

**Corporate Management National Rating  
“RID – Expert RA”**

**Corporate Management Practice Report for “IDGC of the South”, JSC  
23.03.2009**

Consortium of Russian Institute of Directors and “Expert RA” Rating Agency has  
awarded

**Corporate Management National Rating 5+  
“Normal Corporate Management Practice”**

to “IDGC of the South”, JSC

Company with 4 to 5+ CMNR has corporate management moderate risks. Company complies with Russian legislation requirements in the field of corporate management, but the initiatives on implementing basic recommendations of Russian Corporate Conduct Code are insignificant.

## General characteristics

Open Joint Stock Company "Interregional Distributive Grid Company of the South" (hereinafter referred to as Company) was registered on June 28, 2007. The Company was founded in the process of carrying out of another stage (the investment stage) of RAO "UES of Russia" restructuring, which resulted in subdivision of interregional distributive grid companies. JSC "IDGC of the South" is responsible for electric power transportation on the territory of six subjects of the Federation: Krasnodar region, Rostov, Astrakhan and Volgograd Areas, the republics of Kalmykiya and Adygea.

JSC "IDGC of the South" renders services on the territory with total area of 423 thousand square kilometers, with the population of around 14 million people. Length of overhead and cable power transmission lines operated by the Company amounts to a quarter of million kilometres.

On 31 March, 2008 JSC "IDGC of the South" started work as an operation company involved in production. JSC "Rostovenergo", JSC "Astrakhanenergo", JSC "Kalmenergo" became JSC "IDGC of the South" branches. The biggest principal shareholder of the Company is JSC "IDGC Holding" owning 51,65% of the authorized capital. The share capital structure also includes minority shareholders.

JSC "IDGC of the South" is a public company - the Company's shares are quoted on the stock exchanges "RTS" and "MICEX".

We estimated the Company's corporate management practice by four components:

- shareholders' rights;
- management and control authorities' activity;
- information disclosure;
- activity on behalf of other interested parties and corporate social responsibility.

JSC "IDGC of the South" observes certain recommendations of the Russian Corporate Conduct Code and some recommendations of corporate management international best practice, yet there is a number of deficiencies in the corporate management system key components pointed out by the experts of the Consortium of Russian Institute of Directors and "Expert RA" Rating Agency (hereinafter referred to as the Consortium experts), which prevents the rating from growth.

The Company's corporate management practice from the point of view of shareholders' rights protection is estimated as satisfactory. In general, the Company complies with the Russian legislation and some standards of the corporate management international best practice. Along with that, a number of deficiencies constrain the rating increase on the component, for instance, the ones connected with non-engaging independent appraiser in some cases (except for the cases stipulated by the legislation), the Company's outside auditor quality and providing non-audit services by the auditor.

The Company's corporate management practice from the point of view of the Company's management and control authorities activities is estimated as satisfactory. Among the shortcomings discovered are absence of the Audit Committee of Directors and Personnel and Remunerations Committee, absence of comprehensive conflict of

management authorities interest regulation, and some other shortcomings.

The Company manifests a satisfactory level of financial and non-financial information on its activity disclosure, with the information regularly made available at the website, in annual and quarterly reports. According to the Consortium experts, deficiencies of the practice include, among the rest, absence of the annual financial reporting made in conformance with International Financial Reporting Standards (IFRS), disclosure of management authorities' members remuneration information in the aggregate, not on the individual basis. Elimination of the deficiencies would be additional instrument for information transparency increase.

The Company's corporate social responsibility practice is estimated as satisfactory. The Company carries out diverse social projects for the employees and their family members, as well as the population of the service area. But the Company does not participate in charity and sponsorship activities, does not make corporate social responsibility report, and besides, the Company is not certified to conformance with the standard ISO 140001 in the sphere of environment protection.

## Shareholders' rights

Corporate management practice level from the point of view of shareholders' rights protection is estimated as satisfactory.

On analyzing the Company's corporate management practice by Consortium experts, the following **positive** aspects were pointed out:

### Property right

1 There are no limits in the Company as for shares owned by a shareholder acquisition and sale. It enables proper discharge of property rights by the shareholders.

2 The Company provides reliability of shares property rights registration by way of transferring the shareholders' register storing and keeping functions to the independent registrar - JSC "Central Moscow Depository". No signs of affiliation between the Company and the registrar were located in the estimate.

3 JSC "IDGC of the South" practices tender selection of goods and service suppliers for the amount exceeding the norms set in the Company. The Company's purchases for an amount more than 500 000 rubles are stipulated by Regulations on the Order of Making Scheduled Purchases of Goods, Works, Services for the Needs of JSC "IDGC of the South". The regulations determine kinds of purchase procedures (including tender, request for proposals, request for prices, competitive negotiations, sole source purchase) and terms of implementing certain purchase procedures, which ensures continuity of goods and services purchase practice. The Company's Board of Directors quarterly considers the report of the Company's CEO on implementation of the annual purchase programme.

The shareholders' rights protection is supported by broadened competence of the Company's Board of Directors in part of decision taking on material transactions approval. The Company's Board of the Director's competence presently includes taking decisions on the Company's closing a transaction or a set of associated transactions on alienation, pledging, or other shares and SDC's stakes charging for SDCs not involved in production, transmission, dispatching, distribution and supply of the electric and heat power in case if market value of the shares and stakes making the transaction subject and determined in the conclusion of the independent appraiser, exceeds 30 mln. rubles, and in other cases (with other amounts) regulated by special decisions of the Company's Board of Directors. Besides, the Board of Directors gives preliminary approval of decisions on closing transactions the subject of which is the Company's fixed assets of more than 10% book value of the asset as of the date of taking decision on closing such a transaction.

Such practice in general gives the shareholders reasonable assurance of the proper control over the goods and service purchase process and of JSC "IDGC of the South" assets safety and efficient use. Besides, fixing the specified practice in the internal documents ensures its continuity in the future.

4 The Company's Charter includes a requirement on involving independent appraiser for valuating the shares' market price or the SDC's stakes in alienation. Engaging appraisers makes it possible to have the assets fairly estimated in the process of material operations carried out with the assets, and thus provides the shareholders protection level growth.

Along with that, best corporate management practice recommends engaging independent appraiser at the stage of the company's issue securities placement as well, the company's restructuring and pricing of property which is a material transaction's subject. At that, the requirement of engaging independent appraiser in the abovementioned cases and the description of the cases must be specified in the company's internal documents. JSC "IDGC of the South" Charter envisages candidate independent appraiser's approval by the Board of Directors for the purpose of shares market valuation, property and other assets pricing in cases stipulated by special Board of Directors' decisions, but description of such cases is not enclosed, and correspondingly, there is no provision for the independent appraisers engagement practice continuity.

5 The Company has an approved internal document (Regulation on Insiders' Information) determining the concept and composition of insiders' information, the list of persons disposing of such information and setting the order of its use. The practice restricts possibilities of insiders' information illegal use and conforms with the best corporate management practice (including recommendations of Russian Corporate Conduct Code and listing rules of Russian exchanges).

#### Right to participate in management

6 Not a single shareholder owns 75% and more of the Company's shares (special majority). The key shareholder JSC "IDGC Holding" has 51,65% of the Company's shares, the rest of the stock is distributed among minority shareholders. Such a structure of shareholders creates proper balance of interests for taking decisions at General Shareholders Meetings for the benefit if the majority of shareholders.

7 In relation to the Company, no special rights are stipulated for participation of the Russian Federation, subjects of the Russian Federation, municipal units in the Company's management ("golden share"), which mitigates the risk of obtaining voting rights that outsize participation in the share capital, and, accordingly, decreases the risk of limiting the shareholders' rights to participate in the Company's management.

8 JSC "IDGC of the South" share capital structure is characterized by absence of cross-shareholdings, which guarantees proper observation of the shareholders' rights to participate in management. As a rule, cross-shareholdings enable the company's management to influence the company's general shareholders meeting decisions through subsidiary and dependent companies. Essential cross-shareholding indicates abuse of resource by the management for gaining control over or influence on the general shareholders' meeting decisions, and has negative impact on the shareholders' ability to participate in managing the company via voting at general shareholders' meetings.

9 The Company does not prevent the shareholders from discharging their rights to participate in the shareholders meeting and holds general shareholders meetings at the location of the Company's executive authorities not earlier than 09 a.m. and not later than 10 p.m. as per local time. Such practice ensures convenient place and time of holding the General Shareholders Meeting, which decreases the risk of physical unavailability and inconvenience of time and place for discharging the shareholders' rights to participate in the General Meeting.

10 The Company enables the shareholders owning more than 2 percent of the Company's shares to realize the rights stipulated by the Charter and the legislation of

the RF, on their submitting an extract from the depot account (if the share rights are recorded on the depot account), without presenting additional documents. It simplifies the procedure of discharging rights by the shareholder, for the main charges on information collection concerning certain shareholder's rights are born by the Company. Besides, it reduces the risk of restricting the shareholder's rights on formal grounds, for example, on the reason of failure to comply with procedure requirements.

11 General Shareholders Meeting procedural rules are determined by the Regulations on Order of Preparation and Holding JSC "IDGC of the South" General Shareholders Meeting approved by the General Shareholders Meeting, which formalizes the process of holding General Shareholders Meeting, and thus increases its operation efficiency and lessens the risks of limiting shareholders' rights to participate in the company's management, which can arise if there is no unified approach to holding General Shareholders Meetings.

12 According to the Company, the functions of the Counting Committee are fulfilled by the Company's independent registrar, which provides sufficient level of voting procedure transparency and results reliability for the shareholders.

13 The Company's Charter and Order of Preparation and Holding General Shareholders Meeting envisages the possibility of declaring the decisions taken at the General Shareholders Meeting and the voting results at the meeting when the voting took place, or bringing to the shareholders' knowledge not later than ten days after drawing up the minutes of the meeting in the form of a report on voting results. JSC "IDGC of the South" General Shareholders Meeting results of 30.05.2008 were declared by the Counting Committee Chairman at the shareholders' meeting. Such practice allows eliminating all doubts about correctness of drawing up voting results and gives shareholders additional guarantee of management non-interference to the vote counting process.

#### Right to gain profit

14 The Company's Charter has a regulation according to which ordinary shares dividends are paid within the term set by the decision of the General Shareholders Meeting but no later than 60 days after taking the decision to pay dividends, which conforms with recommendations of best corporate management practice.

15 JSC "IDGC of the South" Board of Directors approved Regulations on Dividend Policy which determine net profit amount aimed for dividend payments, formalized order of dividend calculation, order of taking decisions on dividend payment, grounds for dividends omissions, dividend payment restrictions and order of dividend payment, which enables to increase transparency and forecastability of the company's dividend policy, as well as the continuity.

#### Right for getting quality information

16 The Company informs shareholders about General Shareholders Meetings in advance. More than 30 days prior the shareholders meeting, the information on the decision the Board of Directors to convene General Shareholders Meeting is made available at the Company's Internet website. Besides, the Charter contains a regulation in accordance with which the statement on holding General Shareholders Meeting shall be made not later than 30 days before the date of the meeting. Such practice gives the shareholders more time for preparation to general shareholders meetings.

JSC "IDGC of the South" uses extra channels of information distributing for shareholders preparation to General Meetings. Thus, materials for shareholders preparation to General Meetings are published on the corporate Internet site, which makes the information access much easier for shareholders.

17 Candidate auditor approved by the Annual General Shareholders Meeting on 30.05.2009 was determined in the result of tender selection. Such practice nurtures shareholders' assurance of the outside auditor's independence and judgment objectivity.

#### Corporate Conduct Code

18 The Company's Board of Directors approved Corporate Management Code. Despite the fact that Corporate Management Code does not contain obligatory provisions in juridical terms and is rather declarative in character as its clauses are realized through other internal documents, the Code gives certain guarantee of the Company's adherence to the corporate management principles set thereby.

Along with that, in the process of rating estimation by the Consortium experts, the following **deficiencies** of the Company's corporate management practice in the sphere of shareholders rights protection were discovered:

#### Right for getting quality information

1 "Fineart-Audit LLC", a company included on the rating of the Russian audit and consulting companies by "Expert RA" Rating Agency, is engaged as an outside auditor for checking validity of the Company's accounting reporting prepared in conformance with the Russian Statutory Accounting (RSA). According to the Methodology of Corporate Management National Rating, being inside the top twenty companies of the above mentioned rating (or "the Big Four" leading international audit companies) to some extent manifests sufficient level of business reputation of the company, which is necessary for providing proper objectivity of carrying out audit. However, "Fineart-Audit LLC" only occupies the 64<sup>th</sup> position in the specified rating by the results of 2007 and cannot be considered as a reputable auditor ensuring quality and transparency of the Company's financial reporting.

2 The Company's internal documents do not stipulate the principle of rotation for outside auditors and/ or audit company's leading specialists responsible for the Company's audit. According to corporate management international best practice, rules (standards) of auditor activity, Russian Auditors Ethics Code, the Company must rotate outside auditor and/ or specialists at least once in five years. It is explained by the fact that continuous cooperation between the company and the single auditor organization and involving the same specialists for the company's audit can challenge the company's outside auditor independence. This principle can be stated in the Company's Corporate Conduct Code.

3 According to the information from the Company, the outside auditor renders non-auditor (consulting) services to the Company. Providing non-auditor services by the auditor increases probability of the outside auditor's conflict of interest and can have negative impact on the auditor's opinion objectivity.

#### Right to gain profit

4 The Regulations on Dividend Policy do not set minimum amount of net profit directed

to dividend payment.

5 At the Annual General Shareholders Meeting on 30.05.2008, decision was taken not to declare dividends on shares for 2007. Such a decision can be explained by JSC “IDGC of the South” and the accessed companies’ reorganization.



Shareholders rights
Positive aspects
<ul style="list-style-type: none"> <li>• There are no limits in the Company as for shares owned by a shareholder acquisition and sale</li> <li>• Shareholders register storing and keeping functions are transferred to the independent registrar</li> <li>• The Company's Board of Directors powers are broadened in part of decision taking on material transactions approval</li> <li>• The Company selects goods and service suppliers by tender if the amounts exceed certain level</li> <li>• The Company's Charter includes a requirement on involving independent appraiser for the SDC's shares (stakes) alienation</li> <li>• The Company has an internal document determining the insiders' information content and order of use</li> <li>• In relation to the Company no special rights are stipulated for participation of the Russian Federation, subjects of the Russian Federation, municipal units in the Company's management ("golden share")</li> <li>• No cross-shareholdings were registered in the Company</li> <li>• The Company ensures convenient place and time of holding the General Shareholders Meeting</li> <li>• The shareholders are informed about holding the General Meetings more than 30 days in advance</li> <li>• The Company uses extra channels of information distributing to prepare shareholders for General Meetings</li> <li>• Every shareholder has a possibility to discharge his voting rights without submitting additional documents certifying the voting rights</li> <li>• The Company has approved Regulations on Order of Preparation and Holding General Shareholders Meeting</li> <li>• Functions of the Counting Committee at the meetings are fulfilled by an independent registrar</li> <li>• General Shareholders Meeting results are declared immediately at the Meeting</li> <li>• The Company has approved Regulations on Dividend Policy</li> <li>• The Company's Charter has a regulation according to which ordinary shares dividends are paid within the term set by the decision of the General Shareholders Meeting but no later than 60 days after taking the decision to pay dividends</li> <li>• Outside auditor is engaged on the basis of tender selection</li> <li>• The Company has accepted Corporate Management Code</li> </ul>
Deficiencies
<ul style="list-style-type: none"> <li>• The Company's internal documents do not specify requirements on engaging independent appraisers in certain situations except for the cases stipulated by the legislation</li> <li>• The Company's outside auditor is not among "the Big Four" international auditor companies, neither it is among the top twenty Russian auditor companies of the rating made by "Expert RA" Rating Agency</li> <li>• The Company's internal documents do not stipulate the principle of rotation for outside auditors and/ or audit company's leading specialists responsible for the Company's audit</li> <li>• Outside auditor renders non-auditor services to the Company</li> <li>• The Regulations on Dividend Policy do not set minimum amount of net profit directed to dividend payment</li> <li>• The company's share dividends for 2007 were not declared</li> </ul>

## Activities of management and control bodies

The practice of corporate management of the Company in relation to the activities of management and control bodies is assessed as satisfactory.

### Board of Directors

In the course of rating estimation the Consortium experts have pointed to the following **positive aspects** of the practice of corporate management with regard to the composition and the activities of the Board of Directors:

#### Composition of Board of Directors

1. At the Annual General meeting of shareholders dated 30.05.2008 Board of Directors was reelected to be composed of 11 members.

Taking into account the existing information about the ownership structure of the Company and data on the professional activity of the Board of Directors members a number of the Board of Directors members of "IDGC of the South", JSC (Rappoport A. N., Vasilyev S. V., Okley P. I., Ryapin I. Y., Dyakov F. A., Kravchenko V. M., Nikulov A. E., Ilyenko V. V., Buyanov-Uzdalskiy A. Y. and Abakumov A. M.) can be recognized as independent directors in accordance with the formal criteria stipulated by the FL "On Joint-Stock Companies"<sup>1</sup> and the criteria which are stipulated by the Rules of admission of securities to trading on Russian stock exchanges.

In addition to that, with a view to criteria of independence stipulated by the Russian Code of Corporate Conduct and the content aspects of independence<sup>2</sup> only one member of the Company's Board of Directors (Abakumov A. M.) can be recognized as an independent director.

Two members of the Board of Directors (Okley P. I. and Vasilyev S. V.) hold a post in "IDGC Holding", JSC which is the main shareholder of the Company, and represent the interests hereof. Another director (Nikulov A. E.) is the General Director of "Promregion Holding", LLC that is a minority shareholder of the Company and represents the interests hereof. This fact enables the Consortium experts to suppose that the aforementioned directors will not be taken as independent by the investment community.

Two members of the Board of Directors (Rappoport A. N. and Kravchenko V. M) form a part of the Board of Directors of "IDGC Holding", JSC, one director (Dyakov F. A.) is a member of the Board of Directors of "IDGC of the Northern Caucasia", JSC. Thus the afore-mentioned directors cannot be recognized as independent in accordance with the Russian Code of Corporate Conduct since they are affiliated persons of affiliated persons of the Company (the principal shareholder of "IDGC of the Northern Caucasia", JSC – "IDGC Holding", JSC).

Ryapin I. Y. has filled a position in one of departments of RAO "UES of Russia", JSC till June 30, 2008 and at the present moment he is a manager at "System energy efficient solutions and investments", LLC; Buyanov-Uzdalskiy A. Y. till August 2008 has filled a position in "Promregion Holding", LLC which is a minority shareholder of the Company and at the moment he is an official in "Lukoil", JSC. Taking into account the previous professional experience of these members of the Board of Directors and in consideration of the fact that the Company does not

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<sup>1</sup> Item 3 of article 83 of the FL "On Joint-Stock Companies" specifies the criteria in accordance with which the Board of Directors members are recognized as independent for the purposes of approval of transactions the effecting of which reveals interest.

<sup>2</sup> Concerning the view of the Board of Directors members by investment community

disclose the structure of the authorized capital hereof in toto, from our point of view, they will not be taken as independent directors by the investment community. The member of the Board of Directors Ilyenko V. V. in the judgment of experts of the Consortium will not be taken as an independent director by the investment community as well, since he holds a post of the General Director of JSC "SO UES" branch of CDA of the South, the state company carrying out the centralized dispatching administration of the Unified Energy System of Russia.

The fact that the composition of Board of Directors includes the minority shareholders' representatives and an independent director serves as the ground for the experts to come to the conclusion that the balance of interests in Board of Directors is represented to accommodate the points of view of all parties concerned. Besides, we suppose that the present structure of shareholders ensures a due independence level of the Board of Directors from the Company's management that enables to ensure the proper control over the work of management. Particularly, only one management representative – the General Director of the Company (Gavrilov A. I.) – is a member of Board of Directors.

#### Practice of holding of Board of Directors meetings

2. The Company has approved the Regulations on the procedure of convening and holding of Board of Directors meetings vesting the rights and obligations of Board of Directors members, the responsibilities, the procedure for organization of Board of Directors activities and reaching decisions.

3. The meetings of Board of Directors of the Company shall be held in accordance with the plan approved in advance that enables all the members of Board of Directors to manage the personal time and prepare for the forthcoming meetings beforehand. This practice contributes to the enhancement of efficiency of individual work of Board of Directors members and Board of Directors in toto.

4. Board of Directors meetings shall be held regularly and *largo manum* – once in three weeks that corresponds to the best practice of corporate management. However, all the meetings are held in the absentee form that in the judgment of the Consortium experts does not make it possible to discuss the agenda items, exchange the opinions and the assessments of Board of Directors members. Such discussion is possible only in case of joint presence of Board of Directors members at the place of meeting holding. Moreover, the Russian Code of Corporate Conduct recommends discussing the most important issues of the Company at the meetings in *presentia*.

5. The preparation procedure for holding of Board of Directors meetings of the Company ensures the opportunities for Board of Directors members to be duly prepared for meeting holding. According to the Regulations on the procedure for the convening and holding of Board of Directors meetings the notice of holding Board of Directors meeting shall be submitted by the Corporate Secretary to each member of Board of Directors in writing no later than 11 working days prior to the date of holding Board of Directors meeting. The materials (information) including the draft decisions on the agenda items of a meeting shall be submitted to Board of Directors members simultaneously with the notice of holding Board of Directors meeting.

6. According to the information provided for by the Company the members of Board of Directors using the personal contacts shall enlist the services of external consultants to support Board of Directors activities. The engagement of external experts in Board of Directors activities to provide with consultations on separate issues that are the latest and more crucial ones related to Board of Directors activities enables to carry out the detailed elaboration of issues that, in the final analysis, exerts a favorable influence on the efficiency of the operation of Board of Directors and ensures the reasoned decisions-making hereby. However, the Regulations on Board of Directors does not stipulate the right of Board of Directors members to enlist in case of

need the services of experts and specialists having necessary professional knowledge to support Board of Directors activities, the permanent budget is not stipulated for these aims, as a result, the continuity of the corresponding practice is not ensured.

#### Functions of Board of Directors

7. Board of Directors of the Company shall perform a range of key functions that guarantee a major supervisory role of Board of Directors in the system of corporate management of the Company and provide necessary conditions for the effective work of Board of Directors as a body representing the shareholders` interests.

Particularly, Board of Directors of the Company shall discharge the following key functions:

- it defines and supervises the implementation of the strategy of the Company's development;
- it supervises the investment projects of the Company;
- it supervises the efficiency of the implemented projects of the Company;
- it supervises the cooperation of the Company with the parties concerned.

#### Conflict of interests between members of Board of Directors

8. According to the Regulations on the inside information the information bearers that the members of the Board of Directors are also referred to shall disclose the information about the holding of Company's securities to the Audit Committee under Board of Directors of the Company. In accordance with the aforementioned Regulations no later than on the 3<sup>rd</sup> day of the month following the reporting one the members of Board of Directors shall submit to the Subdivision, executing control over the usage of inside information, the transaction declaration produced in writing that represents the transactions made in the Company's securities and (or) the SA. At present the functions of control over the usage of inside information are entrusted to the Securities and Shareholders Section of the Corporate Management Department of the Company and the afore-specified functions of the audit committee are performed by the section for Organization of Corporate Management of the Department. This practice makes it possible to establish control over the transactions in the Company's securities made by the Board of Directors members and thereby execute control over the conflict of interests between the members of Board of Directors of the Company, arising in connection with the holding of securities of "IDGC of the South", JSC. At the same time, the fact that the Company does not have the Subdivision executing control over the usage of inside information and the Audit Committee under Board of Directors explains the reason of impossibility to carry out the procedures specified in the regulations on the inside information.

9. Corporate Management Code of "IDGC of the South" stipulates the obligation of Board of Directors members to refrain from taking actions that, in their judgment, may lead to a conflict of their interests and those of the Company as well as to inform Board of Directors on such conflicts without delay. Besides, The Code stipulates the obligation of Board of Directors members to notify the Company in writing of their affiliation. All in all, it enables to establish control over the affiliation of Board of Directors members and over the possible conflicts of interests of Board of Directors members of the Company.

At the same time, there is no comprehensive regulation of the conflict of interests between Board of Directors members. The internal documents of the Company do not contain the definition of the conflict of interests between Board of Directors members and the description of such situations. The fact that the internal documents of the Company contain the definition of the conflict of interests and the descriptions of possible situations of the conflict of interests between Board of Directors members testifies to the understanding by the Company of threats which may lead to conflicts of interests between Board of Directors members. Besides, the internal documents of the Company do not establish a clear-cut procedure of affiliation avowal

made by Board of Directors members.

It should be noted that only the comprehensive regulation of the conflict of interests presupposing the approval of the definition of conflicts of interests, the obligation of Board of Directors members to report on their affiliation and any changes herein, the obligation to report on possible conflicts of interests, the obligation to refrain from taking actions that may lead to the conflict of interests, ensures the reasonable assurance that the situation of the conflict of interests between Board of Directors members will be resolved at the initial stage and the Company's interests will not be infringed on.

#### Rewarding and motivating of Board of Directors members

10. The Company has approved the practice of emolument payments to Board of Directors members that is an indispensable condition of motivated participation of Board of Directors members in Board of Directors activities.

11. By the decision of the AGMS dated 30.05.2008 the Regulations on the payment of emoluments and remunerations to the members of Board of Directors of "IDGC of the South", JSC have been approved. In accordance with the specified Regulations the amount of emolument paid to the members of Board of Directors of the Company depends on the results of Company's activities and on the individual work of Board of Directors members. To effect the emolument payment the net profit figure of the Company according to the data of annual accounting has been chosen as the measure of Company's performance, and the ratio of attendance of Board of Directors meetings of the Company has been chosen as the measure of individual performance of Board of Directors members of the Company. This practice brings forth necessary motivation for the full-fledged and responsible participation in Board of Directors activities and the conformity of their performance with shareholders' interests.

At the same time, in the course of rating estimation the Consortium experts have pointed to the following **shortcomings** of the practice of corporate management of the Company in relation to the composition and the practice of work of Board of Directors:

#### Composition of Board of Directors

1. The analysis of the composition of Board of Directors with a view to determine whether the members have the key skills necessary for effective work of Board of Directors shows that a set of skills possessed by the members is not sufficiently balanced. The set of these skills can vary considerably according to the stage of Company's development and the specific tasks they face at a particular point of time. Meanwhile there is a set of general skills that the members of Board of Directors shall have and some of them resulting from the key functions of Board of Directors. Particularly, Board of Directors members shall have special skills in such fields as strategic management, risk management, management and financial (business) accounting, financial and investment management, corporate management and knowledge of industry's specific character. According to the information provided for by the Company Board of Directors members of JSC "IDGC of the South" do not have special knowledge and professional qualification in such important fields as management and financial accounting, risk management, corporate management; only one member of Board of Directors has special knowledge in the field of financial management and one member - in strategic management.

2. Regular advanced training for Board of Directors members is not provided for in "IDGC of the South", JSC. At the same time, this practice could make it possible for Board of Directors members to gain missing knowledge in relation to separate aspects of Board of Directors work.

#### Committees of Board of Directors

3. In the structure of Board of Directors of "IDGC of the South", JSC the audit committee and the personnel and remuneration committee have not been established, at the same time their existence could essentially enhance the effectiveness of Board of Directors work on the analysis and control of financial and economic activity of the company and the operating of a deliberate personnel policy including the part in which management remunerations are fixed.

#### Conflict of interests between members of Board of Directors

4. Some Members of Board of Directors of the Company (Rappoport A. N., Okley P. I., Kravchenko V. M.) are the members of more than 5 other board of directors that shortens their preparation for Board of Directors meetings. As a rule, above-the-norm participation of a member of the board of directors in the activities of the board of directors of other companies leads to reducing the time available to this member of the board of directors and inevitable conflict of interests.

#### Rewarding and motivating of Board of Directors members

5. There is no practice of responsibility insurance of Board of Directors members in "IDGC of the South", JSC. In addition to that, taking into account the stage of Company's development connected with the process of reorganization that has recently taken place the Board of Directors members shall take the enhanced responsibility for decisions made by the Board of Directors and persist actively in their opinions on the discussed issues. The responsibility insurance will contribute to this practice.

#### **Executive bodies**

In the course of rating estimation the Consortium experts have pointed to the following **positive aspects** of the practice of the executive body operation:

#### Collective nature of making decisions by the executive body

1. The collective executive body has been established in the Company – the Management Board that is necessary for reaching decisions on the most difficult issues of guidance of the Company's current work requiring collective discussion and decision-making, and corresponds to the recommendations of the Russian Code of Corporate Conduct and the Rules of listing of Russian stock exchanges.

2. The Regulations on the Management Board has been approved in the Company – the internal document stipulating the goals and principles of operation of the collective executive body of the Company (the Management Board), the terms of and procedure for convening and holding the meetings hereof, the rights and obligations of the members.

#### Conflict of interests of executive management

3. According to the Regulations on the inside information the information bearers that the members of the Management Board are also referred to shall disclose the information about the holding of Company's securities to the Audit Committee under the Board of Directors of the Company. In accordance with the aforementioned Regulations no later than the 3<sup>rd</sup> day of the month following the reporting one the members of the Management Board shall submit to the Subdivision, executing control over the usage of inside information, the transaction declaration produced in writing that represents the transactions made with the securities of the Company and (or) the SA. At present the functions of control over the usage of inside information are entrusted to the Securities and Shareholders Section of the Corporate Management

Department of the Company and the afore-specified functions of the audit committee are performed by the section for Organization of Corporate Management of the Department. This practice makes it possible to establish control over the transactions in the Company's securities made by the members of the executive bodies of the Company and thereby execute control over the conflict of interests between the members of the executive bodies of the Company, arising in connection with the holding of securities of "IDGC of the South", JSC. At the same time, the fact that the Company does not have the Subdivision executing control over the usage of inside information and the Audit Committee under the Board of Directors explains the reason of impossibility to carry out the procedures specified in the regulations on the inside information.

4. The obligations of the General Director to refrain from the actions leading to the conflict of interests as well as to inform the Board of Directors of the Company about the conflict of his/her interests and the Company's interests have been stipulated by the Company's Code of Corporate Conduct. The Regulations on the Management Board of the Company specify the obligation to act on behalf of the Company, to execute the rights and perform the obligations in relation to the Company reasonably and in good faith as well as each quarter within the period of no later than 15 days after the quarter commencement to bring in writing to the notice of the Board of Directors, the Auditing Committee of the Company and the Auditor of the Company the information:

- a) on corporate bodies in which a member of the Management Board holds independently or on the basis of joint possession with the affiliated body (bodies) 20 or more percent of voting shares (interests, stakes);
- b) on corporate bodies in the management bodies of which a member of the Management Board holds a post;
- c) on the effected or supposed transactions, about which a member of the Management Board knows, in which he/she can be recognized as interested.

Besides, in accordance with the specified Regulations the holding of offices in the management bodies of other organizations as well as other gainful posts in other organizations by the members of the Management Board of "IDGC of the South", JSC shall be allowed only with the consent of the Board of Directors.

All these facts testify to the understanding by the members of "IDGC of the South", JSC of threats which may lead to conflicts of interests between the members of executive bodies. However, it should be noted that the internal documents of "IDGC of the South", JSC do not contain the definition of the conflict of interests between the members of executive bodies and the description of such situations is not given. At the same time, only the comprehensive regulation of situations of conflicting interests adopted in the Company ensures the reasonable assurance that the situation of the conflict of interests between the members of executive bodies will be resolved at the initial stage and the Company's interests will not be infringed on.

#### Motivating and accountability of executive bodies

5. The amount of official salary of the General Director of the Company depends on the amount of proceeds received from selling goods, products, works and services connected with the principal activity of the Company. The official salary of the members of the Management Board (top managers) shall be determined according to the fixed official salary of the General Director of the Company taking into account the fixed indices. Bonus payment to the General Director and to the members of the Management Board depends on the level of compliance with the key indices of effectiveness determined correspondingly by the Board of Directors and the General Director of the Company for reporting periods (quarter and year). This practice ensures necessary motivation of the chief executive offices and contributes to the attainment to a certain degree of accommodation of their interests and the interests of Company's shareholders.

6. In accordance with the Code of the Company it is in the competence of the Board of Directors of the Company to elect the General Director and terminate his/her authorities before the end of his or her term of office, take decisions on the suspending of powers of the Company's regulatory organization, give consideration to the reports of the General Director on the Company's activity, on carrying out the decisions of the General meeting of shareholders and the Board of Directors of the Company. This practice enables the board of directors, that bears general responsibility for the control over the management operation, to carry out effectively the monitoring of the Company's executive management activities and take adequate measures on the basis of hereof results.

#### Succession planning of executive management

7. According to the information provided for by the Company the personnel reserve has been established in "IDGC of the South", JSC to fill the executive positions of the executive personnel, Deputies General Director, directors of branches, deputies directors of branches. The succession practice supported by the Company enables to ensure the steadiness of Company's business in the longer term.

In the course of rating estimation the Consortium experts have not revealed any **shortcomings** in the practice of work of the executive bodies of "IDGC of the South", JSC

#### **The system of control over the financial and economic activities**

In the course of rating estimation the Consortium experts have pointed to the following **positive aspects** of the practice of organization of the system of control over the financial and economic activities:

1. Board of Directors has approved the Regulations on the procedures of internal control of "IDGC of the South", JSC – the internal document determining the conceptual framework of internal control system of the Company: the objectives and tasks of internal control, management bodies and subdivisions of the Company responsible for internal control, their functions, internal control procedures, accountability of different structural subdivisions included in the internal control system. The approval of the corresponding Regulations ensures the transparency and formalization of the Company's internal control system, ensures the succession of practice and principles of internal control, specified in this document, becomes the instrument of corresponding structural subdivisions of the company for improvement of the internal control system.

2. Special structural subdivision has been established in the Company that carries out the functions of internal audit – the Department of Internal Control and Audit the activity of which is regulated by the corresponding Regulations. The Department of Internal Control and Audit performs a wide set of functions recommended by the best practice of corporate management, particularly the ensuring of completeness and accuracy of financial and management accounting of the Company; the ensuring of following and effectiveness of procedures of the Company's internal control, revealing and making the analysis of risks that could exert substantial influence on the activities of the Company.

Along with that, in the process of rating estimation by the Consortium experts, the following **deficiencies** of the Company's corporate management practice in the sphere of shareholders rights protection were discovered:

1 JSC "IDGC of the South" Audit Committee includes the Company's employee, which limits its independence.



According to point 6 of article 85 of the Federal Law “On Joint Stock Companies” No.208-ФЗ, Audit Committee members cannot at the same time be members of the Company’s Board of Directors as well as take any other positions in the company’s management authorities. This legal regulation aims at ensuring independence of the Company’s Audit Committee.

Along with that, formal observance of the legal regulation does not guarantee achieving the aims. One of the consequences of the Company’s employees integration into the Audit Committee is decrease of the Audit Committee independence. Best corporate management practice in this case consists not in formal observance of the current legislation, but in considering the issue of Audit Committee independence as such and electing candidates for the Audit Committee who has no relations giving grounds for doubting independence of their judgment.

2 The Company’s Board of Directors is not generally responsible for the Company’s risk management system and internal control system efficiency. For instance, the Company’s Board of Directors does not make regular estimate of the Company’s risk management system and internal control system efficiency.

The Company’s Board of Directors must have the key role in providing internal control process efficiency. As an authority representing the shareholders’ interests, the Board of Directors has got to give reasonable assurance of the internal control process efficiency and financial reports validity. The basis of such assurance is regular estimation of the Company’s internal control system efficiency.

3 Head of the Internal Check and Audit Department is functionally subordinate to the Company’s Deputy CEO. Along with that, in order to provide proper objectivity level and independence of internal control and system efficiency estimate, it is recommended by Russian and international best corporate management practice to provide functional subordination and accountability of internal audit service head to the Company’s Board of Directors (Board of Directors Audit Commission), and administrative subordination and accountability to the Company’s administrative management.

### **Cooperation between management authorities**

In the process of rating estimation by the Consortium experts, no **positive aspects** of this practice were pointed out. At that, the Consortium experts registered the following **deficiencies** of cooperation between management authorities:

1 The Company has not established a special position of Corporate secretary. In accordance with best corporate management practice, it is recommended to establish position of Corporate secretary responsible for the Company’s authorities and officials’ observing procedure requirements to ensure rights and interests realization of the Company’s shareholders, providing of cooperation with investors, cooperation with executive authorities and the Board of Directors, providing the Board of Directors activity.

2 The Company’s internal documents do not stipulate the obligation of the collegial executive authority to provide all the essential information on the Company’s activity on the regular basis.

3 The Company’s internal documents do not oblige the members of the Board of Directors, executive authorities, Audit Committee and outside auditor representatives to

be present at the General Shareholders Meetings

Management and control authorities activity
Positive aspects
<ul style="list-style-type: none"> <li>• The Company's Board of Directors structure can be considered balanced enough from the point of view of all the current Company's shareholders interests</li> <li>• The Company's Board of Directors includes an independent director</li> <li>• The Company's Board of Directors provides balance of interest necessary for independence from the management</li> <li>• Regulations on the Procedure of Convening and Holding Board of Directors Meetings are approved</li> <li>• Board of Directors meetings are held regularly and in sufficient number, not less than once in three weeks and according to the work plan approved in advance</li> <li>• Board of Directors discusses a wide range of issues on the Company's activity at the meetings</li> <li>• Order of preparation to the Board of Directors enables proper members of the Board preparation for the meeting</li> <li>• Board of Directors members engage outside experts</li> <li>• The Company obliges members of the Board of Directors and the executive collegial body to provide information about the Company's securities held and transactions with the securities</li> <li>• The Company's members of the Board of Directors are paid remuneration</li> <li>• In the process of the Company's Board of Directors remuneration calculation, the Company's performance results are considered</li> <li>• The Company established a collegial executive body – Management Board</li> <li>• The Company has Regulations on the Management Board approved</li> <li>• In the process of executive authorities' remuneration calculation, the Company's performance results are considered</li> <li>• The Company has provisions for the executive authorities' members conflict of interest procedure regulations</li> <li>• The Company established personnel reserve for filling top management positions</li> <li>• The Company has a local document approved for determining the basic internal control system and its operation principles elements and procedures</li> <li>• The Company established a structural division fulfilling internal audit functions – Internal Check and Audit Department, with the activity stipulated by the corresponding Regulations</li> <li>• Internal Check and Audit Department functions correspond to best corporate management practice recommendations</li> </ul>
Deficiencies
<ul style="list-style-type: none"> <li>• The Company's Board of Directors structure is not balanced enough from the point of view of the members' key skills necessary for efficient work of the Board of Directors</li> <li>• There is no comprehensive conflict of interest between the Board of Directors and the executive authority members regulation</li> <li>• A number of the Company's Board of Directors members are included in more than 5 other Boards of Directors</li> <li>• All the Board of directors meetings are held by correspondence</li> <li>• The Company does not envisage the members of the Board of Directors skills upgrading</li> <li>• Internal documents do not stipulate possibility for the Board of Directors members to involve outside advisers</li> <li>• The Company has not established the Board of Directors Committees, for instance, Audit Commission and Personnel and Remunerations Committee</li> </ul>

- The Company does not stipulate the Board of Directors members responsibility insurance
- Audit Committee includes the Company's employee
- The Board of Directors is not generally responsible for the Company's risk management and internal systems efficiency
- Head of Internal Audit and Check Department is administratively and functionally subordinate to the Company's Deputy CEO
- The Company has not established the Corporate secretary position
- The Company's internal documents do not oblige the collegial executive authority to provide all the essential information concerning the Company's activity timely to the Board of Directors on the regular basis
- The Company's internal documents do not oblige the members of the Board of Directors, executive authorities, Audit Committee and outside auditor representatives to be present at the General Shareholders Meetings

## Information disclosure

The Company's financial and non-financial information disclosure practice on its activity is estimated as satisfactory.

In the process of rating estimation by the Consortium experts, the following **positive aspects** of this practice were discovered:

### Distinct and coherent information policy

1 The Company's Board of Directors approved Regulations on JSC "IDGC of the South" Information Policy stipulating basic principles of the Company's information policy, disclosed information and order of information disclosure. Establishing formalized information policy in the form of Regulations on Information Policy is indispensable for fixing the basic information policy principles, and gradual investor-relations development and structuralizing on this basis.

### Shareholders structure transparency

2 The Company discloses beneficial ownership information on the website on the holders of 78% ordinary shares in aggregate. This practice enables potential investors to estimate risks of the current shareholders structure and take informed investment decisions based on the data.

### Information on management authorities structure availability

3 JSC "IDGC of the South" discloses on the Company's corporate Internet website information on establishing, work experience, the Board of Directors members participation in other companies' management authorities, as well as on the Company's shares held by them and on character of any family relations with other persons on the Company's management authorities and/ or financial and economic operations control bodies. Executive authorities structure is also disclosed on the website, but no detailed information on members of the Management Board is available. However, the Company discloses information the executive collegial authority members in quarterly reports, though this information is not topical due to the order and terms of information disclosure in the form of quarterly reports.

### Transactions information availability

4 The Company discloses transactions of interest information in a specialized section on the Internet website and in the quarterly report (transaction value, subject and parties), and specifies that no material transactions with obligations amount of at least 5 percent of the book balance of assets took place.

### Financial and accounting reports disclosure

5 In the annual report for 2007 the Company discloses all the key forms of the annual financial reports made up in accordance with RSA, including accounting balance, profit and loss statement, cash and flow statement and the auditor's opinion about the reports presented. Besides, there exists a specialized section on the Company's Internet website, for the Company's annual and quarterly financial reporting disclosure.

### Availability of information on the auditor's remuneration

6 In the Company's quarterly report information on the amount of remuneration paid to the outside auditor is disclosed, which corresponds to best corporate management practice recommendations and enables interested persons to estimate the outside auditor's remuneration amount adequacy to the Company's operations volume.

#### Information disclosure channels

7 The Company informs shareholders and all the interested parties on material facts by way of their publication through information agencies on comprehensive information disclosure accredited by FSEC.

8 On the Company's Internet website annual report for 2007 prepared for the annual shareholders meeting in accordance with legislation requirement is made available. The annual report contains considerable volume of quality information for shareholders, investors-to-be and other interested groups and in general conforms with FSEC requirements and best practice recommendations for the annual report's contents.

9 The Company's Internet site containing considerable volume of topical information on the Company and its performance results is regularly refilled and renovated. On the Internet website the Charter and the key internal documents regulating the Company's management authorities activities are presented, information is disclosed on material facts, affiliated persons, securities, dividend payment, quarterly and annual reports, decisions taken at general meetings, the Board of Directors Meeting, and other important information. Yet, the Internet website has no section for the Company's development strategy description.

10 Besides, the experts have positive view of the fact that the Company created English version of the corporate Internet website, where essential information on the Company's activity, shareholder and investor-oriented data is disclosed. This practice has positive impact on the Company's transparency and creates equal information availability conditions for all interested persons.

Along with that, in the process of rating estimation by the Consortium experts, the following **deficiencies** of the Company's financial and non-financial information on its activity disclosure practice were pointed out:

#### Availability of information on management authorities members' remuneration

1 On disclosing information on members' of the Board of Directors and the Management Board remuneration, the Company is restricted to the data on the general remuneration volume paid to the specified management authority, which is against recommendations of the best corporate practice. According to such practice, the Company is recommended to disclose information on criteria and amount of setting individual remuneration paid to each member of management authorities.

#### Financial and accounting reports disclosure

2 The Company does not make financial reports in accordance with IFRS. Yet, the specified reports preparation and disclosure is an important factor of the Company's transparency. As a rule, investors give preference to financial reports in conformance with IFRS in the process of evaluating certain financial or economic object's investment perspectives.

Information disclosure
Positive aspects
<ul style="list-style-type: none"> <li>• The Company has approved Regulations on Information Policy</li> <li>• The Company discloses beneficial ownership information on the holders of 78% ordinary shares in aggregate</li> <li>• The Company discloses detailed information on members of the Board of Directors and the Management Board</li> <li>• In the annual report the Company discloses all the key forms of the annual financial reports made up in accordance with RSA. Disclosed reports are accompanied by the corresponding auditor's opinion</li> <li>• Information is disclosed on the amount of remuneration paid to the outside auditor</li> <li>• The Company promptly makes new quarterly reports available on the Internet website and provides access to the reports for the previous periods</li> <li>• Information is disclosed on interested transactions</li> <li>• The Company informs shareholders and all the interested parties on material facts by way of their publication through information agencies on comprehensive information disclosure accredited by FSEC</li> <li>• On the Company's Internet website annual report for 2007 prepared for the annual shareholders meeting in accordance with legislation requirement is made available</li> <li>• The Company's Internet site containing considerable volume of topical information on the Company and its performance results is regularly refilled and renovated</li> <li>• The Company created English version of the Internet website containing considerable volume of information</li> </ul>
Deficiencies
<ul style="list-style-type: none"> <li>• The Company does not disclose information on the amount of individual remuneration paid to each member of the Board of Directors and the Management Board</li> <li>• The Company does not make financial reports in accordance with IFRS</li> <li>• The Internet website has no section for the Company's development strategy description</li> </ul>

## **Activity on behalf of other interested parties and corporate social responsibility**

The corporate management practice from the point of view of activity on behalf of other interested parties and corporate social responsibility is estimated as satisfactory.

In the process of rating estimation by the Consortium experts, the following **positive aspects** of this practice were discovered:

1 The Company approved some documents regulating social responsibility issues and other interested parties' concerns – Ecological Policy, Labour Security Programme, Retirement Policy, Client Service Standards. Adoption of the documents enables formalization of the corporate social responsibility projects realization, and thus nurtures deliberateness and purposeful nature of the Company's social responsibility policy.

However, the Consortium experts paid attention to absence of documents in the Company for regulating social responsibility issues in the sphere of charity and sponsorship.

2 The Company worked out and approved Corporate Ethics Code. The properly prepared Ethics Code along with regular control of Ethics Code regulations knowledge and fulfillment, enables ethical behaviour principles implementation and developed corporate culture development in the Company, which is the Company's sustainability and favourable corporate image factor. JSC "IDGC of the South" Ethics Code is a publicly available document.

3 Corporate Management Code of JSC "IDGC of the South" stipulates order of corporate conflicts regulation. Corporate conflicts, including conflicts between management and shareholders, between shareholders, can harm the Company's reputation and sustainable development considerably. In this connection, the Company's understanding that such threats are real and early regulation allows their prevention, or at least serious cost decrease in case the conflicts arise.

4 For the year prior the estimation, JSC "IDGC of the South" realized corporate social projects for the Company's employees and their family members. For instance, non-state pension provision programme for the Company's employees was worked out and is currently being realized, sports events were organized for the employees, and the employees' children's drawing contest.

Besides, the Consortium experts found no data in public information sources for the year prior to the estimation, on conflict cases between the Company and its personnel, which is additional evidence of the JSC "IDGC of the South" deliberate social policy in relation to the employees and their family members.

5 For the year prior the estimation, JSC "IDGC of the South" realized corporate social responsibility projects for the residents of the Company's service area. This practice enables the Company's sustainable development and forms the Company's image of social responsibility. For instance, a social project was realized on assisting in organization of holiday events dedicated to the city of Astrakhan 450<sup>th</sup> anniversary.

6 The Company had no claims from the government authorities about taxes non-payment or avoidance of payment for the year prior the estimation by the Consortium experts.



7 The Consortium experts found no data in public information sources for the year prior to the estimation, on cases of the Company's improper behaviour toward the partners and contractors.

Along with that, in the process of rating estimation by the Consortium experts, the following **deficiencies** of the Company's corporate management activity from the point of view of operation on behalf of other interested parties and corporate social responsibility were found:

1 The Company's activity, in spite of the associated ecological risks, is not certified for conformance with the standard in the sphere of environment protection ISO 14001 "Environment Management Systems – Specification with Guidance for Use" (GOST R ISO).

2 For the year prior the estimation, the Company did not realize any social projects for the contractors, neither were any charity or sponsorship projects carried out.

3 In the period under consideration, JSC "IDGC of the South" did not prepare social reports, which reduces the Company's information transparency regarding corporate social responsibility and other interested persons concerns.

Activity on behalf of other interested persons and corporate social responsibility
Positive aspects
<ul style="list-style-type: none"> <li>• The Company approved some documents regulating corporate social responsibility policies</li> <li>• The Company has adopted Corporate Ethics Code, the document is publicly available</li> <li>• The Company's internal documents stipulate order of corporate conflicts regulation in case they arise</li> <li>• For the year prior the estimation, the Company realized corporate social projects for the Company's employees</li> <li>• the Consortium experts found no data in public information sources for the year prior to the estimation, on conflict cases between the Company and its personnel</li> <li>• The Company had no claims from the government authorities about taxes non-payment or avoidance of payment for the year prior the estimation by the Consortium experts</li> <li>• The Consortium experts found no data in public information sources for the year prior to the estimation, on cases of the Company's improper behaviour toward the partners and contractors</li> </ul>
Deficiencies
<ul style="list-style-type: none"> <li>• The Company has not approved documents regulating social responsibility issues in relation of some interested persons categories</li> <li>• The Company's activity, in spite of the associated ecological risks, is not certified for conformance with the standard in the sphere of environment protection ISO 14001</li> <li>• The Company did not realize any social projects for the partners and contractors</li> <li>• Te Company does not take part in charity and sponsorship activity</li> <li>• The Company did not prepare social reports</li> </ul>

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Date of rating assignment: 23.03.2009

## Scale of “RID – Expert RA” Corporate Management National Rating

“RID – Expert RA” Corporate management national rating (CMNR) reflects the views of Consortium of Russian Institute of Directors and “Expert RA” Rating Agency (“RID – Expert RA” Consortium) on corporate management practice in a certain company.

CMNR is an integrated evaluation of the corporate management practice in a certain company made in relation to four components: shareholders` rights, composition and operational efficiency of management and control bodies, information disclose, the activities on behalf of other interested parties and corporate social responsibility. CMNR is also an evaluation of corporate management risks in a certain company. The higher the rating, the lower, according to “RID – Expert RA ”Consortium, the corporate management risks are in the estimated company.

CMNR is given on a scale from CMNR 1 (the lowest rating) to CMNR 10 (the highest rating):

CMNR 10	Corporate management best practice
CMNR 9+	
CMNR 9	
CMNR 8+	
CMNR 8	Corporate management developed practice
CMNR 7+	
CMNR 7	
CMNR 6+	
CMNR 6	Corporate management average practice
CMNR 5+	
CMNR 5	
CMNR 4+	
CMNR 4	Corporate management worst practice
CMNR 3+	
CMNR 3	
CMNR 2+	
CMNR 2	
CMNR 1+	
CMNR 1	

In the judgment of “RID – Expert RA” Consortium a company with 8+ to 10 CMNR has corporate management minor risks. The company with such CMNR complies with Russian legislation requirements in the field of corporate management and observes Russian Corporate Conduct Code recommendations to the full extent as well as a great number of recommendations of corporate management international best practice.

In the judgment of “RID – Expert RA” Consortium a company with 6 to 8 CMNR has corporate management low risks. Company complies with Russian legislation requirements in the field of corporate management, observes majority of Russian Corporate Conduct Code recommendations and specific recommendations of corporate management international best practice.

In the judgment of “RID – Expert RA” Consortium a company with 4 to 5+ CMNR has

corporate management moderate risks. Company complies with Russian legislation requirements in the field of corporate management, however, the initiatives on implementing basic recommendations of Russian Corporate Conduct Code are insignificant.

In the judgment of "RID – Expert RA" Consortium a company with 1 to 3+ CMNR has corporate management high risks. The company does not observe specific norms of Russian legislation in the field of corporate management; the corporate management current practice of the company does not comply with the majority of Russian Corporate Conduct Code recommendations.