

**CODE**  
**OF CORPORATE GOVERNANCE**  
**of Open Joint-Stock Company RusHydro**

2008

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## **1. INTRODUCTION**

The purposes of this Code of Corporate Governance (hereinafter referred to as the Code) are improvement and systematization of the corporate governance of Open Joint-Stock Company RusHydro (hereinafter referred to as the Company), greater transparency in the management of the Company and confirmation of the Company's constant readiness to abide by the standards of due corporate governance. In particular:

- management of the Company shall be carried out with a due level of responsibility and accountability and in such a way as to maximize its share value;
- the Board of Directors and executive bodies shall work efficiently, in the interests of the Company and its shareholders (including minority shareholders) and shall create the requisite conditions for stable growth of its share value;
- due information disclosure, transparency and efficient operation of the risk management and compliance systems shall be ensured.

In adopting, periodically updating and abiding unconditionally by the provisions of this Code, of the Articles of Association of the Company and of other by-laws, the Company confirms its intent to promote the development and improve the practice of proper corporate governance.

For the purpose of further strengthening of trust on the part of shareholders, employees, investors and the public, the Company did not, in elaborating this Code, confine itself to the rules of the Russian legislation, but included in the Code additional provisions based on generally accepted Russian and international standards of corporate governance.

The Company assumes the obligations envisaged by this Code and undertakes to observe the standards and principles established herein.

## **2. INFORMATION ABOUT THE COMPANY**

The Company was set up on December 26, 2004 by resolution of the Board of Directors of Russian Open Joint-Stock Company for Power and Electrification UES of Russia (JSC RAO UES of Russia) dated December 24, 2004.

In accordance with resolution of the General Meeting of the Company Shareholders dated June 25, 2008 (Minutes No. 1), Open Joint-Stock Company Federal Hydrogenerating Company (JSC HidroOGK) was renamed Open Joint-Stock Company RusHydro (JSC RusHydro).

The Company is a hydrogenerating company whose shareholders include both Russian and foreign legal entities and individuals.

The Company was set up for the purpose of:

- implementing government policy in the hydropower industry;
- creating the requisite conditions for effective functioning of the electric power wholesale market;
- effecting efficient operation and centralized technological management of hydropower facilities;

- implementing a unified strategy in the sphere of investment and raising capital for fulfilling the system-wide tasks involved in the development of the hydropower industry;
- developing and implementing a scientific and technical policy and introducing progressive new types of equipment and technology, including for using renewable sources of electric power;
- generating profit.

The role of the Company in the economy of the Russian Federation is of exceptional importance. The activities of the Company and its subsidiaries and dependent companies provide for the vital activities of the population and development of all the branches of the Russian economy.

The Company's activities entail responsibility on its part towards its shareholders and the state, the Company's employees, as well as suppliers, consumers, business partners, other interested persons and society as a whole (social responsibility).

Recognizing this responsibility and being aware of the importance of a high standard of corporate governance for the success of the Company's business and for achieving mutual understanding between all those with an interest in the Company's activities, the Company assumes the obligation to pursue, in these activities, the principles set out herein and to apply all reasonable efforts to ensure that the Company abides by them in its daily business.

### **3. PRINCIPLES AND STRUCTURE OF CORPORATE GOVERNANCE IN THE COMPANY**

#### **3.1. Definition and principles**

Corporate governance is understood by the Company as the aggregate of processes ensuring management of and control over its activities and including relations between shareholders, the Board of Directors and the executive bodies of the Company in the interests of the shareholders. The Company perceives corporate governance as a means for making the Company more efficient in its activities, strengthening its reputation and cutting the costs of the capital it raises.

This Code, in accordance with which corporate governance is exercised within the Company, is based on the Russian legislation, the Code of Corporate Conduct recommended by the Federal Securities Commission by directive dated April 4, 2002 No. 421/r (hereinafter referred to as the Federal Securities Commission Code) and the principles of corporate governance recognized in international practice, such as the OECD (Organization for Economic Cooperation and Development) Principles of corporate governance.

Corporate governance in the Company is based on the following principles:

- **Accountability.** The Code envisages accountability of the Board of Directors of the Company to all shareholders in accordance with the effective legislation and serves as an instruction manual for the Board of Directors in developing strategy and exercising management of and control over the activities of the Company's executive bodies. The Management Board and the Chairman of the Management Board are accountable to the Board of Directors of the Company and to the General Meeting of Shareholders.

- **Fairness and an equitable attitude towards all shareholders.** The Company undertakes to defend the rights of shareholders and to ensure an equitable attitude towards all shareholders. The Board of Directors provides all shareholders with an opportunity to receive effective protection in the event of violation of their rights.
- **Transparency.** The Company provides for timely disclosure of accurate information about all material facts relating to its activities, including its financial status, social and environmental indicators, the results of its activities, ownership structure and management of the Company, as well as free access to such information for all interested parties.
- **Conscientiousness.** Conscientious exercise by all shareholders, the Company, its bodies, officials and other interested parties of their rights and preclusion of rights abuse.

### 3.2. By-laws

This Code constitutes a collection of principles. The specific structures, procedures and the practice of corporate governance are regulated by the Articles of Association and by-laws of the Company, including:

- Regulations on the procedure for preparing for and holding a General Meeting of the Company Shareholders;
- Regulations on the procedure for convening and holding meetings of the Board of Directors of the Company;
- Regulations on the Management Board of the Company;
- Regulations on the Audit Commission of the Company.

These by-laws of the Company have been drawn up in accordance with the legislation and in consideration of the basic provisions of the Federal Securities Commission Code. All the above-mentioned documents may be found on the Company's website at <http://www.gidroogk.ru>.

### 3.3. General structure of corporate governance

The system of the Company's management bodies includes:

**The General Meeting of Shareholders** – the supreme management body of the Company through which shareholders exercise their right to participate in management of the Company;

**The Board of Directors** – the management body responsible for developing the Company's strategy, for overall management of its activities and control over those of its executive bodies. The Board of Directors of the Company may also set up committees under the Board of Directors;

**Committees under the Board of Directors** – consulting and advisory bodies of the Board of Directors of the Company created for the purpose of preliminary consideration of the most important matters falling within the terms of reference of the Board of Directors;

**The Management Board and the Chairman of the Management Board** – the management bodies in charge of the daily activities of the Company and implementing the strategy determined by the Board of Directors and the shareholders of the Company;

**Audit Commission** – the body exercising control over the financial and business activities of the Company, accountable directly to the General Meeting of the Company Shareholders.

#### **4. THE CORPORATE GOVERNANCE PRACTICE IMPLEMENTED IN THE COMPANY**

The Company believes the existence of a professional Board of Directors to be a major element in effective corporate governance. The Board of Directors influences the results of the Company's business by exercising overall strategic management and control over the work of the executive bodies in the interests of the Company and its shareholders. The executive bodies of the Company responsible for management of the daily activities of the Company also play an important role in the management process. Effective interaction between these two bodies and a precise division of their authorities constitutes a key factor in ensuring proper practice of corporate governance.

For the purpose of efficient corporate governance, the Company guarantees to the members of the Board of Directors observance of their rights envisaged by the effective legislation of the Russian Federation, the Articles of Association and by-laws of the Company, including by ensuring effective participation by the members of the Board of Directors in the work of the Board of Directors of the Company.

##### **4.1. The Board of Directors**

**4.1.1. Election, the term and termination of the authorities of the members of the Board of Directors.** Members of the Board of Directors are elected for the period up to the following Annual Meeting of Shareholders.

The Company does not believe that introduction of restrictions on the number of times members of the Board of Directors may be re-elected will be in the interests of the Company or its shareholders. Members of the Board who are well acquainted with the Company's activities play an important role in ensuring proper management.

The authorities of the Board of Directors are regulated by the Articles of Association of the Company in accordance with the effective legislation and the recommendations the Federal Securities Commission Code.

The numerical strength of the Board of Directors is determined in the Articles of Association of the Company.

The General Meeting of Shareholders may terminate the authorities only of the entire Board of Directors.

**4.1.2. Independence.** It is prohibited by law to combine the position of the sole executive body and the Chairman of the Board of Directors. The Company believes that the Board of Directors should be headed by a director<sup>1</sup> that is not, at the same time, the sole executive body and (or) a member of the collegial executive body (member of the Management Board) of the Company, since this allows the Board of Directors to fulfill its functions more effectively.

The composition of the Board of Directors ensure due fulfillment of the duties to exercise control over and determine the strategy and key spheres of development of the Company.

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<sup>1</sup> Hereinafter referred to as a member of the Board of Directors of the Company.

The Board of Directors may include no more than 25% of Directors who are, at the same time, employees of the Company.

In order to ensure the objectivity of the resolutions adopted and a correct balance of the interests of the various groups of shareholders, the Company strives to include at least 3 (three) independent directors on the Board of Directors. For the purposes of this Code, as defined by the Company, an independent director is one that meets the following independence requirements:

- is not, at the time of election or for the 3 years preceding election, an official or employee of the Company;
- is not an official of another commercial entity in which any of the officials of the Company is a member of a committee of the Board of Directors for personnel and remuneration;
- is not the spouse, parent, child or sibling of an official of the Company;
- if not an affiliated entity of the Company, with the exception of a member of the Board of Directors of the Company;
- is not a party to obligations with the issuer, in accordance with the terms and conditions of which he/she might acquire property (receive monetary funds) worth 10 or more per cent of the total annual income of this person, apart from receipt of remuneration for participation in the activities of the Board of Directors of the Company;
- is not a representative of the government, i. e., a person elected to the Board of Directors from among the candidates put forward by the Russian Federation, a constituent entity of the Russian Federation or a municipality, if such a member of the Board of Directors is to vote on the basis of written directives (instructions, and so on) issued by the Russian Federation, a constituent entity of the Russian Federation or a municipality, respectively.

**4.1.3. Committees under the Board of Directors.** The following committees of the Board of Directors have been set up within the Company:

- Strategy Committee;
- Investment Committee;
- Audit Committee;
- Personnel and Remuneration Committee.

The activities of all the committees are regulated by regulatory by-laws of the Company containing provisions on the composition, terms of reference and work procedure of the committees, as well as on the rights and obligations of their members:

- The Regulations on the Strategy Committee under the Board of Directors of the Company;
- The Regulations on the Investment Committee under the Board of Directors of the Company;
- The Regulations on Audit Committee under the Board of Directors of the Company;

- The Regulations on Personnel and Remuneration Committee under the Board of Directors of the Company.

Committees under the Board of Directors are set up for the purpose of preliminary review of the most important matters falling within the terms of reference of the Board of Directors and are accountable to the Board of Directors of the Company. Reports on the activities of the Committee are considered annually at meetings of the Board of Directors.

Committees of the Board of Directors are made up of persons with considerable experience and knowledge in the relevant sphere, which increases the effectiveness and quality of the work of the Board of Directors. The numerical strength of the Committees of the Board of Directors is determined in such a way as to ensure comprehensive discussion of the matters under review, in consideration of different points of view. The Company strives to ensure that the Committees include independent directors and minority shareholders or their representatives.

The Strategy Committee promotes greater efficiency of the Company's activities in the long term and elaborates recommendations for modifying the existing development strategy of the Company.

The Investment Committee undertakes preliminary consideration of investment projects and investment programs and other matters, and improves and develops the Company's investment policy.

The Audit Committee exercises control by the Board of Directors over the financial and business activities of the Company and elaborates recommendations for selecting an independent auditing organization and for the procedure for interacting with the Audit Commission and the auditing organization (auditor).

The Personnel and Remuneration Committee of the Board of Directors promotes engagement of qualified specialists, including members of the Board of Directors, and creation of the necessary incentives for their successful work.

**4.1.4. Work procedure.** The Board of Directors holds meetings in accordance with the work plan approved at the beginning of its term of authority, which ensures due fulfillment of its duties. The Board of Directors holds meetings at least once a quarter. If necessary, extraordinary meetings of the Board of Directors may be held.

The work procedure of the Board of Directors is regulated by the Regulations on the Procedure for Convening and Holding Meetings of the Board of Directors. The Secretary of the Board of Directors ensures timely receipt by all directors of brief but exhaustive information in conjunction with the notification of the holding of a meeting of the Board of Directors, at least 11 business days before each meeting is to be held.

By resolution of the Chairman of the Board of Directors, the time for furnishing members of the Board of Directors with notification of the holding of a meeting of the Board of Directors and the relevant materials (information) may be shortened.

Minutes are drawn up on the results of each meeting of the Board of Directors. The Minutes are signed by the Chairman of the Board and the Secretary of the Board of Directors.

**4.1.5. Remuneration.** Remuneration of Directors shall comply with market conditions and shall be set in such a way as to ensure engagement of highly qualified specialists to participate in the work of the Company and to be an incentive to honest and efficient work on their part.

Supplementary forms of remuneration for Directors encourage Directors to increase the capitalization and maximize the profits of the Company.

The Company makes information about the remuneration of Directors public.

The Company shall not extend loans to Directors that are not Company employees.

**4.1.6. Duties of Directors.** Directors shall act conscientiously and with due diligence in the interests of the Company and all its shareholders. Each Director shall strive to take part in all meetings of the Board of Directors.

Directors shall recognize their responsibility towards the shareholders and consider their main goal to be conscientious and competent fulfillment of their duties to manage the Company, maintain and increase the value of its shares, protect the rights of shareholders and ensure their possibility of exercising these rights.

Members of the Board of Directors shall strive to conduct a dialogue with the shareholders.

Members of the Board of Directors shall provide for formulation and implementation of the development strategy of the Company.

The Board of Directors creates and maintains the requisite mechanisms for exercising control over the activities of the Management Board of the Company, including monitoring and assessment of its results.

The Board of Directors creates a system of comprehensible and transparent criteria and procedures for appointing and replacing members of the Management Board of the Company and an effective remuneration system for its members.

Members of the Board of Directors shall not disclose confidential information about the Company or use it for their own purposes.

Members of the Board of Directors undertake to refrain from any actions that might entail a conflict between their own interests and those of the Company. In the event that such a conflict does arise, the member of the Board of Directors undertakes to notify the other members of the Board of Directors to this effect and to refrain from voting on the relevant matters.

## **4.2. The Management Board and the Chairman of the Management Board**

The Company recognizes that, for the purpose of management of the current activities of the Company, a sole executive body is needed in the person of the Chairman of the Management Board. It also recognizes that, in the process of management, complex matters will need to be decided and that, for this purpose, a collective, not individual approach is required. In this connection, the Company sets up a Management Board, headed by the Chairman of the Management Board.

**4.2.1. Authorities.** The Chairman of the Management Board and the Management Board exercise management of the current activities of the Company for the purpose of fulfilling the tasks and implementing the strategy of the Company.

**4.2.2. Numerical strength.** The Chairman of the Management Board presents recommendations regarding the numerical strength of the Management Board, which is determined by the Board of Directors of the Company.

**4.2.3. Election, the term and termination of the authorities of the Chairman of the Management Board and of the Management Board.** The Chairman of the Management Board is elected by the Board of Directors for a period of 5 years. The Chairman of the Management Board, in turn, nominates candidates as members of the Management Board for approval by the Board of Directors.

The Board of Directors may terminate the authorities of the Chairman of the Management Board and of the members of the Management Board at any time.

**4.2.4. Members of the Management Board.** The members of the Management Board, which includes competent and experienced persons, ensure effective management of the current activities of the Company. Each member of the Management Board, including the Chairman of the Management Board, possesses the experience, knowledge and qualifications necessary for due fulfillment of the duties assumed thereby.

**4.2.5. Work procedure of the Management Board.** The Management Board holds regular meetings; the members of the Management Board receive timely information on the agenda items. The work procedure of the Management Board is regulated by the Regulations on the Management Board of the Company.

**4.2.6. Remuneration and work assessment.** The remuneration system for the Chairman of the Management Board and the members of the Management Board is determined by the Board of Directors. The remuneration consists of a constant and a variable part, the latter depending on performance of a specific system of indicators (hereinafter referred to as the Indicators) of the work carried out by the executive bodies and linked to their personal contribution to ensuring the long-term development of the Company in the interests of its shareholders.

The Indicators are understood as a system of financial and non-financial indicators affecting the quantitative and qualitative change in results with respect to the Company' strategic goals.

In determining the Indicators for the executive bodies, the Board of Directors of the Company concentrates only on the most material of these. The number of Indicators is limited (in order for their fulfillment to be realistic and for monitoring to be of good quality).

The principles of the KPI System of the Company are established by the Board of Directors of the Company.

**4.2.7. Duties of the executive bodies.** The Chairman of the Management Board and members of the Management Board shall act conscientiously and with due diligence in the interests of the Company and all its shareholders.

The Chairman of the Management Board and members of the Management Board undertake to refrain from any actions that might entail a conflict between their own interests and those of the Company. In the event that such a conflict does arise, the Chairman of the Management Board and members of the Management Board undertake to notify the other members of the Board of Directors to this effect and to refrain from discussing of and voting on the relevant matters.

The Company recognizes that the experience, public contacts, knowledge and qualifications of the members of the Management Board, including those acquired thereby while working for the Company, open up opportunities for commercial activities (both private and collective – by means of possession of stakes and shares) not associated with the interests of the Company.

At the same time, the members of the Management Board shall guarantee that performance of such activities:

- in no way hinders them in fulfilling their functions as members of the Management Board of the Company;
- is in no way connected with use of the material and intellectual resources of the Company;
- will not cause any material damage to the Company;
- will not cause damage to the business reputation of the Company;
- does not create competition with the Company.

In the event of failure to fulfill or creation of preconditions for failing to fulfill even one of the above-listed terms and conditions, the member of the Management Board undertakes to terminate any activity connected with said failure.

For the purpose of precluding the possibility of adverse consequences for the Company, members of the Management Board shall disclose to the Company information about their performance of any commercial activities not connected with the interests of the Company, in accordance with the procedure established by the regulatory by-laws of the Company.

#### **4.3. Interaction between the Board of Directors and executive bodies**

Effective corporate governance requires an open dialogue between the Board of Directors and the executive bodies of the Company. To this end, the Management Board of the Company shall furnish the Board of Directors with reports on the activities of the Management Board in accordance with the Regulations on the Management Board.

### **5. SHAREHOLDERS IN THE COMPANY**

#### **5.1. Rights of shareholders and protection of the rights of shareholders**

Shareholders in the Company enjoy an aggregate of rights in relation to the Company, observance and protection of which it is the duty of the Board of Directors and the Management Board of the Company to ensure.

The Company Shareholders Register is to be maintained by an independent registrar. The choice and appointment of the independent registrar possessing all the requisite technical means and an impeccable reputation allows the Company to ensure reliable and effective registration of the ownership rights to shares and other securities of the Company.

Shareholders have the right to receive information about the activities of the Company in a regular and timely manner and in an amount and manner complying with the requirements of the legislation.

For the purpose of due observance and protection of this right, the Company guarantees fulfillment of the requirements established by the legislation with respect to information disclosure.

The Company shall disclose the financial reporting in accordance with the requirements of the legislation of the Russian Federation, as well as in accordance with the International Financial Reporting Standards (IFRS).

All information disclosed in any way shall be posted on the Company Internet website.

Shareholders owning voting shares have the right to participate in the General Meeting of Shareholders with the right to vote on all matters falling within its terms of reference.

For the purpose of due observance and protection of this right, the Company undertakes to organize the holding of a General Meeting of Shareholders in such a way that participation by shareholders does not require considerable material costs or time on their part, while ensuring an equitable attitude towards all shareholders.

The Company undertakes to provide shareholders with information on the agenda items for the General Meeting of Shareholders in the volume and by the deadlines allowing the shareholders to take reasoned decisions.

In cases envisaged by law and the Articles of Association of the Company, the Board of Directors will prepare objective, reasoned recommendations for shareholders.

All information concerning the General Meeting of Shareholders shall be posted on the Company's website.

Shareholders have the right to receive part of the Company's profits in the form of dividends.

For the purpose of due observance and protection of this right, the Company undertakes to pay out declared dividends by the times established by the General Meeting of Shareholders.

The rights of shareholders are regulated by the provisions of the Articles of Association and of the by-laws of the Company.

The Company strives to ensure observance of the rights of depositary receipt holders on a level with the rights enjoyed by those who own shares in the Company and secured in the effective legislation of the Russian Federation and the Articles of Association of the Company. In particular, the Company strives to ensure the rights of depositary receipt holders:

- to receive full and accurate information about the Company;
- to participate in the Annual General Meeting of Shareholders;
- to receive the dividends declared by the Company.

The Company interacts with the depositary bank for the purpose of exercising the rights of depositary receipt holders.

## **5.2. The General Meeting of Shareholders**

The Company has adopted Regulations on the Procedure for Preparing and Holding a General Meeting of Shareholders, describing in detail the procedure for preparing and holding a General Meeting of Shareholders and for said meeting to adopt resolutions.

**5.2.1. Preparation for a meeting.** Every shareholder is entitled to participate in the General Meeting of Shareholders, to vote on agenda items, to receive timely notification of such a

meeting and its agenda, as well as accurate, objective and timely information sufficient for decision-making on agenda items. The executive bodies of the Company are responsible for this process.

Shareholders in the Company have the right to acquaint themselves with the list of persons entitled to participate in a General Meeting of Shareholders from the day on which the holding of the General Meeting of Shareholders is announced until closure of an in presentio General Meeting of Shareholders and, in the event of an in absentia General Meeting of Shareholders – until the final date on which the ballot sheets are accepted, in the manner determined by the Federal Law on Joint-Stock Companies.

The procedure for announcing the holding of a General Meeting of Shareholders is determined by the Articles of Association of the Company. The announcement of the holding of the General Meeting of Shareholders shall be made at least 30 days in advance, unless the legislation envisages a longer period.

The announcement of the holding of a General Meeting of Shareholders and the information (materials) on the agenda items for the General Meeting of Shareholders shall be posted on the Company's website by the times determined by the Articles of Association of the Company.

The Company envisages a fair and effective procedure for introducing proposals to the agenda for a General Meeting of Shareholders, including proposals for nominating candidate members of the Board of Directors.

The Company provides shareholders with the opportunity to introduce matters to the agenda for the Annual General Meeting of Shareholders or to demand that an Extraordinary General Meeting of Shareholders be convened without presenting an excerpt from the shareholders' register if their rights to shares are recorded in the system for maintaining the register and, if their rights to shares are booked in a deposit account – with presentation only of a statement on the deposit account.

**5.2.2. Holding of a meeting.** The Company shall take all requisite measures to provide for participation by shareholders in a General Meeting of Shareholders and their voting on agenda items.

The place where the General Meeting is held shall be accessible for the shareholders. The procedure for registration shall be convenient for participants and provide for rapid and unhindered access to the place where the meeting is held.

Members of the Board of Directors, of the executive bodies, of the audit commission and the auditor shall be provided by the Company with an opportunity to attend General Meetings of Shareholders of the Company.

In accordance with the regulations for holding a General Meeting of Shareholders, members of the Board of Directors, of the executive bodies and of the audit commission and representatives of the auditor of the Company have the right to answer questions posed by shareholders. Shareholders have the right to speak on agenda items, to introduce relevant proposals and to ask questions. The Chairperson of the General Meeting shall ensure that it works effectively.

When the General Meeting of Shareholders considers questions relating to election of the members of the Board of Directors and of the members of the Audit Commission and concerning approval of the auditor of the Company, candidates (candidates' representatives) shall, when possible, attend the General Meeting of Shareholders.

Voting shall be carried out using ballot sheets.

The voting tally procedure at a General Meeting shall exclude the possibility of manipulating the voting results.

5.2.3. **Meeting results.** The voting results and other necessary materials shall be provided to the shareholders on the day the General Meeting is held or after the Meeting and shall be published in a timely manner on the Company's website and in the mass media.

### 5.3. Dividend policy

The Board of Directors of the Company approves the Dividend Policy of the Company.

The main aim of the Company's dividend policy is to provide for the strategic development of the Company and enhanced welfare of the shareholders in the Company by establishing an optimum balance between current use of net profit by shareholders and profit capitalization.

The Dividend Policy of the Company is based on the following principles:

- Compliance by the practice adopted in the Company for accruing and paying dividends with the legislation of the Russian Federation.
- Compliance with the best corporate governance standards, including:
  - on a transparent and understandable mechanism for determining the amount of dividends;
  - on the most convenient dividend payment system for shareholders;
  - on implementation of measures precluding incomplete or untimely payment of declared dividends.
- Observance of the rights and interests of shareholders.
- Provision for a stable, long-term and predictable Company dividend policy for shareholders and potential investors.
- Provision for stable dividend payments at a level satisfying shareholders, including the government, with payment of additional (extra) dividends.
- Maintenance of the required level of the current financial and technical status of the Company, as well as provision for future development of the Company.
- The need to raise the investment appeal and capitalization of the Company.
- Dependence of the aggregate (final) size of dividend payments on the financial and business results of the Company.
- Provision for interests on the part of the management and shareholders in raising the Company's profitability.

The Company shall allocate at least 5% (five per cent) of the consolidated net profit of the Company for payment of dividends on the basis of the results of the financial year (guaranteed level of dividend payments).

The recommended sum of dividend payments shall be determined by the Board of Directors on the basis of the financial results of the Company's activities and, moreover, the Board of Directors shall strive to maintain, ceteris paribus, positive dynamics of the dividend payments to shareholders from year to year.

## **6. INFORMATION DISCLOSURE AND TRANSPARENCY**

### **6.1. Information disclosure policy and practice**

The policy implemented by the Company for disclosing information about the Company is orientated mainly on ensuring a maximum degree of trust in the Company on the part of shareholders, potential investors, business partners and other interested parties by furnishing these persons with information about itself, its activities and its securities in a volume sufficient to them to make justified and reasoned decisions in relation to the Company and its securities.

In disclosing information about itself, the Company does not confine itself to information disclosure of which is envisaged by the regulatory and legal acts of the Russian Federation, but additionally discloses other information ensuring a high standard of Company transparency and promoting attainment of the goals of the information disclosure policy pursued by the Company.

The list of information disclosed by the Company, the procedure and timelines for information disclosure are determined by the Regulations on the Information Policy of the Company, as approved by the Board of Directors of the Company.

In disclosing information, the Company shall be governed by the following principles:

**The principle of full and accurate disclosed information**, in accordance with which the Company furnished all interested parties with information that complies with reality, while not avoiding disclosure of negative information about itself, in a volume providing the most complete perception of the Company, and about the results of the Company's activities;

**The principle of accessible information**, in accordance with which, in disclosing information, the Company uses channels for distributing information about its activities that ensure free and gratuitous access by shareholders, creditors, potential investors and other interested parties to the disclosed information;

**The principle of balanced information**, meaning that the information policy of the Company is based on a reasonable balance of transparency of the Company for all interested parties, on the one hand, and confidentiality, on the other, for the purpose of maximum realization of the rights of shareholders to receive information about the activities of the Company, on the condition of protection of information classed as confidential or insider information;

**The principle of regular and timely information disclosure**, which determined that the Company provides shareholders, creditors, potential investors and other interested parties with information about its activities at the time determined by regulatory and legal acts of the Russian Federation and the by-laws of the Company.

The information disclosed by the Company is posted on the Company website. There is an English-language version of the website.

The Company strives regularly (at least once a year) to obtain an assessment by leading analysts and the public of the degree of information disclosure and the corporate governance system as a

whole and to take the given recommendations into consideration for raising the standard of corporate governance.

The Company publishes reports and conclusions of independent experts on various aspects of corporate governance of the Company and information about corporate governance ratings awarded to the Company.

The Company strives for open dialogue with shareholders, investors and other interested parties. For these purposes, the Company organizes regular Internet-conferences and other public events with the participation of members of the Company's management bodies.

The Company organizes telephone hot lines for shareholders in JSC RusHydro.

## **6.2. Information disclosure by Company officials**

Responsibility for information disclosure is borne by the executive bodies of the Company. Members of the Board of Directors, the Chairman of the Management Board and members of the Management Board shall disclose to the Company information about themselves as required for disclosure by the Company in accordance with the regulatory and legal acts of the Russian Federation and by the Regulations on the Information Policy of the Company.

The Board of Directors approves the Regulations on the procedure for declaration of transactions with securities of the Company by persons with right of access to insider information.

In accordance with the above-mentioned Regulations, members of the Board of Directors, the Chairman of the Management Board and members of the Management Board are required to disclose information on possession of securities of the Company, as well as on sale and (or) purchase of securities of the Company. These persons shall notify the Audit Committee under the Board of Directors about transactions undertaken by them with securities of the Company.

## **6.3. Financial reporting**

The Company shall keep accounts and prepare financial reporting in accordance with the Russian accounting and financial reporting standards. The Company prepares consolidated reporting according to the International Financial Reporting Standards (IFRS) and publishes it on the Company website.

The financial reporting shall be accompanied by comments allowing the recipient of the reporting to interpret correctly the data on the financial results of the Company's activities. The financial information is supplemented by a conclusion from the Company's auditor and by the Audit Commission and may also be accompanied by commentaries and analytical assessments by the head of the Company.

## **6.4. Control over financial and business activities**

Recognizing the need to reduce the likelihood of events exerting an adverse impact on the Company achieving its set goals and resulting in losses, including as a result of decisions being taken on the basis of incorrect judgments, human error, deliberate avoidance of control, and being aware of the high degree of the shareholders' requirement for protection of their capital investments and safekeeping of the Company's assets, the Company establishes a system of control over its financial and business activities.

Internal control over financial and business activities is orientated on achieving the following goals:

- full and accurate financial accounting, statistical, management and other reporting;
- observance of the regulatory and legal acts of the Russian Federation, resolutions of the Company's management bodies and by-laws of the Company;
- safekeeping of the Company's assets;
- attainment of the goals set by the Company in the most efficient manner;
- effective and economical use of the Company's resources;
- timely identification and analysis of financial and operating risks that might exert a materially adverse (negative) impact on attainment of the Company's goals connected with financial and business activities.

The system of control over the financial and business activities of the Company includes control procedures determined by regulatory and legal acts of the Russian Federation, by resolutions of the General Meeting of Shareholders and of the Board of Directors of the Company, as well as the set of Company bodies exercising internal control – the Audit Commission, the Board of Directors (directly and through the Audit Committee), as well as the individual structural subdivision authorized with exercising said control (the Compliance and Risk Management Department).

The functions, rights and duties, and responsibility of the subdivisions functioning within the Company are envisaged by the Company's organizational and directive documents.

For the purpose of ensuring systemic control over the financial and business activities of the Company, compliance procedures shall be exercised by the authorized subdivision of the Company responsible for internal control, in interaction with other bodies and subdivisions of the Company.

## **6.5. Ownership structure**

The Company shall provide for disclosure of information about the real owners of five or more per cent of the voting shares in the Company. The information disclosed by the Company shall also describe the corporate relations within the group of companies. The Company strives to ensure transparency of the share capital structure of the Company.

## **7. MATERIAL CORPORATE ACTIONS**

### **7.1. Approval of major transactions**

Major transactions shall be approved in the manner envisaged by chapter X of the Federal Law on Joint-Stock Companies.

A resolution of the Board of Directors of the Company approving a major transaction (involving property worth from 25 to 50 per cent of the balance sheet value of the Company's assets) shall be adopted by all the members of the Board of Directors, though the votes of former members of the Board of Directors of the Company shall not be taken into account.

In the event that unanimity of the Board of Directors (Supervisory Board) of the Company on approving a major transaction is not attained, a resolution of the Board of Directors (Supervisory Board) of the Company may present the question of approving a major transaction for decision-making by the General Meeting of Shareholders. In this case, a resolution approving a major

transaction shall be adopted by the General Meeting of Shareholders by a majority of the votes of shareholders holding voting shares and participating in the General Meeting of Shareholders.

A resolution approving a major transaction (involving property worth over 50 per cent of the balance sheet value of the Company's assets) shall be adopted by the General Meeting of Shareholders by a three-quarters majority of the votes of shareholders holding voting shares and participating in the General Meeting of Shareholders.

A major transaction shall be approved before it is concluded.

An independent appraiser shall be engaged to assess the market value of the property covered by the major transactions.

## **7.2. Approval of interested-party transactions**

An interested-party transaction shall be approved, before its conclusion, by the Board of Directors (Supervisory Board) of the Company or the General Meeting of Shareholders.

A resolution approving an interested-party transaction shall be adopted by the General Meeting of the Company Shareholders or by the Board of Directors of the Company in cases and in the manner envisaged by article 83 of the Federal Law on Joint-Stock Companies.

## **8. INTERRELATIONS WITH ORGANIZATIONS IN WHICH THE COMPANY PARTICIPATES**

### **8.1. Principles and practice of interaction with organizations in which the Company participates**

The Company shall strive for balanced development based on effective corporate governance mechanisms.

The Company shall interact with subsidiaries and dependent companies (SDCs) in accordance with the requirements of the legislation of the Russian Federation, the Articles of Association and by-laws of the Company and the Articles of Association of subsidiaries and dependent companies.

The main objectives of the interaction of the Company with SDCs are:

- to implement the Company's strategy in the hydropower industry;
- to carry out efficient operation and centralized technological management of hydropower facilities;
- to ensure stable economic development and value growth of the Company and SDCs;
- to ensure observance of the legislation of the Russian Federation in the activities of the SDCs;
- to protect the rights and legally protected interests of shareholders in the Company and SDCs;
- to implement a unified strategy in the sphere of investment and raising of capital for fulfilling system-wide tasks involved in the development of the hydropower industry;

- to raise the investment appeal of the Company and SDCs by guaranteeing their corporate “transparency”, equilibrium and predictability of corporate policy in general;
- to harmonize relations between shareholders, officials of the Company and SDCs and to preclude the emergence of conflicts between them and within the given groups;
- to create the conditions for balanced development of the relations between organizations in the electric power sphere and organizations in other branches of the economy;
- to raise the effectiveness of interaction with SDCs in all spheres of activity.

The document establishing the principles and provisions covering corporate governance of SDCs of the Company is the Procedure for Interaction by the Company with Organizations in which the Company Participates (hereinafter referred to as the Procedure). In accordance with this Procedure, the Company shall interact with SDC during adoption by SDC management and controlling bodies of relevant resolutions (resolutions of General Meetings of Shareholders, of Boards of Directors, of Audit Commissions and sole executive bodies within the scope of their terms of reference).

In addition to the above Procedure, the process of corporate governance of SDCs is regulated by the following documents:

- the Articles of Association of the Company;
- the Code of Corporate Governance of the Company;
- the Articles of Association of SDCs of the Company;
- the Standards and regulations covering the corporate governance procedures.

As the Company’s corporate governance practice develops, the Company will strive to develop the principles of corporate governance in relation to subsidiaries and dependent companies.

## **9. FINAL PROVISIONS**

9.1. This Code shall come into effect on its approval by the Board of Directors of the Company.

9.2. The Code of Corporate Governance of the Company shall be posted on the Company website within 2 calendar days of its approval by the Board of Directors.

9.3. The report on observance of the Code of Corporate Governance of the Company shall be submitted annually for approval by the Board of Directors of the Company (as an appendix to the Company’s annual report).

The report on observance of the Code of Corporate Governance of the Company shall be posted on the Company website (as an appendix to the Company’s annual report).