

CORPORATE GOVERNANCE PRINCIPLES AND PRACTICE

The corporate governance is defined by the Company as combination of processes that ensure the management and control of its activities including the relationship between the shareholders, Board of Directors and executive bodies in favor of all participants of corporate relations including shareholders and management bodies, as well as potential investors, consumers of services, employees of Rosseti Kuban, counterparties, creditors, partners, state and local communities.

Rosseti Kuban considers the corporate governance as a mean of improving its performance, strengthening reputation and reducing costs of capital raising by the Company.

The Company has consistently adhered to the following principles of corporate governance:

01

FAIRNESS

The Company is committed to protect the legitimate rights of the shareholders, to ensure equal treatment of all shareholders, to provide all shareholders with the opportunity to effectively protect their rights in case of violation.

02

ACCOUNTABILITY

The Company's Board of Directors is accountable to all shareholders in accordance with the legislation of the Russian Federation.

03

TRANSPARENCY

The Company ensures timely disclosure of all relevant facts relating to its activities including its financial situation, performance, ownership structure and management of the Company, as well as free access to such information for all stakeholders.

04

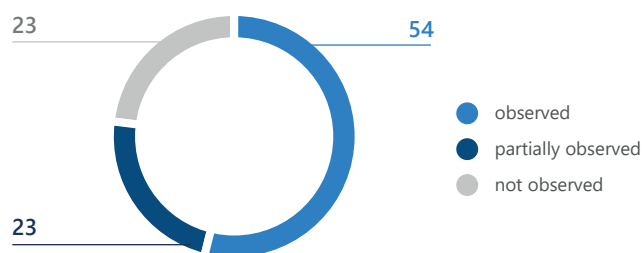
RESPONSIBILITY

The Company admits its responsibility to the shareholders of Rosseti Kuban and provides a reliable way to take rights for shares owned by them into account.

In order to improve and organize corporate governance, ensure greater transparency of management and confirmation of the continued readiness to comply with the standards of proper corporate governance, since 2006, the Company has Company's Corporate Governance Code based¹ on the legislation of the Russian Federation, which was in force at the moment of its approval, the Corporate Ethics Code recommended for application by the Decree No.421/r of Federal Commission of Securities Market of Russia dated April 4, 2002, Corporate Governance Principles of OECD recognized in the whole world. The Company adheres to the principles of its own Corporate Governance Code to the fullest extent.

Rosseti Kuban is also committed to the principles and recommendations of the Corporate Governance Code recommended for use by the Bank of Russia. The report on its meeting by the Company in 2020 is available in Annex 1. The Board of Directors certifies that all report data contain full and reliable information on the Company's compliance with the principles and recommendations of the Corporate Governance Code of the Bank of Russia.

Company's Compliance with principles and recommendations of the Corporate Governance Code of the Bank of Russia in 2020, %



In order to ensure an appropriate level of corporate governance and to improve it, the Company has also introduced the following regulations²:

- on the General Meeting of Shareholders;
- on the Board of Directors;
- on the Management Board;
- on the Audit Commission;
- on the Committees of the Board of Directors;
- on Insider Information;
- on Information Policy;
- on the Corporate Secretary of the Company;
- on the Dividend Policy, etc.

In the reporting year, the Company's internal audit conducted an assessment of corporate governance at the end of the 2019/2020 corporate year concerning its compliance with the laws of the Russian Federation, principles and recommendations of the Corporate Governance Code of the Bank of Russia, Listing Regulations of the Moscow Exchange and the best corporate practices. The assessment was carried out in accordance with the Company's method, which corresponds to the standard method of assessing the corporate governance of Rosseti's S&A.

As a result of the assessment, the internal audit recognized the Company's corporate governance as relevant to the developed practice, it also noted that the potential for improvement of the assessment on a number of issues depends on the position of the main shareholder and other external factors that cannot be influenced by the Company.

The results of the assessment of the Company's corporate governance in the 2019/2020 corporate year by the internal audit

Component	Maximum points	2019/2020 corporate year		Reference: compliance with the established criteria in 2018/2019 corporate year (%)
		Points of the Company	Compliance with the established criteria (%)	
Shareholders' rights	71	66	93	89
Board of Directors	154	114.5	74	63
Executive management	40	34	85	85
Transparency and disclosure of information	130	106	82	82
Risk management, internal control, and internal audit	63	61	97	95
Corporate social responsibility, business ethics, and compliance	31	31	100	87
Total score	489	412.5	84	79

¹ The current version was approved by the resolution of the Board of Directors of Kubanenergo OJSC dated March 6, 2013 (Minutes No.154/2013 dated March 7, 2013).

² Regulations specified here and other internal documents of the Company regarding the corporate governance are published on the website of Rosseti Kuban in the section [About the Company / Constituent and in-house documents](#).

In the reporting year, the Company's Articles of Associations were amended as follows:

- increase in the authorized capital following the placement of additional shares in 2019;
- changes in the Company's brand name as part of the Company's joining to the single brand style standard of Rosseti and Rosseti Group of Companies.

The Company's General Meeting of Shareholders approved the revised Regulation on the Board of Directors of Rosseti Kuban by the resolution dated May 29, 2020 (Minutes No.43 dated May 29, 2020). In particular, the changes are related to:

- reduction of a period for documents and information submission to a member of the Board of Directors as per his request from five to two working days,
- reduction of a period for submission of a notification on the meeting holding to the members of the Board of Directors from 11 working days to five calendar days; it allows to convene and hold the meetings of the Board of Directors on appearing issues more rapidly.

In 2020, the Board of Directors approved a method for assessment of the operation of the Board of Directors and its committees, according to which the assessment is carried out:

- every year in the form of self-assessment;
- every three years (if necessary) by an independent external organization, which is engaged on a competitive basis.
- the assessment covers:
 - general performance of the Board of Directors;
 - performance of each committee of the Board of Directors;
 - performance of the Chair of the Board of Directors;
- work to support the activities of the Board of Directors and its committees.

In the reporting year, the performance of the Board of Directors' members within operation of this management body was equal to 95.2%:

- from January 1 to June 29, 2020—100%;
- from June 29 to the end of the year – 91.6%.

IN 2021, THE COMPANY WILL CONTINUE ITS WORK AIMED AT IMPROVING THE CORPORATE GOVERNANCE, BASED ON ANALYSIS OF THE BEST CORPORATE GOVERNANCE PRACTICES, AS WELL AS THE RESULTS OF THE CORPORATE GOVERNANCE ASSESSMENT BY THE INTERNAL AUDIT AND PLANNED ASSESSMENT (SELF-ASSESSMENT) OF THE OPERATION OF THE BOARD OF DIRECTORS AND ITS COMMITTEES.

The Company plans to introduce amendments of the Articles of Associations and internal documents of Rosseti Kuban oriented to enhancing the corporate governance in accordance with the recommendations of the Corporate Governance Code of the Bank of Russia.

