

DEVELOPMENT BY STRATEGIC PRIORITIES



The mission of IDGC of Centre shows the main expectations of the interested key parties of the Company.

MISSION

To ensure a reliable and high-quality supply of electricity in order to meet the growing needs of the economy and the social sector at tariffs that are economically justifiable for the services provided.

STAKEHOLDERS	EXPECTATIONS
Investment Community	The Company is a tool for making investments to ensure their payback, reliability, profitability, and liquidity.
Consumers	The Company is aimed at the high quality provision of services, high quality and reliable power supply, timely and transparent grid connection.
Regions and local authorities	The Company ensures the economic needs of transmission capacities, and is a reliable partner for the executive authorities of the Russian subjects in planning and implementing the regional programmes of territorial development; the Company is a diligent taxpayer and employer.
Employees	It is an efficiently organised Company, which has a transparent and clear corporate governance system, and is a diligent employer that provides opportunities for the maximum development of the employees' potential.



STRATEGIC GOALS

The key features of IDGC of Centre's strategic development are outlined by the strategic targets of the Russian power sector development and are approved by the Russian Government:

- Energy Strategy 2030 of November 13, 2009 No. 1715-r;
- Development Strategy for Russia's Power Grid Complex for the Period until 2030 from April 3, 2013 No. 511-r (hereinafter, the PGC Strategy).

Adopted in 2009

2030 ENERGY STRATEGY

Adopted in 2013

PGC STRATEGY

STRATEGIC GOALS OF IDGC OF CENTRE

Improvement of reliability and quality of power supply to the level meeting the customer requirements

- Implementation of Reliability Programme.
- Reduction of the grid wear.
- Implementation of uniform technical policy of distribution grid complex.
- Improvement of customer service level.

Improvement of power supply reliability

- Implementation of Company Personnel Injury Risk Reduction Programme.
- Implementation of programme for reduction of third party injury risks in the Company facilities.

Improvement of efficiency of power grid complex

- Improvement of efficiency of investments.
- Energy saving and loss reduction.
- Improvement of efficiency of OPEX.

Reduction of the number of regional grid organisations

- Implementation of power grid asset consolidation programme.

THE COMPANY'S RESULTS IN 2015 BY STRATEGIC PRIORITY

To increase the efficiency of the power grid complex

15%

the planned increase of the investment efficiency in 2015

FOR INVESTMENT EFFICIENCY IMPROVEMENT:

- The capital investments amounted to RUB 12,973 mln and were allocated to:
 - Technical renovation and reconstruction (45%);
 - New construction (54%).
- In 2015, the planned increase of the investment efficiency total to 15%, or RUB 2,703 mln was achieved.
- The actual load of production facilities in 2015 amounted to 36%, which is a 16.3% increase, compared to the projected plan.
- The following actions were made to reduce specific investment costs:
 - While planning the investment programme and reporting on its implementation, the commissioning of electricity transmission lines and power substations are specified separately;
 - Regarding the development of the investment projects' cost, the procedure for the approval of the cost of investment projects to be made before the procurement procedures, was introduced.
- Economic efficiency improved significantly proceeding from the results of purchases: proceeding from results of the reporting year, the economic effect was 6.1%, or RUB 1,793.1 mln, excluding VAT.
- Most of the purchases are public: the share of public procurement procedure in total purchases is 96.1% from total number of completed purchases. The share of purchases from a single source in 2015 was insignificant, i.e. 0.9%.
- Half (50%) of all purchases are made from small and medium businesses.

FOR ENERGY SAVING AND THE REDUCTION OF LOSSES:

- Losses amounted to 9.35% from the supply to the grid (in 2014: 9.49% in comparable conditions). The plan of energy losses reduction (in natural values) was achieved by 110%.
- The technological effect of the energy loss reduction activities amounted to 164 mln kWh; the economic effect amounted to RUB 456 mln.
- 5.061 thousand metering points were modernised; the total costs amounted to RUB 75.001 mln. Remote data collection from 4,892 of these metering points was arranged, compared to the plan of 7,299 these points.
- For power consumption without agreements, 2,570 acts were compiled and paid for in a total of 20.71 mln kWh. The payments to the Company amounted to RUB 58.32 mln, without VAT.
- For power consumption without metering, 9,107 acts were made for total of 79.78 mln kWh. The volume of services provided covered 9,001 acts for 63.90 mln kWh and for total of RUB 123.57 mln.

FOR OPERATING COSTS EFFICIENCY IMPROVEMENT:

- The reduction of controllable operating costs amounted to RUB 3,444 mln, or 20.8% compared to 2012.
- The reduction of specific operating costs amounted to RUB 1,719 mln, or 8.5% compared to 2014.

To enhance the safety of power supply

2.7 times

decreased the third party injury rate compared to 2014

- The number of production injuries decreased 2.5 times compared to 2014, and 3.5 times compared to 2013. The Company invested RUB 468.7 mln in labour safety activities.
- The third party injury rate decreased 2.7 times compared to 2014. The expenses for the implementation of a Programme for third party injuries risk reduction on IDGC of Centre's sites amounted to RUB 549.8 mln.

To improve the reliability and the quality of power supply

19.5%

was reduced number of technological violations compared to 2014

- Number of technological violations was reduced by 19.5% compared to 2014. The specific failure rate was reduced by 21.8%. The number of repeated transformer shutdowns (35-110 kV) reduced by almost two times.
- The automated production assets management system functions successfully.
- The planned targets of the Repair Programme were met, in particular, 18.5 thous. km of electricity transmission lines, 189 power substations and 4.8 thous. transformer stations were repaired.
- The Company is ready and has required human resources for emergency and repair works, thus resulting in the prevention of large-scale electricity shutdowns due to technological violations:
 - 1,441 emergency and repair crews were created;
 - An emergency backup of the main process equipment was created for total of RUB 691 mln, as well as backup power supply units;
 - Cooperation agreements were made with 36 subcontractors for emergency and repair works.
- The replacement of outdated equipment and equipment in unsuitable or unsatisfactory technical condition continued: 45% of investments in 2015 were allocated for retrofitting and renovation.
- The Company achieved its targets for reliability and quality of services provided, based on the results of the assessment made in 2015.
- A system of appointments for consumers visiting customer service offices was introduced.
- An sms-informing service about the execution of applications for grid connection, as well as for informing about planned and emergency repair work, including power outages and the need to replace metering devices, was introduced.
- A pilot project for the development of the additional service "GC assistance" (grid connection) was implemented in branches Voronezhenergo and Kurskenergo.

To reduce the number of territorial grid companies

25,068 c.u.

amounted the volume of consolidated power grid assets

- Preparatory activities to "take over" grid assets of certain territorial grid companies, which do not comply with criteria for territorial grid companies, were implemented.
- Several important power grid facilities were procured in the regions of the Company's operations for total of 2.1 thou. c.u.
- The volume of consolidated power grid assets amounted to 25,068 c.u.

CONSOLIDATION OF POWER GRID ASSETS

PRIORITIES AND THE ROLE OF CONSOLIDATION IN THE REGIONS OF OPERATION

One of the strategic priorities of IDGC of Centre is to reduce the level of inconsistency in territorial grid companies (TGC) and increase the control of such companies.

The integration of power grid assets is supported by the Ministry of Energy of the Russian Federation and is extremely important for the creation of a unified power grid area and a unified centre of responsibility for high-quality and reliable power supply to consumers.

As a large power grid company, IDGC of Centre has vast material resources and experience in emergency and repair works and has the ability to relocate the resources and devices within the regions of its presence. Another positive aim of the integration of the regional power system is to simplify the synchronisation process of power grid

development plans with territorial development plans. This will contribute to the development of long-term investment programmes in order to meet the needs of investors, developers, businesses and the population. All of these events will directly contribute to the improvement of power system efficiency. The pace of this consolidation will directly affect the development of the regional power industry, and subsequently the economy, industry and the social sphere.

THE STRATEGY AIMS TO REDUCE TERRITORIAL GRID COMPANIES IN TWO STAGES:

1. 50% reduction by 2017 compared to 2012.
2. 50% reduction by 2030 compared to 2017.

THE MAIN CONSOLIDATION ACTIVITIES WERE AS FOLLOWS

Cooperation with municipal and regional executive authorities

The Company is closely cooperating with local bodies and authorities of the Russian Federation in the regions where it operates. The Company takes part in joint working teams and is actively working on the consolidation of municipal and regional power grid assets.

Working with uncontrolled power grids facilities

Uncontrolled operation of grids reduces the reliability of all grids in the region. Therefore, activities were carried out to identify uncontrolled assets in the power industry and to address the authorities in order to ensure the appropriate operation of such assets.

Consolidation of territorial grid companies

Consolidation of power grids assets controlled by independent territorial grids companies is provided to increase the market share of power transmission and distribution in the regions where the Company operates.

The activities performed are set in the Power Grid Assets Consolidation.

Programme approved by the Company's Board of Directors. The Programme defines the key consolidation parameters (the volume of power grid facilities in c.u., capacity and length of consolidated facilities), the amount of investments and the schedule of implementation.

Activities to "take over" the power grid assets of territorial grid companies which do not meet the criteria for territorial grid companies

Owners of power grid facilities are referred to as territorial grid companies according to the criteria approved by Resolution of the Russian Government No.184 of February 28, 2015. These criteria are binding for all grid companies if their costs are included into the regional "boiler" tariff.

In 2015, the number of territorial grid companies in the regions where IDGC of Centre operates decreased by 8.6%: from 336 to 307. The tariff rate for 2016 was set for 165 territorial grid companies (not including the branches of the Company).

After the criteria were approved, lists of territorial grid companies were prepared of companies that might not comply with the criteria for referring the owners of power grid facilities as territorial grid companies. The facilities that are of interest for IDGC of Centre from the point of consolidation were defined, and proposals to consolidate the power grid assets were sent to these territorial grid companies.

Negotiations were carried out with some territorial grid companies concerning the potential consolidation of their power grid assets, wherein the technical and economic efficiency of such a consolidation was considered. Lease contracts for the power grid property were executed for the assets located within the territory of the Smolenskenergo, Kurskenergo and Orelenergo branches. The volume of consolidated assets totalled to: the transformers' capacity at 4 MVA, the length of transmission lines at 39 km and the volume of power grid facilities at 184 c.u.

ADVANTAGES OF CONSOLIDATION

Using a unified technical policy in the regions of operation. Developing a unified scheme of perspective electric grid development

The implementation of unified standards and principles related to equipment operation which will: set the managerial, technical and organisational activities for the short and long run, based on the best technological solutions used by the leading equipment manufacturers; reduce the maintenance costs significantly; and improve the reliability of power supply to consumers.

Enhancing the pass-through capacity of the grids

- Optimisation of the schemes of power supply to consumers depending on the type of consumers and mutual power supply redundancy from various power supply centres.
- Introduction of unified principles for a definition of technical capacity for the consumer's connection to the grids.

Improving the reliability of power supply for all types of consumers

- Defining "bottlenecks" areas based on the results of a technical audit, developing comprehensive synchronised programmes for the improvement of the reliability of power supply to consumers.
- Creating a united centre responsible for the reliable operation of the power grids complex.
- Excluding related grid organisations.
- Creating a united dispatch service in order to make emergency and failure elimination quicker.
- Solving issues related to the uncontrolled operation of grids.
- Ensuring the operation of the power grid complex that will be consistent and transparent for the authorities and consumers.

Ensuring the transparency of TGC operations in order to improve power transmission service tariffs and tariffs for connection to grids

Optimisation of costs and elimination of unreasonable or excessive costs from the territorial grid companies' RGR will contribute to the reduction of tariff growth for end consumers.
Simplification of the regulation procedure.

Reducing the losses of power grid compensation costs

- Installation of metering devices for consumers, including AMR for the residential sector.
- Implementation of power saving activities.
- Automation and telemechanisation of electric grids, using remote devices for grid failure detection, troubleshooting and failure elimination.

Optimising the maintenance costs of electric grids

- Using a cost management programme.
- Implementation of developed projects for the reduction of administrative and production costs.
- Optimisation of the organisational structure and control dispatch system.

Ensuring the concentration of material and financial resources

- Reduction of long-term and overdue accounts receivable
- Optimisation of the balance structure.
- Improvement and automation of budget management procedures.
- Arranging costs standardisation based on benchmarking.
- Development of an efficient outsourcing policy.
- Implementation of an assets efficiency improvement programme.
- Unified procurement procedures.

PROGRAMME OF POWER GRID ASSETS CONSOLIDATION

The planning of activities for the consolidation of and setting target indicators for power grid assets are performed in accordance with the Power Grid Assets Consolidation Programme of IDGC of Centre through 2011–2015 (hereinafter, the PCPGA). The PCPGA was approved by the Board of Directors in 2011 (Minutes No. 21/11

of October 3, 2011). Its indicators were revised in 2013 (Minutes No. 25/13 of November 01, 2013). The PCPGA is implemented under the Company's Investment Programme and Business Plan.

The largest facilities purchased in 2015:

Power grid complex in the city of Rylsk in the Kursk Region.

Before its procurement, the branch of Kurskenergo leased the power grid complex. The property belonged to the Municipal Enterprise "City of Rylsk" in the Rylsk District of the Kursk Region.

The complex comprises: Closed transformer substation – 10/0.4 kV – 29 ps, Package transformer substation – 10/0.4 kV – 20 ps, Distribution substation-10 kV – 1 ps, Conductor – 10/0.4 kV, Cable – 10/0.4 kV with total length of 119.1 km. Total volume of power grid facilities is 568.9 c.u.

According to the Company's estimation, a positive economic effect shall be received as a result of this procurement. IRR is 18.5%.

Power grid assets in the Uglich municipal district of the Yaroslavl Region.

Before the procurement, the facilities were in the Company's long-term lease. The Uglich municipal district in the Yaroslavl Region owned the property.

The purchased assets include: 250 km power grids and 67 transformer substations with total capacity of 32.4 MVA, providing power supply to the city of Uglich. The volume of power grid facilities purchased is 1,527 c.u. IRR is 15.5%.

Therefore, the total market share of regional electricity transmission of IDGC of Centre in the Yaroslavl Region amounted to 86.8% in 2015.

Main indicators of the PGACP

Period	Capacity	Length	Volume of power grid facilities	Volume of financing
2011–2015	6,641 MVA	40,891 km	322 312 c.u.	11,948 RUB mln

RESULTS OF CONSOLIDATION IN 2015



The consolidation results per the Company's branches are shown in Appendix 2.1 of the Annual Report.

Results of power grid assets consolidation in 2015	MVA	km	c.u.
Purchasing power of grid facilities	49	369	2,096
Lease of power at grid facilities	526	3,667	19,796
Other (permanent ownership and usage rights)	64	940	3,163
Other (temporary ownership and usage rights)	0	6	13
Total	638	4,982	25,068