

Corporate Governance Report

Corporate Governance Principles

Acknowledging the need to maintain high corporate governance standards and business ethics for the successful conduct of operations, as well as the importance of ensuring shareholder rights, we have assumed liability to follow generally recognized Russian and international corporate governance principles, as stated in the Company's Corporate Governance Code, and to continuously upgrade corporate governance practices.

Company's Corporate Governance Principles

Accountability

The Board of Directors is accountable to all shareholders in compliance with Russian legislation.

The Board and the Chairman of the Board are accountable to the General Shareholders Meeting and to the Board of Directors.

Transparency

The Company provides for the prompt disclosure of complete and valid information about all salient facts related to its operations, including: its financial status, social and environmental indices, performance, the Company's ownership and governance, as well as free access to such information for shareholders and all other interested parties.

The Company ensures the implementation of an independent audit in order to obtain an external objective assessment of the preparation and submission of the Company's annual financial reporting.


Fairness

The Company protects the rights of shareholders and ensures the equal treatment of shareholders owning the same quantity of shares of the same type (category).

The Board of Directors gives all shareholders the opportunity to obtain effective protection in case their rights are violated.

Responsibility

The Company acknowledges the rights of all shareholders and all interested parties as provided for by Russian laws, and seeks to cooperate with shareholders and all interested parties for the purpose of its own growth and financial sustainability.



We constantly upgrade our corporate governance system by introducing integrated standards and management practices in all structural divisions, branches and subsidiaries and dependent companies. We also constantly monitor legislative amendments to bring the Company's constituent instruments, the documents regulating the activities of operating control, and other internal documents that ensure the effectiveness of the corporate governance system, in line with such amendments. All that boosts the Company's competitiveness and investor confidence, in view of the interests of a wide range of people, and helps ensure the most efficient use of capital by the Company, which, in the final analysis, beneficially impacts the Company's steady advances and enhances Russia's overall investment climate.

The effectiveness of the Company's corporate governance is ensured by the following internal documents:

- Regulations on the Procedures for Preparing and Holding the General Meeting of Shareholders;
- Regulations on Activities of the Board of Directors;
- Regulations on the Management Board;
- Regulations on the Audit Commission;
- Regulations on the Board of Directors' Audit Committee;
- Regulations on the Personnel and Remuneration Committee of the Board of Directors;
- Regulations on the Strategy Committee;
- Regulations on the Investment Committee;
- Code of Corporate Management;
- Regulations on the Dividend Policy;
- Regulations on the Information Policy;
- Regulations on Insider Information;
- Regulations on the Internal Control System;
- The Code of Corporate Ethics.

In 2012, our Company adopted a new Code of Corporate Governance which contained provisions significantly affecting both the quality of the Company's Corporate Governance in general, and its external assessment by shareholders, investors and other interested parties. The new Code expands the range of issues addressed

by the Board of Directors in person, includes new sections and definitions particularly describing issues such as (potential) conflicts of interest of members of the Board of Directors with the interests of the Company, and the requirement that a member of the Board of Directors have an impeccable reputation. In addition, the new Code contains additional information about the Company's auditor.

Interactions of the Company with its subsidiaries and dependent companies (SDCs) are based on internal regulations, including:

- Regulations on the governance of subsidiaries and dependent companies;
- The order of the interaction of Federal Grid Company of Unified Energy System with its subsidiaries and dependent companies;
- Standard of the formation and submission by structural divisions of Federal Grid Company of positions and assignments to representatives of Federal Grid Company in the General Meetings of Shareholders and the Boards of Directors of subsidiaries and dependent companies.

The quality of the management of SDCs is growing due to the increased effectiveness of the Company's representatives in participating in the governance and control bodies of SDCs.

The full text of these documents can be found on the corporate website:

http://www.fsk-ees.ru/shareholders_and_investors/corporate_governance/constituent_and_internal_documents/