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Moscow, 127018, Russia
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Website
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Moscow, 119285, Russia

Tel/Fax
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Website
http://rsmrus.ru/

Information Disclosure Service
Head
Sergey A. Ternikov
Tel
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E-mail
ir@mrsk–1.ru

Registrar
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VTB Registrar, JSC
Address
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Moscow, 127015, Russia
Tel
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Website
http://vtbreg.com/
E-mail
info@vtbreg.ru

Depository
Name
Non-Banking Credit Organisation Joint-Stock Company “National Settlement Depository” (NSD)
Address
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Moscow, 105066, Russia
Tel/Fax
+7 (495) 234–4827 / +7 (495) 956–0938
Website
https://www.nsd.ru/ru/

IDGC OF CENTRE, PJSC

IDGC of Centre, PJSC (the “Company”) is a Russian power grid company primarily engaged in providing power transmission and grid connection services. With the Executive Office sitting in Moscow, the Company’s branches operate in Belgorod, Bryansk, Voronezh, Kursk, Kostroma, Lipetsk, Oreï, Smolensk, Tambov, Tver, and Yaroslav.

Disclaimer

The Annual Report contains forward-looking statements that reflect expectations of the Company’s management. These forward-looking statements are not based on fact and include statements of intent, opinions or current expectations of the Company regarding its operating results, financial position, liquidity, growth prospects, strategies, and the industry in which IDGC of Centre operates. By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

We generally use words such as “intends,” “aims,” “expects,” “estimates,” “plans,” “believes,” “anticipates,” “may,” “should,” “will,” “continues” and other similar to identify forward-looking statements, and assume that the occurrence of specified events is dependent on various factors.

Therefore, future performance may differ from current expectations, and users of the Report should not rely exclusively on the information contained therein.

Apart from official data on IDGC of Centre’s performance in 2016 and its historical evolution since 2014, the information about the members of the Company’s management and supervisory bodies, committees of the Board of Directors, Corporate Secretary, and their remuneration is provided in this Report in compliance with the Russian laws on personal data.

The Company’s customers are major industrial manufacturers, transport companies, agricultural producers, community facilities, and guaranteeing suppliers (suppliers of last resort).

Scope of the Report

This Annual Report is based on the information available to IDGC of Centre as at the date of this report. The document contains an overview of the Company’s performance in 2016 and its historical evolution since 2014.

IDGC of Centre cautions that forward-looking statements are not guarantees of future performance. The Company’s actual operating results, financial position, liquidity, and development of the industry in which it operates may significantly differ from those contained in the forward-looking statements set forth in this Report. Furthermore, even if the above indicators are consistent with the forward-looking statements contained herein, those results or developments may not be indicative of results or developments in future periods.

The Company makes no warranties or representations, whether express or implied, and bears no liability for any losses incurred by individuals or entities for any reason, whether directly or indirectly, as a result of using the forward-looking statements contained in the Annual Report. Those individuals and entities should not rely solely on the forward-looking statements contained in this document, since they do not represent the only possible scenario.

Save as provided for by the Russian laws, the Company undertakes no obligation to update or confirm its expectations and estimates, or publish updated and revised forward-looking statements contained herein as a result of future events or new information.

IDGC of Centre does not warrant that third-party information is accurate, complete or comprehensive.
Belgorodenergo.

2008

First corporate governance rating assigned to the Company by the Russian Institute of Directors (RID) – Expert RA (RAEX) consortium – НРСС 6. The rating was subsequently upgraded to НРСС 7+, the highest level among grid companies.

2009

Shares of the Company listed on two Russian stock exchanges, MICEX and RTS. Already in 2009, the Company’s shares were included in МЦЕХ Quotation List B.

2010

First credit rating assigned to the Company by Standard & Poor’s – 'BB-/B/ruAA-' (outlook stable).

2011

Accession to the Anti-Corruption Charter of Russian Business.

2012

110/35/10 kV Kostroma-3, SU GRES, Vostochnaya-1 substation commissioned by the Company. The substation was designed to cut costs, eliminate non-production costs, streamline power supply and consumption processes across all management levels in the Company, and improve energy saving and energy efficiency to bring them in line with best international practice.

2013

IDGC of Centre connected a Leroy Merlin hypermarket to the power grid in Kamiensk.

2014

Q4 2014

The Company completed the reconstruction of Rivnaya and Staroyorlovskaya substations in the Tambov Region.

At RUSGRID-ELECTRO, an international electric power forum, the Company presented its proprietary innovative design of a package transformer substation with in-built charging bays and load control system. The new R&D project helps address the challenge of constructing electric vehicle charging infrastructure along highways, in towns and cities, and at filling stations.

The Company completed a massive upgrade and reconstruction programme covering major power grid facilities in the Kursk Region, including 110 kV Kostroma-3, SU GRES, Vostochnaya-1 and Vostochnaya 2 substations which supply the electricity needs of major local residential areas, industrial manufactures and community facilities.

IDGC of Centre completed the connection of the Flagman Residential Estate in Kostroma.

The Company launched power supplies to the towns of Novoshoskovskaya, Kuzneckiy and Zapadnaya-Dvina. A telephone hotline was also established by the Company to handle enquiries from private and corporate customers.

IDGC of Centre completed the construction of power grid facilities for Filfil Property, LLC, Auchen’s meat processing subsidiary in the Tambov Region.

VTB Registrar was approved as a new registrar of the Company. The shareholder register has been kept by the new registrar since January 2017.

The Company’s long-term credit ratings at power market actors operating at voltage levels from private and corporate customers.

IDGC of Centre published its IFRS consolidated financial statements for 2016. The Company’s profit for the reporting period amounted to RUB 4.9 bn.

Standard & Poor’s upgraded its outlook on IDGC of Centre’s credit rating from stable to positive and affirmed the Company’s long-term credit ratings at

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**PERFORMANCE HIGHLIGHTS**

### Financial and Operating Highlights

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<th>2015</th>
<th>2014</th>
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<td>86,110.3</td>
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<td>86,110.3</td>
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<table>
<thead>
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<th><strong>Net profit (RAS)</strong></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
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### Community Relations Highlights

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<th><strong>Customers (electricity transmission services provided)</strong></th>
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<tr>
<th><strong>New transformer capacity</strong></th>
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<th>2015</th>
<th>2014</th>
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<td>2014</td>
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<tr>
<th><strong>New transmission lines</strong></th>
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<td>km</td>
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<tr>
<td>2015</td>
<td>3,978</td>
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<tr>
<td>2014</td>
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</tbody>
</table>

### Outstanding Securities

**Listing:**

- **MICEX SC**
  - Tier 2 index
- **MICEX PWR**
  - MICEX index electric utilities
- **MOEX RCI**
  - Regulated company index
- **MICEX BMI**
  - Broad market index

**Credit ratings:**

- **BB-/B/AA–** (Standard & Poor's)
- **АА** (National Rating Agency)

**Index membership:**

- **MICEX SC**
- **MICEX PWR**
- **MOEX RCI**
- **MICEX BMI**

**Ownership structure:**

- **Russian Federation**
- **Mosenergo, PJSC**
- **Genhold Limited**
- **Others**

**Market capitalisation:**

- **RUB 26,373 mln**
- **50.2 mn shares**
- **Ordinary shares with a par value of 10 kopecks (RUB 0.1) each**

**Trading volume:**

- **mn shares**
- **IDGC of Centre**
- **MICEX index**
- **MICEX-PWR**

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1. EBITDA was calculated as Profit before Tax – Interest Payable + Depreciation = Line 2300 (RAS Form No. 2) – Line 2330 (RAS Form No. 2) + Line 6514 (RAS Form No. 2.1) + Line 6554 (RAS Form No. 2.1) + Line 6564 (RAS Form No. 2.1)

2. As at 31 December 2016.
IDGC OF CENTRE INVESTMENT CASE

11 Central Russian regions
Presence in 11 Central Russian regions with stable demand for Company services

IDGC of Centre is an electricity transmission monopoly and a key infrastructure company in the developed regions of European Russia.

For more details on the Company’s market position see pages 18–21 of the Annual Report

1st by the length of transmission lines among other IDGCs
Leadership in terms of power grid assets

For more details on the Company’s assets see pages 28–31 of the Annual Report

5 years
The Company has paid dividends over the past five years.

>25% of net profit
Including dividends of over >25% of net profit for the last two years

Approved dividend policy and a strong dividend history

For more details see pages 105–107 of the Annual Report

NRCG 7+ rating
High corporate governance rating

IDGC of Centre follows best practice in corporate governance to improve stakeholder relations.

For more details see page 121 of the Annual Report

34% free-float
The Company shares are traded on the Moscow Exchange, whose Index Committee has assigned a high rating to the shares in free float. For more details see page 156 of the Annual Report.

For more details see page 168 of the Annual Report

9.49 / 10 points
High information transparency

Based on the perception study results, investors cited management transparency and quality of disclosures as one of IDGC of Centre’s strengths.

For more details see page 108 of the Annual Report

Corporate Structure

Territorial grid organisation providing electricity transmission services in the Yaroslavl Region

Research and development organisation providing energy efficiency improvement services

Energy supply, energy efficiency and maintenance service provider

The company is currently in receivership.

BELGORODENERGO
BRYANSKENERGO
VOLOGDENERGO
KOROSHEZERGO
KOSTROMAENERGO
LIPETSKENERGO
ORELOENERGO
PUTYINSKENERGO
SMOLENSKENERGO
TAMBOVENERGO
TVERENERGO
YARENERGO

1  Yaroslavl Electric Grid Company.
2  Innovations and Energy Efficiency Centre.
Roll-out of telemetry systems and automated dispatch control systems

In 2016, the Company continued the implementation of programmes to improve data acquisition and transmission systems, programmes to enhance the observability and controllability of distribution grid facilities, as well as the deployment of automated dispatch control systems (ADCSs) in seven branches of the Company.

Providing high-speed data links for telemetry equipment at grid facilities

IDGC of Centre continues the deployment of telemetry solutions across its grid facilities, installing fibre-optic high speed communication cables.

Installation of energy-efficient transformers

6-kV to 10-kV power transformers with reduced energy consumption are being installed at the Company’s grid facilities under the Innovative Development Programme of IDGC of Centre.

Use of MSSPs and PMTSs designed by IDGC of Centre in the construction and retrofitting of grid facilities

IDGC of Centre continues the installation of 0.4-kV multi-sided steel poles (MSSPs) and 6-kV to 10/0.4-kV pole-mounted transformer substations (PMTSs). The equipment was designed as a result of IDGC of Centre’s successful R&D projects.

IDGC of Centre continues implementing the results of its R&D projects. In 2016, the Company completed a reconstruction project on a 10-kV power line using poles made of composite materials.

At RUGRIDS-ELECTRO, an international electric power forum held in Moscow on 18–19 October 2016, IDGC of Centre held a launch of its proprietary innovative design of a package transformer substation with in-built charging units and load control system.

IDGC of Centre has been certified to ISO 50001:2001 Energy Management Systems.
We maintained our leading positions in corporate governance and innovative technology and reached new heights in terms of revenue and total grid assets.

**Strategic Advantages**

Our strategic objectives of improving service quality and securing safe and reliable power supply require the high level of expertise we possess and leverage in our day-to-day activities. By using innovative solutions, improving grid monitoring methods, increasing accuracy of power metering and speeding up grid connections, IDGC of Centre achieves efficiency gains and serves as an example for many electricity transmission and distribution companies. We are confident that our strategic advantages will bring about positive changes for our consumers in the regions in which the Company operates.

**Safe Quality**

IDGC of Centre’s growing technology potential enables gains in safety and reliability of the grid. In 2016, the equipment failure rate decreased 16.2%, while electricity losses decreased by 0.07 pp in comparable terms to 9.36%. As one might expect, these achievements helped bring down loss compensation costs and thus improved the Company’s overall financial performance.

Another highlight of 2016 was ISO 50001:2011 certification of our energy management system by an independent auditor. I would like to specifically mention the Company’s effort to reduce the time frame for providing consumers with access to the grid infrastructure. At the year-end, the average grid connection time was almost halved, down to 78 days. This achievement is particularly important as it makes a stronger investment case for the regions in which the Company operates and improves business environment for small and medium businesses.

In 2016, IDGC of Centre had to operate in an unfavourable macroeconomic environment when many companies faced difficulties in raising long-term finance to support business growth, and households saw their real disposable income dwindling. Despite these negative conditions, the Company improved operating and financial performance, strengthened its financial position and increased the dividend payout ratio thanks to many years of expertise and strong teamwork.
Fundamental Stability

The Company’s financial stability and comfortable liquidity cushion were confirmed by Standard & Poor’s when the agency affirmed its credit rating on the Company at ‘BB+/B1/ruAAA–’. It should be noted that IDGC of Centre is one of few Russian grid companies with an international credit rating.

The Company’s financial stability secures its commitment to investments in new grid connections and economic development of the regions in which it operates. Capital investments in relevant projects amounted to RUB 13.4 bn, with 917 MVA in transformer capacity and 4,827 km of transmission lines put into operation in 2016. The Fabrichnaya substation supplying power to the Tambov Region is but one example of our major infrastructure projects. The substation was built under a concession agreement signed between the Company and the Administration of the Tambov Region to connect local agricultural facilities to the grid.

Information Transparency

The Company sees information transparency as a key principle and a cornerstone of its relations with customers, shareholders, investors and authorities. The Company’s achievements in this area were highlighted by the findings of a perception study conducted in December 2016. According to the majority of respondents from the investment community, transparency, excellent corporate governance and quality of disclosures have remained the key strengths of the Company. The aggregate score given to our IR team by the respondents was 9.49 out of 10 (up from 9.22 out of 10 in the previous year).

Corporate governance practices in the Company were recognised by the Russian Institute of Directors, which affirmed, in December 2016, its corporate governance rating on IRSC of Centre at NRCG 7+ (Advanced Corporate Governance Practice). We are confident that as we strive to achieve our most important goal of building an effective governance system based on best global practices, we will see sustained shareholders’ trust in the Company and increased interest from investors.

To conclude, I would like to thank all employees of the Company for their hard, sometimes dangerous work and their strong commitment. Most customers judge our services on their first-hand contacts with our employees. This places great responsibility on every employee. It is their professionalism and personal engagement that help us solve customers’ problems and achieve significant results.

Looking into the Future

We look into the future and see enormous potential in improving relations with our customers, partners, shareholders and employees. The results achieved in 2016 have strengthened our confidence in ourselves and provided a good platform for the next step forward. We are confident that alignment between the Board of Directors, the management and shareholders will help drive business growth, improve operating and financial performance, and increase shareholder value of the Company.

Oleg Yu. Isaev
General Director
IDGC of Centre

Yury N. Mangarov
Chairman of the Board of Directors
IDGC of Centre
88.7% SHARE IN THE MARKET for grid connections

86.1% SHARE IN THE MARKET for electricity transmission

LEADERSHIP IN TERMS OF POWER GRID ASSETS

‘BB-/B/ruAA-’ OUTLOOK STABLE
Standard & Poor’s affirmed IDGC of Centre’s international credit rating

11 REGIONS OF OPERATION with stable demand for the Company’s services

- Market Overview
- Development in Line with Strategic Priorities
- Key Performance Indicators
**MARKET OVERVIEW**

**Russia’s electric power industry**

Generating companies (GenCos)
- Electricity generation: ca. 700 power plants with an aggregate capacity of over 235,305.56 MW

Federal Grid Company (FGC UES, PJSC)
- Management of the Unified National Electricity Grid of Russia
- Electricity transmission over high-voltage (220 kV and above) grids

Grid companies (IDGCs, TGOs)
- Electricity transmission and distribution over 0.4–110 kV grids

Electricity sales companies
- Sales of electricity and capacity to consumers

**The Company’s position in the industry**

IDGC of Centre’s operations are concentrated in Central Russia, spanning 11 regions. Since its core business is electricity transmission, the Company has a natural monopoly on the market.

Apart from IDGC of Centre, a number of other territorial grid organisations (TGOs) provide electricity transmission and distribution services, as well as grid connection services. The largest TGOs include:

**ELECTRICITY TRANSMISSION AND DISTRIBUTION**
- MUE Voronezh Municipal Power Grid (Voronezh Region)
- Kursk Power Grids, OJSC (Kursk Region)
- Lipetsk Municipal Energy Company, OJSC (Lipetsk Region)
- Oreloblenergo, JSC (Orel Region)
- Tambov Grid Company, P.JSC (Tambov Region)
- United Power Grid Company, LLC, MUE Tvergorelektro (Tver Region)

**GRID CONNECTIONS**
- Oboronenergo, PJSC
- Bryanskoblelektro, LLC (Bryansk Region)
- MUE Voronezh Municipal Power Grid (Voronezh Region)
- Lipetsk Municipal Energy Company, OJSC (Lipetsk Region)
- Oreloblenergo, JSC (Orel Region)
- Tambov Grid Company, P.JSC, Tambov Utility Systems, P.JSC (Tambov Region)
- United Power Grid Company, LLC, MUE Tvergorelektro, Tveroblelektro, LLC (Tver Region)
- Rybinsk Municipal Power Grid, PJSC
Benchmarking of IDGC of Centre’s performance in 2016 against peer companies

<table>
<thead>
<tr>
<th>Revenue under RAS</th>
<th>MOESK</th>
<th>IDGC of Centre</th>
<th>IDGC of CVR</th>
<th>IDGC of Urals</th>
<th>IDGC of Volga</th>
<th>IDGC of Siberia</th>
<th>IDGC of NW</th>
<th>Kubanenergo</th>
<th>IDGC of South</th>
<th>IDGC of NC</th>
<th>TDC</th>
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<th>IDGC of CVR</th>
<th>IDGC of Urals</th>
<th>IDGC of Volga</th>
<th>IDGC of Siberia</th>
<th>IDGC of NW</th>
<th>Kubanenergo</th>
<th>IDGC of South</th>
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<th>TDC</th>
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<th>Kubanenergo</th>
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<th>IDGC of CVR</th>
<th>IDGC of Urals</th>
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<th>IDGC of Siberia</th>
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<th>TDC</th>
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</thead>
<tbody>
<tr>
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<td>13.7</td>
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<thead>
<tr>
<th>Trading volume on the Moscow Exchange (T+ trading mode)</th>
<th>IDGC of Centre</th>
<th>IDGC of Volga</th>
<th>IDGC of NC</th>
<th>IDGC of NW</th>
<th>IDGC of South</th>
<th>TDC, os</th>
<th>TDC, ps</th>
<th>Kubanenergo</th>
<th>IDGC of Siberia</th>
<th>TDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB mn</td>
<td>2,934.45</td>
<td>2,756.99</td>
<td>1,894.82</td>
<td>1,375.16</td>
<td>1,118.19</td>
<td>707.77</td>
<td>455.61</td>
<td>375.14</td>
<td>194.43</td>
<td>187.25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average number of transactions (T+ trading mode)</th>
<th>IDGC of Centre</th>
<th>IDGC of Volga</th>
<th>IDGC of NC</th>
<th>IDGC of NW</th>
<th>IDGC of South</th>
<th>TDC, os</th>
<th>TDC, ps</th>
<th>Kubanenergo</th>
<th>IDGC of Siberia</th>
<th>TDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pcs</td>
<td>42.3</td>
<td>24.7</td>
<td>18.7</td>
<td>16.6</td>
<td>14.3</td>
<td>13.3</td>
<td>10.1</td>
<td>8.0</td>
<td>5.2</td>
<td>3.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TSR3</th>
<th>IDGC of Centre</th>
<th>IDGC of Volga</th>
<th>IDGC of NC</th>
<th>IDGC of NW</th>
<th>IDGC of South</th>
<th>TDC, os</th>
<th>TDC, ps</th>
<th>Kubanenergo</th>
<th>IDGC of Siberia</th>
<th>TDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>280.3</td>
<td>196</td>
<td>148.9</td>
<td>132.7</td>
<td>132.6</td>
<td>113.7</td>
<td>88.2</td>
<td>61.9</td>
<td>79</td>
<td>74.4</td>
</tr>
</tbody>
</table>

**Sources**
www.moex.com, Bloomberg, company websites, RAS statements, the Company’s estimates

**Abbreviations**
- IDGC of CVR – IDGC of Centre and Volga Region
- IDGC of NW – IDGC of North-West
- IDGC of NC – IDGC of Northern Caucasus
- TDC – Tomsk Distribution Company

1. EBITDA was calculated as Profit before Tax – Interest Payable + Depreciation = Line 2300, RAS Form No. 2.
2. Line 2330, RAS Form 2 + Line 6514, RAS Form No. 2.1 + Line 6554, RAS Form No. 2.1 + Line 6564, RAS Form No. 2.1.
3. As at 30 December 2016.

**TSR** was calculated as (Weighted average share price at period end – weighted average share price at period beginning) / weighted average share price at period beginning × 100%.
DEVELOPMENT IN LINE WITH STRATEGIC PRIORITIES

IDGC of Centre aligns operations with the expectations of its major stakeholders.

Investor community
The Company’s securities are a reliable investment tool that is aimed at ensuring their return, profitability and liquidity.

Consumers
We deliver services in the shortest time possible, ensuring stable and reliable electricity supply and timely gas and electricity connections based on transparent procedures.

Local authorities
We ensure support for local economies by matching electricity demand in the regional markets with our transmission capacity. We are a key partner of executive authorities across the Russian Federation in planning and delivering regional programmes for development of territories and have built a reputation as a responsible taxpayer and employer.

Employees
We are a self-structured company with a transparent and clear corporate governance framework. We provide opportunities for employees to fully realize their potential, and offer fair remuneration.

Mission
Ensure reliable and stable electricity supply to meet the evolving needs of the economy and society, with a fair transparent pricing that makes our services affordable to consumers.

Strategic objectives

Key objectives of the electrical grid sector set out in the Grid Development Strategy:
- Reliable, stable and affordable electricity supply to consumers on a long-term basis.
- Reliable and safe operation of grid facilities.
- Establishment of the most effective grid infrastructure compliant with applicable international standards.
- Pricing that ensures acceptable levels of electricity costs for the Russian economy and adds to its investment appeal.

IDGC of Centre’s growth outlook against set targets

- Increased reliability and stability of electricity supply. To achieve this target, IDGC of Centre takes measures to:
  - implement the Uniform Technical Policy;
  - reduce the number of faults and failure rates;
  - improve investment performance;
  - improve procurement performance;
  - improve customer service, etc.

- Higher safety of power supplies. To achieve this target, the Company implements programmes to reduce (prevent growth in) occupational injuries and injuries to third parties at the facilities of IDGC of Centre. The Company pursues the Environmental Policy focused on its environmental performance.

- Operational performance. To improve its operational performance, IDGC of Centre takes measures to:
  - reduce electricity losses in transmission and distribution grids;
  - reduce resource consumption for business needs;
  - reduce controllable costs (per unit operating costs);
  - implement the innovative development programme, etc.

- Lower number of TGOs. To achieve this target, IDGC of Centre implements a programme to consolidate grid assets by lease and acquisition of electrical grid facilities across the Company’s geography.

IDGC of Centre | Annual Report | 2016
Report on the delivery of strategic priorities

<table>
<thead>
<tr>
<th>Priorities</th>
<th>Delivery</th>
<th>2015</th>
<th>2016</th>
<th>2017 Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programmes to improve reliability, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>number of faults</td>
<td>16,376</td>
<td>14,455</td>
<td></td>
<td></td>
</tr>
<tr>
<td>failure rate, number of incidents / conventional unit</td>
<td>1.03</td>
<td>8.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>number of sustained outages of 15–110 kV transformers</td>
<td>10</td>
<td>106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repair and maintenance programmes, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>repair and maintenance of 6 kV – 110 kV power lines, km</td>
<td>18,597</td>
<td>17,826</td>
<td>15,793</td>
<td></td>
</tr>
<tr>
<td>repair and maintenance of substations and transformers, units</td>
<td>4,907</td>
<td>5,233</td>
<td>4,578</td>
<td></td>
</tr>
<tr>
<td>Investment programme, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>capital investments (net of VAT), RUB mn</td>
<td>12,973</td>
<td>13,421</td>
<td>12,343</td>
<td></td>
</tr>
<tr>
<td>investment in retrofitting and reconstruction</td>
<td>RUB 6,830 mn / 60%</td>
<td>RUB 5,748 mn / 50%</td>
<td>RUB 5,995 mn / 45.3%</td>
<td></td>
</tr>
<tr>
<td>improvement in investment performance against the baseline of 2012</td>
<td>RUB 2,703 mn / 15%</td>
<td>22.7%</td>
<td>37.4%</td>
<td>30%</td>
</tr>
<tr>
<td>actual capacity utilisation rate, %</td>
<td>36</td>
<td>36</td>
<td>22.7%</td>
<td>30%</td>
</tr>
</tbody>
</table>
### Operating Review

#### Financial Review

**Key Performance Indicators**

The Company’s key performance indicators (KPIs) were set by the resolution of the Company Board of Directors on 31 March 2016 (Minutes No. 09/16 dated 1 April 2016).

The Company’s KPIs are tied with variable compensation payable to the management. Every indicator has its weight in the total amount of bonus payments, and quarterly and annual bonuses are paid subject to the achievement of relevant KPIs.

#### Quarterly KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>Target value for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero growth in major incidents</td>
<td>Zero growth</td>
</tr>
<tr>
<td>Zero growth in the number of people injured as a result of accidents</td>
<td>Zero growth</td>
</tr>
<tr>
<td>Financial stability and liquidity ratio</td>
<td>KPI debt to equity ratio ≥ 0.07 or an approved value in the business plan and KPI modified current liquidity ratio ≥ 1 or an approved value in the business plan</td>
</tr>
</tbody>
</table>

#### Annual KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>Target value for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total shareholder return (TSR)</td>
<td>0.01% growth in MOEX RCI (regulated companies index) for a reporting period</td>
</tr>
<tr>
<td>Return on invested capital (ROIC)</td>
<td>≥ target value calculated in line with the Company’s business plan guidance based on IFRS consolidated financial statements</td>
</tr>
<tr>
<td>Reduction of per unit operating expenses (costs)</td>
<td>≤ 10%</td>
</tr>
<tr>
<td>Electricity losses</td>
<td>≤ approved value in the business plan</td>
</tr>
<tr>
<td>Reliability of services provided</td>
<td>≥ 1</td>
</tr>
<tr>
<td>Reduction of per unit investment costs</td>
<td>≤ 1</td>
</tr>
<tr>
<td>Compliance with the commissioning schedule</td>
<td>≥ 95%</td>
</tr>
<tr>
<td>Compliance with grid connection time-frames</td>
<td>≥ 11</td>
</tr>
<tr>
<td>Increase in labour productivity</td>
<td>≥ 1,35% RUB/man-hour</td>
</tr>
</tbody>
</table>

#### Share of SME procurement

- ≥ 10% for the share of procurement involving SMEs only
- ≥ 10% for the share of procurement from SMEs (including contracts engaging SMEs as subcontractors / associate contractors)
336 MVA / 1,707 km of grid facilities acquired or leased under operating lease arrangements

1,078 MW of connected capacity

-17% failure rate reduction

9.36% of electricity losses

46.2 thou. grid connection contracts delivered

186 thou. requests for additional services

56.2 bn kWh of electricity transmitted

9.36% of electricity losses
### ASSETS

#### Assets operated by IDGC of Centre

<table>
<thead>
<tr>
<th>Asset</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.4–110 kV substations units</td>
<td>98,288</td>
<td>100,545</td>
<td>101,968</td>
</tr>
<tr>
<td>Installed capacity (total) MVA</td>
<td>52,010</td>
<td>53,681</td>
<td>54,372</td>
</tr>
<tr>
<td>Substations, 35–110 kV km</td>
<td>2,363</td>
<td>2,372</td>
<td>2,370</td>
</tr>
<tr>
<td>Transformer substations, 6–10/0.4 kV units</td>
<td>95,183</td>
<td>97,336</td>
<td>98,734</td>
</tr>
<tr>
<td>Distribution points, 6–10 kV km</td>
<td>742</td>
<td>857</td>
<td>864</td>
</tr>
<tr>
<td>RDS length of overhead lines, 0.4–110 kV</td>
<td>379,744</td>
<td>382,540</td>
<td>385,016</td>
</tr>
<tr>
<td>Overhead lines, 110 kV and above km</td>
<td>27,601</td>
<td>27,628</td>
<td>21,599</td>
</tr>
<tr>
<td>Overhead lines, 35 kV km</td>
<td>36,390</td>
<td>38,288</td>
<td>30,399</td>
</tr>
<tr>
<td>Overhead lines, 6–30 kV km</td>
<td>171,290</td>
<td>171,802</td>
<td>172,065</td>
</tr>
<tr>
<td>Overhead lines, 0.4 kV km</td>
<td>156,962</td>
<td>158,962</td>
<td>160,955</td>
</tr>
<tr>
<td>Length of cable lines, 0.4–110 kV km</td>
<td>14,259</td>
<td>17,154</td>
<td>17,991</td>
</tr>
<tr>
<td>Cable lines, 110 kV and above km</td>
<td>36</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Cable lines, 35 kV km</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Cable lines, 6–10 kV km</td>
<td>3,452</td>
<td>3,542</td>
<td>9,717</td>
</tr>
<tr>
<td>Cable lines, 0.4 kV km</td>
<td>6,645</td>
<td>7,952</td>
<td>8,282</td>
</tr>
</tbody>
</table>

#### Reliability of fixed assets

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Change 2016/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human error incidents</td>
<td>Number</td>
<td>8</td>
<td>1</td>
<td>0</td>
<td>–1</td>
</tr>
<tr>
<td>Sustained outages of 35–110 kV transformers</td>
<td>Number</td>
<td>199</td>
<td>192</td>
<td>104</td>
<td>1</td>
</tr>
<tr>
<td>Average interruption time (per 6–110 kV feeders)</td>
<td>Hours</td>
<td>2.4</td>
<td>2.17</td>
<td>2.26</td>
<td>0.09</td>
</tr>
</tbody>
</table>

#### Failure rate

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Change 2016/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Faults</td>
<td>Number</td>
<td>20,797</td>
<td>16,736</td>
<td>14,455</td>
<td>–2,281</td>
</tr>
<tr>
<td>Failure rate Per 1,000 equipment units</td>
<td></td>
<td>12.4</td>
<td>19.0</td>
<td>8.3</td>
<td>–1.7</td>
</tr>
</tbody>
</table>

#### Major failure causes

- **25 years** for substations and underground cables
- **35 years** for overhead lines

We assess asset wear based on the standard service life of facilities:

To ensure reliable operation of its grid facilities, the Company:

- has in place an automated Production Asset Management System;
- upgrades its electrical distribution and transmission facilities with innovative solutions;
- has in place a long-term targeted Reliability Programme and Repair Programme;
- takes additional measures to prepare grid assets for operation during the winter period and during emergency (spring flood, fire, and lightning) seasons. 

---

1. Including finance lease, operating lease, and equipment under maintenance contracts.
Production Asset Management System

IDGC of Centre has in place one of the most effective production asset management systems ("PAMS"). With the PAMS, we have adopted innovative operations management methods to set up and monitor operational programmes taking into account the technical condition of grid facilities and implications of their failure.

All further improvements are made to the PAMS in line with the Plan for the Development of the Production Asset Management System of IDGC of Centre for 2016–2018.

The PAMS enables the Company to address a number of related important challenges, including:

➔ build a single reliable database on grid facilities, including diagnostic test data, defects and critical points;
➔ automate the planning and control processes for operational programmes of branches;
➔ identify bottlenecks for targeted programmes and individual initiatives to improve operational reliability of grid facilities;
➔ follow up and review the outputs of targeted reliability improvement programmes;
➔ automate transparent and reliable reporting on the progress in key business processes.

Among other major effects, the PAMS has improved the planning and monitoring of operational asset management by providing the Company’s management with objective and sufficient information.

Consolidation of Grid Assets

Defragmentation of and better control over Territorial Grid Organisations ("TGOs") are a strategic priority for IDGC of Centre.

Integrating grid facilities is essential for building an industry-wide, uniform power grid space and a single centre of responsibility for efficient and reliable power supply to consumers. Integration improves the overall operation of the energy system. Further pace of consolidation will have a direct impact on the dynamic development of the regional power sectors, with implications for regional economies, industries and communities.

Programme of power grid asset consolidation

Highlights of the Programme

2016–2018

Implementation period

1,751.1 MVA

Capacity

9,212.8 KM

Length

60,690.3 CONVENTIONAL UNITS

Size of power grid assets

RUB 2,090.7 MN

Financing

Results of Consolidation in 2016

MVA km conventional units

Grid facilities acquired 3.3 7.6 75.6

Grid facilities in operating lease 253.7 887.2 6,708.7

Other 70.4 812.4 2,520.0

Total 336 1,707 7,301

In 2014–2016, asset consolidation totalled:
➔ acquisition: 266 MVA, 2,800 km, 10,245 conventional units;
➔ operating lease: 757 MVA, 4,816 km, 26,515 conventional units;

Repair Programme

Since 2010, IDGC of Centre has in place the Programme for Repair and Maintenance of Electrical Equipment. The annual Programme is based on forward-looking (long-term) schedules for repair of grid facilities operated by the Company, prioritised based on their technical condition and implications of their failure for consumers.

In 2016, the Repair Programme was carried out in full compliance with the approved scope of work, while even exceeding certain targets. In 2016, related costs totalled RUB 1,941.2 mn.

The overperformance against planned levels was due to additional measures taken during the preparation for winter 2016/2017 period, measures taken to comply with improvement notices issued by supervisory authorities, and emergency restoration activities carried out during the year.

The Programme of Consolidation of Power Grid Assets of IDGC of Centre for 2016–2018 sets out scheduled consolidation events and performance targets of the Company in the covered regions.
OPERATIONAL HIGHLIGHTS

Power Transmission

Business model for power transmission services

The key driver of power transmission growth in 2016 (+2.5% year-on-year) is the increased consumption of electricity by large companies, such as:

➔ KMA Electro LLC (consumer of Kurskenergo branch);
➔ Oskol Electrometallurgical Plant JSC (consumer of Belgorodenergo branch);
➔ Transneft-Baltika LLC (consumer of Yarenergo branch);
➔ agribusinesses (consumers of Belgorodenergo, Tambovenergo and Kurskenergo branches).

Electricity delivered from the grid to consumers and relevant territorial grid organisations (TGOs) in 2016 within balance sheet and operating responsibility attribution was up 2.4% year-on-year, due to growing power consumption by the mining, petroleum product transportation and agricultural sectors.

Service delivery

Power transmission services provided, 2014–2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity delivered to the grid</td>
<td>62,802.4</td>
<td>62,556.3</td>
<td>64,057.8</td>
<td>1,501.5</td>
</tr>
<tr>
<td>Net electricity delivered (according to the balance sheet attribution of the Company’s branches)</td>
<td>57,845.1</td>
<td>56,706.0</td>
<td>58,063.3</td>
<td>1,357.3</td>
</tr>
<tr>
<td>Electricity losses</td>
<td>5,757.3</td>
<td>5,850.3</td>
<td>5,994.5</td>
<td>144.2</td>
</tr>
<tr>
<td>Power transmission services provided</td>
<td>54,398.8</td>
<td>54,782.5</td>
<td>56,177.4</td>
<td>1,394.9</td>
</tr>
</tbody>
</table>

Power delivery structure

Delivery structure by voltage

110-kV grids take up the bulk of the electricity delivered by IDGC of Centre’s grids, accounting for 62% of total electricity delivered. More than 50% of net electricity delivered to 110-kV grids is supplied to industrial consumers. Metallurgical companies are the largest consumers of high-voltage power.

High-voltage electricity consumption increased 1.7% year-on-year, mainly due to growing electricity consumption by the metallurgy sector and large petroleum product transportation companies.

Medium (10 kV) and low (0.4 kV) electricity consumption also grew, driven mostly by increasing consumption by agribusinesses, municipal utilities and domestic consumers.
In comparable terms, revenue from power transmission grew by RUB 5,879.4 mn (+7.6%) in 2016, due to higher volumes of net electricity delivery (up by RUB 2,016.7 mn) and an increase in the average tariff (up by a total of RUB 4,862.8 mn). The cost of variable losses increased, which resulted in lower revenue growth (by RUB 772.1 mn).

The biggest contribution to the revenue growth in 2016 (in comparable terms) came from guaranteeing suppliers. In the reporting period, revenue from guaranteeing suppliers increased by RUB 5,167.1 mn (9.5%), due to higher volumes of net electricity delivery (up by RUB 1,886.4 mn) and an increase in the average tariff (up by a total of RUB 3,280.7 mn). Higher cost of variable losses resulted in the revenue from this consumer category declining by RUB 453.5 mn.

In 2016, industrial and domestic consumers increased their relative shares of consumption from the year before, while the share of TGOs slipped, mainly due to some regional TGOs losing their status as TGOs.

### Electricity supplies by consumer category

![Diagram showing electricity supplies by consumer category]

- **Industrial consumers**: 36.6%
- **Domestic consumers (excluding equivalent consumer groups)**: 12.8%
- **TGOs**: 27.2%
- **Non-industrial consumers**: 6.0%
- **Transport**: 2.2%
- **Agriculture**: 1.0%
- **Public sector consumers**: 74.5%

### Electricity consumption from the Company’s grids by the top 10 consumers in 2016

<table>
<thead>
<tr>
<th>No.</th>
<th>Branch</th>
<th>Consumer</th>
<th>Electricity consumption mm kWh</th>
<th>Share of net electricity delivered %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Belgorodenergo</td>
<td>JSC Donbass Electrometallurgical Plant</td>
<td>3,581.9</td>
<td>10.0</td>
</tr>
<tr>
<td>2</td>
<td>1 branches</td>
<td>JSC Russian Railways</td>
<td>3,217.2</td>
<td>5.5</td>
</tr>
<tr>
<td>3</td>
<td>Lipetskenergo</td>
<td>OJSC Nordirkraft-Servis</td>
<td>2,998.3</td>
<td>5.2</td>
</tr>
<tr>
<td>4</td>
<td>Kurskenergo</td>
<td>PZSC Mikhalkovsky GOK</td>
<td>2,371.4</td>
<td>4.6</td>
</tr>
<tr>
<td>5</td>
<td>Saratovenergo</td>
<td>MUE Saratov Municipal Power Grid</td>
<td>1,786.8</td>
<td>3.1</td>
</tr>
<tr>
<td>6</td>
<td>Bryanskenergo</td>
<td>OJSC Bryanskoblenergo</td>
<td>1,330.5</td>
<td>2.3</td>
</tr>
<tr>
<td>7</td>
<td>Belgorodenergo</td>
<td>JSC Steklovskiy Mining and Benefication Plant</td>
<td>1,297.1</td>
<td>2.2</td>
</tr>
<tr>
<td>8</td>
<td>Lipetskenergo</td>
<td>OJSC Lipetsk City Power Company</td>
<td>1,100.8</td>
<td>1.9</td>
</tr>
<tr>
<td>9</td>
<td>Kurskenergo</td>
<td>OJSC Kursk Power Grid</td>
<td>1,016.6</td>
<td>1.9</td>
</tr>
<tr>
<td>10</td>
<td>Tverenergo</td>
<td>MUE Tvergorenergo</td>
<td>747.0</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Total for the 10 top consumers: 19,674.2 kWh, 33.9%

### Revenue from power transmission services

Pursuant to resolutions of the Russian Ministry of Energy, in 2013–2016, IDGC of Centre was acting as a guaranteeing supplier within the territories covered by the following five branches:

- Kursk Region from 1 February 2013 to 1 April 2016;
- Smolensk Region from 1 October 2013 to 1 June 2014;
- Novosibirsk Region from 1 May 2013 to 1 April 2016;
- Perm Region from 2nd-level guaranteeing supplier from 1 May 2013 to 1 April 2016;
- Tyumen Region from 1 December 2016;

On 1 December 2016, Tyumen Region branch was appointed a guaranteeing supplier for the operating area of JSC Transserviseenergo in the Tyumen Region, as the latter was stripped of this status.

During the period when the Company was selling electricity in 2013 and 2016, part of revenue from power transmission was included in the revenue from sale of electricity in the Company’s accounting records.
Net profit from power transmission services

Net profit from power transmission in 2016 was RUB 785.7 mn, up RUB 777.4 mn from 2015. The key drivers behind the year-on-year growth in the actual net profit in the reporting year included:

➔ Revenue growth by RUB 5,879.4 mn (7.6%).
➔ Higher costs, up by RUB 4,755 mn (6.8%).
➔ Increase in the negative balances of other revenues and expenses, up by RUB 805 mn (11.3%).
➔ Reduction of the profit tax by RUB 457.9 mn (55.2%).

Electricity losses

Electricity losses in comparable terms of 2016 9.36 9.38 –0.02 pp
Actual electricity losses in 2016 amounted to 5,994.5 mn kWh, or 9.36% of total electricity supplied to the grid. Actual electricity losses in 2016 were below the target by 0.02 pp and lower than in 2015, in comparable terms, by 0.07 pp.

An increase in the reported actual losses vs 2015 (9.3%) was due to lower supply of electricity to the grid, resulting from the exclusion of the last mile volumes of 50.4 mn kWh from the balance, the integration of grid assets in Semiluki and Kimry, and higher transit flows.

Electricity losses in 2015 (in comparable terms of 2016) were 9.43%, which means that electricity losses in 2016 decreased by 45.7 mn kWh (0.07 pp) from 2015.

In 2016, measures to optimise (reduce) electricity losses yielded savings of 172.1 mn kWh (RUB 457.9 mn).

Reduction of electricity losses

Electricity losses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual losses</td>
<td>9.17</td>
<td>9.35</td>
<td>9.36</td>
<td>–0.01 pp</td>
</tr>
<tr>
<td>Target losses</td>
<td>9.18</td>
<td>9.44</td>
<td>9.38</td>
<td>–0.06 pp</td>
</tr>
<tr>
<td>For reference</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity losses in comparable terms of 2016</td>
<td>9.37</td>
<td>9.43</td>
<td>9.36</td>
<td>–0.07 pp</td>
</tr>
</tbody>
</table>

In 2016, 1,500 metering points were upgraded at a cost of RUB 32.3 mn (vis the target of 2,900 metering points upgraded at the target cost of RUB 30.4 mn).

The Company launched remote data collection from 4,500 metering points, beating the initial target of 2,100 metering points (failure to meet the initial cost target for 2016 was due to delayed contractor services at Smolenskenergo branch).

In its efforts to reduce electricity losses, IDGC of Centre takes measures to detect and deal with abstraction of electricity without proper contract and/or metering in place. These measures yielded the following results in 2016:

➔ 18.4 mn kWh, worth a total of RUB 46 mn, abstracted without contract were paid for;
➔ 102.5 mn kWh, worth a total of RUB 213.7 mn, were included in net delivered volume.

Annual loss reduction due to implemented measures

<table>
<thead>
<tr>
<th>Measures</th>
<th>Savings, mn kWh</th>
<th>Savings, RUB mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational measures</td>
<td>156.8</td>
<td>323.2</td>
</tr>
<tr>
<td>Technical measures</td>
<td>11.3</td>
<td>26.6</td>
</tr>
<tr>
<td>Measures to improve metering arrangements</td>
<td>6.1</td>
<td>12.1</td>
</tr>
<tr>
<td>Total</td>
<td>172.1</td>
<td>357.7</td>
</tr>
</tbody>
</table>

Energy saving and energy efficiency

IDGC of Centre’s Energy Saving and Energy Efficiency Programme for 2014–2020 (the “Programme”), approved by Resolution of the Board of Directors No. 12/16 dated 20 April 2016, defined the following energy saving and energy efficiency measures:

➔ reduce transmission and distribution losses;
➔ reduce energy consumption for business needs;
➔ roll out advanced electricity meters on the retail market.

Programme structure

<table>
<thead>
<tr>
<th>Targeted sub-programmes (measures)</th>
<th>Related measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measures to improve energy efficiency but do not meet the criteria for classification as targeted measures</td>
<td>Measures to reduce energy, fuel and water consumption for the Company’s operations.</td>
</tr>
<tr>
<td>Measures to reduce transmission and distribution losses</td>
<td>Measures to reduce transmission and distribution losses.</td>
</tr>
<tr>
<td>Measures to reduce energy, fuel and water consumption at production and administrative facilities</td>
<td>Measures to reduce energy consumption at production and administrative facilities.</td>
</tr>
<tr>
<td>Organisational measures</td>
<td>Technical measures</td>
</tr>
</tbody>
</table>

Implementation of the targeted and related measures in 2016

<table>
<thead>
<tr>
<th>Measures</th>
<th>Effect in volume terms, mn kWh</th>
<th>Financial effect, RUB mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target</td>
<td>Actual</td>
<td>Target</td>
</tr>
<tr>
<td>Targeted measures</td>
<td>17.79</td>
<td>19.99</td>
</tr>
<tr>
<td>Related measures</td>
<td>6.20</td>
<td>7.79</td>
</tr>
<tr>
<td>Related measures exclusive of the Smart Grid Project</td>
<td>4.59</td>
<td>17.79</td>
</tr>
<tr>
<td>Total</td>
<td>28.59</td>
<td>37.38</td>
</tr>
<tr>
<td>Total net of the Smart Grid Project</td>
<td>24.39</td>
<td>37.38</td>
</tr>
</tbody>
</table>
In 2016, the total technical impact of electricity loss reduction measures across the Company amounted to 37.4 mn kWh, while the financial effect was RUB 79.3 mn.

The key targeted measures to reduce resource consumption for business needs include replacement of existing lighting systems with more energy efficient lighting, insulation and sealing of buildings.

In 2016, the Company used its own resources to execute 18,391 connection contracts, which amounted to:

➔ 73% of contracts requiring action on the part of the grid company (50% in 2015),
➔ 40% of total number of executed contracts (30% in 2015).

Connection contract execution time averaged 78 days in 2016, which was almost two times faster than in 2015 (145 days).

In 2016, the total technical impact of electricity loss reduction measures across the Company amounted to 37.4 mn kWh, while the financial effect was RUB 79.3 mn.

In 2016, the Company successfully completed the Energy Management System (EnMS) Implementation and Preparation for ISO 50001:2011 Certification project. In early 2016, the Company performed internal audits of energy management systems across all of its branches. In March and April of the reporting year, a certifying body carried out a certification audit of the Company’s EnMS and confirmed its compliance with the international standard ISO 50001:2011 and its Russian counterpart GOST R ISO 50001–2012. As a result, relevant certificates were issued to the Company.

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Energy management

In 2016, the Company used its own resources to execute 18,391 connection contracts, which amounted to:

➔ 73% of contracts requiring action on the part of the grid company (50% in 2015),
➔ 40% of total number of executed contracts (30% in 2015).

Connection contract execution time averaged 78 days in 2016, which was almost two times faster than in 2015 (145 days).

改善配电网连接程序

配电网连接程序

申请基于的配电网连接程序

配电网连接程序

物理连接，执行相关文件

配电网连接合同

根据配电网连接合同规定，履行申请人的技术规格验证

合同方按照合同规定采取行动

配电网连接程序

2016年，在为电能表计费系统制定长短期发展规划过程中，IDGC of Centre增加了共享活动的参与程度

改善配电网连接程序

在2016年，为了减少连接成本和执行时间的会议连接合同，IDGC of Centre增加了共享活动的参与程度。

2016年，公司使用自己的资源执行了18,391个连接合同，其中占到：

➔ 73%的合同要求由电网公司执行（2015年占50%）
➔ 40%的总执行合同数（2015年占30%）

2016年，IDGC of Centre增加了共享活动的参与程度的87% (2015年为30%)

2016年，IDGC of Centre增加了共享活动的参与程度的87% (2015年为30%)

改善配电网连接程序

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改善配电网连接程序

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改善配电网连接程序

在2016年，为了减少连接成本和执行时间的会议连接合同，IDGC of Centre增加了共享活动的参与程度。
Demand and service provision

Demand for grid connections has been on the decline for the last two years (with the number of applications dwindling by approximately 3% every year). This is also seen from the contract statistics: the number of contracts decreased 2.3% from the previous year, with capacity connected under these contracts down by 32.5%.

Significant declines in required capacity were reported in the following categories: “Generation” and “Up to 15 kW” (21.5%). In 2016, the largest categories of required capacity were “670 kW and above” (52.7%) and “Up to 15 kW” (27.1%) in the number of connections; however the connected capacity decreased only by 5% overall. This was due to a spike in the number of connections provided to applicants eligible for reduced tariffs in 2015 as the application backlog was cleared. The power consumption of consumer terminals of such applicants does not exceed 15 kW.

In the reporting year, a major increase in connected loads was observed in “At least 670 kW” category (+49.8%), while connected loads in “Up to 15 kW inclusive” category decreased by 27.7%. Nevertheless, the above two categories still have the highest shares of connected loads: 30.1% and 43.1% respectively.

The largest and most important facilities connected to IDGC of Centre grids in 2016
➔ HMS Ljudismost, manufacturer of oil product pumps, with a maximum capacity of 13 MW.
➔ Voronezhmaysprom (Voronezhenergo), with a maximum capacity of 7 MW. A 110-kV overhead line and 110-kV Kurkyskaya substation were constructed.
➔ Tokarevskaya ptitsefabrika agribusiness complex (Famboepeorg), with a total maximum capacity of 5.7 MW. A 110-kV Fabrichnaya substation and a 10-kV power line were constructed.
➔ APK PROMAGRO (Belgorodenergo), with a maximum capacity of 2.16 MW. A 10-kV power line was constructed and new bays were added to the existing 110-kV Arkhangel'skoye substation.

Connected load structure by consumer category

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 15 kW inclusive</td>
<td>543.1</td>
<td>652.6</td>
<td>610.0</td>
<td>–497.3 –76.2%</td>
</tr>
<tr>
<td>More than 15 kW and up to 150 kW inclusive</td>
<td>271.0</td>
<td>220.2</td>
<td>231.1</td>
<td>18.9  5.0</td>
</tr>
<tr>
<td>More than 150 kW and less than 670 kW</td>
<td>–748.4</td>
<td>–93.1</td>
<td>–76.2</td>
<td>–23.1</td>
</tr>
<tr>
<td>At least 670 kW</td>
<td>1,622.7</td>
<td>1,595.2</td>
<td>1,424.2</td>
<td>–71.8 –4.7</td>
</tr>
<tr>
<td>Generation</td>
<td>563.1</td>
<td>632.6</td>
<td>155.5</td>
<td>–471.1 –74.2</td>
</tr>
<tr>
<td>Total</td>
<td>3,640.8</td>
<td>3,450.3</td>
<td>2,701.9</td>
<td>–746.4 –21.7</td>
</tr>
</tbody>
</table>

Structure of connected capacity by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>34.0</td>
</tr>
<tr>
<td>Electricity, gas, and water utilities</td>
<td>29.1</td>
</tr>
<tr>
<td>Agriculture, fishing</td>
<td>13.7</td>
</tr>
<tr>
<td>Construction</td>
<td>12.8</td>
</tr>
<tr>
<td>Industrial manufacturing</td>
<td>10.9</td>
</tr>
<tr>
<td>Trade</td>
<td>6.4</td>
</tr>
<tr>
<td>Healthcare education, social services</td>
<td>4.7</td>
</tr>
<tr>
<td>Transport and telecommunications</td>
<td>3.7</td>
</tr>
<tr>
<td>Other</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Development Strategy

Social Responsibility

Financial Review

Corporate Governance

Appendices

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Appendices

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+49.8%

40% of total applications

In 2016 accounts for the applicants - Individuals

They are followed by power, gas and water utilities (12.7%) and the agricultural sector (11.3%).
Financial result from grid connection services

Revenue from grid connection services

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>RUB mln</td>
<td>%</td>
<td>RUB mln</td>
<td>%</td>
</tr>
<tr>
<td>Revenue</td>
<td>1,435.5</td>
<td>4.3</td>
<td>1,158.7</td>
<td>3.5</td>
</tr>
<tr>
<td>including</td>
<td>1,189.7</td>
<td>3.5</td>
<td>1,040.4</td>
<td>3.1</td>
</tr>
<tr>
<td>up to 15 kW inclusive, total</td>
<td>43.2</td>
<td>1.2</td>
<td>67.0</td>
<td>2.0</td>
</tr>
<tr>
<td>more than 15 kW and up to 150 kW inclusive</td>
<td>196.4</td>
<td>5.6</td>
<td>279.7</td>
<td>8.1</td>
</tr>
<tr>
<td>more than 150 kW and less than 780 kW</td>
<td>364.3</td>
<td>10.4</td>
<td>343.3</td>
<td>10.2</td>
</tr>
<tr>
<td>at least 780 kW</td>
<td>686.9</td>
<td>19.7</td>
<td>443.3</td>
<td>12.9</td>
</tr>
</tbody>
</table>

In 2016, IDGC of Centre’s revenue from the connection of consumer terminals to power grids was up 21.7% year-on-year.

The revenue growth was driven by a higher number of large facility connections.

Connection costs

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>RUB mln</td>
<td>%</td>
<td>RUB mln</td>
<td>%</td>
</tr>
<tr>
<td>Total cost elements</td>
<td>307.1</td>
<td>8.4</td>
<td>417.4</td>
<td>12.0</td>
</tr>
<tr>
<td>including</td>
<td>269.6</td>
<td>7.6</td>
<td>359.0</td>
<td>10.6</td>
</tr>
<tr>
<td>Material costs</td>
<td>30.3</td>
<td>0.9</td>
<td>33.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Production-related services</td>
<td>3.6</td>
<td>0.1</td>
<td>4.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Depreciation of fixed and intangible assets</td>
<td>10.6</td>
<td>0.3</td>
<td>14.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Staff costs (payroll, social security charges, contributions to private pension funds)</td>
<td>243.5</td>
<td>6.9</td>
<td>280.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Other</td>
<td>63.3</td>
<td>1.8</td>
<td>75.0</td>
<td>2.2</td>
</tr>
</tbody>
</table>

In 2016, the grid connection costs of IDGC of Centre totalled RUB 4.174 mln, down RUB 12 mln (2.8%) from 2015.

The decrease was mostly due to the launch of mobile grid-connection crews, whose costs are charged to investment activity.

Net profit from grid connection services

<table>
<thead>
<tr>
<th>Net profit from grid connection services</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>RUB mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>910.8</td>
<td>1,087</td>
<td>1,159.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Net profit from grid connection services in 2016 totalled RUB 705.9 mln, a RUB 121.7 mn increase from 2015.

The key drivers behind the year-on-year growth in the net profit in the reporting year included:

Revenue growth by RUB 25.1 mln (27%).

Lower costs, down by RUB 12 mln (2.8%).

Increase of negative balances of other revenues and expenses, up by RUB 11.1 mln.

Growth of the profit tax by RUB 30.4 mln (20.8%).

In 2017, pilots to enhance the Grid Connection Support service will be launched in another two branches: Tyumenenergo and Voronezhenergo.

An increase of 19.2% in revenue year-on-year was mostly due to the development of the following services:

- Customisation of power grid facilities for customers (growth by RUB 54 mln, or 42%).
- Grid Connection Support (growth by RUB 52 mln, or 43%).
- Provision of technical resources (growth by RUB 61 mln, or 29%).

Development of additional services in 2016 was focused on the following areas:

- Implementation of a project to develop the fee-based grid connection support service in four branches.
- Detection of unauthorised use (without proper contracts) of the Company’s grid facilities during the delivery of the Technical Resource Provision service.
- Customisation of power grid facilities for customers.
- Provision of technical resources.
- Equipment testing and diagnostics.
- Meter installation and replacement.
- Services related to grid connection and typically performed by a customer ("Grid Connection Support").
- Energy audit and energy services.
- Engineering, design and construction of generating facilities.

These services are provided on a commercial basis and are not regulated by the government.

The most piloted with customers is the grid connection support service: an integrated service comprising grid-connection procedures typically performed by a customer.

The enhanced service was piloted in the Voronezhenergo and Kurskenergo branches in 2015, and following the success of the pilot, the Belgrodenergo and Lipetskenergo branches also started marketing the service in 2016. After all, to improve the service included the following initiatives:

- Training the staff of consumer service offices in aggressive selling techniques.
- Assignment of dedicated relationship managers to applicants with consumer terminal capacity of between 15 kW and 150 kW.
- Evaluation of employee competencies and skills in consumer service offices and marketing and additional service departments for conformity to the requirements of the Employee Competency Map.
- Price-competitiveness analysis for the Grid Connection Support service in the Company’s branches. Calculation and approval of branch prices compares to the average market prices.
Customer Relations

The main goal of IDGC of Centre in customer relations is to build customer loyalty through driving customer experience and meeting both their short and longer-term needs.

Customer relations policy

Principles of customer relations:

➔ identification and satisfaction of reasonable requirements of customers (consumers),
➔ continuous monitoring of customer expectations and satisfaction,
➔ ensuring a reliable, uninterrupted power supply to good customers (consumers) of the Company,
➔ availability of services to customers (consumers).

IDGC of Centre embraces a customer-centric approach based on regular interaction with customers, tracking and analysing their needs and monitoring consumers’ opinions of the customer service quality. The approach includes risk analysis, identification of mutually beneficial solutions, and constructive resolution and prevention of conflicts. The Company uses customer-focused approaches based on regular interaction with consumers.

The Company guarantees its customers an objective and unbiased review of their requests and complaints within the prescribed timeframes and upholds their right to appeal.

The requirement to show a tailored approach to every customer and take into account the specific profile of every customer group applies to all categories of consumers and implies that large consumers are dealt with individually, while veterans and vulnerable groups enjoy special treatment.

The Company offers three types of customer service: in-person service and remote service, which includes interactive customer service. Data from customers are received via special dedicated channels.

The Company has 288 consumer service offices, including 24 consumer service centres and 264 consumer service stations.

Statistics on consumer requests

<table>
<thead>
<tr>
<th>Numbers of customer requests by communication channel</th>
<th>Number of requests</th>
<th>Change 2016/2015, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-person requests</td>
<td>334,083</td>
<td></td>
</tr>
<tr>
<td>Remote requests via a call centre</td>
<td>627,702</td>
<td>-3.6</td>
</tr>
<tr>
<td>Remote requests via a call centre</td>
<td>627,702</td>
<td>-3.6</td>
</tr>
<tr>
<td>Including requests concerning power supply and lines</td>
<td>345,233</td>
<td>-3.3</td>
</tr>
<tr>
<td>Written requests via service offices</td>
<td>5,285</td>
<td>-3.6</td>
</tr>
<tr>
<td>Remote requests</td>
<td>9,946</td>
<td>-3.6</td>
</tr>
<tr>
<td>Other</td>
<td>13,602</td>
<td>-3.6</td>
</tr>
<tr>
<td>Total</td>
<td>917,225</td>
<td>-2.8</td>
</tr>
</tbody>
</table>

Service reliability and quality assessment

Service quality indicator is a measure of the Company’s performance in consumer relations.

Targets for each branch of the Company are set every year by tariff regulators of constituent entities of the Russian Federation. Its officers using data obtained via telephone interviews and surveys with written responses (including interactive surveys) assess the Company’s performance.

Customers can also rate the quality of the Company’s services by filling a questionnaire on service quality offered by IDGC of Centre via the Company’s website. The results of service quality assessment for different branches are available in Appendix 3.4 to the Annual Report.

In 2016, all branches achieved the set targets for service quality, although they did not exceed them.
Innovative Development Programme

Our Innovative Development Programme seeks to develop IDGC of Centre as Russia’s leading high-tech and achieve a balanced growth of the power sector in the regions in which the Company operates by improving reliability, quality and cost efficiency of consumer power supply through innovative modernisation of power grids to transform them into a smart core of the power sector’s technological infrastructure.

Implementation of the Innovative Development Programme in 2016

The Programme is updated on an annual basis to reflect changes in the environment and meet the evolving requirements to the Company. To this end, we monitor the Programme’s implementation by reviewing our progress over the period, changes in external factors, requirements and constraints, and keeping abreast of industry trends and growth forecasts for the power sector.

In 2016, the Innovative Development Programme was mainly focused on the following key areas:

- Migration to digital smart grids with a distributed intelligent automation and control system, with a total investment of RUB 111.81 mn vs planned RUB 60.51 mn;
- Transition to integrated business processes and automation of control systems, with a total investment of RUB 10.59 mn vs planned RUB 10.59 mn;
- Introduction of new technologies and materials in the power sector, with a total investment of RUB 451.43 mn vs planned RUB 474.36 mn;
- Development of the R&D and innovations framework, with a total investment of RUB 32.59/mn vs planned RUB 32.59 mn;
- Development of talent pool and partnerships in education, with a total investment of RUB 7.46 mn vs planned RUB 4.90 mn.

The programme comprises initiatives designed to improve existing operations and business processes of the Company, introduce new technologies, launch new products and services on the market, grow the R&D potential of the industry, and build the relevant infrastructure and talent potential.

The table below presents the key results of the Innovative Development Programme in 2016.

<table>
<thead>
<tr>
<th>Key areas</th>
<th>2016 plan</th>
<th>2016 actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovative Development Programme</td>
<td>587.47</td>
<td>614.48</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D projects</td>
<td>32.59</td>
<td>32.59</td>
</tr>
<tr>
<td>Innovations</td>
<td>963.38</td>
<td>573.83</td>
</tr>
<tr>
<td>Development of information and analytical support systems</td>
<td>0.60</td>
<td>0.60</td>
</tr>
<tr>
<td>Development of talent pool and partnerships in education</td>
<td>4.90</td>
<td>7.46</td>
</tr>
</tbody>
</table>

The share of costs for introducing innovative products (technologies, solutions, goods, works, and services) is 42.8%.

Progress on major projects and initiatives under the Innovative Development Programme in 2016

- Transition to digital substations, operating at voltages between 35 kV and 110/10 (220) kV
  - As part of the construction of the Chernaya Sluboda 35 kV substation at our Lipetskenergo branch, the Company completed the design of an in-plant communication system for secondary systems based on the digital substation technology. Design stage (FEED) was completed in 2016. Right-of-way consents were obtained from land users to install 35 kV overhead power supply lines and construct the substation.
  - In addition, the Company designed engineering solutions for an integrated project comprising a digital station, a single relay protection, automation, telemetry and telecommunication system to control secondary systems of the substation and the adjacent automated 10 kV distribution grid as part of a reconstruction project on Turginovo 35/10 kV substation at our Tyumenenergo branch. The terms of reference for the design of the substation and the adjacent 10 kV grid have been prepared and submitted to launch the supplier selection procedure.
  - The terms of reference for the supply of innovative IEC 61850-compliant equipment have been agreed upon during the implementation of a project for the installation of an in-plant communication system for secondary systems based on the digital substation technology as part of the construction of the Smolenskenergo substation (110/10 kV).
  - Transition to digital smart grids with a distributed intelligent automation and control system
    - An innovative solution, a 35 kV recloser typically used at 35 kV substations, will shorten the time-frame for substation reconstruction projects, while reducing the space requirements of equipment and increasing the reliability of 35 kV outdoor switchgear by reducing the number of 35 kV electric installations.
    - If the project proves a success, this solution is planned for further roll-out.

- New technology solutions and materials in power engineering
  - We aim to use innovative materials and solutions, in particular composite poles for overhead lines and innovative conductors (high-endurance ASVP conductors).
  - Other important areas of innovation covered in 2016 include the continued implementation of the Innovative Development Programme of IDGC of Centre on substation automation projects involving relay protection and automation (RPA) solutions and a Data Acquisition and Transmission System (DATS) compliant with the advanced IEC 61850 Communications Networks and Systems in Substations standard. The project was to assess the actual potential for this engineering solution to be used as the primary solution in building RPA and DATS systems in two-transformer 119/10 (6) kV terminal and tee-off substations.
  - The Smolenskenergo branch continued its pilot operation of the Yartsevo-2 110/10 kV digital substation. By introducing digital substation elements into the pilot project, we succeeded, among other things, in:
    - Enhancing operational reliability of the asset by abandoning electromechanical facilities for digital IEC 61850-compliant DATS and RPA devices and unified software, while reducing cable communications by applying multipurpose devices with virtually configured functionalities and by using IEC 61850 GOOSE horizontal communications.

- Improving the performance of DATS and microprocessor based facilities and speed and data transmission channels.
- Implementing the exchange of telemetry information with the upper dispatch level using two – fibre and satellite – digital data transmission channels.

In 2016, the Company designed a new 110/10 kV substation, Spusk, scheduled for construction at our Voronezhenergo branch. The substation was also designed using IEC 61850 compliant protection and automation solutions.

Our forward-looking projects that were underway in 2015 include the reconstruction of the 110 kV Strelet substation (Bielpodolenergo) and the 35 kV Turginovo substation (Voronezhenergo). The Turginovo and Strelet substations will comprise a single substation protection and control system. These projects make part of a nation-wide initiative, Development and Implementation of Next Generation Automated Protection and Control System for Power Substations, which provides for:

- abandoning measurements based on analogue data while using simplified modular protection and control and applying a single data bus and fibre optic cables for data transmission;
- acquiring and processing control data on all substation protection and automation systems from a single programmable controller, with mandatory protection of substation control systems against unauthorised access;
R&D initiatives implemented by IDGC of Centre in 2016 included the design of:

➔ Engineering solutions to combine standard distribution grid facilities and charging infrastructure for electric vehicles (intelligent medium / low voltage transformer).

➔ A simulator for operational and maintenance personnel based on virtual reality transformer substation models.

➔ Development, fabrication and testing of composite poles for single-circuit and double-circuit 6–20 kV overhead lines.

➔ Development of a hardware and software combination to protect next generation 35–110 kV substations against electromagnetic impact based on protective multiple earthing for use by IDGC of Centre.

In implementing its projects, IDGC of Centre seeks to use latest innovations such as multisided steel poles, pole-mounted transformer substations, 10 kV reclosers, energy-efficient power transformers, and other solutions.

Research and Development

Our R&D efforts focus on technologies that can be used to upgrade existing grids and improve their performance.

Scientific and Technical Council

In August 2016, IDGC of Centre set up its Technical Council to develop and implement the technical and innovation policies of the Company. The Council is responsible for addressing the challenges of effective development of grid facilities, determining and coordinating R&D areas, participating in the development of the Company’s technical policy, etc.

IDGC of Centre also pursues its R&D efforts by participating in the activities of the Scientific and Technical Council (STC) of ROSSETI, PJSC, established in 2013. The Company’s representatives also sit on the presidium of the STC and on the STC’s sections as experts.

INTEGRATED TRANSFORMER SUBSTATION WITH AN ELECTRIC VEHICLE CHARGING OPTION

In 2016, the Company received state registration certificates for eight software applications designed to develop the Company’s Production Asset Management System, and Useful Model Patent No. 165 524 dated 4 October 2016 for an Integrated Transformer Substation with an Electric Vehicle-Charging Option.

The list of relevant projects is shown in Appendix No. 3.5 to the Annual Report.

Development of Automated Process Control Systems

In 2016, the Company completed the following initiatives under programmes aimed to upgrade and expand data acquisition and transmission systems, improve observability and controllability of distribution grid facilities, and as part of the project to introduce automated dispatch control systems (ADCS), at seven of its branches:

➔ Installed telemetry and telecommand systems at five 110 kV and twenty-seven 35 kV substations;

➔ Introduced an ADCS system in an Electric Grid District (EGD) District Dispatch Control Centre (DDCC);

➔ Completed the FEED for telemetry and telecommand systems at twelve 110 kV and three 35 kV substations;

➔ Completed the FEED for an ADCS at two EGD DDCCs.

As at the end of 2016, 468 110 kV substations and 304 35 kV substations were equipped with advanced telemetry and telecommand systems.

IN 2017, THE COMPANY PLANS TO INSTALL TELEMETRY AND TELECOMMAND SYSTEMS AT:

➔ 12 (110 kV) substations;

➔ 63 (35 kV) substations;

➔ ADCSs at 24 EGD DDCCs.

This list of relevant projects is shown in Appendix No. 3.5 to the Annual Report.
Automation of Business Applications

In line with the ITT Strategy until 2016, the Company implemented the following initiatives on business applications as part of an integrated programme for automation of its operating, financial, and business activities:

- upgraded its automated management data flow system;
- expanded the functionality of the corporate information and analytics web portal, the Contact Centre’s website, the automated procurement management system, including data sharing with other third-party and corporate systems;
- implemented projects in the Corporate Resource Management Information System (CRMIS) to promote automation of grid connection, financial and tax accounting and reporting processes, and projects to extend automation to more processes in power distribution, customer relationship management, financial management, business planning, legal support, and personnel management;
- completed integrated automation of management document support services. The Company has also automated reference data storage, processing, normalisation and retrieval processes based on an automated reference data system.

A total of 314 facilities of IDGC of Centre have been equipped with satellite equipment sets over the period of the installation project. IDGC of Centre has built and actively developed a digital radio dispatch system based on an advanced DMR-based digital radio equipment integrated into the Company’s existing data transmission infrastructure. The system enables us to fundamentally upgrade and integrate our dispatch control for emergency and maintenance crews into a single network by providing uninterrupted contact with the crew while on the move.

Development of Telecommunications, Information Technologies and Infrastructure

In 2016, the Company continued installing fibre optic communications lines (FOCLs) across its branches, since FOCLs, though expensive and long to construct, remain the most reliable solution with the highest throughput capacity as compared to other options.

In 2016, we built 233 km of FOCLs (6.7% of the total length of the Company’s FOCLs). The total length of FOCLs at IDGC of Centre is 7,022 km, including 4,442 km financed by IDGC of Centre, and 2,580 km financed by external investors. We also continued installing satellite communications equipment (VSAT) at substations. Most often, satellite channels are used as backup communications and data transmission channels for 25 kV and 110 kV substations or at remote facilities that are not economically viable to connect via other communications channels.

Further ITT areas

The ITT Strategy provides for the development of the Corporate Resource Management Information System (CRMIS) in such areas as consumer relationship management, electricity transmission services, equipment maintenance and repair, operational and technological management, financial accounting and reporting, and property management.

Length of FOCLs across branches of IDGC of Centre

<table>
<thead>
<tr>
<th>Branch</th>
<th>Length (km)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smolenskenergo</td>
<td>1,716.3</td>
</tr>
<tr>
<td>Bryanskenergo</td>
<td>1,542.2</td>
</tr>
<tr>
<td>Tverenergo</td>
<td>1,198.6</td>
</tr>
<tr>
<td>Voronezhenergo</td>
<td>1,085.9</td>
</tr>
<tr>
<td>Lipetskenergo</td>
<td>641.6</td>
</tr>
<tr>
<td>Kurskenergo</td>
<td>378.1</td>
</tr>
<tr>
<td>Tambovenergo</td>
<td>347.8</td>
</tr>
<tr>
<td>Bryanskenergo</td>
<td>345.8</td>
</tr>
<tr>
<td>Voronezhenergo</td>
<td>162.6</td>
</tr>
<tr>
<td>Orelenergo</td>
<td>78.8</td>
</tr>
</tbody>
</table>

FOCLs at branches of IDGC of Centre by type of installation

Radio stations of IDGC of Centre

The branches where telemetry equipment sets were installed in 2016 are listed below:

- Belgorodenergo – 3;
- Bryanskenergo – 1;
- Kurskenergo – 2;
- Smolenskenergo – 1;
- Tambovenergo – 1;
- Tverenergo – 3.

We are currently serviced by three mobile operators. We had to choose multiple operators for data services so as to meet our growing needs in the coverage area (IDGC of Centre currently has 9.5 thousand active mobile voice subscribers (in 2016, this cost for this type of services totalled RUB 46.67 mn), and c. 27 thousand active mobile data users (RUB 23.82 mn in 2016).
QUALITY MANAGEMENT SYSTEM

The quality management system (QMS) is an integral part of the Company’s overall management system and is designed to ensure high service quality in line with the requirements of regulatory documents, meet customers’ needs and expectations, and satisfy all stakeholders, including the Company’s employees, shareholders, investors and partners, as well as to achieve the targets set forth in the Strategy for Development of the Electric Grid Complex.

In line with the requirements of the standard, the QMS is regularly reviewed by the Company’s management. Based on the results of the review procedure in 2013–2015, the Company’s quality management system was found to be effective.

In the medium term, the Company intends to:
➔ undergo an inspection audit to confirm the validity of the ISO 9001:2008 certificate – 2017–2018;

Consumer service quality, and reliability indicators

To assess the quality of services provided by IDGC of Centre as regards grid connections, the Grid Connection Quality Level Indicator is used. This indicator1 is integrated and comprises three main indicators that cover:
➔ quality of processing grid connection applications. Determined based on the performance in processing grid connection applications received from consumers and generators, as well as territorial grid organisations;
➔ quality of performance under connection contracts to connect applicants to the grid;
➔ compliance with antimonopoly laws when connecting applicants to the power grids of the organisation.

In May 2016, BSI conducted an inspection audit of the existing management system of IDGC of Centre. The audit pursued the following objectives:
➔ review the effectiveness of the Company’s management system in the context of internal/external changes, as well as its continuous compliance and use for certification purposes;
➔ to demonstrate the commitment to maintaining the effectiveness and improving the performance of the management system in order to enhance the operation of the QMS;
➔ to confirm the integrity of the management system and its compliance with the requirements of the international standard ISO 9001:2008.

Based on the audit results, a recommendation was made to proceed with the registration of the management system of IDGC of Centre.

All processes in place in the Company are grouped into business processes and business services – a total of 9 business services and 20 business processes, on a higher level they are distributed across six areas – target management subsystems.

The list of business processes is provided in the Annual Report for 2015.

In the context of the adopted methodology, IDGC of Centre has fully achieved the target for grid connection service quality.

The reliability of services provided to consumers of IDGC of Centre is measured based on the duration of interruptions in power supply to consumers of the power grid organisation’s services. The current trajectory of this indicator demonstrates consistent compliance with the set parameters by all branches of IDGC of Centre.

Another indicator used to assess reliability in terms of power supply parameters is the average interruption time for 6–110 kV feeders. By 2016, the average interruption time for 6–110 kV feeders reduced by more than 50% vs 2013. A slight increase in 2016 was due to a larger number of adverse natural phenomena that had a direct impact on power supply to consumers.

Another service reliability measure comprises the Limit for Failures indicator and the failure rate. The limit set by this indicator was not exceeded in the reporting year.

In the reviewed period, the failure rate was down by more than 50% vs 2013.

In the course of the inspection, the management system and its compliance with the requirements of the international standard ISO 9001:2008. The Company’s quality management system is certified for compliance with ISO 9001:2008. Certificate No. FS 513 378.

ISO 9001:2008


In the reviewed period, the failure rate was down by more than 50% vs 2013.

In the Annual Report for 2016.

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Another service reliability measure comprises the Limit for Failures indicator and the failure rate. The limit set by this indicator was not exceeded in the reporting year.

In the reviewed period, the failure rate was down by more than 50% vs 2013.
In 2016, the Company continued the implementation of programmes to improve data acquisition and transmission systems, programmes to enhance the observability and controllability of distribution grid facilities, as well as the deployment of automated dispatch control systems (ADCSs) in seven branches of the Company.

In 2016, telemetry systems were installed at five 110-kV substations:
- 3 in Kostromaenergo;
- 2 in Orelenergo.

and telemetry systems were installed at 27 35-kV substations:
- 4 in Belgorodenergo;
- 5 in Voronezhenergo;
- 3 in Orelenergo;
- 2 in Smolenskenergo;
- 5 in Tамbovenergo;
- 8 in Yarenergo.

An ADCS was deployed at one Zone Control Centre (ZCC) of Voronezhenergo Distribution Zone (DZ) and FEED studies were completed for the installation of telemetry systems at 12 110-kV substations in Tambovenergo and three 35-kV substations in Belgorodenergo, as well for the deployment of ADCSSs at two ZCCs of Voronezhenergo DZ.

By year-end 2016, a total of 718 110-kV substations and 1,271 35-kV substations were equipped with telemetry systems, or 95% and 79% of the total number of 110-kV and 35-kV substations respectively.

The purpose of telemetry and ADCS roll-out is to improve power grid operation control, prevent faults caused by voltage instability and equipment overload and reduce outage restoration times. These systems allow not only for real-time monitoring of grid infrastructure facilities but also for remote control of substation equipment.

In 2017, the Company plans to install telemetry systems at twelve 110-kV substations and 65 35-kV substations, and equip 24 ZCCs with ADCSSs.
USE OF MSSPs AND PMTS DESIGNED BY IDGC OF CENTRE IN THE CONSTRUCTION AND RETROFITTING OF GRID FACILITIES

IDGC of Centre continues the installation of 0.4-kV multi-sided steel poles (MSSPs) and 6-kV to 10/0.4-kV pole-mounted transformer substations (PMTS). The equipment was designed as a result of IDGC of Centre’s successful R&D projects.

105 MSSPs are being installed in low-rise residential communities across the Belgorodsky, Starosskly, Gubkinsky and Gayvoronsky Districts of the Belgorod Region as part of a programme to construct new power grid infrastructure enabling connections of private land plots and comprehensive retrofitting of obsolete grids.

Multi-sided steel poles have higher reliability and durability than reinforced-concrete or wooden poles, as they are not susceptible to breakage and require virtually no repair. The design features of MSSP make for a much higher speed of installation and lower costs of construction and connection to grids. The fire safety, vandal resistance and smaller footprint of the new poles are especially valuable in densely built-up areas.

Compared to other PMTs, the pole-mounted substations designed by IDGC of Centre have a simpler and more reliable design allowing for installation without special lifting machinery. The use of such substations to connect single low-power consumers reduces grid connection costs and time even in remote areas. In addition, the PMTS improves reliability and reduces the length of low-voltage lines and, therefore, electricity transmission and distribution losses.

As part of the Innovative Development Programme of IDGC of Centre for 2016–2020 (with plans until 2025), the Company intends to continue the installation of innovative 6-kV to 10/0.4-kV PMTs and 0.4-kV MSSPs both for grid connections and integrated grid retrofitting projects.
OFFICIAL LAUNCH OF AN INNOVATIVE PACKAGE
TRANSFORMER SUBSTATION WITH A BUILT-IN CHARGING SYSTEM

As part of the Company’s R&D initiative to develop engineering solutions to combine standard distribution grid facilities and charging infrastructure for electric vehicles, engineers at IDGC of Centre developed two design solutions for a 10/0.4-kV package transformer substation with in-built charging units: substation in a concrete enclosure for urban areas and a non-walk-in prefabricated substation with an enclosure made of sandwich panels for rural areas.

Apart from design solutions, IDGC of Centre’s project also provides the benefit of power limit option to restrict the power available to the charging system in case of transformer overload thus eliminating the need to replace the transformer with a higher-capacity system when new consumers are connected and maintaining stable power supply to existing consumers.

The new solution helps address the challenge of constructing electric vehicle charging infrastructure along highways, in towns and cities, at filling stations, and in remote areas.

IDGC of Centre has already installed two charging stations in Orel. Plans are in place to install charging stations in the Belgorod, Voronezh, Lipetsk and Tver Regions and in other IDGCs in 2017.

INSTALLATION OF ENERGY-EFFICIENT TRANSFORMERS

6-kV to 10-kV power transformers with reduced energy consumption are being installed at the Company’s grid facilities under the Innovative Development Programme of IDGC of Centre.

The first 10/0.4-kV 100-kVA energy-efficient transformer was installed by IDGC of Centre in 2014, in the distribution grid of Ustinka in the Belgorodsky District of the Belgorod Region. Following the testing and assessment of performance parameters specified by the manufacturer, the Company decided to deploy such equipment on a broader scale in this region.

A total of 274 transformers with energy consumption below average and a total capacity of 116 MVA were installed in 2016, including four transformers in Kostromaenergo and one transformer in Tombovenego. Transformers are installed at 6-kV to 10-kV substations supplying power to various station centres, low-rise residential communities and other facilities connected to power grids. It is estimated that in 2016, these transformers saved approximately 618.6 MWh of energy, or RUB 1.4 mn.

IMPLEMENTATION OF AN ENERGY MANAGEMENT SYSTEM

IDGC of Centre has been certified to ISO 50001:2011 Energy Management Systems.

The main objectives of the Company’s energy management system are to cut costs, identify and eliminate waste, streamline power supply and consumption processes across all management levels in the Company, and improve energy saving and energy efficiency to bring them in line with best international practice.

The international certification exercise confirmed the effectiveness of the Company’s efforts to improve its energy saving and energy efficiency performance. The energy management system will help optimise power losses, reduce energy consumption for operating and business needs as well as cut operating costs and loss compensation costs.

Certification to ISO 50001 means transparency and objectivity of energy efficiency assessment, cost cutting, availability of a certificate required in many international markets, better corporate image and reputation, higher competitiveness, an additional marketing tool to acquire customers and engage partners, reduced environmental pollution, and preservation of natural resources.
HR and Social Policy
Environmental Safety
Third-Party Safety
Procurement
Public Relations
Charitable Initiatives

Training centre

29,531
AVERAGE HEADCOUNT

52%
SHARE OF BLUE COLLAR EMPLOYEES
IN TOTAL WORKFORCE

96%
STAFFING LEVEL

-25%
REDUCTION IN INDUSTRIAL
AND CONSUMER WASTE

98.3%
SHARE OF PROCUREMENT
CONTRACTS AWARDED THROUGH
A PUBLIC BIDDING PROCESS

81.5 RUB MN
PERSONNEL TRAINING
COSTS
Our HR and Social Policy focuses on:

➔ planning our recruitment needs by supplying reliable information on what, and how many, skills the Company needs now and will need in the future;

➔ recruiting necessary skills when needed.

These projected and ongoing recruitment needs drive the personnel recruitment, rotation and development programmes designed and put in place by the Company.

In meeting its recruitment needs, the Company prioritises incumbent employees and their development based on qualification requirements. Our target is to fill at least 60% of leadership positions from our corporate talent pool. The Company also seeks to recruit young talent with relevant skills.

IDGC of Centre has in place a staff mobility programme, designed to supply qualified skills to understaffed regions within the Company’s responsibility area and ensure a talent pipeline to support federal and corporate programmes and initiatives in the areas covered by grid companies.

In 2016, the Company’s average headcount was 29,531 employees, also up 0.3% year-on-year. This trend is driven, on the one hand, by our efforts to rightsize our administrative and management staff, and, on the other, by an increase in operating personnel due to the launch of specialised grid-connection crews by the Company, and new hirings at the Company’s branches under agreements for lease of electrical grid facilities.

Over the last three years, the Company has consistently maintained its headcount at an adequate staffing level of at least 96% (a 1.6 pp growth since 2014).

Our headcount by category has also remained stable, showing a structure typical of an industrial business, with the bulk (53%) made up by blue collars, management not exceeding 14%, and white collars accounting for 32% of the total.
Personnel Training and Development

In line with our corporate standard, Personnel Management at PJSC IDGC of Centre, the HR and Social Policy of IDGC of Centre, and the Personnel Management Rules for the Russian Power Sector, the Company has in place a continuous education programme covering every employee and aiming to maintain their professional and educational levels and foster their professional and personal development, while also building a strong talent pool for the Company.

Major education areas:
- training (retraining) blue collar employees on a principal trade or an allied (auxiliary) trade;
- upskilling for key blue collar trades;
- training of management and white collars for industry-related higher education degrees;
- retraining for managers and white collars with a first unrelated degree;
- upskilling for management and white collars;
- training and job knowledge tests for access to certain jobs.

In 2016, 11,762 employees were trained off the job (39.8% of the average headcount), in line with the key target set out in the HR and Social Policy of IDGC of Centre (30%), a 2.4% increase year-on-year.

Operating personnel accounts for the bulk of trainees (89.2%, or 10,495 employees). This figure stays consistently above the 88%–89% level (89.1% in 2015).

The age breakdown of the Company’s personnel also remained stable in 2014–2016, supported by our efforts to bring in young talent. The bulk of the Company’s personnel is represented by employees aged between 25 and 50 years (84.4%). In 2016, our average employee age was 41 years, almost unchanged from 2015 and 2014.

Employees of IDGC of Centre are highly skilled, with ca. 87% of our staff having vocational education degrees. Our staff’s education level is rising, with 2016 posting a 1% year-on-year increase in the number of employees with vocational education degrees.

Major education areas:
- training (retraining) blue collar employees on a principal trade or an allied (auxiliary) trade;
- upskilling for key blue collar trades;
- training of management and white collars for industry-related higher education degrees;
- retraining for managers and white collars with a first unrelated degree;
- upskilling for management and white collars;
- training and job knowledge tests for access to certain jobs.

Employees of the Company’s branches are mainly trained at corporate training centres, with 3,428 employees, or 29.1% of the total number of trainees, trained, retrained or upskilled in 2016.

The bulk of the employees trained by corporate training centres is also made up of operating personnel (97.1% or 3,330 employees).

Actual personnel training costs (from all sources) came at RUB 13,338 thousand (16.4%) for employee training at corporate training centres.

In 2016, the ratio of actual personnel training costs to payroll was 0.57% (0.62% in 2015).
In additional to corporate training centres, our key providers of training services include:

- Federal State Budget Institution “Learning and Training Centre” of Rosseti, Moscow.
- National Research University “Moscow Power Engineering Institute” (Simolensk Branch).
- Petersburg Power Engineering Institute of Professional Development.
- State Educational Institution of Higher Professional Education “Ivanovo State Power University”
- Kostroma Chizhov Power Engineering College
- Kursk Regional Centre for Training and Retraining of Utilities Staff.
- Autonomous Non-Profit Organisation for Continuing Professional Education “Interregional Training Centre”
- Regional higher and continuing education institutions.

The existing remuneration scheme links fixed salaries and pay rates to qualifications, business skills, and experience, and also provides for ongoing performance bonuses, supplementary payments and premiums for job scope and working conditions, as well as ad hoc bonuses.

To assess whether we maintain competitive pay levels, we use data of the Federal State Statistics Service (Rosstat) and monitor the levels of voluntary personnel turnover. Analysis shows that salaries at IDGC of Centre are in line with the market.

In 2016, four employees of the Company received national awards of the Russian Federation; 314 employees were awarded by the All-Russian Industry Association of Employers of the Power Sector (RaEl Association); 314 employees were given corporate awards of PJSC Rosseti; 98 employees of the Company were awarded by the All-Russian Industry Association of Employers of the Power Sector (RaEl Association); one employee, on the Honour Board of PJSC Rosseti, and five employees have been included in the Roll of Honour of the Electric Grid Complex.

With the aim of engaging in the retention of the best talents, IDGC of Centre has in place a Unified Remuneration and Reward Policy, which seeks to engage and retain best talent.

Financial incentives offered by the Company include a fixed component (base salary) and a variable component (additional payments set out in corporate documents as a percentage of the base salary).

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Apart from base salaries, the Collective Agreement of IDGC of Centre and other corporate documents of the Company provide for various supplementary payments (the variable component of the salary), including:

- bonuses for achieving key performance indicators;
- premiums for job scope and working conditions;
- principal and additional paid leave entitlements;
- seniority payments;
- leave allowances.

In 2016, 166 members of the management talent pool and 98 members of the young talent pool were promoted. Out of the 650 promotions to leadership positions made during 2016 in branches and within the executive office of the Company, 330 managers (51.3%) were selected from the management and young talent pools. Through our consistent talent pool management, we were able to achieve a 89% coverage of all staff leadership roles by our management talent pool.

IDGC of Centre has in place a Unified Remuneration and Reward Policy, which seeks to engage and retain best talent.

Financial incentives offered by the Company include a fixed component (base salary) and a variable component (additional payments set out in corporate documents as a percentage of the base salary).

The existing remuneration scheme links fixed salaries and pay rates to qualifications, business skills, and experience, and also provides for ongoing performance bonuses, supplementary payments and premiums for job scope and working conditions, as well as ad hoc bonuses.

To assess whether we maintain competitive pay levels, we use data of the Federal State Statistics Service (Rosstat) and monitor the levels of voluntary personnel turnover. Analysis shows that salaries at IDGC of Centre are in line with the market.
Social Benefits and Guarantees

IDGC of Centre pursues its social policy by building a social partnership framework in line with the Company’s Collective Agreement. The interests of its employees are represented by the company-wide Corporate Trade Union.

Key social cost items in 2015–2016

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-off maternity (adoptive) allowance</td>
<td>14,081</td>
<td>12,316</td>
</tr>
<tr>
<td>One-off first marriage allowance</td>
<td>985</td>
<td>962</td>
</tr>
<tr>
<td>Compensation for preschool costs</td>
<td>2,252</td>
<td>4,895</td>
</tr>
<tr>
<td>Compensation for recreation and treatment costs of employees and their children</td>
<td>29,860</td>
<td>41,907</td>
</tr>
<tr>
<td>One-off allowance to reemployed after compulsory military service</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>New year gifts to employees’ children under 15</td>
<td>7,215</td>
<td>9,145</td>
</tr>
<tr>
<td>Pension pay</td>
<td>26,878</td>
<td>17,180</td>
</tr>
<tr>
<td>One-off retirement allowance (payable to those who have retired within three months after they reach their retirement age)</td>
<td>25,062</td>
<td>28,640</td>
</tr>
<tr>
<td>Allowance payable in case of natural calamities, fire, or theft</td>
<td>1,625</td>
<td>1,502</td>
</tr>
<tr>
<td>Allowance for housing improvements (reimbursement for bank loan interest or housing rent)</td>
<td>26,962</td>
<td>28,023</td>
</tr>
<tr>
<td>Prize money for awards</td>
<td>42,622</td>
<td>48,330</td>
</tr>
<tr>
<td>One-off healthcare and social allowance</td>
<td>52,025</td>
<td>57,288</td>
</tr>
<tr>
<td>Monthly parental leave pay</td>
<td>31,040</td>
<td>28,023</td>
</tr>
<tr>
<td>One-off bereavement allowance (payable if the employee’s close relatives (spouse and/or children and/or parents) die)</td>
<td>8,852</td>
<td>9,747</td>
</tr>
<tr>
<td>One-off survivor allowance payable to families of employees who died from a non-occupational accident</td>
<td>886</td>
<td>1,359</td>
</tr>
<tr>
<td>One-off workplace death allowance</td>
<td>595</td>
<td>0</td>
</tr>
<tr>
<td>Monthly electricity bill compensation payable to blue collar employees</td>
<td>26,973</td>
<td>25,268</td>
</tr>
</tbody>
</table>

The Collective Agreement of IDGC of Centre governs social and employment relations, while setting out the rights and obligations of social partners, pay rates and other work conditions, and providing for social guarantees and benefits for employees. The Collective Agreement provides for supplementary payments to the Company’s employees in certain cases: birth (or adoption) of children, marriage, annual leave etc.

Medical insurance

All employees of the Company are insured against accidents and diseases. We have in place Voluntary Medical Insurance (VMI) programmes offering a wide range of free healthcare services, including various types of medical examination, polyclinic, in-patient, and rehabilitation treatment services.

We also offer annual flu vaccination for our employees. In 2016, 2,400 employees benefited from rehabilitation treatment at Energetik, the Company’s corporate resort in Tambov, as well as at Crimean resorts, and resorts in Caucasian Mineral Waters and in other locations across the regions in which the Company operates.

Housing policy

We help our employees improve their housing conditions. For example, in 2016, 144 young employees and highly skilled professionals were reimbursed for their rent, and mortgage loan interest costs were covered for 260 employees.

Aid to retirees

IDGC of Centre runs a Private Pension Programme designed to provide financial support for the Company’s retirees and build a corporate pension plan. This Programme operates through the Non-State Pension Fund of the Electric Power Industry and offers corporate and parity pension plans.

Every branch of the Company has in place Veterans’ Councils to liaise between retirees and the branch’s management. The Veterans’ Councils help identify and provide support to the most vulnerable retirees, and contribute to joint events held for industry veterans to celebrate national holidays and anniversaries.

Pension Fund of the Electric Power Industry and offers corporate and parity pension plans.

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Sports policy

Our branches organise Vesyolyie starty (“Fun Competitions”), corporate sports competitions involving employee families. The Company’s employees take part in such annual events as the Futsal Energy Cup and Volleyball Energy Cup, while the Company’s best chess-players compete in the annual Botvinnik open chess tournament.

In 2016, IDGC of Centre held its third ice hockey tournament in Tver to celebrate the 80th anniversary of Tver’s power grid. The team of IDGC of Centre also won the Cup of Rosseti futsal tournament.

Strongly supported by our employees and extensively covered by the media, our sports policy aims to promote a favourable image of the Company.
Social events and campaigns

Every branch of IDGC of Centre has in place a Youth Council and holds annual Corporate Young Talent Congress.

The Company engages with schools to set up long-term career advice channels to highlight its employment opportunities. To attract young talent, the Company traditionally holds open days on the eve of the Power Engineers’ Day. Branches also hold annual onboarding days for young power engineers employed during the year.

We also hold numerous other annual events to foster a favourable working environment and promote corporate culture, including:

➔ the Energy First Grader event held by our Kostromaenergo branch for its employees’ first-graders since 2012;
➔ the Gifts of Autumn farm show held for non-working retirees to showcase their gardening talents;
➔ essay and drawing competitions for employees’ children.

Over the last three years, IDGC of Centre has been organising the Save the Energy of the Forest campaign, during which the Company’s employees plant thousands of trees.

The Company runs blood donation campaigns together with the Gift of Life foundation. We also provide assistance to orphanages, including for children with disabilities.

Charitable campaigns and events

The Company’s employees have been consistently providing charitable aid to educational institutions sponsored by the Company. For example, our employees provide sponsorship support to students of the Boarding School for Students with Disabilities in the Tambov Region, and Myšin Special Corrective Boarding School in the Bryansk Region. Obrazenergo acts as a sponsor to the Znamenka Boarding School, and Kurskenergo, provides support to the Kursk Vocational Boarding School.

Our Yarenergo branch holds charitable events in orphanages every six months, and organises the collection of gifts for care homes for the elderly.

IDGC of Centre provides support to orphanages, including to children from social rehabilitation institutions and children with disabilities.

Employees of our Belgorodenergo branch are frequent guests at the Rehabilitation Centre for Children and Youth with Disabilities located in the village of Veselaia Lopan in the Belgorodsky District, the Regional Social Rehabilitation Centre for Minors in Belgorod, and child care centres and schools sponsored by the branch in some other districts of the Belgorod Region.

Employees of Belgorodenergo run regular charitable fund-raising campaigns to help children. In 2015, they helped purchase equipment for the Centre of Psychological Support and Rehabilitation for Cancer-stricken Children, and in 2016 they raised almost RUB 0.5 mn for a treatment course for the little patient Yaroslav Sotnikov.

 BOX OF COURAGE

In 2016, our Kostromaenergo branch took part in the Box of Courage charitable initiative which presented gifts to little patients of Kostroma-based children’s hospitals and clinics to help them overcome negative emotions.

2016 highlights include the Voronezh – Tambov motor rally, a joint initiative between the Voronezh and Tambov branches to mark the 71st anniversary of the Victory in the Great Patriotic War.

Dialogue between management and employees

Trade union movement

In 2016, despite a more challenging social and economic environment, the Company’s management and the trade union committee of IDGC of Centre were able to agree an increase in the average pay in the power engineering industry and make jobs in the industry more attractive. Through this positive social partnership, the parties have been able to maintain high standards of social responsibility, including voluntary medical insurance, accident and disease insurance, and benefits and allowances payable to employees’ families in distress.

Jointly with the employer, the trade union organises events for the Company’s employees, provides access to sports infrastructure (swimming pools, sports areas, etc.), runs training sessions and competitions (annual corporate sports competitions, ice hockey tournaments, and friendly matches between branch teams).

Together with IDGC of Centre, the trade union has been supporting social projects, as well as organising and running charitable campaigns. In particular, in 2016 our employees donated over RUB 2.5 mn to cover their colleagues’ treatment costs.

Complaints and proposals

Counterparties and other stakeholders may submit a complaint or a proposal to the Company. Employees may submit an enquiry to the Company’s management (branch director or the Company’s General Director). All enquiries are considered by the management, with a written response sent to the enquirer upon examination.

IDGC of Centre’s management and the trade union committee hold regular meetings with employees to explain compensations and benefits under the Collective Agreement, as well as provide guidance on changes in remuneration and on occupational health and safety issues.

Official dispute resolution

In line with Article 392 of the Russian Labour Code, an employee has the right to go to court with an individual employment dispute within three months after he or she has, or should have, become aware that his or her right has been violated, or, for dismissal disputes, within one month from his or her receipt of a copy of the dismissal order or the work-record (issued on dismissal).

Employee involvement in management decision making

In line with the Collective Agreement, social partners are working together on drafting general principles to regulate social and employment relations to:

➔ increase and improve performance and productivity;
➔ ensure the compliance with employment rules and work discipline, occupational health and safety and workplace hygiene requirements;
➔ ensure social stability across the Company.

Charitable campaigns and events

IDGC of Centre has been regularly supporting social projects and fundraising campaigns to help children. They have helped purchase equipment for the Centre of Psychological Support and Rehabilitation for Employees of Belgorodenergo. Branches also hold annual onboarding days for young power engineers employed during the year.

We also hold numerous other annual events to foster a favourable working environment and promote corporate culture, including:

➔ the Energy First Grader event held by our Kostromaenergo branch for its employees’ first-graders since 2012;
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2016 highlights include the Voronezh – Tambov motor rally, a joint initiative between the Voronezh and Tambov branches to mark the 71st anniversary of the Victory in the Great Patriotic War.
IDGC of Centre has in place an Injury Risk Reduction Programme to prevent injuries to its employees. The Programme provides for:

- Improving internal technical controls;
- Improving procedures for safe scheduled and emergency operation of electric facilities;
- Training personnel on the job;
- Motivating and encouraging personnel and improving HR services;
- Fostering relations with the industry’s educational institutions;
- Improving operational and technological management;
- Ensuring safe transportation;
- Organising workplace checks.

In order to provide its employees with advanced protective equipment, the Company acquired portable ground rod kits to avoid climbing overhead line poles with voltages between 0.4 kV and 10 kV, which considerably reduces the risks of electric and falling injuries. Employees are also provided with special arc-rated clothing. All personnel that are authorised to work at electric facilities without supervision are issued special heat-resistant clothes.

IDGC of Centre has spent on initiatives implemented in 2016 under the Injury Risk Reduction Programme.

Key injury risks

- **Increased or decreased workplace air temperature**
  - Almost all blue-collar workplaces.
  - One of the most dangerous risk factors

- **Increased or decreased surface temperature of equipment or materials**
  - Almost all blue-collar workplaces.
  - One of the most dangerous risk factors

- **Increased voltage in an electrical circuit**
  - All workplaces of electrical technicians and some workplaces of maintenance personnel.
  - The key and most dangerous risk factor

- **Moving machinery and mechanisms, moving parts of operating equipment, moving devices, blanks, and materials, and collapsing structures**
  - Mostly at blue-collar workplaces (emergency crew electricians, distribution grid line-mates, switchgear maintenance operators, etc.).
  - One of the most dangerous workplace risk factors

- **Workplaces located at a significant height above the ground (floor)**
  - Almost all blue-collar workplaces.
  - One of the most dangerous risk factors

- **Increased or decreased workplace air temperature**
  - Almost all blue-collar workplaces.
  - One of the most dangerous risk factors

- **Increased or decreased surface temperature of equipment or materials**
  - Almost all blue-collar workplaces.
  - One of the most dangerous risk factors

- **Motivating and encouraging personnel and improving HR services**

- **Ensuring safe transportation**

- **Organising workplace checks**

In 2016, occupational health and safety costs rose 11.2% year-on-year to RUB 521.2 mn, with the highest growth coming from personal protective equipment. Occupational disease prevention costs are growing annually, driven by higher medical examination costs.
ENVIRONMENTAL SAFETY

Environmental protection measures taken by IDGC of Centre are provided for in the Environmental Policy Implementation Programme for 2015–2018.

Air Protection

In 2016, gross pollutant emissions amounted to 163.8 tonnes, up from 162.6 tonnes in 2015.

Air protection activities in the reporting year comprised the following measures:

- Continuous emission limit monitoring;
- Monitoring of Cyclone gas cleaning units;
- Noise pollution and electromagnetic field monitoring in substation buffer zones.

According to all measurements, permitted levels were not exceeded.

Environmental protection expenditures

Breakdown of environmental protection expenditures

2016 2015 2014

Air protection 22.6 25.5 37.5

Water protection and sustainable use 19.2 12.6 19.2

Wildlife protection 6.3 5.5 5.5

Waste management 0.0 0.0 0.0

2015/2016 37.6 19.2 75.0

Water Protection and Sustainable Use

In 2016, the Company reduced consumption of water taken from underground sources by 24.9% year-on-year down to 22,300 tonnes (27,700 tonnes in 2015). The decrease is attributable to less waste from right-of-way clearing following the assignment of this task to contractors.

As part of waste management efforts:

- In September 2016, IDGC of Centre obtained a licence to transport Hazard Class 1, 2, 3 and 4 wastes.
- The Company continued the practice of separating different hazard class wastes on production sites (storage containers were bought and properly marked) and set up waste accumulation sites. The Company also purchased demercurisation kits to equip disposal sites for mercury-containing lamps, and oil neutralisers to clean up oil spills. Industrial and consumer waste was processed, disposed of and landfill by contractors specialising in waste management.

Upgrades and Reconstruction of Production Assets

In 2016, a number of technical measures were implemented to improve safety and reliability of power supply, reduce emergency incidence in operations and at the same time reduce negative impacts on the environment:

- Overhead power lines (5-10 kV) were fitted with insulated conductors. The total length of power lines with insulated conductors increased by 2,800 km over the year.
- 04 circuit breakers were replaced with vacuum or GIS circuit-breakers (192 pieces).
- Substations were fitted with insulated busbars.
- Oil-filled bushings were replaced with modern, solid insulation resin impregnated paper (RIP) bushings.
- Oil vehicles were replaced with vehicles compliant with European emission standards.
- Overhead lines were fitted with bird protection systems to protect birds against electric shock. 3,554 bird diverters were installed over the year.

For more details on emissions and water withdrawal in 2015–2016 see Appendix 3.9 to the Annual Report.

Waste Management

Generation of industrial and consumer waste in 2016 decreased 24.9% year-on-year down to 22,300 tonnes (27,700 tonnes in 2015). The decrease is attributable to less waste from right-of-way clearing following the assignment of this task to contractors.

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Measures provided for in the Programme can be categorised into three major areas:

➔ Safety of grid facilities:
- Identifying and demolishing illegal structures in buffer zones;
- Relocation of overhead lines and transformer substations away from school sites, playgrounds and residential areas (RUB 22.5 mn invested);
- Replacement of 6–10 kV overhead conductors with self-supporting insulated conductors (RUB 160.3 mn invested);
- Relocation of overhead lines and illegal structures away from 10–110 kV line buffer zones as part of the investment programme (RUB 60.6 mn invested);
- Installation of signs and notices in addition to those required by regulatory standards in residential areas near community facilities, children’s institutions, water bodies and in fishing areas, to inform people of electric shock hazard (21,984 signs installed);
- Maintenance and repair of machinery and equipment in unsatisfactory or inoperable condition to bring them up to current standards (RUB 270.3 mn invested).

➔ Public awareness and education initiatives:
- Educating the public through the media on the risks of approaching grid facilities;
- Publishing electric safety information on the reverse side of utility bills;
- Notifying land users, local authorities and businesses of the need to comply with the rules for the safe operation and use of grid facilities (nearly 5,000 notifications sent out);
- Classes for high-school and university students as part of the existing curriculum (1,900 classes held);
- Producing cartoons and videos educating children on injury prevention; publishing electric safety pamphlets (reminders) for the wider public.

➔ Prevention of injuries to contractor employees:
- Considering health and safety performance and injury rates when selecting contractors;
- Incorporating contractors’ liability for violation of health and safety rules into relevant contracts;
- Organising joint health and safety drills and procedures with contractors in accordance with applicable regulations;
- Providing access to grid facilities for assigned contractor personnel only after the contractor’s documents are thoroughly examined for compliance with applicable regulations.

THIRD-PARTY SAFETY

IDGC of Centre runs a dedicated programme to reduce the risk of injuries to third parties at the Company’s facilities as part of a broader effort to minimise third-party injury risks, including injuries to people, children and contractor employees.

In 2016, the programme costs decreased 1% year-on-year to RUB 544.3 mn due to the completion of initiatives that do not require recurrent annual investment.

Programme costs

<table>
<thead>
<tr>
<th>Year</th>
<th>Programme Costs (RUB mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>542.5</td>
</tr>
<tr>
<td>2015</td>
<td>549.8</td>
</tr>
<tr>
<td>2016</td>
<td>544.3</td>
</tr>
</tbody>
</table>

Procurement

Procurement activities of IDGC of Centre in 2016 were carried out based on the Uniform Procurement Standard of ROSSETI, PJSC (Regulations on Procurement, the “Standard”), approved by the Company’s Board of Directors (Minutes No. 27/15 dated 29 December 2015). The Standard incorporates provisions of Federal Law No. 223-FZ On Procurement of Goods, Work and Services by Certain Types of Legal Entities dated 18 July 2011.

Procurement Planning

The plan also takes into account the need to reduce investment costs on projects under the Strategy for Development of the Electric Grid Complex of the Russian Federation. Procurement price targets (limits) under capital grid construction projects are calculated with the assumption that investment costs are to be reduced by 30% against the baseline of 2012.

Based on full-year results, the management submits a procurement plan performance report to the Board of Directors for approval.

Procurement Results for 2016

Financial effect achieved in procurement

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial Effect (RUB mn)</th>
<th>% of Total Procurement Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>5.0</td>
<td>76</td>
</tr>
<tr>
<td>2015</td>
<td>4.1</td>
<td>77</td>
</tr>
<tr>
<td>2016</td>
<td>3.7</td>
<td>78</td>
</tr>
</tbody>
</table>

Procurements in the Company follow an annual plan which accounts for the Company’s needs and is subject to preliminary approval by the Company’s Board of Directors. The procurement plan specifies both indicative prices, procurement procedures and their time-frames.
Most procurement contracts are awarded through a public bidding process (public tenders, public auctions, requests for proposals, requests for quotes, requests for quotes/proposals through a competitive process, etc.). Public bidding accounts for 94.7% of the total amount of procurement contracts and 98.3% of total procurement spend.

E-commerce tools were used to award 8,053 contracts worth a total of RUB 2,353.6 mn net of VAT (98% of the total number of contracts and 93.9% of total procurement spend, excluding single-source procurements and procurements through bidding organised by sellers).

Public bidding

<table>
<thead>
<tr>
<th>Procurement process</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted bidding</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Single-source procurements

<table>
<thead>
<tr>
<th>Procurement through bidding processes organised by sellers</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,331.99</td>
<td>237.9</td>
<td>459.3</td>
<td></td>
</tr>
</tbody>
</table>

Single-source procurements are made up just 1.7% of the total amount in 2016. Bidding through a restricted process was not used to award procurement contracts.

No procurement contract awarded in 2016 contained a condition of engaging SMEs as subcontractors (associate contractors).

Procurement from small and medium-sized enterprises (SMEs)

<table>
<thead>
<tr>
<th>Procurement from small and medium-sized enterprises (SMEs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,452 contracts</td>
</tr>
<tr>
<td>14,291.3 RUB mn net of VAT</td>
</tr>
</tbody>
</table>

SMEs accounted for 92.9% of total procurement spend less the value of ineligible procurements.

PUBLIC RELATIONS

Government Relations

As part of relations with local authorities in the regions in which the Company operates, a series of working meetings were held between IDGC of Centre management and the heads of Russian regions to discuss joint efforts in ensuring reliable power supplies, creating conditions for new grid connections, and preventing capacity shortages in the areas covered by the Company.

Awareness Campaigns

In 2016, IDGC of Centre carried out awareness campaigns to inform the general public about preparations for winter season and winter period performance, energy efficiency improvements, progress on prevention of injuries to third parties at grid facilities, IT infrastructure development, and other operational programmes carried out by the Company, and explain the procedures for connection to the Company’s grids.

In addition, the Company carried out two PR programmes, Information Support of Customer Relations and Power Industry is My Life’s Work, the latter being aimed at promoting the image of power engineering professions and boosting the Company’s profile as a responsible and reliable power supplier.

The targeted information policy worked towards increasing the number of positive media publications about IDGC of Centre’s operational performance and building its reputation as an efficient and fast-growing company that fully meets the electricity needs of consumers and facilitates social and economic development in the regions in which it operates.

Participation in Major Public Events

In 2016, the Company took part in major national and regional industry forums, including RUSGRID-ELECTRIS and ENES. IDGC of Centre presented innovative solutions and advanced technologies used by the Company, as well as its energy saving and energy efficiency improvement projects.

In 2016, the Company also took part in the 20th Saint Petersburg International Economic Forum, Sochi 2016 International Investment Forum, Russian PPP Week Infrastructure Congress, and Russian Health and Safety Week.
IDGC of Centre carried out the following charitable and sponsorship projects in the reporting year:

➔ A number of community and educational facilities were provided with backup power sources for emergency situations.

➔ The Company was an official partner of the Russian PPP Week Infrastructure Congress, an annual forum focused on public-private partnerships in infrastructure development.

➔ The Company sponsored educational projects of the National Research University Moscow Power Engineering Institute, including:
  - Lectures of leading national and international researchers and power engineering professionals;
  - Annual applied research conferences and series of workshops for young scholars and industry specialists;
  - Publication of educational materials, etc.

IDGC of Centre Public Relations Department won the ConTEKst competition in the Information Support Project category with its Information Transparency as a Step Towards Accommodating Consumer Needs project, and was awarded a diploma at the MediaTEK contest in the Power Engineering Profession Promotion category for its Power Industry is My Life’s Work project.

CHARITABLE INITIATIVES

In 2016, the Company’s Board of Directors approved Regulations on the Formation and Use of the Sponsorship and Charity Fund to define the goals, application and financing procedures, and sources of funding for IDGC of Centre’s charitable and sponsorship activities.

IDGC of Centre has connected a variety of agribusinesses that are essential for the social and economic development of the Region. They include production sites of Agroindustrial complex PROMAGRO, a major pork producer in the Black Earth Region based in the Starooskolsky District; a pig-processing plant with a requested capacity of 2.2 MW in Ozerskoye, a compound feed production and processing plant, and grain elevators with a maximum total load of 1.5 MW.

As part of its efforts to contribute to the development of the dairy industry, a key import substitution sector, the Belgorod branch of IDGC of Centre has connected a number of facilities operated by Green Dale Group of Companies, a major regional agribusiness holding company specialising in the production and processing of dairy products. In particular, they include a new grain drying facility to process and store grains and oilseeds in the Shebekinsky District.

The Company has streamlined electricity network layouts, installed advanced transformer substations, constructed power lines with self-supporting insulated wire, installed energy saving lamps and an automated outdoor lighting control system, and replaced connection points in consumer houses.

The Company has dismantled lines passing through residential areas, neighbourhoods or childcare institutions, reorienting them at a safe distance and has broken down lengthy power lines into smaller sections by installing additional substations. This approach enables us to eliminate all operational gaps in power transmission and distribution and considerably enhance the reliability and quality of electricity supply to consumers.
Connecting agricultural and food industry production sites

In line with the government-sponsored import substitution policy, IDGC of Centre has connected a number of agricultural and food industry production sites to its power grids. The largest of them, a poultry farm operated by Cherkizovo Group in the Zadonsky District, has a total connected capacity of 3.16 MW. The successful implementation of the project is expected to make the region a national leader in poultry production.

In the Terbunsky District, we have connected a premix production facility operated by MegaMix Centre, LLC, a leading producer of supplemental feeds for all types of agricultural animals and poultry in Russia, now having access to 1.6 MW of capacity.

A plant for advanced processing of grains and oilseeds owned by Chernozemye, LLC has been connected to power grids in the Terbuny special regional economic zone. The maximum capacity of the facility is 8.2 MW. In terms of processing capacity, the facility will be among Russia’s largest processing businesses of this type.

IDGC of Centre has connected an electric engine production plant of Genborg, LLC in the Usmansky District, meeting its aggregate demand of 3.6 MW. To connect the plant, the Company has constructed Switchgear Cubicle No. 19 at the Usman 110 kV substation and installed a new relay protection system, line splitters and vacuum circuit breakers at the substation. Additionally, as part of the grid connection project, we have constructed a 440 m 10 kV overhead link and installed a 800 m 10kV cable link.

This innovative facility is stated to become a leading manufacturer of a wide array of European-level asynchronous electric engines in the nearest future.

This project has become yet another significant contribution the Company made to the social and economic development of the region.

Upgrading important transmission and distribution facilities in the region

IDGC of Centre has taken measures to address capacity shortages in the Kostroma Region and ensure grid connection of new consumers. To this end, the Company has refurbished two regionally-important main substations, Kostroma-3 and SU GRES 110 kV substations.

The SU GRES substation supplies electricity to the rapidly growing Volgorechensky Technopark, with Gazpromturbinvest, NOV Kostroma, LLC, and INTER NII – Elektroenergosistem among its anchor tenants. The Kostroma-3 substation supplies the electricity needs of a number of community facilities in the regional capital of Kostroma located on the other bank of the Kostroma River, including six schools, the Centre for Social Rehabilitation of Adolescents, child care centres, and orphanages.

As part of the refurbishment project, each facility has seen its capacity increased from 26 MVA to 32 MVA.

Supporting home construction projects

IDGC of Centre has completed a grid connection project for the Flagman Residential Estate in the centre of Kostroma. The maximum connected capacity of consumer terminals at the property was 0.75 MW (second reliability category, 10 kV). Flagman is a seventeen-storey six-section building with 308 spacious apartments and 17 commercial premises, measuring 7,405 sq m overall.

IDGC of Centre has completed a grid connection project for a new Leroy Merlin hypermarket in Kostroma. The maximum connected capacity of consumer terminals at the hypermarket was 1.424 MW (second reliability category, 10 kV). To connect such a large facility, the Kostroma branch of IDGC of Centre had refurbished its RU-10 switchgear at the 110/10 kV Davydovskaya substation and constructed new 10 kV power grids.

Supplying electricity to new production facilities

IDGC of Centre has connected an electric engine production plant of Genborg, LLC in the Usmansky District, meeting its aggregate demand of 3.6 MW.

To connect the plant, the Company has constructed Switchgear Cubicle No. 19 at the Usman 110 kV substation and installed a new relay protection system, line splitters and vacuum circuit breakers at the substation. Additionally, as part of the grid connection project, we have constructed a 440 m 10 kV overhead link and installed a 800 m 10kV cable link.

This innovative facility is stated to become a leading manufacturer of a wide array of European-level asynchronous electric engines in the nearest future.

This project has become yet another significant contribution the Company made to the social and economic development of the region.
Supplying electricity to a major poultry farm

IDGC of Centre continued the implementation of the first public-private partnership project in the electrical grid sector, which provides for building a power grid infrastructure for poultry farming and processing businesses.

IDGC of Centre has commissioned Fabrichnaya, a 110/10 kV innovative substation built to supply electricity to a vertically integrated poultry farming facility of Tokarevskaya Poultry Plant (part of Resource Group of Companies). This vertically integrated business will produce 150 thousand tonnes of poultry a year, creating more than 2,000 new jobs.

The project is essential for the economic growth of the Tambov Region and makes a considerable contribution to the implementation of the Food Security Doctrine of the Russian Federation, the government-sponsored import substitution policy, and the programme to promote the national agricultural industry.

Developing preschool education

In 2016, IDGC of Centre connected a number of small- and medium-sized enterprises based in the Smolensk Region. The most important facilities connected were Bryanskaya myasnaya kompaniya in the Roslavlsky District, a coffee shop in the Smolensk District, a shopping mall operated by StriyTrend, LLC in the town of Safonovo, stores in the Safonovsky, Krasninsky, Yartsevsky, and Roslavlsky Districts and in Smolensk, a farming business of Khutorok, LLC in the Temkinsky District, and a modular solid fuel boiler facility of SBK, LLC in the Ugransky District. Among them, the store in the Safonovsky District, with 120 kW of connected capacity, proved to be the most energy-intensive facility.

Availability of grid connection capacity is a key business growth driver in the region, ultimately affecting the investment case for the Smolensk Region.
Connecting a priority industrial facility to drive economic growth

The Yaroslavl Branch of IDGC of Centre has completed a grid connection project for a plant operated by a branch of Syktyvkar Tissue Group, the leading Russian manufacturer of hygiene products and commercial tissue paper. The maximum capacity consumed by the facility is 8 MW.

Contributing to the development of sports infrastructure to deliver economic and social change

In Yaroslavl, IDGC of Centre has completed a grid connection project for the construction site of the Olympic Reserve Ice Hockey School, a key project under the Federal Target Programme «Development of Physical Culture and Sports in the Russia Federation» for the forthcoming five years.

Grid connection of major industrial and manufacturing facilities, households, small- and medium-size enterprises, and sports facilities greatly contributes to the social and economic development of the Yaroslavl Region.

Expanding the service area

The Tver branch of IDGC of Centre has leased the power grids of Kimry, one of the largest towns in the Tver Region, expanding its service area to cover the south-eastern part of the region. The lease agreement is effective since 1 January 2016.

The launch of Tverenergo’s operations in Kimry is another milestone in the implementation of our grid asset consolidation policy. Under the Agreement, the branch will monitor the condition of power grids in this regional centre and gradually upgrade them, supporting the growth of the entire energy system in the Upper Volga region.

Installing lighting facilities at M-11 high-speed motor road

IDGC of Centre continues the construction of overhead and cable transmission lines along M-11, a new federal Moscow – St Petersburg highway.

During 2016, ca. 26 km of 10 kV overhead lines and 11 km of 10 kV cable lines were installed between the main substations of the Tver branch of IDGC of Centre and consumer terminals of the M-11 federal highway in the Bolshoye District. Additionally, we have refurbished the Zolotemaya 35/10 kV substation to increase its transformer capacity.
**BRYANSK REGION**

**Supporting the Social and Economic Growth of Regional Districts**

IDGC of Centre continues to improve the reliability of electricity supply to residential, industrial and social customers in the Bryansk Region. In 2016, the Company completed the refurbishment of the Michurinskaya 110/6 kV substation. The substation serves as a key hub supplying electricity to residential customers and large industrial customers in the Bryansk Region, such as BryanskElektro, LLC and Megapolis, LLC.

As part of the refurbishment project, the substation’s capacity has been doubled from 20 MVA to 32 MVA, enabling new connections.

**KURSK REGION**

**Connecting Agribusinesses to Power Grids**

IDGC of Centre has completed a grid connection project for a sunflower and lupine seed processing line of Nadezhda, OJSC, a large agribusiness based in the Kursk Region. As part of the project, the Company has constructed a 10 kV overhead link. Another major agribusinesses connected in this region in 2016 is an elevator operated by Russkii jachmen, LLC, a leading malting barley producer in the Central Black Earth Region. The new high-tech integrated facility (with a maximum power consumption of 2 MW and a storage capacity of 40 thousand tonnes) is able to process up to two thousand tonnes of grains a day.

**OREL REGION**

**Supplying Electricity to Agribusinesses**

As part of its support for the regional agricultural industry, the Orel branch of IDGC of Centre has completed a grid connection project for such key regional agribusiness players as Cherkizovo-Rasteniyevodstvo, LLC and Znamensky SGC, LLC. The agribusiness holding company Cherkizovo-Rasteniyevodstvo now has access to 1 MW of capacity, and Znamensky SGC, a major Russian supplier of genetics products for pig-breeding, to 700 kW of capacity.

In December 2016, Orelenergo started a grid connection project for another major regional agribusiness, a grain warehouse operated by Orel-Agro-Produkt, LLC in the Kromsky District. The facility will consume a total of 2.12 MW. The launch of this facility is strategically important for the region as it creates new jobs and generates new tax revenue for state budgets at all levels.

**VORONEZH REGION**

**Enhancing Reliability of Electricity Supply to Voronezh**

In order to ensure reliable electricity transmission and distribution, IDGC of Centre has refurbished two substations in the regional capital of Voronezh: 110 kV Substation No. 2 and 110 kV STH Substation No. 9.

Substation No. 2 in the Central District of the city supplies electricity to a number of socially important companies and domestic consumers, as well as to the administrative buildings housing the Government of the Voronezh Region and Voronezh Administration. The refurbishment has increased the facility’s capacity by more than 2.5-fold to 126 MVA, and enhanced reliability of electricity supply to the city’s centre.

110 kV STH Substation No. 9 supplies electricity to public utilities, community facilities, domestic consumers, and the rapidly growing area of new construction projects in the Kommunernovsky District of the city. As part of the substation refurbishment project, we have replaced electrical equipment with more reliable and advanced systems and deployed a range of technology solutions to automate the monitoring of high-voltage equipment.
Revenue from electricity transmission (under RAS): 86.1 RUB bn
CAPEX: 13.4 RUB bn
Net asset value: 57.7 RUB bn
EBITDA: 16.9 RUB bn

50.2% of profit for 2015 allocated to dividends

Financial Review
- Credit Ratings
- Tariff Policy
- Financial Review
- Investments
CREDIT RATINGS

Standard & Poor’s: “BB–/B/ruAA–”, outlook Stable

This credit rating shows that in the short term the Company is less prone to credit risks (as compared with companies having lower rating categories). Nevertheless, in the long term, changes in business and economic conditions may adversely affect the Company’s ability to meet its financial obligations.

Events after the reporting date:
On 21 March 2017, the agency revised the Company’s credit rating outlook from Stable to Positive and affirmed the long-term ratings at “BB–”, having assigned a similar rating to the Russian Federation.

Information on and substantiations of credit rating are available on the rating agency’s website.

National Rating Agency (NRA):
“АА”, Very High Credit Quality, the second level

The “А А” (High Credit Quality, the second level) rating was first assigned in 2007. In 2013, the NRA upgraded it to “АА” (Very High Credit Quality), which has remained unchanged since then. The credit rating methodology is available on the rating agency’s website.

Events after the reporting date:
Since the transition period provided to Russian legal entities by Federal Law No. 222-FZ dated 13 July 2015 expired on 13 January 2017, the NRA is currently undergoing a registration procedure for the Bank of Russia’s Register of Credit Rating Agencies. Until on the Register, NRA performs no rating activities.

TARIFF POLICY

Core operations of IDGC of Centre are regulated by the government through executive authorities responsible for state tariff regulation, which set relevant tariffs (fees).

Tariff setting for core operations

Levels of decision-making on tariffs for power transmission services

In 2016, two methods were used to set tariffs for power transmission services applicable across the Company’s branches: RAB and Long-Term RGR (Required Gross Revenue) indexation. The regulation method for each of the Company’s branches is chosen by the relevant regulatory authority subject to Resolution No. 1178 of the Russian Government dated 29 December 2011.
Subject to the tariff revision effective since 1 July 2016 (in line with Resolution No. 458 of the Russian Government “On the Approval of Amendments to Certain Acts of the Government of the Russian Federation Aiming to Improve the Procedure for

On 21 July 2015, the Federal Tariff Service of Russia was disbanded pursuant to the relevant Executive Order of the Russian President, with its mandate assigned to the Federal Antimonopoly Service of Russia.

Changes in tariffs over time

Tariff-setting methods applied

<table>
<thead>
<tr>
<th>Method</th>
<th>RAB regulation</th>
<th>Long-term RGR indication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td>Belgorodenergo</td>
<td>Bryanskenergo</td>
</tr>
<tr>
<td></td>
<td>Voronezhenergo</td>
<td>Lipetskenergo</td>
</tr>
<tr>
<td></td>
<td>Kostromaenergo</td>
<td>Tambovenergo</td>
</tr>
<tr>
<td></td>
<td>Kurskenergo</td>
<td>Tverenergo</td>
</tr>
</tbody>
</table>

RGR basis

Guidelines approved by Order No. 228-e of the Federal Tariff Service of Russia dated 30 March 2012

Guidelines approved by Order No. 90-e of the Federal Tariff Service of Russia dated 17 February 2012

Tariff-setting methods applied

- Costs related to production and marketing of products (services) for the regulated type of operations (controllable and non-controllable costs)
- Equity and debt repayment
- RISG
- Price-smoothing (revenue carryover from the relevant regulatory period)
- RGR adjustments

Changes in tariffs over time

Average weighted single (“pot”) tariffs for power transmission in 2012–2016

<table>
<thead>
<tr>
<th>Metric</th>
<th>Unit</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average weighted power transmission tariff</td>
<td>kopecks/kWh</td>
<td>128.37</td>
<td>141.52</td>
<td>146.57</td>
<td>148.36</td>
<td>156.18</td>
</tr>
<tr>
<td>Growth</td>
<td>%</td>
<td>1.1%</td>
<td>10.2%</td>
<td>3.4%</td>
<td>1.7%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

The changes in tariffs over time are detailed on the Company’s website.

Operating Review

Required Gross Revenue (RGR)

The branches that have reported the highest RGR growth include:
- Voronezhenergo – RUB 978 mn (+22.4%)
- Yarontsergo – RUB 674 mn (+18.9%)
- Tambovenergo – RUB 663 mn (+17.9%)
- Kostromaenergo – RUB 488 mn (+17.8%)

The Company’s most critical regions (Belgorod and Kursk Regions) that report the highest share of power consumption via leased UNPG facilities saw an additional increase in their tariffs for power transmission services provided to other consumers, in excess of the forecasts of the Ministry of Economic Development, intended to compensate for the Company for revenue shortfall. 4.1% for the Belgorod Region, and 5.5% for the Kursk Region.

Tariffs applicable in the Bryansk Region factor in the excess over the threshold maximum tariffs, i.e., an additional 4.5% increase in tariffs for power transmission to other consumers.

The tariff campaign for 2016 secured long-term RAB regulation profile for the branches of IDGC Centre, and a 10.1% increase in the Required Gross Revenue used for the company’s operations.

RGR in 2012–2016 broken down by branch, and the estimated share of the Company in regional RGR are shown in Appendix No. 3.6 to the Annual Report.

The branches that have reported the highest RGR growth include:
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RGR in 2012–2016 broken down by branch, and the estimated share of the Company in regional RGR are shown in Appendix No. 3.6 to the Annual Report.
Connection tariffs

Connection tariffs are regulated by paragraph 7 of Order No. 209-e/1 of the Federal Tariff Service of Russia dated 11 September 2012, whereby Russian executive authorities responsible for state tariff regulation are mandated to set:

- for the regulatory period:
  - rates per maximum capacity unit (RUB per kW);
  - standardised tariff rates (RUB per km, RUB per kW);
- upon request by a grid organisation, a fee for connection of consumer terminals, with a maximum capacity of at least 8,000 kW and a voltage of at least 35 kV, and power generation facilities to territorial transmission grids, as well as for connection of individual projects.

Subsidised connection

Applicants who have submitted an application for connection of consumer terminals with a maximum capacity not exceeding 15 kW (including the capacity connected at the same connection point), or for connection of horticultural, market gardening, dacha (country house) owners and other non-profit branches of the Company as follows:

- by service;
- by applicant category;
- by voltage;
- by connected capacity.

The rates per unit of maximum capacity and standardised tariff rates for connection services are set at prices applicable in the regulatory period. Standardised tariff rates designed to cover construction costs of a grid organisation are approved by the regulatory authority in prices of 2001.

### Average rates per unit of capacity

<table>
<thead>
<tr>
<th>Branch</th>
<th>Average rate per unit of capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bryanskenergo</td>
<td>3.01%</td>
</tr>
<tr>
<td>Voronezhenergo</td>
<td>1.18%</td>
</tr>
<tr>
<td>Kostromaenergo</td>
<td>1.18%</td>
</tr>
<tr>
<td>Kurskenergo</td>
<td>1.18%</td>
</tr>
<tr>
<td>Lipetskenergo</td>
<td>1.18%</td>
</tr>
<tr>
<td>Orelenergo</td>
<td>1.09%</td>
</tr>
<tr>
<td>Smolenskenergo</td>
<td>1.09%</td>
</tr>
<tr>
<td>Tambovenergo</td>
<td>1.18%</td>
</tr>
<tr>
<td>Yarneenergo</td>
<td>1.09%</td>
</tr>
</tbody>
</table>

### Standardised tariff rates

Standardised rates are differentiated across all branches of the Company as follows:

- by service;
- by applicant category;
- by voltage;
- by connected capacity.

Branches of Bryanskenergo, Kostromaenergo, Orelenergo, Tambovenergo, Yarenergo, and Yarneenergo (except for those listed above) also differentiate rates by cable type and grade, connection method, and by type and nominal capacity of substation equipment and transformers.
Power and capacity marketing tariffs are regulated via sales markups set for the following groups of consumers:
- Households and equivalent consumer categories
- Grid organisations that purchase electricity to offset their electricity losses
- Other consumers

Sales markups are differentiated across sub-groups of consumers by the maximum capacity of their consumer terminals.

These markups also include:
- Sales margins from a specific sub-group of other consumers;
- Creg (Guaranteeing Supplier).

### Average standardised tariff rates

<table>
<thead>
<tr>
<th>Metric</th>
<th>Range of rates across branches</th>
<th>Connection services (C1)</th>
<th>Construction of overhead power lines (C2)</th>
<th>Construction of cable lines (C3)</th>
<th>Construction of substation (C4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUB per kW</td>
<td>RUB per km</td>
<td>RUB per km</td>
<td>RUB per km</td>
<td>RUB per kW</td>
</tr>
<tr>
<td>Compensation rate (designated to cover costs of the grid organisation)</td>
<td>Max</td>
<td>103.91</td>
<td>781,055.72</td>
<td>1,332,258.44</td>
<td>2,052.02</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>679.67</td>
<td>2,778,866.21</td>
<td>4,390,232.12</td>
<td>22,356.0</td>
</tr>
</tbody>
</table>

### Individual project fees

The fee for connection of individual projects (power generation facilities with a maximum capacity of at least 8,900 kW and a voltage of at least 35 kV) is set by the regulator on a case-by-case basis.

### Sales markups by the Guaranteeing Supplier

Power and capacity marketing tariffs are regulated via sales markups set for the following groups of consumers:

**Households and equivalent consumer categories:**
- Grid organisations that purchase electricity to offset their electricity losses

**Other consumers:**
- Markups are differentiated across sub-groups of consumers by the maximum capacity of their consumer terminals.
  - Sales margins from a specific sub-group of other consumers;
  - Creg (Guaranteeing Supplier).

### Sales markups applied in 2016

<table>
<thead>
<tr>
<th>Region</th>
<th>GS since</th>
<th>Households</th>
<th>Grid organisations</th>
<th>Creg</th>
<th>Sales margins from other consumers, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>RUB per kW</td>
<td>RUB per km</td>
<td>Creg</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>below 150 kW</td>
<td>from 150 kW to 670 kW</td>
<td>from 670 kW to 10 MW</td>
<td>at least 10 MW</td>
</tr>
<tr>
<td>Tver Region</td>
<td>1 December 2016</td>
<td>0.31692</td>
<td>0.10034</td>
<td>0.54</td>
<td>17.20</td>
</tr>
</tbody>
</table>

### Key financials in 2014–2016

#### Financial performance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUB mn</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>86,705.2</td>
<td>79,817.2</td>
<td>86,110.3</td>
<td>6,293.1</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>73,947.6</td>
<td>68,520.1</td>
<td>73,492.4</td>
<td>4,972.3</td>
</tr>
<tr>
<td>Gross profit</td>
<td>12,757.6</td>
<td>11,297.1</td>
<td>12,617.9</td>
<td>1,320.8</td>
</tr>
<tr>
<td>Management costs</td>
<td>2,107.5</td>
<td>2,193.8</td>
<td>2,052.7</td>
<td>–141.1</td>
</tr>
<tr>
<td>Selling costs</td>
<td>652.6</td>
<td>0.0</td>
<td>0.6</td>
<td>–</td>
</tr>
<tr>
<td>Profit (loss) from sales</td>
<td>9,997.5</td>
<td>9,103.3</td>
<td>10,564.6</td>
<td>1,461.3</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>106.7</td>
<td>267.3</td>
<td>250.7</td>
<td>–16.6</td>
</tr>
<tr>
<td>Interest payable</td>
<td>2,501.6</td>
<td>4,195.4</td>
<td>4,507.7</td>
<td>312.3</td>
</tr>
<tr>
<td>Income from shareholdings</td>
<td>10.0</td>
<td>12.7</td>
<td>12.9</td>
<td>–</td>
</tr>
<tr>
<td>Other revenues</td>
<td>4,668.8</td>
<td>5,211.8</td>
<td>3,690.9</td>
<td>–1,520.9</td>
</tr>
<tr>
<td>Other expenses</td>
<td>9,446.3</td>
<td>8,440.4</td>
<td>7,502.2</td>
<td>–938.2</td>
</tr>
<tr>
<td>Profit (loss) before tax</td>
<td>4,863.9</td>
<td>1,964.3</td>
<td>2,509.2</td>
<td>546.4</td>
</tr>
<tr>
<td>Income tax and other charges</td>
<td>1,538.0</td>
<td>1,055.3</td>
<td>642.5</td>
<td>–492.8</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>3,325.9</td>
<td>909.0</td>
<td>1,866.7</td>
<td>957.7</td>
</tr>
</tbody>
</table>

#### EBITDA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUB mn</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>15,748.5</td>
<td>15,219.2</td>
<td>16,884.5</td>
<td>1,665.3</td>
</tr>
</tbody>
</table>

---

1. As per financial statements prepared under the Russian Accounting Standards (RAS).  
2. Based on the formula: Profit before tax – Interest payable + Depreciation = line 2300, Form 2 (Profit and Loss Statement) – line 2330, Form 2 + line 6514, Form 2.1 + line 6554, Form 2.1 + line 6564, Form 2.1.
Revenue

In 2014 and 2016, a number of branches of IDGC of Centre acted as Guaranteeing Suppliers pursuant to resolutions of the Russian Ministry of Energy.

Due to specific accounting principles applicable in the Company, revenue from electricity sales (2014 and 2016 data) actually include a portion of the Company’s revenue from electricity transmission services. Revenue from electricity transmission and revenue from electricity sales in comparable conditions are shown below.

Revenue in 2014–2016

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>RUB mn</td>
<td>%</td>
<td>RUB mn</td>
<td>%</td>
</tr>
<tr>
<td>Revenue</td>
<td>86,705.2</td>
<td>79,817.2</td>
<td>86,110.3</td>
<td>6,293.1</td>
</tr>
<tr>
<td>Including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity transmission (RAS)</td>
<td>69,151.5</td>
<td>77,733.6</td>
<td>75,904.4</td>
<td>6,293.1</td>
</tr>
<tr>
<td>Electricity transmission, including internal electricity sales</td>
<td>75,934.4</td>
<td>77,733.6</td>
<td>83,613.0</td>
<td></td>
</tr>
<tr>
<td>Grid connection</td>
<td>1,495.3</td>
<td>1,591.7</td>
<td>1,411.3</td>
<td>-180.4</td>
</tr>
<tr>
<td>Electricity sales (RAS)</td>
<td>15,053.0</td>
<td>0.0</td>
<td>15,053.0</td>
<td></td>
</tr>
<tr>
<td>Electricity sales, excluding internal electricity transmission</td>
<td>8,381.1</td>
<td>0.0</td>
<td>9,470.2</td>
<td>1,089.1</td>
</tr>
<tr>
<td>Other services</td>
<td>1,005.2</td>
<td>923.9</td>
<td>1,005.2</td>
<td></td>
</tr>
</tbody>
</table>

The Company’s revenue as at the end of 2016 grew 7.9% year-on-year to RUB 86,110.3 mn.

Revenue from electricity transmission services rose by RUB 5,879.4 mn (up 7.6% year-on-year), driven by:

- higher variable losses (revenue decline attributable to grid connection services, provision of technical resources and services provided by FGS UES and TGOs).
- higher net delivery (revenue growth attributable to grid connection services, provision of technical resources and services provided by FGS UES and TGOs).
- higher average tariff rate (revenue growth attributable to grid connection services, provision of technical resources and services provided by FGS UES and TGOs).
- higher variable losses (revenue decline attributable to grid connection services, provision of technical resources and services provided by FGS UES and TGOs).

Revenue from grid connection services came at RUB 1,411.3 mn, up 21.7% year-on-year. This growth was driven by major grid connection contracts implemented in 2016 by such branches as Voronezhenergo, Kurskenergo, and Smolenskenergo.

As at the end of 2016, the Company’s revenue from electricity sales, stood at RUB 79,817.2 mn, or 92% of the Company’s revenue as at the end of 2015.

Revenue from grid connection services came at RUB 1,411.3 mn, up 21.7% year-on-year. This growth was driven by major grid connection contracts implemented in 2016 by such branches as Voronezhenergo, Kurskenergo, and Smolenskenergo.

Costs

Electricity transmission costs and electricity sales costs are reported on a standalone basis as per IAS accounting statements and in comparable conditions and take into account that some electricity transmission costs are recognised as part of electricity sales.

The year-on-year increase in the cost of sales (including management and selling costs) was RUB 6,837.8 mn, or 4.8%, mainly due to higher uncontrollable costs for loss compensation and services provided by FGS UES and TGOs.

Cost of revenue in 2014–2016

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>RUB mn</td>
<td>%</td>
<td>RUB mn</td>
<td>%</td>
</tr>
<tr>
<td>Total cost of services</td>
<td>75,545.7</td>
<td>617.2</td>
<td>74,511.1</td>
<td>1,034.6</td>
</tr>
<tr>
<td>Including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity transmission</td>
<td>57,658.0</td>
<td>76.1</td>
<td>58,756.1</td>
<td>1,098.1</td>
</tr>
<tr>
<td>Grid connection</td>
<td>1,495.3</td>
<td>1.9</td>
<td>1,411.3</td>
<td>-84.0</td>
</tr>
<tr>
<td>Electricity sales</td>
<td>8,381.1</td>
<td>1.1</td>
<td>9,470.2</td>
<td>1,089.1</td>
</tr>
<tr>
<td>Other costs</td>
<td>1,005.2</td>
<td>1.3</td>
<td>1,005.2</td>
<td></td>
</tr>
</tbody>
</table>

Cost of revenue in 2014–2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
<td>RUB mn</td>
<td>%</td>
<td>RUB mn</td>
<td>%</td>
</tr>
<tr>
<td>Total uncontrollable costs</td>
<td>53,072.7</td>
<td>61.1</td>
<td>49,997.3</td>
<td>3,075.4</td>
</tr>
<tr>
<td>Including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss compensation costs</td>
<td>9,833.7</td>
<td>12.8</td>
<td>11,065.5</td>
<td>1,231.8</td>
</tr>
<tr>
<td>Services of PSE UES</td>
<td>15,205.9</td>
<td>20.7</td>
<td>15,937.2</td>
<td>731.3</td>
</tr>
<tr>
<td>Services of TGOs</td>
<td>12,169.8</td>
<td>16.1</td>
<td>12,299.9</td>
<td>130.1</td>
</tr>
<tr>
<td>Depreciation of fixed and intangible assets</td>
<td>8,375.0</td>
<td>11.2</td>
<td>9,687.6</td>
<td>312.6</td>
</tr>
<tr>
<td>Electricity purchased for resale</td>
<td>7,338.3</td>
<td>9.7</td>
<td>7,338.3</td>
<td></td>
</tr>
<tr>
<td>Total uncontrollable costs</td>
<td>23,635.0</td>
<td>31.1</td>
<td>25,548.4</td>
<td>1,913.4</td>
</tr>
</tbody>
</table>

Appendix

1. Cost of sales, including management and selling costs.
2. Electricity purchased to offset losses of 2014 is recognised within the cost of sales subject to “internal supplies” (RUB 1.1 bn), sales markups, and infrastructure charges (RUB 0.2 bn).
Uncontrollable costs
Relative to 2015, there was an increase of 3,636 RUB mn, or 7.8%, including:
➔ Loss compensation costs of RUB 1,270.6 mn (12.0%), mainly driven by an increase in average weighted uncontrollable prices in the Wholesale electricity and Capacity Market, and higher losses.
➔ Services of PJSC FGC UES for RUB 13,937.2 mn, up RUB 677.4 mn (4.4%) year-on-year, mainly driven by the higher maintenance rate for UNPG facilities and the higher average compensation rate for standard transmission losses in UNPE networks.
➔ TSO services of RUB 12,299.9 mn, a year-on-year increase RUB 852.8 mn (7.4%), driven by higher individual tariffs for services of Territorial Grid Organisations.
➔ Depreciation of fixed and intangible assets of RUB 9,867.6 mn, a year-on-year increase of RUB 808.1 mn (8.9%), driven by the commissioning of new fixed assets.

Controllable costs
Concerning the costs of the previous year, there was an increase of 1,195.8 RUB mn, or 4.9%, including:
➔ Material costs, which grew by RUB 143.5 mn (4.9%), driven by higher costs for materials used for in-house repairs and emergency recovery operations, and by inflation.
➔ Production-related services, which grew by RUB 86.9 mn (11.1%), driven by an increase in the amount of additional services, costs for technical examination of property, plant and equipment; amount of repairs of administrative buildings by third-party contractors; and maintenance and repair of vehicles.
➔ Staff costs (payroll, social security charges, contributions to private pension funds), which grew RUB 762.5 mn (4.7%), driven by the indenation of “blue-collar” salaries, which grew by RUB 143.5 mn (4.9%), driven by higher costs for materials used for in-house repairs and emergency recovery operations, and by inflation.

Profit from sales
In 2016, the profit from sales came at RUB 10,564.6 mn, posting a year-on-year increase of RUB 1,661.2 mn (up 16.1%). We were able to achieve this growth by streamlining our operating costs, with our revenue growth rates outpacing cost growth rates as a result.

Other revenues and expenses, including income from shareholdings, interest receivable and interest payable

Other revenues
In 2016, other revenues posted a year-on-year decline by RUB 1,542.2 mn, mainly driven by:
➔ “Interest income” (RUB–16.6 mn) – due to the key rate reduction by the Bank of Russia, which led to the average deposit rate falling from 11.85% in 2015 to 9.55% in 2016.
➔ “Other property related income” (RUB–315.4 mn), due to an increase in stocktaking and liquidation surpluses (inventories and fixed assets, respectively) recognised as income in 2015, recognition of revenue from sale of property and property rights, and an increase in revenue from revaluation of financial assets.
➔ “Income of prior years identified in the reporting period” (RUB 229.3 mn) – due to an increase in back-billed power transmission services recognised in 2015.
➔ “Income from reversal of provisions” (RUB–99.1 mn) The change is due to the reversal of a large amount of provisions for legal claims in 2015, as relevant claims were awarded by courts to the Company. A large amount of bad debt provisions was reversed in 2016 as a result of debt repaid by one of our debtors and relevant back-bills agreed by customers.
➔ “Other revenues” (RUB–1,341.2 mn) – mainly due to the recognition of property of OJSC Yargorelektroset in the Company’s balance sheet in 2015 in the amount of the share held by IDGC of Centre in the authorised capital.

Additionally, in 2016, other revenues increased year-on-year as follows:
➔ “Write-offs of accounts payable recognised as income” (RUB 205 mn) – in 2016, on taking stock of its liabilities, the Company wrote off unclaimed accounts payable with expired limitation periods.
➔ “Breach of contract penalties recognised as income” (RUB 197.3 mn) – mainly represented by penalties for delay in making payments awarded by courts.
➔ “Subventions, subsidies, and appropriations” (RUB 65.2 mn) – mainly represented by the annual financing provided by the Tambov Region to Tambovergenyu, a branch of the Company, in 2016, under a concession agreement signed in June 2015.

Other expenses
Other expenses posted a year-on-year decline by RUB 625.9 mn, mainly driven by:
➔ “Other property-related expenses” (RUB–85.5 mn), due to an increase in property related expenses in 2015.
➔ “Prior period losses carried forward” (RUB–173.7 mn) – due to an increase in back-billed power transmission services recognised in 2015.
➔ “Other miscellaneous expenses” (RUB–1,124.8 mn), due to expenses for the winding-up of OJSC Yargorelektroset recognised in 2015.

Additionally, in 2016, other expenses increased year-on-year as follows:
➔ “Interest expenses” (RUB 312.3 mn) – driven by a higher leverage of 2016.
➔ “Allocations to valuation provisions” (RUB 462.3 mn), as a result, bad debt provisions accrued for non-payments by debtors and back-bills.
Net profit

In 2016, profit before tax amounted to RUB 3,509.2 mn, representing a year-on-year increase of RUB 644.9 mn. Income tax and other similar mandatory charges stood at RUB 642.5 mn.

Net profit in 2014–2016

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>3,325.9</td>
<td>990.0</td>
<td>1,866.7</td>
<td>957.7</td>
</tr>
<tr>
<td>Including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity transmission</td>
<td>2,799.0</td>
<td>8.3</td>
<td>785.7</td>
<td>777.4</td>
</tr>
<tr>
<td>Grid connection1</td>
<td>910.8</td>
<td>584.2</td>
<td>705.9</td>
<td>121.7</td>
</tr>
<tr>
<td>Electricity sales</td>
<td>–788.3</td>
<td>0.0</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Other</td>
<td>604.4</td>
<td>316.5</td>
<td>374.0</td>
<td>97.5</td>
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Profit distribution in 2014–2016 under resolutions of the Annual General Meeting of Shareholders

<table>
<thead>
<tr>
<th>Metric</th>
<th>Unit</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net retained earnings</td>
<td>RUB mn</td>
<td>292.9</td>
<td>3,325.9</td>
<td>990.0</td>
</tr>
<tr>
<td>Including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve fund</td>
<td>RUB mn</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Profit for development</td>
<td>RUB mn</td>
<td>214.9</td>
<td>2,693.2</td>
<td>453.0</td>
</tr>
<tr>
<td>Dividends</td>
<td>RUB mn</td>
<td>75.9</td>
<td>831.7</td>
<td>455.9</td>
</tr>
<tr>
<td>Recovery of losses of prior periods</td>
<td>RUB mn</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dividend payout ratio</td>
<td>%</td>
<td>25.9</td>
<td>25.0</td>
<td>50.2</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>RUB</td>
<td>0.0038</td>
<td>0.0197</td>
<td>0.0108</td>
</tr>
</tbody>
</table>

EBITDA

As at the end of 2016, EBITDA stood at RUB 16,884.5 mn, a year-on-year increase of RUB 1,665.3 mn, or 10.9%, driven by:

➔ an increase in revenue of RUB 6,293 mn,
➔ an increase in costs (excluding depreciation) by RUB 4,023.7 mn, mainly due to a RUB 2,827.9 mn increase in uncontrollable costs,
➔ an increase in balances of other revenues and expenses (excluding interest payable) by RUB 604.1 mn.

Financial position of IDGC of Centre in 2014–2016

<table>
<thead>
<tr>
<th>Metric</th>
<th>Unit</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Change 2016/2015</th>
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<tbody>
<tr>
<td>Liquidity and current solvency ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash liquidity ratio</td>
<td>–</td>
<td>0.02</td>
<td>0.01</td>
<td>0.15</td>
<td>1.60%</td>
</tr>
<tr>
<td>Current liquidity ratio</td>
<td>–</td>
<td>0.16</td>
<td>1.53</td>
<td>1.20</td>
<td>–22.0%</td>
</tr>
<tr>
<td>Working capital financed by equity to current assets ratio</td>
<td>–</td>
<td>–0.06</td>
<td>0.35</td>
<td>0.16</td>
<td>–56.3%</td>
</tr>
<tr>
<td>Financial stability ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net asset value</td>
<td>RUB mn</td>
<td>56,231.6</td>
<td>56,313.0</td>
<td>57,748</td>
<td>2.5%</td>
</tr>
<tr>
<td>Overdue payables</td>
<td>%</td>
<td>21</td>
<td>32</td>
<td>14</td>
<td>–18 pp</td>
</tr>
<tr>
<td>Equity to total assets</td>
<td>%</td>
<td>14</td>
<td>1.1</td>
<td>2.2</td>
<td>1.1 pp</td>
</tr>
<tr>
<td>Total debt to EBITDA</td>
<td>–</td>
<td>2.6</td>
<td>2.8</td>
<td>2.6</td>
<td>–0.2 pp</td>
</tr>
<tr>
<td>EBITDA to interest expense</td>
<td>–</td>
<td>6.3</td>
<td>3</td>
<td>3.7</td>
<td>–0.3 pp</td>
</tr>
<tr>
<td>Profitability ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>%</td>
<td>14.7</td>
<td>14.2</td>
<td>14.7</td>
<td>0.5 pp</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>%</td>
<td>3.8</td>
<td>1.1</td>
<td>2.2</td>
<td>1.1 pp</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>%</td>
<td>5.6</td>
<td>2.5</td>
<td>2.9</td>
<td>9 pp</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>%</td>
<td>6.1</td>
<td>1.6</td>
<td>3.3</td>
<td>1.7 pp</td>
</tr>
<tr>
<td>Return on total assets (ROTA) for profit before tax</td>
<td>%</td>
<td>4.5</td>
<td>1.7</td>
<td>2.1</td>
<td>0.4 pp</td>
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<tr>
<td>Asset turnover</td>
<td>times</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>–</td>
</tr>
<tr>
<td>A/R turnover</td>
<td>times</td>
<td>5.8</td>
<td>6.6</td>
<td>5.2</td>
<td>13.0%</td>
</tr>
<tr>
<td>A/P turnover</td>
<td>times</td>
<td>7.6</td>
<td>7.1</td>
<td>6.6</td>
<td>–3.0%</td>
</tr>
<tr>
<td>A/R to A/P growth ratio</td>
<td>–</td>
<td>1.5</td>
<td>1.0</td>
<td>0.7</td>
<td>–30.0%</td>
</tr>
<tr>
<td>Total A/R to A/P ratio</td>
<td>–</td>
<td>1.8</td>
<td>1.7</td>
<td>1.3</td>
<td>–23.9%</td>
</tr>
<tr>
<td>Most liquid A/R to A/P ratio</td>
<td>–</td>
<td>2.9</td>
<td>2.8</td>
<td>2.3</td>
<td>–17.9%</td>
</tr>
<tr>
<td>A/R to revenue</td>
<td>%</td>
<td>9</td>
<td>22</td>
<td>18</td>
<td>–4 pp</td>
</tr>
</tbody>
</table>

1 Grid connection commitments recognized in the accounting statements as net profit.
Liquidity ratios

In 2016, the year-on-year change in liquidity ratios was caused by changes in the asset structure, i.e. in cash balances as at the year-end. Reclassification of long-term liabilities into current liabilities in 2016 led to a year-on-year reduction in the working capital financed by equity to current assets ratio to 0.16.

Financial stability ratios

In 2016, the ratio of overdue payables decreased to 14% by RUB 1.5 bn, mainly due to a reduction in the book value of accounts receivable by RUB 2.6 bn. As at 31 December 2016, the equity to total assets ratio remained virtually flat at 0.47, with a healthy level supposed to be above 0.5.

Profitability ratios

Profitability ratios describe the Company’s performance. In 2016, all profitability ratios posted a considerable year-on-year growth, driven by an increase in the Company’s net profit during the year.

Business performance ratios

Turnover ratios measure how efficiently the Company’s liabilities are managed. Trends observed by the end of 2016 include:

➔ Asset turnover – a financial ratio that measures the efficiency of a company’s use of all assets available to it. In 2016, our asset turnover grew 3%, driven by a RUB 6.3 bn increase in revenue.

➔ The A/R turnover ratio reflects how fast the company’s receivables are paid, i.e. how fast the company received payment for its services. The A/R turnover ratio as at the end of 2016 grew 13.0%, driven by a decrease in accounts receivable.

➔ The A/P turnover ratio – measures how fast debt owed to suppliers and contractors is repaid. This ratio shows how many times per period the company pays its average payable amount. In 2016, this ratio dropped 7.0%, driven by an increase in accounts payable by RUB 1.9 bn.

During the year, the ratio of A/R to A/P declined as the A/R growth rates outpaced the A/P growth rates.

In order to follow up the implementation of contractual obligations, the Company prepares and reviews its monthly receivables flow statements. As at the end of 2016, overdue receivables stood at RUB 3,998.8 mn. Most receivables are represented by debt owed by consumers for electricity transmission services (73.5%) and for electricity supplies (9.9%).

As a result of our claim management efforts aimed at recovering overdue receivables for electricity transmission services, in 2016, we won 467 cases for a total of RUB 2,453.8 mn. In 50 cases, our claims totalling RUB 316 mn were dismissed. Accordingly, in 2016, courts upheld 88.6% of the Company’s claims.

As a result of court awards, the Company was issued enforcement orders for a total of RUB 1,557.4 mn, with RUB 1,095.8 (70.4%) recovered under such orders. In the previous year, enforcement orders issued to the Company totalled RUB 1,516.5 bn, with RUB 1,091.2 mn (72%) recovered.

The decline in accounts receivable by RUB 2,573.2 mn (down 14.9% year-on-year) was primarily due to the repayment of debt owed by consumers and sales companies, including:

➔ A decrease in receivables for electricity transmission services by RUB 1,277.5 mn;

➔ A decrease in receivables for electricity sales by RUB 1,381.2 mn.

In 2015, the total amount of claims awarded by courts to the Company was RUB 1,989.09 mn (392 cases), while dismissed claims totalled RUB 133.79 mn (12 cases).

In 2016, the year-on-year change in liquidity ratios was caused by changes in the asset structure, i.e. in cash balances as at the year-end. Reclassification of long-term liabilities into current liabilities in 2016 led to a year-on-year reduction in the working capital financed by equity to current assets ratio to 0.16.

Financial stability ratios

In 2016, the ratio of overdue payables decreased to 14% by RUB 1.5 bn, mainly due to a reduction in the book value of accounts receivable by RUB 2.6 bn. As at 31 December 2016, the equity to total assets ratio remained virtually flat at 0.47, with a healthy level supposed to be above 0.5.

Profitability ratios

Profitability ratios describe the Company’s performance. In 2016, all profitability ratios posted a considerable year-on-year growth, driven by an increase in the Company’s net profit during the year.

Business performance ratios

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➔ Asset turnover – a financial ratio that measures the efficiency of a company’s use of all assets available to it. In 2016, our asset turnover grew 3%, driven by a RUB 6.3 bn increase in revenue.

➔ The A/R turnover ratio reflects how fast the company’s receivables are paid, i.e. how fast the company received payment for its services. The A/R turnover ratio as at the end of 2016 grew 13.0%, driven by a decrease in accounts receivable.

➔ The A/P turnover ratio – measures how fast debt owed to suppliers and contractors is repaid. This ratio shows how many times per period the company pays its average payable amount. In 2016, this ratio dropped 7.0%, driven by an increase in accounts payable by RUB 1.9 bn.

During the year, the ratio of A/R to A/P declined as the A/R growth rates outpaced the A/P growth rates.

In order to follow up the implementation of contractual obligations, the Company prepares and reviews its monthly receivables flow statements. As at the end of 2016, overdue receivables stood at RUB 3,998.8 mn. Most receivables are represented by debt owed by consumers for electricity transmission services (73.5%) and for electricity supplies (9.9%).

As a result of our claim management efforts aimed at recovering overdue receivables for electricity transmission services, in 2016, we won 467 cases for a total of RUB 2,453.8 mn. In 50 cases, our claims totalling RUB 316 mn were dismissed. Accordingly, in 2016, courts upheld 88.6% of the Company’s claims.

As a result of court awards, the Company was issued enforcement orders for a total of RUB 1,557.4 mn, with RUB 1,095.8 (70.4%) recovered under such orders. In the previous year, enforcement orders issued to the Company totalled RUB 1,516.5 bn, with RUB 1,091.2 mn (72%) recovered.

The decline in accounts receivable by RUB 2,573.2 mn (down 14.9% year-on-year) was primarily due to the repayment of debt owed by consumers and sales companies, including:

➔ A decrease in receivables for electricity transmission services by RUB 1,277.5 mn;

➔ A decrease in receivables for electricity sales by RUB 1,381.2 mn.
Accounts payable grew by RUB 1,862.2 mn (18.3%), mainly driven by changes in:

➔ Trade payables (RUB 852.6 mn) – the increase was due to higher trade payables under contracts;
➔ Taxes and charges (RUB 697.6 mn) – mainly included current VAT liabilities (RUB 411 mn);
➔ Payroll (RUB 608.5 mn) – salaries for December 2015 were paid in December 2015, while payments for December 2016 were effected by 10 January 2017, in line with the Company’s Collective Agreement.

As at the end of 2016, overdue payables stood at RUB 1,726.7 mn, down by RUB 1,482.4 mn year-on-year, mainly driven by the payment of RUB 741.5 mn overdue for the services provided by PJSC FGC UES, and a decrease of RUB 68.5 mn in payables due to Territorial Grid Organisations.

Capital and credit policy

### Capital

#### Capital of IDGC of Centre in 2014–2016

<table>
<thead>
<tr>
<th>Metric</th>
<th>Unit</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Change 2016/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity RUB mn</td>
<td></td>
<td>56,231.6</td>
<td>56,313.0</td>
<td>57,731.6</td>
<td>1,418.6</td>
</tr>
<tr>
<td>Borrowed funds RUB mn</td>
<td></td>
<td>55,160.4</td>
<td>61,556.2</td>
<td>64,930.9</td>
<td>3,374.7</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings RUB mn</td>
<td></td>
<td>37,201.0</td>
<td>42,131.5</td>
<td>43,292.6</td>
<td>1,161.1</td>
</tr>
<tr>
<td>Accounts payable RUB mn</td>
<td></td>
<td>9,239.7</td>
<td>10,171.4</td>
<td>12,033.6</td>
<td>1,862.2</td>
</tr>
<tr>
<td>Leverage –</td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.89</td>
<td>–0.00</td>
</tr>
<tr>
<td>Borrowed funds in liabilities %</td>
<td></td>
<td>69.5</td>
<td>52.2</td>
<td>53</td>
<td>–8.8</td>
</tr>
<tr>
<td>Cash at the end of the period RUB mn</td>
<td>367.3</td>
<td>105.6</td>
<td>2,552.6</td>
<td>2,447.0</td>
<td>2317.2</td>
</tr>
<tr>
<td>Net debt RUB mn</td>
<td></td>
<td>36,833.6</td>
<td>42,025.9</td>
<td>40,740.0</td>
<td>–1,285.9</td>
</tr>
</tbody>
</table>

As at the end of 2016, equity of IDGC of Centre stood at RUB 57.7 bn, or 47% of the Company’s total capital. The RUB 1.4 bn increase in the Company’s equity was driven by the positive financial result for the year. Revenue from electricity transmission grew RUB 5.9 bn year-on-year.

In 2016, the share of long-term liabilities was reduced to 39% of the Company’s capital from 41% in 2015. The capital structure was mainly affected by the reclassification of long-term liabilities into current liabilities and by early repayment of some liabilities. The share of current liabilities in the total liabilities in 2016 came at 14%.

#### Loan portfolio

The credit policy of IDGC of Centre is mainly focused on long-term borrowings. Our debt portfolio at the end of 2016 was RUB 62,745 bn, with long-term borrowings accounting for 91.5% against 96.4% in 2015. These changes were driven by repayment of loans within twelve months after the reporting date, in line with the terms of relevant loan agreements.
As at the end of 2016, the maximum maturity for loans received was 48 months (37 months in 2015), and for the bond issue, 120 months.

In 2016, the maturity profile of the Company’s debt portfolio was dominated by debt maturing from one to three years (49%), while debt maturing in more than three years accounted for 12%.

The Company had no overdue principal or interest as at the end of 2016.

The Company took the following measures to improve its operational efficiency in 2015–2016

<table>
<thead>
<tr>
<th>Improvement areas</th>
<th>Measures</th>
<th>Financial effect 2015/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reduction of materials costs</td>
<td>Reduced the costs of materials by optimising cost limits and recycling</td>
<td>649.3 / 523.5</td>
</tr>
<tr>
<td>2. Optimisation of costs of production-related services</td>
<td>Optimised trade payables, including by reducing prices and revisiting contract terms; increased insourcing</td>
<td>451.8 / 463.2</td>
</tr>
<tr>
<td>3. Reduction of management costs</td>
<td>Optimised travelling and entertainment costs, payroll, and communications costs</td>
<td>616.7 / 589.8</td>
</tr>
<tr>
<td>4. Reduction of staff costs</td>
<td>Reduced the list of employees by rightsizing the headcount; enhanced the remuneration system by adopting KPI targets</td>
<td>796.2 / 966.8</td>
</tr>
<tr>
<td>5. Optimisation of costs of third-party services</td>
<td>Reduced the list and costs of services provided by third-party contractors, while supporting insourcing</td>
<td>628.1 / 505.6</td>
</tr>
<tr>
<td>6. Optimisation of lease, insurance, and other costs</td>
<td>Reduced the list and costs of third-party services</td>
<td>921.3 / 991.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>3,463.9 / 4,042.3</td>
</tr>
</tbody>
</table>

Savings through implementation of the Performance Management Programme

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial effect RUB mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4,042.3</td>
</tr>
</tbody>
</table>

Performance management programme

Between 2012 and 2016, controllable operating costs were reduced, in line with the Strategy for Development of the Electric Grid Complex of the Russian Federation, by RUB 6,404 mn, or 24.4%, against a 15% target set out in the Strategy.

In line with relevant Directives of the Russian Government, specific operating costs of the Company were reduced in 2016 by RUB 4,110 mn, or 15% year-on-year.

The Company took the following measures to improve its operational efficiency in 2015–2016:

<table>
<thead>
<tr>
<th>No.</th>
<th>Improvement areas</th>
<th>Measures</th>
<th>Financial effect 2015/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reduction of materials costs</td>
<td>Reduced the costs of materials by optimising cost limits and recycling</td>
<td>649.3 / 523.5</td>
</tr>
<tr>
<td>2</td>
<td>Optimisation of costs of production-related services</td>
<td>Optimised trade payables, including by reducing prices and revisiting contract terms; increased insourcing</td>
<td>451.8 / 463.2</td>
</tr>
<tr>
<td>3</td>
<td>Reduction of management costs</td>
<td>Optimised travelling and entertainment costs, payroll, and communications costs</td>
<td>616.7 / 589.8</td>
</tr>
<tr>
<td>4</td>
<td>Reduction of staff costs</td>
<td>Reduced the list of employees by rightsizing the headcount; enhanced the remuneration system by adopting KPI targets</td>
<td>796.2 / 966.8</td>
</tr>
<tr>
<td>5</td>
<td>Optimisation of costs of third-party services</td>
<td>Reduced the list and costs of services provided by third-party contractors, while supporting insourcing</td>
<td>628.1 / 505.6</td>
</tr>
<tr>
<td>6</td>
<td>Optimisation of lease, insurance, and other costs</td>
<td>Reduced the list and costs of third-party services</td>
<td>921.3 / 991.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>3,463.9 / 4,042.3</td>
<td></td>
</tr>
</tbody>
</table>

Savings through implementation of the Performance Management Programme
INVESTMENTS

In 2016, IDGC of Centre’s capital investments totalled RUB 13,421 mn, while commissioned fixed assets were worth RUB 13,486 mn. All efforts taken under the Investment Programme were in line with the targets and needs approved by executive authorities of the regions where the Company operates.

### Investment Activities

#### Investments

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPEX</td>
<td>9,177</td>
<td>12,177</td>
<td>12,913</td>
</tr>
<tr>
<td>Fixed assets commissioned</td>
<td>8,782</td>
<td>14,245</td>
<td>15,184</td>
</tr>
<tr>
<td>Financing (incl. VAT)</td>
<td>4,013</td>
<td>12,973</td>
<td>13,486</td>
</tr>
</tbody>
</table>

#### Capacity commissioned

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>km</td>
<td>5,110</td>
<td>4,785</td>
<td>4,827</td>
</tr>
<tr>
<td>MVA</td>
<td>1,107</td>
<td>1,228</td>
<td>917</td>
</tr>
</tbody>
</table>

Lower Investment Programme financing in 2016 year-on-year was due to limited sources of finance, as provided for by the Company’s approved Investment Programme. Capital expenditure in 2016 exceeded that of 2015–2014, reflecting the increased number of initiatives to upgrade existing and construct new facilities.

### Priorities and Structure of Capex Financing

In 2016, capital investments financing totalled RUB 14,644 mn (incl. VAT) and was spent on:

- Retrofitting and reconstruction: 37.4%, or RUB 5,478 mn;
- New construction and expansion: 62.3%, or RUB 9,124 mn;
- Grid assets acquisition and other programmes: 0.3%, or RUB 42 mn.

#### Capex financing structure

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retrofitting and reconstruction</td>
<td>7,914</td>
<td>6,282</td>
<td>49</td>
</tr>
<tr>
<td>New construction and expansion</td>
<td>5,478</td>
<td>10,322</td>
<td>1,124</td>
</tr>
<tr>
<td>Other</td>
<td>5,250</td>
<td>8,127</td>
<td>109</td>
</tr>
</tbody>
</table>

#### Structure of fixed assets

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retrofitting and reconstruction</td>
<td>27.4%</td>
<td>10.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>New construction and expansion</td>
<td>62.3%</td>
<td>62.5%</td>
<td>62.3%</td>
</tr>
<tr>
<td>Other</td>
<td>0.3%</td>
<td>27.0%</td>
<td>25.2%</td>
</tr>
</tbody>
</table>

Higher share of new construction and expansion in the financed and commissioned fixed assets was due to the need to provide new grid connections and grid infrastructure development in the context of limited sources of finance. Lower share of retrofitting and reconstruction in the capex structure was due to optimisation of the Technical Upgrades and Reconstruction Programme and efforts taken to control construction and reconstruction unit costs of capital construction projects.

For more details on capex financing in 2014–2016 see Appendix 3.7 to the Annual Report.
LARGEST PROJECTS IN 2016

Upgrade of the 35 kV Malinovka substation (Belgorodenergo): capacity shortage tackled; two 10 MVA transformers replaced with 16 MVA transformers, and a new outdoor switchgear installed. 12 MVA additional capacity.

**Purpose:** uninterrupted, reliable, and quality power supply for the Rakityansky District, Belgorod Region, and provision of new connection capacity for new consumers under signed grid connection contracts.

**Investment:** 206 RUB mn (excl. VAT)

Reconstruction of the 110/10 kV Yuzhnaya substation: two 40 MVA and two 25 MVA power transformers installed; 110 kV, 10 kV and 6 kV indoor switchgears (Core facility) mounted.

**Purpose:** uninterrupted, reliable, and quality power supply for Belgorod’s households and industrial consumers, fewer emergency outages, and provision of new connection capacity for new consumers under signed grid connection contracts.

**Investment:** 10.3 RUB mn (excl. VAT)

Technical upgrade of 110 kV substation No. 9 at Voronezh Agricultural Institute: 110 kV switches replaced (Voronezhenergo).

**Purpose:** support Voronezh CHPP-1 capacity delivery system.

**Investment:** 49.3 RUB mn (excl. VAT)

IDGC of Centre did not implement any projects financed from the federal budget.

Investment Programme Performance

The initiatives implemented by IDGC of Centre in 2016 under the Investment Programme lead to the following results.

**Reduction of investment costs**

The Company’s investment activities are guided by the methodology for planning investment cost reduction by 30% against the 2012 level (pursuant to the Strategy for Development of the Electric Grid Complex of the Russian Federation approved by Decree of the Government of the Russian Federation No. 511-r dated 3 April 2013).

In 2016, the methodology yielded investment costs reduction of 22.7% or RUB 1,923 mn, vs planned 22.5%, or RUB 1,903 mn. To reduce both corporate investment and unit construction costs, the Company provided for cost management at each phase of construction projects and carried out connections using its own resources.

**Performance of grid connection contracts**

<table>
<thead>
<tr>
<th>Metric</th>
<th>2016 Plan</th>
<th>2016 Actual</th>
<th>Variance</th>
<th>abs. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of contracts performed and grid connection certificates signed</td>
<td>39,300</td>
<td>44,173</td>
<td>4,873</td>
<td>17.5%</td>
</tr>
<tr>
<td>Applicants for maximum connected capacity of up to 15 kW inclusive</td>
<td>37,623</td>
<td>43,970</td>
<td>6,347</td>
<td>16.9%</td>
</tr>
<tr>
<td>Connected load (performed contracts, grid connection certificates signed), MVA</td>
<td>1,185</td>
<td>1,078</td>
<td>-77</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Applicants for maximum connected capacity of up to 15 kW inclusive, MVA</td>
<td>307</td>
<td>465</td>
<td>158</td>
<td>51.6%</td>
</tr>
</tbody>
</table>

**Capacity commissioned for the above operations**

<table>
<thead>
<tr>
<th>Metric</th>
<th>2016 Plan</th>
<th>2016 Actual</th>
<th>Variance</th>
<th>abs. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>km</td>
<td>2,337</td>
<td>3,320</td>
<td>983</td>
<td>42%</td>
</tr>
<tr>
<td>Total for grid connection</td>
<td>2,337</td>
<td>3,320</td>
<td>983</td>
<td>42%</td>
</tr>
<tr>
<td>Applicants for maximum connected capacity of up to 15 kW inclusive</td>
<td>1,617</td>
<td>2,316</td>
<td>699</td>
<td>62%</td>
</tr>
<tr>
<td>MVA</td>
<td>49.3</td>
<td>113</td>
<td>64</td>
<td>130%</td>
</tr>
<tr>
<td>Total for grid connection</td>
<td>49.3</td>
<td>113</td>
<td>64</td>
<td>130%</td>
</tr>
<tr>
<td>Applicants for maximum connected capacity of up to 15 kW inclusive</td>
<td>86</td>
<td>113</td>
<td>27</td>
<td>31%</td>
</tr>
</tbody>
</table>
Reduction of electricity losses

Actual electricity losses in 2016 were 9.36% of total electricity supplied to the grid vs planned 9.38%.

In 2016, measures to optimise (reduce) electricity losses yielded savings of 172.1 mn kWh (RUB 359.7 mn), including:

➔ 154.8 mn kWh, or RUB 323.2 mn, due to organisational measures;
➔ 11.3 mn kWh, or RUB 24.4 mn, due to technical measures;
➔ 6.1 mn kWh, or RUB 12.1 mn, due to measures to improve metering arrangements.

In 2016, 1,500 metering points were upgraded at a cost of RUB 30.3 mn (vs planned 2,900 metering points upgraded at a cost of RUB 50.4 mn). The Company launched remote data collection from 4,500 metering points beating the initial target of 2,081 metering points. Failure to meet the initial cost target for 2016 was due to delayed contractor services at the Smolenskenergo branch.

Capacity utilisation and availability of main substations

The actual capacity utilisation in 2016 was 36% vs planned 36%.

Depreciation of fixed assets

As at 31 December 2016, the Company’s grid facilities depreciation was 73.6%.

Implementation of measures provided for by the Investment Programme helped curb the growing asset depreciation, which led to:

➔ growth of fixed assets depreciation rate by only 0.28%;
➔ 2.8% growth of the share of equipment with extended service life.

Emergency incidence and failure rate reduction

In 2016, the failure rate decreased by 17% to 8.3 failures per 1,000 equipment units vs 10.0 failures in 2015.

Long-Term Investment Programme

IDGC of Centre’s Long-Term Investment Programme rests on current business priorities, objectives and growth targets of the Company and the regions where it operates and accounts for investment programmes of the Company’s branches as approved by Russian regional executive authorities.

The Long-Term Investment Programme captures scenarios of the power industry development up to 2030 (approved by Decree of the Government of the Russian Federation No. 511-r dated 3 April 2013), requirements of the sectoral technical policy and the Forecast of Social and Economic Development of Russian Regions.

In 2016, IDGC of Centre updated its Investment Programme to include external factors such as:

➔ Forecast of Social and Economic Development of the Russian Federation for the planned period;
➔ the Company’s commitments for consumer connection;
➔ measures to improve reliability of energy supply to consumers, energy network resilience, and asset security arrangements;
➔ successful completion of the Company’s 2015 Investment Programme;
➔ structure of the sources of finance for the Investment Programme, etc.

Actual capex and fixed assets commissioned in 2016 and targets for 2017–2020

<table>
<thead>
<tr>
<th>Year</th>
<th>CAPEX, RUB mn (excl. VAT)</th>
<th>Fixed assets commissioned, RUB mn (excl. VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>13,421</td>
<td>12,820</td>
</tr>
<tr>
<td>2017</td>
<td>12,820</td>
<td>13,878</td>
</tr>
<tr>
<td>2018</td>
<td>13,878</td>
<td>13,641</td>
</tr>
<tr>
<td>2019</td>
<td>13,641</td>
<td>14,656</td>
</tr>
<tr>
<td>2020</td>
<td>14,656</td>
<td></td>
</tr>
</tbody>
</table>

Actual capex financing in 2016 and targets for 2017–2020

<table>
<thead>
<tr>
<th>Year</th>
<th>CAPEX, RUB mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>14,644</td>
</tr>
<tr>
<td>2017</td>
<td>15,312</td>
</tr>
<tr>
<td>2018</td>
<td>16,035</td>
</tr>
<tr>
<td>2019</td>
<td>16,389</td>
</tr>
<tr>
<td>2020</td>
<td>17,618</td>
</tr>
</tbody>
</table>

Actually commissioned assets in 2016 exceeded the targets set for 2017–2020 due to a spike in the number of connections provided to applicants eligible for reduced tariffs.
34% FREE FLOAT

#1 among other IDGCs by the number of trades at the Moscow Exchange

#1 among other IDGCs by trading volume at the Moscow Exchange (main trading mode T+)

>16.9 THOU. SHAREHOLDERS registered in the Company’s shareholder register

127.2% SHARE PRICE INCREASE OVER THE YEAR

WELL BALANCED BOARD OF DIRECTORS:
1 independent director
1 executive director
9 non-executive directors

NRCG 7+
CORPORATE GOVERNANCE RATING

Corporate governance

Grid connection services
Additional services

Cable lines
Power lines
Overhead lines
Transformer substations
Substation + distribution points

35–110 kV
0.4 kV
6–10 kV
35–110 kV
6–10 kV

Chairman of the Board of Directors’ Report on Corporate Governance in IDGC of Centre
Management Bodies
General Director
Management Board
Control Bodies
Risk Management
Anti-Corruption Initiatives
Securities
Dividend Policy
Investor Relations
Frequently Asked Questions
The year 2016 was marked by the introduction of new requirements for corporate governance practices to be adopted by issuers listed on the Moscow Exchange. The amended MOEX Listing Rules required IDGC of Centre, whose shares are on Level 1 Quotation List, to change some of its governance practices.

Overview of the most significant aspects of the corporate governance model and practices in IDGC of Centre

Board of Directors’ Corporate Governance Code Compliance Report

IDGC of Centre Board of Directors hereby certifies that data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code (the “CGC”).

Assessment of the Company’s compliance with the CGC was conducted in accordance with the recommendations by the Bank of Russia.

Non-compliance or partial compliance with the CGC is mostly associated with the need to prepare and approve (re-approve) a large number of the Company’s internal documents.

Another limiting factor to be mentioned in this respect is lack of experience in applying certain CGC principles and recommendations.

The Company does not use any corporate governance principles or tools instead of those recommended by the Corporate Governance Code.

IDGC of Centre intends to improve the corporate governance model and practices in the Company through comprehensive analysis of best practices and expertise in applying CGC recommendations in other listed companies. Based on the analysis, proposals will be drafted to improve corporate governance practices in the Company, including the proposals to incorporate applicable CGC recommendations.

Protection of shareholder rights

Shareholders participate in IDGC of Centre management by taking relevant decisions, and their representatives hold positions in the Company’s management and advisory bodies.

The Company ensures timely communication of information about material events taking place in the Company to its shareholders and investors, enabling them to take informed decisions on their shares.

The right to receive income is secured by a strong dividend history over the past five years.

In order to properly register title to shares, the Company appointed VTB Registrar to act as an independent registrar of the Company and maintain its shareholder register. VTB Registrar enjoys an impeccable reputation and has all required technical capabilities and skills.

Corporate governance rating

In March 2016, the Russian Institute of Directors (RID) revised upward its corporate governance rating on IDGC of Centre to NRCG 7+ (Advanced Corporate Governance Practice). The upgrade was driven by positive changes in the Company’s governance practices in 2015–2016.

In December 2016, however, the rating was downgraded to NRCG 7+ (Advanced Corporate Governance Practice) for reasons beyond the Company’s control (an insufficient number of independent directors on the Board).

According to the RID, the Company has low corporate governance risks. The Company complies with Russian corporate governance regulations, and follows most of the recommendations from the Russian Corporate Governance Code and some of the best international corporate governance practices.

Self-assessment of corporate governance

Based on FY 2016 results, IDGC of Centre self-assessed its corporate governance using the Methodology of Corporate Governance Self-Assessment in State-Owned Companies as approved by Rosselhozbank (the Federal Agency for State Property Management).

This methodology contains 120 questions to make assessments across six dimensions: shareholders’ rights; Board of Directors; executive management; transparency and disclosures; risk management, internal control, and internal audit; corporate social responsibility, business ethics, and compliance.

IDGC of Centre scored 415 out of 551 points, or 75%.

Company Transaction Approval Policy

Major transactions and related-party transactions of IDGC of Centre are subject to approval by the Company’s management bodies in accordance with the Federal Law on Joint-Stock Companies and the Company’s Articles of Association. However, an amendment was made to the Articles of Association to include preliminary approval of transactions involving the Company’s assets into the responsibilities of the Board of Directors in order to reduce the risk of improper disposal of the Company’s assets.

Major transactions and related-party transactions

For more details on major transactions and related-party transactions made in 2016 see Appendix 2 to the Annual Report.

Company Transaction Approval Policy

OTHER MATERIAL TRANSACTIONS

Apart from major transactions and related-party transactions, IDGC of Centre has made a list of transactions deemed to be material for the Company. This list includes transactions with over 2% of assets (in terms of value), transactions with state-owned companies, and intra-group transactions (transactions with subsidiaries and members of management bodies).

Quarterly reviews of IDGC of Centre’s material transactions are held at the Company’s meetings.

IDGC of Centre | Annual Report | 2016

Appendices

Development Strategy
Operating Review
Social Responsibility
Financial Review
Corporate Governance
Appendices

IN 2016, THE COMPANY TOOK A NUMBER OF STEPS, INCLUDING 1:

➔ Separation of the internal audit function. Following the change, the internal audit function was delegated to the Internal Audit Department (formerly the Internal Audit and Control Department), while internal control and risk management tasks were assigned to the Internal Control and Risk Management Function, re-established recently with the Anti-Corruption Compliance Department.
➔ Approval of a new version of the Regulations on the Dividend Policy.
➔ Approval of a new version of the Regulations on the Board of Directors of IDGC of Centre.
➔ Approval of a new version of the Regulations on the Corporate Secretary to incorporate the relevant recommendations from the Bank of Russia Corporate Governance Code and the Listing Rules.
➔ Approval of new versions of the Internal Control Policy, Risk Management Policy and Internal Audit Policy of IDGC of Centre.

1 Letter of the State Duma of the Federal Assembly of the Russian Federation No. 7-2222 dated 17 February 2014.
**MANAGEMENT BODIES**

**General Meeting of Shareholders**

The General Meeting of Shareholders is the Company’s supreme management body. The scope of its powers includes the most important aspects of the Company’s activities, such as:

- reorganisation and liquidation of the Company;
- membership of, and elections to, the Board of Directors;
- election of the Audit Commission and approval of the Company’s auditor;
- payment of dividends;
- approval of annual reports and accounting (financial) statements, and distribution of profit and loss based on the results of the financial year;
- approval of major transactions and related-party transactions, other matters.

There was one annual General Meeting of Shareholders in the reporting year. It was held as a physical meeting of shareholders on 8 June 2016. The meeting was attended by approximately 150 shareholders and their proxies. Holders of 90.3% of the Company’s shares took part in the voting on agenda items.

A number of resolutions were passed by the meeting as follows:

- annual report and annual accounting (financial) statements for 2015 were approved;
- distribution of the net profit for 2015 was approved;
- final dividend of RUB 0.0108 per ordinary share was announced for FY 2016;
- distribution of the net profit for 2015 was approved;
- annual report and annual accounting (financial) statements for 2015 were approved;
- reorganisation and liquidation of the Company;
- approval of annual reports and accounting (financial) statements, and distribution of profit and loss based on the results of the financial year;
- approval of major transactions and related-party transactions, other matters.

**Board of Directors**

The Board of Directors provides strategic management of the Company and reports to the General Meeting of Shareholders.

The authority of the Board of Directors is set out in the Articles of Association of IDGC of Centre and includes a wider range of powers compared to those set out in the Federal Law On Joint-Stock Companies. This applies primarily to pre-approval of resolutions on the execution by the Company of major transactions.

**Induction of new Board members**

IDGC of Centre has in place the Guidelines on Induction of Newly Elected Members of the Board of Directors and Committees. The Company’s management needs to familiarise newly elected directors with the Company’s internal and strategic documents, business action plans, and production facilities.
As at 31 December 2016, in line with the Russian laws on personal data.

Current Board of Directors:

**MANGAROV Yury N.**
Chairman of the Board of Directors
Non-Executive Director
First elected on 24 June 2014

- Deputy Chief of Staff, ROSSETI, PJSC

- Graduated from Plekhanov Moscow State Institute of the National Economy with a degree in Economic Cybernetics.

- Over the past five years, served as Top Advisor at ROSSETI, PJSC, Advisor at ROSSETI, JSC, Deputy Executive Director and Chief of Staff, Deputy Chairman of the Management Board, a member of the Management Board, Director for Control and Audit at FGC UES, JSC, Deputy Executive Director and Chief of Staff at IDC Holding, JSC.

- Currently, Chairman of the Board of Directors of IDC of North-West, PJSC, Kubanenergo, PJSC and Vehanenergos, JSC. Chairman of the Supervisory Board of RAI Association, a member of the Board of Trustees of Non-State Pension Fund of the Electric Power Industry, JSC, a member of the Supervisory Board of HSE/IES Non-Profit Partnership, Advisor to the CEO and Acting Head of the Administration Department (part-time) at Lenenergo, PJSC.

- Chair’s Personnel and Remuneration Committee of the Board of Directors of IDC of Centre.

- Recipient of a number of state and industry awards.

- Does not own shares of the Company / no shareholding.

**SHATOKHINA Oxana V.**
Deputy Chair of the Board of Directors
Non-Executive Director
First elected on 23 August 2012

- Deputy Director General for Economics, ROSSETI, PJSC

- In 1999, graduated from Financial Academy under the Government of the Russian Federation with a degree in Finance and Credit.

- Over the past five years, served as Deputy General Director for Economic Affairs and Finance at ROSSETI, JSC, Director for Economic Affairs at IDC Holding, JSC, IDC Holding, JSC and IDC, JSC and Head of Department of Economic Planning and Budgeting at FGC UES, JSC.

- Currently, Chair of the Audit Committee of the Board of Directors of IDC of Centre.

- Recipient of a number of state and industry awards.

- Does not own shares of the Company / no shareholding.

**ISAEV Oleg Yu.**
Executive Director
First elected on 16 June 2013

- Chairman of the Management Board, General Director, IDC of Centre

- In 1987, graduated from Krasnoznamenny Military Institute with a degree in Law and from Russian Presidential Academy of Public Administration in 2006.


- Over the past five years, served as General Director of Technopromexport, JSC and a member of the Management Board of the Moscow Chamber of Commerce and Industry.

- Currently, Acting General Director, Chairman of the Management Board of IDC of Centre and Volga Region, PJSC, a member of the Board of Directors of MESC, PJSC, and a member of the Council of the Moscow Chamber of Commerce and Industry.

- Recipient of a number of state and industry awards.

- Does not own shares of the Company / no shareholding.

**BOGASHOV Alexander E.**
Non-Executive Director
First elected on 8 June 2016

- Deputy Head of the Department of Corporate Governance, Pricing Environment and Audit in the Energy Industry, Ministry of Energy of the Russian Federation

- In 1994, graduated from State University of Management with a degree in Corporate Management.

- Over the past five years, served as Lead Advisor, Deputy Head of the Office, Head of the Corporate Governance Office of the Department of Corporate Governance, Pricing Environment and Audit in the Energy Industry at the Ministry of Energy of the Russian Federation.

- Currently, a member of the Personnel and Remuneration Committee of the Board of Directors of IDC of Centre.

- Recipient of a number of state and industry awards.

- Does not own shares of the Company / no shareholding.

**MALKOV Denis A.**
Non-Executive Director
First elected on 25 June 2015

- Head of the Project Office, ROSSETI, PJSC


- Currently, a member of the Audit Committee of the Board of Directors of IDC of Centre.

- Recipient of a number of state and industry awards.

- Does not own shares of the Company / no shareholding.

**MASALEVA Irina B.**
Non-Executive Director
First elected on 15 June 2012

- Director of the Department for Prospective Development of the Grid and Grid Connection, ROSSETI, PJSC

- In 2001, graduated from St Petersburg Humanitarian University of Trade Unions with a degree in Law.

- Over the past five years, served as Head and First Deputy Head of the Department of Corporate Governance and Shareholder Relations at ROSSETI, JSC / IDC Holding, JSC.

- Currently, Chair of the Grid Connection Committee of the Board of Directors of IDC of Centre.

- Recipient of a number of state and industry awards.

- Does not own shares of the Company / no shareholding.

**SAUKH Maxim M.**
Non-Executive Director
First elected on 23 August 2012

- Head of the Corporate Governance Office of the Department for Corporate Governance and Shareholder Relations and Investor Relations at ROSSETI, PJSC

- In 1997, graduated from Moscow Power Engineering Institute with a degree in Industrial Electronics and received a degree in Computer Aided Design Systems from the same Institute in 2008.

- Currently, a member of the Audit Committee of the Board of Directors of IDC of Centre.

- Recipient of a number of state and industry awards.

- Does not own shares of the Company / no shareholding.
Spirin Denis A.
Non-Executive Director
First elected on 11 June 2009

Filkin Roman A.
Non-Executive Director
First elected on 11 June 2009

Shevchuk Alexander V.
Independent Director
First elected on 17 June 2011

Erpsher Natalia I.
Non-Executive Director
First elected on 26 June 2014

Mangarov Yury N.
Chairman of the Board of Directors
Non-Executive Director

Pankratyanov Yuri
Deputy Chairman of the Board of Directors
Non-Executive Director
First elected on 25 June 2015

Branis Alexander M.
Non-Executive Director
First elected on 9 December 2004

Iasev Oleg Yu.
Executive Director

Dronova Tatiana P.
Independent Director
First elected on 25 June 2015

Malkov Denis A.
Non-Executive Director

Saulov Maxim M.
Non-Executive Director
Chairman’s Report on the Performance of the Board of Directors

“Dear Shareholders,

I am pleased to present this Report on the Performance of the Board of Directors of IDGC of Centre in 2016. As we review our results for the year, I would like to note the highly efficient and diligent performance of our directors. In 2016, we succeeded in achieving our objectives as we focused on the most important aspects of the Company’s business.”

In the reporting year, the Board of Directors held 36 meetings, including five meetings held in person. These meetings discussed 281 matters grouped into the following categories:

- reports of the General Director on core operations of the Company;
- resolutions on approval of business priorities, various programmes, plans, and internal documents;
- resolutions on convening and holding the Annual General Meeting of Shareholders of the Company and its subsidiaries and affiliates;
- approval of the Company’s transactions, including related-party transactions.

The format of the meetings is determined taking into account the importance and significance of their agenda items for the Company. However, certain matters set out in the Company’s Articles of Association may be resolved only at in-person meetings.

For instance, the Company’s business plan for the upcoming year, including the investment programme, amendments thereto and reports on their results, are subject to preview and pre-approval by the meetings of the Strategy and Development Committee, before discussions at in-person meetings of the Board of Directors.

The Board members take a responsible approach to discharging their duties, as evidenced by their active involvement in meetings of the Board of Directors.

Additional information on the performance of the Board members in 2016:

- Transactions with the Company’s shares
  - NONE
- Shareholdings in the Company’s subsidiaries
  - NONE
- Transactions among the members of the Company’s Board of Directors
  - NONE
- Training of the Board members at the Company’s expense
  - NONE
- Serving on or membership of the management bodies of competitors
  - NONE

MEMBERSHIP OF OTHER MANAGEMENT BODIES DOES NOT PREVENT THE BOARD MEMBERS FROM FULLY DISCHARGING THEIR DUTIES ON THE BOARD OF DIRECTORS.

Number of matters discussed by the Board of Directors

<table>
<thead>
<tr>
<th>Year</th>
<th>Matters Discussed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>229</td>
</tr>
<tr>
<td>2015</td>
<td>245</td>
</tr>
<tr>
<td>2016</td>
<td>281</td>
</tr>
</tbody>
</table>

Matters discussed by the Board of Directors

- Transaction approval
- Strategy
- Focus areas
- Corporate governance
- Finance
- HR and structure
- Risk management / internal audit and control
- Management of subsidiaries and affiliates
- Other matters / social policy

The Board members take a responsible approach to discharging their duties, as evidenced by their active involvement in meetings of the Board of Directors.
Directors’ attendance at Board and Committee meetings in 2016:

<table>
<thead>
<tr>
<th>Board member</th>
<th>Board of Directors</th>
<th>Board Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full name</td>
<td>Strategy and Development</td>
<td>Audit</td>
</tr>
<tr>
<td>Oleg Yu. Isaev</td>
<td>33/36</td>
<td>–</td>
</tr>
<tr>
<td>Denis A. Malkov</td>
<td>36/36</td>
<td>–</td>
</tr>
<tr>
<td>Yuri N. Mangarov</td>
<td>36/36</td>
<td>–</td>
</tr>
<tr>
<td>Maxim M. Sadik</td>
<td>36/36</td>
<td>13/2/13</td>
</tr>
<tr>
<td>Ramaz A. Filkin</td>
<td>36/36</td>
<td>19/2/1950</td>
</tr>
<tr>
<td>Alexander Y. Shevchuk</td>
<td>36/36</td>
<td>13/2/13</td>
</tr>
<tr>
<td>Natalia N. Erpsher</td>
<td>36/36</td>
<td>13/2/13</td>
</tr>
</tbody>
</table>

Board members who served on the Board throughout 2016

- Oleg Yu. Isaev 33/36 – – – – –
- Denis A. Malkov 36/36 – 7(2)/7(2) – – 15(1)/15(1)
- Yuri N. Mangarov 36/36 – – – – 15(1)/15(1)
- Maxim M. Sadik 36/36 13/2/13 | 13/2/13 | –   | –          | –                          |
- Ramaz A. Filkin 36/36 19/2/1950 | 19/2/13 | –   | –          | –                          |
- Alexander Y. Shevchuk 36/36 13/2/13 | 13/13 | 19/2/1950 | –  | –          |
- Natalia N. Erpsher 36/36 13/2/13 | 13/13 | 19/2/1950 | –  | –          |

Board members who stepped down from the Board of Directors on 8 June 2016

- Alexander M. Branis 17/17 – – – – –
- Tatiana P. Dronova 16/17 6(1)/7(2) | 7(1)/7(2) | –   | –          | –                          |
- Yuri N. Pankstyanov 17/17 19/2/1950 | 19/2/13 | –   | –          | –                          |
- Andrey N. Khari 17/17 – – – – –

Board members who were elected to the Board of Directors on 8 June 2016

- Alexander E. Bogashov 13/19 – – – – –
- Irina B. Masalova 19/19 – – – 12/13 –
- Denis A. Spirin 19/19 – – – – –
- Olga V. Shatalkina 19/19 – 7(1)/7(1) – – –

Remuneration criteria

- Calculation formula: S(n/m) = Rbase × 100/130, where Rbase – the base remuneration, calculated in line with the RAS revenue for the year; n – the number of Board meetings attended by a Board member between two AGMs; m – the total number of meetings between two AGMs.

- Remuneration paid out to certain Board members for service on the Board Committees.

Remuneration paid out to Board members in 2016

<table>
<thead>
<tr>
<th>Type of remuneration</th>
<th>Amount of remuneration, RUB thou. (personal income tax included)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration for service on a management body</td>
<td>7,810</td>
</tr>
<tr>
<td>Salaries of the Board members employed by the Company</td>
<td>–</td>
</tr>
<tr>
<td>Bonuses</td>
<td>–</td>
</tr>
<tr>
<td>Fees</td>
<td>–</td>
</tr>
<tr>
<td>Other types of remuneration 2</td>
<td>63</td>
</tr>
<tr>
<td>Reimbursement of expenses related to service on the Board of Directors</td>
<td>150</td>
</tr>
<tr>
<td>Total</td>
<td>7,963</td>
</tr>
</tbody>
</table>

Remuneration paid out to Board members of IDGC of Centre in 2016

<table>
<thead>
<tr>
<th>No.</th>
<th>Full name of the Board member</th>
<th>Personal remuneration in 2016 (personal income tax included)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alexander M. Branis</td>
<td>692,308</td>
</tr>
<tr>
<td>2</td>
<td>Tatiana P. Dronova</td>
<td>675,000</td>
</tr>
<tr>
<td>3</td>
<td>Denis A. Malkov</td>
<td>820,749</td>
</tr>
<tr>
<td>4</td>
<td>Yuri N. Mangarov</td>
<td>900,000</td>
</tr>
<tr>
<td>5</td>
<td>Yuri N. Pankstyanov</td>
<td>900,000</td>
</tr>
<tr>
<td>6</td>
<td>Roman A. Filkin</td>
<td>900,000</td>
</tr>
<tr>
<td>7</td>
<td>Andrey N. Khari</td>
<td>381,250</td>
</tr>
<tr>
<td>8</td>
<td>Alexander Y. Shevchuk</td>
<td>956,000</td>
</tr>
<tr>
<td>9</td>
<td>Natalia N. Erpsher</td>
<td>900,000</td>
</tr>
</tbody>
</table>

1. Data are presented as X(n)/Y(m), where X – the number of meetings attended by a Board member, Y – the total number of meetings held, n and m – the number of meetings held in person.

2. Remuneration paid out to certain Board members for service on the Board Committees.

3. Remuneration paid out to certain Board members for service on the Board Committees.

4. Remuneration paid out to certain Board members for service on the Board Committees.

5. Remuneration paid out to certain Board members for service on the Board Committees.

6. Remuneration paid out to certain Board members for service on the Board Committees.

7. Remuneration paid out to certain Board members for service on the Board Committees.

8. Remuneration paid out to certain Board members for service on the Board Committees.

9. Remuneration paid out to certain Board members for service on the Board Committees.

10. Remuneration paid out to certain Board members for service on the Board Committees.

11. Remuneration paid out to certain Board members for service on the Board Committees.

12. Remuneration paid out to certain Board members for service on the Board Committees.

13. Remuneration paid out to certain Board members for service on the Board Committees.

14. Remuneration paid out to certain Board members for service on the Board Committees.

15. Remuneration paid out to certain Board members for service on the Board Committees.

16. Remuneration paid out to certain Board members for service on the Board Committees.

17. Remuneration paid out to certain Board members for service on the Board Committees.

18. Remuneration paid out to certain Board members for service on the Board Committees.

19. Remuneration paid out to certain Board members for service on the Board Committees.

20. Remuneration paid out to certain Board members for service on the Board Committees.
Committees of the Board of Directors

Committees of the Board of Directors serve as advisory and deliberative bodies, which preview the most important matters within the authority of the Board of Directors and make recommendations thereon. IDGC of Centre has in place five Committees of the Board of Directors. Current members of the Committees were elected in June 2016.

Overview of Committees

<table>
<thead>
<tr>
<th>Overview of Committees</th>
<th>Set-up date</th>
<th>Regulations</th>
<th>Members</th>
<th>Resolutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability Committee</td>
<td>January 2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grid Connection Committee</td>
<td>February 2009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy and Development Committee</td>
<td>April 2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Committee</td>
<td>April 2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel and Remuneration Committee</td>
<td>April 2008</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Number of meetings held by the Board Committees in 2016

<table>
<thead>
<tr>
<th>Number of meetings held by the Board Committees in 2016</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Committee</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Grid Connection Committee</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Strategy and Development Committee</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Personnel and Remuneration Committee</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

Report of the Chairman of the Reliability Committee

SEMENOV
Roman A.
Chairman of the Reliability Committee of the Board of Directors of IDGC of Centre

The key responsibility of the Committee is to make recommendations to the Board of Directors on the following matters:

- examination of production programmes and plans for retrofitting and reconstruction, new construction and renovation of the Company’s grid facilities, analysis of their development and execution;
- evaluation of the completeness and adequacy of measures taken based on accident investigation results, as well as control over their implementation;
- examination of the quality of investigation of faults (incidents);
- examination of the Company’s emergency planning activities, emergency preparedness, set-up and execution of emergency restoration procedures at power grid facilities;
- examination of the programmes to prevent and reduce the risk of personal injury to the Company’s employees or third parties, as well as control over their implementation;
- control and assessment of the Company’s technical services performance in terms of ensuring operational reliability and safety of power grids;
- examination of the Company’s internal technical controls, occupational health and safety management system, environmental policy implementation programme, fire and industrial safety system.

In the reporting year, the Committee held 21 meetings and discussed the following issues:

- the Programme for Elimination of Injury Risk in the Operation of Hazardous Electrical Equipment, Machinery and Mechanisms; programmes to reduce injury risk, reduce the risk of injuries to third parties at the facilities of IDGC of Centre, PJSC, implement the environmental policy, improve reliability, the Repairs Programme; the Investment Programme;
- reports on the execution of the above programmes;
- reports on the Company’s emergency planning activities, etc.

Membership of the Reliability Committee as at 31 December 2016

Roma A. Semenov, Chairman of the Committee
Head of Operational and Technological Management Department, ROSSETI, PJSC

Evgeny V. Kubatov, Deputy Chair of the Committee
Deputy General Director for Service Sales and Development, IDGC of Centre, PJSC

Edward V. Bagemylov
First Deputy Director, Centre for Technical Supervision – a branch of ROSSETI, PJSC

Andrey V. Grindevich
General Director, Capital Asset Management, CJO

Alexander V. Pilyugin, First Deputy General Director – Chief Engineer, IDGC of Centre, PJSC

Alexander Yu. Makushin

Igor G. Palekhov
Financial Director, Association of Institutional Investors

Sergey Yu. Rumyantsev
Member of the Management Board, Adviser to the General Director, IDGC of Centre, PJSC
During the reporting year, the Committee was engaged in activities in line with its key objectives of making recommendations to the Board of Directors on the following matters:

- development of proposals to improve the legal framework for antimonopoly regulation and ensure non-discriminatory access to grid connection services for consumers;
- development of proposals to improve the Company’s internal regulations and standards covering non-discriminatory access to grid connection services for consumers;
- elaboration of the principles and criteria for assessment of the Company’s performance related to grid connection of consumers;
- assessment of the Company’s performance related to grid connection of consumers;
- analysis of the Company’s current situation and preparation of proposals to the Board of Directors concerning grid connection of consumers.

In 2016, the Committee held 13 meetings and discussed the following issues:

- the results of grid connection activities targeting consumers / generating facilities / federal consumers / small and medium-sized businesses / domestic consumers;
- complaints and applications related to connection to the Company’s transmission and distribution grids;
- implementation of the Action Plan of Tverenergo (the Company’s branch) to clear the backlog of connections under signed contracts.

The main objectives of the Committee include making recommendations to the Board of Directors in the following areas:

- determination of business priorities, strategic goals, and key principles of the Company’s strategic development;
- enhancement of the Company’s investment appeal, improvement of its investment performance and balanced investment decision-making;
- adjustment of the Company’s current development strategy;
- control over the execution of programmes and projects;
- control over the arrangement and operation of the risk management system.

In 2016, the Committee held 19 meetings, including 3 meetings held in person. The following issues were discussed:

- the Company’s business plan, including the Investment Programme; and updates on key operational risks and their mitigation;
- reports on the execution of the above;
- the Company’s internal documents;
- innovative development programmes; energy saving and energy efficiency improvement; prospective development of electricity metering systems in the retail market;
- participation / termination of participation in other organisations.
Report of the Chair of the Audit Committee

The main objective of the Committee is to assist the Board of Directors in the review of matters related to the Company’s financial and business performance:

➔ review of the Company’s accounting (financial) statements and control over their preparation;
➔ control over the reliability and effectiveness of the internal control system, risk management system, and corporate governance practices;
➔ control over external audits and selection of the external auditor;
➔ ensuring independence and objectivity of the internal audit function;
➔ control over the effectiveness of the system for countering unfair practices of the Company’s employees or third parties.

All members of the Committee are non-executive directors; one member is an Independent Director (Alexander V. Shevchuk) who has experience and expertise in preparation, analysis, assessment and audit of accounting (financial) statements.

In 2016, the Committee held 14 meetings, including 3 meetings held in person. The following material issues, inter alia, were discussed:

➔ quarterly and annual accounting (financial) statements of the Company;
➔ comments by the external auditor on the main issues in the accounting (financial) statements;
➔ material aspects of the Company’s accounting policy;
➔ reports on internal audit results and the effectiveness of the internal control system;
➔ preliminary review of the new version of the Regulations on the Audit Committee and amendments to the Regulations on the Audit Committee, the new version of the Internal Control Policy of IDGC of Centre, PJSC; the Regulations on the Internal Audit Unit; the Programme to Ensure and Improve the Quality of Internal Audit at IDCC of Centre, PJSC;
➔ the terms and conditions of the contract with the external auditor, as well as recommendations to the Board of Directors on determining the amount of payment to the external auditor;
➔ consideration of the candidate nominated as the Company’s external auditor to audit the Company’s accounting statements for 2016.

The Committee operates in accordance with the new version of the Regulations on the Audit Committee of the Board of Directors of IDGC of Centre approved with amendments to the Regulations on the Audit Committee approved on 20 October 2016.

Report of the Chair of the Personnel and Remuneration Committee

The key objectives of the Committee include:

➔ development of recommendations on the amount of remuneration payable to the Company’s Board of Directors;
➔ determination of the principles and criteria for remuneration of and financial incentives for members of the collegial executive body and the person acting as the sole executive body of the Company, including a managing company or a manager, as well as assessment of their performance;
➔ determination of the criteria for selecting candidates to the Board of Directors and to the position of the sole executive body of the Company.

All members of the Committee are non-executive directors; one Director fully meets the independence criteria. The Directors have the required skills and experience to handle the tasks of the Committee.

In addition, when discussing proposals on re-design of the Company’s governance system, the Committee approved a pilot to merge the Distribution Zones of the Tverenergo branch.

The Committee operates in accordance with the new version of the Regulations on the Personnel and Remuneration Committee of the Board of Directors of IDGC of Centre approved with amendments to the Regulations on the Personnel and Remuneration Committee approved on 20 October 2016.
Remuneration paid to members of the Board Committees in 2016

Remuneration to members of the Board Committees who are also members of the Company’s Board of Directors is paid in the form and amount stipulated by the Regulations on Remuneration and Compensation to the Board Members. These persons receive an additional allowance set at:
- 10% for a committee member;
- 20% for committee Chairman.

Remuneration is not paid to members who are also members of the Company’s Management Board.

For details on the regulations please visit the Company’s website.

Remuneration payable to the Committee Chairman is 50% higher. Remuneration is not paid to members who are also members of the Company’s Management Board.

The Corporate Secretary reports functionally to the Company’s Board of Directors and administratively to the General Director. The Corporate Secretary is accountable to the Company’s Board of Directors. At least ten days prior to the annual General Meeting of Shareholders of the Company, the Board conducts an annual performance assessment of the Corporate Secretary and approves a report on the Corporate Secretary’s activities.

The Corporate Secretary is responsible for:
- ensuring the Company’s interaction with its shareholders;
- ensuring support for the activities of the Board of Directors and committees of the Board of Directors;
- participating in the implementation of the Company’s information disclosure policy;
- ensuring the Company’s interaction with its shareholders;
- ensuring the Company’s interaction with regulators, market operators, registrar and other professional security traders, as well as controlled companies, within the scope of authority of the Corporate Secretary;
- ensuring compliance with the procedures stipulated by laws and the Company’s internal documents that ensure the exercise of rights and legitimate interests of shareholders, monitoring their execution;
- participating in the improvement of the corporate governance system and practices, etc.

The Board of Directors determines the amount and procedure for paying remuneration of, and bonus scheme for, the Corporate Secretary taking into account recommendations of the Personnel and Remuneration Committee.

The Company’s General Director signs an employment contract with the candidate approved by resolution of the Company’s Board of Directors, on the terms and conditions approved by the Company’s Board of Directors.

Under the terms and conditions of the employment contract, a monthly remuneration of RUB 40,000 is payable to the Corporate Secretary of IDGC of Centre.

Pursuant to the Regulations on Remuneration and Compensation of Members of the Board Committees, remuneration is also payable for the provision of secretarial services to the Board Committees for each meeting of the relevant Committee in the amount equivalent to 0.5% minimum monthly wage as at the meeting date.

Remuneration paid to the Corporate Secretary in 2016

<table>
<thead>
<tr>
<th>Type of remuneration</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the performance of the Corporate Secretary functions</td>
<td>648,391</td>
</tr>
<tr>
<td>For the provision of secretarial services to the Board committees</td>
<td>231,967</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>772,728</strong></td>
</tr>
</tbody>
</table>

1. Personal details are provided with the consent of Svetlana V. Lapinskaya.
GENERAL DIRECTOR

The General Director is responsible for management of the Company’s day-to-day operations, except for matters that are the responsibility of the General Meeting of Shareholders, the Board of Directors, or the Management Board of the Company.

Remuneration of the General Director

Remuneration of the General Director of IDGC of Centre is determined by the employment contract and the Regulations on Financial Incentives for the General Director of IDGC of Centre. The General Director receives a salary, bonuses for achieving KPIs, as well as remuneration for service on the Management Board and the Board of Directors of the Company.

Bonuses are paid to the General Director based on the report on achieving KPIs approved by the Board of Directors in the following cases:
- based on achieving the Company’s financial, technological and investment KPIs for the quarter and for the full year;
- based on achieving the strategic priorities determined by the Company’s Board of Directors for the year.

By resolution of the Board of Directors, one-off bonuses may be paid to the General Director for performing particularly important tasks.

In the reporting year, the General Director received bonuses for achieving the 2015 KPIs, as well as an additional bonus for achieving the 2015 strategic priorities. These payments are included in the remuneration amount paid to members of the Company’s Management Board.

Remuneration paid by IDGC of Centre to its General Director for service on the Board of Directors is disclosed within the remuneration of the Board of Directors.

MEMBERSHIP OF THE MANAGEMENT BOARD

At present, the Management Board consists of seven members. All members of the Management Board are employees of IDGC of Centre and possess the skills and experience to make balanced, well-informed decisions.

Membership of the Management Board of IDGC of Centre as at 31 December 2016:

- **Chairman of the Management Board, General Director, IDGC of Centre**
  - Since 2012, Chairman of the Management Board and General Director of IDGC of Centre. Since 2012, a member of the Board of Directors of IDGC of Centre.
  - From 2012 to 2016, a member of the Management Board of Moscow Chamber of Commerce and Industry. Since 2016, a member of the Council of Moscow Chamber of Commerce and Industry.
  - In June 2016, was elected as a member of the Board of Directors of MOESK, PJSC. Since October 2016, Chairman of the Management Board, Acting General Director of IDGC of Centre and Volga Region, PJSC.
  - Does not own shares of the Company / no shareholding.

- **General Director of IDGC of Centre**
  - Oleg Yu. ISAEV
  - Over the past five years, Mr Isaev served as Chairman of the Board of Directors at Tyazhpromexport, JSC, General Director, Interim General Director, First Deputy General Director at Technopromexport, JSC, Deputy General Director for Security, Deputy General Director for Control and Security at MOESK, JSC.
  - Since December 2012, he has been the General Director and Chairman of the Management Board of IDGC of Centre, since 2012 – a member of the Management Board of the Moscow Chamber of Commerce and Industry, and since 2016 – a member of its Council.
  - In 2016, Mr Isaev was elected to the Board of Directors of MOESK, PJSC.
  - Since November 2016, Mr Isaev has also been the acting General Director and Chairman of the Management Board of IDGC of Centre and Volga Region, PJSC.
  - Mr Isaev has several state and industry awards.
  - Author of over 35 publications in the field of law.
  - Remuneration paid by IDGC of Centre to its General Director for service on the Board of Directors is disclosed within the remuneration of the Board of Directors.

- **First Deputy General Director – Chief Engineer, IDGC of Centre**
  - In 1992, graduated from Kursk Polytechnic Institute with a degree in Electrical Engineering; in 2006, graduated from Kursk State Technical University (a state educational institution of higher professional education) with a degree in Management. Positions over the past five years.
  - From 2008 to 2016, Deputy General Director of IDGC of Centre – Kurskenergo Division Director.
  - From February 2016 to November 2016, Deputy General Director – Chief Engineer of IDGC of Centre. Since November 2016, First Deputy General Director – Chief Engineer of IDGC of Centre.
  - Since November 2016, also serving as a member of the Management Board, Advisor to the General Director at IDGC of Centre and Volga Region, PJSC.
  - Owns 146,777 ordinary shares of the Company / a shareholding of 0.00035% in the Company.

- **Chairman of the Management Board**
  - Alexander V. PILYUGIN
  - Alexander V. PILYUGIN
  - In 1992, graduated from Kursk Polytechnic Institute with a degree in Electrical Engineering; in 2006, graduated from Kursk State Technical University (a state educational institution of higher professional education) with a degree in Management. Positions over the past five years.
  - From 2006 to 2016, Deputy General Director of IDGC of Centre – Kurskenergo Division Director.
  - From February 2016 to November 2016, Deputy General Director – Chief Engineer of IDGC of Centre. Since November 2016, First Deputy General Director – Chief Engineer of IDGC of Centre.
  - Since November 2016, also serving as a member of the Management Board, Advisor to the General Director at IDGC of Centre and Volga Region, PJSC.
  - Does not own shares of the Company / no shareholding.

- **General Director – Chief Engineer of IDGC of Centre**
  - In 1992, graduated from Kursk Polytechnic Institute with a degree in Electrical Engineering; in 2006, graduated from Kursk State Technical University (a state educational institution of higher professional education) with a degree in Management. Positions over the past five years.
  - From 2006 to 2016, Deputy General Director of IDGC of Centre – Kurskenergo Division Director.
  - From February 2016 to November 2016, Deputy General Director – Chief Engineer of IDGC of Centre. Since November 2016, First Deputy General Director – Chief Engineer of IDGC of Centre.
  - Since November 2016, also serving as a member of the Management Board, Advisor to the General Director at IDGC of Centre and Volga Region, PJSC.
  - Owns 146,777 ordinary shares of the Company / a shareholding of 0.00035% in the Company.
In 2016, the Management Board did not acquire/dispose of its shares. There were no changes in the membership of the Management Board in 2016. Members of the Company’s Management Board hold no positions in other companies competing with the Company. Does not own shares of the Company / no shareholding.

**Development Strategy**

**Operating Review**

**Social Responsibility**

**Financial Review**

**Corporate Governance**

**Appendices**

The Chairman’s report on the performance of the Management Board in 2016

In 2016, the Management Board performed in line with the action plan approved on a quarterly basis. The Board held 37 meetings, i.e. fewer than in the previous year; however, the number of matters reviewed by the Management Board increased by 14% year-on-year.

Along with matters related to day-to-day operations management, many of the issues discussed were recommendations to the Board of Directors, in particular on priorities for the Company and the prices (monetary equivalent) of services and assets acquired or sold under contracts made by the Company.

Being a key actor in the risk management process, the Management Board devoted much of its time to setting up and improving a robust risk management framework in the Company. The Management Board also reviewed Deputy General Directors’ quarterly reports on performance in their areas of responsibility, and dealt with social issues and matters related to management of the Company’s subsidiaries and affiliates.

### Attendance by Management Board members in 2016

<table>
<thead>
<tr>
<th>Management Board member</th>
<th>Number of meetings attended by the Management Board member in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lyudmila A. Sklyarova</td>
<td>37</td>
</tr>
<tr>
<td>Sergey Yu. Rumyantsev</td>
<td>37</td>
</tr>
<tr>
<td>Oleg Yu. Isaev</td>
<td>37</td>
</tr>
<tr>
<td>Inna V. Gromova</td>
<td>32</td>
</tr>
<tr>
<td>Konstantin A. Mikhailik</td>
<td>34</td>
</tr>
<tr>
<td>Alexander V. Polyugin</td>
<td>37</td>
</tr>
<tr>
<td>Sergey Yu. Rumyantsev</td>
<td>37</td>
</tr>
<tr>
<td>Lyudmila A. Sklyarova</td>
<td>37</td>
</tr>
</tbody>
</table>

### Issues discussed at the Management Board’s meetings in 2016

- Transactions
- Corporate governance / Social policy
- Management of subsidiaries and affiliates
- HR policy
- Other

<table>
<thead>
<tr>
<th>Issues discussed at the Management Board’s meetings in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>149</td>
</tr>
</tbody>
</table>
Remuneration of the Management Board members

All members of the Management Board of IDGC of Centre are employees with leadership roles in the Company. In addition to the duties specified in their employment contracts, they have responsibilities as members of the Management Board, a collective executive body of the Company.

The Management Board members receive a monthly remuneration of RUB 15,800 as specified in addenda to their employment contracts (the addenda are signed after their appointment to the Management Board is approved).

In accordance with the Regulations on Financial Incentives and Social Benefits for Senior Managers of IDGC of Centre, approved by the Company’s Board of Directors on 10 February 2014, IDGC of Centre has adopted a new version of its Internal Control Policy. The Internal Control Policy defines the objectives, principles and components of the Company’s ICS, main roles and responsibilities of actors in internal control, and ICS performance assessment procedure.

The ICS is continuously improved across all management levels of the Company, with a focus on the following areas of control:

- Preliminary control
- Ongoing control
- Follow-up control

The total remuneration of the Management Board members includes remuneration the General Director, who chairs the Board, less remuneration for service on the Board of Directors. This amount is disclosed as part of the remuneration received by members of the Company’s Board of Directors.

For the list of KPIs of IDGC of Centre for 2016 and their targets see page 25 of the Annual Report.

### Remuneration of the Management Board members

<table>
<thead>
<tr>
<th>Type of remuneration</th>
<th>Amount of remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Board membership</td>
<td>913 RUB thou.</td>
</tr>
<tr>
<td>Salary</td>
<td>47,773 RUB thou.</td>
</tr>
<tr>
<td>Bonuses</td>
<td>49,999 RUB thou.</td>
</tr>
<tr>
<td>Fee</td>
<td>-</td>
</tr>
<tr>
<td>Other types of remuneration</td>
<td>-</td>
</tr>
<tr>
<td>Reimbursement of expenses related to service on the Management Board</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>98,685 RUB thou.</td>
</tr>
</tbody>
</table>

In 2016, members of the Management Board received remuneration for the achievement of KPIs in 2015 and special bonuses for high performance against the priority KPI. Expenses related to service on the Management Board were not reimbursed.

Senior managers receive bonuses based on key performance indicators and their achievement in the reporting period (quarter and year). These key performance indicators are based on the KPIs approved by the Company’s Board of Directors.

In 2016, the ICS scored 4.8 points on the maturity measure (vs. 4.7 in 2015), an optimal level on the maturity assessment scale.

### ICS actors

Overall ICS coordination is the responsibility of the Internal Control and Risk Management Function of IDGC of Centre’s Anti-Corruption Compliance Procedure Department.

Independent internal assessment of the ICS performance was carried out by the Company’s internal auditor; no external assessment was undertaken.

In 2016, the ICS scored 4.8 points on the maturity measure (vs. 4.7 in 2015), an optimal level on the maturity assessment scale.
Internal audit

Internal audit in the Company is the responsibility of the Internal Audit Department, which is functionally accountable to the Board of Directors. The goal and objectives, organisational and functional principles, roles and responsibilities of the Internal Audit Department are set out in the Internal Audit Policy of IDGC of Centre, amended by the Board of Directors (Minutes No. 04/16 dated 1 March 2016). The purpose of internal audit is to assist the Company’s Board of Directors and executive bodies in improving management of the Company and its financial and business activities, including through systematic and consistent analysis and assessment of risk management, internal controls and corporate governance as tools for providing reasonable assurance that the goals set for the Company will be achieved. In 2016, the internal audit function comprised seven employees. During 2016, 46 control procedures were run as part of internal audits and a total of 161 corrective actions were prescribed based on their results to eliminate and prevent future occurrence of identified violations and gaps.

Audit Commission

The Company’s financial and business operations are supervised by the Audit Commission, which is elected by the General Meeting of Shareholders, and is guided by the Federal Law on Joint-Stock Companies, Article 24 of the Regulations on the Audit Commission. The Audit Commission’s goals and objectives, organisational and functional principles, roles and responsibilities of the Company’s Board of Directors and executive bodies in improving management of the Company will be achieved.

Key roles of the Audit Commission:
- control over the Company’s financial and business operations;
- independent assessment of the reliability of data in the Company’s annual report and annual accounting statements.

The Audit Commission has 5 members:
- Elena S. KIM – Chair of the Audit Commission
- Svetlana A. MEDVEDEVA
- Sergey V. MALYSHEV
- Oxana A. OCHIKOV
- Tatyana Z. ZAYTSEVA

Membership of the Audit Commission as at 31 December 2016

KIM

Elena S. KIM
Chair of the Audit Commission
First elected to the Audit Commission on 8 June 2016

In 1986, graduated from Yaroslavl Higher Military Financial School with a degree in Economics and Finance.
Since 2013, Chief Expert of the Internal Audit Office of the Internal Audit and Control Department at ROSSETI, PJSC. Before that, worked at the Control and Audit Department of FGC UES, JSC, the Capital Construction Department of Department – Armo, JSC, winner of Lead Consultant at the Financial Inspectorate of the Ministry of Defence of the Russian Federation.
Does not own shares of IDGC of Centre and its subsidiaries, did not acquire/dispose of shares in 2016.

ERANDINA

Elena S.
First elected to the Audit Commission on 8 June 2016

In 1994, graduated from Moscow State University of Environmental Engineering with a degree in Economics and Management in Agribusiness; in 2006, graduated from State University of Management with a degree in Finance and Credit.
Since 2014, Chief Expert of the Control and Expert Office of the Internal Audit and Control Department at ROSSETI, PJSC. From 2013 to 2015, Chief Specialist of the Internal Audit Service at ELECTROSERVIS of the UNES, JSC. Before that, worked at the Financial and Business Audit Office of the Internal Control Department at Sibur Assets Management, JSC.
Does not own shares of IDGC of Centre and its subsidiaries, did not acquire/dispose of shares in 2016.

ZAYTSEVA

Tatyana Z.
First elected to the Audit Commission on 25 June 2015

In 2006, graduated from Siberian State Technical University with a degree in Power Plants and Substations; in 2007, graduated from Siberian Federal University with a degree in Economics and Management of Energy Companies.
Since 2009, worked at energy companies as an expert in internal audit and risk management.
Does not own shares of IDGC of Centre and its subsidiaries, did not acquire/dispose of shares in 2016.

MALYSHEV

Sergey V.
First elected to the Audit Commission on 24 June 2016

In 1984, graduated from Nizhny Novgorod Higher Military Financial School with a degree in Economics and Finance.
Since 2013, Lead Expert of the Investment Audit Unit of the Internal Audit Office at the Internal Audit and Control Department at ROSSETI, PJSC. Before that, worked at the Control and Audit Department of FGC UES, JSC, the Capital Construction Department of Department – Armo, JSC, winner of Lead Consultant at the Financial Inspectorate of the Ministry of Defence of the Russian Federation.
Does not own shares of IDGC of Centre and its subsidiaries, did not acquire/dispose of shares in 2016.

OCHIKOV

Sergey V.
First elected to the Audit Commission on 25 June 2015

In 1986, graduated from Novosibirsk State Technical University with a degree in Power Plants and Substations; in 2007, graduated from Siberian State Technical University with a degree in Power Plants and Substations.
Since 2009, worked at energy companies as an expert in internal audit and risk management.
Does not own shares of IDGC of Centre and its subsidiaries, did not acquire/dispose of shares in 2016.

ZAYTSEVA

Tatyana Z.
First elected to the Audit Commission on 25 June 2015

In 2006, graduated from Siberian State Technical University with a degree in Power Plants and Substations; in 2007, graduated from Siberian Federal University with a degree in Economics and Management of Energy Companies.
Since 2009, worked at energy companies as an expert in internal audit and risk management.
Does not own shares of IDGC of Centre and its subsidiaries, did not acquire/dispose of shares in 2016.

In 2016, the Audit Commission held six meetings to review matters of approval of the Audit Commission’s action plan, election of the Commission’s chairman and secretary, and matters directly related to audits.

In 2016, the Audit Commission held one scheduled audit of financial and business operations of IDGC of Centre for 2015, and passed a positive opinion following the audit.

Remuneration of members of the Audit Commission

First elected to the Audit Commission by Tatyana Zaytseva.

The regulations are available on the Company’s website.

Information provided in line with the Russian laws on personal data.
## RISK MANAGEMENT

The Company has a robust risk management system in place (the *RMS*). The purpose of the RMS is to ensure sustainable continuous operation and development of the Company through timely identification, assessment and effective management of risks that threaten to hamper the effective running of business or damage the reputation of the Company, health of its employees, the environment, or property interests of its shareholders and investors.

### Evaluation of risk significance

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Operational (production) risks</td>
</tr>
</tbody>
</table>

Risks associated with insufficient financing of the Company’s repair and maintenance programme and investment programme; physical wear, abnormal operating conditions and critical change of operating parameters of power grid equipment, which can result in failures (accidents) of electrical equipment and/or structural failures.

<table>
<thead>
<tr>
<th>Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>All major operational facilities of the Company are insured to mitigate the impact of operational risks. The Company also implements a set of measures to ensure reliability of equipment and structures.</td>
</tr>
</tbody>
</table>

### Industry risks

1. Operational (production) risks

Risks associated with insufficient financing of the Company’s repair and maintenance programme and investment programme; physical wear, abnormal operating conditions and critical change of operating parameters of power grid equipment, which can result in failures (accidents) of electrical equipment and/or structural failures.

<table>
<thead>
<tr>
<th>Risk mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Company has implemented and operates a production asset management system to optimize the operation, maintenance and repair of grid assets and processes, and streamline investment activity. Electrical distribution and transmission facilities are upgraded with innovative transmission equipment to increase wear. Suppliers, vendors and service providers are selected through a tender process to improve the quality of services and materials, the performance of counterparties, and unit costs. The Company’s industrial safety compliance risks are managed by ensuring conformity to regulatory requirements in the field of industrial safety and using an industrial safety compliance in-process monitoring system.</td>
</tr>
<tr>
<td>No.</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>6</td>
</tr>
</tbody>
</table>
No. Risk Risk description Risk mitigation Evaluation of risk significance and risk trends

7 Regional risks IDGC of Centre is mainly exposed to the following regional risks:
- financial: The Company’s operations are exposed to the risks of growing prices for components, equipment, and other inventory and materials. These risks are mainly attributable to inflation.

The Company takes the following measures to minimise the probability of these risks:
- improvement of operational efficiency through the implementation of operating cost reduction programmes (involves the competitive environment in procurement of goods and services, optimisation of input, operation and capital construction costs, etc.);
- centralisation of procurement (to achieve economies of scale in procurement);
- increase local content in procurement of equipment and components (to reduce exposure to exchange-rate fluctuations).

The consumer price index was 107.1 at year-end 2016, down 8.4 pp from a year earlier, which means a reduction of this risk.

8 Country risks Financial problems or high perceived risks of investing in emerging markets have reduced the stream of foreign investment in Russia, caused the outflow of foreign capital, and had an overall negative impact on the Russian economy.

The Russian economy is particularly vulnerable to changes in natural gas and oil prices. The pace of consumer price growth in Russia also remains a concern. A key rate hike by the Central Bank of the Russian Federation has affected the cost of our borrowings.

The Company’s operations are exposed to the risks of growing prices for components, equipment, and other inventory and materials. These risks are mainly attributable to inflation.

The Company takes the following measures to minimise the probability of these risks:
- improvement of operational efficiency through the implementation of operating cost reduction programmes (involves the competitive environment in procurement of goods and services, optimisation of input, operation and capital construction costs, etc.);
- centralisation of procurement (to achieve economies of scale in procurement);
- increase local content in procurement of equipment and components (to reduce exposure to exchange-rate fluctuations).

The consumer price index was 107.1 at year-end 2016, down 8.4 pp from a year earlier, which means a reduction of this risk.

9 Country and regional risks Country risks:

IDGC of Centre is mainly exposed to the following country risks:
- the risk of competent authorities responsible for tariffs regulation rejecting some of the economically justified expenses proposed by the Company for inclusion in tariffs;
- lower power consumption by major industrial companies in the regions.

To mitigate the impact of regional risks on its investment programme, the Company interacts with governmental authorities and other stakeholders to monitor and control the stakeholder actions in relation to the Company’s investment projects.

The Company also takes measures to optimise financing of its investment programme through internal cost reduction.

10 Inflation risks Negative impact of inflation on financial and economic performance of the Company can arise from loss of real value of receivables, higher debt interest payments, increased construction costs of projects under the investment programme, and higher prices of materials and third-party services required to support operational needs.

The consumer price index was 107.1 at year-end 2016, down 8.4 pp from a year earlier, which means a reduction of this risk.

11 Interest risk Changes in the key interest rate of the Bank of Russia reflect the macroeconomic environment and affect the cost of borrowing. Higher loan interest rates can result in an unbudgeted increase in the Company’s debt servicing costs.

To mitigate the interest risk, the Company pursues an advanced credit policy focused on optimising its loan portfolio structure and minimising debt servicing costs.

12 Liquidity risk The most significant factors that can impair the Company’s liquidity and financial stability are cross-subsidisation of consumer groups and poor payment discipline on the retail electricity market.

The government-sponsored tariff policy aimed to restrain the tariff growth for population boosts cross-subsidisation. Major consumers with last-mile contracts account for the largest share of cross-subsidies. Transition of major industrial consumers to direct contracts with FGC UES results in a revenue shortfall for the Company.

Poor payment discipline among the Company’s counterparties results in higher accounts receivable, including overdue receivables. The major factors influencing payment discipline are disputes over required capacity arising in settlements with electricity sales companies and diversion of cash receipts for electricity sales companies whose guaranteeing supplier status was revoked.

In order to minimise this risk, the Company monitors its capital structure, determines the optimum borrowing arrangements, and takes measures to optimise the structure of its working capital.
13. Risk of entering into a transaction without proper prior approval/sign-off by an authorized management body.

Risk of entering into a transaction without proper prior approval/sign-off by the Board of Directors or the General Meeting of Shareholders, or transaction approved in violation of the established procedure. In order to mitigate these risks, contracting must include preliminary legal review of any proposed transaction to determine whether it is subject to corporate procedures established by applicable laws and/or the Company’s Articles of Association. If necessary, relevant transactions are submitted for review by competent management bodies of the Company.

14. Risks of corporate governance failing to meet more stringent criteria, shares moved to a lower level quotation list, delisting, and conflict of interest.

Given more stringent requirements being imposed by the Bank of Russia and the Moscow Exchange on listed companies, the Company becomes exposed to the risks of its shares being moved to a lower level quotation list/delisting, or the Company’s corporate governance failing to meet more stringent criteria. IDGC of Centre implements a set of measures to maintain effective communication channels with shareholders, investors, and all other stakeholder groups, while fully upholding their legitimate rights and interests. Key measures include:
- regular meetings of the Company’s management with shareholders and investors to explain important issues related to the day-to-day operations;
- comprehensive disclosure required by applicable laws, and voluntary disclosures by the Company;
- comprehensive resolution of conflicts of interest between the Company’s Directors and executive bodies;
- monitoring of corporate governance by independent experts (as part of corporate governance rating assignment/affirmation).

15. Risks associated with changes in tax laws.

Tax regulations are often vague or use terms that lack unambiguous legal definitions. Official clarifications of tax laws by the Russian Ministry of Finance and Federal Tax Service are not always complete. Tax reporting rules and procedures are defined by tax authorities which may change additional laws and fines, impose penalties and large fines resulting in much higher tax risks. The Company fully complies with tax laws applicable to its business. Should any amendments be made to applicable taxation rules and procedures, the Company will plan its financial and business activities with due regard of such amendments.


The Company defines reputational risk as a likelihood of damage to the Company’s business reputation due to various external or internal factors capable of damaging the perception of the Company’s activities by target groups and general public. Media visibility and the levels of positive perception of the Company’s activities by professional expert communities influence investors' and shareholders' decisions that directly affect the Company and its position on principal markets. As the reputational risk is a function of other types of risks (financial, operational, legal, etc.), it is mitigated by the Company’s compliance with legal and internal standards and rules, conduct principles, and social responsibility standards. Guided by the principles of transparency and swift communications of reliable information, the Company is focused on fostering integrated communications with target audiences and a uniform internal and external communication policy. IDGC of Centre adopted a disclosure standard providing for timely and adequate compliance with legal requirements for mandatory disclosures.

The Company maintains a dialogue with shareholders and business community and updates them on its activities. The Company’s relations with the media are based on providing its target audiences, the public and other stakeholder groups with timely, objective and comprehensive information on the Company’s financial and economic performance, its social activities, and long-term development plans. The Company’s spokespeople provide comments and clarifications regarding data and topics of interest to the media.

The Company holds briefings, press conferences and conference calls for reporters, analysts, investors, and experts. The media are monitored on a regular basis to track the Company’s visibility in the information space. The Company’s representatives participate in public events. The Company communicates with governmental, regional and municipal authorities.
<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Risk description</th>
<th>Risk mitigation</th>
<th>Evaluation of risk significance and risk trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Strategic risk</td>
<td>Strategic risk arises from failure to achieve targets set by the Strategy for Development of the Electric Grid Complex of the Russian Federation (Decree of the Government of the Russian Federation No. 511-r dated 3 April 2013) and the Company's mission.</td>
<td>The risk is mitigated by the following organisational measures:  ➔ enhancing the reliability and quality of power supply to make sure they are in line with customers’ expectations;  ➔ improving the safety of power supply, including reduction of the total number of employee accidents;  ➔ reduction of the size of free power flow zones;  ➔ improving the efficiency of the electrical grid sector including:  • increasing capacity utilisation;  • reducing unit investment costs;  • reducing opex;  • reducing electricity losses.</td>
<td></td>
</tr>
</tbody>
</table>

**Risks associated with the Company’s activities**

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Risk description</th>
<th>Risk mitigation</th>
<th>Evaluation of risk significance and risk trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Risks associated with current legal proceedings involving the Company</td>
<td>In 2013, a number of electricity sales companies active in the regions in which the Company operates and using the services of IDGC of Centre had their guaranteeing supplier status revoked. Due to their insolvency the above companies, insolvency (bankruptcy) proceedings were initiated against them on applications filed by both lenders and debtors.</td>
<td>As part of these proceedings, IDGC of Centre filed claims to include the debts owed to the Company by such electricity sales companies in their lenders’ claim lists. However, it is unlikely that the bankruptcy estate will be sufficient to fully satisfy the Company’s claims.</td>
<td></td>
</tr>
</tbody>
</table>

Risk significance is assessed as a combination of the risk probability and risk impact on the Company, assessed in monetary and other terms. Risk significance is assessed based on existing risk data sheets or on expert judgements using the following scale:

<table>
<thead>
<tr>
<th>Level of risk significance (score)</th>
<th>Risk significance (score) trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical (score)</td>
<td>Risk significance (score) is higher</td>
</tr>
<tr>
<td>Significant (score)</td>
<td>Risk significance (score) is lower</td>
</tr>
<tr>
<td>Moderate (score)</td>
<td></td>
</tr>
</tbody>
</table>
ANTI-CORRUPTION INITIATIVES

To prevent corruption offences and comply with Russian anti-corruption regulations, IDGC of Centre consistently improves its anti-corruption efforts through introducing corporate culture and organisational practices, rules and procedures, restrictions and prohibitions, and developing internal local anti-corruption regulations.

The Company has developed and implemented its Regulations on Conflict of Interest Resolution, covering the whole range of circumstances that may give rise to a conflict of interest: from engagement of the Company’s employees with entities that provide (will provide) services to the Company or obtaining financial advantages, gifts, and services from such entities, to impeding timely discharge of professional (official) duties by another employee for personal benefit, and using insider information to gain benefit or competitive advantage in closing business transactions.

These prevention measures helped minimise potential threats to the Company, including through initial and annual declaration of conflicts of interest first made by the Company in 2016.

The Department examined the disclosed data, checking a total of:

- 111 asset, income and property liability disclosures made by IDGC of Centre’s employees and their family members;
- 7,557 conflict of interest declarations made by the Company’s employees;
- 249 conflict of interest declarations made by candidates to fill vacancies open with the Company.

These checks were followed by a number of anti-corruption initiatives, including measures taken to identify and resolve conflicts of interest.

When preparing asset, income or property liability disclosures and conflict of interest disclosures, the Company’s employees exercise the highest degree of care. Employees are aware that withholding or partial disclosure of information give rise to conditions that facilitate corruption and may be subject to disciplinary action.

The Company also enhanced its local regulations, improved and optimised business processes used to collect and analyse data on conflict of interest disclosures, income disclosures, as well as on contracts, counterparties, and ownership structure disclosed up to the ultimate beneficiaries.

The Benefits of the Company integrated Interfax information and analytical tools used to collect, analyse, and consolidate information on contracts, counterparties, and ownership structures, disclose ownership chains up to ultimate beneficiaries, to provide for identification of potential conflicts of interest, and to submit the consolidated data to ROSSETI, PJSC and further to competent government authorities. Such information and analytical tools are currently in place at both IDGC of Centre and all of its branches.

As part of the Anti-Corruption Policy, in 2016, IDGC of Centre and all of its branches.

In 2016, the Company improved and enhanced the Anti-Corruption Policy of ROSSETI, PJSC and IDGC of Centre as follows:

- developed anti-corruption executive documents;
- implemented a single framework to check disclosures of counterparties’ ownership chains, including beneficiaries and ultimate beneficiaries within the executive office and branches, and to handle personal data in disclosures of counterparties’ ownership chains;
- introduced anti-corruption standards for anti-corruption procurement control, conflict of interest management tools, etc.;
- implemented anti-corruption initiatives to prevent, identify, and terminate corruption offences, and to minimise reputational and corruption risks, in particular: reviewing and disclosing information on potential corruption and conflict risks.

The Company also strengthened its local regulations, improved and optimised business processes used to collect and analyse data on conflict of interest disclosures, income disclosures, as well as on contracts, counterparties, and ownership structure disclosed up to the ultimate beneficiaries.

The Company integrated Interfax information and analytical tools used to provide for identification of potential conflicts of interest and corruption offences, enhanced local regulations improved the quality and scope of checks, and improved the quality of reports submitted to ROSSETI, PJSC, and further to competent government authorities.

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Shares

Share Capital

As at 31 December 2016, the authorised capital of IDGC of Centre amounted to RUB 4,221,794,146.80 and is split into 42,217,941,468 ordinary shares with a par value of 10 kopecks each. There are no preference shares.

The number of authorised shares is 258,532 ordinary registered shares with a par value of 10 kopecks each. Authorised shares were formed by the Company reorganisation in 2008 in the form of its merger with regional grid companies as a difference between the number of authorised and outstanding shares. No additional share issues were issued in 2016. There are no cross-held shares.

42,217,941,468
ordinary shares
as at 31 December 2016

Shareholding structure, % of outstanding shares

<table>
<thead>
<tr>
<th>Holders</th>
<th>As at 31 December 2015</th>
<th>As at 22 April 2016 (last record date)</th>
<th>As at 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>4.0%</td>
<td>6.8%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Legal entities</td>
<td>1.1%</td>
<td>67.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Nominal holders</td>
<td>94.9%</td>
<td>1.0%</td>
<td>94.3%</td>
</tr>
<tr>
<td>Trustees</td>
<td>0.0%</td>
<td>44.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Russian residents</td>
<td>99.9%</td>
<td>67.2%</td>
<td>99.7%</td>
</tr>
<tr>
<td>Non-residents of Russia</td>
<td>0.1%</td>
<td>32.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Share Exchange Listings

Since 2008, ordinary shares of IDGC of Centre have been traded on the Moscow Exchange. As at 31 December 2016, its shares were listed in the First Tier quotation list.

On 31 January 2017, IDGC of Centre’s shares were transferred to the Third Tier of the quotation list due to partial non-compliance with the requirements of the Listing Rules (insufficient number of directors on the Board of Directors of IDGC of Centre meeting the independence criteria set out by the Listing Rules). Notwithstanding the relisting of its shares as the Third Tier, the Company is in full compliance with the requirements of the Listing Rules by financial position, liquidity of shares and capitalisation, which considerably improved in the past year.

Price and capitalisation as at 30 December 2016

<table>
<thead>
<tr>
<th></th>
<th>Price and capitalisation as at 30 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share price (at close), RUB</td>
<td>0.447</td>
</tr>
<tr>
<td>Share price (at close), USD</td>
<td>0.067</td>
</tr>
<tr>
<td>Share price (weighted average), RUB</td>
<td>0.4430</td>
</tr>
<tr>
<td>Share price (weighted average), USD</td>
<td>0.067</td>
</tr>
<tr>
<td>Capitalisation (at weighted average price), RUB mn</td>
<td>18,702.5</td>
</tr>
<tr>
<td>Capitalisation (at weighted average price), USD mn</td>
<td>310.2</td>
</tr>
</tbody>
</table>

Tickers of stock exchanges and trading systems (primary)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISIN RU000A0JPPL8</td>
<td>Moscow Exchange</td>
</tr>
<tr>
<td></td>
<td>Mirreco</td>
</tr>
<tr>
<td></td>
<td>Bloomberg</td>
</tr>
<tr>
<td></td>
<td>RCI</td>
</tr>
</tbody>
</table>

Stock exchange indices

<table>
<thead>
<tr>
<th>Index</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICEX</td>
<td>2.69%</td>
</tr>
<tr>
<td>MICEX 3C</td>
<td>3.21%</td>
</tr>
<tr>
<td>MICEX BMI</td>
<td>0.06%</td>
</tr>
</tbody>
</table>

Quotation lists, MICEX-Moscow Exchange

<table>
<thead>
<tr>
<th>Date</th>
<th>Quotation list</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 January 2017</td>
<td>Third Tier</td>
</tr>
<tr>
<td>9 June 2016</td>
<td>Final Tier</td>
</tr>
<tr>
<td>22 October 2012</td>
<td></td>
</tr>
<tr>
<td>10 August 2011</td>
<td></td>
</tr>
<tr>
<td>4 April 2009</td>
<td></td>
</tr>
<tr>
<td>19 May 2008</td>
<td></td>
</tr>
</tbody>
</table>

Non-Listed Securities Register

Registrar

Until 17 January 2017, the shareholder register of IDGC of Centre had been maintained by an independent registrar, Rosseti-RN Ltd. Since 20 January 2017, the Company’s securities register has been maintained and stored by VTB Registrar. The Company replaced its registrar in order to improve shareholder service quality and optimise costs.

For the convenience of shareholders and their representatives, the registrar’s branches are functioning across all regions in which the Company operates, as well as in major Russian regions. In addition, shareholder relations managers provide necessary advisory services at the Company’s branches. The list and contact details of such managers are available on the Company’s corporate website.
Capitalisation

2016 has been a successful year for the entire power sector. Higher demand was driven by the historical underutilisation and higher dividend yield, resulting from the decisions of the Russian Government on allocating 50% of net profit earned by state-owned companies to dividends. Whereas, in the first six months, the share prices were driven upwards by relevant higher dividend expectations, and in the next six months – by the hopes of carrying 50% net profit allocations on to the next year. At the same time, the decision to centralise management for IDGC of Centre and IDGC of Centre and Volga Region caused a spike in trading and speculative demand for the shares of both companies.

Capitalisation of IDGC of Centre’s shares and the trading volume vs key market indicators and key events

Chart-highlighted events and news that impacted trading volumes
IDGC of Centre’s share performance against indices

**Key securities market data for the Company in 2014–2016**

**Trading turnovers and transactions with IDGC of Centre’s shares in 2014–2016**

**IDGC of Centre’s share performance against indices**

**Bonds**

In August 2016, IDGC of Centre issued series BO-05 bonds on the Moscow Exchange, as part of diversification of the Company’s credit portfolio. This helped the Company borrow funds on favourable terms and replace more expensive loans taken earlier.

Thus, the Company’s series BO-02, BO-03, BO-04, and BO-05 bonds with a total face value of RUB 20 billion and a 10-year maturity are traded on the Moscow Exchange.

The bond placement was arranged by Gazprombank (JSC) and PJSC ROSBANK. The NSD acts as depository.

The Company also has a registered bond issue, which is yet to be placed (series BO-06).

The share trading volume at the Moscow Exchange (main trading mode T+ in shares was 23% of the total number of shares (1% in 2015), whereas the RUB trading volume was the highest among all IDGCs. The weighted average number of transactions with shares was 4,127, a 132% increase year-on-year (195 trades in 2015). This metric was also the best among all IDGCs.

**Key bond issue data**

**The obligations of IDGC of Centre to pay coupon yield on the bonds were met in full and in a timely manner:**

In November 2016, the Company approved its series 001P Exchange-Traded Bond Programme and Prospectus (bonds placed as part of the series 001P Exchange-Traded Bond Programme).

The total face value of all exchange-traded bond issues placed as part of the series 001P Exchange-Traded Bond Programme is up to RUB 40 bn (exclusive), with bonds maturing in not more than 10,920 days from the start date of the bond issue placement. 10% of the series 001P Exchange-Traded Bond Programme: A-10214-A-001P-02E, dated 21 December 2016.
DIVIDEND POLICY

The dividend policy of IDGC of Centre is based on a strict balance between the interests of shareholders and the Company’s development needs, including the need to improve the investment appeal of IDGC of Centre and its capitalisation.

In April 2016, the Company's Board of Directors approved the new version of the Regulations on the Dividend Policy, to comply with the applicable laws of the Russian Federation, the Articles of Association, and the Company's internal documents, which provides for paying out at least 25% of net profit as dividends.

For 2015, dividends were accrued in the amount of RUB 455,954,000 (50.16% of RAS profit), which is the record high for dividend payouts in the Company’s history. The total amount of dividends paid out as at the last date of the payout period was RUB 449,468,000, or 98.6% of the total dividends accrued. The resolution on dividend payout for 2016 will be adopted by the Annual General Meeting of Shareholders of IDGC of Centre in June 2017.

### Dividend History

<table>
<thead>
<tr>
<th>Metric based on RAS data</th>
<th>Unit</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends accrued</td>
<td>RUB'000</td>
<td>422,179</td>
<td>862,935</td>
<td>75,992</td>
<td>831,693</td>
<td>455,954</td>
</tr>
<tr>
<td>Share of RAS net profit allocated to dividends</td>
<td>%</td>
<td>8.11</td>
<td>25.01</td>
<td>25.94</td>
<td>25.01</td>
<td>50.16</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>RUB</td>
<td>0.01</td>
<td>0.02044</td>
<td>0.0018</td>
<td>0.0197</td>
<td>0.0108</td>
</tr>
<tr>
<td>Dividends paid out</td>
<td>RUB'000</td>
<td>418,057</td>
<td>855,147</td>
<td>75,251</td>
<td>823,859</td>
<td>448,558</td>
</tr>
<tr>
<td>Share of dividends paid out</td>
<td>%</td>
<td>99.02</td>
<td>99.10</td>
<td>99.23</td>
<td>99.06</td>
<td>98.38</td>
</tr>
</tbody>
</table>

### Dividend Policy Principles

- Uphold shareholders’ rights and interests.
- Enhance the investment appeal of the Company and its capitalisation.
- Commit to comply with high standards of corporate governance.
- Ensure the interest of the management and shareholders in increasing the Company’s profitability.
- Maximize the transparency (clarity) of procedures used to determine the amount of dividends and pay them out.
- Provide for an upward trend in dividend payouts, subject to growth of the Company’s net profit.

### Dividend Payout Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Compliance</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit for reporting period</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Debt/EBITDA &lt; 3</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No material failures</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Meeting the reliability KPI rate</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Consistency of dividend payments with the business plan target approved by the Company’s Board of Directors</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

### Dividend Calculation Formula

\[ DIV = NP – ContrRF' – PD – PL \]

where:
- DIV is the amount of net profit allocated to dividends;
- NP is the net profit received for the reporting period net of gains and losses from the revaluation of financial investments, foreign exchange gains, and other random (one-off) non-cash components of net profit, taking into account the Company’s long-term regulation profile;
- ContrRF’ is the amount of mandatory contributions to reserve and other funds, as established the Company’s Articles of Association;
- PD is the part of the profit allocated to investments and the Company’s business development;
- PL is the part of the profit allocated to the recovery of losses from operating activities (if any) in prior years (not exceeding 0.5*NPI – ContrRF’ – PD).
INVESTOR RELATIONS

In 2016, IDGC of Centre continued to pursue its long-standing policy of transparent and strong relations with shareholders and investors. For IDGC of Centre, an ongoing constructive dialogue with the investor community is key to securing fair evaluation of its performance and provides an incentive for further improvements to corporate governance.

During the year, the Company was engaged in extensive communications with investors, including eight meetings with top managers such as a meeting of the Company’s management with bank and investment analysts to discuss IFRS statements for 2015 and outlook for 2016, and the Investor and Analyst Day in Belgorod to present RAS statements for 1H 2016. A total of 171 contacts with investors were arranged during the year.

In 2016, the IR Service of IDGC of Centre focused on increasing our share liquidity. As at the year-end, our trading volume on the Moscow Exchange (the Company shares are traded in T+) was 23% of the total number of shares (9% in 2015), while in rubles we traded more than any other transmission or distribution grid company. According to the Moscow Exchange Index Committee, the Company’s free-float was 34% throughout the year.

During the year, we monitored analytical coverage of the Company and the industry as a whole. Over 12 months, the consensus forecast grew 60% from RUB 0.188 to RUB 0.300 per share, with no upside left in the forecasts. The number of shares focused on increasing our share liquidity. As at the year-end, our trading volume on the Moscow Exchange (the Company shares are traded in T+) was 23% of the total number of shares (9% in 2015), while in rubles we traded more than any other transmission or distribution grid company. According to the Moscow Exchange Index Committee, the Company’s free-float was 34% throughout the year.

We continued making improvements to our corporate website, which serves as our principal information platform for publishing up-to-date, reliable and helpful information for shareholders, investors, and analysts. In 2016, the Company held its first webinar of a conference call with shareholders and investors on the Company’s operating results for 1H 2016 and business plan guidance for full-year results.

The IR section of IDGC of Centre’s website was named the best among power sector companies and came second in the first Annual Contest of IR Sections of Corporate Websites organised by the Financial Communications and Investor Relations Alliance (ARFI) and EQS GROUP.

In late 2016, the Company ran a perception study to interview investors on the performance of IDGC of Centre’s IR Service. Based on the scores given by the respondents, the overall score for our IR Service improved year-on-year (9.49 against 9.22 out of 10). The respondents also cited a stronger investment case and the Company leading the power grid industry on disclosure performance.

Every Russian region has established regional commissions to monitor the situation with payments for electricity bills and transmission services, which comprise representatives of IDGC of Centre, executive, tax, and law-enforcement authorities, consumers, and guaranteeing suppliers. With these regional commissions in place, we are now able to speed up decision-making and take timely action to prevent delays in payments for electricity transmission services provided.

IDGC of Centre restricts electricity consumption for non-payers and maintains a strong focus on claim management to deal with guaranteeing suppliers (electricity sales companies) that delay payments for transmission services provided.

We consider the following options to offset the revenue shortfall: we will suffer due to the termination of our “last mile” contracts: set growth rates for tariffs applicable to other consumers above the forecast rates of the Russian Ministry of Economic Development; compensate for the losses out of government subsidies (if available); streamline branches’ costs by downsizing their investment programmes.

In line with the Regulations on the Dividend Policy, the Company sees it as a priority that at least 25% of net profit is distributed to shareholders as dividends. The Company’s management makes every effort to ensure break-even operation of the Company.

FREQUENTLY ASKED QUESTIONS

- In 2015, IDGC of Centre paid out 50% of its profit as dividends. Does the Company intend to keep paying dividends?
- How does the Company address increased payment delays in covered regions?
- How well will the Company offset the loss of the last mile business after 2017?
Disclosure Policy

Information disclosure is a priority tool in communications between IDGC of Centre and its shareholders, investors, consumers, regulators, and other stakeholder groups. An established, well-functioning disclosure process boosts the Company’s competitive position on the capital markets, creating a favourable environment for business growth.

IDGC of Centre’s listing on the Moscow Exchange imposes disclosure obligations in accordance with MOEX listing rules and instructions of the Bank of Russia. Disclosures by IDGC of Centre follow the principles of completeness, accuracy, accessibility and timeliness as set out in the Bank of Russia Corporate Governance Code with respect to disclosures on the corporate website and annual report. IDGC of Centre has also voluntarily committed to disclose a considerable amount of additional information approved by the Regulations on the Information Policy.

To ensure free access by stakeholders to disclosed information, disclosures are made via several information distribution channels. The Company website, www.mrsk-1.ru, is our key disclosure channel, offering information both in the Russian and English languages. Information on the Company is available in the news feed and on the website of Interfax Corporate Information Disclosure Centre, international news agencies Bloomberg, Euroland, Thomson Reuters, other media and corporate press.

Protection of insider information

IDGC of Centre handles large amounts of insider information. Its classification and disclosure methods take into account responsibility for maintaining trade secrets and confidentiality. In order to prevent misuse of insider information, the Company adopted the Regulations on Insider Information (Minutes No. 27/11 of the Board of Directors dated 29 December 2011), providing for internal procedures that promote compliance with the law and internal regulations.

Disclosure excellence awards

The Company website, www.mrsk-1.ru, is our key disclosure channel, offering information both in the Russian and English languages. For more details please visit the Company’s website.

IDGC of Centre Annual Report 2015 was awarded as the Best Annual Report of the Company with the Market Capitalisation below RUB 40 bn at the 19th Annual Report Competition held by the Moscow Exchange and RBC media group. The Corporate Governance section of the Annual Report was particularly praised by the jury for the disclosure level said to be comparable with the best international practice in corporate governance.

Utilities – Electric category

IDGC of Centre also won a gold medal award in the Utilities – Electric category among the companies with revenue below USD 10 bn at the annual report competition hosted by the League of American Communications Professionals (LACP). The interactive version of the Report won a silver medal award. The Company’s annual report was also named a Top 10 annual report among Russian contestants.
Auditor’s Opinion for Accounting Statements for 2016

Balance Sheet as at 31 December 2016 (to RAS financial statements)

Profit And Loss Statement for January-December 2016 (to RAS financial statements)

Independent Auditor’s Report

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2016


List of Abbreviations
AUDITOR’S OPINION FOR ACCOUNTING STATEMENTS FOR 2016
(to RAS financial statements)

RSM
4, Pudovkin Str., Moscow, Russia 119285
Tel.: +7 495 363 28 48
Fax: +7 495 981 41 21
E-mail: mail@rsmrus.ru
www.rsmrus.ru
21.02.2017 № PCM–1173

To shareholders
of IDGC of Centre, PJSC

Auditor:
RSM RUS.

Primary State Registration Number
104 690 009 949 8.

Responsibility of the audited entity for the accounting statements

The management of IDGC of Centre, PJSC is responsible for the preparation and fair presentation of these accounting statements in accordance with the Russian Federation rules of accounting statements preparation and for the internal control system required for the preparation of accounting statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these accounting statements being true in all material respects, based on our audit performed. We conducted our audit in accordance with the Russian Federation auditing standards. These standards require that we comply with relevant ethical requirements as well as planning and performing of the audit to obtain reasonable assurance that the accounting statements are free of material misstatement.

The audit involved performing audit procedures to obtain audit evidence supporting the values in the accounting statements and the information disclosure that it contains. The choice of audit procedures is the subject of our judgments, which is based on assessment of the risk of material misstatement of the accounting statements, whether due to fraud or error. In assessing this risk, we considered the system of internal control, providing making and reliability of the accounting statements to select appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control system.

The audit also included assessing appropriateness of the accounting policy used and the reasonableness of estimates made by the management of the audited entity, as well as evaluating the accounting statements in general. We believe that the evidence obtained during the audit provides a sufficient and reasonable basis for expressing our opinion of the reliability of the accounting statements.

Opinion

In our opinion, the accounting statements present fairly, in all material respects, the financial position of IDGC of Centre, PJSC as at 31 December 2016, the results of its financial and economic performance and cash flow for 2016 in accordance with the Russian Federation accounting statements preparation rules.

Chair of Management Board
N.A. Dantser
Auditor’s qualification certificate # 05–000015 issued on the basis of the decision of the self-regulatory organisation of Auditors – Non-Commercial Partnership “Russian Collegium of Auditors” dated from November 15, 2011 № 23 for an indefinite period.
Auditor
N.N. Usanova
Auditor’s qualification certificate # 05–000303 issued on the basis of the decision of the self-regulatory organisation of Auditors – Non-Commercial Partnership “Russian Collegium of Auditors” dated November 10, 2013 № 21 for an indefinite period.

We have audited the attached accounting statements of IDGC of Centre, PJSC, consisting of the balance sheet as at 31 December 2016, the profit and loss statement, the statement of changes in equity, the cash flow statement for 2016, the notes to the accounting balance sheet and P&L statement for 2016.

RSM RUS is a member of self-regulatory organisation Not-for-Profit Partnership “Auditing Association “Sudbuzhestvo” (Membership certificate # 6938, Principal Number of Registration Entry 11306030308), location building 4, Michurinsky prospect, 21, Moscow, 119192.

RSM RUS is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and advisory firm each of which practices in its own right. the RSM network is not itself a separate legal entity of any description in any jurisdiction.

IDGC of Centre, PJSC.

Interregional Distribution Grid Company of Centre, Public Joint-Stock Company (abbreviated business name IDGC of Centre, PJSC).

Legal address:
4 Pudovkina street, Moscow 119285, Russia;
Phone: (495) 363–28–48; Fax: (495) 981–41–21;
Primary State Registration Number
102 770 025 754 0;

RSM RUS is a member of self-regulatory organisation Not-for-Profit Partnership “Auditing Association “Sudbuzhestvo” (Membership certificate # 6938, Principal Number of Registration Entry 11306030308), location building 4, Michurinsky prospect, 21, Moscow, 119192.

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### BALANCE SHEET

as at 31 December 2016

(to RAS financial statements)

#### Note 1

**ASSETS**

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.</td>
<td>– 5.1.3.1 Fixed assets</td>
</tr>
<tr>
<td>5.1.1.</td>
<td>Intangible assets</td>
</tr>
<tr>
<td>5.1.2.</td>
<td>Construction in progress</td>
</tr>
<tr>
<td>5.1.3.</td>
<td>Other fixed assets</td>
</tr>
<tr>
<td>5.1.4.</td>
<td>Other non-current assets</td>
</tr>
<tr>
<td>5.2.1.</td>
<td>Property on tenancy contract basis</td>
</tr>
<tr>
<td>5.2.2.</td>
<td>Property for leasing</td>
</tr>
<tr>
<td>5.2.3.</td>
<td>Other non-current assets</td>
</tr>
</tbody>
</table>

#### Note 2

**CURRENT ASSETS**

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.2.1.</td>
<td>Accounts receivable</td>
</tr>
<tr>
<td>5.2.2.</td>
<td>Inventories</td>
</tr>
<tr>
<td>5.2.3.</td>
<td>Other receivables</td>
</tr>
<tr>
<td>5.2.4.</td>
<td>Other items</td>
</tr>
</tbody>
</table>

#### Note 3

**FINANCIAL INVESTMENTS**

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3.1–5.3.2</td>
<td>Financial investments</td>
</tr>
<tr>
<td>5.3.1.</td>
<td>Investments in subsidiaries</td>
</tr>
<tr>
<td>5.3.2.</td>
<td>Investments in affiliates</td>
</tr>
<tr>
<td>5.3.3.</td>
<td>Investments in other companies</td>
</tr>
</tbody>
</table>

#### Note 4

**LONG-TERM DEBT**

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4.1–5.4.3</td>
<td>Long-term debt</td>
</tr>
<tr>
<td>5.4.1.</td>
<td>Debts of participators (founders) according to contributions in the authorised capital</td>
</tr>
<tr>
<td>5.4.2.</td>
<td>Debts of subsidiaries and affiliates on dividends</td>
</tr>
<tr>
<td>5.4.3.</td>
<td>Other long-term financial investments</td>
</tr>
</tbody>
</table>

#### Note 5

**SHORT-TERM DEBT**

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.5.1–5.5.2</td>
<td>Short-term debt</td>
</tr>
<tr>
<td>5.5.1.</td>
<td>Advances made</td>
</tr>
<tr>
<td>5.5.2.</td>
<td>Debts of subsidiaries and affiliates on dividends</td>
</tr>
</tbody>
</table>

#### Note 6

**FINANCIAL INCOME**

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.6.1–5.6.3</td>
<td>Financial income</td>
</tr>
<tr>
<td>5.6.1.</td>
<td>Value added tax according to purchases</td>
</tr>
<tr>
<td>5.6.2.</td>
<td>Other financial income</td>
</tr>
</tbody>
</table>

#### Note 7

**INCOME TAXES**

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.7.1–5.7.3</td>
<td>Income taxes</td>
</tr>
<tr>
<td>5.7.1.</td>
<td>Income tax on profits</td>
</tr>
<tr>
<td>5.7.2.</td>
<td>Deferred tax assets</td>
</tr>
</tbody>
</table>

#### Note 8

**CHANGES IN SHARE CAPITAL**

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.8.1–5.8.3</td>
<td>Changes in share capital</td>
</tr>
<tr>
<td>5.8.1.</td>
<td>Dividends on ordinary shares</td>
</tr>
<tr>
<td>5.8.2.</td>
<td>Other changes in share capital</td>
</tr>
</tbody>
</table>

---

**IDGC of Centre, PJSC**

- **Form under ARMO:** 071 000 1
- **Date (year, month, day):** 31.12.2016
- **TIN:** 690 164 7107
- **Type of activity:** Electric power transmission
- **Business legal structure/Form of ownership:** PJSC/hybrid
- **Location (Address):** 127018, Moscow, Russia, 2nd Yamskaya, 4

**I. NON-CURRENT ASSETS**

<table>
<thead>
<tr>
<th>Code</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1108</td>
<td>19,735</td>
<td>27,742</td>
<td>30,775</td>
</tr>
<tr>
<td>1111</td>
<td>91,494</td>
<td>96,233</td>
<td>86,745</td>
</tr>
<tr>
<td>1121</td>
<td>29,947</td>
<td>63,911</td>
<td>19,320</td>
</tr>
<tr>
<td>1139</td>
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<td>–</td>
<td>–</td>
</tr>
<tr>
<td>1148</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>1158</td>
<td>98,424,783</td>
<td>94,798,310</td>
<td>89,170,794</td>
</tr>
<tr>
<td>1159</td>
<td>291,405</td>
<td>234,369</td>
<td>165,620</td>
</tr>
<tr>
<td>1160</td>
<td>290,990</td>
<td>213,181</td>
<td>15,355</td>
</tr>
<tr>
<td>1161</td>
<td>3,443,267</td>
<td>2,782,106</td>
<td>2,170,430</td>
</tr>
<tr>
<td>1162</td>
<td>228,536</td>
<td>256,724</td>
<td>1,505,129</td>
</tr>
<tr>
<td>1163</td>
<td>1,505,129</td>
<td>1,116,220</td>
<td>914,718</td>
</tr>
<tr>
<td>1164</td>
<td>1,052,157</td>
<td>721,798</td>
<td>649,885</td>
</tr>
<tr>
<td>1165</td>
<td>2012,486</td>
<td>2001,436</td>
<td>1,786,087</td>
</tr>
<tr>
<td>1166</td>
<td>17,348</td>
<td>17,721,610</td>
<td>16,713,561</td>
</tr>
<tr>
<td>1167</td>
<td>102,266,654</td>
<td>97,585,590</td>
<td>92,173,001</td>
</tr>
</tbody>
</table>

**II. CURRENT ASSETS**

<table>
<thead>
<tr>
<th>Code</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1101</td>
<td>2,087,286</td>
<td>2,001,436</td>
<td>1,786,087</td>
</tr>
<tr>
<td>1102</td>
<td>17,348</td>
<td>17,721,610</td>
<td>16,713,561</td>
</tr>
<tr>
<td>1103</td>
<td>228,536</td>
<td>256,724</td>
<td>1,505,129</td>
</tr>
<tr>
<td>1104</td>
<td>1,505,129</td>
<td>1,116,220</td>
<td>914,718</td>
</tr>
<tr>
<td>1105</td>
<td>1,052,157</td>
<td>721,798</td>
<td>649,885</td>
</tr>
<tr>
<td>1106</td>
<td>2012,486</td>
<td>2001,436</td>
<td>1,786,087</td>
</tr>
<tr>
<td>1107</td>
<td>17,348</td>
<td>17,721,610</td>
<td>16,713,561</td>
</tr>
<tr>
<td>1108</td>
<td>228,536</td>
<td>256,724</td>
<td>1,505,129</td>
</tr>
<tr>
<td>1109</td>
<td>1,505,129</td>
<td>1,116,220</td>
<td>914,718</td>
</tr>
<tr>
<td>1110</td>
<td>1,052,157</td>
<td>721,798</td>
<td>649,885</td>
</tr>
<tr>
<td>1111</td>
<td>2012,486</td>
<td>2001,436</td>
<td>1,786,087</td>
</tr>
<tr>
<td>1112</td>
<td>17,348</td>
<td>17,721,610</td>
<td>16,713,561</td>
</tr>
<tr>
<td>1113</td>
<td>228,536</td>
<td>256,724</td>
<td>1,505,129</td>
</tr>
<tr>
<td>1114</td>
<td>1,505,129</td>
<td>1,116,220</td>
<td>914,718</td>
</tr>
<tr>
<td>1115</td>
<td>1,052,157</td>
<td>721,798</td>
<td>649,885</td>
</tr>
<tr>
<td>1116</td>
<td>2012,486</td>
<td>2001,436</td>
<td>1,786,087</td>
</tr>
<tr>
<td>1117</td>
<td>17,348</td>
<td>17,721,610</td>
<td>16,713,561</td>
</tr>
</tbody>
</table>
### Financial Review

#### Financial investments (excluding money equivalents)

<table>
<thead>
<tr>
<th>Line code</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4.1–5.4.3</td>
<td>5,000</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

- Loans granted to organisations for less than 12 months period: 1240 - 5,000

- Other short-term financial investments: 1242

#### Monetary funds and money equivalents

<table>
<thead>
<tr>
<th>Line code</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4.1–5.4.3</td>
<td>2,552,560</td>
<td>183,396</td>
<td>367,365</td>
</tr>
</tbody>
</table>

- Cashier's desk: 1251

- Settlement accounts: 1252

- Foreign exchange accounts: 1253

- Other monetary funds: 1254

#### Other current assets

<table>
<thead>
<tr>
<th>Line code</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4.1–5.4.3</td>
<td>552,218</td>
<td>390,809</td>
<td>374,656</td>
</tr>
</tbody>
</table>

Total for section II: 1200

**As at 31 December 2016**

20,395,889

**As at 31 December 2015**

20,283,524

**As at 31 December 2014**

19,219,037

**BALANCE**

1600

122,662,543

**LIABILITIES**

#### III. CAPITAL AND RESERVES

<table>
<thead>
<tr>
<th>Line code</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4.1–5.4.3</td>
<td>4,221,794</td>
<td>4,221,794</td>
<td>4,221,794</td>
</tr>
</tbody>
</table>

- Share capital (joint-stock capital, authorised capital, limited partner contributions): 1310

- Capital (prior to registered changes): 1311

- Own shares repurchased from shareholders: 1320

- Revaluation of non-current assets: 1321

- Additional capital (without revaluation): 1322

- Reserve capital: 1323

- Retained profit (unrecovered loss): 1324

- Of previous years: 1325

- Of the reporting period: 1326

Total for section III: 1300

57,731,595

117,869,114

111,392,038

**TOTAL for section V**

1500

16,836,091

13,197,531

19,933,145

**BALANCE**

1700

122,662,543

117,869,114

111,392,038

#### IV. LONG-TERM LIABILITIES

<table>
<thead>
<tr>
<th>Line code</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.6.1–5.6.8</td>
<td>39,305,000</td>
<td>26,455,000</td>
<td>27,670,000</td>
</tr>
</tbody>
</table>

- Loans and credits: 1410

- Bank credits subject to payment within 12 months after the reporting date: 1411

- Loans subject to payment more than 12 months after the reporting date: 1412

- Deferred tax liabilities: 1420

- Estimated liabilities: 1421

- Other liabilities: 1422

Total for section IV: 1400

48,694,857

48,058,624

35,227,297

21 February 2017

CEO

O.Y. Isaev

Chief Accountant

L.A. Sklyarova
### PROFIT AND LOSS STATEMENT

for January-December 2016

(to RAS financial statements)

<table>
<thead>
<tr>
<th>Note</th>
<th>Indicator</th>
<th>Code</th>
<th>For January-December 2016</th>
<th>For January-December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2110</td>
<td>86,110,259</td>
<td>79,817,205</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2</td>
<td>Cost of sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2120</td>
<td>(73,492,354)</td>
<td>(68,520,138)</td>
</tr>
</tbody>
</table>

**Note Indicator Code**

For January-December 2016  
For January-December 2015
In our opinion, this matter was one of most significance in our audit due to a significant share of property, plant and equipment in total assets of the Group, high level of subjectivity of assumptions used to determine a value in use of property, plant and equipment as well as materiality of judgments and estimates made by the management.

The majority of the Group’s property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value of the property, plant and equipment.

Therefore, the value in use for property, plant and equipment as at 31 December 2016 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment during the operating activities and upon disposal, to determine the recoverable amount of these assets.

We performed procedures of analysis and testing of the model used in making the estimates, assessment of adequacy of assumptions underlying the estimates, including assumptions in respect of projected revenue, tariffs solutions, discount rates etc. We have also reviewed the relevant controls in respect of the estimates, consideration by management of estimation uncertainty and changes in approaches as compared to the previous period. We have reviewed the actual outcomes of the use of the model to obtain sufficient and appropriate audit evidence about whether the management in making the estimates complied with IFRS requirements, the methods used in estimates of tests are appropriate and are applied consistently and the changes in estimates are reasonable based on information available at the date of preparation of the accounts.

For testing the model of estimate and underlying assumptions, we have engaged an expert in accordance with the procedure established by G4.

We have evaluated the accuracy and sufficiency of disclosures to the consolidated financial statements of information about determination of the value of property, plant and equipment, including information about uncertainties taken into consideration when making impairment test estimates.

Non-current assets are disclosed in Note 12 to the consolidated financial statements.

Impairment of accounts receivable

In our opinion, this matter was one of most significance in our audit due to significant balances of the Group’s accounts receivable as at 31 December 2016, and because the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Group’s customers.

We have performed procedures of evaluation of the adequacy of the Group’s policy on recognizing accounts receivable and determining if accounts receivables impairment allowance should be established, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including review of accounts receivable payments, review of maturity dates and overdue debts, review of customers’ financial solvency.

We performed audit procedures in respect of information used by the Group to determine the impairment of accounts receivable, accounts receivable ageing solution, tested the accuracy of accounts receivables impairment allowance based on the estimates documented by the management.

Accrued accounts receivables impairment allowance is disclosed by the Group in Notes 18, 28 to the consolidated financial statements.
Responsibilities of Management and the Audit Committee of the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statement, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always obtain evidence which is sufficient and appropriate to provide a basis for an opinion.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

➔ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

➔ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

➔ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

➔ Obtain sufficient appropriate audit evidence regarding the financial information of the entries or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(to consolidated IFRS financial statements)
## CONSOLIDATED STATEMENT
### OF FINANCIAL POSITION
### AS AT 31 DECEMBER 2016

(to consolidated IFRS financial statements)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>83,790,818</td>
<td>77,639,154</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2,345,282</td>
<td>1,797,450</td>
</tr>
<tr>
<td>Investments and financial assets</td>
<td>713,486</td>
<td>673,062</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>166,251</td>
<td>65,768</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>87,015,837</td>
<td>80,175,434</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2,567,305</td>
<td>123,220</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>13,977,188</td>
<td>16,762,252</td>
</tr>
<tr>
<td>Income tax prepayment</td>
<td>1,382,137</td>
<td>1,375,661</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,099,699</td>
<td>2,012,403</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>20,026,329</td>
<td>20,273,536</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>107,042,166</td>
<td>100,448,970</td>
</tr>
<tr>
<td><strong>EQUITY AND LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>4,221,794</td>
<td>4,221,794</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(81,778)</td>
<td>(134,911)</td>
</tr>
<tr>
<td><strong>Total equity attributable to equity holders of the Company</strong></td>
<td>43,887,921</td>
<td>38,759,069</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>145,809</td>
<td>127,274</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>43,253,730</td>
<td>38,886,343</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Note</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td>20</td>
<td>39,282,692</td>
<td>40,625,181</td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>22</td>
<td>3,995,795</td>
<td>1,626,556</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>24</td>
<td>2,202,613</td>
<td>2,364,882</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>14</td>
<td>6,420,822</td>
<td>5,177,991</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>26</td>
<td>1,035,516</td>
<td>380,698</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>46,941,643</td>
<td>48,338,740</td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>22</td>
<td>3,995,795</td>
<td>1,626,556</td>
</tr>
<tr>
<td>Finance lease liability</td>
<td>23</td>
<td>–</td>
<td>1,582</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>26</td>
<td>8,176,734</td>
<td>8,831,537</td>
</tr>
<tr>
<td>Provisions</td>
<td>26</td>
<td>1,026,203</td>
<td>1,099,872</td>
</tr>
<tr>
<td>Employee payables</td>
<td>25</td>
<td>1,431,899</td>
<td>468,000</td>
</tr>
<tr>
<td><strong>Income tax payable</strong></td>
<td>2,438</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td><strong>Other taxes payable</strong></td>
<td>27</td>
<td>2,215,724</td>
<td>1,464,399</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>16,844,793</td>
<td>13,223,887</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>63,788,436</td>
<td>61,562,627</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>107,042,166</td>
<td>100,448,970</td>
<td></td>
</tr>
</tbody>
</table>

The consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>abs.</td>
<td>Absolute value</td>
</tr>
<tr>
<td>ADCS</td>
<td>Automated dispatch control system</td>
</tr>
<tr>
<td>AIC</td>
<td>Agribusiness (agro-industrial complex)</td>
</tr>
<tr>
<td>CGC</td>
<td>Corporate Governance Code recommended by the Bank of Russia</td>
</tr>
<tr>
<td>CL</td>
<td>Cable lines</td>
</tr>
<tr>
<td>CRMIS</td>
<td>Corporate Resource Management Information System</td>
</tr>
<tr>
<td>DATS</td>
<td>Data Acquisition and Transmission System</td>
</tr>
<tr>
<td>DZ/EGD</td>
<td>Distribution Zone / Electric Grid District</td>
</tr>
<tr>
<td>EGC</td>
<td>Electric Grid Complex</td>
</tr>
<tr>
<td>EmMS</td>
<td>Energy management system</td>
</tr>
<tr>
<td>EO</td>
<td>Executive office</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>FGC</td>
<td>Federal Grid Company, FGC UES, JSC</td>
</tr>
<tr>
<td>FOCL</td>
<td>Fibre-optic communication lines</td>
</tr>
<tr>
<td>Free-float</td>
<td>Percentage of the Company’s shares that can be publicly traded, i.e. are not held by the controlling shareholder or strategic shareholders</td>
</tr>
<tr>
<td>FTS</td>
<td>Federal Tariff Service</td>
</tr>
<tr>
<td>FZ</td>
<td>Federal law</td>
</tr>
<tr>
<td>GC</td>
<td>Grid connection</td>
</tr>
<tr>
<td>GRACI</td>
<td>Government Relations and Anti-Corruption Initiatives</td>
</tr>
<tr>
<td>GS</td>
<td>Guaranteeing supplier</td>
</tr>
<tr>
<td>ICS and RM</td>
<td>Internal Control System and Risk Management</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IR (Investor Relations)</td>
<td>The Company’s activities to promote effective interaction between the Company and its shareholders and investors, as well as with other stakeholders that may have an effect on the market value of the Company, focused on providing most accurate and reliable information about the current state of the Company and its outlook</td>
</tr>
<tr>
<td>IJS</td>
<td>Indoor substation</td>
</tr>
<tr>
<td>JSC</td>
<td>Joint-stock company</td>
</tr>
<tr>
<td>KPI</td>
<td>Key performance indicators</td>
</tr>
<tr>
<td>kWh</td>
<td>Kilowatt hour – a unit of energy generated or expended</td>
</tr>
<tr>
<td>LLC</td>
<td>Limited liability company</td>
</tr>
<tr>
<td>L&amp;TS</td>
<td>Mechanisation and Transport Service</td>
</tr>
<tr>
<td>Megavolt-ampere</td>
<td>A unit of apparent power</td>
</tr>
<tr>
<td>Minimum monthly wage</td>
<td>Minimum monthly wage of a skill category 1 worker</td>
</tr>
<tr>
<td>MM</td>
<td>Mass media</td>
</tr>
<tr>
<td>MP-based</td>
<td>Microprocessor based</td>
</tr>
<tr>
<td>MUE</td>
<td>Municipal utility enterprise</td>
</tr>
<tr>
<td>MV/LV</td>
<td>Medium voltage (10 kV–35 kV) / low voltage (0.4 kV)</td>
</tr>
<tr>
<td>MW</td>
<td>Megawatt – a unit of electrical power</td>
</tr>
<tr>
<td>NC&amp;E</td>
<td>New construction and expansion</td>
</tr>
<tr>
<td>NCGR</td>
<td>National Corporate Governance Rating</td>
</tr>
<tr>
<td>NSPF</td>
<td>Non-state pension fund</td>
</tr>
<tr>
<td>OJSC</td>
<td>Open joint-stock company</td>
</tr>
<tr>
<td>OL</td>
<td>Overhead line</td>
</tr>
<tr>
<td>PP</td>
<td>Percentage points</td>
</tr>
<tr>
<td>PHIC</td>
<td>Low-rise residential communities</td>
</tr>
<tr>
<td>PIT</td>
<td>Personal income tax</td>
</tr>
<tr>
<td>PL</td>
<td>Power line</td>
</tr>
<tr>
<td>PMTS</td>
<td>Pole-mounted transformer substation</td>
</tr>
<tr>
<td>PTS</td>
<td>Package transformer substation</td>
</tr>
<tr>
<td>QMS</td>
<td>Quality Management System</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>RAB</td>
<td>A methodology ensuring return on invested capital. The key principle of the methodology is to provide for payback of investments into the Company’s assets within a fixed period, and for a fixed return on such investments</td>
</tr>
<tr>
<td>RAS</td>
<td>Russian Accounting Standards</td>
</tr>
<tr>
<td>REC</td>
<td>Regional Energy Commission</td>
</tr>
<tr>
<td>RGR</td>
<td>Required gross revenue</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on equity – Amount of the Company’s net income returned as a percentage of shareholders’ equity</td>
</tr>
<tr>
<td>RPA</td>
<td>Relay protection and automation (system)</td>
</tr>
<tr>
<td>Rs</td>
<td>Subsidiaries and affiliates</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>SS</td>
<td>Substation – An electric facility through which electric energy is passed for transformation, transmission and distribution</td>
</tr>
<tr>
<td>SW</td>
<td>Software</td>
</tr>
<tr>
<td>tce</td>
<td>Tonne of coal equivalent</td>
</tr>
<tr>
<td>TGO</td>
<td>Territorial grid organisation</td>
</tr>
<tr>
<td>TS</td>
<td>Telecommunication system</td>
</tr>
<tr>
<td>TUR</td>
<td>Technical upgrades and refurbishment</td>
</tr>
<tr>
<td>UNEG</td>
<td>Unified National Electricity Grid of Russia</td>
</tr>
<tr>
<td>VSAT</td>
<td>Very small aperture terminal</td>
</tr>
<tr>
<td>WECM</td>
<td>Wholesale electricity and capacity market</td>
</tr>
<tr>
<td>ZCC/DDCC</td>
<td>Zone Control Centre / District Dispatch Control Centre</td>
</tr>
</tbody>
</table>