

TARIFF POLICY

The main activities of IDGC of Centre are regulated by the Government, which sets tariffs (rates) as part of the state tariff regulation programme.

SETTING OF TARIFF FOR THE MAIN ACTIVITIES

FAS

 Federal
Antimonopoly Service

REC

 Regional authorities in the field
of state regulation of tariffs

 Limit minimum and (or) maximum tariffs for power
transmission services for regional grid organisations

 Power transmission services tariffs in the respective
region within the limit tariff levels

 Power transmission services for UNPG
(services of PJSC FGC UES)

Payment for connection to distribution grids

TARIFFS FOR ELECTRICITY TRANSMISSION SERVICES

Tariff setting for electricity transmission services has the following stages:

Levels of decision making in the setting of tariffs for electricity transmission services

 REC submits proposals
for Predictive Balance
Structure and tariff
request

 REC submit to FAS of
Russia justified proposals
for setting limit levels
of tariffs for power
transmission services

 Approval by FAS of
Russia of limit max and
min tariffs for power
transmission services

 Approval of power
transmission service
tariffs by REC (single
boiler and individual
tariffs)

In 2015, two methods were used for setting electricity transmission tariffs at the Company's branches, in particular RAB regulation and long-term indexation of the required gross revenue (RGR). The regulation method

for each of the Company branches was chosen by the corresponding REC, based on the provisions of Order No. 1178 by the Russian Government dated December 29, 2011.

The description of the methods applied

Method	RAB-regulation	Long-term indexation RGR
Branches:	<ul style="list-style-type: none"> ● Belgorodenergo ● Voronezhenergo ● Kostromaenergo ● Kurskenergo ● Orelenergo ● Smolenskenergo ● Tambovenergo ● Yarenergo 	<ul style="list-style-type: none"> ● Bryanskenergo ● Lipetskenergo ● Tverenergo
The required gross revenue (RGR) is fixed in accordance with:	System Guidelines as adopted by Decree No 228-e of the Federal Tariff Service of the Russian Federation dated March 30, 2012	System Guidelines as adopted by the Decree No 98-e of the Federal Tariff Service of the Russian Federation dated February 17, 2012
RGR includes the following:	<ul style="list-style-type: none"> ● Costs related to production and sales of products (services) in the regulated type of business (controlled and uncontrolled) ● Costs for share capital and borrowed capital return ● Return on invested capital ● Leveling ● RGR adjustment 	<ul style="list-style-type: none"> ● Controlled costs (OPEX) including dividends, costs under collective agreements, and other costs paid from profit ● Uncontrolled costs (amortisation, the cost of repayment and servicing of borrowed funds, capital investments paid from profit) ● RGR adjustment
Long-term parameters of regulation for RGR calculation:	<ul style="list-style-type: none"> ● Base level of operational costs ● Efficiency index of operational costs ● Amount of invested capital ● Net working capital ● Rate of return on invested capital ● Payback period of invested capital ● Elasticity index of controlled costs per amount of assets ● Standards of technological costs (losses) as adopted by the Ministry of Energy of the Russian Federation ● Reliability and quality levels for products (services) delivered 	<ul style="list-style-type: none"> ● Base level of controlled costs ● Efficiency index of controlled costs ● Elasticity index of controlled costs per amount of assets ● Norms of technological costs (losses) for electricity transmission ● Reliability and quality levels for products (services) delivered

The RAB regulation provides for the return of capital invested in the Company's assets in the specified period, and for a standard return. The rate of return on the 'new capital' is defined by the Federal Tariff Service, and it is defined on the 'old capital' by REC.

THE ACTIONS TAKEN IN 2015 THAT AFFECTED THE TARIFF POLICY

- On July 21, 2015, the Federal Tariff Service of Russia was abolished by the Decree of the President of the Russian Federation and its powers were given to the Federal Antimonopoly Service of Russia.
- The RECs' decision to revise the tariffs for electricity transmission services, starting from July 1, 2015, pursuant to Decree No. 458 by the Government of the

Russian Federation dated May 11, 2015, "On the approval of amendments to certain acts of the Government of the Russian Federation in order to improve the procedure of electricity volume purchase at the wholesale market for delivery to households and to equivalent categories of consumers and of electricity volume purchase by the Unified National Power Grid".

TARIFF TRENDS

The weighted average 'boiler' tariffs for electricity transmission services in 2011–2015 were as follows

Parameter	Measurement unit	2011	2012	2013	2014	2015**
Average tariff for electricity transmission services	cop/ kWh	126.55*	128.37	141.52	146.57	148.36
Increase	%	13.8%	1.4%	10.2%	3.6%	1.2%



The trends in the average 'boiler' tariffs for electricity transmission services from 2011–2015 are shown by branch in Appendix 3.5 to this Annual Report.



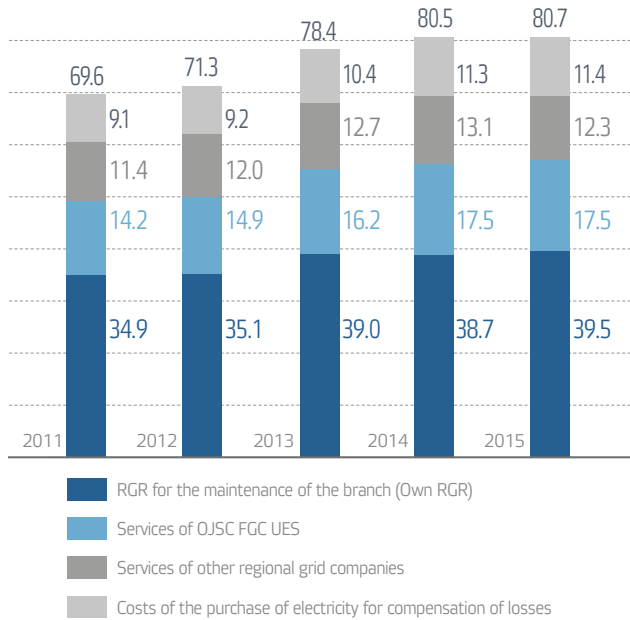
You can find the information on electricity transmission tariffs on the Company's website.

* The tariffs for 2011 are given based on the last approved tariffs (pursuant to Decree No. 1172 by the Government of the Russian Federation dated December 27, 2011 "On approval of the rules at the wholesale electricity market and on making amendments to certain acts by the Government of the Russian Federation related to functioning of the wholesale electricity market"). The average annual tariff in 2011 (with all the revisions) was 129.67 kopecks/kWh.

** With the tariff revision from July 1, 2015 pursuant to Decree No. 458 by the Government of the Russian Federation dated May 11, 2015, "On approval of amendments to certain acts of the Government of the Russian Federation in order to improve the procedure of electricity volume purchase on the wholesale market for delivery to the households and to equivalent categories of consumers and of electricity volume purchase by the Unified National Power Grid".

REQUIRED GROSS REVENUE (RGR)

RGR trends in 2011–2015, RUB mln



Due to the tariff regulation, the 'boiler' RGR of the Company in 2015 (with the tariff revision from July 1, 2015) amounted to RUB 80,702.6 mln, which is a 0.3% increase compared to 2014. The own RGR of the Company increased by RUB 800.1 mln (+2.1%).

The RGR trends from 2011–2015 are shown by branch in Appendix 3.5 to this Annual Report.

The largest increase of the Company's own RGR was seen at two branches, namely, Belgorodenergo with RUB 819 mln (11.7%) and Tambovenergo with RUB 272.6 mln (13.1%).

The RGR decreased at Bryanskenergo (4.8%), Voronezhenergo (2.3%), Lipetskenergo (2.3%), Orelenergo (2.0%), and Yarenergo (7.3%).

In the structure of 'boiler' RGR, the largest share is that of the RGR for the maintenance of the Company branches (48.9%), whereas the costs for services by the Federal Grid Company of Unified Energy System amount to 21.7%. The RGR structure has not changed much since 2014.



RGR trends in 2011–2015 by branches, as well as the evaluation of the Company's share in the RGR regions are given in Annex 3.5 to this Annual Report.

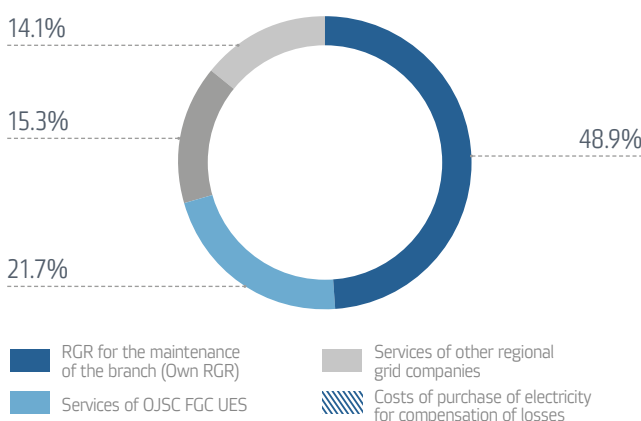
EXPLANATIONS OF AVERAGE TARIFF TRENDS AND RGR TRENDS

Despite the energy consumption decrease caused by the worsening economic situation in Russia, the Company provided secured long-term regulation parameters and RGR for the maintenance of the Company as a whole. The augmentation of electricity transmission tariffs in 2015 was 7.5%, which is in accordance with the tariff restrictions by the Ministry of Economic Development of the Russian Federation (hereinafter – the MED) and at the level of the maximum electricity transmission tariffs approved from July 1, 2015.

At two branches – in the Belgorod and Kursk Regions – which have the highest electricity consumption via the facilities rented by ENES, the Company held the additional tariff augmentation by 2%, in excess of the limits fixed by MED, to compensate for the Company's "shortfall in income".

The Federal Tariff Service of Russia approved an additional excess of 4% of the standard tariff increase in Voronezh (Decree No. 2421-e dated December 29, 2014), with this excess being due to an additional increase of the straight-line boiler tariff.

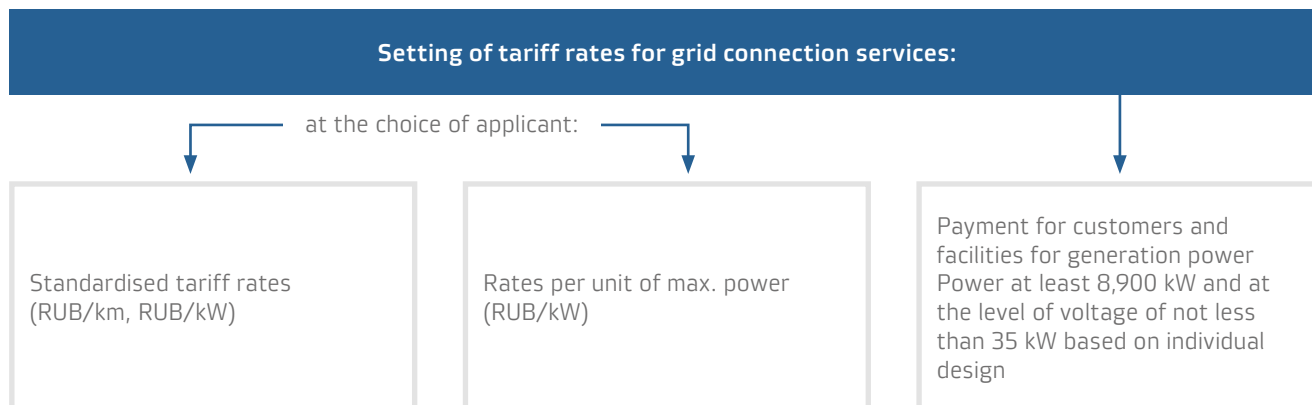
RGR structure in 2015



Since June 1, 2014, the functions of guaranteeing the electricity supplier in the Bryansk Region were given to TEK-Energo LLC. A mixed 'boiler' scheme of settlements between the grid companies has been functioning since September 1, 2014. The Company set an individual electricity transmission tariff for mutual settlements between Bryanskoblenergo LLC and the Bryanskenergo branch. As a result, in 2015 electricity transmission tariffs in the Bryansk Region were approved based on the mixed 'boiler' scheme of settlements. For this reason, the comparison of 2015 and 2014, in relation to an increase of the average straight-line tariff, cannot be made.

TARIFFS FOR GRID CONNECTION SERVICES

The tariffs for grid connection services are regulated by RECs, using one of the following methods:



Since 2013, the fees and rates for electricity grid connection have been defined pursuant to the Methodological Guidelines approved by Decree No. 209-e/1 of the Federal Tariff Service of Russia dated September 11, 2012.

Pursuant to these guidelines, the rates per maximum capacity unit are set in the prices of the regulation period, and the standardized tariff rate for coverage of the grid company's construction costs, in the prices of the year 2001.

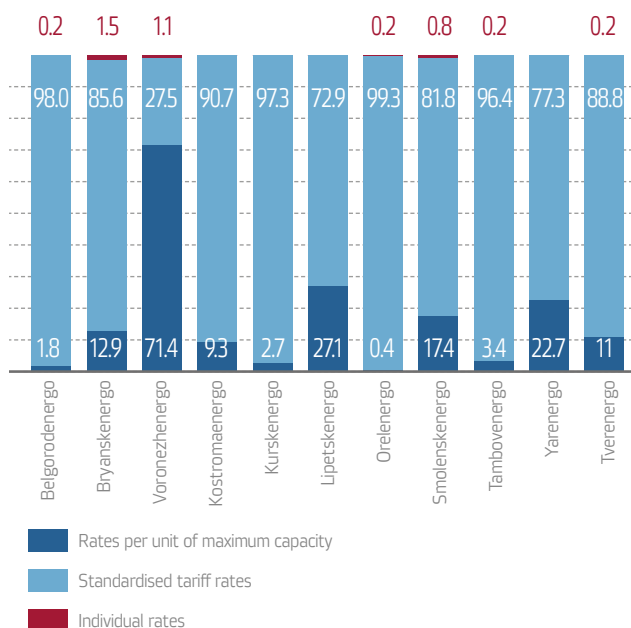
PRIVILEGED GRID CONNECTION TERMS

The Company has special privileged grid connection terms for individuals with the capacity not exceeding 15 kW inclusive, as well as for gardeners, countryside associations and other non-profit organisations (garage cooperatives), and religious organisations; the fee is a maximum of RUB 550¹.

The privileged terms for grid connection are defined in paragraph 17 of the Rules for grid connection to power receiving devices, approved by Decree No. 861 of the Government of the Russian Federation dated December 27, 2004.

In 2015, over 90% of the contracts concluded with the consumers were in privileged categories. Other consumer categories used the following fee calculation options in the reported year:

Choice of grid connection fee in 2015, %



¹ For connections with the third category of reliability and with power receiving devices at a distance to existing transmission facilities of not more than 300 meters in cities and 500 meters in rural areas.

Since October 1, 2015, the investment part of the fee for grid connection to power receivers, with a maximum capacity of not more than 150kW, may not exceed 50%.

The costs of connection for privileged consumer categories, which are not included in a fee for grid connection ("shortfall in income"), are compensated by electricity transmission tariffs.

In 2015, the 'lost earnings' included in the electricity transmission tariffs amounted to RUB 551 mln.

'Shortfall in income' by branch were as follows

Branch	'Shortfall in income, RUB thou.	Reason (statutory acts of the regulatory authorities)
Bryanskenergo	24,577.44	Decree No. 54/27-pe of the Administration of State Tariff Regulation Commission of the Bryansk Region, dated December 18, 2014
Voronezhenergo	48,919.20	Decree No. 59/16 of the Administration of State Tariff Regulation Commission of the Voronezh Region, dated December 26, 2014
Kostromaenergo	13,539.26	Report of the Department of State Regulation of Prices and Tariffs of the Kostroma Region, concerning the long-term regulation parameters of IDGC of Centre on the territory of the Kostroma Region for 2015 dated December 24, 2014
Kurskenergo	101,992.80	Decree No. 112 of the Tariff and Price Committee of the Kursk Region, dated December 9, 2014
Lipetskenergo	298,489.81	Decree No. 53/2 of the Department of Energy efficiency and Tariff regulation of the Lipetsk Region, dated December 12, 2014
Orelenergo	3,667.21	Decree No. 2425-t of the Tariff Regulation Commission of the Orel Region, dated December 29, 2014
Smolenskenergo	16,939	Decree No. 470 of the Department of Energy efficiency and Tariff policy of the Smolensk Region, dated December 25, 2014
Tambovenergo	19,956.55	Decree No. 222-e of the Tariff Regulation Administration of the Tambov region dated December 23, 2014; extract from the Minutes No 76 of the Tariff regulation board meeting of the Tambov Region, dated December 26, 2014 (page 11)
Yarenergo	42,835.05	Decree No. 317-e/tp of the Energy Efficiency and Tariff Regulation Department of the Yaroslavl Region, dated December 18, 2014

TARIFF DIFFERENTIATION CRITERIA

The grid connection tariff rate for any applicant consists of several components that are set based on the following costs by the grid company (to cover its own expenses):

- costs of grid connection to power receiving devices, including preparation and issues of technical specifications to the applicant, control of whether the applicant observes the technical specifications, inspection of the power receiving devices at the applicant's facilities, and the connection of the applicant's facilities;
- costs of construction for overhead power lines;
- costs of construction for cable power lines;
- costs of construction for substations.

Moreover, all branches have the following ranking of rates:

- By consumer category,
- By voltage level,
- By volume of connected capacity.

Additionally:

- by cable type – in Bryanskenergo.
- by cable type, by type of the equipment used – in Kostromaenergo, Tverenergo, Yarenergo.

Thus, the total rate of an applicant depends on the volume of the required works to be performed according to the technical conditions of the applicant's facility.

STANDARDISED TARIFF RATES

The average standardized tariff rates in 2015 were as follows²

Parameter	Rate range by branch	Transformer substations for organisational measures, RUB/kW	Construction of overhead power lines, RUB/kW	Construction of cable power lines, RUB/kW	Construction of substations, RUB/kW
Rate for the coverage of losses of the grid company	Min	87.23	158,523.40	199,100.00	297,61
	Max	585.53	444,149.96	800,377.69	7,727.90

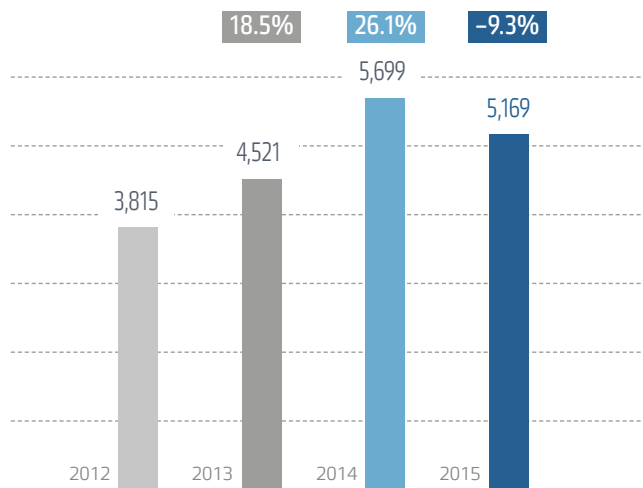
RATES FOR INDIVIDUAL PROJECTS

The rates for consumer grid connection, under individual projects (electricity generation facilities with a maximum capacity of at least 8,900 kW and a voltage level of at least 35 kV), are individually set by the regulator for each applicant.

RATE PER UNIT OF MAXIMUM CAPACITY

In 2015, the average rate per unit of capacity decreased by 9% compared to 2014 and amounted to 5,168.7 RUB/kW. Such trends are due to the higher growth of connected capacity volume compared to the growth of the RGR taken for rate calculation.

Average rate, per unit of capacity, for 2013–2015¹, RUB/kW



The trend in the average fee rate per unit of capacity for 2012-2015 is shown by branch in Appendix 3.5 to this Annual Report.



The average standardised tariff rates are shown by branch in Appendix 3.5 to this Annual Report.

¹ Calculation of the average rate per unit of maximum capacity was made based on the approved RGR and maximum capacity volume.

² Calculation of average standardised tariff rates were made based on the approved amount of RGR in 2015, maximum capacity volume and other parameters.