

## **Explanatory note to the draft Articles of Association and internal documents of JSC IDGC Holding**

1. The restated version of the Articles of Association of JSC IDGC Holding (hereinafter “AoA”, “Company”) contains the following key amendments:

1.1. It is proposed to add to the Company’s AoA Chapter No. 13 “Management Board of the Company”. The possibility to create a collective executive body in a company is provided for in Article 69 of the Federal Law “On joint-stock companies”.

For the purposes of increasing the Company’s capitalization the Company’s shares are planned to be offered at stock exchanges. In compliance with the requirements of Order No. 07-102/pz-n of 09.10.2007 by the Federal Financial Markets Service of Russia “On approval of the regulations for stock exchange trading”, the issuer needs to meet a number of requirements, including availability of a collective executive body (management board) in the issuer to list its securities in A list of the stock exchange.

To ensure the exercise by the Company of its rights as a shareholder (member) in subsidiaries and controlled companies, it is proposed to refer to the competence of the Management Board issues relating to proposal of candidates to positions of chairmen of boards of directors, sole executive bodies, representatives of the Company in boards of directors and internal audit commissions of organizations with any legal status in which the Company has interests.

1.2. The current AoA of the Company (clause 11.3) provides for requirement to have a quorum (2/3 majority) for the Board of Directors to adopt resolutions on the following issues:

- establish the position with regard to items of the board of business at meetings of boards of directors and general meetings of shareholders in subsidiaries and controlled companies;
- approval of the procedure for interaction of the Company with business entities in which the Company has shares and interests, and adoption of decisions referred to it competence in compliance with the above procedure.

Applicable law does not provide for any requirement to quorum with regard to the above issues. Given the problems with ensuring the required quorum when adopting resolutions at meetings of the Board of Directors, it is proposed to provide that decisions on the above issues may be adopted based on a simple majority of votes.

1.3. In compliance with clause 1 Article 53 of the Federal Law “On joint-stock companies” a shareholder owning at least 2 percent of voting shares in a company has the right to enter items in the business of order of the annual general

meeting of shareholders and propose candidates to the board of directors, collective executive body, internal audit commission and counting commission of such company. Such proposals need to be delivered to the company not later than within 30 days on expiry of the financial year, unless the company's AoA provide for a later date.

In compliance with clause 1 Article 47 of the Federal Law "On joint-stock companies" the annual general meeting of shareholders shall be held in such time as set out in the company's AoA, but not earlier than 2 months and not later than 6 months after expiry of the financial year.

The current AoA of the Company provides for the right of shareholders to enter items in the business of order of the annual general meeting of shareholders and propose candidates to management and control bodies of the Company not later than 60 days on expiry of the financial year.

In order to assist the Company's shareholders in the exercise by them of their rights to propose candidates to management and control bodies of the Company it is proposed to increase the above period from 60 to 90 days on expiry of the financial year.

In this way, in case of amendments made to the AoA an annual general meeting of shareholders in the Company will be held not earlier than 5 months and not later than 6 months on expiry of the financial year.

1.4. The current AoA of the Company (clause 1.3) does not provide for explanation of "IDGC" abbreviation in the full name of the Company. It is proposed to include a full name: Joint-Stock Company Interregional Distribution Grid Companies Holding.

2. The following documents are proposed to be approved to govern activities of management and control bodies:

2.1. Regulations for the Convening and Holding Procedure for Meetings of the Board of Directors of JSC IDGC Holding.

The document complements the provisions of the Federal Law "On joint-stock companies" and the Articles of Association of the Company, including by providing for the procedure of running meetings of the Board of Directors in praesentia and in absentia, describing the rights and obligations of directors, the competence of the Chairman of the Board of Directors, introducing the position of the Secretary of the Board of Directors, setting out the rights, obligations and tasks of the Secretary of the Board of Directors, and providing for creation of Committees of the Board of Directors.

## 2.2. Regulations for the Preparation and Holding Procedure for the General Meeting of Shareholders of JSC IDGC Holding

The document describes working bodies of the General Meeting of Shareholders of the Company (Presidium, Secretary, etc.), the procedure for convening and holding the general meeting of shareholders, the rules of running the general meeting of shareholders, requirements to the list of information to be contained in motions by shareholders proposing candidates to management and control bodies of the Company, and the procedure of information support to the general meeting of shareholders.

## 2.3. Regulations for the Management Board of JSC IDGC Holding

The document sets out the procedure of forming the Management Board, rights and obligations of Management Board members, Chairman, introduces the position of the Executive Secretary of the Management Board, the decision making and respective follow-up procedures.

## 2.4. Regulations for the Internal Audit Commission of JSC IDGC Holding

The document sets out the procedure of the Internal Audit Commission operations: the Company's due diligence planning, due diligence and follow-up; due diligence report, and the rules for holding planning meetings.

2.5. Regulations for Remuneration and Compensation for Members of the Board of Directors of JSC IDGC Holding. In compliance with clause 2 Article 64 of the Federal Law "On joint-stock companies", members of the Board of Directors may be paid remuneration and indemnified for expenses subject to a respective resolution by the general meeting of shareholders.

It is proposed to provide for remuneration to members of the Board of Directors for participation in meetings of the Board of Directors, for net profit performance of the Company and for the Company's capitalization growth.

The amount of remuneration payable to members of the Board of Directors for participation in the meetings of the Board of Directors is proposed to be set as a multiple of the minimal tariff rate of a 1<sup>st</sup> grade worker as set out in the Industry-wide Tariff Agreement for the utility industry of the Russian Federation.

## 2.6. Regulations for Remuneration and Compensation for Members of the Internal Audit Commission of JSC IDGC Holding

In compliance with clause 1 Article 85 of the Federal Law “On joint-stock companies”, members of the Audit Committee may be paid remuneration and indemnified for expenses subject to a respective resolution by the general meeting of shareholders.

The amount of remuneration payable to members of the Audit Committee is proposed to be set as a multiple of the minimal tariff rate of a 1<sup>st</sup> grade worker as set out in the Industry-wide Tariff Agreement for the utility industry of the Russian Federation.