

Address of the Director General



Dear shareholders and investors!

The year 2018 was the second year of PJSC IDGC of Siberia operation under the leadership of the management team, headed by Vitaly Ivanov (Company Director General until March 28, 2019). In 2018, the company switched from work in the anti-crisis mode to dynamic development, fulfilled all the main tasks and confirmed its high resilience.

We present to your attention the Annual Report of PJSC IDGC of Siberia for 2018. It is dedicated to the leading role of the company in the development of the Siberian Federal Territory. It is about how energy helps to change the socio-economic situation in the regions, how to accomplish the repair program of several years in a month and why it is necessary to create a single center of responsibility for the digital transformation of the industry, says **Pavel Akilin, General Director of IDGC of Siberia**.

Energy of victories and strategy of reliability

– Pavel Evgenievich, a new management team came to PJSC IDGC of Siberia at the end of 2016, when the company was expecting a loss of 1.8 bln rub. Right away they voiced an incredible thought at the time: there is no need to save. There is the need to earn more. Has this strategy justified itself?

– More than. We refused to work at a loss and sue regions, because this is a road to nowhere – both from an image and an economic point of view. We have moved from a savings strategy to a strategy to increase revenue. Literally over the year, the financial situation was stabilized: in 2017, the company received a net profit of 904 mln rub., in 2018 – 848 mln rub.

I would like to emphasize that in 2018 the net profit of 3.1 bln rub. was absolutely real for us. However, in Republic of Khakassia there was a bankruptcy of a last resort supplier Khakasenergosbyt JSC, and we had to pick up these functions and create a reserve in the amount of 1.6 bln rub. to cover the bankrupt's debt.

It is important that, despite this, PJSC IDGC of Siberia maintained the net profit level and laid the foundation for a successful fiscal year 2019. This is the result of a correctly chosen development strategy.

In 2018, the key parameters of the company increased: revenue, EBITDA; we have advanced in solving the problem of receivables: for the first time in many years, we have reduced this figure by 427 mln rub.

Note that the market reacted very well to our successful work: in early 2019, the Company shares rose by 65% and "broke through" a five-year maximum value. This is not the limit: the growth continues.

– How has the improvement of the financial situation affected the volumes of the Company investment program?

– In the reporting year, financing of the investment program of PJSC IDGC of Siberia amounted to 13 bln rub., VAT included. This is two times more than in 2016. We have commissioned more than 4 thsd km of power lines and 995 MVA of transformer capacity, badly needed for the development of regions.

– What are the financial forecasts for 2019?

– Our plan is to gradually increase the financial result: 1.1 bln rub. of net profit in the 2019th and 1.3 bln rub. in 2020. Such growth rates will allow us to develop the electric grid complex, ahead of the needs of the regions.

– One of the most significant projects in 2018 was preparation of the power system of Krasnoyarsk for the XXIX World Winter Universiade. Competitions were perfect in terms of energy supply. How did the company achieve this?

– The company has been preparing for the Universiade for two years and invested a total of 5.6 bln rub. in this project – an unprecedented amount of investment for Krasnoyarsk. In other words, the city's energy system was invested 32 times more than the average investment in all previous years.

We managed to significantly increase the reliability of the power system of the city. We built a new Ozernaya 110 kW substation in Krasnoyarsk, reconstructed ten 110 kW supply centers, equipment for dozens of power facilities, and more than 115 cable lines. During the renovation, digital technologies and advanced equipment were used to the maximum. In Krasnoyarsk, we created a digital Grid Management Center (one of the most modern in Russia today), as well as the Universiade Energy Management Center and the Universiade Safety Center. On the days of the competition, they controlled the power supply systems of 12 sports and 31 infrastructure facilities of the Universiade.

At the end of 2018 Krasnoyarsk hosted drills of power engineers from the Rosseti Group of Companies participated by more than 800 people: they completed a 3-year scope of work in a month, and this was the final touch in preparing the city for the Universiade.

– Wasn't too much money and effort spent for only 10 days, even if it was a global sporting event?

– Ten days flew by unnoticed, and the modern and reliably operating energy system of a million-plus city remained. In fact, in Krasnoyarsk, we have worked out a point "energy" impact model, when all the main problems of the power system are solved in a fairly short time, and bottlenecks are revealed. Today cable lines in perfect condition in the city, and there is enough power reserve for technological connection for the next 5-10 years.

– For two years, Krasnoyarsk was in focus. How did the energy systems of the other PJSC IDGC of Siberia regions of presence develop at this time? What are the most significant projects implemented by the company?

– Everything that PJSC IDGC of Siberia is doing in the regions is aimed at improving the reliability and quality of power supply to consumers. In the Altay Region, the company commissioned the Belokurikha-2 power grid complex – a 110 kW substation and a 110 kW transmission line. By the way, Altaienergo specialists built this line in the mountains on their own – for the first time in the history of the branch.

In the republics of Altay and Khakassia, in order to ensure greater reliability of the power systems, we conducted exercises for power engineers from IDGC of Siberia. In Gorny Altai, in three months they completed a three-year scope of the repair program, in Khakassia they did as much in two weeks as they would normally do in 4 months.

In Kuzbass, reliability issues were systematically solved for two years. For this relatively short period, we were able to solve the main problems with the power supply of the region as a whole, and especially the mines.

In the company as a whole, in 2018, the average duration of interruptions in the power supply to consumers was reduced by 21.4%, and the accident rate in the 6-110 kW grids was reduced by 6.7%. This is a very good result, we can be proud of it, and we are sure to go further.

– Have consumers already appreciated the positive changes?

– There are fewer complaints. This is good, because the quality of power supply to Siberians, as well as the improvement of customer service and support, is also a priority task of the company.

Note that in 2018 PJSC IDGC of Siberia reduced the amount of overdue contracts for technological connection of privileged consumer categories several times: at the beginning of 2017 we had about 8,000 contracts, while by December 2018 there were 1.5 thsd of them. By August 2019, we will reduce this figure to zero and this will be an absolute victory over the problem that seemed eternal to many.

All our victories, everything that we have done for the areas of presence, is largely the result of the synergy of government and business. PJSC IDGC of Siberia signed agreements with the administrations, regional governments on social and economic cooperation, which stipulated mutual obligations for the power engineers to develop the electric grid infrastructure, and for authorities to make tariff decisions. Both parties have fulfilled the agreement.

– At the end of 2017, PJSC IDGC of Siberia put into operation the first in Russia digital substation named after M. P. Smorgunova. In 2018, one of the most advanced digital grid management centers was opened in the country. Today we can safely say that the company is one of the flagships of digitalization in Russia. What are your plans in this direction?

– At the same time, we are simultaneously implementing 15 pilot projects in all regions of our presence: we are building 6 digital substations and creating 9 digital power distribution zones (PDZ). Three large-scale “pilots” will be completed by the end of 2019: the distribution zone in the Kaa-Khem village of the Republic of Tyva and the Yemelyanovsky district of the Krasnoyarsk Region, as well as the reconstruction of the Molodezhnaya 110 kW substation in Krasnoyarsk.

In summer 2019, the second phase of Molodezhnaya will be commissioned, and Krasnoyarsk will become the only city in the country with two digital substations.

The digital transformation of the electric power industry in Siberia is already underway, it is not a fashionable trend, it is a reality. It will be our key project for the next eleven years. Having completed pilot projects in 2020-2022, we are translating this experience to all regions and covering the entire territory of the Company presence with a digital grid.

Digitalization, of course, will be the locomotive for the development of the grid complex in all areas. In the future, it will allow restraining growth of the tariff, achieving full observability and predictability of the grid, reducing the power losses and, in general, turning the company towards the consumer. For example, in Yemelyanovsky digital PDZ, we will achieve 100% grid observability, reduce the level of electricity losses from today's 30% to 7% and reduce the costs of grid maintenance and repair by 15%.

– PJSC IDGC of Siberia today actively pursues a policy of grid consolidation. What effect is expected from this task and to what extent will regional grids be consolidated?

– This is one of the priorities of the government policy, to create a single center of responsibility for the grid complex. Therefore, 2018 has been a year of fighting a patchwork of the grids in the regions.

Consolidation will allow us to bring the grid complex of Siberia to a new level of reliability. Today, even with large local grid operators the level of losses is twice as high as in the grids of IDGC of Siberia. There is a huge number of ownerless power grid facilities in the regions: 560 in the Krasnoyarsk Region, 260 in the Altay Region, 134 in the Kuzbass. Another figure: 40% of outages in the grids of PJSC IDGC of Siberia occur due to accidents on the grids of third-party organizations and ownerless objects. This situation needs to be changed.

We are “gathering together” grids in all regions of the Company presence. In 2018, 2,210 MVA of transformer capacity and 9,722 km of transmission lines were purchased and leased. The largest “acquisitions” of the company are trust management of a block of shares of RES JSC and Electro Highway JSC in the Novosibirsk Region in January 2018, and rent of the property complex of Ulan-Ude Energo JSC (from January 1, 2019) with the right of subsequent redemption.

For enterprises that have transferred their assets to PJSC IDGC of Siberia, the transition to a unified technical policy of the Rosseti Group of Companies provides new – much broader – opportunities for development.



The second point is the power transformation challenges facing the power industry. The planned scope of the investment program of PJSC IDGC of Siberia for 2019-2024 is 67.4 bln rub., and an average of 27.1% will be annually spent on digitalization. Some local grid operators are ready to spend 3% of the investment program for these purposes. Most do not charge such costs. By combining small power companies "under the wing" of PJSC IDGC of Siberia, we will bring closer the digital future of the power industry of Siberia.

I emphasize that we do not aspire to necessarily acquire a business. We successfully implement cases on grid rental and trust management. The main thing for us is to create a reliably operating grid complex with clear development prospects, to ensure, to put it mildly, the country's energy security.

– Pavel Evgenievich, tell us about the most important projects in 2018 in the field of sustainable development. What priority tasks does the company solve in the field of ecology?

– It should be noted that the Company activities have a negligible impact on the environment. Nevertheless, we strive to reduce it: ensuring environmental safety of production is among the Company priorities.

Today we have a wide range of issues on the agenda which are related to the Company impact on the environment. What are the issues addressed? First of all, exclusion of transformer oil spills that can be a source of soil and air pollution. We are successfully fighting against the impact, reducing the accident rate at power facilities.

The company solves the problem of bird death on the wires, annually equipping transmission lines with bird protection devices, especially in the migratory areas of birds and in nature reserves. We also apply new technologies in the construction of 0.4-10 kW power lines: we install self-supporting wires. They are safe for birds, moreover, they enable us to reduce the volume of cutting down trees in the protected zone of power lines.

– PJSC IDGC of Siberia is actively developing a grid of electric filling stations for electric vehicles, what is the reason for this decision?

– We are creating an infrastructure for electric cars in the regions where we operate, since it is the availability of a convenient network of gas stations that is a decisive argument for motorists in favor of switching to environmentally friendly transport. Since 2017, we have already built 13 charging stations, free for owners of electric vehicles (as of February 2019, there are about 150 of them in our regions).

Let me emphasize, this is an image-making project, first of all, not a commercial one. We are promoting electric cars today (there are also a few in the fleet of PJSC IDGC of Siberia) and we are investing in expanding the geography of a full-fledged charging infrastructure, because we are sure that there is a future for electric transport. The more electric cars there are in cities, the cleaner the air in Siberia will become. Naturally, we are to pursue the goal.

– While heading for the digitalization, how do you develop the Company staff?

– Digitalization is a difficult, complex task. It requires a fundamentally different approach to many issues, including personnel. Today, companies need to focus on human development. The personnel of PJSC IDGC of Siberia will have to master a huge amount of new knowledge and skills. We are planning retraining, advanced training, a massive one that affects the vast majority of our employees.

At the same time, we continue to develop a system of personnel motivation, including non-material incentives. We involve employees in active social life, give them the opportunity to go in for sports, if they wish, to perform as part of the team of PJSC IDGC of Siberia at sports and athletics meetings, departmental competitions.

The company has strong traditions: corporate events, meetings with veterans, participation in environmental, charity events – all this cements the team, increases the level of employee involvement and makes the company stronger. Every year there are holidays for the children of the Company employees. We educate future power engineers. Well, at least we teach the children to respect the profession of their parents.

All this – joint sports activities, holidays, work with children and others – helps to unite the Company team. Each of twenty thsd employees of PJSC IDGC of Siberia is a professional, but only together we are able to cope with all the challenges of the time and bring the power grid complex of nine Siberian regions to a new level of development.

