

**The programme to improve operational efficiency and reduce costs of IDGC of the South (approved by the Board of Directors on December 29, 2017, Minutes No. 255/2017) (hereinafter - the Programme)**

The Programme's activities made are included in the Business Plan, Investment Programme, Energy Saving and Energy Efficiency Programme, Innovative Development Programme, and other target programmes prepared by the Company.

The performance indicators of the Programme cover the targets set by Development Strategy for Russia's Power Grid Complex (approved by Order No. 511-p of the Government of the Russian Federation dated April 3, 2013) and Directive No. 2303p-P13 of the Government of the Russian Federation dated April 16, 2015.

Between 2017 and 2018, controllable operating costs were reduced, in line with the above Strategy, by 21.55% against the target of 15%.

In line with Directive No.2303p-P13 of the Russian Government dated April 16, 2015, operating costs in 2018 were reduced by 5.7% year-on-year against the target of 2%.

**In order to increase the Company's operational efficiency, the following actions were taken:**

Enhancing the management efficiency relative to maintenance and repair of equipment, buildings, and facilities

In order to change over to a new model of repairs, the Russian Grid Code and other industry and state regulatory and technical documents were revised with amendments allowing for on-condition repairs. Thanks to the changeover to the on-condition

repair strategy, the Company can avoid (reduce) damage from process upsets (accidents) arising due to insufficient maintenance and repairs and increase the reliability of power supply to consumers and the operation of power grid equipment.

As priority areas for improving the management of technical maintenance and repairs, the Company's management envisages the following areas:

- improving the workmanship and performance;
- upgrading the security and safety level and reducing the rate of injuries;
- fitting out with diagnostics and technical condition monitoring devices;
- further developing the Production Asset Management System (PAMS).

In 2018, transportation costs were reduced through savings on fuel and lubricants costs due to the use of the GLONASS satellite vehicle monitoring system and the use of gas equipment.

Enhancing the working capital management

In the reporting period, the Company achieved a decrease in receivables as a result of installments on the writs of execution for PJSC Volgogradenergosbyt received under legal actions.

The Company received payments under the agreement on debt restructuring of MUE VKH (Volgograd Utilities) in the framework of the insolvency (bankruptcy) case as related to repayment of the principal debt.

Following the measures aimed at optimising the loan portfolio, and, as a result, reducing costs for servicing borrowed funds, as at the end of 2018, costs for servicing borrowed funds were reduced by RUB 563 mn vs the level of 2017.

## Enhancing the fixed assets management

Depreciation charges are optimised by the Company through the development and application of a unified depreciation policy.

In order to reduce the cost of maintaining non-core assets, activities for five assets were completed in full: four assets were realised through the "sale" method, one facility was liquidated through the write-off method.

## Enhancing the procurement and supply chains management system

The activities of this section are aimed at increasing the share of open competitive procurements and reducing the share of sole source purchases in accordance with the Uniform Procurement Standard of PJSC ROSSETI. Following the results of the reporting period, the share of open competitive purchases was 97.92% against the target of  $\geq 96\%$ , sole source purchases was 2.08% against the target of  $\leq 4\%$ , purchases on electronic trading facilities was 100% against the target of  $\geq 95\%$ .

## Miscellaneous Measures

Fuelled by the progress on the measures aimed at reducing electricity losses in the Company's power grids, the effect in physical terms amounted to 210.2 mn kWh and was achieved through planned measures on the replacement and modernisation of power grid equipment, in the process of implementing the Investment Programme, and also as a result of the planned detection of off-the-meter and non-contractual electricity consumption points (organisational measures).

The efforts on designing an integrated system of specialised monitoring, forecasting, and supporting for operational management decision-making in cases dangerous weather

impacts occur in the area of operational responsibility of IDGC of the South are made through optimising the costs in line with by the scenario conditions stipulated in the 2018-2022 Business Plan.