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by the decision of
the Boards of Directors of
IDGC of South, JSC
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A.N.Rappoport _____

CORPORATE GOVERNANCE CODE

of “Interregional Distribution Grid Company of South”, Joint Stock Company

Rostov-on-Don
2007

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I. INTRODUCTION

The present Corporate Governance Code of Interregional Distribution Grid Company of South, Joint Stock Company (hereinafter referred to as the Company) is worked out in accordance with the legislation of Russian Federation, corporate governance principles recognized in the international practice, such as Corporate Governance Principles of OECD (Organization of Economic Cooperation and Development), taking into consideration the existent Russian and foreign corporate governance practice, ethic norms, exact requirements and business terms of the Company.

The reason why the Company worked out the present Code was to establish the certain standards of corporate governance, application of which is aimed at the protection of shareholders interests, regardless of the shares block size, the achievement of mutual understanding among all persons interested in the Company's activity, and the increase of shareholder value of the Company.

The present Code is a set of obligation, voluntary assumed by the participants of corporate relations in the Company including shareholders, members of the Board of Directors of the Company and its executive bodies.

The present Code is worked out on the basis of Regulations of Corporate Conduct Code recommended by RF FCSM (FCSM Decree No. 421/p of 04.04.2002), taking into consideration the norms of the present Charter and other internal documents of the Company, which regulate activity of the management bodies, volume and sequence of Company information disclosure, and other aspects of Company corporate conduct.

II. INFORMATION ABOUT THE COMPANY

“Interregional Distribution Grid Company of South”, Joint Stock Company was found on the basis of the Regulation No. 192r¹ of Russian Joint Stock Company of Energy and Electrification RAO UESR of 22.06.2007, issued for execution of the decision of the Board of Directors of RAO UESR (Minutes No. 250 of 27.04.2007).

Above mentioned Regulation was issued to found IDGC of South, JSC, determine the amount of the authorized capital of the Company, approve the Charter of the Company, elect sole executive body and the Board of Directors of the Company.

IDGC of South, JSC was register by the Tax Office of the Federal Tax Service of Russia in the Leningrad district of Rostov-on-Don city on 28 June 2007.

The establishment of IDGC of South, JSC is an essential part of Strategy Conception of RAO UESR “5 + 5” for 2003 – 2008 (approved by the decision of the Board of Directors of RAO UESR, Minutes No. 168 of April 23, 2004)², which stipulates interregional integration of recreated companies after division of power companies according to their activity type.

The main goal of IDGC of South, JSC is to work out a system of effective management of distribution power grid business owing to the contemporary achievements in the field of management and industrial and production technologies in order to increase its capitalization, business transparency and extension of investment attraction taking into account interests of other power market entities, the Company, its shareholders and the State.

III. PRINCIPLES AND STRUCTURE OF CORPORATE GOVERNANCE

1. Determination and Principles of the corporate governance.

The corporate governance of the Company is aggregate processes guaranteeing management and control of the Company’s activity and including the system of interrelation between the Company and its shareholders regarding the effectiveness of the Company’s activity, protection of rights and legitimate interests of the shareholders and concerned parties.

The corporate governance is based on the respect of rights and legitimate interests of its participants, and promotes effective activity of the Company including increase of shareholder value of the Company, establishment of working places and support of financial stability and profitability of the Company.

The main guidelines of the Company’s corporate governance are as follows:

Justice

The Company provides the shareholders with a real possibility to exercise their rights connected with the participation in the Company and effective protection in case of the rights violation.

The right of shareholders to participate in the corporation management by taking decisions on the most important questions of its activity is provided by the present RF legislation and the Company’s Charter, stipulating competence of the general meeting, and sequence of taking decisions on items related to the competence of the General meeting of shareholders of the Company.

¹ The present Regulation are available on the web-site of the Company www.mrsk-yuga.ru

² The present Conception is available on the web-site of RAO UESR <http://www.raoes.electra.ru/ru/reforming/kon/show.cgi?kon.htm>.

The shareholders have the right to dispose their shares freely according to their own convenience, to perform any acts, which don't contradicts the present legislation, don't violate rights and interests of other persons, which are protected by law, including alienation of their shares to another persons.

Openness

The Company aims to provide the shareholders and investors with available, regular and reliable information in an effort to control the executive bodies of the Company and make a competent decision on the assessment of their activity.

The purpose of information disclosure is to report to all persons interested in it in volume necessary for making a better decision on participation in the Company or perform other acts which can influence on financial and economic activity of the Company.

The main Principles of information disclosure are regularity and efficiency of its provision, availability of such information for the shareholders and other interested persons, reliability and content completeness.

Accountability of the executive bodies of the Company to the shareholders

The superior body of the Company management is the General meeting of shareholders which annually considers the results of the Company activity.

The Board of Directors provides the strategic management of the Company activity, effective control of the managing directors' work, and reports to the shareholders of the Company.

The executive body of the Company is obliged to perform management of the present Company activity reasonably, effectively and conscientiously in order to provide its long-term stable development, to provide the shareholders with the profit from this activity, and to report to the shareholders of the Company.

The existing accountability system decreases the risk of divergence of managing directors' and shareholders' interests.

Control of financial and economic activity

The existing system of control over financial and economic activity in the Company is aimed at investors' trust towards the Company and its management bodies. The main aim of the control of financial and economic activity in the Company is protection of shareholders' investments and Company assets.

The control over financial and economic activity in the Company is carried out by the Board of Directors, Auditing Committee and Auditor of the Company.

In order to carry out direct and effective control of financial and economic activity in the Company, the Board of Directors can establish a special commission of the Board of Directors which will be responsible for this line of activity – Auditing Committee.

The organization department responsible for internal auditing is established to carry out effective internal control of all business transactions in the Company.

Loyalty of third persons

Practicing the corporate governance, the Company aims to set relations with the third persons, including its employees, on the basis of respect and observance of interested persons rights stipulated by the present legislation.

The Company aims to stimulate active cooperation with investors, creditors and other interested persons in order to increase the Company assets and its shareholder value.

Doing all the best in order to promote the growth of professional skills, making of appropriate conditions of employees' work, increase of social protection the management bodies provide the increase of labour efficiency, establishment of good social environment in the team.

2. Internal documents of the Company.

The present Code is a set of Principles which are the bases of the corporate governance. Exact structures, procedures and practice of the corporate governance are settled by the Charter and internal documents of the Company, which are located on web-site of the Company <http://www.mrsk-yuga.ru>.

The internal documents of the Company are worked out according to the legislation of the Russian Federation, taking into consideration main provisions of the Corporate Governance Code recommended by FCSM of Russia (FCSM Decree No. 421/r of 04.04.2002).

3. General structure of the corporate governance.

The system of management bodies of the Company consists of:

General Shareholder Meeting– the superior governing body of the Company, which allows the shareholders exercise their right to participate in the management of the Company.

Board of Directors – the collegial governance body of the Company performing general management of its activity, excluding items referred to the competence of the general meeting of shareholders and executive bodies of the Company by the Federal Laws and the Charter of the Company (including responsibility for the development of the Company’s strategy).

Committees of the Board of Directors – consultative bodies of the Board of Directors of the Company established for preliminary consideration of items referred to the competence of the Board of Directors of the Company.

General Director – governing body performing the management of the present activity of the Company and realizing the strategy stipulated by the Board of Directors and the shareholders of the Company.

Auditing Committee – body for the control over financial and economic activity of the Company directly reporting to the general meeting of shareholders of the Company.

IV. SHAREHOLDERS OF THE COMPANY

1. Shareholders rights and their protection.

The Board of Directors and the sole executive body of the Company observe the rights and legitimate interests of the shareholders.

The Company acknowledges the right of a shareholder to participate in the management of the Company. Shareholders have the right to participate in the management of the Company first of all by taking the decision regarding the activity of the Company during the general meeting of shareholders. In order to exercise this right the Company accepts internal documents, which provide shareholders with the right stipulated by the RF legislation to require a calling of shareholders meeting and propose issues of agenda, give the possibility to prepare thoroughly for participation in the general meeting of shareholders and exercise the right to vote for every shareholder. The shareholders of the Company have the right to nominate candidates to the management and control bodies of the Company according to the norms stipulated by the Federal Law “On public limited companies”, the Charter and internal documents of the Company.

Shareholders, the owners of voting shares, have the right to participate in the general meeting of shareholders with the right to vote on the items of its competence.

In order to observe and protect the above mentioned rights the Company undertakes to organize holding of the general meeting of shareholders in such a way, which allows shareholders to participate without great material expenses and minimum time, providing equal treatment to all the shareholders.

The Company undertakes to provide the shareholders with the information concerning agenda of the general meeting of shareholders in extent and terms which allow the shareholders to take a reasoned decision.

In cases stipulated by the present legislation and the Charter of the Company, the general meeting of shareholders considers items only on the proposal of the Board of Directors of the Company.

All information regarding the general meeting of the shareholders is disclosed on the Company's web-site in the Internet.

The shareholders have the right to dispose their shares freely according to the regulations of the present legislation of the Russian Federation.

The Company provides the shareholders with appropriate protection of the rights on their own shares.

Registration system of share rights provides reliability of share ownership recording and gives a possibility of free and prompt alienation of shares belonging to the shareholders.

The Shareholder Register of the Company is kept by independent registrar approved by the Board of Directors of the Company. Election and appointment of an independent registrar with all necessary technical means and spotless reputation provides the Company with reliable and effective registration of share ownership and other securities of the Company.

Dividend rights are the essential right of a shareholder. Dividend policy is stipulated by the internal document of the Company, which is approved by the Board of Directors, and based on the balance between shareholders interests (in respect of taking the partial profit of the Company) and interests of the Company (in respect of laying out of development funds). At preparation for the annual meeting, the shareholders receive the information if there are available condition in the Company for dividend payment, which allow to estimate actual financial achievements of the reporting period, receive all forms of accountant reporting, annual reporting, report of an independent auditor and Auditing Committee on the results of business activity, receive the information on the procedure of dividend calculation and their payment. The Company is obliged to pay declared dividends in terms stipulated by the general meeting of shareholders.

The shareholders have the right of regular and timely receiving of information on Company's activity in the amount sufficient for taking better and reasoned decisions on share disposal.

In order to observe and protect the above mentioned right, the Company guarantees to meet the requirements on information disclosure stipulated by law.

All information disclosing in this or that way must be placed on the Company's web-site in the Internet.

The Company discloses its financial reporting according to the requirements of law of the Russian Federation and International Financial Reporting Standards (IFRS).

The shareholder has the right to require auditing of financial and economic activity of the Company according to the norms stipulated by the Federal Law "On public limited companies", the Charter and internal documents of the Company.

The Company expects that shareholders will not abuse the rights given to them and take any action only with the intention to inflict harm on shareholders or the Company.

2. General meeting of shareholders.

The Company aims to provide the shareholders participating in the general meeting with the possibility to receive the information necessary to take reasoned and better decisions on agenda items of the general meeting trying to provide the shareholders with easier access to the required information. The amount of information supplied to the shareholders and materials is determined by law of the Russian Federation, the Charter and internal documents of the Company.

At the general meeting the shareholders receive possibility to discuss items concerning Company's activity specified by the agenda.

3. Dividend policy.

The Company acknowledges the importance of income acquired by the shareholders in the form of dividends from the investment made by purchasing of its shares.

The Company has a transparent mechanism, which is clear for the shareholders, of dividends assessment and their payment, the procedure of dividend payment which is the most convenient for the shareholders, and measures excluding the incomplete and untimely payment of declared dividends.

Thereupon the Company works out and approves the dividend policy followed by the Board of Directors of the Company while taking the decisions on dividend payment. The dividend policy is formulated by the Regulation on dividend policy, the internal document of the Company approved by the Board of Directors.

The Company informs the shareholders and other interested persons about its dividend policy taking into consideration its significance for taking the investment decisions. In this connection information on the dividend policy of the Company and its alterations are placed on the Company's web-site in the Internet.

The Company provides the shareholders with detailed information on the amount and procedure of dividend payment, which can be found in the decision on dividend payment. In this connection, the decision on dividend payment contains amount of dividends on shares of each category (type), as well as form and terms of dividend payment.

While determining the procedure of dividend payment, the Company aims to provide the shareholders with the most convenient way of dividends receiving which meets the requirements of law.

V. CORPORATE GOVERNANCE POLICY IMPLEMENTED IN THE COMPANY

The Company considers the existence of the professional and independent Board of Directors to be the important element of effective corporate governance. The Board of Directors influences the results of the Company's work, carrying out general strategic management and controlling the work of executive bodies in the interests of the Company and its shareholders.

The executive bodies of the Company responsible for management of the current activity of the Company also play the important role in the management process. Effective interaction between the Board of Directors and executive bodies of the Company, exact delimitation of their authorities, are among the key factors guaranteeing the appropriate practice of the corporate management.

1. The Board of Directors of the Company.

Authorities

The authorities of the Board of Directors of the Company are regulated by the Charter of the Company in accordance with the current legislation and recommendations of FCSM Corporate Conduct Code.

The Board of Directors of the Company carries out general management of the Company's activity excluding items related to the competence of the general meeting of shareholders.

Goals and objectives

The main goals and objectives of activity of the Board of Directors of the Company are as follows:
- to determine the development strategy of the Company aimed to the increase of shareholder value and investment attraction;

- to provide the exercise and protection of the shareholders' rights and assist in resolution of corporate conflicts;
- to provide the shareholders and other interested persons with complete, reliable and objectivity of information disclosure concerning the Company;
- to create effective internal control mechanisms;
- to estimate regularly the activity of the executive bodies of the Company and work of management bodies.

Activity Principles of the Board of Directors

In order to follow the above mentioned goals and objectives, the Board of Directors should observe the following Principles:

- to take decisions on the base of reliable information about activity of the Company;
- to exclude the limitation of shareholders rights to participate in the management of the Company, dividend receiving and getting information about the Company;
- to achieve the interest balance of the different shareholders groups and to take maximal objective decisions in the interests of all the shareholders of the Company.

Rights and obligations

Members of the Board of Directors should carry out reasonably and conscientiously assigned duties in the interests of the Company and shareholders. The rights and obligations of members of the Board of Directors are determined by the Charter and internal documents of the Company.

Each director aims to participate in all meetings of the Board of Directors.

Members of the Board of Directors understand their responsibility to the shareholders and reckon their main goal as carrying out their duties on management of the Company competently and conscientiously, which provides the support and increase of shares value, protection and possibility for the shareholders to exercise their rights, and appropriate quality of the economic activity carried out by the Company.

Members of the Board of Directors should be open for the dialogue with the shareholders.

The Company allows its directors to be members of the Board of Directors of other companies on the condition that other duties carried out by directors don't counteract the duties carried out by them in the Company.

Members of the Board of Directors should inform the Company about themselves in the amount and order stipulated by the internal documents of the Company.

Members of the Board of Directors should inform the Company in written form about their affiliation, intention to make a transaction with shares of the Company and its branch (affiliate) companies, as well as disclose the information about making of transactions with these securities.

Structure of the Board of Directors

The head of the Board of Directors is its Chairperson who is responsible for organization of the work of the Board of Directors of the Company.

Staff of the Board of Directors of the Company should provide its effective work, integrate representatives of different groups of shareholders and take into consideration different interests and viewpoints while taking decisions.

Each member of the Board of Directors should fully participate in the work of the Board of Directors. In this connection, a candidate to the member of the Board of Directors should take into consideration the extent of his workload in other collegial management bodies of other companies while taking the decision on his consent to fulfill the obligations as a member of the Board of Directors. Members of the Board of Directors should guarantee that their participation in management bodies of other legal entities does not counteract somehow to exercise functions of a

member of the Board of Directors of the Company, does not inflict financial losses or business reputation of the Company, and does not provoke competition to the Company.

Quantitative staff of the Board of Directors is determined by the general meeting of shareholders and fixed in the Charter of the Company. At the same time, the quantitative staff is determined in such a way that it is less significant than personnel one.

Staff of the Board of Directors is determined in a way to provide representation of different shareholder groups including minority shareholders.

Staff of the Board of Directors containing competent and experienced persons provides appropriate fulfillment of obligations on control, determination of strategy and guidelines of the Company. Each member of the Board of Directors should have experience, knowledge, qualification and spotless reputation, which are necessary to carry out his duties in organization of effective work of the whole Board of Directors in the interests of the Company and its shareholders. Staff of the Board of Directors consists of a wide range of specialists in core competence of the Company and individual industries and regions, where the Company conducts its business.

RF legislation forbids to overlap positions of the sole executive body and the Chairperson of the Board of Directors. The Company supposes that the head of the Board of Directors should be non-executive director because it allows the Board of Director to exercise its functions more effectively.

Staff of the Board of Directors contains not more than 25 % of executive directors, who are employees of the Company at the same time.

In order to provide the objectiveness of the decisions and balance among interests of different shareholder group, the staff of the Board of Directors of the Company should contain independent directors.

The Company informs the shareholders about the requirements to the staff of the Board of Directors, which should be taken into consideration at nomination of candidates, namely the staff of the Board of Directors should be an effective balance of professional experience, knowledge and personal characteristics of its members, and meet the requirements of the current legislation concerning the staff of the Board of Directors, in particular correlation between executive and non-executive directors.

Independence

RF legislation forbids to overlap positions of the sole executive body and the Chairperson of the Board of Directors. The Company supposes that the head of the Board of Directors should be a director, who is not a sole executive body and (or) member of collegial executive body of the Company at the same time, because it allows the Board of Director to exercise its functions more effectively.

Staff of the Board of Directors provides appropriate fulfillment of obligations on control, determination of strategy and guidelines of the Company.

Staff of the Board of Directors contains not more than 25 % of executive directors, who are employees of the Company at the same time.

In order to provide the objectiveness of the decisions and balance among interests of different shareholder group, the Company aims to contain at least 3 (three) independent directors in the staff of the Board of Directors. Within the present Code and according to the definition of the Company, directors are considered to be independent if they meet the following requirements of independence:

- who are not officials or Company employees at the moment of elections and were not officials or Company employees for 3 years before elections;
- who are not officials of another economic entity, where any official of the Company is a member of Committee of the Board of Directors on Personnel and Remuneration;
- who are not marriage partners, parents, children, brothers and sisters of the Company's officials;

- who are not affiliated persons of the Company excluding members of the Board of Directors of the Company;
- who are not parties on issuer obligations with the conditions to purchase property (receive funds), which costs 10 or more percent of total annual revenue of above mentioned persons except for the remuneration for participation in the activity of the Board of Directors;
- who are not representatives of state and/or local authorities, i.e. persons who should vote on the base of written directives (instructions, etc.) of authorized federal bodies of the government, governmental authorities of constituent entity of the Russian Federation or local authorities.

Election, terms and termination of authorities of members of the Board of Directors.

Members of the Board of Directors are elected for one year. The Board of Directors of the Company is elected by cumulative voting.

The Company does not consider limitation of age and amount of times members of the Board of Directors can be reelected to be in the interests of the Company or its shareholders. The experienced Board members well-acquainted with activity of the Company play an important role in the appropriate management.

The general meeting of shareholders can terminate the authorities only of the whole Board of Directors.

The Board of Directors work procedure

Form of meeting of the Board of Directors is determined according to the importance of agenda items. Taking into consideration that only full-time form of meeting of the Board of Directors allows to discuss agenda items, the most important decisions are taken during the full-time meetings.

The Board of Directors holds meetings according to the schedule which is worked out in the beginning of the authorities terms that provides the appropriate fulfillment of its obligations. The Board of Directors holds meetings at least once a quarter.

The Board of Directors work procedure is settled by regulations for activity of the Board of Directors. Detailed information and notification on holding of the meeting of the Board of Directors are provided to the directors in time, but not later than 11 business days before holding every meeting unless other terms stipulated by the internal documents of the Company.

Committees of the Board of Directors

The Board of Directors can establish committees for preliminary investigation of the most important questions related to its competence.

The Board of Directors can establish the following committees:

Auditing Committee;

Committee on Personnel and Remuneration;

Other Committees according to the decision of the Board of Directors of the Company.

Committees of the Board of Directors preliminary investigate the most important issues related to its competence include into agenda of the meeting of the Board of Directors of the Company, and work out recommendations on them. While taking the decision on the items included into agenda of the meeting the Board of Directors of the Company observes and takes into consideration the appropriate recommendations provided by Committees of the Board of Directors.

Regulations for activity, formation procedure, competence and authorities terms of the committee of the Board of Directors are determined by separate decisions of the board of Directors.

Following the recommendations of RF FCSM Corporate Conduct Code and patterns of the best corporate governance practice, the Company aims to provide maximal percentage of independent directors in the committees of the Board of Directors.

Remuneration to members of the Board of Directors

Decision on remuneration and (or) compensation payment to members of the Board of Directors of the Company is related to the competence of the general meeting of shareholders. Remuneration system should be transparent and clear for the shareholders, and information about it should be disclosed in the annual report of the Company.

Remuneration terms are settled in such a way in order to provide attraction and participation of experts in work of the Board of Directors, motivate their conscientious and effective activity.

Remuneration of the Board of Directors should be competitive to remuneration in the comparable companies.

Amount of remuneration to members of the Board of Directors of the Company should depend on activity results of the Company and Board of Directors.

Remuneration structure includes both monetary benefits and non-monetary incentives.

The Company does not grant loans to members of the Board of Directors³.

Responsibility of members of the Board of Directors

Members of the Board of Directors bear the responsibility for appropriate fulfillment of their obligations.

One of the effective means of appropriate fulfillment of obligations of members of the Board of Directors is responsibility of members of the Board of Directors for the losses inflicted to the Company by their wrongful acts which is stipulated by legislation of the Russian Federation.

In case of necessity the Company aims to terminate the authorities of members of the Board of Directors guilty for inflicted losses and bring to the responsibility for violation of their obligations to the Company.

At the same time the Company understands that, as long as one of the reasons of the responsibility of members of the Board of Directors is guilt, the bringing him to responsibility depends on whether a member of the Board of Directors acted reasonably and conscientiously while fulfilling his obligations, was attentive and careful as a good director and took all measures for appropriate fulfillment of his obligations.

Member of the Board of Directors should refrain from actions, which, in his opinion, can result in the conflict of his interests and interests of the Company, and immediately inform the Board of Directors about such conflicts, if any.

Members of the Board of Directors do not divulge and do not use confidential and inside information on the Company in private goals or interests of third persons.

Regulations for activity of the Board of Directors stipulate obligation of a member of the Board of Directors to bear responsibility for failure (improper exercise) to perform their obligations, and the right of the Company to bring a member of the Board of Directors to a court for compensation of losses inflicted by him.

2. Executive bodies of the Company.

³ Excluding if a member of the Board of Directors is also a sole executive body.

The executive body of the Company is a sole executive body of the Company – the General Director appointed by the Board of Directors.

The General Director plays an important role in the corporate governance.

Authorities

The General Director of the Company should perform his activity in the interests of the Company, i.e. perform management of the Company's activity in such a way in order to provide the shareholders with the protection of their rights and legal interests, and possibility of the Company's development as well.

In order to reach these goals the General Director first of all solves the following tasks: to be in charge of everyday work of the Company and its correspondence to the business plan, and consciously, timely and effectively fulfill decisions of the Board of Directors of the Company and the general meeting of shareholders.

The General Director reports to the Board of Directors of the Company, perform his activity in a strict accordance with the regulations stipulated by the Board of Directors of the Company and systematically reports to the Board of Directors on his activity.

All items concerning management of the current activity of the Company are related to the competence of the General Director except for the question related to the competence of the general meeting of shareholders and Board of Directors.

Election, terms and termination of authorities of the General Director

The Company aims to provide maximum transparent and impartial procedure of appointment and termination of authorities of the General Director.

The General Director is elected by the Board of Directors of the Company.

The Board of Directors is able to terminate the authorities of the General Director at any time.

Responsibility

The General Director of the Company bears the responsibility for organization, condition and reliability of the accountant reporting in the Company, timely delivery of annual reporting and other financial reporting to the appropriate bodies of the Company as well as information on the Company's activity.

The Company understands that, as long as one of the reasons of the responsibility of the General Director is guilt, the bringing him to responsibility depends on whether the General Director acted reasonably and conscientiously while fulfilling his obligations, was attentive and careful as a good director and took all measures for appropriate fulfillment of his obligations.

The General Director is reckoned to act reasonably and consciously if he is not personally interested in taking an exact decision and thoroughly study all information necessary for taking of the decision; in the same time other surrounding circumstances should evidence that he acted only in the interests of the Company.

Rights and obligations

The General Director should refrain from any actions which can result in the conflict of his interests and interests of the Company.

The General Director should immediately inform the Board of Directors about such conflicts, if any. Only the Board of Directors allows the General Director to combine his position with the positions in management bodies of other companies as well as other places of profit in other companies.

Taking into consideration that activity of the General Director in the interests of the Company requires trust of the shareholders, and therefore exception of any outside influence on the General

Director, the latter should not take presents or get other direct and indirect benefits the goal of which is to influence the activity of the General Director or the decisions taken by him.

The General Director should inform the Company in written form about his affiliation, intention to make a transaction with securities of branch (affiliate) companies, as well as disclose the information about making of transactions with these securities.

Remuneration

The system of remuneration of the General Director is determined by the Board of Directors of the Company. The remuneration consist of constant and variable parts, the latter depends on key indicators of work effectiveness of executive bodies and is connected with his personal contribution in long-term development of the Company in the interests of its shareholders.

Indicators of work effectiveness are understood as the system of financial and non-financial indicators influencing on quantitative and qualitative changes of results in relation to strategic goal of the Company.

Transference of the authorities of sole executive body of the Company to managing company

According to the decision of the general meeting of shareholders, the authorities of the sole executive body of the Company can be transferred under the contract of managing company or to a managing director.

Rights and obligations of a managing company (managing director) concerning carrying out of the current activity of the Company are stipulated by law of the Russian Federation and contract concluded with the Company.

While choosing a managing company (managing director), the Board of Directors follows the following criteria:

- the General Director and board members of managing company or a managing director of the Company should meet the requirements towards the General Director of the Company;
- managing company (managing director) should have enough funds for compensation of possible losses of the Company and third persons, which are results of its activity;
- managing company (managing director) should not exercise similar functions in rival company as well as be in any privities with the Company besides rendering of the managing services.

Interaction between the Board of Directors and executive bodies of the Company

Effective corporate governance requires open dialogue between the Board of Directors and executive bodies of the Company. In this connection the General Director of the Company provides the Board of Directors with quarterly action report.

VI. CORPORATE SECRETARY

Necessary condition for provision of shareholders' rights and interests is a strict observance of procedures stipulated by law of the Russian Federation, Charter and other internal documents of the Company, by bodies and officials of the Company. The appropriate observance of the procedure of preparation and holding of the general meeting of shareholders, Board of Directors of the Company, keeping, disclosure and delivery of information about the Company are of great importance, because non-observance of these procedures results in majority of violation of rules and legal interests of the shareholders.

With the purpose to provide effective observance of above mentioned procedures the Company is able to elect an official with the main task to control how bodies and officials of the Company

observe procedural requirements guaranteeing exercise of rights and legal interests of the shareholders – the Corporate Secretary of the Company.

Obligations

The Corporate Secretary of the Company fulfills the following main obligations:

- to prepare and hold the general meeting of shareholders according to the requirements of current law of the Russian Federation, present Charter and other internal documents of the Company on the basis of the decision on the holding of the general meeting of shareholders;
- to prepare and hold the meetings of the Board of Directors according to the requirements of the law, Charter and other internal documents of the Company;
- to assist member of the Board of Directors in exercising of their functions;
- to disclose (deliver) information about the Company and keep documents of the Company;
- to provide the shareholders with the appropriate consideration of their appeals to the Company, registration and preliminary analysis of corporate conflicts including conflicts connected with violation of shareholders' rights;
- to inform the Chairperson of the Board of Directors about all facts impeding the procedure observance which come within his duties.

Requirements to the candidate

Requirements to the candidate for the Corporate Secretary of the Company, procedure of the Corporate Secretary election, and his obligations are determined by the Charter of the Company, present Code and Regulation on the Corporate Secretary of the Company.

The Corporate Secretary can be a person with the spotless reputation, high legal or economic education, not less than 3 years of experience, and other characteristics stipulated by the internal documents of the Company.

In case the Corporate Secretary of the Company is not elected, his functions are exercised by the Secretary of the Board of Directors and/or profile department of the Company.

VII. INFORMATION DISCLOSURE AND TRANSPARENCY

1. Policy and practice of information disclosure.

The primary task for the Company is to provide the shareholders and potential investors of the Company with the information about the activity of the Company.

The Company guarantees the shareholders and investors to provide available, regular and reliable information in order to control executive bodies of the Company and take competent decisions on the estimation of their activity.

Goals of information disclosure

Goal of information disclosure of the Company is to deliver the information to all persons interested in it in the volume necessary for better decision on participation in the Company concerning securities of the Company or performing other acts which are able to influence financial and economical activity of the Company.

Principles of information disclosure

While disclosing information the Company observes the following Principles:

Principal of completeness and reliability of disclosing information, according to which the Company provides all interested persons with the information corresponding to the reality without hiding negative information about itself in the volume which makes possible to form complete idea about the Company and the results of its activity.

Principal of information availability, according to which the Company uses dissemination channels while disclosing information about its activity, which provide with free and easy access to the shareholders, creditors, potential investors and other interested persons.

Principal of information balance, which means the information policy of the Company is based on the reasonable balance transparency of the Company for all interested persons on the one hand and confidentiality on another hand in order to exercise right of the shareholders to receive information about activity of the Company on the condition of information protection which is considered to be confidential or inside one.

Principal of regular and timely information disclosure, which stipulated that the Company provides the shareholders, creditors, potential investors and other interested persons with the information about its activity in terms determined by regulatory legal acts of the Russian Federation and internal documents of the Company.

Procedure of information disclosure

The Company guarantees timely and accurate information disclosure concerning all essential matters of its activity by fulfilling the requirements stipulated by law of the Russian Federation and willingly disclosing additional information.

Information about events in the Company considered to be important according to law of the Russian Federation and on the own initiative of the Company is published in mass media and web-sit in the Internet to the address www.mrsk-yuga.ru.

Information sharing channels provide equal, timely and cheap access to such sort of information.

Information protection

The Company takes measures to protect information which is a commercial secret.

Information which is a commercial secret, conditions of access to such sort of information, and possibility to use it are determined by the Company in appropriate regulations with regard to necessary observance of a reasonable balance between openness of the Company and an attempt to prejudice its interests.

The Company controls usage of the inside information.

The inside information is understood as any data closed by the Company concerning securities of the Company and its SDCs, securities trading, the issuers and their activity, the disclosure of which can significantly influence market price of the above mentioned securities, and which provides informed persons with the priority position in comparison with other persons with the regard to decision on keeping and (or) purchasing and (or) alienation of the securities. Usage and protection of inside information is set by the Regulation on inside information of the Company.

2. Financial reporting.

The Company runs accounting and prepares financial reporting in accordance with the Russian standards of accounting and financial reporting. The Company prepares the reporting according to International Financial Reporting Standards (IFRS) and publishes the reporting on its web-site in the Internet.

The financial reporting goes with the detailed comments, which allow a reader of such a reporting to understand data on the financial results of the Company's activity correctly. The financial information is enlarged with the comments and analytical estimation of the Company's directorate and resolutions of the Auditor of the Company and Auditing Committee.

3. Structure of share capital.

The Company discloses the information about actual owners of five and more percent of voting shares of the Company, aiming to provide transparency of share capital structure.

VIII. CONTROL OVER FINANCIAL AND ECONOMIC ACTIVITIES OF THE COMPANY

The Company establishes a system of control over financial and economic activity, because it understands the necessity to decrease possibility of events occurrence negatively influencing goal achievements of the Company and resulting in losses due to decisions taken on the basis of misjudgments, human errors, willful control deviation, and because it admits high necessity of the shareholders for protection of their investments and safety of the Company's assets.

Goals

The current system of financial and economic activity control over the Company is aimed to provide the shareholders with the trust to the Company and its management bodies. The main goal of control of financial and economic activity of the Company is protection of the shareholders' investments and Company's assets.

Moreover, the internal control of financial and economic activity is aimed to achieve the following goals:

- completeness and reliability of financial, accountant, statistic, management and other reporting;
- observance of regulatory legal acts of the Russian Federation, decisions of management bodies of the Company and internal documents of the Company;
- safety of the Company's assets;
- fulfillment of tasks set by the Company in the most effective way;
- effective and economic exploitation of the Company's resources;
- timely detection and analysis of financial and operational risks, which can negatively influence goal achievements of the Company connected with its financial and economic activity.

System of financial and economic activity control bodies

Financial and economic activity control of the Company is carried out by the Board of Directors, Auditing Committee and Auditor of the Company.

In order to carry out direct and effective control over financial and economic activity in the Company, the Board of Directors can establish a special commission of the Board of Directors responsible for this line of activity – Auditing Committee.

Principles

Financial and economic activity control is based of the following Principles:

- control independence – carrying of objective and impartial control of bodies (departments, persons) independent from officials and departments of the Company who are in charge of financial and economic activity of the Company;
- complex character – internal control of all lines and levels of the financial and economic activity of the Company;
- regularity and continuity – control according to terms and frequency stipulated by law, internal documents of the Company and schedules of internal inspections;
- delimitation of authorities and competences – bodies (departments, persons), directly controlling the financial and economic activity, act in conditions of functional insulation from bodies

(departments, persons) performing financial and economic activity. Authorities of each internal control subject are stipulated by internal documents of the Company;

- interaction of bodies (departments, persons) of the Company exercising internal control – in order to provide the system character to financial and economic activity control;
- timely notification of the Board of Directors on detected violations and risks – results of the internal control describing acceptable violations and existing risks are brought to the attention of the Board of Directors of the Company. Terms of the notification of the Board of Directors of the Company should exclude the loss of its actuality;
- control over detected violation elimination – all detected violations of law of the Russian Federation, decisions of management bodies of the Company and internal documents of the Company are to be eliminated in reasonable terms;
- constant development and improvement – system of financial and economic activity control should be regularly estimated, and according to estimation results and results of the Company's development it is altered and its activity is improved in order to achieve maximal effectiveness of conformity to the Company's needs.

Auditing Committee

The Auditing Committee of the Company is elected by the general meeting of shareholders for the period of the next general meeting of shareholders in the order stipulated by the current law of the Russian Federation and Charter of the Company.

The Auditing Committee has a right and, in case of detection of serious violations in financial and economic activity, is obliged to require the calling of extraordinary general meeting of shareholders of the Company.

Operating procedures of the Auditing Committee are stipulated by the internal document of the Company approved by the general meeting of shareholders of the Company.

Revision (auditing) of the financial and economic activity of the Company can be carried out in any time on the initiative of the Auditing Committee of the Company, decision of the general meeting of shareholders, the Board of Directors of the Company or demand of the shareholder possessing in aggregate not less than 10 percent of voting shares of the Company.

The Auditing Committee revises functioning of internal control system and control and regulating of risks system and informs about the results of its revision in resolution transferred to the shareholders with another documents before holding of the annual general meeting of shareholders.

Auditor

In order to revise and confirm the annual financial reporting of the Company the general meeting of shareholders approves the Auditor of the Company every year. The Auditor of the Company carries out revision of the financial and economic activity of the Company in accordance with the requirements of law of the Russian Federation and on the basis of the contract concluded with it.

The Company guarantees the reliability of financial (accountant) reporting of the Company involving into external audit of financial (accountant) reporting of the Company Auditors with recognized experience and reputation in the field of auditing.

Internal division of the Company

In order to carry out internal control of business transactions performing the Company is able to establish a department with the obligation of internal auditing.

Internal control procedures, matters of interaction of bodies (departments, persons) carrying out control of the financial and economic activity of the Company and risks detection are stipulated by the local regulatory legal acts of the Company approved by the Board of Directors of the Company.

IX. CORPORATE CONFLICTS SETTLEMENT

Corporate conflicts are understood by the Company as any disagreement or dispute between bodies of the Company and its shareholder (shareholders) occurred as a result of shareholder's exercise of his/her rights and legal interests, or disagreement or dispute between the shareholders of the Company in case it effects the interests of the Company.

While regulating a corporate conflict, the main task of the Company is to search for the decision which would meet the interests of the Company being legal and reasonable.

The Company provides conditions for maximally complete and fast conflict detection, if they occurred or can occur in the Company, and informs the shareholders about the position of the Company in a corporate conflict, based on the norms of the current law of the Russian Federation.

Operating procedures of the bodies on corporate conflicts regulation of the Company consist in exact delimitation of competence of the bodies on discussion and regulation of corporate conflicts of the Company.

Corporate conflicts regulation on behalf of the Company is carried out by the Board of Directors or General Director with the regard to all matters of their competence.

While regulating corporate conflicts the Board of Directors of the Company is able to establish a special committee on corporate conflict regulation, elected from its members.

In case of a corporate conflict among the shareholders of the Company, the General Director and/or the Board of Directors have right to suggest the shareholders the services of the Company as a mediator in conflict regulation.

By approbation of the shareholders, being parties in a corporate conflict, the Company's bodies (their members) are able to participate in negotiation between the shareholders, to deliver available information and documents connected with a conflict to the shareholders, to explain norms of share legislation and regulations of internal documents of the Company, to give advisory opinions and recommendations, to prepare draft documents on conflict regulation to be signed by the shareholders, to undertake on behalf of the Company and within their competence the obligations to shareholders inasmuch as it can assist in conflict regulation.

X. INTERRELATION WITH SUBSIDIARIES AND DEPENDENT COMPANIES

Principles and practice of interrelation with subsidiaries and dependent companies

The Company aims to a balanced development based on effective mechanisms of the corporate governance.

The Company interrelates with subsidiaries and dependent companies (SDCs) in accordance with the requirements of law of the Russian Federation, Charter, internal documents of the Company, and Charters of subsidiaries and dependent companies.

The main goals of the Company's interrelation with SDCs are as follows:

- stable financial development, profitability, increase of investment attraction of the Company and SDCs;
- protection of rights and interests of shareholders of the Company and SDCs protected by law;
- harmonization of relationship between the shareholders, officials and employees of the Company and SDCs, exclusion of conflicts between them and inside above mentioned groups;
- development and realization of coordinate and effective investment policy of the Company and SDCs.

The Company interrelates with subsidiaries and dependent companies in accordance with the requirements of law of the Russian Federation, Charter, internal documents of the Company, and Charters of subsidiaries and dependent companies.

As far as corporate governance practice advances, the Company aims to develop corporate governance Principles in relation to subsidiaries and dependent companies.

XI. FINAL POISIONS

The present Code is valid from the moment of its approval by the Board of Directors of the Company. Matters not included into the present Code are regulated by law of the Russian Federation, international contracts and agreements, Charter and other internal document of the Company.

The present Code is always available on web-site of the Company in the Internet at www.mrsk-yuga.ru in the section of Corporate governance/ Internal documents of the Company.

Moreover, information about the Company's observance of the present Corporate Governance Code will be disclosed by the Company in annual reports or other dissemination channels.

As far as corporate governance practice advances in Russia and abroad, the Company aims to the further development of regulations including in the present Code and complete adaptation of these regulations in relationship occurred in the process of Company management.