

Cost Management

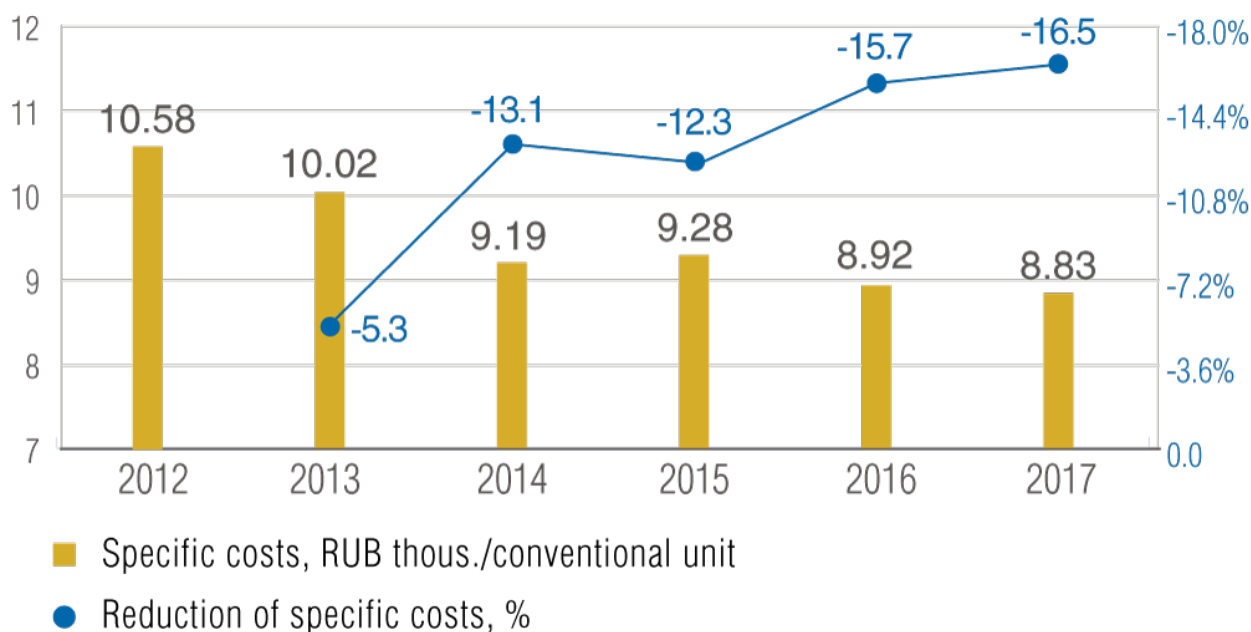
The Efficiency Management Program (EMP) is a key tool for raising the internal efficiency of operations of the Company by implementing a cost program process aiming to minimize the controlled losses and at the same to maximize their yield.

The target for operating cost reduction by 15% by 2017 including inflation in relation to 2012 per electric equipment maintenance unit (as adopted by the Development Strategy of the Russian Electric Grid System pursuant to the Russian Government Order dated April 03, 2013 No. 511r). The economic effect from EMP implementation at JSC IDGC of the North-West shall reduce the operating costs of the Company by 2017 (in the prices of 2012) by 16.5% as compared to the costs of 2012.

Cost Management Program

| Indicator | Measurement unit | 2012 actual | 2013 actual | 2014 target | 2014 actual | 2015 forecast | 2016 forecast | 2017 forecast |
|---|--------------------------------|-------------|-------------|-------------|-------------|---------------|---------------|---------------|
| Number of conventional units | thousand of conventional units | 1,021,214 | 1,081,247 | 1,087,959 | 1,099,672 | 1,101,376 | 1,104,263 | 1,118,575 |
| CPI | % | 0 | 1.068 | 1.060 | 1.078 | 1.067 | 1.044 | 1.043 |
| Total costs including management costs, in particular | RUB million | 29,057 | 30,824 | 31,397 | 31,674 | 36,109 | 37,353 | 38,269 |
| controlled costs | RUB million | 10,803 | 11,566 | 11,518 | 11,636 | 12,549 | 12,635 | 13,217 |
| uncontrolled costs | RUB million | 18,255 | 19,258 | 19,879 | 20,038 | 23,560 | 24,717 | 25,052 |
| EFFECT FROM EMP | % | 0 | -5.32 | -11.26 | -13.11 | -12.32 | -15.66 | -16.49 |
| Target level of controlled cost reduction | % | | -2.00 | -5.00 | -5.00 | -10.00 | -15.00 | -15.00 |

Effect from EMP



The effect of implementation of the cost management program at JSC IDGC of the North-West on the results of 2014 was 13.11%, which improved the effect stipulated by the Company's business plan by 1.9%, and the target value was exceeded by 8.1%. Therefore, the implementation of the EMP at the Company is taking place faster than it had been planned, of which the dynamics of reduction of the share of controlled costs in the production cost is another evidence.

This effect was achieved by measures taken to reduce the cost of maintenance per equipment unit, in particular:

- minimization of controlled operating costs including optimizing costs of payroll and repair program and maintenance by reducing contractors' prices and optimizing own staff;
- competitive purchasing procedures optimizing purchasing activity
- implement the programs of energy saving and energy efficiency improvement