



API Voting Recommendations for Annual General Meeting

Company: IDGC of Centre, PJSC (MRKC)

Meeting date: June 8, 2017

Record date: May 15, 2017

Company Overview

The Company was founded in 2004 in the process of reforming the Russian power sector and separating power companies according to the type of activity, followed by their regional integration. The Company operates in 11 regions of Central Russia providing electricity to the population, large industrial manufacturers, transport and agricultural companies, socially significant facilities and connecting new consumers to the power grid.

The authorized capital of IDGC of Centre, PJSC is RUB 4,221,794,146.80. It consists of 42,217,941,468 registered common shares with a face value of 10 kopecks.

The Company's shareholding structure is as follows:

PJSC ROSSETI, the controlling shareholder (50.2%);

Genhold Limited (15.0%);

Other shareholders (34.3%);

Russia's Federal Agency for State Property Management / Rosimushchestvo (0.5%).

1

No.	AGM agenda item	API recommendation
1.	Approval of the annual report, the annual accounting (financial) statements of the Company for 2016	FOR
2.	Distribution of the profits (including the payment of dividends) and losses of the Company for the 2016 reporting year	FOR
3.	Election of members of the Board of Directors of the Company	API recommends voting FOR Tatiana Dronova, Alexander Shevchuk (independent directors supported by the API)*
4.	Election of members of the Audit Commission of the Company	API recommends voting FOR all the candidates
5.	Approval of the auditor of the Company	ABSTAINED**

6.	Approval of the restated Articles of Association of IDGC of Centre, PJSC	FOR
7.	Approval of the restated Regulation on the General Shareholders Meeting of IDGC of Centre, PJSC	FOR
8.	Approval of the restated Regulation on the Board of Directors of IDGC of Centre, PJSC	FOR
9.	Approval of the restated Regulation on the Audit Commission of IDGC of Centre, PJSC	FOR

*The API recommends that the shareholders vote FOR the independent directors Tatiana Dronova and Alexander Shevchuk supported by the API members. The Board of Directors shall be elected by cumulative voting. Last year, only 1 independent director Alexander Shevchuk was elected to the Board of Directors, the shareholders were short of 5.24% for the election of Tatiana Dronova as the second independent director. This, combined with the position of ROSSETI and the management team of IDGC of Centre refusing to support the second independent director, led to the Company's exclusion from the Moscow Exchange quotation list for failure to comply with the Listing Rules (the presence of at least 2 independent directors).

**When preparing external auditor selection recommendations, the API revised its policy of making such recommendations to shareholders; the new approach evaluates the level of auditor selection information disclosure, particularly, the results of the candidate selection competition held by the Company, the cost of audit and non-audit services, the material terms and conditions (report preparation timeframe, audit of interim reports, etc.). This information is not disclosed by the Issuer.

Proper practice of preparing materials for shareholders meetings

We appreciate the high quality of reference materials on almost all agenda items prepared for the meeting. The materials on the Board of Directors / Audit Commission election include the candidate details provided for by the Russian laws and the Company's internal regulations, as well as information on their educational background, professional experience (including participation in the governance bodies of other entities), their independent, executive or non-executive director status (provided for by paragraph 100 of the 2014 Corporate Governance Code). We also note that information on each candidate is reviewed in detail for compliance with the applicable independence criteria stipulated by the Code and the Moscow Exchange Listing Rules.

The materials include the results of assessing the Board of Directors candidates prepared by the Committee for Personnel and Remuneration of the Board of Directors.

For agenda items 6-9 (approval of the Company's restated internal regulations), the meeting-related materials include the existing and proposed versions of the documents, as well as a summary table of proposed amendments, including a detailed rationale for such amendments, which enables shareholders to easily assess the substance of the proposed amendments and the expediency of approving the new versions of the documents.

The only major drawbacks of the materials include omission of the minutes of the Board of Directors meeting addressing agenda items of the general shareholders meeting (the attached extracts from the minutes do not disclose the related voting results), absence of an explanation / rationale for the proposed profit distribution (calculation approaches and justification, information on the factors influencing the proposed decision) and non-disclosure of the results of the auditor selection competition and information on the cost of non-audit services. Besides, in our view, the single-file multi-page landscape format is not the most convenient way of presenting meeting-related materials as working with documents on specific issues is complicated and materials of interest to shareholders cannot be saved as separate documents (files). We recommend that the Company take into account the drawbacks referred to above when preparing materials for the next shareholders meeting and return to its previous years' practice of providing materials for each agenda item separately.

In-depth AGM agenda review:

1.	AGM agenda item	API recommendation
	Approval of the annual report, the annual accounting (financial) statements of the Company for 2016	FOR

AGENDA ITEM 1 DETAILS:

The annual report of IDGC of Centre, PJSC for 2016 contains information on the key performance indicators achieved by the Company, development prospects, a description of the key risk factors, information on related party transactions (48 deals for a total amount of RUB 226.4 million), as well as a report on compliance with the Corporate Governance Code recommended for application by the Bank of Russia.

The reliability of the accounting statements of IDGC of Centre, PJSC according to Russian Accounting Standards and its consolidated financial statements according to International Financial Reporting Standards is confirmed by an audit report of RSM RUS Ltd.

Please find below IDGC of Centre's key financial and operational performance indicators according to IFRS standards:

Item	2015	2016	Change, y-o-y
Revenue, million rubles	80,830	86,295	6.8%
Operating expenses, million rubles	75,204	78,752	4.7%
Operating profit, million rubles	7,074	9,245	30.7%
Profit for the period, million rubles	881	4,762	440.5%
Profit margin, %	1.1	5.5	4.4 p.p.
Basic earnings per share, rubles	0.020	0.112	460%
EBITDA, million rubles	14,887	17,941	20.5%
EBITDA margin, %	18.4	20.8	2.4 p.p.
Net debt, million rubles	41,989	40,712	-3.0%
Net debt / EBITDA ratio	2.8	2.3	-0.5

In 2016, the Company's consolidated revenue mainly changed under the influence of higher revenue from power transmission services in 2016 (following an increase in the transmission tariff and growing net electricity supplies) and a reduction in miscellaneous revenues due to lower revenue under the concession agreement with the government of Tambov region which took effect in 2015.

The growth of operating expenses in 2016 was mainly driven by an increase in non-controlled expenses related to electricity transmission and the purchase of electricity to compensate for losses, as well as an increase in provisions for impairment of receivables.

The key factors influencing the Company's financial performance include an increase in revenue from electricity transmission services, the need to make provisions for doubtful debts, the reversal of fixed asset impairment, including amortization, and income tax savings resulting from the tax adjustment in respect of previous years and the recognition of deferred taxes according to IFRS.

DRAFT RESOLUTION ON AGENDA ITEM 1:

1. Approve the Annual Report of the Company for 2016.
2. Approve the annual accounting (financial) statements of the Company for 2016.

127473 Москва, 1-й Шемиловский пер., д. 17, оф. 11
Тел./факс +7 495 510-53-06
api-russia.org/ru

127473 Moscow, 1st Schemilovsky per., 17, office 11
Tel/fax +7 495 510-53-06
api-russia.org

2.	AGM agenda item	API recommendation
	Distribution of the profits (including the payment of dividends) and losses of the Company for the 2016 reporting year	FOR

AGENDA ITEM 2 DETAILS:

According to clause 4.1. of the Dividend Policy, the Company aims at paying at least 25% of its net profit as one of its priorities. Based on the 2016 results, it is proposed that the Company earmark 100% of its net profit for the payment of dividends. Compared with 2015, the proposed amount of dividends has increased by RUB 1,410,721 thousand (309.4%). At the same time, the Company has not provided an explanation / rationale for the proposed profit distribution (calculation approaches and justification, information on the factors influencing the proposed decision), which negatively affects transparency of the dividend policy at IDGC of Centre and ROSSETI Group in general as forecasting of possible future dividend payments and factors influencing the amount of profit fixed by the Company is substantially complicated. In addition, judging by the extract from the minutes of the Board of Directors meeting and the dissenting opinion of a Board member, the related materials were not disclosed to the Board of Directors either and the meeting itself was held in absentia.

DRAFT RESOLUTION ON AGENDA ITEM 2:

1. Approve the profit (loss) distribution of the Company for the 2016 reporting year as follows:

Item	(thousand rubles)
Retained earnings (loss) for the reporting period: To be distributed as follows:	1,866,675
Reserve fund	0
Profit for development	0
Dividends	1,866,675
Repayment of losses of previous years	0

2. Pay dividends on the Company's common shares based on the results of 2016 in the amount of RUB 0.044215195 per common share in cash.

The dividend payment deadline shall not exceed 10 business days following the dividend record date for the nominal holder and the trustee qualifying as a professional securities trader which are registered as the Company's shareholders, 25 business days following the dividend record date for other persons on the register of shareholders. Set June 21, 2016 as the dividend record date, i.e. the date as of which the list of persons entitled to receive dividends shall be drawn up.

3.	AGM agenda item	API recommendation
	Election of members of the Board of Directors of the Company	API recommends voting FOR Tatiana Dronova, Alexander Shevchuk (independent directors supported by the API)*

AGENDA ITEM 3 DETAILS:

According to the Company's Articles of Association, the Board of Directors consists of 11 members. The shareholders have nominated 20 candidates.

The API recommends that the shareholders vote FOR the independent directors supported by the API members. In terms of the Corporate Governance Code recommendations, candidate Alexander Shevchuk is technically affiliated with ROSSETI, given his membership of the Board of Directors at more than two legal entities controlled by a

substantial shareholder of the Company (PJSC ROSSETI). We believe that this recommendation is not applicable as Alexander Shevchuk is elected by the votes of different minority shareholders of interregional distribution grid companies (IDGCs) and is not affiliated with PJSC ROSSETI in any way.

According to recommendations given by the Board of Directors Committee for Personnel and Remuneration of IDGC of Centre, "Alexander Shevchuk votes on agenda items at Board of Directors meetings based solely on his professional experience and knowledge, taking an independent position."

The API and its members intend to elect 2 representatives of a minority shareholder (Prosperity CM) and 2 independent directors Tatiana Dronova and Alexander Shevchuk to the Company's Board of Directors. Consolidation of at least 34.8% of the shares is required for such election if the Company's CEO receives support from at least 13% of the shareholders. Oleg Fedorov and Denis Kulikov are nominated as backup candidates.

Sergey Ilyushko, a private shareholder of the Company, has nominated 2 candidates one of whom is independent and the other (Pavel Litvinov) is affiliated with a significant counterparty of the Company (AO Alfa-Bank).

The representative of Novolipetsk Steel (NLMK) nominated to the Board of Directors is affiliated with a significant counterparty, the candidate is a non-executive director.

PJSC ROSSETI has nominated one independent director Alexander Varvarin. We have reviewed the candidate's voting activity as a member of the Board of Directors of IDGC of Volga, PJSC in the last few years (66 voting records from 2015 to 2017, the independent director voted in the affirmative ("FOR") on all agenda items) and propose taking this into account when voting on this candidate.

The following twenty candidates are proposed for voting:

No.	Name	Candidate's employer / position (as of nomination date)	Nominated by / shareholding, %	Status
1.	Tatiana Dronova	Deputy General Director for Strategy and Development, ZAO Investment Holding Energy Alliance	ZAO Investment Holding Energy Alliance, Energosouz Holdings Limited/2.73	independent director*
2.	Denis Spirin	Director for Corporate Governance, representative office of Prosperity Capital Management (RF) Ltd.	Genhold Limited/15.00	non-executive director
3.	Roman Filkin	Director, power engineering, machine building, representative Office of Prosperity Capital Management (RF) Ltd.	Genhold Limited/15.00	non-executive director
4.	Oleg Fedorov	Member of the Supervisory Board of ALROSA	Genhold Limited/15.00	independent director
5.	Alexander Shevchuk	Executive Director, Association of Institutional Investors	Genhold Limited/15.00	independent director*
6.	Denis Kulikov	Adviser to Executive Director, Association of Institutional Investors	Genhold Limited/15.00	independent director
7.	Sergey Chebotarev	Vice-President for Power Engineering, NLMK	FLETCHER GROUP HOLDINGS LIMITED/3.20	non-executive director
8.	Alexander Batalov	Director of the Economic Security and Anti-Corruption Department, PJSC ROSSETI	PJSC ROSSETI/50.23	non-executive director
9.	Alexander Varvarin	Vice-President - Managing Director for Corporate Relations and Legal Support, Russian Union of Industrialists and Entrepreneurs	PJSC ROSSETI/50.23	independent director

10.	Oleg Isaev	CEO, IDGC of Centre, PJSC; Acting CEO, IDGC of Center and Volga Region, PJSC	PJSC ROSSETI/50.23	executive director
11.	Marina Lavrova	Head of SDC Economy Office, Economic Planning and Budgeting Department, PJSC ROSSETI	PJSC ROSSETI/50.23	non-executive director
12.	Yury Mangarov	Deputy Chief of Staff, PJSC ROSSETI	PJSC ROSSETI/50.23	non-executive director
13.	Alexey Pavlov	Director of the Treasury Department, PJSC ROSSETI	PJSC ROSSETI/50.23	non-executive director
14.	Pavel Snikkars	Director of the Electric Power Industry Development Department, Ministry of Energy of Russia	PJSC ROSSETI/50.23	non-executive director
15.	Alexey Rakov	Director of the Department for Electricity Metering and Interaction with Stakeholders of Electricity Markets, PJSC ROSSETI	PJSC ROSSETI/50.23	non-executive director
16.	Maxim Saukh	Head of the Corporate Governance Office, Corporate Governance and Interaction with Shareholders Department, PJSC ROSSETI	PJSC ROSSETI/50.23	non-executive director
17.	Oxana Shatokhina	Deputy General Director for Economy, PJSC ROSSETI	PJSC ROSSETI/50.23	non-executive director
18.	Natalia Erpsher	Head of Organizational Development Office, Personnel Policy and Organizational Development Department, PJSC ROSSETI	PJSC ROSSETI/50.23	non-executive director
19.	Anastasiya Krupenina	Economist of the 1st category, Dealer Operations Section, Securities Office, JSC GUTA-BANK	Sergey Ilyushko/2.30	independent director
20.	Pavel Litvinov	Head of Credit Risk Management, AO Alfa-Bank	Sergey Ilyushko/2.30	non-executive director

Members of the Board of Directors are elected by cumulative voting.

* The API officially supports these candidates at the AGM.

Details on the API liaison with independent directors are provided on the API website at: <http://api-russia.org>.

All independent directors backed by the API are open to direct contact with shareholders; please contact us for further information.

DRAFT RESOLUTION ON AGENDA ITEM 3:

Elect the following candidates to the Company's Board of Directors:

1. Tatiana Dronova
2. Denis Spirin
3. Roman Filkin
4. Oleg Fedorov
5. Alexander Shevchuk
6. Denis Kulikov
7. Sergey Chebotarev
8. Alexander Batalov
9. Alexander Varvarin
10. Oleg Isaev
11. Marina Lavrova
12. Yury Mangarov
13. Alexey Pavlov

14. Pavel Snikkars
15. Alexey Rakov
16. Maxim Saukh
17. Oxana Shatokhina
18. Natalia Erpsher
19. Anastasiya Krupenina
20. Pavel Litvinov

4.	AGM agenda item	API recommendation
	Election of members of the Audit Commission of the Company	API recommends voting FOR all the candidates

AGENDA ITEM 4 DETAILS:

5 (five) candidates are nominated to the Audit Commission, which is consistent with the size of the Audit Commission of IDGC of Centre, PJSC provided for by the Articles of Association. All the candidates are nominated by PJSC ROSSETI. Four of the five current Audit Commission members are included in the list of nominees (italicized below).

No.	Name	Candidate's employer / position (as of nomination date)
1.	Elena Erandina	Chief Expert, Control and Expert Office, Internal Audit and Control Department, PJSC ROSSETI
2.	Svetlana Kim	Head of the Internal Audit Office, Internal Audit and Control Department, PJSC ROSSETI
3.	Oxana Medvedeva	Chief Expert, Internal Audit Office, Internal Audit and Control Department, PJSC ROSSETI
4.	Sergey Malyshev	Leading Expert, Internal Audit Office, Internal Audit and Control Department, PJSC ROSSETI
5.	Elena Sinitsyna	Head of the Control and Expert Office, Internal Audit and Control Department, PJSC ROSSETI

Audit Commission members are elected by a simple majority of votes.

DRAFT RESOLUTION ON AGENDA ITEM 4:

Elect the following candidates to the Company's Audit Commission:

1. Elena Erandina
2. Svetlana Kim
3. Sergey Malyshev
4. Oxana Medvedeva
5. Elena Sinitsyna

5.	AGM agenda item	API recommendation
	Approval of the auditor of the Company	ABSTAINED

AGENDA ITEM 5 DETAILS:

In 2014, PJSC ROSSETI held an open one-stage competition to award a contract for the mandatory annual auditing of statements at the subsidiaries and affiliates of PJSC ROSSETI (including IDGC of Centre, PJSC) in 2015-2017. As a result,

127473 Москва, 1-й Шемиловский пер., д. 17, оф. 11
Тел./факс +7 495 510-53-06
api-russia.org/ru

127473 Moscow, 1st Schemilovsky per., 17, office 11
Tel/fax +7 495 510-53-06
api-russia.org

RSM RUS Ltd. was declared the winner (tender evaluation report no. 552p as of April 14, 2015). The tender evaluation report and the competition results remain undisclosed.

RSM RUS Ltd. was approved by the Audit Committee on April 5, 2017 (minutes no. 04/17 as of 4/5/2017) and recommended by the Board of Directors of the Company (minutes no. 12/17 as of 5/16/2017) for approval at the Annual General Meeting as the Auditor to carry out the audit in 2017 in accordance with the laws of the Russian Federation and the requirements of international audit standards.

Information on the proposed auditor's fee, material terms of the contract, timeframe of the audit and scope of non-audit services provided in the past period is not disclosed. For lack of information, we recommend that the shareholders vote "Abstained" on this issue. The resolution shall be passed by a simple majority of votes.

DRAFT RESOLUTION ON AGENDA ITEM 5:

Approve RSM RUS Ltd. as the Company's Auditor.

6.	AGM agenda item	API recommendation
	Approval of the restated Articles of Association of IDGC of Centre, PJSC	FOR

AGENDA ITEM 6 DETAILS:

Most of the more than 80 amendments proposed to the Articles of Association are aimed at bringing their provisions in compliance with the legal innovations taking effect recently (including the procedure for agreeing major transactions and related party transactions, the procedure for exercising the rights attributed to securities by owners whose rights to such securities are recorded by nominal holders, the possibility of electronic voting at general shareholders meetings, etc.), as well as recommendations of the Corporate Governance Code and the corporate governance practices at the Company.

In our view, no innovations prejudicing the position or restricting the rights of shareholders are proposed in the new version of the document.

DRAFT RESOLUTION ON AGENDA ITEM 6:

Approve the restated Articles of Association of IDGC of Centre, PJSC.

7.	AGM agenda item	API recommendation
	Approval of the restated Regulation on the General Shareholders Meeting of IDGC of Centre, PJSC	FOR

AGENDA ITEM 7 DETAILS:

The new version of the document brings it in compliance with the legal innovations and the amendments to the Articles of Association proposed for approval at the meeting.

In connection with amendments to the Federal Law "On Joint-Stock Companies" as regards electronic voting at annual general shareholders meetings effective since July 1, 2016 and the announced launch of an electronic voting (e-voting) platform by Russia's National Settlement Depository on the Internet in 2017, the proposed Regulation formalizes the opportunity of electronic voting at general shareholders meetings by filling in electronic ballots on the website specified in the notice on the General Shareholders Meeting. The relevant information will be provided in the meeting notice.

In our view, no innovations prejudicing the position or restricting the rights of shareholders are proposed in the new version of the document.

DRAFT RESOLUTION ON AGENDA ITEM 7:

Approve the restated Regulation on the General Shareholders Meeting of IDGC of Centre, PJSC.

8.	AGM agenda item	API recommendation
	Approval of the restated Regulation on the Board of Directors of IDGC of Centre, PJSC	FOR

AGENDA ITEM 8 DETAILS:

The new version of the document brings it in compliance with the legal innovations and the amendments to the Articles of Association proposed for approval at the meeting, taking into account the corporate governance practice at the Company and the 2014 Corporate Governance Code recommendations.

The document incorporates the previously non-existent provisions related to independent Board members. The regulation establishes the position of senior independent director and describes the senior independent director's duties. The Board of Directors is vested with the power to recognize a Board member as an independent director, despite his/her technical affiliation, according to the Moscow Exchange Listing Rules.

The proposed version of the document obliges members of the Board of Directors to submit notices to the Company as provided for by Section 11 article 82 of the Federal law "On Joint-Stock Companies."

The procedure for providing dissenting opinions of Board of Directors members on agenda items of meetings is described in detail.

In our view, no innovations prejudicing the position or restricting the rights of shareholders are proposed in the new version of the document.

DRAFT RESOLUTION ON AGENDA ITEM 8:

Approve the restated Regulation on the Board of Directors of IDGC of Centre, PJSC.

9

9.	AGM agenda item	API recommendation
	Approval of the restated Regulation on the Audit Commission of IDGC of Centre, PJSC	FOR

AGENDA ITEM 9 DETAILS:

The proposed amendments are aimed at increasing the effectiveness of response to violations and weaknesses identified by audit commissions and formalize certain aspects of their activities.

In our view, no innovations prejudicing the position or restricting the rights of shareholders are proposed in the new version of the document.

DRAFT RESOLUTION ON AGENDA ITEM 9:

Approve the restated Regulation on the Audit Commission of IDGC of Centre, PJSC.

The AGM Voting Recommendations are based, among other things, on the Annual General Meeting reference materials published on the website of IDGC of Centre, PJSC. For questions and/or comment, please contact us at: +7 (495) 510-5306 or via email: polovnev@api-russia.org