

2.2. Strategy of the Company

2.2.1. External challenges

Table 2. Influence of external challenges on the Company business

External challenges: tendencies	External challenges: detailed description	Influence on the Company
Competitive expansion on the part of Korea and China	<ul style="list-style-type: none"> Active promotion of Korean technology APR-1400 in the international market (in particular, won tender in the United Arab Emirates). Large-scale transfer of technologies by China (in particular, within the frame of contracts with Westinghouse) and attempts to come into international market (Argentina, Turkey). Growing of competencies and experience by Chinese manufacturers with the use of implementation of large scale program of construction NPPs in the area of China: increase of installed capacity of NPPs from 11 GW (2010) to 128 GW (2035). 	<p>Impact on time schedule and CAPEX of projects of the constructed NPPs (reaction of the Company: reduction of cost and time period of NPP construction to 30 %).</p> <p>Growing of available market of PMC services in the segment of high power NPPs.</p>
Consequences of accident in Fukushima NPP in Japan	<ul style="list-style-type: none"> Refusal of some advanced countries to develop nuclear power engineering: plans of Germany to close all operating NPPs by 2022, plans of Switzerland on refusal to construct any new NPPs and prolong life of the existing ones, plans of Japan on complete refusal of nuclear power engineering by 2040. Severization of requirements to safety systems of NPP and improvement of safety culture: development of active and passive safety systems, development of legal framework on safety. 	<p>Necessity to construct NPPs in compliance with the most severe safety requirements.</p> <p>Necessity to cooperate with countries (potential customers) on preparation of plan of NPP infrastructure development.</p> <p>Growing of available market in segment of decommissioning/radioactive waste/spent nuclear fuel.</p>
Tendency of some developing countries to expand nuclear power engineering	<ul style="list-style-type: none"> Preparation of programs for development of power engineering industry in the developing countries, as well as start of their practical implementation, in particular in Bangladesh, Jordan, United Arab Emirates, Turkey. In spite of aspiration to develop power engineering industry, the developing countries have no financing sources for nuclear programs and required technologies. 	<p>Growing of available market in construction of NPP in accordance of Russian design, market of PMC, as well as services for decommissioning/radioactive waste/spent nuclear fuel.</p> <p>Necessity to finance projects of NPP construction.</p>
Technological trends in power engineering	<ul style="list-style-type: none"> Over a midterm and long period: increase of differentiation of reactors depending on power including potential growing of demand to low and medium power reactors. Reduction of gas prices as a result of expansion of shale gas from the USA. Achieving of “growing ceiling” by renewable power sources (limitations for networks, accumulated problems with tariffs, subsidies, and government debt). 	<p>Impact on time schedule and CAPEX of the projects of NPP to be constructed.</p>

2.2.2. Strategic targets

Strategy of the NIAEP–ASE Integrated Company was developed in 2013.

Principal strategical targets of the Company till 2030:

- competitive ability in the main “core” of business (“core” of business is a construction of high power NPPs): ability to construct several facilities at the same

time in different geographical markets within time limits and cost;

- operating stability: ability to fulfill all obligations on the projects is to be implemented. In case one or several projects are canceled or their implementation is postponed (on the basis of investigation of major engineering companies, share of one project in the bag should be equal to 5–10 % taking

into account cost of NPP projects in order to ensure stability; parameter of project shares assign requirements for scale of business);

- financial soundness of the Company.

Operating stability of the Company is supposed to be achieved at the expense of expansion of activities and diversification out of “core” of business. In order to develop stable business of the NIAEP–

ASE Integrated Company, it is expedient to be guided by level of diversification beyond limits of basic business 30-40 % (see Fig. 12).

Strategic initiatives of the NIAEP-ASE Integrated Company on creation of competitive, stable (as for operation and finances) within the frame or close to "core"

of business, as well as diversification beyond segment of basic presence correspond to strategic targets of State Corporation ROSATOM (see Fig. 13).

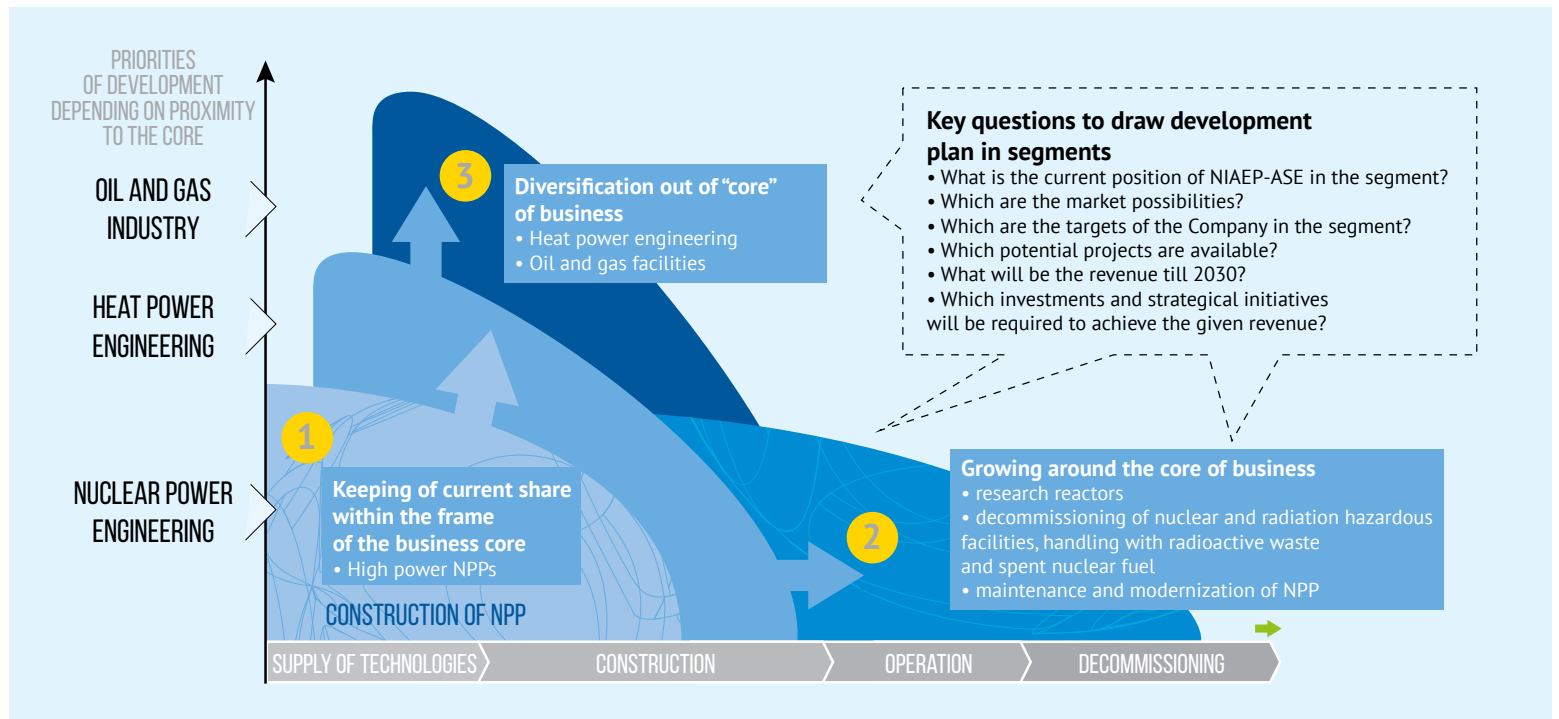


Fig. 12. NIAEP-ASE Integrated Company's Strategic Development Direction

Targets of State Corporation ROSATOM	Strategic goals of NIAEP-ASE				
	Implementation of NPP construction plans in Russia and abroad	Increasing competitiveness of Russian NPP	Diversification in atomic industry	Providing operation stability (diversification)	Providing financial stability
1 > Keeping of nuclear potential of state					
2 > Provision of nuclear radiation safety			○		
3 > Providing state economy with electric power	○	○			
4 > Technological leadership			○	○	
5 > Globality	○	○	○	○	○
6 > Level	○	○	○	○	○
7 > Product competitiveness		○	○	○	○

Fig. 13. Compliance with strategic targets of State Corporation ROSATOM

Plans on diversification of the Company activity

When selecting directions for diversification beyond core of the business, facilities which can be compared with the NPP as for scale and difficulty level were of top priority:

- NPP is one of the largest and most complicated facilities: cost of 1 power unit is from \$3 bln; number of construction employees can be about 8 thous. pers., designing and project management personnel, about 300 persons;
- professional services have a big share in the cost of NPP: considerable quantity of technologies concentrated in the limited area require involvement of specialists of different trades at all stages of chain of creation of value.

Capital-intensive facilities of high requirements to engineering namely heat power industry facilities and oil and gas facilities (Fig. 14) can be compared with NPPs as for scale and difficulty level.

Diversification of the NIAEP-ASE Integrated Company by sectors and geographical presence within the framework of implementation of strategic targets will exercise positive influence on development of its activity:

- Impact on the Company:
 - Additional revenue from projects beyond the main "core" and thus leveling of oscillations of sector cycles (in case of correction of demand for NPP);
 - Work in more competitive environment, getting of relevant experience and as a consequence, optimization of business processes;
- Influence on the "core" of business:
 - Additional possibility of risks balancing in the course of project implementation in the main "core": default risk for individual projects and risks of resources under-capacity;
 - Optimization of business processes in the main "core" and effectiveness enhancement and as a consequence, competitive recovery of the Company in the main core.

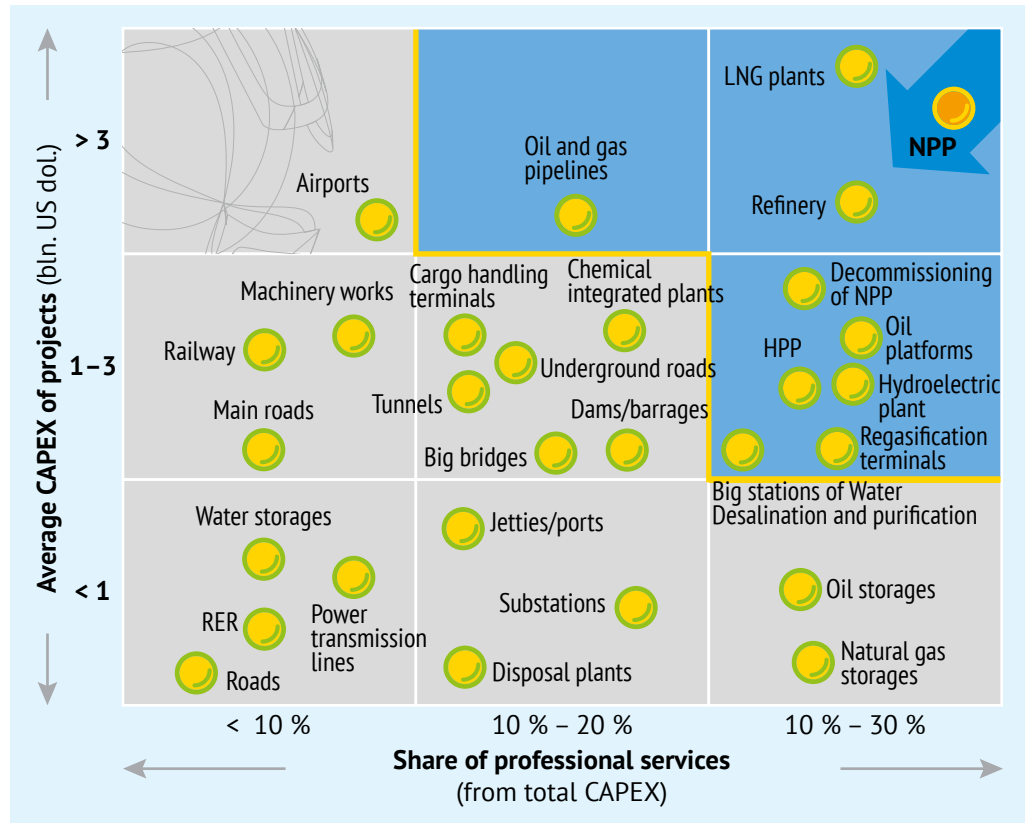


Fig. 14. Correlation of construction facility as per CAPEX⁷ and share of professional services

2.2.3. Priority strategic directions for business development of the NIAEP-ASE Integrated Company

Within "core" of business

High power NPPs

Currently within main "core" of business the NIAEP-ASE Integrated Company acts as a General Contractor and General Designer of implementation of roadmap of State Corporation ROSATOM with regard to construction of NPPs in Russia. Abroad the NIAEP-ASE Integrated Company implements projects on construction of NPP in accordance with Russian technologies thus providing contribution to globalization of range of activity for State Corporation ROSATOM.

In order to provide competitive position for the Company on the horizon of planning in a view of existing tendencies in the Russian and international market of high power NPP it is required to main-

tain current share in the growing market⁸ at the expense of:

- competitive recovery of the Company projects including reduction of time period and cost of construction while improving quality of projects management taking into account interests of specific customers;
- development of marketing and commercial functions of the Company.

Results of 2013

Contribution of the Reporting year into implementation of strategy is presented in Chapter 3 "Results of activities: Contribution into implementation of strategy".

Plans for 2014 and midterm:

- preparatory works at Kursk NPP-2, Nizhny Novgorod NPP, Akkuyu NPP (Turkey), Roop-pur NPP (Bangladesh), Ninh Thuan NPP (Vietnam) and Fujian Sanming NPP (China);
- construction and installation works at Rostov NPP, Belarus NPP and Tianwan NPP (China);
- final works (commissioning of power unit 1) at Kudankulam NPP (India).

7. CAPEX – capital expenditure.

8. Market of high power NPP construction is growing in absolute terms.

Priority for the Company is a formation of bag of orders (maximal participation in tenders) in the countries of South-East Asia, Latin America, Africa, as well as in traditional markets of Central and Eastern Europe and Russia.

Share of the NIAEP–ASE Integrated Company will be kept at a level of 31 % in the main core of business (apart from participation in maximal number of tenders) at the expense of permanent enhancement of efficiency of the Company activity (detailed information is presented in Section “Competitive advantages of the NIAEP–ASE Integrated Company”).

Principal risk for implementation of the Company strategy in the segment of high power NPPs is a political nature of solutions on selection of a supplier of nuclear technologies (detailed information is presented in Section 2.3 “Opportunities and risks”).

Growing around “core” of business

Research reactors

The aim is to achieve leading level among world players.

Taking into account scope of market and assessment of its development, one order each 2-3 years is required to achieve leading position for the NIAEP–ASE Integrated Company.

Plans for 2014 and for midterm

Priority for the Company is:

- formation of bag of orders and getting of references in the segment at the expense of the following works:
 - Participation in tender for modernization of research reactor Oyster in the Netherlands (its closing is planned for 2014);
 - Signing of contract for development of technical and economic assessment of TSYANT (Nuclear science and technology center), other works on project of TSYANT construction (2014–2019);
 - Participation in the construction project of multi-purpose fast-neutron research reactor at the site of JSC “SSC RIAR” (2014–2015);
- development of attractive projects in the area of Republic of South Africa, as well as in the targeted markets of State Corporation ROSATOM.

Dedicated share of the Company in the segment of research reactors by 2030 is

40%. Targeted markets: Russia, Vietnam, The Netherlands, Republic of South Africa, Argentina, Brasil.

Decommissioning of nuclear and radiation hazardous facilities, handling with radioactive waste and spent nuclear fuel

Strategic aim: coming into number of five leading world companies in the segment by 2030 with a share minimum 10 %.

Plans for 2014 and for midterm

Goal for 2014: growing of scope of orders minimum by 50 % if compared with 2013 due to participation in the projects of following facilities: Mayak FSUE PA, facility in the Andreeva bay, Chernobyl NPP (Ukraine), Ignalina NPP (Lithuania).

For midterm and over a long period priorities for development of the Company presence abroad are markets of historical presence of NUKEM Technologies, as well as markets which are the biggest (as for scope) and the most dynamical (as for rate of growth) ones till 2030. Great Britain, Germany, France, Japan, and Republic of South Africa belong to these markets.

Basic works are as follows:

- formation of partnership in the targeted regions, as well as of local operating subdivisions in the area of the countries where it is a required condition for activities (for example, Great Britain);
- implementation of current projects, formation of bag of orders and getting of references in the segment;
- participation in the Russian and foreign competitions and tenders in the field of handling with radioactive waste and spent nuclear fuel and decommissioning of nuclear and radiation hazardous facilities.

Service and modernization of NPPs

In the segment of services, the NIAEP–ASE Integrated Company will act as a General Contractor for major projects of maintenance and repairs as well as a consultant in the field assets management and training.

Plans for 2014 and for midterm

Goal of the NIAEP–ASE Integrated Company for 2014 is a growth of level of references at the expense of:

- positioning as a General Contractor of maintenance, repair, and modernization,
- development of competencies in

“multiaspect” services and preparation of package proposal,

- positioning as a consultant on assets management of NPP (owing to generation and service of information model of NPP1 for planning and modernization) and on training.

In order to improve level of references of the NIAEP–ASE Integrated Company it is required to generate algorithms of interaction with Rusatom Service Company which is dedicated for the given segment.

Activities planned for 2014–2015:

- definition of organizational form for cooperation with Rusatom Service,
- getting of new contracts for NPP in the Eastern Europe.

Principal risk for implementation of the Company strategy in the segment “Maintenance and modernization of NPP is a high competition from the side of local contractors (see Section 2.3 “Opportunities and risks”).

Diversification beyond “core” of business

Heat power

Strategic aim: to ensure a share in the segment of heat power which enables to keep revenue of the Company at a level which not lower than the previous one.

Plans for 2014 and for midterm

Primary task for 2014 is a completion of works on construction and commissioning of power unit 2 of Yuzhnouralsk SDPP-2 (till end of November of 2014).

In the conditions of limited potential of market of the heat power plants construction in the RF, the targeted priorities of the Company till 2030 are keeping of the current share in the Russian market and coming to foreign markets (India, China, Vietnam, Republic of South Africa, Brazil, and Turkey) by means of:

- participation in maximal number of tenders in the top-priority target regions,
- completion of creation of projects management system in the segment of heat power generation on the basis of Multi-D (till 2016),
- extension of competencies in designing by means of JV with the leading design institutes.