

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE PRACTICES

The Corporate Governance Code, recommended by the Bank of Russia, interprets corporate governance as a notion embracing relationships between executive bodies of a joint-stock company, its Board of Directors, shareholders and other stakeholders. Corporate governance is a tool for identification of firm's goals and ways to achieve these goals as well as for fostering efficient oversight of firm's operations for shareholders and other stakeholders.

Core goals of corporate governance are: i) crafting of an effective system for protection and efficient disposal of shareholder's resources; ii) reduction of risks which investors are unable to evaluate and unwilling to accept and management of which by investors in the long run shall inevitably result in reduction of firm's investment prospects and share prices.

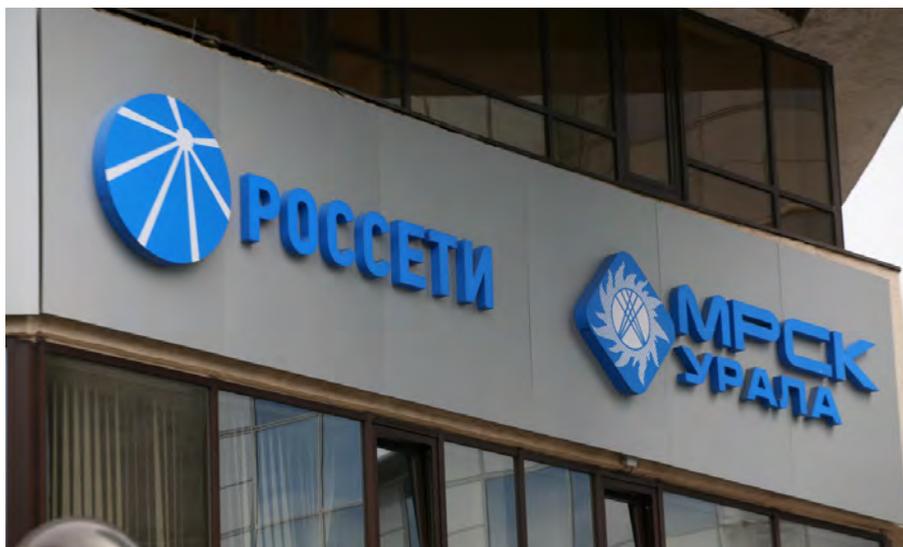
### **Our corporate governance is premised on the principles, described below:**

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

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

## What opportunities are provided by the digital control?

Digital control is creation of the unified digital information and corporate environment for processes of the Company. A unified digital environment of technological data allows conducting researches for making optimal managerial solutions as well as analyzing information on equipment status, forecasting the probability and consequences of equipment failures with a view to reduce breakdown risks through timely targeted repair or replacement.



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

- OOO Ernst & Young, a known leader in auditor and advisory services, elected on a competitive basis, was hired to audit the Company's RAS and IFRS financial statements (learn more at Section "Independent Auditor")
- Many years of positive dividend history (learn more at Section "Investor and Shareholder Relations")
- Information for the annual general meeting of stockholders is posted on the Company's web-site (learn more at Section "Investor and Shareholder Relations")
- The Company conducts a tender selection of its suppliers of goods and services in line with the Uniform Purchase Standards (learn more at Section "Supplier Relationship Management").

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

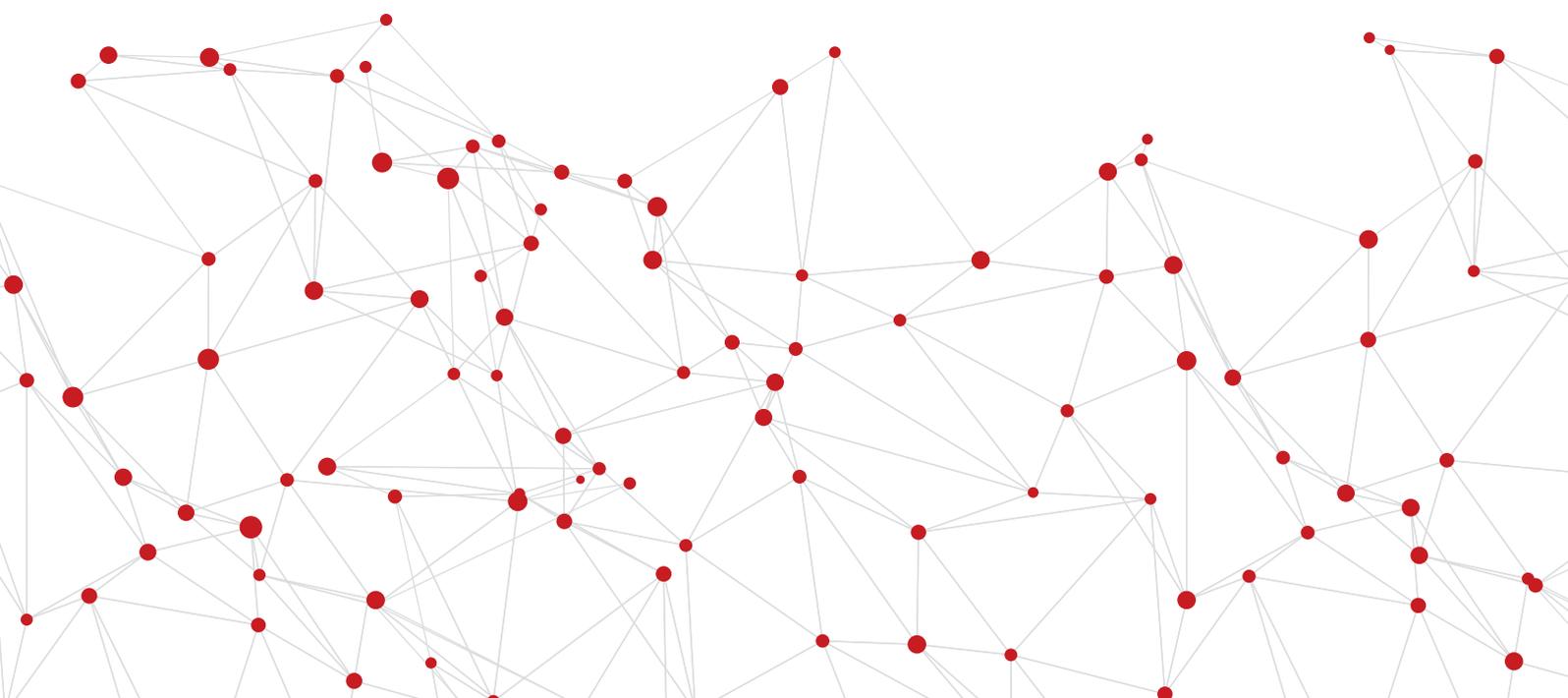
- Independent directors are elected to the Board of Directors (learn more at Section “Board of Directors”);
- Meetings of the Board of Directors are conducted regularly, attended by a sufficient number of participants and consistent with previously adopted action plan (learn more at Section “Board of Directors”);
- The Company has a formalized practice of inducting newly elected members of the Board of Directors (learn more at Section “Board of Directors”);
- The preparation procedure for meetings of the Board of Directors provides the Board of Directors members with the opportunity to properly prepare for a meeting (learn more at Section “Board of Directors”);
- We have set up 5 committees (Audit Committee, Personnel and Remunerations Committee, Strategy and Development Committee, Reliability Committee, Technological Connection Committee) to be governed by the relevant Regulations (learn more at Section “Board of Directors Committees”);
- The Company has adopted the self-evaluation of the efficiency of the Board of Directors and its Committees performance on a regular basis (learn more at Section “Board of Directors”);
- The composition of the Board of Directors is well balanced in terms of directors’ skills and operational expertise, required for its efficient performance (learn more at Section “Board of Directors”);
- The Company has D&O liability insurance (learn more at Section “Board of Directors”);
- The Company has set up a unit performing internal audit functions – Internal Audit Department – that is responsible to the Board of Directors (learn more at Section “Internal Control”);
- The Company has set up a unit, liable for key risk management functions (learn more at Section “Risk Management”).

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

- The Company’s web-site is regularly maintained and updated with large quantities of useful information on the Company and its performance (learn more at [www.mrsk-ural.ru](http://www.mrsk-ural.ru));
- The Company discloses detailed information on its shareholder capital (learn more at Section “Investor and Shareholder Relations”);
- The Company discloses detailed information on members of the Board of Directors and Executive Board of the Company (learn more at Section “Corporate Governance”);
- The Company discloses all mandatory forms of financial (accounting) statements prepared under International Financial Reporting Standards (IFRS) and Russian Accounting Standards (RAS) (learn more at [www.mrsk-ural.ru](http://www.mrsk-ural.ru)).

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

- The Company has adopted bylaws regulating corporate social responsibility matters (learn more at [www.mrsk-ural.ru](http://www.mrsk-ural.ru));
- OAO IDGC of Urals has adopted the Corporate Ethics Code that envisages mission, values, principles of intracorporate conduct, principles of relations with stakeholders, conservation of resources and assets of the Company (learn more at [www.mrsk-ural.ru](http://www.mrsk-ural.ru));
- The Company implements corporate social projects for OAO IDGC of Urals employees and their families, people residing in regions where the Company operates as well as charity and sponsorship programs (learn more at Section “Human Resources Management”);
- The Company’s operations are certified for compliance with ISO 9001, ISO 50001, ISO 14001, ISO 45001 (learn more at Section “Management Systems”).



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

Aspects	Principles, recommended by the Code	Principles complied with in full	Principles complied with in part	Principles that are not complied with by the Company
Rights of stockholders and equal treatment of stockholders in the exercising of their rights	13	12 (+1)	1 (-1)	0
Board of Directors	36	25 (+9)	8 (-3)	3 (-6)
Corporate Secretary	2	2	0	0
Remuneration system	10	8	2	0
Risk Management and Internal Control System	6	6	0	0
Information disclosure, information policy	7	5	2	0
Significant and important corporate actions and events	5	5	0	0
<b>TOTAL</b>	<b>79</b>	<b>63 (+10)</b>	<b>13 (-4)</b>	<b>3 (-6)</b>

\* The statistical data is an aggregate from the report regarding Company's compliance with principles and recommendations of the Corporate Governance Code, recommended by the Bank of Russia<sup>55</sup>; figures in brackets are YoY absolute changes.

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

### Striving for better corporate governance

The Company closely monitors the progress of corporate legislation and corporate governance practices in Russia. During 2018 the Company zeroed in on examining best-in-class corporate governance practices and procedures; and on analyzing whether the Company could apply them in its corporate governance processes as well as on implementing new practices.

### Our achievements in developing corporate governance practices in 2018 are:

- adoption of the Board of Directors and its Committees Performance Evaluation Methodology;
- (self)evaluation of the Board of Directors and its Committees performance;
- evaluation of the compliance of nominated directors with independence criteria;
- evaluation of corporate governance quality by Company's internal audit;
- revision of the Regulations on the Dividend Policy;
- revision of the Regulations on the Information Policy.

