

# RISK MANAGEMENT

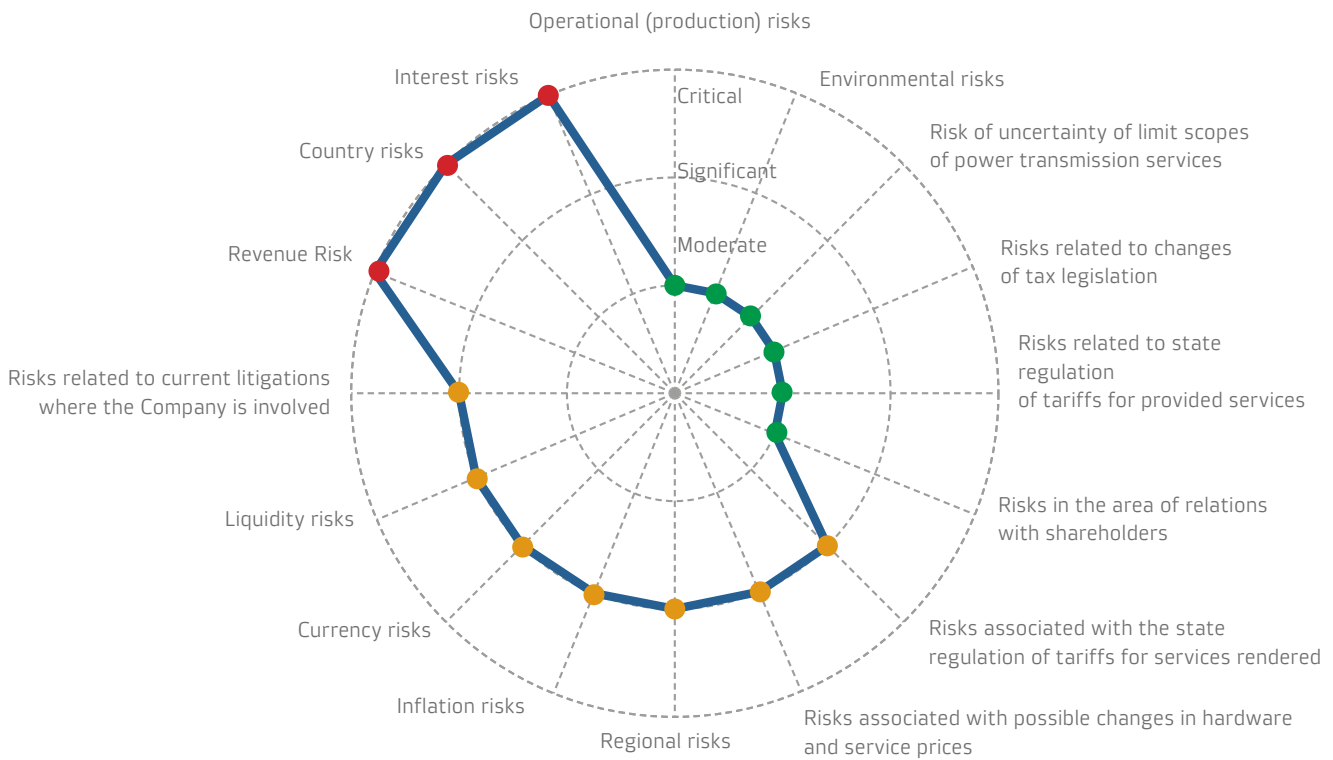
Risks arising during financial and business activities are managed by the Company in accordance with the Risk Management Policy (minutes of meeting of the Board of Directors dated 22.08.2014 No. 18/14).

The risk map of IDGC of Centre indicating the level of significance of the risk which is a combination of the probability of risk and consequences for the Company in monetary and other terms and the dynamics of the significance of the risk in comparison with 2014 and during 2015 is provided below.



*This document is available on the Company's website.*

## ASSESSMENT OF THE SIGNIFICANCE OF RISKS OF IDGC OF CENTRE



### Level of risk significance

- Critical
- Significant
- Moderate

### Risk significance trends

- ↑ Risk significance growth
- ↓ Risk significance decrease

The number of risk name, rating the significance of the risks and trends	Risk description	Actions to minimise the consequences of the risk
Sector risks		
<p><b>1</b> ↓</p> <p>Operational (production) risks</p>	<p>Risks related to insufficient financing of the repair and maintenance programme and investment programme, physical wear, violation of the operating conditions and critical change of operational parameters of power grid equipment which can result in the failure (accidents) of electric equipment and failure of structures.</p>	<p>For minimisation of consequences of operational risks all main operational facilities of the Company are insured. Additionally, there is a number of measures for ensuring the reliability of equipment and structures at the proper level:</p> <ul style="list-style-type: none"> <li>● Operational assets control system is introduced and operated. It should optimise the operation, maintenance and repair processes and streamline the investment activities.</li> <li>● The upgrade of the power generation facilities is performed based on introduction of the innovational power equipment for reduction of the level of wear.</li> <li>● A long-term target reliability programme is developed and implemented to ensure systematic reliability.</li> <li>● Tender selection of service providers and suppliers is performed for improvement of the quality of provided services and materials, responsibility of contractors and for reduction of unit costs.</li> </ul> <p>Management of risks related to compliance with industrial safety requirements of the Company is ensured by compliance with the Federal legislation in the field of industrial safety and the system of operation control of the compliance with industrial safety requirements.</p>
<p><b>2</b> ↓</p> <p>Risks related to state regulation of the tariffs for provided services</p>	<p>Transmission of power by distribution grids and connection to power grids are activities regulated by the state.</p>	<p>The following measures are taken for the minimisation of risks:</p> <ul style="list-style-type: none"> <li>● 1. The work is conducted with tariff regulation authorities of the subjects of the Russian Federation, the Ministry of Energy of the Russian Federation for ensuring compensation of “shortfall in income” of power grid companies due to implementation of Federal Law No.308-FZ through additional increase of tariffs above the forecast of the Ministry of Economic Development for other customers and subsidies from the federal budget.</li> <li>● 2. Work is conducted on a permanent basis to justify the costs included in the tariffs including economically reasonable costs incurred above the level taken into account in the tariffs and short-received revenue of past periods caused by the reasons which do not depend on the Company.</li> <li>● 3. Systematic work is conducted for reduction of costs and Optimisation of investment programme.</li> <li>● 4. Jointly with PJSC Rosseti the activities are implemented for amendment of the applicable legislation of the Russian Federation in the pricing for the services of natural monopolies to take into account the interests of distribution grid companies when setting the tariffs in the retail market.</li> </ul>

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<p><b>3</b></p> <p>Environmental risks</p>	<p>Environmental risks comprise possible harmful emissions from stationary units and transport systems. Environmental risks can be also expressed in the probability of leaks of transformer oil at substations in case of absence of oil receptacles with surface wastewater flowing into rivers and lakes which can result in the contamination of fishing water bodies by oil products.</p>	<ul style="list-style-type: none"> <li>● The tool for mitigation of environmental risks is the Environmental Policy of IDGC of Centre, PJSC approved by the Board of Directors. The aim of this policy is the improvement of the level of environmental safety through environmentally safe transport and distribution of power, integrated approach to the use of natural energy resources.</li> <li>● The implementation of environmental policy implies strong focus on the management of waste of different hazard category which significantly reduces the risk of adverse impact of toxic substances on the soil and consequently on the human health.</li> <li>● The reduction of the environmental risks in IDGC of Centre, PJSC is facilitated by a long-term programme of replacement of 6–10 kV oil circuit breakers by vacuum ones and installation of reclosers, which reduced the process turnover of the dielectric oil and prevents release of such oil in the environment saving the used oil disposal costs.</li> <li>● During implementation of the activities of the long-term upgrading and reconstruction programme, the Company replaces the components and parts of the power equipment parts by modern components and parts which ensure high environmental safety of operations.</li> </ul>
<p><b>4</b></p> <p>Risks of deficiency of income related to payment discipline of utility companies or a decrease of power consumption</p>	<p>The probability of an increase of receivables due to:</p> <ul style="list-style-type: none"> <li>● Violation of payment discipline by end consumers of electric power and necessity of additional credit resources. In this situation there is a risk of deficiency of cash on the accounts of the Company due to temporary cash gaps between the receipt of the cash from utility companies and necessity of financing of the current operations.</li> <li>● Violation of the payment discipline by utility companies due to "improper" use of cash, i.e. despite the fact that end consumers fulfilled their payment obligations to the utility companies the cash is not transferred to the accounts of the Company by the utility companies.</li> </ul> <p>The realisation of this risk will result in the necessity of additional borrowing on the refundable basis for performance of the obligations of the Company which leads to the deterioration of the financial indicators of the Company</p>	<ul style="list-style-type: none"> <li>● For reduction of the risk probability and mitigation of their consequences the management conducts balanced credit policy, receivables management policy aimed at the optimisation of receivable and debt collection.</li> <li>● The Company also conducts claim administration work for recovery of overdue receivables, implements the policy of signing of direct agreements with electricity consumers.</li> </ul>

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<p><b>5</b></p> <p>The risk of uncertainty of power transmission services limits</p>	<p>The risk is related to the following circumstances:</p> <ul style="list-style-type: none"> <li>● absence of up-to-date plans of economic development indicating the growth of power consumption over certain period in the some subjects of the Russian Federation and municipal entities;</li> <li>● probability of overall reduction of the power consumption of the Russian economy with the adoption of Federal Law "On Energy Saving and Improvement of the Energy Efficiency and Amendment of Certain Legal Acts of the Russian Federation" dated November 23, 2009 No. 261-FZ, commissioning of own generation facilities and units and introduction of social norm of consumption;</li> <li>● reduction of consumption of electricity in the Russian economy in case of economic recession/ crisis;</li> <li>● reduction of power consumption due to recession in the sales of markets of major industrial consumers;</li> <li>● decrease of the number of new grid connections or delayed performance of signed contracts;</li> <li>● reduction of the actual capacity of consumers due to change of the consumption load with a day (shifting of the load to the night hours without reduction of the consumption volume).</li> </ul>	<p>This risk is minimised by the following measures:</p> <ul style="list-style-type: none"> <li>● work with government authorities in the field of tariff regulation for development of the consolidated forecast balance of production and consumption of electric power and capacity in the regions of presence of the Company;</li> <li>● diversification of the portfolio of services of the Company.</li> </ul>
<p><b>6</b></p> <p>Risks related to possible change of prices for accessories and services used by IDGC of Centre, PJSC in its activities (separately in the domestic and foreign market), their impact on the activities of the Company and fulfilment of security obligations</p>	<p>In the course of operations, the risks of an increase of prices for accessories, equipment and other materials arise. These risks are mainly attributable to inflation.</p>	<p>The Company implements the following measures for minimisation of the probability of this risk:</p> <ul style="list-style-type: none"> <li>● Improvement of operating efficiency based on the operational expenses reduction programme (creation of competitive environment in the work and services procurement sphere, optimisation of repair and maintenance and capital construction costs, etc.);</li> <li>● Centralisation of the procurement activities ("economy of scale" during organisation of procurement procedures);</li> <li>● Increase of the share of procured Russian-made equipment and accessories (reduction of the dependence on the currency fluctuations).</li> </ul>

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Country and regional risks		
<p><b>7</b></p> <p>Country risks</p>	<ul style="list-style-type: none"> <li>Financial problems or exacerbated perception of the risks of investments in the emerging markets reduced the amount of foreign investments in Russia, caused outflow of the foreign capital and had a negative impact on the Russian economy. Additionally, the Russian economy is especially vulnerable to the fluctuations of the global prices for natural gas and oil. Also there is a problem of transit of Russian gas to Europe across Ukraine. The growth of prices for consumer products in Russia remains to be a problem. The high key rate of the Central Bank of the Russian Federation significantly increase the cost of borrowing. All these events can limit the access of the issue to capital, and have an adverse effect on the purchasing power of the product consumers. Currently, the Government of the Russian Federation pursues the policy of containment of the tariffs products and services of natural monopolies which can result in underfinancing of the investment programme of the Company.</li> <li>Additionally, in the mid-term, changes of the legal framework are expected with respect to the measures for resolution of the problem of cross-subsidisation in power generation.</li> <li>Currently, the sovereign debt rating of the Russian Federation was downgraded due to the current economic situation to BBB- (in national currency, Standard &amp; Poor's) with negative outlook, BBB- (Fitch) with negative outlook and Ba1 (Moody's) with negative outlook.</li> </ul>	<p>To minimise the named risks IDGC of Centre, PJSC conducts work for reduction of the internal expenses and optimisation of the investment programme, conducts balanced borrowing policy. The political risks are not controlled by the Company due to their scale, but for their minimisation the Company conducts active work with higher-level and regulating authorities in the common interests of the development of the industry.</p>
<p><b>8</b></p> <p>Regional risks</p>	<p>IDGC of Centre, PJSC is mainly exposed to the following regional risks:</p> <ul style="list-style-type: none"> <li>Refusal of authorised government tariff regulators to include in the tariffs part of economically justified costs declared by the Company;</li> <li>Reduction of power consumption by major industrial companies in the regions.</li> </ul>	<p>For mitigation of the impact of the regional risks on the investment programme the Company interacts with state authorities and other stakeholders to monitor and control the choices of the stakeholders with respect to their actions in connection with the investment projects of the Company. The Company also implements measures for optimisation of the financing of investment programme through reduction of the internal costs.</p>
Financial risks		
<p><b>9</b> ↓</p> <p>Inflation risks</p>	<p>Negative impact of inflation on financial and economic performance of the Company can be related to the losses of the real value of the receivables, increase of payable borrowing interests, increase of the cost of construction of investment programme facilities, cost of materials, and third party services required for operation activities. In 2015 the consumer price index in average amounted to 15.55% in comparison with 7.8% in 2014. The growth of inflation can result in the unplanned increase of the OPEX of the Company.</p>	<p>For reduction of the inflation risk, the Company pursues the policy aimed at optimisation of OPEX in accordance with the Efficiency Management Programme and signing of long-term contracts with suppliers and contractors.</p> <p>As a result of measures taken as part of implementation of Efficiency Management Programme of IDGC of Centre, PJSC in 2015 the controllable expenses were reduced by RUB 3.444 mln or by 20.76% of the 2012 level.</p>

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<p><b>10</b></p> <p>Currency risks</p>	<p>Adverse variation of foreign currency exchange rates can affect the operating and investment efficiency of the Company</p>	<p>Currency risks do not significantly affect the Company because all settlements with counterparties are made only in the currency of the Russian Federation. Nevertheless, taking into account the fact that products and equipment purchased by the Company contain imported parts, the significant increase of the foreign currency exchange rate can result in growth of the cost of the purchased products. For this reason the Company pursues policy aimed at the import substitution and signing of long-term contracts which do not imply increase of prices for purchased products.</p>
<p><b>11</b></p> <p>Interest risks</p>	<p>The change of the key interest rate by the Central Bank of Russia reflects the macroeconomic situation in the economy and affects the cost of borrowing. An increase of the rates of loans can result in the unplanned increase of the debt repayment costs of the Company.</p>	<p>For reduction of the interest risk the Company pursues a balanced borrowing policy aimed at optimisation of the structure of loan portfolio and minimisation of the debt repayment costs.</p>
<p><b>12</b></p> <p>Liquidity risk</p>	<p>The business of the Company is exposed to risk factors which can result in the weakening of the liquidity and financial stability of the Company. The most significant factors are cross-subsidisation of groups of consumers and low payment discipline in the retail electricity market.</p> <ul style="list-style-type: none"> <li>● The amount of cross-subsidisation increased due to the tariff policy of the Government aimed at containment of the tariff growth for population. Major consumers with "Last Mile" agreements account for the most significant part of cross-subsidisation. Signing of direct contracts between major industrial consumers and PJSC FSK EESFGC UES leads to a shortfall in income of the Company.</li> <li>● Law payment discipline of the counterparties of the issue results in the accumulation of significant amount of receivables including overdue receivables. The main factors affecting payment discipline were disputes regarding the declared capacity during settlements with energy utility companies and improper use of cash for supplied electricity by energy utility companies deprived of the status of guaranteeing suppliers.</li> </ul> <p>As a result of the realisation of the named risk factors the Company may be unable to fulfil financial and other constraining conditions specified in the loan agreements.</p>	<p>For minimisation of this risk factor the Company monitors the structure of the capital and determines the optimum parameters of borrowing and takes measures for optimisation of the structure of the working capital.</p>

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Legal risks		
<p><b>13</b></p> <p>Risks related to the change of the tax legislation</p>	<ul style="list-style-type: none"> <li>Regulations governing the tax legal relations often contain unclear wording or use the terms which do not have specific legal definition. The official explanation of the tax legislation by the Ministry of Finance of the Russian Federation and Federal Tax Service of the Russian Federation are not always complete.</li> <li>Development of the rules and mechanisms of preparation and submission of tax accounting pertains to the competence of the tax authorities which are entitled to charge additional tax and fee amounts, to charge penalties, to impose significant fines, and therefore the tax risks increase significantly. The Company fully complies with tax legislation applicable to its business.</li> </ul>	<p>In case of amendment of the applicable taxation procedure and conditions, the Company will plan its financial and business activities taking into account these changes.</p>
<p><b>14</b></p> <p>Risks of challenging of major transactions and related party transactions by shareholders</p>	<p>Major transaction and related-party transactions without proper approval of the Board of Directors or General Meeting of Shareholders and approval of such transactions with violation of established procedure.</p>	<p>For minimisation of this risk the conclusion of work agreements includes mandatory preliminary legal analysis of the executed transactions to determine the presence of the grounds for corporate procedures envisaged by the applicable legislation and/or the Articles of Association of the Company. If necessary, the respective transactions are submitted to review of the competent management bodies of the Company.</p>
<p><b>15</b></p> <p>Shareholder relations risks</p>	<p>This risk implies the possibility of corporate blackmailing by shareholders and actions committed by hostile shareholders for interruption of the general shareholder meetings in the future.</p>	<p>For minimisation of this risk, the professional registrar Reestr-RN Ltd. keeps the shareholder register. The Company implements a number of measures for information interaction with shareholders and full respect of their legitimate rights and interests: disclosure of information in accordance with procedure stipulated by the normative legal acts, regular meetings of the management of the companies with shareholders for explanation of the matters related to the current operations, compliance with corporate procedures and internal documents.</p>
Risks related to the activities of the Company		
<p><b>16</b></p> <p>Risks related to the current legal procedures where the Company is involved</p>	<p>In 2013 a number of energy sales companies operating in the regions of presence of IDGC of Centre, PJSC and using the services of the Company were deprived of the status of guaranteeing supplier. Due to insolvency the insolvency (bankruptcy) proceedings were initiated against the said organisations upon the applications of the lenders and the debtors.</p>	<p>As part of such proceedings IDGC of Centre, PJSC claimed to include the debt of the energy sales company to the Company in the creditor's list. However, the full satisfaction of the claims of the Company as part of the bankruptcy procedure using the bankruptcy assets is unlikely.</p>