

CORPORATE GOVERNANCE AND CONTROL SCHEME

GENERAL MEETING OF SHAREHOLDERS (THE HIGHEST GOVERNING BODY OF THE COMPANY)

Decides on the most critical issues of the Company's

Election of members of the Auditing Commission and early termination of their powers

Reports on the audit of financial and economic activities

AUDITING COMMISSION (CONTROL OVER THE FINANCIAL AND ECONOMIC ACTIVITIES OF THE COMPANY)

- Confirms the accuracy of the Annual Report and Reporting;
- analyzes the financial condition of the Company, audits the financial and economic activities of the Company;
- develops recommendations for the Company's management bodies.

Election of members of the Board of Directors and early termination of their powers

Reports on the development of the Company in priority areas of activity, recommendations on the reorganization of the Company, increasing the share capital, transfer of powers of the sole executive body of the managing organization, approval of annual reports, approval of significant and interested party transactions, participation in associations of commercial organizations, payment of remunerations to members of the Board of Directors and the Auditing Commission, and dividend payments.

BOARD OF DIRECTORS (OVERALL LEADERSHIP OF THE COMPANY'S ACTIVITIES)

- Determines the priority activities and development strategy of the Company;
- convenes General Meetings of Shareholders of the Company;
- determines the price of the Company's property, the cost of placement and repurchase of securities;
- elects the executive bodies of the Company and controls their activities;
- approves internal documents, a business plan, including an investment program;
- decides on the participation of the Company in other organizations, the establishment, and liquidation of branches and representative offices of the Company;
- determines effective internal control mechanisms;
- determines the position of the Company in the management bodies of subsidiaries and affiliates;
- gives consents to transactions:
 - / major;
 - / which are of interest in making them;
 - / the subject of which are non-current assets of over 10% of the book value of these assets,
 - / connected with gratuitous transfer of the Company's property or property rights (claims),
 - / related to the acquisition (alienation) of non-current assets used in the process of transmission and distribution of electricity, and to the other types of property,
 - / on the transfer (reception) of temporary possession of the real estate and power grid facilities for more than five years,
 - / – entailing the emergence of obligations expressed in foreign currency
- approves the collective agreement, agreements concluded by the Company in the framework of social and labor relations;
- determines the policy of the Company in terms of improving the reliability of the distribution complex of electric networks, credit policy;
- creates committees of the Board of Directors of the Company.

The requirement to conduct an audit of the Company's financial and economic activities

The requirement to convene an extraordinary General Meeting of Shareholders

Creation of committees, the election of members and chairpersons of committees and early termination of their powers

Recommendations (conclusions) for decision-making by the Board of Directors

BOARD COMMITTEES:

- for audit;
- for Human Resources and remuneration;
- for reliability;
- for strategy, development, investment and reform;
- for technological connection.
(consultative and advisory bodies involved in the in-depth study of issues related to the competence of the Board of Directors to ensure its effective work)

Plans for implementation of the main activities of the Company, reports on the financial and economic activities of 100% subsidiaries and affiliates

Determination of the number of members, the election of members of the Board, early termination of their powers, the establishment of their remuneration and compensation

Election of the general director, early termination of his powers, determination of the terms of the employment contract with the general director, control over the implementation of decisions of the Board of Directors

Reports on the results of the current activities of the Company and on the implementation of decisions of the Board of Directors, proposals on the organization of activities

GENERAL DIRECTOR (SOLE EXECUTIVE BODY, MANAGES THE CURRENT ACTIVITIES OF THE COMPANY)

- Ensures the implementation of the plans of the Company;
- organizes accounting and reporting in the Company;
- manages property, makes transactions on behalf of the Company;
- issues power of attorney;
- opens bank accounts;
- issues orders;
- exercises the rights and obligations of the employer in relation to the Company's employees.

Plans for the implementation of the main activities of the Company, proposals on the organization of activities, decisions on the most important issues of economic activity on and concluding transactions worth 1–25% of the Company's assets

Acting as Chairman of the Board

MANAGEMENT BOARD (THE COLLEGIAL EXECUTIVE BODY OF THE COMPANY)

- Responsible for the practical implementation of the objectives, strategy and development of the Company and manages its current activities (within its competence);
- ensures the observance of the rights and legitimate interests of shareholders;
- works out the development strategy proposals;
- implements the financial and business policy, developing solutions on the most important issues of current business activities and coordinating the work of the Company's subdivisions;
- provides a high level of return on assets;
- performs the functions of the General Meetings of Shareholders 100% of shares owned by the Company;
- decides on the conclusion of transactions, the subject of which is property, work, and services at a price of from 1 to 25% of the book value of the Company's assets.

In order to improve and systematize the corporate governance of the Company, ensuring greater transparency in the management of Kubanenergo PJSC and confirming the continued readiness to follow the standards of good corporate governance since 2006, the Company has a Corporate Governance Code of the Company,¹ based on the legislation of the Russian Federation, in force at the time of its approval, the Code of Corporate Conduct recommended for use by the FCSM of Russia by Order No. 421/p of April 4, 2002, recognized in international practice as the OECD Principles of Corporate Governance. The Company fully complies with the principles of its Corporate Governance Code.

The Company also adheres to the principles and recommendations of the Corporate Governance Code recommended by the Bank of Russia letter of 10.04.2014 No. 06-52 / 2463 for use by joint-stock companies whose securities are admitted to on-exchange trading (hereinafter referred to as the Corporate Governance Code). Report on the observance of the Corporate Governance Code by Kubanenergo PJSC in 2018 is included in Appendix 3. The Company's Board of Directors confirms that the information contained in this report includes complete and reliable information on the Company's compliance

with the principles and recommendations of the Corporate Governance Code for 2018.

To ensure proper corporate governance and its enhancement the Company also has the following provisions, concerning the²:

- General Shareholders Meeting,
- Board of Directors,
- Management Board,
- Auditing Commission,
- Board of Directors committees,
- Insider Information
- Information Policy,
- Corporate Secretary of the Company,
- Dividend Policy, etc.

In the reporting year, the internal audit department assessed the Company's corporate governance system for 2017, according to the results of which the Company's corporate management was recognized as valid with remarks (received 400 points out of 509 possible).

The results of the evaluation of the corporate governance of the Company for 2017 by the criteria

COMPONENTS	NUMBER OF QUESTIONS	MAXIMUM RATING		EVALUATION OF KUBANENERGO PJSC		
		NUMBER OF POINTS	WEIGHT IN THE EVALUATION	NUMBER OF POINTS	WEIGHT IN THE EVALUATION	LEVEL OF COMPLIANCE OF THE CORPORATE GOVERNANCE SYSTEM WITH THE ESTABLISHED CRITERIA
Shareholder rights	22	79	16%	66	13%	84%
Board of Directors	49	166	33%	109	21%	66%
Executive management	5	40	8%	32	6%	80%
Transparency and disclosure of information	15	130	26%	110	22%	85%
Risk management, internal control and internal audit	16	63	12%	60	12%	95%
Corporate social responsibility, business ethics	6	31	6%	23	5%	74%
Overall rating	113	509	100%	400	79%	79%

1. The current edition was approved by the Board of Directors of OJSC Kubanenergo on March 6, 2013, Minutes under No. 154/2013.
2. The other internal documents of Kubanenergo PJSC on corporate governance are listed on the website www.kubanenergo.ru - section 'About Us/ Constituent and internal documents.'

August 22, 2018 the Board of Directors of the Company approved an internal audit report for the evaluation of the effectiveness of the corporate governance system for 2017.

The following measures were taken in the reporting year, to raise the level of corporate governance of Kubanenergo PJSC:

The Company's Charter was approved in a new edition.	<p>The purpose of approval of a new Charter edition is to bring it in compliance with the legislation of the Russian Federation and the Corporate Governance Code:</p> <ul style="list-style-type: none"> • shareholders have an additional opportunity to send bulletins by e-mail, the same as to post them on the Company's website in the Internet; • competence of the Board of Directors: <ul style="list-style-type: none"> / supplemented by making decisions on the acceptance of offers to acquire additional shares of the Company, / changed to determine the position on the approval of the business plan of specialized subsidiaries and affiliates, / specified in terms of control and organization of the internal audit subdivision; • the procedure for determining the quorum for holding a meeting of the Board of Directors has been clarified for making decisions on whether to consent to or for subsequent approval of transactions; • the frequency of issues for the consideration of documents of subsidiaries and affiliates has been synchronized; • the list and procedure are clarified for the provision and access of shareholders to information, kept by the Company; • the possibility of sending notifications to the Company about the indication of possible interest in making the Company's transactions through the information and telecommunication Internet network and e-mail
Regulation for the Board of Directors were approved in a new edition	<p>The new wording of the Regulation:</p> <ul style="list-style-type: none"> • the requirements of the Federal Law No. 208-ФЗ dated December 26, 1995 "On Joint-Stock Companies" of the Corporate Governance Code were taken into account; • the role of the Board of Directors has been clarified in control over the activities of the Company's executive bodies and the legitimate interests of the Company's shareholders; • for organizing and conducting meetings of the Board of Directors, there was provided a modern software
Management Board Regulation approved in a new edition	<p>The new wording of the Regulation:</p> <ul style="list-style-type: none"> • there were considered the following requirements of Federal Law No. 208-ФЗ dated December 26, 1995 "On Joint-Stock Companies"; • the possibility of using modern software is provided for organizing and conducting meetings of the Management Board
Regulation for the payment of remuneration and compensation to the members of the Auditing Commission has been approved in a new edition	<p>The purpose of adopting a new version of Regulation is to improve corporate governance practices; this document specifies the deadlines for the payment of remuneration to the Auditing Commission members and clarifies the list of Provision non-applicants</p>
The information policy Regulation was approved in a new edition	<p>The new wording of the Regulation provides for the mandatory annual review of the Company's compliance with its information policy</p>
Regulation on the Dividend Policy was approved in a new edition	<p>The new version of the Regulation clarifies the following provisions:</p> <ul style="list-style-type: none"> • aspects of Dividend Policy; • determining the dividends rate (accounting for consolidated financial statements in determining the amount of dividends); • dividend calculation procedure; • conditions and grounds for interim dividend payments
The Regulation about the insider information were approved in a new edition	<p>The list of insiders of the second class includes employees, responsible for the following functions in the Company:</p> <ul style="list-style-type: none"> • ensuring the implementation of investment programs, the development of sources of financing investment programs, capital construction and repair activities; • tariff making, interaction with regulatory bodies, electricity market participants, customers, ensuring the transportation of electricity and power supply, technological connection, technology evolution, and innovations; • automated control systems, software administration, IT security; • operational and technical management, emergency prevention; • paperwork management, case management, and protocol support
The participation of its members in the work of the Board of Directors has made up 98.3%	<p>The activity of members of the Board of Directors in the work of this governing body increased in the reporting year by 3.3% compared with the previous year</p>

The Company plans to maintain the achieved level of corporate governance practice and is committed to improving it in the future.