



IDGC OF CENTRE

# ANNUAL REPORT



SHORT VERSION



**SHORT (PRINTED) VERSION OF THE ANNUAL REPORT OF INTERREGIONAL  
DISTRIBUTION GRID COMPANY OF CENTRE, JOINT-STOCK COMPANY, BASED  
ON BUSINESS RESULTS FOR**

**2011**

## **TABLE OF CONTENTS**

1	Key Indicators
2	Summary description of the Company
3	Address by the Chairman of the Board of Directors to Shareholders and Investors
4	Address by the General Director to Shareholders and Investors
6	Milestones in 2011 and events after the reporting date
7	Position of IDGC of Centre in the Energy Industry
9	Development Strategy of IDGC of Centre
10	Review of Operating Results
14	Review of IFRS Financial Results
16	Investment Program
17	Innovation Program
18	Information for Shareholders and Investors
21	Corporate Governance
26	System of Internal Control and Risk Management
26	Social Responsibility
29	Disclaimer
29	Contact Information

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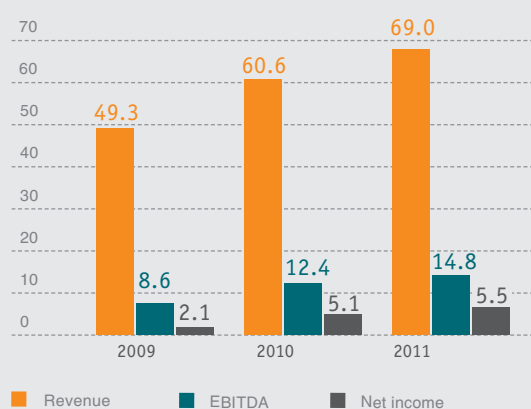
### **MULTIMEDIA VERSION OF ANNUAL REPORT FOR 2011**

The full version of the Report is available  
on the Company web-site: <http://ar2011.mrsk-1.ru>

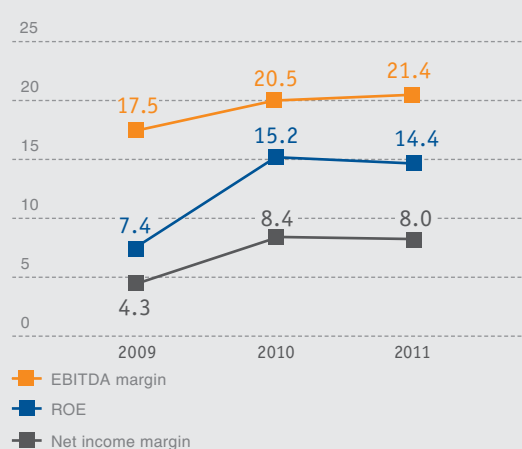


# KEY INDICATORS (IFRS)

## MAIN FINANCIAL RESULTS, RUB BN



## KEY EARNING RATIOS, %



## FINANCIAL INDICATORS:

Indicator	2009	2010	2011	Growth rate, % 2011/2010
Operating income, RUB bn	4.77	7.90	8.93	13.1
Net debt/EBITDA	1.25	1.18	1.26	0.07 pp
Investment financing, RUB bn	6.59	10.59	15.72	48.4

## PERFORMANCE INDICATORS:

Indicator	2009	2010	2011	Growth rate, % 2011/2010
Productive power supply (supply from the grid to consumers and co-operating TGOs (Territorial Grid Organizations), bn kWh	53.1	56.0	56.7	1.1
Length of power lines, thousand km, as of December 31: Conductors, 0.4-110 kV	363.654	365.046	371.691*	1.82
Cables, 0.4-110 kV	8.701	9.235	11.517*	24.71

\*Including leased and rented

## SHARES AND DIVIDENDS:

Indicator	2009	2010	2011	Growth rate, % 2011/2010
Closing price at year end, RUB	0.802	1.304	0.6167	-52.7
Earnings per share, RUB	0.05	0.12	0.13	8.3
Dividend yield is calculated at year-end closing price, %	—	1.11	1.62	0.51 pp
Dividend payout ratio, %	—	11.98	7.63	-4.35 pp

## SUMMARY DESCRIPTION OF THE COMPANY

*Interregional Distribution Grid Company of Centre, Joint-Stock Company (IDGC of Centre) was established in 2004 as an operating company with business in two main segments: electric power transmission and distribution; and new connections (connecting new customers to 0.4-110 kV electricity networks). IDGC of Centre operates in 11 regions of Russia's Central Federal District through its own network of local branches, subsidiaries and affiliates. The Company employs about 31,000 people.*

IDGC of Centre is one of 11 interregional distribution grid companies, which make up Russia's electricity distribution grid. The Company is in the 2<sup>nd</sup> place among the 11 by level of revenue from its core business.

Electricity supply via networks of IDGC of Centre amounted to 56.7 bn kWh in 2011, representing 5.6% of total power consumption in Russia. Power con-

sumption in the Company's service area increased by 1.3% in 2011 compared with 2010.

The Company's controlling shareholder is IDGC Holding, JSC, which owns 50.23% of the share capital. The Company's shares are included in the A-2 list of the MICEX Stock Exchange and are used for calculation of several Russian stock indexes (MICEX PWR, MICEX SC, RTS Electric Utilities and RTS-2).

### THE SERVICE AREA OF IDGC OF CENTRE

Area  
**457,800**  
km<sup>2</sup>

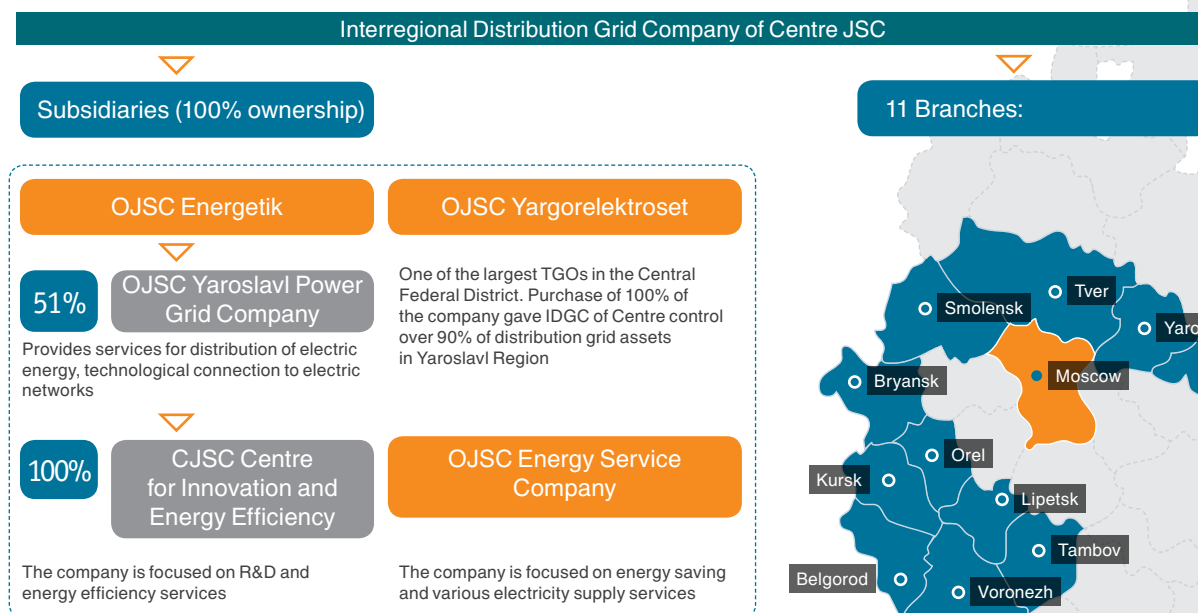
Population  
**13.6**  
mn

Length  
of power lines  
**372,000**  
km

Number  
of substations  
**90,270**

Overall installed  
capacity  
**49,000**  
MVA

### GROUP BUSINESS STRUCTURE OF IDGC OF CENTRE IS SHOWN BELOW:



# ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS TO SHAREHOLDERS AND INVESTORS



## DEAR SHAREHOLDERS AND INVESTORS,

*IDGC of Centre is a part of IDGC Holding Group of Companies, which is the world's biggest power grid company. IDGC of Centre is among sector leaders in Russia by main financial, operational and performance indicators, as confirmed by the results, which we achieved in 2011.*

During the reporting year IDGC of Centre ensured smooth operation of electric power supply in 11 regions of the Central Federal District of Russia, and our Company is also implementing a program to improve the reliability of its electric power distribution assets.

We completed changeover in 2011 to a new RAB-based system of tariff regulation, which correlates tariffs with an acceptable rate of return on invested capital, and agreed our investment programs up to 2017 with regional regulatory bodies.

The new system of tariff regulation will remain a growth driver for investment attractiveness of IDGC of Centre in the mid-term. It will allow us to spend required sums on fixed asset renovation to reduce levels of depreciation of our equipment and infrastructure, and enable regional upgrade programs to be carried out.

Innovative development is a strategic priority for IDGC of Centre. In 2011 the Company designed and approved an Innovative Development Program up to 2016, which will enhance our operating efficiency by optimizing resource use and by implementing the most up-to-date technology solutions and power grid equipment.

Strategic tasks currently being addressed by the management of IDGC of Centre include: raising overall operating and investment efficiency by improvement of labor efficiency; reducing unit costs in operations by application of an integrated management system for business assets; selection of best-value technology solutions; and increasing the reliability of our grid facilities.

The impressive results, which we have already achieved for seven years of work, justify my confidence about the future of IDGC of Centre. Major tasks lie ahead, and their successful solution will play an important part in future economic development of the Central Federal District of Russia and of the entire Russian electricity distribution complex.

I fully believe that IDGC of Centre will rise to these challenges and will retain its position as an efficiency leader among the companies of IDGC Holding.

**Alexey Perepelkin**

Chairman of the Board  
of Directors

# ADDRESS BY THE GENERAL DIRECTOR TO SHAREHOLDERS AND INVESTORS

## DEAR SHAREHOLDERS AND INVESTORS,



IDGC of Centre was created in 2004 as part of the reform of RAO UES of Russia. A long road has been travelled since then, and we are now an established leader of Russia's distribution grid complex. Our Company showed strong operating and financial indicators in 2011 thanks to efficient management in a context of gradual economic growth in the regions of Central Russia, where we operate. Levels of electric power transmission by IDGC of Centre grew by 1.4% in 2011 compared with 2010, while our levels of revenue, EBITDA and net income rose by 14%, 19.2% and 8.5% respectively in comparison with the previous year.

While our financial and industrial indicators change year by year, our core task remains unaltered: to ensure reliable and uninterrupted supply of electric power to the 11 regions of the Central Federal District of Russia. We carried out this task successfully in 2011 despite a number weather anomalies during the winter period in several of the regions, which we serve, including freezing rain and an unusual combination of high winds with very low temperatures. The Company's power engineers rose to these challenges and avoided any serious breakdowns of energy supply. Their success confirms the high degree of readiness of our power grid network to cope with emergency situations, the efficiency of our day-to-day work, and availability of adequate reserves to ensure smooth operation of our grid facilities.

Our Company also made advances along the road of innovative development during 2011. The necessary conditions for turning new ideas into action have been put in place: a large-scale investment program has been already been carried out, providing new technologies and up-to-date equipment for development of our business, and the Innovative Development Program for 2011-2016 has been approved and is being implemented.

Approval of the Innovative Development Program for 2011-2016 represents an important step towards raising technology levels and achieving a leading position in the electricity distribution sector. The Program calls for substantial amounts of money to be spent on innovation over a six-year period: spending for Program purposes will amount to about 3% of the Company's revenue.

Valuable work was carried out in 2011 to ensure the future strength of our business, including implementation of projects to increase energy efficiency and projects which harness the latest IT solutions for support of our operations. Increase of energy efficiency is one of the main strategic objectives of IDGC of Centre, and the Company is working at two levels in order to achieve it, applying innovative technologies in operation of our distribution grid and developing projects for efficient energy consumption. Our specialists have worked on programs for deployment of multiple-tariff meters, infrared heating, energy-saving lighting fixtures, devices for reactive power compensation, energy-saving household appliances and alternative energy sources, as well as encouraging our customers to adopt optimal solutions for efficient energy consumption.

IT specialists at IDGC of Centre successfully completed a project in 2011 for optimization of the corporate system of resource management. Use of progressive IT solutions is of vital importance for the electricity sector today. Implementation of the resource management project at IDGC of Centre has helped to raise the efficiency of financial accounting, cash flow management, technical maintenance and equipment repair, as well as enabling real-time processing of information on any power outage. A particularly impressive outcome of the project is halving of network operating costs and creation of a reserve of computer capacity for the future development of IDGC of Centre's business.



Increase of investment attractiveness is another vital task at the current stage of development of Russian distribution grids. In 2009, IDGC of Centre was among the first Russian energy companies to begin changeover to the new regulatory-asset-base (RAB) tariff system in its operating regions. Adoption of RAB at the last four branches of our Company and at our subsidiary, Yargorelektroset, was completed in 2011.

The changeover of the Company's branches to RAB-based regulation since 2009 has coincided with increase of capital investments by 2.3 times as we renew our fixed assets, reducing unacceptably high levels of equipment and infrastructure depreciation, which is a common problem of Russian distribution grids. This is a challenge, which has to be met so that distribution companies can respond adequately to growing demand for electric power and support the implementation of regional programs in various parts of the Russian Federation.

Our Company has developed a long-term investment program for 2012-2017 and agreed it with regional regulatory bodies, taking due account of the new tariff regulation system and also of adjustments to the system in 2011 by the Russian FTS (Federal Tariff Service) using a 'return on invested capital' method. The investment program includes major construction and renovation of power grid facilities and removal of restrictions on connection of new customers to grid networks.

IDGC of Centre spent more than RUB 15 bn on capital investment in 2011. The investment program in 2011 included commissioning of more than 4,500 km of new power lines and 1,490 MVA of transformer capacity.

A system of corporate governance complying with the best international and Russian standards is another important factor for balanced development of

the Company in the future. IDGC of Centre kept its leading positions in the corporate governance sphere last year. In January 2011, the national rating for corporate governance quality at the Company was raised to Level 7+ ('Developed Corporate Governance Practice'), which is the highest level achieved by any Russian distribution grid company.

The Company's Management pays much attention to efficient relationships with shareholders and representatives of the investment community. A poll of analysts at banks and investment companies in 2011 found the Shareholder and Investor Support Team at IDGC of Centre to be the best in Russia's electricity distribution sector for the second consecutive year.

We are constantly improving our corporate governance, the standards of our relationships with shareholders and representatives of the investment community, our dividend policy, and levels of information disclosure. We are also working to increase liquidity of our shares, and ensuring that management posts are occupied by people with high levels of skill and experience. The purpose of these efforts is to achieve growth of the shareholder value and investment attractiveness of our Company.

Our strong business results in 2011 show clearly that the goals, which we set for the year, were successfully attained.



**Dmitry Gudzhoyan**

General Director

# MILESTONES IN 2011 AND EVENTS AFTER THE REPORTING DATE

## MILESTONES IN 2011

### January 2011

All branches switched to RAB-based tariff regulation

Establishment of OJSC Energy Service Company as a wholly owned subsidiary of IDGC of Centre

Corporate governance rating upgraded to NCGR Level 7+ (Advanced Corporate Governance Practice) by the Russian Institute of Directors and Expert Rating Agency)

### March 2011

Reopening of Pochevskaya substation (110/35/10 kV, Bryansk Region) after modernization work

### April 2011

Commissioning of Rodniki substation in Kursk (110/10 kV), built at cost of RUB 200 mn

Renovation work on the 110 kV Kotelnaya substation and 110 kV outgoing overhead lines is completed. Launch of power distribution to the grid from the a combined-cycle boiler facility in the North-Western Microdistrict of Kursk

### May 2011

The Company was the first IDGC to publish consolidated IFRS financial statements for 2010

Company management takes part in the 2<sup>nd</sup> VTB Capital Investment Forum, 'RUSSIA CALLING' (London Session)

### June – July 2011

Annual General Meeting of Shareholders

Consolidated IFRS statements for H1 2011 published

Conclusion of trilateral agreement between Siemens, IDGC of Centre and the Voronezh Regional Administration raising efficiency of power supplies, development of scientific and technical potential, and joint realization of innovative projects in Voronezh Region

### August 2011

The Company meets its obligations for payment of 2010 dividends

Company shares begin to trade in the MICEX A list (Level 2)

The Board of Directors approved an Innovative Development Program up to 2016

### October 2011

IDGC of Centre is certified ready for autumn-winter period

### December 2011

The Company's individual credit rating is confirmed at AA- (very strong capacity to meet financial commitments; Level 3), with positive outlook

The Board of Directors approves the business plan, investment program and key performance targets for 2012

## EVENTS AFTER THE REPORTING DATE

### January 2012

Corporate governance rating confirmed at NCGR Level 7+ (Advanced Corporate Governance Practice) by the Russian Institute of Directors and Expert Rating Agency

Opening of a Customer Service Centre in the town of Rzhev (Tver Region)

### February 2012

Company management takes part in Russia Forum 2012, which is one of the most important financial events in Russia and the CIS countries (organized by Troika Dialog Investment Company and Sberbank of Russia)

### March 2012

RAS financial statements for 2011 published

The Company completes the first stage of grid connection for the Siemens plant in Voronezh

### April 2012

IDGC of Centre publishes consolidated IFRS financial statements for 2011

Company management takes part in the Morgan Stanley annual conference (one-on-one format) in London

Company management takes part in the Utilities Day organized by Aton investment company using a format of small group meetings



# POSITION OF IDGC OF CENTRE IN THE ENERGY INDUSTRY

Power is one of main sectors of the Russian economy, accounting for about 10% of the country's GDP. Power consumption in the Russian Federation in 2011 totaled 1,021.1 bn kWh, which was 1.2% and 5.5% higher than in 2009 and 2010, respectively. Electricity consumption will grow by 1-2% in 2012, according to forecasts by the Ministry of Economic Development and Trade and the Ministry of Energy.

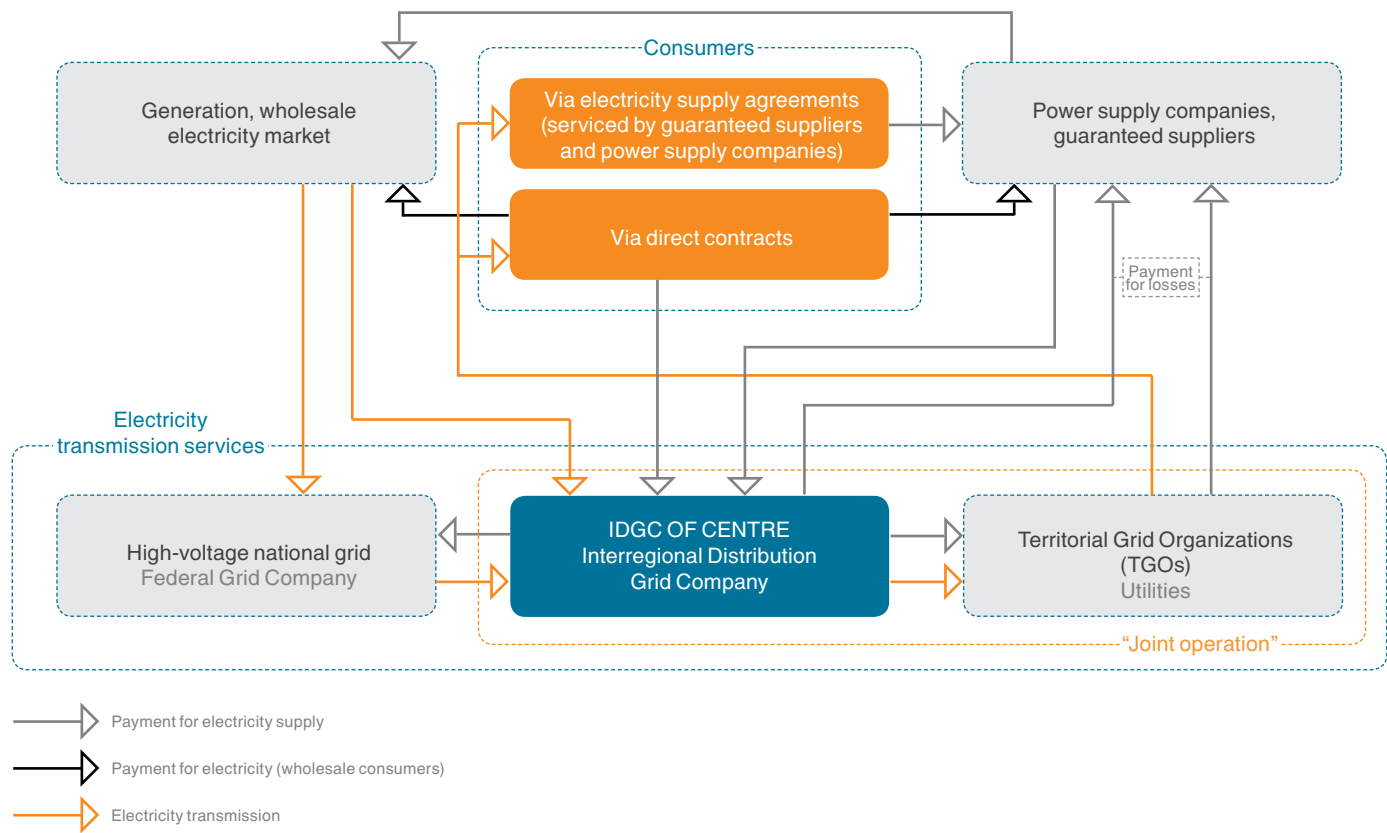
IDGC of Centre is one of 11 interregional distribution grid companies in Russia, and is the second largest among them by revenues from its core business (electric power transmission services).

The Company's branches are the main providers of power distribution services in most of their

operating regions, although competing power transmission companies also operate in several regions. IDGC of Centre's share of the electric power transmission market in its service regions is 83% in money terms. The Company estimates its share of connection services at about 88%.

The Company's competitors are territorial grid organizations (TGOs) operating in Bryansk, Voronezh, Kursk, Lipetsk, Orel, Tambov, Tver and Yaroslavl Regions. In Belgorod, Kostroma and Smolensk Regions municipal power grids are leased or owned by IDGC of Centre and the Company's market share is 100% (not including large consumers, which operate their own power grids).

## BUSINESS MODEL OF IDGC OF CENTRE



A new settlement system for electricity transmission services has been implemented since 2007 in the IDGC of Centre service zone, by which unified 'joint operation' tariffs for electricity transmission are established in each region for consumers (guaranteed suppliers, retail suppliers and consumers with direct contracts).

All regional branches of IDGC of Centre are authorized to assume the functions of the 'joint operator',

carrying out centralized settlements for electricity transmission with all consumers at single unified tariffs, regardless of the specific networks by which the consumers receive their supplies.

In turn, the Company's branches in each region carry out mutual settlement with territorial grid organizations for volumes of electricity factually supplied via TGO networks at individual tariffs set for each TGO.

## COMPETITIVE ADVANTAGES OF IDGC OF CENTRE

### Main advantages of IDGC of Centre

### Effect for the Company

1	Dominant position in service regions	<ul style="list-style-type: none"> <li>Value share of the Company in the electricity transmission market was 83% in 2011</li> <li>The Company's share of the new connection market in 2011 was 88% (by number of connections)</li> </ul>	The Company does not have to limit supply volumes as it would do in a more competitive environment
2	Use of innovative technologies	The Innovative Development Program of the Company up to 2016 was approved in 2011	Increasing business efficiency by reduction of maintenance spending and electricity losses
3	Highly qualified personnel	Operations by the Company depend on its human capital, so increase of labour efficiency has high-priority	Enhancement of operating efficiency, raising the level of energy supply security
4	Automated corporate IT system	<ul style="list-style-type: none"> <li>The Company is implementing an integrated project for automation of operations by full-scale introduction of a SAP R/3 ERP-system.</li> <li>The Company IT strategy adopted in 2011 also calls for realization of projects to improve the corporate IT system</li> </ul>	Increase of operating efficiency through greater observability and manageability of all production and management processes

# DEVELOPMENT STRATEGY OF IDGC OF CENTRE

The strategic objective of IDGC of Centre is to become the leading Russian IDGC by 2016 emerging as the most reliable, technologically advanced and fast developing company in the industry.

The key conditions and parameters of strategic development by IDGC of Centre (and by the overall Russian distribution grid sector) are stated in the Russian Power Strategy up to 2030, which was approved by Resolution No. 1715-g of the Russian Government on November 13, 2009 ("The Power Strategy 2030").

In November 2011 IDGC Holding (the owner of IDGC of Centre) adopted a development strategy up to 2015 and provisionally up to 2020 in compliance with the Power Strategy 2030.

The key objective of the strategy is to maximize the efficiency of investments in new construction, modernization and retrofitting of power grid facilities, subject to strict observance of standards for the reliability of power supplies.

*Power Strategy 2030  
(strategic priorities  
for the Russian power sector)*

PROVIDING RELIABLE AND SECURE  
NATIONAL AND REGIONAL ELECTRICITY  
SUPPLY, EVEN IN EMERGENCY  
SITUATIONS

MORE EFFICIENT OPERATIONS  
BY DISTRIBUTION GRID COMPANIES

RENEWING THE INDUSTRY THROUGH  
INVESTMENT AND INNOVATION

MEETING DEMAND FOR ELECTRIC  
POWER AT COMPETITIVE PRICES

BOOSTING THE INVESTMENT  
ATTRACTIVENESS OF DISTRIBUTION  
GRID COMPANIES

*Strategic priorities of IDGC  
Holding up to 2015 and  
outlook up to 2020*

- 1

Improving the quality and reliability of electricity supply to end-users
- 2

Ensuring that investments in network renovation and development can be funded from tariffs
- 3

Enhancing investment efficiency
- 4

Energy saving and reducing electricity losses
- 5

Greater operating cost efficiency
- 6

Improvement of interaction with consumers, society and investors

*Milestones (development  
objectives) for IDGC of Centre*

- reducing network wear;
  - implementing an asset management program;
  - enhancing reliability and quality of the services provided by the Company;
  - implementing SAIDI (System Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index), and calculating system indexes in accordance with international standards
- consolidation of networks (small TGOs, networks with no clear owner), management of networks belonging to less efficient operators/owners in order to expand tariff sources for investment
- increase of investment appeal;
  - greater transparency and efficiency in procurement;
  - tighter control over work by contractors;
  - use of cost criteria to justify line and transformer replacement
- development of a system for accurately identifying the sources of technical and commercial losses;
  - enhancing energy efficiency and driving innovative development
- optimization of systems and processes in operational and repair work, as well as in support services
- increasing the availability of power grid infrastructure;
  - improving corporate management and enhancement of IR communication

# REVIEW OF OPERATING RESULTS

## ELECTRICITY TRANSMISSION

*The Company transmitted 56,67 bn kWh of electricity in 2011, which is 1.14% more than in 2010. The increase reflects growth of electricity consumption by customers in the reporting year.*

### KEY INDICATORS FOR ELECTRICITY TRANSMISSION IN 2009-2011:

Indicator	2009	2010	2011	Growth rate, %	
				2010/2009	2011/2010
Electricity transmission by branches of IDGC of Centre, mn kWh	53,129.2	56,028.9	56,667.4	5.46	1.14
Electricity transmission by points of delivery to end-users ('joint operation circuit'), mn kWh	50,845.1	53,355.8	54,087.2	4.94	1.37
Weighted average <sup>1</sup> 'joint operation' tariffs for electricity transmission, kopeks/kWh	91.80	111.22	126.6	21.2	13.8
Revenue of IDGC of Centre from electricity transmission, RUB bn	46.78	57.44	65.95	22.8	14.8
Own revenue of IDGC of Centre from electricity transmission in the 'joint operation circuit', RUB bn	38.9	48.1	54.4	23.7	13.3

1

The latest approved tariffs as established by Decree of the Russian Federation No. 1172, dated December 27, 2011

Revenues of IDGC of Centre from electricity transmission grew faster than volumes transmitted during 2009-2011. Transmission revenues increased by 14.8% or RUB 22.8 bn in 2011 compared with 2010 to RUB 65.95 bn, representing 95.5% of the Company's total revenues.

The Company's own revenue in the 'joint operation circuit' was RUB 54.4 bn in 2011 (82.5% of total transmission revenue), which is 13.3% more than in 2010.

Tariffs for electricity transmission are set by government regulators: the Federal Tariff Service of the Russian Federation (FTS of Russia) and Regional Energy Commissions (RECs).

Before 2009 a method of 'economically justifiable costs' ('cost-plus' method) was used to decide tariffs levels. In 2009 this mechanism was replaced by an approach based on return on invested capital ('regulatory asset base' or RAB). In 2011, all branches of IDGC of Centre collected payments for electricity transmission using tariffs established by the RAB method.

Growth in volumes of electricity transmission in 2011 entailed growth of transmission costs: prime cost of electricity transmission amounted to RUB 54.912 bn in the reporting year and prime cost excluding payments in favor of TGOs was RUB 43.689 bn (growth by 8.8% and 6.5% respectively).

## PRIME COST OF ELECTRICITY TRANSMISSION IN 2009–2011, RUB BN:<sup>2</sup>

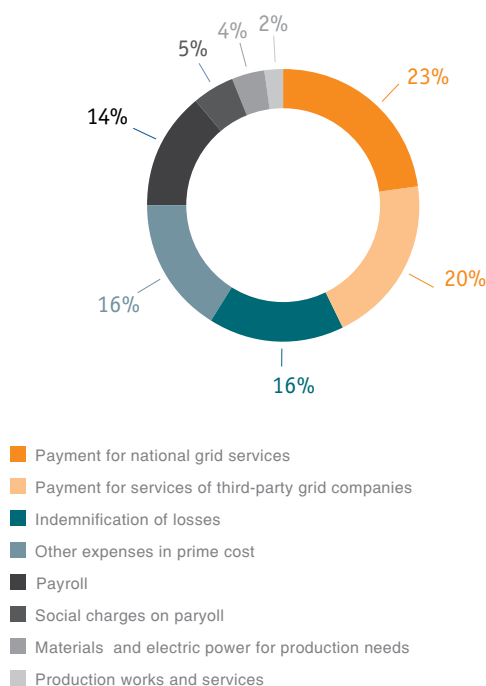
Indicator	2009	2010	2011	Growth rate, % 2011/2010
<b>Prime cost of core activities</b>	<b>42.73</b>	<b>50.47</b>	<b>54.91</b>	<b>8.8</b>
<b>NON-CONTROLLABLE EXPENSES</b>	<b>22.62</b>	<b>29.69</b>	<b>32.78</b>	<b>10.4</b>
Payment for national grid services	7.84	11.01	12.84	16.6
Payment for electricity transmission through TGO networks	8.01	9.44	11.22	18.9
Indemnification of losses	6.78	9.23	8.72	-5.5
<b>CONTROLLABLE EXPENSES</b>	<b>20.11</b>	<b>20.79</b>	<b>22.14</b>	<b>6.5</b>
Materials, electricity for production needs	1.76	1.99	2.33	17.1
Production work and services	1.90	0.95	0.88	-7.4
Payroll	5.79	7.32	7.67	4.8
Social charges on payroll	1.38	1.85	2.55	37.8
Other expenses in prime cost	9.28	8.68	8.71	0.3
<b>Prime cost excluding payment to TGOs</b>	<b>34.71</b>	<b>41.03</b>	<b>43.69</b>	<b>6.5</b>

Growth of prime cost of core business (electricity transmission) in 2011 compared with the previous year was determined by several factors:

- growth of non-controllable expenses mainly reflects increase in payment for transmission services provided by the national grid and TGOs due to increase of respective tariffs. However, expenses for indemnification of electricity losses were reduced in 2011 due to lowering of the purchase price for losses compared to 2010;
- growth of controllable expenses was mostly due to increase in the cost of materials and electricity for production needs by more than 17% compared to 2010;
- growth of payroll expenses and charges was caused by growth of salary levels in 2011 (indexation of labor remuneration in accordance with the sector tariff schedule) and transfer of more than 400 staff from LLC ATP Energiya to Belgorodenergo (a branch of IDGC of Centre);
- one controllable cost item (production works and services) was reduced thanks to introduction of in-house vehicle servicing at Belgorodenergo.

Costs of electricity acquisition to indemnify electricity losses represent a substantial cost item. In 2011, losses amounted to 9.93% of electricity input to grids and RUB 8.72 bn were spent on indemnification of these losses. The share of losses in total supply declined by 0.08 pp in 2011 in comparison with 2010.

### COST STRUCTURE IN 2011 (ELECTRICITY TRANSMISSION)



2

According to RAS statements  
and management accounts

3

As adjusted for invoicing  
of non-contractual consumption**ELECTRICITY LOSSES IN 2009-2011:**

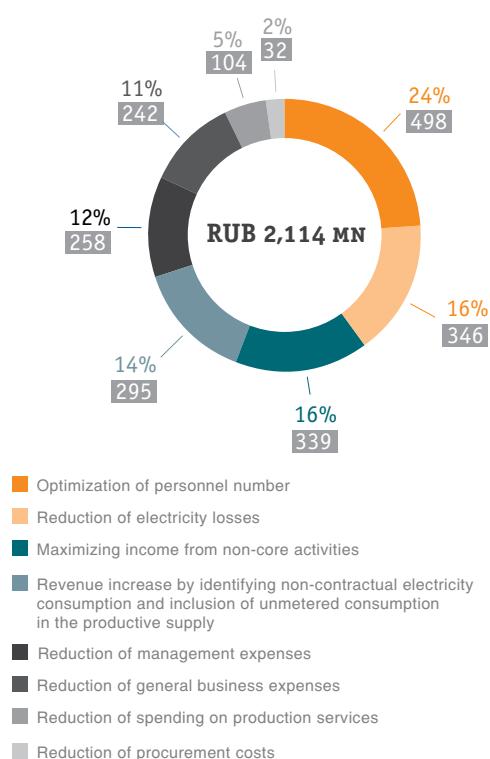
Indicator	2009	2010	2011	2011/2010
Factual electricity losses, % of supply	10.11/9.93 <sup>3</sup>	10.01	9.93	-0.08 p.p.
Target for losses, % of supply	9.96	10.03	9.93	—

The positive trend in loss figures in 2011 reflects increased share of high-voltage supply in 2011 (high-voltage transmission is less subject to power losses, for technical reasons). Also the Company managed to identify and invoice a substantial amount of unaccounted and non-contractual consumption in the course of 2011.

The Company's Board of Directors approved a program for energy saving and energy efficiency improvements in 2011. The program should reduce consumption for the Company's own needs and also reduce electricity losses in transmission. The Company achieved the targets set by the Program in the reporting year.

Actions to cut electricity losses saved 206.5 mn kWh in 2011, which is less than the target of 130.9 mn kWh. However, the savings in money terms were RUB 641.6 mn, which is almost twice more than planned RUB 384.2 mn. Overall cost of implementing the energy saving and efficiency program in 2011 was RUB 2,286 mn, and financing was provided as part of the IDGC of Centre investment program.

IDGC of Centre is also carrying out a complex program of cost management, which gave total RUB 2,114 mn of benefits in 2011 in the following spheres:

**REDUCTION OF EXPENSES IN 2011,  
RUB MN**



## NEW CONNECTION BUSINESS IN 2009-2011:

Indicator	2009	2010	2011	Growth rate, %	
				2010/2009	2011/2010
Capacity of new connections, MW	445,62	582,28	946,14	31	63
Revenue from connection services, RUB bn	1,65	2,25	1,82	36,4	-19,1
Average fee <sup>4</sup> for connection, RUB/kW	7831	7353	4231	-6,1	-42,5

## CONNECTION BUSINESS

Levels of connection business depend on rates of economic growth in regions where the Company operates. In 2011, the volume of newly connected capacity under executed contracts was 946.14 MW, which is 63% more than in 2010.

The contrast between high rates of growth of connected capacities and decline of revenue from these services was due to connection of a large number of consumers who benefit from price preferences (individuals with maximum domestic load of 15 kW and legal entities and individual entrepreneurs with loads up to 100 kW inclusive of previously connected capacity), as well as connection of a number of large consumers. The trends also reflect implementation in 2011 of major investment projects under special terms and conditions.

The Company's revenue from connections decreased by 19.1% in the reporting year compared with 2010, mainly due to reduction of the average connection fee in the IDGC of Centre service area (by 42.5% in 2011 compared with 2010).

- renovation of Company facilities for the benefit of customers;
- organization of electricity metering, etc.

The Company is expanding its network of offices and means of interaction with customers. In 2011, IDGC of Centre approved its Standard for Customer Service, carried out a questionnaire survey to assess customer satisfaction with its service quality, and opened two Customer Service Centers (CSCs) in Kimry (Tver Region) and Gagarin (Smolensk Region).

The Company received 689,800 requests from its services users in 2011, which is 25% more than in 2010, and 302,200 (44%) of them were connected with provision of additional services: the number of requests connected with additional services rose by 83.4% compared with 2010, while the number of requests concerning other matters was almost unchanged.

The revenue of IDGC of Centre from additional services and other non-transmission activities increased by RUB 442.1 mn or 58% to RUB 1.27 bn in 2011, representing 1.8% of the Company's total revenue compared with 1.3% in 2010.

Increase in the revenue from additional services was also supported by simplification of the procedure for making service contracts and organization of centralized material procurement, which shortened the time needed for making and executing contracts.

A specialized subsidiary, OJSC Energy Servicing Company, was set up in 2011 for provision of services related to electricity supply and energy efficiency.

Main objectives for development of the additional service segment in 2012 are formation of a unified price list and discount system, improvement of service quality, provision of additional guarantees, and increased promotion of services.

4

The average fee does not include special connection rates for privileged consumers (those with maximum domestic load of 15 kW, as established by Resolution No. 119 of the Russian Government, dated February 14, 2009) and for individual connections

## OTHER BUSINESS AND WORK WITH CUSTOMERS

Additional services represent a separate part of Company business, which is not subject to government tariff regulation. These services help to maximize efficiency in use of the Company's material, technical and human resources by meeting various customer needs related to electricity supply. Additional services are an important source of revenue and income.

Additional services rendered by IDGC of Centre include:

- design, construction, use and repair of the power facilities of customers;
- organization and maintenance of street lighting;

# REVIEW OF IFRS FINANCIAL RESULTS

*Key financial figure showed a further growth in 2011 by International Financial Reporting Standards (IFRS).*

Consolidated revenue in 2011 increased by

**13.9%  $\triangle$**

y-o-y (year-on-year, i.e. compared with 2010) to

**69.04**

RUB bn

EBITDA in 2011 was

**19.2%  $\triangle$**

higher y-o-y at

**14.79**

RUB bn

Net income of

**5.53**

RUB bn represented an

**8.5%  $\triangle$**

improvement compared with 2010

## KEY FINANCIAL INDICATORS OF IDGC OF CENTRE TO IFRS, RUB BN:

Indicator	2009	2010	2011	Growth rate, % 2011/2010
Revenue	49.31	60.61	69.04	13.9
of which:				
from electricity transmission	46.78	57.44	65.95	14.8
from connection services	1.65	2.25	1.82	-19.1
other	0.89	0.93	1.27	36.7
Cost of services	(45.27)	(54.1)	(61.06)	12.9
Operating income	4.77	7.90	8.93	13.1
EBITDA	8.61	12.41	14.79	19.2
Income before tax	2.75	6.39	7.38	15.4
Net financial costs	2.02	1.51	1.56	3.3
Income and total consolidated income for the year	2.11	5.10	5.53	8.5
Base earnings and diluted earnings per share, RUB	0.05	0.12	0.13	8.3
Net asset value	28.55	33.65	38.58	14.6
Net debt	10.76	14.68	18.59	26.7
Net debt /EBITDA	1.25	1.18	1.26	0.07 points
ROE,%	7.38	15.16	14.35	-0.81 pp
EBITDA margin,%	17.45	20.48	21.43	0.95 pp
Net margin,%	4.27	8.42	8.02	-0.40 pp

Main positive factors contributing to the growth of financial indicators in 2011 were increase of tariffs for electricity transmission by 13.8% y-o-y and increase of net useful electricity supply by 1.14%.

Growth in the cost of services in 2011 by 12.9% from 2010 was mainly due to growth of expenses for electricity transmission services via the national grid and via TGO networks, and also reflects 23.9% increase of spending on goods and materials for production needs.

Credit and loan debt of IDGC of Centre as of December 31, 2011 was RUB 21.24 bn, of which the current part of long-term credits and loans (repayable within 12 months from the reporting date) was RUB 1.12 bn. Net debt of IDGC of Centre as of the reporting date was RUB 18.59 bn.

### SCHEDULE FOR CREDIT AND LOAN REPAYMENT BY IDGC OF CENTRE AS OF DECEMBER 31, 2011, RUB BN:

Indicator	Repayment of principal	Interest payments due
Within 12 months	1.12	0.05
Within 1-5 years	11.15	—
More than 5 years	8.92	—
<b>TOTAL</b>	<b>21.19</b>	<b>0.05</b>

### CREDIT RATING HISTORY

Long-term credit rating according to the international scale	Forecast	Period	Status	Short-term credit rating according to the international scale	Long-term credit rating according to the national scale
BB-	Stable	May 2012	Confirmed	B	ruAA-
BB-	Stable	February 2011	Confirmed	B	ruAA-
BB-	Stable	July 2010	Confirmed	B	ruAA-
BB-	Stable	November 2009	Assigned	B	ruAA-



Full consolidated financial statements of IDGC of Centre for the year ended December 31, 2011 are available on the Company web-site at the address:  
<http://www.mrsk-1.ru/ru/information/msfo>

Full RAS financial statements are available on the Company web-site at the address:  
<http://www.mrsk-1.ru/ru/information/statements/rbsu/2011/index.php>

# INVESTMENT PROGRAM

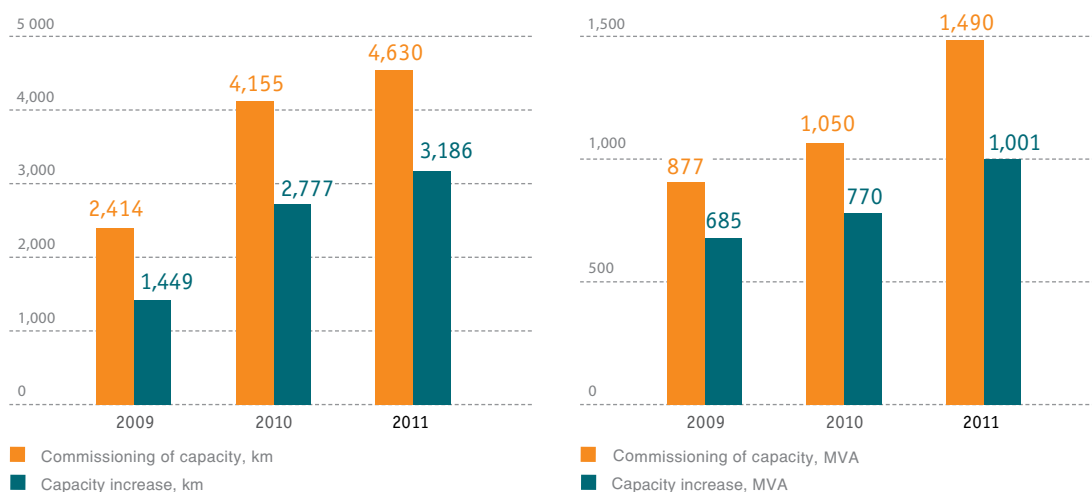
Capital investments by IDGC of Centre in 2011 were RUB 15.2 bn. The Company spent RUB 6.6 bn on new capacity construction and expansion, representing more than half (56%) of all capital investments, while RUB 8.5 bn (43%) were spent on retrofitting and renovation of facilities. Fixed assets commissioned in the reporting year had value of RUB 13.9 bn. In total 4,630 km of power lines and 1,490 MVA of transformer capacity were brought into service.

Levels of capital investment have been increasing since 2009 when Company branches began change-over to RAB regulation. The Company's objective is to renew fixed assets in order to reduce levels of wear of grid equipment and infrastructure, ensuring that increased consumer demand for electrical power can be met and that IDGC of Centre can play an active role in infrastructure programs of regional administrations in Russia.

## INVESTMENTS BY IDGC OF CENTRE, 2009-2011:

Period	Disbursement (net of VAT)	Value of fixed assets commissioned (net of VAT)	Financing (VAT included)
	RUB bn		
2009	6.53	7.69	6.44
2010	12.23	10.01	12.50
2011	15.20	13.90	17.78

## COMMISSIONING AND CAPACITY GAINS IN KM AND MVA



# INNOVATION PROGRAM

IDGC of Centre has set itself the strategic goal of matching the technology levels of power supply companies in leading industrialized countries through modernization and installation of new grid structure.

For this purposes IDGC of Centre approved an Innovative Development Program in 2011 for the period 2011-2016. The Program aims to achieve a number of **economic benefits** for the Company and consumers by:

- making grid equipment more reliable, reducing average duration of power supply outages;
- reducing the number of accidents and technical failure;
- reducing electricity losses;
- reducing operating and investment expenditures, and increasing the working life of power grid equipment through installation of an asset management system;
- reducing shortfalls in electricity supply to consumers.

**Social and economic benefits** will be achieved by:

- increasing of tax payments to the budget associated with new service provision;
- creation of new jobs.

**Environmental benefits** will be achieved by:

- increased supply of electricity, which is generated using renewable technologies, etc.

In the short term the Innovative Development Program will be mainly financed internally by the Company. However, the objective in the longer term is to make greater use of project co-financing by attracting funds from industry-based technical institutes, import-substitution programs, federal and regional special-purpose programs, grants, private investments, and also to use revenue from commercialization of innovations.

IDGC of Centre implemented a number of measures in 2011 for implementation of the Innovative Development Program Centre, as follows:

- establishment of a specialized Innovations Department and youth innovation centers at Company branches in Belgorod, Voronezh and Yaroslavl;
- approval of an updated program for energy saving and energy efficiency in 2011-2015;
- approval of an environmental program for 2012-2013;
- design of a program for renovation of grid equipment in 2012-2021;
- completion of the first stage of development of an automated electricity metering system.

# INFORMATION FOR SHAREHOLDERS AND INVESTORS

## SECURITIES

Ordinary shares of IDGC of Centre have been traded on Russian stock exchanges (the MICEX and RTS) since May 21, 2008. On August 16, 2011 Company shares were transferred from the MICEX B list to the A-2 list, which expanded the potential range of Company investors.

Company share liquidity is concentrated on the MICEX Stock Exchange, which accounts for 97% of trading. The two leading Russian stock exchanges –

the MICEX and RTS – merged in December 2011 and the Company trades in both the MICEX Main Market section (settlements in RUB) and the Classica sector (settlements in USD) of the enlarged exchange.

Company shares are included in several Russian indexes, including the MICEX Start Cap Index (MICEX SC), MICEX Power Index (MICEX PWR), RTS-2 Index (RTS-2) and RTS Electric Utilities Index (RTSeu).

## TRADING IN SHARES OF IDGC OF CENTRE AT THE MICEX STOCK EXCHANGE IN 2011:

Maximum price for the year, RUB	1.368
Minimum price for the year, RUB	0.5471
Average daily turnover, RUB mn/mn shares	5.84 / 5.56
Annual turnover, RUB mn/mn shares	1,449.46/1,380.05
Annual turnover at the MICEX Stock Exchange, % of share capital	3.27
Share price on December 30, 2011, RUB	0.6167
Capitalization on December 30, 2011, RUB	25,153
Earnings per share, RUB	0.12
Dividend yield, end of the year (based on recommended dividends for 2011)	1.62%

## MAIN FEATURES AND IDENTIFIERS OF SECURITIES OF IDGC OF CENTRE:

Type of shares	Ordinary	
Issue number	1-01-10214-A	
Nominal value	RUB 0.10	
Number of outstanding shares	42,217,941,468	
Number of authorized shares	258,532 <sup>5</sup>	
Identification codes	MICEX Stock Exchange: RTS: Bloomberg: Reuters:	MRKC MRKC, MRKCG MRKC RX MRKC.MM
Inclusion in stock indexes	MICEX: RTS:	MICEX PWR, MICEX SC; RTSeu, RTS-2
Inclusion in quotation lists	MICEX Stock Exchange:	B list (from April 08, 2009 to August 15, 2011) A2 list (from August 16, 2011)

5

Difference between the number of authorized shares (42,218,200,000) and outstanding shares (42,217,941,468) during reorganization of the Company by its takeover of regional grid companies in 2008.

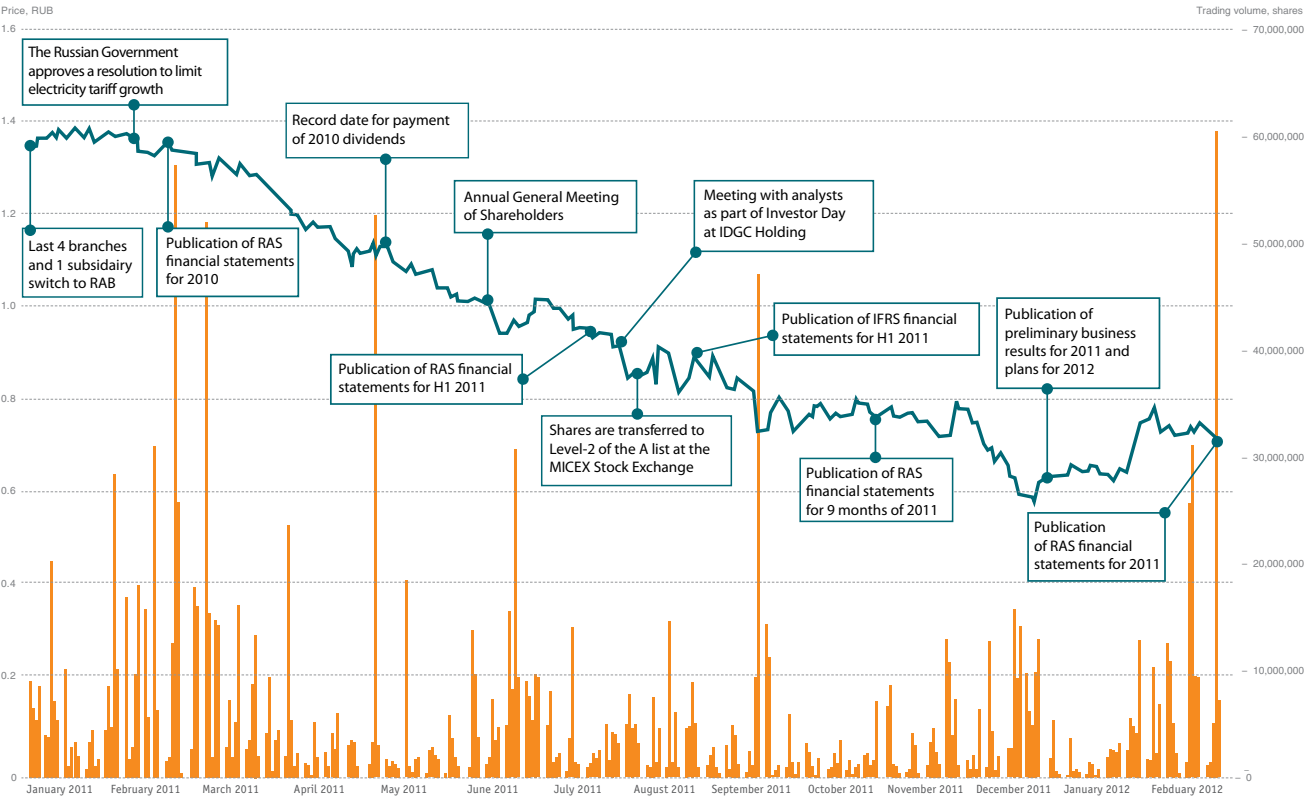


All Russian electricity stocks had a difficult year in 2011 due to tougher government regulation of electricity prices. Share prices declined on negative news. The MICEX PWR Index lost 40% and capitalization of IDGC of Centre decreased by 55%, from RUB 55.98 bn to RUB 25.15 bn. Despite the difficult situation, Company shares showed

some of the best results in the industry by market multipliers and indicators of financial standing relative to Russian and foreign peers. Year-on-year growth of revenue and return on equity were both very strong. Growth potential (upside) of Company shares at the end of the year according to analyst consensus was 127%.

Further information on the market for securities of IDGC of Centre can be found in the respective section of the Company web-site: <http://www.mrsk-1.ru/ru/investors/securities/>

IDGC OF CENTRE SHARE PRICE AND TRADING VOLUMES ON THE MICEX STOCK EXCHANGE AND MAIN CORPORATE EVENTS IN 2011-2012



Source: MICEX Stock Exchange data, Company press-releases

## DIVIDENDS

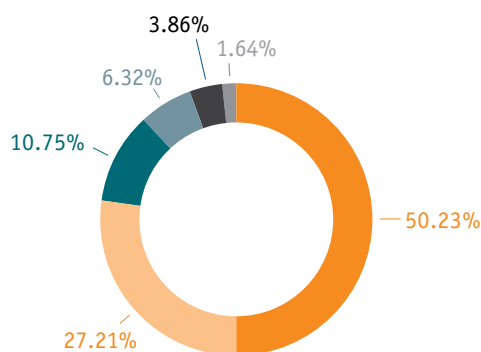
Dividend policy of IDGC of Centre complies with the Company's Regulation on Dividend Policy, which was designed in accordance with Russian Law,

the Articles of Association of the Company, recommendations of the Corporate Governance Code and other Company by-laws.

## DIVIDEND HISTORY:

Indicator <sup>6</sup>	2009	2010	2011 (plan)
Dividends, RUB	0	610,932,000.00	422,179,414.68
Dividend payout ratio (% of net income)	0	12.96	8.11
Dividends per share, RUB	0	0.01447	0.01
Earnings per share, RUB	0.05	0.11	0.12

## STRUCTURE OF THE SHARE CAPITAL OF IDGC OF CENTRE, DECEMBER 31, 2011



- LLC Depository and Corporate Technologies
- CJSC Depository-Clearing Company
- CJSC Citibank
- Other
- CJSC National Depository Center
- CJSC ING Bank (Eurasia)

*IDGC Holding is the controlling shareholder of IDGC of Centre, owning 50.23% of shares.*

*About 25% of Company shares are in free float.*

## REGISTRAR

The Company Registrar is Reestr-RN LLC. A large number of shareholders of IDGC of Centre reside in the regions where it provides services, so the Company has arranged the establishment of transfer agent offices of the Registrar in each region in order to facilitate share transactions. Shareholders can use the offices to buy and sell shares, amend their personal details, execute inheritance documents and perform other register operations directly, without the need to travel to Moscow.

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The Regulation was approved by the Board of Directors on September 3, 2010 and can be viewed on the Company web-site at the address:  
[http://www.mrsk-1.ru/docs/pri12\\_polozhenie.doc](http://www.mrsk-1.ru/docs/pri12_polozhenie.doc)

6

Dividends are calculated on the basis of net income under RAS

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More detailed information on the registrar and transfer agents is available on the Company website at the address:  
<http://www.mrsk-1.ru/ru/investors/registrar/>

# CORPORATE GOVERNANCE

The corporate governance system of IDGC of Centre complies with applicable Russian laws and Company by-laws, including the Corporate Governance Code, and is subject to ongoing improvements in accordance with best Russian and international practice.

The Company adheres to principles of justice, transparency, accountability of management bodies to shareholders (and to the Board of Directors and the General Meeting

of Shareholders), proper control of Company financial and operating activities, and observance of third-party rights as provided for by the Code.

IDGC of Centre has the highest corporate governance rating in the Russian electricity transmission segment with a National Corporate Governance Rating at Level 7+ (Advanced Corporate Governance Practices), assigned by the Russian Institute of Directors jointly with Expert RA Rating Agency.

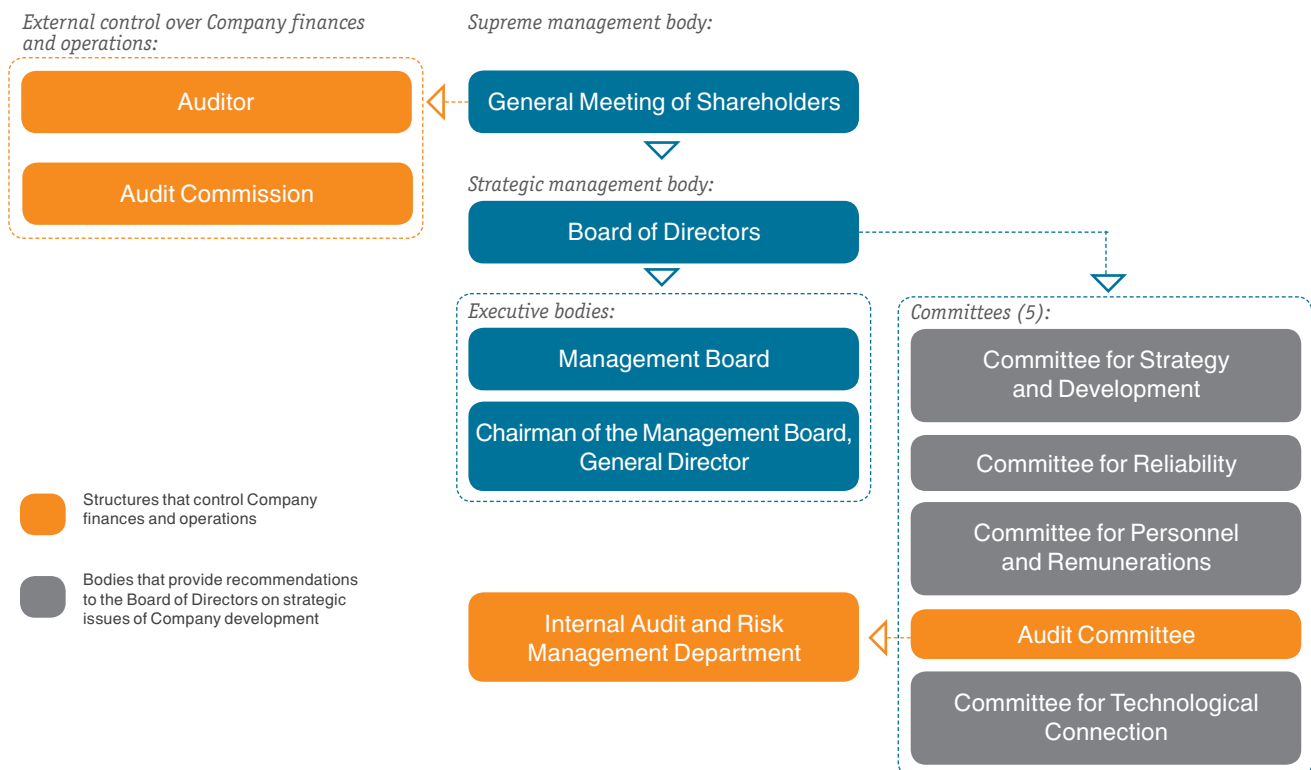
Information on by-laws regulating the Company's corporate governance system can be viewed on the corporate website at the address: <http://www.mrsk-1.ru/ru/information/documents/internal/>

Information on the corporate governance rating is available on the Company website at the address: <http://www.mrsk-1.ru/ru/investors/management/raiting/>

## CORPORATE GOVERNANCE RATING:



## STRUCTURE OF THE MANAGEMENT AND GOVERNANCE BODIES OF IDGC OF CENTRE:



## GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Company Shareholders is the senior management body of IDGC of Centre. The Meeting ensures participation by shareholders in management of the Company by way voting on the most important issues of Company business. Competence of the General Meeting of the Shareholders includes matters specified by Article 48 of the Federal Law on Joint-Stock Companies (No. 208-FZ). Questions pertaining to the competence of the General Meeting of Shareholders may not be submitted for consideration by the Board of Directors or the General Director of the Company.

During the reporting period the Annual General Meeting of the Shareholders (AGM) of IDGC of Centre took place on June 17, 2011. The Meeting approved the Annual Report and financial statements of the Company for 2010, distributed earnings and losses, elected the Board of Directors and Audit Commission and approved the Company Auditor, as well as approving amendments to of the Articles of Association, a Regulation on the Order of Convening and Holding of Meetings of the Board of Directors, and a Regulation on the Management Board.

other matters stipulated by clause 15.1 of the Articles of Association of IDGC of Centre. Questions in the competence of the Company's Board of Directors (Supervisory Board) may not be submitted for consideration by an executive body of the Company.

*Members of the Board of Directors elected by the Annual General Meeting of the Shareholders on June 17, 2011:*



**Alexey Yuryevich  
Perepelkin**

Chairman of the Board of Directors, Member of the Management Board, Deputy General Director for Corporate Governance and Property of IDGC Holding JSC



**Mikhail Yuryevich  
Kurbatov**

Deputy Chairman of the Board of Directors, Member of the Management Board, Deputy General Director of IDGC Holding JSC



**Dmitry Olegovich  
Gudzhoyan**

General Director, Chairman of the Management Board of IDGC of Centre JSC

## BOARD OF DIRECTORS

The Board of Directors of IDGC of Centre exercises overall supervision of Company business, except for resolution of issues addressed to the competence of the General Meeting of Shareholders. The Board of Directors includes representatives of different shareholder groups, enabling the interests of all shareholders to be taken into account. All members of the Board of Directors of the Company, except for Dmitry Gudzhoyan, are independent directors.

The principle competence of the Board of Directors regards matters defined by Article 65 of the Federal Law on Joint-Stock Companies (No. 208-FZ), and

The complete texts of AGM resolutions are available on the Company web-site at the address:

<http://www.mrsk-1.ru/ru/investors/management/decision/stockholders-meeting/solution/17062011/index.php>



*Alexandr Markovich  
Branis*

Director of Prosperity Capital Management (RF) Ltd



*Alexandr Grigoryevich  
Starchenko*

Director for the Power Sector of Novolipetsk Metallurgical Combine JSC

### *Svetlana Alexandrovna Balaeva*

Head of the Investment Department of IDGC Holding JSC

### *Madina Valeryevna Kaloeva*

Deputy Director of the Department of Economic Regulation and Property Relations in the Fuel and Energy Complex of the Russian Ministry of Energy



*Roman Alexeevich  
Filkin*

Co-Director of Prosperity Capital Management, (RF) Ltd. specialized in the electricity and mechanical engineering industries



*Alexandr Albertovich  
Popov*

Deputy General Director, Head of the Apparatus of IDGC Holding JSC



*Alexandr Victorovich  
Shevchuk*

Nonprofit organization Association for Protection of rights of investors, Deputy Executive director

Members of the Board of Directors of IDGC of Centre elected in 2011 do not hold any shares in of IDGC of Centre JSC or its subsidiaries and equity affiliates.

Detailed information on the members of the Board of Directors, on the main matters considered by the Board of Directors of the Company in 2011, as well as information on participation of the members of the Board of Directors in Board meetings, is available on the Company web-site at the address:  
<http://www.mrsk-1.ru/ru/investors/management/>



*Alexey Vladimirovich  
Sergutin*

Director for Economics of IDGC Holding JSC

## COMMITTEES OF THE BOARD OF DIRECTORS

IDGC of Centre has five committees made up of members of the Board of Directors (BoD Committee) and corresponding to strategic spheres of Company business:

- Committee for Reliability;
- Committee for Connections to Power Grids;
- Committee for Strategy and Development;
- Audit Committee;
- Committee for Personnel and Remuneration.

Members of the BoD Committees do not own ordinary shares of IDGC of Centre JSC or its subsidiaries and equity affiliates.

Detailed information on membership of BoD Committees, on matters considered by the Committees and decisions made by them, and on competences of the Committees is available on the Company web-site at the address:  
<http://www.mrsk-1.ru/ru/investors/management/controls/committee/>

## MANAGEMENT BOARD

The Management Board is the collegial executive body of IDGC of Centre and assures current management of the Company in accordance with Article 22 of the Articles of Association of the Company and the Regulation on the Management Board of IDGC of Centre, approved by the General Meeting of Shareholders of the Company and posted on the Company web-site at the address: <http://www.mrsk-1.ru/ru/information/documents/internal/>.

Determination of the number of members of the Management Board and election of such members is performed by the Board of Directors of the Company. The Management Board is accountable to the Board of Directors and the General Meeting of the Shareholders. The Company's General Director is the Chairman of the Management Board. The Board of Directors of the Company is entitled at any time to revoke the authorities of any member of the Management Board and to appoint new members of the Management Board.

### *Members of the Management Board of IDGC of Centre JSC as of December 31, 2011:*

- **Dmitry Olegovich Gudzhoyan**, Chairman of the Management Board, General Director of IDGC of Centre JSC;
- **Dmitry Alexandrovich Andryushin**, Deputy General Director for Investments of IDGC of Centre JSC;
- **Dmitry Igorevich Gotlib**, Deputy General Director for Development and Realization of Services of IDGC of Centre JSC;
- **Ivan Petrovich Kleymenov**, Deputy General Director, Director of the Voronezhenergo branch of IDGC of Centre JSC;
- **Rustem Leronovich Nabiullin**, Deputy General Director for Capital Construction of IDGC of Centre JSC;
- **Konstantin Nikolaevich Orlov**, Deputy General Director for Economy and Finances of IDGC of Centre JSC;
- **Olga Vladimirovna Tkacheva**, Deputy General Director for Corporate Governance of IDGC of Centre JSC;

- **Sergey Anatolyevich Shumakher**, Deputy General Director for Technical Policy, Chief Engineer of IDGC of Centre JSC.

Members of the Management Board do not own shares of IDGC of Centre JSC or of its subsidiaries and affiliates and did not carry out any transactions for purchase or disposal of Company shares in 2011. No court claims have been instituted against members of the Management Board in the whole period of the Company's existence, including in 2011. ●

## AUDIT COMMISSION

The Company's Audit Commission exercises control over Company finances and operations and is elected by the General Meeting of Shareholders for the period until the next Annual General Meeting of the Shareholders, and acts on the basis of the Federal Law on Joint Stock Companies, Article 24 of the Company's Articles of Association and the Regulation on the Audit Commission.

## REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Pursuant to clause 2 of Article 64 of the Federal Law on Joint Stock Companies, a decision on payment of remuneration to members of the Board of Directors of the Company can only be taken by the General Meeting of Shareholders. The Company has a Regulation for Payment of Remuneration and Compensation to members of the Board of Directors of IDGC of Centre, which has been approved by the General Meeting of Shareholders and is available on the Company web-site at the address: <http://www.mrsk-1.ru/docs/H2H9nK.pdf>.

A total of RUB 31,800,891 were paid to members of the Board of Directors in 2011, of which RUB 25,355,298 were for meeting additional remuneration criteria based on the results of work in 2010, while RUB 6,445,593 represented payment for participation in meetings during 2011. ●



Detailed information on the members of the Management Board of the Company is available on the Company web-site at the address: <http://www.mrsk-1.ru/ru/investors/management/controls/governing/>



Regulations on Payment of Remuneration and Compensation to members of BoD Committees are available on the Company web-site at the address: <http://www.mrsk-1.ru/ru/information/documents/internal/>



## REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD

The Management Board of the Company consists of executive officers of the Company, who, in addition to the duties set out in their employment contracts, have been vested with authorities as members of the Company's collegial executive body. The officers are paid a monthly remuneration of RUB 15,830.00 for their work on the Board in accordance with the terms and conditions of the supplementary agreements to their employment contracts.

Members of the Management Board are classified as senior managers in accordance with the Regulation on Material Incentives for Senior Managers of IDGC of Centre (effective in 2011). Bonus payments to senior managers are linked to key performance indicators (KPIs) and depend on attainment of KPIs in the respective reporting periods (quarter and year).

## REMUNERATION OF THE GENERAL DIRECTOR

The nature and amount of remuneration of the Company's General Director are specified by the employment contract made with the General Director in accordance with the Company's Articles of Association and the Regulation on Material Incentives of the General Director of IDGC of Centre JSC. Bonus payments to the General Director depend on attainment of KPIs, which are determined by the Board of Directors of the Company for the respective reporting periods (quarter and year). Non-recurrent, special and additional bonus payments are also provided for.

## REMUNERATION OF THE MEMBERS OF THE AUDIT COMMISSION

The system of remuneration of members of the Company's Audit Commission is specified by the Regulations for the Remuneration and Compensation of Members of the Audit Commission of IDGC of Centre JSC. In 2011, remuneration in the amount of RUB 491,288 was paid to members of the Audit Commission.

## EXTERNAL AUDITORS

LLC RSM Top Audit was appointed as the auditor of IDGC of Centre JSC for examination of accounts of the Company for 2011 prepared in accordance with Russian Accounting Standards (RAS). Payment for the services of LLC RSM Top Audit in examination of the Company's 2011 RAS accounts was RUB 2.7 mn (VAT included). LLC RSM Top Audit did not render services to the Company which are not directly connected with the audit of financial statements. There are no deferred or delayed payments for the services rendered by the auditor.

Examination of the accounts of IDGC of Centre JSC for 2011 prepared in accordance with International Financial Reporting Standards (IFRS) was conducted by CJSC KPMG. The cost of services of the auditor for the examination of the IFRS accounts of IDGC of Centre JSC for 2011 was RUB 8.4 mn (VAT included). CJSC KPMG did not render services to the Company which are not directly connected with the audit of the financial statements. There are no deferred or delayed payments for the services rendered by the auditor.

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More detailed information on corporate governance and management and supervisory bodies is available on the Company's website: <http://www.mrsk-1.ru/ru/investors/management/>

# SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

The Internal Control and Risk Management System ensures that management bodies of the Company take reasonable decisions by assigning responsibility and accountability of the participants of the corporate governance system. Risk management is performed at all management levels of the Company and is focused on identification, management and control of events that may adversely affect the achievement of the Company's goals.

Direct assessment of the adequacy and efficiency of internal control and risk management procedures, as well as systemic control over observance of these procedures is performed by the Internal Audit and Risk Management Department of IDGC of Centre JSC.

By-laws regulating the internal control and risk management system of IDGC of Centre can be viewed on the Company web-site at the address: <http://www.mrsk-1.ru/ru/information/documents/internal/>, including the following:

- Corporate Governance Code;
- Regulations on the Audit Committee of the Board of Directors;
- Risk Management Policy;
- Internal Control Policy;
- Regulations on Internal Control Procedures.

Internal Control Policy specifies the principles of organization of internal control, the processes and procedures of internal control, and the roles and responsibilities of participants of the internal control system.

The Risk Management Policy of IDGC of Centre determines basic principles for organization, implementation and control of risk management processes in the Company, and main activities for formation of the risk management system.

Identification, classification and primary assessment of the risks that have impact on Company business was carried out as part of the establishment of a risk management system at the Company.

## SOCIAL RESPONSIBILITY

### SOCIAL AND HR POLICY

Proper and ongoing functioning of Company business is assured by the highly qualified personnel of IDGC of Centre.

The number of registered employees working for Company in 2011 was 30,977.

IDGC of Centre implements a Program for Support and Development of Human Resources, and carries out continuous development and training of its personnel to ensure that business tasks are professionally addressed in all spheres of Company operations.

As part of HR policy, Company management endeavors to ensure preservation and replenishment of human resources, and to raise the qualifications and motivation of personnel in order to achieve corporate objectives.

IDGC of Centre provides the best possible working environment, implements various social programs,

and works hard to attract and retain young specialists. The Company makes every effort to interest young people in a career in the electricity industry. In the reporting year the Company continued to cooperate with sectoral education institutions, held professionally oriented meetings with school leavers and organized open days. The Company also invited students at specialized secondary and higher educational institutions to gain work experience at its facilities.

The personnel training process is systematic and continuous and covers all categories of the Company's employees. Employee training is harmonized with the specific nature of business processes at IDGC of Centre, and training programs are designed to suit the professional duties of each employee.

IDGC of Centre is a reliable and responsible employer. The Company operates a collective agreement that both ensures the rights and responsibilities of the parties, and provides social guarantees and benefits to the Company employees.

The interests of the employees are represented by the shop-floor union organization of IDGC of Centre which consists of 11 primary trade union organizations at branches of the Company. A collective bargaining agreement regulates social and labor relations, establishes rights and responsibilities of the parties of the social partnership, and sets salary standards and other working conditions, as well as the defining a social safety net and benefits for personnel.

The Company devotes much attention to ensuring social support for employees, their family members and non-working pensioners, as well as encouraging a healthy lifestyle and developing corporate culture. These activities are implemented through Company social policy, consisting of a social partnership system built in accordance with provisions of the Russian Federation Power Industry Tariff Agreement for 2009-2011 (on the basis of which the collective bargaining agreement of IDGC of Centre was made).

The current collective bargaining agreement and corporate insurance program gives coverage to Company employees under programs of voluntary medical insurance and personal accident and sickness insurance.

IDGC of Centre also assumes a part of social responsibility for the well-being of non-working pensioners, who were previously employed at Company facilities. Material assistance to retiring employees and formation of a corporate pension system are provided by the program of non-state pension coverage for the employees of IDGC of Centre, which is annually approved by the Board of Directors of the Company.

The Company helps to improve housing conditions of its employees via a Regulation on Corporate Assistance and Support to Personnel of IDGC of Centre. The Regulation is designed to ensure social protection of employees, to retain the qualified specialists and support hiring of young and highly qualified specialists, as well as developing motivation for efficient work. Housing commissions have been established at Company branches.

In 2011 IDGC of Centre helped its young specialists to pay housing rent and compensated a part of expenses for the payment of interest under mortgage loan agreements with credit organizations.

IDGC of Centre has a system of moral incentives to encourage achievement by employees of the best possible results, to realize innovative projects and pursue long-term conscientious work. In 2011 Company employees received several state decorations of the Russian Federation, sectoral awards from the Ministry of Energy of the Russian Federation, cor-

porate awards from IDGC Holding, awards of the All-Russian Trade Association of Power Industry Employers and awards of IDGC of Centre.

Winter and summer Sports Events (amateur sport festivals) for employees of IDGC of Centre were held in 2011, and Company personnel also took part in the All-Russian Summer and Winter Sports Events for power engineers of the national power grid complex.

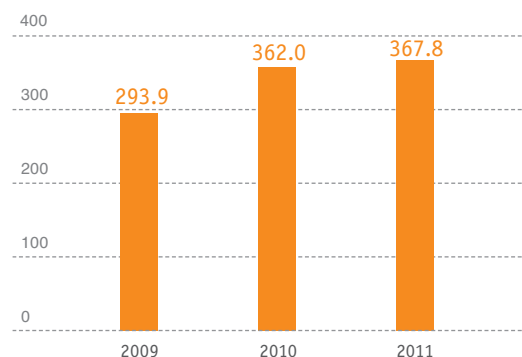
The Company provides its employees and their families with vouchers to health resorts, recreation and retreat centers, recreation centres, children's holiday camps, and children's sanatoriums.

Assuring professional health and occupational safety of personnel is among the main priorities of the personnel policy of IDGC of Centre.

The Company devotes much attention to reduction of risk of injury to third parties at its facilities. It provides health inspections for personnel in compliance with current Russian labor legislation and with the Company's own Regulations on the Occupational Safety Management System. Employees engaged in harmful, hazardous and arduous work are specially registered and specified categories of employees are provided with additional compensations in accordance with the labor legislation of the Russian Federation and the collective bargaining agreement.

In 2011, expenses related to occupational safety amounted to RUB 367.8 mn. Part of the financing was used to provide personnel with new protection equipment and gear in order to reduce the risk of injuries in the work place. The Company plans to maintain high standards in organization of health and safety provisions.

#### EXPENSES RELATED TO OCCUPATIONAL SAFETY IN 2009-2011, RUR MN

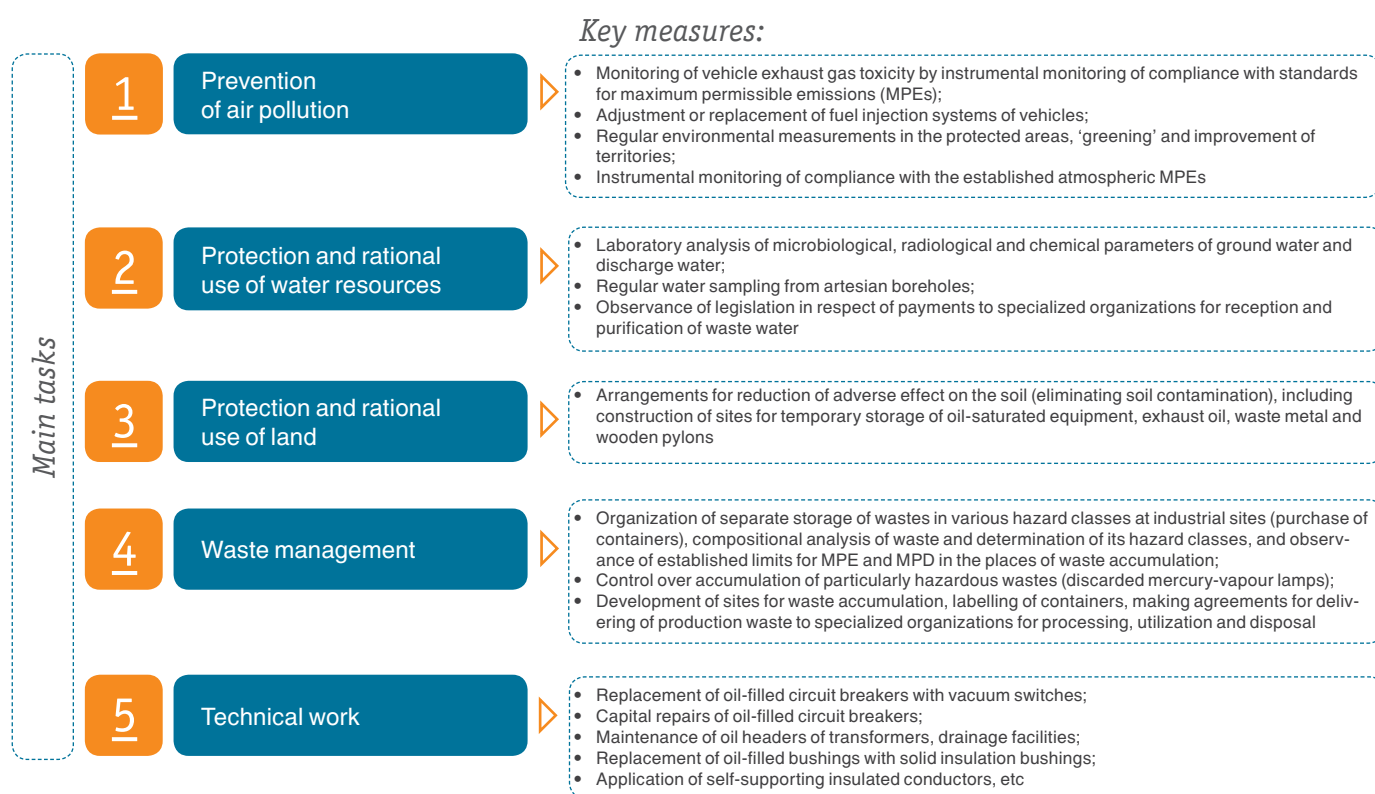


## ENVIRONMENTAL POLICY

As well as providing of reliable and safe transport and distribution of electricity, the Company sets itself a mission to protection the environment and has an integrated approach to utilization of natural resources.

In 2011 the Company approved an annual environmental program and a policy program for 2012-2013, both of which were serve the goal of continuous improvement of environmental safety levels in the course of operations.

### ENVIRONMENTAL POLICY OF IDGC OF CENTRE



# DISCLAIMER

This Annual Report of IDGC of Centre JSC ('the Company') on the operating results of 2011 ('the Annual Report') has been prepared using the information available to the Company as of the moment of its preparation.

The Annual Report contains information on operating results of the Company for 2011 and forecast data, statements of intentions, opinions or current expectations of the Company concerning its operating results, financial state, liquidity, growth prospects, strategy and development of the branch of industry in which the Company operates. Due to their nature, such forecast statements are characterized by certain risks and uncertainty factors as they refer to events and depend on circumstances which might not occur in the future.

The Company does not give any express or implied representations or warranties and shall not bear any liability in case of losses which may be incurred by natural or legal persons as a result of using forecast statements of this Annual Report for any reason, directly or indirectly. The stated persons shall not rely on the forecast statements contained herein in full as they are not the only possible scenario.

Except for the cases provided by the legislation of the Russian Federation, the Company shall take no obligations for reconsideration or confirmation of expectations and estimates and publication of updates and changes of the forecast statements presented in this Annual Report in connection with further events or receipt of new information.

# CONTACT INFORMATION

Location, mailing address:

4, 2<sup>nd</sup> Yamskaya street, Moscow, Russia, 4127018,

Dedicated hotline for shareholders and customers of the Company:

**8-800-50-50-115**

Contact numbers:

Tel. +7 (495) 747-92-92

Fax: +7 (495) 747-92-95

E-mail address:

[posta@mrsk-1.ru](mailto:posta@mrsk-1.ru)

Website address:

[www.mrsk-1.ru](http://www.mrsk-1.ru)

## ORDERING FINANCIAL INFORMATION

Financial documents can be obtained from IDGC of Centre 4, 2<sup>nd</sup> Yamskaya street, Moscow, 127018, Russia,

e-mail: [ir@mrsk-1.ru](mailto:ir@mrsk-1.ru)

Investor information is available online at

<http://www.mrsk-1.ru/ru/investors/>

## INVESTOR RELATIONS AT IDGC OF CENTRE

**Tatiana Miroshnichenko,**

Head of Investor Relations

Tel. +7 (495) 747-92-92, ext. 3181

Mobile +7 (915) 075-12-38

e-mail: [Miroshnichenko.TN@mrsk-1.ru](mailto:Miroshnichenko.TN@mrsk-1.ru)

If you have any question, comments or suggestions to our annual report, please contact our IR department: [ir@mrsk-1.ru](mailto:ir@mrsk-1.ru)



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