

Description of principles for working on consolidation of power grid assets and interaction with territorial power grid organisations

In 2018, the Company was involved in interaction on decision-making on purchase/using of power grid facilities owned by third parties in line with the Provision on activities of the Commission on grid assets consolidation and procedure of the power grid facilities purchasing (appendix to Order No.60 of IDGC of the South dated January 30, 2018). The Company's competence and responsibility concerning consolidation of power grid assets are distributed as follows:

The Commission on power grid assets consolidation of IDGC of the South acting on a regular basis considers and makes decisions on consolidation of power grid assets located within IDGC of the South's operation area. Members of the Commission are determined by General Director's Order (IDGC of the South's Order No.327 dated June 14, 2011 (No.525 as amended on July 31, 2018);

study groups on consolidation of grid assets in IDGC of the South's branches – Astrakhanenergo, Volgogradenergo, Kalmenergo, and Rostovenergo – preliminarily consider the issues on purchasing/assuming ownership over grid assets located in the branch's operation area. The members of study groups are approved by the Order of Deputy General Director – Branch Director;

the grid assets consolidation department of the Executive Office Property management ensures the overall coordination of the activities of the Company's branch business units on consolidation issues, organises the Commission's meetings on consolidation of IDGC of the South's grid assets (three staffing positions deals with consolidation issues);

structural unit of the Company's branch, which is responsible for

issues relating to property management - the property management department (at IDGC of the South's branches: Astrakhanenergo, Volgogradenergo, Rostovenergo, and Kalmenergo) deals with consolidation issues (four staffing positions);

structural units of the executive office, Company's branches that participate in considering, agreeing on the grid facilities acquisition (technical departments, electricity transmission services departments, economy and finance departments, tariff-setting departments, investment departments, legal support, grid connection and security departments).

With a view to consolidating the grid assets of territorial grid organisations (TGOs), they were proposed to hand over their electric grid assets under the management of IDGC of the South. Besides, proposals were made to hold meetings with owners of power facilities. IDGC of the South campaigns to increase awareness in the covered regions, including the creation of news topics and reporting on activities of IDGC of the South on the reliable power supply to consumers, successful disaster recovery at in-house and third-party grid facilities, advantages of Company's grid connection for consumers, supplementary services.

The Company regularly monitors the TGO's official websites concerning availability of relevant disclosures according to the Standard for Information Disclosure by the Power Wholesale and Retail Market Players (Decree No. 24 of the Russian Federation Government dated January 21, 2004).

As part of consolidation efforts, in 2018 Astrakhanenergo branch of IDGC of the South signed the lease contract with MUE Blagoustroennii Gorod within Narimanov Municipal Entity (formerly known as MUE Electroseti within Narimanov Municipal Entity).

In 2018, the study group on power grid asset consolidation of Volgogradenergo branch of IDGC of the South and Commission on power grid asset consolidation reviewed the projects on consolidation of power grid facilities owned by the following TGOs: FSBI Volgo-Don, LLC Selmash Trade; another decision taken pertains to the acquisition of 100% of PJSC VMES shares.

With a view to consolidating the power grid assets of territorial grid organisations, Rostovenergo branch of IDGC of the South proposed to hand over their power grid assets under the management of IDGC of the South. Besides, proposals were made to hold meetings with owners of power facilities. Based on the results of assessment of investment value of TGO's assets, Rostovenergo branch calculated the cost-effectiveness and reviewed an issue on the grid asset consolidation advisability/inadvisability at a meeting of the study group on the branch's power grid assets consolidation.

Kalmenergo branch of IDGC of the South covered the entire market (100%) in its region.

The Company implemented the agreements on consolidating the power grid assets signed with executive government bodies of the constituent entities of the Russian Federation and other power authorities.

The government of the Astrakhan Region approved Decree No. 180-Pr dated May 25, 2017 "On the Roadmap for improvement the reliability of power supply for consumers of the Astrakhan Region by proper maintenance and operation of power grid complexes of municipal entities of the Astrakhan Region and ownerless power grid facilities of the Astrakhan Region".

Pursuant to the Decree of the Governor of the Rostov Region and the Strategy for Development of the Power Grid Complex of the Russian Federation approved by Decree No. 511-r of the Government of the Russian Federation dated April 3, 2013, in order to organise the management process in the field of power supply, to resolve the issues on power grids operation, to improve the quality and reliability of power supply for consumers, the Deputy Governor of the Rostov Region, V. Krupin approved a roadmap for consolidation of power grids in the Rostov Region.

Over the reporting period, there were no agreements between the Volgogradenergo branch of IDGC of the South and the executive government bodies of the Volgograd Region, as well as the local government bodies on consolidation of power grid facilities. In line with the requirements of the Volgograd Region's laws No. 223-OD dated December 28, 2015 and No. 187-OD dated December 26, 2014, the powers of the local government body for organisation of power supply in the municipal entities and cities of regional importance of the Volgograd region are exercised by the government executive bodies authorised by the Governor of the Volgograd Region. According to the information of the Committee for Housing, Utilities, Fuel, and Energy Complex of the Volgograd Region, the grid complex facilities are transferred on the basis of operational management to the State Budgetary Institution of the Volgograd Region "Volgograd Centre of Energy Efficiency.

Kalmenergo branch of IDGC of the South sent a letter to the Government of the Republic of Kalmykia proposing the creation of a collegial executive body to resolve issues on consolidation of the power grid assets of the republican and municipal property by the Company, ownerless power grid facilities located in the Republic of Kalmykia.

At the same time, the branch continued to cooperate with authorities of Elista on issues of consolidation, under the agreement dated June 21, 2017, on implementation the measures providing for the reliable power supply for consumers connected to ownerless power grid facilities.

Additionally, the meetings were held to review the mechanism and conditions of consolidation of the power grid property leased by the branch, which is a municipal property of Iki-Burulsky, Troitsky and Bolshetsarynsky rural municipal entities.

Interaction with owners or other legal holders of power grid facilities that do not meet the criterion for power grid facility owners being assigned to territorial grid organisations approved by Decree No. 184 of the Russian Federation Government dated February 28, 2015, in terms of transfer of functions for managing the power grid assets.

Pursuing the objectives aimed to improve reliability of consumer power supply, increase the market share, increase the grid complex controllability, IDGC of the South regularly engages with power grid owners, which do not comply with the criteria for inclusion of the grid facility owners to the territorial grid organisations, with the view to the power grid assets consolidation in the Company.

In 2018, in line with letter No. AN-9414/09 of the Ministry of Energy of the Russian Federation dated August 25, 2017 "On joint recommendations on the procedure for transferring of power grid facilities of Gardeners' Non-commercial Partnership to the TGO's balance book", by Order No. 534 of ROSSETI, PJSC, dated October 3, 2017 "On Approval of Methodical Guidelines for consolidation of power grid facilities owned by horticultural, market gardening,

dacha (country house) non-commercial associations of the citizens", the Company was involved in continuous cooperation and consultation with representatives of gardeners' non-commercial partnerships on a donation of the power grid assets to the Company.