

Corporate Management National Rating

“RID – Expert RA”

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

07.04.2010

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

Corporate Management National Rating 6+

“Developed Corporate Management Practice”

(due to lack of current monitoring of Corporate Management Practice at “IDGC of the South”, JSC the awarded rating shall be actual for the specified date)

to “IDGC of the South”, JSC

Company with 6 to 8+ CMNR has low corporate management 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.

Report on awarding corporate management rating to “IDGC of the South”, JSC

In general corporate management practice of “IDGC of the South”, JSC is estimated as good. The company complies with Russian legislation requirements in the field of corporate management, observes most recommendations of the Russian Corporate Conduct Code and some recommendations of corporate management international best practice. Corporate management system of “IDGC of the South”, JSC is rapidly developing what is facilitated by strategic initiatives of the management, Board of Directors and shareholders of the Company.

According to Corporate Management National Rating method the rating awarded to the Company shall be based on analysis of four groups of indicators: shareholders’ rights, management and control authorities’ activity, information disclosure, corporate social responsibility.

Elimination of the shortcomings in the four groups of indicators stated below may contribute to increase of corporate management rating of the Company. For substantial improvement of corporate management practice the Company should aspire to liquidation of all the shortcomings.

Detailed analysis of the existing corporate management practice of “IDGC of the South”, JSC is given below.

Shareholders’ rights

The Company’s activity for shareholders’ rights protection is estimated as good. No facts of violation or restriction of shareholders’ rights have been revealed in the process of analysis of this group of indicators.

The main positive aspects of the practice are:

1. Independence of the registrar. Register of the Company is kept by an independent registrar “Central Moscow Depository”, JSC.
2. Quality of outside auditor and independence of auditing process. “Nexia Pacioli”, LLC which is a part of International Accounting Network “Nexia CIS Auditing and Consulting Group” is invited for carrying out check of accuracy of accounting reports of the Company. Auditor of the Company shall not render consulting or other non-auditing services to the Company, which may adversely affect its liabilities for carrying out of independent appraisal of financial reports.
3. Extended competence of Board of Directors in regard to transactions’ approval. According to the Charter of the Company Board of Directors shall take decisions on approval of transactions the amount of which exceeds 10% of fixed assets’ book value. Practical execution of the present requirement stipulated by internal normative documents reduces possible risks of unauthorized siphoning off of the Company’s assets.
4. Inhouse Code of Corporate Management. Code of Corporate Management of the Company available to the public not only stipulates the basic principles of current

corporate management in the Company, but also indicates the intention of “IDGC of the South”, JSC to consider interests of all the interested parties.

5. Control over insider information circulation. The internal document stipulating the list of insider information as well as the procedure for its use – Regulations on Insider Information – is approved in the Company. In particular, the above-mentioned Regulations shall bind bearers of insider information, including members of Board of Directors and Management Board of the Company, with an obligation to disclose information on holding of “IDGC of the South”, JSC shares as well as information on transactions closed with the Company’s securities.

The main shortcomings of the current Corporate Management Practice in the field of shareholders’ rights protection are:

1. Independent practice of competitive selection of outside auditor is not provided for in the Company. Candidacy of the auditor is determined as a result of competitive selection held by the Company’s main shareholder (“IDGC Holding”, JSC).
2. Principle of rotation of outside auditors and/or key experts of auditing company responsible for audit of the Company’s activity is not stipulated in internal documents of the Company.
3. At annual General meeting of shareholders dated June 19, 2009 a decision was adopted not to announce the dividends on shares for 2008.

Activities of management and control bodies

Activities of management and control bodies of “IDGC of the South”, JSC are estimates as satisfactory. Management of the Company’s activity is carried out by annually elected Board of Directors, sole executive body – CEO and collegiate executive body – Management Board.

Positive aspects of activities of management and control bodies are as follows:

1. Balanced composition of Board of Directors. Out of 11 members of Board of Directors only one is an executive director. Presence of 9 non-executive directors and 1 independent director¹ in the composition of Board of Directors may contribute to increase of objectivity and independence of the decisions adopted by Board of Directors and consideration of interests of all the shareholders as well as efficient management control.
2. High activity of work of Board of Directors of the Company. Meetings of Board of Directors are held at least once every six weeks, although most meetings are held in the form of absentee voting. Calendar plan of meetings approved in advance shall contribute to increase of efficiency of work of Board of Directors members.
3. Establishing of Committees attached to Board of Directors. A number of Committees attached to Board of Directors have been established for preliminary consideration of

¹ When specifying the status of members of Board of Directors, “RID – Expert RA” Consortium proceeded not only from the formal independence criteria stipulated by FZ (Federal Law) “On Joint Stock Companies”, Rules of Securities Admittance to Trading on Russian Exchanges and Russian Corporate Conduct Code, but also from substantive aspects of independence marking lack of any factors which may adversely affect objectivity and independence of opinions of members of Board of Directors.

the most important issues, particularly, Audit Committee and Personnel and Remuneration Committee. Activities of the Committees are regulated by the corresponding Regulations, stipulating the Committees' functions recommended by Russian Corporate Conduct Code. Composition of Audit Committee complies with Rules of Securities Admittance to Trading on Russian Exchanges.

4. Dependence of remuneration paid to members of Board of Directors from results of the Company's activity. Criteria for estimation of remuneration paid to members of Board of Directors according to the results of the Company's activity are stipulated in internal documents of "IDGC of the South", JSC which creates certain motivation for their full and responsible role in the work of Board of Directors and compliance of their activity with shareholders' interests.

The following shortcomings revealed in this group of components have a restrictive effect on the rating:

1. Composition of the established Personnel and Remuneration Committee attached to Board of Directors is formed according to the principles contravening the general interpretation of role and status of Committees attached to Board of Directors stipulated by the corresponding recommendations of corporate management international best practice. Only one member of Personnel and Remuneration Committee is a member of Board of Directors of the Company. The rest members of the Committee are not members of Board of Directors of the Company and are actually not responsible for the decisions taken by Board of Directors. Besides, two members of the Committee are members of the Company's management.

2. Some members of Board of Directors of the Company are members of more than 5 other Boards of Directors, which limits the time for their preparation for meetings of Board of Directors of "IDGC of the South", JSC.

3. "IDGC of the South", JSC lacks the practice of liability insurance of members of Board of Directors. Along with that, members of Board of Directors are obliged to take on heightened responsibility for decisions of Board of Directors and actively persist in their opinions on considered issues. Insurance of their liability will contribute to this.

4. Internal documents of the Company do not stipulate obligation of members of executive bodies of Auditing Committee to attend General meetings of shareholders. In contract with outside auditor the obligation of an outside auditor to attend General meetings of shareholders is not stipulated.

Information disclosure

Practice of information disclosure at "IDGC of the South", JSC is estimated as good. At that, it should be noted that the volume of disclosed information on the most important aspects of the Company's activity can be increased according to the generally accepted corporate management practice and recommendations of Russian Corporate Conduct Code.

Positive aspects of the current practice of disclosure of information on the Company's activity:

1. Transparent structure of share capital. "IDGC of the South", JSC discloses information on all the shareholders holding more than 1% of the Company's shares on its corporate website on the Internet.

2. Regulation of information policy of the Company. "IDGC of the South", JSC approved Regulations on Information Policy. The present Regulations stipulate principles and the main approaches for information disclosure. Approval of such document contributes to the fuller fulfillment of the Company's obligations for information disclosure to shareholders and prospective investors.

3. Informational transparency of the Company. All the significant information on activity of "IDGC of the South", JSC is presented on the Company's website on the Internet. Internal documents, material facts of the Company's activity, minutes of decisions of General meeting of shareholders and Board of Directors, quarterly and annual reports, prospectuses are presented in free access.

Current shortcomings of information disclosure system:

1. The Company does not make financial reports according to IFRS. Yet, the specified reports preparation and disclosure is an important factor of the Company's transparency.

2. When disclosing information on remuneration paid to members of Board of Directors and Management Board the Company confines itself to date on general volume of remuneration paid to the specified management body.

Activity of Joint Stock Company on behalf of other interested parties and corporate social responsibility

Activity of "IDGC of the South", JSC within the scope of interests of other interested parties and corporate social responsibility is estimated as satisfactory.

Positive aspects of Corporate Management Practice in the field of social responsibility and consideration of interests of other interested parties:

1. Code of Corporate Conduct is approved in the Company. The document is in general access.

2. Internal documents of the Company stipulate the procedure for settlement of corporate conflicts in case of their occurrence.

3. "IDGC of the South", JSC has carried out corporate social projects for the Company's employees.

4. The Company's activity has been certified according to the standard in the sphere of environment protection ISO 14001.

Current shortcomings of system of corporate social responsibility and consideration of interests of other interested parties:

1. The Company lacks documents regulating the issues of social responsibility in the spheres of charity and sponsorship.

2. "IDGC of the South", JSC does not carry out preparation of social reports according to Global Reporting Initiative and/or AA1000 standards.

List of main current shortcomings of Corporate Management Practice of "IDGC of the South", JSC according to four groups of indicators

- Lack of independent practice of competitive selection of outside auditor
- Composition of Personnel and Remuneration Committee attached to Board of Directors
- Lack of financial reports prepared according to IFRS
- Lack of social report prepared according to Global Reporting Initiative and/or AA1000 standards.