

**Approved by**  
the resolution of the annual General meeting of  
shareholders of IDGC of the South JSC  
minutes of meeting No.13 dated 22 June 2015

**Preliminary approved by**  
the resolution of the BoD of IDGC of the South JSC  
minutes of meeting No.158/2015 dated 21 May 2015

**Annual Report**  
**of Open joint stock company**  
**“Interregional Distribution Grid Company of the South”**  
**(IDGC of the South JSC)**  
prepared by the results of activity in 2014

Director general,  
IDGC of the South JSC

Ebzeyev B.B.

Rostov-on-Don  
2015

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### **Limitation of liability**

The Annual Report (hereinafter “the Annual Report”) has been prepared with application of information available to the Open joint stock company “Interregional Distribution Grid Company of the South” (hereinafter “IDGC of the South JSC”, “the Company”) and its branches and affiliates as of this writing.

The Annual Report contains statements which constitute a probability assessment of future events and are subject to various risks. These risks encompass the possibility of changes in business conditions within the Company and its growth prospects; possible political and economic changes in Russia, and amendments to existing or future government regulations of the Russian electric power industry and Russian legislation in general, as well as impact of other factors.

Most of these factors are beyond Company’s control and forecast. Forward-looking statements due to their specific character are connected with inherent risks and uncertainties of both general and specific character, and there is a possibility that such assumptions, forecasts, projects and other forward-looking statements may not be fulfilled.

In the light of the foregoing, the Company informs that the actual results may significantly differ from the ones expressed explicitly or implicitly in forward-looking statements that are valid as of the moment of the report compilation date.

Therefore, the Company does not bear responsibility for the losses of legal entities of natural persons who acted relying upon the statements. Each forward-looking statement is one of the possible options of events and should not be treated as the most probable.

Joint address to Shareholders  
by The Board of Directors Chairman  
and the Director General of IDGC of the South JSC

Dear Shareholders!

“IDGC of the South” JSC in its activity is now dealing with hardships that can be solved due to sophistication of financial and economic, production and HR policies of the Company. It is related to both current year and the plans for 2015 and future periods.

The current complex situation with Company’s financial state has set a task before the management to summon up internal reserves, minimize costs, amend engineering solutions so that to ensure proper fulfillment of company’s main function, namely safe and reliable electricity supply to customers. The Company has definitely dealt with this task. Implementation of repair programme in full volume ensured that all Company’s branches were ready to autumn-winter season 2014/2015 and helped timely and without substantive remarks from controlling and supervising bodies get Certificate of preparedness to operation during the autumn-winter season.

Thus, by the results of the repair programme IDGC of the South has exceed the planned budget by 15% in monetary terms and performed 100-105% of repair works. Along with it, IDGC of the South keeps on increasing the number of repair and maintenance works fulfilled by company’s own resources. By the end of 2014 this indicator had increased by 4% and reached 87%. Such approach means that the Company depends less on contractors and ensures high level of works and efficient and timely implementation of the repair programme.

Power engineers of IDGC of the South proved their high professional skills at interregional competitions on maintenance of distribution grids where they took the 2<sup>nd</sup> place and during elimination of consequences of accidents caused by

natural disaster in September and March of 2014 when they managed to restore power supply to consumers in no time.

Analysis of Company's activity in 2014 showed that the number of technological faults reduced by 7% in comparison to 2013 and the total length of blackouts reduced by 9%.

In 2014 in accordance with its investment programme the Company commissioned 410 kilometres of power lines, while the planned length was 208 kilometres (197% of the plan), 111MVA when it was planned only 84 (132%). Assimilation of capital expenses in 2014 amounted 1.2 billion rubles (133%), among which the Company spent 696 million rubles on technical upgrade and modernization, 491 million rubles were spent on new construction. In total there were fixed assets on 1.7 billion rubles commissioned, while the planned sum was 1.4 billion ruble (122%).

The actual volume of capital expenses assimilation reduced by 62% in 2014 in comparison to 2013 and 77% in comparison to 2012. The reduction of investment programme was approved by the Board of Directors on 17 December 2014 (minutes of meeting No.148/2014) and the programme was prepared on the basis of financial state of the Company.

Speaking about financial performance of the company we can say that the Company has a loss in amount of 6.9 billion rubles, which is insignificantly, only 1% or 72 million rubles, better than the planned indicator. Revenue from the sold services increased in 2014 by 5.3%, or 5.3 billion rubles, in comparison to 2013, and amounted 28.9 billion rubles. Such growth is due to increase in tariff on energy transmission and increase of productive supply of electric energy in the group of consumers "other consumers that are paying by one-rate tariff" and power exchanges of networks of "Donenergo" JSC.

If we take a look at the results of the Company's performance, we can see that the company gains from sales annual profit enough to provide for fulfillment of priority production programmes. But the final financial result is not comparable with the revenue. The main reason of Company's loss is consistent nonpayment

from the part of large contractor, which leads to overdue accounts receivable for electricity transmission services. As the result, the Company has to create bad debt provision and attract loans for covering of cash deficiency. The earnings, fixed by tariff resolution, are not received in full volume.

Such results indicate insufficient liquidity and scarce paying capacity of the Company. The Company found out itself in such state because of the shortage in cash flow from suppliers and energy selling companies.

Growth of quick assets ratio occurred in the result of increase in cash balance and growth of monetary funds to current liabilities ratio.

According to the results of the reporting period, the indicator EBITDA is negative and amounts to 1.5 billion rubles because of the company's loss. Joint debt to EBITDA ratio is -16.29. Return on equity and sales margin indicators have grown if we compare with them 2013.

Debt of guarantee suppliers to the Company exceeded 7.1 billion rubles as of 31 December 2014, which 4.4% higher than in 2013. Deficit of finances threatens the implementation of repair programmes and emergency and maintenance works, interests of market participants and customers.

The largest debtors are: Municipal unitary production enterprise "Volzhskiye regional electric networks VMES" (bankrupt), "Khimprom" JSC (bankrupt), "KalmEnergoKom" JSC (bankrupt), "Energosbyt Rostovenergo", "Donenergo" JSC, "Oboronenergosbyt" JSC.

"IDGC of the South" JSC strives to settle the disputes arising in relation to contractors' debt recovery in a pre-court procedure and asserts its right in a legal procedure. Also the Company encourages initiative on establishment of special commissions for monitoring of payments for the consumed electric energy. These commissions make decisions aimed at increase of repayment discipline.

Together with the regional legislative bodies the company prepared offers for State Duma on provision of possibility to energy selling and networks companies to participate in tender on obtaining the right to collect payments for electric energy, as well as to increase penalties per each day of delay in payments for the services,

as well as to exclude unfair intermediators between producers and consumers of energy from the payment scheme.

In 2014 “IDGC of the South” JSC put a lot of efforts in increasing of accessibility of electrical grid infrastructure. For instance, now the customers (with capacity up to 150kW, it is 93% of all customers) need to visit the customer centre only three times to get services on technological connection. Such customer can now apply on-line using the Company’s web-page. It is also available to make an appointment with a manager on issues related to technological connection.

The Company has fully achieved the planned indicators on technological connection, the company received 20 thousand applications for the total capacity of 2.14MW; 16.3 thousand contracts on grid connection were concluded for the total capacity of 579 MW, it fully corresponds to the speed of performance of a contract in 2013. Actual connection performed – 14.7 thousand for the total capacity of 448MW.

For two consecutive years now the Company has been carrying out activities on provision of reliable power supply to the FIFA World Cup 2018 году. By 2017 the Company will have constructed large substations in two host-cities подстанции закрытого типа: substation “Sportivnaya” and 110kV cable and overhead line “Koisug – Sportivnaya – R-4” will be constructed on the left river Bank in Rostov-on-Don; “Gvardeiskaya” substation will be installed in the central part of Volgograd. These two substations will provide electricity supply to the venues of the World Cup – stadiums and infrastructure.

Recently the company has finished formalization of the land rights on land plot where substation “Sportivnaya” is situated, now working out of design documentation is in progress. The scheduled date of pre-construction activities: February 2016.

Also as a part of the project on boosting power lines and substations that are important for reliable power supply in the region, the Company will implement arrange of various activities. Namely, substation “AS-10” will be modernized in order to ensure power supply to a new airport in Rostov-on-Don.

“IDGC of the South” plans to also construct power lines to connect left and right banks of the city, this will significantly enhance reliability of power supply to venues of the FIFA World Cup 2018. The company will invest over 3 billion rubles to finance all the planned activities. Along with it, in order to prevent extra load on tariffs in the regions hosting the FIFA World Cup 2018 the company plans to attract over 2 billion rubles from the federal budget: 1.7 billion rubles for Rostov region and 0.6 billion rubles for Volgograd region.

In September 2014 during the Sochi Economic Forum an agreement was signed on transfer of the powers sole executive body of “Donenergo” JSC to the Company; the agreement is aimed at development and enhancement of efficiency of the power grids of the region, provision of reliable and safe power supply to customers due consolidation of efforts in enhancement of quality of power supply by implementing a unified technical economic and corporate policy.

The first successful results were long in coming: a unified transparent responsibility centre was formed, proprietary standards of “IDGC of the South” JSC were introduced, namely standards on planning and budgeting, management accounting, comprehensive strategy for technical re-equipment and implementation of programmes on development and costs optimization.

The principal directions in company’s growth and the key tasks for the forthcoming 2015 and future periods are defined and described in the Strategy of power grids development. Among the priority tasks the Company has, first of all, provision of reliable power supply and enhancement of quality of the services. Secondly, the company needs to develop the power grid infrastructure and consolidate grid assets in order to support the economic growth of the regions of the Company’s operation.

Apart from that, an important activity is development of labour productivity and optimization of operational expenditures. Particularly, the Company introduced a Performance management programme, which is aimed at reduction of controllable operational expenditures per unit of electrical equipment. Another aim is increase of energy efficiency, which presupposes the reduction of technological losses of

electric energy during its transfer across Company's grids. Particular emphasis is given to reduction of cost of investments.

Much work still lies ahead to facilitate the interaction between customers and grid companies, for this purpose the company will establish information and service centres for customers, introduce uniform service standards, which means that coordination of efforts of grid and retail companies is.

**Kind regards,**

**Arkhipov Sergey Alexandrovich**

**Chairperson of IDGC of the South JSC Board of Directors**

**Ebzeyev Boris Borisovich,**

**Director General of IDGC of the South JSC**

### **Key Performance Results of IDGC of the South, JSC in 2014**

Electricity transmission services: <b>26 468,1million kWh</b>	Area of operation: <b>334.9 thousand square kilometres.</b> Population: <b>8,1 million people</b>
Electricity losses <b>9,30%</b>	<b>14 676</b> grid connections with total capacity <b>447 932 kW</b>
Income from power transmission services: <b>28 009 million rubles</b>	Average number of staff employed <b>13 390 people</b>
Income from grid connection <b>704 million rubles</b>	Assimilation of capital expenses: <b>1 192. 39 million rubles</b>
EBITDA <b>-1 526, 3 million rubles</b>	<b>410 kilometres</b> of power lines and <b>111 MVA</b> of transformer capacity commissioned;
Sales margin: <b>14,07%</b>	Company capitalization <b>1 579 million rubles</b>

## **1. About the Company**

### **1.1. Geographical location**

IDGC of the South carried out its activity across four regions of the Southern Federal district Astrakhan, Volgograd and Rostov Regions, and the Republic of Kalmykia during the reporting quarter.

Responsibility area of IDGC of the South neighbours Krasnodar and Stavropol regions in the south, the Sea of Azov and national boundary with the adjoining Ukraine in the west, administrative boundaries of Voronezh and Saratov regions in



the north and Kazakhstan, the Caspian Sea and administrative boundaries of the Republic of Dagestan and the Karachay-Cherkess Republic in the east.

The Company's service area is located in continental climate. Area of the Company's presence encompasses about 334.9 thousand km<sup>2</sup> with the population of 8.1 million people and average population density of 25 people per km<sup>2</sup>.

## **1.2. Brief history of the company**

The establishment of IDGC of the South, JSC is an integral part of the approved schedule of Russian power industry reform, which presupposes the interregional integration of newly established entities after division of the power companies based on their types of business.

Key milestones and dates of electric power industry reforms are described on the "Reform" page of the Company's web-site.

IDGC of the South JSC was registered on 28 June 2008 upon a resolution of the sole founder – RAO UES of Russia JSC (Order of "RAO UES of Russia" JSC No.192p dated 22.06.2007)

Afterward the Management of RAO UES of Russia JSC performing the functions of extraordinary general meeting of shareholders of IDGC of the South (minutes of meeting No. 1795pr/6 dated 25 December 2007) and general meetings of shareholders of five distribution grid companies (DGCs) – "Astrakhanenergo" JSC, "Volgogradenergo" JSC, "Kubanenergo" JSC, "Rostovenergo" JSC, "Kalmenergo" JSC, have made a decision to restructure companies by their joining to "IDGC of the South" JSC.

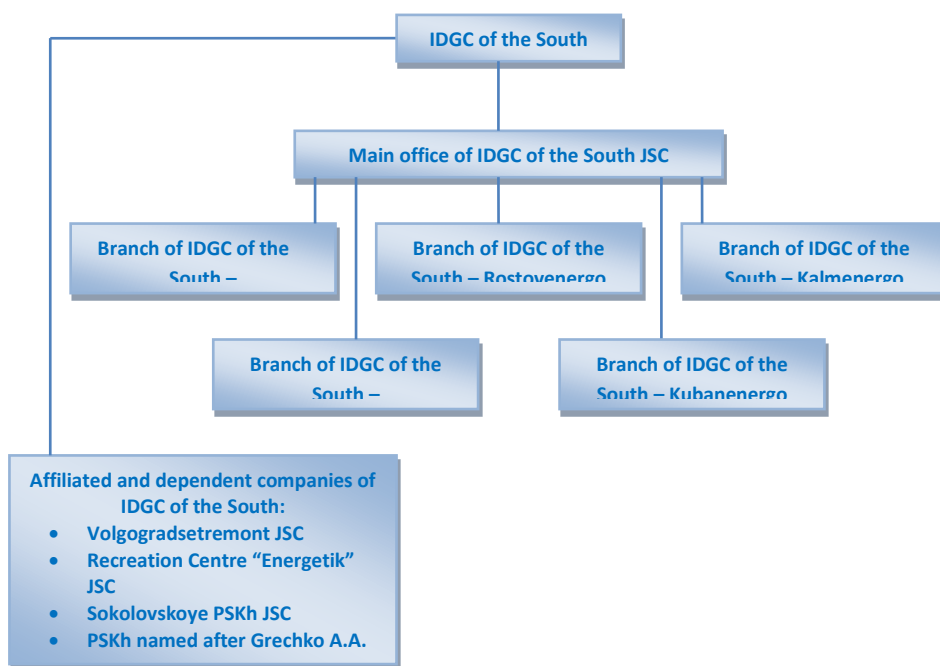
On 31 March 2008 entries to the to the Unified State Register of Legal Entities were made on termination of activity of five out of four affiliated to IDGC of the South companies ("Astrakhanenergo" JSC, "Volgogradenergo" JSC, "Rostovenergo" JSC, "Kalmenergo" JSC).

From then onward "IDGC of the South" has been carrying out its activity as an integrated operation.

"IDGC of the South" JSC was performing functions of a sole executive body of Kubanenergo until 1 December 2010.

Currently “IDGC of the South” occupying a dominant position on market of services on electricity transmission across the Southern federal district, is a part of “Rosseti” group, one of the largest infrastructure companies of Russia holding about 80% of country’s distribution grid complex.

## 1.2. Corporate structure



Corporate structure of “IDGC of the South” JSC was elaborated in accordance with joint resolution of “RAO UES of Russia” JSC and FGC UES JSC No. 356p/459p dated 24 December 2007 “On improvement of corporate structure of IDGC”, approved at the meeting of the BoD (minutes of meeting No.7/2008 dated 28.01.2008) and introduced on 01.04.2008 (Order of “IDGC of the South” JSC No.11 dated 28.01.2008).

The Board of Directors introduced a number of changes to the corporate structure:

- [minutes of meeting](#) No.16/2008 dd 25.07.2008;
- [minutes of meeting](#) No.21/2008 dd 23.12.2008;
- [minutes of meeting](#) No.28/2009 dd 03.06.2009;
- [minutes of meeting](#) No.31/2009 dd 07.08.2009;
- [minutes of meeting](#) No.52/2010 dd 06.08.2010;
- [minutes of meeting](#) No. 59/2011 dd 11.02.2011;
- [minutes of meeting](#) No.65/2011 dd 01.06.2011;
- [minutes of meeting](#) No.84/2012 dd 19.03.2012;
- [minutes of meeting](#) No.105/2013 dd 11.03.2013.

The main sectors of the Company's activity are divided into functional blocks managed by Deputy CEOs of the Company:

- economy and finance;
- service sales department;
- capital construction, investments;
- technical block;
- corporate management, property management, consolidation of electric grid assets and legal support;
- HR department, administrative services, transport and documents departments;
- security and state secret protection
- sector for energy saving and energy efficiency.

The key sectors are attached to independent structural units directly subordinate to The Company's Chief Executive Officer:

- Accounting and Tax Department;
- Logistics and Inventory Department
- Information Technologies Department;
- Department of Internal Audit and Risks Management;
- Technical Inspection Department;
- PR-department;
- Quality Management Department
- Department for Preparedness Activity

In the organizational structure, Deputy CEOs - branch CEOs - are represented who (on the basis of powers of attorney issued by the Company's CEO) exercise management of the following branches of the Company founded according to the decision of the Company's Board of Directors (minutes No.6/2008 dd 11.01.2008):

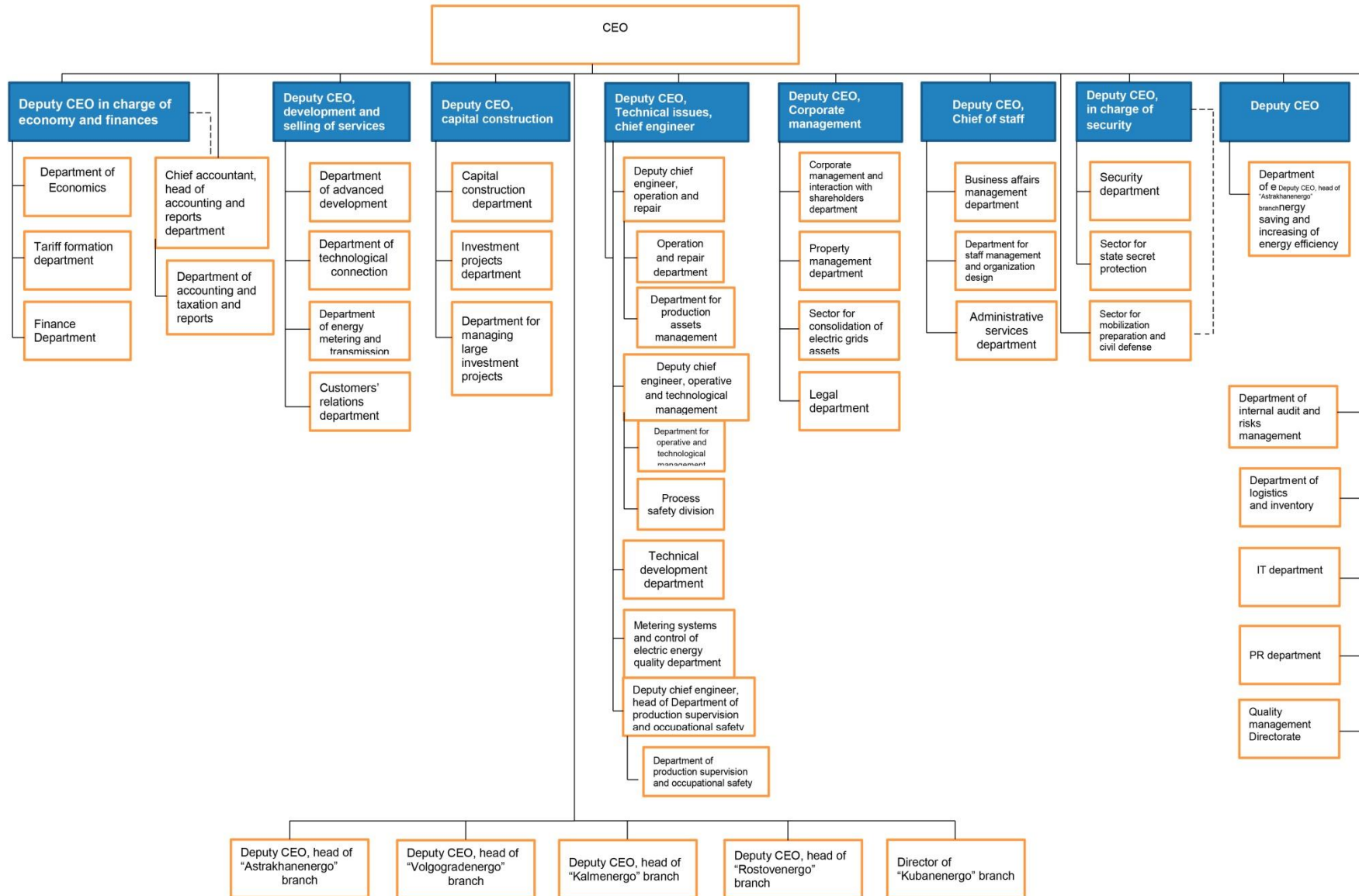
1. "Astrakhanenergo" branch of «IDGC of the South», JSC (32 Krasnaya Naberezhnaya st, Astrakhan, 414000);
2. "Volgogradenergo" branch of «IDGC of the South», JSC (15 prospect Lenina, Volgograd, 400066);

3. “Kalmenergo” branch of «IDGC of the South», JSC (Northern industrial area, Elista, Republic of Kalmykia, 358007);
4. “Kubanenergo”, JSC branch of “IDGC of the South”, JSC (2 Stavropolskaya str., Krasnodar 350033)
5. “Rostovenergo” branch of «IDGC of the South», JSC (49 Bolshaya Sadovaya st, Rostov-on- Don, 344002).

Except Kubanenergo JSC, all other branches of IDGC of the South JSC perform their activity since 31 March 2008.

Branch of IDGC of the South – Kubanenergo does not perform operating activity.

Corporate structure of executive office of IDGC of the South



**As of 31.12.2014 IDGC of the South JSC owned 100% of voting shares of the following companies:** (for more details see chapter 3.6. and appendix 4 to the annual report):

1. Volgogradsetremont JSC;
2. PSKh named after Grechko A.A. JSC;
3. PSKh Sokolovskoye JSC;
4. Recreation Centre “Energetik” JSC;
5. Energoservis Yuga JSC.

#### **1.4. Key Events and News**

##### **News, events of the reporting period**

#	Published on	News	Published at
1	27.01.2014	Power engineers of Kalmykia built more than 8 km of overhead power lines and 4 transformer substations for technological connection to electric networks of the Company four communication facilities – MegaFon, MTS and VimpelCom cell towers on M6 highway.	Company’s webpage, local mass media
2	25.03.2014	IDGC of the South JSC received a letter of gratitude from Budargin Oleg, Director General of Rosseti JSC for providing reliable power supply of Olympic facilities.	Company’s webpage, local mass media
3	19.06.2014	As part of prepare to winter and autumn period, the power engineers of IDGC of the South JSC repaired two 110/10 kV substations of Volgograd region – “Gorodische” and “Kachalinskaya”.	Company’s webpage, local mass media
4	01.07.2014	Specialists of Volgograd branch of IDGC of the South JSC repaired 110/10 kV substation “Dobrinskaya”. 110/10 kV substation “Solontsy” and 35/10 kV “Tsatsa” – main sources of power supply for several settlements	Company’s webpage, local mass media

<b>5</b>	<b>01.07.2014</b>	On July 1st a ceremony of opening of student building brigades season of IDGC of the South JSC was took place. 80 students of “South Russian State Polytechnic University named after Platov M.I.” have undertaken an internship in Rostov and Volgograd branches of the Company.	Company’s webpage, local mass media
<b>6</b>	<b>14.07.2014</b>	IDGC of the South JSC and Department of Education and Science of Volgograd region concluded an agreement on actions on prevention of electric injures among children up to 2016.	Company’s webpage, local mass media
<b>7</b>	<b>29.07.2014</b>	On July 28th of 2014 the Board of Directors of IDGC of the South JSC decided to elect Ebzeev Boris Borisovich for the position of Director General.	Company’s webpage, local mass media
<b>8</b>	<b>05.08.2014</b>	Specialists of IDGC of the South JSC repaired “Tinguta” and “Novo-Maksimovskaya” substations that allows to increase reliability of power supply of southern districts of Volgograd region – Svetloyarskiy and Surovikinskiy districts.	Company’s webpage, local mass media
<b>9</b>	<b>11.08.2014</b>	The programme of prevention of electric injures among children was launched in Kalmykia. The passengers of public transport study the rules of electric safety.	Company’s webpage, local mass media
<b>10</b>	<b>11.08.2014</b>	Power engineers of IDGC of the South JSC captured “silver” at interregional competition on repair and maintenance of 0.4-10kV distribution networks. Team of “IDGC of Volga” JSC won competition.	Company’s webpage, local mass media
<b>11</b>	<b>12.08.2014</b>	Power engineers of IDGC of the South JSC carried out overhaul of 110/35/10 kV substation “Donskaya” in Ilovinskiy district of Volgograd region.	Company’s webpage, local mass media

<b>12</b>	<b>18.08.2014</b>	Power engineers of IDGC of the South JSC carried out overhaul and current repair of 110/6 kV electric substation “Zavodskaya” in Frolovo, Volgograd region.	Company’s webpage, local mass media
<b>13</b>	<b>20.08.2014</b>	Power engineers of IDGC of the South JSC carried out overhaul of 110/10/6 kV substation “Kochevaya” and 110/6 kV substation “Dzhelga” in Akhtubisnkiy district of Astrakhan that provide more than 6 thousand customers and a few of agricultural enterprises.	Company’s webpage, local mass media
<b>14</b>	<b>22.08.2014</b>	From the beginning of year workers of Astrakhan branch of IDGC of the South JSC upgraded system of collection and transfer of information of three 110 kV substations – “Okrasochnaya”, “Lesnaya” and “TsRP” that supply two thirds of customers from Astrakhan and several industrial facilities.	Company’s webpage, local mass media
<b>15</b>	<b>01.09.2014</b>	As part of preparation of power facilities to autumn and winter period, the specialists of “IDGC of the South” JSC implemented overhaul of 110/35/10 kV substation “Dar-Gora”, one of the main centres of power supply of Volgograd.	Company’s webpage, local mass media
<b>16</b>	<b>04.09.2014</b>	By the start of the new school year specialists of IDGC of the South JSC implemented technological connection of 5 schools, 2 kindergarten and music and sport schools in Rostov, Volgograd and Astrakhan regions.	Company’s webpage, local mass media
<b>17</b>	<b>15.09.2014</b>	Employees of IDGC of the South JSC participated in charity race to collect money for implementation of programmes of socialization and education of children	Company’s webpage, local mass media



		with disabilities and attraction of the attention to this problem.	
18	19.09.2014	As part of preparation to autumn and winter period the power engineers of IDGC of the South JSC implemented overhaul of 35/10 kV substation “Oktyabrskaya” in Kalachaevskiy district of Volgograd region.	Company’s webpage, local mass media
19	22.09.2014	IDGC of the South JSC delegated authorities of sole executive body to “Donenergo” JSC. The agreement was signed by IDGC of the South JSC and “Donenergo” JSC on Sochi investment forum at September 20th of 2014.	Company’s webpage, local mass media
20	24.09.2014	During the preparation of power grid facilities to winter and autumn period, the specialists of IDGC of the South JSC implemented overhaul of 110/10 kV substation “Borovki” and 35/10 kV substation “Kompessornaya”.	Company’s webpage, local mass media
21	03.10.2014	Power engineers of Volgograd branch of IDGC of the South JSC put into operation telemetry systems at seven key 110 kV substations of Volgograd region.	Company’s webpage, local mass media
22	06.10.2014	Certificates of preparation to autumn and winter period 2014-2015 were given to heads of all branches of “IDGC of the South” JSC.	Company’s webpage, local mass media
23	07.10.2014	In September of 2014 IDGC of the South JSC implemented technological connection of “Donstar” LLC, industrial complex on breeding ducks, to Company’s networks on total capacity 6.2 MW.	Company’s webpage, local mass media
24	07.10.2014	By the decision of IDGC of the South Board of Directors, Sergei Chekmarev was elected for the	Company’s webpage, local

		position of deputy Director General – Director of Rostov branch of the Company.	mass media
25	05.11.2014	IDGC of the South JSC and administrations of Rostov, Astrakhan, Volgograd regions and Republic of Kalmykia concluded Agreement on support of agricultural complex enterprises that are included in registry of support recipients.	Company's webpage, local mass media
26	10.11.2014	Specialists of Volgograd branch of IDGC of the South JSC implemented overhaul of 35/10 kV substation "Aksai". It allowed to increase reliability and safety of power supply of villages Aksai, Shelestovo and Peregruznoe of Oktyabrskiy district, Volgograd region.	Company's webpage, local mass media
27	12.11.2014	Specialists of Volgograd branch of IDGC of the South JSC implemented overhaul of 35/6 kV substation "NS-1" of Pallasovskiy district – one of the most remote district of the region.	Company's webpage, local mass media
28	08.12.2014	IDGC of the South JSC received certificate "For social activity" in first independent interregional competition "Social projects of South of Russia" as part of the media project "Social investments of South of Russia" from magazine "Expert-Yug".	Company's webpage, local mass media
29	12.12.2014	Specialists of IDGC of the South were highly praised during unique command-staff exercises.	Company's webpage, local mass media
30	16.12.2014	IDGC of the South JSC launched new project – "Day of customer". New interactive service at the corporate web-site of the Company that allows to make appointment on	Company's webpage, local mass media

		personal meeting regarding to technological connection was appeared.	
31	25.12.2014	IDGC of the South JSC congratulated power industry veterans with Power Engineers' Day. In all branches of IDGC of the South JSC traditional meetings with power industry veterans were held.	Company's webpage, local mass media
32	29.12.2014	Employees of IDGC of the South JSC informed more than 126 thousand schoolchildren on rules of electric safety in 2014. Specialists of IDGC of the South JSC conducted more than 2.8 thousand lessons of electric safety in educational institutions of the following regions – Rostov, Volgograd, Astrakhan and Kalmykia. More than 126 thousand schoolchildren attended these lessons.	Company's webpage, local mass media
<b>Events after the reporting date</b>			
1	14.01.2015	Oleg Budargin, head of “Rosseti” thanked employees of IDGC of the South JSC during meeting of Executive staff of electric network complex for interrupted power supply of customers in holydays.	Company's webpage, local mass media
2	05.02.2015	Pavel Goncharov, chief engineer of IDGC of the South JSC was awarded with Medal of the Order “For Merit to the Astrakhan district” at February 5 <sup>th</sup> of 2015.	Company's webpage, local mass media
3	24.02.2015	In Trusovskiy district of Astrakhan region power engineers of IDGC of the South JSC are finishing the reconstruction of 0.4 kV power line at Yubileinaya and Mira streets. It will increase reliability and safety of power supply.	Company's webpage, local mass media

4	26.02.2015	As part of investment programme IDGC of the South JSC implemented the installation of transformer at 110/35/6 substation “Lesnaya” in Trusovskiy district of Astrakhan. Replacement of equipment was made without disabling of substation.	Company’s webpage, local mass media
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### **1.5. Position of IDGC of the South in the industry**

IDGC of the south JSC encompasses distribution networks of four territorial subjects of the Russian Federation, namely the Republic of Kalmykia, Astrakhan, Volgograd and Rostov regions and carries out the following types of activity:

- paid services on electricity transmission, which are provided by a range of organizational and technical activities, as well as operational and process management;
- services on grid connection of power receivers (electric power installations) of legal entities and natural persons to the Company’s electric networks;
- repair and maintenance activity.

By the Order of the Federal Tariff Service No. 208-e dated 16 June 16 2008, IDGC of the South JSC was included in the register of natural monopolies in the fuel and power industry sector, in respect of state regulation and control is performed by setting of tariffs for electric power transmission and technological connection of consumers to the electric networks of IDGC of the South JSC.

At the present time there are three operating levels of grid companies in electric power industry of Russia, defined on the basis of technologies and territory:

Level 1. Federal Grid Company (FGC UES JSC) is the organization managing Unified National (Russian) Electric Grid (UNEG), owning 220 kV and higher grids operating on the territory of Russian Federation (having branches in all regions of Russia).

Level 2. Interregional Distribution Grid Companies (IDGC), formed in the result of AO-energo reorganization as distinguished on the basis of their activity types and subsequent incorporation of Regional Grid Companies.

IDGC owns 110-0.4 kV grids, provides services on the transmission and distribution of electric energy on the territory of territorial subjects of the Russian Federation, the Regional Grid Companies of which are their constituents.

Level 3. Local Grid Companies formed as municipal enterprises (serving customers within one municipal entity) owning mostly 10-0.4 kV grids.

The process of reorganization resulted in incorporation of enterprises of this level: local Grid Companies serve consumers of several municipal districts and some of the Companies serve consumers of the entire Russian Federation subdivision territory.

Presently, “IDGC of the South” JSC is an Interregional Distribution Grid Company of the second Level, technologically connected to UNEG and dominating in transmission service market of Southern Federal District of the Russian Federation.

The consumers of the Company’s services are mostly energy selling companies, consumers that are participants of the wholesale- and retail electricity markets as well as local grid companies.

Considerable part of electricity, supplied to the consumers on the service territory of IDGC of the South, is transmitted via the Company’s grids.

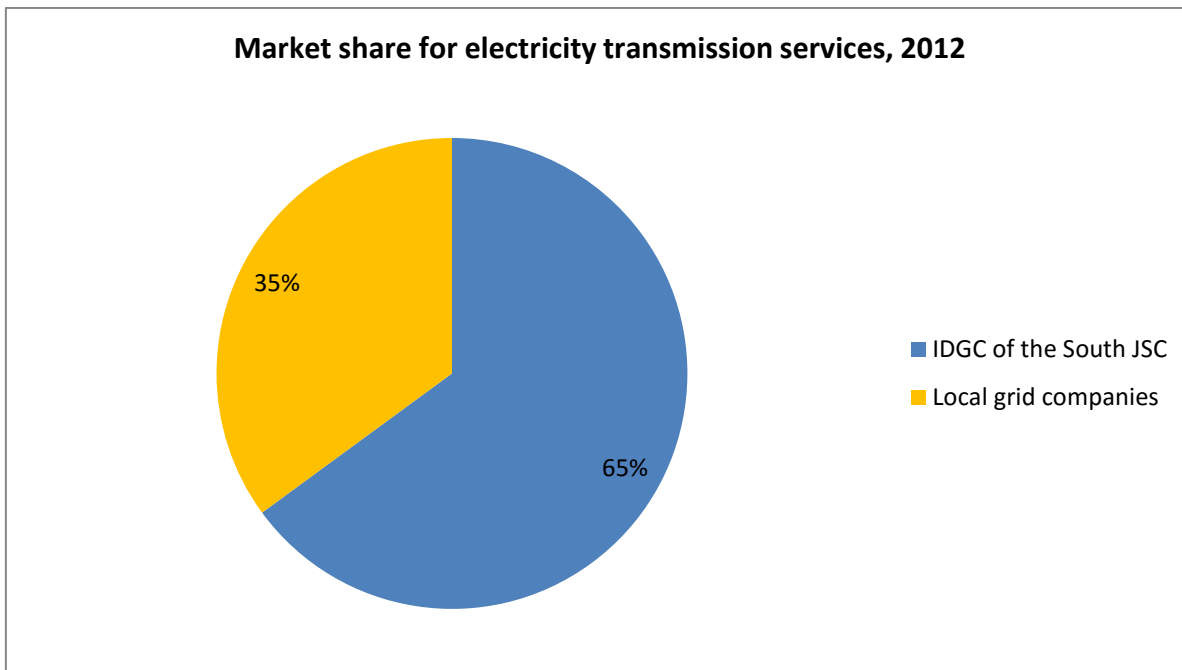
With the presence of the grid connection of electricity consumers the grids of the UNPG (Unified National Power Grid), “IDGC of the South” JSC concluded with the owner of the equipment UNPG (UES FGC, JSC) contracts on rent of grid property (“last mile” agreements), and thereby acquired the right to provide such services on electricity transmission.

The Company performs its main activity in the conditions of natural monopoly regulated by the state in terms of the establishment of tariffs for electricity transmission and technological connection rates, as well as ensuring for consumers a non-discriminatory access to electric grids.

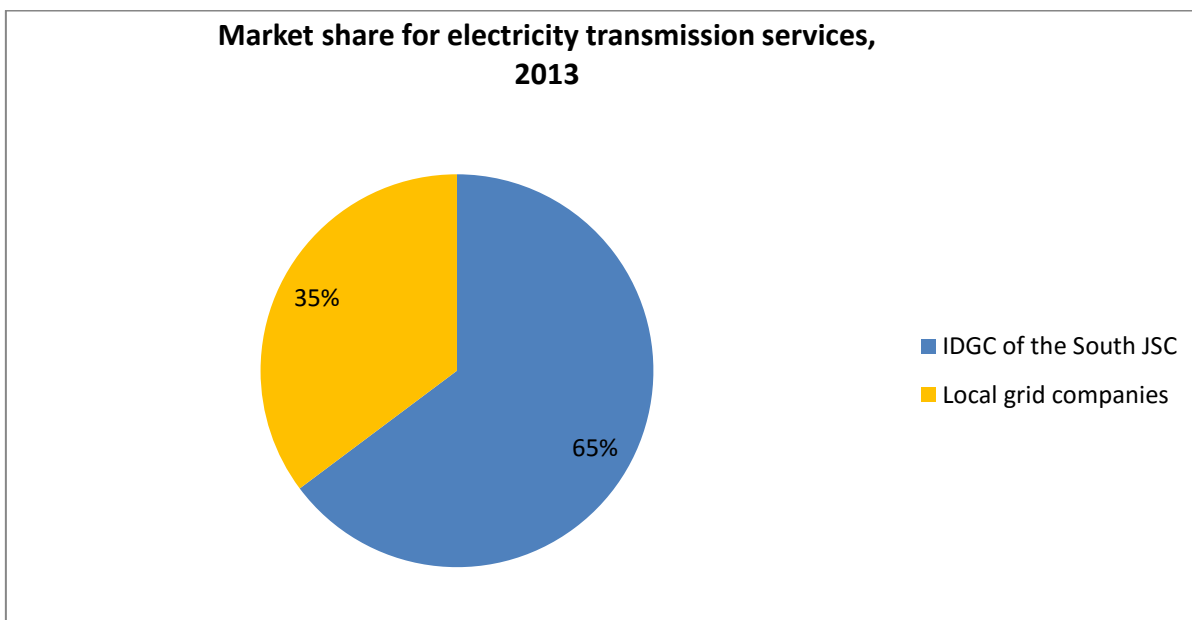
“IDGC of the South” JSC is the largest electric power industry entity that provides services on electric energy transmission to consumers in the territory of the Southern Federal District of Russia.

## Market share of transmission services within the corporate footprint in absolute and relative terms

For the last three years the Company's market share of electricity transmission services has not changed.

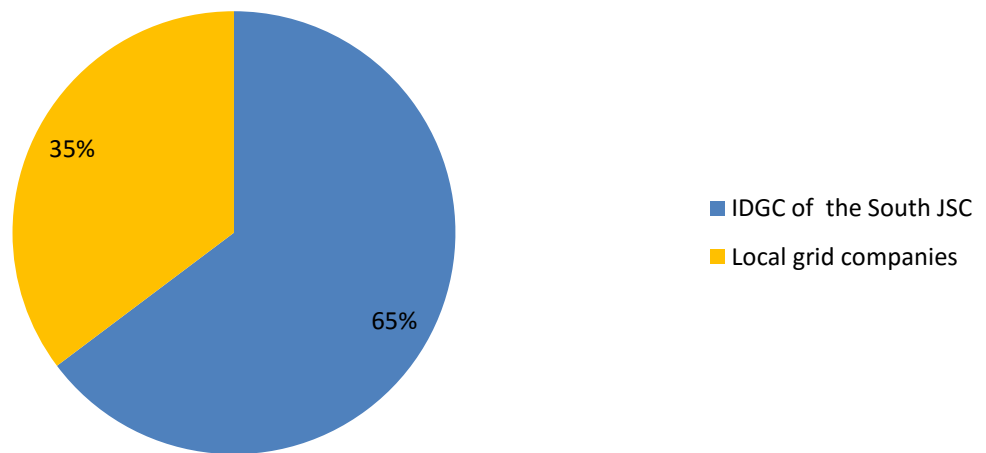


gross revenue requirement of IDGC of the South JSC - 14 718,23 million rubles,  
Local grid companies - 7 948,44 million rubles.



gross revenue requirement of IDGC of the South JSC »- 15 321,38 million rubles,  
Local grid companies - 8 333,66 million rubles.

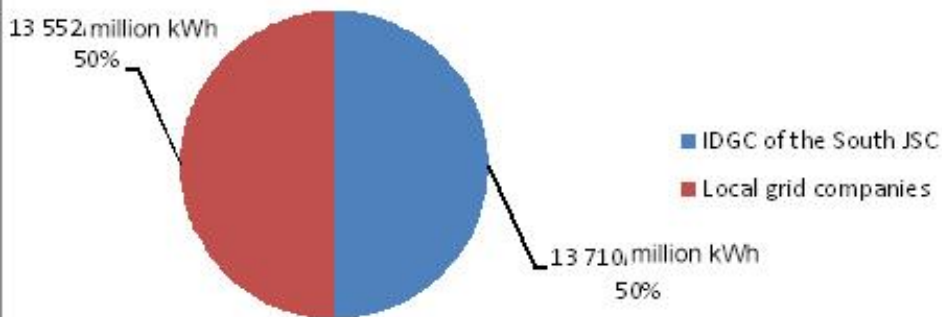
**Market share for electricity transmission services, 2014**



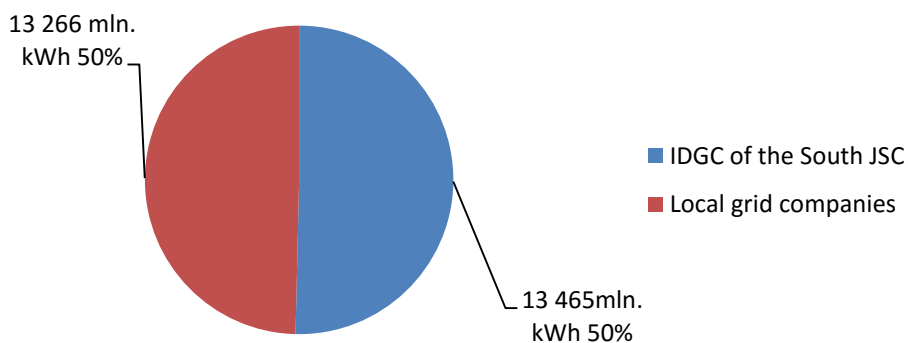
gross revenue requirement of IDGC of the South 15 506,34 million rubles, Local grid companies- 8 445,75 million rubles.

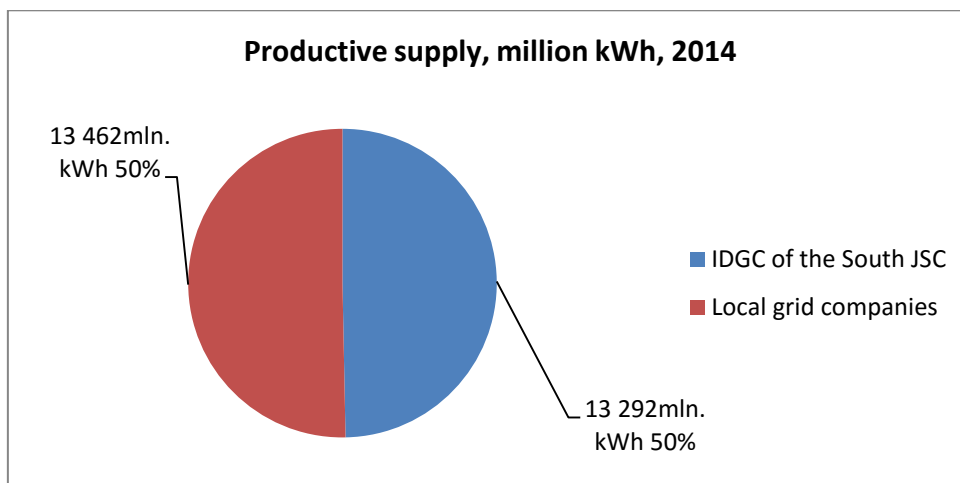
For the last three year share of productive supply remained unchanged.

**Productive supply, million kWh, 2012**



**Productive supply, million kWh, 2013**





The rent for property lend by IDGC of the South amount to 1 936.6 c.u. (Astrakhan region - 1 453.7 and Kalmykia 482.9 c.u.), which is 0,4% of the total volume of Company's equipment.

In 2014 the company accept transfer of ownership of Astrakhanenergo branch an unpossessed grid equipment in total volume of 70.4 c.u.

Monitoring of local grid companies is provided in Annex 7 to the Annual report.

The strategy of IDGC of the South JSC is aimed at further integration of the grid complex by acquiring of the related grid companies with priority given to stability of payments for power transmission services, reduced excessive losses, and improved reliability of power transmission to end customers.

To keep the positive tendency, the Company undertakes the following activities:

- Continuous monitoring of regional energy markets, consisting of forecasting and analyzing factors influencing the Company business, as well as working out ways to reduce their negative impact on the Company performance;
- Interaction with the Russian Federal Tariff Service, Ministry of Energy, administrations of Russian Federation constituent entities, distribution grid companies, RTS, FGC UES, Rosseti JSC local grid companies, and energy sales and supply companies in terms of tariffs and balance regulation and the operation of regional energy markets.

Total production capacity of the Company (MVA, km):



Length of the overhead electricity lines of 0.4-220 kV is 155 449,16 kilometres by route and 159 380,03 kilometres by circuits. The total amount of substations 10kV and higher is 31 344 items, with total capacity of 23 752,9MVA.

**Length of the overhead power lines, number of substations with total capacity by voltage levels:**

#	Groups of power grid facilities	Length (by routes), km	Capacity, MVA	Amount, pieces
1	Overhead power lines, km, including:	155 449,16		54819
1.1	Overhead lines 220 kV	386,2		4
1.2	Overhead lines 110 kV	15801,2		728
1.3	Overhead lines 35 kV	11575,4		701
1.4	Overhead lines 10 kV and lower	127686,36		53386
2	Cable electric lines, km, including:	2166,9		5684
2.1	Cable lines 110 kV	15,25		17
2.2	Cable lines 35 kV	57,1		28
2.3	Cable lines 6-20 kV	1434,1		2268
2.4	Cable lines 0,4 kV	660,5		3371
3	Substations, pieces, including:		23752,9	31344
3.1	Substations 220 kV		516,5	4
3.2	Substations 110 kV		14925,7	640
3.3	Substations 35 kV		3281	577
3.4	Transformer substations of 6-10/0,4 kV		5029,7	30123

**Information on revenue from each type of activity**

In 2014 IDGC of the South got 28 892 million rubles of revenue, 97% is the revenue from electricity transmission, 2.4- technological connection and 0.6% revenue from other types of business activity.

**Profit and revenue by types of business activities and regions:**

branch	Revenue total, million rubles	% from the total revenue	Grid services (electricity transmission)	% from IDGC of the south total	Grid services (grid connection)	% from IDGC of the south total	Miscellaneous services	% from IDGC of the south total "
Astrakhanenergo	4 569	15,8%	4 301	14,9%	243	0,8%	25	0,1%
Volgogradenergo	9 411	32,6%	9 354	32,4%	29	0,1%	28	0,1%
Kalmenergo	871	3,0%	690	2,4%	165	0,6%	16	0,1%
Rostovenergo	13 988	48,4%	13 665	47,3%	267	0,9%	57	0,2%
Kubanenergo	5	0,0%	0	0,0%	0	0,0%	5	0,0%
Main office	48	0,2%	0	0,0%	0	0,0%	48	0,2%
Total	28 892	100,0%	28 009	100,0%	704	100,0%	178	100,0%

**1.6. Business priorities future development**

**Mission of “IDGC of the South”, JSC**

We are a team of professionals who create the basis for sustainable development of economy at southern regions of Russia; we are for consolidation of energy assets and increase of efficiency in energy supply as well as for successful activity of each of our employees and partners.

We constantly think about faster development of grids and about the way to provide the consumer with possibility to use our services where they are needed and in necessary volume.

We try to create favourable conditions for the employees, help them to unlock their potential, take care of their health.

### **Values of “IDGC of the South”, JSC**

Values of “IDGC of the South”, JSC is a set of principles that are understood and observed by all our employees.

- Reliability (minimum of interruptions in energy supply);
- Responsibility (attitude of the Company’s employees to their duties, realization of the importance of their work and accountability for the results of such work);
- Customer-oriented approach ( shows the place of a client in the priority system of the Company, a wish to meet the requirements of customers);
- Leadership (personal feature allowing the top and medium level managers to make a good team of employees; take the initiative);
- Professionalism (ability to reach the best results in professional activity for the Company’s benefits with the minimum resources spent);
- Social responsibility (understanding by the top managers the responsibility to society, customers, employees, shareholders, future generations; search of the best ways to reduce negative impact of Company’s production activity);
- Stability (ability of the Company to function during a long period of time without negative changes).

### **Company’s priority activities**

#### **Implementation of strategy for development of the power grid**

Strategy of development of the electric grid complex (approved by a governmental decree No. 511-p dated April 3, 2013) determined a target

indicator of reducing operating costs by 15% by 2017, taking into account the level of inflation in 2012 per unit of electrical equipment. Economic benefit from implementation of the programme's activities was calculated in accordance with the Methodology for calculation of the effect of reducing the cost of maintenance of electrical equipment unit of subsidiary of "Rosseti" for 2013-2018, approved by order No. 100r dated October 22, 2013.

The Performance Management Programme (hereinafter – the Programme) is a tool for improving the efficiency of the Company and one of the main components of the strategic development plan. The Programme is aimed at minimizing the consumption of resources and maximizing the returns from them.

The target indicator on reduction of operating costs, taking into account the level of inflation in 2012 per unit of electrical equipment for 2014 was approved in the amount of 5%, in fact, following the results of 2014 this indicator was reached. Controllable expenses were reduced by 13.48%.

In addition, in 2014 the Company carried out a range of measures to reduce investment costs by 30% in comparison to level of 2012.

In 2014, the growth rate of the approved single tariffs in the regions of presence of "IDGC of the South" JSC did not exceed the rate of provided by the forecast for the social and economic development of the Russian Federation.

In accordance with the order of the RF Ministry of Energy No.718 from 14.10.2013 "IDGC of the South" JSC organized in 2014 collection of primary data necessary for calculation of the reliability of performance indicators of services provided:

- average interruption duration index (SAIDI);
- average interruption frequency index (SAIFI).

When planning the power losses within the frameworks of the business plan for 2015 and the forecast for 2016-2019 the requirement of grid development strategy of the Russian Federation (approved by the RF Government No.511-p dated 03.04.2013) on reduction of relative value of electricity losses by 11% by 2017

from the actual performance of 2012 in comparable terms of consumers of “last mile” was fulfilled.

In 2015, the Company continues implementing the targets of the Strategy. For example, in terms of improving the quality of customer service in the direction of cooperation with customers the following activities are planned:

- reduction the total waiting time in the queue and total service time (no more than 30 minutes);
- increase in customer service time on acceptance of applications to Customer Service Centres (at least 45 hours a week);
- conducting of meetings with customers within the rating “Doing business” concerning issues of grid connection;
- meetings with the management of IDHC of the South and customers under the project “Customer’s day in IDGC of the South” concerning issues of grid connection, in order to promptly respond to the problematic issues, improve the company's image and fuel customers’ confidence;
- development and content of the section “Clients” on corporate website of “IDGC of the South” in order to enhance information availability and consumer awareness about the services provided to consumers, and to reduce visits of customers;
- enable consumers (category - individuals) to make the remote payment (terminal, an interactive service) under grid connection agreements without charging a commission;
- reduction in the number of complaints from customers (including to Office of the Federal Antimonopoly Service) and the reduction of terms of performance of obligations under the contracts of technological connection by improving the control of business processes, workshops with representatives of the Office of the Federal Antimonopoly Service, etc.
- enable customers to apply for grid connection at multiservice centres in the Company’s operation area.

Detailed information on the results of the Company's development in priority areas is provided at chapter “Activity of the Board of Directors in 2014” of this Annual Report.

#### Enhancement of the reliability and quality of rendered services

Since 2009 the management system of IDGC of the South JSC has been certified in accordance with the requirements of international standards ISO 9001:2008 “Quality Management System Requirements”, ISO 14001:2004 “Environmental management systems—Requirements with guidance for use” and OHSAS 18001:2007 “Occupational Health and Safety Management Systems—Requirements”.

Certification of the Company at the international level ensures customers and partners that IDGC of the South JSC is a reliable partner and a socially responsible company.

Compliance with international standards ISO 9001, ISO 14001 and OHSAS 18001 works the Company’s staff up to effective performance, efficient resource utilization and dynamic development. SGS Vostok Limited, member of the SGS group (Switzerland), the world market leader in control, verification, testing and certification, acts as the certification partner.

The effectiveness and efficiency of IDGC of the South, JSC in the field of quality, ecology and labor protection were confirmed by the compliance audit of the divisions of the main office and Kalmenergo branch of “IDGC of the South” JSC from 1 to 3 December 2014.

Auditors of SGS Vostok Limited marked the excellent organization of the supervisory audits, openness and high competence of the staff, which allowed without any delay to access to the necessary documents and information, to communicate effectively with managers and staff and to perform all activities planned under audit and complete all tasks.

By the results of the supervisory audit there were 3 minor nonconformities revealed, the correction of which would improve the process of arranging and conducting emergency drills, the analysis of their results, planning and

implementation of corrective and preventive actions by the results of verification activities.

SGS Vostok Limited expressed a positive opinion on the compliance activities of the Company with international standards ISO 9001: 2008, ISO 14001: 2004, OHSAS 18001: 2007, which will allow “IDGC of the South” JSC for the next year to use certificates of SGS Vostok Limited to achieve its goals.

When preparing for the supervisory audit, the Company carried out three inspections at the subdivisions of “Kalmenergo” and the main office, updated more than 600 local regulations, the staff was trained the basis knowledge of the international standards ISO 9001: 2008, ISO 14001: 2004, OHSAS 18001: 2007 and the rules of application of the basic internal standards in the area of quality, environmental, occupational safety:

- at “Kalmenergo” branch of “IDGC of South” JSC 20 persons were trained;
- at the main office of “IDGC of the South” JSC 18 persons were trained).

By the results of the trainings, certification of the Company’s personnel was conducted.

### **Future development in presence regions**

Currently IDGC of the South JSC is one of the largest and most dynamically developing power companies in the Southern federal district, being at the same time the youngest. To keep the success and continue growing it is significant for the Company choose the right goals and right development directions, as well as the ways and methods for achieving these goals

The main development directions of IDGC of the South JSC are:

- customer-oriented policy and increase of accessibility of power grid infrastructure;
- effective planning of the development of power grids, taking into account the trends of the socio-economic environment and territorial planning in the regions;
- modernization and technical re-equipment of power facilities;
- construction of the power grid facilities;
- energy efficiency and energy saving.

In order to create a single approach to solutions in the field of development, territorial planning and investment projects of small and medium business, IDGC of the South JSC has prepared an interactive map of the capacity of the 35-110 kV substations (hereinafter “the Interactive Map”).

The Interactive Map is a geographical map with data on existing power centers, level of load on grid equipment as well as planned reconstructions and new construction.

Information on the load of the power centers is information for mandatory disclosure in accordance with the Standards of information disclosure by participants of wholesale and retail markets of electric energy, approved by the Decree of the Government of the Russian Federation No.24 dated 21 January 2004 (current version).

The Interactive map helps communicate on-line with local authorities and potential investors to coordinate development of the power grid depending on the needs for capacity.

Pursuant the decree of the Government of the Russian Federation No.1131, dated 9 December 2013 as well as in order to enable customers to obtain information on free capacities, grid connection, possibility of tracking the performance stages, calculate connection payments, the Company has launched a Portal. The Portal contains information on submitted applications for grid connection (hereinafter – the GC application) that were both received via the Portal and submitted to IDGC of the South JSC. Thus, a customer can obtain information on any application.

The users have a free access to information on the load of substations of territorial grid companies on the interactive maps at the Company’s web-page.

Apart from that projects on development of large business and social and economic growth are being implemented on the territory of the Company’s presence. Such projects are ground-breaking for development and formation of schemes and programmes of prospective growth of the region’s network.

Interaction with local executive authorities in elaboration of schemes and programmes of prospective growth is carried out with the help of meetings of coordinating bodies where projects on network development are reviewed.

To implement schemes and programmes of prospective development of power industry of the constituent units of the Russian Federation as well as to enhance availability of grid infrastructure, the Company conducts trainings that are aimed not at improving the reliability of the existing power grid, but also at ensuring the possibilities of technological connection of new consumers. The activities include reconstruction of substations and increase of cross-section of wires as well as new construction of feeding centers and building of overhead and cable lines.

For timely implementation of measures aimed at ensuring power supply to the infrastructure facilities of the football World Cup in 2018, “IDGC of the South” JSC has organized active interaction with the executive authorities.

To enable the power supply, it is planned to reconstruct a number of 110kV supply centers with an increase in transformer capacity, distributive networks of 6-10 kV, as well as the existing 110 kV overhead transmission line routes in Volgograd to increase the transmission capacity of the grid. Regarding new construction, construction of 110kV substation Gvardeyskaya and 110kV substation Kubanskaya, is planned. According to preliminary information from the Government of the Volgograd Region, the infrastructure facilities of the football World Cup in 2018 will require capacity of 60 MW.

To provide electricity supply to sport and infrastructure facilities for championship in Rostov-on-Don, the Company has planned construction of new substation – 110kV Sportivnaya substation, as well as 110kV cable and overhead lines. The Company estimates to perform the works within 2015-2017.

It should be also specified that the organization of schemes for external power supply related to the football World Cup in 2018 is planned to be carried out using modern equipment and technologies to construct power grid facilities within the city with the creation of Smart Grid technologies.



All branches of “IDGC of the South” JSC are carrying out activities under the investment programme in order to ensure the Company’s development in terms of modernization and technical re-equipment of power facilities, construction of power grid facilities, and compliance with energy efficiency and energy saving.

### **Astrakhan region**

To fulfill the obligations under grid connection contracts, in 2014 Astrakhanenergo implemented 5 362 contracts for a total capacity of about 309.2 MW, including technological connection of a 79,236 MW.

In 2014 to eliminate the power shortage in the closed supply points the Company carried out:

- reconstruction of 35kV Travino substation with replacement of 4 MVA transformer with 6.3MVA transformer to ensure reliable electricity supply in Kazymyaksky district of Astrakhan region;
- reconstruction of 110kV Lesnaya substation with replacement of 15 MVA transformer with 25 MBA transformer to ensure reliable electricity supply in Pravoberezhny district of Astrakhan region;
- reconstruction of 35kV Oktyabrskaya substation with installation of the 3<sup>rd</sup> transformer of 6.3MVA to ensure reliable electricity supply in Trussovsky district of Astrakhan and Narimanovsky district of Astrakhan region.

In future the Company plans to continue development of the power grid.

The long-term investment program of Astrakhanenergo branch of “IDGC of South” JSC for the period of 2014-2019 includes the following activities:

- reconstruction of the 110 kV Vostochnaya substation, with the replacement of power transformers with two of 25 MVA to connect public utilities and homes of the Sovetsky district, Astrakhan;
- reconstruction of the 110 kV Nachalovo substation, with the replacement of power transformers with two of 10MVA to connect new blocks of flats currently under construction and developed individual construction of houses in Nachalovo in the Astrakhan Region;

- reconstruction of the 110 kV Kiri-Kili substation, with replacement of power transformers with two of 40 MVA to connect the objects of Leninsky district, Astrakhan;

The Company continues replacement of wooden pylons with reinforced concrete and metal ones:

- Kapustin Yar-Pologoe Zaymishche (No.701) — approximate length 26.6 km;
- Pologoe Zaymishche-Pokrovka (No.702) — 19.03 km.

“Astrakhanenergo” branch of “IDGC of the South” JSC implements a considerable amount of work on new construction and reconstruction of 6-10 kV distribution grid networks in Astrakhan.

Construction and installation work to transfer the first and second phase of loads from 6 kV to 10 kV from the 110 kV Severnaya substation to the newly built 110 kV Yubileinaya substation will be continued in 2015 and in subsequent years.

For development of the power grids, “Astrakhanenergo” branch of “IDGC of the South” JSC continued its interaction and cooperation with “FGC UES” JSC within the frameworks of provision of reliable power supply and new connections.

### **Volgograd region**

Industrial consumers of the services of the Volgograd power sector are: oil and gas processing, chemical, metallurgical and engineering plants. Though, the general population and agriculture industry take a large proportion of consumption.

Annual measures envisaged by the investment development programme of the “Volgogradenergo” branch of “IDGC of the South” JSC, provide a reliable electricity supply in the region.

In 2014 the Company reconstructed substations and increased the cross-section of the power lines, which made it possible to increase the reliability of the power supply and enable technological connection of new consumers:

- reconstruction of substations with replacement of oil switches 6-10 kV with vacuum switches;

- replacement of overhead ground-wire cable on 35-110kV power line – 2.82 km;
- replacement of wire on 35-110kV power line – 11.12 km;
- replacement of pylons on 35-110 kV power line – 52 pylons;
- replacement of insulations on 35-110 kV power line – 10 620 insulators.

It is worth mentioning that that in 2014 the branch connected 2 853 new consumers with the declared capacity of 89.781 MW to its grids.

Staying strong in the pursuit of its goals, the Volgogradenergo branch of IDGC of the South JSC is currently planning activities for the development of the power industry, which is concentrated in the large urban centers of Volgograd and Volzhsky.

Under the investment program of the Volgogradenergo Branch of IDGC of South, JSC for 2014-2019, works on the following major sites are expected:

- reconstruction of the 110 kV Gorodskaya-2 substation with installation of an additional power transformer with the capacity of 40 MVA to improve the power supply reliability of existing and newly connected facilities in Volzhskiy;
  - 110/6/10kV Raigorod-2 substation; replacement of power transformers T-1 and T-2 with the transformers of greater capacity на трансформаторы большей мощности с реконструкцией switchyard-110kV and indoor switchgear-6/10 kV;
  - 110kV Vileiskaya subsattion; reconstruction of power transformers T-1, T-2 2x16MVA;
  - Reconstruction of 110kV Sportivnaya substation; replacement of transformers T-1 and T-2 with two 25MVA and two 40MVA transformers;
- Reconstruction of 110kV TDN substation; replacement of two 20MVA transformers with 25MVA for power supply to the facilities of the football World Cup in Volgograd;
- construction of approaches at the 110 kV Razvilka-2 overhead lines at the 220/110/10/6 kV Sadovaya substation;

- construction of the 110/6 kV Gvardeyskaya with 110 kV approaches for power supply of buildings during the football World Cup in Volgograd;
- reconstruction of the 110 kV Razvilka-2 overhead line No.3 with replacement of wires aimed at improving reliability of power supply to existing and new consumers; reconstruction of the 110 kV Lemeshkino-Zhirnovskaya overhead line No.446 aimed at improving reliability of power supply to existing and new consumers;
- reconstruction of the section from pole No.41 to pole No.50 of the 110 kV Volzhskaya HPP-2-Volzhskaya No.1 with taps (the 110 kV overhead line No.203), with the replacement of poles and wires with those of larger cross section, aimed at improving reliability of power supply to existing and new consumers; reconstruction of the 110 kV overhead line No.550 with construction of approaches to the 110/10 kV Shiryai substation.

The implementation of the above-mentioned measures will ensure the reliability of power supply to existing consumers, and ensure easy new grid connections in future.

### **The Republic of Kalmykia**

The natural and climatic conditions of Kalmykia are favorable for construction of generating facilities using renewable energy sources. The Republic of Kalmykia has technical wind energy potential estimated to be 170,000 MW and annual production to 590 billion kW.

The Republic is among the most favourable regions of the Russian Federation for construction of solar power plants and wide use of solar collectors for heating. Based on technical characteristics of proven and operating technological equipment, specific annual generation of electric power, with their implementation, could total up to 145-200 kWh/m<sup>2</sup> and specific annual production of heat — to 800-900 kWh/m<sup>2</sup>. The Republic has resources of oil, raw materials for production of construction materials, as well as salt, gas and coal deposits.

Within 2014-2018 it is planned to construct in the western part of Elista blocks of residential houses and high-rise apartments block in the north-western and eastern parts of the town. The total electric load of the power receivers of customers is estimated to be 7.8 MW.

Implementation of activities under the investment programme of “Kalmenergo”, branch of “IDGC of the South” JSC, will ensure reliable and uninterrupted power supply to consumers and connection of new consumers in Elista.

### **Rostov region**

Rostov-on-Don is both the administrative center of the Rostov Region, and the center of the Southern Federal District of the Russian Federation.

Taganrog, Shakhty, Novocherkassk and Volgodonsk are major cities in the region. The Rostov power system provides centralized power supply to consumers in the Rostov region, and is part of IES of the South. The load on transformers of supply centers in these cities, as well as the suburbs, is close to the nominal value. The most difficult situation is in Rostov-on-Don.

Due to the number of large investment projects in the Rostov region, “Rostovenergo”, branch of “IDGC of the South” JSC plans implementation of measures for the development of power grids and improving the availability of grid structure for the period 2014-2019.

To provide electricity supply to venues of the World Football Cup in Rostov-on-Don in 2018, it is planned to construct 110/10kV substation Sportivnaya with 110kV cable line “Koisug – Sportivnaya – R-4”.

The power supply to the residential buildings of the second stage of the Leventsovskiy district, located in the Western part of Rostov-on-Don on the 231-hectare territory between Stachki Avenue and Malinovskogo and Dovatora Streets, is planned by connecting a new load from the 110 kV R-35 and PS P-19 substations. Construction of the 110 kV Leventsovskaya substation with 2x40 MVA transformers is planned when the load increases.

The electric supply to the apartment buildings of the residential complex on Sholokhov street in Rostov-on-Don of the applicant “Rostov camping LLC” is planned to perform by connection with the 110 kV AC-15 substation.

Under grid connection contracts “Rosotvenergo” connected 6 185 customers for the total capacity of 243.590MW, one of them was a large electricity consumer “SB Invest” LLC (2.193MW).

Future plans include development of power grids of “Rostovenergo”, branch of “IDGC of the South” JSC in connection with the planned construction of a number of large enterprises in the Rostov Region. In the western residential part of the city, on the territory of the former DOSAAF airfield (helicopter field), it is planned to connect a high-rise residential complex to the 110 kV “R-28” substation of the following applicants:

- Komstroy LLC (customer contract demand of 3.383 MW);
- Komstroy-3 LLC (customer contract demand of 2.939 MW);
- Optima-Stroy LLC (customer contract demand of 0.256 MW);
- Nover LLC (customer contract demand of 1.2 MW).

“Managing company “Retail and entertainment centre “Pushkinsky”O LLC plans to construct a retail and entertainment centre in Rostov-on-Don, customer contract demand 6.4MW.

In Volgodonsk, construction of the 110 kV Shchlyuzovaya substation with approaches of 110 kV overhead lines is part of a comprehensive reconstruction program to transfer power consumers from the 35 kV Shchlyuzovaya substation and 110 kV Tsentralnaya substation to the new 110 kV Shchlyuzovaya substation.

Those activities are essential to improve the reliability of the power supply to existing consumers and provide power for the increased loads.

In the industrial zone of the Azovsky district, an increase in the production of the following industrial enterprises is expected:

Donelektrostal CJSC plans construction of a steel mill, with 35 MW demanded capacity;

“SoViTek Rus” LLC plan construction of wind power station (90MW);

“Akvalaif” LLC in Azov plans to construct a plant (2.7MW);

In Aksaysky district, comprehensive cottage development is planned in Rossijskiy (8.45 MW), Starocherkasskaya (3 MW), Shchepkin (2.2 MW), Ostrovskogo (0.810 MW), Temernitskiy (0.63 MW), housing construction is planned in Rassvet (8.450 MW) and Zolotoy Kolos (2.2 MW), Teremnitskoye (1.056MW);

In Novocherkassk in 2013-2017, construction of housing in GFK Vostochniy with a power load of 2.530 MW and construction of the Sarmat district, with a power load of 7.5 MW, are planned;

In Taganrog, comprehensive development of district I, II Northern residential area, with an approximate power load of 30 MW, is planned.

In Krasnosulinskiy Industrial Park, the following potential residents plan to implement investment projects:

- TECHNO Plant LLC plans to construct a plant for production of basalt fiber mineral insulation with a declared capacity of 5.850 MW.

In Novoaleksandrovsky Industrial Park in the Azov district, the following potential residents plan to implement their investment projects:

- Air Products Gas LLC plans to construct an industrial gases plant with a declared capacity of 8 MW.

Fast development of the 110 kV grid requires construction of new 500-220 kV power grid facilities and reconstruction of existing 220 kV supply centers. Moreover, the pace of construction of 220 kV power grid facilities should be higher than that of construction of 110 kV power grid facilities.

The long-term development investment program of the “Rostovenergo” branch of “IDGC of the South” JSC for 2014-2019 provides for the following activities:

- reconstruction of the 110 kV switchgear of the 110 kV Sh-14 substation and the 110 kV Sh-47 substation to supply the EVRAZ Yuzhniy Stan rolling complex;
- reconstruction of 110/10kV substation, replacement of transformers to provide electricity supply to airport “Yuzhny”;



- reconstruction of 110/10/6kV P-33, replacement of two 25MVA transformers with two 40MVA;
- reconstruction of 110/35/10kV substation AS-1, replacement of two 16MVA transformers for electricity supply to Olginskaya village;
- technical upgrading of the T-13 substation with installation of 2 line cells (for TCC Taganrog Metallurgical Plant JSC);
- reconstruction of the 110/10 kV Sambek substation (greenhouse complex of Rostov LLC);
- technical re-equipment of the R-31 substation to enable electricity supply to Rostovskiy Universalnyy Port LLC;
- reconstruction of 110/10/6kV substation AS-6 replacement of two 16MVA transformers for connection of “Golf Invest” LLC;
- reconstruction of the relay protection and automatic equipment and communication channels of 110/35/10 kV GOK (TCC Aston JSC);
- reconstruction of 35/6kV substation BT-4, replacement of power transformers (for grid connection of “AkvaInvestProekt” LLC);
- reconstruction of the 110/35/10 kV A-12 substation (Donelektrostal)
- reconstruction of the 110 kV GPP-1 substation (for TSS Donmetal).

Due to the insufficient development of 220 kV power grids, the northern and northeastern districts of the Rostov power system are facing a problem of maintaining the voltage at the maximum permissible level. The problem could be solved by construction of 220kV G-20 Donetskaya overhead line (estimated length of 40 km) and Donetskaya-Promzona overhead line, which would significantly increase the reliability of 220kV Donetskaya and Pogorelovo substations, as well as the construction of the 220kV Shahty-Donetskaya overhead line.

Implementation of these activities will enable connection of new consumers to 110-35 kV substations in the northern and north-eastern districts of the Rostov region.



The main aim of “Rostovenergo”, branch of “IDGC of the South” JSC is to create a database to perform activities on perspective development of the electric power industry on the territory of the Rostov region (the power output of new and expandable power plants, connecting major consumers to the grid), as well as drafting investment programmes and plans for capital construction of power grid facilities.

## 2. Business Results

### 2.1. Production

#### 2.1.1. Electric power transmission

In 2014 “IDGC of the South” rendered services on electricity transmission in amount of 26 468.1 million kWh, and in comparison to 2013 (26 428.3 million kWh) it is 39.8 million kWh or 0.2% more.

#### Production performance, 2014

Branch	Grid output, mln kWh	Output from the grid to consumers and integrated Territorial grid companies within balance and exploitation responsibility, mln kWh	losses	
			mln kWh	%
Astrakhanenergo	3 528,6	2 921,8	606,8	17,20
Volgogradenergo	11 378,8	10 578,0	800,7	7,04
Kalmenergo	495,2	405,4	89,9	18,15
Rostovenergo	14 123,2	12 875,4	1 247,9	8,84
<b>Total, IDGC of the South JSC</b>	<b>29 525,8</b>	<b>26 780,5</b>	<b>2 745,3</b>	<b>9,30</b>

#### Dynamics of rendered services on electricity transmission, 2013-2014

Branch	Electricity transmission services						
	2013		2014		difference		
	mln kWh	mln rubles	mln kWh	mln rubles	mln kWh	mln rubles	%
Astrakhanenergo	3 188,2	3 912,9	2 892,4	4 300,9	-295,8	388,0	-9,3
Volgogradenergo	10 401,9	9 271,8	10 506,1	9 353,8	104,2	82,0	1,0
Kalmenergo	383,1	627,0	405,4	689,8	22,3	62,8	5,8
Rostovenergo	12 455,0	12 070,0	12 664,2	13 664,7	209,2	1 594,7	1,7
<b>Total, IDGC of the South JSC</b>	<b>26 428,3</b>	<b>25 881,6</b>	<b>26 468,1</b>	<b>28 009,2</b>	<b>39,8</b>	<b>2 127,6</b>	<b>0,2</b>

Reduction in the volume of services rendered by the branch “Astrakhanenergo” is caused by the exclusion in 2014, in accordance with the Federal Law No. 308-FZ of 06.11.2013, from the balance of the region's the consumers of “the last mile” in

the amount of 417.1 million kWh in comparison to 2013m namely exclusion of “Mezhregionenergosbyt” JSC, “Astrakhan Energy Selling Company” JSC, “Oboronenergosbyt” JSC.

#### Actual losses of electric energy in 2013-2014

Branch	Electricity losses						
	2013 actual		2014 actual			Difference*	
	mln kWh	%	mln kWh	%	% (in compared conditions. **)	mln kWh	%
	606,5	15,87	606,8	17,20	15,38	0,3	1,33
<b>Astrakhanenergo</b>	827,9	7,32	800,7	7,04	7,04	-27,2	-0,28
<b>Volgogradenergo</b>	89,4	18,92	89,9	18,15	18,15	0,5	-0,77
<b>Kalmenergo</b>	1 242,9	8,95	1 247,9	8,84	8,84	5,0	-0,11
<b>Rostovenergo</b>	<b>2 766,7</b>	<b>9,38</b>	<b>2 745,3</b>	<b>9,30</b>	<b>9,17</b>	<b>-21,4</b>	<b>-0,21</b>
<b>Total, IDGC of the South JSC</b>							

\* calculated as difference between 2014 and 2013.

\*\* level of losses in 2014 is calculated under conditions comparable to 2013 for customers of “the last mile”.

Actual losses of electric power in the electric networks of “IDGC of the South” JSC amounted to 2 745.3 million kWh or 9.30% of supply to the grid. In comparison with the same period of 2013, the growth of supply to the grid was by 0.09%, or 28 million kWh (in comparable conditions on consumers of “the last mile” supply to the grid was 1.5%, or 445 million kWh), reduction of losses electric energy was 21.4 million kWh or 0.21% over the same period.

Information about the measures taken to reduce energy losses is specified in paragraph 2.1.3 of the annual report.

#### The tariff policy of the company

The main activities of “IDGC of the South” JSC are:

- rendering services on electric power transmission;
- technological connection of consumers to electric grids.
- other activities.

According to the current legislation of the Russian Federation, the provision of services on electric power transmission and technological connection of

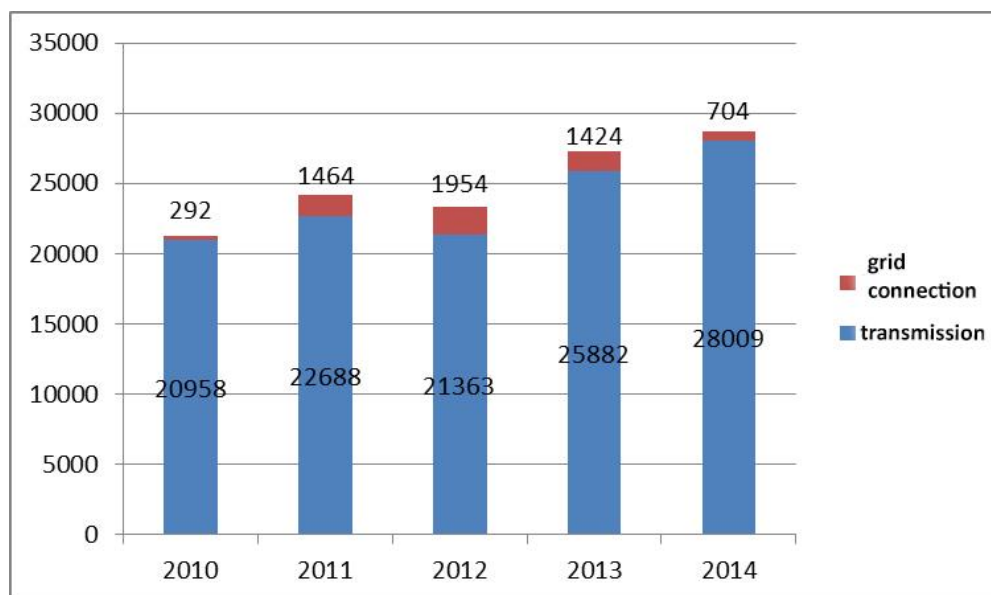
consumers to electric networks are a natural monopoly activity and are subject to government regulation in terms of the establishment of tariffs (price) for the services on electric power transmission and technological connection to networks. Regulation of tariffs for electric power transmission is carried out both by the federal authorities and the regional (executive bodies of subjects of the Russian Federation in the field of state regulation of tariffs) in strict accordance with the current legislation of the Russian Federation.

The main legal acts regulating the activity of “IDGC of the South” JSC in the sphere of price formation are:

- Federal Law No.35-FZ dd 26.03.2003 “On Electric Power Industry”;
- Resolution of the Government of the Russian Federation No.1178 dd 29.12.2011 “On pricing in the sphere of regulated prices (tariffs) in the electric power industry”;
- Resolution of the Government of the Russian Federation No.442 dd 04.05.2012 “On functioning of retail electricity markets, and the full (or) partial restriction of electric power consumption mode”;
- Resolution of the Government of the Russian Federation No. 861 dd 27.12.2004 “On Approval of the Rules of non-discriminatory access to electric power transmission and provision of these services, of the Rules of non-discriminatory access to operational dispatch management in the electric power industry and rendering of these services, of the Rules of non-discriminatory access to services of Administrator of Trading System at the wholesale market and rendering of these services and the Rules of grid connection of consumers of electric energy facilities for the production of electric energy and transmission facilities owned by grid companies and other entities to electric networks”;
- Government Decree No. 1220 dd 31.12.2009 “On definition used in setting long-term rates of reliability and quality of goods and services”;
- Order of the Federal Tariff Service of Russia No.20-e/2 dd 06.08.2004 “On approval of guidelines for calculation of regulated tariffs and prices for electric (thermal) power in the retail (consumer) market”;

- Order of the Federal Tariff Service of Russia No.228-e dd 30.03.2012 “On approval of the guidelines for the regulation of tariffs using the method of return on invested capital”;
- Order of the Federal Tariff Service No. 98-e dd 17.02.2012 “On approval of the guidelines for calculation of tariffs for services on electric power transmission installed using the method of long-term indexation necessary gross revenue”;
- Order of the Federal Tariff Service of Russia No. 209-e/1 dd 11.09.2012 “On approval of the guidelines for determining the amount of payment for technological connection to electric networks”;
- Rules of grid connection of energy receiving devices of consumers of electric energy, facilities for production of electric energy and transmission facilities owned by grid companies and other entities/persons to electric networks, approved the decision of the Government of the Russian Federation No. 861 dd 27 December 2004;
- other legal acts.

**Dynamics of actual revenues arising from regulated activities of “IDGC of the South” JSC:**



By the results of activity, in 2014 “IDGC of the South” JSC received a revenue from transmission services in the amount of 28 009 million rubles, VAT

excluded, it is 2 127 million rubles of 8.22% more than in 2013(25 882 million rubles).

### **Data on Electricity Transmission Tariffs**

In 2014 uniform (“boiler”) method of making rate of transport services is in force in the territory of all RF entities within liability area of “IDGC of the South” JSC. A peculiarity of the method is in the fact that electricity is transmitted to absolutely all consumers of one and the same voltage class as per uniform tariff, irrespective of the type of company the grid of which they are connected to.

Thus, pursuant to Resolution of the RF Government dated December 29, 2011 No. 1178 the single (boiler) tariffs for the transmission of electrical energy in 2012 are set by semester, with periods:

- from 1 January 2014 to June 30, 2014;
- July 1, 2014 December 31, 2014.

### **Branch of “IDGC of the South” JSC – “Astrakhanenergo”**

Astrakhanenergo, branch of IDGC of the South JSC chose to return on invested capital as the basis for regulation (RAB-regulation) and acted as a pioneer company with a long-term regulation period covering 2009-2011. In 2012 the Federal Tariff Service approved long-term parameters for regulation of the Astrakhanenergo branch where the return on invested capital method was applied for the period up to 1 July 2017. Thus, tariff regulation of the Astrakhanenergo is carried out by the return on invested capital method with long-term period of 2009-2017.

The accepted system of reciprocal payments in the region is a “boiler from above”. Its owner is the Astrakhanenergo branch of “IDGC of the South” JSC. The branch manages all grid RGR from the regional power supply companies (hereinafter PSC) under boiler tariffs and pays for transmission over the grids of territorial grid organizations (hereinafter TGO) under individual tariffs.

According to the provisions of the Federal Law of the Russian Federation No. 35-FZ starting from 1 January 2014 in the Astrakhan region contracts of the “last mile” with customers directly connected to the grids of the Unified National

Power Grid (UNPG) were terminated. In order to compensate for the lost income “Astrakhanenergo” that occurred because of the termination of contracts, the company applied indexation of unified (boiler) tariffs on a group of “other users” from 1 January 2014 in the amount of 7%.

Pursuant to paragraph 6 of the Article 8 of the Federal Law of the Russian Federation № 35-FZ dated 26 March 2003, the company entered into agreements providing for consent of a number of consumers (including indirectly connected through a network of other grid company) to enter into an agreement with the branch of “IDGC of South” – “Astrakhanenergo” on transfer of electric power.

Unified (boiler) tariffs for power transmission services in 2014 were approved by the decision of Tariff Service of Astrakhan region No. 9 on 27 March 2014.

#### Branch of “IDGC of the South” JSC – “Volgogradenergo”

In 2011 Branch of “IDGC of the South” JSC – “Volgogradenergo” switched to regulation on the basis of the long-term indexing method for the period 2011-2013.

Decree No.60/1 of the Tariff Regulation Committee of December 13, 2013 set the next long-term regulation period to be 2014-2018 still using long-term indexing.

In 2014 a scheme mutual settlements with “the integrated boiler” method was implemented where “Volgogradenergo” gets revenue from service consumers (from “Volgogradoblelektro” JSC, Municipal State Production Enterprise “Volga Inter-District Power Grids”, Municipal State Enterprise “Volgograd Inter-District Grids”, “Oboronenergo” JSC). Consumers of the electric power transmission services pay the branch under both double-rate and flat-rate tariffs.

Uniform tariffs for electricity transmission services for 2014 were calculated by the method of long-term indexation and approved in the decision of the Committee for the tariff regulation of the Volgograd region No. 62/4 from December 19, 2013 (as amended by Resolution of the Committee for the tariff regulation of the Volgograd region No. 24/1 dd June 30, 2014, No. 31/7 dd August 13, 2014, No. 55 dd 25 December 2014). Individual tariffs for mutual settlements between the branch of “IDGC of South” – “Volgogradenergo” and the

aforementioned network organizations for 2014 were approved by the decision of the Committee for the tariff regulation of the Volgograd region No. 62/5 dd December 19, 2013 (as amended by Resolution of the Committee for the tariff regulation of the Volgograd Region No. 55 dd December 25, 2014).

Under the provisions of the Federal Law of the Russian Federation No. 35-FZ dated on 26 March 2003, Volgograd region is one of the regions in which the operation of contract of the “last mile” was extended until 1 July 2017. Therefore, when making tariff decisions for 2014 in the Volgograd region factor of extending contracts of the “last mile” was taken into consideration:

- consumers of “the last mile” were transferred to the voltage level HV1 with a calculated rate, which takes into account the payment to “FGC UES” JSC and the rate of cross-subsidization;
- to compensate for lost income “Volgogradenergo”, arising from the introduction of level HV1, a 7% indexation of uniform tariffs for electricity transmission services was applied for the group of “other consumers” from January 1, 2014.

#### **Branch of “IDGC of the South” JSC – “Kalmenergo”**

In 2011 “Kalmenergo”, branch of “IDGC of the South” JSC switched to return on invested capital as the basis with a long-term regulation period covering 2011-2015.

The Federal Tariff Service approved long-term parameters for regulation of the Kalmenergo Branch of IDGC of the South, JSC where the return on invested capital method was applied for the period up to July 1, 2017.

Thus, tariff regulation of the Astrakhanenergo Branch of IDGC of the South, JSC branch is carried out by the return on invested capital method with long-term period of 2009-2017.

The accepted system of mutual settlements is a “boiler from below” in the region. “Kalmenergo” gets its own revenue under boiler tariffs for productive supply of consumers of “Kalmenergosbyt” JSC consumers connected to the grids of the branch and under individual tariffs for supply from the grids of the branch in

grids of territorial grid companies. Customers for electric power transmission services pay the branch under both double-rate and flat-rate tariffs.

Boiler tariffs and individual tariffs were calculated for 2014 by the return on invested capital method (RAB) and approved by Order of Regional Tariff Service of Kalmykia No.100- п/э dated 20 December 2013 (with amendments introduced by the Order No. 27-п/э dated 25 March 2014).

#### Branch of “IDGC of the South” JSC – “Rostovenergo”

“Rostovenergo”, branch of “IDGC of the South” JSC switched to return on invested capital as the basis for regulation

(RAB-regulation) and acted as a pilot company with a regulation period covering 2009-2011.

In 2012 the Federal Tariff Service approved long-term parameters for regulation of “Rostovenergo” where the return on invested capital method was applied for the period up to 1 July 2017. Thus, tariff regulation of the Rostovenergo Branch of IDGC of the South, JSC is carried out by the return on invested capital method with long-term period of 2009-2017.

The accepted system of mutual settlements in the region is a “integrated boiler”. Its owners are two large power grid companies —“Rostovenergo” JSC and “Donenergo” JSC. “Rostovenergo” gathers its part of the grid joint operations from all energy selling companies under boiler tariffs and from “Donenergo” JSC under individual tariffs and gives the part of the grid revenue to the subordinate territorial grid companies under individual tariffs. “Donenergo” JSC gathers its part of the grid joint operations from “Energysbyt Rostovenergo” JSC under boiler tariffs and gives the part of the grid revenue to “Rostovenergo” and to the subordinate territorial grid companies under individual tariffs. Customers of electric power transmission services pay “Rostovenergo” under both double-rate and flat-rate tariffs.

Unified tariffs for 2014 were calculated by the method of return on invested capital (RAB) and approved by the decision No. 70/23 of the Regional Tariff Service of Rostov region on 19 December 2013 (as amended by the Resolution



No. 17/7 of the Regional Tariff Service of Rostov region on 29 April 2014, No. 20/5 on 23 May 2014, No. 35/7 on 15 July 2014, No. 43/2 on 12 August 2014).

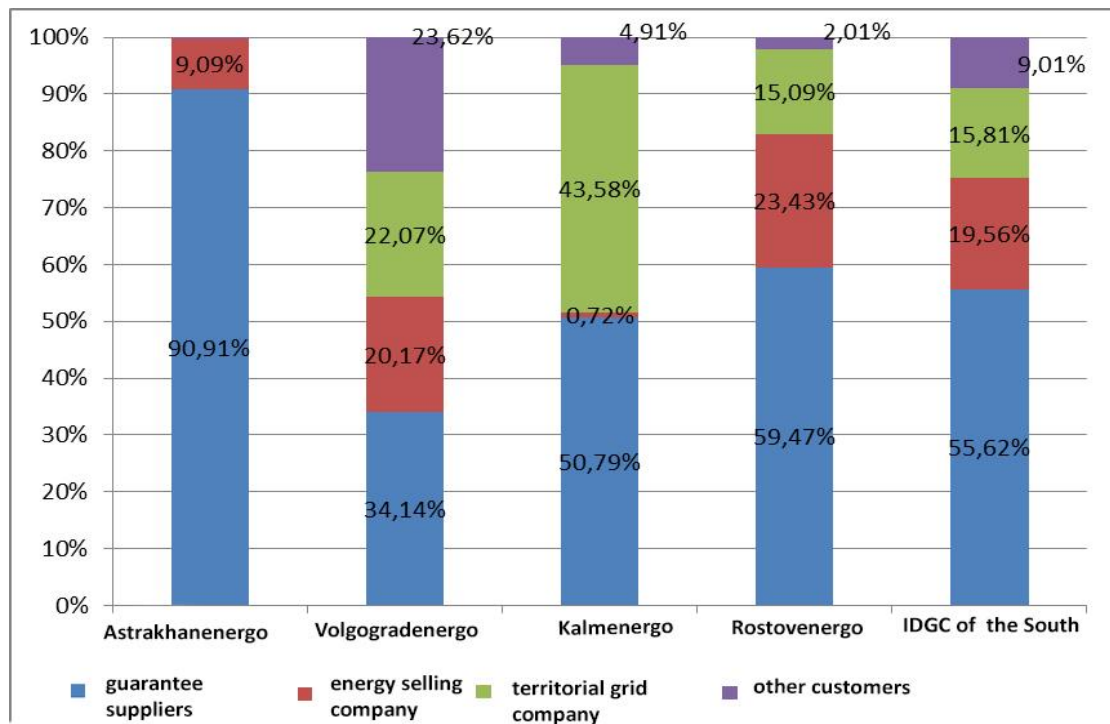
Individual tariffs for mutual settlement between the branch of “IDGC of South” – “Rostovenergo” JSC and “Donenergo” were approved by the Decree No. 70/9 of the Regional Tariff Service of Rostov region on 19 December 2013 (as amended on 30 June 2014 No.32/11).

Under the provisions of the Federal Law of the Russian Federation No. 35-FZ dated 26 March 2003 Rostov region is among the regions in which the operation of contracts “the last mile” was prolonged till 1 July 2017. Therefore, when making tariff decisions for 2014 in the Rostov region the extension of contracts of “the last mile” was considered

- consumers of “the last mile” were transferred to the voltage level HV1 with a calculated rate, which takes into account the payment to “FGC UES” JSC and the rate of cross-subsidization;

- to compensate for lost income “Volgogradenergo”, arising from the introduction of level HV1, a 7% indexation of uniform tariffs for electricity transmission services was applied for the group of “other consumers” from 1 January 2014.

**Structure of revenues from the activity on electric power transmission in general in “IDGC of the South” JSC in 2014 in the context of consumer groups**



Difference of revenue structure for services on power transmission in the context of consumer groups in the branches of IDGC of the South, JSC is connected with various schemes of mutual settlements in the region between subjects of the retail power market and held in the Company's policy on the conclusion of direct contracts on rendering services on power transmission.

In the Astrakhanenergo Branch there is no system "boiler from below", so there are no profitable contracts with territorial grid companies and the main share in the revenues is made by guaranteeing suppliers.

In the Volgogradenergo Branch there is a big share of services under «direct» service contracts in connection with the

Company launched campaign for conclusion of contracts on power transmission in the regions directly with the consumers is due to systematic non-payment of guaranteeing supplier "Volgogradenergosbyt" JSC. In total by 01.01.2015 "Volgogradenergo" has concluded directly with consumers 961 contracts on rendering services on electric power transmission.

Due to the absence of large industrial enterprises in the Republic of Kalmykia the share of services on power transmission by power supply organizations in the structure of Kalmenergo branch is insignificant. Relatively low share of services

on power transmission of territorial grid companies in the structure of "Rostovenergo" branch is caused by the region's tariff and balance decisions to establish individual tariffs for calculations of "Donnergo" JSC with "Rostovenergo". It should be mentioned that the share of revenue from "Donenergo" in the revenue structure of the branch "Rostovenergo" in 2014 increased as compared to 2013 by 9.09%, due to the adopted tariff decisions.

The analysis of change of the average tariff for services on electric power transmission according to the decisions of the regulators in branches:

kop/kWh

Branch	2010	2011	2012	2013	2014
Astrakhanenergo	98,75	114,12	118,06	126,49	143,22
Volgogradenergo	79,00	75,15	76,53	85,75	89,81
Kalmenergo	128,06	148,78	160,15	171,64	183,05
Rostovenergo	79,54	92,96	93,55	104,85	116,01
<b>IDGC of the South JSC</b>	<b>82,40</b>	<b>88,99</b>	<b>90,705</b>	<b>101,15</b>	<b>109,62</b>
<b>Growth, %</b>		108,0	101,98	111,52	108,37

Significant increase in the average tariff of 2014 in relation to 2013 at "Astrakhanenergo" (13.23%) is related to termination of contracts of "the last mile", in accordance with the Federal Law No.35-FZ dated 1 January 2014.

A significant increase in average tariff for electricity transmission services in "Rostovenergo" (10.64%) is related to:

- a 7% indexation of uniform tariffs for electricity transmission services was applied for the group of "other consumers" from January 1, 2014 in order to compensate for lost income that arose from the introduction of level HV1);
- reduction of controllable expenses of "Donenergo" JSC pursuant to order of the RF Government No.953 dated 24 October 2013.

**Dynamics of gross revenue required for the provision of services on power transmission according to the decisions of the regulators for branches:**

mln rubles

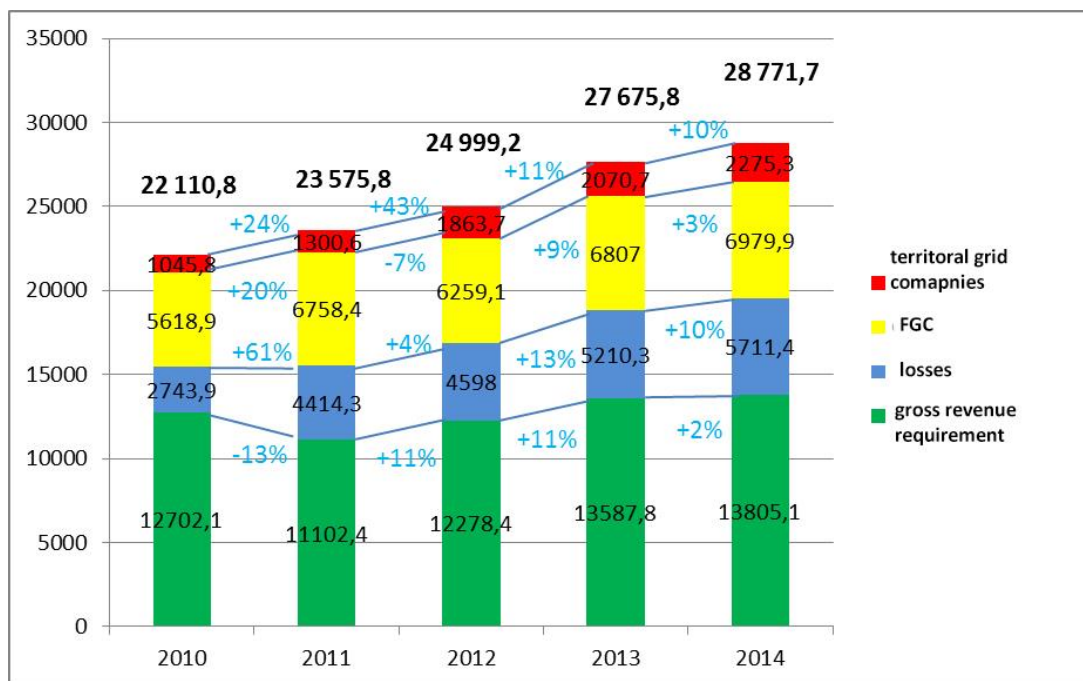
Branch	2010		2011		2012		2013		2014	
	total	prop.	total	prop.	total	prop.	total	prop.	total	prop.
<b>Astrakhanenergo</b>										
<b>o</b>										

<b>Volgogradenergo</b>	3 267	2 172	3 627	2 125	3 947	2 238	4 342	2 355	3 986	2 033
<b>Kalmenergo</b>	8 141	4 746	8 181	3 569	8 331	3 974	9 188	4 479	9 347	4 610
<b>Rostovenergo</b>	497	344	573	356	597	364	751	489	802	525
<b>IDGC of the South JSC</b>	10 206	5 439	11 195	5 053	12 124	5 702	13 395	6 266	14 636	6 637
<b>Growth, %</b>	<b>22 111</b>	<b>12 702</b>	<b>23 576</b>	<b>11 102</b>	<b>24 999</b>	<b>12 278</b>	<b>27 676</b>	<b>13 588</b>	<b>28 771</b>	<b>13 805</b>

The growth in required gross revenue from transmission services in 2014 in comparison to 2013 amounted:

- “Astrakhanenergo” (-)13,67%, because of termination of “the last mile” contracts on 1 January 2014;
- “Volgogradenergo” 2,92%;
- “Kalmenergo” 7,36%;
- “Rostovenergo” 5,92%.

Dynamics of RGR components for services on electric power transmission “IDGC of the South” according to the decisions of the regulators in terms of branches, million rubles:



The required gross revenue from the activity of “IDGC of the South” on electric power transmission in 2014 exceeds the RGR approved in 2013 by 4%, namely:

- share of private required gross revenue has increased by 2% (in “Astrakhanenergo” decreased by 13,7%, in “Volgogradenergo” increased by

2,9%, in “Kalmenergo” increased by 7,4%, in “Rostovenergo” increased by 5,9%);

- the share of expenditures on purchase electricity for loss compensation has increased by 10% (in “Astrakhanenergo” - 10,3%, in “Volgogradenergo” decreased by 7,3%, “Kalmenergo” decreased by 4%, “Rostovenergo” increased by 21,5%);

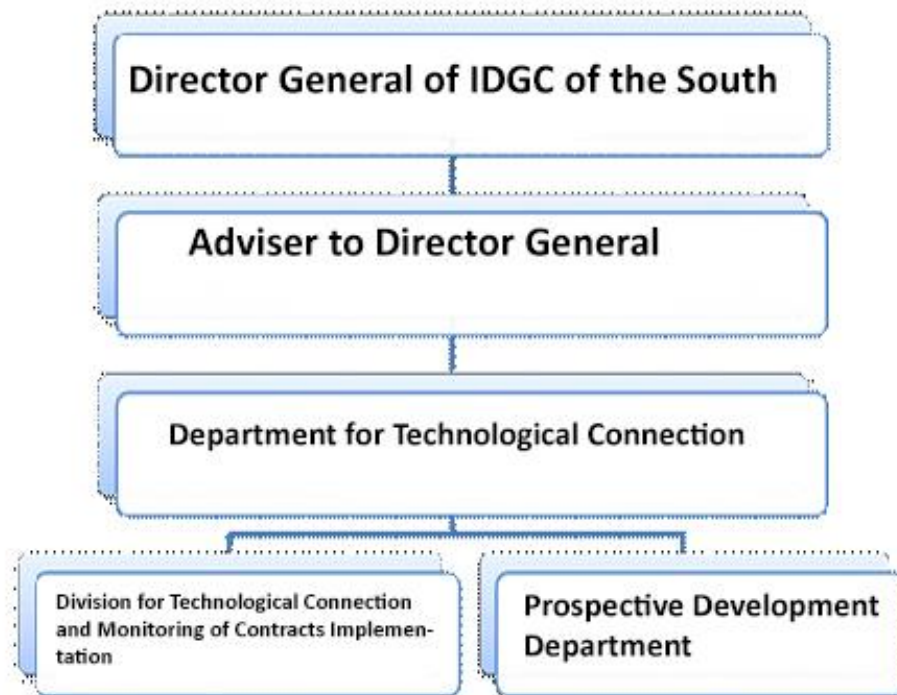
- expenditures on payment for services of JSC FGC UES have increased by 3% (in “Astrakhanenergo” decreased by 20,7%, in “Volgogradenergo” decreased by 3,3%, “Kalmenergo” increased by 18,6%, “Rostovenergo” increased by 6%);

- the share of expenses to pay for services of the territorial grid organizations in general in the Company increased 10% (in “Astrakhanenergo” decreased by 1,1%, in “Volgogradenergo” increased by 11,4%, at Kalmenergo there are no territorial grid organizations, “Rostovenergo” increased by 11,4%).

### **2.1.2. Technological connection to eclectic networks**

#### **Technological connection performance indicators**

In order to deal with issues of technological connection of electrical installations of consumers to the power grid of branches of “IDGC of the South” JSC the Department of technological connection was established.



The general management of technological connection is responsibility of the Adviser to Director General of “IDGC of the South” JSC.

Responsibilities for construction or reconstruction of power grids necessary for performance of contractual terms on technological connection of IDGC of South, JSC fulfills by attracting contractors. Functions of technical supervision over construction and reconstruction of power grids of contractors are fulfilled by the Department of capital construction of “IDGC of the South” JSC.

Applications for technological connection are accepted in the main office of the Company’s branches and Customer service centers of production departments of power grids of branches of IDGC of the South, JSC.

**The regulatory framework, laws: federal, regional, and other regulations used by the Company when carrying out technological connection and long-term development.**

1. Federal Law No.208-FZ dd 26.12.1995 “On Joint Stock Companies”;
2. Federal Law FZ 26.03.2003 No.35-”On Electric Power Industry”;
3. Resolution of the Government of the Russian Federation No. 861 dd 27.12.2004 “On Approval of the Rules of non-discriminatory access to electric power transmission and provision of these services, of the Rules of non-

discriminatory access to operational dispatch management in the electric power industry and rendering of these services, of the Rules of non-discriminatory access to services of Administrator of Trading System at the wholesale market and rendering of these services and the Rules of grid connection of consumers of electric energy facilities for the production of electric energy and transmission facilities owned by grid companies and other entities to electric networks”;;

4. Resolution of the Government of the Russian Federation No.442 dd 04.05.2012 “On functioning of retail electricity markets, and the full (or) partial restriction of electric power consumption mode”;

5. Order of the Federal Tariff Service of Russia No. 209-e/1 dd 11.09.2012 “On approval of the guidelines for determining the amount of payment for technological connection to electric networks””;

6. Resolution of the Government of the Russian Federation No.1178 dd 29.12.2011 “On pricing in the sphere of regulated prices (tariffs) in the electric power industry”;

7. Order of the Ministry of Industry and Energy of the Russian Federation No.49 dd 22.02.2007 “On the procedure of calculating the ratio of consumption of active and reactive power for the individual power receivers (groups of power units) of electricity consumers, used to determine the parties' obligations in contracts for the provision of transmission services (“power supply contract”)”;

8. The Government Decree No. 24 dd 21.01.2004 (as amended) “On approval of standards of information disclosure at the wholesale and retail energy markets”;

9. The Government Decree No. 764 dd 28.09.2010 “On approval of rules for monitoring of compliance with natural monopolies disclosure standards”;

10. The Government Decree No. 977 dd 01.12.2009 “On the investment programmes of electric power industry”;

11. RF Government Decree No. 823 dd 17.10.2009 “On the schemes and programmes of perspective development of electric power industry”.

#### [Regulations issued by regulatory authorities](#)



1. Resolution of the Tariff Service of Astrakhan region No. 249 (19.12.2013) “On rates for 2014 per unit of maximum power and standardized tariff rates for technological connection to electric networks of “IDGC of the South” JSC located in the Astrakhan region”;
2. Resolution of the Committee of the tariff regulation of the Volgograd region No. 60/5 (13.12.2013) “On the establishment of a standardized tariff rates and the rates per unit of maximum power to determine the amount of payment for technological connection to electric networks of “IDGC of the South” JSC (branch “Volgogradenergo”)”;
3. The Order of the Regional Tariff Service of the Republic of Kalmykia No. 104-p/e “On establishing the payment for connection to territorial distribution grids of the branch of “IDGC of South” JSC – “Kalmenergo” in 2014”;
4. The Order of the Regional Tariff Service of the Republic of Kalmykia No.97-p/tpе (21.11.2014) “On amendments to the Order of the Regional Tariff Service of the Republic of Kalmykia No. No.104-p e dated 24.12.2013”;
5. The decision of the Regional Tariff Service of the Rostov region No.71/2 (25.12.2013) “On the establishment of standardized tariff rates and rates for units with a maximum capacity for technological connection to the networks of branch of “ IDGC of South” JSC –“ Rostovenergo” in 2014”.

The full list of regulations governing the activities of technological connection is publicly available on the corporate web site: [www.mrsk-yuga.ru](http://www.mrsk-yuga.ru).

#### **Information on tariffs for technological connection**

Payment for technological connection is calculated in cases of connection of the previously connected reconstructed devices that are launched for the first time and the maximum power of that is increasing, and also in cases, when in respect of previously connected devices the category of reliability of electricity supply, connection points, types of activity not involving the revision of the magnitude of maximum power change without modifying the scheme of external power supply for such devices.



Payment for technological connection when changing the reliability category shall be calculated for the amount of maximum capacity of power receiving devices of the applicants with changeable category of reliability.

Payment for technological connection in case of change of the scheme of external power supply, not entailing the revision of the maximum power in the result of change of the connection points, productive activities, is calculated for the amount of maximum power specified in the application for technological connection.

Executive authorities of territorial subjects of the Russian Federation in the field of state regulation of tariffs (hereinafter RTS) for calculation of payment for technological connection to the territorial distribution grids approved:

1) For the regulated period:

- standardized tariff rates (the cost for approval by the regulatory authority standardized tariff rates shall be determined on the basis of estimated pricing of 2001)

- rate per unit of maximum capacity (rub./kW);

- the payment formula for technological connection;

- the payment for the applicant submitting an application for technological connection of power receivers of maximum

capacity not exceeding 15 kW (considering previously connected in the given point of connection capacity) makes no more than 550 rub. (including VAT) upon accession of subjects of the third category of reliability (one source of power supply) under condition that the distance from the boundary of the Applicant's ground to the power grid facilities necessary for the Applicant's voltage of the grid organization, where the application has been submitted to, is no longer than 300 meters in cities and urban-type settlements and no longer than 500 meters in the countryside.

2) Payment for technological connection to the territorial distribution power grids of power receivers of individual consumers and facilities for the production of electric power of maximum capacity of no less than 8 900 kW and voltage level

no less than 35 kV, and also in case of connection under individual project. Payment rates for power grids are approved by categories of consumers, voltage levels, and (or) the volume of maximum connected power, and can be approved for the municipalities and regions.

For the branches of “IDGC of the South” JSC tariffs for technological connection in 2014 were approved:

- 1) Branch of “IDGC of the South JSC” – “Astrakhanenergo”: Order of the Astrakhan tariff service No.249 (19.12.2013), published on official webpage of the Astrakhan tariff service and in the “Laws and regulations digest” No.56 dated 20.12.2013).
- 2) Branch of “IDGC of the South JSC” – “Volgogradenergo”: Order of the tariff regulation committee No.60/5 dated 13.12.2013 “On determining the standard tariff rates and rates per unit of maximum capacity for calculation of payment for technological connection to the networks of “IDGC of the South” JSC (“Volgogradenergo” branch)”; published in the newspaper “Volgogradskaya Pravda” No.237 dated 18.12.2013.
- 3) Branch of “IDGC of the South JSC” – “Kalmenergo”: Order of regional tariff service No.104-p/e (amendments on 21.11.2014, order No.97-p/tpe); published in the newspaper “Khalmg Unn” No. 238 (16846) dd 27.12.2013, No.211 (17058) dd 26.11.2014.
- 4) Branch of “IDGC of the South JSC” – “Rostovenergo”: Order of regional tariff service of the Rostov region No. 71/2 dated 25.12.2013; published in the newspaper “Nashe vremya” No.763-765 (22213-22215) dated 31.12.2013).

**Analysis of changes in average rate per unit of capacity in the branches,  
rubles/kW**

Name	Approved in 2012	Approved in 2013	Approved in 2014
<b>“Astrakhanenergo” branch</b>			
Gross Revenue Requirement (without beneficial category up to 15kW), thousand rubles	1 296,39	1 701,51	1 767,13
Capacity volume (without beneficial category up to 15kW),	21 651,32	28 054,00	28 054,00

thousand rubles			
<b>Average rate, rubles/kW</b>	<b>59,88</b>	<b>60,65</b>	<b>62,99</b>
<b>“Volgogradenergo” branch</b>			
Gross Revenue Requirement (without beneficial category up to 15kW), thousand rubles	4 467,94	8 304,20	7 864,00
Capacity volume (without beneficial category up to 15kW), thousand rubles	36 011,00	28 182,50	22 921,25
<b>Average rate, rubles/kW</b>	<b>124,07</b>	<b>294,66</b>	<b>343,09</b>
<b>“Rostovenergo” branch</b>			
Gross Revenue Requirement (without beneficial category up to 15kW), thousand rubles	87 852,8	87 045,9	105 539,2
Capacity volume (without beneficial category up to 15kW), thousand rubles	98 729,3	105 902,00	109 857,05
<b>Average rate, rubles/kW</b>	<b>889,84</b>	<b>821,95</b>	<b>960,7</b>
<b>“Kalmenergo” branch</b>			
Gross Revenue Requirement (without beneficial category up to 15kW), thousand rubles	1 505,93	1 229,00	470,9
Capacity volume (without beneficial category up to 15kW), thousand rubles	3 365,00	2 134,00	5 956**
<b>Average rate, rubles/kW</b>	<b>447,53</b>	<b>575,91</b>	<b>79,06</b>
<b>“IDGC of the South” JSC</b>			
Gross Revenue Requirement (without beneficial category up to 15kW), thousand rubles	95 123,10	98 280,57	115 641,23
Capacity volume (without beneficial category up to 15kW), thousand rubles	159 756,62	164 272,50	166 788,3
<b>Average rate, rubles/kW</b>	<b>595,43</b>	<b>598,28</b>	<b>693,34</b>
<b>growth/ reduction of the average rate, rubles/kW, %</b>		<b>100,5%</b>	<b>115,9%</b>

\*The table contains the approved RTS parameters for 2012-2014 for organizational activities (except the cost of activities of “the last mile”) among applicants not related to preferential categories of applicants up to 15 kW (for this category the established payment made 550 rub. For connection, VAT excluded).

\*\* Including “Zempromproekt” LLC with customer contract demand 4000 kW.

The volume of shortfall in income of “IDGC of the South” JSC from rendering services on technological connection included in accordance with the decision of

the regulators in the tariff for services on electric power transmission amounted 328 711 thousand rubles:

The volume of shortfall in income from rendering services on technological connection in 2014

thousand rubles

Branch	Shortfall in income taken into account at tariff regulation, 2014	Notes
Astrakhanenergo	0	Tariff service of Astrakhan included the shortfall in income in the amount of 36 986 thousand rubles on connection in 2012 to tariff on electricity transmission for 2014.
Volgogradenergo	214 086	With regard of tariff decision of committee for tariff regulation in Volgograd region for 2014, that also included the shortfall for technological connection in 2013.
Rostovenergo	72 985	
Kalmenergo	4 654	
<b>IDGC of the South JSC</b>	<b>291 725</b>	

Types of standard tariff rate approved for 2014

Date of tariff adoption	Category of consumption		Unit of measurement	Rate (VAT excluded)
	Capacity, kW/Type of conductor/Transformer capacity	Voltage level at connection point, kV		
<b>Branch of "IDGC of the South" JSC – "Astrakhanenergo"</b>				
Order of regional tariff service (RTS) of Astrakhan region dated 19.12.2013 No.249 (published at official webpage of tariff service of Astrakhan region, "Laws and legal documents of Astrakhan region" No.56, 20.12.2013)	<b>Standard tariff rate for covering expenses on technological connection, grid facilities owned by grid companies and other entities, construction and modernization expenditures are not included (in current prices , VAT excluded)</b>			
	Up to 15 kW inclusive, on condition that the distance from applicant to facilities of grid complex does not exceed 300 meters in urban settlements and 500 meters in rural settlements	Low voltage	rubles/kW	697,73
		Medium voltage 2		
	Standard tariff rate on payment for technological connection of applicants from 15 to 150 kW inclusive	Low voltage	rubles/kW	128,50
		Medium voltage 2		111,80
	Standard tariff rate on payment for technological connection of applicants from 150 to 670 kW inclusive	Low voltage	rubles/kW	25,22
Medium voltage 2		22,43		
Standard tariff rate on payment for technological connection of applicants	Low voltage	rubles/kW		

not less than 670 kW inclusive	Medium voltage 2		10,28
<b>Standard tariff rate for covering expenses on construction and modernization of electric grid facilities at technological connection of energy receiving devices, for construction and modernization of electric grid complex during technological connection of energy receiving devices, facilities owned by grid organizations or other entities, in part of expenditures on construction and modernization of overhead lines of III category of reliability (in prices of 2001)</b>			
Construction of 1km of overhead lines for connection of applicants up to 15 kW inclusive, on condition that the distance from applicant to facilities of grid complex does not exceed 300 meters in urban settlements and 500 meters in rural settlements	Low voltage	rubles/km	163 388
	Medium voltage 2	rubles/km	225 594
Construction of 1km of overhead lines for connection of applicants from 15 to 100 kW inclusive	Low voltage	rubles/km	182 576
	Medium voltage 2	rubles/km	225 594
Construction of 1km of overhead lines for connection of applicants from 150 to 670 kW inclusive	Low voltage	rubles/km	184 913*
	Medium voltage 2	rubles/km	234 612
Construction of 1km of overhead lines for connection of applicants of minimum 670 kW inclusive	Low voltage	rubles/km	184 913*
	Medium voltage 2	rubles/km	234 612*
<b>Standard tariff rate for covering expenses on construction and modernization of electric grid facilities at technological connection of energy receiving devices, for construction and modernization of electric grid complex during technological connection of energy receiving devices, facilities owned by grid organizations or other entities, in part of expenditures on construction and modernization of overhead lines of III category of reliability (in prices of 2001)</b>			
Construction of 1 km of cable lines for connection of applications ( <b>up to 15kW</b> ), on condition that the distance from the land plot of the applicant to grid facilities exceeds 300 metres in cities and large villages and 500 metres in villages and (or) technological connection of power receiving devices of one and the same person is carried out more than once in 3 years within the borders of municipal and urban districts	Low voltage	rubles/km	146 568
	Medium voltage 2	rubles/km	191 133
Construction of 1 km of cable lines for connection of applicants <b>from 15kW to 150kW inclusive</b>	Low voltage	rubles/km	150 377
	Medium voltage 2	rubles/km	203 721
Construction of 1 km of cable lines for connection of applicants <b>from 150</b>	Low voltage	rubles/km	201 977**

<b>and less than 670 kW</b>	Medium voltage 2	rubles/k m	403 904
Construction of 1 km of cable lines for connection of applicants <b>not less than 670kW</b>	Low voltage	rubles/k m	249 125** *
	Medium voltage 2	rubles/k m	488 054** *
<b>Standard tariff rate for covering expenses on construction and modernization of electric grid facilities at technological connection of energy receiving devices, for construction and modernization of electric grid complex during technological connection of energy receiving devices, facilities owned by grid organizations or other entities, in part of expenditures on construction and modernization of overhead lines of III category of reliability (in prices of 2001)</b>			
Construction of 1 substation for connection of applications ( <b>up to 15kW</b> ), on condition that the distance from the land plot of the applicant to grid facilities exceeds 300 metres in cities and large villages and 500 metres in villages and (or) technological connection of power receiving devices of one and the same person is carried out more than once in 3 years within the borders of municipal and urban districts	Low voltage	rubles/kW	2 962,97
	Medium voltage 2		
Construction of 1 substation for connection of applicants <b>from 15kW to 150kW inclusive</b>	Low voltage	rubles/kW	748,75
	Medium voltage 2		
Construction of 1 substation for connection of applicants <b>from 150 and less than 670 kW</b>	Low voltage	rubles/kW	608,01
	Medium voltage 2		
Construction of 1 substation for connection of applicants <b>not less than 670 kW</b>	Low voltage	rubles/kW	281,50
	Medium voltage 2		
Construction of power distribution substation for connection of applicants <b>not less than 670 kW</b>	Low voltage	rubles/kW	701,35
	Medium voltage 2		
Construction of one switch sectioning for connection of applicants <b>from 15 to 150 kW inclusive</b>	Low voltage	rubles/kW	2 165,97
	Medium voltage 2		
Construction of one switch sectioning for connection of applicants <b>from 150 and less than 670 kW</b>	Low voltage	rubles/kW	379,49
	Medium voltage 2		
Construction of one switch sectioning for connection of applicant of <b>less than 670 kW</b>	Low voltage	rubles/kW	129,42
	Medium voltage 2		

**Branch of "IDGC of the South" JSC - "Volgogradenergo"**

Resolution of the Committee of the tariff regulation of the Volgograd region No. 60/5 (13.12.2013) "On determining the standard tariff rates and rates per unit of maximum capacity for calculation of payment for technological connection to the networks of "IDGC of the South" JSC ("Volgogradenergo" branch)"; published in the newspaper "Volgogradskaya Pravda" No.237 dated 18.12.2013	<b>Standard tariff rates for technological connection</b>			
	<b>Standard tariff rate for covering expenses on technological connection of energy receiving devices, facilities owned by grid organizations or other entities, on events specified in paragraph 16 of Recommendations on fixing the payment for technological connection to electric grids, approved by order of FTS of Russia on September 11, 2012 No. 209-э/1 (except subparagraphs b and c) (in current prices):</b>	rubles/kW	396,56	
	Preparation and provision of technical specifications and their approval by the system operator	rubles/kW	71,25	
	Check by the grid company the implementation by the Applicant of the technical specifications	rubles/kW	79,06	
	Participation of the grid company in checking up devices under the connection by an official of federal executive body in charge of technological supervision, involving owner of the devices	rubles/kW	13,68	
	Actual connection of the applicant's facilities to electric grids and switching device by the grid company	rubles/kW	232,57	
	<b>Standard tariff rate for covering expenses of the grid company on construction of overhead lines of i-level of voltage, in accordance with Annex 1 to the Guidelines on determining the amount of payment for grid connection to the networks, approved by the Order of Federal Tariff Services No.209-e/1 dated 11.09.2012 per 1 km of the line (in prices of 2001, VAT excluded, income tax excluded):</b>			
	Construction of 1 km of overhead line -0,4	0,4	rubles/km	135 507,67
	Construction of 1 km of insulated overhead line -0,4	0,4	rubles/km	188 460,7 9
	Construction of 1 km of overhead line -6 (10)	6-10	rubles/km	432 955,2 0
	Construction of 1 km of insulated overhead line -6(10)	6-10	rubles/km	211 342,9 0
	<b>Standard tariff rate for covering expenses of the grid company on construction of cable lines of i-level of voltage, in accordance with Annex 1 to the Guidelines on determining the amount of payment for grid connection to the networks, approved by the Order of Federal Tariff Services No.209-e/1 dated 11.09.2012 per 1 km of the line (in prices of 2001, VAT excluded, income tax excluded):</b>			
	Construction of 1 km of cable line - 0,4	0,4	rubles/km	376 014,1 8
	Construction of 1 km of cable line - 6 (10)	6-10	rubles/km	758 686,8 9
	<b>Standard tariff rate for covering expenses of the grid company on construction of substation, in accordance with Annex 1 to the Guidelines on determining the amount of payment for grid connection to the networks, approved by the Order of Federal Tariff Services No.209-e/1 dated 11.09.2012 a i-level of voltage (in prices of 2001, VAT excluded, income tax excluded):</b>			



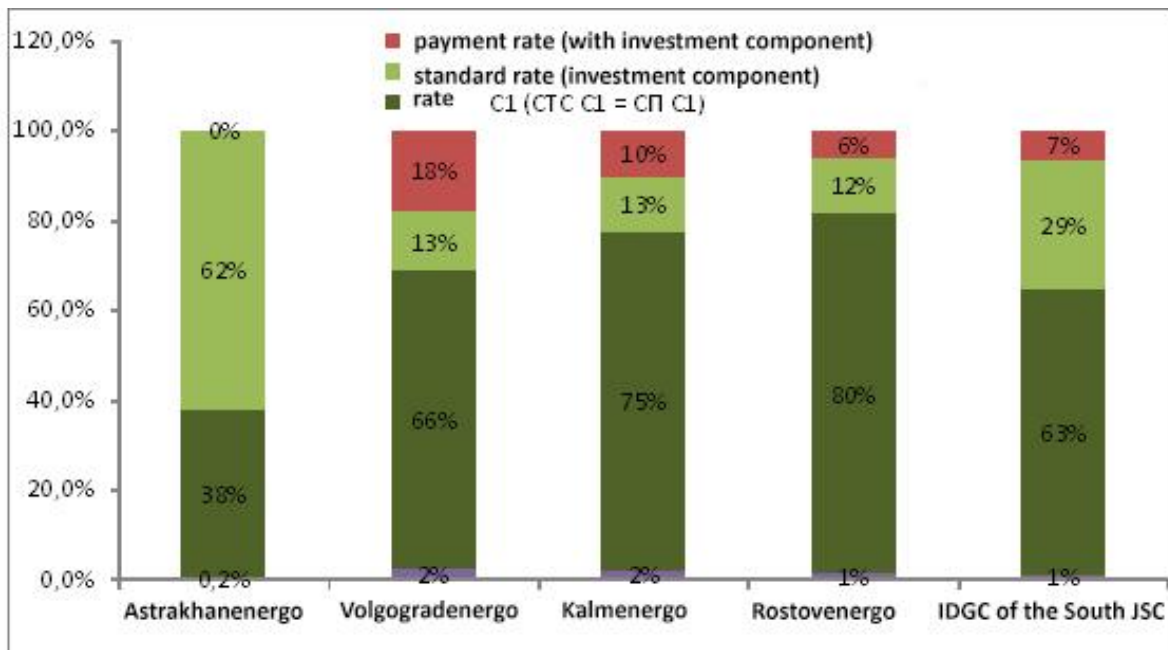
	Construction of transformer station -6 (10) up to 250 kVA inclusive	6-10	rubles/k W	458,70
	Construction of transformer station -6 (10) 400 kVA	6-10	rubles/k W	378,58
	Construction of transformer station -6 (10) 630 kVA	6-10	rubles/k W	366,55
	Construction of transformer station -6 (10) до 2*250 kVA inclusive	6-10	rubles/k W	493,46
	Строительство ТП-6 (10) 2*400 kVA	6-10	rubles/k W	565,44
	Construction of transformer station -6 (10) 2*630 kVA	6-10	rubles/k W	423,15
	Construction of transformer station -6 (10) 2*1000 kVA	6-10	rubles/k W	446,73
	Construction of transformer station -6 (10) 2*1250 kVA	6-10	rubles/k W	320,32
<b>Branch of "IDGC of the South" JSC – "Kalmenergo"</b>				
Order of RTS of Kalmykia Republic dated 24.12.2013 No. 104-p/e (as amended by order No. 97-p/tp dated 21.11.2014) published in the newspaper "Khalmg Unn" No. 238 (16846) dd 27.12.2013, No.211 (17058) dd 26.11.2014.	<b>Standard tariff rate for covering expenses on technological connection of energy receiving devices, facilities owned by grid organizations or other entities, on events specified in paragraph 16 of Recommendations on fixing the payment for technological connection (except paragraph b) and c)) per 1 kW of maximum capacity, in prices of 2014 (VAT excluded)</b>			
	Standard tariff rate on payment for technological connection of applicants up to 15 kW inclusive, on condition that the distance from applicant to facilities of grid complex does not exceed 300 meters in urban settlements and 500 meters in rural settlements	Low voltage	rubles/kW	609,16
		Medium voltage 2		
	Standard tariff rate for connection of applicants from 15kW to 150kW inclusive	Low voltage	rubles/kW	236,38
		Medium voltage 2		305,16
	Standard tariff rate for connection of applicants from 150 to 670kW inclusive	Low voltage	rubles/kW	71,11
		Medium voltage 2		81,87
	Standard tariff rate for connection of applicants from 670 and less than 8900kW inclusive	Low voltage	rubles/kW	13,45
		Medium voltage 2		
	<b>Standard tariff rate for covering expenses on construction of overhead power lines per 1 km of power line (in prices of 2001)</b>			
	Overhead line 0,4 kV with self-supported insulated conductor 2 3*70 +1*54,6		rubles/km	189 551,18
	Overhead line 0,4 kV with self-supported insulated conductor 4 2*16		rubles/km	127 986,58
Overhead line 0,4 kV with self-supported insulated conductor 4 4*16		rubles/km	124 324,54	
Overhead line 0,4 kV with self-supported insulated		rubles/km	130	



	conductor 4 4*25		853,42	
	Overhead line 0,4 kV with self-supported insulated conductor 2 50MM2 from main line+16mm2 with branches	rubles/km	169 808,14	
	Overhead line 0,4 kV with conductor A- 50 main +16MM2 with branches	rubles/km	245 651,25	
	Overhead line 0,4 kV with conductor A - 25 main line+16MM2 with branches	rubles/km	205 704,07	
	Overhead line 10 kV with conductor A - 50	rubles/km	194 432,16	
	Overhead line 10 kV conductor of type SIP-3 (self-supporting insulated conductor) with cross-section 50mm2	rubles/km	99 644,71	
	Overhead line 10 kV conductor of type SIP-3 (self-supporting insulated conductor) with cross-section 70mm2	rubles/km	107 566,85	
	Overhead line 10 kV conductor of type SIP-3 (self-supporting insulated conductor) with cross-section 70mm2 two circuits	rubles/km	147 589,69	
	Overhead line 10 kV of type A-50	rubles/km	177 537,87	
	Overhead line 10 kV of type A -70	rubles/km	196 768,64	
	Overhead line 10 kV of type A -70 two circuits	rubles/km	264 174,99	
	Overhead line 10 kV of type AC-95	rubles/km	208 358,63	
	Overhead line 35 kV of type AC-70	rubles/km	471 671,2 5	
<b>Standard tariff rate for covering expenses on construction of substations (in prices of 2001):</b>				
	Transformer station-10/0,4kV with capacity of 25 kVA	rubles/k W	10 071,6	
	Transformer station -10/0, 4kV with capacity of 400kVA	rubles/k W	1 942,63	
	Vacuum recloser PBA/TEL-10-12.5/630	rubles/k W	41,69	
<b>Branch of "IDGC of the South" JSC – "Rostovenergo"</b>				
Order of regional tariff service of the Rostov region No. 71/2 dated 25.12.2013; published in the newspaper "Nashe vremya" No.763-765 (22213-22215) dated 31.12.2013)	<b>Standard tariff rates of payment for technological connection</b>			
	<b>Rate of covering expenses of technological connection exclusive of construction and overhaul of electric grid facilities and design documentation (in current prices):</b>			
	total, including:	-	rubles/kW	<b>798,03</b>
	preparing technical requirements by grid company and approving them by system operator	-	rubles/kW	327,74
	grid company's verification of meeting technical requirements by the applicant.	-	rubles/kW	204,71
	Participation of the grid company in checking up devices under the connection by	-	rubles/kW	-

	an official of federal executive body in charge of technological supervision, involving owner of the devices			
	Actual connection of the applicant's facilities to electric grids and switching device by the grid company	-	rubles/kW	265,85
<b>Rate of covering expenses of grid company in the part of expenditures for construction of overhead lines at i-level of voltage (prices of 2001):</b>				
-	Low voltage	rubles/km	220 411,3	
	Medium voltage 2		362 774,73	
<b>Rate of covering expenses of grid company in the part of expenditures for construction of cable power lines at i-level of voltage (prices of 2001):</b>				
-	Low voltage	rubles/km	291 225,0 0	
	Medium voltage 2		506 795,75	
<b>Rate of covering expenses of grid company for construction of substations (prices of 2001), including:</b>				
Construction of sectioning switches, electrical distribution points, switchgears, switching equipment (cubicles, chutes, panels and circuit breakers)	Low voltage	rubles/kW	-	
	Medium voltage 2		219	
Construction of package transformer substations, Distribution Transformer Substations of under 35 kV voltage	Low voltage	rubles/kW	685,12	
	Medium voltage 2		685,12	
Construction of feeding centres, substation of 35kV and higher	Low voltage	rubles/kW	-	
	Medium voltage 2		1 206,57	

Under contracts on technological connection, excluding privileged categories of applicants for up to 15 kW, fulfilled in the reporting period (2014), a frequency analysis (selected by the applicant) or other method of calculation of payment for technological connection was carried out. The analysis is presented in a histogram for each branch and for "IDGC of the South" JSC.



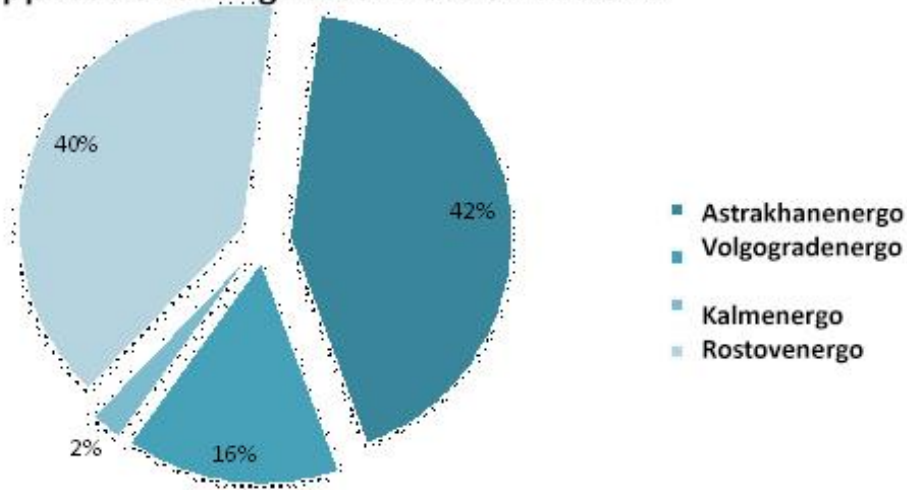
### Ratio of selected method of payment for the grid connection in 2014, %

As the histogram shows, applicants in most cases preferred the standard tariff rates on grid connection to the networks of “IDGC of the South” JSC approved for the branches of “IDGC of the South” JSC.

### Information on demand for grid connection and customer satisfaction

Within the 12 months of 2014 the Company accepted 19 999 applications for technological connection to the networks of “IDGC of the South” JSC branches: “Astrakhanenergo” “Volgogradenergo”, “Rostovenergo” and “Kalmenergo”, for total capacity of 2 143 626 kW. The number of contracts concluded for technological connection was 16 288, for total capacity of 578 925kW.

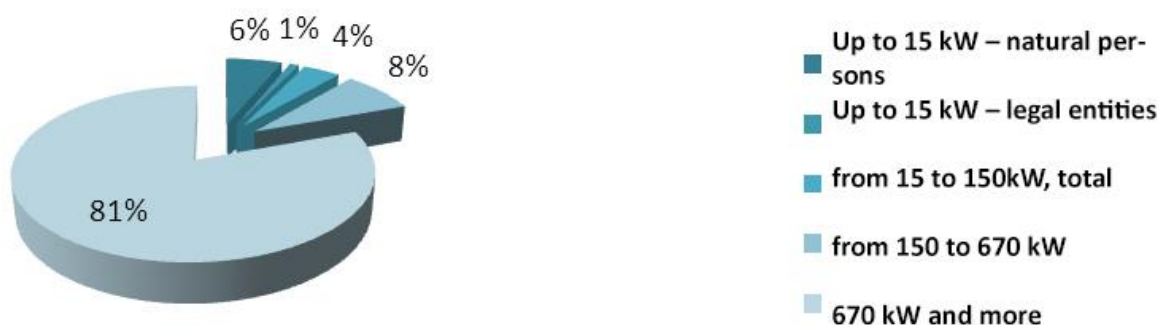
### Applications for grid connection in 2014



### Applications by types of businesses

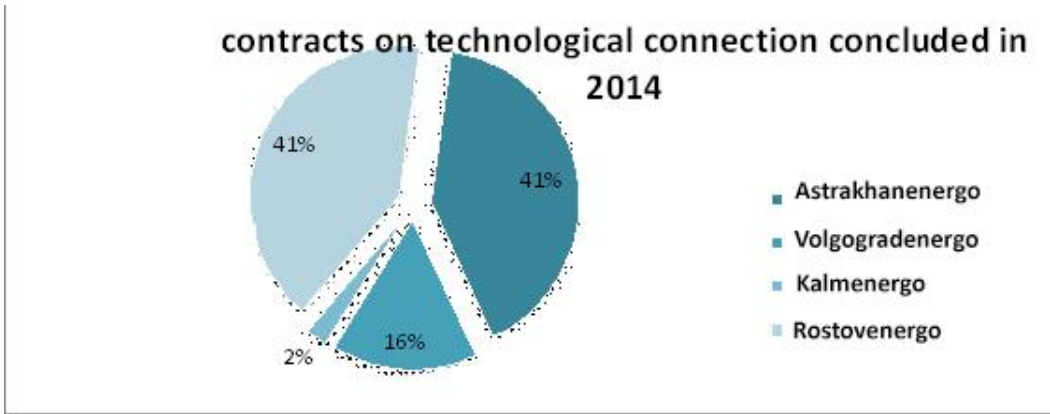
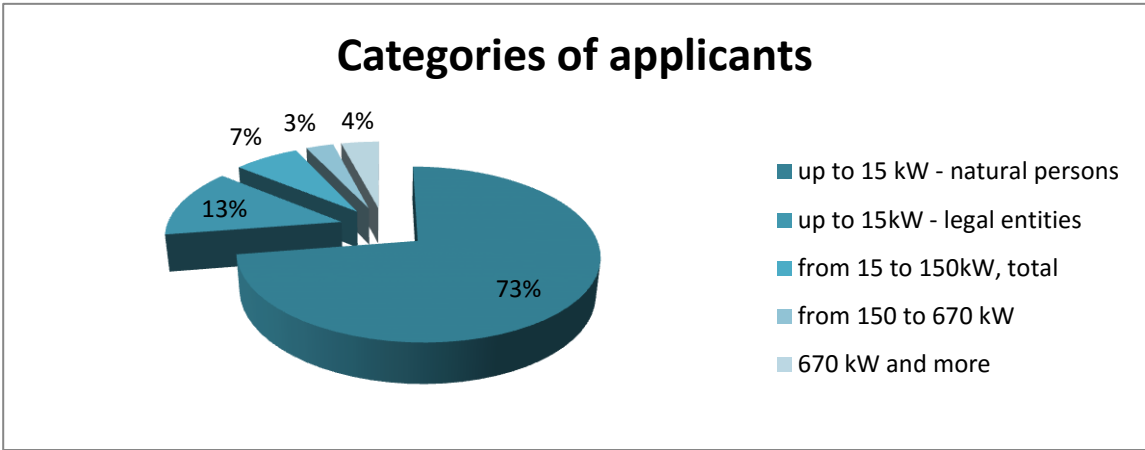
Catagories of applicants		Number of applications filed for TC			
		amount, in items	amount, %	for capacity, kW	for capacity, %
1	2	3	4	5	6
Homes	Up to 15 kW – natural persons	14 510	73	135 664	6
Small business	Up to 15 kW – legal entities	2 661	13	21 169	1
	from 15 to 150kW, total	1 413	7	88 844	4
Medium business	from 150 to 670 kW	597	3	186 611	9
Large business	670 kW and more	818	4	1 711 338	80
<b>Total</b>		19 999	100	2 143 626	100

## categories of applicants (applications), kW

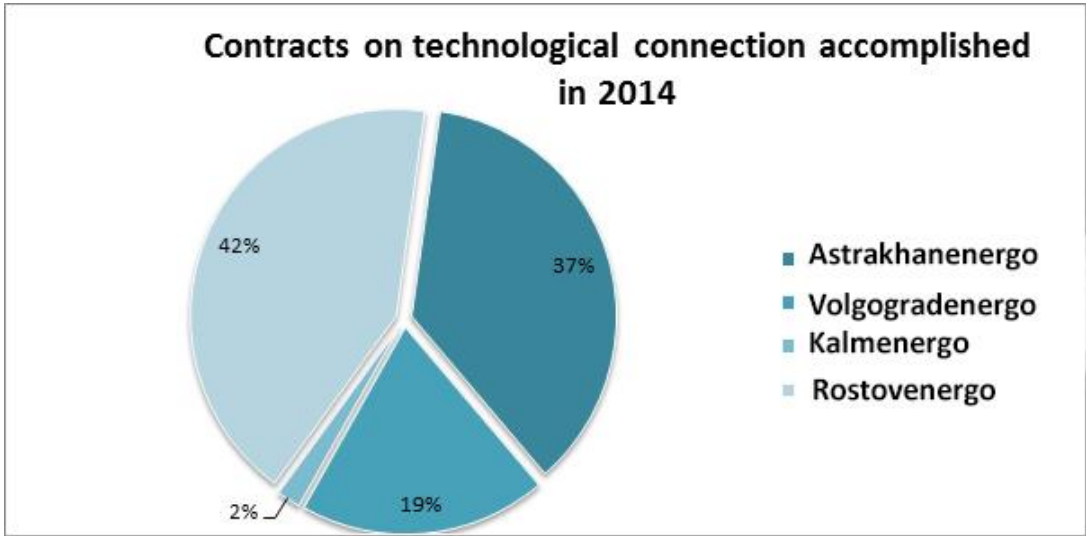


## Applications by industry

Industry	applications for technological connection	
	amount of applications	kW
<b>Natural persons</b>	<b>14 510,00</b>	<b>135 663,66</b>
Agriculture, hunting, forestry	200	90 328
Fishery, fish breeding	24	1 969
Extraction of minerals	57	17 473,83
Manufacturing activity	117	193 069
Production and distribution of electricity, gas, water (generation)	17	363 334
Production and distribution of electricity, gas, water (electric networks of territorial grid companies)	229	119632,679
Production and distribution of electricity, gas, water (other)	393,00	102 856,28
Construction	272	191860,955
Wholesale and retail trade	356	38 085,93
Hotels and restaurants	16	3472,26
Transport and communications	397	26190,045
Education	57	6954,23
Public health and social services	49	1627,38
Miscellaneous	3305	851108,493
<b>Total, including natural persons</b>	<b>19 999,00</b>	<b>2 143 626,05</b>



By the results of 2014 the company has fulfilled 14 676 technological connection for the total capacity of 447 932.



Information on demand for technological connection

Branch and category of connection	Amount of applications filed within the reporting period (total)		Contracts on technological connection concluded within the reporting period (total)		Contracts accomplished (acts signed)	
	amount t	kW	amount	kW	amount	kW
“Astrakhanenergo”						
up to 15 kW inclusive, total	7 573	62 874	6 233	51 664	5 080	40 097
Including natural person up to 15 kW inclusive	6 677	55 832	5 508	45 772	4 533	35 575
More than 15 and up to 150 kW inclusive	601	35 854	321	17 623	208	11 821
Including applicants which used instalment	0	0	0	0	0	0
More than 150 kW and less than 670 kW	191	58 944	95	25 621	66	17 215
More than 670 kW	61	179 566	17	38 682	8	10 102
Facilities on generating electric energy	4	60 000	2	30 000	0	0
<b>T O T A L</b> without temporary technological connection	<b>8 430</b>	<b>397 238</b>	<b>6 668</b>	<b>163 591</b>	<b>5 362</b>	<b>79 236</b>
Temporary technological connection	0	0	0	0	0	0
<b>T O T A L</b>	<b>8 430</b>	<b>397 238</b>	<b>6 668</b>	<b>163 591</b>	<b>5 362</b>	<b>79 236</b>
“Volgogradenergo”	0	0	0	0	0	0
up to 15 kW inclusive, total	2 473	25 655	2 190	22 871	2 595	26 492
Including natural person up to 15 kW inclusive	2 028	21 972	1 804	19 660	2 147	23 080
More than 15 and up to 150 kW inclusive	213	13 495	125	7 703	116	6 822
Including applicants which used instalment	1	140	1	140	0	0
More than 150 kW and less than 670 kW	123	37 257	80	22 208	64	17 965
More than 670 kW	311	259 108	162	83 489	78	38 502
Facilities on generating electric energy	4	61 974	1	9 750	0	0
<b>T O T A L</b> without temporary technological connection	<b>3 124</b>	<b>397 489</b>	<b>2 558</b>	<b>146 020</b>	<b>2 853</b>	<b>89 781</b>
Temporary technological connection	0	0	0	0	0	0
<b>T O T A L</b>	<b>3 124</b>	<b>397 489</b>	<b>2 558</b>	<b>146 020</b>	<b>2 853</b>	<b>89 781</b>
“Kalmenergo”	0	0	0	0	0	0
up to 15 kW inclusive, total	371	1 772	339	1 561	236	1 350
Including natural person up to 15 kW inclusive	190	1 027	172	937	111	600
More than 15 and up to 150 kW inclusive	47	2 621	37	2 062	32	1 712
Including applicants which used instalment	0	0	0	0	1	18
More than 150 kW and less	10	2 927	9	2 697	5	1 092

than 670 kW						
More than 670 kW	5	15 440	1	3 840	2	28 770
Facilities on generating electric energy	3	88 800	1	2 400	1	2 400
<b>T O T A L</b> without temporary technological connection	<b>436</b>	<b>111 560</b>	<b>387</b>	<b>12 560</b>	<b>276</b>	<b>35 325</b>
Temporary technological connection	0	0	0	0	0	0
<b>T O T A L</b>	<b>436</b>	<b>111 560</b>	<b>387</b>	<b>12 560</b>	<b>276</b>	<b>35 325</b>
“Rostovenergo”	0	0	0	0	0	0
up to 15 kW inclusive, total	6 754	66 532	6 094	59 941	5 751	55 040
Including natural person up to 15 kW inclusive	5 615	56 833	5 168	51 809	4 815	46 800
More than 15 and up to 150 kW inclusive	552	36 875	263	17 473	169	10 498
Including applicants which used instalment	3	266	3	316	1	98
More than 150 kW and less than 670 kW	271	86 142	106	30 422	70	17 475
More than 670 kW	426	895 231	211	146 518	194	91 377
Facilities on generating electric energy	6	152 560	1	2 400	1	69 200
<b>T O T A L</b> without temporary technological connection	<b>8 009</b>	<b>1 237 339</b>	<b>6 675</b>	<b>256 754</b>	<b>6 185</b>	<b>243 590</b>
Temporary technological connection	0	0	0	0	0	0
<b>T O T A L</b>	<b>8 009</b>	<b>1 237 339</b>	<b>6 675</b>	<b>256 754</b>	<b>6 185</b>	<b>243 590</b>
<b>TOTAL IN COMPANY</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
up to 15 kW inclusive, total	17 171	156 833	14 856	136 036	13 662	122 979
Including natural person up to 15 kW inclusive	14 510	135 664	12 652	118 178	11 606	106 055
More than 15 and up to 150 kW inclusive	1 413	88 844	746	44 861	525	30 854
Including applicants which used instalment	4	456	4	456	2	116
More than 150 kW and less than 670 kW	595	185 271	290	80 948	205	53 748
More than 670 kW	803	1 349 344	391	272 529	282	168 751
Facilities on generating electric energy	17	363 334	5	44 550	2	71 600
<b>T O T A L</b> without temporary technological connection	<b>19 999</b>	<b>2 143 626</b>	<b>16 288</b>	<b>578 925</b>	<b>14 676</b>	<b>447 932</b>
Temporary technological connection	0	0	0	0	0	0
<b>T O T A L</b>	<b>19 999</b>	<b>2 143 626</b>	<b>16 288</b>	<b>578 925</b>	<b>14 676</b>	<b>447 932</b>

### 2.1.3. Energy Saving and Enhancement of Energy Efficiency



In 2014 “IDGC of the South” JSC was carrying out its activities in the sphere of energy saving and energy efficiency of in accordance with the Russian Federal Law No.261-FZ “On energy saving and energy efficiency improvements and on amendments to certain legislative acts of the Russian Federation”, Resolution of the Government the Russian Federation No. 340 dated May 15, 2010 “On the procedure of establishing requirements for the programme in the field of energy conservation and energy efficiency for organizations engaged in regulated activities”, Regulation of the Government of the Russian Federation no. 977 “On investment programmes of power industry participants (as amended by the Government Decree No. 484 dd 30.06.2010, No.1178 dd 29.12.2011 N 1178), decisions of the executive authority of the territorial subject(s) of the Russian Federation in the field of state regulation of tariffs in relation to organizations carrying out activities on the transmission of electricity energy, as well as in accordance with the programme of energy saving and energy efficiency of “IDGC of the South” for the period 2014 - 2018 (hereinafter - the Programme).

In the sphere of energy saving and energy efficiency the target indicators in accordance with the programme of energy saving and energy efficiency of “IDGC of the South” for the period 2014 - 2018 are:

- reduction of electricity losses in the networks during transmission and distribution;
- consumption of energy resources for domestic needs;
- installation of modern electricity meters in the retail market in accordance with the Programme; Quantitative values of target indicators of the Program are set for 2014-2018.

Planned and actual values of target indices in 2014:

Indicators	Unit of measurement	2014	
		Planned	Actual
Electric power losses including:	mln. kWh	2748.45	2745.29
	% to OS	9.37	9.3
consumption for needs of substations	mln. kWh	95.19	76.96
resources consumption for economic needs, including by types of resources	mln rub.	262.56	263.18

fuel and energy, including:	thous. tons of coal equivalent	29.05	26.38
	mln rub.	252.54	257.36
	tons of coal equivalent per m <sup>2</sup> of floor space	0.05	0.05
electric energy	mln. kWh	64.18	62.09
	mln rub.	194.99	197.88
heat energy	Gcal	17653.84	13958.32
	mln rub.	16.37	15.27
gas	thous. m <sup>3</sup>	2211.7	1599.32
	mln rub.	11	8.33
other (diesel fuel, kerosene, gasoline and other)	thous. tons of coal equivalent	1.76	1.07
	mln rub.	30.18	35.88
hot water supply	thous. m <sup>3</sup>	5.77	6.24
	Gcal	170.14	150.15
	mln rub.	0.27	0.26
cold water supply	thous. m <sup>3</sup>	214.17	203.52
	mln rub.	9.74	5.56
Implementation of modern devices for electricity metering in the retail market	%	42.29	46.49

The programme consists of sections, targeted programmes (events) and related activities, like, reduction of electricity losses during transmission and distribution of electric networks and reduction of consumption of energy resources at the sites of production and economic needs; the programme includes organizational and technical measures.

The target activities are those, implementation of which provides a reduction in energy consumption (including electricity), and (or) water for at least 15% of the annual consumption of the resources, with paybacks of 80% of invested assets over 5 years for the consumption of energy resources and (or) water for production and economic needs and less than 10 years payback for measures to ensure reduction of losses in transmission and distribution of electrical energy.

The auxiliary measures for optimization of costs for production and economic needs and measures for reduction of electricity losses are events with positive energy efficiency and do not meet the criteria for the target.

At the same time activities such as turning off the transformers at substations with seasonal load, load leveling phases in distribution networks 0.38 kV, detection of violations in the accounting system, conducting control readings from current

meters, etc., are performed annually, are considered as "supporters" of the current level of energy losses, and do not affect the balance sheet of electricity companies.

In 2014 the planned effect of the Programme was 185.5 million kWh or 490.7 million rubles, and the effect of sub-programmes was the following:

- Target organizational measures for reduction of power losses 139.9 5 million kWh or 403.2 million rubles.
- Target technical measures reduction of power losses 2.8 million kWh or 8.95 million rubles.
- Accounting system development programme 42.8 million kWh or 87.1 million rubles.

By the results of 2014 the Company has reached the following indicators: the effect – 248.2 million kWh or 667,1 million rubles:

- Target organizational measures for reduction of power losses 207.7 million kWh or 597.6 million rubles.
- Target technical measures reduction of power losses 2.9 million kWh or 4.8 million rubles.
- Accounting system development programme 37.6 million kWh or 64.7 million rubles.

The effect of activities to support the existing level of losses was 62.5 million kWh for the amount of 335.6 million rubles.

Expenditures on implementation of activities amounted to 107.08 million rubles.

Financing sources for the energy saving programme were the investment program, in the amount of 55.300 million rubles, and the repair and maintenance programme in the amount of 51.78 million rubles.

#### [Target activities in the field of energy saving and energy efficiency](#)

In 2014, implementation of target measures to decrease power losses in the Company as a whole amounted to 147.35 million kW economic impact – 321.06 million rubles. The main target activities that made possible such reduction of resource consumption for economic needs are installation of energy-efficient

lighting fixtures, replacement of incandescent bulbs with energy saving ones, replacement of windows. In 2014, the target measures aimed at to reduce resource consumption for economic needs in the entire Company amounted to 30.01 thousand ton of reference fuel, which is equivalent to 0.27 million rubles, while the planned indicators was 159.09 thousand ton of reference fuel for the amount of 0.82 million rubles.

#### Activities aimed at reduction of power losses

“IDGC of the South” JSC, within the frameworks of comprehensive priority actions, takes measures to optimize (decrease) the level of losses. Due to comprehensive actions to optimize losses in 2014, the amount of savings amounted to 248.2 million kW (667.1 million rubles), while the amount of savings via organizational measures amounted to 207.7 million kW (597.6 million rubles), via technical measures — 2.9 million kW (4.8 million rubles), via measures to improve energy accounting — 37.6 million kW (64.7 million rubles). In 2014, with a modernization plan for 0.05 million of metering points and planned costs of 70.3 million rubles, 0.03 metering points were modernized for 95.0 million rubles. Remote data collection from more than 22,000 29.3metering points (the plan was 5.1metering points) was arranged.

The electric power losses decrease plan for 2014 (in physical units) was performed at 133.78%.

#### 2.1.4. Enhancement of reliability and efficiency of the power system

##### Repair and maintenance activities

The repair programme of 2014 cost “IDGC of the South” JSC 1 419 742 thousand rubles, while the planned expenses amounted to 1 236 874 thousand rubles, or 115%.

Company	Implementation of the repair programme 2014, in thousands rubles		
	planned	actual	% form the annual plan
“IDGC of the South” JSC	1 236 874	1 419 742	<b>115</b>
Astrakhanenergo	220 570	266 306	<b>121</b>
Volgogradenergo	273 549	289 236	<b>106</b>
Kalmenergo	90 453	105 267	<b>116</b>

<b>Rostovenergo</b>	652 302	758 931	<b>116</b>
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### Achievement of planned indices of repair programme:

	Unit of measurement.	2014		
		planned	actual	%
Complex repairs of substations of 35 kV and of higher capacity	pcs	161	161	<b>100</b>
Repair of transformers of 35 kV and of higher capacity	pcs	38	38	<b>100</b>
Repair of power lines of 35-220 kV	km	3645	3656	<b>100</b>
Repair power lines of 0.38-20 kV	km	11 013	11 186	<b>102</b>
Repair of transformer substation 6(10)-35/0.4 kV	pcs	3 519	3 611	<b>103</b>
Clearing of forest corridors VL 0,38 kV and of higher capacity	pcs	1 008	1 054	<b>105</b>

Well-timed implementation of repair and maintenance works provided high quality preparation of the branches and the Company in general for the autumn-winter season 2014/2015.

### Repair programme of “IDGC of the South” JSC for 2015

“IDGC of the South” JSC plans to spend on repair programme of 2015 1 099 784 thousand rubles (works that will be performed using own resources – 932 363 thousand rubles, contractors – 167 421 thousand rubles).

Company	Plan of repair programme 2015, thousand rubles
	1 099 784
<b>“IDGC of the South” JSC</b>	156 718
<b>Astrakhanenergo</b>	241 188
<b>Volgogradenergo</b>	64 243
<b>Kalmenergo</b>	637 635
<b>Rostovenergo</b>	

### Planned works:

	Unit of measurement.	plan for 2015
Complex repairs of substations of 35 kV and of higher capacity	pcs	142
Repair of transformers of 35 kV and of higher capacity	pcs	39
Repair of power lines of 35-220 kV	km	3 555
Repair power lines of 0.38-20 kV	km	10 265
Repair of transformer substation 6(10)-35/0.4 kV	pcs	2772

### 2.1.5. Development of information technologies

Short description of necessity of information technologies and telecommunication development (hereafter - ITT), list of technological and economic effects.

Development of information technologies of the Company is connected with implementation of common development strategy of “IDGC of the South” JSC. The following tasks were formulated for focused systemic effect of information technologies and telecommunications (ITT):

- 1) Increasing of examining of power grid facilities;
- 2) Development of automated systems of process management;
- 3) Increasing of effectiveness of processes of cooperation control with customers on the basis of introduction of automated systems;
- 4) Development of processes and introduction of automated Asset Management Systems;
- 5) Development of processes and increasing of effectiveness of automated investment planning and capital construction systems;
- 6) Development of process of electric energy transmission through development of systems of revenue and technical metering of electric energy;
- 7) Increasing of effectiveness and development of system of complex automation of production and financial and operational activities;
- 8) Quality increasing of managerial information on the basis of introduction of effective automated systems of managerial control and report;
- 9) Development of company, increasing of quality and effectiveness of information technologies services providing;
- 10) Increasing of quality of external and internal information interaction.

Brief information on implementation of Company’s Strategy in sphere of information technologies, automation and telecommunication up to 2016 (date of Strategy approval, stages and main goals of development of ITT).

The Strategy of “IDGC of the South” JSC in sphere of information technologies, automation and telecommunication up to 2016 was approved by

decision of “IDGC of the South” JSC dd. 27.07.2012. The updating of “roadmap” of ITT-Strategy of “IDGC of the South” JSC development up to 2016 was implemented in 2014 (decision of “IDGC of the South” JSC Board of Directors dd. 21.11.2014). ITT on Company’s activity performs providing function, the aims of which are providing of effective ITT-instruments for implementation of business-functions, forming of current true managerial information for organization of effective management.

The following stages in accomplishing of identified goals were discovered during development of the Strategy:

- Introduction and development of system of financial and operational activities;
- Introduction of corporate information systems based on SAP;
- Introduction and development of corporate centralized information systems;
- Introduction and development of production and technical and technological systems;
- Optimization and development of ITT-infrastructure;
- Development of information security system;
- Development of automated systems of technological control;
- Development of telecommunications infrastructure;
- Optimization of ITT business processes.

Information on Company’s activity in sphere of information technologies and telecommunications development (including as part of Strategy) on the following areas:

#### Telecommunications

As part of reconstruction of communication and data transmission systems of “IDGC of the South” JSC branch – “Rostovenergo” in 2014 constructed two radio relay communication lines, 52.3 km of fiber-optic communication lines on 110 kV overhead line pylons with creating digital communication channels and installation of modern telephone exchange, reconstructed communication cable lines with creating digital communication channels.

In the branch of “IDGC of the South” JSC – “Volgogradenergo” in 2014 digital communication channels and information transmission channels were created at 5 facilities, workers of the Company also built fiber-optic communication line between 110 kV substation “Novoanninskaya” and Novoanninskiy distribution zone, radio relay communication line between production enterprise Levoberezhnye electric networks and 110 kV substation “Zelyonaya”.

In branch of “IDGC of the South” JSC – “Kalmenergo” in 2014 on title “Accessing “VPN Distribution zone - Substation” engineers of the Company created communication line Ethernet through fiber-optic communication line from substation “Malye Derbety” to maloderbetskie distribution zone and from substation “Sovetskaya” to Kechenerevskiy distribution zone instead of leased lines.

#### IT-infrastructure

The Company implemented project “Technical re-equipment” of local computer network of “IDGC of the South” JSC branch – “Rostovenergo” in 2014 at the following address: 49, Bolshaya Sadovaya street, Rostov-on-Don. The following works were carried out under the project:

- Reconstruction of northern premises;
- Delivery and installation of uninterrupted power source of total capacity 50 kW, protection scheme N+1;
- Delivery and installation of air-conditioning system, protection scheme N+N;
- Delivery and installation of blade server, data storage system and two SAN-units.

Implementation of project allowed to carry out migration of enterprise information systems and servers of the Company from Krasnodar to Rostov-on-Don without work interruption. As part of migration the Company upgraded operating system supported by developers.

As part of agreement of corporate licensing Microsoft Enterprise Agreement Subscription in cooperation with specialists of Microsoft carried out examination



of virtualization system Microsoft Hyper-V. Works on diagnostics of potential problems and performance optimization were implemented.

The connection to enterprise data network of “Rosseti” JSC was performed. The connection was implemented on two independent communication channels with using of automatic back-up.

The updating of information resources catalogue (IRC) was performed and regulation of IRC control was developed (order No. 306 dd. 15.05.2014).

The updating of users’ access to information resources of the Company was provided in accordance with IRC.

### Corporate and technological business applications

The following events were implemented in 2014 in the Company:

1) As part of development of unified financial and logistics management system of the Company on the basis of 1C: Enterprise 8.2, that combined reference books and units of bookkeeping, tax, management accountings, units of salaries calculation and staff management; the following systems were commenced to commercial operations:

- Function of digital documents signing;
- System of changing for internal self-sufficiency and additional fund;
- System of adjusting of account of 84 closed periods;
- System of income tax calculation on the basis of accounting records;
- System of accounting and planning of investment programme;
- System of assessment of rental charges on land plots;
- System of maintaining of register of non-financial assets;
- System of accounting of claim-related work on the basis of “1C: Document flow 8 CORP”;

The following modules were brought into experimental-industrial operation:

- Planning of salary budget;
- Report on repair programme of the Company;

– Module “Supply management of materials and equipment” related to formation of needs and procurement plan of materials and equipment in unified system “IDGC of the South” JSC on basis of 1C: Enterprise 8.2.

2) The following mechanisms of data integration were developed:

– Data upload from 1C: Accounting to the corporate catalogue of “IDGC of the South” JSC employees;

Data transmission between 1C: Accounting and corporate software system “Technological connection”;

– Data transmission between corporate software system “Technological connection” and automated working station “Analysis of investment programme implementation”;

– Data upload from 1C: Accounting to the system of networking management reporting;

– Data upload from 1C: Wages and staff management to the system of networking management reporting;

– Data upload from 1C: Accounting to the consolidated schedules of automated control system of certification agency IFRC;

– Data upload from systems of management of productive assets and management of services on electric energy transmission in software system “Modus”;

– Data transmission between 1C: Accounting and control system of transport “GLOSAV”;

– Data downloading from automated electric power fiscal metering system to system of management of electric energy transmission.

3) The following systems were put into operation:

– Information system on conditioning of electric grid equipment of “IDGC of the South” JSC. The system is used for automation of the following processes: control of layout of electric network, control of information on technical condition of the equipment;

– Information system of control of productive assets of “IDGC of the South” JSC related to automated evaluation of technical condition of the equipment (estimation of condition index) and effects from equipment failure. The system is used for automation of evaluation of technical condition of the equipment (estimation of condition index) and effects from equipment failure with formation of priority equipment list in accordance with evaluation.

4) Commercial use of automated system of accounts receivable for rendered services on electric energy transmission was carried out. The system is used for automation of control of accounts receivable for rendered services on electric energy transmission.

5) As part of development of services on electric energy transmission management system the following functions were integrated:

- Function on control and calculation of actual and reserved power;
- Function on control of acts of illegal electric energy consumption;
- Function on control of calculation of services on population with using of social norm.

6) The system on accident control – software system “Accidence” was put into commercial operation. The system is used for automation of the following processes: bringing in of reports on the investigation of accidents, keeping a log of electric facilities cut-off, analysis of results of accidents causes investigation in terms of productive association, power distribution zone, and control of acts of investigation of fires at the facilities.

7) New functions on recording and investigation of fires in software complex “Accidence” were put into operation by Order of “IDGC of the South” JSC No. 729 dd. 31.10.2014.

8) Optimization of data transmission between subdivisions of “Rosseti” JSC and “IDGC of the South” JSC according to means of managerial accounting system was prolonged:

- Test usage of automated system of analysis and accumulation of data on beneficiaries introduced by “Rosseti” JSC in subsidiaries and affiliates (AS

ASIB) was launched;

– Test usage of automated system of business planning of information technologies and telecommunications introduced by “Rosseti” JSC in subsidiaries and affiliates (AS BP ITT) was launched.

9) Module of federative cooperation of automated systems of administrative document flow “Federation - 2” of system of electronic document flow of “IDGC of the South” JSC was put into operation. It allowed to provide:

– Introduction of unified standards of document flow and workflow management, increasing of work quality with documents and level of implementation standard in “IDGC of the South” JSC.

– Reduction of time and material costs of “IDGC of the South” JSC staff while:

○ Preparation of cooperative documents with “Rosseti” JSC and subsidiaries and affiliates of “Rosseti” JSC;

○ Centralized setting and control of tasks implementation.

– Increasing of effectiveness and speed of cooperation of “IDGC of the South” JSC with “Rosseti” JSC and subsidiaries and affiliates of “Rosseti” JSC:

○ Preparation and approval of projects of cooperative documents;

○ Adjustment and signing of documents;

○ Cooperative work on documents.

– Updating of collaborative mechanism, optimization of processes of management decisions making and control of their execution.

– Organization of unified corporate area of electronic document flow management in “Rosseti” JSC and subsidiaries and affiliates of “Rosseti” JSC.

Preparation of platform for opened integration with centralized systems of planning and control.

### Organization and control of IT

In 2014 the Company started the optimization of work of automated system Service Desk of “IDGC of the South” JSC on the basis of BMC Remedy. As a result of implemented works the continuity and uninterrupted operation of business processes in the Company at the expense of:

- Decreasing of number of unclassified requests in Service Desk;
- Optimization of structure of Catalogue of requests and list of requests in accordance with catalogue of information resources;
- Optimization of control and IT management processes;
- Using of service principles of rendering of IT-service on the basis of process-oriented model of management of IT-services supporting;
- Unification of request types of users of Company’s IT-services.

### Brief results and development plans of ITT

The Company reached the following results in 2014:

1) The model of federative collaboration of system of electronic document flow “Federation - 2” was put into operation.

2) The optimization of processes of information transmission between structural subdivision of “Rosseti” JSC and “IDGC of the South” JSC by system of management reporting was continued.

3) The optimization of operating of automated system Service Desk of “IDGC of the South” JSC on the basis of BMC Remedy was launched.

4) The system on control of accidentance – software system “Accidence” and new functions on recording and investigations of fire in software system “Accidence” were launched.

5) The development of functions of unified system on basis of 1C on financial and operating accounting and IFRS assets management, systems of control and preparation of consolidated financial report on IFRS of “IDGC of the South” JSC group was continued.

6) Information system on certification of electric grid equipment of “IDGC of the South” JSC and information system of business assets management of “IDGC of the South” JSC related to automated evaluation of technical condition of equipment (estimation of condition index) and effects from equipment failure were put into operation.

7) The development of systems of management of services on electric energy transmission and management of business assets.

8) In the branch of “IDGC of the South” JSC – “Rostovenergo” the reconstruction of telemechanic systems at 110 kV substation and at control station of production enterprise Southern electric networks was implemented; digital data communication channels on the basis of fiber-optic lines, radio relay links and high-frequency carrier on power lines were created.

9) In the branch of “IDGC of the South” JSC – “Astrakhanenergo” at 110 kV substation (Yenotaevka) a system of telemechanic was installed.

10) As part of Programme of upgrading and system extension of collection and transmission of information in the branch of “IDGC of the South” JSC – “Volgogradenergo” a telemechanic and communication systems were installed and put into operation at the eighteen 110 kV substations.

The following projects related to reconstruction of connection and data transmission systems were carried out:

1) “The reconstruction of communication facilities of “IDGC of the South” JSC branch – “Rostovenergo” production enterprise Western Electric Networks. 2<sup>nd</sup> stage”.

2) “Upgrade of communication lines and telemechanic equipment at substation Yubileinaya”.

3) “Reconstruction of supervisory control system at substation A20 for organization of communication lines and data transmission lines of substation A20 – substation A1”.

4) “Organization of access to “VPN Power Distribution Zone - Substation”.

In 2015 “IDGC of the South” JSC plans to launch following projects:

1) Putting into operation of the automated system of parallel control and preparation of consolidated financial report on IFRS of “IDGC of the South” JSC group on the platform of “1C: Enterprise 8.2”.

2) Development of the unified information system of the basis of 1C on control of financial and operational activities, and system of parallel control and preparation of consolidated financial report on IFRS of “IDGC of the South” JSC

group.

3) The project of centralization and automation of treasury and financial functions.

4) The project of disaggregation and extended inventory of fixed assets.

5) Development of functions of system of services on electric energy transmission.

6) Introduction of functions on forming of corporate and industrial reports on grid equipment into system of control of production assets.

7) Introduction of function on planning and control of implementation of technical certification of grid equipment into system of control of “IDGC of the South” JSC production assets.

8) Introduction of functions on estimation of amount maintenance of grid equipment in standard units into system of management of “IDGC of the South” JSC production assets.

9) Development of functions of automated system of control of accounts receivable for rendered services on electric energy transmission.

10) Creation of functions of data integration between separated systems and unified system of management of financial and operational activities of the Company on the basis of 1C: Enterprise 8.2 for unification and authentic representation of information on property in accounting systems and databases of the Company.

11) Optimization of usage of local information systems in Company’s branches.

12) Implementation of project on increasing of reliability and information security of unified information space of administrative document flow.

13) Introduction of unified automated system that provide automation and centralization of record and management of Company’s metrological units.

14) Introduction of functions of preparation and uploading of data on beneficiaries from system of KPK “Technological connection” and 1C: “Accounting” 8.2 for automated system “Rosseti” JSC “ASIB”.

15) As part of implementation of investment projects related to telemechanic and communication lines the Company plans to install telemechanical equipment of substation “Solodniki” on title: “Remote control engineering of substation Solodniki, substation Volodarovka, substation Vododelitel, substation Beregovaya, substation Nikolskaya, substation Seroglazka – 1<sup>st</sup> stage of substation Solodniki”.

16) Transfer of infrastructure of “IDGC of the South” JSC branch – “Rostovenergo” to reconstructed centre of data processing centre.

17) Introduction of System Center Operation Manager 2012R2 for managing and monitoring of IT-services, applications, servers under Windows, UNIX and Linux.

18) Implementation of audit of information infrastructure of the Company by specialists of Microsoft.

19) Organization of events on Federal project ”Bridging of the digital gap”.

20) Introduction of sub-system “Management of inventory supplies” on the basis of 1C: Enterprise 8.2.

21) Providing of all customers of the Company with unified geo-informational surface for development and maintenance of technological/information documentation:

- Single-line schematic maps of operation of grid facilities;
- Schematic maps with areas of reliable/fringe reception of signals of cellular and satellite communication;
- Certificates of accident prevention readiness of power distribution zone.

#### **2.1.6. Development of automated systems of technological control (ASTC)**

##### **Branch of “IDGC of the South” JSC – “Astrakhanenergo”**

In 2014 on the programme of updating the system of collecting and transmission of information the works on updating of telemechanic at 110 kV substation “Yenotaevka” were completed. Digital channels of data transmission were launched too. The Company plans to install telemechanic equipment at 110 kV substation “Solodniki” in 2015.



## Branch of “IDGC of the South” JSC – “Volgogradnergo”.

In 2014 the Company changed old communication protocols for protocol GOST R MEK 60870-104 with time stamps at five 110 kV substations, that’s why telemechanic system data meets modern requirements.

## Branch of “IDGC of the South” JSC – “Rostovenergo”.

The updating of telemechanic system at substation Yubileinaya was carried out in 2014. Substitution of digital receive/transmit substation at dispatching station of Production enterprise Southern electric networks was implemented.

### **2.1.7. Procurement activity**

#### Regulation of procurement activities

The main administrative documents regulating the procurement activities of “IDGC of the South” JSC are:

#### **1. The Regulations on the procedure for procurements of goods, works and services for the needs of “IDGC of the South” JSC**

The procurement activity is governed by the Regulations on the procedure for procurements of goods, works and services for the needs of “IDGC of the South” JSC that was approved by the Company’s Board of Directors (minutes of meeting No.115/2013 dated 13.09.2013); these Regulations set the procedure of carrying out purchase of goods, services and works regardless of its price.

#### **2. The Rules of interaction between structural subdivisions of “IDGC of the South” JSC when carrying out regulated procurements of goods, works and services**

(order of the Company No.393 dated 07.08.2013) up to 28.07.2014. On 29.07.2014 the Company introduced restated Regulations on interaction between structural subdivisions of “IDGC of the South” JSC when carrying out regulated procurements of goods, works and services, order No.5050 dated 29.07.2014. This order sets the procedure of interaction between structural subdivisions of the executive body and branches of the Company when planning and carrying out purchases, preparing reports by the results of such purchases.

#### **3. The Rules on carrying out centralized (combined) procurements for the needs of subsidiary and dependent companies of “Rosseti” JSC, approved by**

the Company's Order No.456 dated 06.09.2013 pursuant to Order of "Rosseti" JSC No.518 dated 21.08.2013 in order to efficiently coordinate the purchasing activity of "Rosseti" JSC and the Company.

**4. The Regulations on the operation of the Central Tender Committee of "IDGC of the South" JSC** (Company's Order No.41 dated 30.01.2012), are aimed at determining the functions, tasks, procedure of preparation and conducting meeting of the Central Purchasing Committee.

On 04.09.2014 the Company introduced restated Regulations on the operation of the Central Tender Committee of "IDGC of the South" JSC (order No.595 dated 04.09.2014).

**5. The Regulations on the permanent Procurement Committee of "IDGC of the South" JSC** (Company's Order No.692 dated 17.12.2013), were elaborated to determine the functions, tasks, procedure of preparation and conducting meeting of the permanent Procurement Committee of "IDGC of the South" JSC.

#### **Principles of Procurement activity**

The procedural regulation of procurement is applied to ensure the targeted and efficient spending of Customer's funds, as well as gaining economic justification of expenses (in the form of market prices for the products) and prevention of possible abuses from the Customer.

Regulation of procurement activities is based on the reasonable use of special techniques for enhancement of the effects of market laws for each specific purchase and is performed by application of mandatory procedures to be followed by Customer's staff for each purchase with a value above a certain amount (such procedures can also be applied for smaller purchases if deemed appropriate).

These procedures include:

- market analysis;
- product needs planning;
- informational transparency of procurement;
- equality, justice, non-discrimination and freedom from unreasonable restrictions on competition in relation to participants;

- fair and reasonable selection of the most preferable offers after comprehensive analysis of benefits and costs (first of all, price and quality of products);
- targeted and cost-effective expenditure of funds for purchase of goods, works and services (including, if necessary, life-cycle cost of purchased products) and implementation of measures for reduction of Customer's expenses;
- no restrictions on participation in procurement through the establishment of immeasurable requirements for the participant;
- application of a systematic approach, which means availability of a regulatory environment for the Customer, an established organizational structure for purchasing control and monitoring, trained personnel for procurement, an established procurement infrastructure (informational support, means of e-commerce, certification, professional consultants),
- observance of corporate unity of procurement rules;
- control over the volume of powers and responsibilities of the procurement staff.

#### Ways of conducting procurement procedure

In case of absence of any specified by the Regulations on the procurement of goods, works and services for the needs of "IDGC of the South" JSC (hereinafter – the Regulations on procurement) reasons, the purchase of any products should be carried out through an open one-stage tender without special procedures or public auction, unless otherwise provided by the legislation of the Russian Federation. In exceptional cases by the decision of the Board of Directors for certain specific procurement it might be possible to exceed thresholds for selecting methods of procurement (price or percentage of purchase), unless otherwise provided by the legislation of the Russian Federation.

No.	Procurement method	Procurement policy, Minutes of Board of Directors No. 115/2013 dd. 13.09.2013	
		Reason of choosing procurement method	paragraph
	2	5	6
	Tender	Procurement of any type of products	5.2.1

1			
2	Request for proposals	<ul style="list-style-type: none"> <li>- not enough time for tender or it is inappropriate for some other important reasons, but the circumstances requiring immediate purchase from a sole supplier (provider, contractor) are not available, and the complexity of the product or its delivery do not allow auction holding, request for price;</li> <li>- it is necessary to conduct negotiations with participants, and usage of procedure of two-stage and multistage competition taking into account wasting time or other important reasons is inappropriate;</li> <li>- when expected amount of purchases exceeds 10 mln. Rubles (including VAT);</li> <li>- purchasing of design and exploration works on construction, technical re-equipment and reconstruction of electric grid facilities required for implementation of technological connection;</li> <li>- purchasing of works on designing of electric grid facilities on the amount of up to 100 mln. Rubles (including VAT)</li> </ul>	5.6
3	Tender	Is carried out during the purchase of products for which there is a market and a technical specification was formed by the initiator of purchase; central procurement division is entitled to determine the list of products that are to be purchase by the results of an auction	5.5
4	Prices request	when purchasing ordinary products for which there is a market and the only criteria is the price and on conduction that the price of a contract does not exceed	5.7

		<p>5 million rubles (including VAT) for open query and the deadlines do not allow an auction.</p> <p>By the results of open competitive procurement procedure can be carried out regardless of amount of starting (maximum) price of contract (lot price) on the condition that suppliers, who have signed framework agreements, are involved in prices request.</p>	
5	Competitive negotiations	In case of procurement of complex products when it is necessary to negotiate with participants, and usage of procedure of two-stage competition or request for proposals taking into account time wasting or other reasons are inappropriate	5.8
6	Procurements from sole supplier (executor, contractor)	<p>Procurements from sole supplier are divided to:</p> <ol style="list-style-type: none"> <li>1. procurement of unique products (works, services) from sole supplier (executor, contractor): <ul style="list-style-type: none"> <li>- if products delivery, services rendering are related to sphere of activities of subjects of natural monopolies on prices (tariffs) adjusted in accordance with legislation of the Russian Federation;</li> <li>- if there is a necessity in works or services implementation or rendering of which can be carried out by bodies of executive power;</li> <li>- if products can be received only from sole supplier and there is no equivalent replacement etc.;</li> </ul> </li> <li>2. Procurements from sole supplier (executor, contractor) to prevent extraordinary situations or elimination of their consequences;</li> <li>3. Procurements of semi-conduct products from sole supplier (executor, contractor).</li> </ol>	5.11-5.13

7	Procurement by participation in procedures organized by sellers	By the decision of central purchasing authority of Contractor the procurement is implemented by participating of Contractor in auctions, tenders and other procedures organized by sellers of products (including on electronic trading platform). Positive decision on participation in such procedures is made if procedures supply fair and honest challenge of participants.	5.14
8	Simple procurement	<p>Simple procurements are implemented only in case if proceeds of Customer amount more than 5 billion rubles in the reporting period.</p> <p>Simple procurements are implemented on amount from 100 000 rubles to 500 000 rubles including VAT and if any of the following conditions would be fulfilled:</p> <ul style="list-style-type: none"> <li>- availability of clearly formulated technical specifications for products including functional specifications of product, size, package, shipment, set requirements for the results of work (service) in form of product requirements document ;</li> <li>- time poverty for implementation of other competitive tendering</li> </ul>	5.9
9	Small procurement	<p>Small procurement is implemented for 100 000 rubles including VAT and if any of the following conditions would be fulfilled:</p> <ul style="list-style-type: none"> <li>- availability of clearly formulated technical specifications for products including functional specifications of product, size, package, shipment, set requirements for the results of work (service) in form of product requirements document ;</li> </ul>	5.10

		- time poverty for implementation of other competitive tendering.	
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#### Purchases conducted in 2014

In the 12 months of 2014 the Company carried out 618 purchases for a total amount of 7 066 028 thousand rubles, including VAT (99.1% of the value planned).

#### By procurement procedures:

52 purchases (open tender) for the amount of 1 770 992 thousand rubles, including VAT (25% of total purchases in value terms);

241 purchases (open invitation to tender) for the amount of 710 699 thousand rubles, including VAT (10% of total purchases in value terms);

157 purchases (closed price enquiries and proposals by the results of open competitive negotiations) for the amount of 680 339 thousand rubles, including VAT (9.6% of total purchases in value terms);

2 purchases (open competitive negotiations) for the amount of 6 834 thousand rubles, including VAT (0,1% от общего объема закупок в стоимостном выражении);

4 purchases (of total purchases in value terms) for the amount of 14 829 thousand rubles, including VAT (0.2% of total purchases in value terms);

59 purchases from a sole supplier (executor, contractor) for the amount of 254 031 thousand rubles, including VAT (3.6% of total purchases in value terms).

#### Purchases by types of activity:

“New construction and expansion of grid facilities” – 254 purchases for the amount of 1 178 884 thousand rubles, including VAT (16.6% of total purchases in value terms);

“Reconstruction and technical re-equipment of grid facilities” – 44 purchases for the amount of 338 637 thousand rubles, including VAT (4.7% of total purchases in value terms);

“Power repair (repair) production, maintenance” – 181 purchases for the amount of 915 647 thousand rubles, including VAT (12.9% of total purchases in value terms);

“IT purchases” – 30 purchases for the amount of 163 536 thousand rubles, including VAT (2.3% of total purchases in value terms);

“Consulting services” – 2 purchases for the amount of 6 834 thousand rubles, including VAT (0.1% of total purchases in value terms);

“Other procurement” – 107 purchases for the amount of 4 462 490 thousand rubles, including VAT (63.1% of total purchases in value terms).

There were made 548 purchases using e-commerce for the amount of 6 748 457 thousand rubles, including VAT (96% of total purchases in value terms). 96% of purchases in value terms were made using open procurement procedures.

The economic effect according to the results of procurement procedures for the period amounted 448 542 thousand rubles, including VAT (6% of total purchases in value terms).

#### [Purchases from small and medium businesses](#)

Within 12 months of 2014 the company has carried out 618 purchases for the total amount of 7 066 028 thousand rubles including VAT, precisely 418 purchases for the amount of 2 009 770 thousand rubles including VAT (68% form the total volume of purchases) were made from small and medium businesses. Small and medium businesses were attracted as contractors.

#### [Activities aimed at sophistication of procurement procedure](#)

Procurement activity is aimed at purchase, on a public, competitive basis, good, services and works from contractors that offer good value for money.

To improve the efficiency of procurement activities the Company implements a management programme for 2014-2018 (approved by the Board of Directors, Minutes of meeting No.121/2013 dated 12.19.2013), which sets activities such as increasing the share of public tender procedures, introduction of mandatory rebidding for competitive procedures.



Order of the Company No.179 dated 03.25.2014 (as amended on 04.06.2014, order No.387) established a Consultative body for dealing with issues of the effectiveness of the procurement. The main task of the Consultative body is interaction with the business community, non-profit and public organizations, industry research and educational institutions and organizations to develop measures and activities aimed at improving the efficiency of procurement and increasing the share of purchases of innovative products.

In order to implement the state policy on development of small and medium business, the order of the Company No.123 dated 03.03.2014 approved a Partnership Programme between “IDGC of the South” and small and medium businesses. The Programme establishes a set of measures aimed at creating and supporting reliable, qualified and responsible suppliers (contractors, performers) among small and medium businesses. The Partnership Programme establishes requirements for small and medium businesses, terms and conditions of joining the programme.

By the results of 2014 five organizations belonging to the category of small business have joined the Programme. In order to reduce the purchase price for the acquisition of goods/services in accordance with the directive of the Government of the Russian Federation No.2487p-P13 dated 24.04.2014, the Board of Directors of “Rosseti” approved a method of calculating “Reduction of purchase prices for the purchase of products/services in 2014” (Minutes Board of Directors No.164\_5 dated 09.12.2014). The Central purchasing commission of “Rosseti” approved a list of 50-100 most important positions for implementation of the above-mentioned procedure (Minutes of meeting No.25\_7 dated 20.10.2014).

To reduce the specific investment costs, the Company approved and applied a technique of planning of investment costs by 30 percent relative to the level in 2012 when preparing investment programmes (the order of the Company No.526 dated 08.10.2013).

### **2.1.8. Investing activities**

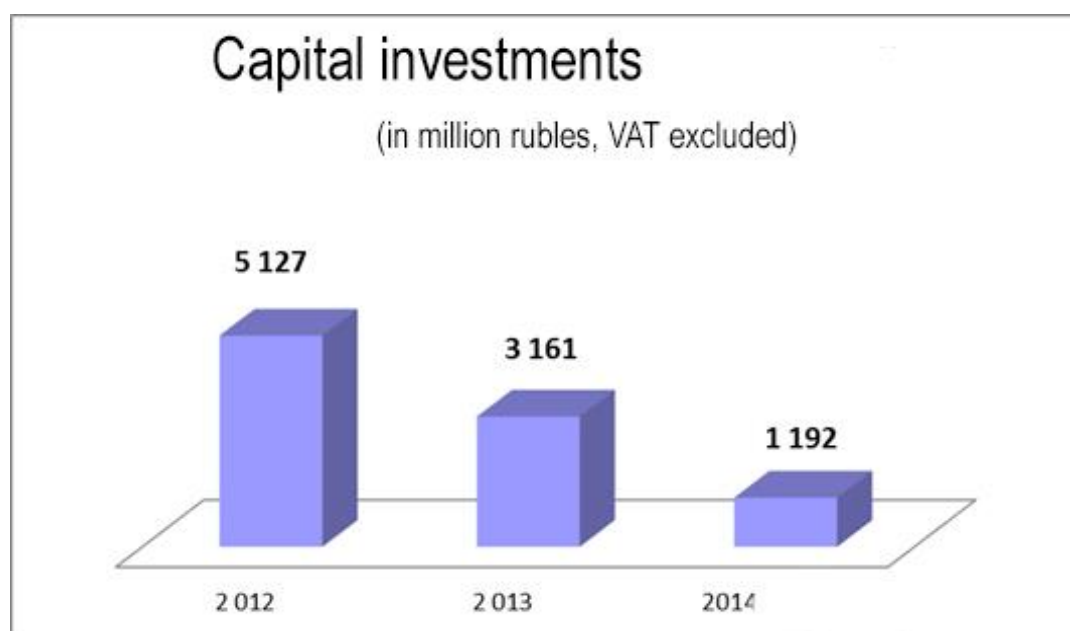
## Parameters of investing activities

Cost and physical parameters of investing activity of “IDGC of the South” in 2014:

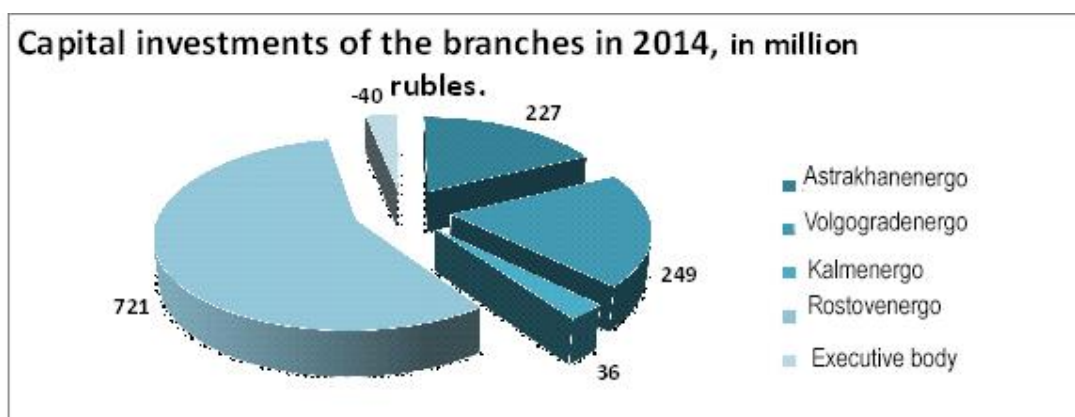
Branch of "IDGC of the South" JSC	2014				
	Capital investments	Working assets deployment	Funding	Increase of power capacities	
	mln rub. excl.VAT	mln rub. excl VAT	mln rub. incl. VAT	MVA	km
Astrakhanenergo	227	334	424	59	128
Volgogradenergo	249	247	369	3	45
Kalmenergo	36	40	35	2	28
Rostovenergo	721	1 086	1 069	46	209
Executive Body	-40	0	0	0	0
<b>Total</b>	<b>1 192</b>	<b>1 707</b>	<b>1 897</b>	<b>111</b>	<b>410</b>

The volume of capital investment in 2014 amounted to 1 192 million rubles. New funds were introduced for 1 707 million rubles. 410 km were put into operation and 111 MVA were expressed in physical terms.

Dynamics of capital investments of “IDGC of the South” JSC in 2012-2014 and capital investments of the branches



As we can see from the chart below, the actual capital investments decreased in 2014 by 62% in comparison with 2013 and by 77% in comparison with 2012. A decrease of investment programme was approved by the Resolution of the Board of Directors of “IDGC of the South” JSC as of 17 December 2014 (minutes of meeting No.148/2014) considering financial state of the Company.



Capitals investments of branches have distributed the following way: “Astrakhanenergo” – 227 million rubles or 19 % the total capital investments, “Volgogradenergo –21% or 249 million rubles, “Kalmenergo” – 3 % or 36 million rubles, “Rostovenergo” – 60 % or 721 million rubles.

By the results of applying Guidelines for reduction of investment costs by 30 relatively to 2012 as well as in accordance with Strategy of development of power grids of the Russian Federation (approved by the order of the RF Government No.511-p dated 03.04.2013), in 2014 the effect from reduction of investment costs amounted 54.8 million rubles or 4.6%.

#### Direction and structure of capital investments

In 2014, actual capital expenditures amounted to 1 192 million rubles, namely: modernization and reconstruction – 669.2 million ruble, new construction – 506.1 million rubles, research and development – 11.7 million rubles, purchase of fixed assets – 5 million rubles.

The volume of capital investments spent in the reporting year for the modernization and reconstruction of power facilities was 58.4% of the total capital investments, new construction – 41.2%, other acquisition of fixed assets – 0.5% of the total capital investments.

In 2014 priority projects from the list approved by the Order of “Rosseti” No. 551r dated 12.12.2014 were commissioned:

- “Reconstruction of 110 kV overhead line No.2, replacement of the wire.” By the results of 2014 the company spent 9 691 million rubles and put into operation fixed assets for the total amount of 11 767 million rubles. As part of the project

the company replaced 8 454 kilometres of wire with the wire of types AS 240/32. Replacement of wire on this power line with a larger cross-section one will provide reliable power to the regional substations in various modes of operation of the network, the possibility of connection of additional capacity in preparation for the 2018 World Cup.

- “110/6 kV “Tsentralnaya” substation. Production subdivision of Volgogradenergo – “Pravoberezhnye electric networks” installed a 6kV block-module 6 kV. By results of the reporting year, 20.3 million rubles were spent on the project; the branch put into operation fixed assets for the total amount of 20.3 million rubles. As part of the project the company installed outdoor switchgear 10 kV in the block-modular design. The goal of the project was to provide reliable power supply to sports and infrastructure facilities under the Programme of preparation to the World Cup 2018, approved by the order of the Government of the Russian Federation No.518 on June 20, 2013:

1. (p.139) 4 star Hotel “Bridgehead Square”, 5A Krasnoznamenskaya Street, Volgograd;

2. (p.115) construction of a 3 star hotel “Park Inn By Radisson”, 3 Mikhail Balonin Street, Volgograd.

- “Reconstruction of 35kV power line “Sulin-Voloshino” from the pylon No.17 to pylon No.44 with the removal of a section of 35 kV from the territory of Ukraine” To implement the order of “Rossetti”(Minutes of meeting No.256/pr1 dated 19.08.2014), the company reconstructed important facilities under the project “Reconstruction of HVL 35kV “Sulin-Voloshino” from the pylon No.17 to pylon No.44 with the removal of a section of 35 kV from the territory of Ukraine”; the 35 kV overhead line was moved from the territory of the neighbouring Ukraine. The company also installed 4 977 km of AC-95/16 wire, 32 pylons SV-164, 26 pylons of type SC-22 and two pylons of types SC-26. The works at implemented 35 kV overhead line shall increase the reliability of power supply for municipal, rural and business customers in Millerovo district, rural settlements Voloshin and

Sulin, as well as 22 social facilities (kindergartens, schools, hospitals). In total 7 981 million rubles were put into this project;

In the reporting period the company launched a project: “Upgrade of 35/10kV substation “B-Sala” with replacement of transformers (South Western Electric Networks)”, “Power delivery from gas engine generator station in village Olya”, “Installation of emergency events recorder at 110/35/6kV “Trikozazhnaya” substation”, “Reconstruction of 110/10 “Druzhba” substation with installation of oil-sump device T-1”, “Shifting of power distribution networks of 6 kV to 10 kV at substation “Kirovskaya” in Astrakhan (3 start-up facilities)”, “System of technical measures for protection of 110 kV “CRP” substation, objects under contracts for technological connection of consumers on standardized tariff rates, determining the amount of payment for technological connection to electric networks of “IDGC of the South”, and for beneficiary categories of consumers.

Distribution of the investment programme for the period of 2014 – 2019 by capital investments is represented in the table:

#### Pattern of investments

million rubles

IDGC of the South JSC	2014 actual	2015	2016	2017	2018	2019
<b>Total</b>	<b>1 192</b>	<b>1 885</b>	<b>4 093</b>	<b>4 357</b>	<b>3 311</b>	<b>3 896</b>
List of key facilities	21	225	514	833	731	644
retrofitting & upgrading	0	35	260	692	727	0
new construction	20	190	254	141	4	644
Priority programmes	5	81	0	0	0	0
retrofitting & upgrading	0	15				
new construction	5	67				
Programmes	300	806	1 681	1 334	636	1 070
retrofitting & upgrading	266	557	1 485	1 333	636	1 070
new construction	34	248	196	1	0	0
Technological connection	394	172	339	492	417	469
Technological connection facilities with capacity over 750 kW	12					
Technological connection facilities with capacity from 100 to 750 kW	96					

Technological connection facilities with capacity from 15 to 100 kW	19					
Technological connection facilities with capacity below 15 kW	268	172	339	492	417	469
Distribution grids	114	286	516	290	617	535
retrofitting & upgrading	77	239	422	226	529	516
new construction	37	47	94	63	89	20
Technological process control automation (except ASEMC)	172	235	460	609	508	689
Energy metering and control systems	95	15	428	604	362	295
Security assurance programmes	15	8	10	20	30	166
Acquisition of power grid assets, land and other facilities	5	0	0	0	0	0
Other programmes and events	72	57	146	175	10	27

Distribution of the investment programme for the period of 2014– 2019 by capital investments is represented in the table:

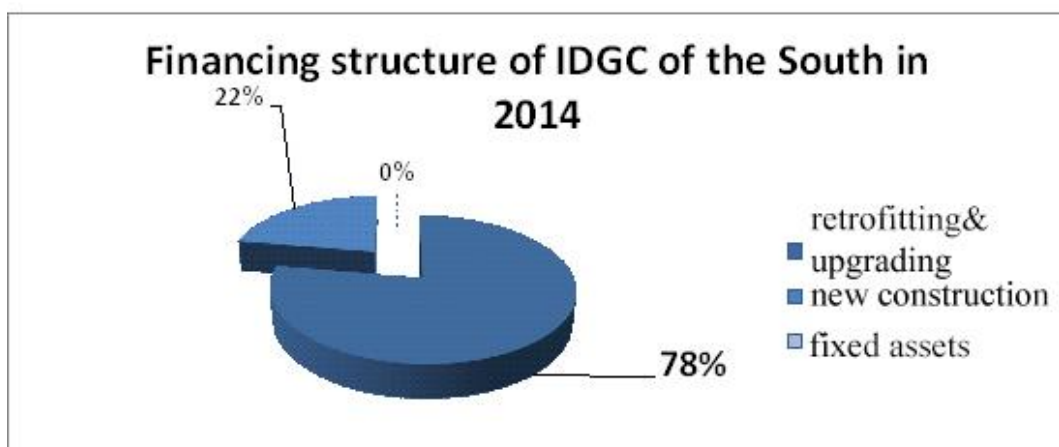
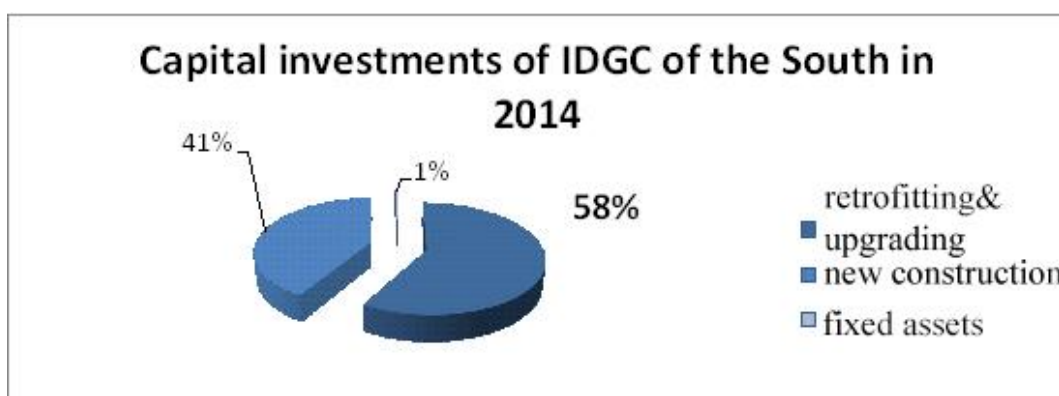
### Financing structure

million rubles

IDGC of the South JSC	2014 actual	2015	2016	2017	2018	2019
<b>Total</b>	<b>1 897</b>	<b>2 228,461</b>	<b>4 830,437</b>	<b>5 141,337</b>	<b>3 907,472</b>	<b>4 839,464</b>
List of key facilities	50	236	513	850	904	818
retrofitting & upgrading	17	17	254	674	856	223
new construction	33	219	259	176	48	595
Priority programmes	0	50	48	0	0	0
retrofitting & upgrading		7	10			
new construction		42	38			
Programmes	185	728	1 964	1 733	863	1 283
retrofitting & upgrading	131	534	1 655	1 674	862	1 283
new construction	54	194	309	59	1	0
Technological connection	279	199	370	556	494	651
Technological connection facilities with capacity over 750 kW	39					
Technological connection facilities with capacity from 100 to 750 kW	89					
Technological connection facilities with capacity from 15 to 100 kW	1					

Technological connection facilities with capacity below 15 kW	150	199	370	556	494	651
Distribution grids	126	296	634	392	682	692
retrofitting & upgrading	72	268	528	313	568	625
new construction	54	28	106	79	114	67
Technological process control automation (except ASEMC)	127	328	532	659	606	812
Energy metering and control systems	232	121	509	717	318	375
Security assurance programmes	12	28	7	28	29	176
Acquisition of power grid assets, land and other facilities	2	2	0	0	0	0
Other programmes and events	884	240	252	207	12	32

Capital investments of “IDGC of the South” JSC in 2014, %:



Commissioning of fixed assets in 2014:

Branch of IDGC of the South JSC	2012			2013			2014		
	Fixed assets commissioning million rubles	Power input		Fixed assets commissioning million rubles	Power input		Fixed assets commissioning million rubles	Power input	
		km	MVA		km	MVA		km	MVA
Astrakhanenergo	570	261	83	1 326	212	49	334	128	59

Volgogradenergo	347	42	45	592	126	63	247	45	3
Kalmenergo	809	275	21	1 221	200	161	40	28	2
Rostovenergo	1 700	738	55	2 052	434	27	1 086	209	46
Executive body	13	0	0	0	0	0	0	0	0
<b>Total</b>	<b>3 439</b>	<b>1 316</b>	<b>203</b>	<b>5 190</b>	<b>972</b>	<b>299</b>	<b>1 707</b>	<b>410</b>	<b>111</b>

As reflected by the table, the actual introduction of fixed assets in 2014 has decreased by 67 in comparison to 2013 and by 50% in comparison to 2012.

### Results of investment programmes

In 2011 in the Republic of Kalmykia (Kalmykia) “IDGC of the South” JSAC and the Government of Kalmykia launched a large investment project on technological connection of pumping stations (“NPS-2”, “NPS-3”) of the Caspian Pipeline Consortium “CPC-R”. Construction and modernization of these substations is carried out in order to increase the capacity of the pipeline consortium up to 67 million tons of oil per year.

To ensure power supply to “NPS-3” from October 2011 “IDGC of the South” was carrying out a project on “Construction of 110/10 kV “NPS-3” with power lines of 110kV and reconstruction of the adjacent 110kV network in the Iki-Burulsky district Kalmykia. In June 2013 the project was successfully accomplished. The project costed over 1.5 billion rubles.

Also to ensure electricity supply to pumping station “NPS-2” on the territories of Chernozemelsky area in Kalmykia, “IDGC of the South” JSC is completing the construction under the project: “Construction of 110/10 kV substation “NPS-2” and reconstruction of the adjacent 110 kV network”, the project was accomplished in September 2013. The project cost was over 600 million rubles

Works carried out at “NPS-2” and “NPS-3” enabled:

- to increase output in electric networks of the branch of “IDGC of South” JSC – “Kalmenergo”;
- to reduce the percentage of wear of 110kV networks;
- to increase the reliability and capacity of the energy system of the Republic of Kalmykia.



During the period 2015-2019 it is planned to reduce accounts payable by 77%, from 1 230 million rubles up to 943 million ruble., and reduce construction in progress by 64%: from 1514 million rubles to 966 million rubles.

The actual movement of payables and construction in progress for the period 2011-2019:



In accordance with the Preparation Programme for the FIFA World Cup 2018, approved by the Order of the Government of the Russian Federation No.518 dd of 20.06.2013 “On preparation for the FIFA World Cup 2018 in the Russian Federation”, “IDGC of the South” JSC in 2014-2018 included in the investment programme two major investment projects:

1. “Cable lines (110 kV) and substation (110 kV) “Gvardeiskaya” for electricity supply of the Central stadium in Volgograd for the matches of the FIFA World Cup 2018. Construction of 110/6 kV “Gvardeiskaya” in future will enable a back-up power supply for existing customers of the central district of Volgograd, powered by 110kV “TDN” and 110kV “Vileika” substations as well as the connection of new consumers.

As part of the investment project the following main activities are presupposed:

- Construction of 110kV substation “Gvardeiskaya” in the Central district of Volgograd; a closed-type substation with 2 power transformers of 10 MVA.
- Construction of two 110kV cable lines from 110kV substation “Gvardeiskaya” to the 110kV substation “ZKO-1”.

The investment project will be implemented in 2015-2017:

- Development of design estimates - 2015

- Construction and installation works - 2016-2017.

In addition, as part of the programme for the FIFA World Cup 2018 it is planned to provide electricity from 110 kV power receivers of temporary structures around the Central stadium in accordance with the requirements of FIFA, the training ground – VGAFK, 78 Lenina str., a hotel infrastructure near the Central Stadium.

2. “Construction of 110/10 kV substation “Sportivnaya” with 110kV cable line “Koysug “-“Sportivnaya”- “P-4”. The investment project is being implemented with the aim of eliminating the growing shortage of electricity and to ensure reliable and uninterrupted power supply to venues of the FIFA World Cup 2018.

As part of the investment project the following activities are planned:

- Construction of a new 110/10 kV closed-type substation with 2 power transformers of 40 MVA;
- Cable re-laying from the substation “R-39” which is to be dismantled to a newly constructed 110/10/10 kV substation “Sportivnaya” and the shifting of existing loads 6 kV on the substation “Sportivnaya”;
- Dismantling of existing substation “R-39”;
- Construction of overhead and cable lines of 110 kV: substation “Koysug” - substation “Sportivnaya” and “substation P-4” - Substation KS-3 - substation “Sportivnaya”.

Also as part of the schedule for the implementation of the program of preparation for the World Cup in 2018 in the Russian Federation (RF Ministry of Sports), "IDGC of the South" is planning to carry out two projects related to the development and construction of facilities for the 2018 World Cup:

1. “Reconstruction of 110/35/6 kV substation “TDN” with the replacement of T-1 and T-2”;

The goal of the project is to provide reliable power supply to sports and infrastructure facilities of the FIFA World Cup 2018, approved by the order Government of the Russian Federation No.518 on June 20, 2013:

- (p. 1) Construction of the stadium for 45,000 seats, Volgograd,

- (p. 14) Upgrade of a training ground of VGAFK, 78 Prospekt Lenina, Volgograd;
- (p. 116.) Construction of a 3star hotel “Olympic”, Chuikova street, Volgograd;
- (p. 138.) Construction of a 4 star hotel Hilton Garden Inn, 56a Lenin street, Volgograd.

The Statement of Work includes:

- Replacement of existing transformers T1 and T2 110/35/6 kV with 20MVA capacity with two power transformers of 25 MVA.
  - Installation of four additional cells 6 kV.
  - Organization of the secondary circuit switching substation “DTN”.
2. “Reconstruction of 110/10 kV “AC10” substation with replacement of two transformers 40 MVA to provide electricity for the airport “Yuzhniy” in Rostov-on-Don.

It is planned to construct in Rostov-on-Don an airport “Yuzhniy”, as specified in paragraph 185 of the preparation programme to the FIFA World Cup 2018, approved by the order of the Government of the Russian Federation No.518 dd 20.06.2013.

Based on the contract with “Rostovaeroinvest” JSC for technological connection No.61200-14-00168847-1 on 04.08.2014, in order to ensure reliable power supply to the new airport the Company implements the project: “Reconstruction of 110/10 kV substation “AS-10” with replacement two transformers MVA”.

The Statement of Work includes:

- Replacement of two 110/10kV transformers with 20MVA capacity with 110/10/10 kV power transformers with capacity of 40 MVA.
- Replacement of equipment of 110kV outdoor switchgear.
- Replacement of the existing 10kV outdoor switchgear with 10kV indoor switchgear.
- Organization of cable outlets of the cells 10 kV to pylons of 10kV lines.
- Inter-circuit wiring at “AS-10” substation.

In addition, under the implementation of paragraph 1.3 of the Action Plan (“roadmap”), approved by the Administration of Rostov-on-Don on 01.11.2013 No. 1202 “On approval of the Action Plan (“ roadmap”) for preparation of Rostov-on -Don to the FIFA World Cup 2018, the investment programme of “IDGC of the South” JSC includes the following project:

“Reconstruction of power transmission lines “Koysug-P31-P16-P22-PP2 and 110 kV transmission line R23- P25-P22-PP2 with moving the transmission line” - Rostov-on-Don.

110 kV transmission line Koysug-P31-P16-PP2-P22 and 110 kV transmission line P23-P25-PP2-P22 are used to transmit power to 110 kV R-22, P-16, P-31, P-25, which are the sources of power supply to consumers in Rostov-on-Don.

The project is of great importance, because it is the only option to ensure the required level of reliability of power supply to the central part of Rostov-on-Don, which is now being supplied by substation “R-22”.

In connection with the reconstruction of the existing bridge over the river Don it is required to transfer sections of 110 kV cable line, as well as an existing switching station (PP2). Under this project it is presupposed to refit a double circuit transmission line cable section - KL 110 kV PP2-P22, which is installed in utility line area of the Voroshilovskiy bridge.

“Construction of 110/35/10 kV “Chertkovskaya” substation including installation of service drop wires of 110, 35 and 10kV HVL to the new substation”

Due to the tightening of the regime of border control on the border with the Republic of Ukraine for the citizens of the Russian Federation, the meeting of the Board of “Rossetti” made a decision to move 110kV substation “Chertkovskaya” to ensure its free transport accessibility, in connection with it the Company included in the investment programme of “IDGC South” the project “Construction of 110/35/10 kV “Chertkovskaya” substation including installation of service drop wires of 110, 35 and 10kV HVL to the new substation”

110/35/10 kV substation “Chertkovskaya” is located in the village Chertkovo in Rostov region, near the state border with the Republic of Ukraine. To get to the

territory of the substation for maintenance, repair, and reconstruction works, it is necessary to undergo a procedure of crossing the state border.

The approved terms of reference for the design provide:

- Construction of a new substation 110/35/10 kV.
- Construction of 110 kV double circuit approaches.
- Construction of single-circuit 35 kV approaches.
- Construction of 10 kV approaches.

“Construction of 110kV transmission line from 110kV overhead line “Rassvet - Rezinovaya” with a branch line to substation “Stroyindustriya” (No.121) and 110kV overhead line “Rassvet – Lesnaya with branch lines” (No.122) designed for power supply of a future 110/10kV substation”

In order to fulfill the obligations under the contract of technological connection dated 30.07.2014 concluded between “IDGC of the South” JSC and “OBORONENERGO” it is prescribed to implement the following investment project “Construction of 110kV transmission line from 110kV overhead line “Rassvet - Rezinovaya” with a branch line to substation “Stroyindustriya” (No.121) and on the 110kV overhead line “Rassvet – Lesnaya with branch lines” (No.122) for electricity supply of a future 110/10kV substation”.

Technical project provides:

- Construction of the branch line 110 kV transmission line from 110 kV overhead line “Rassvet - Rezinovaya” with a branch line at substation “Stroyindustriya” (No.121) to 110/10kV substation of an Applicant. The estimated path length is 13.42 km.
- Construction of the branch line 110 kV from 110kV transmission line "Dawn-“Rassvet – Lesnaya with branch lines” (No. 122) to 110/10kV substation of an Applicant. The estimated path length is 8.32 km.

#### [Long-term investment programme](#)

The investment program of “IDGC of the South” JSC for 2015-2019 was elaborated in accordance with the development plans of the territories and technical condition of local power grids, also taking into account the importance

of the power supply facilities, and the forecasts of revenues from power transmission and applications for the technological connection.

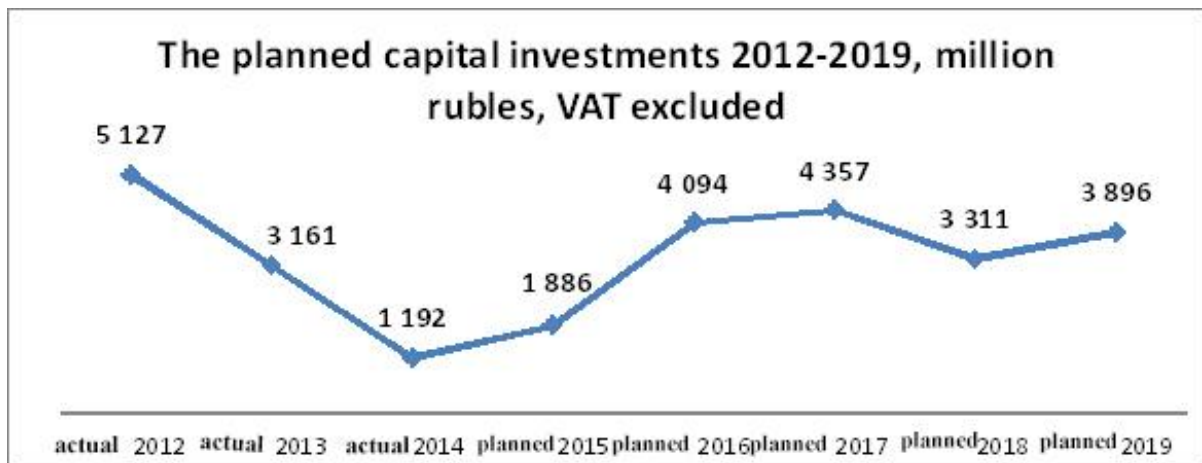
The Investment programme sets forth the following tasks:

1. Equipment availability maintenance, necessary for reliable, continuous and quality power supply to consumers;
2. Implementation of measures to cut down production costs, including by improving the equipment efficiency, the development of accounting systems of energy consumed;
3. Fixed assets upgrade;
4. Providing of equipment and personnel safe operations;
5. Ensuring output capacity of electric grids for sustainable functioning of the power industry and providing connection to customers.
6. Improving anti-sabotage and anti-terrorist security of power facilities.
7. Development of communication systems, remote control and data transmission to improve manageability of the grids and reduce the time of accident response.
8. Inclusion of investment projects for the reconstruction of power facilities in connection within the requirements of UES, JSC.

The long-term investment programme presupposes 17 544 million rubles (VAT excluded) of investments, funding – 20 945 million rubles (VAT excluded), commissioning of fixed assets– 18 651 million rubles. The Company plans to construct and modernize 2 580 kilometres and commission 1241MVA of transformer capacity within 2015-2019.

In 2015 the Company will invest 1886 million rubles (VAT excluded), funding – 2 228 million rubles (VAT excluded), commissioning of fixed assets– 2309 million rubles; The Company plans to construct and modernize 299 kilometres and commission 123MVA.

A diagram of the planned capital investments in accordance with the investment programme 2012-2019:



### 2.1.9. Innovative development

The main goals and objectives of “IDGC of the South” that are solved by the implementation of the “Programme of research, development and technology (R&D) works of “IDGC of the South” for 2014 (hereinafter - the Programme), and planned for the achievement of economic, technical and the expected socio-economic effects:

The purpose of the Programme is to develop an effective mechanism for the implementation of the innovation cycle, providing favourable conditions for the creation and promotion of high-tech electrical equipment, materials and advanced technology for the distribution grid complex of “IDGC of the South” JSC.

The main activities of innovative development:

- Creation of innovation management system which will be focused on the development and introduction of new technologies, innovative products and services;
- Creation of a system of search and selection of effective innovations;
- Improving the mechanism for the implementation of pilot projects on introduction of innovative technologies;
- Ensuring the necessary conditions for the wide application of innovations at the distribution grid complex of “IDGC of the South” JSC;
- Improvement of the financial mechanism of innovation at the company’s own expense;
- Provision of the necessary level of workforce capacity;

- Ensuring protection of intellectual property;
- Provision of information support of innovative process management.

In order to make sure that “IDGC of the South” keeps its leading position in the electric power industry in the regions of its presence (in Rostov, Volgograd and Astrakhan regions and the Republic of Kalmykia), the implementation of the Programme is aimed at improving the basic performance of its industrial business processes, namely:

- Improving the reliability and quality of electricity supply to consumers, receiving power from the electrical networks of “IDGC of the South” JSC, that is, reduction in the number of technological faults, violations and reducing the duration of their existence, as well as compliance with power quality requirements of regulatory and technical documents;
- Provision of a real-time monitoring of the power distribution networks, their manageability, adaptability and flexibility;
- Increase in efficiency of operation of the distribution grid complex;
- Improving the energy efficiency of the electric grid complex, administrative and industrial buildings and structures;
- Reduction of the cost of the services provided in the field of electricity transmission and distribution.

Principle directions of the innovative development of “IDGC of the South” JSC:

- development of the methodical (regulatory) support;
- human resources development (personnel training);
- R&D planning and implementation;
- implementation of «finished» effective innovative developments;
- enhancement of basic business processes;
- development of the information technologies and the IT infrastructure;
- enhancement of energy efficiency;
- developing and implementation of labour-saving activities.

R&D first priority trends:



- maintaining uninterrupted power supply to the consumers and minimizing the risks of technological disruptions in power grids;
- power loss decrease in distribution grids;
- optimization of management, improving the efficiency of financial, economic, operational and maintenance activities (development of advanced solutions and measures to improve the power grid complex maintenance systems);
- more efficient control over the parameters of ice and wind loads applied to the phase conductors and lightning protection cables for HVLs, improving the quality of field personnel decisions and preventing its mistakes during electric
- mode management, reduction of material costs for HVL maintenance with minimal material costs for icing early detection system maintenance;
- reduction of material costs for power grid complex facilities technical re-equipment;
- performing trial runs of next-generation electro technical equipment;
- development and introduction of modern diagnostics methods;
- enhancement of energy efficiency (introduction of energy-efficient equipment, lighting and microclimate control systems, power loss decrease in distribution grids, costs optimization);
- using power complex switchgear simulators to train the personnel;
- improvement of the regulatory, technical and methodological base;
- development of organizational and technical measures to improve the sustainability of facilities in emergency situations;
- enhancement of environmental and information security.

Implementation of design and survey works contributes to the development of priority areas of science, technology and engineering in the Russian Federation, approved by the resolution of the President of the Russian Federation No. Pr-843 dated May 21, 2006.

Basically the activities of design and survey works are implemented in the following priority areas:

- energy and energy efficiency;

- information and telecommunication systems.

The result of the implementation of design and survey works will be a pilot production of the most effective innovations installed on electrical equipment of the distribution grid complex of “IDGC of the South” JSC, the preparation of the necessary technical (technological and design) documentation for the future mass production and introduction of the most promising innovation (electrical devices and systems, guidelines, etc.) as well as the formation and subsequent improvement of the system of innovative development of “IDGC of the South” JSC, including intellectual property (patents, certificates, licenses).

Also, the implementation of design and survey work contributes to the improvement of the protection and management of intellectual property of “IDGC of the South”, allowing to form plans on commercialization of the results of R&D carried out in the framework of the contracts concluded between “IDGC of the South” and contractors, as well as to increase its capitalization by increasing the cost of intangible assets.

The main directions of research and development works conducted in “IDGC of the South” JSC within the framework of the R&D Programme of “IDGC of the South” in 2014:

Ensuring safe (uninterrupted) and qualitative power supply to electricity consumers, as well as reduction of the risk of technological breakdowns in the distribution networks (activity for providing efficiency of electrical networks, including installation, commissioning, repair and maintenance of electrical equipment, equipment and means of protection of electrical networks);

Power transmission and distribution via distribution networks and reducing losses (improving the efficiency of transport) of electricity (the development and implementation of services);

Optimizing the management system, improving the efficiency of financial, economic, operational and maintenance activities (development of solutions and measures to improve the service delivery systems of the distribution grid complex);

Increasing the efficiency of control over the parameters of icing and wind loads which influence the phase conductors and ground wires of overhead lines, improvement of the quality of the received by the operating personnel decisions and the elimination of its faults, reduction of material costs for maintenance and repair of overhead lines with minimum material costs for maintenance and repair of the system for early detection of icing;

Saving of material costs for modernization of the distribution grid complex;

Trial operation of new advanced types of electrical equipment;

Energy saving and energy efficiency;

Trainings for electricians (at institutions for additional professional education (raising of skill) for specialists, having secondary professional education) in order to improve their professional competence;

Development of organizational and technical measures to improve the sustainability of the distribution grid complex facilities in emergency situations

Activity	Start-up time	Scheduled time of accomplishment	Results as of the end of the reporting quarter	Planned final result	Place of application	Planned effect from the result of implementation
Development of regulatory documents system of IDGC of the South, JSC on the basis of requirements of the International Standard ISO 50001:2011", concluded with "FINEX quality", CJSC as of October 31, 2012 No.17/12-K/897	1 September 2012	28 February 2013	Project: "Regulations in the system of power industry management at "IDGC of the South" JSC" and "Regulations in the system of power industry management at "Rosseti", approval of the Regulations and introduction to the branches of "IDGC of the South" JSC on the basis of the order No.732 dated 26.12.2013 "On approval of Regulations in the system of power industry management at "IDGC of the South" JSC" and the order No.760 dated 30.12.2013 " Regulations in the system of power industry management at "Rosseti" JSC" for the purposes of managing and monitoring of future activities in the spheres of management, energy saving and increasing of energy efficiency	Preparation "Regulations in the system of power industry management at "IDGC of the South" JSC" and "Regulations in the system of power industry management at affiliated companies of "Rosseti" JSC", approval of the Regulations and introduction to the branches of "IDGC of the South" JSC for the purposes of managing and monitoring of future activities in the spheres of management, energy saving and increasing of energy efficiency	Classrooms No.116 and 116A at "Educational centre "Energetik", located at: 147 building, 2 <sup>nd</sup> Krasnodarskaya street, Rostov-on-Don	<ul style="list-style-type: none"> <li>- Economic effect (improvement in financial performance due to direct savings of all types of energy resources, reducing costs, detection and elimination of wastage of electricity);</li> <li>- Organizational and technical effect (synergistic effect of the balanced distribution of functions in the field of energy saving and energy efficiency of structural subdivisions of "IDGC of the South" JSC, the involvement in it of all categories of staff through motivation);</li> <li>- Social and economic impact (reputation of "IDGC of the South" JSC as the organization implementing the policy of energy efficiency in the eyes of business partners, the public and the authorities at various levels, to maintain the reputation of "IDGC of the South" as a successful company improving energy efficiency)</li> </ul>
R&D: "Using modern components to develop and implement a selective single-phase earthed short circuit protection system in resonant and non-resonant earthed 6-35 kV grids based on single-phase earthed short circuit detection in transient and stabilized processes" (Contract May 10, 2012 No. 12/027/628 providing the implementation of the six stages of R & D, signed with "Research	1 March 2012	31 July 2013	Three prototypes of individual protection devices from a single phase earth fault of types TOP 110-IZN and 2 prototypes of centralized selective signaling device of type "Bresler-0107.OPF" were designed and installed at 6 kV switchgear of 110/6 kV "Olimpyiskaya" substation by the branch of "Volgogradenergo" – "Electric networks Provoberezhnye". These prototypes were commissioned in accordance with the requirements of the order of "IDGC of the South" JSC No.231 dated April 15, 2014 "On commissioning prototypes of single phase-to-ground fault protection and centralized device of selective	Development and installation of equipment of closed switchgear 6 kV SS 110/6 kV "Olimpyiskaya" substation by the branch of "Volgogradenergo" – "Electric networks Provoberezhnye" prototypes of individual protection devices from a single phase earth fault of types TOP 110-IZN and 2 prototypes of centralized selective signaling device.	Equipment of closed switchgear 6 kV SS 110/6 kV "Olimpyiskaya" substation by the branch of "Volgogradenergo" – "Electric networks Provoberezhnye"	Provision of reliable (uninterrupted) and safe electricity supply to customers

and engineering center of interregional distribution grid companies“, JSC.			signaling at 110/6 kV “Olimpyiskaya” substation” and, in addition, orders and instructions of the branch of IDGC of South – “Volgogradenergo” No.1400-P/463 dated May 20, 2014 “On commissioning prototypes of single phase-to-ground fault protection and centralized device of selective signaling at 110/6 kV “Olimpyiskaya” substation” and No.1400/P/17 dated January 31, 2014 “On testing of the prototypes of signaling selective devices of determination of single-phase ground fault”, due to necessity of accumulation of service experience.			
“Development of methodologic materials to train technical personnel on equipment of distribution devices with the use of simulators of distribution devices power systems”, concluded with “Interregional production union of technical supplying “Technocomplect” CJSC No.891 dd November 9, 2012	1 September 2012	30 June 2013	Training equipment of distribution devices of power systems and its installation at classes No.116 and No.116A of administrative building of IDGC of the South, JSC, located in: Rostov-on-Don, Sovetsky region, 2nd Krasnodarskaya street, 147. Recognition of the equipment as fixed assets on the basis of the order of “IDGC of the South” JSC No.853 dated 11.12.2014 “On commissioning of the training equipment of distribution devices and methodological information for further staff training, as well as development of methodological materials to train electric and technological personnel on equipment of distribution devices with the use of abovementioned simulator” (Methodological guideline for practical activities at simulator of switchgear “Courseware VISP.9652283.05”; approval and	Design of training equipment of distribution devices of power systems and its installation at classes No.116 and No.116A of administrative building of IDGC of the South, JSC, located in: Rostov-on-Don, Sovetsky region, 2nd Krasnodarskaya street, 147. Recognition of the equipment as fixed assets on the basis of the order of “IDGC of the South” JSC No.853 dated 11.12.2014 “On commissioning of the training equipment of distribution devices and methodological information for further staff training, as well as development of methodological materials to train electric and technological personnel on	Classrooms No.116 and 116A at “Energetik”, located at: 147 building, 2 <sup>nd</sup> Krasnodarskaya street, Rostov-on-Don	Increase of professional competence of electricians: - Development of practical skills of safe work during performance of operational maintenance of electrical installations; - Development of practical skills of rescue and recovery operations at the facilities of distribution power grid complex in case of emergencies due to unfavourable weather conditions or external forces; - Development of practical skills for working with new types of microprocessor-based relay protection and automation

			introduction in accordance with requirements of the order of "IDGC of the South" JSC)	equipment of distribution devices with the use of abovementioned simulator" (Methodological guideline for practical activities at simulator of switchgear "Courseware VISP.9652283.05"; approval and introduction in accordance with requirements of the order of "IDGC of the South" JSC)		
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The list of designed equipment, technologies, materials in framework of implementation of R&D in “IDGC of the South” JSC:

1. The actual results of performance of the project “Development of regulatory documents of “IDGC of the South” JSC, based on the requirements of ISO 50001: 2011”, held in accordance with the terms of the agreement signed with “FINEX Quality” CJSC on 31 October 2012 No.17/12-K/897, were: the development of the “The Regulations on the Energy Management System of “IDGC of the South” JSC” and “The Regulations on the Energy Management System of Subsidiary Companies of “Rosseti” JSC.
2. The R&D project “Creation of at the modern hardware components base and introduction into trial operation of a set of selective protection of single-phase ground fault in compensated and non-compensated voltage of 6-35 kV networks, based on the definition of a single-phase ground fault in the transient and steady processes” was conducted in accordance with the terms of the agreement concluded with “ Scientific and Research Engineering Center of Interregional Distribution Grid Companies” JSC on 10 May 2012, number of agreement 12/027/628. The actual result of this project is development of 3 prototypes of individual protection devices from a single phase earth fault of the type “TOP 110-И3Н” and 2 prototypes of centralized selective signaling devices of type “Bresler-0107.OPF.”
3. The project “Development of educational materials for training staff at the electrical switchgear equipment with use of switching power system simulator” was carried out in accordance with the terms of agreement concluded with “Inter-regional industrial association of technical staffing “Tekhnokomplekt” CJSC on 9 November 2012, agreement number 891. The project resulted in development of electrical equipment simulator for switching power systems, as well as the development of teaching materials for training staff at the electrical switchgear electrical equipment using the simulator (guidelines for the conduct of practical work on the simulator “Educational and methodological support VISP.9652283.05”).

The list of facilities where the results of R&D were applied, information on each introduced result of R&D, list of spheres where the results of R&D are applied

1. The actual results of performance of the project “Development of regulatory documents of “IDGC of the South” JSC, based on the requirements of ISO 50001: 2011”, held in accordance with the terms of the agreement signed with “FINEX Quality” CJSC on 31 October 2012 No.17/12-K/897, (the development of the “The Regulations on the Energy Management System of “IDGC of the South” JSC” and “The Regulations on the Energy Management System of Subsidiary Companies of “Rossetti” JSC) were approved and introduced at branches of “IDGC of the South” JSC on the basis of orders of “IDGC of the South” JSC No.732 dated 26 December 2013 “On approval and introduction of the Regulations on the Energy Management System of “IDGC of the South” JSC” and order No.760 dated 30 December 2013 “On approval and introduction of the Regulations on the Energy Management System of Subsidiary Companies of “Rossetti” JSC”. In their future activities the Company and its branches will stick to these guidelines and regulations for the most effective and efficient management, energy saving activity and enhancement of energy efficiency.

Sphere where the R&D results are applied:

Energy saving and enhancement of energy efficiency.

2. The R&D project “Creation of at the modern hardware components base and introduction into trial operation of a set of selective protection of single-phase ground fault in compensated and non-compensated voltage of 6-35 kV networks, based on the definition of a single-phase ground fault in the transient and steady processes” was conducted in accordance with the terms of the agreement concluded with “Scientific and Research Engineering Center of Interregional Distribution Grid Companies” JSC on 10 May 2012, number of agreement 12/027/628. The actual result of this project is development of 3 prototypes of individual protection devices from a single phase earth fault of the type “TOP 110-И3Н” and 2 prototypes of centralized selective signaling devices of type “Bresler-0107.OPF.” The prototypes were installed at 6kV closed switchgear of



110/6kV substation “Olympiyskaya” which is serviced by “Right-bank electric networks” (branch of “Volgogradenergo”), the prototypes were put into operation on the basis of the order of “IDGC of the South” JSC No.231 dd 15 April 2014 “On putting into operation single phase-to-ground fault protection and centralized selective signaling devices at 110/6kV substation “Olympiyskaya”, and on the basis of order of “Volgogradenergo” JSC No. 1400-II/463 dd 20 May 2014 “ On putting into operation single phase-to-ground fault protection and centralized selective signaling devices at 110/6kV substation “Olympiyskaya” and order No. 1400/P/17 dd 31 January 2014 “On operation testing of signaling of selective determination of single-phase ground fault ”, respectively, in connection with the need to gain experience of their operation”.

Sphere where the R&D results are applied:

Reliable (uninterrupted) and safe power supply to consumers of electricity (6-35 kV electric networks of “Rosseti” working with isolated neutral, with a high resistance-grounded neutral through a resistor, with resonant neutral grounding through arcing reactor with combined neutral grounding through arcing reactor and a resistor. The developed single phase-to-ground fault protection devices and a selective signaling on phase-to-ground fault can also be applied in electrical networks 6-35 kV for industrial and urban electricity supply).

3. The project “Development of educational materials for training staff at the electrical switchgear equipment with use of switching power system simulator” was carried out in accordance with the terms of agreement concluded with “Inter-regional industrial association of technical staffing “Tekhnokomplekt” CJSC on 9 November 2012, agreement number 891. (electrical equipment simulator for switching power systems, as well as the development of teaching materials for training staff at the electrical switchgear electrical equipment using the simulator (guidelines for the conduct of practical work on the simulator “Educational and methodological support VISP.9652283.05”)). The simulators were installed in rooms 116 and 116A at the premises of Educationla cnetre “Energetik” (address 147 Krasnodarskaya street, Sovetsky district, Rostov-on-Don), they were put on

the books as fixed assets and approved and commissioned in accordance with order of “IDGC of the South” JSC No.853 dated 11 December 2014 “On commission of simulator at distribution devices and provision of educational materials for conducting trainings at the equipment.”

Sphere where the R&D results are applied:

Training of electricians (training at educational institutions of additional professional education (advanced training) for specialists, having secondary professional education).

The list of documents of title (patents, licenses) for the R&D results, specification of the documents on the use of which the company has entered into a licensing agreement:

1. In accordance with the terms of contract concluded between “IDGC of the southB JSC and “Scientific and Research Engineering Center of Interregional Distribution Grid Companies” JSC on 10 May 2012 No. 12/027/628 ““Creation of at the modern hardware components base and introduction into trial operation of a set of selective protection of single-phase ground fault in compensated and non-compensated voltage of 6-35 kV networks, based on the definition of a single-phase ground fault in the transient and steady processes”, which is considered a fully accomplished, on 5 September 2013 the company sent to the Federal state budgetary institution “Federal Institute of Industrial Property at the Federal Intellectual Property, Patent and Trademark Service” the following documents:

– Application on grant of a patent of the Russian Federation for the invention “Method of centralized selective protection against earth faults in the distribution network”.

Formula of invention: “A method of centralized selective protection against earth faults in electrical distribution networks, in which zero sequences of all outgoing connections are measured, current connections are selected, exceeding the minimum prescribed level, the base signal is formed, the measured zero sequence currents of all outgoing connections are compared to the baseline signal, the

damaged outgoing connections are determined, characterized in that if the conditions of a damaged connection are not performed for none of the outgoing connections, it is decided that a ground fault has occurred on the bushing or in the winding of the supply transformer”

- Application on patent of the Russian Federation for the invention “Protection device single phase-to-earth fault for overhead and cable lines of 6-35 kV distribution networks”.

Formula of invention: “Device for single-phase ground fault protection at overhead and cable lines of 6-35 kV distribution network includes: directional element which consists of tracking transformers of current and voltage of transformer type, two low-pass filters, two filters alarm with components, comparison circuits of signs of current and voltage, two monostable multivibrators, two inhibit circuits and fault detector which consists of a filter of industrial frequency, one inhibit circuit, voltage relay, but also contains an element “AND”, element of time, two output relays, along with it an input of tracking current converter of transformer type which is connected with the secondary chains of residual current of the protected line, and exit through the series connection of the first filter alarm components and the first low-pass filter coupled to the first input of the comparator circuit signs of current and voltage, the input of tracking voltage converter of transformer type is connected to the secondary circuits of the residual voltage section (system) of bus bars to which is connected a protected line and the first output through series connected second filter with emergency components and a second low pass filter coupled to the second input of the comparison circuit marks voltage and current, the second output of tracking inverter of transformer type via filter discharge power frequency connected to the input relay voltage output is connected to a first input of the “AND” and through the first inhibit circuit is connected to the input of inhibit of the first monostable, the first output of the comparison circuit signs of the current and voltage is connected to the enabling input of the first monostable multivibrator, whose output is coupled to a second input of the “AND” and input

of the second inhibit circuit, , and the second output of the scheme for comparison of the current and the voltage with enable input of the second monostable multivibrator, whose output is connected to the input of the third inhibit circuit and the input of the first output switch, the output of the third inhibit element is connected to the inhibit element of the first monostable multivibrator, an output of second inhibit element is connected with inhibit entrance of the second monostable, the output of the element “AND” is coupled to a second input of the “AND” and through the element of time to the input of the second output switch, characterized in that there are additional three threshold elements and three output relay, the filter power frequency, comparison circuit, element “AND” element “OR” and a time element, the input of the first additional output relay through an additional time element is connected to the output of an additional element “OR”, the first input is coupled to an output of the first additional threshold body having an input connected to the output of an additional filter of industry frequency having an input connected to the output of the tracking current converter of transformer type, and the second input of the additional element “OR” is connected to the voltage relay, the second output of tracking inverter of transformer type through a filter of industrial frequency is connected to the first input of further comparison element, a second input connected with the output of additional filter of power frequency, the first output of the additional comparator circuit via a second additional threshold element is connected to the first input of an additional element of “AND” and the second output of the additional comparator circuit through the third additional threshold element is connected to the second auxiliary relay output, the output of an additional element “AND” is connected to the first input of the additional element “AND” and with a third additional output relay, and the second input of the additional element “AND” is connected to the output voltage relay.

On the basis of the abovementioned documents from the patent organization sent “Notification of a positive result of the formal examination” on 28 October 2013

No.2013141284/07(063066), as well as a positive “Decision to grant a patent for an invention” dated 16 October 2014 №2013141284/07(063 066).

The share of allocations for R&D funding in the total volume of own revenues (financing of Innovative Development Programme of “IDGC of the South” in the reporting year, in 2014, planned and actual values):

In the reporting year, 2014, the actual total amount of funding on “Innovative Development Programme of “IDGC of the South” JSC for 2011-2016” amounted 158.6 million rubles, while the value of the planned was 407.6 million (actual implementation by 39%).

The list of indicators for monitoring the implementation of the programme of innovative development (performance indicators):

Efficiency indicator	Unit of measurement	2014
Expenses for researches and development performed by third parties, including performers (universities, research organizations, innovative companies from small and medium business)	thousand rubles	11,7
Projects implemented within the frameworks of:		
technological platform	thousand rubles	0
higher education institutes	thousand rubles	0
research institutes	thousand rubles	11,7
The cost of training and retraining of personnel in higher education institutions per employee	rubles/person	0

## 2.2. Finances

### 2.2.1. Basic provisions of the accounting policy

The Provision on the Company’s accounting policy was developed in accordance with the requirements of the Russian accounting regulations (RAS), as well as the requirements of the tax and civil legislation of the Russian Federation.

“IDGC of the South” JSC arranges and maintains accounting records, prepares financial statements in accordance with the Federal Law No.402-FZ dated 6 December 2011 “On Accounting”, the Provisions on accounting and financial

reporting in the Russian Federation, approved by the order No.34n of the Ministry of Finance of the Russian Federation on 29 June 1998, the Plan of Bookkeeping Accounts approved by the order No.94n of the Ministry of Finance of the Russian Federation on 31 October 2000, Single corporate principles of RAS for the Group “Rosseti” JSC, approved by the order of “Rosseti” JSC No.547 (02.09.2013), and other regulatory documents in the field of accounting.

Provisions on the accounting policy of the Company have been elaborated on the following assumptions:

- business entity convention;
- continuous operations of the enterprise;
- consistent application of accounting policies;
- the accrual principle assumption.

To accept the assets and liabilities for accounting the Company performs their evaluation in monetary terms. Assets are evaluated as follows:

- property purchased for a fee, measured by the amount of expenses actually incurred for its acquisition;
- property produced by branches of the Company is valued at the prime cost of manufacturing (the actual costs associated with the production of the property);
- tangible assets, write-off of the remaining fixed assets and equipment, spare parts unfit for recovery and further use, resulting from recovery of fixed assets (reconstruction, modernization, repair) are valued at the current market value at the date of disposal of fixed assets or the date of initial recognition of spare parts;
- property received for free and assets identified during the inventory of assets and liabilities is valued at fair market value on the date of acceptance of this property for accounting;

The current market value is the amount of monetary funds that may be received from the sale of this asset at the date of its acceptance for accounting.

When evaluating the property purchased for any reason, the actual cost is formed with the addition of the costs incurred by the Company of bringing the property to a condition suitable for use.

The cost of assets, at which it has been taken for accounting purposes is not subject to change, except when required by laws of the Russian Federation.

For those investments, where the current market value may be determined in the prescribed manner, corrections are made to the registered cost value bringing it up to the market cost value.

The Company performs an inventory of assets and liabilities in accordance with Article 11 of the Federal Law No.402-FZ dated 6 December 2011 “On Accounting” and the Guidelines for the inventory of assets and liabilities, approved by the order No. 49 of the Ministry of Finance of 13 June 1995.

The Company recognizes as fixed assets those for which the following conditions are met:

- they are supposed to be used in production, operations provision of services or for administrative purposes for a long time (useful life exceeding 12 months, or the normal operating cycle, if it exceeds 12 months);
- the ability to make profit (income) in the future exists, and the organization has no intention to resell the assets.

Assets for which the above conditions are met, and the value is below 40,000 rub. per unit are recorded in the inventory, with the exception of electrical equipment, motor vehicles, mobile and portable radios, backup power sources. In order to ensure the safety of these facilities in production or operation, quantitative accounting will be employed.

The expenditures on all types of repairs of fixed assets (routine and overhaul) are included in the expenses on ordinary activities during the period in which the repairs were completed and accepted (stages of repair activities).

The Company employs the linear method of fixed assets depreciation.

The Company carries out accounting of the intangible assets in accordance with the Accounting Provisions “Intangible Assets Accounting” (RAS 14/2007) approved by the order No.153H dated 27 December 2007 of the Ministry of Finance of the Russian Federation.

Intangible assets are not revaluated.

Accounting for the R&D activities of the Company is performed in accordance with the Accounting Provisions “Accounting for R&D activities” (RAS 17/02), approved by the order of the Ministry of Finance of the Russian Federation No.115 on 19 November 2002. Deduction of R&D expenses is performed using the linear method.

Assets of the tangible form, capable of bringing economic benefits (income) in the future in the form of interest, dividends or gains in value (calculated as the difference between the sale (redemption) and purchase price) as a result of an exchange, obligation extinction or increasing the current market value are recognized by the Company as financial investments.

All costs directly related to acquisition of assets as financial investments, irrespective of their size, are to be included in the initial cost of the investments if they have been incurred prior to or at the time of accounting and are written off to other expenses, if they are incurred after financial investments accounting.

The accounting unit of the inventory is the item number or a homogenous group (depending on the type of the inventory). The cost of special clothes and uniform with useful life exceeding 12 months is deducted by using a linear method based on the useful life determined in accordance with regulations. The deduction is performed starting with the month the uniform was issued.

Inventories written off in production, sold to a third-party, retiring on other grounds, including by transfer between the branches and within the branch are valued at the average cost of each reserve type using the database in the local accounting and tax department.

Average value of the actual material cost is carried out by determining the actual cost of the material at the time of its delivery (rolling valuation).

Inventories (including spare parts), debited as a result of withdrawals from fixed assets at the recovery stage, are

recognized as other income, and are evaluated at the cost values of the most recent acquisitions of similar parts taking into account the actual wear level of



debited objects (not below the cost value of scrap metal), and if such information is not available — at the current market value. The Company divides its earnings into income from ordinary activities and other income.

The Company divides income into income from core activities and miscellaneous income.

The following is recognized by the Company as income from core activities:

- income from power transmission services;
- income from services on technological connection to the grids;
- lease income;
- income from other activities and services of industrial and non-industrial nature.

Miscellaneous income is income that is not related to core activities and provision of services.

The Company's income, in accordance with the accrual method, is to be recognized in the accounting period when it was generated, regardless of the actual time the funds associated with these facts were received.

Costs incurred by the Company in the reporting year but attributable to the next reporting periods, are reflected

in the balance sheet in accordance with the terms of the recognition of the assets, determined by normative legal acts on accounting, and should be written off in the order established to allocate the cost of assets of this type.

Business expenses are recognized by the Company only if they are significant.

In section III of the balance sheet (capital and reserves) an increase in the value of non-current assets is indicated by the «Revaluation of non-current assets» line as a result of revaluation, as passed in the opening balance sheet at the Company's reorganization through a merger.

The amounts of assets cost gain from the revaluation are used for discounting those property items that were subject to final appraisal, and only up to the amount accumulated by each individual inventory item. At the time of an object dismissing (for any reason) the aggregated sum from revaluations is deducted to retained earnings of the Company.

Accounts payable to suppliers of goods and services are taken into account in the amount accepted for payment and accrued liabilities according to settlement documents.

Accounts payable for non-invoiced deliveries are recorded in the amount of received values determined based on the price and conditions stipulated in the agreements.

Costs on borrowings are recognized as other expenses of the respective reporting period. The exception to this procedure is the interest on borrowings to be included in the cost value of investment assets.

Additional expenses on borrowings are included in miscellaneous expenses in the reporting period in which they were incurred.

The Company makes a bad accounts receivable provision. The provision is established on the quarterly basis based on the revision results of the accounts receivable, separately for each bad debt.

The Company recognizes an estimated liability in accordance with PBU 8/2010 “Provisions, Contingent Liabilities and Contingent Assets” based on requirements for recognition of such liabilities.

In accordance with PBU 7/98 “Events after the reporting date”, the events after the reporting date that have or may have an impact on the financial condition, cash flows or results of operations of the organization and which occurred between the balance sheet date and the date of signing the financial statements for the fiscal year are included in the financial statement of the Company.

The Company calculates and pays taxes and levies in accordance with the laws of the Russian Federation on taxes and levies, the legislation of the Russian Federation subjects on taxes and levies and local legislative acts on taxes and levies. For the purposes of the income tax the recognition of revenues and expenses by the accrual method is applied.

The Company does not perform profit distribution in each separate unit in one subject of the Russian Federation, but pays corporate income tax to the budget of

the subject of the Russian Federation through a separate unit in charge for all units that are registered for tax purposes in the same region of Russia.

**Transactions with related parties:**

Related parties of the Company are companies of the Rosseti Group, affiliated and dependent companies of IDGC of the South JSC, members of the BoD and other legal entities and natural persons.

The complete list of affiliated persons is available at the webpage of “IDGC of the South” JSC: <http://oao-mpck-iora.pф/pages/show/listpersons>.

**Non-state budgetary fund**

Relations between the Non-state pension fund of power industry and the Company are governed by contracts on non-state pension provision.

**Transactions with related parties (VAT excluded):**

thousand rubles

Related party (type of relationship)	2 014
Services render to the Company:	
Rosseti JSC (services)	157 656
FGC UES, JSC (electricity transmission services, rent)	5 935 029
Kubanenergo JSC	3
Kalmenergosbyt JSC	156 901
IT Energy Service JSC	8 878
Donenergo JSC	1 674
Moscow Telecommunications Centre JSC	21
IDGC of Centre	1 540
Scientific and engineering centre of IDGC JSC	5 932
Main grid service company of the <u>Unified National Power Grid</u> JSC	76
<b>Total</b>	<b>6 267 710</b>
Services rendered by the Company:	
Rosseti JSC	1 641
Energoservis Yuga (services)	112
FGC UES, JSC (rent, miscellaneous)	8 861
Volgogradsetremont JSC( rent, miscellaneous)	334
Kalmenergosbyt JSC (electricity transmission services, rent)	352 863
Kubanenergo JSC (rent, miscellaneous)	40 689
Donenergo JSC	2 114 362

Related party (type of relationship)	2 014
Total	2 518 863
Other revenues	
Kubanenergo JSC	4 420
FGC UES, JSC	13 989
Private pension fund of power industry	10 518
Total	28 927
Other expenses	
Kalmenergosbyt JSC	4 198
IDGC of Volga JSC	2 034
Kubanenergo JSC	4 305
FGC UES, JSC (fines, penalties and forfeitures, cost of losses of previous years)	251 995
Agriculture Enterprise named after Grechko A.A., JSC (reserve for devaluation of financial investments)	12 680
Volgogradsetremont JSC (reserve for devaluation of financial investments)	4 170
Agriculture Enterprise Sokolovskoye JSC (reserve for devaluation of financial investments)	43 462
Recreation centre “Energetik” JSC reserve for devaluation of financial investments)	4 144
Donenergo JSC	26
Total	327 014

Settlements with related parties

Accounts receivable and payable as of 31 December 2014:

thousand rubles

Related parties	As of 31 December 2014
Company's accounts receivable	
PSKh named after Grechko A.A., JSC	100
Recreation centre “Energetik” JSC	108 808
Kubanenergo JSC	142 526
FGC UES, JSC	14 570
Kalmenergosbyt JSC	3 199
Mobile gas-turbine power-stations JSC	166
Energoservis Yuga JSC	22
Donenergo JSC	893 382
Total	1 162 772
Company's accounts payable	
Volgogradsetremont JSC	2 324
Rosseti JSC	10 106
IT Energy Service JSC	4 029

Kubanenergo JSC	14
FGC UES, JSC	3 833 059
IDGC of Volga	1 572
Kalmenergosbyt JSC	1 017
IDGC of Centre	1 817
Donenergo JSC	15 358
Total	3 869 296

#### Loans granted to related parties

In 2014 the Company granted a loan to Agriculture Enterprise Sokolovskoye JSC in the amount of 4 000 thousand rubles, accrued interest – 148 thousand rubles. The agriculture company fully repaid the loan and interest.

#### Loans granted by related parties

The Company's main debt to Rosseti JSC amounts to 312 900 thousand rubles as of 31.12.2014.

#### Events after the reporting date

The Company's affiliate "Volgogradsetremont" JSC was dissolved in 17 February 2015.

### 2.2.2. Analysis of Company's financial condition and performance

According to the results of Company's performance in 2014, the net loss amounted to 6 894 million rubles, including the electricity transmission loss - 7 213 million rubles, the financial result from the provision of technological connection services on the basis of management reporting, formed with a profit of 340 million.

The main reason for the Company's loss is stable non-payment by large counterparties, leading to the presence of outstanding receivables for services on electric power transmission, and as a consequence, it is necessary to create a provision for doubtful debts and attract borrowings to cover cash gaps. Revenues recorded in the tariff decision was not collected in full volume.

Revenues from sales of products (services) at the end of 2014 was 28 892 million rubles, or 1 465.5 million rubles (5.3%) higher than in 2013; revenue from electricity transmission - 28 009 million rubles (2 127.2 million rubles more than in 2013).

The prime cost was 24 260 million rubles, or 909 million rubles (3.9%) higher than in 2013, the growth is below the inflation rate. Thus, gross profit compared with 2013 has increased by 556.5 million rubles and amounted 4 631 million rubles.

### Basic financial indicators

million rubles

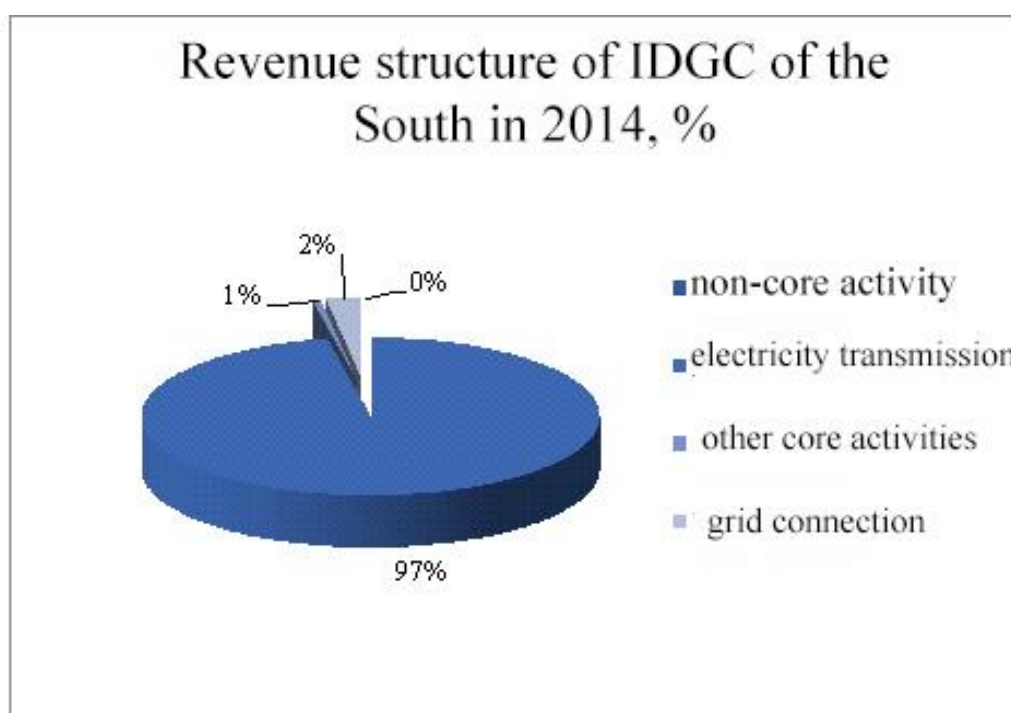
Index	2012	2013	2014	difference (2014-2013)	
				absolute	%
<b>Revenues from sales</b>	23 464	27 426	28 892	1 465,5	5,3%
from power transmission services	21 363	25 882	28 009	2 127,2	8,2%
from technological connection services	1 954	1 424	704	-719,9	-50,6%
other activity	148	120	178	58	48,3%
<b>Prime cost, total</b>	21 056	23 351	24 260	909,0	3,9%
from power transmission services	20 425	23 002	23 950	948,0	4,1%
from technological connection services	509	240	139	-100,9	-42,1%
<b>Net profit</b>	2 408	4 075	4 631	556,5	13,7%
<b>Management expenses</b>	876	657	566	-91,2	-13,9%
<b>Sales proceeds (losses)</b>	1 532	3 418	4 066	647,7	18,9%
<b>Interest receivable</b>	18	46	43	-2,6	-5,6%
<b>Interest payable</b>	1 622	1 853	2 236	383,1	20,7%
<b>Participation capital</b>	64	1	11	9,9	987,8%
<b>Other income</b>	1 302	2 982	2 890	-92,3	-3,1%
<b>Other expenses</b>	4 756	4 205	11 351	7 146,4	169,9%
<b>Income (loss) before tax</b>	-3 461	388	-6 578	-6 965,8	-1 795%
<b>Profit tax and other similar mandatory payments</b>	-158	360	316	-44,1	-12,2%
<b>Net profit (loss)</b>	-3 303	27	-6 894	-6 920,7	-25632%
from power transmission services	-4 259	-976,9	-7 213	-6 236,0	638,3%
from technological connection services	1 001	1066,9	340	-727,3	-68,2%
<b>EBITDA</b>	579	4 962	-1 483	-6 445	-130%

### Revenue structure

In 2014 total revenue of “IDGC of the South” JSC amounted to 28 892 million rubles, which is higher than the revenue of the last year by 1 465 million rubles (5.3%). The greatest share of the income of the company (96.9%) of the revenues is from the provision of revenue from electricity transmission:

Revenue	2014		2013		2012	
	million rubles	%	million rubles	%	million rubles	%

<b>revenues from sale of goods (services)</b>	28 892	100,00%	27 426	100,00%	23 464	100,00%
Electricity transmission services	28 009	96,95%	25 882	94,37%	21 363	91,04%
Grid connection services	704	2,44%	1 424	5,19%	1 954	8,33%
Electricity retail services						
Other goods (services) from core activity	175	0,61%	116	0,42%	132	0,56%
non-core goods (service)	3	0,01%	4	0,01%	16	0,07%



Transmission services were the main source of revenue of “IDGC of the South” JSC. At the end of 2014 this kind of income amounted to 28 009 million rubles (97% of revenues), which is 8.2% higher than at the end of 2013. In absolute terms, the increase amounted to 2 127.2 million rubles and due to the increase in the actual amount of supply to the grid for the Company to 39.8 million kWh, as well as an increase in the actual average supply tariff for electric power transmission.

Revenue from technological connection at the end of 2014 amounted to 704 million rubles (2.4% of the total revenues of the Company), which is 719.9 million rubles, or 50.6% lower than the revenue from technological connection

services in 2013. This decrease is due to the performance of obligations under the contract of technological connection with “LUKOIL-Astrakhanenergo JSC (CCP (combined cycle plant)-235, 235 MW) in 2013.

Other income brought the company 178 million rubles (0.6% of total revenues), which is 48.3% higher than in 2013.

### Cost structure

Actual costs (prime) of “IDGC of the South” in 2014 amounted 24 260 million rubles, which exceeds the amount of expenditures in 2013 that amounted to 23 351 million rubles. Growth of expenditures totaled 909 million rubles, or 3.9%, of which 948 million rubles is the prime cost of electric power transmission.

### Prime cost with regard of administrative expenses

expenditures	2014		2013		2012	
	million rubles	%	million rubles	%	million rubles	%
<b>Prime cost of goods (services)*</b>	<b>24 826</b>	<b>100,00%</b>	<b>24 008</b>	<b>100,00%</b>	<b>21 932</b>	<b>100,00%</b>
Depreciation of fixed and intangible assets	2 859	11,52%	2 722	11,34%	2 418	11,03%
Purchased electricity for compensation of losses **	5 272	21,24%	4 845	20,18%	4 301	19,61%
Purchased electricity for selling	0		0		0	
Services of FGC UES ,JSC	5 928	23,88%	5 790	24,12%	5 270	24,03%
Service od distribution grid companies ***	1 853	7,46%	2 061	8,58%	1 676	7,64%
Raw materials and store	917	3,69%	937	3,90%	863	3,93%
Production, maintenance and delivery services	206	0,83%	247	1,03%	439	2,00%
Staff costs	6 112	24,62%	5 670	23,61%	5 385	24,55%
Taxes and charges	260	1,05%	206	0,86%	129	0,59%
Miscellaneous expenditures	1 420	5,72%	1 531	6,38%	1 451	6,62%

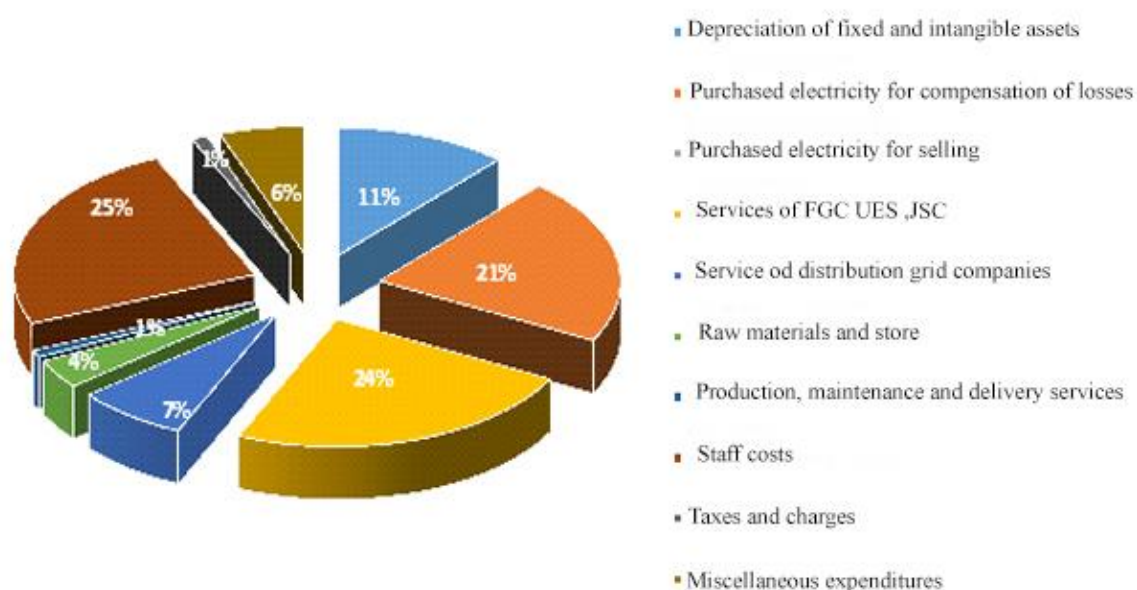
Notes:



\* - the costs were grouped in accordance with the report on the implementation of the business plan for 2014 in the format of APM, approved by the order of “Rosseti” No.490 dated 09.08.2013

\*\* - electricity purchased for losses compensation is included in costs but without expenditures on the revealed non-contractual consumption (recorded in other expenses from profit)

\*\*\* - services of distribution grid companies are included in the cost of services under “Services on restriction of electricity supply to consumers as part of contracts for transmission of electric energy to territorial grid companies”



57% of costs of IDGC of the South JSC by the end of 2014 were:

- work and production services (32%): network services of electricity transmission companies, services of “UES FGC” JSC, costs on implementation of the repair programme, maintenance of fixed assets in good working order, as well as services in the field of industrial safety;
- material costs (25%): purchase of electricity for compensation of losses and for business needs, materials and fuel needed for the production activities of the Company.

Infrastructure costs are the largest part of the costs of the Company.

Expenses for purchase of electricity to compensate losses at the end of 2014 amounted to 5 271.9 million rubles (11.5% of total expenditures). In absolute

terms, the growth in 2013 amounted to 426.8 million rubles, the main factor of growth is the increase in the average non-regulated prices of 1 MWh of electricity.

At the end of 12 months of 2014 the level of energy losses has decreased by 0.21% in comparison to 2013 in comparable terms, taking into account the “last mile”.

Costs for services of “FGC UES” JSC totaled 5 927.9 million rubles (23.9% of total costs). The increase compared with 2013 year in absolute terms amounted to 138 million rubles, due to the increase of the rate for compensation of electricity losses, which contribution amounted to 111.1 million rubles (9.1%).

The costs for the services of distribution grid companies at the end of 2014 amounted to 1 853.1 million rubles (7.5% of total expenditure). Compared with last year the reduction of costs amounted to 207.5 million rubles due to decrease in the volume of electricity transmission services via networks of third-party companies by 2 134.9 million kWh and capacity of 52.5 MW.

Personnel costs in 2014 amounted to 6 111.7 million rubles (24.6% of total spending), which is 7.8% above the level of 2013. The main reason for the growth of the cost of this expenditure is the indexation of salaries of staff in accordance with the programme of bringing the level of MMTS (minimum monthly payment) to the specified GLE (general labour experience) in 2014.

Depreciation of fixed and intangible assets is higher than in 2013 by 137.1 million rubles, which is caused by the implementation of the investment programme.

### Cost value dynamics

million rubles

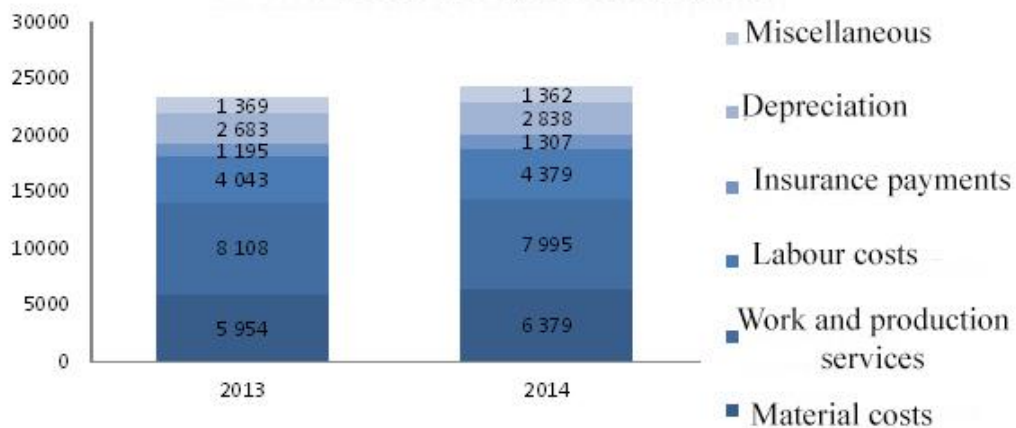
Articles of expenditure	2012	2013	2014	Difference (2014-2013)	
				abs	%
Expenses on production and sales of products *	21 056	23 351	24 260	909	3,9%
Tangible costs	5 339	5 954	6 379	425	7,1%
Work and production services	7 391	8 108	7 995	-113	-1,4%

Labour costs	3 753	4 043	4 379	336	8,3%
Insurance payments	1 088	1 195	1 307	112	9,4%
	2 369	2 683	2 838	155	5,8%
Miscellaneous	1 115	1 369	1 362	-7	-0,5%

Note:

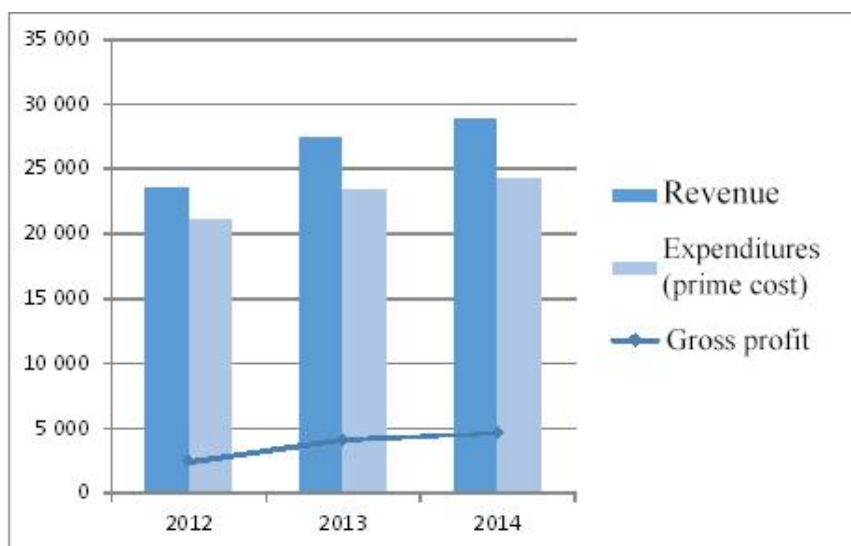
\* - expenditures were grouped in accordance with the report on implementation of the business plan in 2014, approved by the Order of “Rosseti” JSC No.490 dd 09.08.2013.

Expenses of IDGC of the South JSC  
2013-2014, million rubles



Actual gross profit of the Company at the end of 2014 is 559.5 million rubles higher than in the last year.

### Income growth (decrease) dynamics



### Main indicators of the Balance sheet

million rubles

Indicator	line	31.12.2012	31.12.2013	31.12.2014
Assets				
I. Non-current assets				
R&D results, including::	1120	54	81	26
Fixed assets	1150	31 509	31 890	29 987
Financial investments	1170	245	220	155
Deferred tax assets	1180	196	281	357
Other non-current assets	1190	598	492	165
<b>TOTAL, section I</b>	1100	32 604	32 693	30 690
II Current assets				
Reserves, including	1210	953	956	649
Accounts receivable	1230	8 263	11 482	9 330
Accounts receivable (that are due beyond 12 months)	1231	351	221	102
Accounts receivable (that are due in the next 12 months)	1232	7 912	11 262	9 228
Monetary funds and monetary equivalents	1250	1 739	1 177	717
<b>TOTAL, section II</b>	1200	11 240	13 696	10 791
Balance	1600	43 843	46 659	41 481
Liabilities				
III. Capital and reserves				
Equity capital (share capital, equity fund, contributions of partners)	1310	4 981	4 981	4 981
Revaluation of non-current assets	1340	14 745	14 727	14 711
Reserve capital	1360	149	149	150
Undistributed profit (uncovered loss) of previous years	1370	(7 878)	(7 833)	-14 719
of the reporting period	1371	(7 878)	(7 833)	-7 825
	1372			-6 894
<b>TOTAL, section III</b>	1300	11 996	12 024	5 123
IV. Long-term liabilities				
Loaned funds	1410	16 500	13 241	19 744
<b>TOTAL, section IV</b>	1400	16 799	13 550	20 063
V. Short-term liabilities				
Loaned funds	1510	2 842	8 748	5 123
Accounts payable	1520	10 462	10 969	8 635
Estimated liabilities	1540	1 682	1 314	2 458
<b>TOTAL, section V</b>	1500	15 047	21 085	16 295
Balance	1700	43 843	46 659	41 481

Assets are mainly presented by fixed assets. Their weight together with the volume of construction in progress is 72%.

Borrowed funds make up a significant portion in liabilities structure - 60%. The share of equity and reserves is 12%.

In 2014 there was a decrease of receivables with respect to 2013 by 2 156 667 thousand rubles (for calculation of the receivables advances for capital construction were included as well as suppliers of fixed assets, reflected in the balance sheet as fixed assets). Overdue receivables have decreased by 2 325 655 thousand rubles due to creation a provision for doubtful debts.

Decrease in accounts payable amounted to 2 333 378 thousand rubles.

#### Ratio of Efficiency, Liquidity, Profitability and Financial Stability

Liquidity ratio	2012	2013	2014
Absolute liquidity ratio	0,12	0,06	0,04
Working capital ratio	0,75	0,65	0,66
Quick assets ratio	0,64	0,59	0,61
Financial soundness indicators	2012	2013	2014
Equity to total assets	0,27	0,26	0,12
Joint debt to EBITDA ratio	33,39	4,43	-16,77
Working capital to current assets ratio	-0,37	-0,56	-0,52
Profitability ratio	2012	2013	2014
ROE	-24,2%	0,226%	-80,41%
ROTA	-8,17%	0,86%	-14,93%
EBITDA	0,02	0,18	-0,05
Efficiency ratio	2012	2013	2014
Receivable an payable growth ratio	0,54	1,33	1,03
Cumulative payables and receivables ratio	0,79	1,05	1,08
Correlation of the most liquid receivables and payables	1,39	1,52	1,38

By results of 2014 the value of liquidity indicators show a lack of liquidity and solvency of the Company, but the dynamics of these indicators is positive. The main reason for the lack of liquidity is the lack of sufficient cash flow from suppliers and ensuring energy supply companies.

The ratio of total debt to EBITDA is a measure of the debt burden and it characterizes the company's ability to repay its loans by the cash flow from operations. At the end of the reporting period, the ratio of total debt to EBITDA

ratio was -16.77, as a result of the Company's activity in 2014. EBITDA amounted to -1 483 million rubles.

Profitability indicators characterize the overall performance of the Company. Return on sales and EBITDA shows operating efficiency, return on equity and return on assets –efficient use of assets and equity of the Company.

Reduction of values of the indicators in comparison with the previous year is due to the loss received by the Company during the reporting period.

### **Dynamics and changes in structure of receivables and payables**

#### **Accounts receivables\***

Type of receivables	as of the end of 2012	as of the end of 2013	as of the end of 2014	Deviation against the previous year, thousand rubles
<b>Total long-term:</b>	<b>351 114</b>	<b>220 572</b>	<b>102 499</b>	<b>-118 073</b>
including buyers and customers	14 519	2 726	5 916	3 190
Advances paid	16 368	11 688	2 364	-9 324
Other debtors	320 227	206 158	94 219	-111 939
<b>Total short-term:</b>	<b>8 080 072</b>	<b>11 276 722</b>	<b>9 238 127</b>	<b>-2 038 594</b>
including buyers and customers	6 307 790	10 285 579	7 855 569	-2 430 010
Advances paid	286 250	84 762	251 004	166 243
Other debtors	1 486 032	906 381	1 131 554	225 173
<b>Total:</b>	<b>8 431 186</b>	<b>11 497 294</b>	<b>9 340 626</b>	<b>-2 156 667</b>

\*- accounts receivable include advances paid for capital construction and to suppliers of fixed assets, which are recognized in the balance sheet as fixed assets.

In comparison to 2013 accounts receivable have decreased by 2 156 667 thousand rubles, (accounts receivable include advances paid for capital construction and to suppliers of fixed assets, which are recognized in the balance sheet as fixed assets). The largest share in the structure of the accounts receivable is taken by the short-term debt – 98.9%.

In the short-term receivables as of 31.12.2014, the largest share of receivables is taken by the buyers and customers– 85.0%, or 7 855 569 thousand rubles. In comparison to 2013 the receivables as of 31.12.2014 have decreased by 2 430 010 thousand rubles.

### **Dynamics and Structure of the Company's Liabilities**

Types of liabilities	as of the end of 2012	as of the end of 2013	as of the end of 2014	Deviation against the previous year, thousand rubles
<b>Long-term liabilities</b>				
<b>Total</b>	<b>16 500 000</b>	<b>13 241 321</b>	<b>19 744 299</b>	<b>6 502 978</b>
Loans and credits	16 500 000	13 241 321	19 744 299	6 502 978
Other long-term liabilities, including	0	0	0	0
to suppliers and contractors	0	0	0	0
other long-term liabilities	0	0	0	0
<b>Short-term liabilities</b>				
<b>Total</b>	<b>13 303 949</b>	<b>19 716 887</b>	<b>13 758 605</b>	<b>-5 958 282</b>
loans and credits	2 841 890	8 748 032	5 123 128	-3 624 904
accounts payable, including	10 462 059	10 968 855	8 635 477	-2 333 378
to suppliers and contractors	5 092 305	6 989 965	6 256 387	-733 578
personnel salary debts	10 888	197 138	229 592	32 454
debts to state and extra-budget funds	106 084	104 136	122 268	18 132
tax and levies debts	37 530	445 506	648 039	202 533
advanced payments received	1 752 790	1 292 226	1 106 256	-185 970
other creditors	495 787	350 049	272 847	-77 202
<b>Total:</b>	<b>29 803 949</b>	<b>32 958 208</b>	<b>33 502 904</b>	<b>544 696</b>

By the results of 2014 Company's liabilities have increased by 544 696 thousand rubles. Long-term liabilities have increased by 6 502 978 thousand rubles. The reason of growth of "Credits and Loans" by 6 502 978 thousand rubles is attraction of long-term credits.

Short-term liabilities have decreased in general by 5 958 282 thousand rubles, or by 30.2%, mainly the reduction occurred due to payment of a bill of exchange for 1 589 835 thousand rubles, as well as payment of 685 032 thousand rubles of debt to building contractors and suppliers of fixed assets.

#### Dynamics of business activity indices

index	as of the end of 2012	as of the end of 2013	as of the end of 2014	Deviation against the previous year
debt to equity ratio, %	161.2%	182.9%	485.4%	302.5%
receivables turnover ratio, times	2.8	2.4	3.1	0.7
overdue accounts payable, %	17.2%	46.2%	58.2%	11.9%

Growth of indicator "Debt to equity ratio" (+302.5%) is explained by the company's loss in the reporting period.



Growth of indicator “Overdue accounts payable” amounted 58.2%. The reason of such growth is non-fulfilment of contractual obligations by the guarantee suppliers and energy selling companies for electricity transmission services.

**Structure and dynamics of loan portfolio of “IDGC of the South” JSC,  
thousand rubles**

Type of loan (credit)/source of the main debt	2012	2013	2014	Credit and loans share
Short-term loan *	2 400 000	3 750 000	4 804 700	19 %
Long-term loan*	11 942 322	13 241 321	19 744 299	80 %
Bill of IDGC of the South JSC	312 900	312 900	312 900	1 %
Bonded loan	4 557 678	4 557 678	0	0
<b>Total:</b>	<b>19 212 900</b>	<b>21 861 899</b>	<b>24 861 899</b>	<b>100 %</b>

\*- liabilities on long-term and short-term loans include fixed debt liability, exclusive of arrears in loan interest.

**Bond loan**

Exchange-traded bond of series BO-01, issues identification number 4B02-01-34956-E, date of assigning the identification number: 4 September 2014. Authority that assigned the identification number: Closed joint stock company Moscow Interbank Currency Exchange (MICEX).

Issue volume — 6 million pieces of the par value 1,000 rubles each.

Number of coupon periods for which the yield was paid: 20

Deadline (date) of redemption of securities of the issue: on 1 813<sup>th</sup> (one thousand eight hundred thirteenth) day from the date of placement of the exchange-traded bonds.

Exchange-traded bond of series BO-02, issues identification number 4B02-02-34956-E, date of assigning the identification number: 4 September 2014. Authority that assigned the identification number: Closed joint stock company Moscow Interbank Currency Exchange (MICEX).

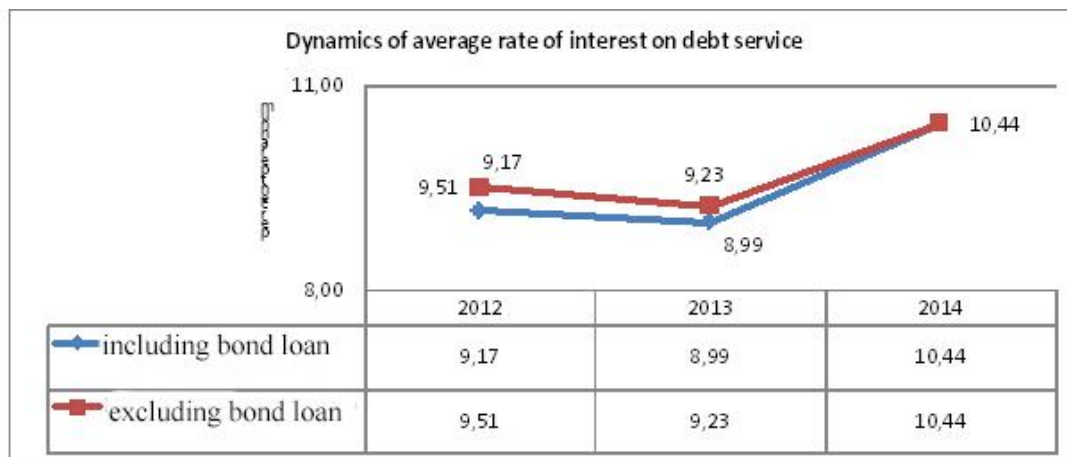
Issue volume — 6 million pieces of the par value 1,000 rubles each.

Number of coupon periods for which the yield was paid: 20



Deadline (date) of redemption of securities of this issue: on 1 813<sup>th</sup> (one thousand eight hundred thirteenth) day from the date of placement of the exchange-traded bond.

### Dynamics of average rate of interest on debt service



In comparison to the beginning of the current year there was an increase of average interest rate from 9.23% to 10.44 % (excluding bonded loan). Such increase in the average interest rate can be explained by changes in situation of credit resource market and as a result the banks increased interest rates on both current and new concluded credit contracts.

### Distribution of profit in 2012-2014\*

thousand rubles

Indicator	2011 (AGM 2012)	2012 (AGM 2013)	2013 (AGM 2014)	2013 /2012 %
Undistributed net profits, total, including:	80 819	-3 302 948	27 190	-0,8%
Reserve fund	5 869		1 359,5	
Accumulation fund	74 950		18 856,8	
Dividends			6 973,6	
Recovery of loss of the past years				
Dividend payment	thousand rubles		6 973,6	
	%		25,86	
Dividend rate per share, rubles.			0,014	

\*information on distribution of profit in accordance with resolutions of Annual General Meetings (AGM)

AGM 2012 (for 2011) – Minutes of meeting of AGM No.7 dd 18.06.2012

AGM 2013 (for 2012) - Minutes of meeting of AGM No.9 dd 25.06.2013

AGM 2014 (for 2013) - Minutes of meeting of AGM No.11 dd 25.06.2014

#### Report on dividends payout:

On 25.06.2014 Annual General Meeting of Shareholders adopted a decision (minutes of meeting No.11 dated 25.06.2014) to payout dividends by the results of 2013 fiscal year.

Year of dividends payout	Category (type) of shares	Amount of shares (pieces)	Dividend per one share (rubles)	Total accrued*/ Total paid out (rubles)
2013	ordinary	49 811 096 064	0.00014	6 973 553.81
				6 885 977.32

\*the sum of accrued dividends on each shareholder with regard of rounding rules to kopeks

In accordance with the Charter of the Company the resolution on distribution of profit by the results of 2014 shall be adopted by the results of annual general meeting of shareholders (AGM).

#### Analysis of performance results in 2014

By the results of the audit of accounting report for 2013 the Company received negative comments because of inclusion in the report the debt of “Volgogradenergosbyt” JSC and municipal unitary enterprise “Volgogradskiye regional electric networks”. It was recommended to amend the accounting and report of the Company in accounts receivable, bad debts provision and other expenses.

The net loss by the results of 2014 amounted 6 894 million rubles. Revenue for electricity transmission services was 28 009 million rubles or 151.7 thousand rubles higher than the planned revenue - 27 857.5 million rubles. The planned volume of losses for 2014 was 2 733.43 million kWh or 9.3%, the actual volume of losses is 9.3% or 2 745.29 million kWh. Dba debt provision amounts to 6 616.6 million rubles, provision for other liabilities is 1 262.1 million rubles.

One of the main components of the strategic plan for the Company's development is the implementation of the Business performance management Programme o

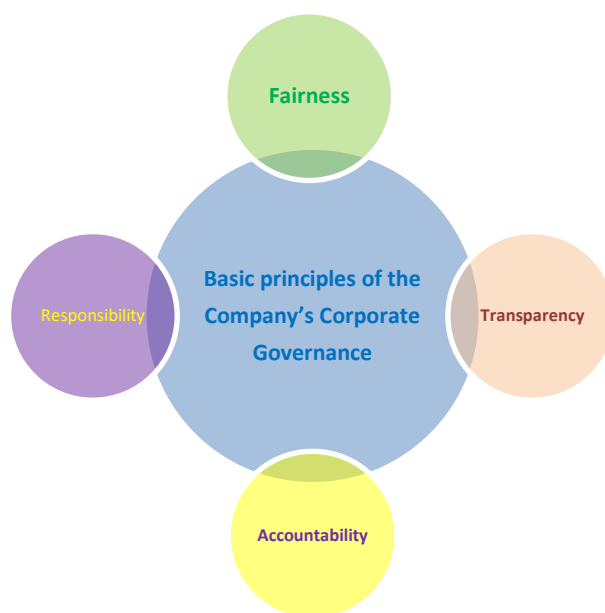
(hereinafter - the Programme). The Programme is aimed at minimizing the consumption of resources and maximizing the return on them.

Target indicator for reduction of operating costs, taking into account the level of inflation in 2012 per unit of service of electrical equipment for 2014 was approved in the amount of 5%, in fact, following the results of 2014 this indicator was achieved. Controllable expenses were reduced by 13.48%.

### 3. Corporate Governance

Company's corporate governance is a set of processes for controlling and monitoring its activity and including interaction with the shareholders, the Board of Directors and executive bodies of the Company for the benefit of shareholders. The Company sees corporate governance as a tool of improving business efficiency, enhancing its reputation and reducing costs of raising capital.

Corporate Governance in the Company is carried out in accordance with the law of the Russian Federation, the Charter of "IDGC of the South" JSC, internal documents regulating activities of the management and supervisory bodies of "IDGC of the South" JSC, the Code of Corporate Governance of "IDGC of the South" JSC, the Regulations on Information Policy of "IDGC of the South" JSC and other internal documents of the Company:



#### Fairness

The Company undertakes to protect shareholders' rights and ensure equal treatment of all shareholders. The Board of Directors provides all shareholders with the opportunity to be protected in case of violation of their rights.

### **Transparency**

The Company ensures timely disclosure of reliable information on all material facts concerning its activities, including its financial state, performance, ownership and management structure of the Company, as well as free access to such information for all interested parties.

### **Accountability**

The existing system of accountability reduces the risk of divergence of interests of managers with those of shareholders.

The principle provides accountability of the Board of Directors to all shareholders in accordance with applicable legislation of the Russian Federation and serves as a guidance to the Board of Directors in the development of strategies and the implementation of management and control over the activities of executive bodies.

### **Responsibility**

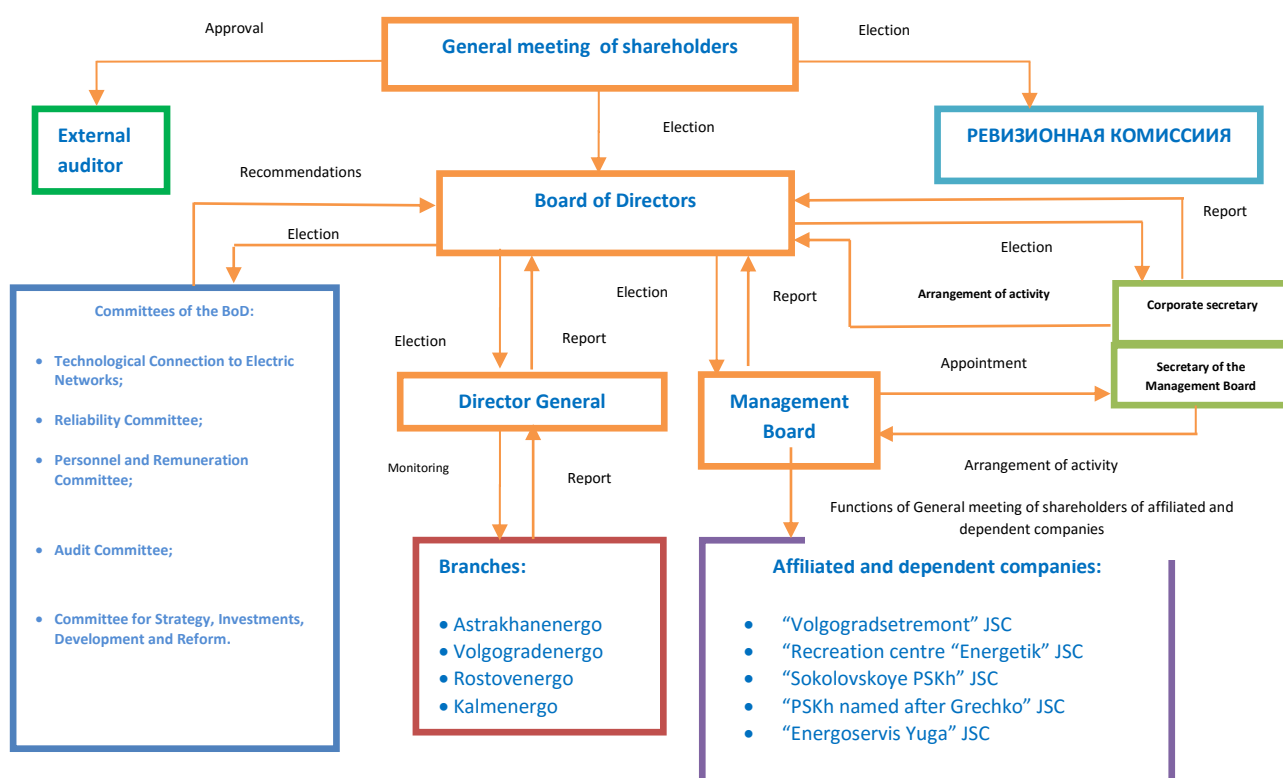
The Company recognizes its responsibility to the shareholders of the Company.

Members of the Board of Directors, Management Board, CEO or managing organization (manager) shall be liable to the Company for damages caused by their actions (or inactions).

In the process of disclosure of the information on the Company as an issuer, the Company complies with the requirements of the current legislation of the Russian Federation and local Regulations as well as seeks to disclose additional information about its activity according to the Regulations on Information Policy of “IDGC of the South” JSC.

Information about the Company during the entire period of activity of “IDGC of the South” JSC and texts of the documents are available on the website of the Company: [www.mrsk-yuga.ru](http://www.mrsk-yuga.ru).

## System of Corporate Governance in “IDGC of the South” JSC



### General Meeting of Shareholders

The supreme governing body of "IDGC of the South" JSC in accordance with the Federal Law "On Joint-Stock Companies" and the Charter of "IDGC of the South" JSC is the General Meeting of Shareholders.

The Company annually holds Annual General Meeting in the deadlines established by the Charter, but not earlier than two months and not later than six months after the end of the fiscal year.

The competence of the General Meeting of Shareholders includes the issues related to the approval of internal documents that regulate the activities of the management company, issues related to the authorized capital and securities, reorganization and liquidation of the Company, election of management bodies, approval of major transactions and control activities of the company.

Detailed competence of general meeting of shareholders is given in Article 10 of the Charter of "IDGC of the South" JSC, posted on the corporate website of the Company on the Internet.

On 18 December 2013 "IDGC of the South" JSC, received a request from its shareholder, which owns more than 10 percent of the voting shares of the Company, – “Rosseti” JSC to convene an extraordinary general meeting of shareholders of “IDGC of the South” JSC with agenda including the issues: on the early termination of powers of members Board of Directors and election of new members of the Board of Directors of the Company and early termination of powers of members of the Audit Committee and election of new members of the Audit Committee of the Company.

Based on the decision of the Board of Directors of the Company on 20 December 2013 the Extraordinary General Meeting of Shareholders of "IDGC of the South" JSC was held on 14 March 2014.

On 25 June 2014 the Company held the Annual General Meeting of shareholders (in accordance with the requirements of the Federal Law “On Joint-Stock Companies” and the Charter).

The full text of the decisions taken by the General Meetings of Shareholders is available on the corporate website of the Company on the Internet at:

[http://mrsk-yuga.ru/corporate\\_management/resh\\_sobr\\_akcion/](http://mrsk-yuga.ru/corporate_management/resh_sobr_akcion/)

Procedures of convening and suggestions on the inclusion of items to the agenda of the General Meeting of Shareholders are defined by the current legislation of the Russian Federation, the Charter and [Regulations on the procedure of convening and holding the AGM of “IDGC of the South” JSC.](#)

### **The Board of Directors**

For the implementation of the general management the General Meeting of Shareholders determines the number of members of the Board of Directors and elects its members.

The Board of Directors of the Company, in accordance with 16.1 Article 16 of the Charter of the Company consists of 11 (eleven) persons.

The competence of the Board of Directors shall include the following key issues:

- setting the business priorities of the Company’s activity and Company’s development strategies;

- convocation of the annual and extraordinary general shareholders meetings, as well as declaration of the new General Meeting date to be held instead of a failed one due to absence of quorum;
- approval of the Company's Registrar, terms of contract with the registrar, as well as termination of the agreement with them;
- election of the Director General of the Company and early termination of the powers including the decision making on early termination of the labour contract with Director General;
- consideration of the reports of the Director General on the Company's activity (including the report on carrying out of functions) on the implementation of the general meeting decisions and Board of Directors;
- determining the quantitative structure of the Company's Management Board, election of members of the Company Board, establishment of compensations and remunerations paid to them, preschedule termination of their powers, including early termination of labour contracts with them;
- other issues that are in Board of Directors' sphere in accordance with the Federal Law "On Joint Stock Companies" and the Company's Charter.

Issues referred to the competence of the Company's Board of Directors should not be transferred for the decision to executive body of the Company.

The more detailed competence of the Board of Directors of the Company and the procedure of nomination of candidates to the Board of Directors of the Company are described in the [Charter of "IDGC of the South" JSC](#), in the [Regulations](#) on the procedure of preparation and holding of the General Meeting of Shareholders of Open Joint Stock Company "Interregional Distribution Grid Company of South", posted on the corporate website of the Company on the Internet.

The Company considers as important the presence of independent directors in the Board of Directors. In addition, the Board of Directors was elected by the representatives of the non-profit organization of the Association of Independent Investors Shevchuk A.V. and Repin I.N., which serves as an additional guarantee of consideration of the interests of minority shareholders.

Members of the Board of Directors shall have a comprehensive knowledge and skills in accounting, strategic management, corporate governance, corporate finance, risk management, as well as in specific areas of electric power industry in order to effectively manage the Company.

The procedure for convening meetings of the Board of Directors and inclusion of issues to the agenda of the Board of Directors meetings is described in the Regulations on the procedure of convening and holding meetings of the Board of Directors of “IDGC of the South” JSC, published on the corporate website of the Company on the Internet.

In 2014, management of the Company was carried out under the guidance of three compositions of the Board of Directors of “IDGC of the South” JSC that met the requirements of the trade organizer “MICEX” to maintain the Company's securities in the quotation list of Tier II.

**The Board of Directors** elected by the Annual General Meeting of Shareholders of “IDGC of the South” JSC on 25 June 2013, minutes of meeting No.9 dated 25.06.2013 (positions held at the time of nomination):

**Gurevich Dmitriy Mikhailovich,**

Chairperson of “IDGC of the South” JSC Board of Directors, **Deputy executive director, IDGC Holding JSC**

Year of birth: 1971

Citizenship: RF

Education: Higher. The Bonch-Bruevich Leningrad state university of communication, specialization – radio engineering

Advanced education: Saint-Petersburg international management university and Master Certificate of Washington University in project management sphere.

Positions held within the last five years:

- Telecommunications director
- Director general of “Roszheldorproekt”
- Telecommunications director, “FGC UES” JSC (Federal Grid Company of the Unified Energy System of Russia);



- Board of Directors member: “Chitatekhenargo” JSC, “IT Energy Service” JSC, Moscow Telecommunications Center of Energy Systems
- IT and telecommunications director, “FGC UES” JSC;
- Member of the Management Board, “FGC UES” JSC;
- Deputy chairperson of Management Board, “FGC UES” JSC;
- Deputy executive director (part-time), “IDGC Holding” JSC, “Russian Grids” JSC;
- Board of Directors member, “IDGC of Centre and Volga region”.

**Branis Aleksandr Markovich,**

“IDGC of the South JSC”, Board of Directors Member

**Director of Prosperity Capital Management Ltd (RF)**

Year of birth: 1977

Citizenship: RF

Education: Higher:

- Russian Presidential Academy of National Economy and Public Administration (ANE), Bachelor of Management.

Positions held within the last five years:

- Investments director, Representative Offices of Prosperity Capital Management Ltd (RF)
- Specialist on management of assets of non-governmental pension fund, Prosperity Capital Management Ltd
- Head of Analytical department, Representative Offices of “Prosperity Capital Management” Ltd (RF)
- Director general, Chief accountant, “Prosperity Capital Management” Ltd
- Chairman of liquidation committee, “Prosperity Capital Management” Ltd (RF).
- Board of Directors Member: “IDGC of Centre and Volga region” JSC, “Territorial generating company - 4”JSC, “Territorial generating company - 6”JSC, “Territorial generating company - 2”JSC », “Sevzapelektroetstroy” JSC, “Plant “Sranskkabel”, “Novgorod energy selling company”, “Bashkirenergo” JSC, “Prokatmontazh” JSC, “Novgorod energy selling company”.

### **Vashkevich Vladimir Frantishkovich,**

Member of “IDGC of the South” Board of Directors, **Director general of IDGC of the South JSC**

Year of birth: 1972

Citizenship: RF

Education: Higher:

- Leningrad higher Military and Political Academy n.a. Andropov Yu.V., speciality: “Command, tactical air defense”, qualification – “Social care teacher - Psychologist”;
- State University of Saint-Petersburg, speciality “Law”, qualification – “Lawyer”;
- Kuban State Technological University, speciality – “Energy supply”, qualification – “Engineer”.

Additional education:

Advanced training at Non-state educational institution “SpetsProekt education centre”, specialty course “Official secrets protection”

Positions held within the last five years:

- Deputy director general in charge of inventory, acting director general, “Elektrogaz” JSC; “Elektrogaz” JSC;
- Deputy director general in charge of general issues, “Elektrogaz” JSC;
- Acting deputy director general, “IDGC of the South” JSC;
- Deputy director general in charge of capital construction, member of Management Board, “IDGC of the South” JSC;
- Acting director general Chairperson of Management Board, “IDGC of the South” JSC.

### **Korsunov Pavel Yurievich**

Member of “IDGC of the South” Board of Directors, **Director general of “Scientific and Research Centre of Power Industry” JSC**

Year of birth: 1971

Citizenship: RF

Education: Higher:

- The Moscow Engineering Physics Institute (MEPhI)
- PhD in economics.

Advanced education: Institute for professional retraining of managers in financial and banking specialties at Finance Academy under the Government of the Russian Federation, economist in banking and insurance.

Positions held within the last five years:

- Deputy director general, “Nerudresurs” LLC;
- Director general, “Scientific and Research Centre of Power Industry” JSC;
- Deputy director general in charge of innovative development (as part-time job), “Rosseti” JSC.

**Likhov Khasan Mushtafaevich,**

Member of the BoD of IDGC of the South JSC,

**Deputy Director of department of corporate management, pricing environment and control work in sector of Fuel and Energy Complex of RF Ministry of Energy**

Year of birth: 1983

Citizenship: Russian Federation

Education: Higher

- Academy of economic security under RF Ministry of internal affairs

Positions within the last 5 years:

- Deputy Director of Department of economic regulations and property relations in sectors of Fuel and Energy Complex of RF Ministry of Energy;
- Board of Directors member: “Kubanenergo” JSC, “Dagenergoset” JSC, “Nurenergo” JSC, “Kabbalkgaz” JSC, “KamGEK” JSC, “Kabbalkenergo” JSC, “DVUEK” JSC, “Ust-Srednekanskaya” JSC, “IDGC of the North Caucasus” JSC.

**Magadeev Ruslan Raisovich,**

Member of the BoD of IDGC of the South JSC,

**Head of operation and process management Department of “Holding IDGC” JSC**

Year of birth: 1977

Citizenship: Russian Federation

Education: Higher

- State technical university of Magnitogorsk named after Nosov G.I., speciality – electrical engineer, energy supply to production enterprises.

Advanced education: Major computer center of Power Industry in Saint-Petersburg; Corporate Power Industry University of RAO “UES of Russia”, branch “SO UES” Education centre of North Caucasus” JSC.

Positions within the last 5 years:

- Head of operations and process management department, head of sector for operations and process management of “IDGC of the Centre” JSC (up to 2008 “IDGC of the Centre and North Caucasus”);
- Head of operation and process management Department of “Holding IDGC” JSC;
- Director of development of operation and process management Department of “Rosseti” JSC.

**Repin Igor Nikolaevich,**

Member of the BoD of IDGC of the South JSC,

**Deputy executive Director of Non-profit Company Association for investors’ rights protection**

Year of birth: 1966

Citizenship: Russian Federation

Education: Higher

- Moscow State University, faculty of geography, specialization “land hydrology”.

Further education: Federal committee on RF stock market (certificate of 1st category).

Higher school of economics, programme advanced training of companies board of directors members.

Russian jurisprudence academy at RF Ministry of justice, court-appointed manager programme.

Positions within the last 5 years:

- Deputy executive Director of Non-profit Company Association for investors' rights protection.

**Solod Aleksandr Viktorovich,**

Member of the BoD of IDGC of the South JSC,

**Deputy chief engineer of “FGC UES” JSC**

Year of birth: 1976

Citizenship: Russian Federation

Education: Higher

- South-Russian State Technical University of Novocherkassk; speciality “Electric systems and networks”, qualification “Electrical engineer”

Advanced education: Pyatigorsk State Linguistic University, Moscow Power Engineering Institute.

Positions within the last 5 years:

- Deputy Chief engineer of Southern branch of “Glavsetservis ENES” JSC;
- Director in charge of investments and assets management of “FGC UES” JSC branch – Main Power Networks of the South;
- Deputy Director General – executive director of Southern branch of “Glavsetservis ENES” JSC;
- Deputy Director General in charge of technical maintenance and repair of “FGC UES” JSC branch – Main Power Networks of the South;
- Deputy Chief engineer of “FGC UES” JSC;
- Director of “FGC UES” JSC branch – Sochi Main Power Networks;
- Director of “FGC UES” JSC branch – Main Power Networks of South.

**Filkin Roman Alekseevich,**

Member of the BoD of IDGC of the South JSC,

**Co-director of representative office of Prosperity Capital Management Ltd (RF)**

Year of birth: 1983

Citizenship: Russian Federation

Education: Higher

- Finance Academy under the Government of the Russian Federation, specialty “Finance and Credit”.

Positions within the last 5 years:

- Deputy head of representative office of Prosperity Capital Management Ltd. (RF)
- Member of BoD of “Mordova energy sales company” JSC, “Novgorod energy sales company” JSC, “Penza energy sales company” JSC, “Ryazan energy company” JSC, “Tver energy sales company” JSC, “Territorial generating company No. 4” JSC, “Arkhangelsk energy sales company” JSC, “Yaroslavl energy sales company” JSC, “Dagestan energy sales company” JSC, “Smolensk energy maintenance company” JSC, “Smolensk energy service company” JSC, “Tver energy maintenance company” JSC, “Territorial generating company No. 6” JSC, “Bryansk energy sales company” JSC, “Mosenergosetstroy” JSC, “Oryol energy sales company” JSC, “Kursk energy sales company” JSC, “Territorial generating company No. 2” JSC, “Voronezh energy sales company” JSC, “Novgorodsetstroy” JSC, “Chemical and pharmaceutical plant “Akrihin” JSC, “Smolenskenergosbyt” JSC, “Tambov energy sales company” JSC, “Krasnyi kotelschik” JSC TCNR, “Dalenergomontazh” JSC, “NOVAYA ERA” JSC, “NOVGORODOBLKOMUNELECTRO” JSC, “Energospetsmonyazh” JCS, Bank “Yuzhniy region” JSC, “Spetssetstroy” JSC, “Severtruboprovodstroy” JSC, “Voronezh joint-stock aircraft building company” JSC, “Bashkirenergo” JSC, “Urengoytruboprovodstroy” JSC, Joint-stock company of power and electrification “Magadanenergo”, Joint-stock company of building of major pipelines on the South of Russia “Yuzhtruboprovodstroy”, “Tambov energy sales company” JSC, “Prokatmontazh” JSC, “IDGC of North-West” JSC, “Dalenergomontazh” JSC, “Smolensk energy maintenance company” JSC, “Kurganinsk machinery plant” JSC, “IDGC of the South” JSC, “IDGC of the Centre and Volga region” JSC.

**Shevchyuk Aleksandr Viktorovich,**

Member of the BoD of IDGC of the South JSC,

**Deputy acting director general of Non-profit Company Association for protection of investors' rights**

Year of birth: 1983

Citizenship: Russian Federation

Education: Higher

• Financial University under the Government of the Russian Federation, faculty of Finance and Crediting.

Positions within the last 5 years:

• Deputy acting director general of Non-profit Company Association for protection of investors' rights;

• Member of BoD of “Dalsvayz” JSC, “Centretelecom” JSC, “IDGC of North Caucasus” JSC, “NCC” CJSC, “Southern Telecommunications Company” JSC, “Sibirtelecom” JSC, “IDGC of Centre” JSC, “IDGC of North Caucasus” JSC, “Volgogradgorgaz” JSC, “Urengoytruboprovodstroy” JSC, “MOSTOTREST” JSC.

**Shatokhina Oksana Vladimirovna,**

Member of the BoD of IDGC of the South JSC,

**Director of Economic affairs of “Holding IDGC” JSC**

Year of birth: 1975

Citizenship: Russian Federation

Education: Higher

• Finance Academy under the Government of the Russian Federation, specialization – Finances and credit.

Positions within the last 5 years:

• First deputy director of Department for economic planning and budgeting of “FGC UES” JSC;

• Head of Department for economic planning and budgeting of “FGC UES” JSC;

• Director of Economic affairs of “FGC UES” JSC;

• Director of Economic affairs of “Holding IDGC” JSC;

- Deputy director of economic affairs and finances of “Rosseti” JSC.

**Company’s Board of Directors** elected by “IDGC of the South” JSC extraordinary general meeting of the shareholders dd. March, 14<sup>th</sup> 2014, Minutes No. 10 dd. 14.03.2014 (the positions are specified at the moment of nomination):

**Belenkii Dan Mikhailovich,**

Chairperson of “IDGC of the South” JSC Board of Directors, **First deputy CEO in charge of Investment Activities of “Rosseti” JSC**

Year of birth: 1972

Citizenship: Russian Federation

Education: Higher

Moscow State University named after Lomonosov M.V., faculty of sociology.

Positions within the last 5 years:

- President of “Atomstroieksport” CJSC.
- Deputy RF Minister of Energy.
- Director on economic development of “Plastindustriya” JSC.
- Director General of “Engineering Centre of UES” JSC.
- Member of BoD of “Rosseti” JSC.

**Branis Aleksandr Markovich,**

Member of the BoD of IDGC of the South JSC,

**Director of “Prosperity Capital Management (RF) Ltd.”**

Year of birth: 1977

Citizenship: Russian Federation

Education: Higher

- Russian Presidential Academy of National Economy and Public Administration (ANE), Bachelor of Management.

Positions within the last 5 years:

- Director on investments of Representative Office of “Prosperity Capital Management (RF) Ltd.”
- Specialist on assets management of non-State pension funds of “Prosperity Capital Management” LLC



- Director of analytic department of Representative Office “Prosperity Capital Management (RF) Ltd.”
- Director General, chief accountant of “Prosperity Capital Management” LLC.
- Chairperson of abolition committee of “Prosperity Capital Management” LLC.
- Member of BoD of “IDGC of Centre and Volga region” JSC, “Territorial generating company - 6” JSC, “Territorial generating company - 4” JSC, “Territorial generating company - 2” JSC, “Sevzapelektrosetstroy” JSC, “Saransk kabel plant” JSC, “IDGC of the Centre” JSC, “Bashkirenergo” JSC, “Prokatmontazh” JSC, “Bashkirenergo” JSC, “Novgorod energy selling company” JSC.

**Vashkevich Vladimir Frantishkovich,**

Member of the BoD of IDGC of the South JSC,

**Director General “IDGC of the South” JSC**

Year of birth: 1972

Citizenship: Russian Federation

Education: Higher

- Leningrad higher Military and Political Academy n.a. Andropov Yu.V., speciality: “Command, tactical air defense”.
- State University of Saint-Petersburg, speciality “Law”;
- Kuban State Technological University, speciality – “Energy supply”.

Advanced training at Non-state educational institution “SpetsProekt education centre”, specialty course “Official secrets protection”.

Positions within the last 5 years:

- Deputy director general in charge of materiel and technical support, Acting Director General of “Elektrogaz” JSC; Deputy director general in charge of materiel and technical support of “Elektrogaz” JSC;
- Deputy Director General in charge of general issues of “Elektrogaz” JSC;
- Acting Deputy Director General of “IDGC of the South” JSC;
- Deputy Director General in charge of capital construction, member of “IDGC of the South” JSC BoD;

- Acting Director General, Chairperson of managing board of “IDGC of the South” JSC.

**Airapetyan Arman Mushegovich,**

Member of the BoD of IDGC of the South JSC,

**Director of Property Recording and Management Department of “Rosseti” JSC**

Year of birth: 1978

Citizenship: Russian Federation

Education: Higher

- Rostov State Economic Academy.
- Rostov State University.
- Science degree: Candidate of economic science.

Positions within the last 5 years:

- Deputy Head of Centre of strategies and development of “Holding IDGC” JSC.
- Director of Department of cooperation with executive agents of “Olimpstroy” SC.
- Director of Property Management Department of “Holding IDGC” JSC.
- Director of Property Recording and Management Department of “Rosseti” JSC.
- Member of BoD of “IDGC of the North Caucasus” JSC, “EC UES” JSC, “IEC of Volga region” JSC, “IEC of South” JSC, “VOLS VL” JSC.

**Terekhov Dmitriy Yurievich,**

Member of the BoD of IDGC of the South JSC,

**Head of Budgeting Division, Department of Economic Planning and Budgeting of “Rosseti” JSC**

Year of birth: 1974

Citizenship: Russian Federation

Education: Higher

- Plekhanov Russian University of Economics, specialty – “Finances and credit”.

Positions within the last 5 years:

- Senior analyst of “Finam” CJSC.

- Senior analyst of “IC Grandis Capital” LLC.
- Head of Investment Projects and Operating Activity Analysis Center of “Prosveschenie Publishers” JSC.
- Head of Budgeting Division, Department of Economic Planning and Budgeting of “Rosseti” JSC.

**Ivanov Vitaliy Valerievich,**

Member of the BoD of IDGC of the South JSC,

**Deputy Director General for Emergency Control of “Rosseti” JSC**

Year of birth: 1970

Citizenship: Russian Federation

Education: Higher

- Omsk State Transport University, specialty – electric-technical faculty.
- Advanced education: The Russian Presidential Academy of national economy, specialty – “Company’s Development Management”.

Positions within the last 5 years:

- Deputy Director General – Director for Technical Issues of “IDGC of Siberia” JSC.
- Advisor at the Office of Director General of “Holding IDGC” JSC.
- Acting Deputy Director General for Technical Issues – Chief engineer of “IDGC of the South” JSC.
- Deputy Director General for Technical Issues — Chief Engineer.

**Repin Igor Nikolaevich,**

Member of the BoD of IDGC of the South JSC,

**Deputy Executive Director of Non-profit Partnership Association for investors rights protection**

Year of birth: 1966

Citizenship: Russian Federation

Education: Higher

- Moscow State University, faculty of geography, specialization “land hydrology”.

Further education: Federal committee on RF stock market (certificate of 1st category).

Higher school of economics, programme advanced training of companies board of directors members.

Russian jurisprudence academy at RF Ministry of justice, court-appointed manager programme.

Positions within the last 5 years:

- Deputy executive director of Non-profit Partnership Association for investors' rights protection.

**Serebryakov Konstantin Sergeevich,**

Member of the BoD of IDGC of the South JSC,

**Head of board of corporate events of subsidiaries and affiliates of Department of corporate management and interaction with shareholders and investors of “Rosseti” JSC.**

Year of birth: 1981

Citizenship: Russian Federation

Education: Higher

- Ogarev Mordova State University, faculty of economics, qualification – manager, specialty - management.

Positions within the last 5 years:

- Deputy head of Directorate of corporate events of “Holding IDGC” JSC.
- Member of BoD of “Volgogradsetremont” JSC.

**Filkin Roman Alekseevich,**

Member of the BoD of IDGC of the South JSC,

**Co-director of representative office of Prosperity Capital Management Ltd (RF)**

Year of birth: 1983

Citizenship: Russian Federation

Education: Higher

- Finance Academy under the Government of the Russian Federation, specialty “Finance and Credit”.

Positions within the last 5 years:

- Deputy head of representative office of Prosperity Capital Management Ltd. (RF)
- Member of BoD of “Mordova energy sales company” JSC, “Novgorod energy sales company” JSC, “Penza energy sales company” JSC, “Ryazan energy company” JSC, “Tver energy sales company” JSC, “Territorial generating company No. 4” JSC, “Arkhangelsk energy sales company” JSC, “Yaroslavl energy sales company” JSC, “Dagestan energy sales company” JSC, “Smolensk energy maintenance company” JSC, “Smolensk energy service company” JSC, “Tver energy maintenance company” JSC, “Territorial generating company No. 6” JSC, “Bryansk energy sales company” JSC, “Mosenergosetstroy” JSC, “Oryol energy sales company” JSC, “Kursk energy sales company” JSC, “Territorial generating company No. 2” JSC, “Voronezh energy sales company” JSC, “Novgorodsetstroy” JSC, “Chemical and pharmaceutical plant “Akrihin” JSC, “Smolenskenergosbyt” JSC, “Tambov energy sales company” JSC, “Krasnyi kotelschik” JSC TCNR, “Dalenergomontazh” JSC, “NOVAYA ERA” JSC, “NOVGORODOBLKOMUNELECTRO” JSC, “Energospetsmonyazh” JCS, Bank “Yuzhniy region” JSC, “Spetssetstroy” JSC, “Severtruboprovodstroy” JSC, “Voronezh joint-stock aircraft building company” JSC, “Bashkirenergo” JSC, “Urengoytruboprovodstroy” JSC, Joint-stock company of power and electrification “Magadanenergo”, Joint-stock company of building of major pipelines on the South of Russia “Yuzhtruboprovodstroy”, “Tambov energy sales company” JSC, “Prokatmontazh” JSC, “IDGC of North-West” JSC, “Dalenergomontazh” JSC, “Smolensk energy maintenance company” JSC, “Kurganinsk machinery plant” JSC, “IDGC of the South” JSC, “IDGC of the Centre and Volga region” JSC.

### **Shevchyuk Aleksandr Viktorovich**

Member of the BoD of IDGC of the South JSC,

## **Deputy acting director general of Non-profit Company Association for protection of investors' rights**

Year of birth: 1983

Citizenship: Russian Federation

Education: Higher

- Financial University under the Government of the Russian Federation, faculty of Finance and Crediting.

Positions within the last 5 years:

- Deputy acting director general of Non-profit Company Association for protection of investors' rights;
- Member of BoD of “Dalsvayz” JSC, “Centretelecom” JSC, “IDGC of North Caucasus” JSC, “NCC” CJSC, “Southern Telecommunications Company” JSC, “Sibirtelecom” JSC, “IDGC of Centre” JSC, “IDGC of North Caucasus” JSC, “Volgogradgorgaz” JSC, “Urengoytruboprovodstroy” JSC, “MOSTOTREST” JSC.

## **Shaidulin Farit Gabdulfatovich**

Member of the BoD of IDGC of the South JSC,

## **Head of department in charge of analysis of assets of the Department of management of internal assets of “Rosseti” JSC**

Year of birth: 1955

Citizenship: Russian Federation

Education: Higher

- Ural State University of Railway Transport, electrician engineer.

Positions within the last 5 years:

- Deputy Chief engineer of Central branch of “Glavsetservis Federal Grid Company” JSC;
- Head of Department of “FGC UES” JSC;
- Deputy head of department of “FGC UES” JSC.

**Company's BoD** elected by annual general meeting of the shareholders of "IDGC of the South" JSC dd. June 25<sup>th</sup>, 2014. Minutes No. 11 dd. 25.06.2014 (the positions are specified at the moment of nomination):

**Belenkii Dan Mikhailovich**

Chairperson of "IDGC of the South" JSC Board of Directors, **First deputy CEO in charge of Investment Activities of "Rosseti" JSC**

Year of birth: 1972

Citizenship: Russian Federation

Education: Higher

Moscow State University named after Lomonosov M.V., faculty of sociology.

Positions within the last 5 years:

- President of "Atomstroieksport" CJSC.
- Deputy RF Minister of Energy.
- Director on economic development of "Plastindustriya" JSC.
- Director General of "Engineering Centre of UES" JSC.
- Member of BoD of "Rosseti" JSC.

**Branis Aleksandr Markovich**

Member of the BoD of IDGC of the South JSC,

**Director of "Prosperity Capital Management (RF) Ltd."**

Year of birth: 1977

Citizenship: Russian Federation

Education: Higher

• Russian Presidential Academy of National Economy and Public Administration (ANE), Bachelor of Management.

Positions within the last 5 years:

- Director on investments of Representative Office of "Prosperity Capital Management (RF) Ltd."
- Specialist on assets management of non-State pension funds of "Prosperity Capital Management" LLC

- Director of analytic department of Representative Office “Prosperity Capital Management (RF) Ltd.”
- Director General, chief accountant of “Prosperity Capital Management” LLC.
- Chairperson of abolition committee of “Prosperity Capital Management” LLC.
- Member of BoD of “IDGC of Centre and Volga region” JSC, “Territorial generating company - 6”JSC, “Territorial generating company - 4”JSC, “Territorial generating company - 2”JSC, “Sevzapelektrosetstroy” JSC, “Saranskabel plant” JSC, “IDGC of the Centre” JSC, “Bashkirenergo” JSC, “Prokatmontazh” JSC, “Bashkirenergo” JSC, “Novgorod energy selling company” JSC.

### **Piotrovich Nikolai Borisovich**

Member of the BoD of IDGC of the South JSC,

### **Deputy Head of Directorate for arrangement of management Bodies’ activity of “Rosseti” JSC**

Year of birth: 1975

Citizenship: Russian Federation

Education: Higher

- RF Presidential North Caucasus Academy of Public Administration, Rostov-on-Don, Rostov-on-Don, 1999, candidate of economic science.
- Rostov State University, Rostov-on-Don, specialty: legal studies, qualification: lawyer.
- RF Presidential North Caucasus Academy of Public Administration, Rostov-on-Don, specialty: state and municipal management, qualification: managing economist.

Degree: Ph.D. in Economics.

Positions within the last 5 years:

- Head of Corporate Governance Department of “FGC UES” JSC.
- Deputy head of department in charge of corporate management of “FGC UES” JSC.



### **Airapetyan Arman Mushegovich**

Member of the BoD of IDGC of the South JSC,

### **Director of Property Recording and Management Department of “Rosseti” JSC**

Year of birth: 1978

Citizenship: Russian Federation

Education: Higher

- Rostov State Economic Academy.
- Rostov State University.
- Science degree: Candidate of economic science.

Positions within the last 5 years:

- Deputy Head of Centre of strategies and development of “Holding IDGC” JSC.
- Director of Department of cooperation with executive agents of “Olimpstroy” SC.
- Director of Property Management Department of “Holding IDGC” JSC.
- Director of Property Recording and Management Department of “Rosseti” JSC.
- Member of BoD of “IDGC of the North Caucasus” JSC, “EC UES” JSC, “IEC of Volga region” JSC, “IEC of South” JSC, “VOLS VL” JSC.

### **Terekhov Dmitriy Yurievich**

Member of the BoD of IDGC of the South JSC,

### **Head of Budgeting Division, Department of Economic Planning and Budgeting of “Rosseti” JSC**

Year of birth: 1974

Citizenship: Russian Federation

Education: Higher

- Plekhanov Russian University of Economics, specialty – “Finances and credit”.

Positions within the last 5 years:

- Senior analyst of “Finam” CJSC.
- Senior analyst of “IC Grandis Capital” LLC.
- Head of Investment Projects and Operating Activity Analysis Center of

“Prosveschenie Publishers” JSC.

- Head of Budgeting Division, Department of Economic Planning and Budgeting of “Rosseti” JSC.

### **Ivanov Vitaliy Valerievich**

Member of the BoD of IDGC of the South JSC,

### **Deputy Director General for Emergency Control of “Rosseti” JSC**

Year of birth: 1970

Citizenship: Russian Federation

Education: Higher

- Omsk State Transport University, specialty – electric-technical faculty.

Advanced education: The Russian Presidential Academy of national economy, specialty – “Company’s Development Management”.

Positions within the last 5 years:

- Deputy Director General – Director for Technical Issues of “IDGC of Siberia” JSC.
- Advisor at the Office of Director General of “Holding IDGC” JSC.
- Acting Deputy Director General for Technical Issues – Chief engineer of “IDGC of the South” JSC.
- Deputy Director General for Technical Issues — Chief Engineer.

### **Repin Igor Nikolaevich**

Member of the BoD of IDGC of the South JSC,

### **Deputy executive Director of Non-profit Company Association for investors’ rights protection**

Year of birth: 1966

Citizenship: Russian Federation

Education: Higher

- Moscow State University, faculty of geography, specialization “land hydrology”.

Further education: Federal committee on RF stock market (certificate of 1st category).

Higher school of economics, programme advanced training of companies board of directors members.

Russian jurisprudence academy at RF Ministry of justice, court-appointed manager programme.

Positions within the last 5 years:

- Deputy executive Director of Non-profit Company Association for investors' rights protection.

### **Serebryakov Konstantin Sergeevich**

Member of the BoD of IDGC of the South JSC,

**Head of board of corporate events of subsidiaries and affiliates of Department of corporate management and interaction with shareholders and investors of “Rosseti” JSC.**

Year of birth: 1981

Citizenship: Russian Federation

Education: Higher

- Ogarev Mordova State University, faculty of economics, qualification – manager, specialty - management.

Positions within the last 5 years:

- Deputy head of Directorate of corporate events of “Holding IDGC” JSC.
- Member of BoD of “Volgogradsetremont” JSC.

### **Filkin Roman Alekseevich**

Member of the BoD of IDGC of the South JSC,

**Co-director of representative office of Prosperity Capital Management Ltd (RF)**

Year of birth: 1983

Citizenship: Russian Federation

Education: Higher

- Finance Academy under the Government of the Russian Federation, specialty “Finance and Credit”.

Positions within the last 5 years:

- Deputy head of representative office of Prosperity Capital Management Ltd. (RF)
- Member of BoD of “Mordova energy sales company” JSC, “Novgorod energy sales company” JSC, “Penza energy sales company” JSC, “Ryazan energy company” JSC, “Tver energy sales company” JSC, “Territorial generating company No. 4” JSC, “Arkhangelsk energy sales company” JSC, “Yaroslavl energy sales company” JSC, “Dagestan energy sales company” JSC, “Smolensk energy maintenance company” JSC, “Smolensk energy service company” JSC, “Tver energy maintenance company” JSC, “Territorial generating company No. 6” JSC, “Bryansk energy sales company” JSC, “Mosenergosetstroy” JSC, “Oryol energy sales company” JSC, “Kursk energy sales company” JSC, “Territorial generating company No. 2” JSC, “Voronezh energy sales company” JSC, “Novgorodsetstroy” JSC, “Chemical and pharmaceutical plant “Akrihin” JSC, “Smolenskenergosbyt” JSC, “Tambov energy sales company” JSC, “Krasnyi kotelschik” JSC TCNR, “Dalenergomontazh” JSC, “NOVAYA ERA” JSC, “NOVGORODOBLKOMUNELECTRO” JSC, “Energospetsmonyazh” JCS, Bank “Yuzhniy region” JSC, “Spetssetstroy” JSC, “Severtruboprovodstroy” JSC, “Voronezh joint-stock aircraft building company” JSC, “Bashkirenergo” JSC, “Urengoytruboprovodstroy” JSC, Joint-stock company of power and electrification “Magadanenergo”, Joint-stock company of building of major pipelines on the South of Russia “Yuzhtruboprovodstroy”, “Tambov energy sales company” JSC, “Prokatmontazh” JSC, “IDGC of North-West” JSC, “Dalenergomontazh” JSC, “Smolensk energy maintenance company” JSC, “Kurganinsk machinery plant” JSC, “IDGC of the South” JSC, “IDGC of the Centre and Volga region” JSC.

### **Shevchyuk Aleksandr Viktorovich**

Member of the BoD of IDGC of the South JSC,

**Deputy acting director general of Non-profit Company Association for protection of investors' rights**

Year of birth: 1983

Citizenship: Russian Federation

Education: Higher

- Financial University under the Government of the Russian Federation, faculty of Finance and Crediting.

Positions within the last 5 years:

- Deputy acting director general of Non-profit Company Association for protection of investors' rights;
- Member of BoD of “Dalsvayz” JSC, “Centretelecom” JSC, “IDGC of North Caucasus” JSC, “NCC” CJSC, “Southern Telecommunications Company” JSC, “Sibirtelecom” JSC, “IDGC of Centre” JSC, “IDGC of North Caucasus” JSC, “Volgogradgorgaz” JSC, “Urengoytruboprovodstroy” JSC, “MOSTOTREST” JSC.

### **Khariin Andrei Nikolaevich**

Member of the BoD of IDGC of the South JSC,

**Deputy Director of Department of corporate management, pricing environment and auditing work in sectors of Fuel & Energy Complex of RF Ministry of Energy**

Year of birth: 1979

Citizenship: Russian Federation

Education: Higher

- Stavropol State University, legal studies.

Positions within the last 5 years:

- Director in charge of corporate management of “IDGC of the North Caucasus” JSC.
- Deputy Director General in charge of corporate management of “IDGC of the North Caucasus” JSC.
- Advisor of Director General of “Far Eastern Grid Managing Company” JSC;
- Member of BoD of “Kubanenergo” JSC, “IDGC of the Centre and Volga region” JSC, “Scientific and Research Centre of UES” JSC, “All-Russian

Research Institute of Mining Geomechanics and Survey – Inter-industry scientific centre VNIMI”.

Members of Company’s BoD do not own shares of “IDGC of the South” JSC, shares of subsidiaries and affiliates of “IDGC of the South” JSC; do not have family relations with other persons who are the members of bodies of management and control of financial and operational activities of the Company.

All members of the Company’s BoD agreed to disclosure the information about them in current annual report.

### Board of directors’ activity in 2014

26 absentee meetings of the Company’s BoD were held in the reported 2014, members considered more than 260 issues.

The information on participating of BoD member in 2014:

2014 (up to 14.03)	15.02	14.02	06.03	13.03								
Gurevich D.M.												
Magadeev R.R.												
Branis A.M.												
Vashkevich V.F.												
Korsunov P.Yu.												
Likhov Kh.M.												
Solod A.V.												
Shatokhina O.V.												
Repin I.N.												
Filkin R.A.												
Shevchyuk A.V.												
	- participating in meeting											
2014 (from 14.03 to 25.06)	28.03	31.03	18.04	21.04	30.04	06.05	20.05	11.06	16.06	24.06		
Belenkiy D.M.												
Airapetyan A.M.												
Branis A.M.												
Vashkevich V.F.												
Ivanov V.V.												
Serebryakov K.S.												
Repin I.N.												
Terekhov D.Yu.												
Filkin R.A.												
Shaidulin F.G.												
Shevchyuk A.V.												
	- participating in meeting											
2014 (after 25.06)	09.07	28.07	31.07	15.08	04.09	19.09	30.09	17.10	31.10	21.11	17.12	30.12
Belenkiy D.M.												

Airapetyan A.M.												
Branis A.M.												
Ivanov V.V.												
Piotrovich N.B.												
Serebryakov K.S.												
Repin I.N.												
Terekhov D.Yu.												
Filkin R.A.												
Kharin A.N.												
Shevchuk A.V.												

- participating in meeting

## **Report of the Board of Directors on the results of development of the Company in its core activities**

### **Reasonability of applying the recommendations on intellectual property rights management**

On 30 April 2014 the Board of Directors within the framework of the consideration of the priority directions of activity of “IDGC of the South” JSC on the appropriateness of recommendations on intellectual property rights management, adopted a decision on the reasonability of the methodological recommendations on the intellectual property rights management developed by the Ministry of Economic Development of Russia. In addition, the Company's Director General was requested to take into account the methodological recommendations on management of rights on the results of intellectual activity when planning activities that are aimed to implement the system of intellectual property management in “IDGC of the South” (Minutes of meeting No.132/2014 dd 05.05.2014).

In accordance with the decision of the Board of Directors, “IDGC of the South” JSC uses “The Guidelines for the management of the rights on intellectual property in organizations”, developed by the Ministry of Economy of the Russian Federation, the requirements of which are adequately addressed in the preparation of measures to implement the system of intellectual property management of “IDGC South” JSC.

### **Certification of equipment, materials and systems at the facilities of**

## **“IDGC of the South” JSC**

On 11 June 2014 the Board of Directors as part of the consideration of the priority directions of activity of “IDGC of the South” for certification of equipment, materials and systems at the facilities of “IDGC of the South”, adopted a decision to entrust the Company's Director General to establish and maintain a Commission for admission of electrical equipment and materials in the 2<sup>nd</sup> quarter of 2014, and to develop and approve the Regulations of the Commission for admission of electrical equipment, materials and systems of “IDGC of the South” (Minutes of meeting No.135/2014 from 06.16.2014).

Within the framework of the implementation of this priority activity, on 30.06.2014 the Company issued an order No. 449 “On approval of the Regulations of the Commission on admission of electrical equipment, materials and systems of “IDGC of the South” JSC, which is defined by the Commission and approved by the Regulations of the Commission for admission of electrical equipment, materials and systems.

### **Ensuring accessibility of energy infrastructure and quality of technological connection to the Company's networks**

Enhancement of access to energy infrastructure is one of the priorities of “IDGC of the South” JSC.

As part of the implementation of the directive of the Russian Federation No.1144-p dated 30.06.2012 in order to achieve the objectives of the Roadmap to reduce the time of grid connection, reduce the number of stages and connection fee, the Company issued an order of “IDGC of the South” on 01.14.2014 “On the implementation of the action plan (“roadmap”) “Increase of accessibility to energy infrastructure”.

In particular, in 2014 within the frameworks of the order, “IDGC of the South” prepared and sent to the Administration of Rostov region a draft agreement on cooperation in the field of technological connection to the networks with the Administration of Rostov region on the implementation of the pilot project in the Rostov region “Reduction of period for licensing procedures in the field of land



relations and construction, including the connection to the municipal facilities and engineering infrastructure.”

The company made it possible to receive requests from consumers for technological connection of power through the Internet with the ability to track the performance of the application in real time.

To ensure the availability of energy infrastructure in order to avoid inefficient load on newly commissioned and existing power grid equipment, the company approved Guidelines for the definition of reserve power feeding centers of the Company and a standard form of the terms of reference for the development of the Comprehensive Programme of development of electric networks of  $\geq 35$  kV in the territory of the Russian Federation in a five-year period.

Also in order to improve the procedures for the grid connection between IDGC of the South and the Government of the Rostov, Astrakhan and Volgograd regions and the Republic of Kalmykia, there were agreements signed to support the agricultural enterprises that are listed in the registry of recipients of support. The Agreement aims to create favourable conditions for the development of the domestic food industry and agricultural producers, as well as joint implementation of investment programmes in this direction. The document describes the ways to support agriculture, including the implementation of the range of measures aimed to ensure a reliable power supply to enterprises producing food and enterprises from processing industry, as well as agricultural producers. The agreement also extends to issues of technological connection to electric networks of “IDGC of the South” JSC. It is planned to simplify the procedure for consumers that participants of agribusiness, including this will be done at the expense of reducing the time of grid connection and optimization of technical solutions to minimize service fees.

### **Improvement of the system of internal control and risk management, the development of function of the internal audit**

On 4 September 2014 the Board of Directors of the Company identified as its priority activity the improvement of the system of internal control and risk

management, the development of the function of internal audit (Minutes of meeting No.142/2014 from 08.09.2014).

- To improve the system of internal control and risk management and develop the internal audit, the Company conducts the following events:
- approved the local regulations in the sphere of internal control and risk management: Risk Management Policy in the new edition, Internal Control Policy in the new edition, the Internal Audit Policy;
- carries out on a quarterly basis, the identification and assessment of risks, development and implementation of risk management, risk monitoring;
- report on key risks on a quarterly basis are discussed at the meetings of the Management Board, on the basis of half of the year and are considered by the Audit Committee of the Board of Directors and the Board of Directors.
- annually assesses the effectiveness of internal control and risk management, the results of which are submitted to the Audit Committee of the Board of Directors and the Board of Directors of the Company.
- specialized divisions of the Company in accordance with their functional responsibilities monitor the system of internal control and risk management of business processes through existing local regulations.

#### **The transfer to “IDGC of the South” JSC the powers of the sole executive body of “Donenergo” JSC**

On 4 September 2014 the Board of Directors of the Company determined as its priority activity the exercise of powers of the sole executive body of “Donenergo” JSC.

On 20 September 2014 the Company and “Donenergo” JSC concluded an agreement on the transfer of powers of the sole executive body of “Donenergo” JSC to the managing company. In fact, the powers of the sole executive body of “Donenergo” JSC were transferred to the managing company on 30.09.2014 (the date of signing of the reception and transmission of documents).

In the framework of the implementation of the powers of sole executive body of “Donenergo” JSC the Company approved the Rules of interaction between the

managing company Open Joint Stock Company “Interregional Distribution Grid Company of the South” and Open Joint Stock Company “Donenergo” (Order No.927 of 30.12.2014), according to which interaction between the Company and “Donenergo” JSC was carried out.

In January 2015 the Board of Directors of “Donenergo” JSC discussed the report of the managing company for the 4<sup>th</sup> quarter 2014.

In addition, the following [resolutions adopted by the Board of Directors in 2014](#) are worth mentioning:

The Plan of procurement of “IDGC of the South” for 2014 was approved.

The Company approved internal documents (including restated): Standard on implementation by “IDGC of the South” of deals with bills of third parties, Standards for carrying out public technical and price audit of investment projects of “IDGC of the South” JSC, Anti-corruption policy of “IDGC of the South” JSC, plan for the future development of “IDGC of the South” JSC for 2014 - 2023, the comprehensive programme of “IDGC of the South” JSC for reduction of the risk of injury to personnel and the third parties at the facilities of electric grid complex of the Company for the period 2014-2017, the Rules of placement of temporary free cash funds of the Company, Standards of technical policy. Accounting systems of electric power to the remote data collection of the wholesale and retail electricity markets at the facilities of “IDGC of the South” JSC, the Procurement policy of the Company, Regulations on the Committee for Personnel and Remuneration of the Board of Directors of “IDGC of the South” JSC, a new version of the Regulation on the Reliability Committee of the Board of Directors of “IDGC of the South” JSC, a new version of Regulations on technical policy in the field of telecommunications, etc.

A decision on the participation of “IDGC of the South” in Non-profit partnership of the Territorial network organizations was adopted.

The list of positions at the executive office of the Company, approval of candidates that falls within the competence of the Board of Directors of “IDGC of the South” JSC was approved.

A decision on the reduction of administrative and management costs was taken. It was decided to early terminate the powers of the Director General Vashkevich V.F.

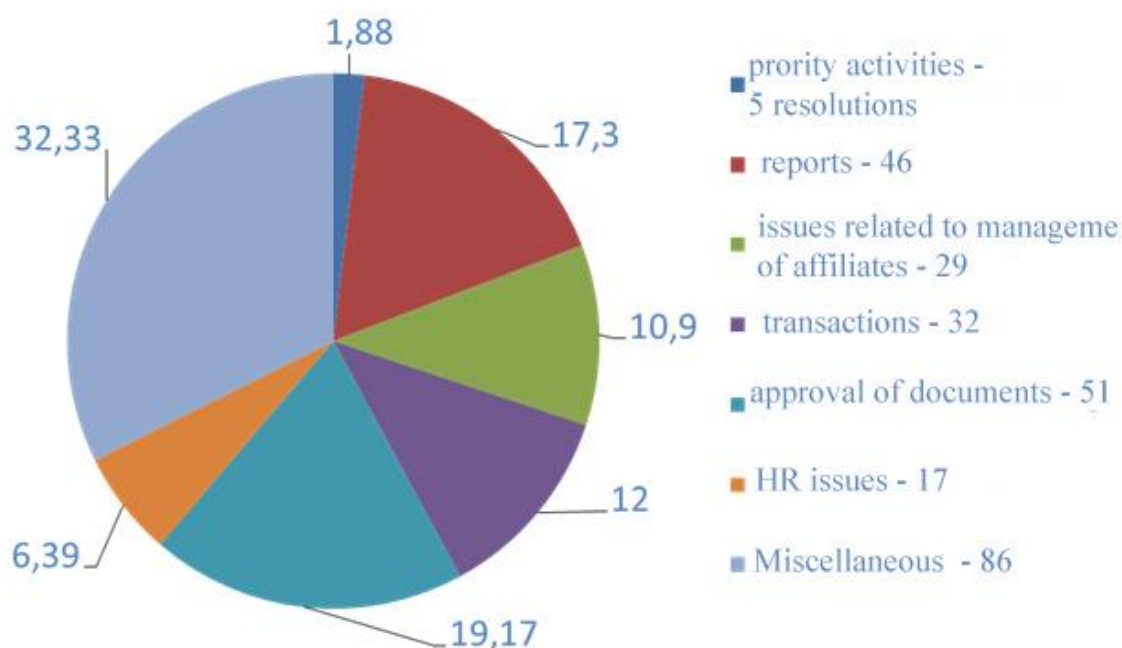
Ebzeev B.B. was elected for the position of the General Director of the Company. Securities of Open Joint Stock Company “Interregional Distribution Grid Company of the South” were issued (exchange-traded bonds of BO-01, BO-02). The organizational structure of the executive body of “IDGC of the South” JSC was approved.

Additions to the register of non-core assets of “IDGC of the South” were made. A revised business plan of “IDGC of the South”, which includes investment programme for 2014 was approved.

The Plan of procurement of goods, works and services of “IDGC of the South” was approved for 2015.

In addition, meetings of the Board of Directors regularly discussed and reviewed the reports of the Director General on the various activities of the Company and the implementation of previously adopted by the Board of Directors decisions, as well as issues on the preliminary approval of transactions for the conclusion of which a special procedure must be carried out, Company expressed its opinion on the agendas for board meetings and general meetings of shareholders of subsidiaries and affiliates of “IDGC of the South”.

## Resolutions adopted by the BoD in 2014, %



### Information on payment of remuneration (reimbursement of expenses) to the members of the Board of Directors

Payment of remunerations and compensations to the members of the Board of Directors is carried out in compliance with the Regulations “On Remuneration and Compensation Payment to Members of the Board of Directors of the Open Joint Stock Company “Interregional Distribution Grid Company of the South” (new revision) approved by the decision of “IDGC of the South”, JSC Annual General Shareholders Meeting (Minutes No. 1 dated June 04.2008).

For participation in an absentee meeting (by way of filling in a questionnaire), a member of the Board of Directors is paid an equivalent of eight minimum monthly wages of a 1st category worker fixed in the sectoral tariff agreement of the electric power industry of the RF (hereinafter referred to as Agreement) as of the date of the Executive board meeting, indexed in conformity with the Agreement, during one month from the date of the Board of Directors meeting.

For participating in the Board of Directors meeting in the form of collective presence, a member of the Company’s Board of Directors is paid remuneration equivalent to ten minimum monthly wages of a 1st category worker fixed in the

sectoral tariff agreement of the electric power industry of the RF (hereinafter referred to as Agreement) as of the date of the Board of Directors meeting, indexed in conformity with the Agreement, during one month from the date of the Board of Directors meeting.

Amount of remuneration paid in accordance with the Regulations to the Chairman (Deputy Chairman) for each meeting where he fulfilled functions of Chairman of the Board of Directors is increased by 50%.

The amount of remuneration payable to the Chairman of the Board of Directors, members of the Board of Directors of “IDGC of the South” JSC is calculated in accordance with paragraph 4.1 of the Regulations on payment remuneration and compensation to members of the Board of Directors of “IDGC of the South” JSC, in the amount equivalent to one minimum monthly tariff rate of the first category employees established by the industry tariff agreement in electric power complex of the Russian Federation from 1 January 2014 – 5400 rubles, from 1 July 2014 – 6000 rubles.

The aggregate amount of remuneration paid to members of the Board of Directors for 2014 amounted to 12 710 652 rubles.

The remuneration paid to the Secretary of Board of Directors for each session (regardless of the form of the meeting) is the equivalent of 1 (one) minimum monthly wage rate as of the day of holding the meeting of the Board of Directors. There are no arrears in payment of remuneration to the members of the Board of Directors by the end of the last completed financial year.

In 2014 the training of the members of the Board of Directors of the Company was not conducted.

### **Corporate Secretary of the Company**

The Corporate Secretary was elected by the Board of Directors of the Company for the purpose of proper observance of the procedure in the Company on preparing and holding General meetings of shareholders, meetings of the Board of Directors, ensuring effective interaction between the Board of Directors,

committees of the Board of Directors, the Auditing Commission, the Company's Auditor, the Executive bodies and the Executive establishment of the Company.

In its activity the Corporate Secretary of the Company is guided by the Federal Law "On joint stock companies" and other regulations of the Russian Federation, the Charter and internal documents of the Company, as well as the Regulations on the Corporate Secretary of "IDGC of the South" JSC (restated) approved by the resolution of the Board of Directors (Minutes No.34/2009 dated 14.09.2009).

The Corporate Secretary reports on its activity to the Board of Directors of the Company.

On 20 December 2013 the Head of the Department for Corporate Governance and Shareholder Relations of the Company was elected to act as the Corporate Secretary of the Company:

**Pavlova Yelena Nikolayevna**

Corporate Secretary of the Company,

**Head of the Department for Corporate Governance and Shareholder Relations of "IDGC of the South" JSC**

Year of birth: 1977

Citizenship: Russian Federation

Higher education:

- The Rostov State Economic Academy specialization "Economy of nature management", qualification "Economist"
- The Rostov State University of Economy RSUE specialization "Law", qualification "Lawyer".

Positions within the last 5 years:

- Head of the Department of operation with securities and shareholders of the Corporate Governance Department of "IDGC of the South" JSC;
- Head of the Department for Corporate Governance and Shareholder Relations of "IDGC of the South" JSC.

Corporate Secretary of the Company is paid a remuneration in the order, amount and on terms determined by the Regulations on payment of remunerations and

refund of charges to the members of the Board of Directors of “IDGC of the South” JSC, the Regulations on the Corporate Secretary of “IDGC of the South” JSC and the contract on performance of the duties of the Corporate Secretary.

### **Committees attached to BoD of “IDGC of the South” JSC**

To examine issues from the Board of Directors competence were organized and approved committees of “IDGC of the South”, JSC by the decision of Board of Directors (minutes No. 22/2009 dd. 11.02.2009; minutes No. 23/2009 dd. 02.03.2009, minutes No. 37/2009 dd. 04.12.2009):

- 1) **Committee for Technological Connection to Electric Grids;**
- 2) **Audit Committee;**
- 3) **Committee for Personnel and Remuneration**
- 4) **Reliability Committee**
- 5) **Committee for Strategy, Development, Investments and Reforming**

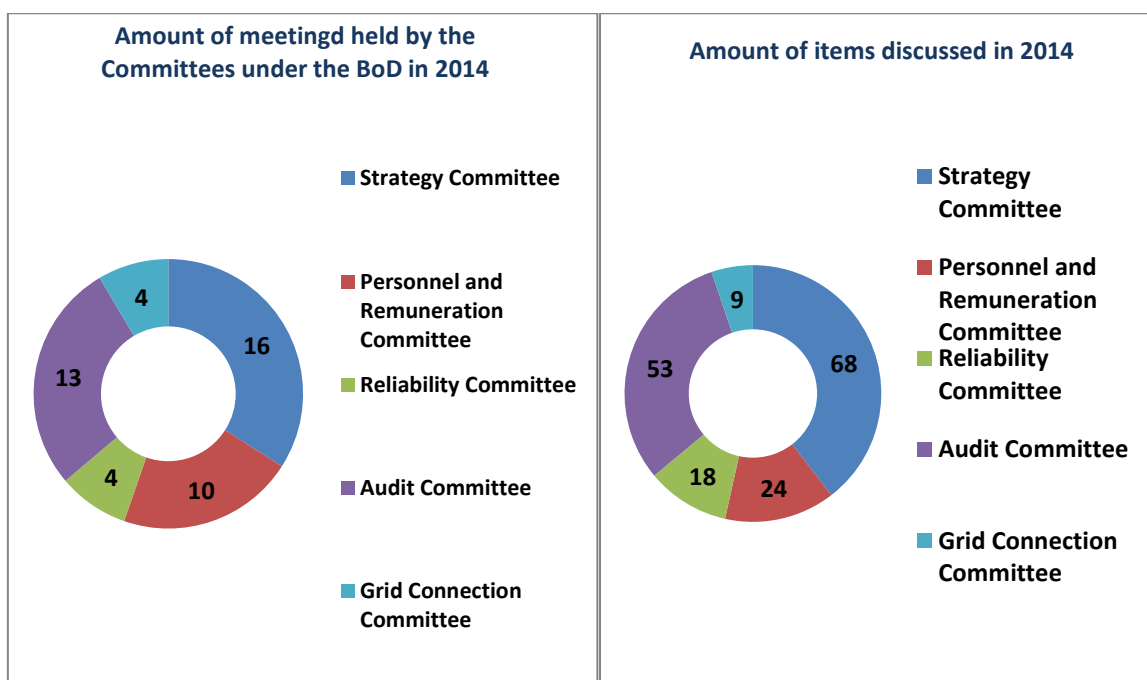
According to the approved regulations on committees the members of committees are elected for the period of Board of Directors reelection (Reliability Committee), till election of the next Committee (Audit Committed) and till the first meeting of the BoD in the new composition (the rest of the Committees).

Authorities of any member of Committee could be early terminated by the decision of Board of Directors adopted by majority of votes of Company’s Board of Directors.

According to regulations about the Committees, functions of Secretaries of the Committees are performed by Corporate Secretary, if decisions of committees do not stipulate any other cases.

During the reporting year three compositions of committees were performing their activity. In 2014 the Committees in total have held 47 meetings and discussed over 160 items.





### **Committee for Technological Connection to Electric Grids attached to Board of Directors of “IDGC of the South”, JSC**

The main purpose of Committee for Technological Connection to Electric Grids attached to Board of Directors of “IDGC of the South”, JSC is provision of transparency of activity and nondiscrimination access to services of technological connection of consumers to electric grids of the Company.

The Committee performed its activity in accordance with Regulations on Committee for Technological Connection to Electric Grids attached to Board of Directors of JSC “IDGC of the South” approved by the decision of Board of Directors of the Company dd 09.02.2009 (published at corporate webpage).

The following composition of the committee elected at the meeting of “IDGC of the South” JSC dd. 02.08.2013 (Minutes No. 112/2013 dd. 05.08.2013) was acted up to **21.04.2014**:

name	work place and position held as of the moment of electing
<b>Repin Igor Nikolaevich, Chairperson of the Committee</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Zhuravlyov Dmitriy Olegovich</b>	Deputy director general of IDGC of the South, JSC
<b>Khramtsev Denis Vladimirovich</b>	Deputy Director General in charge of corporate management of “IDGC of the South” JSC
<b>Polovnev Igor Georgievich</b>	Financial director of Association of Professional investors

<b>Korneev Alexandr Yurievich</b>	Head of sector for regulatory activity, technological connection at Department of perspective development of grids and technological connection, Russian Grids JSC
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**Composition of the Committee elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 21.04.2014 (Minutes No. 131/2014 dd. 23.04.2014):**

name	work place and position held as of the moment of electing
<b>Repin Igor Nikolaevich, Chairperson of the Committee</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Zhuravlyov Dmitriy Olegovich</b>	Deputy director general of IDGC of the South, JSC
<b>Musinov Oleg Valerievich</b>	Director in charge of legal issues – head of legal department of “IDGC of the South” JSC
<b>Polovnev Igor Georgievich</b>	Financial director of Association of Professional investors
<b>Korneev Alexandr Yurievich</b>	Head of sector for regulatory activity, technological connection at Department of perspective development of grids and technological connection, Russian Grids JSC

**Composition of the Committee elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 31.07.2014 (Minutes No. 140/2014 dd. 04.08.2014):**

name	work place and position held as of the moment of electing
<b>Repin Igor Nikolaevich, Chairperson of the Committee</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Zhuravlyov Dmitriy Olegovich</b>	Deputy Director General in charge of development and services implementation of “IDGC of the South” JSC
<b>Musinov Oleg Valerievich</b>	Acting deputy Director General in charge of corporate management of “IDGC of the South” JSC
<b>Polovnev Igor Georgievich</b>	Financial director of Association of Professional investors
<b>Korneev Alexandr Yurievich</b>	Head of sector for regulatory activity, technological connection at Department of perspective development of grids and technological connection, Russian Grids JSC

**Information on Committee’s activity and decisions:**

In the reported year there were 4 meetings of the Committee on technological connection to electric networks affiliated to the IDGC of the South, JSC Board of Directors (absentee form) where 9 issues were considered.

The Committee on technological connection to electric networks affiliated to the Board of Directors considered substantive issues and priority areas of activity of

the Company: providing of availability of energy infrastructure and quality of technological connection to electric networks of the Company.

№	Number and date of the Committee's Minutes of meeting	Issue formulation	Adopted decision
1	Minutes No. 15 dd. 14.08.2014.	On Company's priority area of activity: providing of availability of energy infrastructure and quality of technological connection to electric networks of the Company.	<p>To recommend Company's BoD members:</p> <ol style="list-style-type: none"> <li>1. To determine the providing of availability of energy infrastructure and quality of technological connection to electric networks of the Company as priority area of activity.</li> <li>2. To approve Methodological instructions on determination of power reserve at substations of the Company in accordance with Appendix 1 to present decision of the Committee on technological connection to electric networks affiliated to the Company's Board of Directors.</li> <li>3. To approve "Standard form of technical specifications on developing of Programme of development of 35 kV and more electric networks at the territory of Russian Federation federal subjects on five-years period" in accordance with Appendix 2 to present decision of the Committee on technological connection to electric networks affiliated to the Company's Board of Directors.</li> <li>4. To approve "Standard documents on technological connection" (hereafter – Standard documents) in accordance with appendixes 3, 4, 5, 6, 7 to present decision of the Committee on technological connection to electric networks affiliated to the Company's Board of Directors.</li> <li>5. To instruct sole executive body of the Company: <ol style="list-style-type: none"> <li>5.1. To provide preparation of projects of design specifications of Complex programme of development of 35 kV and more electric networks at the territory of Russian Federation federal subjects on five-years period" with using of standard form specified in</li> </ol> </li> </ol>

		paragraph 3 of present decisions of Company's BoD; 5.2. To provide preparation of projects of Agreements on interaction of parties up to the moment of signing the Contract on implementation of technological connection on individual project, projects of Agreements, on implementation of technological connection to electric networks with minimum capacity 6780 kW, projects of technical specifications on technological connection to electric networks with using standard documents, approved in paragraph 4 of present decision of Company's BoD and with compliance with the requirements of current legislations (while conclusion the Contracts and Agreements specified in current paragraph of the decision).
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#### **Audit Committee at Board of Directors of "IDGC of the South", JSC**

The Committee works out and presents recommendations (conclusions) to Company's Boards of Directors in the sphere of audit and reports of the Company. The Committee performed its activity in accordance with Regulations on Audit Committee Attached to "IDGC of the South", JSC Board of Directors approved by the decision of Board of Directors of the Company on 23.08.2012 (minutes of meeting No.94/2012 dd 24.08.2012) (published at corporate webpage).

**The following composition of the Committee elected at the meeting of "IDGC of the South" JSC Board of Directors dd.02.08.2013 was valid in the Company till 21.04.2014** (Minutes of meeting No.112/2013 dd. 05.08.2013):

name	work place and position held as of the moment of electing
<b>Shatokhina Oksana Vladimirovna</b> , Chairperson of the Committee	Deputy Director General in charge of economics and finance of "Rosseti" JSC
<b>Gurevich Dmitriy Mikhailovich</b>	Advisor of Director General of "Rosseti" JSC
<b>Korsunov Pavel Yurievich</b>	Deputy Director General on charge pf investment development of "Rosseti" JSC
<b>Solod Aleksandr Viktorovich</b>	Director General of "FGC UES" JSC branch – Bulk power systems of South
<b>Filkin Roman Alekseevich</b>	Co-director (power industry, machine construction) of representative office of Prosperity Capital Management Ltd

	(RF)
<b>Shevchyuk Aleksandr Viktorovich</b>	Deputy executive director of Non-profit partnership Association of Professional investors' rights protection
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors' rights protection

**Composition of the Committee elected at “IDGC of the South” JSC Board of Directors meeting dd. 21.04.2014 (Minutes of meeting No.131/2014 dd. 23.04.2014):**

name	work place and position held as of the moment of electing
<b>Serebryakov Konstantin Sergeevich, Chairperson of the Committee</b>	Head of Directorate for corporate events at affiliated and subsidiaries, Corporate governance and shareholders relations department, “Rosseti” JSC
<b>Airapetyan Arman Mushegovich</b>	Head of department of audit and property management at “Rosseti” JSC
<b>Terekhov Dmitriy Yurievich</b>	Head of Directorate of budgeting of Department of economic planning and budgeting of “Rosseti” JSC
<b>Shaidullin Farit Gabdulfatovich</b>	Head of Directorate for assets state analysis at Production assets management department of “Rosseti” JSC
<b>Shevchyuk Aleksandr Viktorovich</b>	Deputy executive director of Non-profit partnership Association of Professional investors' rights protection
<b>Filkin Roman Alekseevich</b>	Co-director (power industry, machine construction) of representative office of Prosperity Capital Management Ltd (RF)
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors' rights protection

**Composition of the Committee elected at “IDGC of the South” JSC Board of Directors meeting dd. 31.07.2014 (Minutes of meeting No.140/2014 dd. 04.08.2014):**

name	work place and position held as of the moment of electing
<b>Serebryakov Konstantin Sergeevich, Chairperson of the Committee</b>	Head of Directorate for corporate events at affiliated and subsidiaries, Corporate governance and shareholders relations department, “Rosseti” JSC
<b>Airapetyan Arman Mushegovich</b>	Head of department of audit and property management at “Rosseti” JSC
<b>Terekhov Dmitriy Yurievich</b>	Head of Directorate of budgeting of Department of economic planning and budgeting of “Rosseti” JSC
<b>Piotrovich Nikolai Borisovich</b>	Deputy head of Directorate for arrangement of management bodies' activity of “Rosseti” JSC
<b>Filkin Roman Alekseevich</b>	Co-director (power industry, machine construction) of representative office of Prosperity Capital Management Ltd (RF)

<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors' rights protection
<b>Shevchyuk Aleksandr Viktorovich</b>	Executive director of Non-profit partnership Association of Professional investors' rights protection

All members of the Committee are the members of Company's BoD.

The Audit Committee of the Company's BoD composed by independent directors who have experience and knowledge in sphere of preparation, analysis, appraisal and audit accounting (financial) report:

name	work place and position held as of the moment of electing
<b>Filkin Roman Alekseevich</b>	Co-director (power industry, machine construction) of representative office of Prosperity Capital Management Ltd (RF)
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors' rights protection
<b>Shevchyuk Aleksandr Viktorovich</b>	Executive director of Non-profit partnership Association of Professional investors' rights protection

During 2014 the Company's BoD considered issues of organization, operation and effectiveness of risks control and internal control systems.

#	Number and date of Minutes of meeting of Board of Directors	Issue	Adopted decision
1	Minutes of meeting No.132/2014 dd. 05.05.2014	On consideration the report of "IDGC of the South" JSC on key risks of the Company in 2013.	To approve the report on key risk of the Company in 2013 in accordance with Appendix 1 to present decision of Company's BoD.
2	Minutes of meeting No.142/2014 dd. 08.09.2014	On priority areas of activity of the Company: on upgrading of risks control and internal control systems, development of internal audit functions.	<ol style="list-style-type: none"> <li>1. To determine the upgrading of risks control and internal control systems, development of internal audit functions as priority areas of activity of the Company.</li> <li>2. To approve the updated Policy of internal control of "IDGC of the South" in accordance with Appendix 1 to present decision,</li> <li>3. To instruct Director General of the Company: <ol style="list-style-type: none"> <li>3.1. To provide the implementation of statements of Policy of internal control of "IDGC of the South".</li> <li>3.2. To provide the submission for consideration by Company's BoD the following issue: "On considering the Report on effectiveness of internal control system of the Company in 2014". Deadline: 31.03.2015.</li> <li>3.3. To provide the submission for</li> </ol> </li> </ol>

			<p>consideration by Company's BoD the following issue: "On considering the Report on effectiveness of internal control and risks management system of the Company".</p> <p>Deadline: every year no later than March 31<sup>st</sup>, starting on the report for 2015.</p> <p>4. To consider as invalid paragraph 4 of "IDGC of the South" JSC BoD decision dd. 02.08.2013 on issue 29 (Minutes No. 112/2013 dd. 05.08.2013).</p>
3	Minutes of meeting No.142/2014 dd. 08.09.2014	On approving of updated Policy of risks management of "IDGC of the South" JCS.	<p>1. To approve the updated Policy of risks management of "IDGC of the South" JSC in accordance with Appendix 2 to present decision.</p> <p>2. To instruct Director General of the Company:</p> <p>2.1. To provide the implementation of statements of the Policy of risks management of "IDGC of the South" JSC.</p> <p>2.2. To provide the inclusion in job descriptions of employees of the Company and (or) regulatory and administrative documents of the Company, specifying authorities of deputies Director General of the Company and heads of structural subdivisions of the Company complying to Company's Director General, the following functions:</p> <ul style="list-style-type: none"> <li>- organization of effective control environment of supervised processes (Company's activity areas);</li> <li>- providing of effectiveness of achieving of operational goals of supervised processes (Company's activity areas)</li> <li>- providing of systematic risks status monitoring of supervised processes (Company's activity areas);</li> <li>- providing of timely risks updating of supervised processes (Company's activity areas);</li> <li>- providing of implementation of quarterly analysis and arranging of factors connected with carrying out of risks of supervised processes (Company's activity areas);</li> <li>- organization of elaboration and adoption of measures on risks management of supervised processes (Company's activity areas).</li> </ul> <p>2.3. To provide the submission for consideration by Company's BoD the following issue: "On approving the Registry of key operational risks of the Company", with assignment of risks owners (with preliminary consideration and approval of Registry at the</p>

			<p>meeting of Company's BoD Audit Committee).</p> <p>Deadline: 30.09.2014.</p> <p>2.4. To provide the approval in the Company "The Registry of operational risk of main business-processes of the Company", with assignment of risks owners at least deputy Director General and (or) head of Company's subdivision complying to Company's Director General (with preliminary consideration and approval of risks owners at the meeting of Company's BoD Audit Committee).</p> <p>Deadline: 30.09.2014.</p> <p>2.5. To provide the approval in the Company "The Registry of operational risks of other Company's business processes", with assignment of risks owners at least deputy Director General and (or) head of Company's subdivision complying to Company's Director General (with preliminary consideration and approval of risks owners at the meeting of Company's BoD Audit Committee).</p> <p>Deadline: 31.12.2014.</p> <p>2.6. To organize the preparation and quarterly submission for consideration by Company's management board the following issue: "On consideration the Report of risks owners on management of operational risks of the Company".</p> <p>Deadline: every three months, no later than 30<sup>th</sup> day of month next of the reported quarter.</p> <p>2.7. To organize the preparation and provide the submission for consideration of Company's BoD Audit Committee the following issue: "On consideration the Report of Director General of the Company on management of key operational risks of the Company for the 1<sup>st</sup> half of the year of the reporting year".</p> <p>Deadline: every year, no later than August 31<sup>st</sup>.</p> <p>2.8. To organize the preparation and provide the submission for consideration of Company's BoD Audit Committee the following issue: "On consideration of the Report of Director General of the Company on management of key operational risks of the Company for year" (with preliminary consideration the Report at the meeting of Audit Committee of Company's BoD).</p> <p>Deadline: every year, no later than March 31<sup>st</sup>, starting from 2015.</p> <p>2.9. To consider as invalid paragraph 3 of decision of "IDGC of the South" JSC BoD dd.</p>
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			02.08.2013 on issue 29 (Minutes No. 112/2013 dd. 05.08.2013).
4	Minutes of meeting No.142/2014 dd. 08.09.2014	On approving the Policy of internal audit of "IDGC of the South" JSC.	1. To approve the Policy of internal audit of "IDGC of the South" JSC in accordance with Appendix 3 to present decision. 2. To instruct Director General of the Company: 2.1. To provide the implementation of statements of Policy of internal audit of "IDGC of the South" JSC. 2.2. To organize the preparation and provide the submission for consideration at the meeting of Company's BoD results of evaluation of work quality of internal audit function as part of consideration of the Report on effectiveness of internal control and risks management of the Company. Deadline: every year, no later than March 31 <sup>st</sup> , starting from 2015.
5	Minutes of meeting No.145/2014 dd. 20.10.2014.	On approving the Registry of key operational risks of "IDGC of the South" JSC	To approve the registry of key operational risks of the Company with assignment of risks owners in accordance with Appendix 2 to present decision of Company's BoD.

### **Information on Committee's activity and main decisions:**

13 (12 - in absentee form, 1 – in form of joint presence) meetings of Audit Committee of "IDGC of the South" JSC Board of Directors were held in the reporting year, where 53 issues were considered.

The Audit Committee of Board of Directors considered the following issues in 2014:

- The issues of effectiveness of risks management and internal control systems;
- The Committee considered scope of work and terms and condition of tender on chosen of external auditor;
- The candidate for the position of external auditor for implementation of audit of accounting report for 2014 prepared in accordance with RAS and audit of consolidated financial report for year ended 31.12.2014 prepared in accordance with IFRS was considered;
- The reports of subdivisions of internal audit and risks management on implementation of work plan in third quarter of 2014, second quarter of 2014, first quarter of 2014 and fourth quarter of 2013 were considered;

- The reports of Sole executive body on Company’s risks for the first half year of 2014 and for 2013 were considered;
- The evaluation of auditor’s report confirming the authenticity of yearly accounting (financial) report of the Company was implemented.

No.	Number and date of Minutes of meeting of Board of Directors	Issue	Adopted decision
1	Minutes of meeting No.28 dd. 11.03.2014	On consideration the report of Department of internal audit and risks management of the Company on implementation of work plans for the 4 <sup>th</sup> quarter of 2013 and for the whole 2013.	<p>1. To take into consideration the report of Department of internal audit and risks management of the Company on implementation of work plans for the 4<sup>th</sup> quarter of 2013 and for 2013 in accordance with Appendix 1 to present decision of Audit Committee of Company’s BoD.</p> <p>2. To note the growth of overdue receivable in the period from 01.04.2013 to 30.09.2013 that amounted 1 293 mln. rubles or 24.8%.</p> <p>3. To instruct Director General of the Company:</p> <ul style="list-style-type: none"> <li>- to regulate the activity of working group on accounts receivable and accounts payable with authorization of rights, powers and responsibilities of working group members;</li> <li>- to make an inventory of expenses taking into consideration on account 08 “Investments in non-current assets” and to analyse further plans on construction and putting into operation the facilities of construction in progress more than 5 years. Results of inventory should be presented in financial report.</li> </ul> <p>To report at the meeting of Audit Committee on planned events with the report of Director General on elimination of violations detected by the results of inspection implemented by Department of internal audit and risks management in 2013.</p>
2	Minutes of meeting No.29 dd. 28.03.2014.	On consideration the report of internal auditor on effectiveness of internal control and risks management system	1. To take into account the Report of Department of internal audit and risks management on effectiveness of internal control and risks management system of the Company by the results of 2013 and “medium” maturity level of the System of internal control and risks

			<p>management of the Company.</p> <p>2. To recommend Company's Board of Directors to approve the Report of Department of internal audit and risks management on evaluation of system of internal control and risks management of the Company in 2013.</p> <p>3. To recommend Director General of the Company to develop and provide the implementation of action plan on development and updating of internal control and risks management system.</p>
3	Minutes of meeting No.29 dd. 28.03.2014	On consideration the report on key risks of the Company in 2013	<p>1. To take into consideration the report on key risks of "IDGC of the South" JSC in 2013.</p> <p>2. To recommend "IDGC of the South" JSC Board of Directors to approve the report on key risks of the Company in 2013.</p>
4	Minutes of meeting No. 30 dd. 17.04.2014	On consideration the candidate for the position of external auditor of the Company for implementation of audit of accounting report of the Company for 2014, carried out in accordance with RSA and audit of consolidated financial report for year ended 31.12.2014 carried out in accordance with IFRS.	To recommend Company's Board of Directors to represent for approval at the annual meeting of shareholders of the Company the candidature of "Ernst & Young" LLC (TIN/Tax Registration Code 7709383532/770501001, legal address: building 1, 77, Sadovnicheskaya naberezhnaya, Moscow, Russia 115035) as auditor of the Company for implementation of audit of accounting report of the Company for 2014 carried out in accordance with RSA and audit of consolidated financial report for year ended 31.12.2014, carried out in accordance with IFRS.
5	Minutes of meeting No.31 dd. 29.04.2014	On evaluation of Audit Committee the Auditor's report on accounting (financial) report of the Company for 2013 carried out in accordance with RSA.	<p>1. To consider the Auditor's report and procedures implemented by "KPMG" CJSC during audit of accounting (financial) report of the Company for 2013, satisfying the requirements of contract and legislation of Russian Federation.</p> <p>2. To approve the evaluation (by Audit Committee of "IDGC of the South" BoD) of the Auditor's report implemented by "KPMG" CJSC on accounting report of the Company for 2013, carried out in accordance with Russian standards of accounting report, according to Appendix 3 to present decision of Audit Committee of</p>

			<p>Company's BoD.</p> <p>3. To recommend to include the evaluation by Audit Committee of Auditor's report carried out by "KPMG" CJSC in information (materials) to annual meeting of shareholders of the Company in accordance with Appendix 3 to present decision of Audit Committee of Company's BoD.</p>
6	Minutes of meeting No. 32 dd. 07.05.2014	On consideration the report of subdivision of internal audit and risks management on implementation of action plan in the 1 <sup>st</sup> quarter of 2014	<p>1. To take into consideration the report of Department of internal audit and risks management of the Company on implementation of action plan for the 1<sup>st</sup> quarter of 2014 in accordance with Appendix 1 to present decision of Audit Committee of Company's Board of Directors.</p> <p>2. To recommend Director General of the Company to control the development and approving of Event plans on elimination of violations found by audit committees of subsidiaries and affiliates of "IDGC of the South" JSC.</p>
7	Minutes of meeting No. 35 dd. 15.08.2014	On priority areas of activity of the Company: upgrading of internal control and risks management system, development of internal audit function.	<p>To recommend "IDGC of the South" JSC Board of Directors to adopt the following decisions:</p> <p>1. To assign the updating of internal control and risks management system, development of internal audit function as priority area of activity of the Company.</p> <p>2. To approve the updated Policy of internal control of "IDGC of the South" JSC in accordance with appendix.</p> <p>3. To instruct Director General of the Company:</p> <ul style="list-style-type: none"> <li>– to provide the implementation of requirements of Policy of internal control of "IDGC of the South" JSC;</li> <li>– to provide the submission for consideration of Company's BoD the following issue: "On consideration the Report on internal control system effectiveness of the Company in 2014". Deadline: 31.03.2015.</li> <li>– to provide the submission for consideration of Company's BoD the following issue: "On consideration the Report on internal control and risks management of the Company". Deadline: every year no later than</li> </ul>

			March 31 <sup>st</sup> , starting from the report for 2015.
8	Minutes of meeting No. 36 dd. 02.09.2014	On consideration the Report of Department of internal audit and risks management of the Company on implementation of action plan in the 2 <sup>nd</sup> quarter of 2014 and results of activity of internal audit.	To take into consideration the Report of Department of internal audit and risks management of the Company on implementation of action plan in the 2 <sup>nd</sup> quarter of 2014 and results of activity of internal audit in accordance with Appendix 4 to present decision of the Committee.
9	Minutes of meeting No. 37 dd. 25.09.2014	On consideration the report of Sole executive body on risks of the Company for the 1 <sup>st</sup> half year of 2014.	To take into consideration the report of Sole executive body on risks of the Company for the 1 <sup>st</sup> half year of 2014 in accordance with Appendix 2 to present decision of the Committee.
10	Minutes of meeting No. 39 dd. 05.12.2014	On consideration the report of subdivision of internal audit and control on implementation of action plan in the 3 <sup>rd</sup> quarter of 2014 and on the results of activity of internal audit.	To take into consideration the report of Department of internal audit and control on implementation of action plan in the 3 <sup>rd</sup> quarter of 2014 and on the results of activity of internal audit in accordance with Appendix 1 to present decision of the Committee.
11	Minutes of meeting No.40 dd. 25.12.2014	On approving of documents for implementation of purchasing procedures at the choice of external auditor on the right of contract conclusion on rendering of auditing services.	1. To approve basic conditions specified for implementation of purchasing procedures at the choice of external auditor on right of contract conclusion on rendering services of audit report of the Company for 2015-2017 in accordance with Appendix 2 to present decision of the Audit Committee including maximum price of purchase in the amount 10 830.00 thousand rubles, including VAT. 2. To recommend the Company to implement purchasing procedures at the choice of external auditor on the right to conclude the contract on rendering of services of every year audit of report of the Company for 2015-2017 by participating in open competitive tender organized by “Rosseti” JSC.

**Personnel and Remuneration Committee at Board of Directors of “IDGC of the South” JSC**

Personnel and Remuneration Committee is an advisory committee providing effective implementation functions of Company's Board of Directors on administrative issues.

The task of the Committee is to work out recommendations (conclusions) to Board of Directors on the following activities: elaboration of principals and criteria of remunerations to Members of Board of Directors, Members of Collegiate Body and CEO; elaboration of offers on determining essential terms of contracts with Board of Directors members, members of collegiate body carrying out functions of sole executive body of the Company;

The Competence, procedure of convening and holding of meeting of the Committee were described in updated Charter of the Human Resources and Remuneration Committee of "IDGC of the South" JSC Board of Directors approved by decision of Company's BoD dd. 31.07.2014 (Minutes No. 140/2014 dd. 04.08.2014) and released on corporate web-site of the Company.

The following composition of the committee elected at the meeting of "IDGC of the South" JSC dd. 02.08.2013 (Minutes No. 112/2013 dd. 05.08.2013) was acted up to 21.04.2014:

name	work place and position held as of the moment of electing
<b>Mangarov Yuri Nikolaevich, Chairperson of the Committee</b>	Deputy Director General – head of Main office of "Rosseti"
<b>Chevkin Dmitriy Aleksandrovich</b>	Head of Personnel and organization development department of "Rosseti" JSC
<b>Erpsher Natalia Ilinichna</b>	Head of Directorate of organization development at Personnel and organization development department of "Rosseti" JSC
<b>Grednyova Svetlana Borisovna</b>	Head of Department of staff management and organizational planning of "FGC UES" JSC
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors

<b>Shevchyuk Aleksandr Viktorovich</b>	Executive director of Association of Professional investors
<b>Filkin Roman Alekseevich</b>	Co-director (power industry, machine construction) of representative office of Prosperity Capital Management Ltd (RF)

**Composition of the Committee elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 21.04.2014 (Minutes No. 131/2014 dd. 23.04.2014):**

name	work place and position held as of the moment of electing
<b>Zholnerchik Svetlana Semyonovna, Chairperson of the Committee</b>	Deputy Director General of “Rosseti” JSC
<b>Chevkin Dmitriy Aleksandrovich</b>	Head of Personnel and organization development department of “Rosseti” JSC
<b>Erpsheer Natalia Ilinichna</b>	Head of Directorate of organization development at Personnel and organization development department of “Rosseti” JSC
<b>Yakubovskaya Yelena Igorevna</b>	Head of Directorate for personnel records and interaction with managers at Personnel and organization development department “Rosseti” JSC
<b>Shevchyuk Aleksandr Viktorovich</b>	Executive director of Association of Professional investors
<b>Filkin Roman Alekseevich</b>	Co-director (power industry, machine construction) of representative office of Prosperity Capital Management Ltd (RF)
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors

**Composition of the Committee elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 31.07.2014 (Minutes No. 140/2014 dd. 04.08.2014):**

name	work place and position held as of the moment of electing
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<b>Zholnerchik Svetlana Semyonovna, Chairperson of the Committee</b>	Deputy Director General of “Rosseti” JSC
<b>Chevkin Dmitriy Aleksandrovich</b>	Head of Personnel and organization development department of “Rosseti” JSC
<b>Erpsher Natalia Ilinichna</b>	Head of Directorate of organization development at Personnel and organization development department of “Rosseti” JSC
<b>Yakubovskaya Yelena Igorevna</b>	Head of Directorate for personnel records and interaction with managers at Personnel and organization development department “Rosseti” JSC
<b>Filkin Roman Alekseevich</b>	Co-director (power industry, machine construction) of representative office of Prosperity Capital Management Ltd (RF)
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Shevchyuk Aleksandr Viktorovich</b>	Executive director of Association of Professional investors

**Information on Committee’s activity and decisions:**

In the reported year there were 10 meetings of the Committee (in absentee form) where 24 issues were considered.

The Personnel and Remuneration Committee considered the following issues in 2014:

- the project of organizational structure of the Company was considered;
- preliminary adopted candidates for the positions specified by Company’s Board of Directors;
- candidates for the position of deputy Director General of the Company were considered and appropriate recommendations for Company’s Board of Directors were prepared;
- the projects of internal documents of the Company were preliminary considered.

#	Number and date of Minutes of	Issue	Adopted decision
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	meeting of Board of Directors		
1	Minutes No.52 dd. 11.06.2014.	On consideration the candidates for the position of deputy director general of the Company and preparation of appropriate recommendations for Company's Board of Directors.	To recommend "IDGC of the South" JSC Board of Directors to elect Ebzeev Boris Borisovich for the position of deputy Director General of "IDGC of the South" JSC.
2	Minutes No.54 dd. 03.09.2014.	On preliminary approving of the candidates for the positions specified by Company's BoD.	To recommend Company's BoD to adopt the following decision: To approve the candidature of Sergei Valerivich Nikologorskiy for the position of deputy Director General in charge of development and services rendering of "IDGC of the South" JSC.
3	Minutes No.55 dd. 29.09.2014	On preliminary approving of the candidates for the positions specified by Company's BoD.	To recommend Company's BoD to adopt the following decision: To approve the candidature of Chekmaryov S.A. for the position of deputy Director General – Director of "IDGC of the South" branch "Rostovenergo" JSC.
4	Minutes No.55 dd. 29.09.2014	On preliminary approving of the candidates for the positions of executive body, specified by Company's BoD.	To recommend Company's BoD to adopt the following decision: To approve the candidature of Musinov Oleg Valerievich for the position of deputy Director General in charge of corporate management of "IDGC of the South" JSC.
5	Minutes No.57 dd. 20.11.2014	On preliminary approving of the candidates for the positions of executive body, specified by Company's BoD.	To recommend Company's BoD to adopt the following decision: To approve the candidature of Ivanov Yuri Vyacheslavovich for the position of Director General in charge of investment activity of "IDGC of the South" JSC.
6	Minutes No.58 dd. 17.12.2014	On approving the internal document of the Company:	To recommend Company's BoD to adopt the following decision: To approve Personnel and Social

		Personnel and Social policy of “IDGC of the South” JSC.	policy of “IDGC of the South” JSC in accordance with Appendix 1 to present decision of Company’s BoD.
7	Minutes No.58 dd. 17.12.2014	On considering the Regulation on personnel reserve of “IDGC of the South” JSC.	To recommend Director General of the Company to approve the Regulation on personnel reserve of “IDGC of the South” JSC in accordance with Appendix 2 to present decision of Personnel and Remuneration Committee of the Company.

The competence and procedure for convening and holding meetings of the Committee defined by the Regulations on the Committee for Strategy, Development, Investments and Reform of “IDGC of the South” Board of Directors approved by decision of Company’s BoD dd. 01.12.2009 (Minutes No. 37/2009 dd. 04.12.2009) and released at the corporate web-site of the Company.

**Composition of the Committee acted till 21.04.2014 elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 02.08.2013 (Minutes No. 112/2013 dd. 05.08.2013):**

name	work place and position held as of the moment of electing
<b>Lisavin Andrei Vladimirovich, Chairperson of the Committee</b>	Head of Directorate of strategy implementation of the Department of strategical development of “Rosseti” JSC
<b>Tsymbal Sergei Ilich</b>	Deputy head of Department of information and business technologies of “Rosseti” JSC
<b>Balaeva Svetlana Aleksandrovna</b>	Head of Department of investment activity of “Rosseti” JSC
<b>Lavrova Marina Aleksandrovna</b>	Head of economic directorate of Department of economic planning and budgeting of “Rosseti” JSC
<b>Iordanidi Kirill Aleksandrovich</b>	Lead expert of strategic planning directorate of Department of strategical development of “Rosseti” JSC
<b>Serebryakov Konstantin Sergeevich</b>	Head of Directorate for corporate events at affiliated and dependent companies, Corporate governance and shareholders relations department, Rosseti, JSC

<b>Korolyov Mikhail Aleksandrovich</b>	Deputy Director General in charge of capital construction of “IDGC of the South” JSC
<b>Rybin Aleksei Aleksandrovich</b>	Deputy Director General in charge of economics and finance of “IDGC of the South” JSC
<b>Shevchyuk Aleksandr Viktorovich</b>	Executive director of Association of Professional investors
<b>Filkin Roman Alekseevich</b>	Co-director (power industry, machine construction) of representative office of Prosperity Capital Management Ltd (RF)
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Bashindzhagyan Astkhik Artashesovna</b>	Consultant of corporate management office of Department of corporate management, price policy, control and audit work in the sectors of Fuel and Energy Complex of Energy Ministry of Russia.

**Composition of the Committee elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 21.04.2014 (Minutes No. 131/2014 dd. 23.04.2014):**

<b>name</b>	<b>work place and position held as of the moment of electing</b>
<b>Lisavin Andrei Vladimirovich, Chairperson of the Committee</b>	Head of Directorate of strategy implementation of the Department of strategical development of “Rosseti” JSC
<b>Lavrova Marina Aleksandrovna</b>	Head of economic directorate of Department of economic planning and budgeting of “Rosseti” JSC
<b>Iordanidi Kirill Aleksandrovich</b>	Lead expert of strategic planning directorate of Department of strategical development of “Rosseti” JSC
<b>Serebryakov Konstantin Sergeevich</b>	Head of Directorate for corporate events at affiliated and dependent companies, Corporate governance and shareholders relations department, Rosseti, JSC
<b>Rybin Aleksei Aleksandrovich</b>	Deputy Director General in charge of economics and finance of “IDGC of the South” JSC
<b>Shevchyuk Aleksandr Viktorovich</b>	Executive director of Association of Professional investors
<b>Filkin Roman</b>	Co-director (power industry, machine construction)

<b>Alekseevich</b>	of representative office of Prosperity Capital Management Ltd (RF)
<b>Balaeva Svetlana Aleksandrovna</b>	Head of Department of investment activity of “Rosseti” JSC
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Serov Aleksei Yurievich</b>	Head of strategic investment office of Department of corporate finances of “Rosseti” JSC

**Composition of the Committee elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 31.07.2014 (Minutes No. 140/2014 dd. 04.08.2014):**

<b>name</b>	<b>work place and position held as of the moment of electing</b>
<b>Terebkov Fyodor Alekseevich, Chairperson of the Committee</b>	Head of Capital markets and structured financing directorate of “Rosseti” JSC
<b>Lisavin Andrei Vladimirovich</b>	Head of Directorate of strategy implementation of the Department of strategical development of “Rosseti” JSC
<b>Rakov Aleksei Viktorovich</b>	Head of Department of energy selling activity and interaction with participants of wholesale electricity market of “Rosseti” JSC
<b>Savvin Yuri Aleksandrovich</b>	Deputy head of Economics of Affiliates at Department of economic planning and budgeting of “Rosseti” JSC
<b>Balaeva Svetlana Aleksandrovna</b>	Head of Investments department at “Rosseti” JSC
<b>Serebryakov Konstantin Sergeevich</b>	Head of Directorate for corporate events at affiliated and dependent companies, Corporate governance and shareholders relations department, Rosseti, JSC
<b>Rybin Aleksei Aleksandrovich</b>	Deputy Director General in charge of economics and finance of “IDGC of the South” JSC
<b>Shevchyuk Aleksandr Viktorovich</b>	Executive director of Association of Professional investors
<b>Filkin Roman</b>	Co-director (power industry, machine construction)

<b>Alekseevich</b>	of representative office of Prosperity Capital Management Ltd (RF)
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors

The authorities of Lisavin Andrei Vladimirovich, member of Committee on strategy, development, investments and reforming of Company's BoD were terminated by the decision of Company's BoD dd. 21.11.2014 (Minutes No.147/2014 dd. 24.11.2014). Vodolatskiy Pavel Viktorovich, head of Directorate on work with problem account receivable of "Rosseti" JSC was elected for the position of member of Committee on strategy, development, investments and reforming of Company's BoD.

#### **Information on Committee's activity and main decisions:**

In the reported year there were 16 meetings of the Committee (2 meetings in absentee form) where 60 issues were considered.

The Committee considered issues and made recommendations to Board of Directors on approving of priority areas of activity of the Company.

#	Number and date of Minutes of meeting of Board of Directors	Issue	Adopted decision
1	Minutes No.69 dd. 29.04.2014.	On priority areas of activity of "IDGC of the South" JSC: on reasonability of using of recommendations on management of rights on results of intellectual activity.	To recommend Company's BoD to adopt the following decision. 1. To consider the usage of methodological recommendations on rights management on the intellectual activity results developed by Russian Ministry of Economic Development as reasonable. 2. Director General of the Company should take into account the methodological recommendations on rights management on the intellectual activity results during preparation of the events on introduction of system of intellectual property

			management of “IDGC of the South” JSC.
2	Minutes No.71 dd. 10.06.2014.	On priority areas of activity of “IDGC of the South” JSC: on certification of equipment, materials and systems at facilities of “IDGC of the South” JSC.	To recommend Company’s BoD to adopt the following decision. 1. To instruct Director General of the Company to implement and provide operating in “IDGC of the South” JSC the Commission on certification of electric equipment and materials. Deadline: 2 <sup>nd</sup> quarter of 2014 2. To instruct Director General of the Company to develop and approve Rules and Procedures of work of Commission on certification of electric equipment, materials and systems.
1 4	Minutes No.72 dd. 29.08.2014	On priority areas of activity of the Company: on providing the availability of energy infrastructure and quality of technological connection to electric networks of the Company.	To recommend members of Company’s BoD: 1. To define the providing of availability of energy infrastructure and quality of technological connection to electric networks of the Company as priority area of activity of the Company. 2. To approve the methodological instructions on defining power reserve at main substations of the Company in accordance with Appendix 1 to present decision of Committee for Strategy, Development, Investments and Reform of Company’s Board of Directors. 3. To approve “Standard form of work statement on development of programme of 35kV and more electric networks development on the territory of Russian Federal subjects for five-year period” in accordance with Appendix 2 to present decision of Committee for Strategy, Development, Investments and Reform of

			<p>Company's Board of Directors.</p> <p>4. To approve "Standard documents on technological connection" (hereafter – Standards documents) in accordance with Appendixes 3, 4, 5, 6, 7 to present decision Committee for Strategy, Development, Investments and Reform of Company's Board of Directors.</p> <p>5. To instruct sole executive body of the Company:</p> <p>5.1. To provide the preparation of projects of work statements on development of Complex programme of development of 35kV and more electric networks development on the territory of Russian Federal subjects for five-year period using standard form specified in paragraph 3 of present decision of Company's BoD;</p> <p>5.2. To provide the preparation of projects of Agreements on cooperation of parties to the moment of conclusion of Agreement on technological connection on individual project, projects of Agreements on implementation of technological connection to electric networks of minimum capacity 670 kV, projects of technical conditions for technological connection to electric networks using standard documents approved in paragraph 4 of present decision of Company's BoD, and compliance with the requirements of current legislation (while conclusion the Agreements and Contract specified in this paragraph of decision).</p>
4	Minutes No.74 dd.	On priority areas of activity of the	To recommend members of Board of Directors to adopt the

	<p>18.09.2014</p>	<p>Company: on delegation the authorities of sole executive body from “Donenergo” JSC to “IDGC of the South” JSC.</p>	<p>following decision:</p> <ol style="list-style-type: none"> <li>1. To define the exercise of authority of Sole executive body of “Donenergo” JSC as priority area of activity of “IDGC of the South” JSC.</li> <li>2. To approve the agreement on delegation the authorities of sole executive body from “Donenergo” JSC to management company. The Agreement concluded between “IDGC of the South” JSC and “Donenergo” JSC (hereafter - Agreement) on the following conditions: <ul style="list-style-type: none"> <li><b>Parties of the Agreement:</b> <ul style="list-style-type: none"> <li>Management company – “IDGC of the South” JSC;</li> <li>The Company – “Donenergo” JSC.</li> </ul> </li> <li><b>Subject of Agreement:</b> <ul style="list-style-type: none"> <li>The Company delegates and management company accepts and undertakes to exercise authorities (rights and duties), that are the competence of sole executive body of the Company, including: <ol style="list-style-type: none"> <li>1. To manage Company’s business;</li> <li>2. To act on behalf of the Company including act for the Company in Russian Federation and abroad, in cooperation with state government bodies and local government bodies, and in cooperation with other legal bodies and natural persons;</li> <li>3. To represent interests of the Company in judicial, administrative and law enforcement bodies;</li> <li>4. To implement transactions on behalf of the Company in compliance with orders and</li> </ol> </li> </ul> </li> </ul> </li> </ol>
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		<p>limitations provided by legislation of the Russian Federation, Regulation and internal documents of the Company;</p> <p>5. Open and close in banks and other credit organizations (and in cases prescribed by law in organizations - professional participants of the securities market) current accounts and other types of accounts of the Company;</p> <p>6. To approve structure and schedule of the Company, publish orders and give instructions binding for implementation by all employees of the Company;</p> <p>7. To conclude employment contracts with workers of the Company, to stimulate and set punishments to employees according to the procedure established by Labour legislation of the Russian Federation;</p> <p>8. To approve local normative acts of the Company (provisions, regulations, standards and duty instructions);</p> <p>9. Administrate the property of the Company in compliance with order and within the limits established by current legislation of the Russian Federation, Regulations and internal documents of the Company;</p> <p>10. To give power of attorney on behalf of the Company;</p> <p>11. To submit for approval by Board of Directors the candidatures of Company's branches heads;</p> <p>12. To exercise other rights and implement other responsibilities constituting the competence of sole executive body of the Company, provided by legislation of the</p>
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		<p>Russian Federation, Regulation of the Company, decisions of general meeting of the shareholders and Company's BoD, internal documents of the Company, local normative acts of the Company and Agreement, excluding rights and responsibilities placed by legislation of the Russian Federation, Regulation and internal documents of the Company to the competence of general meeting of the shareholders of the Company or Company's Board of Directors.</p> <p><b>Agreement price:</b>  For implementation by management company the authorities of sole executive body of the Company, the Company pays to management company the reward in the amount of 300 000 (three hundred thousand) rubles, including VAT (18%) in the amount of 45 762 (forty five thousand seven hundred sixty two) rubles 71 (seventy one) kopecks, on the basis of presented by management company the invoice and signed by parties act on exercise of authorities of sole executive body in accordance with form approved by Parties.</p> <p><b>Terms of Agreement:</b>  The Agreement comes into force from the moment of signing by both Parties if they preliminary received written consent of Federal Antimonopoly Service of Russian Federation (FAS of Russia) on purchasing by management company of the rights allowing to exercise functions of sole executive body of the Company.</p> <p>Terms of Agreement – 3 (three)</p>
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			<p>years from moment of its coming into operation in a manner stipulated by this Agreement.</p> <p><b>Arbitration:</b> All disputes arising out of this Agreement or in connection with it and not settled by negotiations are subjects to consideration by Commercial Court of Rostov region.</p>
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### **Reliability Committee at Board of Directors of “IDGC of the South”, JSC**

The task of the Committee at Board of Directors of “IDGC of the South” JSC is to work out and submit recommendations (conclusions) to the Company’s Board of Directors concerning assessment of investment programs and plans of repair of power facilities, analysis of their implementation in terms of observance of complex reliability requirements; quarterly informing of Board of Directors on status of fixed assets of Company’s power facilities.

The competence and procedure for convening and holding meetings of the Committee defined by the Regulations on the Reliability Committee of “IDGC of the South” JSC Board of Directors approved by decision of Company’s BoD dd. 31.07.2014 (Minutes No. 140/2014 dd. 04.08.2014) and released at the corporate web-site of the Company.

**Composition of the Committee acted till 21.04.2014 elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 02.08.2013 (Minutes No. 112/2013 dd. 05.08.2013):**

<b>name</b>	<b>work place and position held as of the moment of electing</b>
<b>Sukhov Oleg Aleksandrovich</b>	Head of situational and analytic directorate of “Rosseti” JSC
<b>Goncharov Pavel Viktorovich</b>	Deputy Director General in charge of technical issues – chief engineer of “IDGC of the South” JSC
<b>Rybin Aleksei Aleksandrovich</b>	Deputy Director General in charge of economics and finance of “IDGC of the South” JSC
<b>Korolyov Mikhail</b>	Deputy Director General in charge of capital

<b>Aleksandrovich</b>	construction of “IDGC of the South” JSC
<b>Polovnev Igor Georgievich</b>	Financial Director of Non-profit organization Association on Investors’ rights protection
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Novomlinskiy Eduard Vitalievich</b>	Deputy head of Directorate for assets state analysis at Production assets management department of “Rosseti” JSC

**Composition of the Committee elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 21.04.2014 (Minutes No. 131/2014 dd. 23.04.2014):**

name	work place and position held as of the moment of electing
<b>Shaidullin Farit Gabdulfatovich, Chairperson of the Committee</b>	Head of Directorate for assets state analysis of “Rosseti” JSC
<b>Goncharov Pavel Viktorovich</b>	Deputy Director General in charge of technical issues – chief engineer of “IDGC of the South” JSC
<b>Rybin Aleksei Aleksandrovich</b>	Deputy Director General in charge of economics and finance of “IDGC of the South” JSC
<b>Korolyov Mikhail Aleksandrovich</b>	Deputy Director General in charge of capital construction of “IDGC of the South” JSC
<b>Polovnev Igor Georgievich</b>	Financial Director of Non-profit organization Association on Investors’ rights protection
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Novomlinskiy Eduard Vitalievich</b>	Deputy head of Directorate for assets state analysis at Production assets management department of “Rosseti” JSC

**Composition of the Committee elected at the meeting of “IDGC of the South” JSC Board of Directors dd. 31.07.2014 (Minutes No. 140/2014 dd. 04.08.2014):**

name	work place and position held as of the moment of electing
<b>Shaidullin Farit</b>	Head of Directorate for assets state analysis of

<b>Gabdulfatovich, Chairperson of the Committee</b>	“Rosseti” JSC
<b>Novomlinskiy Eduard Vitalievich</b>	Deputy head of Directorate for assets state analysis of “Rosseti” JSC
<b>Goncharov Pavel Viktorovich</b>	Deputy Director General in charge of technical issues – chief engineer of “IDGC of the South” JSC
<b>Rybin Aleksei Aleksandrovich</b>	Deputy Director General in charge of economics and finance of “IDGC of the South” JSC
<b>Repin Igor Nikolaevich</b>	Deputy Executive director of Non-profit partnership Association of Professional investors
<b>Polovnev Igor Georgievich</b>	Financial Director of Non-profit organization Association on Investors’ rights protection

#### **Information on Committee’s activity and main decisions:**

In the reported year there were 4 meetings of the Committee (6 meetings in absentee form, 1 in joint attendance form) where 18 issues were considered.

The Reliability Committee considered following issues in 2014:

- Information on accident at electric grid facilities of “IDGC of the South” JSC, intermediate results of data accumulation and data building for calculating SAIDI and SAIFI, problems;
- The report of Director General on preparation of “IDGC of the South” JSC to autumn-winter period of 2014-2015;
- The report of Director General of “IDGC of the South” JSC on implementation of legal actions on establishing the reliability rate and quality of rendered services of Company’s branches.

#	Number and date of Minutes of meeting of Board of Directors	Issue	Adopted decision
1	Minutes No.31 dd. 31.10.2014.	On accident at electric grid facilities of “IDGC of the South” JSC, intermediate results of data accumulation and	1. To take into account the Report on accident at electric grid facilities of “IDGC of the South” JSC, intermediate results of data accumulation and data building

		<p>data building for calculation of SAIDI and SAIFI, problems.</p>	<p>for calculation of SAIDI and SAIFI in accordance with Appendix 1 to present decision.</p> <p>2. To instruct “IDGC of the South” JSC:</p> <p>2.1. To analyse:</p> <ul style="list-style-type: none"> <li>– accident rate (specific accident, specific loss of energy, average duration of electric energy supply interruption, economic damage) with detailed information on voltage types, types of equipment and causes of technological disturbances in Company’s branches for 9 months of 2014;</li> <li>– repeating equipment shutdowns in 6 kV networks and more in Company’s branches for the current period of 2014;</li> <li>– efficiency of developed programmes of work reliability improving of electric grid complex.</li> </ul> <p>Deadline: December 25<sup>th</sup> of 2014.</p> <p>2.2. To form (if available) offers in method of calculation of reliability index of rendered services (System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI)).</p> <p>Deadline: November 25<sup>th</sup> of 2014.</p>
2	Minutes No.30 dd. 18.09.2014	<p>On consideration the report of Director General of “IDGC of the South” JSC on implementation of normative legal acts on determining of reliability rates and quality of rendered services of Company’s</p>	<p>To recommend members of Company’s BoD when considering the report of sole executive body of the Company on implementation in the 2<sup>nd</sup> quarter of 2014 of decisions adopted at the meeting of Company’s BoD, to take into consideration the report of Director General of “IDGC of the</p>

		branches	South” JSC on implementation of normative legal acts on determining of reliability rates and quality of rendered services of Company’s branches in accordance with Appendix 3 to present decision of Company’s BoD.
3	Minutes No.33 dd. 30.12.2014	On consideration the report of Director General on preparation of “IDGC of the South” JSC to autumn-winter period of 2014-2015.	To take into account the report of Director General on preparation of “IDGC of the South” JSC to autumn-winter period of 2014-2015.

All Committees attached to Company’s Board of Directors acted on the basis of approved Activity Plans for 2014.

During the reported period chairpersons and members of the Committees organized regular working meetings with top managers of the Company, heads of departments of executive body of the Company, participating in the process of business-planning and strategy development of “IDGC of the South” JSC.

External experts were invited at meetings in presentia.

All members of the Committee agreed on disclosing of information about the in current annual report.

#### [Information on payment of remuneration \(refund of charges\) for the members of the Committees of the Board of Directors](#)

In the meeting of the Board of Directors of IDGC of the South, JSC on February 3, 2010 on all committees of the Board of Directors of the Company the respective Provisions on payment of remuneration and refund of charges for the members of the committees of the Board of Directors of IDGC of the South, JSC (Minutes No. 39/2010 dated 05.02.2010) were approved.

The total remuneration paid to the members of the Committees in 2014 год amounted to 2 594 372 rubles.

The amount of remuneration paid to the secretaries of the Committees of the Board of Directors for each meeting in the form of joint presence makes the

amount equal to 1 (one) MMTR on the day of the meeting of the Committee, in absentia — 0.5 (zero point five-tenths) of MMTR. Debts on payment of remuneration to the members of the Board of Directors by the results of work for the last completed fiscal year do not exist.

The full text of the resolutions taken in the meetings of the Committees can be found on the corporate website of IDGC of the South, JSC on the Internet at: [http://www.mrsk-yuga.ru/corporate\\_management/kom\\_sov\\_direct](http://www.mrsk-yuga.ru/corporate_management/kom_sov_direct)

### **Executive bodies of “IDGC of the South” JSC**

The management of the current activities of the Company is performed by the sole Executive body, the General Director and the collegial Executive body, the Management Board, who are accountable to the General Board of shareholders and the Board of Directors.

### **Management Board of “IDGC of the South” JSC**

The Management Board is a collegial Executive body of the Company responsible for the practical implementation of the Company’s objectives, acts for the benefit of the Company, is guided by resolutions of the BoD, in accordance with the legislation of the Russian Federation, Company’s Charter, Regulations on the Management Board “IDGC of the South” JSC approved by the resolution of the annual General meeting of Shareholders on 15 June 2011 (minutes of meeting No.5 dd 17.06.2015) and other internal regulations of the Company.

The competence of the Management Board covers the issues of Company activities in accordance with the current legislation of the Russian Federation and Article 22 of the Charter.

In accordance with paragraphs 5 of the item 22.2 of Article 22 of the Charter of “IDGC of the South” JSC, the Management Board makes decisions on issues referred to the competence of the Supreme management bodies — the General meetings of shareholders of economic entities, 100% of the authorized capital of which belongs to “IDGC of the South” JSC.

Determination of the quantitative composition of the Company Management, election of members of the Management Board of the Company, payments of



remunerations and refund of charges, early termination of their term of office are carried out by the decision of the Board of Directors of the Company. The quantitative composition of the Management Board of the Company in accordance with Item 22.3 of Article 22 of the Charter of “IDGC of the South” JSC shall not be less than 3 (three) persons.

The functions of the Secretary of the Management Board in 2014 were performed by Radchenko Ye.N., employee of the corporate governance and shareholder relations department.

### **Composition of the “IDGC of the South” JSC management board as of 31.12.2014:**

#### **Ebzeev Boris Borisovich**

Chairperson of the “IDGC of the South” JSC management board from June 16<sup>th</sup>, 2014.

#### **Director General of “IDGC of the South” JSC**

Year of birth: 1975

Citizenship: Russian Federation

Education - higher:

- Moscow State University named after M.V. Lomonosov, legal studies.
- Institute of Legislation and Comparative Jurisprudence, candidate of legal sciences.

Positions within the last 5 years:

- Deputy executive director of Pension Fund of the Russian Federation;
- Advisor of Director General of “Unified energy company” JSC.
- First deputy Director General of “IDGC of the South” JSC.
- Acting Director General, chairperson of management board of “IDGC of the South” JSC

#### **Alaev Timur Ulyumbdzhevich**

Member of “IDGC of the South” JSC management board from September 16<sup>th</sup>, 2011

## **Deputy Director General – director of “IDGC of the South” JSC branch – “Astrakhanenergo”**

Year of birth: 1971

Citizenship: Russian Federation

Education - higher:

- Novocherkassk Polytechnic Institute of Order of the Red Banner of Labour named after Sergo Ordzhonikidze, Novocherkassk, specialty – “Automatic control of electric systems”.
- State Academy of professional retraining and advanced training of administrative employees and specialists in sphere of investments on programme: “Providing of ecological safety by heads and specialists of general management systems”.
- GOUDPO Professional retraining at State Educational Institution for Continuing Professional Education Interdisciplinary Institute of Professional Retraining and Development for Managers and Specialists named after Plekhanov G.V. on Federal Programme for Managers Training: Management, specialization: “Strategic management” with right of working in sphere of “management”.

Positions within the last 5 years:

- Deputy Director General on technical issues – chief engineer of “Kalmenergo” JSC, member of management board of “IDGC of the South” JSC.
- Deputy Director General – director of “IDGC of the South” JSC branch – “Kalmenergo”.

## **Goncharov Pavel Viktorovich**

Member of “IDGC of the South” JSC management board from September 16<sup>th</sup>, 2011

## **Deputy Director General on technical issues – chief engineer of “IDGC of the South” JSC**

Year of birth: 1966

Citizenship: Russian Federation

Education - higher:

- Industrial Institute of Pavlodar, speciality “Electric systems”, qualification “Electrical engineer”.
- Volgograd Academy of State service, retraining on “State and municipal management”.
- Institute for advanced retraining of managers and specialists of power industry, program “Protection of commercial secret”.
- Professional retraining at State university of management, program “Management of energy companies in market economy” with right to perform activity in the sphere of economy and management in energy industry.
- Professional retraining at Russian Presidential Academy of National Economy and Public Administration under the President of Russian Federation on the programme “Management of Company’s Development” 2013.

Positions within the last 5 years:

- First deputy director general– chief engineer of “Astrakhanenergo” JSC.
- Deputy Director General of technical issues – chief engineer of “IDGC of the South” JSC branch – “Astrakhanenero”, member of “IDGC of the South” JSC management board.
- Deputy Director General – director of the “IDGC of the South” JSC branch – “Astrakhanenergo”.
- Member of Board of Directors of “Astrakhanelektrosetremont” JSC.
- Chairperson of “Energoservice Yuga” JSC Board of Directors.

### **Kiyok Oleg Petrovich**

Member of “IDGC of the South” JSC management board from September 30<sup>th</sup>, 2013.

### **Deputy Director General – chief of staff of “IDGC of the South” JSC**

Year of birth: 1972

Citizenship: Russian Federation

Education - higher:

- Moscow External University of the Humanities MEGU, speciality “Jurisprudence”.

- Institute of Economics and Management in healthcare and social spheres, specialization “Psychology”.
- Kuban State Agricultural University, Krasnodar.
- Professional training in All-Russian Distance Institute of Finance and Economics, “Accounting and audit”.

Positions within the last 5 years:

- Deputy Director General in charge of security in Krasnodar regional gas selling company, LLC.
- Head of Department of economic security and regime of “IDGC of the South” JSC.
- Head of Security department of “IDGC of the South” JSC.
- Deputy Chief of staff “IDGC of the South” JSC.
- Chairperson of Recreation Centre “Energetik” JSC Board of Directors.

### **Rybin Aleksey Aleksandrovich**

Member of “IDGC of the South” JSC management board from September 30<sup>th</sup>, 2013.

### **Deputy Director General in charge of economics and finances of “IDGC of the South” JSC**

Year of birth: 1972

Citizenship: Russian Federation

Education - higher:

- Kharkiv Aviation Institut named after Zhukovskiy N.E., specialization “Aircraft engines and power plants”.
- Rostov State University, specialization “Jurisprudence”.

Positions within the last 5 years:

- Deputy director – head of sector for tariff regulation in spheres of fuel and energy of Regional tariff service of Rostov region.
- Deputy director of Department for development of communal infrastructure, Director of for development of communal infrastructure Kaluga Region Development Corporation (OJSC).

- Deputy director in charge of development of investment activity and services of Federal Grid Company branch - Rostov enterprise of bulk power transmission lines.
- Acting deputy director general in charge of economics and finances of IDGC of the South JSC.

### **Savin Ilgoriy Grigorievich**

Member of “IDGC of the South” JSC management board from February 26<sup>th</sup>, 2013.

### **Chief accountant – head of department of accounting and tax audit of “IDGC of the South” JSC**

Year of birth: 1952

Citizenship: Russian Federation

Education - higher:

- Russian Distance Institute of Finance and Economics, specialization “Labour economics”.

Positions within the last 5 years:

- Chief accountant, Member of Management Board of “Kubanenergo” JSC.
- Chief accountant, Member of Management Board of “IDGC of the South” JSC.

### **Chasovskoy Aleksandr Aleksandrovich**

Member of “IDGC of the South” JSC management board from April 21<sup>st</sup>, 2014.

### **Deputy Director General in charge of security of “IDGC of the South” JSC**

Year of birth: 1957

Citizenship: Russian Federation

Education - higher.

Positions within the last 5 years:

- Head of security department of “IDGC of the South” JSC;
- Acting deputy Director General in charge of security of “IDGC of the South” JSC.

### **Chekmaryov Sergey Alekseevich**

Member of “IDGC of the South” JSC management board from September 30<sup>th</sup>, 2013.

**Deputy Director General – director of “IDGC of the South” JSC branch – “Rosotvenergo”**

Year of birth: 1976

Citizenship: Russian Federation

Education - higher:

•Novocherkassk Polytechnic Institute “Automated control of electric energy systems”.

Positions within the last 5 years:

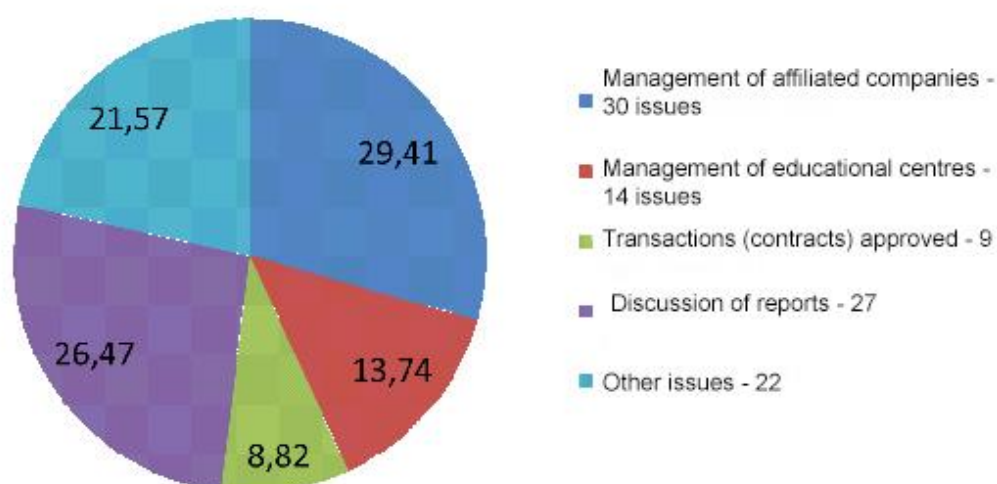
- Chief engineer of Rostovenergo branch – North-Western electric grids.
- Deputy Chief engineer of IDGC of the South JSC branch – Kalmenergo.
- Deputy Director of branch in charge of technical issues - Chief engineer of IDGC of the South JSC branch - Kalmenergo.
- Deputy Director General - director of IDGC of the South JSC branch - Kalmenergo.

Goncharov P.V., management board member, owns 236 633 ordinary shares of “IDGC of the South” JSC that amounts 0,000005% from authorized capital of the Company. Other members do not own shares of “IDGC of the South” JSC or shares of subsidiaries and affiliates of “IDGC of the South” JSC, do not have family relations with other persons who are the members of management bodies and authorities of financial and operational activities of the Company. Three members of Company’s management board agreed to disclosure the information about them in this Annual report.

**Activity of the Management Board in 2014**

During reporting year the Board held 32 meetings (11 of them are meetings in presentia), over 100 items were discussed, precisely:

## Analysis of decisions of the Management Board in 2014



Member of the Management Board	Meetings attended / meetings held during the reporting year	Period of membership
Ebzeyev Boris Borisovich	17/33	from 17.06.2014 till now
Alayev Timur Ulyumdzhevich	32/33	from 16.09.2011 till now
Goncharov Pavel Viktorovich	27/33	from 16.09.2011 till now
Savin Sergey Grigorievich	24/33	from 26.02.2013 till now
Kiek Oleg Petrovich	32/33	from 30.09.2013 till now
Rybin Alexey Alexandrovich	28/33	from 30.09.2013 till now
Chekmaryov Sergey Alexeyevich	31/33	from 30.09.2013 till now
Chasovskoy Alexandr Alexandrovich	19/33	from 21.04.2014 till now
Khramtsev Denis Vladimirovich	9/33	from 30.09.2013 till 21.04.2014
Korolyov Mikhail Alexandrovich	6/33	from 30.09.2013 till 15.08.2014
Vashkevich Vladimir Frantishkovich	14/33	from 30.05.2011 till 16.06.2014

Among the most important decisions taken by the Management Board in 2014, the following should be noted:

A model of work with guarantee suppliers on the unregistered and non-contractual electricity consumption was approved.

The draft adjusted investment programmes for 2014 and for the period until 2019 was discussed.

Goncharov P.V. was appointed Deputy Chairman of the Management Board.

Proposals to reduce administrative and management costs of the Company in 2014, including the sale of services and the branch of JSC "IDGC of South" - "Volgogradenergo" were discussed.

The operational management of the educational institution “Training center “Energetic” received part of the premises at the 1<sup>st</sup> and 2<sup>nd</sup> floors of the immovable property “Building, area 7 166.6 sq.m., liter A. Address (location): 147, 2<sup>nd</sup> Krasnodarskaya str., Rostov-on-Don, Rostov Region.

The functions of annual general meetings of shareholders of subsidiaries of the Company were performed.

The Board of Directors of “IDGC of the South” was recommended to take a decision on placement of securities of “IDGC of the South” (Exchange-traded bonds of BO-01, BO-02).

Planning parameters of the business plan of “IDGC of the South” for 2015 and the measures to achieve them were approved.

The register of operational risks of the main business processes of “IDGC of the South” JSC and the Registry key operational risks of “DGC of the South” were reviewed.

An economically sound proposal for the voluntary liquidation of “Agricultural Enterprise named after A.A. Grechko” JSC was discussed.

The members of the Board of the Company systematically examined reports on the implementation of previous decisions, monitored the activities of the Company of technological connection of consumers to electric distribution grids, including contractual obligations and general connection statistics, subject to certain groups of customers during the reporting period. In addition, the meetings of the Management Board discussed issues related to the competence of the top management bodies of business entities with 100 percent of the share capital owned by “IDGC of the South” JSC.

### **Information on remuneration (refund of charges) to members of the Management Board**

In accordance with paragraph 13 of item 15.1 article 15 of the Charter of the Company the decision on setting remuneration paid to the Management Board members is within the competence of the Board of Directors of the Company. The Management Board members are considered as top managers.



In accordance with the labour contracts between the Company and the Management Board members, the remuneration shall be paid to a Board Member in the amount and manner prescribed by the Regulation on financial incentives and the social benefits package of Top Managers of “IDGC of the South” JSC in the newest revision approved by the Board of Directors on June 16, 2011 (minutes of meeting No.67/2011 dated 16.06.2011).

**Members of the Management Board are motivated by:**

- bonus payments made in accordance with order of Company Director general, in amount up to 15% from the fixed salary of top manager;
- being quarterly and annually paid a remuneration to members of the Management Board as top managers for achieving target values of key performance indicators

On the basis of resolutions of the BoD of IDGC of the South JSC:

Minutes of meeting dated 22.05.2008 No.13/2008, Minutes of meeting dated 01.12.2008 No.20/2008, Minutes of meeting dated 11.02.2009 No.22/2009, Minutes of meeting dated 25.12.2009 No.38/2009, Minutes of meeting dated 05.02.2010 No.39/2010, Minutes of meeting dated 28.04.2010 No.44/2010, Minutes of meeting dated 28.06. 2010 No.49/2010, Minutes of meeting dated 08.07.2010 No.50/2010, Minutes of meeting dated 01.09.2010 No.53/2010, Minutes of meeting dated 29.10.2010 No.55/2010, Minutes of meeting dated 24.12.2010 No.57/2010, Minutes of meeting dated 01.06.2011 No.65/2011, Minutes of meeting dated 30.08.2011 No.71/2011, Minutes of meeting dated 19.09.2011 No.72/2011, Minutes of meeting dated 26.12.2011 No.77/2011, Minutes of meeting dated 30.07.2012 No.92/2012 Minutes of meeting dated 01.03.2013 No.104/2013, Minutes of meeting dated 03.10.2013 No.116/2013, Minutes of meeting dated 23.04.2014 No.131/2014, Minutes of meeting dated 18.08.2014 No.141/2014 on determining the amount of members of Management Board and on electing members to the Board, as well as in accordance with article 21 of the Company Charter and articles 15 and 57 of RF Labour Code additional agreements to the labour contracts are concluded with members of the

Management Board of the Company on exercising powers of members of the Collegiate Executive Body of the Company - Management Board.

From the foundation date of the Management Board of “IDGC of the South” JSC (19.05.2008) to 31.08.2011 the Management Board members received monthly remuneration in the amount of 5 (five) minimum monthly tariff rates of a first class worker, established by the industrial tariff agreement of the power industry of the Russian Federation.

Starting from 01.09.2011 members of Management Board receive monthly payments in amount of 11% from fixed top manager's salary for exercising their authorities.

Total remuneration paid to Management Board members in 2014 amounted to 64 643 531.49 rubles (personal income tax included —13 %). This amount includes the cost of compensation for participation in the Management Board meetings totaling 1 676 790.98 rubles (personal income tax included — 13%), payment of salary totaling 30 910 507.15 rubles (including personal income tax — 13%) and refund of charges of 3 656 706.56 rubles (including personal income tax — 13%).

### **Director General**

Director General is elected by the Board of Directors of the Company and is the sole executive body of the Company and the Management Board Chairman.

Rights and obligations of the Director General are specified in the legislation of the Russian Federation, the Charter and the labour contract between the Company and the Director General.

In accordance with section 23.2 article 23 of the Charter the Director General’s responsibilities include the matters of the current activities of the Company, excluding issues within the competence of the General Shareholders Meeting, the Board of Directors and the Management Board.

When exercising his/her rights and responsibilities, the Director General acts reasonably on behalf of the Company and in good faith.

Vashkevich Vladimir Vladimirovich was the Company's Director General from 14 February 2013 to 16 June 2014 (Minutes of meeting of the BoD No.103-2013 dated 18.02.2013).

According to the resolution of the Board of Directors as of 14 February 2014 (Minutes of meeting of the BoD No.103-2013 dated 18.02.2013) the Director General of the company became: **Vashkevich Vladimir Frantishkovich**, Chairperson of the Management Board (from 9 October 2012), Director General of IDGC of the South JSC. Information on Director General is available at chapter "the Board of Directors of IDGC of the South JSC" in this annual report.

On 16 June 2014 the Board of Directors decided to early terminated the powers of Vashkevich Vladimir Vladimirovich (minutes of meeting No.136/2014 dd 16.06.2014) and appoint Ebzeyev Boris Borisovich for the position of Acting Director General.

On 28 July 2014 (minutes of meeting No.139/2014 dd 31.07.2014) the Board of Directors decided to appoint starting from 29 July 2014 and for the period of three years: **Ebzeyev Boris Borisovich**, Chairperson of the Management Board (from 17 June 2012), Director General of IDGC of the South JSC.

Information on Director General is available at chapter "the Board of Directors of IDGC of the South JSC" in this annual report.

The results of resolutions on the key activities of the Company adopted by the Director General in 2014 are described in corresponding chapters of this Annual report.

### **Remuneration of Director General**

The salary and incentives of the Director General are determined by the Regulation on financial incentives of the Director General of "IDGC of the South" JSC which is an integral part of the labor contract with the Director General of the Company approved by the Board of Directors of "IDGC of the South" JSC decision (minutes of meeting No.67/2011 of June 14, 2011, updated (minutes No.85/2012 of April 26, 2012 and No.102/2012 of January 13, 2013).

The regulations on remuneration paid to the Director General of “IDGC of the South” JSC define:

- the procedure for determining, approving and changing the salary;
- the procedure of making additional allowances for employees working with information constituting a state secret;

types of bonuses:

- bonuses for achieving key performance indicators (quarterly, annual, special and additional);
- a one-time bonus payment (for completing important tasks (assignments) and in case of receiving state, departmental and corporate awards);
- decision-making procedures aimed at the implementation of the approved regulation.

Bonuses to the Director General in 2013 were paid in accordance with the results of key performance indicators assessed by the Board of Directors of the Company.

#### **Interested party transactions**

In 2014, in accordance with the requirements of the Federal Law “On Joint-Stock Companies” the Board of Directors approved 15 interested party transactions.

The list of approved by the BoD transactions of interest concluded by “IDGC of the south” JSC in 2014 are specified in Annex 5 to the Annual report.

#### **Information on major transactions**

In 2014, the Company did not conduct any major transactions that required approval of the Board of Directors or the General Shareholders Meeting in accordance with the Federal Law “On Joint-Stock Companies”.

During the reporting year, the Company did not conduct any transactions to purchase or sell shares of the Company with Management members.

### **3.2. Auditing Commission**

In order to control the financial and business activities, the General Shareholders Meeting elects the Auditing Commission of the Company.

The Auditing Commission is a permanent internal control body of the Company that regularly monitors the Company's business performance, its separate branches, officers, management bodies and departments of the executive body by desk audit and physical checks.

In its activity the Commission is governed by the legislation of the Russian Federation, Company's Charter and internal regulations approved by the General Meeting of Shareholders, by the Regulations on the Auditing Commission of Open joint stock company "Interregional distribution grid company of the South", approved by the resolution of the General meeting (minutes of meeting No. 1751пп/4 dated 05.10.2007, minutes of meeting No.11 dated 25.06.2014).

The Auditing Commission acts in the interests of the shareholders and reports to the General Shareholders Meeting.

The Auditing Commission is independent of the officials of the Company's management and the heads of departments of the executive office.

The Audit Commission carries out its activities through scheduled and unscheduled inspections, the results of which are processed as conclusions (reports) which are the internal control documents of the Company.

The text of the Regulations on the Auditing Commission of "IDGC of the South" JSC is available at the corporate website at: <http://oao-mpck-yora.pф/> in the section "Corporate Governance".

### **Competence of the Auditing Commission**

In accordance with paragraph 24.3 of the article 24 of the Company's Charter the competence of the Auditing Committee of the Company included the following:

- verification of the data accuracy in the annual report, the accounting report and the income and loss statements;
- analysis of the Company's financial situation, searching for resources to improve the situation and to develop recommendations for the Company's administrative bodies;
- arrangement and carrying out of check of the Company's financial and business activity, particularly:

- check (inspection) of the financial, accounting, settlement and other documentation of the Company, connected with the carrying out by the Company of financial and business activity in order to ensure its correspondence with the legislation of the Russian Federation, the Charter, internal and other documents of the Company;
- control over the safety and use of fixed assets;
- control over cash spending of the Company in accordance with the approved business plan and budget of the Company;
- control over the buildup and use of the reserve and other specialized funds of the Company;
- check of the timeliness and correctness of settlement transactions with counterparties and the budget, as well as settlement transactions on wages, social insurance, and payment of dividends and other payment transactions;
- check of performance of instructions given for elimination of violations and defects, previously revealed by the Audit Commission of the Company;
- other actions (measures) related to check of financial and business activity of the Company.

During the report quarter three groups of the Auditing Commission were controlling business activity of the Company.

**Auditing Commission of the Company elected by the resolution of the annual General Meeting of Shareholders on 25.06.2013 (minutes of meeting No.9 dd 25.06.2013):**

- Igor Vladimirovich Shmakov (chairperson);
- Igor Yurevich Bogachev;
- Ivan Alekseyevich Gaichenya;
- Olga Vladimirovna Golubeva;
- Irina Aleksandrovna Filippova.

**In accordance with Minutes No. 10 dd. 14.03.2014 of extraordinary meeting of shareholders of the Company the decisions on early termination of**

**authorities of members of current composition of Audit Commission and on election of Audit Commission members in the following composition were adopted (for the period until the date of holding of next annual general meeting of shareholders of the Company):**

- Shmakov Igor Vladimirovich (chairperson);
- Kirillov Artyom Nikolaevich;
- Malyshev Sergei Vladimirovich;
- Guseva Yelena Yurievna;
- Ochikov Sergei Ivanovich.

**Composition of Audit Commission of the Company elected by decision of annual general meeting of shareholders of “IDGC of the South” JSC dd. 25.06.2014 (Minutes No. 11 dd. 25.06.2014):**

- Shmakov Igor Vladimirovich (chairperson);
- Kirillov Artyom Nikolaevich;
- Bunyaeva Maria Viktorovna;
- Guseva Yelena Yurievna;
- Ochikov Sergei Ivanovich.

**Information on member of audit bodies for business activity of the Issuer**

Name of the audit body for business activity of the Issuer: **Audit Commission of “IDGC of the South” JSC**

Name: **Shmakov Igor Vladimirovich**

Year of birth: **1974**

Education: **Kuban State University, qualification - economist.**

Positions within the last 5 years

Period		Company	Position
from	until		
2008	2012	IDGC of the South JSC	Head of Department for Internal Audit and risks management

2012	2013	Federal Grid Company of Unified Energy System JSC	Head of Directorate for Internal Control
2013	2015	Rosseti JSC	Head of Directorate of control and risks management of Department for Internal Audit and control of “Rosseti” JSC

Name: **Kirillov Artyom Nikolaevich**

Year of birth: **1984**

Education: **Higher**

Positions within the last 5 years

Period		Company	Position
from	until		
2009	2012	“FGC UES” JSC	Lead expert of Department of control and inspection
2013	2013	“FGC UES” JSC	Lead expert of Department of control and inspection
2013	2015	“Rosseti” JSC	Head of office of investment audit of Directorate of inspection activity and internal audit of Department of internal audit and control

Name: **Bunyaeva Maria Viktorovna**

Year of birth: **1983**

Education: **Higher**

Positions within the last 5 years

Period		Company	Position
from	until		
2007	2009	“ProffStil” LLC	Chief accountant
2009	2010	Administration of Krasnodar region	Lead expert of analytics office of construction of Olympic facilities of Construction Department of Krasnodar region
2010	2012	“Kubanenergo” JSC	Chief specialist of Economic Security office of Security Department
2012	2015	“Rosseti” JSC (till 04.04.2013 – “Holding IDGC” JSC)	Lead expert of General audit and inspection office of Directorate of inspection and internal audit of Department of internal audit and control

Name: **Guseva Yelena Yurievna**

Year of birth: **1970**



Education: **Higher**

Positions within the last 5 years

Period		Company	Position
from	until		
2009	2013	“IDGC of the South” JSC	Lead specialist of Department of internal audit and risks management
2013	2015	“Rosseti” JSC	Lead expert of Directorate of inspection and internal audit of Department of internal audit and control

Name: **Ochikov Sergei Ivanovich**

Year of birth: **1983**

Education: **Higher**

Positions within the last 5 years

Period		Company	Position
from	until		
2009	2013	“IDGC of North-West” JSC	Lead specialist of sector of risks management and organization of internal control of Directorate of internal audit and risks management
2013	2013	“FGC UES” JSC	Lead expert of investment audit office of Department of internal control and risks management
2013	2015	“Rosseti” JSC	Lead expert of general audit office of Directorate of inspection and internal audit of Department of internal audit and control

**Members of the Auditing Committee:**

**The persons have no participation shares/ordinary shares in authorized capital of the Issuer**

Participation shares of the persons in authorized (share) capital (unit investment fund) of subsidiaries and associated companies of the issuer

**The persons do not own the specified shares**

Data on character of any family relations with other persons who are members of the management authorities of the issuer and/or authorities auditing the financial and economic activity of the issuer: **No specified family relations**

Data on bringing the persons to administrative responsibility for breaches of law related to finance, taxes and charges, securities market or to criminal

responsibility (previous conviction) for crimes referring to economy or crimes against the state power: **The persons were not brought to the specified kinds of responsibility**

Data on positions held by the persons in management authorities of commercial entities in periods when stated entities were prosecuted for insolvency and/or insolvency proceedings were started in conformity with the legislation of the Russian Federation on Insolvency (Bankruptcy):

**The persons did not hold the specified positions**

#### **Activity of the Auditing Committee in 2014**

The Auditing Committee of “IDGC of the South” JSC has conducted out 6 meetings in 2014. Minutes of meetings of the Auditing Committee are available at corporate web-page on the Internet.

#### **Information on remuneration (compensation of losses) paid to the members of the Auditing Committee**

Payment of remuneration to the members of Auditing Committee of “IDGC of the South”, JSC of the Issuer should be carried out in accordance with the Regulations on the payment to the Auditing Committee members of the Open Joint Stock Company “Interregional Distribution Grid Company of the South” of emoluments and remunerations as amended (hereinafter referred to as the Regulations), approved by the decision of the annual General meeting of shareholders of “IDGC of the South”, JSC (Minutes No.1 dated 04.06.2008).

According to the Regulations for participation in the check-up (auditing) of financial and economic activity a member of the Auditing Committee of the Company should be paid lump sum remuneration in the amount equivalent to five minimum monthly tariff rates of a first-class worker established by the sectoral tariff agreement in the RF electrical energy complex.

For each check (audit) a member of the Auditing Committee can receive additional remuneration in the amount limited by 20 minimum monthly rate of a 1<sup>st</sup> category employee, approved by the agreement and with regard of indexation.

A member of the Auditing Committee is reimbursed expenses related to participation in audit and meeting of the Auditing Committee in accordance with current as of the moment of the meeting/audit rules of reimbursing expenses. The total amount of remuneration paid to the members of the Auditing Committee in 2014 was **347.8 thousand rubles** (including income tax).

### **3.3. Auditor**

According to articles No.47, 48, 54 and 88 of the Federal Law on Joint Stock Companies; according to sub-clause 11 of cl.10.2 of article 10; cl.11.1 of article 11; cl.24.8 of article 24 of the Charter of “IDGC of the South”, JSC General Shareholders Meeting annually approves the Auditor Company for audit and check of annual financial statements of the Company.

#### **Criteria and methods of Auditor appointment**

The candidature of an auditor for approval at the Annual General Shareholders Meeting is suggested by the Board of Directors of the Company within the context of the Annual General Shareholders Meeting preparation.

The Audit Committee of the Board of Directors performs initial selection of candidates for the Company’s auditors, assessment of their qualifications, quality of work and compliance with the requirements of auditors’ independence, submission of the auditor’s candidacy to the Board of Directors and processing third-party assessment reports of the candidatures of auditor.

The Auditor appointment is performed following an open competition held by the Company or its authorized organization in accordance with the Regulations on procedures governing the procurement of goods, works and services for the needs of “IDGC of the South” JSC.

In order to ensure independency and fairness of external auditor, the Company selects an external auditor by a public tender at the trading platform “B2B-Center”. Information on a tender for audit services in 2014 was available at [www.zakupki.gov.ru](http://www.zakupki.gov.ru). Tender deadline: 09.04.2014, “Ernst & Young” LLC won the tender. The participants were judged by preassigned and declared criteria of the tender.

The auditor of “IDGC of the South” JSC carries out audit of the issuer’s business activity in accordance with requirements of the legislation of the Russian Federation on the basis of the concluded contract.

The Board of Directors of “IDGC of the South” JSC recommended (minutes of meeting No.133/2014 dated 08.05.2014) and the AGM approved on 25 June 2014 (minutes of meeting No.11 dated 25.06.2014) the Company’s auditor “Ernst & Young” LLC to carry out audit of financial (accounting) report for 2014.

“Ernst & Young” LLC is a member of the Non-profit Partnership “Audit Chamber of Russia”. There aren’t any factors that might influence the independency of the auditor or material interests binding the auditor (officials of the auditor) with the issuer (officials of the issuer).

#### **Procedure for determining the remuneration paid to the Auditor**

In accordance with section 24.9 article 24 of the Charter of “IDGC of the South” JSC the amount of the auditor’s remuneration shall be determined by the Board of Directors of the Company.

The cost of services and the payment procedures are specified in the agreement between the Company and the auditor.

On 31.07.2014 the Company’s Board of Directors (minutes of meeting No.140/2014 dated 04.08.2014) defined the amount of remuneration for services of EY on audit of accounting report of IDGC of the South JSC prepared under RAS and consolidated financial statements under IFRS for the year ended 31.12.2014 (the audited period: January 1, 2014 – December 31, 2014): 3 606 817.17 (three million six hundred and six thousand eight hundred seventeen) rubles 17 kopeks, including 18% VAT – 550 192.45 rubles.

No special auditing tasks were performed in the reporting year.

#### **Auditor’s contacts**

Full company name: Limited Liability “Ernst and Young”

Short name: “Ernst & Young” LLC

Legal address: 1 bld., 77 Sadovnicheskaya Naberezhnaya, Moscow, RF, 115035

Location: 1 bld., 77 Sadovnicheskaya Naberezhnaya, Moscow, RF, 115035

TIN: 7709383532

PSRN: 1027739707203

Phone: (495) 755 9700

Fax: (495) 755 9701

Information on auditor's membership in self-regulated auditing organizations

Full name: Non-profit partnership Auditor Chamber of Russia

Location: building 3, 3/9, 3rd Syromyatnicheskiy Lane, Moscow, 105120, Russia

Telephone/fax no.: (495) 781-24-79; e-mail: apr@aprussia.ru

Certificate number: No. 255 of 28.12.2009, primary registration number of entry No. 10301000804.

### **3.4 The system of internal control and risks management**

The system of internal control and risk management of “IDGC of the South” JSC is an element of the corporate governance of the Company, including full range of procedures, methods and controls determined and applied by the Board of Directors and executive bodies to provide reasonable guarantees of achieving the following objectives:

- efficient and productive arrangement of activity;
- compliance with the legislative norms and local regulatory requirements applicable to the Company's activity;
- prevention of the Company's assets abuse by employees and third parties;
- reliable, comprehensive and timely reports..

In order to develop the System of internal control and risks management the Company's BoD approved the following internal documents:

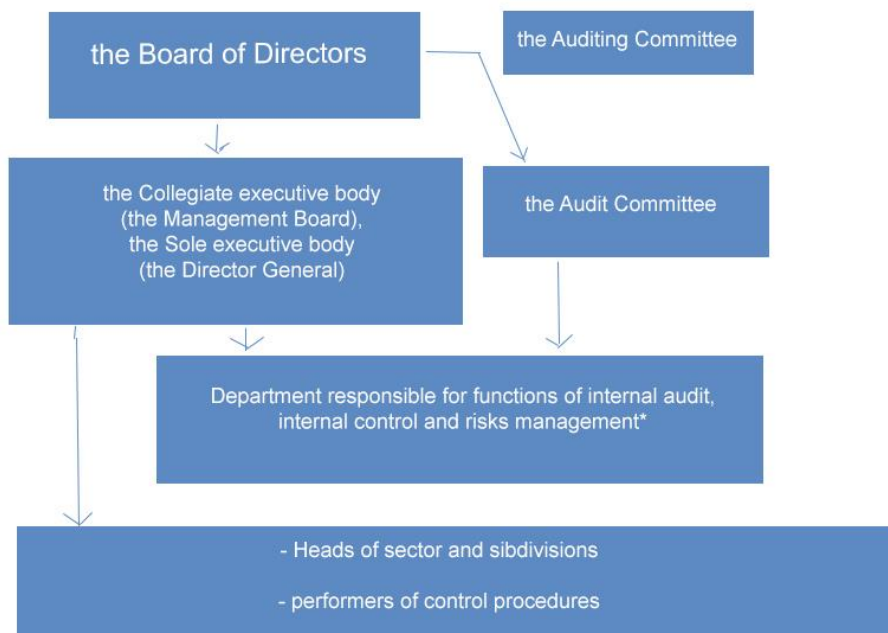
- Internal Control Policy (minutes of the BoD meeting No.142/2014 dated 08.09.2014);
- Risks Management Policy (minutes of the BoD meeting No.142/2014 dated 08.09.2014);
- Internal Audit Policy (minutes of the BoD meeting No.142/2014 dated 08.09.2014).

## The System of internal control and risks management

Improvement of the System of internal control and risks management is carried out at all levels of management with following types of monitoring:

Preliminary (preventive) control	Routine monitoring	Final control
Preliminary control procedures are carried out within the frameworks of the System of internal control and includes: monitoring, identification and evaluation of risks, implementation of activities on risks management	Control procedures included in business processes and aimed at reaching the goals of the business processes	Internal audit, inspection, check of fairness of reports, safety of assets, compliance control, external audit, self-evaluation

### Participants of the System of internal control and risks management



Department of internal audit and risks management is aimed to ensure efficient functioning of the system of internal control and risks management in the Company. According to the corporate structure, the Department of internal audit and risks management is directly subordinated to the Director General of the Company and functionally is subordinated to the Audit committee.

### Authorities and obligations of the main participants of the system of internal control and risks management

Participant	Authorities and responsibility in the sphere of the system of internal control and risks management
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<b>The Board of Directors</b>	<ul style="list-style-type: none"> <li>•ensuring the establishment, monitoring of operation and determination of the general strategy of development of the system of internal control and risk management in the Company</li> <li>• consideration of the reports and decisions of the system, the key issues of concern and internal controls</li> </ul>
<b>Audit Commission</b>	<ul style="list-style-type: none"> <li>• control over financial and economic activities of the Company;</li> <li>• independent evaluation of the data contained in the annual report and annual financial statements of the Company</li> </ul>
<b>Audit Committee of the BoD</b>	<p>controls selection of an external auditor, evaluation of the external auditor’s performance</p> <ul style="list-style-type: none"> <li>• provides evaluation of fairness of Company’s accounting (financial) reports (including the auditor’s report)</li> </ul>
<b>Director general, the Management Board</b>	<ul style="list-style-type: none"> <li>• ensures the development and everyday functioning in the Company of an effective and reliable system of internal control</li> </ul>
<b>Heads of sectors and subdivisions</b>	<ul style="list-style-type: none"> <li>•organize an effective control environment of the supervised processes (activities), are responsible for the effective achievement of operational goals of the supervised processes (activities) and perform risk management of the processes (activities) and the performance of the control procedures</li> </ul>
<b>Employees of the Company’s structural divisions, fulfilling the control procedures due to their job duties</b>	<ul style="list-style-type: none"> <li>•fulfill the control procedures within the internal audit system in accordance with the job descriptions and the established regulatory documents</li> <li>•ensure timely notification of the line managers of the instances where the fulfillment of the control procedures and risk management measures becomes impossible for any reasons and/or where the design of such control procedures/risk management measures requires modification due to the changes in the internal and/or external conditions of the Company’s operations, and for ensuring the development and submitting of suggestions to the management on the implementation of control procedures and risk management measures in the relevant areas of operation</li> </ul>
<b>Department of internal audit and risks management</b>	<ul style="list-style-type: none"> <li>•provides methodological support and coordination of risk management processes and regulation of the control environment in the Company and performs independent further control and evaluation of the effectiveness of the control environment within the Company, provides</li> </ul>








information to the Board of Directors, executive bodies on significant trends and shortcomings in the activities of the Company

To ensure that the internal control system is effective and corresponds to the changing requirements and conditions, the Company evaluates the effectiveness of the internal control system: its compliance with the goals and the maturity level.

### Evaluation of risks significance




The table below contains description of risks and their significance level in accordance with the following scale:



Level of risk significance	
Critical	
Significant	
Moderate	

#	Risk	Description	Activities for mitigation of risks	Significance
<b>Industry risks:</b>				
1	Tariff risks	Electric power transmission services and technological connection are regulated activities. Tariffs are set by executive bodies in the field of tariff regulation, while the company bears the risks of accounting economically feasible expenses of the Company not to a full extent.	To reduce the negative effect and prevent conditions that affect its activity, the Company developed the following measures: - interaction with state tariff regulation bodies; - programmes on reduction and optimization of costs	
2	Grid connection	An important risk factor is the recognition of the Company as a violator of the antimonopoly legislation. Activities in the field of grid connection of consumers to electric networks are under such antimonopoly risks. Violations of the terms of the grid connection, of the pricing procedures during the calculation of payment for technological connection, as well as a	To minimize the risks associated with the prosecution for a violation of antimonopoly laws in the part of the grid connection, all branches of the Company use software to successfully control the implementation of applications for technological connection, local regulations governing the activities carried out within the framework of technological connection. Also, the Company carried out	



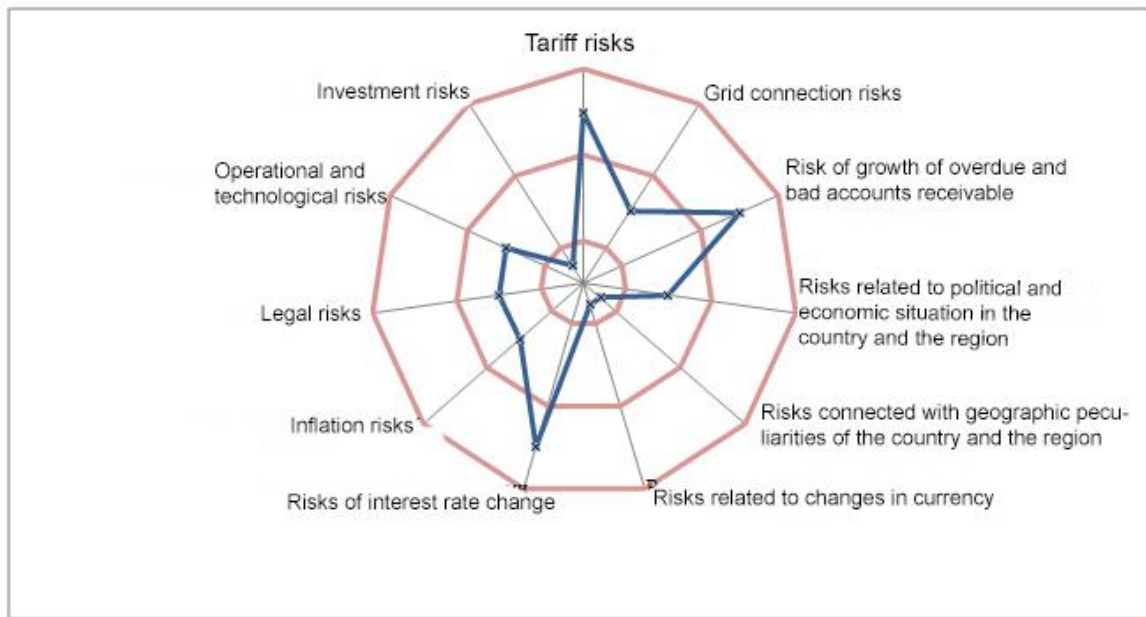
		number of other measures established by law, put the Company under the risk of imposition of administrative sanctions	measures to improve the quality of services for technological connection as part of the strategy of “Improving access to energy infrastructure”	
3	Risk of growth of overdue and bad accounts receivable	The growth of overdue receivables for electric power transmission services has a significant impact on the financial results of the Company, resulting in lower liquidity and financial stability of the company. With low payment discipline and lost revenue from customers, the Company has to attract credit resources for the implementation of operations, resulting in additional costs of servicing the loan portfolio.	To reduce these risks the Company carries out the following activities: - negotiations with contractors; - participation in the meetings at the level of regional authorities on payments for electricity transmission services; - agreements on debt restructuring; - limiting of the mode electric power consumption of the debtor to which the restriction is possible and permissible; - handling complaints and related work with consumer debtors.	
<b>Country and regional risks</b>				
4	Risks related to political and economic situation in the country and the region	The risk factor that has a definite influence on the activities of the Company is the deterioration of the economic and political situation in the country and the regions of the Company's presence, which may lead to a reduction in electricity consumption and a decline in the purchasing power of consumers.	The Company cannot influence the country risks; however, planning of activities is conducted on the basis of the feasibility of such risks. Besides that, the Company actively interacts with the state, regulating and other organizations to create conditions for the development of the industry and the Russian economy in general.	
5	Risks connected with geographic peculiarities of the country and the region including the heightened danger of natural disasters, possible discontinuance of transportation	The risks related to geographical features of the regions where the Company operates, include the risk of losses due to unfavourable weather conditions. The regions where the Company operates are characterized by developed transport infrastructure and are not subject to risks associated with the termination of	Company's actions to reduce the impact of these risks are designing of transmission lines in view of features of weather in the region, as well as insurance of related risks.	

		transport connection due to remoteness and/or inaccessibility.		
<b>Financial risks:</b>				
6	Risks related to changes in currency	The Company is currently conducting its financial and economic activities in the territory of the Russian Federation and has no investments in foreign companies, the net asset value of which is exposed to changes in exchange rates, has no revenue and expenses denominated in foreign currencies. In addition, the Company does not plan to carry out activities on the foreign market, so the risks associated with currency fluctuations are not a factor of direct impact on the financial results of the Company's activities.	In the case of the negative impact of exchange rate changes on financial and economic activity, the Company is planning to conduct a risk analysis and take an appropriate decision in each case.	
7	Risks of interest rate change	The Company is exposed to interest rate risk. With the rising interest rates the interest payments for loans from commercial banks increase as well and, consequently, the Company's profit reduces.	In order to minimize maintenance costs of the debt portfolio the Company regularly reviews its own financial condition, floating interest rate dynamics. The Company selects financial institutions to provide financial services by means of open one-stage tender or open auction in accordance with procedures established by the legislation of the Russian Federation, the constant monitoring of the debt capital market and when possible the debt innovation is performed.	
8	Inflation risks	The inflation risk may arise when the Company's received cash income depreciates in terms of real purchasing power faster than they grow nominally. The growth of inflation may increase the cost of the enterprise (due to the	In order to reduce the impact of inflation on the operating activities, the Company plans the investment and repair programmes with regard of the increase in the cost of materials and equipment. In addition, the Company enters into contracts on the terms of	

		increase in prices of basic tools, materials, services of other organizations), and, consequently, a drop in the Company's profit and profitability of its business, as well as increase in the cost of borrowing for the Company.	a firm (fixed) price that does not change under the influence of inflation during the period.	
<b>Legal risks:</b>				
9	Legal risks	Legal risk management is based on optimization of the process of legal registration of documents and support of activities. There is a risk of changes in legislation (federal laws and subordinate legislation) regulating economic relations, which may adversely affect the results of the current litigations in which the Company participates.	To minimize legal risks, the company's business processes, that are subject to risks, pass obligatory legal examination, the company also continuously monitors changes in legislation and judicial practice.	
<b>Risks related to company's activity:</b>				
10	Operational and technological risk	Operational and technological risks affecting the security of energy supply are connected, primarily, to high wear and tear of power grid assets, violation of operating conditions and operating modes of the electric equipment, the failure to fulfill the repair programme.	As measures that can help reduce the likelihood of operational and technological risks, the Company uses activities aimed at improving the reliability of power supply to consumers and prevention of risks of technological failures.	
11	Investment risk	Investment programmes of the Company's branches are formed in accordance with the long-term development of regional programmes and are subject to review and approval by the regional authorities. Timely implementation of investment programmes of the branches depends on many factors, including failure to perform or delay in performance of	Measures taken by the Company to reduce the risks in investment activity: - monitoring the performance of obligations by suppliers, contractors; - arrangement of the timely adjustment of the investment programme; - reallocation of funds received from the savings on the results of tender procedures to other objects of investment programme;	

	contractors' obligations. Failure to comply with the investment programmes increases the risk of technical failures and industrial accidents and can lead to disturbances in the power supply.	- monitoring of compliance with the terms of the procurement procedures; - evaluation of the effectiveness and return on investment projects.	
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### Evaluation of risks



### 3.5. Legal Support of Company's Activity

**Legal support of the Company's business is performed in the following sectors:**

- legal support of the Company's business operations;
- claims work;
- organizational and methodological support of the branches' operations.

**Legal support of business activity** includes legal expertise of civil law contracts, orders, instructions, regulations, provisions, and other local regulatory acts, as well as preparation of legal opinions on the issues of the Company's business, development and negotiation of typical forms of business contracts, other documents, etc.

**Within the frameworks of claim-related work** the timely and effective protection of the Company's interests is provided both in pre-trial and court procedures. The

effectiveness of this type of activities is ensured by the clear regulation by local normative acts approved by the Company, and by the actions of all services and subdivisions in case of conflict situations with the Company's counterparties, governmental and municipal authorities.

**Organizational and methodological support of the branches** strives to achieve the uniformity of law enforcement practice in all branches of the Company, provide a unified methodology and principles for legal support, and form a unified legal position of all branches on legal disputes in which the Company is involved. The mentioned goals are achieved by collecting and analyzing the data collected from the branches, formation and dissemination to the branches of the Company's position on the issues of law enforcement, supervision of the implementation of organizational and management documents, written orders on issues of legal support of the Company's business.

#### **Information on legal proceedings in 2014 that could influence on Company's activity**

Disputes relating to recovery from the Company the unreasonable earnings by territorial grid companies. The largest claims (more than 700 mln. rubles) were raised as part of three claims of "Energiya" JSC. Negative for Company judgments carry the risks of shortfalls in income amount of which can influence on financial and economic activities of the Issuer. Consolidation of this kind of judicial practice allows other contractors of the Company, using similar mechanisms to declare this kind of requirements for following periods and grid facilities. In addition, the Company is involved in court disputes with the participation of guaranteeing suppliers of electric energy (in the zones of activity of branches of the Company). Unfavorable outcome of these processes carries the risk of Company's additional losses in connection with the necessity of paying an additional amount of electricity consumed for the purposes of compensation of losses in the electric grid facilities.

Negative results of the cases consideration by courts related to the collecting of the sums of contractual penalty on executed with violation of the terms of

payment for supply contracts, outsourcing, services rendering can create additional cost loading.

“Energiya” JSC filed a suit against “IDGC of the South” JSC on collecting 135.4 mln. rubles of the unreasonable earnings in the amount of unpaid cost of services on electric energy transmission for January, 2014. By the decision of Commercial court of Rostov region dd. 07.07.2014 the claims were satisfied. Judicial act passed the stage of appeal and cassation appeal. Implementation of court decision was made in the enforcement procedure by writing off monetary funds from bank account of the Company. The Company filed a cassation appeal in Supreme Court of Russia.

“Energiya” JSC filed a suit against “IDGC of the South” JSC on collecting 371 mln. rubles of the unreasonable earnings in the amount of unpaid cost of services on electric energy transmission for the period from February to April of 2014. By the decision of Commercial court of Rostov region dd. 13.10.2014 the claims were satisfied. Decision was appealed in the court of appeal. By the decision of Fifteenth Commercial Court dd. 30.03.2015 the appeal of “IDGC of the South” JSC was sustained. The Company filed a cassation appeal with the request to stay of enforcement the judicial act.

“Energiya” JSC filed a suit against “IDGC of the South” JSC on collecting 220 mln. rubles of the unreasonable earnings in the amount of unpaid cost of services on electric energy transmission for the period from May to June of 2014. By the decision of Commercial court of Rostov region dd. 24.02.2015 the claims were partially satisfied, 77.7 mln. rubles were collected from the Company. “Energiya” JSC appealed the decision in the court of appeal, the consideration of appeal petition was appointed at 10.04.2015.

“Energosbyt Rostovenergo” JSC filed a suit against “IDGC of the South” JSC on collecting 130 383 664.59 rubles of debt to compensate electric energy losses in networks for the period from March of 2010 to December of 2011. By the decision of Commercial court of Rostov region dd. 06.02.2014 the claims were satisfied. The Company filed cassation appeal on judicial acts in Supreme Court

of Russia. By the decision dd. 22.01.2015 the Company received a refuse to file cassation appeal for consideration in a court session of Chamber for Commercial Disputes of the Supreme Court of Russian Federation. Cassation appeal is prepared to file in General Committee of Supreme Court of the Russian Federation.

“Energosbyt Rostovenergo” JSC filed a suit against “IDGC of the South” JSC on collecting 163 693 111.61 rubles of debt to compensate electric energy losses in networks for the period from January of 2012 to December of 2012. By the decision of Commercial court of Rostov region dd. 04.12.2013 the claims were satisfied. The Company filed cassation appeal on judicial acts in Supreme Court of Russia dd. 15.10.2014 the judicial acts were cancelled, the case was sent for retrial in Commercial Court of Rostov region. Commercial Court of Rostov region satisfied claims in the amount of 159 897 565.18 rubles dd. 26.03.2015.

“Energosbyt Rostovenergo” JSC filed a suit against “IDGC of the South” JSC on collecting 104 888 115.44 rubles of debt in connection with non-fulfillment of request on limitation of electric energy delivery to customers for the period from May of 2013 to August of 2013. By the decision of Commercial court of Rostov region dd. 18.07.2013 the claims were satisfied. The decision was kept in force by decisions of Court of Appeal and Cassation Court. Cassation appeal is prepared to file in Supreme Court of the Russian Federation.

“Energosbyt Rostovenergo” JSC filed a suit against “IDGC of the South” JSC on collecting 176 654 362.06 rubles of debt to compensate electric energy losses for the period from January of 2013 to November of 2013. By the decision of Commercial court of Rostov region dd 26.05.2014 on case No.A53-2756/2014 the claims were satisfied. The Company filed cassation appeal. By the decision dd. 18.11.2014 the case was suspended until case No. A53-16593/2013 will come into legal force. Supreme Court of Russia adopted definition on settlement of cassation appeal of the Company on similar case (No. A53-16593/2013). Thus, there is a positive legal precedent for the Company.

“IDGC of the South” JSC produced a claim against “Energosbyt Rostovenergp”



JSC on collecting 200 107 836.06 rubles of debt for services on electric energy transmission for March of 2014. By the decision of Commercial court of Rostov region dd. 23.03.2015 the claims were refused. The Company prepares cassation appeal.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting of cost of losses of electric energy in the amount of 19 987 579.19 rubles for September of 2008. By the decision of Commercial court of Astrakhan region dd. 27.12.2013 the claims were partially satisfied in the amount of 514 340 rubles. The decision was appealed by “Astrakhan energy selling Company” JSC, proceedings on the case was suspended in connection with assignment of legal expertise. By the decision of Twelfth Commercial Court dd. 24.02.2015 the decision was changed, 11 981 268.84 rubles were collected.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting 12 646 631.97 rubles of debt to compensate electric energy losses for October of 2008. The proceeding on case was suspended: until the resolution on case No. A06-7614/2010, until consideration of appeal on case No. A06-6248/2011 by Twelfth Commercial Court of Astrakhan region. By the decision of Commercial court of Astrakhan region dd. 27.28.2014 the claims were partially satisfied in the amount of 7 244 466.57 rubles. The parties filed cassation appeal. By the decision of Twelfth Commercial Court of Astrakhan region dd. 10.03.2015 the decision was upheld, the appeals were not satisfied.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 21 448 966.59 rubles for December of 2008. The proceeding on case was suspended many times: until the resolution on case No. A06-7614/2010, until the consideration of appeal on case No. A06-6248/2011 by Twelfth Commercial Court of Astrakhan region. By the decision of Commercial court of Astrakhan region dd. 12.01.2015 the claims were satisfied in the amount of 20 685 912.01 rubles. “IDGC of the South” JSC filed cassation appeal, the consideration was appointed at 09.04.2015.



“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 20 277 551.18 rubles for July of 2009. The proceedings on case were suspended many times: until the resolution on case No.A06-7614/2010, until the consideration of appeal on case No.A06-6248/2011. By the decision of Commercial court of Astrakhan region dd. 07.11.2014 the claims were partially satisfied in the amount of 2 365 263.67 rubles. “Astrakhan energy selling Company” JSC filed cassation appeal, the consideration was appointed at 07.04.2015.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 64 989 116.82 rubles for December of 2009. The proceedings on case were suspended many times: until the resolution on case No. A06-7614/2010, until the consideration of appeal on case No. A06-6248/2011. By the decision of Commercial court of Astrakhan region dd. 01.09.2014 the claims were satisfied. “IDGC of the South” JSC filed cassation appeal. By the decision of Twelfth Commercial Appeal Court dd. 10.03.2015 the decision was upheld, the Company’s appeal was not satisfied.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 57 741 926.17 rubles for June of 2011. The proceedings on case were suspended until the consideration of appeal on case No.A06-6248/2011 by Twelfth Commercial Appeal Court of Astrakhan region. The proceedings on case were suspended in connection with appointing of legal expertise dd. 30.10.2014.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 43 320 285.87 rubles for July of 2011. The proceedings on case were suspended until the consideration of appeal on case No.A06-6248/2011 by Twelfth Commercial Appeal Court of Astrakhan region. The proceedings on case were suspended in connection with appointing of legal expertise dd. 07.08.2014.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 41 743 893.18 rubles for August of 2011. The proceedings on case were suspended until the consideration of case No.A06-6994/2011. Reopened, appointed for consideration at 06.04.2015.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 23 543 433.62 rubles for September of 2011. The proceedings on case were suspended until the decision will come into force by Court’s decision on case No.A06-7787/2011. Reopened, appointed for consideration at 14.04.2015.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 41 026 186.02 rubles for May of 2013. By the decision of Commercial Court of Astrakhan region dd. 19.03.2015 the claims were partially satisfied in the amount of 128 615 rubles.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 33 471 482.80 rubles for April of 2013. By the decision of Commercial Court of Astrakhan region dd. 16.03.2015 the claims were not satisfied.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 30 859 374.90 rubles for September of 2013. The proceedings on case were suspended dd. 10.07.2014 until the decision will come into force by Court’s decision on case No.A06-8979/2013.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 138 053 233.60 rubles for October of 2013. The proceedings on case were suspended dd. 30.07.2014 until the judicial act will come into force on case No.A06-10152/2013.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 94 922 990.95 rubles for November of 2013. The proceedings on case were suspended dd. 31.07.2014 until the judicial act will come into force on case No. A06-1633/2013.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 198 601 379.36 rubles for December of 2013. The proceedings on case were suspended dd. 16.07.2014 until the judicial act will come into force on case No.A06-2538/2013.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 200 471 617.93 rubles for January of 2014. The proceedings on case were suspended dd. 28.01.2015 until the judicial act will come into force on case No.A06-2540/2014.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 76 832 868.79 rubles for February of 2014. The proceedings on case were suspended dd. 22.12.2014 until the judicial act will come into force on case No. A06-11134/2014.

“Astrakhan energy selling Company” JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 22 068 740.93 rubles for March of 2014. The proceedings on case were suspended dd. 26.01.2015 until the judicial act will come into force on case No. A06-11132/2014.

“IDGC of the South” JSC filed a suit against “Astrakhan energy selling Company” JSC on collecting the debt for services on electric energy transmission for November of 2013. By the decision of Commercial Court of Astrakhan region dd. 02.09.2014 upheld Decision of Twelfth Astrakhan Commercial Court dd. 17.11.2014, the claims were satisfied in the amount of 83 923 214.83 rubles.

Judicial acts were appealed by “Astrakhan energy selling Company” JSC in Court of cassation. By the decision of Astrakhan Commercial Court dd. 24.03.2015 the judicial acts were cancelled, the case was remanded for retrial at first instance.

“IDGC of the South” JSC filed a suit against “Astrakhan energy selling Company” JSC on collecting the debt for services on electric energy transmission for January of 2014. By the decision of Commercial Court of Astrakhan region dd. 03.10.2014 the claims were partially satisfied in the amount of 63 385 566.17 rubles. Decision was appealed by “Astrakhan energy selling Company” JSC in Court of appeal. The proceedings on case were suspended in connection with appointing of legal expertise dd. 21.01.2015.

“Volgogradenergosbyt”, JSC filed a suit against “IDGC of the South” JSC on collecting the cost of electric energy losses in the amount of 164 756 282.99 rubles for the period from 01.07.2009 to 31.12.2009. The case was returned to the court of first instance by the decision of court of cassation. “Volgogradenergosbyt” JSC specified the sum of the claims in the amount of 122 077 128.36 rubles. By the decision of first instance court dated 13.02.2015 the claims were satisfied. The Company filed the appeal.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 90 278 965 rubles for the period from January of 2010 to May of 2010, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 455 822 201 rubles. The case was returned to the court of first instance by the decision of court of cassation. As of the reporting date, the court of appeal rejected “IDGC of the South” JSC suit due to voluntary repayment of debt, counterclaim was partially satisfied in the amount of 1 085 319 rubles. “Volgogradenergosbyt” JSC filed the appeal, consideration of appeal was appointed at 31.03.2015. By the results of appeal of cassation consideration, the judicial acts were upheld, “Volgogradenergosbyt” JSC appeal of cassation was not satisfied.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 427 563 800 rubles for the period from June of 2010 to October of 2010, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 87 964 269 rubles. The case was returned to the court of first instance by the decision of court of cassation. As of the reporting date, the court of appeal partially satisfied “IDGC of the South” JSC claim in the amount of 40 037 750 rubles due to voluntary repayment of debt, “Volgogradenergosbyt” JSC counterclaim was partially satisfied in the amount of 638 791 rubles. “Volgogradenergosbyt” JSC filed the appeal, consideration of appeal was appointed at 24.03.2015. By the results of appeal of cassation consideration, the judicial acts were upheld, “Volgogradenergosbyt” JSC appeal of cassation was not satisfied.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 44 865 963 rubles for the period from February of 2011 to May of 2011, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 156 558 764 rubles. The case was returned to the court of first instance by the decision of court of cassation. As of the reporting date, the court of appeal partially satisfied “IDGC of the South” JSC claim in the amount of 42 139 585 rubles due to voluntary repayment of debt, “Volgogradenergosbyt” JSC counterclaim was partially satisfied in the amount of 15 766 652 rubles. “Volgogradenergosbyt” JSC filed the appeal, consideration of appeal was appointed at 31.03.2015. By the results of appeal of cassation consideration, the judicial acts were upheld, “Volgogradenergosbyt” JSC appeal of cassation was not satisfied.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of

155 452 950 rubles for the period from June of 2011 to September of 2011, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 83 924 128 rubles. The case was returned to the court of first instance and court of appeal by the decision of court of cassation. The court of appeal appointed session at 13.04.2015.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 610 463 320 rubles for the period from October of 2011 to December of 2011, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 269 614 527 rubles. The case was returned to the court of first instance and the court of appeal by the decision of court of cassation. As of the reporting date, the court of appeal partially satisfied “IDGC of the South” JSC claim in the amount of 246 847 767 rubles due to voluntary repayment of debt, “Volgogradenergosbyt” JSC counterclaim was partially satisfied in the amount of 5 094 438 rubles. “Volgogradenergosbyt” JSC filed the appeal, consideration of appeal was appointed at 31.03.2015. By the results of appeal of cassation consideration, the judicial acts were upheld, “Volgogradenergosbyt” JSC appeal of cassation was not satisfied.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 1 346 333 718 rubles for the period from January of 2012 to April of 2012, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 56 293 992 rubles. The case was returned to the court of first instance by the decision of court of cassation. As of the reporting date, the court of appeal partially satisfied “IDGC of the South” JSC claim in the amount of 1 342 309 577 rubles. “Volgogradenergosbyt” JSC filed the cassation appeal, consideration of appeal was appointed at 26.03.2015. By the decision of Astrakhan Commercial



Court dd. 31.03.2015 the judicial acts were cancelled, the case was remained for retrial at first instance court.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 539 399 150 rubles for the period from July of 2012 to September of 2012, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 251 971 572 rubles. The case was returned to the court of first instance by the decision of court of cassation. As of the reporting date, the court of appeal considers the case; court session was adjourned at 31.03.2015. By the decision of Twelfth Astrakhan Commercial Court dd. 31.03.2015 the proceedings on case were suspended in connection with appointing of legal expertise.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 734 976 760 rubles for the period from October of 2012 to December of 2012, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 256 254 793 rubles. The case was returned to the court of first instance by the decision of court of cassation. Court session was appointed at 09.04.2015.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 734 976 760 rubles for the period from October of 2012 to December of 2012, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 256 254 793 rubles. The case was returned to the court of first instance by the decision of court of cassation. Court session was appointed at 09.04.2015.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 869 444 791 rubles for the period from January of 2013 to April of 2013, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC

on collecting of cost of electric energy losses for the same period in the amount of 162 083 296 rubles. The court of appeal partially satisfied “IDGC of the South” JSC claim in the amount of 694 mln. rubles, the counterclaim was not satisfied. “Volgogradenergosbyt” JSC filed the cassation appeal. Juridical acts were cancelled, the case was remanded for retrial, consideration of appeal was appointed at 09.04.2015

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 539 040 409 rubles for the period from October of 2013 to November of 2013, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 32 142 429 rubles. The court of first instance partially satisfied “IDGC of the South” JSC claim in the amount of 437 548 025 mln. rubles due to voluntary repayment of debt, the counterclaim was partially satisfied in the amount of 2 146 913. “Volgogradenergosbyt” JSC filed the appeal. Consideration of appeal was appointed at 16.04.2015.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 115 545 544 rubles for the period from December of 2013 to March of 2014, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 153 806 067 rubles. Proceeding on the case was suspended up to 27.02.2015 in connection with assignment of legal expertise. The proceeding on the case was reopened, court session was appointed at 25.03.2015, then adjourned at 06.04.2015.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 256 587 482 rubles for the period from April of 2014 to June of 2014, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of



125 834 233 rubles. Proceeding on the case was suspended up to 12.02.2015. The proceeding on the case was reopened, court session was appointed at 23.03.2015. By the decision of Astrakhan Commercial Court the proceeding on the case was suspended in connection with assignment of additional legal expertise.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 335 959 645 rubles for the period from July of 2014 to August of 2014, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 74 301 631 rubles. Proceeding on the case was suspended in court of first instance on the period of legal expertise.

“IDGC of the South”, JSC filed a suit against “Volgogradenergosbyt” JSC on collecting the debt for services on electric energy transmission in the amount of 238 998 832 rubles for September of 2014, “Volgogradenergosbyt” JSC filed counterclaim against “IDGC of the South” JSC on collecting of cost of electric energy losses for the same period in the amount of 12 888 788 rubles. Proceeding on the case was suspended in court of first instance dd. 19.03.2015 on the period of legal expertise.

### **3.6. Property Management**

#### **Affiliated and Dependent Companies**

As of 31 December 2014, “IDGC of the South” JSC is the founder of five companies and owns 100% of the voting shares in each of them:

- Volgogradsetremont JSC;
- Energoservice of the South JSC;
- PSKh named after A. A. Grechko JSC;
- PSKh Sokolovskoye JSC;
- Recreation Centre “Energetik” JSC.

Please, see more details in Appendix 4 to this Annual Report.

“IDGC of the South” JSC carries out corporate management of its subsidiaries via its representatives in the management bodies of the subsidiaries and is guided by

the laws of the Russian Federation, the Charters of “IDGC of the South” JSC and of the subsidiaries and by the [Procedure of the interaction of “IDGC of the South” JSC with the companies, which “IDGC of the South” JSC owns the stocks \(shares\)](#) (Procedure), approved by the Board of Directors (minutes No. 24/2009 dated 10.03.2009).

In accordance with the Procedure, the Board of Directors of “IDGC of the South” JSC expresses the Company’s position on the agendas of General Shareholders Meetings and meetings of the Board of Directors of subsidiaries (instructions to Company’s representatives to participate or not participate in voting on agenda items, and to vote on resolutions “for”, “against”, or “abstain”), including on questions related to the approval of the business plans (adjusted business plans) of subsidiaries, subsidiaries’ business plan performance reports, distribution of profits and losses based on the results of a fiscal year, on recommendations on the amount of dividends on shares and its payment procedure.

130 items were discussed at meetings of the Board of Directors of the subsidiaries in 2014.

In order to mitigate risks of non-compliance of subsidiaries with the requirements of the legislation of the Russian Federation in the area of disclosure of information, the Company performs a permanent supervision of subsidiaries by monitoring public sources of information.

## **4. Share Capital and Securities Market**

### **4.1. Share Capital**

#### **Share Capital History**

As of June 28.06.2007 (the date of state registration of “IDGC of the South” JSC), the Company’s equity capital amounted to 10 000 000 rubles and was divided into 100 000 000 ordinary registered shares with a nominal value of 10 kopecks each.

On 31.03.2008 in the result of reorganization of the Company by jointing “Astrakhanenergo” JSC, “Volgogradenergo” JSC, “Kalmenergo” JSC and

“Rostovenergo” JSC to the Company, the number of shares increased to 49 811 096 064 shares by means of conversion of the shares of the merged companies.

As of 31.12.2014 the authorized capital of IDGC of the South JSC is 4 981 109 606 (four billion nine hundred and eighty-one million one hundred and nine thousand six hundred and six rubles and 40 kopecks) and is divided into 49 811 096 064 ordinary registered uncertificated shares with nominal value 10 kopecks each. Preference shares have not been issued.

Number of declared shares: **31 078 103 936** shares.

The ordinary shares announced by the Company for placement provide their owners the rights specified at paragraph 6.2 of the article 6 of the Charter of “IDGC of the South” JSC.

### Shares issue

#	State registration number of an issue	Amount, rubles	Category	Quantity	Par value, rubles
First issue					
1	1-01-34956-E dd 20.09.2007	10 000 000	ordinary	100 000 000	0.1
Additional issues					
2	1-01-34956-E-001D dd 20.03.2008г.	228 296 779.1	ordinary	2 282 967 791	0.1
3	1-01-34956-E-002D dd 20.03.2008	1 620 347 283.7	ordinary	16 203 472 837	0.1
4	1-01-34956-E-003D dd 20.03.2008	439 059 322.3	ordinary	4 390 593 223	0.1
5	1-01-34956-E-004D dd 20.03.2008	2 029 712 678.4	ordinary	20 297 126 784	0.1
6	1-01-34956-E-005D dd 20.03.2008	192 111 155	ordinary	1 921 111 550	0.1
7	1-01-34956-E-006D dd 20.03.2008	461 582 387.9	ordinary	4 615 823 879	0.1
<b>Total:</b>				<b>49 811 096 064</b>	
<p>Note: In accordance with the notification of the Federal Financial Markets Service of Russia No. 08-EK-03/17099dated 12.08.2008, individual numbers (codes) of additional shares issues were annuled; the united issue was assigned the state registration No. 1-01-34956-E dated 20.09.2007.</p>					

### Share capital structure

As of 28.06.2007 “RAO UES of Russia” JSC, the sole founder of the Company, owned 100 % of the shares.

On 31.03.2008, as a result of the reorganization through joining of “Astrakhanenergo” JSC, “Volgogradenergo” JSC, “Kalmenergo” JSC and “Rostovenergo” JSC to the Company, the shareholders of the merged companies, who had not used their right to sell back their shares during the reorganization of the merged companies, became owners of the Company’s shares.

Since in the result of the reorganization of “RAO UES of Russia” JSC, “IDGC Holding” JCS (renamed to “Rosseti” on 04.04.2013) became the owner of the Company’s shares.

In 2014 no changes occurred in the membership of shareholders possessing more than 5% of the Company’s charter capital.

As of 31.12.2014 the total amount of persons/entities in the Company’s shareholder register was 9 220.

#### Share capital structure as of 31.12.2014

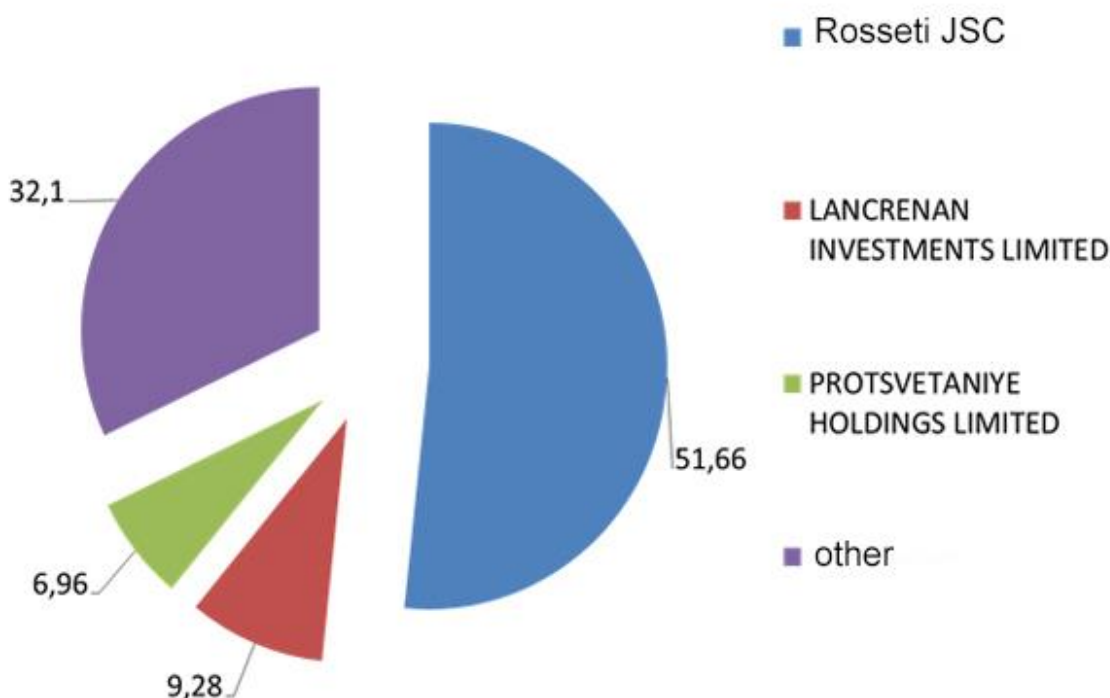
Registered person/entity	Number of company’s shareholders	Number of shares	Share in authorized capital,%
Natural persons	9 130	1 446 037 597	2.90
including non-residents	41	10 854 625	0.02
Legal entities	83	65 568 222	0.14
including non-residents	9	14 679 869	0.03
State	2	70 456 639	0.14
Nominee holders	4	48 224 084 808	96.81
Unidentified persons/entities	1	4 948 798	0.0099
Total:	9 220	49 811 096 064	100.00

Structure of share capital as of 19.05.2014 (the date of making the list of persons entitled to participate in the Annual meeting of shareholders)

Holder	Amount of shareholders	Amount of shares	% from total number of shares
Holders – natural persons	11 469	5 402 317 283	10,85

including non-residents	42	11 295 945	0,02
Holder – legal entities	230	43 141 137 410	86,61
including non-residents	81	17 161 278 672	34,45
State	2	70 456 639	0,14
Nominee holders	3	7 210 686	0,01
Trustee	25	1 185 025 248	2,38
Pledge holders	0	0	0,00
Unidentified persons	3	4 948 798	0,01
<b>Total:</b>	<b>11 732</b>	<b>49 811 096 064</b>	<b>100</b>

IDGC of the South JSC shareholders, owing more than 5% of charter capital as of 19.05.2014 (the last data of closing the list of registered securities owners)



There are no cross ownership shares.

#### 4.2. Circulation of Shares at the Stock Market

Shares of “IDGC of the South” JSC were admitted to trading on MICEX in quotation list B (ticker —MRKY), ISIN code: RU000A0JPPG8

#### Market-maker

In order to improve the liquidity of the Company's shares, on 24.12.2009 a contract was signed with "Unicom Partner" LLC for provision of market-maker services on MICEX. The Contract remained in force during the reporting year.

Information on market-maker

Full company name: Limited Liability Company Universal Investment Company Partner;

Shortened company name: **Unicom Partner, LLC**

License for fulfilling dealer activities: No. 166-05957-010000 dated 19 April 2002 without a limit on the term of validity, issued by the Federal Commission for the

Securities Market;

Location: **78a, Krasnoarmeyskaya St., Yekaterinburg, the Russian Federation**

Postal address: **78a, Krasnoarmeyskaya St., Yekaterinburg, the Russian Federation, 620026**

Phone: **(343) 379-41-65**

Fax: **(343) 379-41-66**

Web-page: **<http://www.unicompartner.ru>**

Parameters of support for Two-sided quotations:

- spread of the two-sided quotation (effective spread) as a percentage, not more than 3%;
- minimal acceptable volume of offers, not less than 300 000 rubles;
- the total sum of transactions concluded with securities as part of fulfilling the Market maker's obligations within one trading day in main trading, upon reaching thereof the Market maker has the right to support only one-sided quotations for buying or selling securities, not less than 2 100 000 rubles.

Starting from the date of the contract, the market maker provides securities trading services by presenting and constantly supporting the market-maker's offer.

In the reporting year, the turnover of shares of “IDGC of the South” JSC amounted to **8.2%** of the total number of placed shares.

The shares of “IDGC of the South” JSC fully meet the requirements set by the trade organizer for keeping in quotation list B of MICEX.

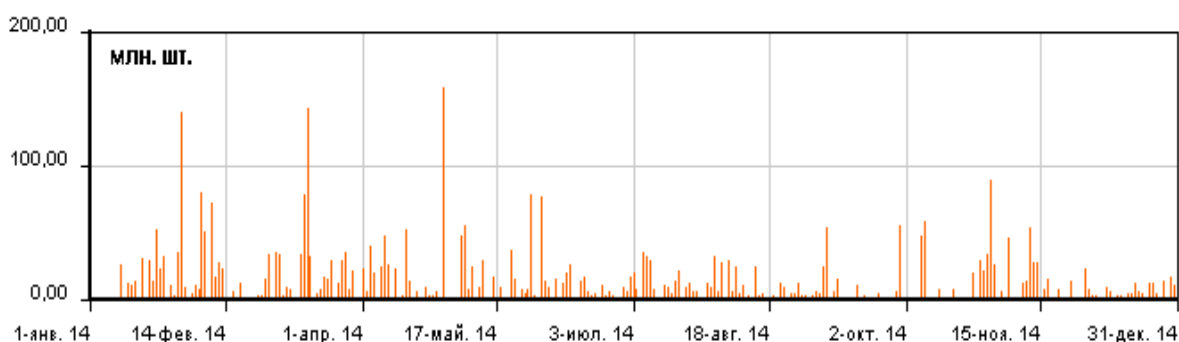
### Quotations and Trading Volumes in 2014

(01.01.2014 - 31.12.2014)

Trade organizer	Volume, mln. Shares (market transactions)	Volume, rub. (market transactions)	Number of Market Transactions	Prices of transactions, rubles			
				first	maximum	minimum	last
MICEX	4 086.21	125.92	16 815	0.032	0.046	0.017	0.0309

In 2014 the total volume of Company’s share transactions on the “MICEX Exchange” CJSC amounted to **125.92 million rubles**.

### Share price performance, the MICEX index and MICEX-Energy index in 2014 (according to MICEX Exchange)



According to data from the “MICEX Stock Exchange” CJSC, the market capitalization as of 31.12.2014 amounted to **1 579 011 745.23 rubles**.

This decrease in the market capitalization of “IDGC of the South” JSC occurred against the backdrop of a decrease of the MICEX Energy index (by **22.75%**) and was due to the government policy aimed at curbing the growth of tariffs for power transmission.

AS of 31.12.2014 Company’s shares were included in the allocation base of the index MICEX Energy.

## **5. Report on Sustainable Development**

### **5.1. HR Policy**

The main aim of HR policy adopted by “IDGC of the South” JSC is provision of balance in renewing the staff and keeping the skilled specialists.

Construction of the Company's personnel policy is based on a set of principles, forms and methods of preserving, strengthening and developing of personnel potential, creation of high-skilled team able to react promptly to changing market requirements. Work with human resources at JSC "IDGC of the South", involves the following tasks:

- to achieve full quantitative and qualitative compliance of professional and qualification of personnel with positions and employment structure of the Company, taking into account the full range of requirements for the quality of personnel in the electric power industry;

- to ensure the continuity of traditions and the Company’s corporate values in the course of recruitment and training of specialists;

- to provide a high level of motivation for achieving the goals and objectives of the Company;

- to ensure a sufficient level of personnel satisfaction with working conditions in the Company.

The key objectives of the personnel and social policy are:



planning of necessity in new staff - ensuring the availability of reliable information on current and predictive amount and qualitative needs in the labour force, necessary and sufficient to perform the tasks assigned to the Company;

timely provision of the needs of the Company in personnel with required qualifications;

ensuring the efficiency of the staff, the growth of labor productivity.

These key objectives of personnel and social policy are achieved by implementing a set of measures in various areas of activity and achievement of the set targets:

in organizational design;

in the field of staff number management;

in the area of staffing and staff development;

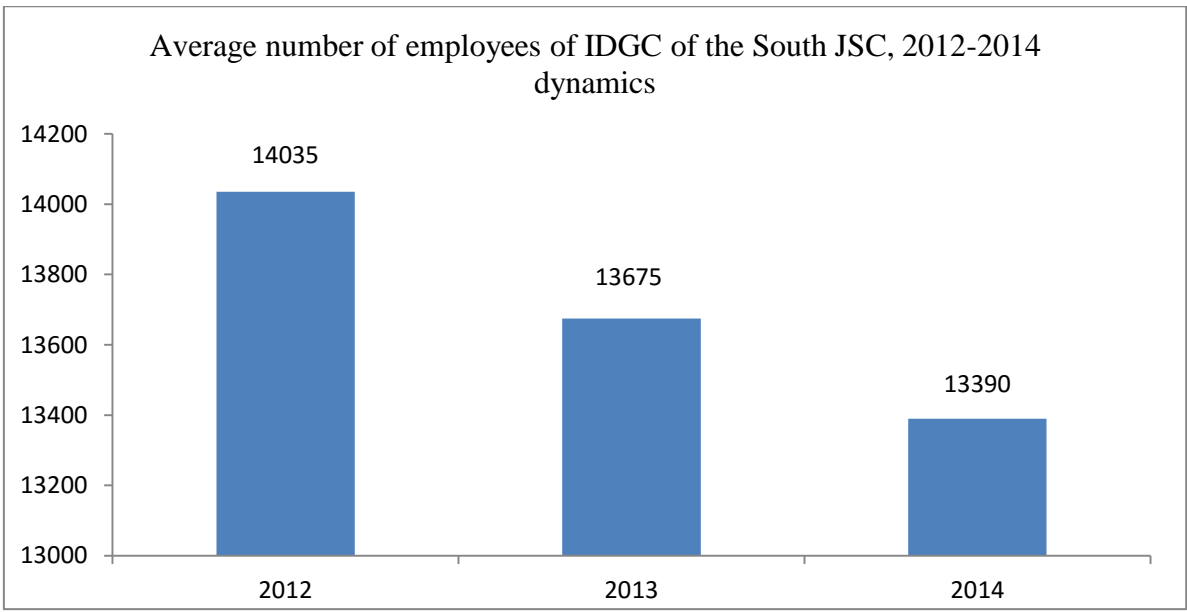
in the area of social benefits and guarantees;

in the security of staff and work culture.

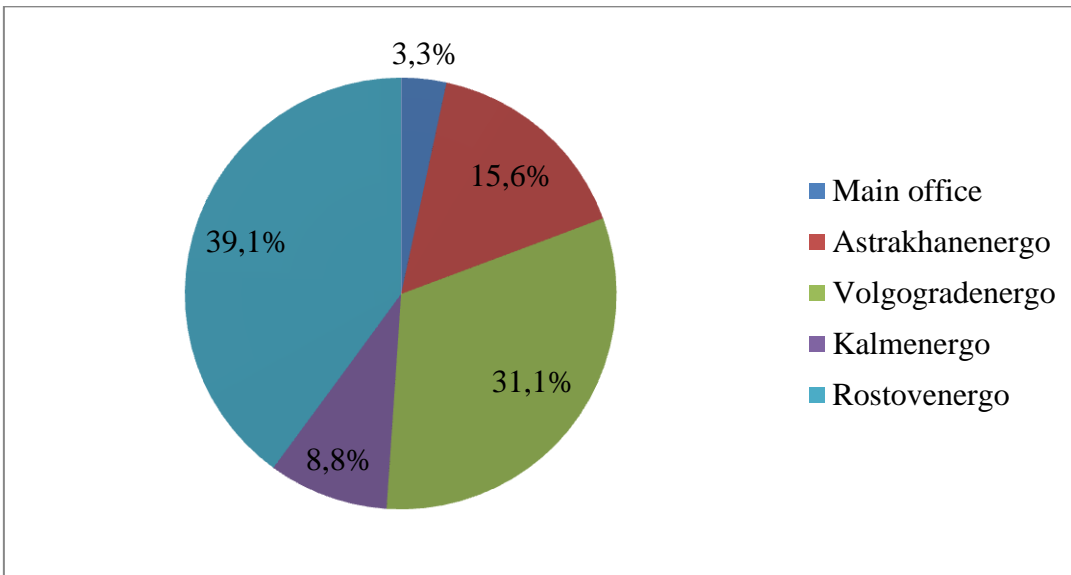
### **Staff composition**

The average number of “IDGC of the South” JSC employees in 2014 was 13390 people, decline in comparison to the previous year — 285 people (2.09%), to 2012 — decline 645 (4.6%) people.

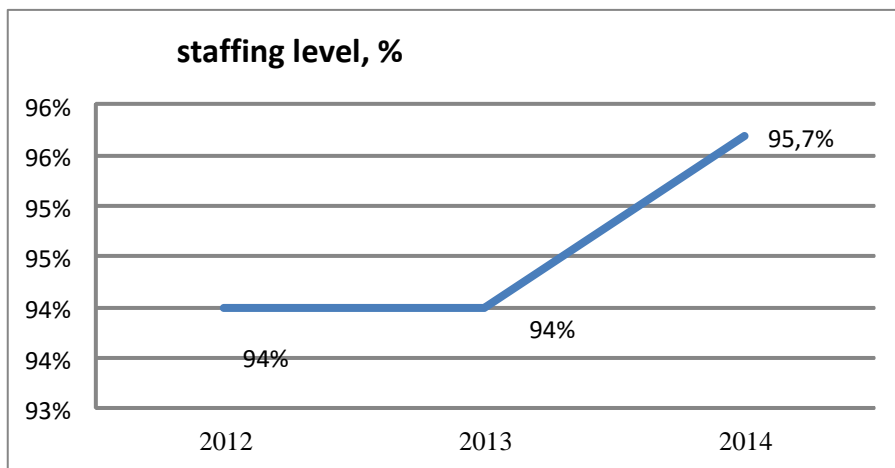
Reduction in the average number was caused by implementation by “IDGC of the South” JSC of a project to unite the executive office and administrative staff of the branch “Rostovenergo”, the implementation of measures to optimize the number of administrative personnel, as well as the natural movement of personnel.



Breakdown by the branches, 2014

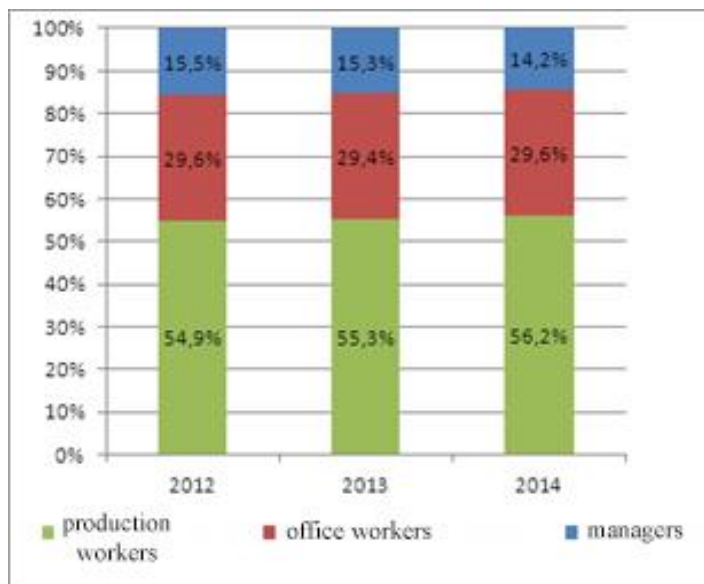


Staffing level, %



In general, the staffing level has increased in the Company in relation to the previous year by 1.7%. The growth of this indicator can be observed in all branches: “Astrakhanenergo” - by 1.5%, “Volgogradenergo” - by 0.8%, “Kalmenergo” - 1.6%, “Rostovenergo” - by 1.4%.

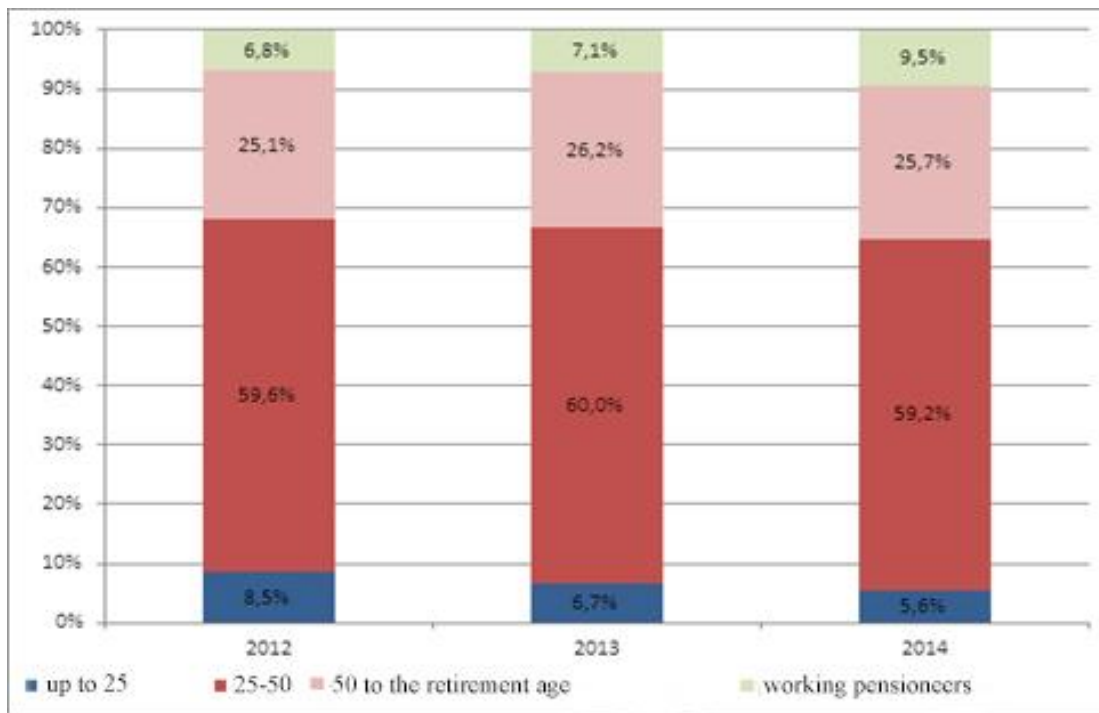
Personnel composition by categories, 2012-2014



The personnel composition by categories is now the best for the company that carries out activity on electricity transmission: a major proportion of workers - 56.2%; office workers - 29.6%, the top managers - 14.2%.

The share of personnel from the category of “workers” has increased in comparison with 2013 by 1.6% (compared to 2012 by 2.4%), the proportion of managers in the total number of staff over the last three years has decreased by 1.3 points (8%), due to the ongoing activities of the centralization of support functions of the management of the branch “Rostovenergo” at the level of the executive body of “IDGC of the South” JSC and optimizing the number of administrative staff.

Personnel structure by age in 2012-2014

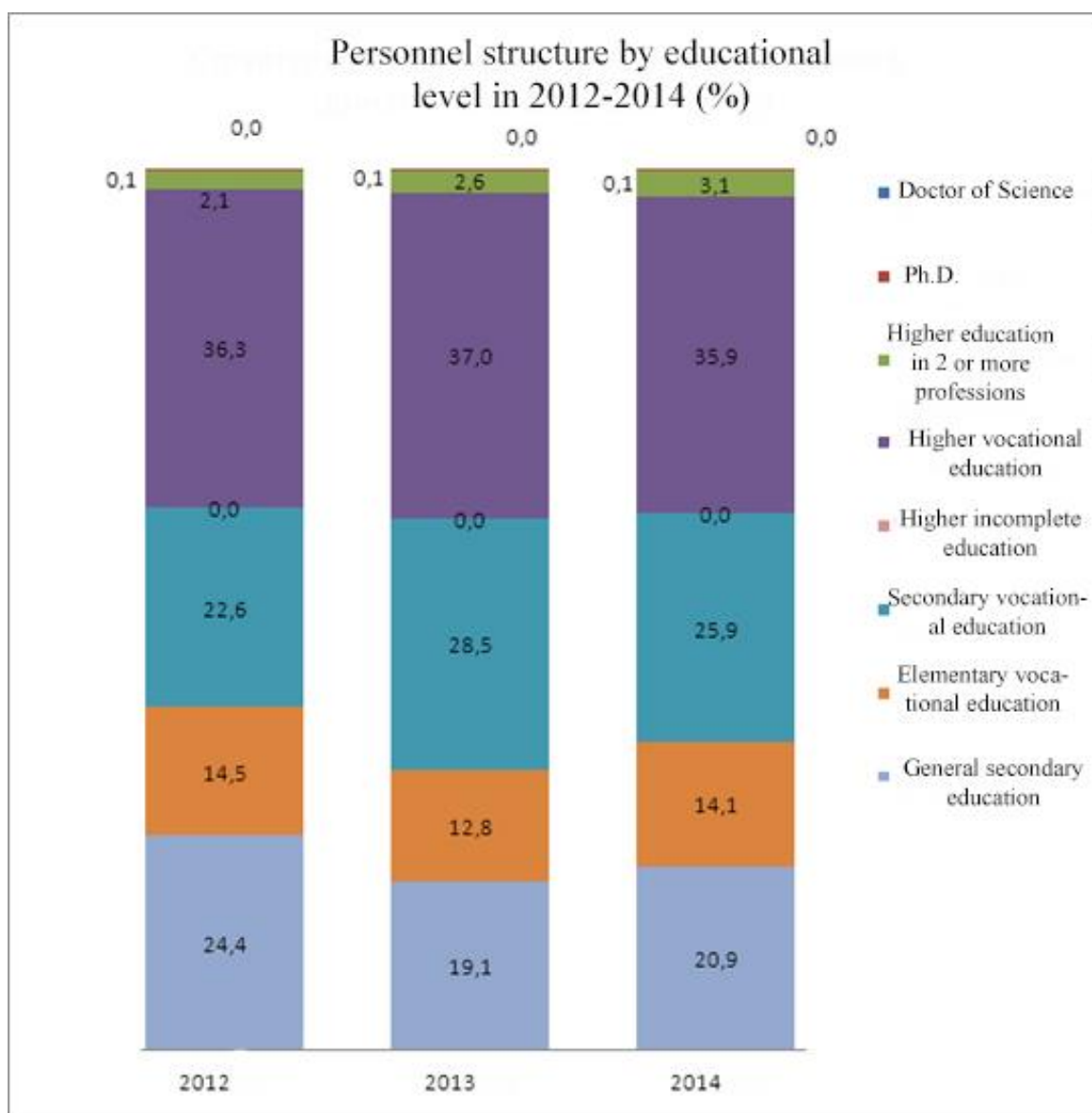


The analysis of the structure of personnel by age shows that in the basis of the human resource capacity of “IDGC of the South” are employees aged 25 to 50 (59.2%), but their share is decreasing every year. At the same time there is a decrease in the proportion of young professionals who in the future will be the basis for human resource capacity of the Company (by 2.9 percentage points compared with 2012), and an increasing proportion of workers older than 50 years (by 3.3 percentage points compared with 2012).

The average age of employees in 2014 was 42 (in 2013 - 43).

In order to retain and attract young specialists the Company supports professionally and socially the young professionals in order to attract them to company on priority key professions, the programme of replacement of staff of the senior age group for younger specialists in the branches of “IDGC of the South” was approved by the Board of Directors of “IDGC of the South” (Minutes of meeting No.51/2010 dated 27.07.2010), in which there is a close cooperation with the relevant institutions of secondary and higher education, work with the personnel reserve, rotation among young people and pensioners working for optimum balance and maximize the employment potential of employees.

#### Personnel structure by educational level in 2012-2014 (%)



The personnel of “IDGC of the South” is characterized by a high level of training of employees - about 65% of the Company's employees have professional education.

The number of employees who do not have professional education has increased compared to 2013 (9%), but remains below the level of 2012 by 14%.

In order to improve the qualification and professional level of the Company's employees, preemptive right is given to candidates with higher and specialized secondary vocational education.

### **Personnel training and development**

One of the most important activities in the area of the Company's personnel policy is the development of personnel capacity. The main role in this direction is

assigned to systematic, planned, and continuing professional training of personnel. The need for training and spheres are determined by the development strategy of the company and the level of professional competence of employees.

Personnel's training in the Company is carried out in accordance with the Provision for professional training, retraining and advanced training of the personnel of IDGC of the South, JSC, as well as with the Rules of HR management in organizations of the electric power industry in the Russian Federation approved by the Order of Mintopenergo of Russia.

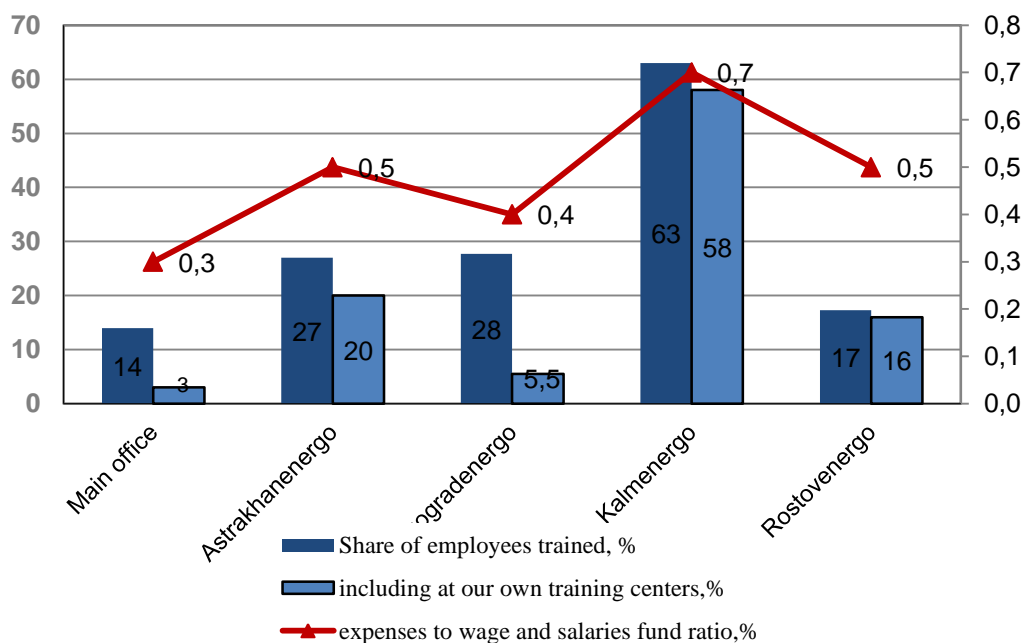
Training is held for all categories of employees in the following fields:

- short-term training, seminars and problem-targeted seminars in the spheres of: building control, corporate governance, human resource management, tariff regulation, technical supervision, health and safety;

- retraining of managers in educational institutions for in-depth study of the actual problems of professional activity;

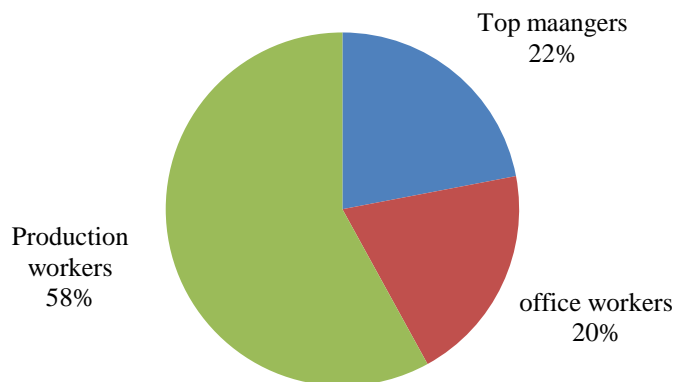
- pre-examination training of decision-makers in the field of industrial safety.

In 2014, 3443 employee or 26% of the Company's personnel attended education projects on off-the-job scheme. Pre-attestation training and technical training are implemented at workplaces and in the format of self-tuition.



## Share of employees participated in training events, ratio of expenses on employees training and wage and salaries fund in the reporting year, %

Considering the specifics of the Company's activities and objectives of the training, the structure of the employees participating in educational activities is characterized by the prevalence of production workers.



## Distribution of employees by categories

On the basis of the Company's corporate training centers 2249 people have been trained, it's more than 60% of the employees participating in training activities.

## Information on training centres of “IDGC of the South” JSC



The Company is the founder of two licensed training centers: “Energetik” in Rostov-on-Don and Astrakhan educational centre, they prepare programmes of vocational training for production workers and programmes of additional vocational training. Corporate training centers have modern teaching methods, materials and technical base, a library fund, provide practical skills at the networks.

In 2014, it continued its cooperation with the major educational organizations engaged in training programmes of additional professional education, including the Company's corporate training centres and partners in Moscow, St. Petersburg, Krasnodar and in other regions of Company's presence.

Interaction with educational organizations is conducted in the direction of providing prospective staffing of the Company. It is not only the Company's employees who participate in the educational process, but organization of practices and internships, and career guidance work, organization of Open Days at the production facilities of the branches for students of universities, colleges and high school to participate in career fairs.

In order to provide practice-training of young specialists, "IDGC of the South" is actively supporting the modernization of the training base of the branch of Moscow Power Engineering Institute in Volzhsky. The main areas of cooperation were defined, among which the modernization of teaching and research laboratories of the Volzhsky branch of Moscow Power Engineering Institute, the organization of industrial practice of students.

For the purposes of employment and further education of youth, the Company in cooperation with the South Russian State Polytechnic University named after M.I. Platov organized the student construction teams. In 2014 in the summer 3 student teams (80 students) worked at the facilities of "Rostovenergo" and "Volgogradenergo".

Students had a great opportunity to try themselves in their future profession and apply their theoretical knowledge. Activity on attraction of promising young employees is one of the most important areas of human resources policy of "IDGC of the South" and crucial for the company's development.

### **Relations with personnel reserve**

Working with the personnel reserve is one of the Company's priorities in the field of human resources development, which is essential for:

- the need for timely provision for the Company of highly productive professionals and leaders who can successfully solve tasks;



- continuity of professional and managerial experience;
- reduction of the adaptation period prescribed for the posts of the employees;
- allocation of workers with significant potential to generate new ideas, values and corporate culture of the Company;
- to create additional opportunities for growth of the most competent employees with high potential for development;
- motivating employees to further professional development, the solving of more complex problems, enlargement of the area of professional liability;
- prioritization of investment in the development and training of employees.

In 2014, work with the personnel reserve of the Company was governed by the local regulatory documents of the Company – the Regulations on the personnel reserve of “IDGC of the South” approved by the order of “IDGC of the South” No.83 dated 17.02.2012 and the Regulations on the personnel reserve of young specialists of “IDGC of the South” JSC and external personnel reserve of young professionals from the students of specialized educational institutions, approved by the order of “IDGC of the South” JSC NO.2014 dated 17.04.2012.

According to these documents, in 2014 the Company had administrative and youth personnel reserve formed at the level of the Company's executive office and branches.

Management personnel reserve formed at positions:

in the Executive Office of the Company:

- heads of departments;
- heads of directorates,
- heads of services, departments, centres, treasury;
- deputy director of the branches;

company's branches:

- heads of subdivisions;
- heads of departments, services, divisions, sectors and groups;
- managers/chief engineers of production divisions, distribution zone, groups of substations;

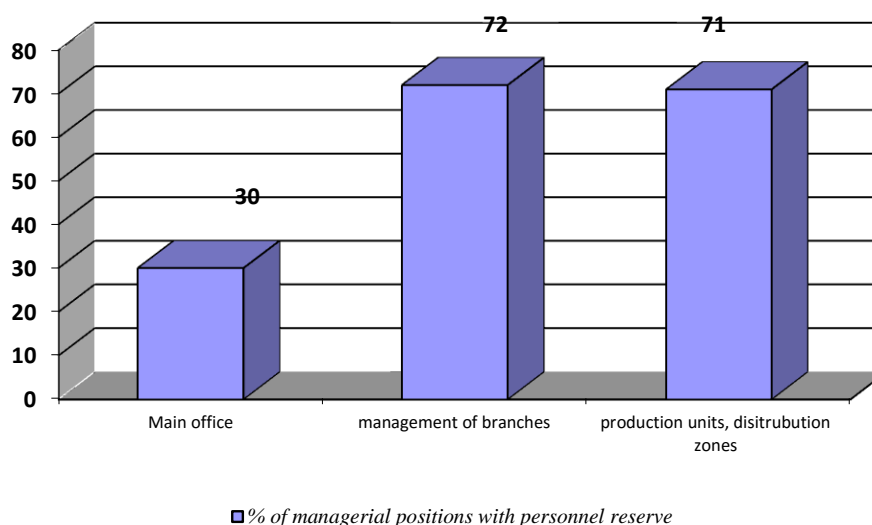
- heads of production units;
- craftsmen.

The main criteria for inclusion of an employee in the managerial personnel reserve are:

- high professional qualification;
- high production results;
- work experience in certain positions;
- availability of personal and business capacity for professional development and career growth.

Currently managerial personnel reserve of the Company includes 1 305 employees of executive office and branches of the Company.

### Management positions in personnel reserve of “IDGC of the South” JSC as of the end of 2014



### Provision of managerial positions with personnel reserve

Low level of provision of target positions in executive body of the Company with personnel reserve is explained by institutional changes implemented in 2014. In particular cases the Company notes a lack of candidates of appropriate age/experience etc.

For members of managerial personnel reserve the individual training plans for one year were developed to acquire professional knowledge and skills. The

following forms and methods of development of managerial competences are included in plans: participation of reservists in staff training, participating in creative teams for solving of technical and organizational problems, short term substitution of target positions for the period of absence of regular worker, preparation of projects of documents, instructions, reports, participation in training, participation in development of training programmes, methodological recommendations and self-training.

Number of management personnel reserve at the end of the reported period amount 1305 people.

From 2011 the Company implements the programme on work with youth personnel reserve.

Forming and work with personnel reserves of young specialists of the Company are implemented for the following purposes:

- Creating of opportunities for professional development and career progress of young specialists;
- Assistance in development of their professional and managerial training;
- Training of highly experienced and effective specialists and heads for the Company;
- Timely and quality staffing of free and new positions of the Company.

63 young employees of executive body and “IDGC of the South” JSC were included in personnel reserve of young specialists of the Company, who want to build career in electric power complex, and have high potential to develop professional and managerial competences.

In accordance with individual plans of development the reservists during 2014 participated in training programmes, counseling seminars, visited further education courses in the following spheres:

- monitoring and analysis of losses, services implementation on issues of operating of retail markets of electric energy, methodological instructions on calculating of retail markup of guarantee supplier;

- relay protection;
- operational and dispatching control of electric networks.

Members of personnel reserve of Company’s young specialists participated in industry events to develop professional skills:

- forum of young power industry specialists and manufacturers “Forsazh 2014”;
- 3<sup>rd</sup> International forum on power efficiency and power saving ENES 2014.

As part of the work with personnel reserve the Company implements staff appointments of the most effective employees: appointment for the target positions and career progression.

Appointments for higher positions from personnel reserves of the Company by the results of 2014:

Type of personnel reserve	Number of reservists appointed at higher positions, people	
	Target positions	Other
Management personnel reserve	68	6
Youth personnel reserve	7	4

In 2014 taking into account the integration of unified system of work with personnel reserves in electric grid complex the changes in list of target positions were occurred, the composition of management personnel reserve of the Company. New operational procedures with personnel reserve of the Company was put into operation by Regulation on personnel reserve of “IDGC of the South” JSC approved by order of Director General No. 9 dd. 13.01.2015.

### **Social responsibility**

The basic principles of the social policy of “DGC of the South” JSC are creating comfortable working conditions and rest environment for employees, increasing their social security and improving work and social relations in the team.

“IDGC of the South” JSC pays much attention to social support of Company’s employees to motivate workers. Benefits and guarantees of the Company, social programmes and programmes of employees’ support allow to attract and save the

most valuable staff, to strengthen condoning attitude of employees to the Company, to help the Company to reach goals.

As a result of implementation of collective-contractual campaign on the basis of Sectorial Tariff Agreement (OTS) in electric energy industry of the Russian Federation for 2013-2015 the unified Collective Agreement of “IDGC of the South” JSC was signed.

The Clauses of the Collective Agreement have attained the following aims: a common approach to forming obligations is ensured, common social guarantees are formed for the Company’s employees, list of most demanded social benefits and guarantees is formed in order to retain the qualified personnel and maintain social security of personnel and their family members; Clauses of the Collective Agreement were optimized with regard of the reality of their fulfillment. The Collective Agreement is valid from 01.07.2013 until 31.12.2015.

Fulfilling obligations towards Company’s workers, adopted by the employer under the collective agreement regulation, is an essential part of activities of “IDGC of the South” JSC.

#### Key documents in the sphere of social policy

Document	Approved
Sectoral tariff agreement in the electric power industry of the Russian Federation for 2013-2015.	The sectoral tariff agreement was signed on 18.03.2013 by A.V. Zamoskovny, General Director of the Russian national Sectoral Trade Association of Employers in the Electric Power Industry and Valery N. Vakhrushkin, Chairman of the Public Association Russian Elektroprofsoyuz.
Collective agreement of IDGC of the South, JSC for 2013-2015	The collective agreement is valid from 01.07.2013 to 31.12.2015, and was signed on

	14.11.2013 by V. F. Vashkevich, General Director of IDGC of the South, JSC, and by Yu.A. Kulish, Chairman of SPPPO IDGC of the South, JSC, representative of the united body of primary trade union organizations of IDGC of the South, JSC.
Code of Corporate Governance of “IDGC of the South” JSC	Order of “IDGC of the South” JSC No. 596 dd. 12.10.2012
Regulation on Non-State pension provision of “IDGC of the South” JSC employees	Decision of “IDGC of the South” JSC BoD dd. 29.12.2012 (Appendix No. 9 to Minutes No. 102/2012 dd. 11.01.2013)
Regulation on providing of insurance coverage of “IDGC of the South” JSC	Decision of “IDGC of the South” JSC BoD dd.30.09.2013
Regulation on entitlement of pension and recreational children’s camp vouchers to employees of “IDGC of the South” JSC	Decision of “IDGC of the South” JSC BoD dd. 15.06.2012 (Appendix No. 4 to Minutes No. 91/2012 dd. 18.06.2012)
Regulation on additional benefits, guarantees and remuneration for employees of executive body of “IDGC of the South” JSC	Order of “IDGC of the South” JSC No. 589 dd. 29.09.2011

#### Material assistance

To develop and improve working conditions and living standards of “IDGC of the South” JSC employees the Company allows for workers additional social benefits and guarantees. As part of social package the material assistance in emergency situations is provided (child birth, marriage registration, funeral of immediate

relatives, retirement and other types of benefits provided by Collective Agreement.

Material assistance payments in the Company are made in accordance with conditions of Collective Agreement (Chapter 6 “Additional benefits, guarantees and compensations”) and decisions of the Commission on social benefits.

**Amount of finances aimed to material assistance for employees**

Branch	2012 (thousand rubles)	2013 (thousand rubles)	2014 (thousand rubles)
Astrakhanenergo	7 652,6	11 478,5	13 934,7
Volgogradenergo	23 240,65	23 178,5	27 838,63
Kalmenergo	1 060,705	864,573	951,84
Rostovenergo	34 524,3	30 719,7	33 744,5
Main office	1 042,33	801,74	811,76
<b>Total</b>	<b>67 520,58</b>	<b>67 043,01</b>	<b>77 281,43</b>

Material assistance of all employees in 2014 amounted 77 281.43 thousand rubles, in 2013 - 67 043.01 thousand rubles, increasing of expenditures amounted 10 238.42 thousand rubles (15,3%), the increasing is connected with changing of material assistance in connection with indexation of minimal monthly tariff rate (MMTS).

Employees of branch insurance was implemented in accordance with “Regulation on providing of insurance coverage of “IDGC of the South” JSC”, the Financing implemented as part of “Insurance coverage programme of “IDGC of the South” JSC for 2014” approved by decision of “IDGC of the South” JSC Board of Directors dd. 19.12.2013 (Minutes No. 121/2013 dd. 20.12.2013).

In accordance with “Regulation on providing insurance coverage of “IDGC of the South” JSC” all employees of the Company are ensured by Agreement of optional medical insurance and accident and illness insurance.

Work on non-state pension coverage (hereafter - NPC) with non-state pension fund of electric energy industry (hereafter – NPF of electric energy industry) was organized in accordance with Collective Agreement of “IDGC of the South” JSC

for 2013-2015 and Regulation on non-state pension coverage of “IDGC of the South” JSC employees.

“Priority plan” programme was acted in the Company in 2014.

During 2014 Company’s employees received 370 awards for development of electric energy industry of the country. Three employees were awarded with Thankfulness of the Government of the Russian Federation.

26 employees received awards of electric energy industry Ministry of the Russian Federation: title of honor “Honorable employee of Fuel and Energy Complex” received 1 worker; title of honor “Honorable electric energy industry employee” received 4 workers; Certificates of Merit and Gratitude received 21 workers.

Industry awards of all-Russian industrial association of employers received 19 workers: 3 employees were awarded with title of “Electric energy industry veteran”, 16 employees were awarded with Certificates of Merit.

28 employees were awarded with corporate rewards of “Rosseti” JSC: 1 employee was awarded the honorable title “Honored worker of electric grid complex”, 1 employee was awarded with badge of honor of second class “For contribution to the development of electric grid complex”, 1 employee was awarded the honorable title “Electric grid complex veteran”, 1 employee awarded with award pin “For professional skill”. 23 employees were awarded with Certificate of Merit and Gratitude of “Rosseti” JSC, 1 employee’s name was added to the Honours Board of electric grid complex.

52 employees were awarded with Certificates of Merit and Gratitude of “IDGC of the South” JSC, 10 employees’ names were added to the Honours Board of “IDGC of the South” JSC, and 58 employees’ names were added to the Honours Boards of “IDGC of the South” JSC branches.

As part of implementation of social programme aimed to health care and recreation of employees and their children, 258 employees’ children were sent to health care camps and 495 employees and their family members were sent to health resorts in 2014.



Children camps vouchers were purchased in accordance with approved business-plan of “IDGC of the South” JSC and on the basis of Regulation on providing of vouchers in pensions and health care children’s camps of “IDGC of the South” JSC.

To develop and strengthen corporate culture, increase staff cohesion, develop employees’ motivation and forming of healthy lifestyle in the Company in 2014 the following sport and mass cultural events were carried out:

1. Congratulation with 71<sup>st</sup> anniversary of liberation of Rostov-on-Don from Nazi invaders.
2. Children drawing contest dedicated to first Birthday of “Rosseti” JSC – “Rosseti: children’s drawings”.
3. Futsal tournament on “IDGC of the South” JSC Director General Cup.  
During the tournament the Company also held competition in darts, billiards, and competition of family teams “Mom, dad and me – are sportsmen”.
4. Celebration of 69<sup>th</sup> anniversary of the Victory Day in the Great Patriotic War.
5. Celebration of Children’s Day.
6. Participation in International forum of young power industry workers and manufacturers “Forsazh-2014”.
7. To instruct children on electric safety.
8. Work of student construction brigade was organized in accordance with Agreement on strategical cooperation with South-Russian State Polytechnic University (YuRGPU (NPI).
10. Organization of 4<sup>th</sup> Interregional Youth Forum of Union of young specialists of “IDGC of the South” JSC.
11. Participation of young specialists of “IDGC of the South” JSC in the 3<sup>rd</sup> International Forum on energy efficiency and energy saving ENES 2014.
12. Participation in 4<sup>th</sup> chess competition of power industry workers in memory of Botvinnik M.M.
13. Holding of Doors open day for students of universities and academies.
14. Celebrating of Power Engineers’ Day in December of 2014.

Veterans Council operates in the Company and it unites 2377 retired pensioners, including 1260 veterans of power industry and 236 veterans of the Great Patriotic War. Veterans Council cooperates with Council of young specialists, management board and primary trade union organizations to carry out social events. Meetings of members of Veterans Council with members of Council of young specialists were organized in 2014.

### **Key performance indicators**

The system of performance indicators of Director General was created on the basis of:

- resolution of the Board of Directors dated 29.12.2012 (minutes of meeting No.102/2012 dated 11.01.2013).

The system of key performance indicators shows the level of implementation of aims and tasks of the Strategy of power grid development, approved by the resolution of the Government of the Russian Federation No.511-p dated 03.04.2013. The milestones of the Company's system of key performance indicators include:

- Enhancement of reliability and quality of power supply
- Safety enhancement
- Reduction of investment and production costs
- Implementation of the investment programme

In 2014 the following set of key performance indicators was used:

Annual KPI (key performance indicators):

KPI status "Conditions to be observed in order to receive bonuses":

1. Presence of net profit.
2. Reduction in the cost of acquisition of goods (works, services) per unit of production by at least 10 percent a year within three years in real terms in 2010 prices.

KPI that determine the size of bonuses:

1. Reliability.
2. EBITDA.

3. The effectiveness of innovation.
4. The loss of electricity relatively to supply to the grid.
5. The level of quality of services.
6. The effectiveness of investment activity.

Quarterly KPI:

KPI status “Conditions to be observed in order to receive bonuses”:

1. Absence of fatal industrial accidents or group accident, if there is a victim with severe outcome due to an employee’s failure to perform (not proper performance) of their duties.
2. Preparation of (the presence of) certificates of readiness in due time (1, 4 quarters).

KPI that determine the size of bonuses:

1. Reliability.
2. Control of operating cash flow
3. Efficiency of investment activity

Approved annual KPI targets for 2014 were fully achieved. The index of annual KPI performance is 100%, quarterly - 94%.

## **5.2. Environmental Policy**

### **Implementation of key tasks and activities of the Company in the sphere of environment protection in 2014**

“IDGC of the South” JSC developed in 2014 a programme aimed at compliance with the legislation of the Russian Federation in the field of environmental protection and rational use of natural resources and ways of reducing the negative environmental impact of production activities to implement the Company’s environmental policy. To achieve the goals of the Environmental policy, practical measures were developed for air protection, as well as protection and rational use of land and water resources and wildlife protection.

Implementation of the programme for protection and management of water resources was held under the conditions of the license agreements. In 2014, exploration works were performed, calculation of operational stocks of

underground waters with the state examination materials, exploration of groundwater with the calculation of operating reserves of groundwater was performed, water diversion project and technological schemes for the development of groundwater for separate wells.

Under the terms of the license agreements in 2014 in all areas of subsoil the Company monitored groundwater status according to the developed and registered by the Subsurface Resources Administrator programme (monitoring of groundwater level, taking into account water consumption, measuring the level and temperature, the sampling on the bacteriological and chemical analysis, determination Physical properties of the water).

In total in 2014 "IDGC of the South" had 17 licenses for the right for subsurface use for underground water abstraction: 5 licenses in the branch "Volgogradenergo" and 12 - in the branch "Rostovenergo".

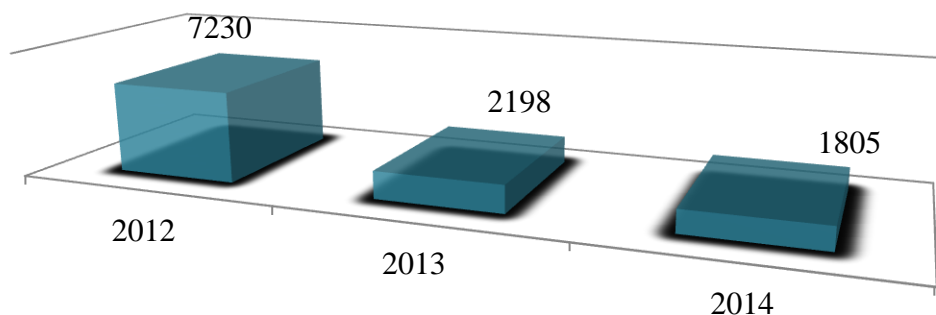
Activities planned and implemented in 2014 for the protection and rational use of land, include control over the collection and storage of industrial waste (tires, scrap metal, used transformers, batteries, spent mercury-containing lamps, waste oils, etc.), timely removal by transport of specialized organizations, landscaping at production units, fight against quarantine weeds.

Within the framework of the implementation of measures to protect air quality the branches of "IDGC of the South" carried out the production analytical control of emissions from stationary sources by instrumental measurements of pollutants in industrial emissions by specialized accredited laboratories. During the annual state technical inspection of vehicles the diagnostics of emissions was carried out. In order to reduce the toxicity the company adjusted carburetors and fuel equipment of internal combustion engines, as well as reequipped vehicles to run on liquefied natural gas.

In 2014, for certain production sites "IDGC of the South" developed and approved in state authorities the regulations on major environmental impacts, obtained the necessary permits.

Timely standardization of the negative impact on the environment and obtaining permits eliminates the need to pay excessive fees and penalties.

The amount of payments for negative impact on the environment from the activities of "IDGC of the South" is specified here in thousand rubles:



In addition, in 2014 in pursuit of the main goals of the Environmental Policy "IDGC of the South" and reduce the size of the payments have been taken the following measures:

- timely confirmation of the stability of the production process and raw materials that determine the types and classes of environmental risk of the wastes, as well as standards and volume of its production;
- waste of hazard classes I-IV was removed from sites under agreements with specialized organizations. All industrial waste was transferred with a transfer of ownership, thus the branches did not have to pay for dumping the waste at storage sites and waste disposals;
- carbon monoxide in motor vehicle exhaust was monitored and timely repairs were made to vehicles;
- certified fuel was used;
- organizational and technical measures were carried out in periods of unfavourable weather conditions;
- after the entry into force of the new order on certification of waste and federal classifier waste catalog reissued passports waste and transferred to the territorial bodies of Federal Service for Supervision of Natural Resource Usage (Rosprirodnadzor) in the relevant regions of the Russian Federation.

Reduction of the negative impact on the environment was the goal of “IDGC of the South” during a range of technical activities:

- in the framework of the multi-year programme in installation of bird diverters on 6-10 kV overhead lines in 2014 the branch “Volgogradenergo” purchased and installed 3541 devices and branch “Kalmenergo” purchased and installed 330 devices. The environmental effect of the implementation of these measures is to protect birds, among which there are rare species, near power lines from electric shock;
- in the long-term schedule in 2014 the company continued to decommissioning and disposal of equipment containing polychlorinated biphenyls. Events held in the framework of implementation of the requirements set by the Russian Federation in 2001, the Stockholm Convention on the withdrawal of process equipment containing persistent organic pollution.

Total expenses of “IDGC of the South” on environmental protection in 2014 amounted to 12 971 thousand rubles.

#### Dynamics in 2012-2014

Expenses	2012, thousand rubles	2013 , thousand rubles	2014 , thousand rubles
Total expenditures on environment protection	13 460	12 586	11 186

Implementation of the most significant events in the field of environmental protection in 2014

List and information on the costs of the most significant events in the field of environmental protection in 2014

Activities	Costs, thousand rubles	Effect achieved
Measures for rationing negative effects on the environment, obtaining permits in the field of air and waste management.	1 571	Identification of safe levels of exposure to the environment in company’s business activities, obtaining of approval documents.

Disposal of industrial waste, including those containing polychlorinated biphenyl and oil-water sludge	816	Prevented environmental pollution by waste from production and consumption, excluding land pollution
Monitoring of emissions of pollutants in the air (instrumental measurements by an accredited laboratory according to the schedule of control of maximum admissible discharge)	640	Monitoring of compliance with safe levels of exposure to the environment in its business activities
Activities on implementation of the license conditions of the Licenses for subsoil use including:	2 549	Compliance with licensing agreements and ensuring the rational use of mineral resources
Exploration of underground waters and the implementation of geological report with the calculation of operational stocks of underground waters for technical water supply to industrial object		
Monitoring studies of groundwater in the waterworks		
<b>Total</b>	<b>5 576</b>	

### The main tasks of the Company in the sphere of environmental safety for 2015

The company set forth the following key tasks in the field of environmental protection for 2015:

- provision and control of a safe level of emissions of pollutants into the air from stationary and mobile sources;
- development of a database to ensure activities in the field of waste management;
- improving the competence of employees admitted to activities on ensuring of environmental safety;
- evidence of compliance with the established standards for waste generation norms;
- ensuring security in the area of migration and habitat of birds;

- informing the authorities about the quantitative and qualitative state of natural objects in the area of the negative impact of “IDGC of the South” JSC;
- the exception of land pollution and excessive accumulation of waste at the production sites;
- performance of the duties of making timely payments for negative impact on the environment;
- safe use of mineral resources and compliance with licensing agreements.

#### [Relations with concerned parties](#)

In 2014 the employees of “IDGC of the South” and representatives of non-governmental organizations, mass media, bodies of executive power of the state and regional level participated in the events organized in the framework of the Russian social and economic action “Distribution grid complex - for the environment protection” and targeted communication programme “Save the energy of the forest”.

In 2014 the Company organized an Ecological Action “Planting trees”; the project was timed to the Russian Ecological cleaning days, implemented in Rostov, Volgograd and Astrakhan regions and the Republic of Kalmykia. Project goals and objectives:

- improvement of urban sites as well as areas adjacent to the transmission facilities of “IDGC of the South”;
- support and development of social eco-tourism population, based on the conscious, voluntary, organized labour, aimed at improving the environment;
- handing to young employees of the company the habits of sharing voluntary work for the benefit of the environment (environmental education of young people);
- sanitary cleaning and beautification of urban areas, including adjacent facilities of “IDGC of the South”.



In December 2014 to assess the management system developed and implemented in “IDGC of the South”, “SGS” CJSC conducted a supervisory audit of departments of the executive office and manufacturing sites of “Kalmenergo”:

From 1 to 5 December 2014 on the basis of the executive office, production division of Kalmykia electrical network, Iki-Burulsky and Priyutnensky distribution zones of “Kalmenergo” branch;

On 3 December 2014 in the executive body of “IDGC of the South” JSC.

The audit management system developed and implemented in “IDGC of the South” JSC was recognized as the corresponding to conditions of the international environmental management, requirements of ISO 14001: 2004 “Environmental Management Systems”.

### **5.3. Customer-centric policy**

The customers of “IDGC of the South” JSC are individuals, entrepreneurs and legal entities receiving services at operational area of four branches of “IDGC of the South” JSC:

- Astrakhanenergo
- Volgogradenergo
- Kalmenergo
- Rostovenergo.

In order to improve relationships with customers in the company “IDGC of the South” JSC approved in 2011 the “Customer-centric policy of “IDGC of the South”(Order No.56 dated 07.02.2011), as well as a policy of engagement with society, consumers and the authorities of “Rossetti” (extract from the minutes of the Board of Directors of “IDGC of the South” JSC meeting No.140/2014 dated 08.15.2014) in order to create a convenient and comfortable environment for clients in collaboration with all the structural units of “IDGC of the South” on the basis of uniform rules, ensuring equity and access to services and ensure the transparency of these relationships.

The customer-oriented policy explains the obligations of the Company to customers, as well as management’s position regarding customers’ problems. The

Company's management sees the purpose of the customer-oriented policy as creating convenient conditions for customers interacting with all structural divisions of the Company based on uniform rules that guarantee equality and availability of services. Adoption of the customer-centric policy was a decisive step towards an open and trusting relationship between "IDGC of the South" JSC and its customers.

Also to improve the quality of consumer service, service etiquette, business processes, face-to-face and remote interaction with customers and evaluation of customer service, the Resolution of the Board of Directors of "IDGC of the South" JSC of October 19, 2011, approved the organizational Standard of the Centralized Customer Service System in "IDGC of the South" JSC — STO 80380011-IA-ISM 028-2011.

### 1. Guiding principles for customer affairs

Basic principles of work with consumers include:

- provision of information to consumers about the company and its services (information is provided in accessible formats for consumers and is public);
- territorial availability and comfortable service in "IDGC of the South" (the location of the branches, customer centres and conveniently organized service determined in accordance with the requirements of the Standard;
- the availability and timeliness of correspondence and interactive services of company (the company organized round the clock access, as well as through electronic document management);
- competent service (organization of all forms of service is carried out by a competent and qualified staff);
- the transparency of the business processes of customer service and objective review of consumer complaints (procedures for interaction with consumers formalized and understandable that provides an objective impartial examination of complaints in a timely manner, as well as the opportunity to appeal the decisions).

### 2. Types of services and customer centres

The system of centralized customer service includes 9 centres and 108 offices for technological connection; the total amount of employees involved in customer services is 184.

“IDGC of the South” JSC processes applications received from customers in both oral, written form or in a form of an electronic document.

The face-to-face communication with customers is arranged at customer service centres and offices. The most popular issues the customers are addressing with are applications on rendering of services, requests of information and consultations. The most popular subjects area: technological connection to electric networks, commercial accounting of electric energy, limitation of energy consumption, additional/extra services.

In 2014 the employees of customer service centres of “IDGC of the South” JSC received and processed 167 540 applications on various topics, 18 357 applications for technological connection and 51 312 applications on rendering additional services.

The Company also provides its services by telephone, mail, the Internet Online interactive service for consumers is organized on the basis of the section “Clients” at the corporate website of “IDGC of the South”. In this section, the following links are available:

- “Customer Service Centres” (contact information of all offices and customer service centres, customer service standards, customer profiles);
- “Electricity transmission” (normative documents, standard forms of documentation, tariffs, the balance of electric power, etc.);
- “Grid connection” (regulations of grid connection, standard forms of documentation, information on availability of free capacity in the context of feeding centres, information about the bids and contracts);
- “Commercial accounting of electrical energy”;
- “Additional Services” (price list);
- “FAQs/Feedback” (contains links “question-answer”, “appeal / complaint”);
- “Development prospects”;

- “Tariff Rates”;
- “My Account” (application for technological connection of power up to 150 kW in terms of voltage up to 10 kV and tracking of pending applications on the portal of “Rosseti” for customer relations: портал.тп-рф).

These sections fully reflect the information on the activities of companies that are subject to mandatory disclosure in accordance with the disclosure standards of the wholesale and retail electricity markets, approved by the RF Government Decree No. 24 dated 21.01.2004).

For clients of “IDGC of the South” JSC there is a single toll-free hot line 8-800-100-70-60 (for maximum comfort before connecting the consumer with a specialist company listens to the voice menu). Throughout the 2014 the call center operators (hereinafter CPC) of “IDGC of the South” received and processed 15 563 applications from consumers depending on the subject and treatment in accordance with the standards and other internal normative technical documents of the Company, providing prompt, high-quality customer service.

### 3. Activities accomplished in this year the planned ones

Activities implemented in 2014 and aimed to improve the quality of service:

- As part of the order No. 110 dated 26.02.2014 “On the optimization of business process in rendering services to consumers on the other supplementary activities” three standard forms of documents were introduced to arrange work on the replacement of electricity meters;
- Changes to the Regulation of grid connection of energy receiving devices of consumers, facilities for the production of electric energy and transmission facilities owned by grid companies and other persons to electric grids of “IDGC of the South” in terms of determining the procedure for recovery documents on technological connection and approval of standard forms for application for renewal of documents;
- For employees of customer service centres and offices the company arranged a seminar in the form of videoconference on “Improving the quality of services in the power industry”;

- In order to ensure compliance with the Standard of “IDGC of the South”, repairs were carried out in the premises of the customer service centres and offices, as well as copy machines and wall split air conditioners were installed;
- In order to increase regional availability of service centres for the receipt of applications for technological connection the company concluded an agreement on cooperation with the ISU PO “Multifunctional center of state and municipal services” for accepting applications for grid connection on the basis of the Multifunctional center;
- Conduct a campaign to popularize the on-line resource for receiving applications for technological connection;
- The list of additional services: a price list with comprehensive services on replacement of the metering devices;
- In order to increase transparency of the business processes during interaction with customers, to promptly solve problematic issues of technological connection the Company arranged at the branch of “IDGC of South” JSC – “Rostovenergo” the project “Customer days at “IDGC of the South” JSC, in which the applicants had the opportunity to directly ask questions to the management of “IDGC of the South” JSC.

[Activities planned for 2015 and aimed at enhancement of the quality of rendered services:](#)

- Development and increase of the share of “IDGC of the South” JSC in the market of electrical services (formation of a single price list, the development of payment systems services);
- Reducing the number of consumer complaints (including complaints to Office of the Federal Antimonopoly Service) and the reduction of terms of performance of obligations under the contracts on technological connection by improving the control and optimization of business processes;
- Alignment with the requirements of the Order of the Ministry of Energy of Russia No.186 dated 04.15.2014 “On the uniform standards of quality of services

rendered by network organizations to consumers of network organizations” (customer services centres and office, branches of “IDGC of the South” JSC);

- Implementation of the project “Customer day at “IDGC of the South” JSC” and the implementation of the first receptions of consumers on the basis of the branches of “IDGC of South”: “Astrakhanenergo”, “Volgogradenergo” and “Kalmenergo”;
- Development and promotion of interactive services on the webpage of “IDGC of the South” JSC in order to reduce visits of the applicants for the submission of applications and contracts for technological connection and additional services of the company.
- Disclosure of information on the corporate website of “IDGC of the South” in accordance with the disclosure standards of the wholesale and retail electricity markets, approved by the RF Government Decree No.24 dated 21.01.2004 on the quality of services rendered by network organizations.

#### 4. Evaluation of the implementation of the approved indicators for quality of services in 2014

In accordance with the Guidelines for the calculation of the reliability and quality of goods supplied and services rendered for the organization of management at the unified national (All-Russia) electric grid and regional network organizations, approved by the Ministry of Energy of the Russian Federation on October 14, 2013 No.718, the branches of “IDGC South” have been evaluated to check if the planned indicators for 2014 were achieved and performance level of the grid connection and the level of quality of services were evaluated.

The target indicators of the quality of services approved by the executive bodies of subjects of the Russian Federation in the field of state regulation of tariffs for 2014 branches of “IDGC of the South” were met (achieved).

#### 5.4. Accidents prevention

“IDGC of the South” has 315 backup power sources with a total capacity of 5.77 MW, which allows providing electricity to consumers at the time of the

emergency and recovery works. Activities to ensure the needs of secondary power supply were completed.

Emergency supply was fully staffed and contains 1532 items of materials and equipment;

The company organized shifts of mobile emergency repair teams (40 teams, 264 people, 108 pieces of equipment);

Resources of contractors make up 31 brigade and 100 units of special vehicles.

This work contributed to holding of all the works on restoration of power without violations in the deadlines.

#### Description of restoration of power supply after blackouts in distribution grid of “IDGC of the South” JSC

In 2014 at “IDGC of the South” JSC occurred the following most serious interruptions in operation of the technological equipment, which led to the restriction of electricity for a significant number of consumers:

##### 5.4.2.1. September 24-25, 2014, “Rostovenergo” branch:

In the period from 24 to 25 September 2014 due to unfavorable weather conditions (strong wind up to 37 m/s, precipitations in the form of rain) there were numerous technological disturbances in operation of equipment at electrical networks of the branch of “IDGC of South” - “Rostovenergo”. The impact of natural phenomena hit the hardest on the south-western and southern regions of the Rostov region, Rostov-on-Don and Taganrog.

The maximum number of simultaneous cut of facilities amounted to: 110 kV power lines - 17 pcs., 35 kV overhead lines - 7 pcs., 110 kV substations - 8 pcs., 35 kV substations - 5 pcs., 6-10 kV overhead lines - 189 pcs., transformers - 2018 pcs., population – 182 217 people, 197 settlements, the load - 59.45 MW.

The main causes of disconnections of electricity supply facilities were numerous cases of trees falling on the wires in the settlements, broken wires, traverse fractures, damage to insulators.

To electricity the company involved: 210 teams, 642 people, 191 units of special machinery. To restore electricity there were teams from other subsidiaries and

affiliates of “Rosseti” involved: “MRSK Center” JSC, “IDGC of Center and Volga Region” JSC, “IDGC of the North Caucasus” JSC, “Kubanenergo” JSC, as well as teams of “Donenergo” and contractors.

Consumers received power supply from: 6-110kV network - at 20:00 on 26.09.2014, at 0.4kV network – on 01.10.2014 at 12:00. The last are that received power supply was the area of Taganrog, because in this populated area the highest amount of damage was recorded, especially in 0.4 kV network.

#### 5.4.2.2. December 17-19, 2014

branches: “Volgogradenergo”, “Astrakhanenergo” and “Kalmenergo”

In the period from 17 to 19 December 2014 because of unfavourable weather events, precisely icing and rime deposits at temperatures from -6 to +2 degrees, fog and 100% humidity there were mass outages of equipment in the main and distribution network.

The maximum number of simultaneous objects disconnected:

in the branch of “Astrakhanenergo” at 09:00 on 12.18.2014: seven 110kV overhead lines, 6 substations of 110 kV, 278 transformer substations, 11.65 thousand people were cut off;

in the branch “Kalmenergo” at 09:00 on 12.18.2014: four substations of 110kV, one 35kV overhead line, 13 overhead lines of 10kV, 126 transformer substations, 1246 people;

in the branch “Volgogradenergo” at 14:00 on 12.19.2014: 6 overhead lines of 110kV, 5 substations of 35kV, 2 substations of 35kV, 4 substations of 110kV, 66 overhead lines of 10 kV, 18.6 MW, transformers - 1206 , 65,45 thousand people.

Consumers receiving electricity via 6-110 kV network, that were cut off as a result of natural disaster, got the electricity supply back on 12.20.2014 at 19:00

Cutoffs of overhead lines that are caused by icing and rime deposits were mainly related to the broken wire, ground wires, broken traverse.

There were a significant number of disconnections in 35-110 kV line with protection against interphase short circuits caused by the oversize between the



wires of the different sleet burden on them, as well as one-time discharge of ice from the wire and dynamic rebound wires.

Altogether during the rescue and recovery operations 50 batches of ice were carried out on the 6-110 kV overhead lines, including at 6-10 kV - 17, at 35 kV - 9.

Analysis of the rescue and recovery operations in the branches showed that the work has been organized in accordance with the requirements. Undue delays in the restoration of power supply to consumers have been not identified.

#### Range of activities carried out as a part of preparation of the distribution grid to hard climatic conditions

In the preparation of “IDGC of the South” to operation in the storm, flood and fire danger period in 2014 the company carried out a set of measures aimed at ensuring the reliable operation of the power grid facilities. The main ones are:

##### Operation in the period of frequent thunderstorms:

- the company performed engineering inspections of all substations, fuel storages, oil facilities and antenna mast structures (a special attention was paid to the state of grounding devices of isolation, the presence of dry vegetation);
- the disabled at the time of the autumn-winter period nonlinear resistance arresters and surge arresters were switched back on;
- conduction current of surge arrester was measured, thermal control equipment were checked;
- the company provided the readiness of emergency event, locking devices, oscilloscopes and other devices helping detect faults on power lines installed at the substation;
- on the HV with the scheme of ice melting the teams restored the grounding of overhead ground-wire cable that were ungrounded before the autumn-winter season;
- performed random inspections of engineering sections of the overhead lines;
- checked the presence of emergency reserve arresters, surge arresters;

- check of the settings of arc suppression coils was performed in networks with isolated neutral.

In 2014, the storm activity lasted from March 1 to October 1 of 2014, the actual number of hours of storm was 42 hours, which is 20% less compared to 2013 (2013 - 53 hours).

During the thunderstorm period in 2014 there were 69 storm blackouts of 110 kV overhead lines, 47 of which with a successful reclosure (68%). In comparison with 2013 the number of lightning outages of 110 kV overhead has decreased by 17% (83 cutoffs in 2013).

The measures accomplished according to the order of “Rosseti” Mo.78r from 02.28.2014 have proved to be efficient. Implementation of similar events is planned for preparation to the thunderstorm period in 2015.

#### Preparation to fire danger period:

- our teams made fire separation distances around 35-110 kV substations that are at increased risk of damage from wildfires (931 substations);
- cleared the area around the equipment from trees and shrubs, garbage;
- updated lists of the approved fire risk areas at overhead lines and made fire protection measures of wooden poles that are in areas of fire risk areas;
- replaced (cleaned) gravel within the board fences of oil receivers at substations, tested the functionality of the state of emergency and the oil drain tanks for receiving oil from the oil-filled transformers and substation equipment;
- tested network performance of indoor and outdoor fire water pressure and water flow;
- conducted jointly 19 fire drills with the personnel of fire departments of Ministry of Emergency Situations;
- removed dry grass and combustible materials at the territories of grid facilities, in protected areas of 35-110 kV overhead lines, and transformer units 6-10/0.4 kV;

- equipped buildings, structures, facilities, areas of power and automotive electronics with primary fire extinguishing means;
- checked the state of emergency exits and passages;
- held an extraordinary staff briefings on the procedure for carrying out fire work, action in case of fire, order of evacuation, the application of the rules of primary fire extinguishing equipment (8123 people were instructed).

Implementation of this set of measures prevented from significant damages to the equipment during the fire danger period in 2014. The company did not introduce special modes of operation, high alert modes related to risks of failure to ensure reliable operation of power grid facilities caused by fire hazard.

#### Preparation flood period:

- on 20.01.2015 “IDGC of the South” issued an order No.22 “About preparation for the flood period”.
- the company approved the composition of the Central Flood Commission of “IDGC of the South”.
- special flood commission were also established at the branches of “IDGC of the South” JSC.
- a plan of compulsory measures aimed to ensure reliable operation of the power grid facilities in the flood period was approved.
- a list of electric grid facilities, buildings and structures located in the high-risk flood area was made, the lists of activities on anti-flood activities were prepared;
- interaction and exchange of information with the Russian Emergency Situations Ministry units and hydro-meteorological services was arranged;
- the routes of overhead line crossing over rivers were inspected;
- substations perimeter was bordered;
- water drainage channels were cleaned;
- proper technical condition of boats, pumps and other special equipment and machinery was ensured;

- an analysis of the ways of accessing the flooded area with vehicles was carried out;
- proper technical condition of standby power supply of electric energy and their preparedness to transportation were ensured.
- the flood zones were monitored, the route of movement and places of location of redundant power supply were chosen.

Implementation of this set of measures helped prevent significant damage to the equipment during the flood period in 2014.

#### Preparation for the autumn-winter period:

- the company commissioned the reconstructed facilities that affect the passage of autumn-winter period (the reconstruction of 110/35/10 kV “Martynovskaya”, the reconstruction of distribution devices at 110 kV substation “TsRMZ”); repair programmes was implemented;
- activities aimed to provide for the need for backup power supply were carried out (315 pieces of backup power supply with total capacity of 5.77 MVA, which allows to deliver electricity to customers during the period of emergency and recovery operations);
- emergency stock was formed and contains 1532 items of materials and equipment;
- plan of technical inspection of equipment, buildings and structures was completed. By its results that are no objects that are not allowed for further use;
- the company conducted emergency response trainings on the subject of personnel actions in the difficult conditions of autumn-winter period.

The basic and additional conditions of readiness, as defined in the “Regulations on inspection of preparedness of subjects of the electric power industry to operation during autumn-winter period”

On 15 October 2014 “IDGC of the South” JSC received a certificate of readiness for the autumn-winter season 2014-2015.

## 5.5. Public relations, interaction with authorities, mass media and participations in exhibitions

### Mass media relations

Being committed to the principles of openness and transparency, the Company informs all concerned parties on all aspects of its business. Thus, the company published about 590 around official releases in 2014 that were cited by media more than 6 thousand times.

By the results of 2014 “IDGC of the South” JSC has once again topped the rating of media coverage among companies from the Rostov region (other regions of the presence of “IDGC of the South” have not been rated yet). The rating of “FederalPress” agency tracks not only the amount of citation in mass media, but he quality as well. .

Detailed analysis of requests of the media and the audience, conducted by the specialists of the PR Department, allowed to review the type, format and quality of issued information. Due to changing of preparation of current, actual and expected information and **increasing of MediaIndex of “IDGC of the South” JSC in 2014 in comparison with 2013 at 5.5%** while the number of news was decreased (by the results of research of Information Analysis System “Medialogiya”). These indicators shows the increasing of quality of news, correct determination of target groups’ interests, communication channels and correct selection of instruments of communication and positioning.

MediaIndex is estimated automatically with using of technologies of linguistic analysis on methods developed and registered by “Medialogiya” company. Amount of MediaIndex is estimated for every company, person and brand in all news of Mass Media. While analyzing of MediaIndex for the period, all indexes of all news with the reference to company, person and brand are summarized. The higher index, the more positive object is represented in Mass Media.

Formula of MediaIndex consists of 3 parts:

1. Citation index – is the basis quality indicator that takes into account the number of references to the materials of Mass Media, decisiveness of MassMedia, self-citation is not counted.
2. Positive | Negative – is the basis quality indicator of attitude of object in news. This indicator includes “value” of news for the object taking into account the following parameters: a) main and episodic role of the object, b) direct speech, c) illustrations, d) expressivity of title.
3. Visibility of news is cumulative parameter that counts “ad equivalent” of news according to number of page, size of news, circulation, and attendance.

By the results of 5<sup>th</sup> Reward “Silver Archer”-South – the main event in sphere of public relations of South of Russia – Rybina Svetlana, head of office on public relations of IDGC of the South became the winner in category “**Master of communication**”.

Office on public relations pays attention to internal PR – 14 thousand employees in four subjects of Southern Federal District demand the constant engagement. Creation of unified system of corporate values is difficult because of geographic farness, regional special features, and influence of opinions of local leaders of regions.

The problem of big companies is that departments do not cooperate. But it is very important that employees feel the involvement in joint activity, and that all departments were connected with common values and traditions. “IDGC of the South” JSC has corporate web-site, corporate newspaper, internal Intranet portal, directorate in charge of social policy implements full package of events.

Monitoring of Mass Media became another cooperation tool that Office of Public Relations implements every day to control media space and to find information risks. Office of Public Relations collects information on Company, situation in industry, national news and sends this information to all users by corporate e-mail. Loaded and destabilizing materials are not included in information digest but current problems are covered.

Every day at the same time the employees of the Company receives information: one paragraph of news text and active hyperlinks to sources where users can read the whole news. First reactions were different, even resentment. After a while efficient feedback was appeared.

In the end daily monitoring became another type of corporate Mass Media, a sort of news digest for employees to discuss.

Main functions implemented by monitoring:

- Sharing of information with employees on activity and values of the Company in accordance with relevant objectives;
- Unification of branches of the Company located in remote areas with common traditions, events, knowledge;
- Forming of loyalty from employees of the Company. Workers start to advertise Company's brand if they know what happens in the Company and believe in manifested values.
- The possibility of simultaneous, immediate, interactive involvement of employees into solving of not only professional problems. In such manner several voluntary charity and corporate events were organized.

#### Prevention of children's injuries from electricity

More than 2.8 thousand lessons on prevention of injuries from electricity were given in 2014 in educational facilities of the following regions: Rostov, Volgograd, Astrakhan and Kalmykia. 126.6 thousand schoolchildren attended these lessons.

#### Number of lessons in branches:

Branch	Number of lessons	Number of schoolchildren
Astrakhan	297	16445
Kalmykia	385	6160
Volgograd	1107	45 000
Rostov	1013	58999
<b>TOTAL</b>	<b>2802</b>	<b>126604</b>

During school holidays the lessons were given in school camps and children's holiday camps: for elementary school pupils – children drawing on asphalt contest “Safety electricity”, and for senior school pupils – “Sport events”.

Children received stationaries with images of main electric safety rules. More than 30 thousand stationaries were produced and distributed in 2014.

More than 60 thousand posters and booklets with code of behavior near power facilities were produced and distributed for different target groups: gardeners; partnerships and summer residents, fishermen, stations of scrap receiving, tower block residents etc.

48 materials (releases and articles) that quoted 173 times in district, regional and online Mass Media were published in 2014. They contained information on prevention of injuries, children's electrical safety, disastrous results of unauthorized access to electric networks, attempting of steal of electric equipment, and non-implementation of rules of behavior in protective areas of high-voltage lines. The publications with the largest circulations and the most popular in regions are preferred by the Company.

Every week in day before holidays the reminder about the rules of behavior near power facilities is published on corporate web-site or sent to regional Mass Media.

5 radio announcements for different target groups were recorded and broadcasted on regional radio. Preventive videos are broadcasted every day on the monitors of “Oksion” systems (EMERCOM of Russia) in Rostov, Volgograd and Astrakhan.

In cooperation with Transport Ministry of Astrakhan districts and Republic of Kalmykia the project on placing of rules on electric safety in public transport was implemented; it allowed to increase the number of people who learned the basic rules. Thanks for governor of region the work on placing the rules in public transport was started in Rostov district. The project is discussed in Volgograd district.

The offers to include “Electric safety” in schedule of principles of personal and social safety lessons (OBZh) were sent to heads Rostov, Astrakhan, Volgograd



districts and Republic of Kalmykia. Administrations of regions were recommended to use this offer in their work. “IDGC of the South” JSC cooperates with educational institutions on transferring methodological materials and printed products.

The project on placing posters dedicated to rules of electric safety in main entrances of tower blocks was started in 2014.

The work with government authorities, monitoring and controlling bodies, law enforcement establishments and security agencies is carried out; the Company also cooperates with wide public (including summer residents, gardener and fishermen).

#### Charity and social projects

Exceptional position and financial and economic model of the Company do not allow to participate in sponsor and patronage projects. That’s why Office of Public Relations concentrates on development of culture of individual social responsibility, on development of volunteer tradition and charity.

Implemented social and charity projects received high grade from organizers of first independent interregional competition “Best social project of South of Russia” held by magazine “Expert-South” (Russian Media Holding “Expert”). By the results of the competition “IDGC of the South” JSC was rewarded with certificate “For high social activity”.

Employees of the Company want to develop themselves out of profession, do good things. “IDGC of the South” JSC through Council of young specialists and other employees implements charity and volunteer projects and environmental campaigns.

Company’s employees supervise orphanages, take care of memorials of the Great Patriotic War, donate blood, collect wastepaper, participate in memorial events and voluntary marathons, in all regions of IDGC of the South activity the Avenues of Power industry workers were made, these alleys are expanded every year.

Several campaigns received the greatest public reaction in 2014.

As part of Russian Green week the environmental campaign on planting trees and bushes on the Avenues of Power industry workers and in parks was carried out.

During charity event on collecting wastepaper for implementation of financial support, reconstruction and repair of Republican children's hospital of Kalmykia the workers of power industry collected more than 500 kg of wastepaper. Proceeds were sent to the account of Republican children's hospital. Thanks to financial support the hospital worked during maintenance; special-purpose furniture and medical equipment were purchased for hospital.

Campaign on collecting of humanitarian aid for refugees from South-East of Ukraine accommodated in campgrounds of Gulkovo was successful. Several trucks with emergency goods, food, hygiene products, clothes and shoes were sent by Office of Public Relations in spring and summer of 2014.

The Company also carried out the campaign on blood donation and fund raising for helping to seriously ill children, IDGC of the South employees in difficult traits.

That kind of events allow to develop sense of responsibility, bowels of compassion and kindness, mutual aid, unifying of staff members in solving of social problems.

### [Corporate newspaper](#)

Corporate newspaper "Russian Networks" throughout its period of publication is a powerful tool for establishment of communication with the team and the feedback, adjusting the policy guidance, current plans. In 2014, 5 of basic monthly issues and 2 special issues were published and they were dedicated to the Victory Day and the Day of Power Engineers.

For personification of materials and popularization of the profession of power engineer it was decided to introduced a column "People in power industry". Our specialist collected information on the veterans of electric power industry, outstanding employees of the company, on the basis of the gathered information they prepared a series of articles, which are also posted on the corporate website.

Employees of the company are invited to suggest their own ideas or write articles, we will consider all requests and appeals for the improvement and promotion of the corporate newspaper.

### Corporate webpage

Corporate website is a key tool for communication with outside audiences. Based on web monitoring, analysis of clicks and visit depth, the PR department has developed a new, user-friendly and lightweight site structure. The information most in demand is published in the most visited parts of the website. The system of webpages of each branch of “IDGC of the South” has been cancelled, as it has proved to be ineffective. On the basis of a single domain was created a common portal of “IDGC of the South” with the pages of the branches that have their own menu structure, adapted for each branch.

New information modules are developed on the basis of 1C: Bitrix, which simplifies management and extends the capabilities of the site.

From any page of the company’s website it is possible to go directly to the website of “Rosseti” JSC.

As part of compliance with the requirements of federal law, the activity on disclosure of information was systematized and harmonized. The Company elaborated and approved the Order of “IDGC of the South” No.457 on 02.07.2014 “On the appointing structural units responsible for administering sections of the corporate website of “IDGC of the South”, based on an optimized site structure in order to comply with the terms, the order of provision by the responsible structural units of information for publication on the corporate website.

A new interactive application form for technological connection was introduced (new user-friendly interface with a gradation of power levels, automated choice of answers, convenient way to download documents).

An important element in the development of additional services for clients in 2014 was the pilot project “Customer Day in “IDGC of the South”, implemented on the website and expanded to all regions where the company operates. The

interactive Service “Customer Day” is meant for receiving applications for appointment of consumers with the management of “IDGC of the South” to discuss the issues of grid connection. Without leaving their home, the customers have now the opportunity to make appointments to discuss the questions of their concern. Customers can also fill in a questionnaire on our webpage; this questionnaire will be automatically directed to the corresponding customer service centre. After the questionnaire is processed the customer will receive a notification with the number of application and prove that an appointment was made. The new feature “Customer day” is a brand new stage in development of customers services that helps “IDGC of the South” JSC increase the level of rendered services.

In 2014 the company introduced a system of interactive banners with hyperlinks, which allows placing notices, announcements, and information conspicuously, attracting the attention of the target groups at the same time allowing to quickly replace them. Thus, visitors can see a new/important information right at the entrance to the site.

By the website the Company carries out external communications, discloses mandatory information, seeks feedback, and informs consumers.

### **Glossary**

<b>Terms and abbreviations</b>	<b>Definition</b>
ASTU	Automated technological management system
OL	Overhead power line
HV	High voltage (from 110 kV)
HF channels	High-frequency channels
AIPP	Annual integrated purchasing programme
UNPG	United National (All-Russia) Power Grid
IT	Information technologies
ITT	Information technologies and telecommunications

CL	Cable line
CISRM	Corporate informational system for resource management
kWh	Kilowatt hour. A unit for electric energy measurement
kV	Kilovolt. A voltage measurement unit
KPI	Key performance indicators
ETL	Electricity transmission line
IDGC of the South	IDGC of the South, JSC
MVA	Megavolt-ampere, an electric power measurement unit
MW	Megawatt, an electric power measurement unit
IFRS	International financial reporting standards
EMERCOM	Ministry of the Russian Federation for Civil Defense, Emergency Management and Natural Disasters Response
R&D	Research and development
LV	Low voltage (0.4 kV and lower)
Output to grid	The volume of electricity supplied to the electric power grid of the distribution company from different grids or from electricity producers
AWP	Autumn-winter period
AR	Accounting regulations
DSW	Design and survey work
Losses of energy	Difference between output to grids and useful power output
SS	Substation
PD	Production division
Last mile	Connection channel between a communication provider and a subscriber
PRA	Protective relaying and automation
RRL	Radio-relay lines
RTS	Regional tariff service
REG	Region of electric grids

SSIW	Self-supporting insulated wire
MM	Mass media
MV 1	Middle voltage 1 (35 kV)
MV 2	Middle voltage 2 (20-1 kV)
TR&R, technical re-equipment	Technical reconstruction and re-equipment of fixed assets
TS	Transformer substation
FGC	Federal Grid Company
FTS	Federal Tariff Service
FFMS	Federal Financial Markets Service
FEC	Federal Energy Committee
DPC	Data processing centre
CSC	Client servicing centre
GCC	Grids control centre
ES	Emergency situation
Energy selling company	Company that sells electric power to other entities as its main type of business
EBITDA	Index describing free cash flow (Earnings before Interest, Taxes, Depreciation, and Amortization), indicator of the company's earnings before profit tax, accrued interest on loans, and amortization
PM (PLANT MAINTENANCE)	Maintenance and repair of equipment
ROE	Return on equity capital, secured by cash flow — net income of the company expressed as a percentage to the equity capital
ROTA	Return on Total Assets