

APPROVED
by the Board of Directors of
IDGC of Volga, JSC
Minutes as of August 29, 2007
No. 2

CORPORATE GOVERNANCE CODE
OF “INTERREGIONAL DISTRIBUTION GRID COMPANY OF VOLGA”,
JOINT-STOCK COMPANY

Saratov,
2007

CONTENTS

1. Introduction

2. Information about the Company

3. Principles and structure of corporate governance in the Company

3.1. Definition and principles

3.2. Internal documents

3.3. Overall structure of corporate governance

4. Corporate governance practices implemented by the Company

4.1. Board of Directors of the Company

4.2. General Director

4.3. Interaction between the Board of Directors and Executive bodies

5. Shareholders of the Company

5.1. Shareholder rights and protection of shareholder rights

5.2. General meeting of shareholders

5.3. Dividend policy

6. Information disclosure and transparency

6.1. Information disclosure policies and practices

6.2. Financial statements

6.3. Control of financial and economic activities

6.4. Ownership structure

7. Final provisions

1. Introduction

The goals of this Corporate Governance Code (hereinafter referred to as the Code) shall include the improving and systemizing the corporate governance of IDGC of Volga, JSC (hereinafter referred to as the Company), ensuring greater transparency of the Company's governance and confirming the permanent readiness of the Company to follow proper corporate governance standards. In particular:

- the Company shall be governed at a proper level of responsibility and accountability so that the shareholder value is maximized;
- the Board of Directors and executive bodies shall work efficiently, for the benefit of the Company and its shareholders (including minority shareholders) and create an environment for the sustainable growth of shareholder value;
- proper information disclosure, transparency and efficient operation of risk management and internal control systems shall be secured.

Adopting, regularly improving and rigorously adhering to the provisions of this Code, the Charter of the Company and other internal documents the Company confirms its intent to contribute to the development and improvement of proper corporate governance practices.

To further strengthen confidence on the part of shareholders, employees, investors and the public the Company in preparing this Code went beyond the Russian legislative norms and included in the Code additional provisions based on generally accepted Russian and international¹ corporate governance standards.

The Company shall assume the obligations provided for by this Code and undertakes to meet the norms and principles established herein.

2. Information about the Company

Interregional Distribution Grid Company of Volga, Joint Stock Company was established on June 29, 2007 by the decision of the sole shareholder – OAO RAO UES of Russia.

The basic types of Company's activity are:

- provision of services on electric power transmission;
- provision of services on electric power distribution;
- operational dispatch control and observance of power supply and consumption regimes;
- provision of services on connection to power grids;
- provision of services on accumulation, transmission and processing of technological information including measurement and control data.

The Company is the power company which shareholders are both Russian and foreign legal and physical persons.

¹ OECD (Organization for Economic Cooperation and Development) Principles of Corporate Governance.

The Company's role in the economy of the Russian federation is great. The Company's activity supports the life of the people and development of all the branches of the Russian Federation economy.

The Company's activity is connected with the responsibility before shareholders, state, Company's employees, suppliers, consumers and the Company as a whole.

Recognizing such a responsibility and the importance of the corporate governance high level for the Company's successful business and the achievement of mutual understanding between the parties interested in the Company's activity, the Company takes the obligation to go on its activity taking into consideration the abovementioned principles and take reasonable measures for their implementation in its everyday activity.

3. PRINCIPLES AND STRUCTURE OF CORPORATE GOVERNANCE IN THE COMPANY

3.1. Definition and Principles

By corporate governance the Company implies a set of processes ensuring corporate governance and control of its activity and including relations among the shareholders, the Board of Directors and executive bodies of the Company for the benefit of its shareholders. The Company views corporate governance as a means of improving the efficiency of the activity of the Company, strengthening its reputation and reducing costs associated with capital raising by the Company.

This Code in accordance with which corporate governance shall be carried out in the Company shall be based on the Russian law, the Corporate Governance Code recommended for application by FCSM Resolution No. 421/r dated April 4, 2002 (hereinafter referred to as the FCSM Code) and internationally accepted corporate governance principles such as the OECD (Organization for Economic Cooperation and Development) Principles of Corporate Governance.

Corporate governance in the Company shall be based on the following principles:

- **Accountability.** The Code shall stipulate the accountability of the Board of Directors of the Company to all shareholders in accordance with the applicable law and shall serve as a guide for the Board of Directors in developing the strategy, managing and exercising control of the activity of the executive bodies of the Company.
- **Fairness.** The Company undertakes to protect the rights of its shareholders and ensure the equal treatment of all shareholders. The Board of Directors shall provide to all shareholders an opportunity to receive effective protection in case of violation of their rights.
- **Transparency.** The Company shall ensure the timely disclosure of reliable information about all material facts concerning its activities, including its financial condition, social and environmental indicators, performance, ownership structure and governance of the Company and provides free access to such information for all interested parties.
- **Responsibility.** The Company shall recognize the rights of all interested parties provided for by the applicable law and seek to cooperate with such parties for the purposes of its development and ensuring financial sustainability.

3.2. Internal Documents.

This code shall present a set of principles. Specific structures, procedures and practices of corporate governance shall be regulated by the Charter and internal documents of the Company, namely:

- Regulation on the order of convening and holding of the general meeting of shareholders of IDGC of Volga, JSC;
- Regulation on the order of convening and holding of the meeting of the Board of Directors of IDGC of Volga, JSC;
- Regulation on Audit Commission of IDGC of Volga, JSC,

The above-listed internal documents of the Company are prepared in accordance with the law and with due account for the principal provisions of the Corporate Governance Code recommended for application by the FCSM (FCSM Resolution No. 421/r dated April 4, 2002). All documents listed above can be found on the website of the Company at <http://www.mrsk-volgi.ru/>

3.3. Overall Structure of Corporate Governance

The system of management bodies of the Company shall include:

- the General Meeting of Shareholders, a supreme management body of the Company through which the shareholders shall exercise their right to participate in Company's management;
- the Board of Directors, a management body responsible for the development of the Company's strategy, the overall management of its activity and control of the activity of executive bodies. The Board of Directors of the Company may also establish committees under the Board of Directors.
- Committees under the Board of Directors, advisory bodies under the Board of Directors of the Company established for the prior consideration of critical issues falling within the jurisdiction of the Board of Directors.
- the General Director, a management body, governing the current activity of the Company and implementing the strategy defined by the Board of Directors and shareholders of the Company.
- the Audit Commission, a body exercising control over the financial and economic activities of the Company, reporting directly to the General Meeting of Shareholders of the Company.

4. CORPORATE GOVERNANCE PRACTICES IMPLEMENTED BY THE COMPANY

The Company views the professional Board of Directors as an essential element of effective corporate governance. The Board of Directors shall influence the performance of the Company by carrying out overall strategic direction and exercising control of the operation of executive bodies for the benefit of the Company and its shareholders. The executive bodies of the Company responsible for managing the daily operations of the Company shall also play an important role in the governance process. Effective interaction between these two bodies and

clear distinction between their powers shall be among the key factors for ensuring proper corporate governance practices.

4.1. Board of Directors.

4.1.1. Election, term and termination of powers of members of the Board of Directors.

Members of the Board of Directors shall be elected for the period until the regular Annual Meeting of Shareholders. The Board of Directors of the Company shall be elected by cumulative voting.

The Company believes that imposing limitations on the number of re-elections for members of the Board of Directors shall not meet the interests of the Company or its shareholders. Members of the Board familiar with the activities of the Company shall play an important role in ensuring proper governance.

The powers of the Board of Directors shall be governed by the Charter of the Company in accordance with the applicable law and the FCSM Code recommendations.

The total number of members of the Board of Directors shall be defined in the Charter of the Company.

The General Meeting of Shareholders may terminate the powers of the Board of Directors only in its entirety.

4.1.2. Independence. The law prohibits combining the positions 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 director² which simultaneously shall not act as the sole executive body and/or member of the collegial executive body of the Company, since it shall allow the Board of Directors to perform its functions more effectively.

The structure of the Board of Directors shall ensure the proper fulfillment of duties related to exercising control and defining the strategy and main directions for the development of the Company.

The Board of Directors shall be composed of not more than 25% of executive directors who simultaneously shall act as employees of the Company.

To ensure the objectivity of adopted decisions and maintain the balance of interests of various groups of shareholders the Company shall seek to have at least 3 (three) independent directors in the Board of Directors. Within the framework of the given Code according to the definition given by the Company, independent directors are considered those meeting the following requirements for independence:

- do not act as executives or employees of the Company as of the election or during 3 years preceding the election;

² Hereinafter “member of the Board of Directors of the Company”.

- do not act as executives of any other business entity in which any executive of the Company is a member of the Personnel and Remuneration Committee under the Board of Directors;
- are not spouses, parents, children, brothers and sisters of executives of the Company;
- are not affiliates of the Company, with the exception of a member of the Board of Directors of the Company;
- are not parties to commitments with the issuer which oblige them to acquire property (receive cash resources) valued at 10 percent or more of the cumulative annual income of the abovementioned persons, with the exception of remuneration earning for participation in the activity of the Board of Directors of the Company;
- are not representatives of the state and/or local governments, i.e. persons who is to vote under written directives (instructions, etc) from duly authorized federal authorities, authorities of the constituent entities of the Russian Federation or local governments.

4.1.3. Structure of the Board of Directors and its committees.

The activity of the committees shall be governed by the local regulations of the Company which contain provisions on the structure, jurisdiction, procedure for operation of the committees and the rights and duties of their members, (to enumerate the names of the Regulations on committees)

Committees of the Board of Directors are established for the prior consideration of critical issues falling within the jurisdiction of the Board of Directors.

4.1.4. Procedure for operation. The Board of Directors shall hold meetings in accordance with the schedule prepared at the beginning of its term of office, thus ensuring the proper fulfillment of its duties. The Board of Directors shall hold meetings at least quarterly. Extraordinary meetings of the Board of Directors can be carried out if needed.

The procedure for operation of the Board of Directors shall be governed by the Regulation on the Board of Directors. The executive secretary of the Board of Directors shall provide the members of the Board of Directors with brief but comprehensive information in a timely manner and simultaneously with the notification of the Board of Directors meeting, yet no later than 10 days prior to each meeting.

The Board of Directors shall take minutes of its meetings. The minutes shall be signed by the Chairman of the Board and the Executive Secretary of the Board of Directors.

4.1.5. Remuneration. The remuneration of members of the Board of Directors shall meet the market conditions and shall be established so as to ensure the retention and involvement of top-notch specialists in the operation of the Company, encourage them to fair and efficient activity.

The Company shall publicly disclose the information on the remuneration of members of the Board of Directors.

The Company shall not extend any loans to members of the Board of Directors.³

³ With the exception if the member of the Board of Directors is the sole executive body

4.1.6. Duties of the members of the Board of Directors. Members of the Board of Directors shall act in good faith and with due care for the benefit of the Company and all its shareholders. Each director shall seek to participate in all meetings of the Board of Directors.

Members of the Board of Directors shall realize their responsibility to the shareholders and believe that their principal goal is the conscientious and relevant fulfillment of duties related to the governance of the Company, thus ensuring the maintenance and growth of the value of its stock as well as the protection of shareholder rights and an opportunity for the shareholders to exercise their rights.

Members of the Board of Directors shall seek to maintain an ongoing dialog with the shareholders.

Members of the Board of Directors shall secure the development and implementation of the Company development strategy.

Members of the Board of Directors shall neither disclose nor use any confidential information about the Company for personal gain.

Members of the Board of Directors undertake to refrain from actions which may lead to any conflict between their interests and the interests of the Company. In the event of such a conflict, the member of the Board of Directors undertakes to notify the other Board members thereof and abstain from voting on respective issues.

4.2. General Director

In the Company, for the control of the current activity of the Company – the General Director, the sole executive body shall be elected.

4.2.1. Authority. The General Director shall fulfill the management of the Company's current activity within the framework of tasks carrying out and Company's strategy realization.

4.2.2. Election, terms and power termination of the General Director. The general Director shall be elected by the Company's Board of Directors by a majority vote of those taking part in the session.

Nomination for the post of the General Director for the election of the Board of Directors shall be carried out by the Order stipulated by the Regulation on the order of convening and carrying out of the sessions of the Company's Board of Directors.

Labor agreement conditions, concerning the term of office part are determined by the Company's Board of Directors or a person, authorized by the Company's Board of Directors in accordance with the Company's charter for the labor agreement signing.

The Board of Directors is entitled at any time to take the decision on Company's General Director powers termination and on the election of new executive bodies.

4.2.3. Remuneration and work evaluation. The system of remuneration of the General Director is determined by the Board of Directors. The remuneration consist of the constant and variable parts, the latter depends on key indicators of the certain system of indicators (hereinafter referred to as "Indicators") of executive bodies' work effectiveness and is connected with their

personal contribution in the long-term development of the Company on behalf 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 the strategic goal of the Company.

Determining the Indicators for the executive bodies, the Board of Directors pays attention to the most essential, reducing their number to “key” ones. The number of Indicators is restricted (for the reasonability of their implementation and for monitoring quality).

The main goal of the Indicators system is the transition of the Company’s strategy to the complex set of Indicators, defining the main conditions of the measurement system and management. A set of indicators draws the basis for the formation of Company’s strategy and includes basic characteristics for executive bodies informing on the basic factors of success today and in future. Making up the strategy, they draw the aim and create the conditions for its implementation.

4.2.4. Executive bodies’ obligations. The General Director shall act in good faith and proper carefulness in the interests of the Company and all its shareholders.

The General Director should refrain from any actions, which can result in the conflict of his/her interests and interests of the Company. The General Director should immediately inform the Board of Directors about such conflicts, if any. The General Director shall refrain from the discussion (voting, in case he/she is a part of the Company’s Board of Directors) on the corresponding questions.

The Company realizes that experience, public relations, knowledge and qualification of the General Director, including those acquired by him during the time of work in the Company opens up possibilities for the fulfillment of business activity (both private and collective - by means of stakes, shares acquisition), not connected with the Company’s interests.

Together with this the General Directors guarantees that the fulfillment of such an activity:

- will not impede his/her implementation of the Company’s General Director functions;
- will not be connected with the use of Company’s material and intellectual resources;
- will not cause damage to Company’s property;
- will not cause damage to Company’s business reputation;
- will not provoke competition.

In case of non-fulfillment or creation of prerequisites to non-fulfillment of at least one of the abovementioned conditions, the General Director shall terminate the implementation of any activity connected with such a failure.

With the view of non-admission of possible negative outcome the General Director discloses information about the fulfillment of his/her business activity not connected with the Company’s interests, by the order stipulated by Company’s local normative documents.

4.3. Interaction between the Board of Directors and Executive Bodies.

Effective corporate governance shall require an open dialog between the Board of Directors and the executive bodies of the Company. To that end, the Management Board of the

Company shall submit to the Board of Directors reports on the activity of the Management Board in terms stipulated by Company's internal documents and decisions of the Company's Board of Directors.

5. SHAREHOLDERS OF THE COMPANY

5.1. Shareholder rights and their protection.

The shareholders of the Company shall hold a set of rights in respect of the Company, the observance and protection of needs to be ensured by the Board of Directors and the Management Board of the Company.

The Company's Shareholder Register shall be kept by an independent registrar. The selection and appointment of an independent registrar having all necessary technical tools and an impeccable reputation shall allow the Company to ensure the reliable and efficient registration of the rights of ownership of shares and other securities of the Company.

The shareholders shall be entitled to receive information on the activity of the Company in a regular and timely manner in an amount meeting the requirement of the legislation.

For the purposes of proper observance and protection of the above-mentioned right the Company shall guarantee compliance with the information disclosure requirements established by law.

The Company discloses financial statements on a quarterly basis in accordance with the requirements of laws of the Russian Federation and in conformity with the International Financial Reporting Standards (IFRS).

All information disclosed in any manner shall be mandatory published on the website of the Company.

The shareholders owning voting shares shall be entitled to participate in the General Meeting of Shareholders and shall have the right to vote on all issues falling within its jurisdiction.

For the purposes of proper observance and protection of the above-mentioned right the Company shall arrange for holding the General Meeting of Shareholders in such a way that participation of the shareholders is not associated for them with any significant financial or time losses, ensuring equal treatment of all shareholders.

The Company undertakes to provide to the shareholders any information on items of the agenda of the General Meeting of Shareholders in an amount and within the time limits which allow the shareholders to adopt reasonable decisions.

As provided for by the Law and the Charter of the Company the Board of Directors shall prepare objective reasonable recommendations for the shareholders.

All information concerning the General Meeting of Shareholders shall be mandatory disclosed on the website of the Company.

The shareholders shall be entitled to a portion of net income of the Company in the form of dividends.

For the purposes of proper observance and protection of the above-mentioned right the Company undertakes to pay declared dividends within the time limits set by the General Meeting of Shareholders.

The rights of shareholders shall be governed by the provisions of the Charter and the internal documents of the Company.

5.2. General Meeting of Shareholders

5.2.1. During the period when 100 (Hundred) % of Company's shares belong to OAO RAO UES of Russia, the Board of Directors of OAO RAO UES of Russia fulfills the functions of the Company's General meeting of shareholders in accordance with the regulations of the Charter of OAO RAO UES of Russia.

5.2.2. Preparation for the meeting. Each shareholder shall be entitled to participate in the General Meeting of Shareholders, vote on issues on its agenda, receive notice of such a meeting with due advance and the agenda thereof as well as reliable, objective and timely information sufficient for the adoption of resolutions on any agenda items. The executive body – the General Director of the Company shall be responsible for ensuring this process.

5.2.3. Holding of the meeting. The Company shall make all necessary efforts to ensure the participation of the shareholders in the General Meeting and the voting on agenda items.

The location for the General Meeting shall be accessible by the shareholders.

The Company shall ensure that the General meeting of Shareholders is attended by the General Director, members of the Board of Directors, Audit Commission and the auditor of the Company and shall authorize them to answer the questions of the shareholders. The shareholders shall be entitled to speak on any agenda items, make respective motions and ask questions. The Chairman of the General meeting shall ensure its effective operation.

Voting shall be held by ballots.

The procedure for the calculation of votes at the General meeting shall exclude the possibility of manipulating the voting results. The functions of the counting commission shall be performed by the independent registrar of the Company.

5.2.4. Results of the meeting. The voting results and other necessary materials shall be provided to the shareholders on the day of the General Meeting or later and published in a timely manner on the website of the Company and in mass media.

5.3. Dividend Policy

Dividend policy is disclosed, in particular, on the website of the Company.

The dividend policy of the Company shall include:

- creation of the transparent and clear mechanism for determining the amount of dividends;
- ensuring the most convenient for the shareholders dividend payment procedure;
- measures excluding any incomplete or untimely payment of declared dividends.

6. INFORMATION DISCLOSURE AND TRANSPARENCY

6.1. Information Disclosure Policies and Practices

The principal goal of the policy for the disclosure of information about the Company implemented by the Company shall be ensuring the highest possible degree of confidence in the Company on the part of shareholders, potential investors, counterparties and other interested parties by providing to the above-mentioned persons information about the Company, its activities and securities in an amount sufficient for the adoption by the abovementioned persons of reasonable and informed decisions in relation to the Company and its securities.

Disclosing the information about itself, the Company shall go beyond the information the disclosure of which is provided for by the regulations of the Russian Federation and shall disclose any additional information, thus ensuring a high level of transparency of the Company and contributing to the accomplishment of goals of the information disclosure policy implemented by the Company.

The list of the information disclosed by the Company, the procedure and time limits for information disclosure shall be determined by the Board of Directors of the Company in the Regulations for the Information Policy of IDGC of Volga, JSC.

In disclosing information the Company shall rely on the following principles:

- **The principle of completeness and reliability of disclosed information** in accordance with which the Company shall provide true information to all interest parties without avoiding the disclosure of any negative information about itself to the extent which allows forming the fullest idea of the Company and performance of the Company;
- **The principle of accessibility of information** in accordance with which the Company in disclosing information shall use such channels for the distribution of information about its activity which provide free and easy access to disclosed information for shareholders, creditors, potential investors and other interested parties;
- **The principles of balanced information** which means that the information policy of the Company shall be based on the reasonable balance of transparency of the Company for all interested parties on the one hand and confidentiality on the other hand for the purposes of exercising the shareholder rights to receive information on the activity of the Company to the maximum extent on condition of protection of information characterized as belonging to confidential or insider information;
- **The principle of regular and timely information disclosure** which determines that the Company shall provide to its shareholders, creditors, potential investors and other interested parties information on its activity within the time limits established by the regulations of the Russian Federation and the internal documents of the Company.

The information disclosed by the Company shall be published on the website of the Company. The website of the Company shall have an English version.

The responsibility for information disclosure shall be assumed by the executive bodies of the Company. Members of the Board of Directors shall disclose to the Company information about themselves necessary for the disclosure by the Company of information in accordance with the regulations of the Russian Federation and the Regulations for the Information Policy of the Company.

6.2. Financial Statements

The Company shall maintain accounting records and prepare financial statements in accordance with the Russian financial accounting and reporting standards. The Company shall prepare consolidated statements in accordance with the International Financial Reporting Standards (IFRS) and publish such statements on the website of the Company.

Financial statements shall be accompanied by detailed notes allowing the recipient of such statements to correctly interpret data on the financial performance of the Company. Financial information shall be supplemented by comments and analytical estimates from the management of the Company as well as the Report of the Company's Auditor and the Audit Commission.

6.3. Control of Financial and Economic Activities

Realizing the need for reducing the probability of events which have a negative impact on the achievement by the Company of set goals and lead to losses, in particular due to the adoption of decisions based on incorrect judgments, human errors, conscientious evasion of control, and admitting a high level of the shareholders' need for protecting their investments and safeguarding the assets of the Company, the Company shall establish a system of control of its financial and economic activities.

Internal control of financial and economic activities shall be targeted towards achieving the following goals:

- ensuring complete and reliable financial, statistical, management and other reporting;
- ensuring compliance with the regulations of the Russian Federation, resolutions of the management boards of the Company and the internal documents of the Company;
- ensuring that the Company's assets are safeguarded;
- ensuring that the goals set by the Company are achieved in the most efficient manner;
- ensuring the resources of the Company are used in the most efficient and cost-effective manner;
- ensuring the timely identification and analysis of financial and operating risks which may have a significant negative impact on achieving the Company's goals related to its financial and economic activities.

The system of control of the financial and economic activities of the Company shall include control procedures determined by the regulations of the Russian Federation, resolutions of the General Meeting of Shareholders and the Board of Directors of the Company and a set of bodies (functions, persons) of the Company exercising internal control: the Audit Commission, the Board of Directors (directly and through the Audit Committee⁴) and a separate function (set of functions) authorized to exercise such control.

The functions, rights, duties and responsibility of the Company's functions shall be stipulated by the organizational and directive documents of the Company.

To ensure a systematic nature of control of the financial and economic performance of the Company internal control procedures shall be performed by the duly authorized function of the Company in charge of internal control in collaboration with other bodies and functions of the Company.

Specific procedures as well as bodies and persons responsible for performing internal control procedures shall be determined by the Regulations for the Internal Control Procedures of the Company approved by the Board of Directors of the Company.

6.4. Ownership Structure

The Company shall ensure the disclosure of information on the beneficial owners of five percent or more of voting shares in the Company. The information disclosed by the Company shall also describe corporate relationship within the group of companies. The Company shall seek to ensure the transparency of the Company's equity structure.

7. Final provisions

The current Code enters into force since the moment of its approval by the Company's Board of Directors.

⁴ Should be specified if any