

The Company strives to prevent and the most effectively solve potential conflicts of interest. Conflict of interests - a situation in which the personal, professional, financial or other interests of the employees of the Company, members of management and control of the Company including management organization and members of its management bodies, conflict or may potentially contradict with the interests of the Company. Conflict of interest can also occur with the property, information or opportunity, regardless of whether a company could actually use them.

To determine whether a conflict of interest exists, the Company should be guided by the Code of Conduct of the Company.

In order to prevent the occurrence of conflicts of interest and to resolve conflicts in the implementation of financial and economic activities, as well as for the effective implementation of the provisions of the Code of Conduct, the Company established the Commission to comply with the rules of conduct and settlement of conflicts of interest. The competence and functioning of the Commission to comply with the rules of conduct and settlement of conflicts of interest by the Regulation on the Commission to comply with the rules of conduct and settlement of conflicts of interest.

Specific issues related to conflict of interest are considered by the Audit Committee in accordance with the competence provided by regulations on the Audit Committee.

### **5. Shareholders of the Company**

#### **5.1. Rights of Shareholders and Protection of Rights of Shareholders**

Shareholders of the Company shall possess a set of rights in relation to the Company, the observance and protection of which shall be ensured by Board of Directors and Management Board.

Shareholders Register of the Company shall be kept by an independent registrar. Election and appointment of an independent registrar having all necessary technical facilities and impeccable reputation allow the Company to ensure reliable and effective registration of ownership rights to shares and other securities of the Company.

Shareholders shall have the right to regular and timely receiving of information on the Company's activity in the volume and according to the procedure in line with legislation of the Russian Federation.

The Company shall guarantee observance of requirements for the information disclosure stipulated by the legislation in order to observe and protect the aforementioned right properly.

The Company shall disclose financial statements every quarter, according to the requirements of legislation of the Russian Federation and International Financial Reporting Standards (IFRS).

All information disclosed in various ways shall be without fail placed on the Company's website on the Internet.

Shareholders holding the voting shares shall be entitled to participate in General meeting of shareholders having the right to vote on all the issues within its competence.

In order to observe and protect the aforementioned right properly the Company shall arrange holding of General meeting of shareholders in a way which allows shareholders to participate without great material expenses and time expenditures, ensuring equal treatment for all shareholders.

The Company shall provide shareholders with information on agenda items of General meeting of shareholders in the volume and within the period allowing shareholders to take reasoned

decisions.

In the cases stipulated by the legislation and Charter of the Company Board of Directors shall prepare for shareholders objective and reasoned recommendations.

All information concerning General meeting of shareholders shall be disclosed without fail on the Company's website on the Internet.

Shareholders shall have a right to get a share of net profit of the Company in the form of dividends.

In order to observe and protect the aforementioned right properly the Company shall pay the announced dividends within the period stipulated by General meeting of shareholders.

Rights of shareholders shall be regulated by the provisions of Charter and internal documents of the Company.

### **5.1.2. Settlement of Corporate Conflicts**

The Company attaches great importance to the timely prevention and fair settlement of corporate conflicts.

The corporate conflict refers to disputes or disagreements on matters of corporate governance arising between the shareholders, investors and other interested parties and the Company.

Prevention and resolution of conflicts between the management of the Company and its shareholders, and between the shareholders, if such a conflict affects the interests of the Company (corporate conflicts) allows ensuring the compliance and protection of shareholders' rights and protecting the property interests and reputation of the Company.

The Company is committed to the early detection of corporate conflicts and coordination of actions of all governments, officials and employees of the Company for the settlement of corporate conflicts.

When taking the measures to solve corporate conflicts the Company is guided by and observes the law, internal documents (including this Code).

With the approval of the shareholders that are parties to the corporate conflict management bodies of the Company (its members) can participate in the negotiations between the shareholders, provide shareholders with information in their possession relating to the conflict and the information and documents to clarify the applicable laws of the Russian Federation and the provisions of the Company by giving advice and recommendations to the shareholders, prepare draft documents on conflict resolution to be signed by the shareholders, on behalf of the Company within the limits of its powers, to take obligations to shareholders to the extent that it can contribute to the resolution of conflicts.

## **5.2. General Meeting of Shareholders**

Regulations on Procedure for Preparing and Holding of General Meeting of Shareholders in which a detailed account of the procedure for preparing, holding and decision-taking by General meeting of shareholders is given are adopted in the Company.

### **5.2.1. Preparation for a Meeting**

Each shareholder shall be entitled to participate in General meeting of shareholders, to vote on its agenda items, to get in advance a notice on such a meeting and its agenda, as well as reliable, objective and actual information sufficient for taking decisions on agenda items. Executive bodies of the Company shall be responsible for ensuring this process.

The Company shall provide just and efficient procedure for putting proposals on agenda of General meeting, including proposals on nominating candidates to members of Board of Directors. Agenda of the General meeting shall not be altered after being approved by Board of Directors.

### **5.2.2. Holding of a Meeting**

The Company shall take all the necessary measures to ensure participation of shareholders in the General meeting and voting on agenda items.

All the shareholders shall have access to the place of holding of the General meeting. Procedure for registration shall be convenient for all the participants and shall provide for prompt and free access to the place, a meeting is to be held.

The Company shall as far as possible ensure attendance of members of Board of Directors, executive bodies, Auditing Committee and Auditor of the Company at the General meeting and authorize them to answer questions of shareholders. Shareholders shall be entitled to speak on agenda items, to put forward proposals and to ask questions. Chairman of the General meeting shall ensure its efficient work.

Voting shall be carried out by means of voting ballots.

Procedure for counting of votes at the General meeting shall rule out the possibility of manipulation of voting results. Independent registrar of the Company shall perform the functions of Counting Board.

### **5.2.3. Results of a Meeting**

Results of a meeting as well as other necessary materials shall be submitted to shareholders on the day of holding of the General meeting or following it. They shall also be published on the website of the Company and in mass media.

### **5.3. Dividend Policy**

Currently, the Company has developed and approved by an internal document of the Company (the Dividend Policy of the Company), providing a transparent and understandable to shareholders mechanism of setting the volume of dividend and its payout.

The Company's dividend policy is based on the balance of the interests of the Company and its shareholders, when determining dividend payments, on the increase of the investment attractiveness and capitalization, respect and strict observance of the rights of shareholders.

The procedure for determining the amount of dividends on preferred shares does not prejudice the rights of holders of common shares.

Dividend policy of the Company shall provide for:

- creating transparent and comprehensive mechanism of determination of dividend volume;
- ensuring the most convenient for shareholders procedure of dividend payment;
- measures excluding incomplete or untimely payment of the announced dividends.

## **6. Information Disclosure and Transparency**

### **6.1. Policy and Practice of Information Disclosure**

The main objective of policy of disclosure of information on the Company implemented in the Company shall be providing maximally high level of confidence of shareholders, potential investors, contractors and other interested persons for the Company by means of presenting to the specified persons information on itself, its activity and securities in the volume sufficient for taking grounded and reasoned decisions in relation to the Company and its securities by the specified persons.

When disclosing information on itself the Company shall not confine itself to information the disclosure of which is stipulated by regulatory legal acts of the Russian Federation, but shall disclose additional information which ensures high level of transparency of the Company and contribute to achievement of goals of information disclosure policy implemented by the Company.

List of data disclosed by the Company, procedure and terms of information disclosure shall be stipulated by Regulations on Information Policy of "Kubanenergo", JSC approved by Board of Directors of the Company.

In the course of information disclosure the Company shall be guided by the following principles:

- **principle of completeness and reliability of disclosed information**, according to which the Company shall provide all the interested persons with trustworthy information, shall not evade disclosing negative information in relation to itself in the volume that makes it possible to give the fullest idea of the Company, results of the Company's activity;
- **principle of availability of information**, according to which when disclosing the information the Company shall use channels of distribution of information on its activity, providing free and easy access for shareholders, creditors, potential investors and other interested persons to information to be disclosed;
- **principle of information balance** which means that the Company's informational policy is based on reasonable balance of transparency of the Company for all interested persons, on the one part, and confidentiality, on the other, for the purpose of exercise to the extent possible of shareholders' rights to receive information about the Company's activity on condition that the information related to confidential or inside one is protected;
- **principle of regularity and timeliness of information disclosure** which stipulates that the Company shall provide shareholders, creditors, potential investors and other interested persons with information on its activity within the terms stipulated by regulatory legal acts of the Russian Federation and internal documents of the Company.

Information disclosed by the Company shall be published on the Company's website.

The website of the Company has an English version available.

Executive bodies of the Company shall bear responsibility for information disclosure. Members of Board of Directors shall disclose to the Company information on themselves necessary for information disclosure by the Company according to regulatory legal acts of the Russian Federation and Regulations in Information Policy of the Company.

## **6.2. Financial Statements**

The Company keeps records and prepares its financial statements in accordance with Russian accounting standards and financial reporting (RAS), and (consolidated) statements under International Financial Reporting Standards (IFRS) and publishes such reports on the Company's website.

Financial statements shall be provided with detailed comments that make it possible for a recipient of such accounting statements to interpret the data on financial results of the Company's activity correctly. Financial information shall be supplemented with commentaries and analytical assessment of the Company's management as well as with the report of the Company's Auditor and Auditing Committee.

## **6.3. Control over Financial and Economic Activity of the Company**

The Company shall establish a system of control over financial and economic activity, as it realizes the necessity to decrease possibility of events that exercise negative influence on achievement of the Company's goals and entail losses due to decisions that have been taken on the basis of errors of judgment, human failures, willful evasion of control, and as it admits high necessity of protection of the shareholders' investments and safety of the Company's assets.

The system of internal control is designed to monitor and timely prevent the internal and external risks affecting the achievement of the strategic and operational objectives of the Company.

The main objectives of the system of internal control are:

1. Improvement of the corporate governance of the Company in order to provide reasonable assurance of compliance with the rights and interests of shareholders and investors, in part of:

- the effective and efficient use of resources of the Company
- the soundness of assets;
- compliance with the laws of the Russian Federation, the internal regulations of the Company (the compliance monitoring);
- accuracy, objectivity and managerial and accounting (financial) statements and the reliability of their training.

2. Improving the efficiency and effectiveness of the Company's development strategy of the Company at the expense of the system of risk management and the implementation of effective control procedures.

3. Facilitating timely adaptation to changes in the Company's internal and external environment. The internal control system includes a whole range of procedures, methods and controls that are created by the executive authorities and the Board of Directors of the Company to ensure the effective implementation of the internal control over financial and economic activity.

Participants of the internal control system are the Board of Directors, the Auditing Commission, the Audit Committee of the Board of Directors, Chief Executive Officer, the Management Board of the Company, division of the Company responsible for internal control, as well as officers and employees of the Company, responsible for the implementation of control procedures for their assigned internal documents Company.

Functions, rights and obligations, responsibility of the Company's subdivisions shall be stipulated by organizational and administrative documents of the Company.

For the purpose of providing system character of control over financial and economic activity of the Company, procedures for internal check shall be carried out by an authorized department of the Company responsible for internal check in interaction with other bodies and departments of the Company.

Particular procedures as well as bodies and persons responsible for carrying out procedures for internal check can be stipulated by Regulations on Procedures for Internal Check of the Company approved by Board of Directors of the Company.

#### **6.4. Ownership Structure**

The Company aims at disclosure of information on beneficial owners of five or more percent of the Company's voting shares. Corporate relations in a group of companies shall also be specified as a part of information disclosed by the Company. The Company aspires to provide transparency of structure of share capital of the Company.

### **7. Relationship with Subsidiaries and Associates**

#### **7.1. Principles and Practice of Interaction with Subsidiaries and Associates**

The Company aims at balanced development based on effective mechanisms of Corporate Management.

The Company shall maintain mutual relations with subsidiaries and associates (SAC) according to the requirements of legislation of the Russian Federation, Charter, internal documents of the Company, and Charters of subsidiaries and associates.

The main goals of the Company's mutual relations with SAC shall be as follows:

- ensuring stable financial development, profitable functioning, increase of investment attractiveness of the Company and SAC;
- ensuring protection of rights and interests of shareholders of the Company and SAC protected by law;
- harmonizing relationship between shareholders, officials and employees of the Company and SAC, excluding possibility of conflict outbreaks between them and inside the aforementioned groups;
- development and implementation of coordinated and effective investment policy of the Company and SAC.

Procedure for Interaction between "Kubanenergo", JSC and Economic Entities in which "Kubanenergo", JSC Holds Shares (Share Fractions) (hereinafter referred to as the Procedure) shall be the document which stipulates the main principles and provisions of Corporate Management of SAC of the Company. According to the specified Procedure interaction between the Company and SAC shall be carried out when management and control bodies of SAC take

the corresponding decisions (decisions of General meetings of shareholders, Boards of Directors, Auditing Committees and sole executive bodies within the scope of their competence). Besides the specified Procedure the process of Corporate Management of SAC shall be regulated by the following documents:

- Charter of the Company;
- Code of Corporate Management of the Company;
- Charters of SAC of the Company;
- Standards and Regulations related to Corporate Management procedures.

As the practice of Corporate Management develops the Company shall aspire to improving the principles of Corporate Management in relation to its subsidiaries and associates.

#### **8. Final Provisions**

The present Code shall come into effect upon its approval by Board of Directors of the Company.

Issues that are not specified by this Code are governed by the laws of the Russian Federation, the Charter and internal documents.