

Approved by  
decision of Board of Directors of “Kubanenergo” JSC  
Minutes No. \_\_\_\_\_  
dated \_\_\_\_\_ 2012

**Regulations**  
**on Audit Committee attached to Board of Directors of Open Joint Stock**  
**Company of Power Industry and Electrification of Kuban**  
(restated)

Krasnodar  
2012

## Main terms and abbreviations

Kubanenergo JSC	The Company
Affiliated and depended companies of Kubanenergo JSC that render services on transmission of electric energy and technological connection, carrying out energy selling, repairing and maintenance activity	affiliated and depended companies
Regulations on Audit Committee attached to Board of Directors of Kubanenergo JSC	the Regulations
Audit Committee attached to Board of Directors of Kubanenergo JSC	the Committee
Chairperson of Audit Committee attached to Board of Directors of Kubanenergo JSC	Chairperson of the Committee
Deputy Chairperson of Audit Committee attached to Board of Directors of Kubanenergo JSC	Deputy Chairperson of the Committee
Secretary of Audit Committee attached to Board of Directors of Kubanenergo JSC	Secretary of the Committee
Member of Audit Committee attached to Board of Directors of Kubanenergo JSC	Member of the Committee
Expert of Audit Committee attached to Board of Directors of Kubanenergo JSC	Expert of the Committee

### 1. General provisions

1.1. The Regulations “On Audit Committee attached to Board of Directors of Open Joint Stock Company of Power Industry and Electrification of Kuban” (hereinafter referred to as the Regulations) are worked out in accordance with the Russian Federation legislation, the Charter of "Kubanenergo" JSC, the Regulations on the procedure for convening and holding the meetings of Board of Directors of "Kubanenergo", JSC.

1.2. The Audit Committee of is set up by decision of Board of Directors of Company (hereinafter referred to as the Company) and is regarded as the advisory body

Decisions of the Committee should be advisory for the Company’s Board of Directors.

1.3. The Committee should operate in accordance with the present Regulations specifying the legal status, goal and objectives, rights, obligations, structure and composition of the Committee. In its activity the Committee should be guided by Federal Laws, other regulatory legal acts of the Russian Federation, the Company’s Charter, the Regulations on the procedure for convening and holding the meetings of Board of Directors of the Company, decisions of the Company’s Board of Directors.

1.4. The Regulation is to be followed by all members of the Committee as well as

by members of Company BoD and employees of the Company while dealing with the Committee.

## **2. Goals and Objectives of the Committee**

2.1. The main purpose of the Committee is the ensuring of efficient participation of the Board of Directors in control of Company's business activity.

2.2. The objective of the Committee should be the drawing up and submission of recommendations to the Company's Board of Directors in the field of control of:

- process and procedures of preparation of financial (accounting) report, including discussion of financial (accounting) report
- efficiency of internal control systems and risk management
- choice of independent external auditor and assessment of its activity
- activity of the department performing functions of internal control/audit of the Company
- Company observing the requirements of legislation of Russian Federation, industry standards, internal documents

2.3 The Committee may also perform other tasks that do not contradict with Company's Charter and legislation of Russian Federation.

## **3. Committee's Competence**

3.1 In order to independently inform the members of the Board Committee, in accordance with its tasks, is given the following functions:

3.1.1 Consideration of the financial (accounting) reports:

- 1) discussion of validity and acceptability of the methods used for accounting and financial (accounting) statements of the Company;
- 2) preliminary review and analysis of the annual financial statements by Russian Accounting Standards (RAS) and International Financial Reporting Standards (IFRS) prior to its submission to the Board of Directors and interim accounting standards and IFRS before their disclosure, in order to determine their objectivity, reliability and performance of the Company's assessment on the completeness of information provided on the Company's activity;
- 3) assessment of information systems used for accounting and financial (accounting);
- 4) consideration together with the executive bodies of the Company and the external auditors the results of the audit, including the outcome of the audit procedures, the validity of significant adjustments made on the basis of the results of the external audit, the comments contained in the conclusion of the Company's auditor, as well as the measures taken by the Company on the audit and / or on implementation of the recommendations of the Company's auditor;
- 5) evaluation of the auditor of the Company, confirming the reliability of the annual financial (accounting) statements of the Company prepared in accordance with RAS and IFRS. The Committee's evaluation of the audit report on the annual

financial (accounting) statements of the Company prepared in accordance with RAS, is an integral part of the information (materials) to the Annual General Meeting of Shareholders;

6) review with the external auditor and department engaged in internal control / audit of the Company of any known cases of fraud, drawbacks in internal control, and assessment of their impact on the financial (accounting) statements.

3.1.2 Monitoring the operation and improvement of the systems of internal control and risk management in the Company:

1) preliminary review of regulatory documents governing the internal control procedures, organization and development of the systems of internal control and risk management of the Company, prior to their approval by the Board of Directors and executive bodies of the Company;

2) evaluation the effectiveness of internal control and risk management;

3) review and analysis of the report of the external auditor on the state of internal controls;

4) review of strategic and key risks of the Company and activities on their management;

5) review of the results and quality of implementing the measures developed executive body aimed to improve control procedures;

6) Preparation of proposals and recommendations for the development of the system of internal control and risk management and sophistication control procedures.

3.1.3 control of the selection of the independent external auditors (s), evaluation of his (their) work, including:

1) evaluation of candidates for the external auditors of the Company and subsidiaries, participating in the development of the conditions of competition among audit firms to perform the functions of the auditors ();

2) make recommendations to the Board on the candidate auditors (s) of the Company and the project concluded with the auditor of the contract, including on remuneration paid by the Company;

3) preliminary approval of the list, the amount payable for audit and audit-related services;

4) evaluation of the audit procedures and the methods of testing proposed by the external auditor (s);

5) analysis of the external auditors (s), providing recommendations to the Board on the selection, re-appointment of the external auditors (s) or service cancellation;

6) supervision of compliance of procedures on selecting auditors (s) of the Company and its operations control to the legislation of the Russian Federation.

3.1.4 Supervision of the compliance of the Company to Russian legislation, industry standards, internal regulations, including requirements to take measures in case of illegal use of insider information and market manipulation, as well as the requirements for the control of insider information, as enshrined in the EU Directive 2003/6 / EU "On transactions of insiders and market manipulation (market abuse) (hereinafter - EC), "as it is implemented in UK law:

1) review of the system of organization of Company's compliance to requirements and standards of Russian legislation and internal regulations of the Company in terms of business activity;

2) consideration of issues related to the compliance by the Company to the law on reaction to illegal use of insider information and market manipulation, as well as the efficiency of control procedures for monitoring the use of insider information;

3) review of the results of investigations undertaken by the Company and measures taken to prevent the facts of corporate fraud and anti-corruption.

3.1.5 Prior to the date of the Board of Directors consideration of reports represented by independent appraisers on the evaluation of assets and liabilities of the Company at the Company's concluding major transactions and other transactions decision on which is taken by the Board of Directors, the transfer of property rights of the Company otherwise.

3.2 As part of the assigned tasks, the Committee has the following authorities:

3.2.1 Interaction with the department that performs functions of internal control / audit of the Company:

1) approval of the Regulations on subdivision implementing internal control / audit of the Company;

2) prior approval of appointment and dismiss of the head of the department, that implements internal control / audit of the Company;

3) annual review and approval of the organizational structure and budget division, implementing internal control / audit of the Company;

4) approval of the plan of subdivision implementing internal control / audit of the Company, review of results and analysis provided by that business reporting;

5) elimination of the unnecessary restrictions that prevent the subdivision to perform internal control / audit of the Company, effectively carry out the task;

6) ensuring that the head of department, implementing internal control / audit of the Company, participated in-person in the meetings of the Committee;

7) interaction and discussion with the head of department, that performs internal control / audit of the Company, of issues related to the activities of the internal control / audit of the Company, including with regard to monitoring compliance by the Company with legal requirements and regulations of legal documents of the Russian Federation in the field of and the treatment of insider information, countering misuse of insider information and market manipulation, as well as for monitoring insider information set forth in the EU Directive.

3.2.2 Interaction with the Audit Committee of the Company:

1) taking into consideration of report presented by the Audit Commission on the results of the Company's business activity for the year;

2) taking into consideration the information provided by the Audit Commission on specific issues of financial and economic activities;

3) evaluation of the executive bodies of the Company on meeting the requirements of the Audit Committee;

4) discussion with the members of the Auditing Committee of effectiveness of the control system over the financial and business operations;

5) consideration of the requirements of the Audit Commission on convening Extraordinary General Meeting and presentation of recommendations to the Board on the possibility of meeting the requirement.

#### 3.2.3 Interaction with the auditor of the Company:

- 1) discussion with the auditor of the Company the volume and date of performing the audit of the Company;
- 2) prior review and approval of the type and volume of permissible non-audit services provided by the auditor of the Company and the amount of remuneration paid by the Company for such services;
- 3) presenting opinion on the independence of the auditor of the Company, making recommendations to the Board on the adoption of measures to ensure the independence of the auditor of the Company;
- 4) receiving from the Company's auditor and taking into consideration annual formal review of the written report (written information) made by the Company's auditor;
- 5) consideration of the auditor's report that confirms the accuracy of the annual financial (accounting) statements of the Company prepared in accordance with RAS and IFRS.

#### 3.2.4 Interaction with Director General and officers of the Company:

- 1) with Director General and officers of the Company on activities in the part of provision of information and materials to the Committee members to make decisions on matters within the competence of the Committee;
- 2) with the working groups formed from the Company's employees and outside experts (specialists) in the part of approval by Director General of issues of Committee's competence;
- 3) employees of sectors that provide legal support for the Company, in terms of the due diligence process on the issues arising in the course of the Committee's responsibilities.

#### 3.2.5 Interaction with the executive bodies and structural subdivisions of affiliated and dependent companies:

- 1) observation of the organization of internal control and risk management at affiliated and dependent companies;
- 2) development of guidelines and proposals aimed at improving the efficiency of business processes, improvement of the internal control and risk management at affiliated and dependent companies;
- 3) analysis and evaluation of the effectiveness of the activity of sectors/departments engaged in internal control / audit of affiliated and dependent companies;
- 4) ensuring compliance of the subsidiary companies to requirements of the Russian legislation and internal regulations (including those of the anti-illegal use of insider information and market manipulation), and control requirements for insider information, specified in the EU directive.

In order to fulfill the above-mentioned tasks the Committee in view of the adopted corporate procedures has the right to:

- ask for and discuss the results of activity of the departments at affiliated and dependent companies, implementing internal control/audit;
  - organize and conduct workshops, meetings and interviews with officers and employees of the affiliated and dependent companies on issues within the competence of the Committee;
  - initiate activities on ensuring the proper control over the functioning of internal control and audit of subsidiaries
- 3.2.6 Interaction with the Audit Committee of the Company's main shareholder.
- 3.3 By decision of the Board of Directors the Committee may receive other matters issues for consideration falling within its competence.

#### **4. Rights and Obligations of the Committee**

4.1 The Committee has right to:

- 1) by order of the Board of Directors to control the implementation of decisions adopted by the Company's Board of Directors;
- 2) make recommendations to the Director General and officers of the Company as part of its competence;
- 3) request and receive from the Director General, officers of the Company documents, reports, explanations and other information, including confidential information necessary to carry out its responsibilities under the competence. Such information and materials should be submitted no later than five (5) working days after the receipt of the request if the request does not set a longer period;
- 4) form after the approval by the Director General of the working group with the participation of the Company's employees and outside experts (specialists) for the analysis of issues of Committee's concern. Officials in charge of these groups, should organize the work and provide analysis of issues set by the Committee in due time;
- 5) invite to its meetings officers and employees of the Company and subsidiaries;
- 6) meet with the external auditor and head of department that implements internal control/audit of the Company without the Company's executive body;
- 7) as necessary initiate and conduct within the competence special checks, including independent experts and consultants;
- 8) request and receive necessary for its activities information and documents from the department implementing internal control/audit of the Company, and/or officers of the Company;
- 9) receive from third parties the consulting services, attract outsiders as experts (consultants) on issues related to the competence of the Committee,

including those for value in the budget of the Committee. The experts (consultants) can also be contracted by the Committee and the Company's employees;

10) invite members of other Committees of the Board of Directors of the Company and other parties to discuss issues of concern to the Committee, attend meetings of the Board (non-voting);

11) within its competence and in the present Regulations, to pursue other duties determined by the Board of Directors.

4.2 The Committee is obliged to:

1) provide sound recommendations (conclusions) to the Board of Directors within the competence of the Committee;

2) promptly inform the Board of Directors and executive bodies on the risks associated with the Company within the competence of the Committee;

3) comply with the requirements of confidentiality not to disclose commercial secrets and (or) is included in the list of insider information of the Company.

4.3 Members of the Committee have right to:

1) get the necessary information on the activities of the Company, study the constituent, accounting, reporting, organizational, administrative and other documents of the Company, including those of a confidential nature, on matters within the competence of the Committee;

2) make request in writing from to convene a meeting of the Committee;

3) propose, debate and vote on the agenda of the meeting of the Committee;

4) express in writing form the views, including opposition to the decisions of the Committee and bring to the attention of the Chairperson of the Committee;

5) within its competence and the Regulations to pursue other duties determined by the Board of Directors.

4.4 Members of the Committee are obliged:

1) while performing their duties to act in the interests of the Company, exercise their rights and fulfill their duties in good faith and reasonably;

2) take an active part in the meetings of the Committee;

3) in case of the conflict of interest on item agenda to inform the other members of the Committee;

4) not to use or transfer the information to other persons, including the confidential, became known to them on the activities of the Company, which in contact with third parties could have a material impact on the Company and its business reputation;



5) in the implementation of their obligations to comply with the requirements stipulated by the current legislation of the Russian Federation, the Charter, the Regulations on the procedure for calling and holding of meetings of the Board of Directors of the Company, the Regulations and other internal documents of the Company;

6) refrain from any action that might lead to a conflict between the interests of members of the Committee and the Company's interests.

## **5. Formation of the Committee**

5.1 Amount of members should be at least three (3) persons. Members of the Committee are approved by the Board of Directors from the candidates proposed by members of the Board of Directors. Each member of the Board of Directors has the right to propose for election to the Committee not more than one (1) candidate. Committee members can be elected to the Committee unlimited times.

5.2 Natural persons can be members of the Committee.

5.3 Proposals of the Board members on the candidature for election to the Committee should be submitted to the Corporate Secretary (Secretary) of the Board of Directors in written form.

Nomination of candidates for membership of the Committee should include the following information about the candidate:

- surname, name and patronymic of the candidate;
- place of work and position of the candidate at the time of the invitation

Nomination of candidates for membership of the Committee should be signed by a member of the Board of Directors of the Company, which submitted the proposal.

5.4 For the purpose of listing and maintaining the Company's shares in the quotation list "A" Russian stock exchanges of the Committee is formed only of members of the Board of Directors, that are not sole executive body and (or) the members of the collegial executive body, and meet the following requirements:

- one (1) year prior to the election and while election not to be officers or employees of the Company (manager);
- not be an officer of any other business entity in which any of the officers of this company is a member of the Board Personnel and Remuneration Committee;
- not be spouses, parents, children, brothers and sisters of the person (manager) of the Company (the official management company of the Company);

- not be affiliates of the Company, except for members of the Board of Directors;
- not to be a party to the obligations of the Company, under the terms of which they can acquire property (or money), the value of 10 (ten) percent of the total annual income, other than compensation for participation in the Board of Directors;
- not to be representatives of the state, that is, persons that are members of representatives of Russian Federation, federal and municipal governments in the Board of Directors in respect of which the decision to use a special right ("golden share"), and the persons elected to the Board Directors from among the candidates nominated by the Russian Federation, subject of the Russian Federation or the municipality, if the Board of Directors must vote on the basis of written directives (instructions, etc.), respectively, of the Russian Federation, the Russian Federation or the municipality.

5.5 When deciding on and maintaining the Company's shares in the quotation list "B" and "C" of the Russian stock exchanges Committee should consist of members of the Board of Directors of the Company that are not sole executive body and (or) the members of the collegial executive body.

5.6 The Committee is headed by a member of the Board of Directors, which meets the requirements specified in paragraph 5.4.

5.7 While election of the Chairperson of the Committee the education, training, experience in the field of activity of the Committee and other special knowledge needed to carry out its mandate the Committee Chairperson should be taken into account.

5.8 The Chairperson of the Committee, elected by a majority vote of all members of the Board of Directors, organizes the work of the Committee, convenes meetings, arranges keeping of minutes of meetings, reports to the Board of Directors on the activities of the Committee to the Board in relation to officers of the Company, the Audit Committee of the Company, auditor of the Company, other individuals and organizations, drawn by the Committee or by the Company on matters within the competence of the Committee.

5.9 In case of absence of the Chairperson of the Committee's at meetings and in between meetings or when unable to perform his/her functions, duties are performed by the Deputy Chairperson. Deputy Chairperson of the Committee should be elected by the Committee's decision by a majority of the membership of the Committee.

10.5 Members should be elected for a term until the election of the following composition of the Committee. The Board of Directors can early terminate the authority of all or part of the members of the Committee.

11.5 The Chairperson of the Committee, Deputy Chairperson and the members may resign from its powers under the direction of the application to the Chairperson of the Board of Directors no later than thirty (30) working days prior to the termination of the Committee.

## **6. Operation procedure of the Committee**

6.1 Meetings of the Committee should be convened by the Committee Chairperson.

6.2 The Committee should arrange meeting as necessary, but not less than once per quarter. The Committee's decision is valid (quorum), if the meeting is attended by at least half of the members of the Committee.

6.3 Meetings of the Committee should be conducted either in person (full session), or by a written questionnaires filled in by members of the Committee (absentee ballot). Persons invited to attend the meeting, including members of the Committee may submit their views on the agenda of the meeting in written form. The Chairperson of the Audit Committee has right to decide to hold a meeting of the Audit Committee in the form of presence (full session) through videoconferencing.

6.4 The decision at the meeting of the Committee should be adopted by a majority vote of the members present at the meeting. For each item of the agenda of the meeting one member has one vote. In the case of equality of votes the vote of Chairperson should be final. The transfer of the vote of the members to another person, including another member of the Committee is not allowed.

6.5 When determining a quorum and the vote on the agenda item at in-presentia meeting of the Committee, the written opinions of absent at the meeting of the Committee, received before the results of voting on the agenda of the meeting, should be counted.

6.6 The Committee sets the plan of work for six (6) months or a year, which is based on the approved work plan of the Board of Directors, the decision of the Board of Directors, the proposals of the Committee and head of the department that performs internal control/audit of the Company. In addition to meetings, specified in the plan of work of the Committee, the Chairperson of the Committee has the right to convene an extraordinary meeting on its own initiative, by decision of the Board of Directors, at the request of the auditor of the Company, a department performing internal control/audit, the Audit Committee of the Company, at the initiative of the Committee, at written request of General Director.

6.7 For organizational, informational and documentary support of the Committee both for preparation and conduct of meetings and in period between meetings of the Committee a Secretary of the Committee should be

appointed.

6.8 The Secretary of the Committee is an employee of the Company and should be elected by a majority vote of the members of the elected members. The Secretary of the Committee should ensure the preparation and conduct of meetings of the Committee should collect and organize materials for meetings, taking minutes of meetings where the archive of the Committee, carries out other duties in accordance with these Regulations. Secretary of the Committee is not a member of the Committee and should carry out its activities in accordance with this Regulation.

6.9 The Secretary should inform the members of the meeting by giving notice and materials for the meeting with the date, time, place, form and agenda of the meeting no later than three (3) working days before the meeting.

6.10 Meeting of the Committee should be recorded and then signed by the Chairperson of the Committee. Any member has the right to write a special opinion on the agenda.

## **7. Support for the operation of the Committee**

7.1 In order to ensure the work of the Committee a separate article of funding (budget of the Committee) is provided. Budget of the Committee being a part of the Company's budget, should ensure full funding for the Committee.

7.2 The Chairperson of the Committee together with the secretary of the Committee prepares proposals on the volume of the budget (with item-by-item disclosure) for discussion by the Committee at the first meeting after the election of the Committee. The Committee's proposals (adjustments) on the amount of the budget should be sent to Board of Directors for approval.

7.3 The results of the implementation of annual budget of the Committee should be discussed by the Committee and presented to the Board of Directors in the annual report on the activities of the Committee.

7.4 Members of the Committee, the Chairperson and deputy Chairperson receive the remuneration and compensation for participation in the Committee in accordance with the Regulations on payment of remunerations and compensations to the members of the Audit Committee of the Board of Directors of "Kubanenergo", approved by the Board of Directors.

7.5 The Secretary of the Committee should be paid in accordance with the Regulations on remuneration and compensation to members of the Audit Committee of the Board of Directors. Committee Secretary reimbursed for expenses related to participation in the meeting of the committee, effective at the time of the meeting.

7.6 The purpose of holding the meetings and workshops of the Committee, the Company provides room and easy access to it for members and invitees,

as well as take other measures for the meeting to be held.

## **8. Confidentiality**

8.1 In the period of performance of their duties, and within three years after the end of the term of office of the Committee, members of the Committee, the Secretary of the Committee and the third parties involved in the work of the Committee are obliged to respect the protection of information that constitutes a trade secret of the company, and privacy mode of insider information of the Company in respect of the information they receive in connection with their work on the Committee.

8.2 The members of the Committee, the Secretary of the Committee and the third parties involved in the work of the Committee should be entitled to receive insider information (non-public) information provided that they signed an agreement on privacy policy.

8.3 In cases not stipulated by the Regulations, the access to information on the issues discussed by the Committee may be provided only with permission of the Chairperson of the Committee or the deputy.

8.4 All documents related to the activities of the Committee should be kept at the Company. The Secretary of the Committee is responsible for the storage of the documents.

## **9. Reports of the Committee**

9.1 Each year the Chairperson of the Committee provides report on the results of work to the Board of Directors.

9.2 The Chairperson of the Committee may submit to the Board of Directors particular reports on the results of research on issues within the competence of the Committee.

9.3 The Board of Directors may at any time request a report from the Committee on the current activities of the Committee. Terms of preparation and the submission of such report should be determined by the Board of Directors.

## **10. Final provisions**

10.1 Regulations and all amendments to it should be approved by the Board of Directors.

10.2 Issues that are not regulated by the provisions should be settled by the Company's Charter, the Regulations on the procedure for calling and holding the meetings of the Board of Directors and other internal documents of the Company, the current legislation of the Russian Federation and decisions of the Board of Directors.

10.3 If in the result of changes in laws or regulations of the Russian

Federation some articles of the Regulations come into conflict with them, the articles will be considered as invalid and until the amendments to the Regulations Committee members should follow the laws and regulations in the legal documents of the Russian Federation.

10.4 The Regulation of the Committee, information about the particular decisions of the Committee is published on the corporate website in the Internet. Secretary of the Committee is responsible for organizing publication of specified in this paragraph information.