



## LETTER TO STOCKHOLDERS

Dear stockholders,

Just as in previous years, in 2016 IDGC of Urals (OAO) has demonstrated its sustainable significant performance retaining its dominant position on the energy market of the Urals and Kama regions, built on the principles of transparency, efficiency and integrity of business. The Company's has outperformed its FY2015 financial and economic results: FY2016 revenues exceeded RUB 65.4 billion, with FY2016 net income conquering its historical peak of RUB 3.3 billion (or +34%YoY).

The Company's opex-reduction program, well-balanced credit policy, sound performance of economic and technical divisions were combined to achieve strategic objectives i) to lower equipment deterioration and revamp it; ii) to make access to network infrastructure easier for consumers; as well as iii) to guarantee reliable operability of the Urals and Kama energy systems. The Company's personnel secured stable operations of the network infrastructure enhancing key production figures. Operational excellence of the Company's staff helped reduce line outage rate in the service area 23% YoY. Qualitative execution of the Company's RUB 1.78 billion repair program became the most important element in the enchainment of technological measures taken to enhance quality and reliability of energy supply.

IDGC of Urals (OAO) also managed to keep its capital expenditures positive to complete its RUB 6.5 billion investment program. The key investment patterns were refurbishment and upgrade of existing facilities and measures enforcing reliability of the grid infrastructure. Connection was also a very important aspect funded by the investment program. In 2016 the Company gave the highest priority to enhanced access to the grid networks, improved connection process and expanded front-end service. Customers were provided with comfortable front-end instruments - online connection fee calculator and user account helping customers conclude connection contracts online (no face-to-face visits required anymore) and watch the progress in real time. Thus, Company's specialists have connected approx. 30.0 thousand new customers to the networks. Average term for small and medium-size business (used in calculation of the national rating) to be connected to the Company's networks is 74 days.

Industrial complex of the Urals region is one of the country's most heavy-duty ones. This is a territory with high growth rates of regional economies, sustainable production infrastructure and high population density. Therefore, evolution of the grid complex and its reliability is the Company's objective of strategic importance.

The Board of Directors and C-level executives aspire to retain economic stability, sound performance and social responsibility of the Company for the benefit of stockholders and customers. The focus of the Company's governing bodies lies in implementing import-substitution solutions, cost-cutting, enhancing efficiency and energy saving as well as in arranging innovative activities and improving Company's HR policy. A particular emphasis will be made on fostering a comprehensive dialogue with Russian higher education institutions to promote training of young professionals and improve retraining of the Company's personnel.

*Kind regards,  
The Chair of the Board of Directors  
of IDGC of Urals (OAO)  
A.S. Semerikov*

A handwritten signature in black ink, appearing to be 'A.S. Semerikov', written in a cursive style.