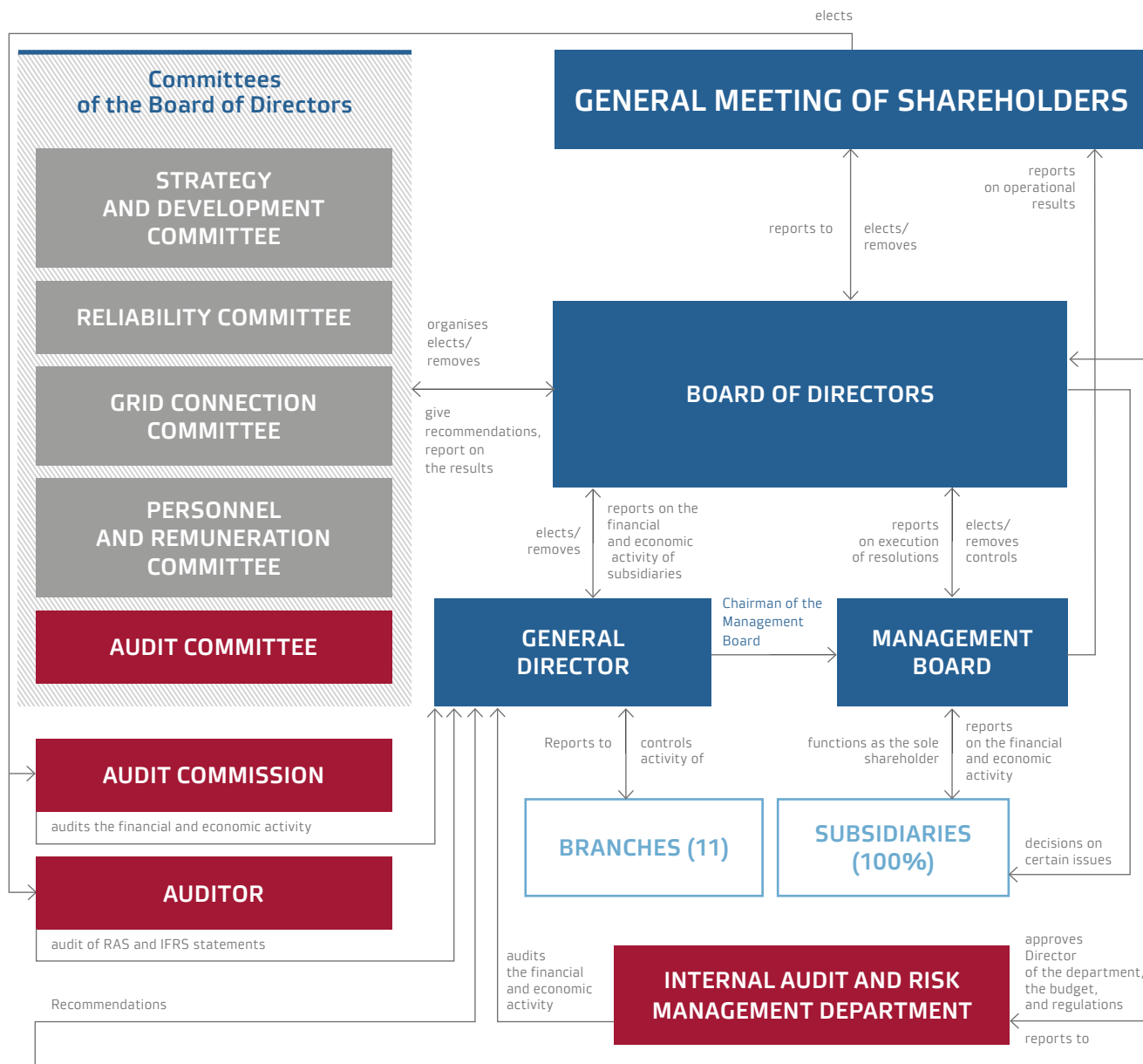


CORPORATE GOVERNANCE SYSTEM

STRUCTURE OF MANAGEMENT AND REGULATORY BODIES



COMMISSIONS/COUNCILS FOR GENERAL DIRECTOR:

- Advisory council
- Central Procurement Commission
- Investment Commission
- Committee for Observance of Corporate Culture Norms and Settlement of Conflicts of Interests
- Debt Recovery Commission
- Labour Protection Commission
- Fire Safety Commission
- Attestation Commission for Industrial and Energy Safety
- Committee for Control over Utility Facilities
- Commission for Social Issues
- Housing Committee.

CORPORATE GOVERNANCE PRINCIPLES

THE BASIS OF THE CORPORATE GOVERNANCE SYSTEM OF IDGC OF CENTRE IS ADHERENCE TO THE FOLLOWING CORPORATE GOVERNANCE PRINCIPLES STIPULATED IN THE CORPORATE GOVERNANCE CODE OF THE COMPANY:

ACCOUNTABILITY

The Code requires accountability of the Board of Directors to all shareholders pursuant to the laws of the Russian Federation, and serves as a guide to the Board of Directors in determining their strategy and in management and control over the executive bodies of the Company.

FAIRNESS

The Company undertakes to protect shareholders' rights and ensure equal treatment for all shareholders. The Board of Directors provides all shareholders with effective protection in case their rights are violated.

TRANSPARENCY

The Company ensures the timely disclosure of true information about all important facts related to its activity, including its financial position, operational results, ownership structure and Company management, as well as free access to such information for all interested parties.

RESPONSIBILITY

The Company recognises its responsibility to shareholders.

ASSURANCE OF SHAREHOLDERS' RIGHTS

The shareholders participate in management of IDGC of Centre by taking relevant decisions, and their representatives hold positions in the Company's management and advisory bodies.

The Company informs its shareholders and investors on all new actions taking place in the Company, enabling them to take decisions on their shares.

The right to receive income is exercised by establishing a positive dividend history for the previous five years.

In order to secure registration and control over the rights to shares, the share register is maintained by an independent registrar – Reestr-RN Ltd. – which has an undisputed high reputation, the necessary technologies, and qualified professionals.

REPORT BY THE BOARD OF DIRECTORS ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (CGC)

Herewith the Board of IDGC of Centre certifies that the information in the Report on compliance with Corporate Governance Code principles is true and complete (hereinafter - CGC).

The assessment of the compliance by the Company to the CGC principles was made according to the recommendations by the Bank of Russia.

One of the main reasons of non-compliance or incomplete compliance with the CGC principles is the necessity to prepare and approve (reapprove) a significant number of internal documents of the Company. One more limiting factor is lack of practice to apply certain CGC principles and recommendations.

The Company does not use any corporate governance mechanisms and tools instead of (in place of) those recommended by the Corporate Governance Code.

IDGC of Centre has the following plans for the next 5 years to improve its corporate governance:

- to assess the activities of the Board of Directors;
- to increase the number of independent members on the Board of Directors;
- to divide internal audit from internal control, securing their functions and responsibilities to different departments;
- to approve the documents for internal audit, internal control, and risk management to keep them in line with CGC requirements;
- to introduce electronic means of voting at the General Meeting of Shareholders, and others.



The report on compliance by the Company with the Corporate Governance Code principles and recommendations is in Appendix 3 to this Annual Report.

CORPORATE GOVERNANCE RATING

Corporate governance at IDGC of Centre has been assessed by an independent consultant since 2007. In 2015, the Russian Institute of Directors (the RID) confirmed the high corporate governance level – NCGR 7+, that is, Developed Corporate Governance. The Company has retained its strengths, and there have been improvements in certain spheres, such as the number of independent Directors, and internal documents.

According to the Russian Institute of Directors, the Company has low corporate governance risks. The Company complies with Russian corporate governance regulations, and follows most of the recommendations by the Russian Corporate Governance Code and certain recommendations by international corporate governance practices.

After the reporting date

The RID has increased the corporate governance rating of the Company to NCGR 7++. At the time of publication of this report, IDGC of Centre is the only company in Russian with such a rating.



For the corporate governance rating, please use this link.

¹ Corporate Governance Code recommended by Bank of Russia, Letter 10.04.2014 No. 06-52/2463.

SELF-ASSESSMENT OF CORPORATE GOVERNANCE

382.5

points

the result of self-estimation
of the Company's corporate governance in 2015

In 2015, IDGC of Centre held self-assessment of its corporate governance using the Methodology by Rosimushchestvo. The methodology uses the score system, and the results are given as a percentage. The score of IDGC of Centre was 382.5 out of 548, or 70%.

This methodology contains 120 questions and helps to make assessments in the following six spheres:

- Shareholders' rights
- The Board of Directors
- Executive management
- Transparency and disclosure of information
- Risk management, internal control and internal audit
- Corporate social responsibility, business ethics, compliance.

Evaluation level of corporate governance by the areas

Shareholders' rights	75%
The Board of Directors	57%
Executive management	71%
Transparency and disclosure of information	79%
Risk management, internal control and internal audit	78%
Corporate social responsibility	87%

THE COMPANY'S TRANSACTION APPROVAL POLICY

Major transactions and interested party transactions of IDGC of Centre are subject to approval by the Company's management bodies pursuant to the Federal Law on Joint-stock companies and the Articles of Association of the Company. However, an amendment was made in the Articles of Association to include the preliminary approval of transactions involving the Company's assets in the competence of the Board of Directors in order to reduce the risk of improper disposal of the Company's assets. In 2015, the list of such transactions was extended and the corresponding changes were made in the new version of the Articles of Association of the Company.



For quarterly review of the major and interested party transactions, please visit the Company's website.



The review for 2015 is in Appendix 4 to this Annual Report.