



ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
"МЕЖРЕГИОНАЛЬНАЯ РАСПРЕДЕЛИТЕЛЬНАЯ
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Preliminary reviewed and approved by the Board of
Directors of
IDGC of Northern Caucasus PJSC
April 20, 2018
(Minutes dated April 23, 2018 No.342)

Approved by the Annual
General Meeting of Shareholders of
IDGC of Northern Caucasus PJSC
May 28, 2018
(Minutes dated May 29, 2018 No. 19)

ANNUAL REPORT IDGC OF NORTHERN CAUCASUS PJSC for 2017

General Director

Yu.V. Zaytsev

Pyatigorsk, 2018

Contents

Appeal of Chairman of the Board of Directors of IDGC of Northern Caucasus PJSC.....	4
Appeal of General Director of IDGC of Northern Caucasus PJSC	8
Appeal of the Creative Team of Authors to Users.....	10
1. Company Review and Context of its Business	11
Company Profile	11
Organizational Business Structure	13
Brief History.....	14
Key Corporate Events of 2017.....	16
2. Strategic Report.....	18
Business Model and Position in the Industry	18
Mission, Strategic Objectives and Development Prospects	30
Priority areas of activities and report of the Board of Directors and results of the Company's development in the priority areas of activities.....	33
Risk Factors and Risk Management System.....	39
3. Management Report.....	48
Analysis of the Financial Standing and the Financial and Economic Performance	48
Operating Performance Improvement and Expenses Reduction Program	51
Distribution of Net Profit and Dividend Policy.....	51
Asset Management.....	56
Tariff Policy	57
4. Production Report	63
Power Transmission and Distribution.....	63
Technological Connection.....	64
Customers Communication	71
Power Grid Assets Consolidation.....	74
Development of the power grid complex in the constituent entities of the Russian Federation in the area of activities of the Company	78
Investment Activities and Capital Construction	79
Information on the Technical Condition of Grids.....	91
Occupational Health, Safety and Environmental Protection	95
Innovative Development in the Field of Energy Saving and Energy Efficiency Improvement...	98
IT and Telecommunications	105
Procurement Activities.....	106
5. Corporate Governance and Authorized Capital	112
Management and supervisory bodies	115
Corporate Secretary	153
Internal Control System.....	154
Auditor.....	157
Registrar	158
Information on transactions	158
Authorized capital	159
6. Anti-Corruption Policy	165
7. Public Relations, State Authorities and Mass Media Relations	167
8. Human Capital and Social Responsibility.....	178
HR and Social Policy	178
Number and structure of the personnel	178
Personnel training and development	179
Cooperation with educational institutions	183
Talent pool management.....	184
Social responsibility.....	185

Key Performance Indicators	187
Contact information	189
Glossary	191
Limitation of liability	196

Appendixes

Appendix 1. IFRS Annual Consolidated Financial Statements for 2017 and Audit Report

Appendix 2. Implementation of the Power Grid Complex Development Strategy of the Russian Federation in IDGC of Northern Caucasus PJSC

Appendix 3. Table of Compliance of the Report with the Requirements of the International Standard GRI G4/Arrangement of Certain Standard Elements in the Report

Appeal of Chairman of the Board of Directors of IDGC of Northern Caucasus PJSC

Dear Shareholders, Partners, Colleagues!

In 2017, the Russian economy continued to demonstrate a positive dynamic. So, in the reporting year, according to the estimates of the Ministry of Economic Development of Russia, after the recession in 2016, GDP in 2017 increased by 0.2 %. There is a reason to believe that the growth will also continue in 2018 and the economy will demonstrate an acceleration in the growth rates.

In the reporting year, MICEX-Power Index in general had a sideways trend and eventually lost about 10% by the end of the year. Market capitalization of IDGC of Northern Caucasus PJSC also decreased by 17.5 %. Despite the fact that the Company's shares could not continue to grow, IDGC of Northern Caucasus PJSC, together with Rosseti PJSC, applied significant efforts to improve the Company's dividend profile and its dividend prospects.

On December 22, 2017, the Board of Directors of Rosseti PJSC approved a new version of the model regulation on the dividend policy of subsidiaries of Rosseti PJSC. In early 2018, the Board of Directors of IDGC of Northern Caucasus PJSC approved an updated Regulation on the Company's Dividend Policy. The new version of the document details the new approach of the Company to the calculation of dividends. One of the key changes is the determination of the amount of dividends as at least 50% of the net profit determined according to the financial statements, including consolidated financial statements, prepared in accordance with the International Financial Reporting Standards.

IDGC of Northern Caucasus PJSC steadily follows the principles of responsible business practice and strives to meet the key expectations of stakeholders. In the reporting year, the Company fulfilled its main task - it arranged the power supply to consumers of the North Caucasus Federal District.

As before, in 2017, the Board of Directors and the executive management bodies of IDGC of Northern Caucasus PJSC were aimed at solving the key problems of the power grid complex in the region: increase in the payment discipline of consumers in close cooperation with the authorities at all levels, reduction in excessive power losses in distribution grids, as well as improvement of the financial and economic standing of the Company's branches in general.

For achieving the benchmarks of the power grid complex development established by the Power Grid Strategy of the Russian Federation, on June 9, 2016, the Board of Directors of Rosseti PJSC, chaired by the Minister of Energy, A.V. Novak, approved the financial support to certain subsidiaries, including through their staged capitalization support. IDGC of Northern Caucasus PJSC was included in the list of subsidiaries of Rosseti Group that needed the targeted support. In this regard, on June 27, 2017, the Board of Directors of Rosseti PJSC approved the updated Development Plan of the Company for 2017 - 2018. This Plan provides for additional measures and contribution by the parent company of additional funds in the authorized capital of IDGC of Northern Caucasus PJSC. These measures allow the Company to implement the critical projects related to improving the reliability and development of the power grid infrastructure of the North Caucasus Federal District, creating the necessary conditions for the social and economic development of the region in general.

Accordingly, in the reporting year, an additional issue of shares was continued in the Group of Companies IDGC of Northern Caucasus PJSC (in particular, IDGC of Northern Caucasus PJSC, Dagestan Grid Company JSC and Chechenenergo JSC - subsidiary of Rosseti PJSC managed by IDGC of Northern Caucasus PJSC). At the end of 2017, amendments were made to the Resolution on the

Additional Issue of Securities and the Securities Prospectus of IDGC of Northern Caucasus PJSC, according to which the deadline for placement of shares was increased by one year.

IDGC of Northern Caucasus PJSC pays special attention to the quality of corporate governance, which contributes to improving the image and investment appeal and building the trust relationship with shareholders, investors, consumers, authorities and general public. The Company is focused on the introduction of best practices. Business of the Company is transparent, and basic procedures are regulated. The Board of Directors of IDGC of Northern Caucasus PJSC, as a strategic management body, plays an important role in the formation of the corporate governance system.

In 2017, new versions of the Regulations on the General Meeting of Shareholders, the Board of Directors, the Audit Commission, as well as the Regulation on the Committee for Technological Connection to Power Grids and the Regulation on the Reliability Committee were approved. As a result, the corporate governance system of IDGC of Northern Caucasus PJSC in 2017 complies to a greater extent (vs data of the end of 2016) with the principles set forth in the Corporate Governance Code recommended for use by the Bank of Russia.

In general, the quality of corporate governance in IDGC of Northern Caucasus PJSC in many ways complies with the best practices. Procedures regulating the interaction of executive bodies, activities of management and supervision bodies, Committees at the Board of Directors are reviewed on a regular basis. In addition, the activities of the Board of Directors and its committees, as well as executive bodies are characterized by a high level of organization. The Board of Directors consists of 11 persons. Its meetings are held, as a rule, several times a month. The Board of Directors of the Company has the Audit Committee, the HR and Remuneration Committee, the Strategy and Development Committee, the Reliability Committee and the Committee for Technological Connection to Power Grids. The Committees' activities are regulated by the relevant regulations. The Corporate Secretary was elected, whose activities are also regulated by the relevant regulation.

The Company has a concentrated ownership structure (the major shareholder is Rosseti PJSC). This circumstance practically excludes the possibility of a corporate conflict. IDGC of Northern Caucasus PJSC also pays attention to the conflict resolution (Anti-Corruption Policy, Insider Information Regulation, Corporate Code of Ethics and Business Conduct).

IDGC of Northern Caucasus PJSC has the Regulation on the Information Policy approved by the Board of Directors in 2013.¹ This Regulation was approved prior to the adoption by the Bank of Russia of the Corporate Governance Code, however, in the implementation of the information policy the Company seeks to follow the principles and recommendations of the Code.

On November 24, XIV Annual Practical Conference "Annual Report: Leaders' Experience and New Standards" organized by RAEX rating agency (RAEX-Analytics) was held in Moscow. Based on the results of the annual reports for 2016, the annual report of IDGC of Northern Caucasus PJSC was among the top three non-financial sector companies (along with Rosatom State Corporation and Novolipetsk Iron and Steel Works PJSC). 5-star rating (the highest quality) was assigned to the annual report of IDGC of Northern Caucasus PJSC for 2016 after the assessment of reports of 99 companies from Russia and Kazakhstan. In addition, experts emphasized a high level of disclosure of information on the Company's business model in the annual report of IDGC of Northern Caucasus PJSC.

¹ Information is specified as of the end of the reporting year 2017. At the meeting of the Board of Directors of IDGC of Northern Caucasus PJSC held on March 30, 2018, the Board of Directors approved a new revision of the Regulation on the Information Policy.

The list of priority areas of the Company's activities include improvement of the internal control and risk management system, as well as development of the internal audit function. The Internal Audit and Control Directorate administratively subordinate to the General Director and functionally subordinate to the Board of Directors through its Audit Committee is formed and operates in the organizational structure of the Company.

The performance of the Board of Directors of IDGC of Northern Caucasus PJSC and the quality of corporate governance in general were not assessed in the reporting year. The relevant methods were not approved in the Company. Nevertheless, the Company plans to consider such possibility in the future. Obviously, there are other areas in the corporate governance practice of IDGC of Northern Caucasus PJSC that need the development.

Thus, one director meeting the criteria for independence according to the Corporate Governance Code of the Bank of Russia operates in the existing composition of the Board of Directors. But the Corporate Governance Code recommends that the independent directors make at least one third of the elected composition of the Board of Directors. Composition of the Board of Directors of IDGC of Northern Caucasus PJSC is presented in accordance with the structure of the authorized capital of the Company. However, the Company and its management bodies do their best so that members of the Board of Directors of IDGC of Northern Caucasus PJSC are individuals with adequate professional competence, experience and independence, capable of making objective judgments, independent of the influence of the Company's executive bodies, certain groups of shareholders or other stakeholders, which corresponds to the status of an independent director as defined by the Code.

Despite the fact that the Charter and bylaws of IDGC of Northern Caucasus PJSC do not provide for the consideration of the key issues exclusively at physical meetings of the Board of Directors, the Company seeks to discuss them in person. At the meetings held in presentia and in absentia, discussions were held and decisions were made on the implementation of actions aimed at reducing the actual power losses, the Comprehensive Program of Actions for Reduction in Excessive Power Losses in Distribution Grids in the North Caucasus, consolidation of power grid assets, implementation of the Action Plan for Enhancement of the Efficiency of Operations and Improvement of the Financial and Economic Standing of the Company's subsidiaries and affiliates, creation of a unified software solution for power metering, approval of the report on the implementation of the business plan, including the investment program and information on the Company's key operating risks for 2016, approval of candidates for certain positions of the executive office of the Company, etc.

We apply every effort to promptly identify these areas of development in order to fully meet the interests of shareholders, investors and other stakeholders in the future.

To this end, since 2016 we annually conduct analysis of the corporate governance practice of IDGC of Northern Caucasus PJSC on the compliance with the Code, using the recommendations of the Bank of Russia (in accordance with the letter of the Bank of Russia dated February 17, 2016 No.IN-06-52/8 "On the Disclosure of a Report on the Compliance with the Principles and Recommendations of the Corporate Governance Code in the Annual Report of a Public Joint Stock Company"). Detailed report on the compliance with these and other recommendations of the Russian Corporate Governance Code is included by the Company into the Annual Report for 2017.

In addition, the analysis of the corporate governance quality is carried out on a regular basis, for which an independent rating agency, Expert RA (RAEX), is engaged. Expert RA, the largest international rating agency in Russia, has sufficient experience and reputation for preparing an objective report. In 2017, the governance quality rating A++.gq (highest governance quality level) assigned in 2014 was

confirmed. Corporate governance quality ratings are positive, starting with the initial assignment of the rating in 2009.

We, the members of the Board of Directors of IDGC of Northern Caucasus PJSC, are striving to ensure that the Board of Directors is an effective and professional management body capable of making objective independent judgments and decisions that meet the interests of the Company and its shareholders. In the future, we will be also doing our best to ensure the Company's capitalization growth, as well as the protection and effective exercise of investors' rights.

Sincerely yours,
Aleksandr Nikolayevich Fadeev

Appeal of General Director of IDGC of Northern Caucasus PJSC

Dear Shareholders, Partners, Colleagues!

The performance of IDGC of Northern Caucasus PJSC in 2017 once again confirmed the appropriateness of the selected area for the Company's development, taking into account the unstable economic conditions mainly caused by external factors.

Top management has implemented significant measures to optimize financial and economic activities, reduce costs, stabilize cash flows, and improve governance quality. Constant attention was paid to the maintenance of the required level of profitability under the existing tariff restrictions.

Taking into account the huge responsibility for the uninterrupted power supply to the population and industrial enterprises in seven regions of Russia, we have continued our work for maintaining the necessary reliability of the power grid complex and upgrading our production facilities.

867.4 million rubles were disbursed in the Company's branches within the repair program. About 3.9 thousand km of overhead lines, 497 power transformers, more than 2.5 thousand switches, about 1.5 thousand transformer substations, 404 transformers were repaired in distribution grids 10 (6)/0.4 kV. It has positively affected the reduction in accidents and interruptions in the power supply to consumers.

It may be noted that the Company obtained the certificate of readiness for the autumn-winter period without any comments within the established time frames. For the purpose of preparation for the autumn-winter period, the physical volumes of repair of the major equipment are 100% or more of the annual plan.

The Company's investment program for 2017 was financed in the amount of 1.641 billion rubles, this is 121 % of the plan. 96.79 MVA of transformer capacities and 125.24 km of transmission lines were launched.

In 2017, 7,457 technological connections were made to new consumers, which provided an increase of 5 %. 234.4 MW of capacities are connected.

Based on the results of the year, the power losses in IDGC of Northern Caucasus PJSC were reduced up to 13.98 %. It became possible as a result of the scheduled systematic work in this area.

In cooperation with regional and local authorities, within the scope of roadmaps and agreements, issues related to payment discipline, reduction in power losses and improvement of the possibilities of technological connection are being effectively resolved.

The Company's development is inseparable from the social responsibility, that is the strict compliance with the safety requirements at the workplaces, a variety of opportunities for the development and professional growth of employees in labor collectives, the provision of social guarantees. As before, we paid much attention to the HR policy. In 2017, 6,538 persons, or 77 % of the total number of employees, improved their professional skills through various retraining and professional development programs.

Based on the principles of information openness and financial transparency, the Company applies the advanced standards of corporate governance, which are reflected, in particular, in the constructive cooperation of the Board of Directors and the management. I believe that collaboration on all

challenging issues strengthens the foundation of activity, contributes to the increase in the profitability and shareholder value of the Company.

The governance quality rating of IDGC of Northern Caucasus at the level A++.gq (highest governance quality level) was confirmed by RAEX Rating Agency (Expert RA). As RAEX notes, the high level of the organization of the financial and economic control system and the risk management system, the high level of the organization of the Board of Directors and its committees, the professional work in the conflict resolution, the disclosure of general and financial information, as well as the high level of social responsibility had a positive impact on the rating level of our Company.

We look forward to further support of shareholders in resolving the key challenges to strengthen the financial standing by increasing the profitability of operating activities, optimizing costs and improving the economic efficiency of the Company.

Sincerely yours,
Yury Viktorovich Zaytsev

Appeal of the Creative Team of Authors to Users

Dear Users!

Please find below the Annual Report of IDGC of Northern Caucasus PJSC (hereinafter referred to as “IDGC of Northern Caucasus”, the “Company”, “IDGC of Northern Caucasus OJSC”) for 2017. This report is intended first of all for our actual and potential investors and is oriented at them. The Annual Report is prepared in accordance with the requirements of the **Russian law** on the securities market. However, we believe that other groups of stakeholders exert significant influence on the sustainable development of IDGC of Northern Caucasus PJSC, namely: state authorities (federal and regional), regional population, consumers and clients, company personnel, suppliers, and mass media. Therefore, we found it impossible to be limited to the requirements of the Russian law and also included into the report the elements of the Sustainability Reporting System (GRI). **This report contains the Standard Reporting Elements from GRI Guidelines on Sustainability Reporting.** When preparing the Annual Report, we used the Guidelines of version GRI G4.

We believe that the **material aspects of the report** are those that describe the creation of value for each group of stakeholders, as well as factors that may substantially influence the result of such process, namely: business model and position in the industry, strategy, macroeconomic factors of development, analysis of the corporate governance quality, management statement with respect to the financial and economic standing of the Company, business risk assessment.

When preparing the report, **we made every effort to take into account all information inquiries of stakeholders that we were aware of.** Thus, information for the report oriented at the “State and Region” group was generated mainly on the basis of regulations that govern the management in state-owned companies; “Shareholders and Investors” - on the basis of inquiries from shareholders and investors that we received, by review of reports from equity analysts and opinions of independent experts in the field of corporate governance and relations with investors; “Consumers and Clients” - based on regulations that govern the submission of information for consumers and procurement; “Personnel” - based on the own expert opinion of the Company and within the discussion of the report topics with individual employees of the Company who were selected. No **public hearing of the report took place**, since, in our opinion that would have resulted in unreasonable increase in the Company’s controlled costs. In the short run, we plan to keep the existing practice. We are open for the communication with stakeholders on the contents of the reports and are willing to improve the same so that the annual report becomes an effective tool for attracting investments and strengthening the business reputation of IDGC of Northern Caucasus PJSC.

This Annual Report substantially differs from certain reports issued previously. Thus, reports for 2013 and 2014 were prepared to a large extent with due regard for business parameters of the subsidiary of IDGC of Northern Caucasus PJSC - Dagenergoset OJSC (according to the consolidated reporting principle), and in certain cases (for the period up to May 1, 2013) - the organization that operated power grid assets in the Republic of Ingushetia. This report similar to the report for 2016 contains individual parameters of the performance of IDGC of Northern Caucasus PJSC (Company’s branches). The specified **scope** of this Annual Report may substantially impact the compatibility with previous reports and/or other similar organizations.

The table that specifies the arrangement of certain standard elements of G4 GRI reporting in the Annual Report is attached to this Annual Report.

Sincerely yours,
Team of IDGC of Northern Caucasus PJSC

1. Company Review and Context of its Business

Company Profile

IDGC of Northern Caucasus – Interregional Distribution Grid Company functioning in the power sector of Russia. The Company is a natural monopoly, and tariffs for its services are set by regulatory bodies.

Key business activities:

- power transmission and distribution;
- technological connection of consumers to the grid infrastructure.

The Company also buys and sells power and capacities in the wholesale power and capacity market, and sells power and capacities in the retail market of the Republic of Ingushetia.

Year of incorporation:

2006

Industry:

Power Engineering

Region:

North Caucasus Federal District, Russian Federation

Included into Power Holding Rosseti PJSC

Share in the power transmission services market:

around 60 %

Covers 1 % of the territory and 6 % of the population of Russia

Manages five power supply and two grid companies

Shares are traded at the stock market of the Moscow Stock Exchange

Ownership structure: Rosseti PJSC (92 %*), other shareholders (8 %*)

* Excluding additional ordinary shares of the current issue

Revenue according to RAS, mln RUB

2017	16,134.9	2017 variation vs 2016 +2.8 %
2016	15,701.2	
2015	14,548.6	

Net loss according to RAS, mln RUB

2017	-2,386.1	2017 variation vs 2016 +93.3 %
2016	-1,234.2	
2015	-3,018.4	

Revenue according to IFRS, mln RUB

2017	18,397.3	2017 variation vs 2016 +2.7 %
2016	17,912.5	
2015	16,079.3	

Net profit (loss) according to IFRS, mln RUB

2017	-6,327.6	2017 variation vs 2016 +1,180.4 mln RUB
2016	-5,147.2	
2015	6,144.1	

Supply from the grid to consumers and adjacent TGCs, mln kW*h

2017	10,566	2017 variation vs 2016 +1.08 %*
2016	10,237	
2015	10,457	

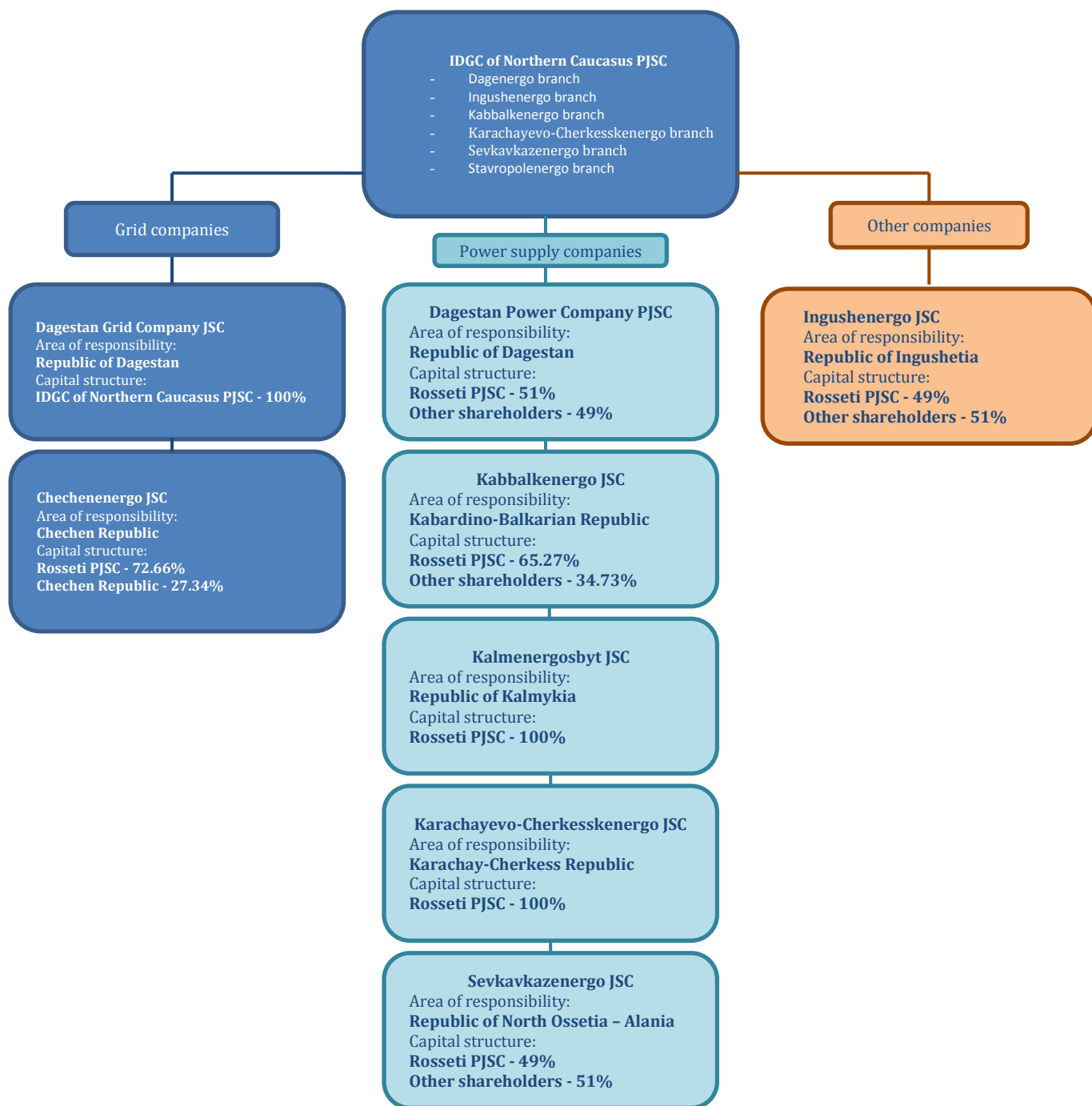
** Under comparable conditions of 2017 without taking into account the indicators of grids in Stavropol and Yessentuki*

Power losses, %

2017	13.98	2017 variation vs 2016 -0.41 Sub-Clause*
2016	16.16	
2015	16.30	

** Decrease in relative terms*

Organizational Business Structure



All companies are managed by IDGC of Northern Caucasus PJSC

Key changes to the structure and business scale of IDGC of Northern Caucasus PJSC:

- from the date of incorporation (August 2006) to March 2008 - IDGC of Northern Caucasus PJSC (when established - SGC OJSC) was only dealing with management of regional power companies (see the section “Brief History” for more details);
- from September 2006 – six Northern Caucasus power supply companies were transferred under control of SGC OJSC (agreements were terminated at the end of 2011);
- at the end of March 2008 – as a result of consolidation of grid companies with IDGC of Northern Caucasus PJSC (which became branches of IDGC of Northern Caucasus), the Company commenced its power transmission business (see the section “Brief History” for more details);

- from September 2008 – IDGC of Northern Caucasus PJSC transferred the power grid assets of the Ingush branch of the republican grid company – Ingushenergoset PJSC;
- from April 2010 – IDGC of Northern Caucasus PJSC transferred for lease the power grid assets of Dagenergo branch to its 100% subsidiary Dagenergoset OJSC (for more details see the section “Participation in Commercial Organizations”);
- from May 2013 – in connection with the expiration of the power grid assets lease agreement between IDGC of Northern Caucasus PJSC and Ingushenergoset OJSC the Ingush branch commenced its power transmission business;
- from July 2015 – operates as a grid distribution company Dagestan Grid Company JSC (100% subsidiary of IDGC of Northern Caucasus PJSC), power grid assets of the branch of IDGC of Northern Caucasus PJSC - Dagenergo - was transferred for lease to Dagestan Grid Company JSC (the property lease agreement previously concluded with Dagenergoset OJSC is terminated);
- from August 2015 - six Northern Caucasus power supply companies were transferred under control of IDGC of Northern Caucasus PJSC;
- from July 4, 2016 - in accordance with the judgment of the Arbitration Court of the Chechen Republic on opening of bankruptcy proceedings, IDGC of Northern Caucasus PJSC did not perform functions of the sole executive body of Nurenergo OJSC. By the Resolution of the Arbitration Court of the North Caucasus Federal District dated January 26, 2017, the specified judgment of the Arbitration Court of the Chechen Republic was canceled. From January 26, 2017, IDGC of Northern Caucasus PJSC continues to perform functions of the sole executive body of Nurenergo OJSC. On October 27, 2017, in accordance with the judgment of the Arbitration Court of the Chechen Republic, the monitoring procedure against Nurenergo was terminated, and the bankruptcy proceedings were opened against Nurenergo;
- from July 6, 2017, in accordance with the judgment of the Arbitration Court of the Republic of Dagestan on opening of bankruptcy proceedings, IDGC of Northern Caucasus PJSC does not perform functions of the sole executive body of Dagenergoset OJSC.

The organizational structure of IDGC of Northern Caucasus PJSC is published on the Company's corporate website in the section "Company/Structure of the Company".

Brief History

Milestone Summary	Event Description
Creation of a vertically integrated power company	July 1903 Bely Ugol HPP Bely Ugol HPP, the first large hydroelectric power plant in Russia (capacity of 700 kW), was launched on the Podkumok River (Stavropol Territory). The longest (20 km) power transmission lines with 8 kV voltage at the time were outgoing from it.
	1913 Pyatigorsk TPP A thermal power plant was put into operation in Pyatigorsk. Scientists headed by M. Shatelen looped the thermal power plant with Bely Ugol HPP (the prototype of the Russian Unified Energy System).
	1992 RAO UES of Russia OJSC The Russian open joint stock company of power engineering and energy connectivity UES of Russia was established.
Anti-crisis management	August 1, 2001 KEUK OJSC KEUK OJSC, a management company, was incorporated for the power systems in Northern Caucasus (Ingush, Kabardino-Balkarian, Karachay-Cherkess, and North Ossetian) in Zheleznovodsk (Stavropol Territory).

Milestone Summary	Event Description
	March 2005 Rehabilitation and Restructuring Project The Rehabilitation and Restructuring Project was approved for AO-energo managed by KEUK OJSC.
	September 2006 AO-Energo Management Southern Grid Company (SGC) OJSC was charged with the management of the following joint stock companies: Kabbalkenergo; Karachaevo-Cherkesskeno; Kalmenergosbyt; Sevkavkazenergo; Dagestan Power Supply Company; Nurenergo; Ingushenergo; KEUK; Stavropolenergo; Dagenergo.
Power engineering reform	April 2006 - September 2007 Disaggregation by activity The grid assets of Kabbalkenergo OJSC; Karachaevo-Cherkesskeno OJSC; Sevkavkazenergo OJSC; and Ingushenergo OJSC were transferred as payment for additional issue of shares of Open Joint Stock Company Caucasian Power Management Organisation (KEUK OJSC). Kabbalkenergo OJSC; Karachaevo-Cherkesskeno OJSC; Sevkavkazenergo OJSC; and Ingushenergo OJSC became power supply companies, and four grid branches were created within the structure of KEUK OJSC.
	August 4, 2006 SGC OJSC State registration of SGC OJSC was carried out (by the decision of the only founder - RAO UES of Russia OJSC).
	August 1, 2007 IDGC of Northern Caucasus SGC OJSC was renamed as Open Joint Stock Company Interregional Distribution Grid Company of Northern Caucasus.
	December 25, 2007 - April 1, 2008 Consolidation Reorganisation of IDGC of Northern Caucasus OJSC was completed by taking over Dagenergo, OJSC; KEUK, OJSC; and Stavropolenergo, OJSC. IDGC of Northern Caucasus, OJSC became a unified operating distribution grid company in the Northern Caucasus.
	July 1, 2008 IDGC Holding OJSC (currently Rosseti PJSC) IDGC Holding OJSC was formed by spinning off from the reorganised RAO UES Russia OJSC. It provides corporate governance for operating IDGCs. The title to a stock of shares of IDGC of Northern Caucasus is transferred to IDGC Holding OJSC.
Work on the investment appeal and the management structure	June 2008 Entering capital markets Commencement of trading of shares of IDGC of Northern Caucasus in MICEX and RTS.
	November 30, 2010 Transition to RAB The Federal Tariff Service approved the transition to RAB tariff regulation for five branches of IDGC of Northern Caucasus PJSC from January 1, 2011.
	January 27, 2010 - February 8, 2011 Dagenergoset OJSC A subsidiary – a grid company Dagenergoset OJSC – was established and transferred under control of IDGC of Northern Caucasus OJSC.
	March 23, 2011 Energoservice OJSC

Milestone Summary	Event Description
	A subsidiary – an energy service company Energoservice OJSC – was established to increase the power efficiency of grid companies in the region.
	December 15, 2011 Split-off of power supply companies IDGC of Northern Caucasus OJSC terminated its agreements on delegation of authority of the sole executive body.
	August 21, 2015 Power supply companies management Six power supply companies are again transferred under control of IDGC of Northern Caucasus PJSC.

Key Corporate Events of 2017

Production activities

On June 30, the Operating Performance Improvement and Expenses Reduction Program of IDGC of Northern Caucasus PJSC was approved by the Company's Board of Directors (Minutes No. 305 dated July 3, 2017).

For reducing the debt of doubtful counterparties, stabilizing the payment discipline for the power transmission services rendered, IDGC of Northern Caucasus PJSC carried out the following actions:

- conclusion of "direct" contracts for power transmission services in the North Caucasus Federal District with major solvent consumers of the retail market;
- introduction of amendments to contracts for power transmission services with consumers of services in terms of settlements for power transmission services, imposition of penalties and provision of a bank guarantee.

Corporate governance and relations with shareholders and investors

February 21 - the company submitted its RAS accounting statements for 2016.

March 20 - the company submitted its IFRS consolidated financial statements for 2016.

April 28 - the company submitted its RAS accounting statements for 3 months of 2017.

June 2 - the company submitted its IFRS consolidated financial statements for 3 months of 2017.

June 15 – the Annual General Meeting of Shareholders was held (new members of the Board of Directors and the Audit Commission were elected, the Auditor was approved, the decision not to pay the dividends was made, a new revision of the Regulation on the General Meeting of Shareholders, the Regulation on the Board of Directors and the Regulation on the Audit Commission were approved).

July 25 - the company submitted its RAS accounting statements for 6 months of 2017.

August 23 - the company submitted its IFRS consolidated financial statements for 6 months of 2017.

October 31 - the company submitted its RAS accounting statements for 9 months of 2017.

November 22 - the company submitted its IFRS consolidated financial statements for 9 months of 2017.

Cooperation with state authorities and public relations

In 2017, PR activities of the Mass Media Relations Department aimed at involving regional authorities, the general public, the youth, the mass media in implementing activities related to solving issues in the power sector of the North Caucasus, informing the general public of legislative initiatives, forming a positive business reputation of the Company, were awarded at the federal level.

From April 20 to 22, 2017, the projects participating in the competition "ConTEKst", which is held on an annual basis with the support of the Ministry of Energy of the Russian Federation and became the quintessence of the best communication experience of the companies of the fuel and energy complex in the country, were defended in Moscow. IDGC of Northern Caucasus PJSC was awarded with two prize Diplomas and a special Gratitude from the Economic Policy Committee of the Federation Council of the Federal Assembly "For the implementation of the informative and educational project "Stop, energy thief!" aimed at strengthening the payment discipline of power consumers and increasing the awareness of citizens regarding the issues related to payment for power resources in the North Caucasus Federal District".

From 3 to 7 October 2017, within the International Forum "Russian Energy Week" in Moscow, the winners of the third All-Russian Mass Media Competition, press services of the companies of the fuel and energy complex and the regional administrations of "MediaTEK" supported by the Ministry of Energy of the Russian Federation were awarded. The Mass Media Relations Department of IDGC of Northern Caucasus PJSC is recognized as the best press service among the federal companies of the fuel and energy complex with the award of the first degree diploma.

In November 2017, IDGC of Northern Caucasus PJSC was awarded with the Letter of Gratitude from the Ministry of Energy of the Russian Federation for the great contribution to the arrangement and holding of the events of the All-Russian Festival #VmesteYarche2017 in connection with the Year of Ecology.

2. Strategic Report

Business Model and Position in the Industry

Our primary objective is to ensure in the long run the reliable, high quality and affordable power supply to consumers in the entire territory of the North Caucasus Federal District at the stage of power distribution by arrangement of the maximum effective infrastructure.

IDGC of Northern Caucasus supplies power to consumers in the territory with the total area of 170.4 thousand km² (1 % of the territory of Russia) with the population of 9.8 million people (around 6 % of the Russian population).

The Company is a leader in the territory of the North Caucasus Federal District in terms of power transmission services with the market share of around 60 % (share of productive power supply to the total supply in the region of presence).

Share of the net power supply to the total supply in the region of presence

Region	Share of IDGC			2017 variation vs 2016	Main causes of deviations
	2015	2016	2017		
Kabardino-Balkarian Republic	51.83 %	52.65 %	52.22 %	-0.43 %	Growth of power consumption by adjacent TGCs
Karachay-Cherkess Republic	70.78 %	70.38 %	70.77 %	0.39 %	-
Republic of North Ossetia – Alania	63.47 %	63.53 %	63.89 %	0.36 %	-
Stavropol Territory	56.12 %	56.91 %	47.34 %	-9.57 %	Termination of lease agreements for grids in Stavropol and Yessentuki from January 1, 2017.
Republic of Ingushetia	100.00 %	100.00 %	100 %	-	-
In total	60.02 %	60.48 %	54.99 %	-5.49 %	

The major consumers of power transmission services are:

- last resort suppliers: Stavropolenergosbyt PJSC (Stavropolenergo branch), Sevkavkazenergo JSC (Sevkavkazenergo branch), Karachaevo-Cherkesskenenergo JSC (Karachaevo-Cherkesskenenergo branch), Kabbalkenergo JSC (Kabbalkenergo branch);
- territorial grid companies: Gorelektroset JSC, Stavropol (Stavropolenergo branch), MUE Kabalkkommunenergo (Kabbalkenergo branch), SUE GC Stavropolkommunelektro (Stavropolenergo branch).

In connection with the decision of the Supervisory Board of the Association NP Market Council on the deprivation of Ingushenergo JSC of the status of the wholesale power and capacity market entity, its exclusion from the register of wholesale market entities and termination of power and capacity supply (purchase) in the wholesale market in respect of the company, in pursuance of Order of the Ministry of Energy of Russia dated November 25, 2015 No.888, IDGC of Northern Caucasus PJSC received the status of last resort supplier within the territory of the Republic of Ingushetia from December 1, 2015,

and before the effective date of the decision on the assignment of the status of last resort supplier to the winner of the tender with respect to the specified area of business, but not more than for 12 months.

In 2016-2017, the Ministry of Energy of Russia held tenders for assignment of the status of last resort supplier within the territory of the Republic of Ingushetia, however, due to the lack of applications for participation, the competitions were deemed not to have taken place.

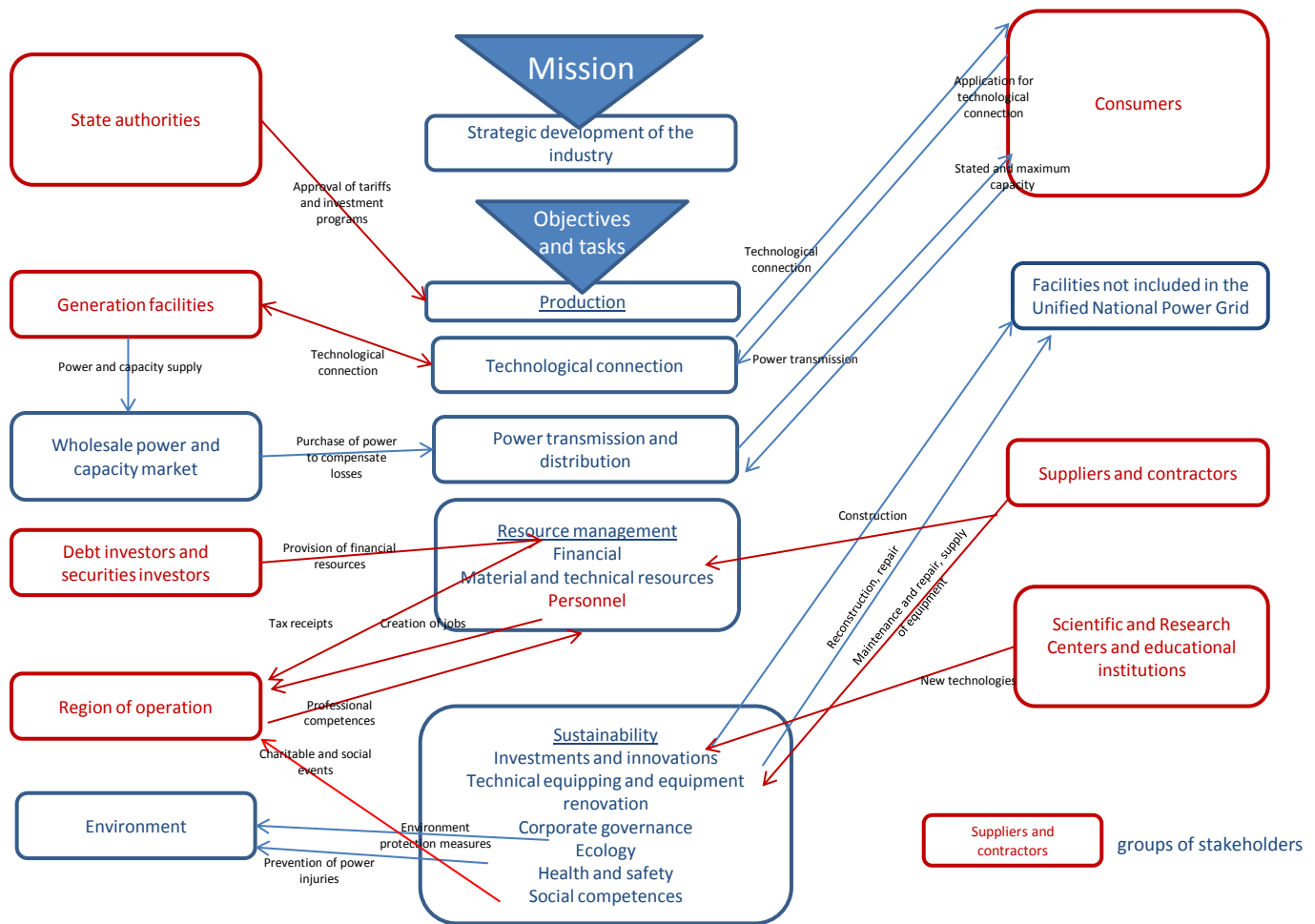
Orders of the Ministry of Energy of Russia No. 1233 dated November 22, 2016 and No. 1140 dated November 30, 2017 extended the status of last resort supplier for IDGC of Northern Caucasus PJSC for subsequent 12 months - from December 1, 2016 and from December 1, 2017, respectively.

For performing the functions of the last resort supplier, IDGC of Northern Caucasus PJSC buys and sells power and capacities in the wholesale power and capacity market (WPCM), and sells power and capacities in the retail market of the Republic of Ingushetia.

Operation of IDGC of Northern Caucasus PJSC in WPCM is governed by Federal Law dated March 26, 2003 No. 35-FZ "On the Power Industry", the Rules of Wholesale Power and Capacity Market approved by the Regulation of the Government of the Russian Federation dated December 27, 2010 No. 1172, the Agreement on Accession to the Trading System of the Wholesale Power Market and Regulations of the Wholesale Market, being annexes to the specified agreement.

Additional information on the position of IDGC of Northern Caucasus PJSC in the industry is specified in the sections (sub-sections) of this Annual Report: Company Profile, Key Corporate Events of 2017, Business Model and Position in the Industry (Macroeconomic Factors of Development, Area of Responsibility and Regional Policy), Power Grid Assets Consolidation, Production Report.

How IDGC of Northern Caucasus PJSC creates value



Business of IDGC of Northern Caucasus PJSC is arranged in such a manner as to meet the needs of stakeholders to the maximum possible extent.

Process of transformation of resources into values for the stakeholders of IDGC of Northern Caucasus PJSC

Stakeholder	Provided resources	Area of the business model affected by the stakeholders; description of the impact	Created values
State and Region			
Federal state authorities			
- Government of the Russian Federation / Ministry of Energy of Russia Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Code of Ethics and Business Conduct (see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex Communication with the stakeholder in the reporting year is reflected in the sections "Mission, Strategic Objectives and Development Prospects", "Risk Factors and Risk Management System", "Tariff Policy", "Investment	Strategic development benchmarks	Mission (determines the mission of the company through the mission of the power grid complex and strategic benchmarks)	Creation of a catalyst for the growth of cities, the population and the economy in general through the construction of power grids Maintenance of the social well-being
	Approved investment programs	Determines the key areas of the Company's investment through the approval of investment programs	Ensuring of the operation of the economy and the social sector through the supply of the necessary resource Budget and tax receipts for the development of the economy

Stakeholder	Provided resources	Area of the business model affected by the stakeholders; description of the impact	Created values
Activities and Capital Construction", "Public Relations, State Authorities and Mass Media Relations"			and the social sector
- Federal Antimonopoly Service Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Code of Ethics and Business Conduct (see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex Communication with the stakeholder in the reporting year is reflected in the sections "Mission, Strategic Objectives and Development Prospects", "Tariff Policy", "Public Relations, State Authorities and Mass Media Relations"	Approved tariffs for power transmission and technological connection of consumers	Production activities: technological connection, power transmission and distribution (set parameters of the Company's activities and determine the formation of funding sources by establishing a socially just and economically feasible amount of payment for the Company's services)	Support of the industry competitiveness through the application of a reasonable and economically feasible tariff Ability to effectively regulate tariffs and monitor their use through constructive cooperation
Region			
Regional authorities Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Code of Ethics and Business Conduct (see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Anti-Corruption Policy (see the section of the website of Rosseti PJSC "About the Company/Anti-Corruption Policy"); ✓ Partnership Program between IDGC of Northern Caucasus PJSC and small and medium-sized enterprises (see the section "Procurement/Roadmap for Cooperation with SMEs"); ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex Communication with the stakeholder in the reporting year is reflected in the sections "Tariff Policy", "Investment Activities and Capital Construction", "Public Relations, State Authorities and Mass Media Relations"	Management decisions (assistance in consolidation of power grid assets, improvement of the payment discipline)	Production activities - power transmission and distribution (participate in joint inventory audit of the power grid complex to identify and register abandoned power grid assets, establish joint working groups to assess the effectiveness of territorial grid companies, develop mechanisms for consolidation of inefficient companies)	Budget and tax receipts for the development of the economy and the social sector Maintenance of the social well-being
Generation facilities Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Code of Ethics and Business Conduct (see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex Communication with the stakeholder in the reporting year is reflected in the sections "Investment Activities and Capital Construction", "Production Report"	Power and capacity	Production activities: technological connection, power transmission and distribution (apply for connection of generation facilities)	Provision of consumers with access to large cost-effective generators Reduction in generating reserves, which consumers otherwise would have to maintain to ensure the reliability of power supply
Suppliers and contractors Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Ethics Code and Business Conduct (see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Anti-Corruption Policy (see the section of the website of Rosseti PJSC "About the Company/Anti-Corruption Policy"); ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex Communication with the stakeholder in the reporting year is reflected in the sections "Procurement Activities", "Anti-Corruption Policy"	Equipment; maintenance, repair, construction (materials, competences, saved time and labor resources)	Resource management - logistics Sustainability: investments and innovations, technical equipment and renovation of equipment, occupational health and safety (ensure the supply of equipment and materials, the performance of works by contract, the proper level of quality of works and materials through the fulfillment of the stated requirements of the customer)	Financial resources for business development Maintenance of the level of employment and adequate standard of living for employees of suppliers and contractors Improvement of competences through the implementation of new projects of the customer

Stakeholder	Provided resources	Area of the business model affected by the stakeholders; description of the impact	Created values
Scientific and research centers and educational institutions Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Code of Ethics and Business Conduct (see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex Communication with the stakeholder in the reporting year is reflected in the sections "Innovative Development in the Field of Energy Saving and Energy Efficiency Improvement", "Human Capital and Social Responsibility"	Advanced technologies, human resources	Resource management - personnel Sustainability: investments and innovations, technical equipment and renovation of equipment (ensure the delivery and introduction of advanced technologies, supply of human resources)	Financial resources Improvement of competences through the development and elaboration of new projects Employment of graduates of educational institutions
General public Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Code of Ethics and Business Conduct (see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Anti-Corruption Policy (see the section of the website of Rosseti PJSC "About the Company/Anti-Corruption Policy"); ✓ Regulation on the implementation of a unified communication policy of IDGC of Northern Caucasus PJSC; ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex ✓ Communication with the stakeholder in the reporting year is reflected in the section "Public Relations, State Authorities and Mass Media Relations"	Independent assessment of activities	Sustainability: occupational health and safety, environmental protection, social competences (carry out constant assessment of the reputation, the importance of projects for the regional economy, level of competence, impact on the environment of the region, social responsibility of business through the public censure or approval)	Ensuring of the power supply reliability Maintenance of the level of employment of the population Charity and sponsorship projects Confidence in the environmental sustainability
Shareholders and investors (debt investors, equity investors)			
Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Regulation on the Credit Policy Communication with the stakeholder in the reporting year is reflected in the section "Corporate Governance"	Money, securities, other things, ownership rights or other rights having a monetary value Innovations and technologies of the corporate governance Competences	Production activities - power transmission and distribution (assist in the creation of a center of responsibility for reliable power supply to consumers in the region, consolidation of grids through the contribution of power grid assets to the authorized capital) HR management - financial resources (ensure the cash inflow for the implementation of projects through the acquisition of the company's securities and granting of loans to the company) Sustainability: investments and innovations, corporate governance (stimulate the introduction of advanced corporate governance practices in the company through the requirements for the investment object)	Interest (for the use of borrowed funds) Income from stock exchange difference Dividends Opportunity to sell shares at any time in the liquid securities market Absence of legal risks (violation of legal rights and interests) when investing in shares through a transparent corporate governance mechanism
Customers and clients			
Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Code of Ethics and Business Conduct (see the section of the website "For Shareholders and	Financial resources	Production activities: technological connection, power transmission and distribution	Power for the operation of a production facility, business, household

Stakeholder	Provided resources	Area of the business model affected by the stakeholders; description of the impact	Created values
Investors/Charter and Bylaws"); ✓ Consumer Service Quality Standard of IDGC of Northern Caucasus PJSC; ✓ Unified Procurement Standard of Rosseti PJSC, Partnership Program between IDGC of Northern Caucasus PJSC and small and medium-sized enterprises (see the section "Procurement/Roadmap for Cooperation with SMEs"); ✓ Anti-Corruption Policy (see the section of the website of Rosseti PJSC "About the Company/Anti-Corruption Policy"); ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex Communication with the stakeholder in the reporting year is reflected in the sections "Investment Activities and Capital Construction", "Production Report", "Technological Connection", "Anti-Corruption Policy"		(determine the stability of the company's cash flow creating opportunities or obstacles for planning of the activities and development of the region)	
Personnel			
Principles of communication are set forth in bylaws of IDGC of Northern Caucasus PJSC: ✓ Corporate Code of Ethics and Business Conduct (see the section of the website "For Shareholders and Investors/Charter and Bylaws"); ✓ Collective agreement; ✓ Anti-Corruption Policy (see the section of the website of Rosseti PJSC "About the Company/Anti-Corruption Policy"); ✓ Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex Communication with the stakeholder in the reporting year is reflected in the sections "Innovative Development in the Field of Energy Saving and Energy Efficiency Improvement", "Anti-Corruption Policy", "Human Capital and Social Responsibility"	Professional competences, management decisions, ideas	Resource management - personnel Sustainability: investments and innovations, social competences (ensures the operation of the power grid complex through the attraction of human resources, ensures the development of the power grid complex of the region through the use of new management solutions, the inflow of necessary professional competences)	Ensuring of the employment Adequate salary level Comfortable working conditions Opportunity for self-actualization Improvement of professional competences Maintenance of the adequate standard of living for employees and their families

Macroeconomic Factors of Development

Economy: operative indicators of the economic activity reached very high values in 2017, the survey indicators have the maximum values for 10 years

After a decline in 2016, GDP in 2017 increased by 0.2 %. Monthly and quarterly data from the Federal State Statistics Service show a growth rate at the end of 2017 at the level of 1.4-1.8 %.

The situation on the labor market continues to create favorable conditions for expanding the consumer demand. Acceleration of the growth of actual wages occurs with the maintenance of unemployment at low levels, a record slowdown in inflation, as well as increase in remuneration of certain categories of civil servants in IV quarter of 2017.

PMI composite index in the manufacturing and services sectors averaged 55.3 in 2017, having peaked since 2008. The most active index growth was in the first months of 2017 (the average value in the first quarter of 2017 was 56.7). The index has never dropped below the threshold of 50 since January 2016. Thus, according to the enterprises' estimates, the situation has been continuously improving over 23 months.

The business confidence index calculated by the Federal State Statistics Service showed in general a similar (but more volatile) dynamics. The most significant improvement was in January 2017. In the fourth quarter of 2017, the index (adjusted for seasonality) reached the area of consistent positive values, where for the last time it was in the second half of 2012.

Consumer inflation at the end of 2017 reached a historically minimum value – 2.5 % YoY. The data published by the Federal State Statistics Service coincided with the operative assessment of the Ministry of Economic Development of Russia (2.5-2.6 % YoY). At the same time, the stronger exchange rate, as well as the favorable situation on the food market at the end of last year resulted in deviation of inflation from the September forecast (3.2 %). Thus, in 2017, inflation followed the trajectory described by the Ministry of Economic Development of Russia in May as an "accelerated decline scenario". At that time, while maintaining the ruble rate near 56 rubles per US dollar by the end of the year, a decline in inflation below 3 % was forecasted by December (the actual average rate for May-December was 58.4 rubles per US dollar), but this scenario was not considered as a basic one.

As compared with 2016, the price growth slowed down in all segments of the consumer market. The reduction in the food inflation rate down to 1.1 % YoY in 2017 as compared to 4.6 % in the previous year was caused by a good harvest both in 2016/2017 and 2017/2018 agricultural years, as well as favorable conditions in the world food markets. In the segment of non-food products, the last year price growth also slowed down to 2.8 % as compared to 6.5 % in 2016, despite the gradual recovery of the consumer demand and the ruble weakening in May-December. A restraining effect on the inflation in the services sector (4.4 % in 2017 vs. 4.9 % in the previous year) was caused by more moderate rates of growth in prices for utilities, with a constant regulatory level of tariff indexation (4 % both in 2017 and 2016).

Oil quotes since the beginning of November have been consistently higher than the level of 60 USD per barrel. The average price for Urals crude oil in November increased up to 62.5 USD per barrel as compared to 56.4 in October and 51.2 in the third quarter of 2017. In December, oil quotes were fixed at the achieved levels 63.8 USD per barrel on average per month). Further support for oil prices in December was provided by the extension of OPEC+ agreement on the limitation of production. The recovery of the world economy is also supporting the demand for oil. Global PMI index for manufacturing industries in December for the seventh consecutive month has demonstrated growth (up to 54.5) and continues to point to the prospects for the production expansion.

The optimism of international investors was also supported by news about progress in the field of tax reform in the United States. After approval by both chambers of the Congress, the law on tax reform was signed by the US President on December 22. The main innovations of the law were the reduction in the corporate profit tax rate from 35 to 21 % and change in the taxation of income received by US companies abroad. Markets expect that owing to the loosening of the fiscal policy, the measures taken will result in increase in the growth rate of the US economy in the short run, although experts differ in the quantitative assessments of their effect.

The ruble exchange rate stabilized in November-December. The average exchange rate of the Russian currency to the US dollar in November was 58.9 (weakening by 2.0% as compared to October). In December, the exchange rate of the ruble to the US dollar remained stable (58.3 on average per month).

As the time factors (most obviously manifested in January-April) were exhausted, the ruble exchange rate dynamics tended to weakening. Over the period from May to December, the ruble in nominal effective terms weakened by 8.1 %. At the same time, the price for Urals crude oil in December was by ~25 % higher than in April. The decrease in the dependence of the ruble exchange rate on oil prices was mainly caused by the operations of the Government of the Russian Federation in the foreign exchange market (the volume of purchases of foreign currency was ~14 billion USD for 2017).

The past year was marked by the completion of the macroeconomic stabilization process after a double shock for the balance of payments that occurred in 2014 (reduction in energy prices and imposition of

sanctions). Inflation fell down to a record low level of 2.5 % and for the first time was below the target value of the Bank of Russia, the budget deficit fell down to a level of 1.5 % of GDP, the economy returned to growth.

Over the past three years, Russia has implemented a whole block of structural reforms in the macroeconomic policy. The first one was the transition to inflation targeting. The second one was the refusal of the exchange rate management policy and the transition to its free floating. The third one was the adaptation of the budget to low oil prices and the introduction of a budget rule with a cut-off price of 40 USD per barrel (in prices of 2017). The fourth one was the full-fledged introduction of a mechanism that reduces the impact of oil price volatility on the domestic economy.

Owing to the mechanism of operations of the Government of the Russian Federation in the foreign exchange market, the Russian economy with an oil price of 65 USD per barrel operates de facto in the conditions of 48 USD per barrel. It significantly reduced the possible short-term positive effect on the economy - the contribution of the active growth of oil prices to the dynamics of GDP in 2017 was only 0.3 percentage points. However, such policy protects the economy from fluctuations in the external economic environment and thereby contributes to higher rates of economic growth in the long run.

According to the expectations of the Ministry of Economic Development of Russia, the economic dynamics in 2018 will be characterized by the following trends:

- inflation, provided that there is no negative weather shocks, will be below 4 % mark throughout the year;
- the economy will show an acceleration of the economic growth rates, which will remain at the level of about 2 %;
- the federal budget at the end of 2018 will have a surplus of about 1 % of GDP;
- the National Welfare Fund will be increased by about 50 billion USD.

Source: Ministry of Economic Development of Russia (<http://economy.gov.ru/minec>).

According to the World Bank's report on the Russian economy, the world economy is growing amid the strengthening of world demand and the stabilization of oil prices. As a result, the world trade is strengthening, with a significant increase in capital inflows to emerging economies, especially to China and India. Such external economic environment creates favorable conditions for the Russian economy.

Source: World Bank (<http://www.vsemirnyjbank.org>).

According to SO UES JSC, the actual power consumption in UES of Russia in 2017 was 1,039,879.9 million kW*h, which is higher than the fact of 2016 by 13,023.5 million kW*h (1.27 %), excluding February 29, a leap year in 2016, the annual increase in power consumption amounted to 16,038.4 million kW*h (1.57 %), as compared to the actual power consumption in 2015, the increase is 31,629.1 million kW*h (3.14 %). The positive dynamics of changes in the volume of power consumption in UES of Russia during the reporting period was caused by the inclusion of the energy system of the Republic of Crimea and the city of Sevastopol from the beginning of 2017 to UES of Russia. Without taking into account the power consumption of the Crimean energy system, the increase in the power consumption of UES of Russia at the end of 2017 was 0.5 %. In 2017, the highest positive dynamics of power consumption was recorded at metallurgy enterprises, railway transport facilities and main gas pipelines. The increase in power consumption of large consumers significantly affected the positive dynamics of consumption in a number of territorial power systems. In addition, a decrease of 1.5 % in the power consumption by the power plants of UES of Russia was recorded in 2017. The dynamics of power consumption of power systems broken down by months of 2017, in particular, was determined by the deviations in the ambient air temperature.

According to the current data of Interregional Dispatching Office of the South (IDO South), branch of SO UES JSC, the power consumption in Unified Energy System of the South (UES South) in January-December 2017 was 99,085.9 million kW*h, which exceeds by 9.2 % the consumption in 2016. From January to December 2017, power plants of UES South generated 100,001.2 million kW*h of power, which is 3.9 % more than in 2016.

Power consumption in the Unified Energy System of the South in December 2017 was 9,461.7 million kW*h, which is 0.6 % more than the consumption volume for the same period in 2016. Power generation by power plants of UES South in December 2017 amounted to 9,342.0 million kW*h, which is 1.0% less than in December of the previous year.

For 12 months of 2017, the net power flow from UES South amounted to 915.3 million kW*h, including 3,114.5 million kW*h from transnational lines. In December, the net power flow in UES South amounted to +119.7 million kW*h, while 352.3 million kW*h were supplied via transnational lines.

Source: SO UES JSC (<http://so-ups.ru/>), IDO South (http://www.so-cdu.ru/index.php?id=odu_south).

For raising the responsibility of service consumers in terms of settlements for power transmission services, the Government of the Russian Federation approved Decree No. 139 dated February 4, 2017 "On Amending Certain Regulations of the Government of the Russian Federation on Enforcement of the Obligations to Pay for Energy Resources". This Decree establishes the obligation for the service consumer (last resort supplier, power supply companies, power consumers, limitation of the power consumption mode for which may result in economic, environmental or social consequences) to provide to the grid company a performance guarantee ensuring the fulfillment of obligations on payment for power transmission services provided under the power transmission service contract, in case the relevant service consumer has failed to fulfill or improperly fulfilled its obligation to pay for power transmission services.

As a result of this Decree, the payment discipline is stabilized for power consumers, limitation of the power consumption mode for which may result in economic, environmental or social consequences.

Securities market of Russian power companies: a significant step forward to improve the dividend profile

MICEX PWR (MICEX-power industry) index in the reporting year in general had a sideways trend and eventually lost 8.5 % by the end of the year. IMOEX index (until December 2017 - MICEX index) for 2017 decreased by 5.5 %. Market capitalization of IDGC of Northern Caucasus PJSC also decreased by 17.5 %.

In the first quarter of 2017, news appeared that the Ministry of Energy of Russia was considering the possibility of determination of the amount of dividend payments for power grid companies at the level of 25 % of the net profit according to RAS, which was less than the dividend market expectations (source - <https://www.vedomosti.ru/>), and that the Ministry of Energy of Russia and the Ministry of Economic Development of Russia drafted Order of the Government of the Russian Federation defining a new dividend approach for subsidiaries of Rosseti PJSC adjusting the net profit used for calculation of dividends by a number of indicators (source - <https://www.finam.ru/>).

Despite the fact that the shares of IDGC of Northern Caucasus PJSC could not offer growth to investors, IDGC of Northern Caucasus PJSC together with Rosseti PJSC made a significant step forward to improve the dividend profile of the company and its dividend prospects. Thus, in early

2018, the Board of Directors of IDGC of Northern Caucasus PJSC approved an updated Regulation on the Company's Dividend Policy. The new version of the document presents and describes in detail the Company's new approach to the calculation of dividends, one of the key changes is the determination of the amount of dividends as at least 50% of the net profit determined according to the financial statements, including consolidated financial statements, prepared in accordance with the International Financial Reporting Standards. Earlier, on December 22, 2017, the Board of Directors of Rosseti PJSC approved the version of the regulation on the dividend policy of subsidiaries of Rosseti PJSC.

Source: estimates of IDGC of Northern Caucasus, RBC.

According to the World Bank's report, owing to the increase in oil prices and the stabilization of the macroeconomic situation in 2017, slight economic growth revived in Russia. However, the dynamics of growth was uneven. The most active growth rates were observed in II quarter, but in III quarter of 2017 growth slowed down. According to the authors of the Report, the slowdown was mainly caused by sluggish investment demand.

As expected, investors will be cautious in making investment decisions before the results of the presidential elections in Russia and determining the composition of the Government of the Russian Federation.

Moreover, the additional issue of shares of IDGC of Northern Caucasus PJSC started in 2016 will be continued in 2018. As expected, the placement of additional shares will take place most of 2018. In this connection, a possible factor affecting the value of the company's shares will be the structure of the authorized capital formed as a result of this placement.

Regional development in 2017

The North Caucasus Federal District occupies 1.0% of the territory of Russia, accounting for 6.7 % of the country's population.

The turnover of companies of the federal district for all types of activity in 2017 amounted to 2.7 trillion rubles, or 105.8 % as compared to the level of the corresponding period of the previous year.

Industrial production index by types of economic activity "Extraction of minerals", "Manufacturing", "Power, gas and steam supply; air conditioning", "Water supply; water discharge, waste collection and disposal, pollution control activities" as compared to 2016 amounted to 102.7 %.

The share of the North Caucasus Federal District in the total agricultural output of all agricultural manufacturers in Russia (agricultural organizations, peasant/farm households, individual entrepreneurs, households of the population) in 2017 was 8.2 %.

The consumer price index was 102.2 %.

The wholesale trade turnover of wholesale traders in 2017 amounted to 0.6 trillion rubles and decreased in comparison with 2016 by 3.1 % in comparable prices.

The consolidated budget of the constituent entities of the North Caucasus Federal District in 2017 was implemented with a surplus of 1.5 billion rubles. Expenses amounted to 401.3 billion rubles, income – 402.8 billion rubles.

Source: Federal State Statistics Service (<http://www.gks.ru>).

Area of Responsibility and Regional Policy

IDGC of Northern Caucasus PJSC operates throughout the North Caucasus Federal District. The district was created by Decree of the President of the Russian Federation dated January 19, 2010. The territory of the district is 170.4 thousand km² (1 % of the total territory of Russia).

The region has specific social and economic, political and natural characteristics, which may pose threats for formation and operation of economically stable and investment-attractive entities of the power markets. However, we believe that the mentioned features of the district are the opportunities of the company, making it possible to acquire a unique experience in solving issues of the power industry. The main conditions for turning threats into opportunities may include persistent pursuing of the strategic benchmark for achievement and maintenance of operating efficiency, as well as responsible and honest company management.

Factors of the region investment appeal:

- special governmental support measures;
- special institutes of development for the district;
- opportunity to develop any types of tourism;
- transport accessibility;
- wide opportunities for industrial complex development;
- unique natural and climatic conditions.

Order of the Government of the Russian Federation dated April 15, 2014 No.309 approved the State Program of the Russian Federation "Development of the North Caucasus Federal District until 2025".

The new version of the state program of the Russian Federation "Development of the North Caucasus Federal District for the Period until 2025" (Program), developed under supervision of the Ministry of North Caucasus Affairs of the Russian Federation, was approved by Decree of the Government of the Russian Federation dated February 27, 2016 No. 148.

As was noted by the Chairman of the Government of the Russian Federation, Dmitry Medvedev, at the meeting of the Government Commission on the social and economic development of the North Caucasus Federal District on March 11, 2016: "The new version of the state program is a plan aimed at improving the situation in the economy of the North Caucasus. It pays much more attention to attracting extra-budgetary sources, creating more comfortable conditions for the implementation of promising business projects, especially in the field of tourism, recreation and agrobusiness. I hope this will provide a more comprehensive approach to solving the tasks of the district development and will make it possible to use organizational and financial resources more efficiently."

Person responsible for the Program: Ministry of North Caucasus Affairs of the Russian Federation

Terms of the Program 2013-2025.

Total amount of budgetary allocations from the federal budget for the implementation of the Program: **360,805,388.4 thousand RUB**

The objectives and tasks of the Program refer to issues under joint jurisdiction of the Russian Federation and constituent entities of the Russian Federation related to the North Caucasus Federal District. The Government of the Russian Federation, the federal executive authorities together with the executive authorities of the constituent entities of the Russian Federation being members of the North

Caucasus Federal District consistently implement comprehensive measures aimed at stabilizing the social and economic situation in the district.

Expected results of the Program implementation in 2015-2025 in the investment aspect:

- increase in the industrial output more than 2 times;
- increase in the amount of investments in NCFD into fixed assets almost 2.5 times;
- increase in the amount of tax and non-tax revenues of the consolidated budgets of constituent entities 1,7 times;
- reduction in the unemployment level by almost 30 %;
- increase in the number of high-performance jobs by more than 65 %
- growth of the number of tourists visiting the resorts of the tourist cluster in NCFD more than 2,5 times.

The Program includes the following subprograms and the Federal Target Program:

- subprogram "Social and Economic Development of the Stavropol Territory for 2016-2025";
- subprogram "Social and Economic Development of the Republic of North Ossetia-Alania for 2016-2025";
- subprogram "Social and Economic Development of the Republic of Ingushetia for 2016-2025";
- subprogram "Social and Economic Development of the Karachay-Cherkess Republic for 2016-2025";
- subprogram "Social and Economic Development of the Kabardino-Balkarian Republic for 2016-2025";
- subprogram "Social and Economic Development of the Republic of Dagestan for 2016-2025";
- subprogram "Social and Economic Development of the Chechen Republic for 2016-2025";
- subprogram "Implementation of the State Program of the Russian Federation "Development of the North Caucasus Federal District" for the Period until 2025";
- subprogram "Development of a Tourist Cluster in the North Caucasus Federal District, Krasnodar Territory and Republic of Adygea";
- subprogram "Creation of a Medical Cluster within the Territory of the Caucasian Mineral Waters and Implementation of Investment Projects of the North Caucasus Federal District";
- subprogram "Formation of the State Information Policy Infrastructure in the North Caucasus Federal District";
- federal target program "Social and Economic Development of the Republic of Ingushetia for 2010-2016".

Sources: Northern Caucasus Development Corporation JSC, (<http://krskfo.ru>), IDGC of Northern Caucasus PJSC.

District management

Oleg Evgenievich Belaventsev is the authorized representative of the President of the Russian Federation in the North Caucasus Federal District since July 28, 2016.

The coordination body for executive authorities is the Government Commission for the Social and Economic Development of the North Caucasus Federal District (Chairman: Dmitry Medvedev, Chairman of the Government of the Russian Federation, the ground for the establishment is Decree of the Government of the Russian Federation No. 1003 dated December 8, 2010).

See <http://government.ru/departments/216/>.

Decree of the President dated May 12, 2014 No.321 for comprehensive solving of the issues related to creation of the conditions for social and economic development of the Northern Caucasus established the Ministry of North Caucasus Affairs of the Russian Federation. The head of the Ministry is Lev Vladimirovich Kuznetsov.

District geography

The district has borders with:

- by land - with the Southern Federal District, Abkhazia, Azerbaijan, Georgia and South Ossetia;
- by water borders - Iran, Kazakhstan and Turkmenistan;
- it is bound by the Caspian Sea in the east, the Greater Caucasus Range and Georgian and Azerbaijani borders in the south, and Russian internal political borders in the west and north.

The district enjoys a unique combination of balneological resources – mineral drinking waters, thermal waters and therapeutic muds (about 30% of mineral water resources and over 70% of thermal water resources of Russia are concentrated here). The Greater Caucasus mountain range occupies about 50% of the area of the North Caucasus Federal District.

Value for the region:

- favorable conditions for permanent residence and development of the tourist and recreation complex;
- promising site for development of high mountain tourism.

Value for the power industry:

- commissioning of new capacities for power supply of the North Caucasus resorts;
- growth of revenues for power transmission services and technological connection to the grid infrastructure.

Constituent entities of the Russian Federation included into the area of responsibility of IDGC of Northern Caucasus are characterized by rather weak development of the territory. However, the developed infrastructure, including power engineering, is the necessary condition for territory development and the city growth. Understanding our responsibility in this area, the company applies every effort to build a high-technology, reliable and safe grid infrastructure.

Mission, Strategic Objectives and Development Prospects

Decree of the President of the Russian Federation dated November 22, 2012 No. 1567 “On Joint Stock Company Russian Grids” provided for elaboration of the development strategy of Rosseti PJSC and the power grid complex of Russia in general. Such **Power Grid Complex Development Strategy** of Russia was approved by Order of the Government of the Russian Federation dated April 3, 2013 No.511-r.

As an integral part of the energy holding Rosseti, IDGC of Northern Caucasus PJSC follows the overall strategy of the power grid complex (see section of the website of Rosseti PJSC “About the Company/Mission and Strategy”).

The **mission** of IDGC of Northern Caucasus PJSC is the reliable and high-quality satisfaction of the growing needs of the economy and the social development of constituent entities of the Russian Federation falling within the Company's area of responsibility, with a reasonable fee for services for the consumers.

The main tasks of the strategic development of IDGC of Northern Caucasus PJSC are as follows:

- maintenance of the overall reliability, safety and stable operation of the regional distribution power grid complex;
- increase in the efficiency of the Company's operations, as well as the power companies controlled by it;

- expansion and modernization of power grid assets as a result of an innovative large-scale technological upgrade;
- development of socially responsible business practices;
- improvement of the investment attractiveness of the Company.

IDGC of Northern Caucasus PJSC will never sacrifice its **values** for the sake of profit. It perceives these values as an interlink between all areas of business expecting the same attitude from its business partners.

Corporate values of IDGC of Northern Caucasus PJSC are as follows:

1. Reliability. The Company seeks to ensure the most reliable and uninterrupted power supply to satisfy the needs of the Russian Federation economy and social sector by implementing a whole range of all necessary organizational and technical activities ensuring the reliable performance of the power grid infrastructure facilities and taking necessary steps to ensure the safety of power facilities.
2. Human resources. The key asset of the Company is its employees, owing to whom the Company has been creating, preserving and building up its value and authority over a long span of time.
3. Efficiency. The Company recognizes its duties towards its shareholders, investors and partners, for which reason the efficiency of its operations is viewed as the basic value.
4. Safety. The Company employs a strictly regulated and balanced approach to the implementation of safety measures intended to prevent any potential offenses against law.
5. Social responsibility. IDGC of Northern Caucasus PJSC is a socially responsible company paying much attention to issues of health, safety, environment protection and social programs.

Within the implementation of the Power Grid Complex Development Strategy of Russia in IDGC of Northern Caucasus PJSC, the following results were obtained and the following measures were implemented.

A) For achieving the benchmark "increase in the reliability and quality of power supply up to the level corresponding to the consumer needs, including":

- For improving the customer service quality (including the reduction in the number of stages necessary for technological connection to power grids), a standard algorithm for concluding power supply (power (capacity) purchase and sale (supply)) contracts was developed and approved by Order "On the Conclusion of Power Supply Contracts before the Completion of the Procedure for Technological Connection" with power suppliers of last resort before the completion of the procedure for technological connection of power receivers of power consumers to power grids of IDGC of Northern Caucasus PJSC. As a result, the number of stages necessary for technological connection to the power grid, according to the results of 2017, was 4.

- With respect to the indicator "reduction the in undersupply of power", the Company in general recorded a positive dynamics with a decrease of 1.5 %, from 5.902 million kW*h in 2016 to 5.813 million kW*h in 2017 (decrease as compared to 2016 – 0.088 million kW*h).

- In terms of reduction in the cost of technological connection for small and medium-sized enterprises - in accordance with Article 23.2 of Federal Law "On the Power Industry" dated October 1, 2017, the fee for technological connection of power receivers with a maximum capacity of not more than 150 kW does not include expenses for the construction of power grid facilities - from the existing power grid facilities to the connected power receivers and/or power facilities.

B) For achieving the benchmark "increase in the efficiency of the power grid complex, including":

- For the enhancement of the safety of power supply, including the reduction in the total number of accidents, including unaccounted accidents, a set of actions aimed at reducing injuries is being implemented.

- When implementing the investment program, the Investment Cost Reduction Methodology adopted in 2013 was applied for 2012. The effect of the Methodology application in 2017 amounted to 19.9 million rubles, VAT exclusive, or 33 %.

- Decrease in controlled operating expenses in 2017 as compared to 2012, for implementing the Power Grid Complex Development Strategy of the Russian Federation approved by Decree of the Government of the Russian Federation No. 511-r of April 3, 2013, amounted to 972.4 million rubles, or 22.09 %. Additional information is reflected in the subsection of the Annual Report "Operating Performance Improvement and Expenses Reduction Program".

- The level of power losses for 2017 was 13.98 %, which is below the planned indicator by 0.37 %. In this area, the power losses reduction program is being implemented.

C) As compared to 2012, the number of TGCs is reduced by 24 %. Since 2015, the criteria for inclusion of power facilities owners to territorial grid companies came into effect, as approved by Decree of the Government of the Russian Federation dated February 28, 2015 No.184 "On the Inclusion of Power Facilities Owners into Territorial Grid Companies". In the future the company plans to implement the Program for Consolidation of Power Grid Assets of IDGC of Northern Caucasus PJSC for 2017–2019.

Prospects for the development of IDGC of Northern Caucasus PJSC

Today, IDGC of Northern Caucasus PJSC is a dynamically developing company. In the subsequent years the Company intends to target its efforts at the successful implementation of objectives within the selected area. Development of IDGC of Northern Caucasus PJSC in the priority areas of activities will make it possible in the long run to become the competence leader, the largest infrastructural company and the center of responsibility for reliable supply to consumers within the territory of the North Caucasus Federal District. In addition, strategic objectives of its development for the future year and in the long run are seen by IDGC of Northern Caucasus PJSC as maintenance of the overall reliability, safety and stable operation of the distribution power grid complex of the North Caucasus Federal District, improvement of the efficiency of Company's business, as well as subordinate power companies, modernization of power grid assets as a result of innovative large-scale technological upgrade, development of the socially responsible business practice, significant increase in Company's profitability, as well as creation of an investment-attractive image.

Prospects for the development of IDGC of Northern Caucasus PJSC are reflected in Appendix 2 to the Annual Report "Implementation of the Power Grid Complex Development Strategy of the Russian Federation in IDGC of Northern Caucasus PJSC", sections of the Annual Report "Production Report" (in terms of the forecasted dynamics of indicators of power losses in distribution grids, technological connection), "Investment Activities and Capital Construction" (in terms of information on the long-term investment program), "Power Grid Assets Consolidation" (in terms of the Power Grid Assets Consolidation Program of IDGC of Northern Caucasus PJSC for 2017-2019), "Information on the Technical Condition of Grids" (in terms of equipment certification and implementation of a unified scientific and technical policy), "Innovative Development in the Field of Energy Saving and Energy Efficiency Improvement" (in terms of implementation of the Innovative Development Program), "Procurement Activities" (in terms of procurement of goods, works and services from small and medium-sized enterprises), "Internal Control System" (in terms of the Action Plan for the

Development and Improvement of the Internal Audit Activities of the Company), "Public Relations, State Authorities and Mass Media Relations"(in terms of work on the formation and promotion of the positive image of IDGC of Northern Caucasus PJSC in the society, the implementation of a unified coordinated information policy of the company, arrangement through the mass media of targeted and consistent work for explanation of the current and strategic tasks to be solved by the Company, protection of the Company's interests in public conflicts and crisis situations), as well as the section "Corporate Governance" and Appendix 7 to the Russian version of the Annual Report "Report on the Compliance of IDGC of Northern Caucasus PJSC with the Principles and Recommendations of the Corporate Governance Code" contain information on the planned measures for improving the corporate governance.

Priority areas of activities and report of the Board of Directors and results of the Company's development in the priority areas of activities

In 2017, the Board of Directors of IDGC of Northern Caucasus PJSC did not make decisions on determining the priority areas of the Company's activities.

In 2017, IDGC of Northern Caucasus PJSC was developing in the following priority areas of activities:

Area of activities	Minutes of the meeting of the Board of Directors, where the area of activities was identified as a priority	Brief report on the results of the company's development in priority areas	Section of the Annual Report of IDGC of Northern Caucasus PJSC, which contains a more detailed information on the results of the company's development in the specified priority areas of activities
Power Grid Assets Consolidation	Minutes No. 121 dated December 27, 2012, Minutes No. 129 dated April 12, 2013	On March 27, 2017, based on the results of the tender held by the Ministry of Property and Land Relations of the Republic of Ingushetia for the right to enter into a gratuitous use agreement, IDGC of Northern Caucasus PJSC was declared the winner. The gratuitous use agreement was concluded. On July 5, 2017, based on the results of the tender, the agreement on gratuitous use of the municipal power grid assets of the city of Digora was concluded. On December 15, 2017, based on the results of the tender held by State Enterprise of the Republic of Dagestan "Infrastructure Facilities Management Company of the Republic of Dagestan", a lease agreement was concluded for the republican power grid facilities - 110/10 Oruzba, 110 kV OHL, 10 kV OHL. <u>Scope of the power grid assets consolidation</u> By the decision of the Board of Directors dated July 28, 2017 (Minutes No. 310 dated July 30, 2017), the Power Grid Assets Consolidation Program of IDGC of Northern Caucasus PJSC for 2017-2019 was approved. The consolidation program in 2017 provides for a transaction on gratuitous use of power grid assets of the Republic	"Power Grid Assets Consolidation"

		of Ingushetia. During the reporting year the Program was implemented in full: On March 27, 2017, the agreement on gratuitous use of the property of the Republic of Ingushetia was concluded.	
Ensuring of the accessibility of the power supply infrastructure and the quality of technological connection to power grids of IDGC of Northern Caucasus PJSC	Minutes No. 174 dated September 11, 2014	In 2017, actions for technological connection of major facilities that are of importance for the economic development of constituent entities of the North Caucasus Federal District were performed. For improving the quality of services for technological connection, the following activities are implemented: - automation of the procedure for technological connection (introduction of an automated system for control of technological connection of consumers is planned to be implemented on the standard platform 1C: Enterprise 8. Power Industry. Distribution Grid Company Management); - fulfillment of TC contracts using own resources (in order to reduce the period for fulfillment of TC agreements down to 90 days, a reserve fund of materials and equipment was created, the number of repair personnel was increased); - application of framework agreements (from the beginning of 2017, 4 framework agreements were concluded for the construction/reconstruction of 0.4-20 kV high-voltage power transmission line for technological connection of the "turnkey" privileged group of applicants of Sevkavkazenergo branch, Stavropolenergo branch concluded 15 framework agreements for the supply of materials and equipment for technological connection of the privileged group of applicants using own resources); - cooperation with sales companies (conclusion of the power supply contract without visiting a power supply company). For the avoidance of the need to obtain a permit for the construction of power grid facilities up to 20 kW inclusive, a working group has been created in the Company. In the regions where the Company is present, the relevant regulations were issued. In 2017, 35 applications for technological connection were submitted via Internet services.	"Technological Connection"

Ensuring of the established level of reliability and quality of services rendered	Minutes No. 80 dated September 15, 2011	Based on the results of activities of IDGC of Northern Caucasus PJSC for 2016–2017, the reliability level indicator has been achieved with significant improvement, the customer service quality and the quality level indicators of implemented technological connection are within the permissible deviations from the planned values stipulated by Order of the Ministry of Energy dated October 14, 2013 No.718.	"Mission, Strategic Objectives and Development Prospects", Appendix 2, "Customer Communications", "Information on the Technical Condition of Grids"
Implementation of the Comprehensive Program of Actions for Reduction in Excessive Power Losses in Distribution Grids in the North Caucasus; reduction in the level of losses in grids and development of metering systems	Minutes No. 72 dated April 21, 2011, Minutes No. 183 dated January 12, 2015	Full cost of the project in accordance with the investment program of the Company for 2016–2022 approved by Order of the Ministry of Energy of Russia dated December 30, 2016 No.1470 amounted to 5,250.4 mln RUB, VAT inclusive. The total number of accounting points covered by the program is 636,126 pcs. In 2017, the implementation of activities under the Comprehensive Program amounted to 45.3 million RUB. Funding amounted to 197.1 million rubles, VAT inclusive. From the commencement of the Comprehensive Program, its implementation amounted to 3,707.8 million rubles. Funding amounted to 4,938.5 million rubles:	"Investment Activities and Capital Construction"
Elaboration and implementation of programs financed out of federal budget funds, as well as funds of the National Welfare Fund of Russia (NWF) and pension savings; ensuring of the targeted and effective usage of funds from the federal budget, NWF and pension savings	Minutes No. 176 dated October 22, 2014	Among the programs implemented out of funds of the federal budget, the Comprehensive Program of Actions for Reduction in Excessive Losses shall be noted. Full cost of the project in accordance with the investment program of the Company for 2016–2022 approved by Order of the Ministry of Energy of Russia dated December 30, 2016 No.1470 amounted to 5,250.4 mln RUB, VAT inclusive. The total number of accounting points covered by the program is 636,126 pcs. In 2017, the implementation of activities under the Comprehensive Program amounted to 45.3 million RUB. Funding amounted to 197.1 million rubles, VAT inclusive. From the commencement of the Comprehensive Program, its implementation amounted to 3,707.8 million rubles. Funding amounted to 4,938.5 million rubles:	"Investment Activities and Capital Construction"

Implementation of the IT, Automation and Telecommunications Strategy of IDGC of Northern Caucasus PJSC, improvement of the efficiency of works for introduction of state-of-the-art information technologies	Minutes No. 18 dated 11 January 2008, Minutes No. 108 dated July 26, 2012	The key areas of work in 2017 were the following: creation of a common information space of IDGC of Northern Caucasus PJSC, further modernization of IT infrastructure, development and modernization of inter-regional corporate data transmission grid, as well as development of information systems on the basis of complex "1C-Energy". The range of IT services provided to local and remote users (access to corporate e-mail and corporate resources) was expanded, as well as monitoring capabilities for software and hardware were increased.	"IT and Telecommunications "
Activity for monitoring and coordinating of the procurement system	Minutes No. 3 dated October 31, 2006	Regulatory control of the procurement activities: Unified Procurement Standard of Rosseti PJSC. The principal organizational and administrative documents of the Company regulating procurement activities include Orders of IDGC of Northern Caucasus PJSC "On the Arrangement of the Procurement Activities", "On the Standardization of Procurement of Certain Types of Goods, Works and Services in IDGC of Northern Caucasus PJSC", Instruction "On Payment under Contracts with SMEs". Actually in 2017 for needs of IDGC of Northern Caucasus PJSC, 423 purchases were implemented for the total amount of 4,317,141.30 thousand RUB, VAT exclusive. For increasing the transparency of procurement activities and enhancing the competitive environment among small and medium-sized enterprises within the Roadmap "Expansion of Access of Small and Medium-Sized Enterprises to the Procurement of Infrastructure Monopolies and State-Owned Companies" approved by Decree of the Government of the Russian Federation dated May 29, 2013 No.867-r, as well as for improving the availability of information on the current procurement procedures among SMEs in the section "Procurement/Procurement for SMEs" on the Company's official website there is information on the parts of the procurement plan, providing for procurement only from SMEs, as well as procurement for which it is planned to attract SMEs as subcontractors.	"Procurement Activities"

Improvement of the level of anti-terrorist and anti-subversion protection of the power grid complex facilities of IDGC of Northern Caucasus PJSC	Minutes No. 61 dated August 17, 2012	192 audits were performed on status of anti-terrorist protection of power facilities, 35 training sessions were provided for actions of employees of security firms in case of emergencies, sessions and briefings are provided on a weekly basis for employees of security firms. Cooperation with territorial security and internal affairs agencies was organized when receiving reports of terrorist act threats, during inspections of anti-terrorist protection of facilities, during anti-terrorist trainings and exercises.	“Information on the Technical Condition of Grids”
Certification of equipment, materials and systems at the Company’s facilities	Minutes No. 169 dated July 9, 2014	The implementation of a unified scientific and technical policy that ensures the development of power grid facilities and the efficient operation of the power grid complex of IDGC of Northern Caucasus PJSC is carried out through, in particular, the arrangement by Rosseti PJSC and IDGC of Northern Caucasus PJSC of the certification of equipment, technologies, materials and systems for preventing the use of equipment that does not meet the technical requirements for reliability, safety, performance characteristics and conditions of use. The necessary organizational work was carried out by IDGC of Northern Caucasus PJSC in previous periods. During 2017, additional measures were not taken to organize the certification of equipment. Current lists of certified equipment, materials and systems are available on the official website of Rosseti PJSC and are freely available at the following link: http://www.rosseti.ru/investment/science/attestation/.	“Information on the Technical Condition of Grids”

Perfection of the internal control and risk management system, development of internal audit function	Minutes No. 172 dated August 4, 2014	For implementing the Strategy for the Development and Improvement of the Internal Control System (ICS) of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC approved by the decision of the Board of Directors of Rosseti PJSC on February 10, 2014 (Minutes No. 143), the Company by the decision of the Board of Directors dated March 14, 2016 (Minutes No. 230) approved the Internal Control Policy of IDGC of Northern Caucasus PJSC (new version). The Company has the Procedure for Implementation of the Requirements of the Internal Control Policy, which explains the practical aspects of the application of the standards established by the Internal Control Policy. Control procedures for processes and subprocesses of the core and ancillary activities, as well as the management processes of the Company are documented in the control and risk matrices. In accordance with Order of IDGC of Northern Caucasus PJSC dated July 28, 2017 No. 483, the internal control system improvement plan was approved and implemented. To guarantee that ICS is efficient and conforms to the objectively changing requirements and conditions, the Company's internal auditor assesses the efficiency of ICS for conformity to the target condition and maturity level. Internal independent assessment of ICS efficiency was implemented by internal auditor of the Company, external independent assessment was not conducted.	"Risk Factors and Risk Management System", "Internal Control System"
Adoption of a system for management of production assets	Minutes No. 103 dated June 1, 2012	Within the Plan for Development of the Production Assets Management System of IDGC of Northern Caucasus PJSC for 2016–2018, in 2017 actions were implemented on the following key objectives: - automation of functions of the electronic defect log; - automation of functions for the preparation of technical data sheets for substations and power transmission lines; - integration of the Automated Maintenance and Repair Management System in the production asset management system with the accounting system; - automation of the procedure for calculation of the scope of service in conditional and volumetric units.	"Information on the Technical Condition of Grids"

Organization of work for recording data on maximum allowable capacity of consumers previously connected to the Company's power grids	Minutes No. 135 dated June 20, 2013	In 2017, the number of connection (supply) points - 6,725 pieces, the number of connection (supply) points specified in the signed technological connection certificates - 6,725 pieces, the number of connection (supply) points specified in the signed certificate of delineation of balance sheet attribution (CDBSA) - 6,725 pieces, the maximum capacity specified in the technological connection certificates or CDBSA - 223,203.9 kW.	Appendix 5 to the Russian version of the Annual Report
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Risk Factors and Risk Management System

The Company has the Risk Management System (RMS) aimed at ensuring the sustainable continued operation and development of the Company by the timely identification, assessment and effective management of risks that threaten the effective performance of economic activities and reputation of the Company, workers' health, the environment, and ownership interests of shareholders and investors.

For developing RMS in the Company, the Board of Directors approved the Risk Management Policy (Minutes No. 231 dated March 25, 2016).

RMS participants

The main participants in the risk management process are set forth in the table:

Participant name	Main functions in the field of RMS
Board of Directors	- approves bylaws of the Company that define the organization and operation of the Company's risk management system; - reviews reports of the executive bodies of the Company on organization, operation and efficiency of RMS, as well as assesses its operation and elaborates recommendations for its improvement;
Authorized Committee at the Board of Directors	monitors the effectiveness of risk management procedures, as well as assesses the effectiveness of risk management and RMS improvement activities
Executive bodies (Management Board, General Director)	- establish the requirements for the format and completeness of information on risks of the Company; - determine the areas and elaborate plans for development and improvement of RMS; - perform analysis of risk portfolio and elaborate measures for a response strategy and reallocation of resources for management of the relevant risks;
Risk owners	are responsible for the timely identification and assessment of risks, selection of a method for risk response, timely development and organization of risk management activities, regular monitoring of risks
Persons responsible for the implementation of risk management measures	are responsible for the timely identification and/or minimization of risks, implementation of activities aimed at risk management in a timely manner and in full
Internal Audit and Control Business Unit	- carries out internal independent assessment of the risk management system efficiency and issues recommendations on the

Participant name	Main functions in the field of RMS
	increase of efficiency and effectiveness of the risk management system; - performs functions of overall coordination of risk management processes

Major risk factors

Risk significance means a combination of probability of the risk occurrence and the extent of impact for the Company in monetary and other terms. Assessment of risk significance is carried out with due regard for available risk data sheets or by experts in accordance with the following scale:

Level of risk significance	
<i>Critical</i>	
<i>Significant</i>	
<i>Moderate</i>	

Dynamics of the risk significance vs the previous year and during the reporting year is reflected with due regard for the available risk data sheets or by expert method with the help of arrows: ↑ (risk significance growth) ↓ (risk significance reduction).

Assessment of risk significance

Item No.	Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
Industry risks				
1	Tariff risks	The tariff regulation policy implemented by the government takes into account the need to control inflation and provides for a change in the regulated tariffs of grid companies in 2017-2019 below the actual inflation index with an outrunning growth in prices in the wholesale market, which causes the risk of establishment by regulatory bodies of tariff options that do not ensure the collection of economically justified revenue.	1. Provision of support materials to regulatory bodies (Regional Tariff Services of regions) that confirm the level of economically justified costs. 2. Preparation and submission to regulatory bodies of materials with the justification of the required level of costs of IDGC as a systemically important company in the region.	

Item No.	Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
2	Risk of reduction in the scope of power transmission services	The risk is caused by the possibility of reducing the demand for power and optimizing by major consumers of external power supply schemes.	1. Regular analysis of the current dynamics of power consumption taking into account the previous periods. 2. Preparation of the forecast of productive supply to the business unit taking into account the actual dynamics of power consumption. 3. Implementation of measures under the power losses reduction program.	
3	Risks associated with the provision of technological connection services to applicants	Risks are caused by the possible emergence of a deficit of the funding source for measures for the fulfillment of technological connection contracts; non-fulfillment by the applicants of obligations under technological connection contracts; the applicants' failure to utilize the capacity received as a result of technological connection. Due to the influence of these factors, the Company's revenues from technological connection may be reduced.	1. Submission to regulatory bodies of materials on the justification of fees for an individual project. 2. Submission to regulatory bodies (Regional Tariff Services of regions) of additional supporting materials confirming the cost of individual connection. 3. Preliminary holding of the consensus meeting (before submission of a tariff application) with the involvement of the applicant and representatives of: the Regional Tariff Services of regions, UES, RDU, the Ministry that oversees the power sector in order to optimize the applied individual tariff.	
4	Risks associated with the acceptance of the last resort supplier status and functions	Growth of accounts receivable of the last resort supplier for supplied power and accounts payable of the last resort supplier in the wholesale power and capacity market	1. Cooperation with the government of RF constituent entity on the issue of power payment by utility enterprises and budget-dependent organizations. 2. Claims work. 3. Implementation of measures for introducing a procedure for disconnection (limitation) of consumers in default of payment in accordance with the current law. 4. Implementation of measures to apply the provisions of Federal Law dated November 3, 2015 No. 307-FZ "On Amending Certain Regulations of the Russian Federation for Enhancing the Payment Discipline of Power Consumers" in terms of the provision by consumers of the performance guarantee (bank guarantees).	

Item No.	Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
5	Risk associated with non-payment for power transmission services provided (incurring of disputed and undisputed overdue receivables) by consumers of services	The risk is caused by the inadequacy of the current incentive mechanisms for ensuring the timely settlements by consumers of services for power transmission services, as well as the impact of macroeconomic factors (reduction in the solvency of consumers).	1. Holding of meetings of the Interdepartmental Working Group on the Fuel and Energy Complex of the North Caucasus Federal District at the Government Commission for the Social and Economic Development of the North Caucasus Federal District, including issues on payment discipline for energy resources supplied. 2. Compliance with the operating procedures for recovery of accounts receivable for power transmission services rendered, accounted for on the balance sheet of the Company: - monthly submission of claims to counterparties for the principal debt and imposition of penalties for late payment for the power transmission services rendered; - conclusion of compromise agreements, debt repayment agreements, debt restructuring agreements; - restriction of the consumption mode for "direct" consumers; - measures for resolving disagreements; - litigation.	
Country and regional risks				
6	Risks associated with the political and economic situation in the country and region	Risks are caused by a decrease in the economic activity of the constituent entities of the Russian Federation in the regions of presence, an increase in the cost of credit, which in its turn may be caused by the instability in external conditions, international sanctions, decrease in credit ratings and increase in inflationary pressures. The influence of these factors may result in reduction in the Company's revenues and its shareholder value.	1. Continuous monitoring of the borrowed capital market and counterparty banks and, if possible, debt restructuring. 2. Continuous optimization of the borrowing portfolio taking into account changed market indicators. 3. Monitoring of the credit resource market for revealing more favorable crediting conditions. Increase in the share of fixed-rate instruments at a level acceptable to the Company. 4. Search for alternative sources of borrowing, including bond borrowing.	

Item No.	Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
7	Risks associated with possible conflicts and their manifestations, announcement of the state of emergency and strikes in the regions	Risks are caused by possible acts of unlawful interference in activities, including terrorist acts, including by international terrorists, as well as by nationalists of certain states. Such acts may have a negative impact on the activities of the Company.	1. Provision of physical, engineering and technical protection and security of power facilities of IDGC of Northern Caucasus PJSC. 2. Planning of financial costs in the business plan for the purchase of security services, introduction and maintenance in good working order of engineering and technical protection equipment.	
8	Risks associated with geographical features of the country and the region, including increased risk of disasters, potential discontinuance of transport connection	Risks are caused by natural and climatic emergency situations (impact of hurricanes, torrential rains, freshets and floods, snowdrifts, icing, power supply failure due to fires, household explosions, etc.). As a result, power supply, transport communication in the region can be interrupted.	Permanent readiness of emergency units (EU) of IDGC of Northern Caucasus PJSC for elimination of emergency situations within the territory of the Company's power grid complex: – inspection of EU provision with materials and equipment; – EU training.	
Financial risks				
9	Risks associated with changes in exchange rates	Negative impact on the results of the financial and economic activities of the Company due to changes in foreign exchange rates. Currently the entire revenue, the majority of operating and investment expenses of the Company are denominated in rubles. In addition, the Company has no debts on credits and loans in foreign currency. Therefore, variation of currency exchange rates has no significant impact on the results of financial and economic activities of the Company. In addition, Decree of the Government of the Russian Federation dated September 16, 2016 No.925 establishes the priority of goods of Russian origin, works, services provided by Russian entities, when purchasing goods, works, services by a competition, auction and other methods of procurement, apart from procurement from a single vendor (contractor), with respect to goods originating from a foreign state, works, services provided by foreign entities.	Implementation by the Company of the corporate import substitution plan in Rosseti Group in terms of improving the rules and requirements for the procurement of products, conducting the mandatory analysis of the possibility to replace imported products in the production and technological processes.	

Item No.	Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
10	Risks associated with changes in interest rates	The Company attracts borrowed funds for its activities as one of funding sources for operating activities. In this regard, the Company is exposed to the risk of increasing interest rates on loans and borrowings.	Work is carried out with credit institutions (banks) not only for raising borrowed funds at minimum interest rates with the most convenient borrowing conditions (including through competitive selection procedures for creditors), but also by negotiations for reducing interest rates on the existing loan agreements.	
11	Risks associated with the inflation impact	Impact of the consumer price index growth on the amount of interest expenses, the level of costs, the level of profitability and, as a result, the financial standing and the possibility of fulfillment of the Company's obligations.	1. Monitoring of the compliance with the business plan parameters. 2. Optimization of controlled operating expenses.	
Legal risks				
12	Legal risks	Risks associated with changes in the legislation, judicial practice on the issues of the Company's activities, balance of interests with other power industry entities.	1. Due diligence of conducted business operations for the compliance with the current law and interests of the Company. 2. Timely monitoring of changes introduced into the legislation of the Russian Federation, study of judicial practice.	
13	Compliance risk	Risks associated with sanctions of regulatory bodies in connection with possible non-compliance of the Company's activities with the requirements of laws, local regulations, and other binding regulatory documents.	1. Prevention of the presence in the Company's regulatory documents of provisions allowing the corrupt practices. 2. Expert review of the local regulations and the organizational and executive documentation adopted by the Company for the absence of provisions creating prerequisites for involvement in fraudulent or corrupt activities and the presence of the relevant preventive measures therein. 3. Development and implementation of local regulations and organizational procedures in the Company for combating fraud and corruption. 4. Compliance of all employees of the Company with the requirements of regulatory documents. 5. Performance of awareness-raising activities for the compliance with the requirements of the law and regulatory documents of the Company.	

Item No.	Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
			Informing of the general public of the degree of introduction and progress in implementation of anti-corruption measures (publication of the relevant information on official websites, in the mass media and other sources). 6. Introduction of anti-corruption standards of employees' behavior in the corporate culture of the Company. Anti-Corruption Policy was approved by the Board of Directors of IDGC of Northern Caucasus PJSC on January 26, 2017. (Minutes No. 278 dated January 27, 2017).	
Risk of business reputation loss				
14	Reputational risk	Risk is associated with possible non-fulfillment of all obligations to clients and counterparties.	For minimizing the consequences of this risk, the requirements for the unified communication policy of Rosseti Group and the unified communication policy of IDGC of Northern Caucasus PJSC are complied with. In addition, the Regulation on the Implementation of the Unified Communication Policy of IDGC of Northern Caucasus PJSC approved at the meeting of the Board of Directors of IDGC of Northern Caucasus PJSC on August 30, 2017 was developed and put into effect. (Minutes of the meeting of the Board of Directors of IDGC of Northern Caucasus PJSC No. 314 dated September 1, 2017).	
Strategic risk				
15	Strategic risk	Risk of failure to achieve the Company's strategic goals and objectives due to potential changes in the internal and external environment of the Company's operation.	For minimizing the strategic risk, the Company arranges its activities in accordance with strategic documents of Rosseti Group.	
Risks associated with the business of IDGC of Northern Caucasus PJSC				
16	Operating and technological risk	Deterioration in reliability of power supply of consumers caused by such factors as natural and man-made emergency situations resulting in disruption of the operation of power grid equipment; high share of equipment with an excess lifetime; non-compliance with the regulatory and technical requirements in terms	1. Timely implementation of technical and organizational activities developed on the basis of investigation of technological faults (accidents). 2. Effective arrangement of emergency and recovery works allowing to reduce the duration of interruption of power supply to consumers due to technological faults (accidents).	

Item No.	Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
		of exceeding the established permissible values of technological parameters of operation of power grid equipment.	3. Timely fulfillment of the requirements established by the Methodological Guidelines for Calculation of the Level of Reliability and Quality of Supplied Goods and Provided Services for the Company Related to Management of the Unified National (All-Russian) Power Grid and Territorial Grid Companies approved by Order of the Ministry of Energy of the Russian Federation dated November 29, 2016 No.1256.	
17	Investment risk	Reduction in funding sources for the Company's investment programs in the event of deterioration of its financial and economic standing and, consequently, reduction in the tariff revenue when investment programs are not implemented. Failure to comply with the planned dates of commissioning of facilities under the investment programs sue to non-fulfillment/untimely fulfillment by contractors and suppliers of their obligations.	1. Timely approval of investment programs in the Ministry of Energy of Russia. 2. Monitoring of timely fulfillment of contractor agreements. 3. Monitoring of timely acceptance of performed works and facilities commissioning.	

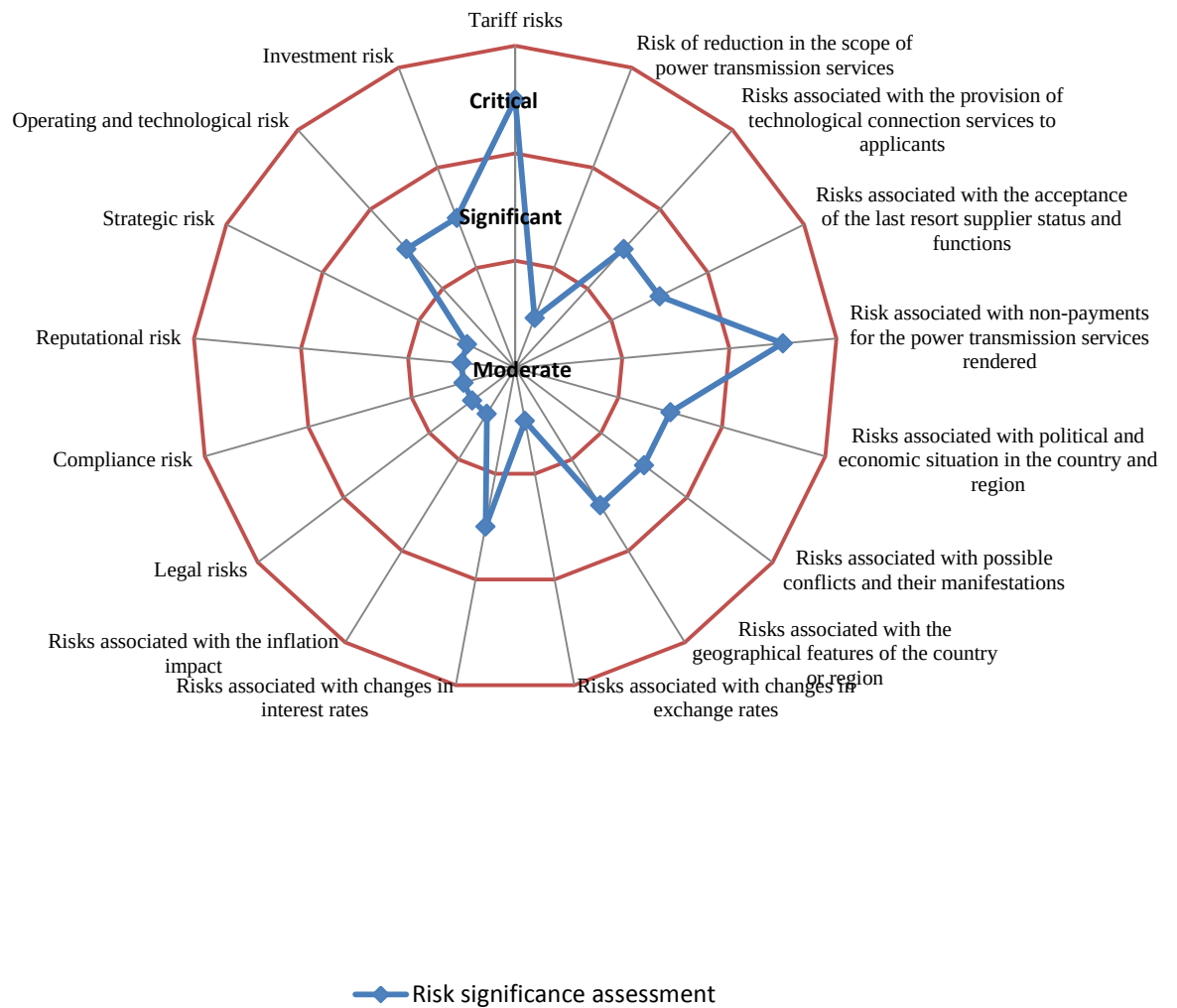


Figure. Assessment of risk significance

3. Management Report

Analysis of the Financial Standing and the Financial and Economic Performance

Revenue from sale of products (services) as of the end of 2017 amounted to 16,134.9 million rubles, which is by 433.7 million rubles, or 2.8 %, higher than the level of 2016, including revenue from power transmission service - 13,559 million rubles, which is by 300.2 million rubles, or 2.3 %, higher than the level of 2016.

Increase in revenue is caused by the increase in productive supply and growth of the average tariff for transmission services.

The cost price (including selling and administrative expenses) amounted to 15,170.1 million rubles, which is by 209 million rubles, or 1.4 %, higher than the level of 2016. The main factor in the increase in cost is the increase in the cost of services of FGC UES PJSC.

As a result of 2017, the balance of other income and expenses amounted to (-3,755.9) million rubles, which is by 1,691.8 million rubles, or 82 %, lower than the fact of 2016 due to the growth of the doubtful debt reserve on a net basis by 1,220.6 million rubles.

Based on the results of activities of 2017, IDGC of Northern Caucasus PJSC had a net loss in the amount of 2,386.1 million rubles, which is by 1,152 million rubles, or 93.3 %, higher than the level of 2016.

Basic financial indicators (according to the Russian Accounting Standards)

Item No.	Indicator	2017	2016	2015
		mln RUB		
1	Proceeds	16,134.9	15,701.2	14,548.6
1.1.	From power transmission	13,559.0	13,258.8	13,565.7
1.2.	From technological connection	98.7	127.7	142.4
1.3.	From power sale	1,668.1	1,490.2	53.2
1.4.	From other activities	809.2	824.6	787.3
2	Prime cost of products (services)	14,576.5	14,289.8	13,405.2
3	Gross profit	1,558.4	1,411.4	1,143.4
4	Administrative expenses	82.9	203.2	144.6
5	Selling expenses	510.7	468.0	26.4
6	Profit (loss) from sales	964.9	740.2	972.4
7	Interest receivable	103.7	136.6	137.7
8	Interest payable	986.0	873.2	650.9
9	Income gained from participation in other organizations	0.0	0.0	0.6
10	Other income, total	2,861.9	2,024.7	2,278.4

Item No.	Indicator	2017	2016	2015
		mln RUB		
11	Other expenses, total	5,735.4	3,352.2	5,835.6
12	Profit (loss) before taxation	-2,791.0	-1,323.8	-3,097.4
13	Profit tax and other payments	-404.9	-89.7	-79.0
14	Net profit	-2,386.1	-1,234.2	-3,018.4
15	EBITDA	172.0	1,611.0	-437.2

Analysis of change to accounts receivable*, mln RUB

Indicator	as of December 31, 2017	as of December 31, 2016	as of December 31, 2015
Accounts receivable, including:	6,217	4,491	2,615
Buyers and customers	4,584	3,919	2,296
for power transmission	3,503	2,663	2,048
Bills receivable	-	-	-
Advances paid	16	14	15
Other receivables	1,617	558	304

*Indicators are provided in accordance with the accounting statements of the Company for the reporting period.

The total amount of accounts receivable of IDGC of Northern Caucasus PJSC at the end of the reporting period was 6,217 million rubles. During the reporting period, accounts receivable increased by 1,726 million rubles, or 27.8 %.

The growth of accounts receivable is caused by a low level of payment by:

- clients and customers for power transmission and sale services (97.9 % and 62.2 %, respectively);
- other debtors under claim assignment agreements (50.1 %).

During the reporting period, the irrecoverable accounts receivable in the amount of 30 million rubles were written off.

Share of accounts receivable of the Company for settlements for power transmission services rendered was 56.35 %.

As a result of the claims work carried out by the Company to recover overdue accounts receivable for power transmission services rendered in 2017, the positive court decisions were obtained on 228 court cases for a total amount of claims of 1,523.1 million rubles. At the same time, claims for the principal debt were satisfied for the amount of 1,295.7 million rubles and dismissed for the amount of 0.226 million rubles, the share of satisfied claims is 99.98 % (the same indicator of 2016 – 100 %).

During the same period in 2016, the positive court decisions were obtained on 150 court cases for a total amount of claims of 1,970.4 million rubles, claims for penalties amounting to 6.5 million rubles (22 cases) were dismissed.

Based on the results of obtained court decisions in 2017, execution writs were issued for the amount of 579.78 million rubles, where 256.52 million rubles or 44.2 % were repaid. For the same period in 2016, execution writs were issued for the amount of 991.7 million rubles, where 330.87 million rubles, or 33.4 % were repaid.

The coverage of overdue debt with measures aimed at its reduction is at a stable high level and as of December 31, 2017 is 97 %.

Analysis of changes in accounts payable*, mln RUB

Indicator	as of December 31, 2017	as of December 31, 2016	as of December 31, 2015
Accounts payable, including:	7,174	6,917	6,593
Suppliers and contractors	5,354	5,401	4,623
Bills payable	0	0	0
Advances received	166	199	304
Taxes and duties	414	439	892
Other payables	1,240	878	774

*Indicators are provided in accordance with the accounting statements of the Company for the reporting period.

Accounts payable as of December 31, 2017 amounted to 7,174 million rubles. As compared to the beginning of the year, accounts payable increased by 257 million rubles, or by 3.7 %.

The following changes were observed:

- payables under “Suppliers and Contractors” item were lower by 47 million rubles in connection with the reduction in debt to power supply companies for the compensation of losses by 268 million rubles, for repair companies by 16 million rubles, for raw materials and materials by 114 million rubles, the increase in debt for purchase of power and capacity in the wholesale market by 353 million rubles,
- payables on advances received amounted to 166 million rubles, which is by 33 million rubles (16.6 %) lower than the level of 2016. This reduction is caused by the reduction in advances for technological connection.

Payables on taxes and duties in 2017 was lower than in 2016 by 25 million rubles, other payables - higher by 362 million rubles.

Overdue accounts payable of IDGC of Northern Caucasus PJSC based on the results of 2017 amounted to 2,193 million rubles.

Status of net assets, mln RUB

Indicator	as of the end of 2015	as of the end of 2016	as of the end of 2017
Net assets	15,288	15,696	15,761
Authorized capital (in accordance with the Company's Charter)	155	155	155

Net assets of IDGC of Northern Caucasus PJSC during the last three years exceed the authorized capital of the Company. Increase in net assets in 2017 as compared to 2016 is caused by the decrease in short-term liabilities as of the end of the reporting year.

Operating Performance Improvement and Expenses Reduction Program

For improving the quality of services provided, the Company is implementing the Operating Performance Improvement and Expenses Reduction Program. The Operating Performance Improvement and Expenses Reduction Program of IDGC of Northern Caucasus PJSC was approved by the Company's Board of Directors on June 30, 2017. (Minutes No. 305 dated July 3, 2017).

A set of measures to manage the efficiency of activities was implemented:

- efficiency of the procurement and supply chains management system has been improved in accordance with the requirements of the current law of the Russian Federation;
- organizational and functional structure has been improved, the administrative and managerial functions are centralized on the basis of the executive office of the Company;
- targeted and cost-effective expenditure of funds for acquisition of goods, works, services and implementation of measures aimed at reducing customer costs is ensured.

Performance indicators of the Program take into account the benchmarks established by the Power Grid Complex Development Strategy of the Russian Federation (approved by Decree of the Government of the Russian Federation No. 511-r dated April 3, 2013) and Directive of the Government of the Russian Federation No. 2303p-P13 dated April 16, 2015.

Decrease in controlled operating expenses in 2017 as compared to 2012, for implementing the Power Grid Complex Development Strategy of the Russian Federation approved by Decree of the Government of the Russian Federation No. 511-r dated April 3, 2013, amounted to 972.4 million rubles, or 22.09 %.

Reduction in the operating expenses per unit in 2017 as compared to 2016 for the purpose of implementing the Directive of the Government of the Russian Federation dated April 16, 2015 No. 2303p-P13 amounted to 264.0 million rubles, or 3.13 %.

Distribution of Net Profit and Dividend Policy

Dividend Policy

The Company's dividend policy is aimed at increasing the Company's investment attractiveness and increasing its market capitalization. The policy is based on the balance of interests of the Company and its shareholders.

The Company's dividend policy is determined by the Regulation on the Dividend Policy approved by the decision of the Board of Directors of the Company on February 5, 2018 (Minutes No. 330 dated February 6, 2018). The text of the Regulation is published on the website of the Company in the section "For Shareholders and Investors/Charter and Bylaws/Dividend Policy Documents".

Basic principles of the dividend policy of the Company:

- compliance of the practice of accrual and payment of dividends in the Company with the law of the Russian Federation and corporate governance standards (Decree of the Government of the Russian Federation No. 1094-r dated May 29, 2017);
- optimal combination of interests of the Company and shareholders;

- determination of the amount of dividends as at least 50% of the net profit determined according to the financial statements, including consolidated financial statements, prepared in accordance with the International Financial Reporting Standards and calculated in the manner established by the Regulation;
- ensuring of the possibility of dividend payments on a quarterly basis, if the relevant criteria are met;
- ensuring of the maximum transparency (clarity) of the mechanism for determining the amount of dividends and the procedure for their payment;
- ensuring of the positive dynamics of the amount of dividend payments subject to the growth of the Company's net profit;
- availability of information for shareholders and other stakeholders on the dividend policy of the Company;
- need to maintain the required level of financial and technical condition of the Company (implementation of the investment program), ensuring of the Company's development prospects.

Distribution of profit for 2014–2016, mln RUB*

	for 2014 (AGMS 2015)	for 2015 (AGMS 2016)	for 2016 (AGMS 2017)
Retained profit (loss) in the reporting period, including:	-1,637.180	-3,018.404	-1,234.179
Reserve fund			
Profit for development	-	-	-
Dividends	-	-	-
Coverage of losses from previous years			
For reference: Retained profit with due regard for retrospective reflection of changes in the accounting policy of the Company			

*Information on profit distribution in accordance with decisions of the Annual General Meetings of Shareholders (AGMS)

AGMS 2015 (for 2014) – Minutes of AGMS dated June 16, 2015 No. 15

AGMS 2016 (for 2015) – Minutes of AGMS dated June 22, 2016 No. 16

AGMS 2017 (for 2016) – Minutes of AGMS dated June 19, 2017 No. 18

Report on paid dividends for 2012 and 2013

Date of making decision on dividend payment (AGMS date)	Reporting period, for which dividends were calculated and paid	Dividends calculated		Share of declared dividends in the net profit for the reporting year, %	Dividends paid as of December 31, 2017, mln RUB	Share of dividends paid, %
		total, mln RUB	per 1 share, RUB			
June 19, 2013	2012	160.3	2.8586	25	158.2	98.7
June 24, 2014	2013	134.4	0.8695	25	133.7	99.5

In the period from 2014 to 2016, AGMS of IDGC of Northern Caucasus PJSC made no decisions on the payment of dividends in connection with the Company operating at a loss.

The decision on distribution of the Company's net profit (loss) based on the results of 2017 will be made at the Annual General Meeting of Shareholders taking into account the recommendations of the Board of Directors of the Company.

Declared dividends for shares for the specified periods were not paid in full due to the absence of the relevant data (details) for dividend payment in the register of shareholder. In connection with the expiry of the dividend payment period for 2012, the amount of unclaimed dividends for 2012 in the amount of 2,162,497.22 rubles in 2016 was recovered by the Company on the account "Retained profit". In connection with the expiry of the dividend payment period for 2013, the amount of unclaimed dividends for 2013 in the amount of 684,639.24 rubles in 2017 was recovered by the Company on the account "Retained profit".

Loans Raised upon Bonds (Exchange-Traded Bonds)

In accordance with the Listing Rules of MICEX Stock Exchange CJSC, by Order of General Director of MICEX Stock Exchange CJSC No.995-p dated August 14, 2015, a decision was made to assign the identification number to the Exchange-Traded Bonds Program of Public Joint Stock Company Interregional Distribution Grid Company of Northern Caucasus in connection with the receipt of the relevant application.

Assigned identification number 4-34747-E-001P-02E dated August 14, 2015.

Basic Information on the Exchange-Traded Bonds Program

Identification characteristics of the Exchange-Traded Bonds Program	Program of non-convertible interest-bearing certificated exchange-traded bonds subject to mandatory deposit
Maximum amount of the nominal value of exchange-traded bonds, which may be placed within the Exchange-Traded Bonds Program	The total nominal value of all issues of exchange-traded bonds placed under open subscription within the Exchange-Traded Bonds Program is not more than 6,000,000,000 RUB, inclusive.
Maximum repayment term for exchange-traded bonds placed within the Exchange-Traded Bonds Program:	With the repayment term not later than in 3,640 days of the placement of exchange-traded bonds of a separate issue placed within the Exchange-Traded Bonds Program
Term of the Exchange-Traded Bonds Program	Open-ended

By Order of General Director of IDGC of Northern Caucasus PJSC dated April 20, 2016 No. 230, within the Exchange-Traded Bonds Program (identification number 4-34747-E-001P-02E dated August 14, 2015), the conditions of issue of exchange-traded bonds were approved - non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit, series BO-001P-01 in the number of 1,350,000 pieces, with a nominal value of 1,000 rubles each, with a total nominal value of 1,350,000,000 rubles with the repayment term in 1,820 days from the date of commencement of exchange-traded bonds placement under open subscription.

On April 22, 2016, by Order of the General Director of MICEX Stock Exchange CJSC No. 498-r, the issue of exchange-traded bonds of IDGC of Northern Caucasus PJSC of series BO-001P-01 placed within the Exchange-Traded Bonds Program was included into the “Third Level” section of the official listing of MICEX Stock Exchange CJSC with the assignment of the identification number 4B02-01-34747-E-001P dated April 22, 2016.

During placement of exchange-traded bonds of IDGC of Northern Caucasus PJSC of series BO-001P-01, which took place on April 28, 2016, IDGC of Northern Caucasus PJSC received funds in the amount of 1,350,000,000.00 RUB.

On April 27, 2017, the second coupon yield on bonds was paid in the total amount of 87,507,000.00 rubles.

On October 26, 2017, the third coupon yield on bonds was paid in the total amount of 87,507,000.00 rubles.

On October 30, 2017, the accrued coupon yield on bonds for the period from October 27 to October 30, 2017 was paid in the total amount of 1,917,000.00 rubles.

Obligations for the payment of coupon yield on issues of circulating bonds during 2017 were fulfilled in full and in a timely manner.

The authorized management body of the issuer - General Director of IDGC of Northern Caucasus PJSC on October 26, 2017 (Order No. 725 dated October 26, 2017) made a decision on early repayment of purchased exchange-traded bonds in accordance with Clause 10 of the Conditions of Issue and the Exchange Bond Program.

On October 30, 2017, exchange-traded bonds (identification number 4B02-01-34747-E-001R dated April 22, 2016) were repaid in full.

As of December 31, 2017, the Company does not have any outstanding obligations to issue exchange-traded bonds, identification number 4B02-01-34747-E-001P dated April 22, 2016.

Information on Issues with All Securities Repaid

Kind, series (type), form and other identification characteristics of securities	Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit, Series BO-001P-01, ISINRU000A0JWF06, bearer certified
The state registration number of the securities issue and the date of its state registration (identification number of the issue and the date of its assignment in case the issue of securities was not subject to state registration)	Identification number 4B02-01-34747-E-001R dated April 22, 2016
The registration authority carrying out the state registration of the securities issue (the organization that assigned the identification number to the securities issue, in case the securities issue was not subject to state registration)	MICEX Stock Exchange CJSC

Quantity of securities in the issue	1,350,000
Amount of the securities issue at a nominal value or note that, in accordance with the law of the Russian Federation, a nominal value for this type of securities is not provided for	1,350,000,000.00 RUB
Repayment term (date) for the securities issue	October 30, 2017
Ground for repayment of the securities in the issue (fulfillment of obligations under securities, conversion in connection with the placement of securities of another issue, recognition of the issue of securities as null and void, otherwise)	Decision of the issuer's authorized management body - General Director of IDGC of Northern Caucasus PJSC on October 26, 2017 (Order No. 725 dated October 26, 2017) on early repayment of purchased exchange-traded bonds in accordance with Clause 10 of the Conditions of Issue and the Exchange Bond Program. Date of early redemption of bonds - October 30, 2017

In accordance with the Listing Rules of MICEX Stock Exchange CJSC, the General Director of MICEX Stock Exchange CJSC on September 23, 2016 made a decision to assign the identification number to the Exchange-Traded Bonds Program of series 002P of Public Joint Stock Company Interregional Distribution Grid Company of Northern Caucasus in connection with the receipt of the relevant application.

The assigned identification number 4-34747-E-002P-02E dated September 23, 2016

Basic Information on the Exchange-Traded Bonds Program

Identification characteristics of exchange-traded bonds that may be placed within the Exchange-Traded Bonds Program	Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit placed under open subscription
Maximum amount of the nominal value of exchange-traded bonds, which may be placed within the Exchange-Traded Bonds Program	Up to 25,000,000,000 RUB, inclusive
Maximum repayment term for exchange-traded bonds placed within the Exchange-Traded Bonds Program:	Not later than in 10,920 days of the commencement of exchange-traded bonds placement within the Exchange-Traded Bonds Program
Term of the Exchange-Traded Bonds Program	Open-ended

In this case, as of December 31, 2017, the exchange-traded bonds of IDGC of Northern Caucasus PJSC within 002P Program (identification number 4-34747-E-002P-02E) were not placed.

Asset Management

Subsidiaries

JSC Dagestan Grid Company (until April 3, 2015 - OJSC Energoservis) was founded in 2011 on the basis of the decision of the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes No.68 dated December 24, 2010). Energoservis OJSC was called upon to increase the power efficiency of IDGC of Northern Caucasus OJSC and other grid companies in the North Caucasus Federal District. In June 2015, an agreement was signed between the Republic of Dagestan and IDGC of Northern Caucasus PJSC on cooperation in the implementation of the project on establishment of joint venture company Dagestan Grid Company, and a Roadmap was signed for establishment of the joint power grid company and consolidation of the power grid complex of the Republic of Dagestan (Roadmap). Dagestan Grid Company JSC emerged as a result of renaming of Energoservis (OJSC 100% subsidiary of IDGC of Northern Caucasus OJSC), to which the new name, new location and new codes of OKVED (including 40.10.2 "Power Transmission") were assigned. Within the framework of the Roadmap, the power grid assets of IDGC of Northern Caucasus PJSC, located in the territory of the Republic of Dagestan, was leased to JSC Dagestan Grid Company from July 1, 2015. In addition, the Roadmap provides for the participation of the Republic of Dagestan in the additional issue of shares in Dagestan Grid Company JSC.

Dagenergoset OJSC was established on January 27, 2010. From April 1, 2010, the power grid assets of the branch of IDGC of Northern Caucasus PJSC - Dagenergo was leased to Dagenergoset OJSC. The creation of a subsidiary company of IDGC of Northern Caucasus PJSC was an initiative of the Company's management dictated by the desire to bring the power industry of the North Caucasus out of its financial crisis, and to provide dividend income to shareholders. The implemented measures made it possible to isolate the problem area of the power grid complex for its targeted novation and eliminate the negative impact of the negative results of Dagenergo activities on the Company's overall reporting indicators. As a result, after two years the Company was able to pay dividends to shareholders for the first time. Dagenergoset OJSC carried out activity on power transmission in the territory of the Republic of Dagestan from 2010 to 2015.

Subsidiaries of IDGC of Northern Caucasus PJSC

Item No.	Company name	Region of activity	Core activity	Share of participation of IDGC of Northern Caucasus PJSC in the authorized capital, %	Revenue for 2017, thousand rubles	Financial result for 2017, thousand rubles
1.	Joint Stock Company Dagestan Grid Company (Dagestan Grid Company JSC)	Republic of Dagestan	OKVED 35.12 "Power Transmission and Technological Connection to Distribution Grids"	100	2,925,930	-4,155,602
2.	Joint Stock Company "Dagenergoset" (Dagenergoset OJSC)	Republic of Dagestan	OKVED 35.12 "Power Transmission and Technological Connection Distribution Grids", this type of production activity is not carried out	100	No data available	No data available

Sale of Non-Core Assets

Pursuant to Decree of the President of the Russian Federation dated May 7, 2012, No. 596 "On Long-Term State Policy", Directives of the Government of the Russian Federation No. 4863p-P13 dated July 7, 2016 and Order of the Government of the Russian Federation No. 894-r dated May 10, 2017, by the decision of the Board of Directors of IDGC of Northern Caucasus PJSC dated December 26, 2016 (Minutes No. 274 dated December 29, 2016), the Program for Disposition of Non-Core Assets of IDGC of Northern Caucasus PJSC (the Program) was approved (approved in a new version by the decision of the Board of Directors dated February 26, 2018, Minutes No. 335 dated February 27, 2018).

The Program determines the basic approaches, principles and mechanism for identifying and selling non-core assets of IDGC of Northern Caucasus PJSC, establishes the criteria for assigning the assets of IDGC of Northern Caucasus PJSC to non-core assets, the procedure for maintaining the register of non-core assets and the basic provisions for disposal of non-core assets, the procedure for submission of reports on the progress of implementation of the register of non-core assets.

By the decision of the Board of Directors of IDGC of Northern Caucasus PJSC dated December 26, 2016 (Minutes No. 274 dated December 29, 2016), the register (plan for sale) of non-core assets of IDGC of Northern Caucasus PJSC as of November 30, 2016 prepared in accordance with the requirements of the Program was approved. The actual register of non-core assets of IDGC of Northern Caucasus PJSC as of December 31, 2017 was approved by the decision of the Board of Directors of IDGC of Northern Caucasus PJSC on February 26, 2018 (Minutes No. 335 dated February 27, 2018).

Information on the sale of non-core assets of IDGC of Northern Caucasus PJSC for 2017 is set forth in Appendix 8 to the Russian version of the Annual Report.

Tariff Policy

Tariffs for Power Transmission Services

Core activities of IDGC of Northern Caucasus PJSC (power transmission by distribution grids with voltage from 110 kV to 0.4 kV, technological connection of consumers to the grid infrastructure) refer to regulated activities.

Regulation is carried out in accordance with:

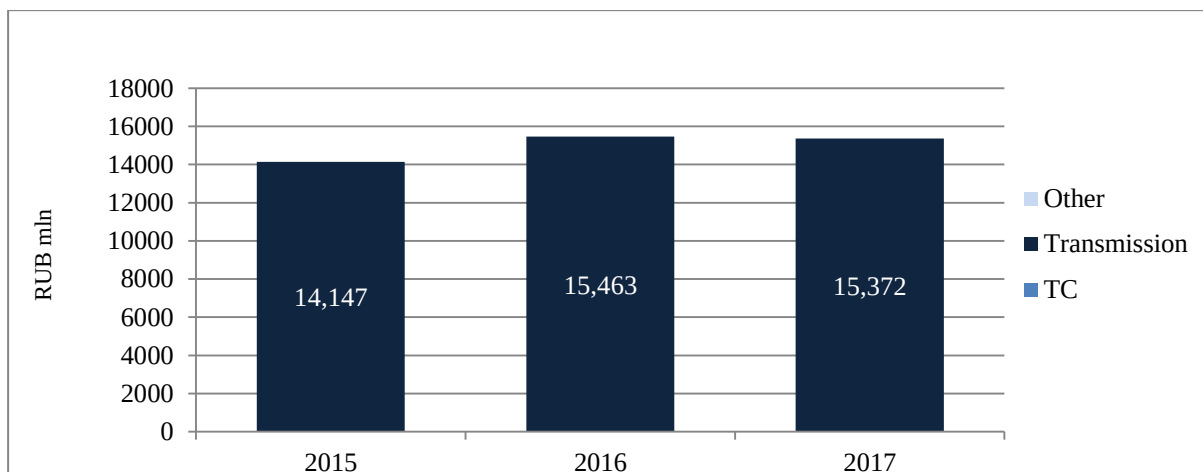
- Federal Law No. 35-FZ dated March 26, 2003 "On the Power Industry";
- Rules of Non-Discriminatory Access to Power Transmission Services and Provision of These Services (approved by Decree of the Government No. 861 dated December 27, 2004);
- Decree of the Government of the Russian Federation No. 1178 dated December 29, 2011 "On Pricing in the Field of Regulated Prices (Tariffs) in the Power Industry";
- Decree of the Government of the Russian Federation dated May 4, 2012 No. 442 "On the Operation of Retail Power Markets, Full and/or Partial Limitation of the Power Consumption Mode";
- Order of the Federal Tariff Service No. 20-e/2 dated August 6, 2004 "On the Approval of Methodological Guidelines for Calculation of Regulated Tariffs and Prices for Electricity and Heat in the Retail (Consumer) Market";

- Order of the Federal Tariff Service No. 98-e dated February 17, 2012 "On the Approval of Methodological Guidelines for Calculation of Tariffs for Power Transmission Services Established Using the Method of Long-Term Indexation of the Required Gross Proceeds";
- Order of the Federal Tariff Service No. 228-e dated March 30, 2012 "On the Approval of Methodological Guidelines for Tariff Regulation Using the Return on Investment Method";
- Order of the Federal Antimonopoly Service of August 29, 2017 No. 1135/17 "On the Approval of Methodological Guidelines for Determination of the Amount of Fee for Technological Connection to the Power Grids";
- Decree of the Government of the Russian Federation No. 24 dated January 21, 2004 "On the Approval of Information Disclosure Standards by Wholesale and Retail Power Market Entities";
- Order of the Federal Tariff Service No. 215-e/1 dated September 11, 2014 "On the Approval of Methodological Guidelines for Determination of the Shortfall in Income Related to Technological Connection to Power Grids";
- Order of the Federal Tariff Service No. 1442-e dated September 16, 2014 "On the Approval of Methodological Guidelines for Calculation of Tariffs for Power (Capacity) for the Population and Equivalent Categories of Consumers, Tariffs for Power Transmission Services to the Population and Equivalent Categories of Consumers";
- Order of the Ministry of Energy of the Russian Federation No. 1256 dated November 29, 2016 "On the Approval of Methodological Guidelines for Calculation of the Level of Reliability and Quality of Supplied Goods and Provided Services for the Company Related to Management of the Unified National (All-Russian) Power Grid and Territorial Grid Companies";
- Order of the Federal Tariff Service No. 421-e dated March 18, 2015, "On the Approval of the Methodological Guidelines for Determination of the Basic Level of Controlled Operating Expenses of Territorial Grid Companies Required for the Implementation of Regulated Activities and the Efficiency Index of Controlled Operating Expenses Using the Comparative Method".

Since 2011, the activities of branches of IDGC of Northern Caucasus PJSC (Kabbalkenergo, Karachaevo-Cherkesskenenergo, Sevkavkazenergo, Stavropolenergo), have been regulated using the return on invested capital method (RAB). The first long-term period: 2011 -2017

Since 2014, the activities of the branch of IDGC of Northern Caucasus PJSC - Ingushenergo have been regulated using the method of long-term indexation of the required gross proceeds for 2014–2016.

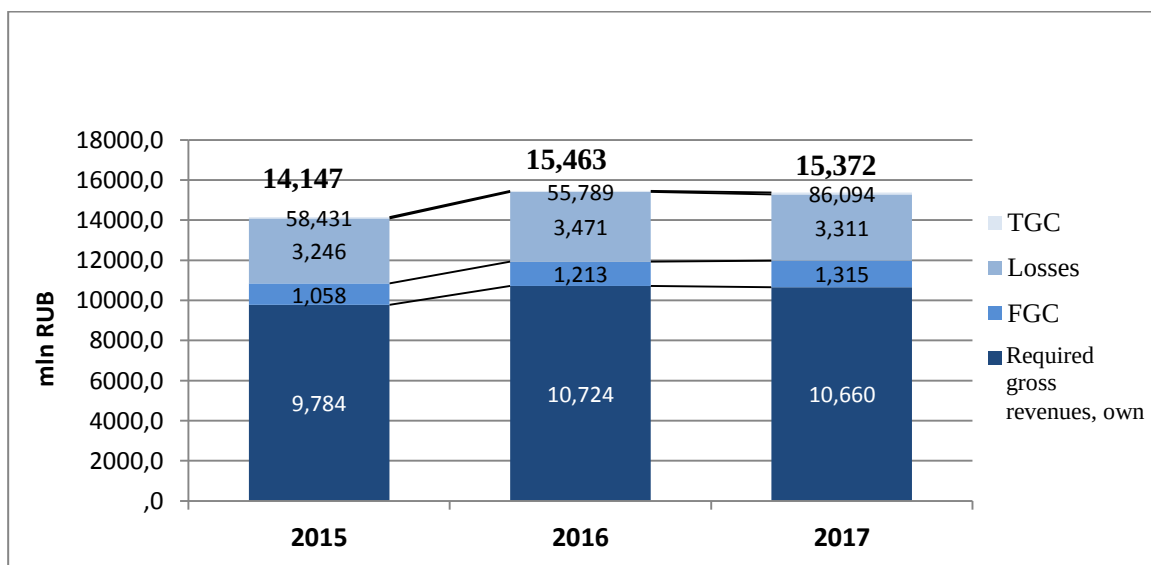
Dynamics of revenues of IDGC of Northern Caucasus PJSC for 2015-2017



2017 – reporting year

Due to the termination of lease agreements with Stavropolenergoinvest JSC and Essentukskaya Grid Company JSC with Stavropolenergo branch, the reduction in the required gross proceeds for power transmission by IDGC of Northern Caucasus PJSC in 2017 was -0.6 %.

Dynamics of the structure of the required gross proceeds for power transmission of IDGC of Northern Caucasus PJSC



2017 – reporting year

Due to the termination of lease agreements with Stavropolenergoinvest JSC and Essentukskaya Grid Company JSC with Stavropolenergo branch, the reduction in the required gross proceeds for power transmission services of IDGC of Northern Caucasus PJSC in 2017 amounted to 0.6 %, RGP for its own maintenance is 0.6 %, the amount of losses is 4.6 %. Growth in the cost of FGC services amounted to 8.5 %.

Dynamics of the required gross proceeds for power transmission services broken down by branches, mln RUB

Branch	2015		2016		2017	
	total	own	total	own	total	own
Kabbalkenergo	1,905	1,454	2,166	1,634	2,247	1,642
Karachayevo-Cherkesskenenergo	1,517	1,167	1,569	1,168	1,569	1,145
Sevkavkazenergo	2,371	1,787	2,463	1,874	2,603	1,957
Stavropolenergo	7,481	4,781	8,140	5,230	7,750	5,102
Ingushenergo	871	595	1,124	817	1,203	815
Total for IDGC of Northern Caucasus PJSC	14,147	9,784	15,463	10,724	15,372	10,660

Growth of the required gross proceeds for power transmission services by branches in 2017 was from 0% to 7 %, except for Stavropolenergo branch, where the reduction in the required gross proceeds for power transmission services in 2017 was 4.8 %.

Analysis of changes in the average tariff for power transmission services broken down by branches, rub./kWh

Branch	2015	2016	2017
Kabbalkenergo	1.55	1.70	1.72
Karachayevo-Cherkesskenenergo	1.49	1.56	1.61
Sevkavkazenergo	1.83	1.90	1.99
Stavropolenergo	1.25	1.34	1.23
Ingushenergo	1.71	2.05	2.16
Total for IDGC of Northern Caucasus PJSC	1.41	1.51	1.47
Growth, %	112.6 %	107.1 %	0.97 %

2017 – reporting year

Growth of the average tariff for power transmission services of IDGC of Northern Caucasus PJSC in 2017 amounted to 2.7 %.

Technological Connection Fee

Basic provisions on calculation of the fee for technological connection of power devices of power consumers, facilities for power generation to the grid infrastructure of the branches of IDGC of Northern Caucasus PJSC in 2017 were determined in accordance with the Methodological Guidelines for Determination of the Amount of Fee for Technological Connection to the Power Grids, approved by Order of the Federal Tariff Service dated September 11, 2012 No.209-e/1 “On the Approval of the Methodological Guidelines for Determination of the Amount of Fee for Technological Connection to the Power Grids”.

Executive authorities of constituent entities of the Russian Federation in the field of state regulation of tariffs for the calculation of fee for technological connection to territorial distribution grids approve the following:

- 1) for the regulation period:
 - standardized tariff rates;
 - rates per unit of maximum power;
 - formula for calculation of the fee for technological connection;
- 2) for the application of a grid company, a fee for technological connection to territorial distribution power grids of power receivers of individual consumers with a maximum capacity at least 8,900 kW at a voltage level at least 35 kV and power generation facilities, as well as for connection according to an individual project.

A person who intends to perform technological connection to power grids shall have the right to select the type of payment rate for technological connection. Selection of the payment rate is carried out by the applicant at the stage of fulfillment of the technological connection contract.

If the applicant does not select the type of the rate, the grid company shall have the right to select the rate at its own discretion and to calculate the amount of fee for technological connection.

In regions of presence of the branches of IDGC of Northern Caucasus PJSC, executive authorities in the field of state regulation of tariffs in 2017 established the rates per unit of power, standardized tariff rates to cover the costs of the grid company, formulas for calculation of the fee for technological connection:

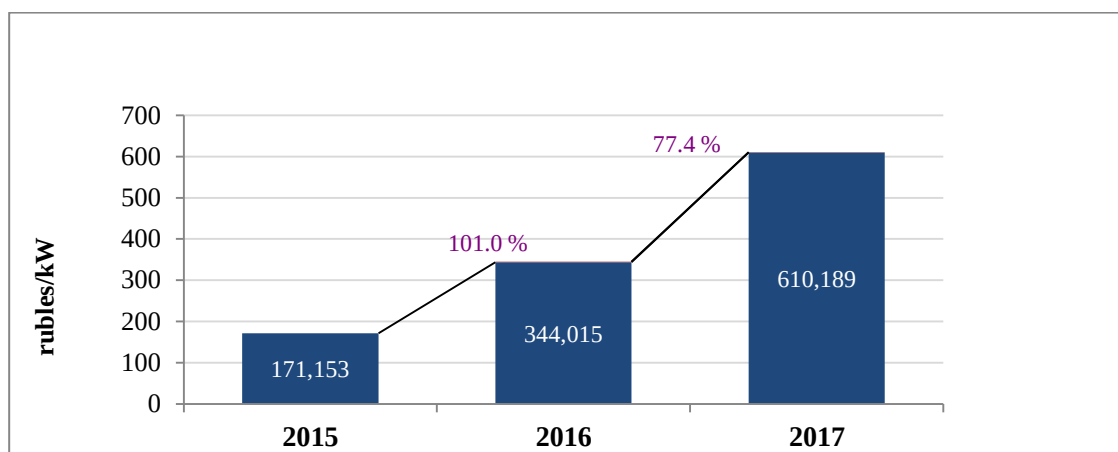
- by Order of the State Committee for Power Industry, Tariffs and Housing Supervision of the Kabardino-Balkarian Republic dated December 27, 2016 No.66 "On the Approval of Standardized Tariff Rates, Rates per Unit of Maximum Power, Formulas for Calculation of the Fee for Technological Connection and Establishment of the Fee for Technological Connection to Distribution Power Grids of Grid Companies within the Territory of the Kabardino-Balkarian Republic for 2017";
- by Decree of the General Directorate for Tariffs and Prices of the Karachay-Cherkess Republic dated December 30, 2016, No. 175 "On the Establishment of the Fee for Technological Connection of Power Receivers of Applicants to Power Grids of Territorial Grid Companies of the Karachaevo-Cherkess Republic";
- by Decree of the Regional Tariff Service of the Republic of North Ossetia-Alania dated December 26, 2016, No. 55 "On the Establishment of the Amount of Fee for Technological Connection of Power Receivers of Power Consumers to Power Grid Facilities of Territorial Grid Companies of the Republic of North Ossetia-Alania for 2017";
- by Decree of the Regional Power Commission of the Republic of Ingushetia dated December 26, 2016 No. 15 "On the Establishment of the Fee and Formulas for Calculation of the Fee for Technological Connection to Power Grids of Territorial Grid Companies of the Republic of Ingushetia for 2017".
- by Decree of the Regional Tariff Commission of the Stavropol Territory on December 16, 2016 No. 48/7 "On the Establishment of Standardized Tariff Rates, Rates per Unit of Maximum Capacity and Formulas for Calculation of the Fee for Technological Connection of Power Receivers of Power

Consumers to Power Grid Facilities of Territorial Grid Companies of the Stavropol Territory for 2017".

According to Order of the Federal Tariff Service dated September 11, 2012 No.209-e/1 "On the Approval of the Methodological Guidelines for Determination of the Amount of Fee for Technological Connection to the Power Grids", the standardized tariff rates S2, S3, S4 are established by the regulatory bodies in prices of 2001.

The chart displays the dynamics of changes in the average fees per unit of capacity in total in the Company in the power range from 15 kW to 670 kW.

Dynamics of the Average Amount of Fee for TC



2017 – reporting year

4. Production Report

Power Transmission and Distribution

Results of Production Activities for 2017

Branch name	Power supply to the grid, mln kW*h	Power supply from the grid to consumers and adjacent TGCs within the limits of the balance and operating responsibility, mln kW*h	Power losses	
			mln kW*h	%
Kabbalkenergo branch	1,540	1,314	227	14.71
Karachayevo-Cherkesskenenergo branch	1,200	1,011	188	15.69
Sevkavkazenergo branch	1,547	1,230	317	20.47
Stavropolenergo branch	7,262	6,506	756	10.41
Ingushenergo branch	734	505	229	31.25
Total	12,283	10,566	1,717	13.98

Based on the results of IDGC of Northern Caucasus PJSC for 2017, the volume of power supply from the grid to consumers and adjacent TGCs within the limits of the balance and operating responsibility amounted to 10,566 million kWh, which in comparison with the indicators of 2016 (under comparable conditions of 2017, without taking into account the indicators of grids in Stavropol and Yessentuki) is higher by 113 million kWh, or 1.08 %.

Actual power losses in 2016–2017

Branch name	Power losses						
	Actual 2016			Actual 2017		Change	
	mln kW*h	%	% under comparable conditions*	mln kW*h	%	mln kW*h	percentage points
1	2	3	4	5	6	$7 = 5 * 8 / 100 \%$	$8 = 6 - 4$
Stavropolenergo branch	766	13.60 %	10.61 %	756	10.41 %	-15	-0.20
Sevkavkazenergo branch	335	21.18 %		317	20.47 %	-11	-0.71
Karachayevo-Cherkesskenenergo branch	186	15.80 %		188	15.69 %	-1	-0.11

Kabbalkenergo branch	236	15.50 %		227	14.71 %	-12	-0.78
Ingushenergo branch	235	32.83 %		229	31.25 %	-12	-1.57
Total	1,973	16.16 %	14.39 %	1 717	13.98 %	-51	-0.41

** Indicators of Stavropolenergo branch for 2016 are given under comparable conditions of 2017 in connection with the termination of the lease agreement for grids in Stavropol and Yessentuki from January 1, 2017.*

Actual power losses in grids of IDGC of Northern Caucasus PJSC were 1,717 mln kW*h or 13.98 % of the grid supply. As compared to the same period of 2016, the reduction in power losses in absolute terms was 51 mln kW*h, and reduction in relative terms was 0.41 percentage points.

Plans/forecasts of future development

By 2023, it is planned to reduce power losses in branches of IDGC of Northern Caucasus PJSC to the level of 12.05 %.

Technological Connection

Information on participation in the implementation of the target model for technological connection by the constituent entities of the Russian Federation

The target model "Technological Connection to Power Grids" was approved by Decree of the Government of the Russian Federation No. 147-r dated January 31, 2017. It includes the implementation of 19 measures, 11 of which were implemented with the assistance of IDGC of Northern Caucasus PJSC (Rosseti PJSC) in all regions of presence:

1. Availability of a unified regional Internet portal with comprehensive information in a readily understandable format on the procedure for technological connection and other information subject to mandatory disclosure, regarding technological connection, with the possibility of feedback (consultations) on the issues of technological connection, selection of a grid company by the applicant and submission of an application for technological connection - the portal Portal-TP.rf (Портал-ТП.рф) was created (as a unified regional portal);
2. Regular communication of information to the widest possible range of stakeholders - in 2017, 39 meetings were held with the current and potential applicants, 54 press releases were published and posted on the Company's website, 9 printed publications, 10 television and 9 radio broadcasts were made.
3. Availability on the official websites of grid companies of a "personal account" allowing to apply for technological connection, receive and sign a technological connection contract using an electronic signature - on the official website of the Company there is a link to Portal-TP.rf.
4. Availability on the official websites of grid companies of a "personal account" allowing to monitor the conclusion and fulfillment of technological connection contracts and receive feedback from the applicants - on the official website of the Company there is a link to Portal-TP.rf.
5. Availability of a calculator on the websites of grid companies - on the website of the Company there is a link to a calculator of the cost of technological connection on Portal-TP.rf.

6. Availability of a calculator on the unified regional Internet portal - the portal Portal-TP.rf was created (as a unified regional portal).

7. Conclusion by a grid company of framework agreements for performance of works (provision of services) for the construction (reconstruction) of power grids for the planned volumes of technological connection - in 2017, 4 frame agreements were concluded for the construction/reconstruction of 0.4-20 kV high-voltage power transmission line for a total amount of 17,992,350 rubles, VAT inclusive, 15 framework agreements were concluded for the supply of materials and equipment for a total amount of 42,245,520 rubles, VAT inclusive.

8. Preparation and issue to applicants with a maximum capacity of power receivers up to 150 kW of the technological connection completion certificate and other documents related to technological connection shall be made at the stage of actual supply of voltage to power receivers of the applicant - the standard procedure is approved by order, the range of officials of the Company's branches responsible for issue to the applicants of documents on technological connection at the stage of actual supply of voltage to power receivers of the applicant is determined.

9. Signed agreements on the interaction of grid and power supply companies (or organizational and administrative documents of grid companies and last resort suppliers) and the practical implementation of the procedure for conclusion of a power supply contract simultaneously with the procedure for technological connection without visiting a power supply company - a standard algorithm for concluding power supply (power (capacity) purchase and sale (supply)) contracts with the last resort suppliers of power was developed and approved by Order before the completion of the procedure for technological connection of power receivers of consumers to the power grids.

10. Signed agreements on the interaction of grid and power supply companies (or organizational and administrative documents of grid companies and last resort suppliers) and the practical implementation of the procedure for issue to the applicant of a power supply contract in electronic form - a standard algorithm for concluding power supply (power (capacity) purchase and sale (supply)) contracts with the last resort suppliers of power was developed and approved by Order before the completion of the procedure for technological connection of power receivers of consumers to the power grids.

11. Synchronization of investment programs of power industry entities with the scheme and program for the development of the power industry of the constituent entities of the Russian Federation is ensured.

The implementation of the remaining 8 measures is fully within the competence of regional authorities. Measures in the Stavropol Territory and the Kabardino-Balkarian Republic were the most fully implemented.

Information on the technological connection of socially significant major infrastructure applicants

In 2017, experts of IDGC of Northern Caucasus PJSC performed works for technological connection of major facilities that are of importance for economic development of constituent entities of the North Caucasus Federal District. Socially important facilities were connected: kindergartens, schools, outpatient clinics, polyclinics, other institutions. Some agroindustrial facilities were connected to grids within the agreements concluded with the constituent entities of NCFD to support domestic agricultural manufacturers.

In the Stavropol Territory, the North-Caucasian Regional Center for Civil Defense and Emergency Situations in Inozemtsevo settlement with a maximum capacity of 1.5 MW, a synthetic corundum plant of Monocrystal JSC in Stavropol with a maximum capacity of 8 MW, an auto assembly plant of AK Stavropol-Avto LLC in Mikhailovsk with a maximum capacity of 13 MW were connected to the power supply grids. The maximum capacity of the production facility of Kamsky Industrial Park Master JSC in Stavropol was increased by 2.3 MW.

In the Kabardino-Balkarian Republic in Baksan, the Administration of the Baksan Municipal District with a maximum capacity of 1 MW (newly commissioned 0.35 MW), a canning plant of Agro Plus LLC with a newly commissioned capacity of 0.15 MW, a shopping center Deya LLC in Nalchik with a maximum capacity of 1.5 MW (newly commissioned - 0.75 MW), a residential district Vostochny in Nalchik with a maximum capacity of 25 MW were connected to the power supply grids.

In the Karachaevo-Cherkess Republic in Zelenchuksky District, the capacity of the all-season tourist and recreational complex Arkhyz was increased by 21.4 MW and connected to the power supply grid of the Ministry of Internal Affairs of Russia in Cherkessk with a maximum capacity of 0.8 MW.

In North Ossetia in Vladikavkaz, a multifunctional shopping center of Metro LLC with a maximum capacity of 0.6 MW, a potato storage facility of Fat Agro LLC with a maximum capacity of 0.4 MW, a sports palace Taekwondo with a maximum capacity of 0.2 MW were connected to the power supply grids. In Arkhon village, a workshop for the production of agricultural products with a maximum capacity of 0.4 MW was connected to the power supply grids. In Mozdok, 125 garden houses of Sadovod SONT with a maximum capacity of 0.6 MW were connected to the grids.

In the Republic of Ingushetia, power supply grids of the republican children's hospital with 200 beds in Nazran with a maximum capacity of 0.65 MW, Magas Education Center GBOU with a maximum capacity of 0.65 MW were commissioned. In Malogbek and Nazran, schools for 720 persons with a maximum capacity of 0.54 MW and 704 persons with a maximum capacity of 0.54 MW were connected to the power grids. In Karabulak, the Administration of the Federal Service of the Russian National Guard for the Republic of Ingushetia with a maximum capacity of 0.5 MW was connected to the power supply grids.

Information on improvement of the quality of services for technological connection

For improving the quality of services for technological connection, the following activities are implemented:

Automation of the technological connection procedure

The introduction of an automated system for control of technological connection of consumers (ASCTC) is planned to be implemented on the standard platform 1C: Enterprise 8. Power Industry. Distribution Grid Company Management.

ASCTC was put into commercial operation:

- in Stavropolenergo branch since September 1, 2017;
 - in Kabbalkenergo branch since January 1, 2018,
- introduction in other branches and controlled companies is planned in 2018.

In 2018, it is also planned to organize the exchange of information with the portal Portal-TP.rf.

Fulfillment of TC contracts using own resources

For reducing the period for fulfillment of TC contracts down to 90 days:

- a reserve fund of materials and equipment was formed in the amount of 40 million rubles;
- the number of repair personnel was increased to create construction and installation teams in Sevkavkazenergo branch of IDGC of Northern Caucasus PJSC and Stavropolenergo branch of IDGC of Northern Caucasus PJSC in the amount of 12 units.

Application of framework agreements

Since the beginning of 2017, 4 framework agreements have been concluded for the construction/reconstruction of 0.4-20 kV high-voltage power transmission line for technological connection of the "turnkey" privileged group of applicants of Sevkavkazenergo branch for a total amount of 17,992,350 rubles, VAT inclusive. The planned scope of the implementation of measures for technological connection of applicants will be about 120 agreements (in fact, 88 pieces).

In addition, Stavropolenergo branch concluded 15 framework agreements for the supply of materials and equipment for technological connection of a privileged group of applicants, using own resources, for a total amount of 42,245,520 rubles, VAT inclusive. The planned scope of the implementation of measures for technological connection of applicants will be about 300 agreements.

Cooperation with sales companies (conclusion of the power supply contract without visiting a power supply company)

As of December 31, 2017, the following power supply contracts were concluded:

- 14 contracts in Kabbalkenergo JSC;
- 5 contracts in Ingushenergo branch;
- 1 contract in Kalmenergosbyt JSC;
- 21 contracts in Karachaevo-Cherkesskenenergo JSC.

In other branches and controlled companies of IDGC of Northern Caucasus PJSC - draft power supply contracts at the stage of preparation by last resort suppliers.

Cooperation with Executive Authorities

For the avoidance of the need to obtain a permit for the construction of power grid facilities up to 20 kW inclusive, a working group has been created in the Company. A number of meetings were held, both officially and in the ordinary course of business.

In the regions where the Company is present, the relevant regulations were issued:

- in the Stavropol Territory - Law dated December 8, 2017 No. 124-kz "On Amending Articles 5 and 10 of the Law of the Stavropol Territory "On Certain Issues of Regulation of Relations in the Field of Urban Development in the Stavropol Territory";
- in the Kabardino-Balkarian Republic, the draft law is negotiated with the interested business units;
- in the Republic of North Ossetia-Alania - Law No. 65-RZ dated December 4, 2017 "On Amending Article 18 of the Law of the Republic of North Ossetia-Alania "On the Urban Development in the Republic of North Ossetia-Alania";
- in Karachay-Cherkess Republic, according to the information of the Ministry of Energy of the Republic, amendments are being made to regulations;
- in the Republic of Ingushetia, the draft law is at the stage of negotiation for further submission for consideration to the People's Assembly of the Republic of Ingushetia.

Internet services

In 2017, 35 applications for technological connection were submitted via Internet services (0.03 % of the total number of applications):

- 22 applications for technological connection to power grids of Stavropolenergo branch;
- 11 applications for technological connection to power grids of Kabbalkenergo branch;
- 1 application for technological connection to power grids of Karachaevo-Cherkesskenenergo branch;
- 1 application for technological connection to power grids of Sevkavkazenergo branch.

For the implementation of applicable regulations, IDGC of Northern Caucasus PJSC in the area of its responsibility uses the functionality of the Power Grid Services Portal of Rosseti Group. In this connection, in 2018, it is planned to replace the Customer's Personal Account on the website of IDGC of Northern Caucasus PJSC with Portal-TP.rf.

Number of applications for technological connection to power grids of the joint stock company

Branch name	Number of applications, pcs.	For the total capacity, MW
2015		
Stavropolenergo branch	3,224	155.37
Dagenergo branch	754	18.80
Sevkavkazenergo branch	1,982	93.63
Kabbalkenergo branch	1,301	44.33
Karachayevo-Cherkesskenenergo branch	1,308	66.15
Ingushenergo branch	934	66.24
Total	9,503	444.52
2016		
Stavropolenergo branch	3,449	197.33
Sevkavkazenergo branch	2,084	148.41
Kabbalkenergo branch	1,426	39.83
Karachayevo-Cherkesskenenergo branch	1,288	75.84
Ingushenergo branch	986	57.76
Total	9,233	519.17
2017		
Stavropolenergo branch	3,827	226.84
Sevkavkazenergo branch	2,237	162.22
Kabbalkenergo branch	1,487	41.78
Karachayevo-Cherkesskenenergo branch	1,249	94.79
Ingushenergo branch	1,207	64.64
Total	10,007	590.27

Number of concluded agreements for technological connection to power grids of the joint stock company

Business unit name	Number of concluded agreements, pcs.	Volume of concluded agreements, MW	Amount of cash receipts, mln RUB
2015			
Stavropolenergo branch	3,165	92.28	117.34
Dagenergo branch	445	5.76	0.78
Sevkavkazenergo branch	1,203	29.17	2.69
Kabbalkenergo branch	1,295	28.66	2.01
Karachayevo-Cherkessskenergo branch	1,132	39.94	1.51
Ingushenergo branch	682	55.73	1.56
Total	7,922	251.54	125.89
2016			
Stavropolenergo branch	3,343	103.94	100.60
Sevkavkazenergo branch	1,519	35.84	6.82
Kabbalkenergo branch	1,423	35.60	8.34
Karachayevo-Cherkessskenergo branch	1,107	28.57	1.45
Ingushenergo branch	918	48.89	3.50
Total	8,310	252.83	120.71
2017			
Stavropolenergo branch	3,745	234.16	29.92
Sevkavkazenergo branch	1,612	52.57	18.24
Kabbalkenergo branch	1,470	29.88	3.04
Karachayevo-Cherkessskenergo branch	1,049	23.91	8.62
Ingushenergo branch	816	26.33	1.33
Total	8,692	366.85	61.15

Number of connections made to power grids of the joint stock company

Business unit name	Number of connections made, pcs.	Volume of the capacity connected, MW	Amount of revenue, mln RUB
2015			
Stavropolenergo branch	2,889	91.95	135.26
Dagenergo branch	174	1.98	0.61
Sevkavkazenergo branch	1,270	18.59	1.45
Kabbalkenergo branch	1,061	21.15	2.86
Karachayevo-Cherkessskenergo branch	1,102	17.15	2.13

Business unit name	Number of connections made, pcs.	Volume of the capacity connected, MW	Amount of revenue, mln RUB
Ingushenergo branch	544	19.89	0.61
Total	7,040	170.72	142.92
2016			
Stavropolenergo branch	2,735	81.36	99.72
Sevkavkazenergo branch	1,273	31.01	11.25
Kabbalkenergo branch	1,240	61.15	5.53
Karachayevo-Cherkesskenergo branch	1,210	170.25	10.47
Ingushenergo branch	630	22.17	0.72
Total	7,088	365.94	127.69
2017			
Stavropolenergo branch	3,271	105.91	65.38
Sevkavkazenergo branch	1,314	20.48	25.15
Kabbalkenergo branch	1,316	56.24	5.27
Karachayevo-Cherkesskenergo branch	1,083	39.17	2.03
Ingushenergo branch	473	12.63	0.83
Total	7,457	234.43	98.66

Expected dynamics of indicators of IDGC of Northern Caucasus PJSC in terms of technological connections for the period from 2018 to 2022

Item No.	Indicator	Units of measurement	2018 Plan	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
I	REVENUES						
2.	TECHNOLOGICAL CONNECTION SERVICES	thousand RUB	31,952.01	35,116.62	26,672.15	24,151.88	10,721.14
2.1.	<i>Applicants for the maximum capacity up to 15 kW inclusive (with due regard for the previously connected power receivers)</i>	thousand RUB	2,329.09	2,433.38	2,542.03	2,656.44	2,776.48
2.2.	<i>From 15 to 150 kW</i>	thousand RUB	5,158.92	4,742.71	4,979.85	5,228.84	5,490.28
2.3.	<i>From 150 to 670 kW</i>	thousand RUB	17,087.37	2,188.13	2,257.24	2,328.99	2,403.50
2.4.	<i>Min 670 kW</i>	thousand RUB	7,323.09	25,752.38	16,893.04	13,003.43	50.89
2.5.	<i>Power generating facilities</i>	thousand RUB	53.55	0.00	0.00	934.17	0.00
II	SALES						
2.1.	Number of completed agreements, signed technological connection certificates	pcs.	5,366	5,612	5,861	6,124	6,388
2.1.1.	<i>Applicants for the maximum capacity up to 15 kW inclusive (with due regard for the previously connected power receivers)</i>	pcs.	4,997	5,221	5,454	5,699	5,956
2.1.2.	<i>From 15 to 150 kW</i>	pcs.	245	303	316	331	344

Item No.	Indicator	Units of measurement	2018 Plan	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
2.1.3.	<i>From 150 to 670 kW</i>	pcs.	89	75	80	82	87
2.1.4.	<i>Min 670 kW</i>	pcs.	33	13	11	10	1
2.1.5.	<i>Power generating facilities</i>	pcs.	2	0	0	2	0
2.2.	Volume of the connected capacity (completed agreements, signed technological connection certificates)	kW	160,144.2	110,605.2	115,215.9	203,176.5	93,757.5
2.2.1.	<i>Applicants for the maximum capacity up to 15 kW inclusive (with due regard for the previously connected power receivers)</i>	kW	36,347.7	38,009.2	39,752.9	41,579.6	43,496.9
2.2.2.	<i>From 15 to 150 kW</i>	kW	13,481.3	17,174.4	17,915.3	18,690.6	19,502.9
2.2.3.	<i>From 150 to 670 kW</i>	kW	30,326.0	23,937.7	24,900.2	25,906.3	26,957.8
2.2.4.	<i>Min 670 kW</i>	kW	76,389.2	31,484.0	32,647.5	26,000.0	3,800.0
2.2.5.	<i>Power generating facilities</i>	kW	3,600.0	0.0	0.0	91,000.0	0.0

Customers Communication

The structure of IDGC of Northern Caucasus PJSC includes 5 branches: Stavropolenergo, Kabbalkenergo, Karachaevo-Cherkesskenergo, Sevkavkazenergo and Ingushenergo.

Policy pursued by IDGC of Northern Caucasus PJSC in the field of communication with consumers of the Company's services is customer-oriented and aimed at facilitating interaction between service consumers and the Company. Customer orientation of the Company is implemented by creation and operation of the system for centralized servicing of consumers. The customer service system is based on the following guidelines.

- Sufficient awareness of consumers of the Company and services. Complete and reliable information on all procedures of interaction with the Company is public and available in an accessible form for service consumers.
- Territorial accessibility and comfort of the on-site service of the Company. Location of infrastructure facilities of the on-site service ensures the coverage of the responsibility area and the availability of customer service.
- Availability and efficiency of distance and interactive services of the Company. Channels of distance communication with customers ensure the round-the-clock access to distance service and efficiency of the company's response to customer's requests.
- Qualified service. Organization of all forms of service ensures the high level of qualification and competence of the company's personnel.
- Transparency of the customer service business processes and objectivity of consideration of customers' complaints. The grid company provides for an objective and impartial examination of complaints in a timely manner, possibility of appealing the decisions, the procedure for which is communicated to consumers in accordance with the principle of sufficiency of information.

The customer service system includes three forms of customer service: on-site service, distance service and interactive service (which may be referred to the form of distance service). Information exchange between the Company and service consumers is carried out by means of communication channels.

On-site form provides for immediate application of customers to branches of IDGC of Northern Caucasus PJSC, the Customer Service Centers opened in accordance with the requirements of the Customer Service Quality Standard of IDGC of Northern Caucasus PJSC, as well as Customer Service Outlets. The Customer Service Center is located in Vladikavkaz, as well as 62 CSO (on the basis of DPG branches).

In 2017, IDGC of Northern Caucasus PJSC received 40,817 applications and complaints from consumers, including:

- 19,448 applications for provision of services;
- 9,577 applications for technological connection;
- 624 complaints for power disconnection;
- 321 complaints for power transmission;
- 13 complaints for commercial power metering;
- 8 complaints for technological connection;
- 25 complaints for maintenance of power grid facilities;
- 2 complaints for additional services;
- 10 complaints for quality of the customer service;
- 57 complaints for other issues.

Number of complaints received in 2017 increased vs 2016 by 42.2 %, and the number of applications for technological connection services increased by 3.7 %.

All received complaints and applications were considered within the specified time frames.

The main form of service when rendering services is on-site customer service using the elements of on-site infrastructure of CSO and CSC: 28,248 complaints were made in person, 8,062 complaints were received in writing through the administrative office of the Company's branches.

In the distance form in 2017 the service consumers could communicate with IDGC of Northern Caucasus PJSC, in particular, through a call-centre and “Hot Line” for service consumers by phone **8-800-775-91-12** (24/7 during operator’s working hours). For 2017 around 1,964 incoming calls of consumers were handled, and more than 2,000 outgoing calls were made to notify the consumers.

Interactive service form

Interactive services are located on the main page of the corporate website in the banner area at http://www.mrsk-sk.ru/customer_new/elektronnie-servisy/:

- Registration for appointment in the service office (implemented in 2017);
- Customer's Day, registration for appointment (implemented in 2017);
- Customer's Personal Account;
- Calculator of the cost of technological connection;
- Assessment of the quality of technological connection;
- Web Reception of the General Director;
- Web Reception for technological connection;
- Online consultation (implemented in 2017).

Through interactive service “Web Reception” in 2017, 142 consumer complaints were received, and timely response to them was sent by feedback.

The service "Online Consultation" is provided on the main page of the official website of the Company www.mrsk-sk.ru from 09:00 to 18:00 on working days.

Consumer consultations through interactive messengers What's app, Viber, Telegram are carried out by corporate number 8-928-230-12-49 by operators of the Contact Center around the clock.

In 2017, for improving the quality and availability of services of IDGC of Northern Caucasus PJSC, and for analysis of the consumer satisfaction with the quality of provided services and support, IDGC of Northern Caucasus PJSC performed survey in June and November by written poll of consumers. Survey of consumer satisfaction was carried out by anonymous written poll. A total of 1,015 respondents were surveyed, 256 Stavropolenergo, 232 Sevkavkazenergo, 234 Karachaevo-Cherkessskenergo, 220 Kabbalkenergo, 73 Ingushenergo, and the following results were obtained:

- 67 % of respondents, or 680 consumers surveyed, in general are satisfied with the Company's work,
- 22 % of respondents, or 224 consumers surveyed assess the Company's work as satisfactory,
- 11 % of respondents, or 111 consumers have expressed wishes regarding improvement of the quality of customer service.

In the section of the website "For Customers" there is information on the list of areas of activity of the Company's branches.

Changes implemented in 2017

In terms of improvement of the quality of on-site customer service, including the opening of new and reconstruction of the existing service offices, the renewed Customer Service Center was opened in Vladikavkaz.

With regard to the development and modernization of equipment of telephone service centers, the personnel of IDGC of Northern Caucasus PJSC upgraded the software and functional capabilities of the Contact Center of IDGC of Northern Caucasus PJSC.

In terms of enhancement of consumer confidence in 2017, round tables were held, including with the participation of representatives of the business community, where actual issues were raised.

For increasing the information availability and openness of the Company's activities, the official website www.mrsk-sk.ru of IDGC of Northern Caucasus PJSC was upgraded.

The quality of customers communication of IDGC of Northern Caucasus PJSC may be also assessed by analyzing the achievement of planned targets of the service quality established by the competent executive authorities in the field of state regulation of tariffs for 2017.

IDGC of Northern Caucasus PJSC in the period from 2016 to 2017 used the return on investment method (RAB) providing for the establishment of long-term parameters for regulating the reliability and quality of services provided as a part of long-term regulatory parameters by the return on investment method.

By the decision of the competent authorities in the field of state regulation of tariffs for the period from 2016 to 2017, the following planned values of reliability and quality of rendered services were established:

Name of the grid company in the constituent entity of the Russian Federation	Year	Level of reliability of goods (services) sold	Level of quality of goods (services) sold	
			Indicator of the level of quality of the technological connection	Indicator of the level of quality of the customer service
Stavropolenergo branch	2016	0.0284	1	0.8975
	2017	0.0279	1	0.8975
Kabbalkenergo branch	2016	0.00450	Not approved	1.0102
	2017	0.00443	Not approved	1.0102
Karachayevo-Cherkesskenenergo branch	2016	0.0279	Not approved	1.0102
	2017	0.0275	Not approved	1.0102
Sevkavkazenergo branch	2016	0.0731	1	0.8975
	2017	0.0724	1	0.8975
Ingushenergo branch	2016	0.0077	1	0.8975
	2017	0.0076	1	0.8975

Based on the results of activity of IDGC of Northern Caucasus PJSC on the achievement of the established planned indicators of reliability and quality of provided services, the following actual results were achieved in the period from 2016 to 2017:

Name of the grid company in the constituent entity of the Russian Federation	Year	Level of reliability of goods (services) sold	Level of quality of goods (services) sold	
			Indicator of the level of quality of the technological connection	Indicator of the level of quality of the customer service
Stavropolenergo branch	2016	0.0114	1.0018	0.8004
	2017	0.0069	1.005	0.8235
Kabbalkenergo branch	2016	0.00062	Not approved	0.9353
	2017	0.00064	Not approved	0.8934
Karachayevo-Cherkesskenenergo branch	2016	0.0056	Not approved	0.86077
	2017	0.0053	Not approved	0.8918
Sevkavkazenergo branch	2016	0.0047	1.0257	0.8561
	2017	0.0041	1.049	0.804
Ingushenergo branch	2016	0.0003	1	0.8608
	2017	0.0001	1	0.9069

The calculations were made in accordance with the calculation procedure approved by Order of the Ministry of Energy of Russia dated October 14, 2013 No. 718.

Based on the results of activities of IDGC of Northern Caucasus PJSC for 2016–2017, the reliability level indicator has been achieved with significant improvement, the customer service quality and the quality level indicators of implemented technological connection are within the permissible deviations from the planned values stipulated by Order of the Ministry of Energy dated October 14, 2013 No.718.

Power Grid Assets Consolidation

1. Description of the general principles of arrangement of power grid assets consolidation.

Key areas of activities for power grid assets consolidation are the following:

1) consolidation of property of TGC debtors (acquisition / lease of power grid assets to repay debts, recovery of debtors' property by enforcement proceedings, bankruptcy of TGC debtors and acquisition of their property at tenders held within bankruptcy proceedings).

2) Consolidation of abandoned power grid assets (to be carried out in accordance with the consolidation roadmaps signed with the authorities of republics of the North Caucasus Federal District in 2014, as well as in accordance with local regulations of the Company).

3) Consolidation of property of TGC deprived of the status of the territorial grid company in accordance with Decree of the RF Government dated February 28, 2015 No.184.

Since the entry into force of this Decree of the Government of the Russian Federation within the territory of NCFD, 22 TGCs have been deprived of the status.

Implementation of agreements on power grid assets consolidation with executive authorities of the constituent entities of the Russian Federation and other power industry entities.

In July and August 2014, the updated roadmaps were signed with the heads of the republics of the North Caucasus Federal District for consolidation of the power grid complex of the entities. The roadmap of the authorities of the Stavropol Territory was not signed due to disagreement of the regional authorities with the proposed concept of consolidation; the roadmap for the consolidation of assets of the Chechen Republic in 2014 was not developed due to the implementation of the roadmap signed in 2012.

Joint inventory audit is now completed in all constituent entities of NCFD. As of December 31, 2017, 1,249 facilities were identified. However, the registration of rights to this property was not carried out due to the lack of funds for such purposes in local budgets of the constituent entities. The only exception is the Kabardino-Balkarian Republic, where the measures for registration of abandoned power grid facilities as municipal property are almost completed.

In view of the forecast shortage of funds for registration of abandoned property, IDGC of Northern Caucasus PJSC developed and submitted to the heads of the Republic of Dagestan and the Republic of North Ossetia-Alania as pilot projects the draft agreements on cooperation in the registration of rights to abandoned power grid assets, which, if signed, allow the Company to maintain these facilities and subsequently register ownership rights on them based on court decisions.

On December 1, 2014, the agreement on lease of power grid assets of Alaniyaelectroset JSC (Vladikavkaz, Republic of North Ossetia-Alania) was concluded.

1. Implemented measures for power grid assets consolidate in 2017

- On March 27, 2017, based on the results of the tender held by the Ministry of Property and Land Relations of the Republic of Ingushetia for the right to enter into a gratuitous use agreement, IDGC of Northern Caucasus PJSC was declared the winner. The gratuitous use agreement was concluded.
- On July 5, 2017, based on the results of the tender, the agreement on gratuitous use of the municipal power grid assets of the city of Digora was concluded.
- On December 15, 2017, based on the results of the tender held by State Enterprise of the Republic of Dagestan "Infrastructure Facilities Management Company of the Republic of Dagestan", a lease agreement was concluded for the republican power grid facilities - 110/10 Oruzba, 110 kV OHL, 10 kV OHL. Under the terms and conditions of the lease agreement, the property will be leased from January 1, 2018.

2. Scope of the power grid assets consolidation

By the decision of the Board of Directors dated July 28, 2017 (Minutes No. 310 dated July 30, 2017), the Power Grid Assets Consolidation Program of IDGC of Northern Caucasus PJSC for 2017-2019 was approved.

The consolidation program in 2017 provides for a transaction on gratuitous use of power grid assets of the Republic of Ingushetia. During the reporting year the Program was implemented in full: On March 27, 2017, the agreement on gratuitous use of the property of the Republic of Ingushetia was concluded.

Monitoring of the scope of the power grid assets consolidation

Name	2015			2016			2017		
	Scope of the power grid assets consolidation for the period			Scope of the power grid assets consolidation for the period			Scope of the power grid assets consolidation for the period		
	MVA	km	C.u.	MVA	km	C.u.	MVA	km	C.u.
IDGC of Northern Caucasus PJSC	1,009	4,906	30,769	1,024	4,943	41,535	688	2,689	15,163
Purchase of power grid assets	0	0	0	0	0	0	0	0	0
Lease of power grid assets	1,009	4,906	30,769	1,024	4,943	41,535	437	2,498	12,772
Other (permanent ownership and usage)	0	0	0	0	0	0	0	0	0
Other (temporary ownership and usage)	0	0	0	0	0	0	251	190	2 391
Dagestan Grid Company JSC	519	2,774	19,732	519	2,774	19,732	519	2,774	19,732
Purchase of power grid assets	0	0	0	0	0	0	0	0	0
Lease of power grid assets	519	2,774	19,732	519	2,774	19,732	519	2,774	19,732
Other (permanent ownership and usage)	0	0	0	0	0	0	0	0	0
Other (temporary ownership and usage)	0	0	0	0	0	0	0	0	0
Chechenenergo JSC	220	865	3,637	220	865	3,637	340	1,365	5,769
Purchase of power grid assets	0	0	0	0	0	0	120	500	2,132
Lease of power grid assets	220	865	3,637	220	865	3,637	220	865	3,637
Other (permanent ownership and usage)	0	0	0	0	0	0	0	0	0
Other (temporary ownership and usage)	0	0	0	0	0	0	0	0	0
TOTAL for Group of Companies IDGC of Northern Caucasus PJSC	1,748	8,545	54,138	1,762	8,585	54,904	1,547	6,827	40,664
Purchase of power grid assets	0	0	0	0	0	0	120	500	2 132
Lease of power grid assets	1,748	8,545	54,138	1,762	8,585	54,904	1,176	6,137	36,141
Other (permanent ownership and usage)	0	0	0	0	0	0	0	0	0
Other (temporary ownership and usage)	0	0	0	0	0	0	251	190	2,391

In 2017, IDGC of Northern Caucasus PJSC leased power grid assets of the following third-party owners:

- SELKO LLC (Substation Dzhegonass, Ust-Dzheguta);
- Stavropolelectroset JSC (Zelenchukskiy and Ust-Dzhegutinsky districts);
- Minimushchestvo of the Karachaevo-Cherkess Republic (Arkhyz settlement);
- Alaniyaelectroset JSC (Vladikavkaz);
- NPC Nedra JSC (transformer for the needs of 35 kV Substation Dalnyaya, Kabardino-Balkarian Republic).

In 2017, power grid assets was transferred to the gratuitous use of IDGC of Northern Caucasus PJSC:

- Ministry of Property of the Republic of Ingushetia (power grid complex of the Republic of Ingushetia);
- Administration of Digora (Digora, Republic of North Ossetia-Alania).

In 2017, subsidiaries and controlled companies of IDGC of Northern Caucasus PJSC leased the power grid assets of the following third-party owners:

Dagestan Grid Company JSC:

- Makhachkalgorielectroseti JSC (Makhachkala);
- MGESK LLC (Makhachkala);
- IGES LLC (Izberbash);
- Sulaksky HydroCascade PJSC (Geregbilsky and Untsukulsky districts);
- Stavropolelectroset JSC (Khasavyurt).

Chechenenergo JSC:

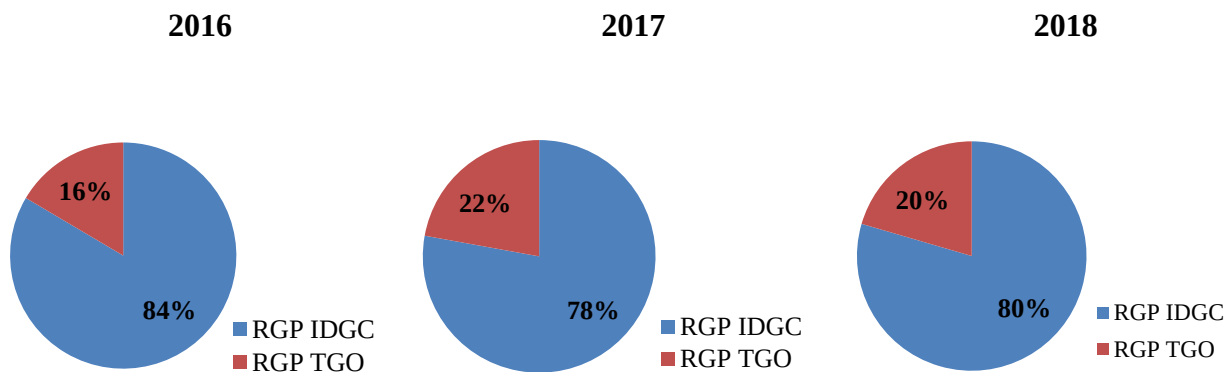
- Nurenergo JSC.

In addition, within the additional issue of shares of Chechenenergo JSC (state registration number of the additional issue of shares 1-01-35075-E-002D dated January 12, 2017) on the basis of the agreement dated December 25, 2017 on the acquisition of additional ordinary registered non-documentary shares of Chechenenergo JSC and the acceptance certificate dated December 25, 2017, Chechenenergo JSC transferred to the Chechen Republic 848 power grid facilities for the amount of 999.1 million rubles, VAT exclusive.

3. Share of IDGC of Northern Caucasus PJSC in the required gross proceeds (RGP) of the North Caucasus Federal District

Based on the results of 2017, as of January 1, 2018, the share of RGP of IDGC of Northern Caucasus PJSC (including subsidiaries and controlled companies) in RGP of the constituent entities of the North Caucasus Federal District was 80%.

Share of RGP of IDGC of Northern Caucasus PJSC in RGP of the constituent entities of the North Caucasus Federal District



The change in the share of RGP of IDGC of Northern Caucasus PJSC in the structure of the NCFD RGP was caused by the following factors:

In 2016:

The change in the share of RGP of IDGC of Northern Caucasus PJSC in 2016 is a consequence of the tariff decisions taken in the constituent entities of NCFD.

In 2017:

Decrease in the share of the Company's RGP in RGP of the constituent entities of NCFD is associated with the termination of agreements with Essentukskaya Grid Company JSC (Essentuki) and Stavropolenergoinvest JSC (Stavropol) by the decision of the Arbitration Court of the Stavropol Territory. In addition, in 2017, a tariff for power transmission services was established for SUE GC "Corporation of Development of the Stavropol Territory" and DagEnergy LLC.

In 2018:

Reduction in the share of the Company's RGP in RGP of the constituent entities of NCFD is associated with the conclusion on March 27, 2017 of the agreement on the gratuitous use of power grid assets of the Republic of Ingushetia, on July 5, 2017 - the agreement on the gratuitous use of municipal power grid assets of Digora, as well as depriving of Oboronenergo JSC of the grid company status in the Republic of Ingushetia, as a result of which the share of RGP of the branch of IDGC of the North Caucasus - Ingushenergo in RGP of the constituent entity amounted to 100%.

Development of the power grid complex in the constituent entities of the Russian Federation in the area of activities of the Company

Schemes and programs for the future development of the power industry in the planning horizon (2018-2022) were developed and approved in accordance with the procedure established by the current law for the Stavropol Territory, the Kabardino-Balkarian Republic, the Republic of Ingushetia, the Republic of North Ossetia-Alania, the Karachay-Cherkess Republic.

For the purpose of timely elaboration (each year until May 1) of the Schemes and Programs for the Power Industry Development in the Constituent Entities of the Russian Federation for a five-year period (S&PD), the executive authorities of the constituent entities of the North Caucasus Federal District created coordination councils. Within the territory of NCFD, the following coordination bodies are currently responsible for S&PD elaboration:

- in the Stavropol Territory - the Power Supply Safety Headquarters;
- in the Karachay-Cherkess Republic - the Coordination Council for the Development of the Power Industry (approved by Decree of the Government of the Karachay-Cherkess Republic dated August 25, 2016 No. 223);
- in the Kabardino-Balkarian Republic - the Power Supply Safety Headquarters (approved by Decree of the Head of the Kabardino-Balkaria Republic dated December 7, 2016 No. 152-UG);
- in the Republic of Dagestan - a working group at the Ministry of Transport, Energy and Communications of the Republic of Dagestan (approved by Order of the Ministry of Energy of the Republic of Dagestan on February 15, 2016 No. 15 PV);
- in the Republic of Ingushetia - the Coordination Council for the Development of the Power Industry (approved by Decree of the Government of the Republic of Ingushetia dated November 16, 2007 No. 196);
- in the Republic of North Ossetia - Alania - the Coordination Council for the Development of the Power Industry (approved by Decree of the Government of the Republic of North Ossetia-Alania dated March 2, 2017 No. 99).

Number of S&PD developed and approved in 2017 by the executive authorities of the constituent entities of the North Caucasus Federal District for 2018-2022

Constituent entity of the Russian Federation	Document on the approval of S&PD for 2018-2022
Republic of Ingushetia	Approved by Decree of the Chairman of the Government of the Republic of Ingushetia dated May 11, 2017 No. 338-r
Republic of North Ossetia – Alania	Approved by Decree of the Government of the Republic of North Ossetia-Alania dated April 25, 2017 No. 186-a
Kabardino-Balkarian Republic	Approved by Decree of the Head of the Kabardino-Balkarian Republic dated April 28, 2017 No. 64-UG
Karachay-Cherkess Republic	Approved by Decree of the Head of the Karachay-Cherkess Republic dated December 25, 2017 No. 368-r
Stavropol Territory	Approved by Decree of the Governor of the Stavropol Territory dated July 6, 2017 No. 432-r
Republic of Dagestan	S&PD were not approved

Development of the Comprehensive Programs for the Development of Power Grids in the territory of the constituent entities of NCFD for a five-year period 2018-2022 (CPD) in 2017 was carried out using own resources, without involvement of design institutes. The process of CPD development using own resources was carried out in accordance with Order of IDGC of Northern Caucasus PJSC dated December 2, 2016 No. 812.

In 2017, CPDs were developed for 6 constituent entities of NCFD. CPD of the Stavropol Territory, the Karachay-Cherkess Republic, the Kabardino-Balkarian Republic, the Republic of North Ossetia-Alania were approved by orders of IDGC of Northern Caucasus PJSC and submitted to the executive authorities.

Investment Activities and Capital Construction

Parameters of the Investment Activities

Investment planning is an integral part of the business planning and budgeting system at IDGC of Northern Caucasus PJSC. When elaborating an investment program, we assess impact of its implementation on the Company's entire economic activity. In the pursuit of the investment policy, which implementation is reflected in annual investment programs, the following activities are fulfilled:

- maintaining and operating equipment necessary for sufficient, reliable, and uninterrupted power supply to consumers;
- reducing production costs, in particular, through improvement of equipment performance;
- upgrading fixed assets;
- ensuring safe operation of equipment;
- commissioning new capacities in case of necessity to cover load deficiency or create capacity margin.

The investment program of IDGC of Northern Caucasus PJSC for 2017 is approved by Order of the Ministry of Energy of Russia No. 1470 dated December 30, 2016.

Major investment program indicators for 2017

IDGC of Northern Caucasus PJSC	Capital investments	Introduction to fixed assets	Funding	New capacities	
	mln RUB VAT exclusive	mln RUB VAT exclusive	mln RUB VAT inclusive	MVA	km
Stavropolenergo branch	162.44	184.58	378.65	26.78	50.97
Dagenergo branch	208.19	102.79	364.96	18.90	9.80
Kabbalkenergo branch	102.32	141.77	129.91	0.00	1.53
Sevkavkazenergo branch	444.03	468.58	503.66	50.36	58.30
Karachayevo-Cherkessenergo branch	174.79	17.06	147.95	0.75	4.64
Ingushenergo branch	61.14	10.74	51.55	0.00	0.00
Administrative office	25.15	11.26	64.12	0.00	0.00
Total	1,178.07	936.78	1,640.80	96.79	125.24

In 2017, IDGC of Northern Caucasus PJSC financed 1,640.8 million rubles, VAT inclusive, and disbursed capital investments in the amount of 1,178.1 million rubles, VAT exclusive. In addition, 936.8 million rubles were invested for fixed assets – 96.79 MVA of transformer capacity, 125.24 km of transmission lines.

Area and Structure of Funding for the Investment Program

In 2017, IDGC of Northern Caucasus PJSC carried out activities targeted at enhancing the reliability and continuity of power supply to consumers, as well as at increasing installed capacity to enable connection of additional loads and extending the operating time of power facilities.

Funding for capital investments of IDGC of Northern Caucasus PJSC in 2017 amounted to 1,640.8 million rubles, VAT inclusive, where technical re-equipment and reconstruction (TRE&R) – 944.2 million rubles, new construction (NC) – 534.5 million rubles, other measures aimed at increasing the energy reliability of power grid facilities – 162.2 million rubles, including by branches:

Stavropolenergo branch: the funding amounted to 378.7 million rubles, where 167.8 million rubles - TRE&R, 128.7 million rubles - NC, and 82.1 million rubles - other measures.

Major facilities are as follows:

- ✓ Reconstruction of 110 / 10-6 kV Substation Severnaya is part of a set of measures for improving 110 kV grid. Within the framework of the project, for increasing the reliability of power supply for own needs and operational circuits, the local distribution board and direct current board in the substation control house were replaced, reconstruction of feeder cubicles and cubicles of 6 kV bus-section switch (replacement of current transformers), installation of current-limiting reactors to limit short-circuit currents on 10 kV side. Upon completion of the reconstruction of 110/10-6 kV Substation Severnaya, the technical state of the substation has significantly improved, which results in increase in the reliability of the equipment operation and the safety of its maintenance, reduction in the risk of emergencies and, in general, increase in the reliability of power supply to consumers in Stavropol.

- ✓ Reconstruction of 110 kV Substation Tsentralnaya in Stavropol (organization of an ice melting system for 110 kV and 10 kV overhead lines with the installation of a melting device, the installation of an ice melting bus system at 110 kV outdoor switchgear and 10 kV switchgear) is aimed at reducing the negative impact of such unfavorable factor for power facilities as icing on wires and lightning ropes. Until now, the ice melting was carried out from a single source - Yuzhnaya Substation, which dramatically reduced the possibility of operative change in the power supply circuit under the conditions of intense icing during the autumn-winter period. The implemented measures are aimed at improving the reliability of the power supply centers and the uninterrupted supply of high-quality power to consumers in the Western, North-Western, South-Western and Central regions of Stavropol.

Dagenergo branch: the funding for capital investments amounted to 365.0 million rubles, where 330.1 million rubles - TRE&R, 9.1 million rubles - NC, and 25.8 million rubles - other measures.

Among the major facilities for TRE&R commissioned in 2017, the measures should be noted that were implemented in accordance with Order of the Ministry of Energy of Russia dated April 3, 2015, No. 215 "On the Approval of the List of Regions with High Risks of Power Supply Interruption and the List of Activities for Reducing the Risks of Power Supply Interruption in Such Regions" with the aim of increasing the capacity of the main transmission lines of 110 kV:

- ✓ Reconstruction of 110 kV Substation Kompas with the replacement of cable for 110 kV busbar section AS-150 with cable with a cross-section of at least AS-185
- ✓ Reconstruction of 110 kV OHL Buinaksk-1 - Gergebil. Equipment with basic selective high-speed protecting devices;
- ✓ Reconstruction of 110 kV OHL Tlokh-Khunzakh. Equipment with basic selective high-speed protecting devices;
- ✓ Reconstruction of 110 kV OHL Derbent - Izberg - Severnaya, 110 kV OHL Makhachkala - Izberg - Severnaya. Equipment with basic selective high-speed protecting devices;
- ✓ Reconstruction of 110 kV OHL Izberg - Severnaya - Sergokala. Equipment with basic selective high-speed protecting devices.

Kabbalkenergo branch: the funding for capital investments amounted to 129.9 million rubles, where 123.7 million rubles - TRE&R, 1.2 million rubles - NC, 5.0 million rubles - other measures.

Among the most important facilities implemented in 2017, the following should be noted:

- ✓ Modernization of the information collection and transmission system at the power grid facilities. The facility is implemented in accordance with the instruction of SO UES JSC.

Sevkavkazenergo branch: in 2017, the funding for capital investments amounted to 503.7 million rubles, where 86.8 million rubles were allocated for TRE&R, 395.4 million rubles - for NC and expansion of the existing facilities, and 21.5 million rubles - other.

In the reporting year, the following activities for new construction were implemented:

- ✓ Construction of 110/10/6kV Substation Parkovaya is provided for by the Scheme and the Program for the development of the power industry of the Republic of North Ossetia-Alania, approved by Decree of the Government of the Republic of North Ossetia-Alania dated April 25, 2017 No. 186a. The facility is included in the investment program in connection with the repeated appeals of the Government of the Republic of North Ossetia-Alania on the need to build 110/10/6 kV Substation Parkovaya in order to prevent the failure to meet the deadlines for commissioning of socially significant facilities implemented within the Federal Target Program, eliminate the power shortage in the western part of Vladikavkaz, as well as unload 110/6 kV Substation Levoberezhnaya.

Karachaevo-Cherkesskenergo branch: in 2017, the funding for capital investments amounted to 147.9 million rubles, where 128.2 million rubles - TRE&R, 0.04 million rubles - NC, and 19.7 million rubles - other measures.

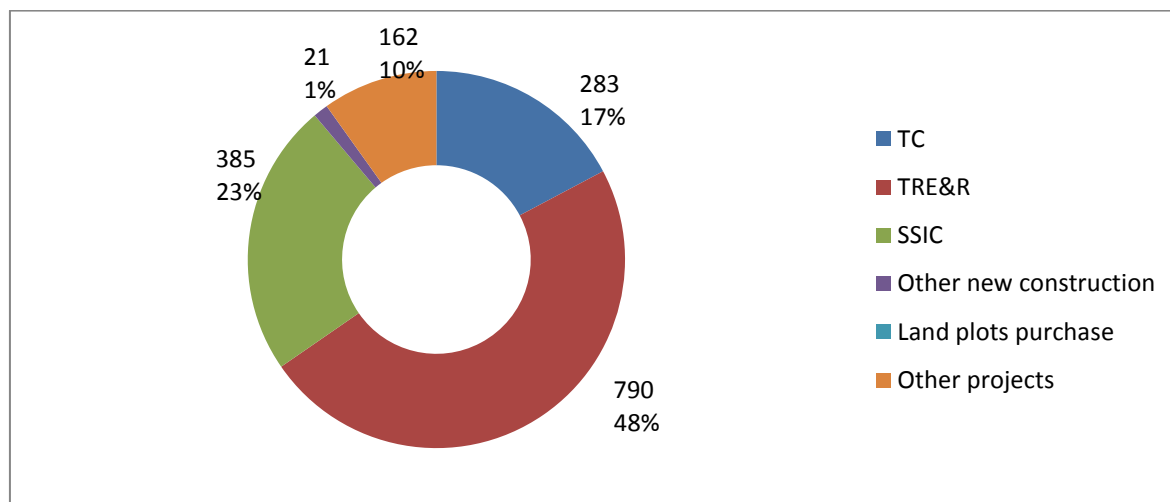
Ingushenergo branch: in 2017, the funding for capital investments amounted to 51.5 million rubles, where 46.1 million rubles - TRE&R, 0 million rubles - NC, and 5.4 million rubles - other measures.

Executive office: the funding for capital investments amounted to 64.1 million rubles, where 61.4 million rubles - TRE&R, 2.7 million rubles - other measures.

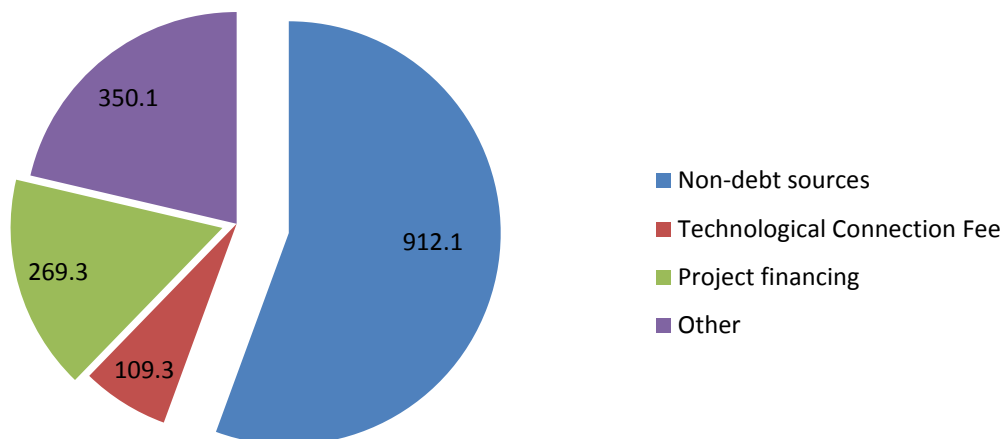
Structure of funding for capital investments, mln RUB, VAT inclusive

Indicator	2015	2016	2017
Total	1,792.8	1,707.0	1,640.8
Technological Connection	330.6	360.4	283.1
Reconstruction, modernization, technical re-equipment	1,161.8	839.7	789.5
Investment projects, the implementation of which is determined by schemes and programs for the future development of the power industry	37.8	85.1	385.1
Other new construction of power grid facilities	124.1	30.8	20.9
Purchase of land plots for the implementation of investment projects	0	0	0
Other investment projects	138.5	391.0	162.2

Structure of funding for capital investments in 2017, % and mln RUB, VAT inclusive



Funding sources for the investment program, mln RUB

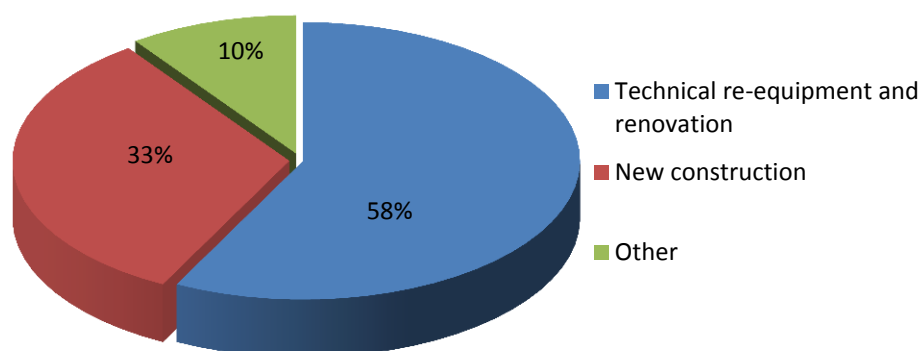


Structure of funding sources for capital investments in 2017

Contribution to fixed assets in IDGE of Northern Caucasus PJSC in 2015 amounted to 2 805.0 million rubles, in 2016 – 1 769.0 million rubles, in 2017 – 936.9 million rubles, including branches:

- Stavropolenergo: 2015 – 1,002.1 million rubles, 2016 – 230.5 million rubles; 2017 – 184.6 million rubles;
- Dagenergo: 2015 – 228.9 million rubles, 2016 – 182.3 million rubles; 2017 – 102.8 million rubles;
- Kabbalkenergo: 2015 – 126.3 million rubles, 2016 – 19.5 million rubles; 2017 – 141.8 million rubles;
- Sevkavkazenergo: 2015 – 337.2 million rubles, 2016 – 46.9 million rubles; 2017 – 468.6 million rubles;
- Karachayevo-Cherkessskenergo: 2015 – 197.8 million rubles, 2016 – 57.4 million rubles; 2017 – 17.1 million rubles;
- Ingushenergo: 2015 – 609.3 million rubles, 2016 – 2.7 million rubles; 2017 – 10.7 million rubles;
- Executive office: 2015 – 303.4 million rubles, 2016 – 1,229.7 million rubles; 2017 – 11.3 million rubles.

Structure of funding for capital investments in 2017



Among the programs implemented out of funds of the federal budget, the Comprehensive Program of Actions for Reduction in Excessive Losses shall be noted.

For reducing commercial power losses in grids of IDGC of Northern Caucasus PJSC in the territory of the Republic of Dagestan, the Republic of Ingushetia and Chechen Republic, the Comprehensive Program of Actions for Reduction in Excessive Losses is being implemented. The Comprehensive Program provides for actions for arranging, upgrading and automating metering of power in all points of commercial metering, and in key supply centers, where technical metering of power is required, which will make it possible to reduce commercial losses to the standard level. The program has been implemented since 2011. The Comprehensive Program within the territory of the Republic of Ingushetia is completed and commissioned in full in 2015. The Comprehensive Program within the territory of the Chechen Republic is completed and commissioned in full in 2016.

Full cost of the project in accordance with the investment program of the Company for 2016–2022 approved by Order of the Ministry of Energy of Russia dated December 30, 2016 No.1470 amounted to 5,250.4 mln RUB, VAT inclusive.

The total number of metering points covered by the program is 636,126 pieces.

In 2017, the implementation of the Comprehensive Program amounted to 45.3 million rubles. Funding amounted to 197.1 million rubles, VAT inclusive.

Implementation of the Comprehensive Program:

Name	Implementation, mln RUB, VAT exclusive		
	2017 Actual	including out of	
		federal budget funds	own funds of the Company
Republic of Dagestan	45.3	45.3	-
Chechen Republic	-	-	-
Total	45.3	45.3	-

Funding of the Comprehensive Program:

Name	Funding, mln RUB, VAT inclusive			
	2017 Actual	including out of		
		federal budget funds	own funds of the Company*	interest return
Republic of Dagestan	135.7	132.5	1.3	1.94
Chechen Republic	61.4	136.8	-75.4*	
Total	197.1	269.3	-74.1	1.94

* Settlement of counterclaims in the amount of 75.36 million rubles effected by IDGC of Northern Caucasus PJSC in December 2015 was declared null and void on the basis of the decision of the Arbitration Court of the Stavropol Territory dated October 19, 2016. No. A63-3195/2016, in connection with which the reversal of the settlement was made on February 17, 2017.

From the commencement of the Comprehensive Program, its implementation amounted to 3,707.8 million rubles. Funding amounted to 4,938.5 million rubles:

Name	Implementation 2011–2017, mln RUB, VAT exclusive	Funding 2011–2017, mln RUB, VAT inclusive
Republic of Dagestan	1,702.2	2,651.5
Republic of Ingushetia	491.3	578.2
Chechen Republic	1,514.3	1,708.8
Total	3,707.8	4,938.5

Implementation of the Comprehensive Program was carried out using:

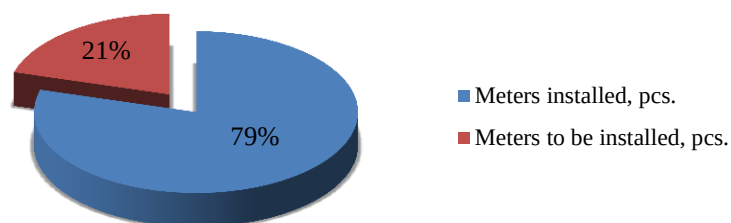
- federal budget funds – 3,384.3 million rubles, VAT exclusive;
- Company's own funds – 322.9 million rubles, VAT exclusive;
- other funds – 0.6 million rubles, VAT exclusive.

The Comprehensive Program was funded out of the following sources:

- out of the federal budget – 4,506.0 million rubles, VAT inclusive;
- out of the Company's own funds – 429.9 million rubles, VAT inclusive;
- out of other funds – 2.65 million rubles, VAT inclusive.

For the period of implementation of the Comprehensive Program as of January 1, 2018, 505.5 meters were installed (according to works completion certificates in the form KS-2 accepted for accounting purposes).

Name	Fact of meter installation, pcs.	Meters to be installed, thousand pcs.
Republic of Dagestan	322.1	130.7
Republic of Ingushetia	45.4	-
Chechen Republic	138.0	-
Total	505.5	130.7



Indicators of power losses in distribution grids

Name	2011	2017
Republic of Dagestan (without Makhachkala)	38 %	29.41 %
Republic of Ingushetia	40 %	31.25 %
Chechen Republic (without Grozny, Argun, Gudermes)	34 %	23.22 %

Since the beginning of implementation of the Comprehensive Program, effect of installation of meters and operation of the entire system in general has been expressed in reducing commercial power losses and, as a consequence, increasing the productive supply.

In quantitative and monetary terms it is as follows:

- losses in the Republic of Dagestan decreased from 38 % in 2011 to 29.41 % in 2017, while the economic effect as of December 31, 2017 amounted to 783.3 million kW*h, or 1,128 million rubles;
- losses in the Republic of Ingushetia decreased from 40 % in 2011 to 31.25 % in 2017, while the economic effect as of December 31, 2017 amounted to 101.8 million kW*h, or 257.6 million rubles;
- losses in the Chechen Republic decreased from 34 % in 2011 to 23.22 % in 2017, while the economic effect as of December 31, 2017 amounted to 188.0 million kW*h, or 353.3 million rubles.

Results of the investment program implementation

In 2017, due to implementation of activities included in the investment program, reliable and uninterrupted power supply to consumers was provided, and possibility of technological connection of new consumers of the North Caucasus Republics and Stavropol Territory was increased.

1. Information on the results achieved in 2017 through the implementation of activities included in the investment program, in accordance with Order of the Ministry of Energy of Russia dated March 14, 2017 No. 177:

- the following affected the degree of loading of the transformer substation in 2017:
 - ✓ technical re-equipment of 35/10 kV Substation "Rutul" with replacement of transformer T-1 -1.02;
 - ✓ technical re-equipment of 35/10 kV Substation "Kumukh" with replacement of transformer T-2-turnkey. 0.86;
 - ✓ technical re-equipment of 35/10 kV Substation "Sogratl" with replacement of T-1 transformer – 1.53;
- no facilities that affect the indicator assessing the change in the share of the productive power supply generated by power meters included in the data collection and transmission system;

- no facilities that affect the indicator assessing the change in the average duration of interruption in the power transmission to service consumers;
- indicator assessing the change in the average frequency of interruption in the power transmission to service consumers - 0.01;
- indicator of the total number of obligations fulfilled by the grid company within the investment program for the implementation of technological connection made - 507 pcs.;
- indicator of the maximum capacity of the connected power consumers, power generation facilities, power grid facilities owned by other grid companies or other individuals - 40.48 MW.

Implementation of measures for reducing investment costs per unit

When implementing the investment program, the Investment Cost Reduction Methodology adopted in 2013 was applied for 2012. The effect of the Methodology application in 2017 amounted to 19.9 million rubles, VAT exclusive, or 33 %. Additional information is set forth in Appendix 4 to the Russian version of the Annual Report.

Long-Term Investment Program

The long-term investment program of IDGC of Northern Caucasus PJSC for 2016–2022 was approved by Order of the Ministry of Energy of Russia dated December 30, 2016 No.1470.

The implementation of the approved investment program of IDGC of Northern Caucasus PJSC is a prerequisite for sustainable operation and development of the power of the North Caucasus Federal District, and will prevent the increase in percentage of wear and tear of distribution grids in the regions of the county, thereby ensuring the sufficient capacity and reliability of power supply.

The investment program of IDGC of Northern Caucasus PJSC is elaborated in accordance with the territories development plans, the technical state of power grids, taking into account the importance of power supply facilities, the forecasts of revenue from power transmission and proceeds under technological connection contracts.

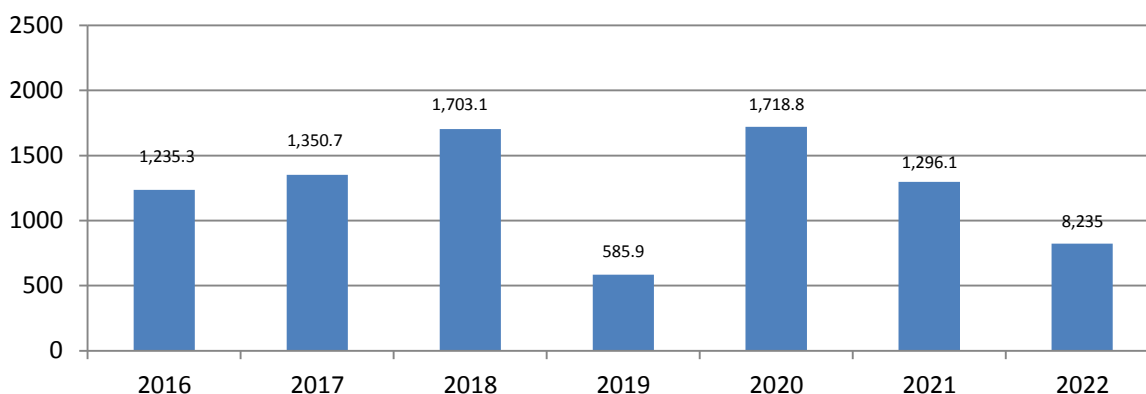
Within the investment program, the following objectives are provided for:

- provision of reliable, uninterrupted and high quality power supply to consumers;
- decrease in production costs by improving the efficiency of the equipment and the development of the automated power metering system;
- reduction in technological losses in grids;
- ensuring of the safety of equipment and personnel;
- satisfaction of the growing consumer demand for power.

In accordance with the approved investment program of IDGC of Northern Caucasus PJSC, the total funding for 2016–2022 amounts to 8,713.3 million rubles, VAT inclusive, including:

- 2016 – 1,235.3 million rubles;
- 2017 – 1,350.7 million rubles;
- 2018 – 1,703.1 million rubles;
- 2019 – 585.9 million rubles;
- 2020 – 1,718.8 million rubles;
- 2021 – 1,296.1 million rubles;
- 2022 – 823.5 million rubles.

Amount of funding for the investment program for 2016–2022, mln RUB, VAT inclusive

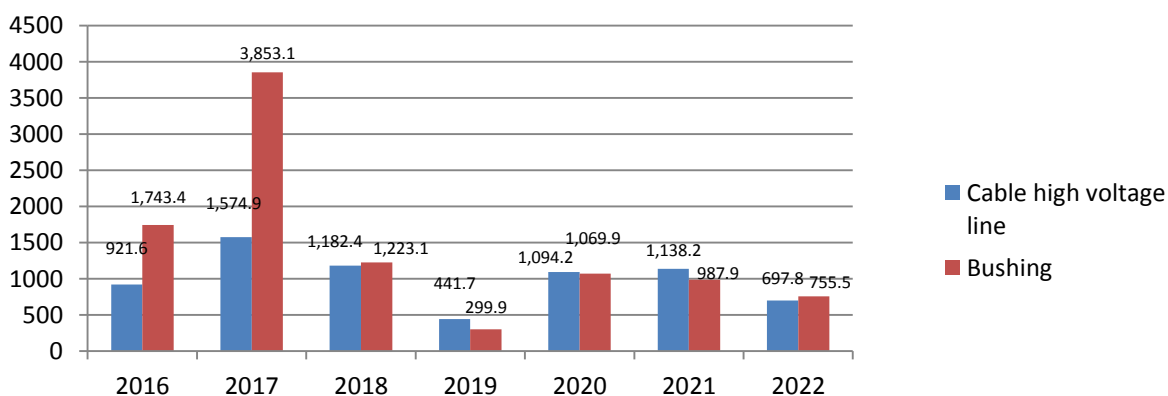


The planned structure of funding for the investment activities for the period from 2018 to 2022 is volatile to some extent. This is caused by limited opportunities for planning of activities aimed at technological connection of applicants for a long period. Thus, the share of funding of technological connection facilities in 2018 is 11 %, 2019 – 15 %, 2020-2022 - about 3 %. In its turn, it results in increase in the share of funding for measures aimed at the technical re-equipment and reconstruction of facilities from 58 % in 2017 to about 75 % in 2018-2022. The dynamics of the share (on average 17 %) of new construction projects is generally caused by the implementation of major investment projects. The share of other measures in funding for the investment program has a stable value of 2 %.

The investment program of IDGC of Northern Caucasus PJSC for 2016-2022 was developed taking into account the plans for the development of the territories, the technical condition of the power grids, the importance of power supply facilities, the current economic situation in the Russian economy.

The decisions made in the development of the investment program are consistent with the goals and objectives of the Unified Technical Policy in the distribution power grid complex and the provisions of the current law.

Amount of planned capital investments and scope of commissioning of fixed assets in accordance with the investment program for 2016–2022, million RUB, VAT exclusive



Capital construction quality management

Within implementation of Decree of the Russian Government dated June 21, 2010 No.468 “On the Procedure for Construction Supervision during Construction, Reconstruction and Overhaul of Capital Construction Facilities”, for verifying the compliance of work performed in the course of construction,

reconstruction, overhaul of capital construction facilities with the requirements of the project documentation, technical regulations, urban development plan of the land plot, results of engineering surveys, following the internal organizational and administrative documents of the Company:

- Order "On the Approval of the Regulation on the Implementation of Investment Projects of IDGC of Northern Caucasus PJSC in Terms of Design and Survey Works, Issue of Initial Permits and Construction and Installation Works" dated February 15, 2018 No. 85;

- Order "On the Approval of the Procedure for Construction Supervision at the Power Grid Complex Facilities" dated March 6, 2017 No. 141;

- Order "On the Approval of the Procedure for Verification of the Readiness of Construction Contractors for the Fulfillment of Construction Contracts at the Power Grid Complex Facilities of IDGC of Northern Caucasus OJSC dated October 10, 2014 No. 625;

- Order "On the Approval of the Regulation on the Arrangement and Implementation of the Incoming Production Control for the Construction and Reconstruction of Power Grid Facilities" dated March 23, 2017 No. 187;

- Order "On the Approval of the Procedure for Maintenance of the As-Built Documentation and Preparation of Acceptance and Delivery Documentation" dated December 2, 2015, No. 719;

- Order "On the Approval of the Methodology for Confirmation and Acceptance of the Scope and Quality of Construction and Installation Works" dated December 30, 2014 No. 838;

- Order "On the Approval of the Procedure for Commissioning of the Completed Facilities" dated July 23, 2015 No. 439;

- Order "On the Approval of the Procedure for Assessment of Conformity of the Completed Power Grid Complex Facilities of IDGC of Northern Caucasus PJSC" dated December 6, 2016, No. 819.

- Order "On the Approval of the Standard Contract for the Provision of Construction Control Services at the Power Grid Complex Facilities of IDGC of Northern Caucasus PJSC" dated January 25, 2017 No. 42;

the construction supervision is carried out at the Company's capital construction facilities.

For implementing control measures determined by the requirements of the Russian law in the field of capital construction, the Company identified the relevant resources for the construction supervision.

The structural unit of IDGC of Northern Caucasus PJSC arranging the construction supervision (technical supervision over construction) in accordance with the Regulation on the Capital Construction Department and job descriptions of employees approved on August 1, 2016 is the Company's Capital Construction Department consisting of 40 specialists (including the Head of the Department) subordinate to the Deputy General Director for investment activities.

According to the Regulation on the Implementation of Investment Projects of IDGC of Northern Caucasus PJSC, Chechenenergo JSC, Dagestan Grid Company JSC, in terms of design and survey works, issue of initial permits, construction and installation works, the construction supervision during construction (reconstruction) of capital construction facilities is carried out by the Capital Construction Groups by regions of the Company's Capital Construction Department consisting of 14 specialists.

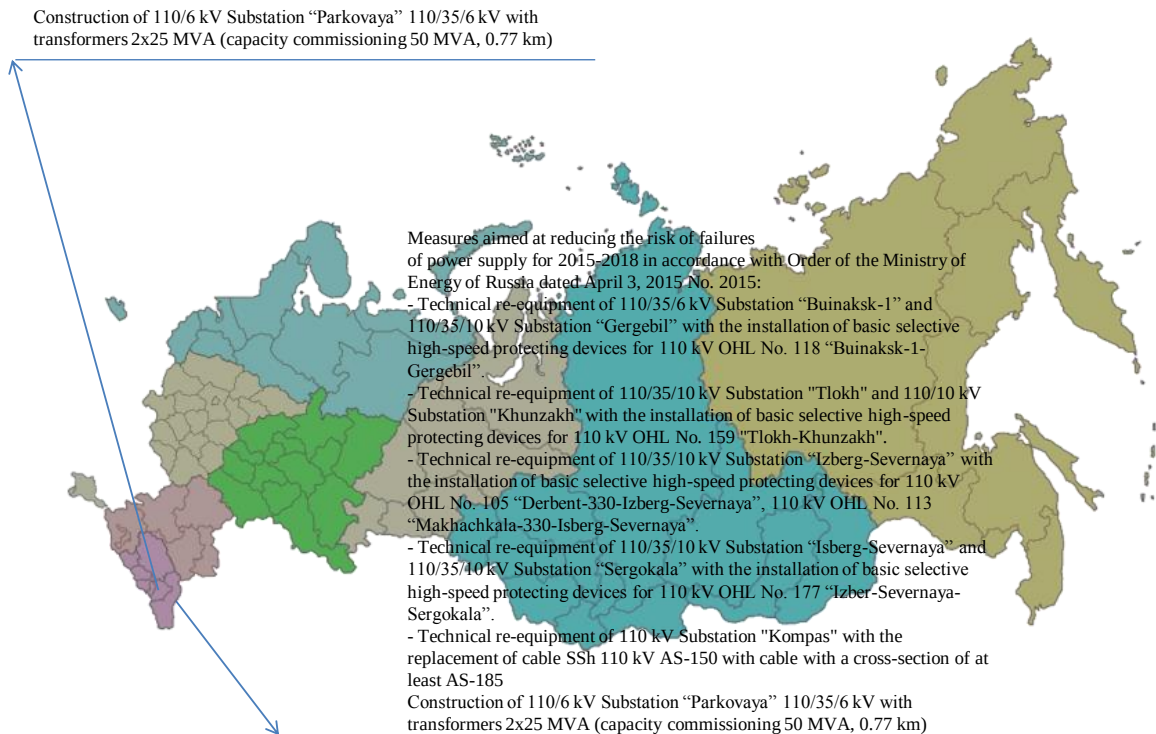
Construction supervision in 2017 reporting year was carried out by 14 construction supervision specialists of the Company, as well as for two priority facilities by contractors involved on a contractual basis:

- at the facility "Reconstruction of 110/10 kV Substation" Yuzhnaya of Karachayevo-Cherkessskenergo branch in the number of 2 specialists of CTZ JSC, Moscow;

- at the facility "Expansion with reconstruction of 35/10 kV Substation Arkhyz of Karachayevo-Cherkessskenergo branch in the number of 3 specialists of Spetsstroy LLC, Krasnodar.

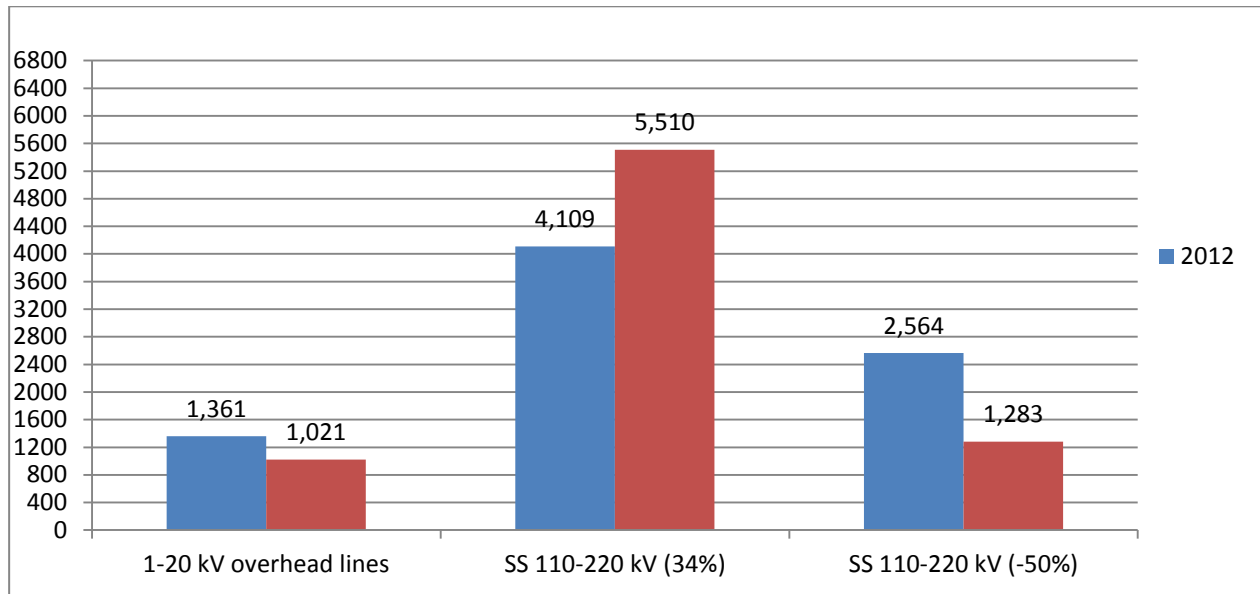
At the same time, the coverage of constructed capital construction facilities under the approved investment program of the Company with independent construction supervision amounted to 50% in 2017.

Key investment projects completed by construction in 2017



Key investment projects completed by construction in 2017

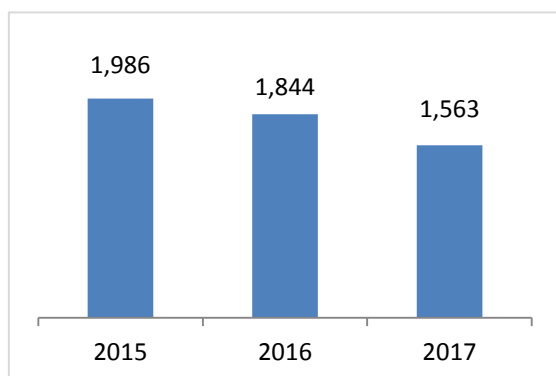
Reduction in the value of unit indicators of the construction cost adjusted to the level of 2012



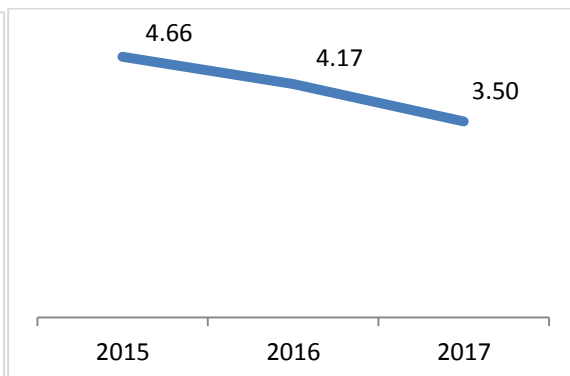
Information on the Technical Condition of Grids

In 2017, the branches of IDGC of Northern Caucasus PJSC achieved the reduction in the number of accidents in the grid of 6 kV and more, as compared to 2016, by 15.3 %, or 281 accidents. A similar situation is observed in terms of accident rate per unit, where the reduction dynamics was 16.1 %, or 0.67 units:

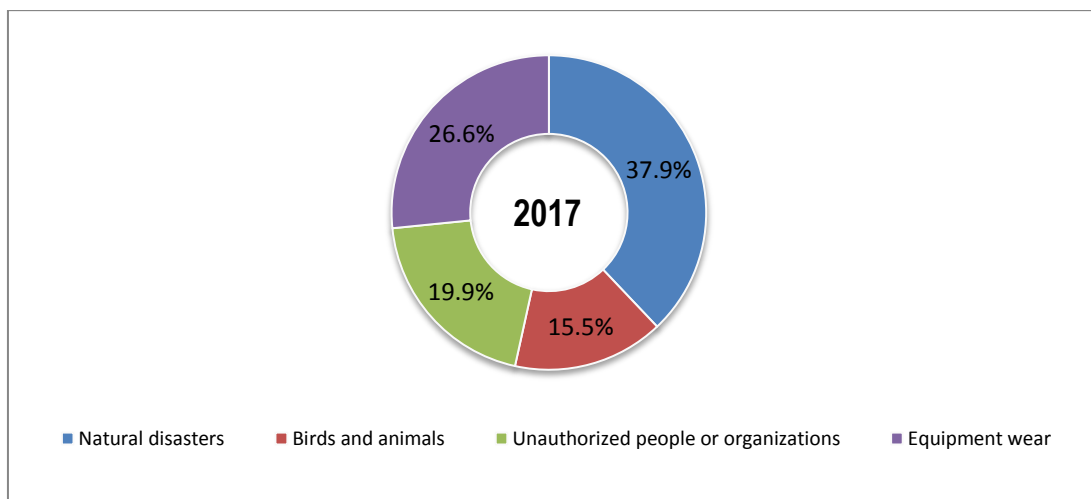
Dynamics of the Number of Accidents at the Facilities



Dynamics of the Accident Rate per Unit at the Facilities



Main Causes of Accidents in 2017



All branches of IDGC of Northern Caucasus PJSC in 2017 achieved, with significant improvement, the values of the Indicator of Average Duration of Interruption in Power Transmission (Id) established by REC:

Item No.	Branch name	Indicator (Id) established by REC	Actual value of the indicator (Id)
1	Stavropolenergo branch	0.0279	0.0069
2	Sevkavkazenergo branch	0.0724	0.0041
3	Karachayevo-Cherkesskenenergo branch	0.0275	0.0053
4	Kabbalkenergo branch	0.00443	0.00064
5	Ingushenergo branch	0.0076	0.0001

In accordance with the decision of the Board of Directors of IDGC of Northern Caucasus PJSC dated June 13, 2017 (Minutes No. 301 of June 16, 2017), the Plan for Development of the Production Assets Management System of IDGC of Northern Caucasus PJSC for 2016–2018 was approved.

Within the Plan for Development of the Production Assets Management System of IDGC of Northern Caucasus PJSC for 2016–2018, in 2017 actions were implemented on the following key objectives:

- automation of functions of the electronic defect log;
- automation of functions for the preparation of technical data sheets for substations and power transmission lines;
- integration of the Automated Maintenance and Repair Management System in the production asset management system with the accounting system;
- automation of the procedure for calculation of the scope of service in conditional and volumetric units.

Information on the completed activities under the maintenance and repair program for 2017 in terms of reduction in the accident rate

For reducing the accident rate and ensuring the reliability of power supply to consumers, in the area of operating responsibility of the branches of IDGC of Northern Caucasus PJSC for the implementation of the maintenance and repair program for 2017, 867.445 million rubles were allocated.

According to the maintenance and repair program for 2017, the branches of IDGC of Northern Caucasus PJSC arranged the following activities:

- in 110-35 kV high-voltage grids, 1,116 km of PTL were overhauled, 366 hectares of PTL routes were cleared from tree and shrub vegetation;
- in distribution grids with a voltage of 10-0.4 kV, including cable lines, 2,833 km of PTL were overhauled, 772 hectares of PTL routes were cleared from tree and shrub vegetation;
- repair of the equipment of 35-110 kV substations was carried out, including the repair of 497 power transformers, 2,592 switches and 2,035 disconnectors / separators / short-circuiters, 274 support rod insulators were replaced.
- necessary routine maintenance works were carried out at transformer substations (TS) 10(6)/0.4 kV, 1,468 (TS) 10(6)/0.4 kV, as well as 404 transformers were repaired.

The bulk of the work was performed within the preparation of the power grid complex of the North Caucasus Federal District for the autumn-winter period 2017-2018.

Technical policy and regulatory support

In 2017, IDGC of Northern Caucasus PJSC was governed by the Regulation of Rosseti PJSC on the unified technical policy in the power grid complex, approved as a bylaw of the Company by the decision of the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes No. 15 dated May 2017 No. 297).

When implementing the Regulation on a unified technical policy in the power grid complex, IDGC of Northern Caucasus PJSC uses in its production and business activities the regulatory and technical documentation from the Unified Register of RTD of Rosseti PJSC, taking into account the provisions of Order of the Federal Service for Environmental, Technological, and Nuclear Supervision (Rostekhnadzor) No. 5 dated January 13, 2015, "On the Approval of the List of Regulations and Regulatory Documents Falling within the Competence of the Federal Service for Environmental, Technological and Nuclear Supervision (Section I "Technological, Construction, Power Supervision") P-01-01-2014".

Control over the fulfillment of the recommendations of this Regulation in the implementation of production programs was exercised by the Technological Development and Innovation Department when approving the terms of reference for design and works.

Certification of Equipment

The implementation of a unified scientific and technical policy that ensures the development of power grid facilities and the efficient operation of the power grid complex of IDGC of Northern Caucasus PJSC is carried out through, in particular, the arrangement by Rosseti PJSC and IDGC of Northern Caucasus PJSC of the certification of equipment, technologies, materials and systems for preventing the use of equipment that does not meet the technical requirements for reliability, safety, performance characteristics and conditions of use.

The objectives are planned to be achieved by preventing the possibility of supplies of equipment that does not meet the requirements of the sectoral scientific and technical documentation, the standards and conditions of application for the arrangement of operating activities and the implementation of investment programs, as well as by ensuring the mandatory Russification of the interface, all inscriptions made on the imported equipment and supplied documentation, bringing operating documents for equipment, materials and systems in line with the scientific and technical

documentation, increasing the level of safety, reducing the risk of environmental damage and financial losses due to technological failures and inefficient equipment operation.

The mechanism for fulfillment of the requirements for equipment certification is implemented by amending the regulation on procurement in terms of establishment of the requirements for the acquisition of certified equipment to prevent the possibility of acquiring, installing and using uncertified power grid equipment, technologies, materials and systems at the facilities.

This organizational work was carried out by IDGC of Northern Caucasus PJSC in previous periods. During 2017, additional measures were not taken to organize the certification of equipment.

Control over the fulfillment of the requirement for the application of certified equipment is exercised at the stage of the project documentation approval. Current lists of certified equipment, materials and systems are available on the official website of Rosseti PJSC and are freely available at the following link: <http://www.rosseti.ru/investment/science/attestation/>.

Security

Physical security covers 116 power facilities of the Company. Security is provided by enterprises of ChOP Energia LLC, ChOO Bark LLC, ChOP Kodekshchit LLC, CODE STRAZHA LLC, FSUE Okhrana of the Federal Guard Service of the Russian National Guard, Departmental Security of the Ministry of Energy of Russia, declared winners based on the results of the tender held. The number of employed security personnel is 688 persons.

192 audits were performed on the status of anti-terrorist protection of power facilities, 35 training sessions were provided for actions of employees of security firms in case of emergencies, sessions and briefings are provided on a weekly basis for employees of security firms.

Cooperation with territorial security and internal affairs agencies was organized when receiving reports of terrorist act threats, during inspections of anti-terrorist protection of facilities, during anti-terrorist trainings and exercises.

Under the current conditions of increasing cyber threats to information security, the Company arranges and monitors the performance of works and implementation of activities aimed at ensuring the information security of the Company, protecting information that constitutes trade and business secrets, personal data.

The information protection system in the Company's personal data information system is introduced and operated in the branches and controlled companies - 15 pcs. (15 in 2016). The Company's branches (Stavropolenergo, Kabbalkenergo, Sevkavkazenergo, Karachayevo-Cherkesskenenergo) use data leakage prevention (DLP) systems to protect, detect and prevent the leakage of confidential information from corporate information systems and record information on illegal actions of users, the executive office of the Company uses the client-server system for encryption and control of access to information resources InfoWatch EndPoint Security covering 300 users of the corporate information system.

The Company uses the "Safety Certificate" software package. Information on 363 facilities with technical security equipment of the Company is updated in the software package.

For prompt response to threats to information security, the employees of the information security and technological systems protection department are on duty around the clock. The introduction of round-

the-clock duty allowed to timely and promptly implement measures for reducing the risks of infection with WannaCry computer virus of computers in the computer network of the executive office, branches and controlled companies of IDGC of Northern Caucasus PJSC.

Works are performed to create an information security subsystem in ADMS of IDGC of Northern Caucasus PJSC.

Documents for determining the protection class of automated process control systems used in IDGC of Northern Caucasus PJSC were classified and approved.

The report on the list of activities of IDGC of Northern Caucasus PJSC, Kabbalkenergo JSC, Sevkavkazenergo JSC for the implementation of the Roadmap (in accordance with Clause 1.3 of the Agreement on the Strategic Cooperation dated June 16, 2016 between IDGC of Northern Caucasus PJSC and UEC JSC (Sberbank PJSC)) was prepared. The report was prepared on the basis of the inspection materials in respect of Kabbalkenergo JSC, Sevkavkazenergo JSC, Dagestan Grid Company JSC, Ingushenergo branch of IDGC of the North Caucasus for ensuring the information security of subscriber metering databases of PRK STEK-Energo used in sales companies. The report contains proposals, the implementation of which allows to eliminate the prerequisites for violations in the operation of PRK STEK-Energo, factors that contribute to causing economic damage to the Company.

The licenses were purchased and InfoWatch EndPoint INSIGHT software was introduced to analyze the actions of employees in the corporate computer network of IDGC of Northern Caucasus PJSC and monitor the abuses of employees during working hours, attempts to access prohibited devices and files, including information being a trade secret and other types of confidential information.

Upon the implementation of InfoWatch EndPoint Security software in the Company, unauthorized use of external drives at the automated work place (AWP) is prohibited. Access of employees to the use of external storage devices is provided in accordance with the requirements of the Instruction on Compliance with the Information Security Rules.

For monitoring the fulfillment of the organizational and executive documentation ensuring information security, maintenance of trade and business secrets, eight inspections were carried out in business units of IDGC of Northern Caucasus PJSC and controlled companies.

The draft Target Program for the Development of Information Security Service of IDGC of Northern Caucasus PJSC and controlled companies of IDGC of Northern Caucasus PJSC for 2019-2023 was developed.

The measures taken to ensure information security allowed to ensure the maintenance of business secrets, protection of trade secrets and personal data in the Company.

Occupational Health, Safety and Environmental Protection

Occupational Health and Safety

In the reporting period, IDGC of Northern Caucasus PJSC carried out work to implement measures aimed at improving the occupational health and safety:

- competitions of professional skills among teams for repair and maintenance of distribution grids were held;
- review competition of the state of fire safety was held;

- Days of Occupational Health and Safety, Traffic Safety and Fire Safety were held on a monthly basis;
- comprehensive and thematic inspections of the state of occupational health and safety, operation of equipment, fire safety, work with personnel in power grids were completed;
- activities were performed within the third party injury prevention program;
- the requirement to include sections on cooperation and mutual responsibility for compliance with the health and safety standards and rules in contracts to be concluded was fulfilled;
- the standard to prohibit the work of contractors in the territory of the existing facilities in the event of violations of health and safety requirements and standards, instructions of the responsible employees of IDGC of Northern Caucasus PJSC was applied;
- incoming inspection of the delivered personal protective equipment was implemented in order to prevent the purchase and use of poor-quality products by the personnel;
- annual training of personnel was held on rendering first aid to the injured using a training dummy;
- training seminars were held with employees of health and safety units;
- training was held with production personnel without interruption of production;
- measures were taken to work with personnel in accordance with the approved plans and schedules;
- planned inspections of permanent workplaces and working teams were performed by participants in the production and technical councils of the internal technical control system of branches and controlled companies;
- regular training of personnel was held on skills of safe work and first aid rendering to the injured;
- status and compliance with the scheme of dispatching names on the equipment of electrical plans were checked;
- off-schedule checks of working teams and workplaces were carried out by authorized inspectors;
- procurement of personal protective equipment and electrical protective equipment for work in electrical plants at the expense of the employer was made.

In order to prevent occupational injuries of the personnel of IDGC of Northern Caucasus PJSC, the following measures were carried out:

- instructions on health and safety, job descriptions, technological maps and regulations on structural units were revised for compliance with the current health and safety requirements and inclusion therein of duties of responsible participants in the internal technical control system;
- health and safety instructions when working in general power grids and when working on overhead lines under induced voltage were developed and approved. All electrical personnel are familiar with the contents of the instructions against signature;
- verification of switchgear circuits completed with switchgear cubicles, verification of local instructions for operation of complete switchgears was held;
- analysis of conformity of the currently used, accepted and newly introduced complete switchgears to the regulatory requirements was implemented;
- programs were developed for production training of workers and engineering and technical employees.

Environmental Protection

One of the main areas of the environmental policy of IDGC of Northern Caucasus PJSC is reduction in the level of negative impact on the environment by production processes during maintenance, repairs, construction and reconstruction of power grid facilities.

The specific features of power transmission and distribution of IDGC of Northern Caucasus PJSC do not provide for significant adverse environmental impacts, when irreversible changes in the natural environment and environmental disasters are possible. Requirements for electrical plants in terms of environmental safety are determined at the design stage, which provides for protection of soils against accidental spillage of oil products from equipment (construction of oil receiving equipment under oil-filled equipment with more than 1 ton of oil, oil outlets to emergency oil collectors), protection of people and animals against direct impact of current-carrying parts and adverse effects of electromagnetic fields.

The main areas in the field of environmental protection in IDGC of Northern Caucasus PJSC are the following:

- development of draft standards for maximum permissible emissions of pollutants into the atmosphere;
- landscaping.

The most significant measures aimed at compliance with the environmental law in the reporting period were as follows:

Disposal of waste of I-IV hazard classes (used batteries, mercury and fluorescent lamps, etc.).

Volume of waste by hazard class

Name of waste types grouped by hazard classes	Waste generation for the reporting period, tons
Wastes of all hazard classes, total	1,407.652
Total for I hazard class	0.755
Total for II hazard class	8.699
Total for III hazard class	33.338
Total for IV hazard class	561.843
Total for V hazard class	803.017

Dynamics of environmental costs (based on data on the current costs for environmental protection) for 2015–2017, thousand RUB

2015	2016	2017
3,885.801	4,297.370	3,096.178

For solving environmental problems, the personnel of branches of IDGC of Northern Caucasus PJSC undergoes initial training within the framework of professional development.

In branches of IDGC of Northern Caucasus PJSC in 2017, internal environmental audit of economic activity was carried out by own forces without involvement of third party organizations and without material costs. As a result of the audit, certificates of internal environmental audits were issued in the branches where information on the state statistical reporting is specified, where data on generated waste (located in a closed equipped room, generated domestic solid waste) is reflected.

In the future, in order to apply advanced technologies and solutions in the field of environmental protection and nature management, branches are implementing measures to reduce the negative impact of production activities at the environment.

The main areas of this task are technological re-equipment and gradual decommissioning of obsolete equipment, implementation of measures for collection and storage of waste.

Innovative Development in the Field of Energy Saving and Energy Efficiency Improvement

Innovative activity of IDGC of Northern Caucasus PJSC is carried out in accordance with the Innovative Development Program of IDGC of Northern Caucasus PJSC (the Program) designed to create effective mechanisms aimed at modernizing the power grid complex, enhancing scientific and technical and inventive activities, adapting to introduction of innovations, improvement and development of the innovation system. The program is the key basic document of IDGC of Northern Caucasus PJSC in the field of scientific and technological development, new developments and researches. The program determines and systematizes the innovative activity of the Company, establishes activities in the field of scientific, technical, technological and innovative development. The Program was developed in 2011 in accordance with the decision of the Board of Directors of the Company (Minutes No. 78 dated August 1, 2011). In 2017, the Program was updated taking into account the new conditions, in accordance with the target model of innovative development and the requirements for innovative development programs. The purpose of innovative development is the transition to a power grid of a new technological structure with qualitatively new characteristics of reliability, efficiency, accessibility, manageability and customer-oriented power grid complex in general.

A power grid of the new technological order is a power system characterized by the following basic properties:

- automatic control of the power grid based on the principles of distributed (multi-agent) control;
- real-time self-diagnostics of parameters and modes of operation of the power system, individual facilities and units of equipment in order to increase the system and consumer reliability, reduce transaction costs, etc.;
- flexible automatic reconfiguration of the grid in response to changing its parameters and topology (including prevention of accidents/self-recovery of the grid after accidents);
- providing specialized services and services to various categories of consumers.
- The implementation of the Program is aimed at creating effective conditions for ensuring the following:
 - achievement of the target indicators of labor productivity and creation of high-productive workplaces provided for in Decree of the President of the Russian Federation dated May 7, 2012 No. 596 "On Long-Term State Economic Policy";
 - development and implementation of a set of measures aimed at refusing to use obsolete and inefficient technologies and introducing modern Russian technologies;
 - leadership of the Company in its industry in relation to similar companies, including foreign ones;
 - growth of long-term investment in basic and applied research and development;
 - linking the innovative development program to approved long-term development programs, the investment program, other documents of the Company, as well as documents of state strategic planning.

Key areas of innovative development:

In the field of technological innovation:

- New technologies and solutions - activities in the field of creating new types of materials, insulation, equipment involved in the company's core business processes (isolators, materials based on high-temperature superconductivity, new methods of arc suppression, new types of insulation, power electronics, etc.).
- Digitization of control and technological processes - transition from analogue to digital control principle of relay protection and emergency automatics, automated process control system, power metering and communication (application of digital metering transformers); digital modeling and design; digitalization of production assets management; introduction of digital systems for monitoring technological processes.
- Development of multi-agent systems - development of the principles of interaction in peer-to-peer control systems² between elements and power grid systems (introduction of distributed intelligent control systems).
- Increase in the performance and adaptability of power grids - development of grid properties for increasing the stability for disturbances in the grid and automatic restoration of the normal operation mode (adaptive elements of relay protection and automatics, control systems, logic automatics, digital online grid model).

In the field of organizational and marketing innovations:

- Design of new business processes and systemic reengineering of the existing business processes in terms of end-to-end performance - production assets management, client services, system life cycle management.
- Innovations in HR management - introduction of advanced technologies for human resource management.
- Creation of an innovative environment - promotion of creating a wide range of innovative companies, scientific organizations and educational institutions.

Activities within the Innovative Development Program:

- Transition to the end-to-end performance of business processes and automation of management systems.
- Development of a system for design and implementation of innovative products and technologies.
- Development of the talent pool and partnership in the field of education.

The Company's activities for innovative, scientific and technical development in 2017 was carried out in accordance with the Regulation on Innovation Activity of IDGC of Northern Caucasus PJSC.

The key activities planned in accordance with the action plan in 2017 within the Innovative Development Program were completed.

² Peer-to-peer (P2P) grids.

List of implemented activities under the Innovative Development Program:

1. Business process automation

In accordance with the Plan for Development of the Production Assets Management System of IDGC of Northern Caucasus PJSC for 2016–2018 approved by the decision of the Board of Directors of IDGC of Northern Caucasus JSC dated April 26, 2016 (Minutes No. 239 of April 28, 2016), in 2017, activities for the achievement of following priority objectives, were performed:

- implementation of the functionality of the Automated Maintenance and Repair Management System in the Production Assets Management System, including the implementation of grid reporting formats (Order of IDGC of Northern Caucasus PJSC No. 857 dated December 20, 2016 "On the Commissioning of Functionality of Automated Control Systems for Maintenance and Repair Operations");
- performance of works to improve the accuracy of assessment of technical condition of production assets. Subject to the allocation of responsibility for updating the algorithms of technical condition assessment for the group of companies of Rosseti PJSC, the specialists of the Company headed the subgroup on text status indices for the subgroup of equipment "Switchgears";
- implementation of functionality of the Automated Control System for Diagnostics of Production Assets (Order of IDGC of Northern Caucasus PJSC dated December 20, 2016 No. 858 "On the Commissioning of ACS Diagnostics Functionality");
- implementation of the functionality of the Automated Control System for Production Assets Technical Certification (Order of IDGC of Northern Caucasus PJSC dated December 12, 2016 No. 837 "On the Commissioning of Production Assets Technical Certification ACS Functionality");

2. Knowledge management system development.

As a part of the development of the knowledge management system, the Company implements measures to adapt to innovations, as well as to train and upgrade the Company's employees in the field of high-technology equipment and intellectual energy.

For the information awareness of personnel of the profile services of the branches and controlled companies of IDGC of Northern Caucasus PJSC in the field of innovative developments of equipment, materials and technologies the Technological Development and Innovation Department of the executive office arranged awareness-raising and technical training workshops with the following companies:

- Promelektronika CJSC;
- Quadro Electric LLC;
- Sim-Ross-Lamifil LLC;
- Tekhno-AS LLC;
- ChEAZ CJSC;
- GC Tavrida Electric JSC.

In addition to the regular seminars, meetings, the branches and controlled companies of IDGC of Northern Caucasus PJSC were provided with distribution materials containing information on new technologies and modern developments of the main manufacturers of electrical equipment and materials.

3. Cooperation with scientific organizations and innovative companies.

The Company concluded 6 Agreements on Cooperation with the following universities:

- Federal State Budgetary Educational Institution of Higher Professional Education "Kabardino-Balkarian State Agricultural University named after V.M. Kokov";
- Federal State Budgetary Educational Institution of Higher Professional Education "Grozny State Oil Technical University named after Academician M.D. Millionshchikov";

- Federal State Budgetary Educational Institution of Higher Professional Education "Dagestan State Technical University";
- Federal State Budgetary Educational Institution of Higher Professional Education "Gorsky State Agrarian University";
- Federal State Budgetary Educational Institution of Higher Professional Education "North Caucasus State Humanitarian-Technological Academy";
- Federal State Budgetary Educational Institution of Higher Professional Education "North Caucasian Mining and Metallurgical Institute (State Technological University)".

The above universities are cooperating in the following areas of activity:

- cooperation in educational, scientific and scientific-practical areas;
- targeted training of specialists for the needs of the companies of the distribution grid complex;
- professional training, retraining and advanced training of employees of IDGC of Northern Caucasus PJSC;
- organization of a dialogue on the site of the university with the participation of representatives of the power industry organizations, public authorities, scientific institutions, public organizations and other stakeholders to develop joint positions on actual issues of operation and development of the power grid complex in the field of power engineering development with companies of innovative profile.

For ensuring the reliable and uninterrupted power supply to power consumers during the thunderstorm period (April-October), employees of IDGC of Northern Caucasus PJSC identified a number of problems for resolution, on the basis of which together with NIU MEI research works on the following issues are performed:

- Development of a monitoring system for lightning and switching surges in the secondary circuit of substations and protective system for secondary overvoltage protection;
- Research and development of technical solutions to improve the reliability of the external insulation of overhead lines and outdoor switchgear substations in areas with different pollution conditions;
- Development of a feasibility study for the pilot implementation of multi-shielded screen type arresters on 35 kV overhead lines;

Completion of works on these issues is scheduled for 2018.

Performance indicators of the Innovative Development Program of the Company

Performance Indicator	Measurement unit	2017
Costs of research and development carried out by third-party organizations, including by contractors (universities, research organizations, innovative small and medium-sized enterprises)	thousand RUB	13.75
where projects implemented within		
process platforms	thousand RUB	0.00
universities	thousand RUB	13.75
scientific organizations	thousand RUB	0.00

Performance Indicator	Measurement unit	2017
Costs for purchase of innovative products (technologies, solutions, goods, works, services identified by the approved Innovative Development Program of the Company)	thousand RUB	0.00

Engagement in energy saving and energy efficiency improvement activities

Energy saving and energy efficiency improvement activities of IDGC of Northern Caucasus PJSC in 2017 were arranged in accordance with Federal Law dated November 23, 2009 No. 261-FZ "On Energy Saving and Improving Energy Efficiency ...", orders of the Ministry of Energy of Russia, Regulation on the Preparation of Energy Saving and Energy Efficiency Improvement Programs of Subsidiaries and Affiliates of Rosseti PJSC (approved by the Board of Directors of Rosseti OJSC (Minutes No. 156 dated June 2, 2014)), as well as in accordance with the Energy Saving and Energy Efficiency Improvement Program of IDGC of Northern Caucasus PJSC for 2015-2019 (Program) approved by the decision of the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes No. 183 dated January 12, 2015).

For ensuring the implementation of the Program in the executive office of IDGC of Northern Caucasus PJSC and in the branches of IDGC of Northern Caucasus PJSC in accordance with Order of Rosseti PJSC dated September 9, 2013 No. 561 "On the Arrangement of Energy Saving and Energy Efficiency Improvement Activities in Rosseti PJSC", executives responsible for monitoring of the Program implementation were appointed, working groups were established to analyze the implementation of Programs (Order of IDGC of Northern Caucasus JSC dated October 7, 2013 No. 518 "On the Arrangement of Energy Saving and Energy Efficiency Improvement Activities in IDGC of Northern Caucasus JSC", Order of Kabardino-Balkarian branch of IDGC of Northern Caucasus JSC dated October 11, 2013 No. 202, Order of Karachaevo-Cherkessia branch of IDGC of Northern Caucasus JSC dated October 14, 2013 No. 290 "On the Arrangement of Energy Saving and Energy Efficiency Improvement Activities in Karachaevo Cherkessia branch of IDGC of Northern Caucasus JSC, Order of North Ossetian branch of IDGC of IDGC of Northern Caucasus JSC dated October 15, 2013 No. 595, Order of Stavropolenergo branch of IDGC of Northern Caucasus JSC dated October 11, 2013 No. 260 "On the Arrangement of Energy Saving and Energy Efficiency Improvement Activities", Order of Ingush branch of IDGC of Northern Caucasus JSC on October 28, 2013, No. 224 "On the Appointment of Responsible Persons", Order of Ingush branch of IDGC of Northern Caucasus JSC dated October 28, 2013. No. 223 "On the Establishment of a Working Group").

Target indicators in accordance with the Program are:

- power loss during transmission and distribution in power grids;
- consumption of power resources for utility needs.

The numerical values of the Program targets are set for the period from 2015 to 2019.

During the reporting year, 17 employees of IDGC of Northern Caucasus PJSC upgraded their skills in the field of energy saving and energy efficiency.

Planned and actual values of target indicators of branches of IDGC of Northern Caucasus PJSC for 2017

Item No.	Indicator	Measurement unit	2016	2017	
			Actual	Plan	Actual
1	Power losses	mln kW*h	1,972.58	1,763.95	1,716.72
		mln RUB, VAT exclusive	3,487.93	3,766.58	3,247.28
		% of supply to the grid	16.16	14.35	13.98
2	Consumption for own needs of substations	mln kW*h	25.13	24.74	26.51
		% of power losses	1.27	1.40	1.54
3	Consumption of power resources for local needs of administrative and production buildings, total, including:	mln RUB, VAT exclusive	190.09	163.50	196.10
		thousand toe	6.26	5.40	6.26
3.1	power	mln kW*h	41.55	36.35	40.10
		thousand toe	4.99	4.36	4.81
		mln RUB, VAT exclusive	178.01	154.58	183.27
		mln kW*h/m ²	0.11	0.09	0.10
3.2	thermal power (building heating systems)	Gcal	6,024.72	4,046.65	5,454.45
		thousand toe	0.86	0.58	0.78
		mln RUB, VAT exclusive	10.08	6.18	10.87
		Gcal/m ³	0.32	0.21	0.35
3.3	natural gas (including liquefied)	thousand m ³	354.28	395.12	579.57
		thousand toe	0.41	0.46	0.67
		mln RUB, VAT exclusive	2.00	2.75	1.96
4	Consumption of natural resources for local needs of administrative and production buildings, total, including:	mln RUB, VAT exclusive	2.52	3.19	3.40
		thousand m ³	96.47	120.70	106.82
4.1	hot water supply	thousand m ³	0.17	0.19	0.15

Item	Indicator	Measurement unit	2016	2017	
		mln RUB, VAT exclusive	0.03	0.02	0.03
4.2	<i>cold water supply</i>	thousand m ³	96.30	120.52	106.66
		mln RUB, VAT exclusive	2.49	3.17	3.38
5	Consumption of motor fuel by motor transport and special equipment, total, including:	thousand l	6,188.69	5,998.70	5,941.91
		thousand toe	7.17	6.95	6.89
		mln RUB, VAT exclusive	186.26	209.71	193.55
5.1	<i>gasoline, including:</i>	thousand l	4,565.94	4,428.32	4,366.21
		thousand toe	5.17	5.01	4.94
		mln RUB, VAT exclusive	139.38	151.76	143.43
		thousand l/100 km	0.02	0.02	0.02
5.1.1	<i>motor transport</i>	thousand l	3,084.35	2,624.61	2,958.98
		thousand toe	3.49	2.97	3.35
		mln RUB, VAT exclusive	93.78	89.63	97.20
		thousand l/100 km	0.02	0.02	0.02
5.1.2	<i>special equipment</i>	thousand l	1,481.58	1,803.71	1,407.23
		thousand toe	1.68	2.04	1.59
		mln RUB, VAT exclusive	45.59	62.13	46.23
		thousand l/100 km	0.02	0.02	0.02
		thousand l/m.hr	0.02	0.02	0.02
5.2	<i>diesel fuel, including:</i>	thousand l	1,622.76	1,570.39	1,594.59
		thousand toe	2.00	1.94	1.96
		mln RUB, VAT exclusive	46.88	57.96	50.71
		thousand l/100 km	0.06	0.05	0.05
5.2.1	<i>motor transport</i>	thousand l	512.11	326.25	404.32
		thousand toe	0.63	0.40	0.50
		mln RUB, VAT exclusive	14.97	12.00	12.86

Item	Indicator	Measurement unit	2016	2017	
		thousand l/100 km	0.04	0.02	0.02
5.2.2.	<i>special equipment</i>	thousand l	1,110.65	1,244.14	1,190.27
		thousand toe	1.37	1.53	1.46
		mln RUB, VAT exclusive	31.91	45.95	37.85
		thousand l/100 km	0.04	0.04	0.04
		thousand l/m.hr	0.01	0.01	0.01
5.3	<i>Other types of fuel for motor transport and special equipment, total, including:</i>	thousand toe	0.28	0.17	0.20
		mln RUB, VAT exclusive	3.26	3.05	2.57
5.3.1	<i>natural gas (including liquefied)</i>	thousand l	246.73	146.88	181.73
		thousand toe	0.28	0.17	0.21
		mln RUB, VAT exclusive	3.26	3.05	2.56
6	Equipping with energy-saving lighting devices using LED	%	-	-	10.12
	quantity of used lighting devices, including:	pcs.	-	-	25,431
	with energy-saving lamps (without LED)	pcs.	-	-	13,992
	with LED	pcs.	-	-	2,574

The Company used no other types of power resources in the reporting year, with the exception of those types of power resources that are named in this table and Appendix 9 to the Russian Version of the Annual Report. Non-achievement of the Program's targets in terms of resource consumption for economic needs in physical terms is caused by the absence in the Energy Saving Program of activities for reducing these resources covered by funding sources.

IT and Telecommunications

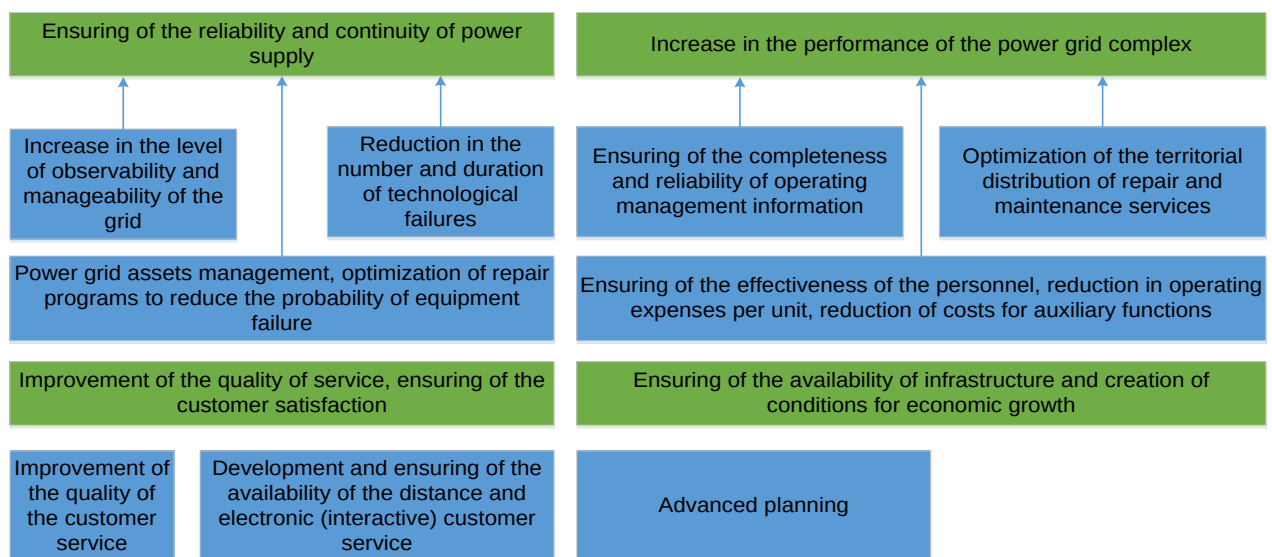
IDGC of Northern Caucasus PJSC is a modern power company, the effectiveness of which depends substantially on the use of information technologies and automation tools. Under the current conditions, the operation of the power grid complex in general and IDGC of Northern Caucasus PJSC in particular cannot be organized without such elements as:

- automated business management systems ensuring the efficiency and business continuity of the Company.
- automated process control systems ensuring the power transmission process optimization, reduction in excessive losses and reduction in the number of personnel involved. Due to the process control system, the risk of accidents associated with the human factor is reduced;

- communication systems and IT infrastructure ensuring the efficiency of the full range of these automation tools, as well as smooth communication for all employees of the Company.

Introduction of new projects, development of the existing projects and maintenance of already implemented projects in the field of information technologies refer to the continuous operation performed in accordance with the Company's Information Technology and Telecommunications Strategy (hereinafter - ITT Strategy). This Strategy defines the objectives of development of information technologies of the Company, strategic initiatives and activities for their achievement, approved by the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes dated July 26, 2012).

Information technologies play the most important role in the implementation of the key business objectives of the Company, such as ensuring the reliability and continuity of power supply, improving the quality of service, and ensuring the customer satisfaction. The growth of process automation also allows to ensure more efficient operation of the power grid complex.



The key areas of work in 2017 were the following: creation of a common information space of IDGC of Northern Caucasus PJSC, further modernization of IT infrastructure, development and modernization of inter-regional corporate data transmission grid, as well as development of information systems on the basis of complex "1C-Energy".

The range of IT services provided to local and remote users (access to corporate e-mail and corporate resources) was expanded, as well as monitoring capabilities for software and hardware were increased.

Procurement Activities

Normative regulation of procurement activities (existing organizational and administrative documents of the joint stock company regulating the procurement activities):

Unified Procurement Standard of Rosseti PJSC (Regulation on Procurement) (hereinafter - the Standard) approved by the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes dated December 23, 2015 No.220).

Principal organizational and administrative documents of the Company regulating the procurement activities include:

- Order of IDGC of Northern Caucasus PJSC "On the Arrangement of the Procurement Activities" (updated in 2017);
- Order of IDGC of Northern Caucasus PJSC "On the Standardization of Procurement of Certain Types of Goods, Works and Services in IDGC of Northern Caucasus PJSC" (issued in 2016);
- Instruction of IDGC of Northern Caucasus PJSC "On Payment under Contracts with SMEs".

Principles of arrangement of procurement activities of IDGC of Northern Caucasus PJSC:

Information transparency of procurement - ensuring the transparency of procurement in accordance with the requirements of the Russian law, and to the extent necessary and sufficient to enable decision making by potential counterparties to participate in the procurement procedures of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC.

Equality, justice, absence of discrimination and unreasonable restrictions of competition in respect of procurement participants - selection of suppliers, contractors, responsible persons shall be carried out mainly through competitive selection on the basis of equal competitive opportunities, absence of discrimination and unreasonable restrictions in respect of procurement participants in accordance with the reasonable requirements to potential participants in procurement procedures and goods, works and services to be purchased, taking into account (if necessary) the life cycle.

Target and cost-effective expenditure of funds for the purchase of goods, works and services and implementation of measures aimed at reducing customer costs - selection of technical and commercial proposals using the all range of price and non-price predetermined criteria for determining the economic and other required procurement efficiency.

No limitation of admission to participate in the procurement by establishing unmeasurable requirements to procurement participants.

Transparency and control of procurement activities - planning, accounting, monitoring, control and audit of procurement at all stages of implementation in Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC.

Professionalism and competence of employees involved in the procurement of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC - personal responsibility of officials for the effective organization of procurement procedures, as well as for their decisions made on procurements, excellent performance of actions provided for by the regulatory procurement documents.

Compliance with the current law governing the arrangement of procurement and anti-corruption law, including Anti-Corruption Standard of Procurement.

Procurement standard provides for the following procurement methods:

- tender;
- auction;
- request for proposals;
- request for quotation;
- procurement from a single source;

- simple purchase;
- small purchase;
- purchase through participation in procedures arranged by product sellers.

The standard provides for the following forms of procurement, special procedures:

- ✓ open and closed;
- ✓ in electronic form or using hard copies;
- ✓ with or without re-auction;
- ✓ with or without preliminary qualification selection of procurement participants;
- ✓ with or without an option to submit alternative proposals;
- ✓ in one-, two- or multi-stage form;
- ✓ special procedures for procurement of complex goods;
- ✓ with an option to select several winners/entities that provided best offers on a single lot (if procurement is carried out by any method, apart from the tender);
- ✓ procurement for the right to execute a framework agreement with one or more procurement participants.

The standard provides for the following priority of procurement methods (selected depending on the agreement subject matter, number of criteria and other factors):

- tender or auction;
- request for proposal or request for quotation;
- simple purchase or small purchase;
- purchase from a single supplier (responsible person, contractor).

Auction is held in the procurement of products for which there is a competitive market of manufacturers and with respect to which the initiator of procurement provides detailed requirements in the form of a terms of reference. The central procurement body of Rosseti PJSC has the right to determine the list of products purchased only based on the results of the auction.

Request is made if at least one of the following conditions is met:

- a) the initial (maximum) contract price does not exceed 10 million rubles (VAT inclusive);
- б) works are purchased for construction, technical re-equipment and reconstruction of power grid facilities required for the implementation of measures for technological connection of preferential groups of applicants.

Preferential groups of applicants mean:

- 1) connection of applicants' power units at voltage up to 20 kV with a capacity of up to 15 kW, located at a distance of 300 (500) m in the cities and towns (rural areas);
- 2) connection of applicants' power units at voltage up to 20 kV with a capacity of up to 150 kW according to III power supply category, located at a distance of 300 (500) m in the cities and towns (rural areas);
- 3) connection of applicants' power units at voltage up to 20 kV and with a capacity of up to 670 kW, located at a distance of 300 (500) m in the cities and towns (rural areas), which does not require works

for the construction (reconstruction) of power grid facilities, except for works for the construction of facilities from the existing grids to connected power units.

Request for quotation may be applied in the procurement of simple goods, for which there is an operating market, the only criterion is the price and the initial (maximum) contract price which does not exceed 5 mln RUB (VAT inclusive). RFQ may also be carried out based on the results of open competition procedures among the participants which have signed framework agreements.

Simple purchases are carried out at the initial (maximum) contract price of 100,000 rubles up to 500,000 rubles inclusive (VAT inclusive). Simple purchase by the decision of the customer may be carried out at the initial (maximum) contract price of less than 100,000 rubles (VAT inclusive).

Small purchases are made at the initial (maximum) price of the purchase of up to 100,000 rubles (VAT inclusive).

Grounds for conclusion of a contract with a single source are defined by the Standard. Procurement from a single source may be made if approved at the meeting of the Central Procurement Body of the Company.

Purchases by participating in procedures organized by sellers of products are carried out in accordance with the requirements of the organizers of such purchases. A positive decision on the participation in such procedures is made if these procedures ensure an honest and fair competition for procurement participants.

In fact, for the period, 458 purchases were made for a total amount of 4,443,391.83 thousand rubles, VAT exclusive.

Also by types of purchases:

116 purchases by open RFQs for the amount of 509,868.24 thousand RUB, VAT exclusive (23.40% of the total procurement scope, 9.08 % of the total procurement amount in monetary terms);

21 purchases based on the results of open competition procedures for the amount of 78,429.76 thousand RUB, VAT exclusive (3.31 % of the total procurement scope, 0.88 % of the total procurement amount in monetary terms);

35 purchases by open single-stage tenders for the amount of 496,052.82 thousand RUB, VAT exclusive (8.27 % of the total procurement scope, 12.47 % of the total procurement amount in monetary terms);

95 purchases by open RFPs for the amount of 442,227.10 thousand RUB, VAT exclusive (22.46 % of the total procurement scope, 10.80% of the total procurement amount in monetary terms);

20 purchases from a single source for the amount of 34,813.55 thousand RUB, VAT exclusive (7.33 % of the total procurement scope, 0.80% of the total procurement amount in monetary terms);

171 purchases from a single source based on the results of failed open procedures for the amount of 2,882,000.28 thousand RUB, VAT exclusive (35.22 % of the total procurement scope, 65.98 % of the total procurement amount in monetary terms).

116 of them are procedures with the only participant (one submitted application) for the amount of 2,236,393.69 thousand rubles, VAT exclusive (80.49 % of the procurement amount based on the results of failed open procedures in monetary terms):

55 of them are procedures with the only qualified participant (one application satisfies TOR, applications of other participants are refused) for the amount of 645,606.67 thousand RUB, VAT exclusive (19.51 % of the procurement amount based on the results of failed open procedures in monetary terms):

Also by types of activity:

Reconstruction and technical re-equipment of power grid facilities - 104 purchases for the amount of 506,142.64 thousand RUB, VAT exclusive (26.53 % of the total procurement scope, 12.54 % of the total procurement amount in monetary terms);

Power repair production 186 – purchases for the amount of 990,801.55 thousand RUB, VAT exclusive (35.71 % of the total procurement scope, 16.85 % of the total procurement amount in monetary terms);

IT-procurement – 19 purchases for the amount of 35,073.80 thousand RUB, VAT exclusive (4.85 % of the total procurement scope, 0.85 % of the total procurement amount in monetary terms);

Other procurement – 149 purchases for the amount of 2,911,373.84 thousand RUB, VAT exclusive (32.91 % of the total procurement scope, 69.77 % of the total procurement amount in monetary terms)

30 simple and small purchases for the amount of 5,553.34 thousand RUB, VAT exclusive.

438 purchases were made using **e-commerce** in the amount of 4,408,578.28 thousand RUB, VAT exclusive (100% of the total procurement scope, 100% of the total procurement amount (excluding purchases from a single source) in monetary terms).

Purchases from small and medium-sized enterprises amounted to 2,001,296.48 thousand RUB, VAT exclusive (377 purchases), or 78 % of the actual amount (89.13 % by quantity).

The economic effect based on the results of the procurement procedures for the period amounted to 222,861.14 thousand RUB, VAT exclusive, or 4.78 % of the declared planned value of competitive procurement.

The share of purchases only from small and medium-sized enterprises amounted to 684,462.11 thousand RUB, VAT exclusive (15.85 % of the total amount).

The share of open procurement procedures (open tenders, requests for proposals, competitive negotiations, closed requests for quotations based on the results of open competitive negotiations) in the procurement structure was 92.67 % of the total quantity of completed procurement procedures and 99.20% of the total procurement amount in monetary terms.

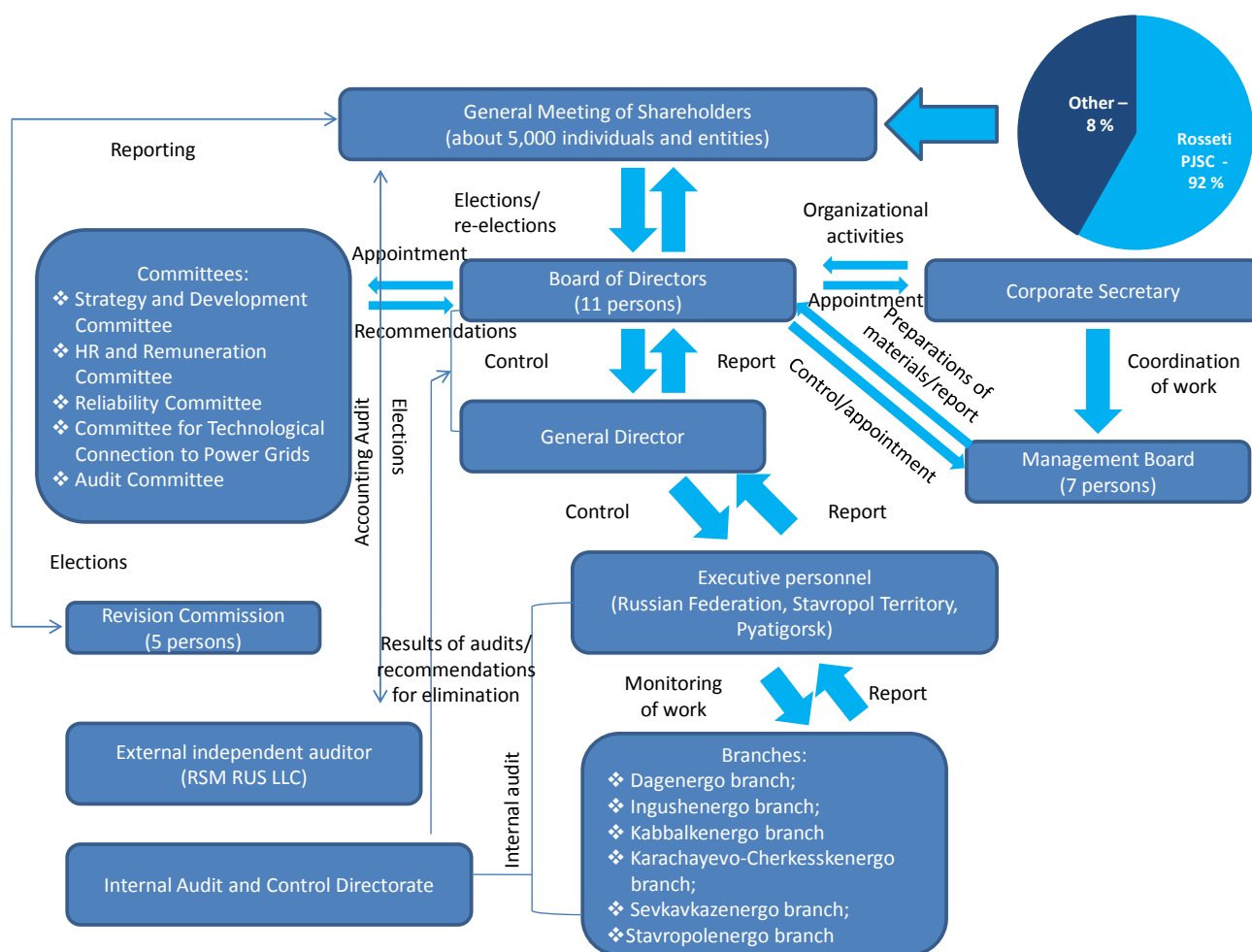
The Company has approved a list of goods, works and services, procurement of which is carried out from small and medium-sized enterprises (SMEs). This measure is aimed at improving the access of SMEs to the purchases made by the Company. As an additional tool to attract small and medium-sized enterprises to participate in trade and procurement procedures in 2016, it is planned to hold seminars to build a constructive dialogue and mutually beneficial cooperation, which will take into account both the interests of the Company and the interests of business. In 2017, together with SME Corporation JSC, a training seminar will be organized regarding the participation of SMEs in the procurement in accordance with Federal Law dated July 18, 2011 No.223-FZ “On the Procurement of Goods, Works and Services by Certain Types of Legal Entities”. In addition, for improving the payment discipline control with respect to contracts with small and medium-sized enterprises, it is planned to review the report on payment under contracts on a quarterly basis at the meetings of the Board of Directors.

In accordance with the approved list in 2017 in IDGC of Northern Caucasus PJSC, the share of purchases only from small and medium-sized enterprises accounted for 684,462.11 thousand RUB, VAT exclusive (15.85 % of the total amount).

For increasing the transparency of procurement activities and enhancing the competitive environment among small and medium-sized enterprises within the Roadmap “Expansion of Access of Small and Medium-Sized Enterprises to the Procurement of Infrastructure Monopolies and State-Owned Companies” approved by Decree of the Government of the Russian Federation dated May 29, 2013 No.867-r, as well as for improving the availability of information on the current procurement procedures among SMEs in the section “Procurement/Procurement for SMEs” on the Company's official website there is information on the parts of the procurement plan, providing for procurement only from SMEs, as well as procurement for which it is planned to attract SMEs as subcontractors. In 2017, for ensuring the financial stability of IDGC of Northern Caucasus PJSC in the current economic environment, the effective use of funds and prevention of procurement of goods, works and services not related to the implementation of the priority objectives of IDGC of Northern Caucasus PJSC, as well as having superior characteristics, standardization of individual purchases of goods was established, which determines the requirements for certain types of goods, works and services procured by IDGC of Northern Caucasus PJSC.

We recognize the rights of all stakeholders provided for by the Russian law, and strive to establish the constructive cooperation with such persons.

Principal elements of the corporate governance model of IDGC of Northern Caucasus PJSC*



* Excluding actually placed shares of the current issue

Documents

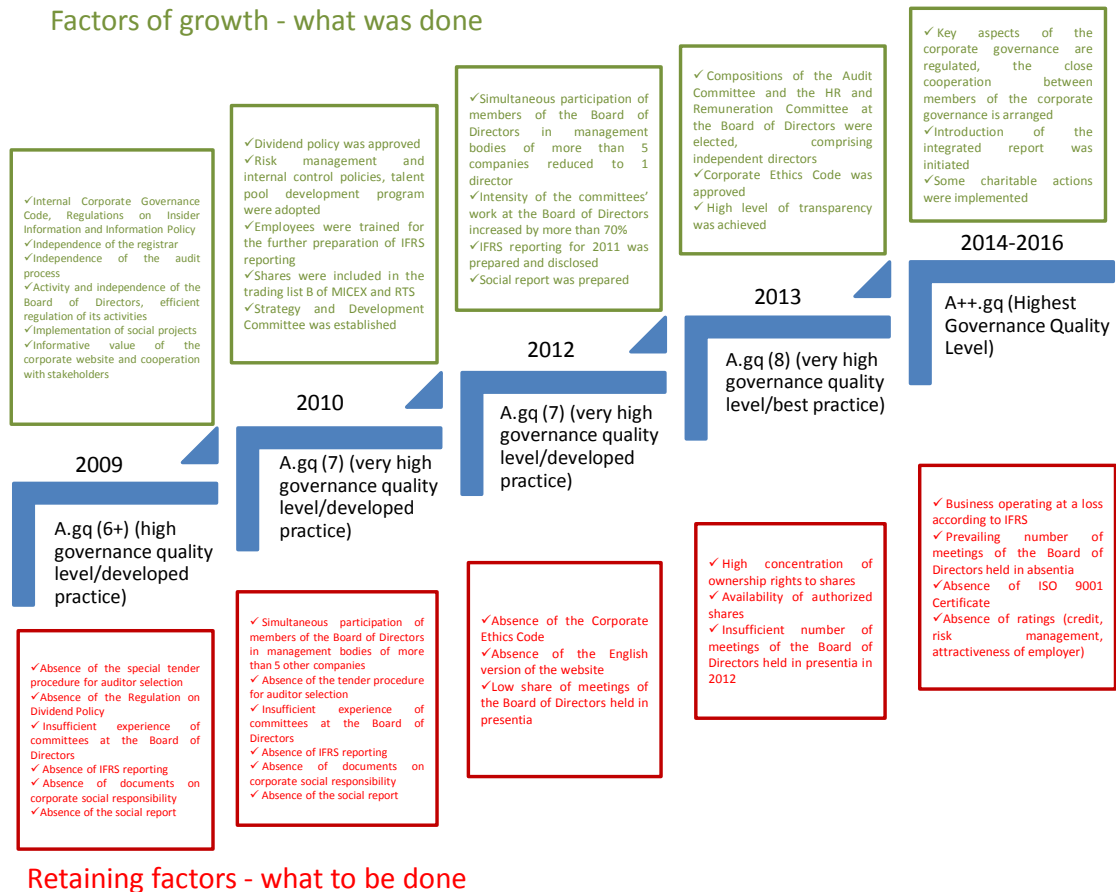
The basic corporate governance principles are also set forth in the Charter of IDGC of Northern Caucasus PJSC, detailed in the Corporate Governance Code and other bylaws of the Company and based on the Russian law, the Russian Corporate Governance Code. Texts of local regulatory documents of IDGC of Northern Caucasus PJSC are presented on the Company's website in the section “For Shareholders and Investors/Charter and Bylaws”.

Analysis of the state

The Corporate Governance Code recommended for use of joint stock companies by the Bank of Russia covers IDGC of Northern Caucasus PJSC. In this regard, we continue to solve task of adaptation and acceptable implementation of recommendations of the Code into the corporate governance system of IDGC of Northern Caucasus PJSC. To this end, since 2016 we annually conduct analysis of the corporate governance practice of IDGC of Northern Caucasus PJSC on the compliance with the Code, using the recommendations of the Bank of Russia (letter of the Bank of Russia dated February 17, 2016 No.IN-06-52/8 “On the Disclosure of a Report on the Compliance with the Principles and Recommendations of the Corporate Governance Code in the Annual Report of a Public Joint Stock Company”).

In addition, in 2017, we carried out an annual **external independent audit** of the governance quality in IDGC of Northern Caucasus PJSC by rating agency Expert RA (RAEX). The analysis was performed by the main factors: the rights of owners, management and control bodies, information transparency, corporate social responsibility, operating efficiency and market position. Methodology is available on the rating agency's website. When preparing its report, the rating agency makes an opinion on the extent, to which the quality management system promotes respect for and protection of the rights of stakeholders. Comments of independent experts help us to identify areas of corporate governance development.

Reflection of the governance quality of IDGC of Northern Caucasus PJSC in independent ratings according to Rating Agency Expert RA



Source: Expert RA, IDGC of Northern Caucasus PJSC

In 2017, the rating agency RAEX (Expert RA) confirmed the governance quality rating of IDGC of Northern Caucasus PJSC at the level of A++.Gq (highest governance quality level). This assessment means that the management quality system to the highest possible extent promotes the respect for and protection of the stakeholders' rights.

In addition, in connection with the approval of the Russian Corporate Governance Code, we conducted an **independent analysis** of the compliance of practices of IDGC of Northern Caucasus PJSC with the principles set forth in the Code. The conducted analysis showed that IDGC of Northern Caucasus PJSC observes about 40% of such principles, and taking into account the partial compliance - more than 80%. Therefore, in many cases, we use alternative mechanisms and corporate governance tools (see Appendix 7 to the Russian version of the Annual Report).

Plans

Our major plans in terms of development of the best corporate governance practices in the Company in the medium term (next 5 years) are as follows:

- maintain the existing compliance (as set forth in Appendix 7 to the Russian version of the Annual Report);

- continue the performance of annual independent comprehensive analysis of the compliance of practices of IDGC of Northern Caucasus PJSC with the principles set forth in the Code, and adopt a plan for implementation of certain provisions of the Code, if necessary.

Management and supervisory bodies

Management bodies of IDGC of Northern Caucasus PJSC:

- General Meeting of Shareholders;
 - Board of Directors;
 - Management Board (Collegial Executive Body);
 - General Director (sole executive body.)
- Company's business and financial supervisory body - Audit Commission.

General Meeting of Shareholders

- supreme management body of IDGC of Northern Caucasus PJSC

On June 15, 2017, the Annual General Meeting of Shareholders of IDGC of Northern Caucasus PJSC was held.

Decisions made (Minutes No. 18 dated June 19, 2017):

- approve the annual report, annual financial statements;
- not to pay dividends on ordinary shares as of the end of 2016;
- elect the members of the Board of Directors and the Audit Commission;
- approve the auditor;
- approve the revised Charter;
- approve the revised bylaws: Regulation on the General Meeting of Shareholders, Regulation on the Board of Directors, Regulation on the Audit Commission.

The competence of the General Meeting of Shareholders is established by Article 48 of Federal Law dated December 26, 1995 No. 208-FZ "On Joint Stock Companies" and Article 10 of the Charter of IDGC of Northern Caucasus PJSC.

Issues assigned to the competence of the General Meeting of Shareholders may not be delegated to the Board of Directors or executive bodies. The General Meeting of Shareholders does not have the right to take decisions on the issues not referred its competence by Federal Law "On Joint Stock Companies".

Board of Directors - governing body that determines the Company's development strategy

The professional Board of Directors is a key element of the corporate governance system of IDGC of Northern Caucasus PJSC, affecting the performance of the Company and providing strategic governance and supervision of the executive bodies in the interests of shareholders and the Company itself.

In its activities, the Board of Directors is governed by Federal Law "On Joint Stock Companies", other regulations of the Russian Federation, the Charter of IDGC of Northern Caucasus PJSC, the Regulation on the Board of Directors, the principles and recommendations of the Corporate Governance Code recommended for application by the Bank of Russia, as well as the Corporate Governance Code of IDGC the Northern Caucasus PJSC and the Corporate Ethics Code of IDGC of Northern Caucasus PJSC.

We rigorously strive to ensure that a candidate for the Board of Directors of IDGC of Northern Caucasus PJSC is a person who has an impeccable business and personal reputation, having the knowledge, skills and experience required for decision-making and effective management.

Election of members of the Board of Directors of IDGC of Northern Caucasus PJSC is carried out by transparent procedure (recorded in the Charter of the Company), allowing the shareholders to obtain information on the candidates, sufficient to provide insight into their personal and professional qualities. Information on the candidates, as well as shareholders proposing candidates for inclusion in the voting list for election to the Board of Directors are posted on the website of IDGC of Northern Caucasus PJSC in the sections "For Shareholders and Investors/Corporate Governance/Materials for General Meetings of Shareholders" and "For Shareholders and Investors/Corporate Governance/Board of Directors".

According to the Corporate Governance Code recommended for application by the Bank of Russia, under the normal circumstances, a member of the Board of Directors associated with the Company, its major shareholder, material counterparties, competitors or the government may not be considered an independent member. In the literal sense of these criteria in the Board of Directors of IDGC of Northern Caucasus PJSC, there are no independent directors. However, we believe that all persons elected to the Board of Directors of IDGC of Northern Caucasus PJSC have sufficient professionalism, experience and independence to have their own opinion and are able to make objective and conscientious decisions.

Decisions at the meeting of the Board of Directors of IDGC of Northern Caucasus PJSC are passed by a majority of votes of members of the Board of Directors participating in the voting, with the exception of cases provided for by the law of the Russian Federation and the Company's Charter. The quorum required for the arrangement of sessions is at least one half of the elected members of the Board of Directors.

The competence of the Board of Directors is established by Article 65 of Federal Law dated December 26, 1995 No. 208-FZ "On Joint Stock Companies" and Article 15 of the Charter of IDGC of Northern Caucasus PJSC.

Issues assigned to the competence of the Board of Directors may not be delegated to the General Director or the Management Board of IDGC of Northern Caucasus PJSC.

In 2017, 50 meetings of the Board of Directors of IDGC of Northern Caucasus PJSC were held (10 of which in presentia and in absentia). In total, 259 issues were considered.

The Board of Directors considered the issues related to the implementation of the strategy of IDGC of Northern Caucasus PJSC. The key decisions made by the Board of Directors include as follows:

- participation of IDGC of Northern Caucasus PJSC in Dagestan Grid Company JSC through acquisition of additional shares placed was approved (Minutes No. 276 dated January 16, 2017);
- the Company's performance on the implementation of measures for reducing actual power losses was reviewed on a regular basis (Minutes No. 277 dated January 23, 2017, No. 280 dated February 1, 2017, No. 283 dated February 22, 2017, No. 288 dated March 17, 2017, No. 296 dated May 15, 2017, No. 300 dated June 13, 2017, No. 309 dated July 31, 2017, No. 313 dated August 31, 2017, No. 320 dated October 12, 2017);
- the Company's performance on the implementation of the Comprehensive Program of Actions for Reduction in Excessive Power Losses in Distribution Grids in the North Caucasus was reviewed on a regular basis (Minutes No. 277 dated January 23, 2017, No. 280 dated February 1, 2017, No. 283 dated

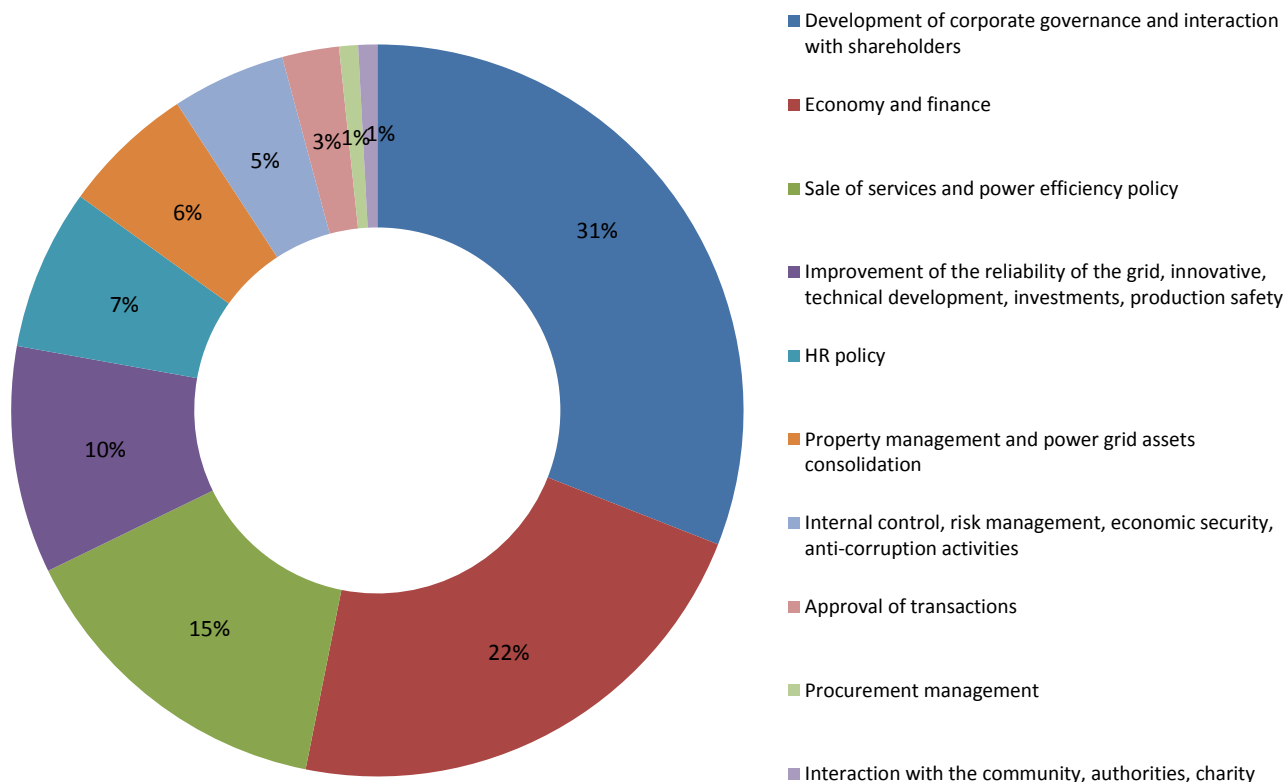
February 22, 2017, No. 296 dated May 15, 2017, No. 300 dated June 13, 2017, No. 309 dated July 31, 2017, No. 313 dated August 31, 2017, No. 320 October 12, 2017);

- the Company's performance on the implementation of measures for consolidating power grid assets was reviewed on a regular basis (Minutes No. 277 dated January 23, 2017, No. 280 dated February 1, 2017, No. 283 dated February 22, 2017, No. 288 dated March 17, 2017, No. 296 dated May 15, 2017, No. 300 dated June 13, 2017, No. 309 dated July 31, 2017, No. 313 dated August 31, 2017, No. 320 dated October 12, 2017);
- the action plan of the Company's Internal Audit Business Unit for 2017 was approved (Minutes No. 278 dated January 27, 2017);
- the revised Anti-Corruption Policy of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC was approved (Minutes No. 278 dated January 27, 2017);
- the action plan for liquidation of the traumatic and defective equipment, places and mechanisms and elimination of the injury risk of IDGC of Northern Caucasus PJSC for 2017-2021 was approved (Minutes No. 278 dated January 27, 2017);
- the Agreement on Amending the Collective Agreement of IDGC of Northern Caucasus PJSC for 2013-2018 was approved (Minutes No. 281 dated February 2, 2017);
- the target model of the operational and technological control system of the distribution power grid complex of the Company's branches was approved (Minutes No. 282 dated February 10, 2017);
- draft amendments to the Company's investment program for 2016-2022 were considered (Minutes No. 284 dated February 22, 2017, No. 289 dated March 31, 2017);
- the Regulation on the Implementation of the Unified Communication Policy of IDGC of Northern Caucasus PJSC was approved (Minutes No. 285 dated March 3, 2017, No. 314 dated September 1, 2017);
- amendments to the Internal Audit Policy of IDGC of Northern Caucasus PJSC were approved (Minutes No. 285 dated March 3, 2017);
- the organizational structure of the executive body of the Company was approved (Minutes No. 286 dated March 3, 2017);
- action plan for the implementation of instructions of the Government Commission on the Social and Economic Development of the North Caucasus Federal District by the Company was approved (Minutes No. 286 dated March 3, 2017);
- proposals of the Company's shareholders on the inclusion of issues in the agenda of the Company's Annual General Meeting of Shareholders and nomination of candidates for membership in the management and control bodies of the Company were considered (Minutes No. 287 dated March 9, 2017)
- the Company's action plans for reducing the overdue accounts receivable for power transmission services and dispute settlement were approved (Minutes No. 290 dated April 3, 2017, No. 302 dated June 16, 2017, No. 318 dated September 29, 2017);
- proposals for the creation of a unified software solution for power metering were considered (Minutes No. 291 dated April 7, 2017);
- the revised Regulation on the Disposal of Housing and Utility Facilities of IDGC of Northern Caucasus PJSC was approved (Minutes No. 292 dated April 7, 2017);
- candidates for certain positions in the executive body of the Company were approved, as determined by the Board of Directors of the Company (Minutes No. 292 dated April 7, 2017, No. 309 dated July 31, 2017);
- authorities were early terminated and a member of the Company's Management Board was elected (Minutes No. 292 dated April 7, 2017);
- the budget of the Company's Internal Audit and Control Business Unit for 2017 was approved (Minutes No. 292 dated April 7, 2017);
- the Methodology for Calculation and Assessment of the Achievement of Key Performance Indicators for General Director of IDGC of Northern Caucasus PJSC was approved (Minutes No. 292 dated April 7, 2017);

- the report of the Internal Audit and Control Directorate of the Company on the implementation of the action plan for 2016 was approved and the results of the internal audit and self-assessment of the quality of internal audit activities for 2016 were taken into account (Minutes No 294 dated April 24, 2017);
- the Regulation on the Internal Audit and Control Directorate of IDGC of Northern Caucasus PJSC was approved (Minutes No. 294 dated April 24, 2017);
- the Program of Actions for Reduction in Excessive Power Losses in the Power Grid Complex of IDGC of Northern Caucasus PJSC was approved (Minutes No. 294 dated April 24, 2017);
- the decision was made to convene the Company's Annual General Meeting of Shareholders, to determine the form, date, place and time of the Company's Annual General Meeting of Shareholders, the time for commencement of registration of persons participating in the Company's Annual General Meeting of Shareholders (Minutes No. 295 dated May 12, 2017);
- the report on the implementation of the Business Plan, including the Investment Program and information on key operating risks, for 2016 was approved (Minutes No. 296 dated May 15, 2017);
- the issue on the implementation of the Action Plan for Enhancement of the Efficiency of Operations and Improvement of the Financial and Economic Standing of the branches and subsidiaries and affiliates of the Company for Q4 2016 and 2016 was considered (Minutes No. 296 dated May 15, 2017);
- the issue on the key operating risk management of the Company for 2016 was considered (Minutes No. 297 dated May 15, 2017);
- the Agreement on the Reduction in the Level of Power Losses in Power Grids and the Additional Incentives for Employees of the Company's Branches was approved (Minutes No. 297 dated May 15, 2017);
- the Corporate Code of Ethics and Business Conduct of IDGC of Northern Caucasus PJSC was approved (Minutes No. 297 dated May 15, 2017);
- the Regulation of Rosseti PJSC on the Unified Technical Policy in the Power Grid Complex was approved as a bylaw of the Company (Minutes No. 297 dated May 15, 2017);
- the report of the Company's General Director on the organization and operation of the internal control system, including information on the implementation of measures for improving the internal control system and the risk management system (Minutes No. 299 dated June 2, 2017);
- the internal audit report of the Company on the effectiveness of the internal control system and the risk management system of the Company based on the results of 2016 was approved (Minutes No. 299 dated June 2, 2017);
- the adjusted Plan for Development of the Production Assets Management System of the Company for 2016-2018 was approved (Minutes No. 301 dated June 15, 2017);
- amendments to the Regulation on Financial Incentives for the General Director of IDGC of Northern Caucasus PJSC were approved (Minutes No. 302 dated June 16, 2017);
- Chairman of the Board of Directors of the Company was elected (Minutes No. 303 dated June 22, 2017);
- the Operating Performance Improvement and Expenses Reduction Program of IDGC of Northern Caucasus PJSC was approved (Minutes No. 305 dated July 3, 2017);
- the Company's General Director was elected for a new term until August 28, 2020 inclusive (Minutes No. 307 dated July 17, 2017);
- the Program for Prospective Development of Power Metering Systems of IDGC of Northern Caucasus PJSC for 2017-2021 was approved (Minutes No. 308 dated July 24, 2017);
- the amount of fee for the auditor's services for the audit of the Company's accounting (financial) statements for 2017 was determined (Minutes No. 308 dated July 24, 2017);
- the Program for Power Losses Reduction in Power Grids of Ingushenergo Branch of IDGC of Northern Caucasus PJSC for 2017 and the period until 2019 was approved (Minutes No. 308 dated July 24, 2017);

- the Program for Consolidation of Power Grid Assets of IDGC of Northern Caucasus PJSC for 2017-2019 was approved (Minutes No. 310 dated July 31, 2017);
- the Action Plan for Enhancement of the Efficiency of Operations and Improvement of the Financial and Economic Standing of the branches of IDGC of Northern Caucasus PJSC and controlled companies for 2017–2018 was approved (Minutes No. 312 dated August 14, 2017);
- the Program for Modernization (Renovation) of Power Grid Facilities of IDGC of Northern Caucasus PJSC was approved (Minutes No. 314 dated September 1, 2017);
- Agreement on Amending the Collective Agreement of IDGC of Northern Caucasus PJSC for 2013–2015 was approved, taking into account the extension of its term for 2016-2018 (Minutes No. 315 dated September 8, 2017);
- amendments to the Resolution on the Additional Issue of Securities and the Securities Prospectus were made (Minutes No. 323 dated November 13, 2017);
- the scenarios for the development of the Company's business plan for 2018 and forecast indicators for 2019-2022 were approved (Minutes No. 324 dated December 11, 2017);
- the procurement plan of the Company for 2018 was approved (Minutes No. 327 dated January 9, 2018);
- RAS and IFRS consolidated business plans of IDGC of Northern Caucasus Group for 2017 were approved (Minutes No. 327 dated January 9, 2018);
- the business plan of the Company for 2018 and the forecast indicators for 2019-2022 were approved (Minutes No. 327 dated January 9, 2018);

Categories of issues considered by the Board of Directors in 2017, %



Details of the decisions made by the Board of Directors in 2017 are provided on the Company's website in the section "For Shareholders and Investors/Corporate Governance/Board of Directors".

Quantity composition of the Board of Directors of IDGC of Northern Caucasus PJSC - 11 persons. In 2017, two compositions of the Board of Directors were acting.

Current composition of the Board of Directors elected by the Annual General Meeting of Shareholders on June 15, 2017

Fadeev Alexandr Nikolaevich

Chairman of the Board of Directors

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 15, 2017.

Born in 1949. Graduated from the Moscow Institute of Geodesy, Aerial Photography and Cartography (higher education).

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

in 2011-2014 - Deputy Chairman of the Management Board for Safety of FGC UES JSC,

in 2014-2017 - Deputy General Director for Security of Rosseti PJSC,

from 2017 and as of the end of 2017 - Chief Adviser of Rosseti PJSC.

Also in 2013-2017, a member of the management bodies and committees of the following companies:

in 2013, 2014, 2015, 2016, since 2017 - a member of the Board of Directors of IDGC of Ural OJSC,

in 2015, 2016, 2017, since 2017 - a member of the Board of Directors of IDGC of South PJSC,

in 2015-2016, since 2017 - a member of the Board of Directors of IDGC of Siberia PJSC,

from 2017 and as of the end of 2017 - Chairman of the Board of Directors of IDGC of Northern Caucasus PJSC,

since 2017 - a member of the Board of Directors of IDGC of Volga PJSC, Chairman of the Board of Directors of Kubanenergo PJSC, a member of the HR and Remuneration Committee at the Board of Directors of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Rakov Alexey Viktorovich

Deputy Chairman of the Board of Directors

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 11, 2015

Born in 1975. Graduated from Penza State Technical University, specialty "Computer Software and Automated Systems " (higher education), Penza Training Center, qualification "Accountant of Industrial Enterprises" (secondary education), Penza State Technical University, specialty "Power Systems and Grids", Financial Academy under the Government of the Russian Federation, specialty "Finance and Credit "(higher education).

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

from May 2011 to January 2013 - Deputy Head of the Power Transport Department of IDGC of Center JSC,

since 2013 and as of the end of 2017 - Director of the Department for Power Grid Services Sale and Relations with Power Market Participants of Rosseti PJSC.

Also in 2013-2017, a member of the management bodies and committees of the following companies:

in 2014, 2016, 2017 and as of the end of 2017 - Chairman of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus PJSC,

in 2015, 2016, 2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC,

in 2013, 2014, 2015, 2016, 2017 - a member of the Board of Directors of Kabbalkenergo JSC,

in 2013, 2014, 2015 - a member of the Board of Directors of Kalmenergosbyt OJSC,
in 2016–2017 - a member of the Board of Directors of MOESK PJSC,
since 2017 - a member of the Board of Directors of IDGC of Center PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Akopyan Dmitry Borisovich

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 15, 2017.

Born in 1967. Higher education, graduated from the Krasnodar Polytechnic Institute awarded with the Order of the Red Banner of Labor, specialty “Industrial and Civil Engineering”, Kuban Institute of International Business and Management, specialty “Finance and Credit”.

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

in 2013 - 2014 - First Deputy Director of Sevkavenergostroy LLC,

in 2014-2016 - Deputy Director - Chief Engineer of Lider LLC,

since 2016 and as of the end of 2017 - Director of the Investment Activities Department of Rosseti PJSC.

Also in 2017, a member of the management bodies and committees of the following companies:

since 2017 - Deputy Chairman of the Board of Directors of IDGC of North-West PJSC,

since 2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Guryanov Denis Lvovich

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 18, 2010.

Born in 1977. Higher education, graduated from the Russian University of Peoples Friendship, Master of Law.

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

since July 2008 to April 2013 - Head of the Corporate Governance and Shareholder Relations Department, Director for Corporate Policy of IDGC Holding OJSC,

since April 2013 and as of the end of 2017 - Director of the Corporate Governance and Shareholder and Investors Relations Department of Rosseti PJSC.

Also in 2011-2017, a member of the management bodies and committees of the following companies:

in 2011, 2012, 2013, 2014, since 2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC,

in 2011–2012 - a member of the Audit Committee at the Board of Directors of IDGC of North-West OJSC,

Also in 2011, 2012, 2013, 2014, a member of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus PJSC ,

in 2011-2012 - a member of the HR and Remuneration Committee at the Board of Directors of IDGC of Northern Caucasus OJSC,

in 2011, 2012, 2013, since 2017 and as of the end of 2017 - Chairman of the Audit Committee at the Board of Directors of IDGC of Northern Caucasus OJSC, in 2012, 2013–2014 - a member of the Audit Committee at the Board of Directors of IDGC of Northern Caucasus OJSC,

in 2012 - a member of the HR and Remuneration Committee at the Board of Directors of IDGC of Northern Caucasus OJSC,

in 2011, 2012, 2013, 2014, 2015, 2016, 2017 and as of the end of 2017 - a member of the Board of Directors of Sevkavkazenergo JSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Zaytsev Yury Viktorovich**Executive Director**

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 11, 2015

Born in 1970. Higher education, graduated from the Military University of the Ministry of Defense of the Russian Federation and the St. Petersburg State University of Engineering and Economics (specialty "Economics and Management at the Enterprise"). Ph.D. in Economics.

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

in 1997–2013 - work at executive positions in commercial structures,

from March 2011 to September 2013 - General Director of MetGrupp LLC,

since February 2014 - a member of the Management Board of IDGC of Northern Caucasus OJSC,

in February-May 2014 - Adviser of IDGC of Northern Caucasus OJSC,

in May-August 2014 - First Deputy General Director of IDGC of Northern Caucasus OJSC,

from August 28, 2014 and as of the end of 2017 - General Director, Chairman of the Management Board of IDGC of Northern Caucasus PJSC.

Also in 2014–2017, a member of the management bodies and committees of the following companies:

in 2015, 2016, 2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC,

in 2014-2015 - Chairman of the Board of Directors of Dagernergoset OJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Ivanova Tatyana Aleksandrovna**Non-Executive Director**

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 20, 2016.

Born in 1964. Higher education, graduated from the Moscow Institute of Steel and Alloys (Engineer-Economist).

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

from September 2008 to June 2013 - Head of the Tariff Policy Development and Tariffs Calculation Methodology Office of the Tariff Planning Department of IDGC Holding OJSC (Rosseti OJSC).

from July 2013 and as of the end of 2017 - Head of the Tariff Methodology Office of the Tariff Policy Department of Rosseti PJSC.

Also in 2013-2017, a member of the management bodies and committees of the following companies:

in 2016, 2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC,

in 2013, 2014, 2015 - a member of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus OJSC, in 2016, 2017 and as of the end of 2017 - a member of the Audit Committee at the Board of Directors of IDGC of Northern Caucasus PJSC,

in 2013, 2014, 2016, 2017 - a member of the Strategy and Development Committee at the Board of Directors of IDGC of Ural OJSC,

in 2015-2016 - a member of the Audit Committee at the Board of Directors of Tyumenenergo JSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Kolesnikov Anton Sergeevich**Non-Executive Director**

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 15, 2017.

Positions held in IDGC of Northern Caucasus PJSC and other organizations:

as of the end of 2017 - Advisor to Rosseti PJSC.

Also in 2016-2017, a member of the management bodies and committees of the following companies:

in 2016, 2017 - a member of the Board of Directors of Dagestan Grid Company JSC ,

since 2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern

Caucasus PJSC.

Other information on this person is not disclosed as it was not provided to the Company by this person.

Sasin Nikolay Ivanovich

Independent member of the Board of Directors

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 20, 2016.

Born in 1969. Higher education, graduated from the Volsky Higher Military School of the Rear named after Lenin Komsomol awarded with Order of the Red Star (Engineer-Economist); Federal State Budgetary Educational Institution of Higher Professional Education Moscow State University of Economics, Statistics and Informatics ("Business Value Estimation"), Research Institute Moscow Aviation Institute (Presidential Program for Senior Executives "Management"), Federal State Budgetary Educational Institution of Higher Professional Education Stavropol State Agrarian University "Crisis Management").

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

from November 2007 to November 2012 - Chairman of Agricultural Consumer Credit Cooperative Rassvet

since 2010 and as of the end of 2017 - Chairman of the Stavropol Regional Office of the All-Russian Public Organization of Small and Medium-Sized Enterprises OPORA RUSSIA,

from April 2011 to February 2013 - General Director of Yug-Logistic LLC,

from February 2013 to October 2013 - Commissioner at the Governor of the Stavropol Territory for protection of the rights of entrepreneurs in the Government of the Stavropol Territory.

in October 2013 - January 2014 - Executive Director of TAIS LLC,

in 2014 - Commissioner at the Governor of the Stavropol Territory for protection of the rights of entrepreneurs in the Government of the Stavropol Territory,

since November 2014 and as of the end of 2017 - Executive Director of TAIS LLC,

since August 2015 and as of the end of 2017 - Director for Investments, Agricultural Consumer Cooperative Goryachevodsky,

since December 2015 and as of the end of 2017 - a member of the Management Board, Coordinator in the North Caucasus Federal District of the All-Russian Public Organization for Small and Medium-Sized Enterprises OPORA RUSSIA.

Also in 2015-2017, a member of the management bodies and committees of the following companies:

in 2016, 2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC,

in 2015, 2016, 2017 and as of the end of 2017 - a member of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus PJSC,

since 2017 and as of the end of 2017 - a member of the Reliability Committee at the Board of Directors of IDGC of Northern Caucasus PJSC, Chairman of the Committee for Technological Connection to Power Grids at the Board of Directors of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Toschenko Vladimir Valeryevich

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 20, 2016.

Born in 1987. Higher education, graduated from Moscow State University named after M.V. Lomonosov, specialty "State Regulation of the Economy"; Ph.D. in Economics.

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

2010–2012 – Assistant Chairman of the Management Board of FGC UES JSC,

in 2012 – Advisor of the Chairman of the Management Board of FGC UES JSC,

in 2012–2013 - Head of the Expert Department of FGC UES JSC,

in 2013-2017 - Director of the General Affairs Department of Rosseti PJSC,

since 2017 and as of the end of 2017 - Director of the Situation and Analytical Center of Rosseti PJSC.
 Also in 2016-2017, a member of the management bodies and committees of the following companies:
 in 2016-2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC,
 since 2017 and as of the end of 2017 - a member of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus PJSC.
 He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Chevkin Dmitry Alexandrovich

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 20, 2016.
 Born in 1976. Higher education, graduated from the Financial University under the Government of the Russian Federation (Economist).
Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:
 in December 2009 - May 2013 - Head of the Analytics and Performance Management Directorate, Head of the HR Management and Organizational Design Department, Director of the HR Management Department of FGC UES JSC,
 since May 2013 and as of the end of 2017 - Director of the HR Policy and Organizational Development Department of Rosseti PJSC.
 Also in 2016-2017, a member of the management bodies and committees of the following companies:
 in 2016-2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC,
 in 2012, 2013, 2014, 2016, 2017 - a member of the HR and Remuneration Committee at the Board of Directors of IDGC of Northern Caucasus PJSC, since 2017 and as of the end of 2017 - Chairman of the HR and Remuneration Committee at the Board of Directors of IDGC of Northern Caucasus PJSC,
 in 2016-2017 - a member of the Audit Committee at the Board of Directors of IDGC of Northern Caucasus PJSC.
 He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Erdyniyev Anton Alexandrovich

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 15, 2017.
 Born in 1984. Higher education, graduated from the Novosibirsk State Technical University, specialty "Power Systems and Grids"; Higher Vocational School Novosibirsk State Technical University, "Power Engineering".
Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:
 in 2011-2012. - Chief Expert of Unified Power Supply Company,
 in 2012-2013 - Head of the Department for Non-Commercial Partnership "Market Council for the Organization of an Effective System of Wholesale and Retail Power and Capacity Trade",
 since 2013 and as of the end of 2017 - Deputy Director of the Power Engineering Development Department of the Ministry of Energy of Russia.
 Also in 2016-2017, a member of the management bodies and committees of the following companies:
 since 2017 and as of the end of 2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC,
 in 2016-2017 - Chairman of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus PJSC.
 He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Composition of the Board of Directors elected by the Annual General Meeting of Shareholders on June 20, 2016 (valid until June 15, 2017)

Arkhipov Sergey Alexandrovich

Non-Executive Director

Chairman of the Board of Directors

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 24, 2014.

Born in 1967. Higher education, graduated from Alma-Ata Power Engineering Institute, specialty "Power Systems and Grids".

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

from July 2010 to October 2012 - General Director of IDGC of South OJSC,

in October 2012 - 2013 - Deputy Executive Director - Technical Director of IDGC Holding JSC (from April 4, 2013 - Rosseti OJSC),

from April 2013 to December 2014, various executive positions at Rosseti OJSC: Deputy General Director - Technical Director, Deputy General Director - Chief Engineer, Deputy General Director for the North Caucasus and Southern Federal Districts, Adviser,

in February 2014-August 2014 - Acting General Director, Chairman of the Management Board of IDGC of Northern Caucasus OJSC,

since 2015 and as of the end of 2017 - Chief Adviser of Rosseti PJSC.

Also in 2014-2017, a member of the management bodies and committees of the following companies:

in 2014, 2015, 2016, 2017 - Deputy Chairman of the Board of Directors of Chechenenergo JSC,

in 2015, 2016 - Chairman of the Board of Directors of IDGC of South PJSC,

in 2014, 2015, 2016, 2017 - Chairman of the Board of Directors of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Rakov Alexey Viktorovich

See the current composition of the Board of Directors of IDGC of Northern Caucasus PJSC.

Bokhun Dmitry Leonidovich

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 20, 2016.

Born in 1982. Higher education, graduated from St. Petersburg State University (Economist-Mathematician) and the Academy of Public Administration under the President of the Russian Federation (Lawyer).

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

from November 2010 to September 2015 - Project Manager of SroyProekt LLC,

in October 2015 - Project Manager of ProjectTechSroy LLC,

since October 2015 and as of the end of 2017 - Director of the Property Management Department of PJSC Rosseti,

in 2016-2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC.

Also since 2016 - a member of the Board of Directors of NIC UES JSC and FOCL-HVL Directorate JSC.

The share of Bokhun D.L. in the authorized capital of IDGC of Northern Caucasus PJSC - 0.02 %, the share of ordinary shares of IDGC of Northern Caucasus PJSC owned by Bokhun D.L. - 0.02 %.

Grinkevich Egor Borisovich

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 20, 2016.

Born in 1974. Higher education, graduated from the Omsk State University (Mathematician).

Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:

from 2009 - member of the Supervisory Board of ANO UC Market Council.
 in 2011–2016 - Deputy Director of the Power Industry Development Department of the Ministry of Energy of Russia,
 in 2016–2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC.
 Also in 2013, a member of the Board of Directors of TGK-5 OJSC, in 2015 and 2016 - a member of the Board of Directors of IDGC of Center and Volga PJSC.
 He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Doroshenko Olga Nikolayevna

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 11, 2015.
 Born in 1980. Higher education, graduated from the Pyatigorsk State Technological University, specialty "Finance and Credit".
Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:
 from May 2011 to August 2012, various positions in the Federal Service for Supervision of Natural Resources in the North Caucasus Federal District: senior specialist of 1st category, specialist-expert, chief expert of the department for economics, finance, accounting and administration,
 in the period from September 2012 to September 2014, Deputy Head of the Department, Head of the Department for coordination, development and implementation of policies, programs and projects of social and economic development of the North Caucasus Federal District of the Interregional Directorate of the Ministry of Regional Development of the Russian Federation in the North Caucasian Federal District,
 from September 2014 - Deputy Director of the Territorial Monitoring Department - Head of the Department for interaction with federal, regional, territorial and municipal authorities, Deputy Director of the Territorial Development Department of the Ministry of Caucasus of Russia.
 in 2016–2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC.
 She does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Zaytsev Yury Viktorovich

See the current composition of the Board of Directors of IDGC of Northern Caucasus PJSC.

Ivanova Tatyana Aleksandrovna

See the current composition of the Board of Directors of IDGC of Northern Caucasus PJSC.

Ozherelyev Alexey Alexandrovich

Non-Executive Director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 24, 2014.
 Born in 1986. Higher education, graduated from the Moscow State Institute of Economics, Statistics and Informatics, specialty "Finance and Credit".
Positions held in IDGC of Northern Caucasus PJSC and other organizations over the past 5 years:
 in 2011-2013 - Deputy Head of the Corporate Governance Department of FGC UES OJSC,
 since 2013 and as of the end of 2016 - Head of the Directorate for the Arrangement of Activities of the Management Bodies of Rosseti PJSC.
 in 2016–2017 - Corporate Secretary of FGC UES PJSC.
 Also in 2014–2016, a member of the management bodies and committees at the Boards of Directors of the following companies:
 in 2014–2015 - a member of the Board of Directors of R&D Center of South OJSC,
 in 2014–2015 - a member of the Board of Directors of Kurortenergo CJSC,
 in 2014, 2015, 2016 - a member of the Board of Directors of Energoservice of Kuban OJSC,

from 2014 - 2015 - a member of the Audit Committee at the Board of Directors of IDGC of Northern Caucasus OJSC,
 in 2015-2016 - Chairman of the Audit Committee at the Board of Directors, a member of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus PJSC,
 in 2016 - a member of the Strategy and Development Committee at the Board of Directors of IDGC of Center PJSC, a member of the Strategy and Development Committee at the Board of Directors of IDGC of Center and Volga Region PJSC,
 in 2016–2017 - a member of the Board of Directors of IDGC of Northern Caucasus PJSC.
 in 2016-2017 - Chairman of the Audit Committee of the Board of Directors of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Sasin Nikolay Ivanovich

See the current composition of the Board of Directors of IDGC of Northern Caucasus PJSC.

Toschenko Vladimir Valeryevich

See the current composition of the Board of Directors of IDGC of Northern Caucasus PJSC.

Chevkin Dmitry Alexandrovich

See the current composition of the Board of Directors of IDGC of Northern Caucasus PJSC.

In 2017, members of the Board of Directors of IDGC of Northern Caucasus PJSC did not make transactions on acquisition and/or disposal of the Company's shares.

Involvement of directors in work of the Board of Directors and the relevant committees in 2017

	Corporate year when the person was a member of the Board of Directors	Board of Directors	Audit Committee	HR and Remuneration Committee	Strategy and Development Committee	Committee for Technological Connection to Power Grids
Total meetings held in 2017		50	15	9	6	3
including meetings in presentia (in presentia/absentia)		10	4	0	0	0
Akopyan Dmitry Borisovich	2017-2018	21/23**				
including in presentia*		3/3				
Arkhipov Sergey Alexandrovich	2016-2017	24/27				
including in presentia		6/7				
Bokhun Dmitry Leonidovich	2016-2017	27/27				
including in presentia		7/7				
Grinkevich Egor Borisovich	2016-2017	17/27				
including in presentia		0/7				

	Corporate year when the person was a member of the Board of Directors	Board of Directors	Audit Committee	HR and Remuneration Committee	Strategy and Development Committee	Committee for Technological Connection to Power Grids
Doroshenko Olga Nikolayevna	2016-2017	14/27				
including in presentia		0/7				
Fadeev Alexandr Nikolaevich	2017-2018	23/23		4/4		
including in presentia		3/3		0/0		
Zaytsev Yury Viktorovich	2016-2017 2017-2018	49/50				
including in presentia		8/10				
Ivanova Tatyana Aleksandrovna	2016-2017 2017-2018	44/50	15/15			
including in presentia		8/10	4/4			
Guryanov Denis Lvovich	2017-2018	23/23	8/8			
including in presentia		2/3	1/2			
Ozherelyev Alexey Alexandrovich	2016-2017	26/27	7/7			
including in presentia		4/7	2/2			
Kolesnikov Anton Sergeevich	2017-2018	23/23				
including in presentia		3/3				
Erdyniyev Anton Alexandrovich	2017-2018	13/23			1/2***	
including in presentia		0/3				
Rakov Alexey Viktorovich	2016-2017 2017-2018	50/50			6/6	
including in presentia		5/10			0/0	
Sasin Nikolay Ivanovich	2016-2017 2017-2018	50/50	6/8		6/6	3/3
including in presentia		4/10	0/2		0/0	0/0
Toschenko Vladimir Valeryevich	2016-2017 2017-2018	49/50			3/4	
including in presentia		8/10			0/0	
Chevkin Dmitry Alexandrovich	2016-2017 2017-2018	41/50	0/7	8/9		
including in presentia		4/10	0/2	0/0		

*in presentia – meetings that the director attended in the form of joint presence

**A/B – A– number of meetings that the director attended; B – number of meetings held for the period, when the director was a member of the Board of Directors/committee.

*** Member of the Board of Directors, Erdyniyev A.S., during the period of membership in the Strategy and Development Committee was not a member of the Board of Directors.

Remuneration of members of the Board of Directors

Remuneration of members of the Board of Directors corresponds to the market conditions. It shall be determined in such a manner as to ensure the attraction of highly qualified specialists to participate in the Company's operations and to motivate such specialists for honest and efficient work.

The procedure for determining and payment of remuneration to members of the Board of Directors is reflected in detail in the Regulation on Payment of Remuneration and Compensations to Members of the Board of Directors of IDGC of Northern Caucasus PJSC (approved by the Annual General Meeting of Shareholders, Minutes dated June 16, 2015 No.15). The text of the Regulation is available on the website of IDGC of Northern Caucasus PJSC in the section "For Shareholders and Investors/Charter and Bylaws/Corporate Governance Procedures Documents".

Remuneration criteria

The principal criterion is participation in meetings and work of the Board of Directors.

Payment of remuneration to members of the Board of Directors is made on the basis of the work results for the period from the time of the candidate election to the members of the Board of Directors to the time of the Board of Directors' election in a new composition. Remuneration shall be paid to members of the Board of Directors as a lump sum in RUB.

The amount of remuneration for participation in the Board of Directors of each member of the Board of Directors shall be calculated subject to the total number of meetings of the Board of Directors for the previous corporate year and the number of meetings attended by the relevant member of the Board of Directors.

Remuneration shall not be paid, if the member of the Board of Directors did not attend more than 50% of the meetings held.

Additional bonuses and remuneration

The following bonuses shall be additionally determined:

- 30% of S(1) - to the Chairman of the Board of Directors;
 - 20% of S(1) - to the Chairman of the Specialized Committee at the Board of Directors;
 - 10% of S(1) - for membership in the Specialized Committee at the Board of Directors;
- S(1) – amount of the remuneration for participation in the Board of Directors of the Company.

Additional remuneration shall be paid out of the net profit to members of the Board of Directors in case of increase in the Company's market capitalization for the period of operation of the Board of Directors.

Amount of the paid remuneration and costs compensated to members of the Board of Directors of IDGC of Northern Caucasus PJSC, during 2017, thousand RUB

Indicator	2017
Remuneration for participation in the management body work	5,088.76
Salaries	
Bonuses	
Fees	
Benefits	
Other types of remuneration	
Total	5,088.76

Reimbursement for expenses	46.7
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Committees of the Board of Directors

Committees of the Board of Directors of IDGC of Northern Caucasus PJSC

established to improve the performance of the Company's Board of Directors, and to develop recommendations for the Board of Directors and the executive bodies of IDGC of Northern Caucasus PJSC.

In IDGC of Northern Caucasus PJSC the following committees are established and operate:

1. Audit Committee;
2. HR and Remuneration Committee;
3. Reliability Committee;
4. Strategy and Development Committee;
5. Committee for Technological Connection to Power Grids.

In its activities the committees shall be governed by:

- Russian law;
- Charter of IDGC of Northern Caucasus PJSC;
- Regulations on the committees and bylaws of IDGC of Northern Caucasus PJSC;
- action plans for the committees.

Regulations on the committees

Committee name	Information on the approval by the Board of Directors of the current version of the Regulation on the Committee
Reliability Committee	Minutes No. 310 dated July 31, 2017
Audit Committee	Minutes No. 230 dated March 15, 2016, Amendments were made on November 9, 2016, Minutes No.266 dated November 11, 2016
HR and Remuneration Committee	Minutes No. 172 dated August 4, 2014
Strategy and Development Committee	Minutes No. 50 dated December 23, 2009, Amendments and supplements were made on March 24, 2016, Minutes No. 231 dated March 25, 2016
Committee for Technological Connection to Power Grids	Minutes No. 306 dated July 10, 2017

The texts of the Regulations on committees are available on the website of IDGC of Northern Caucasus PJSC in the section “For Shareholders and Investors/Charter and Bylaws/Corporate Governance Procedures Documents”.

Minutes of the Committee’s meetings are available on the website of IDGC of Northern Caucasus PJSC in the section “For Shareholders and Investors/Corporate Governance/Committees at the Board of Directors/Reliability Committee”.

Audit Committee

During 2017, the Board of Directors of the Company considered the following issues of arrangement, operation and effectiveness of the internal control and internal audit system:

- the action plan of the Company’s Internal Audit Business Unit for 2017 was approved (Minutes No. 278 dated January 27, 2017);
- amendments to the Internal Audit Policy of IDGC of Northern Caucasus PJSC were approved (Minutes No. 285 dated March 3, 2017);
- the budget of the Company’s Internal Audit and Control Business Unit for 2017 was approved (Minutes No. 292 dated April 7, 2017);
- the report of the Internal Audit and Control Directorate of the Company on the implementation of the action plan for 2016 was approved and the results of the internal audit and self-assessment of the quality of internal audit activities for 2016 were taken into account (Minutes No 294 dated April 24, 2017);
- the Regulation on the Internal Audit and Control Directorate of IDGC of Northern Caucasus PJSC was approved (Minutes No. 294 dated April 24, 2017);
- the report of the Company’s General Director on the organization and operation of the internal control system, including information on the implementation of measures for improving the internal control system and the risk management system (Minutes No. 299 dated June 2, 2017);
- the internal audit report of the Company on the effectiveness of the internal control system and the risk management system of the Company based on the results of 2016 was approved (Minutes No. 299 dated June 2, 2017).

The issue on the effectiveness of internal control system based on the results of 2017 was considered at the meeting of the Audit Committee at the Board of Directors dated April 6, 2018 (Minutes No. 86 dated April 6, 2018); Information on the assessment of the efficiency of the Company's internal control system in the reporting year is set forth in the section "Internal Control System" of this Report.

For preliminary consideration of issues related to the control of financial and economic activity of the Company, the Board of Directors established the Audit Committee at the Board of Directors.

Key objectives of the Committee:

- consideration of accounting (financial) statements of the Company and supervision over the process of their preparation;
- control over the reliability and efficiency of the internal control system, the risk management system and the corporate governance practices;
- control over the external audit and auditor selection;
- ensuring of the independence and objectivity in the performance of the internal audit function;
- supervision over the efficiency of the system for prevention of fraud actions of the Company’s employees and third parties.

Compositions of the Audit Committee in 2017

Elected by the decision of the Board of Directors dated July 20, 2016 (Minutes No. 254 dated July 22, 2016)	Elected by the decision of the Board of Directors dated July 6, 2017 (Minutes No. 306 dated July 10, 2017)
1. Ozherelyev Alexey Alexandrovich, Head of Directorate for the Arrangement of Activities of the Management Bodies of Rosseti PJSC (Chairman) 2. Chevkin Dmitriy Aleksandrovich, Director of the HR Policy and Organizational Development Department of Rosseti PJSC 3. Ivanova Tatiana Aleksandrovna, Head of the Tariff Methodology Office of the Tariff Policy Department of Rosseti PJSC	1. Guryanov Denis Lvovich, Director of the Corporate Governance and Shareholder and Investors Relations Department of Rosseti PJSC (Chairman) 2. Ivanova Tatiana Aleksandrovna, Head of the Tariff Methodology Office of the Tariff Policy Department of Rosseti PJSC 3. Sasin Nikolay Ivanovich, Head of the Representative Office of OPORA RUSSIA in the North Caucasus Federal District

The positions are specified as of the date of approval of the committee composition

Report on the committee's activity in 2017

15 meetings were held, 4 of which were held in presentia and in absentia. The following issues were considered in 2017 at the meetings of the Audit Committee of the Board of Directors:

- **a candidate was preliminary approved for the position of the external auditor of the Company for audit of accounting (financial) statements of the Company for 2017 prepared in accordance with the Russian Accounting Standards and audit of the consolidated financial statements for 2017 prepared in accordance with IFRS:**

Individual decisions made and recommendations issued:

Minutes No 71 dated May 5, 2017:

- the Board of Directors of the Company was recommended to propose to the Annual General Meeting of Shareholders of the Company to approve RSM RUS LLC (4 Pudovkin str., 119285, Moscow, Russia), which was recognized as the winner based on the results of an open one-stage tender without preliminary qualification selection (Minutes of the meeting of the Procurement Commission dated April 14, 2015 No. 5/552r).

- **the efficiency of the external audit was assessed, including assessment of external auditor report:**

Individual decisions made and recommendations issued:

Minutes No 71 dated May 5, 2017:

- the Audit Committee at the Board of Directors of IDGC of Northern Caucasus PJSC approved the audit report issued by RSM RUS LLC on the annual accounting (financial) statements of the Company for 2016 prepared in accordance with RAS;

- it is recommended to include the Report of the Audit Committee at the Board of Directors of IDGC of Northern Caucasus PJSC on the level of efficiency and quality of the external audit process into the list of materials provided to persons entitled to participate in the Annual General Meeting of Shareholders of the Company.

- **written information provided by the external auditor on the main problems of the accounting (financial) statements of the Company was reviewed on a regular basis:**

Individual decisions made and recommendations issued:

Minutes No. 70 dated May 2, 2017:

- based on the results of the review of the written information (audit report), the management of IDGC of Northern Caucasus PJSC, following the annual audit of the accounting statements prepared in

accordance with RAS for 2016, the audit of the consolidated financial statements prepared in accordance with the International Financial Reporting Standards for the year ended December 31, 2016, was notified of the absence of comments to the RAS accounting statements of the Company for 2016 affecting the external auditor report on the reliability of accounting statements;

- the absence of adjustments based on the results of the external audit of the accounting (financial) statements was found;

Minutes No. 79 dated December 29, 2017:

- the written information provided by the external auditor on the key issues of the interim accounting (financial) statements of the Company prepared in accordance with RAS for 9 months of 2017 was taken into account;

– **information was discussed on non-standard operations and events of the Company, as well as the formation of a reserve for doubtful debts and estimated liabilities:**

Individual decisions made and recommendations issued:

Minutes No. 70 dated May 2, 2017:

- the information of the Company's management on non-standard operations and events, as well as on the formation of a reserve for doubtful debts and estimated liabilities for 2016 were taken into account;

– **analysis of material aspects of the accounting policy and amendments thereto was completed:**

Individual decisions made and recommendations issued:

Minutes No. 80 dated January 9, 2018:

- the information provided by the Company on material aspects of the Accounting Policy of the Company for 2017 and the absence of significant changes for 2018 was taken into account;

– **RAS accounting (financial) statements of the Company, as well as IFRS consolidated financial statements were reviewed on a regular basis:**

Individual decisions made and recommendations issued:

Minutes No. 70 dated May 2, 2017:

- the Board of Directors of the Company was recommended to submit for approval to the Annual General Meeting of Shareholders of the Company the annual accounting (financial) statements of the Company for 2016 prepared in accordance with RAS;

- the consolidated financial statements of the Company prepared in accordance with IFRS for the year ended December 31, 2016 were taken into account;

Minutes No. 72 dated May 29, 2017:

- the accounting (financial) statements of the Company for the 1st quarter of 2017 prepared in accordance with RAS were taken into account;

Minutes No. 74 dated September 6, 2017:

- the accounting (financial) statements of IDGC of Northern Caucasus PJSC for 6 months of 2017 prepared in accordance with RAS were taken into account;

- the Company's General Director was recommended to provide the Board of Directors with information on the targeted use of funds received in the process of capitalization of the Company within the financial support plan;

- the Secretary of the Audit Committee was instructed to inform the Board of Directors of IDGC of Northern Caucasus PJSC of the main trends in the change in the indicators of the interim financial (accounting) statements of IDGC of Northern Caucasus PJSC for 6 months of 2017 prepared in accordance with RAS;

Minutes No. 77 dated December 1, 2017:

- the accounting (financial) statements of IDGC of Northern Caucasus PJSC for 9 months of 2017 prepared in accordance with RAS were taken into account;

- the Secretary of the Audit Committee was instructed to inform the Board of Directors of IDGC of Northern Caucasus PJSC of the main trends in the change in the indicators of the interim financial

(accounting) statements of IDGC of Northern Caucasus PJSC for 9 months of 2017 prepared in accordance with RAS;

– **changes in the Internal Audit Policy of the Company were reviewed before approval by the Board of Directors:**

Individual decisions made and recommendations issued:

Minutes No. 68 dated February 22, 2017:

- the Board of Directors of the Company was recommended to approve the changes in the Internal Audit Policy of IDGC of Northern Caucasus PJSC;

– **the Regulation on the Internal Audit Business Unit was agreed upon, the key performance indicators of the Director of the Internal Audit and Control Directorate of the Company were preliminarily reviewed:**

Individual decisions made and recommendations issued:

Minutes No. 68 dated February 22, 2017:

- the Regulation on the Internal Audit and Control Directorate of IDGC of Northern Caucasus PJSC was approved;

- the Board of Directors of the Company was recommended to approve the Regulation on the Internal Audit and Control Directorate of IDGC of Northern Caucasus PJSC, to recommend to the General Director of IDGC of Northern Caucasus PJSC to approve the Regulation on the Internal Audit and Control Directorate of IDGC of Northern Caucasus PJSC;

Minutes No. 78 dated December 20, 2017:

- the Board of Directors of the Company was recommended:

- to approve the Methodology for Calculation and Assessment of the Achievement of Key Performance Indicators for CEO and Top Managers of the Internal Audit and Control Business Unit of IDGC of Northern Caucasus PJSC;

- to determine the target functional KPIs of the CEO and top managers of the internal audit and control business unit of IDGC of Northern Caucasus PJSC;

- to instruct the Sole Executive Body of the Company to approve this Methodology for Calculation and Assessment of the Achievement of Key Performance Indicators for CEO and Top Managers of the Internal Audit and Control Business Unit of IDGC of the North Caucasus, target functional KPIs for CEO and Top Managers of the Internal Audit and Control Business Unit of IDGC of Northern Caucasus PJSC in the manner provided for by the Company;

– **internal audit plan and budget were agreed upon for 2017:**

Individual decisions made and recommendations issued:

Minutes No. 68 dated February 22, 2017:

- the budget of the Internal Audit and Control Directorate of the Company for 2017 was agreed upon;

- the Board of Directors of the Company was recommended to approve the budget of the Internal Audit and Control Directorate of the Company for 2017;

Minutes No. 78 dated December 20, 2017:

- the action plan of the Internal Audit and Control Directorate of the Company for 2018 was agreed upon;

- the Board of Directors of the Company was recommended to approve the action plan of the Internal Audit and Control Directorate of the Company for 2018;

- the budget of the Internal Audit and Control Directorate of the Company for 2018 was agreed upon;

- the Board of Directors of the Company was recommended to approve the budget of the Internal Audit and Control Directorate of the Company for 2018;

– **reports on the implementation of the action plan and the results of internal audit were reviewed on a regular basis:**

Individual decisions made and recommendations issued:

Minutes No. 67 dated February 17, 2017:

- the report on the implementation of the action plan of the Internal Audit and Control Directorate of the Company for 2016 was agreed upon;
- the Internal Audit of the Company was instructed to finalize the action plan for the development and improvement of the internal audit activity, taking into account the comments of the Committee;
- the Board of Directors of the Company was recommended to approve the report on the implementation of the action plan of the Internal Audit and Control Directorate of the Company for 2016, to take into account the results of self-assessment of the quality of the internal audit for 2016;
- the Internal Audit was instructed, together with the Company's management, to submit to the Committee proposals on optimization of the statements provided by the Company;

Individual decisions made and recommendations issued:

Minutes No. 72 dated May 29, 2017:

- the report of the Internal Audit and Control Directorate on the implementation of the action plan and the results of internal audit for Q1 2017 was taken into account;

Minutes No. 74 dated September 6, 2017:

- the report of the Internal Audit and Control Directorate on the implementation of the action plan was approved, and the results of the internal audit for 6 months of 2017 was taken into account.

Minutes No. 77 dated December 1, 2017:

- the report of the Internal Audit and Control Directorate of IDGC of Northern Caucasus PJSC on the implementation of the action plan and the results of the internal audit for 9 months of 2017 were taken into account.

– the information of the management on the implementation of the Internal Control Policy of the Company was reviewed:

Minutes No. 75 dated September 18, 2017:

- the information of the Company's management on the implementation of the Internal Control Policy of IDGC of Northern Caucasus PJSC was taken into account;
- the Company's management was notified of the need to ensure the implementation of measures for improving the maturity level of the internal control and risk management systems of IDGC of Northern Caucasus PJSC;

– reports of management of IDGC of Northern Caucasus PJSC were heard periodically on implementation of corrective actions to address deficiencies revealed by the Audit Commission, the internal auditor, the external control (supervision) bodies, on the implementation of measures taken on the facts of notification about potential cases of fraudulent actions of employees as well as the results of the completed investigations:

Individual decisions made and recommendations issued:

Minutes No. 74 dated September 6, 2017:

- the information of the Company's management on the implementation of corrective actions to address deficiencies revealed by the Company's Audit Commission, internal auditor, external control (supervision) bodies, on the implementation of measures taken following the information received on potential cases of fraud actions by employees and based on the results of the completed investigations for 6 months of 2017 was taken into account;
- the Company's General Director was recommended to provide to the ordinary meeting of the Committee held in presentia information on the results of the control activities on the issue of the reconstruction of 110 kV OHL No. 134 Makhachkala-110-Shamkhal-Tyagovaya of Dagenergo branch of IDGC of the North Caucasus carried out by the Internal Audit Business Unit of the Company, as well as response measures of the Company's management based on the results of these control activities;

Minutes No. 80 dated January 9, 2018:

- the Board of Directors of IDGC of Northern Caucasus PJSC was recommended when considering the results of elimination of violations and deficiencies identified following the audit for 2016, to take into account information of the management on the results of elimination of violations and deficiencies

identified by the Audit Commission following the audit of the Company's financial and business activities for 2016;

– **the report on the efficiency of the internal control system and the risk management system of IDGC of Northern Caucasus PJSC was reviewed:**

Individual decisions made and recommendations issued:

Minutes No. 69 dated March 31, 2017:

On the Issue 2:

- the level of maturity of the Company's internal control and risk management systems was determined as "moderate" with positive dynamics for the reporting year;

- the Board of Directors of the Company was recommended to approve the internal audit report of IDGC of Northern Caucasus PJSC on the efficiency of the internal control system and the risk management system of the Company following the results of 2016; to instruct the sole executive body of IDGC of Northern Caucasus PJSC:

- to ensure the development and implementation of a set of measures for improving the internal control and risk management systems following the results of 2017, with an increase in the maturity level of internal control and risk management systems;

- to submit for the consideration by the Board of Directors of the Company a report on the implementation of these measures simultaneously with the report on the organization and operation of the internal control system and the internal audit report of the Company on the efficiency of the internal control systems and the risk management following the results of 2017.

On the Issue 3:

- the Report of the General Director of IDGC of Northern Caucasus PJSC on the organization and operation of the internal control system, including information on implementation of measures to improve the internal control system and risk management system, was taken into account;

- the sole executive body of the Company was recommended to ensure the implementation of measures for improving ICS and RMS planned and non-fulfilled in 2016, and the subsequent planning of measures, the implementation of which depends solely on the management of the Company (without reference to the development of intra-group standards), subject to the assessment of the availability of financial resources for the implementation;

- the Board of Directors of the Company was recommended to take into account the report of the General Director of IDGC of Northern Caucasus PJSC on the organization and operation of the internal control system, including information on the implementation of measures for improving the internal control system and the risk management system;

– **the revised Anti-Corruption Policy of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC was preliminary reviewed:**

Individual decisions made and recommendations issued:

Minutes No. 66 dated January 26, 2017:

- the Board of Directors of the Company was recommended to approve the revised Anti-Corruption Policy of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC as a bylaw of IDGC of Northern Caucasus PJSC;

– **the results of anti-corruption monitoring were reviewed:**

Individual decisions made and recommendations issued:

Minutes No. 69 dated March 31, 2017:

- the Board of Directors of the Company was recommended to take into account the report on the consideration of the results of anti-corruption monitoring in IDGC of Northern Caucasus PJSC for 2016;

Minutes No. 74 dated September 6, 2017:

- the information of the Company's management on the implementation of the Company's Anti-Corruption Policy, including the results of the anti-corruption monitoring for 6 months of 2017 was taken into account

HR and Remuneration Committee

Key objectives of the Committee:

- elaboration of recommendations on the amount of remuneration payable to members of the Board of Directors of the Company;
- elaboration of principles and criteria for determination of the amount of remuneration payable to members of the Board of Directors, members of the collegial executive body and the person discharging the functions of Sole Executive Body of the Company, including a management company or executive manager;
- elaboration of proposals on determination of the material terms and conditions of contracts concluded with members of the Board of Directors, members of the collegial executive body and the person discharging the functions of Sole Executive Body of the Company;
- determination of the criteria for selection of candidates for membership in the Board of Directors, the collegial executive body and for the position of Sole Executive Body of the Company as well as preliminary assessment of such candidates;
- regular assessment of the activities of the person discharging the functions of Sole Executive Body (management company, executive manager) and members of the collegial executive body of the Company, and also preparation of proposals on their re-appointment possibility for the Board of Directors.

Compositions of the HR and Remuneration Committee in 2017

Elected by the decision of the Board of Directors dated July 20, 2016 (Minutes No. 254 dated July 22, 2016)	Elected by the decision of the Board of Directors dated July 6, 2017 (Minutes No. 306 dated July 10, 2017)
1. Mangarov Yuriy Nikolaevich, Chief Advisor of Rosseti PJSC (Chairman) 2. Chevkin Dmitriy Aleksandrovich, Director of the HR Policy and Organizational Development Department of Rosseti PJSC 3. Petrieva Yulia Vladimirovna, Chief Expert, Tariff Department, Economic Directorate, OGK-2 OJSC	1. Chevkin Dmitriy Aleksandrovich, Director of the Department for HR Policy and Organizational Development of Rosseti PJSC (Chairman) 2. Fadeyev Alexandr Nikolaevich, Chief Adviser of Rosseti PJSC 3. Erpsher Nataliya Ilinichna, Director of the Directorate of Organizational Development of the HR Policy and Organizational Development Department, Rosseti PJSC

The positions are specified as of the date of approval of the committee composition

Report on the committee's activity in 2017

9 meetings were held, all in absentia. At the meetings of the HR and Remuneration Committee at the Board of Directors in 2017, the following individual decisions were made and the following recommendations were issued:

Minutes No. 55 dated March 2, 2017

- the organizational structure of the executive office of IDGC of Northern Caucasus PJSC was approved;
- the Board of Directors of the Company was recommended to make a decision:
- to approve the organizational structure of the executive office of IDGC of Northern Caucasus PJSC and to bring the same into effect, subject to the time frames stipulated by the law of the Russian Federation in case of any amendments to or termination of employment agreements with employees;
- from the date of bringing into effect this organizational structure of the executive office of IDGC of Northern Caucasus PJSC, to deem invalid the organizational structure of the executive office of IDGC

of Northern Caucasus PJSC approved by the decision of the Board of Directors of IDGC of Northern Caucasus PJSC on November 29, 2016 (Minutes No.269 dated November 29, 2016).”;

- the Board of Directors of the Company was recommended to agree upon the candidate of Kokov Alim Arsenovich for the position of Deputy General Director for Security of IDGC of Northern Caucasus PJSC;

Minutes No. 56 dated April 6, 2017

- the Committee's budget for the first half of 2017 was prepared;
- the Committee's draft budget for the first half of 2017 was submitted for approval to the Board of Directors of the Company;

- the revised List of Top Managers of IDGC of Northern Caucasus PJSC was preliminary approved;
- from the date of bringing into effect the organizational structure of the executive office of IDGC of Northern Caucasus PJSC (Minutes No. 286 dated March 3, 2017), the Board of Directors of the Company was recommended to approve and bring into effect the revised List of Top Managers of IDGC of Northern Caucasus PJSC;

Minutes No. 57 dated May 15, 2017

- the Board of Directors of the Company was recommended to approve the report on the performance of the Corporate Secretary of the Company for the period from June 20, 2016 to April 28, 2017;

Minutes No. 58 dated May 31, 2017

- the standard organizational structure of the administrative office of the branch of IDGC of Northern Caucasus PJSC was approved;

- the Company's General Director was recommended to approve the organizational structures of the administrative office of the Company's branches developed in accordance with the decision of the Committee;

Minutes No. 59 dated June 14, 2017

- the Board of Directors of the Company was recommended to agree upon the nomination of the General Director of IDGC of Northern Caucasus PJSC, Zaytsev Yu.V., for awarding with the state award Medal of the Order "For Service to the Fatherland II Class" for significant contribution to the development of the power grid complex and long-term conscientious work;

- the Board of Directors of the Company was recommended to amend the Regulation on Financial Incentives of the Company's General Director approved by the decision of the Board of Directors of the Company on June 10, 2011. (Minutes No. 76 dated June 15, 2011);

Minutes No. 60 dated July 16, 2017

- Fadeyev Alexandr Nikolayevich was elected as Deputy Chairman of the Committee;

- the action plan of the HR and Remuneration Committee of the Company's Board of Directors for 2017-2018 corporate year was approved;

- taking into account the Company's performance for the period of work of Zaytsev Yu.V. as the General Director of IDGC of Northern Caucasus PJSC (since August 29, 2014), the Board of Directors of IDGC of Northern Caucasus PJSC was recommended to elect Zaytsev Yury Viktorovich as the General Director of IDGC of Northern Caucasus PJSC for a new term until August 28, 2020, inclusive;

Minutes No. 61 dated July 26, 2017

- the organizational structure of the executive office of the Company was approved;

- the Board of Directors of the Company was recommended to approve the organizational structure of the executive office of IDGC of Northern Caucasus PJSC and to bring the same into effect, subject to the time frames stipulated by the law of the Russian Federation in case of any amendments to or termination of employment agreements with employees;

- the Board of Directors of the Company was recommended to agree upon the candidate of Tsechoev Sultan Khamzatovich to the position of director of Ingushenergo branch of IDGC of the North Caucasus;

Minutes No. 62 dated August 31, 2017

- the composition of the administrative personnel of IDGC of Northern Caucasus PJSC was approved;

- the composition of the personnel for key positions of IDGC of Northern Caucasus PJSC was approved;
- the composition of the youth talent pool of IDGC of Northern Caucasus PJSC was approved;
- the Committee's budget for the second half of 2017 was prepared;
- the Committee's draft budget for the second half of 2017 was submitted for approval to the Board of Directors of the Company;

Minutes No. 63 dated October 18, 2017

- the Board of Directors of the Company was recommended to agree upon the candidate of Kalinkin Oleg Gennadievich for the position of director of Kabbalkenergo branch of IDGC of the North Caucasus.

Reliability Committee

Key objectives of the Committee

elaboration and presentation of recommendations (conclusions) to the Board of Directors of the Company on the following aspects of the activities of the Board of Directors:

- expert assessment of production programs, plans for technical re-equipment, reconstruction, new construction and repair of power grid complex facilities, analysis of their elaboration and implementation from the point of view of ensuring the fulfillment of the requirements to the reliability of operation and technical condition of power grids;
- assessment of the completeness and sufficiency of measures taken based on the results of accident investigation in accordance with the Rules for Investigation into the Causes of Accidents in Power Industry (approved by Decree of the Government of the Russian Federation dated October 28, 2009 No.846), as well as control of their implementation;
- expert assessment of the quality of investigation into causes of technological failures (accidents);
- expert assessment of the Company's activities in the field of accident prevention (ensuring the preparedness, arrangement and performance of emergency and recovery works at power grid facilities);
- expert assessment of the programs for prevention of the injury risks the Company's personnel and third parties are exposed to at the Company's power units, as well as control over their implementation;
- control and assessment of the performance of the Company's technical services to the extent of ensuring the reliable operation of power grids and production safety;
- expert assessment of the internal control system within the Company;
- expert assessment of the occupational health and safety management system within the Company;
- expert assessment of the environmental policy implementation program;
- expert assessment of fire and industrial safety.

Compositions of the Reliability Committee in 2017

Elected by the decision of the Board of Directors dated July 20, 2016 (Minutes No. 254 dated July 22, 2016)	Elected by the decision of the Board of Directors on July 28, 2017 (Minutes No. 310 dated July 31, 2017)
1. Magadeev Ruslan Raisovich, Deputy Chief Engineer of Rosseti PJSC (Chairman) 2. Shpilevoy Sergey Vladimirovich, Deputy Director of the Directorate - Director of the Production Activity Analysis Department, Situation Analytical Center of Rosseti PJSC 3. Smaga Mikhail Vladimirovich, Deputy Director of the Technical Supervision Center of the branch of Rosseti PJSC 4. Misirov Boris Khyzyrovich, First Deputy	1. Magadeev Ruslan Raisovich, Deputy Chief Engineer of Rosseti PJSC (Chairman) 2. Smaga Mikhail Vladimirovich, Deputy Director of the Technical Supervision Center of the branch of Rosseti PJSC 3. Misirov Boris Khyzyrovich, First Deputy General Director – Chief Engineer of IDGC of Northern Caucasus PJSC 4. Chernov Alexey Valerievich, Deputy General Director for Economics and Finance of IDGC of

General Director – Chief Engineer of IDGC of Northern Caucasus PJSC 5. Alikov Konstantin Batyrbekovich, Deputy General Director for Sale and Development of Services, IDGC of Northern Caucasus PJSC 6. Chernov Alexey Valerievich, Deputy General Director for Economics and Finance of IDGC of Northern Caucasus PJSC 7. Lobov Evgeniy Vladimirovich, Advisor, N+Development OJSC	Northern Caucasus PJSC 5. Mikheev Dmitriy Dmitrievich, Deputy Director of the Department, Head of the Power Industry Prospective Development Office of the Power Industry Development Department of the Ministry of Energy of the Russian Federation
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The positions are specified as of the date of approval of the committee composition

Report on the committee's activity in 2017

6 meetings were held, all in absentia. At the meetings of the Reliability Committee at the Board of Directors in 2017, the following individual decisions were made and the following recommendations were issued:

Minutes No. 45 dated January 27, 2017

- the Board of Directors of the Company was recommended to take into account the report on the implementation of measures for reducing the injury risks among the Company's employees and the third parties at power grid facilities and on the implementation of the instructions given by the management with regard to the reduction in the occupational injury rate;
- the Board of Directors of the Company was recommended to approve the action plan for liquidation of the traumatic and defective equipment, places and mechanisms and elimination of the injury risk of IDGC of Northern Caucasus PJSC;

Minutes No. 46 dated April 5, 2017

- the report on the implementation of measures for preventing erroneous and incorrect actions of the personnel and programs for prevention and reduction in the risks of injuries in 2016-2017 was taken into account;
- the report on the implementation in 2016 of programs for improving the reliability at the Company's facilities and objectives for 2017 was taken into account;
- the report on the reliability and quality of services rendered by the Company for 2016 was taken into account;
- the Committee's budget for the first half of 2017 was prepared;
- the Committee's draft budget for the first half of 2017 was submitted for approval to the Board of Directors of the Company;

Minutes No. 47 dated June 15, 2017

- the Board of Directors of the Company was recommended to take into account the report of the General Director on the implementation of the Plan for Development of the Production Assets Management System of the Company for 2016-2018;
- the Board of Directors of the Company was recommended to approve the adjusted Plan for Development of the Production Assets Management System of the Company for 2016-2018;
- the list and composition of target programs of IDGC of Northern Caucasus PJSC were approved;

Minutes No. 48 dated August 31, 2017

- Smag Mikhail Vladimirovich was elected as Deputy Chairman of the Committee;
- the Committee's budget for the second half of 2017 was prepared;
- the Committee's draft budget for the second half of 2017 was submitted for approval to the Board of Directors of the Company;
- the Board of Directors of the Company was recommended to make a decision:
 - to approve the Program for Modernization (Renovation) of Power Grid Facilities of IDGC of Northern Caucasus PJSC for 2017–2026
 - instruct the sole executive body of IDGC of Northern Caucasus PJSC to ensure the updating of the

Program, as well as when developing the investment program of IDGC of Northern Caucasus PJSC to include into the investment program the projects from the Program in accordance with the funding sources, target indicators for the implementation of the projects under the Program and scenarios for the development of the investment program;

- the action plan of the Committee for 2017-2018 corporate year was approved;

Minutes No. 49 dated October 25, 2017

- the report on the Company's performance in the flood period of 2017 was taken into account;

Minutes No. 50 dated December 15, 2017

- the report on the Company's performance in the thunderstorm period of 2017 was taken into account;

- the report on the Company's performance in the fire-hazardous period of 2017 was taken into account;

- to take into account the report on readiness of IDGC of Northern Caucasus PJSC for the arrangement and performance of emergency and recovery works in the autumn-winter period of 2017–2018;

- the report on the Company's readiness for work in the autumn-winter period of 2017-2018 was taken into account.

Strategy and Development Committee

Key objectives of the Committee:

- to determine priority areas, strategic objectives, and key principles of the strategic development of IDGC of Northern Caucasus PJSC;

- to assess the efficiency of operation of IDGC of Northern Caucasus PJSC;

- to improve the investment appeal of IDGC of Northern Caucasus PJSC;

- to correct the current development strategy of IDGC of Northern Caucasus PJSC;

- to monitor the progress of implementation of the adopted programs, projects and reorganization process of the Company;

- to determine and perfect business planning and budgeting policies of IDGC of Northern Caucasus PJSC;

- to control the implementation of the approved business plan and budget of IDGC of Northern Caucasus PJSC;

- to control the organization and operation of the risk management system.

Compositions of the Strategy and Development Committee in 2017

Elected by the decision of the Board of Directors dated July 20, 2016 (Minutes No. 254 dated July 22, 2016)	Elected by the decision of the Board of Directors on March 1, 2017 (Minutes No. 286 dated March 3, 2017)	Elected by the decision of the Board of Directors on July 28, 2017 (Minutes No. 310 dated July 31, 2017)
1. Rakov Alexey Viktorovich, Director, Department for Power Metering and Relations with Power Market Entities, Rosseti PJSC (Chairman) 2. Vodolatskiy Pavel Viktorovich, Project Manager, Design Office, Rosseti PJSC 3. Pankstyanov Yury Nikolayevich, Director of the Tariff Policy Department of Rosseti PJSC	1. Rakov Alexey Viktorovich, Director, Department for Power Metering and Relations with Power Market Entities, Rosseti PJSC (Chairman) 2. Pankstyanov Yury Nikolayevich, Director of the Tariff Policy Department of Rosseti PJSC	1. Rakov Alexey Viktorovich, Director, Department for Power Metering and Relations with Power Market Entities, Rosseti PJSC (Chairman) 2. Shagina Irina Alexandrovna, Head of the Tariff Office of the Tariff Department of Rosseti PJSC 3. Lavrova Marina Aleksandrovna, Head of the Subsidiaries and Affiliates Economics Office of the Economic Planning and Budgeting

4. Lavrova Marina Aleksandrovna, Head of the Subsidiaries and Affiliates Economics Office of the Economic Planning and Budgeting Department of Rosseti PJSC 5. Serebryakov Konstantin Sergeevich, Head of the S&A Corporate Events Office of the Corporate Governance and Shareholder and Investors Relations Department of Rosseti PJSC 6. Sasin Nikolay Ivanovich, Head of the Representative Office of OPORA RUSSIA in the North Caucasus Federal District 7. Kumukova Marina Khalitovna, Director of the Corporate Governance and Shareholder Relations Department of IDGC of Northern Caucasus PJSC 8. Erdyniev Anton Aleksandrovich, Deputy Director of the Power Industry Development Department of the Ministry of Energy of Russia	3. Lavrova Marina Aleksandrovna, Head of the Subsidiaries and Affiliates Economics Office of the Economic Planning and Budgeting Department of Rosseti PJSC 4. Sasin Nikolay Ivanovich, Head of the Representative Office of OPORA RUSSIA in NCFD 5. Erdyniev Anton Aleksandrovich, Deputy Director of the Power Industry Development Department of the Ministry of Energy of Russia	Department of Rosseti PJSC 4. Sasin Nikolay Ivanovich, Coordinator of OPORA RUSSIA in the North Caucasus Federal District, Chairman of the Stavropol Regional Office OPORA RUSSIA, member of the Board of Directors of IDGC of Northern Caucasus PJSC 5. Petrieva Yulia Vladimirovna, Chief Expert, Key Accounts Department, SUESK LLC 6. Toshchenko Vladimir Valerevich, Director of the Situation and Analytical Center of Rosseti PJSC 7. Chernov Alexey Valerievich, Deputy General Director for Economics and Finance of IDGC of Northern Caucasus PJSC
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The positions are specified as of the date of approval of the committee composition

Report on the committee's activity in 2017

6 meetings were held, all in absentia. At the meetings of the Strategy and Development Committee at the Board of Directors in 2017, the following individual decisions were made and the following recommendations were issued:

Minutes No. 127 dated April 4, 2017

- Sasin Nikolay Ivanovich was elected as Deputy Chairman of the Strategy and Development Committee at the Company's Board of Directors;
- the Committee's budget for the first half of 2017 was prepared;
- the Committee's draft budget for the first half of 2017 was submitted for approval to the Board of Directors of the Company;
- the Board of Directors of the Company was recommended to approve the action plan of the Company for reducing the overdue accounts receivable for power transmission services and settlement of disputes that occurred as of January 1, 2017;

Minutes No. 128 dated April 21, 2017

- the Board of Directors of the Company was recommended to take into account the report of the Company's General Director on management of key operating risks of the Company for 2016;
- the Board of Directors of the Company was recommended to make a decision:
- to take into account the report of the Company's General Director on the progress of implementation of the register (plan for sale) of the Company's non-core assets for Q1 of 2017;
- to make changes in the register (plan of sale) of the Company's non-core assets;

Minutes No. 129 dated August 11, 2017

- Toschenko Vladimir Valeryevich was elected as Deputy Chairman of the Strategy and Development Committee at the Company's Board of Directors;
- the Committee's budget for the second half of 2017 was prepared;
- the Committee's draft budget for the second half of 2017 was submitted for approval to the Board of Directors of the Company;

Minutes No. 130 dated September 7, 2017

- the Board of Directors of the Company was recommended to approve the report on the achievement of the target values of key performance indicators of the Company's General Director for 2016;

Minutes No. 131 dated October 18, 2017

- the Board of Directors of the Company was recommended to make changes in the register (plan of sale) of non-core assets of IDGC of Northern Caucasus PJSC;
- the report of the Company's General Director on management of key operating risks of the Company for the first half of 2017 was taken into account;

Minutes No. 132 dated December 29, 2017

- the Board of Directors of the Company was recommended to make changes in the register (plan of sale) of non-core assets of IDGC of Northern Caucasus PJSC;
- the forecast for the achievement in 2017 of key indicators of the business plan underlying the key operating risks and the list of measures for eliminating the key factors and minimizing the consequences of risks in the event of their occurrence were taken into account;
- the Board of Directors of the Company was recommended to approve the report on the achievement of the key performance indicators (KPI) of the Company's General Director for QI of 2017;
- the Board of Directors of the Company was recommended to approve the report on the achievement of the key performance indicators (KPI) of the Company's General Director for QII of 2017;
- the Board of Directors of the Company was recommended to approve the report on the implementation of the Company's business plan for 9 months of 2017;
- the Board of Directors of the Company was recommended to approve the consolidated business plans of IDGC of Northern Caucasus Group for 2017 prepared in accordance with RAS and IFRS.

Committee for Technological Connection to Power GridsKey objectives of the Committee:

elaboration and presentation of recommendations (conclusions) to the Board of Directors of the Company on the following aspects of the activities of the Board of Directors:

- development of proposals on improving the legal base of anti-monopoly legislation and provision of consumers with non-discriminatory access to technical connection to power grids;
- development of proposals on improving the bylaws and standards of the Company on providing consumers with non-discriminatory access to technical connection to power grids;
- development of the principles and criteria for assessment of the Company's performance on technical connection of consumers to power grids;
- assessment of the Company's performance on technical connection of consumers to power grids;
- assessment of the Company's performance on improving the quality of planning the power grid development;
- analysis of the current situation of the Company and preparation of proposals for the Company's Board of Directors concerning the technical connection of consumers to power grids and prospective development of power grids.

Compositions of the Committee for Technological Connection to Power Grids in 2017

Elected by the decision of the Board of Directors dated July 20, 2016 (Minutes No. 254 dated July 22, 2016)	Elected by the decision of the Board of Directors on March 1, 2017 (Minutes No. 286 dated March 3, 2017)	Elected by the decision of the Board of Directors on July 28, 2017 (Minutes No. 310 dated July 31, 2017)
1. Alikov Konstantin Batyrbekovich, Deputy General Director for Sale and Development of Services, IDGC of Northern Caucasus PJSC (Chairman) 2. Masaleva Irina Borisovna, Director of the Grid Prospective Development and Technological Connection Department of Rosseti PJSC 3. Kumukova Marina Khalitovna, Director of the Corporate Governance and Shareholder Relations Department of IDGC of Northern Caucasus PJSC 4. Nedobuga Dmitriy Nikolaevich, Head of the Department for Technological Connection of Customers of IDGC of Northern Caucasus PJSC 5. Ilin Dmitriy Olegovich, Deputy Director, Separate Business Unit of AESK PJSC in Moscow	1. Korneev Alexandr Yuryevich, Head of the Technological Connection Regulation Office of the Grid Prospective Development and Technological Connection Department Rosseti PJSC 2. Alikov Konstantin Batyrbekovich, Deputy General Director for Sale and Development of Services, IDGC of Northern Caucasus PJSC 3. Misirov Boris Khyzyrovich, First Deputy General Director – Chief Engineer of IDGC of Northern Caucasus PJSC 4. Shuvalov Vladimir Vladimirovich, Deputy General Director for Investment Activities of IDGC of Northern Caucasus PJSC* 4.1. Sasin Nikolay Ivanovich, Head of the Representative Office of OPORA RUSSIA in the North Caucasus Federal District (Chairman)* 5. Ilin Dmitriy Olegovich, Deputy Director, Separate Business Unit of AESK PJSC in Moscow, Astrakhan Power Supply Company PJSC	1. Sasin Nikolay Ivanovich, Coordinator of OPORA RUSSIA in the North Caucasus Federal District, Chairman of the Stavropol Regional Office OPORA RUSSIA, member of the Board of Directors of IDGC of Northern Caucasus PJSC (Chairman) 2. Gubina Irina Borisovna, Chief Expert of the Grid Prospective Development Office of the Grid Prospective Development and Technological Connection Department of Rosseti PJSC 3. Denezhnaya Natalia Vladimirovna, Chief Expert of the Technological Connection Regulation Office of the Grid Prospective Development and Technological Connection Department of Rosseti PJSC 4. Korneev Alexandr Yuryevich, Head of the Technological Connection Regulation Office of the Grid Prospective Development and Technological Connection Department Rosseti PJSC 5. Mikheev Dmitriy Dmitrievich, Deputy Director of the Department, Head of the Power Industry Prospective Development Office of the Power Industry Development Department of the Ministry of Energy of the Russian Federation

The positions are specified as of the date of approval of the committee composition

* In accordance with the decision of the Board of Directors dated April 5, 2017 (Minutes No. 292 of April 7, 2017), the powers of a member of the Committee for Technological Connection to Power Grids at the Company's Board of Directors of Shuvalov V.V. were early terminated. Sasin N.I. was elected to the Committee and also was elected as Chairman of the Committee.

Report on the committee's activity in 2017

3 meetings were held, all in absentia. At the meetings of the Committee for Technological Connection to Power Grids of the Company at the Board of Directors in 2017, the following individual decisions were made and the following recommendations were issued:

Minutes No. 27 dated August 31, 2017

- Korneev Alexandr Yuryevich was elected as Deputy Chairman of the Committee;
- the Committee's budget for the second half of 2017 was prepared;
- the Committee's draft budget for the second half of 2017 was submitted for approval to the Board of Directors of the Company;
- the results of monitoring of the performance of IDGC of Northern Caucasus PJSC on the technological connection of consumers to distribution grids, including contract work and general statistics of connection subject to certain consumer groups, for 12 months of 2016, were taken into account;
- the list of measures implemented (planned to be implemented) by the Company was taken into account in order to ensure the compliance of the Company's activities with the legal requirements in the field of power industry in connection with the adopted regulations for 2014-2016 (including those published within the implementation of the action plan ("Roadmap") "Improvement of the Accessibility of the Power Supply Infrastructure" approved by Order of the Government of the Russian Federation dated June 30, 2012 No. 1144-r);
- the action plan of the Committee for 2017-2018 corporate year was approved;

Minutes No.28 dated November 23, 2017

- the results of monitoring of the performance of IDGC of Northern Caucasus PJSC on the technological connection of consumers to distribution grids, including contract work and general statistics of connection subject to certain consumer groups, for the first half of 2017, were taken into account;
- the information on additional measures to increase the accessibility of technological connection and awareness of business entities on the procedure for technological connection was taken into account;
- the report on the achievement of KPIs in terms of compliance with the time frames for the technological connection, as well as the report on the achievement of KPIs in terms of increase in the load capacity of power grid equipment, prepared as of 6 months of 2017, were taken into account;
- the information on the analysis of technological connection of small and medium-sized enterprises based on the results of QII of 2017 and the implementation of measures for increasing the accessibility of technological connection to power grids was taken into account;

Minutes No.29 dated December 22, 2017

- the results of monitoring of the performance of IDGC of Northern Caucasus PJSC on the technological connection of consumers to distribution grids, including contract work and general statistics of connection subject to certain consumer groups, for 9 months of 2017, were taken into account;
- the report on the development in 2017 of the Comprehensive Programs for the development of power grids of 35 kV and more within the territory of constituent entities of the Russian Federation for a five-year period was taken into account;
- the information on the analysis of technological connection of small and medium-sized enterprises based on the results of QIII of 2017 and the implementation of measures for increasing the accessibility of technological connection to power grids was taken into account;
- the report on the achievement of KPIs in terms of compliance with the time frames for the technological connection, as well as the report on the achievement of KPIs in terms of increase in the load capacity of power grid equipment, prepared as of 9 months of 2017, were taken into account.

Remunerations of members of the Committees at the Board of Directors

Payment of remunerations to members of the committees at the Board of Directors shall be made in compliance with the Regulations on Payment of Remuneration and Compensations to Members of the Committees. The texts of the Regulations are available on the website of IDGC of Northern Caucasus PJSC in the section "For Shareholders and Investors/Charter and Bylaws/Corporate Governance Procedures Documents".

Remuneration for participation in each meeting held in the form of joint attendance

Member of the Committee shall receive remuneration in the amount equivalent to two minimum monthly wages of the first category worker established by the sectoral tariff agreement in the RF power complex (the Agreement) on the day of the committee meeting, taking into account indexation established by the Agreement;

For Chairman (Deputy Chairman) for the meeting where he or she acted as Chairman of the Committee, the remuneration was increased by 50%.

Remuneration for participation in each meeting held in absentia

The member of the Committee shall be paid as follows:

remuneration in the amount equivalent to a minimum monthly tariff rate of the first category worker subject to indexation established by the Agreement.

For Chairman (Deputy Chairman) of the Committee for the meeting where he or she acted as Chairman of the Committee, the remuneration was increased by 50%. In case Chairman and/or members of the Committees at the Board of Directors are simultaneously members of the Board of Directors of the Company, payment of the remuneration due to them shall be effected following the procedure and in the amount as stipulated by the bylaws of the Company governing payment of remuneration and compensations to members of the Board of Directors of the Company as approved by the General Meeting of Shareholders of the Company.

Remuneration paid to members of the Committees at the Board of Directors of IDGC of Northern Caucasus PJSC in 2017, thousand RUB

Committee name	Remuneration amount
Strategy and Development Committee	83.69
HR and Remuneration Committee	110.45
Reliability Committee	156.63
Audit Committee	-
Committee for Technological Connection to Power Grids	46.53
Total	397.3

Remuneration payment was made in cash.

Management Board - Collegial Executive Body

Election and the number of the Management Board shall be determined by the Board of Directors of IDGC of Northern Caucasus PJSC upon presentation of the General Director.

The competence of the Management Board shall be established Article 22 of the Charter of IDGC of Northern Caucasus PJSC.

In 2017 the Management Board of IDGC of Northern Caucasus PJSC included the following persons.

Zaytsev Yuri Viktorovich **Chairman**

Information on Zaytsev Yu.V. is presented as a part of information on the current Board of Directors of IDGC of Northern Caucasus PJSC.

Alikov Konstantin Batyrbekovich

Elected to the Management Board of IDGC of Northern Caucasus in June 2016.

Born in 1970. Higher education, graduated from Bratsk Industrial Institute (Construction and Road Machines and Equipment), the North-Caucasian State Technological University (Power Engineering).

Positions held over the past 5 years:

from 2006 to June 2015 - various positions in IDGC of Northern Caucasus OJSC: Acting Deputy Director for Sale and Development of Services of Stavropolenergo branch, Director of the Power Metering and Energy Saving Department, Director of the Power Metering Department, Acting Deputy General Director for Sale and Development of Services, Head of the Power Metering Department, Head of the Energy Saving and Energy Efficiency Department, Head of the Power Transmission and Metering Department, Head of Power Balances and Losses Assessment Office, Head of Balances Office.

in June 2015 - May 2016 - Deputy Director for Sale and Development of Services of Stavropolenergo branch of IDGC of Northern Caucasus PJSC,

in April - May 2016 - Acting Deputy General Director for Sale and Development of Services, IDGC of Northern Caucasus PJSC.

since May 2016 and as of the end of 2017 - Deputy General Director for Sale and Development of Services, a member of the Management Board of IDGC of Northern Caucasus PJSC,

since June 2016 and as of the end of 2017 - a member of the Management Board of IDGC of Northern Caucasus PJSC,

in 2016-2017 - a member of the Board of Directors of Dagestan Grid Company JSC,

in 2016-2017- a member of the Reliability Committee at the Board of Directors of IDGC of Northern Caucasus PJSC, Chairman of the Committee for Technological Connection to Power Grids at the Board of Directors of IDGC of Northern Caucasus PJSC,

in 2016-2017 and as of the end of 2017 - a member of the Board of Directors of Dagestan Grid Company JSC,

in 2017 - a member of the Committee for Technological Connection to Power Grids at the Board of Directors of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Kokov Alim Arsenovich

Elected to the Management Board of IDGC of Northern Caucasus PJSC in April 2017.

Born in 1976. Higher education, graduated from the Volgograd Law Institute of the Ministry of Internal Affairs of Russia, Ph.D. in Economics.

Positions held over the past 5 years:

from August 1993 to September 2016 - service in the internal affairs agencies,

from September 2016 to February 2017 - Adviser, acting Deputy General Director for Security of IDGC of Northern Caucasus PJSC,

since February 2017 and as of the end of 2017 - Deputy General Director for Security of IDGC of Northern Caucasus PJSC,

since April 2017 and as of the end of 2017 - a member of the Management Board of IDGC of Northern Caucasus PJSC,

in 2017 - a member of the Board of Directors of Dagenergoset OJSC.

He did not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and did not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Medaliev Mukhamed Khamzetovich

Elected to the Management Board of IDGC of Northern Caucasus PJSC in April 2014.

By the decision of the Board of Directors dated April 5, 2017, the powers of Medaliev M.Kh. as a member of the Management Board were terminated.

Born in 1954. Higher education, graduated from the Kabardino-Balkarian State University, specialties “Physics” and “Law”, as well as KGB Higher School of the Red Banner named after F.E. Dzerzhinsky under the Council of Ministers of the USSR (operational officer with knowledge of English).

Positions held over the past 5 years:

from October 2011 to July 2012 - Deputy Head of the Security Department of IDGC of Northern Caucasus OJSC,

in July 2012 - July 2013 - Head of the Security Department of IDGC of Northern Caucasus OJSC;

in July 2013 - July 2016 - Deputy General Director for Security of IDGC of Northern Caucasus PJSC, from April 2014 to April 2017 - a member of the Management Board of IDGC of Northern Caucasus PJSC;

in 2014, 2015, 2016, 2017 - a member of the Board of Directors of Dagenergoset OJSC;

in July 2016 - September 2016 - Acting Deputy General Director for Security of IDGC of Northern Caucasus PJSC,

since July 2016 and as of the end of 2017 - Adviser of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Misirov Boris Khyzyrovich

Elected to the Management Board of IDGC of Northern Caucasus PJSC in February 2014.

Born in 1963. Higher education, graduated from the Leningrad Polytechnic Institute named after M.I. Kalinin, specialty "Power Stations". Completed training under the programs: "Practice of arrangement and performance of regulated purchases of RAO UES of Russia OJSC, “Arrangement and management of operation and maintenance service of electric distribution grids”.

Positions held over the past 5 years:

in August 2011 - July 2013 - Deputy General Director for Technical Issues - Chief Engineer of IDGC of Northern Caucasus OJSC,

since July 2013 and as of the end of 2017 - First Deputy General Director - Chief Engineer of IDGC of Northern Caucasus PJSC,

since February 2014 and as of the end of 2017 - a member of the Management Board of IDGC of Northern Caucasus PJSC,

in 2011, 2012, 2013 - Chairman of the Reliability Committee at the Board of Directors of IDGC of Northern Caucasus OJSC,

in 2013, 2014, 2015, 2016, 2017 and as of the end of 2017 - a member of the Reliability Committee of the Board of Directors of IDGC of Northern Caucasus OJSC,

since 2014 and as of the end of 2017 - a member of the Management Board of IDGC of Northern Caucasus PJSC,

in 2011-2012 - a member of the Board of Directors of Sevkavkazenergo JSC,

in 2011, 2012, 2013, 2014, 2015, 2016, 2017 - Chairman of the Board of Directors of Dagenergoset OJSC,

in 2012-2013 - a member of the Board of Directors of Chechenenergo JSC;

in 2014-2015 - a member of the Board of Directors of Energoservis OJSC (since April 2015 - Dagestan Grid Company JSC),

in 2017 - a member of the Committee for Technological Connection to Power Grids at the Board of Directors of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Thakakhova Ivetta Vladimirovna

Elected to the Management Board of IDGC of Northern Caucasus PJSC in June 2016.

Born in 1976. Higher education, graduated from the Kabardino-Balkarian State University specialty “Accounting and Audit”.

Positions held over the past 5 years:

from 2008 to September 2012 - Head of the Economics Department of IDGC of Northern Caucasus OJSC,

from September 2012 to June 2013 - Director for Economics of IDGC of Northern Caucasus OJSC,

in June 2013 - Acting Deputy General Director for Economics and Finance of IDGC of Northern Caucasus OJSC,

from June 2013 to April 2014 - Deputy General Director for Economics and Finance of IDGC of Northern Caucasus OJSC,

in April 2014 - May 2016 - Adviser of IDGC of Northern Caucasus PJSC,

from April to May 2016 - Acting First Deputy General Director of IDGC of Northern Caucasus PJSC,

since May 2016 and as of the end of 2016 - First Deputy General Director,

since June 2016 and as of the end of 2017 - a member of the Management Board of IDGC of Northern Caucasus PJSC.

He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Chernov Alexey Valerievich

Elected to the Management Board of IDGC of Northern Caucasus in June 2016.

Born in 1977. Higher education, graduated from the Karachay-Cherkess State Technological Institute, specialty "Management".

Positions held over the past 5 years:

from 2006 to May 2016 - various positions of Director of the Tariff Directorate, Director for Economics, Head of the Tariff Department, Head of the Tariff Office of IDGC of Northern Caucasus OJSC,

in April - May 2016 - Acting Deputy General Director for Economics and Finance of IDGC of Northern Caucasus PJSC,

since May 2016 and as of the end of 2017 - Deputy General Director for Economics and Finance,

since June 2016 and as of the end of 2017 - a member of the Management Board of IDGC of Northern Caucasus PJSC,

in 2016, 2017 and as of the end of 2017 - a member of the Audit Committee at the Board of Directors of IDGC of Northern Caucasus PJSC,

since 2017 and as of the end of 2017 - a member of the Board of Directors of Dagestan Grid Company JSC,

since 2017 and as of the end of 2017 - a member of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus PJSC.

The share of Chernov A.V. in the authorized capital of IDGC of Northern Caucasus PJSC – 0,0004 %, the share of ordinary shares of IDGC of Northern Caucasus PJSC owned by Chernov A.V. – 0,0004 %*.

* excluding actually placed shares of the current issue.

He does not participate in the authorized capital of subsidiaries of IDGC of Northern Caucasus PJSC and does not own ordinary shares of subsidiaries of IDGC of Northern Caucasus PJSC.

Shuvalov Vladimir Vladimirovich

Elected to the Management Board of IDGC of Northern Caucasus PJSC in April 2014.

Born in 1971. Higher education, graduated from the Military University of the Ministry of Defense of the Russian Federation, specialty "Law", and the Russian Academy of Public Administration under the President of the Russian Federation, specialty "State and Municipal Management".

Positions held over the past 5 years:

in 2011–2012 - Deputy General Director for Logistics and Procurement in Kubanenergo OJSC,

in 2013-2014 - Deputy General Director for General Affairs of Karachayevo-Cherkessskenergo OJSC,

in March - May 2014 - Acting Deputy General Director for Investment Activities, Adviser of IDGC of Northern Caucasus PJSC,
 since April 2014 and as of the end of 2017 - a member of the Management Board of IDGC of Northern Caucasus PJSC,
 from May 2014 to September 2017 - Deputy General Director for Investment Activities of IDGC of Northern Caucasus PJSC,
 in 2014-2015 - a member of the Board of Directors, Acting General Director of Energoservice JSC (since April 2015 - Dagestan Grid Company JSC),
 as of the end of 2017 - Adviser, Acting Deputy General Director for Investment Activities of IDGC of Northern Caucasus PJSC.
 He does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

In 2017, members of the Company's Management Board did not make transactions on acquisition and/or disposal of shares of IDGC of Northern Caucasus PJSC.

Remuneration of members of the Management Board

Members of the Management Board as full-time employees of IDGC of Northern Caucasus PJSC receive the payment for their work on the positions held in accordance with the employment agreements. In addition, members of the Management Board may receive bonuses, commissions, benefits and/or reimbursement for expenses, as well as other material grants.

The main document governing the remuneration of Deputy General Directors of IDGC of Northern Caucasus PJSC is the Regulation on Financial Incentives and Social Package of Top Managers of IDGC of Northern Caucasus PJSC (approved by the Board of Directors of IDGC of Northern Caucasus PJSC on June 10, 2011, Minutes dated June 15, 2011 No.76). For work as a part of the governing body, members of the Management Board may receive a monthly allowance of up to 15 % of the salary. The amount of such allowance is established by Order of the General Director.

Amount of the remuneration paid and costs compensated to members of the Management Board of IDGC of Northern Caucasus PJSC, during 2017, thousand RUB

Indicator	2017
Remuneration for participation in the management body work	520.01
Salaries	26,141.73
Bonuses	10,634.45
Fees	0
Benefits	0
Other types of remuneration	0
Total	37,296.19

Reimbursement for expenses	1,734.26
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General Director - Sole Executive Body

The General Director acts without a power of attorney, taking into account limitations provided for by the law, the Charter and decisions of the Board of Directors.

Competence of General Director -

issues on the management of the current business of IDGC of Northern Caucasus PJSC (excluding issues assigned to the competence of the General Meeting of Shareholders, the Board of Directors, and the Management Board). The competence of the General Director is established by Article 69 of Federal Law dated December 26, 1995 No. 208-FZ "On Joint Stock Companies" and Article 21 of the Charter of IDGC of Northern Caucasus PJSC.

The General Director shall be governed by:

- Federal Law "On Joint Stock Companies" and other regulations of the Russian Federation;
- Charter of IDGC of Northern Caucasus PJSC;
- employment agreement concluded with him or her by the Board of Directors of the Company.

In 2017 IDGC of Northern Caucasus PJSC was headed by Zaytsev Yury Viktorovich (decision of the Board of Directors on the appointment was made on August 28, 2014). Information on Zaytsev Yu.V. is presented within the information on the current composition of the Board of Directors.

In 2017, the General Director of IDGC of Northern Caucasus PJSC did not make transactions on acquisition and/or disposal of shares of IDGC of Northern Caucasus PJSC and/or its subsidiaries and affiliates.

Remuneration of the General Director

The General Director's employment conditions, guarantees, and compensation for the period of fulfillment of duties shall be determined by the employment agreements, which terms and conditions are determined by the person authorized by the Board of Directors. The amount of salary and material incentives (remuneration) of the General Director of IDGC of Northern Caucasus PJSC shall be determined in accordance with the Regulation on Financial Incentives for the General Director of IDGC of Northern Caucasus PJSC as approved by the decision of the Company's Board of Directors of IDGC of Northern Caucasus PJSC on June 15, 2011 (Minutes No. 76), and certain decisions of the Board of Directors of the Company.

The Regulation on Financial Incentives for the General Director of IDGC of Northern Caucasus PJSC regulates the amount of the quarterly and annual bonus for achieving KPIs and also considers lump sum payments for performing especially important tasks or for receiving awards from the Government, the Ministry of Energy of Russia, and corporate awards.

Audit Commission

- permanent business and financial supervisory body

Objectives of the Audit Commission are as follows:

- 1) exercise of control over financial and economic activities of the company;
- 2) independent assessment of the data contained in the company's annual report and annual financial statements.

The competence of the Audit Commission is established by Article 85 of Federal Law dated December 26, 1995 No. 208-FZ "On Joint Stock Companies" and Article 24 of the Charter of IDGC of Northern Caucasus PJSC.

Audit Commission functions as set forth in the Regulation on the Audit Commission of IDGC of Northern Caucasus, approved by the resolution of the Annual General Meeting of Shareholders (Minutes dated June 19, 2017 No.18). The full text of the Regulation is available on the website of

IDGC of Northern Caucasus PJSC in the section “For Shareholders and Investors/Charter and Bylaws/Corporate Governance Procedures Documents”.

The Audit Commission is entitled to (and – should any material violation in finance and economic activities be found – shall) require the calling of an Extraordinary General Meeting of Shareholders.

Composition of the Audit Commission

Quantitative composition of the Audit Commission - 5 persons.

In 2017 the Audit Commission had two compositions.

At the end of 2017 (since the date of the Annual General Meeting of Shareholders) the composition of the Audit Commission elected by the Annual General Meeting of Shareholders of IDGC of Northern Caucasus on June 15, 2017 was in effect (Minutes No. 18 dated June 19, 2017).

Item No.	Full name	Position (as of the candidate nomination)
1	Zadorozhnaya Anzhelika Alexandrovna	Head of the Control and Analytical Office of the Control and Audit Department of Rosseti PJSC
2	Kabizskina Yelena Alexandrovna	Deputy Head of the Audit Office of the Control and Audit Department of Rosseti PJSC
3	Kirillov Artem Nikolayevich	Deputy Head of the Audit Office of the Control and Audit Department of Rosseti PJSC
4	Malyshev Sergey Vladimirovich	Leading Expert of the Audit Office of the Control and Audit Department of Rosseti PJSC
5	Yerandina Elena Stanislavovna	Chief Expert of the Control and Expert Office of the Control and Audit Department of Rosseti PJSC

Chairman of the Audit Commission is **Zadorozhnaya Anzhelika Alexandrovna**.

At the beginning of 2017 (before the date of the Annual General Meeting of Shareholders) the composition of the Audit Commission elected by the Annual General Meeting of Shareholders of IDGC of Northern Caucasus on June 20, 2016 was in effect (Minutes No. 16 dated June 22, 2016).

Item No.	Full name	Position (as of the candidate nomination)
1	Kim Svetlana Anatolyevna	Head of the Audit Office of the Control and Audit Department of Rosseti PJSC
2	Kabizskina Yelena Alexandrovna	Deputy Head of the Audit Office of the Control and Audit Department of Rosseti PJSC
3	Kirillov Artem Nikolayevich	Deputy Head of the Audit Office of the Control and Audit Department of Rosseti PJSC
4	Malyshev Sergey Vladimirovich	Leading Expert of the Audit Office of the Control and Audit Department of Rosseti PJSC
5	Shmakov Igor Vladimirovich	Head of the Internal Audit Directorate of Rossetti PJSC

Kim Svetlana Anatolyevna was **Chairman** of the Audit Commission of such composition (elected in 2016).

In 2017, members of the Audit Commission did not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and did not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Remuneration of members of the Audit Commission

In June 2015, the Annual General Meeting of Shareholders approved the revised Regulation on Payment of Remuneration and Compensations to Members of the Audit Commission. According to the current regulation, the remuneration shall be paid to the members of the Audit Commission based on the results of the corporate year and depends on the degree of his or her participation in the work of the Audit Commission (counted as fulfillment of additional responsibilities as Chairman or Secretary of the Audit Commission). Compensation shall be determined by the basic portion of remuneration. The base remuneration of a member of the Audit Commission shall be established proceeding from the Company's revenue during the financial year calculated as per RAS in accordance with the scale as follows (see the regulation). If, during the corporate year, the member of the commission actively participated in additional reviews carried out by the Audit Commission or control actions undertaken by the Audit Commission or control actions dedicated to individual issues that were made by decision of the General Meeting of Shareholders, the Board of Directors or by demand of the shareholder(s) jointly holding at least 10 % of voting shares of the Company, Chairman of the Audit Commission shall be entitled to solicit from the General Meeting of Shareholders the increase in the actual amount of remuneration.

The text of this Regulation is available on the corporate website of IDGC of Northern Caucasus PJSC in the section "For Shareholders and Investors/Charter and Bylaws/Corporate Governance Procedures Documents".

In 2017 payments to members of the Audit Commission amounted to 705.91 thousand rubles. Remuneration payment was made in cash.

This Regulation also provides for payment to members of the Audit Commission of the Company of expenses related to participation in the activities of the Company's Audit Commission.

Corporate Secretary

Corporate Secretary was elected in IDGC of Northern Caucasus PJSC. Corporate Secretary ensures the proper observance of the procedure for preparation and holding of the General Meeting of Shareholders and activities of the Board of Directors. The Corporate Secretary of IDGC of Northern Caucasus PJSC shall have knowledge, background and qualification sufficient to perform the assumed duties, flawless reputation and enjoy confidence of the shareholders. In addition, the Corporate Secretary of IDGC of Northern Caucasus PJSC has the necessary powers and resources to solve his or her objectives.

Gaydey Olesya Borisovna **Corporate Secretary**

First elected as the Corporate Secretary of IDGC of Northern Caucasus PJSC in July 2010.

Born in 1983. Higher education, graduated from the North Caucasus State Technical University, specialty "Law". She attended upgrade training at the State University - Higher School of Economics on the program "Corporate Document Workflow" and "Corporate Secretary of Joint Stock Company".

Positions held over the past 5 years:

She has been working in IDGC of Northern Caucasus PJSC since 2006.

From April 2008 to October 2015 she held the positions of the leading specialist, and then the chief specialist of the Corporate Governance Department,

from October 2015 - head of the corporate governance department of IDGC of Northern Caucasus PJSC. She has extensive experience in organizing activities for management of public and non-public companies.

She does not participate in the authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

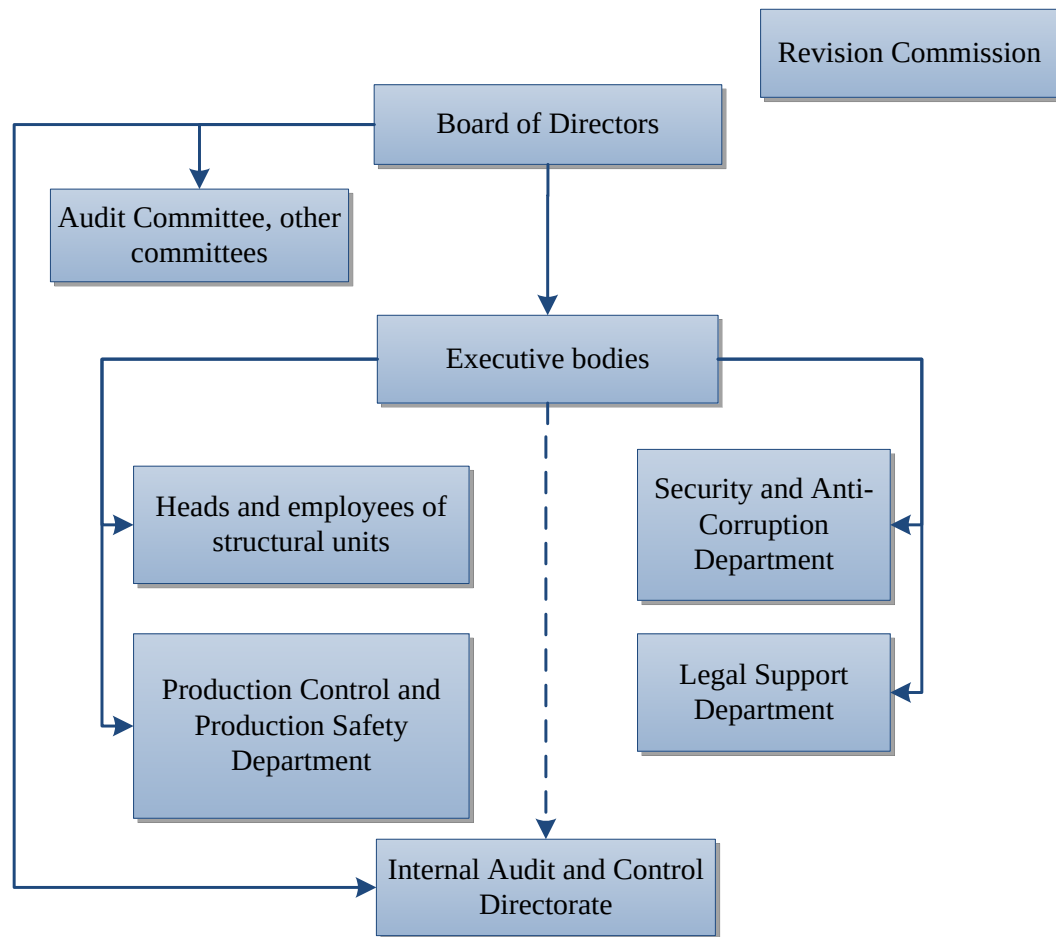
Internal Control System

The Company's internal control system (ICS) is an element of the Company's general management system aimed at providing reasonable guarantees for achieving the objectives in the following areas:

- efficiency and effectiveness of the Company's operations, including achievement of financial and operating indicators, safety of the Company's assets;
- compliance with the legal requirements applicable to the Company and the local regulations of the Company, including in the performance of business activities and maintenance of accounting records;
- ensuring of the consistency and timeliness of accounting (financial) and other statements.

ICS covers all areas of the Company's activities; control procedures shall be complied with continuously within all the processes (areas of activities) of the Company at all the management levels.

Participants of the Internal Control System



Functions of ICS participants

The functions of ICS participants are set forth in the Company's Internal Control Policy approved by the Board of Directors on March 14, 2016 (Minutes No. 230), Regulations on structural units and Appendix 10 to the Russian version of the Annual Report.

For implementing the Strategy for the Development and Improvement of the Internal Control System (ICS) of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC approved by the decision of the Board of Directors of Rosseti PJSC on February 10, 2014 (Minutes No. 143), the Company by the decision of the Board of Directors dated March 14, 2016 (Minutes No. 230) approved the Internal Control Policy of IDGC of Northern Caucasus PJSC (new version). The internal control policy defines the objectives, principles of operation and elements of ICS of the Company, main functions and responsibility of ICS participants, procedure to assess efficiency of ICS.

The Company has the Procedure for Implementation of the Requirements of the Internal Control Policy, which explains the practical aspects of the application of the standards established by the Internal Control Policy.

Control procedures for processes and subprocesses of the core and ancillary activities, as well as the management processes of the Company are documented in the control and risk matrices.

In accordance with Order of IDGC of Northern Caucasus PJSC dated July 28, 2017 No. 483, the internal control system improvement plan was approved and implemented.

To guarantee that ICS is efficient and conforms to the objectively changing requirements and conditions, the Company's internal auditor assesses the efficiency of ICS for conformity to the target condition and maturity level.

Internal independent assessment of ICS efficiency was implemented by internal auditor of the Company, external independent assessment was not conducted.

The issue on the effectiveness of internal control system based on the results of 2017 was considered at the meeting of the Audit Committee at the Board of Directors dated April 6, 2018 (Minutes No. 86 dated April 6, 2018).

During the reporting year, the Company implemented the following key actions to improve ICS:

- matrices of control procedures for 30 processes were approved with the introduction into the process (activity areas) management practice;
- "risk-appetite" (preferred risk) criteria were approved in the Company.

Business unit responsible for the implementation of the internal audit function in the Company is the Internal Audit and Control Directorate.

Internal Audit functionally reports to the Board of Directors of the Company, which means that the Board of Directors implements control and organization of the internal audit function, including approval of the plan of the internal audit activity, report on implementation of the plan of the internal audit and the budget of the internal audit business unit, the approval of the appointment decision, removal from office and determination of the remuneration of the head of the internal audit business unit.

The goal of Internal Audit is assisting the Board of Directors and Executive Bodies of the Company in enhancement of efficiency of the Company management, improvement of their financial and economic activities, inter alia - by way of a systemic and consistent approach to analysis and assessment of the systems of risk management, internal control and corporate governance as instruments for ensuring reasonable assuredness of achievement of the goals set by the Company.

Targets and objectives, main principles of organization and operation of internal audit, functions and responsibilities of internal audit are defined in the Internal Audit Policy of IDGC of Northern Caucasus PJSC (new edition), approved by the Board of Directors on March 28, 2017 (Minutes No. 285 dated March 3, 2017).

In 2017, the average number of employees that perform the internal audit function was 6 persons.

The Company approved the following documents that regulate internal audit function:

- Internal Audit Policy of the Company and Code of Ethics for Internal Auditors approved by the decision of the Board of Directors dated February 28, 2017 (Minutes No. 285);
- Regulation on the Internal Audit and Control Directorate approved by the decision of the Board of Directors of the Company dated April 21, 2017 (Minutes No. 294);
- Internal Audit Quality Guarantee and Improvement Program approved by the decision of the Board of Directors dated December 26, 2016 (Minutes No. 274);
- internal standards of internal audit activity and standards of practical application developed in accordance with the International Standards for the Professional Practice of Internal Auditing.

The feedback from the Audit Committee is provided by the head of internal audit in various forms during the interaction with the Audit Committee, including analysis of decisions/recommendations of the Audit Committee on issues falling within the competence of the internal audit, as well as through polling of members of the Audit Committee.

The indicator of satisfaction of the Audit Committee at the Board of Directors of the Company with the performance of the Internal Audit Business Unit (the average weighted points on the questionnaires of voted members of the Audit Committee to the number of voted members) according to the results of 2017 corresponds to the assessment "conformity" in accordance with the Internal Audit Quality Guarantee and Improvement Program of the Company approved on December 26, 2016 (Minutes No. 274).

Auditor

Key information on the auditor of IDGC of Northern Caucasus PJSC

Full business name: Limited Liability Company RSM RUS

Abbreviated business name: RSM RUS LLC

INN (Individual Taxpayer Number): 7722020834 OGRN (Primary State Registration Number): 1027700257540

Location: 4 Pudovkina str., Moscow, 119285

Website: <http://rsmrus.ru/>

E-mail: mail@rsmrus.ru

Reception/fax: +7 (495) 363-28-48/ 981-41-21

RSM RUS LLC is a member of the self-regulating organization NP "Audit Association of the Commonwealth" (Certificate No.6938, according to the decision of the Management Board of NP AAC dated September 25, 2013) under the primary state registration number (OGRN): 11306030308.

RSM RUS LLC is a full member of RSM International (RSM), which occupies the 6th place among the major international grids of independent companies providing services in the field of audit, tax and consulting services. Internationally, the grid is represented in more than 120 countries, the number of offices - 800, the number of personnel is 41,400 persons. Audit Company RSM RUS is among the leaders on the Russian market of audit and consulting services, successfully operating since 1992. It has branches within the territory of Russia.

Auditor selection procedure

In order to ensure the independence and objectivity of the external auditor, selection of external auditor of the Company was carried out through open competitive procedures with B2B-energo electronic trading platform. Information on the competition for the right to conclude the audit services contract in

2015–2017 was posted on the website <http://www.b2b-mrsk.ru>. The duration of the competition was until April 21, 2015. Assessment of participants was carried out by criteria pre-determined and specified in the conditions of competition.

Following the outcome of an open one-stage tender without qualification pre-selection for the right to conclude contracts for the mandatory annual audit of the statements for 2015–2017, the winner was RSM RUS LLC (Minutes of the meeting of the Procurement Commission of Rosseti PJSC dated April 14, 2015 No. 5/552r). Mandatory audit of statements for 2017 includes audit of accounting statements prepared in accordance with the Russian Accounting Standards and audit of consolidated financial statements prepared in accordance with IFRS for the year ended December 31, 2017.

Cost of services for IDGC of Northern Caucasus PJSC for 2015–2017 was determined in the amount of 7,734,052.17 RUB, VAT inclusive.

The specified auditor is also approved by decision of the Annual General Meeting of Shareholders of IDGC of Northern Caucasus PJSC (Minutes dated June 19, 2017 No.18).

The amount of payment for services of the auditor was approved by the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes dated July 24, 2017 No.308).

In 2017, the auditors did not provide other (non-audit) services to IDGC of Northern Caucasus PJSC.

Registrar

By decision of the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes dated April 20, 2007 No.8), Registrar Society STATUS Joint Stock Company (License No. 10-000-1-00304 dated March 12, 2004 (unlimited) issued by the Federal Securities Market Commission of the Russian Federation) was approved as a registrar.

STATUS JSC keeps the register of all registered equity securities of IDGC of Northern Caucasus PJSC.

For the convenience of shareholders of IDGC of Northern Caucasus PJSC there are transfer agents for the Company's shares. The list of transfer agents on shares of IDGC of Northern Caucasus PJSC is published on the website of IDGC of Northern Caucasus PJSC in the section "For Shareholders and Investors/Registrar".

Information on transactions

In 2017, IDGC of Northern Caucasus PJSC did not commit transactions that are recognized as major transactions in accordance with the current Russian law.

Report on related party transactions of IDGC of Northern Caucasus PJSC in 2017 is set forth in Appendix 6 to the Russian version of the Annual Report.

Authorized capital

General information on shares

Type and category of shares	Uncertified registered ordinary shares
Authorized capital in accordance with the Charter	154,562,275 RUB
Nominal value of 1 share	1 RUB
Authorized shares	3,258,695,653 pcs.
Stock exchange platform	Moscow Stock Exchange (Russia, Moscow)
Security code	MRKK
ISIN code	RU000A0JPPQ7
number and date of state registration	1-01-34747-E dated December 27, 2006
Date of commencement of trading at Moscow Stock Exchange	June 19, 2008
Entry in index calculation base	Moscow Stock Exchange index of shares of companies with regulated activities

Main shareholder rights

Right	Reference to a provision of the regulation and the Charter of IDGC of Northern Caucasus PJSC	Ownership interest of shareholder (shareholders*) in voting shares				
		any	1 %	2 %	10 %	25 %
Participation in the General Meeting of Shareholders personally or by proxy and vote on all issues falling within its competence	Sub-Clause 1 Clause 6.2 Article 6, Clause 11.8 Article 11 of the Charter, Sub-Clause 2 Article 31 of Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Disposal of shares owned by them without consent of other shareholders and IDGC of Northern Caucasus PJSC	para. 4 Clause 2.5 Article 2 of the Charter; para. 4 Clause 1 Article 2 of Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Entry of a proposal to the agenda of the General Meeting of Shareholders	Sub-Clause 2 Clause 6.2 Article 6, Clause 13.1 Article 13 of the Charter; Sub-Clause 1 Article 53 of Federal Law "On Joint Stock Companies"	X	X	✓	✓	✓
Obtaining of information on the activities of IDGC of Northern Caucasus PJSC and familiarization with documents	Sub-Clause 3 Clause 6.2 Article 6, para. 1 Clause 26.5 Article 26 of the Charter, Clause 4 Article 11, Article 91 of Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Receipt of dividends declared	Sub-Clause 4 Clause 6.2 Article 6 of the Charter, Sub-Clause 2 Article 31 of Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓

Right	Reference to a provision of the regulation and the Charter of IDGC of Northern Caucasus PJSC	Ownership interest of shareholder (shareholders*) in voting shares				
		any	1 %	2 %	10 %	25 %
Exercise of the right of pre-emptive purchase of shares and issuable securities convertible into shares which are issued by subscription, in amounts proportional to the number of ordinary shares they own	Clause 5.5 Article 5, Sub-Clause 5 Clause 6.2 Article 6 of the Charter, para. 1 Clause 1 Article 40 of Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
In case of liquidation of IDGC of Northern Caucasus PJSC, obtaining of a part of its property	Sub-Clause 6 Clause 6.2 Article 6 of the Charter, Sub-Clause 2 Article 31 of Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Familiarization with the list of persons having the right to participate in the General Meeting of Shareholders	Clause 4 Article 51 of Federal Law "On Joint Stock Companies"	X	✓	✓	✓	✓
Nomination of candidates to the Board of Directors	Clause 13.1 Article 13, Sub-Clause 14.9.2 Clause 14.9 Article 14 of the Charter; Clause 1 Article 53 of Federal Law "On Joint Stock Companies"	X	X	✓	✓	✓
Nomination of candidates to the Audit Commission	Clause 13.1 Article 13 of the Charter; Sub-Clause 1 Article 53 of Federal Law "On Joint Stock Companies"	X	X	✓	✓	✓
Initiation of the Extraordinary General Meeting of Shareholders	para. 1 Clause 14.3 Article 14 of the Charter; Clause 1 Article 55 of Federal Law "On Joint Stock Companies"	X	X	X	✓	✓
Initiation of the examination (audit) of the financial and economic activity of IDGC of Northern Caucasus PJSC	Clause 24.7 Article 24 of the Charter; Clause 3 Article 85 of Federal Law "On Joint Stock Companies"	X	X	X	✓	✓
Familiarization with the accounting documents and minutes of the meetings of the Management Board and request of copies of these documents	para. 2 Clause 26.5 Article 26 of the Charter, Clause 5 Article 91 of Federal Law "On Joint Stock Companies"	X	X	X	X	✓
Appeal of decisions of the management bodies of the Company entailing civil and legal consequences, in cases and in accordance with the procedure specified by the law of the Russian Federation	para. 7 Clause 6.2 Article 6 of the Charter, Clause 7 Article 49, Clause 6 Article 68 of Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓

Right	Reference to a provision of the regulation and the Charter of IDGC of Northern Caucasus PJSC	Ownership interest of shareholder (shareholders*) in voting shares				
		any	1 %	2 %	10 %	25 %
Claim for losses caused to the Company	para. 8 Clause 6.2 Article 6 of the Charter, para. 4 Clause 3 Article 6 of Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Challenging of transactions made by the Company on the grounds specified by the law of the Russian Federation and claiming of application of effects of their invalidity, as well as application of effects of invalidity of null and void transactions of the Company	para. 9 Clause 6.2 Article 6 of the Charter, Clause 6 Article 79, Clause 1 Article 84 of Federal Law "On Joint Stock Companies"	X	✓	✓	✓	✓

* Shareholders holding in aggregate the designated number of voting shares may jointly exercise the relevant right.

✓ - Right available.

X – Right unavailable.

Information on the share issues

The initial placement of shares was effected on the date of state registration of IDGC of Northern Caucasus PJSC on August 4, 2006 through the acquisition of shares of a sole founder - RAO UES of Russia OJSC.

Issue (additional issue)	Date of registration of the Securities Prospectus	State registration date and state registration number of the issue (additional issue)	State registration date of the report on the share issue (additional issue)	Number of placed shares of the issue (additional issue), pcs.	The nominal value of 1 share, rubles.	Issue objectives
1	Not registered	December 27, 2006 1-01-34747-E	December 27, 2006	150,000	1	Incorporation of a joint stock company
2	March 20, 2008	March 20, 2008 1-01-34747-E-001D	May 6, 2008	9,644,385	1	Conversion of shares after the reorganization (merger of Dagenergo OJSC, Stavropolenergo OJSC, KEUK OJSC)
3	March 20, 2008	March 20, 2008 1-01-34747-E-002D	May 6, 2008	2,695,250	1	
4	March 20, 2008	March 20, 2008 1-01-34747-E-003D	May 6, 2008	8,352,060	1	
5	March 20, 2008	March 20, 2008 1-01-34747-E-004D	May 6, 2008	8,690,357	1	
6	February 28, 2012	February 28, 2012 1-01-34747-E-005D	August 30, 2012	26,560,436	1	Implementation of the Program of Actions for Reduction in Excessive Power Losses in Distribution Grids
7	May 30 2013	May 30 2013 1-01-34747-E-006D	November 14 2013	98,469,787	1	
Total				154,562,275		

On December 15, 2016, the Bank of Russia registered the additional issue of ordinary shares of IDGC of Northern Caucasus PJSC, state registration number 1-01-34747-E. As of the end of the reporting year, the placement of additional shares was not completed.

Structure of the authorized capital

as of December 31, 2017

Information on the number of registered persons in the register of shareholders (without disclosure of data on clients of nominal holders, regardless of the issuer account)

Share holder type	Number of registered persons	Number of shares, pcs.	Share of placed shares, %
Owners - individuals	2,226	825,234	0.21
Owners - legal entities	48	235,172,526	60.42
Nominal holders (first level)	2	150,369,616	38.63
Trustees (not depositors of nominal holders)	1	2,838,192	0.73
Securities of unknown person	1	11,727	0.003
Total	2,278	389,217,295	100

Information on shareholders with a share in the authorized capital of more than 5 %^{*,**}

Shareholder	Location	Number of shares, pcs.	Share in the authorized capital, %
Rosseti PJSC (owner)	Russia, Moscow	142,197,293	92.00

* Excluding actually placed shares of the current issue.

** Changes in the composition of shareholders with a share in the authorized capital of more than 5 % during 2017 did not occur. The Company does not have information on the existence of ownership interests in shares exceeding 5 %, in addition to those already disclosed by the Company.

Information on the participation of residents and non-residents in the authorized capital of IDGC of Northern Caucasus PJSC (as of May 22, 2017)

Share holder type	Number of shareholders	Number of shares, pcs.	Share in the authorized capital, %
Residents	4,041	149,602,536	97 %
Non-residents	32	2,029,660	1 %

Information on the share of the Russian Federation, constituent entities of the Russian Federation, municipal entities in the authorized capital*

Shareholder category	Russian Federation	Constituent entities of the Russian Federation	Municipal entities	Total
	No share in the authorized capital	Ministry of Property Relations of the Stavropol Territory	Municipalities in the Republic of Dagestan	
Number of voting shares		488	405,105	405,593
Share in the authorized capital		0.0003	0.2621	0.2624

* Excluding actually placed shares of the current issue.

The Company does not have shares of IDGC of Northern Caucasus PJSC. The controlled legal entities of IDGC of Northern Caucasus PJSC do not own shares in the Company. Preference shares were not issued by the Company.

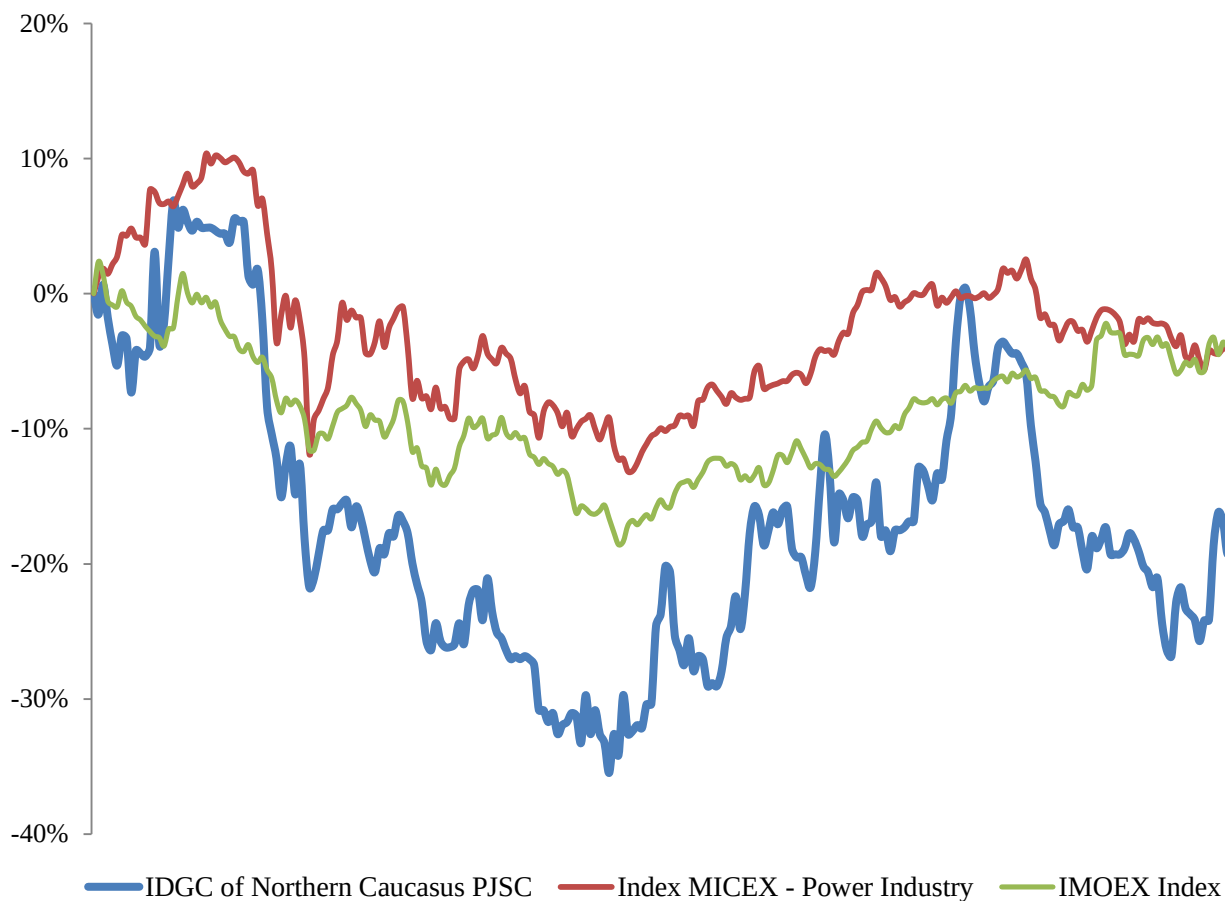
Company on the stock market

Capitalization, value and dynamics of shares of IDGC of Northern Caucasus PJSC for 2015–2017 on the basis of trading on MICEX Stock Exchange PJSC

Indicator	December 31, 2015	December 31, 2016	December 31, 2017	Dynamics for 12 months (2017), %
Weighted average price (as of the end of the year), RUB	12.4	22.55	18.45	-18.2
Closing price, RUB	12.5	22.05	19.2	-12.9
Capitalization*, mln RUB	1,908.8	3,485.4	2,874.9	-17.5
Indicator	2015	2016	2017	Dynamics for 12 months (2017), %
Maximum price per year, RUB	20.1	24.1	24.7	2.5
Minimum price per year, RUB	11.6	11.9	13.25	11.3
Average daily trading amount, mln RUB	0.4	0.8	0.6	-25.0
Average daily trading amount , thousand pcs.	25.8	42.5	27.0	-36.5
Average daily volume of trading, transactions	82	173	105	-39.3

* Product of the number of shares of the relevant category (type) per market price of one share disclosed by the trading organizer

Dynamics of capitalization of IDGC of Northern Caucasus PJSC, Index MICEX-Power Industry and Index IMOEX in 2017



Information on trends and factors influencing the dynamics of capitalization is set forth in the section "Business Model and Position in the Industry" ("Macroeconomic Factors of Development") of the Annual Report.

6. Anti-Corruption Policy

In QI of 2017, on January 26, 2017, the Board of Directors of IDGC of Northern Caucasus PJSC adopted (Minutes No. 278) the Anti-Corruption Policy.

The implementation of the provisions and requirements of the Anti-Corruption Policy is carried out under the List of Anti-Corruption Measures in Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC. Based on this List, the Program of Anti-Corruption Measures for 2017 was prepared and approved.

Methods for submission of claims allowing to identify potential cases of employees' unfair acts are regulated by Order No. 777 dated November 23, 2017 "On the Approval of the Procedure for Receipt, Consideration and Resolution of Applicants' Claims of Alleged Corruption", namely: by a hotline on the corporate website of IDGC of Northern Caucasus PJSC, by e-mail address of the Head of the Security and Anti-Corruption Department, using the feedback form on the corporate website of IDGC of Northern Caucasus PJSC, by Russian Post, as well as via personal appointment at the Security and Anti-Corruption Department.

The procedure for regulation of measures in case of receipt of information on alleged unfair acts of employees is established by Order No. 246 dated April 17, 2017 "On Anti-Corruption Measures - Prevention and Settlement of the Conflict of Interest in IDGC of Northern Caucasus PJSC and Controlled Companies" and by Order dated January 25, 2016 No. 32 "On the Approval of the Procedure for Official Inspections on Alleged Corruption Offenses".

Order "On the Approval of the Adapted Matrix of Controls for Anti-Corruption Processes, Economic, Information and Regional Security" was issued.

As a part of the implementation of standards and procedures aimed at ensuring diligent work, for identification of the facts of affiliation and other abuse, in 2017, measures were performed to verify information on income, property and property-related obligation in respect of employees holding positions in IDGC of Northern Caucasus PJSC, controlled companies, and their close relatives (Income declaration) for 2016. 102 reports were prepared based on the results of verification of the information stated in the declarations. Results of the declaration campaign for 2016 were considered on March 3, 2017 at the meeting of the Commission of IDGC of Northern Caucasus PJSC, controlled companies and subsidiaries on the compliance with corporate ethics and settlement of the conflict of interest.

Within the annual declaration of the conflict of interest in QI, a campaign was held for annual declaration of the conflict of interest between the executive and administrative personnel of the Company's executive office and controlled companies for 2016. More than 2,000 employees of the Company and controlled companies were subject to declaration, including 524 employees of the executive office declared in electronic form using an automatic system for analysis and collection of information on beneficiaries (AS ACIB).

In the reporting period, work was carried out to verify declarations of conflicts of interest of candidates for positions in the Company and controlled companies. In the reporting period, 353 (in 2016 - 357) declarations of candidates for vacant positions were verified with preparation of the relevant reports. 20 reports (in 2016 - 26) were issued that influenced the decision on refusal to conclude an employment agreement with the candidate for the vacant position.

The procurement documentation and procurement participants/counterparties were checked to assess the level of their reliability and good faith, resolve conflicts of interest, exclude affiliation and other abuses related to positions held in IDGC of Northern Caucasus PJSC. According to the results of checks, 1,437 (in 2016 - 297) reports were made. Some possible signs of corruption were identified that have a negative impact on the performance and financial stability of the Company.

During the reporting period, 1,512 (in 2016 - 976) draft agreements with counterparties were checked. At the stage of fulfillment of the agreement, control was carried out over the compliance with the requirements of the Anti-Corruption Clause and timely provision of information on changes made to the chain of counterparty owners.

Work is carried out on a permanent basis for preparation of the list of the Company's insiders, timely notification of persons included in the list of insiders, transfer of information on insiders to securities trading organizer (stock exchange), preparation and submission of the relevant statements, as well as verification of the chain of owners of procurement participants, compilation and verification information on the concluded agreements with counterparties of the Company, controlled companies, beneficiaries, entering data into AS ACIB.

In 2017, the Security and Anti-Corruption Department received 5 appeals on alleged corruption. In four cases the information provided by the applicants was not confirmed as a result of verification. On 1 fact, a claim was submitted to the Department of Ministry of Internal Affairs of Russia for Baksansky District, as a result of which a criminal case was initiated against the head of Baksan DPG.

7. Public Relations, State Authorities and Mass Media Relations

Relations with state authorities and civil society institutions

As a part of its activities, IDGC of Northern Caucasus PJSC systematically develops cooperation with state authorities at the federal, regional, municipal and local levels for implementing long-term projects in the power sector, taking into account the specific features of each constituent entity of the Russian Federation in the North Caucasus Federal District.

In 2017, the management of IDGC of Northern Caucasus PJSC took part in 128 working meetings with the state authorities, which allowed to move forward in resolution of such important issues as:

- power grid assets consolidation;
- development of the energy complex of the North Caucasus Federal District;
- improvement of the quality of power supply to consumers and reduction in power losses in grids;
- optimization of the processes of technological connection to power grids;
- payments for power transmission services.

Within the implementation of comprehensive action plans approved by the executive bodies of constituent entities of the North Caucasus Federal District and agreed upon with the Office of the Plenipotentiary Representative of the RF President in the North Caucasian Federal District, 56 meetings of regional commissions were attended to address the outstanding issues regarding operation of the fuel and energy complex of the North Caucasus Federal District, reduction in the debt for consumed energy resources and elimination of the debt for supplied energy resources, as well as combating corruption in the fuel and energy complex.

The State Authorities and Civil Society Institutions Relations Directorate of IDGC of Northern Caucasus PJSC has developed Order dated June 6, 2017 No. 351 "On Roundtables" for:

- improvement of the customer-oriented policy, cooperation with public associations and organizations, business community of the North Caucasus Federal District;
- increase in the information transparency of the activities of IDGC of Northern Caucasus PJSC and social responsibility;
- prospective development in the region of the power industry and activities related to technological connection to grids of IDGC of Northern Caucasus PJSC;
- increase in the efficiency of interaction with consumers when performing the functions of a last resort supplier.

In accordance with Order of the Government of the Russian Federation dated January 31, 2017 No. 147-r, for the timely provision of assistance in terms of approval in the republics of the North Caucasus Federal District of regulations cancelling the need to obtain a permit for the construction of power grid facilities with a voltage class up to 35 kV, IDGC of Northern Caucasus issued Order "On the Formation of a Working Group on the Support of Regulations". The unit within the order coordinates the activities of the Working Group on the Support of Regulations in terms of cooperation with the executive authorities of constituent entities of NCFD.

As a result, in the Stavropol Territory, the Republic of North Ossetia-Alania, and the Chechen Republic in December 2017, regulations establishing cases where it is not required to obtain a permit for the construction of power grid facilities with a voltage class up to 35 kV were adopted.

Within the implementation of the minutes of the meeting "On the results of the working group on the fuel and energy complex of the North Caucasus Federal District under the Government Commission for the Social and Economic Development of NCFD for the first half of 2017" dated October 3, 2017 No. AKh-P16-56pr, by December 1 2017, IDGC of Northern Caucasus PJSC developed the Roadmaps aimed at reducing the level of power losses in grids of IDGC of Northern Caucasus PJSC and solving outstanding issues requiring the support from the authorities of the constituent entities of the Russian Federation in the territory of the North Caucasus Federal District.

Based on the results of the working meetings, in 2017, these Roadmaps were signed with the heads of all regions of NCFD.

Within the framework of cooperation of IDGC of Northern Caucasus PJSC with higher and secondary special educational institutions for ensuring the practical orientation of the preparation of students in energy specialties, their professional orientation to work in the power grid complex, as well as the revival of the traditions of youth labor education, the State Authorities and Civil Society Institutions Relations Directorate takes part in the arrangement and performance of activities for the student construction team Elbrus of IDGC of Northern Caucasus PJSC. In 2017, students from the St. Petersburg Polytechnic University of Peter the Great (St. Petersburg), the North Caucasian Mining and Metallurgical Institute (Vladikavkaz), the Kabardino-Balkarian State Agrarian University named after V.M. Kokov (Nalchik), the North Caucasian Federal University (Stavropol) joined the united construction team Elbrus.

In 2017, IDGC of Northern Caucasus PJSC took part in the regional, federal and international events within the congress and exhibition activities, including:

- International Investment Forum "Sochi-2017" (Sochi, February 27-28, 2017). At the Forum, the project of IDGC of Northern Caucasus PJSC on the topic "New methods and devices for melting ice on overhead power transmission lines and their advantages over the existing ones" was presented within the exposition of the Government of the Republic of North Ossetia-Alania (the only region falling within the area of the Company's operating activities which was selected by the Government of the Russian Federation among constituent entities for the exposition participation in the Forum);
- St. Petersburg International Economic Forum - 2017 (St. Petersburg, June 1-3, 2017). The forum has been held since 1997 under patronage and with the participation of the President of the Russian Federation and has become the world's leading platform for communication of business representatives and discussion of key economic issues facing Russia, emerging markets and the world in general. Rosseti PJSC traditionally acts as the official partner of the Forum;
- exhibition of the achievements of the subsidiaries and affiliates of Rosseti PJSC based on the results of 2016 within the Annual General Meeting of Shareholders of Rosseti PJSC (Moscow, June 30, 2017);
- International Forum on Energy Efficiency and Development of the Power Industry "Russian Energy Week" (Moscow, October 3-7, 2017). Within the framework of the Forum, the problems and prospects for the development of the fuel and energy complex of NCFD were discussed.

For developing socially responsible business practices, a charitable assistance system operates in IDGC of Northern Caucasus PJSC. Financial assistance is rendered to medical, religious, children's, veterans', sports and other public organizations, as well as to citizens in difficult life situations, disabled children, orphans.

Over the reporting period, IDGC of Northern Caucasus PJSC provided charitable assistance to educational and sports organizations:

- Professional Football Club CSKA JSC, according to the contract dated July 3, 2017 No. 260/2014;
- "Memory" Charitable Foundation for the construction in the Republic of Ingushetia within the territory of the State Budgetary Educational Institution of Secondary Vocational Education North Caucasus Fuel and Energy College named after T.Kh. Tsurov of the real estate assets for 360 places designed for conducting educational activities and training for specialists in the power industry.

Social communications

In 2017, a number of special innovative projects was implemented, which contributed to the effective construction of social communications. The main emphasis was placed on resolving issues related to reducing power losses in power grids and strengthening the payment discipline of power consumers.

Within the developed and approved "**Program of Information Events on Payment Discipline and Reduction in Losses in Grids**", a comprehensive work was carried out aimed at forming among the population of knowledge in the field of laws on payment discipline, payment culture skills, and power theft prevention. For achieving the result, various forms and methods of communication with the general public were involved. Regional authorities, the general public, the youth, and the media were involved in the implementation of PR-projects. For broadcasting the declared objective, all possible information methods of influence on the target audience were widely used: videos and spots on TV, radio, information messages in the Internet media, printed (federal and regional) media, social media, blogosphere and printing products.

Promotional Event "Mass Media against Energy Thieves" - organization and involvement of federal, regional, city media to participate in raids in the following areas:

- disconnection from power supply of persistent non-payers;
- identification of the facts of power theft and false metering devices.

62 raids were conducted with participation of mass media.

792 publications were placed in printed media, online media, social media and blogosphere.

16 TV spots were broadcasted.

Project "Area without Losses" - a competition among local administrations of the constituent entities of NCFD for the best region with the highest payment discipline of budget organizations and low level of power theft from the residents of the district.

The purpose of the competition is to involve the authorities in resolving acute issues related to the power grid complex in the area of responsibility of IDGC of Northern Caucasus PJSC and controlled companies, as well as in pursuance of the decisions (Clause 8) of the Government Commission for the Social and Economic Development of the North Caucasus Federal District (Minutes No. 3 dated December 27, 2016).

The efficiency rating of the districts reflecting the dynamics of reducing the level of power losses was calculated on a monthly basis by specially created competition commissions in each region of the North Caucasus Federal District on the basis of the approved criteria.

Basic criteria:

- 100% payment for power of budget-dependent organizations;
- work with property owners associations and management companies for the timely payment for power consumed for common house needs, etc.;
- arrangement of citizens meeting for explaining the laws in terms of payments for power and theft of energy resources;

- participation in raids on disconnection of debtors, identification of the facts of unaccounted power consumption.

119 municipal administrations, municipal districts, municipalities, city districts of all constituent entities of the North Caucasus Federal District, including 11 in the Karachay-Cherkess Republic, 12 in the Kabardino-Balkarian Republic, 9 in the Republic of North Ossetia-Alania, 4 in the Republic of Ingushetia, 41 in the Republic of Dagestan, 16 in the Chechen Republic, 26 in the Stavropol Territory. Teams of administrations of **9** municipal districts of NCFD were awarded with letters of gratitude and valuable prizes. Heads of the republics of the North Caucasus Federal District received official letters with a petition to award teams of municipalities that achieved the best results.

313 publications were placed in the mass media, and 180 publications were placed in the social media and the blogosphere.

Competition "Our Best Controller" was held among the employees responsible for power metering/transmission of the branches of IDGC of Northern Caucasus PJSC for the best performance indicators in terms of reducing excessive losses in grids.

795 specialists responsible for revealing the facts of unaccounted power consumption participated in the competition. The competition was aimed at motivating the personnel to identify the facts of uncountable and non-contractual power consumption and improving the payment discipline of consumers. The interim results of the competition were summed up in all branches on a monthly basis: the employee who achieved the best indicators at the site was determined.

Basic criteria:

- achievement of the targets in terms of reduction in power losses in grids at the sites;
- the number and quality of the issued reports on unaccounted power consumption;
- quality and percentage of consumers round check;
- absence of consumer complaints.

The results of the competition determined the importance of motivation of employees to combat unaccounted power consumption. The sites of the winners of the competition were characterized by decrease in power losses in grids and facts of power theft, absence of persistent debtors, while the volume of power sales often exceeded 100%.

10 winners were awarded with letters of gratitude, cash prizes and memorable prizes.

Promotional Event "Stop, Energy Thief!"

In the regions of the Company's presence, mobile groups of activists were created to conduct explanatory work with consumers to prevent power theft with the distribution of visual printed products. Stickers "Stop, the Thief!" with the appeal "For someone who does not pay for power, his neighbor pays twice" were applied next to homeowners, organizations and enterprises whose owners are persistent non-payers or are caught in illegal connections to power grids.

35 promotional events were held.

337 publications were placed in the mass media, and 97 publications were placed in the social media and the blogosphere.

Competition "Let's Tell the Consumer" was held among students of higher education institutions and colleges of NCFD, employees of the branches of IDGC of Northern Caucasus PJSC and last resort suppliers of NCFD and the Republic of Kalmykia for the best text and graphic design of leaflets on payment discipline and power theft combating.

The competition was held in May - June 2017 - 68 works were received.

Basic criteria:

- original text and graphic design;
- novelty of the idea;

- expressivity of the image;
- completeness of presentation of the topic.

The awarding ceremony took place on June 23, 2017. Diplomas and memorable prizes were awarded to 7 winners of the competition, letters of gratitude from IDGC of Northern Caucasus PJSC were awarded to 9 participants in the competition. The special prize of the General Director was awarded to the 4th year student of the Institute of Architecture, Construction and Design of the Kabardino-Balkarian State University named after Kh.M. Berbekova as the most active and creative contestant. Letters of gratitude for the active life position of students studying at universities and the contribution to the solution of acute problems for the industry are sent to the heads of colleges and universities of the North Caucasus Federal District. The best sketches were used in the creation of printed products, which were granted to the winners of the competition "Our Best Controller" for distribution among the population in the regions of presence.

Promotional Event "Let there be light!" - a demonstration of videos on improvement of the payment discipline and prevention of the power theft on the republican TV channels (including under social advertising terms and conditions) and in social media. A series of videos was created, where heroes were well-known sportsmen, spiritual leaders, cultural figures, heads of different levels of the constituent entities of NCFD - media persons, using their example, were urging to make timely payments for power.

16 videos were demonstrated 762 times on the regional television channels for social advertising purposes, 16 videos on the increase in the payment discipline were broadcast 67 times. Videos were posted in the social media and the blogosphere on the official pages of IDGC of Northern Caucasus PJSC.

Promotional Event "Black List of Non-Payers" - a special section was created on the official website of IDGC of Northern Caucasus PJSC, where the lists of non-payers - TGC and other legal entities having receivables for power transmission services - are updated on a monthly basis.

The information on the creation of this section is sent by e-mail to 105 electronic media addresses. Information support is provided to the project in the media.

Promotional Event "Fair Energy" - awareness-raising activities were carried out to reduce excessive losses in grids among the participants of the North Caucasus Youth Forum "Mashuk-2017" in the form of the game "Energy Quest".

Active information support for the event was provided in the media (12 publications in the media, mentions in the social media and the blogosphere, videos).

Round table "Technical Connection to Grids - Way to Reduce the Non-Contractual Power Consumption in the North Caucasus" was held on April 26, 2017 in Pyatigorsk. IDGC of Northern Caucasus PJSC acted as the general partner of the project implemented by Kommersant Publishing House. The following top managers of IDGC of Northern Caucasus PJSC, representatives of Municipal Unitary Enterprise Kabalkkommunenergo (Nalchik), Oboronenergo JSC (North-Caucasian branch), Pyatigorsk Power Grids LLC, Solar Systems LLC - enterprises for the construction of solar power plants (Stavropol), power grid and construction companies, large industrial enterprises, and gardeners' non-commercial partnership (GNCP) participated in the discussion of actual issues for power consumers. Daniel Dmitriev, Adviser of Chairman of the Management Board of the Association "Non-Commercial Partnership of Territorial Grid Companies" (Moscow) appeared as an expert and co-speaker.

Publications were made in the newspaper Kommersant-Yug and other mass media.

Video Instruction "Personal Account" - a video with step-by-step instructions for users of the "Personal Account" on online payment for power was made. The video was posted in the social media and the blogosphere on the official pages of IDGC of Northern Caucasus PJSC.

Broadcasting was carried out on regional TV channels in the constituent entities of NCFD: Republic of North Ossetia - Alania - 50 shows, Kabardino-Balkarian Republic - 50 shows, Karachay-Cherkess Republic - 60 shows.

Implementation of marketing and PR activities within the Agreement on Cooperation between IDGC of Northern Caucasus PJSC and UEC JSC (Sberbank of Russia) in Provision of Services for Collection of Payments from the Population:

- preparation and broadcasting of TV spots on regional TV channels;
- placement of information materials in printed media;
- holding of a press conference on the results of the work of the united Population Service Centers.

In the Republic of North Ossetia-Alania, 13 information materials were prepared and published, 56 publications were made with their use (including printed and Internet versions of the mass media, as well as the social media and the blogosphere). Two information TV spots were broadcasted on a regional television channel 6 times.

In the Kabardino-Balkarian Republic 12 information materials were prepared and published, 48 publications were made with their use (including printed and Internet versions of the mass media, as well as the social media and the blogosphere). Two information TV spots were broadcasted on regional TV channels 10 times.

Design layouts were developed, distribution products were manufactured, with their subsequent transfer to the specified regions for distribution to the general public: 100 booklets and 200 information leaflets.

The information materials are published in 11 Service Centers of the Republic of North Ossetia-Alania and 13 Service Centers of the Kabardino-Balkarian Republic.

A final press conference was prepared and held.

In 2017, within the implementation of the active social policy of Rosseti PJSC, effective work was carried out in the Internet space. The social media and the blogosphere have become important channels of communication with consumers. On interactive sites it is possible to express opinion on the Company's activities, ask questions of interest, and report on cases of power theft. The official accounts of the Company were actively used to inform the general public and discuss issues related to the power industry on the following resources:

Facebook – www.facebook.com/paomrskskru;

Instagram – www.instagram.com/mrsk_sk;

VK – https://vk.com/mrsk_sk;

Odnoklassniki - www.ok.ru/mrsksk;

Twitter – <https://twitter.com/ostrikovsu>.

In 2017 the **Program of Public and Information Measures to Prevent Cases of Injury to Third Persons at the Facilities of the Power Grid Complex of IDGC of Northern Caucasus** was implemented.

Experts of the Mass Media Relations Department of IDGC of Northern Caucasus PJSC developed a set of measures aimed at preventing violations of the rules of power safety, including among children, increasing the level of knowledge of the population of the North Caucasus Federal District, stimulating the cognitive interest in the power safety, careful attitude to energy resources with the use of acquired knowledge and skills in everyday life.

Special lessons were held on power safety, information and advocacy materials were distributed in general education institutions. Special educational and communication projects on the power safety, rational and careful use of energy resources were implemented.

The Mass Media Relations Department used interactive and non-standard forms of work with children and adolescents, allowing to involve the maximum number of schoolchildren in the educational process.

Play "Secret of the Lightning Queen"

A children's puppet play on the power safety was prepared for the personnel of the Mass Media Relations Department of IDGC of Northern Caucasus PJSC together with the team of the Stavropol Regional Puppet Theater. The original scenario of the play was written by the playwright N. Shmitko together with the specialists of the Stavropol Electric Grid Company. The preparation of the play took six months and included the production of sets, dolls, costumes, rehearsals, and light effects.

The genre decision of the play "Secret of the Lightning Queen", designed for children aged 6-14, was performed in a new format - an electrothriller. Serious material on the observance of the power safety rules was transferred in a form accessible for the children. Despite the applied and moralizing nature of this work, it was possible to create a full-fledged puppet play - bright, emotional, modern, using scenic special effects and light projection with a creatively designed score.

Actors of the Stavropol Regional Puppet Theater were involved in the play: the Honored Art Worker of the Stavropol Territory Irina Nilova, Svetlana Ilyadis, Nadezhda Drobysheva, Vitaly Yakushenko, Roman Gorbunov, Pavel Rudenko, Natalya and Roman Kuznetsov, Lada Sviridova, Zhanna Nemykina, Eugene Kolbas and Maria Efimishcheva.

The puppet play was successfully performed in many districts of the Stavropol Territory. For 6 months of 2017, the theatrical company played 32 plays in Solnechnodolsk, Stavropol, Pyatigorsk, Izobilniy, Essentuki, Zheleznovodsk, Budennovsk, Neftekumsk, Svetlograd, Nevinnomyssk. Children from rural settlements were not ignored. The electrothriller collected full halls in the villages of Aleksandrovskoe, Novoselitskoye, Stepnoye, Levokumskoe, Kochubeevskoe. The play was watched by more than 6,200 young spectators of the Stavropol Territory. IDGC of Northern Caucasus PJSC plans to arrange the performance in the republics of the North Caucasus Federal District.

Achieved effect: serious theoretical knowledge and cognitive information on the power safety using the modern theatrical means were brought to the viewer, were understandable and accessible to the child's perception. Emotional feedback from schoolchildren and their parents, interest in the topic of power safety, positive assessment by representatives of educational institutions confirmed the importance of the play "Secret of the Lightning Queen".

Power Battle "Fire Up Brains!"

Power Battle "Fire Up Brains!" was held by the personnel of the Mass Media Relations Department in the school No. 14 in Pyatigorsk and was based on the principle of a competitive classroom game. It is aimed at pupils of 8-10 classes of general education institutions.

This new creative format of work with schoolchildren serves not only an educational function, but also aims at uniting the team and fostering the team spirit. A competitive spirit helps to quickly learn and analyze the information received.

Master-Class "Save Gosha!"

During the master classes, the personnel of the power company trained schoolchildren and students of higher education institutions and colleges for the provision of first aid to a conditionally injured person from the impact of electric current with training of skills on the robot simulator "Gosha". They also explained how dangerous games are near power facilities, which facilities on the street should not be approached, they taught to safely leave the step voltage area with a "goose" step.

Stavropol Territory. More than 12,000 pupils of 1-4 classes of comprehensive schools of Pyatigorsk, Georgievsk, Budennovsk, Novoselitsky, Predgorny, Aleksandrovsky, Sovietsky, Izobilnensky Districts of the Stavropol Territory took part in master classes. Students who mastered the knowledge and demonstrated the best results in the "resuscitation" of the injured "Gosha" were given the title of "Energy Saver".

Karachay-Cherkess Republic. For students of the Professional Agrarian Lyceum No. 1, Erken-Shahar settlement of the Nogaysky District of the Karachay-Cherkess Republic, theoretical and practical exercises on training of skills and abilities to prevent occupational injuries were organized. Classes were conducted by specialists of Adyge-Khablsky DPG of Karachaevo-Cherkesskenergo branch of IDGC of Northern Caucasus PJSC, based on the training area in Adyge-Khabyl aul. One of the most interesting moments was the development of the skills of first aid on the dummy "Gosha". The event was organized within the Health and Safety Month's Campaign announced in Karachaevo-Cherkessia, and the Health and Safety World Day, which was celebrated on April 28, 2017 for the 15th time.

Kabardino-Balkarian Republic. Master-classes "Save Gosha!" were held with children of power engineers - participants in the drawing contest of Rosseti at the power safety class; within the campaign "Let the Holidays Be Safe for Everyone" with students of the school MOU SOSH in the village of Cahun; with participants of the construction team - students of the Kabardino-Balkarian Agrarian University; during the Day of Open Doors; with participants of the competition "Let's Tell the Consumer" - students of the Kabardino-Balkarian State Agrarian University; with participants of the festival #VmesteYarche - students of the Kabardino-Balkarian State University, the Kabardino-Balkarian State Agrarian University, schoolchildren; students of the school MOU SOSH in the village of Cahun.

Power safety week

For prevention of electric injuries in 2017, specialists from the North Caucasus Interregional Distribution Company and controlled companies conducted 1,339 lessons on power safety in educational institutions, school and out-of-town recreation camps, orphanages. Genuine interest among schoolchildren and students was caused by excursions to the facilities of the power grid complex of the North Caucasus.

Employees of the branch of PJSC IDGC of the North Caucasus - Stavropolenergo during the Week of Electrical Safety used a specially developed "Standard program of the electrical safety lesson for conducting lessons in secondary schools in the Stavropol Territory", which is intended to the same extent as for chiefs and chief engineers, masters of linear sections of regional electric networks, and for teachers of the OBZH of secondary educational institutions.

In 2017, more than 840 lessons were conducted in the general educational institutions of the Stavropol Territory, in which more than 15,000 schoolchildren took part. Within the framework of the Open Door Day for 90 students of the specialized universities of the North Caucasus Federal District, power engineers of the branch of IDGC of the North Caucasus, Stavropolenergo, conducted excursions to the substation 110 kW Beshtau in Pyatigorsk.

The branch of IDGC of Northern Caucasus PJSC - "Ingushenergo" in December 2017 was announced a month for electrical safety, within which 20 lessons on electrical safety in general education institutions were held. During the year, excursions to the 110 kV Magas substation for students of the seventh and eighth grades of GBOU "Grammar school" Marem "in Magas" and a substation of 110 kV "Malgobek-3" for students of the fifth grade of GBOU "School № 20 Malgobek ».

In the branch of IDGC of Northern Caucasus PJSC - "Kabbalkenergo", within the framework of the Open Door Day, electrical safety classes and a workshop on first aid to the victim of electric current were held for university students.

The branch of IDGC of Northern Caucasus PJSC - "Karachaevo-Cherkesskenergo" in July 2017 organized for students of the third year of the group "Installation and operation of power transmission lines" of the Industrial and Technical College of Cherkessk, an orientation tour to the training ground located on the basis of Adygea -Hablian DPG.

Corporate schools, brothels, coloring books, bookmarks, memos, where the topic of safe handling of electricity was designated, were transferred to schools and kindergartens of all entities of the North Caucasus Federal District. The most interesting was the brochure "The Electrical Safety Notice", in which the personnel of the Mass Media Relations Department of IDGC of Northern Caucasus PJSC together with the artist Valentina Bogdanyuk outlined the rules for electrical safety through an entertaining story about aliens who arrived on the planet Earth and first encountered electricity. With the help of ridiculous characters who bake torn shoes at a campfire under a power transmission line, they connect to the power grid and study the insides of the transformer substation, the children are told about 15 "impossible" that will help save lives. "Memo of electrical safety" reminds readers how to properly use household electrical appliances and how to behave in non-standard and dangerous situations. Warning and information signs and signs, rules for carrying out artificial ventilation and indirect heart massage, emergency telephones also entered a colorful glossy brochure, which has become an indispensable visual aid for school teachers in the conduct of lessons in the OBZH.

In 2017 on the topic of electrical safety:

- prepared press releases - 111;
- published information messages in the media – 1,187;
- TV broadcasts were broadcast, including the rent of video clips - 766;
- radio broadcasts were broadcast, including the rent of audio clips - 60.

Active information support of projects in social media and the blogosphere on the pages of the official accounts of the Company and its branches: V Kontakte, Odnoklassniki, FaceBook, Instagram.

Communication with mass media

Based on the results of 2017 IDGC of Northern Caucasus PJSC with the result of 12,736 mentions in the media is ranked fourth in the rating of information activity of subsidiaries and affiliates of Rosseti PJSC. At the same time 98 % of publications were neutral and positive.

During 2017, the problems of the energy complex of the North Caucasus and effective methods for their solution turned out:

- 578 press releases on the subject of payment discipline, accounts receivable, legal work, control of unaccounted consumption, etc.;
- 7,882 publications in the regional print and Internet media of the North Caucasus Federal District and the Republic of Kalmykia;
- 210 broadcasts of television and television programs,
- 92 radio broadcasts (279 broadcasts);
- 772 publications in the federal print and Internet media.

In 2017, there was close cooperation with the federal media, including Kommersant, RBC, Rambler News Service, Rossiyskaya Gazeta, Expert South, AiF, Komsomolskaya Pravda, MK-Kavkaz, RIA "News", IA "Interfax South", TASS, IA "Regnum", portal "Kavpolit", "Caucasus today", "This is the Caucasus", "Notepad", "Energy and Industry".

The project "Power Transmission" was further developed on the channel Russia-1 with involvement of regional branches of the Russian State Television and Radio Broadcasting Company - Stavropol TV, Kabardino-Balkaria TV, Karachay-Cherkessia TV, Alania TV. "Power Transmission" is a specialized TV program with a timing of 5-6 minutes and a coverage of about 7 million people, starting in 2013, regularly appearing in prime time during local broadcasting on "Russia-1" TV channel. 27 footages were shown in 13 programs in 2017. The project made it possible to significantly expand the audience, to cover new information space for the purpose of objective and operational information on the Company's activities.

The Mass Media Relations Department of IDGC of Northern Caucasus PJSC in the reporting year was building its work in accordance with the unified communication policy of the group of companies "Rosseti". The directions of this policy are determined by the order of PJSC Rosseti dated August 21, 2015 No.2015 "On the Group's unified communications policy Rosseti". In the reporting period the main objectives were creation and promotion of a positive image of the IDGC of Northern Caucasus PJSC, ensuring effective public relations management and publicity capital management (image property and business reputation).

The principles of interaction of IDGC of Northern Caucasus PJSC with the public and the media:

- disclosure of information about the company's activities in accordance with the Regulation on the Implementation of the Unified Communication Policy of IDGC of Northern Caucasus PJSC;
- providing relevant information, covering all the aspects of the company's activities in a maximally complete and unbiased way;
- provision of timely responses to all information inquiries submitted.

Information on the plans for 2018

In 2018, the Mass Media Relations Department will continue to work actively to create a positive image of the company, to conduct a unified coordinated communication policy; organization through the mass media of purposeful and consistent work on explaining current and strategic tasks to be performed by the Company; defending the interests of the Society in public conflicts and crisis situations.

In accordance with the tasks outlined, in 2018 it is planned to hold long-term PR actions in key areas of the company's activities.

All planned and implemented actions and events will receive full-scale information support.

Fight against non-payments and losses of power in grids

Promotions: "District without losses", "Stop, energy thief!", "Black list of non-payers", "Let there be light!", "EnergHolms", "High voltage".

Round table on "Consolidation of networks in the North Caucasus: problems, solutions, results". Participation of IDGC of Northern Caucasus PJSC as a general partner with the invitation of interested structures from regions of presence on the basis of the newspaper "Kommersant".

Electrical safety, energy saving

Promotions: "Let's Tell the Consumer", "Energomarafon", "Basics of Electrical Safety", "What do I know about electricity?", "Safe Summer", "Video Warning".

Events within the framework of the All-Russian Festival # Togetherness: the action "Join the lean team!", Lessons on energy saving.

Information support in mass media and social grids of raids on checking the condition of electrical installations on the eve of school holidays in the territory of children's health camps and educational institutions.

Demonstration of videos on electrical safety on TV on an ongoing basis.

Reliability and Trouble Free Operation. Popularization of power engineer profession

Promotions: "LEP-STOP"; "Gift with your own hands"; photo gallery "In the frame - energetik!"; television (Internet project) "Just about energy."

"ABC of Housing" on the TV channel STV-24.

Cycle of information and insightful materials about the power grid complex of the North Caucasus.

8. Human Capital and Social Responsibility

HR and Social Policy

The key objectives of the HR and social policy of IDGC of Northern Caucasus PJSC aimed at achievement of target benchmarks of the Power Grid Complex Development Strategy of the Russian Federation are as follows:

- planning personnel needs - ensuring the availability of accurate information on the operating and predictive numerical and qualitative needs in the labour force, necessary and sufficient to perform the tasks assigned by the Company;
- timely provision of the Company with the personnel of the required qualification;
- ensuring of the efficiency of the personnel, productivity growth in the Company.

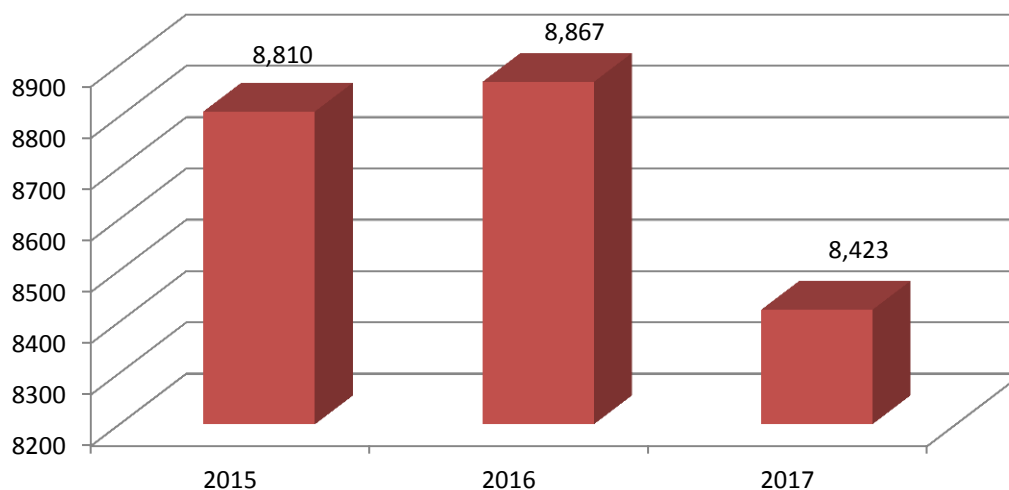
These key objectives of the HR and social policy are achieved by implementing a set of measures in various areas of activities and achievement of the target benchmarks:

- in the field of organizational design;
- in the field of personnel provision and development;
- in the field of personnel efficiency management (personnel motivation);
- in the field of social benefits and guarantees;
- in the field of safety of the personnel and the labour culture.

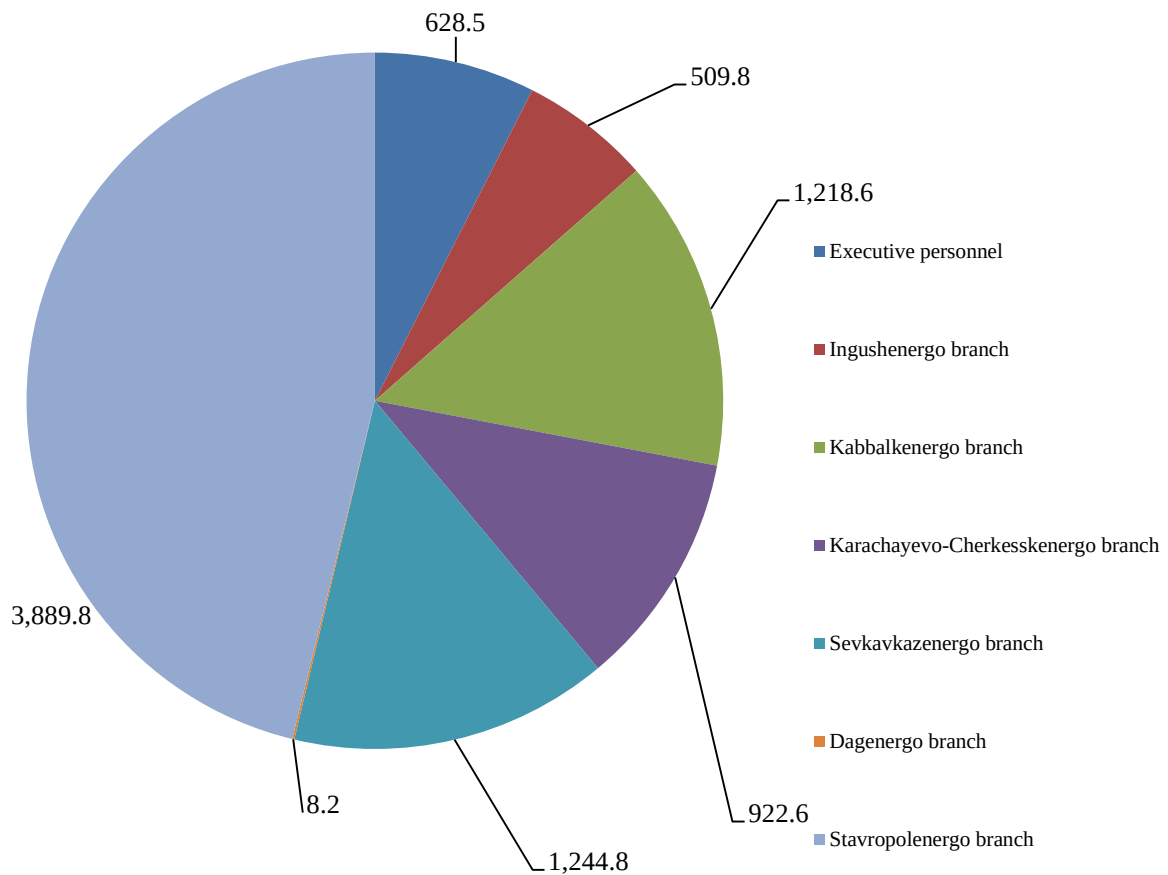
Number and structure of the personnel

The average number of the personnel of IDGC of Northern Caucasus PJSC in 2017 was 8,423 persons, which is 5 % lower than in 2016. The decrease in the average number is caused by the termination of the agreement on lease of power grid assets with Essentukskaya Grid Company JSC and Stavropol City Power Grids JSCand, accordingly, the dismissal of personnel.

Average number of employees of IDGC of Northern Caucasus PJSC in dynamics for 2015–2017



Distribution of the average number of employees in 2017



The personnel staffing level of IDGC of Northern Caucasus PJSC is maintained at a sufficiently high level - in 2017 the indicator was 98.7 %.

The average age of the Company's employees in 2017 remained at the level of 2016 and was 46 years.

The considerable share of employees of IDGC of Northern Caucasus PJSC is employees aged from 25 to 50 years (59 %).

The personnel of IDGC of Northern Caucasus PJSC has quite a high level of skills of workers – 75 % of the Company's employees have professional education. This indicator increased by 3.8 pp for the last three years.

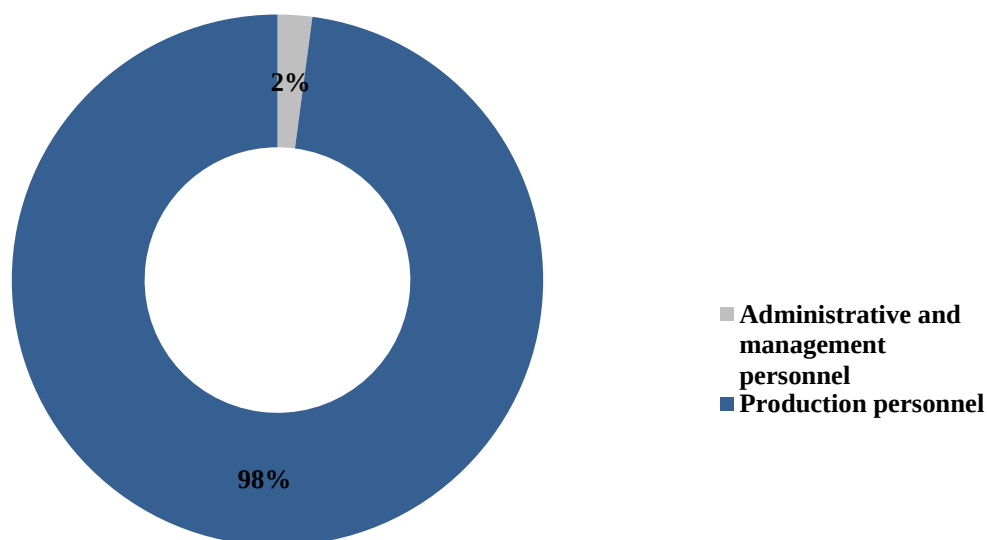
Personnel training and development

Training is one of the priorities of the HR and Social Policy of the Company and is regulated by the standard of organization SO 5.053 "Training, retraining and advanced training of personnel", with the Rules for work with personnel in the organizations of the power industry of the Russian Federation.

The share of employees who took part in training activities in the reporting year off-the-job to the average number of personnel is 70.1 % (5,906 persons), which is by 29 pp (2,265 persons) higher than in 2016.

The largest share among the trained employees is production personnel - 97.9 % (5,784 persons). This indicator in 2016 was 95 %. The structure of the personnel who received training in the context of administrative management, production and support personnel categories is presented below:

Structure of personnel who took part in off-the-job training events by categories, %



On the basis of corporate training centers in 2017 professional training, retraining and upgrade was provided to 4,967 persons, which amounts to 84.1 % of the total number of trainees, which is by 6.3 pp higher than in 2016 (in 2016 on the basis of corporate training centers 2,831 persons were trained (77.8 % of the number of trainees)).

The main share of trainees on the basis of corporate training centers is also production personnel - 99.1 % (4,921 persons).

Key suppliers of educational services, apart from internal training centers, are the following:

- FBU "Teaching office "Rostekhnadzor", Moscow;
- CHU DPO "Training Center" Cherkessk;
- FGAOU DPO "Stavropol CPPK", Stavropol;

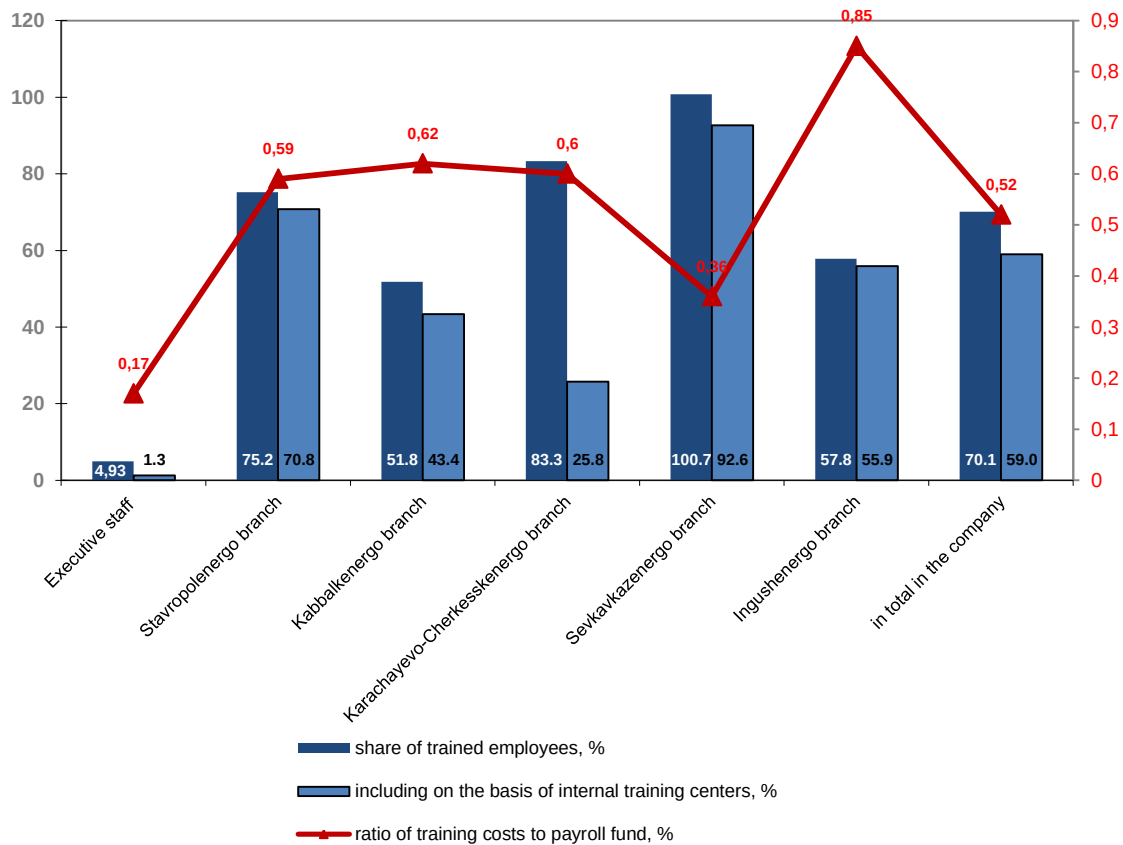
Federal State Autonomous Educational Institution for Additional Vocational Education "St. Petersburg Energy Industry Institute for Further Training", St. Petersburg;

- GKOUSPO "Kabardino-Balkarian College "Builder", Nalchik;

Actual costs for training (regardless of sources) amounted to 21,841 thousand RUB, including 14,849.7 thousand RUB (68 %) to train personnel in their own training centers. In 2016, for personnel training 18,804.5 thousand RUB were allocated, of which for training in corporate training centers - 8,648.3 thousand RUB (46.0 %). The low specific weight of the costs of training in their own training centers is caused by the differentiated prices for training employees of the Company and employees of third-party organizations. Thus, reduced rates are applied for training of the Company's employees by training centers. In addition, the prices of training centers are substantially lower than the prices of regional training organizations of DPO.

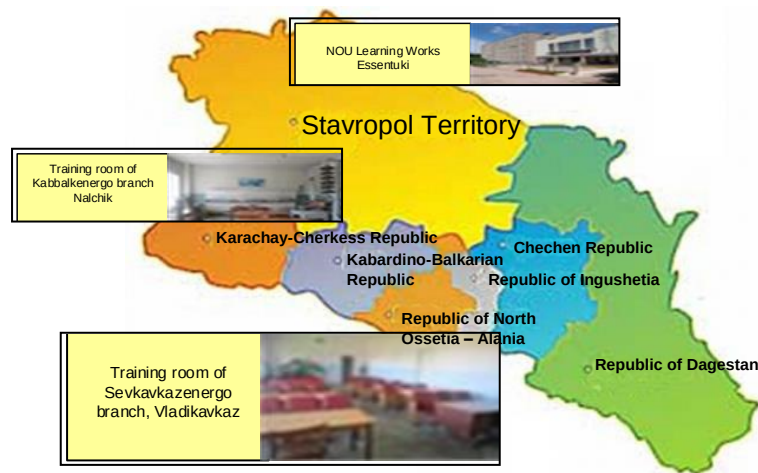
The ratio of the actual costs of training personnel to the payroll fund amounted to 0.52 % in the reporting year (in 2016 - 0.46 %).

Share of employees who took part in off-the-job training events and ratio of training costs to the payroll fund in the reporting year, %



A significant share of trained personnel, with a low share of personnel training expenses in Stavropolenergo, Karachayevo-Cherkesskenergo and Sevkavkazenergo branches is caused by the organization of compulsory planned training in compliance with the requirements for industrial safety of employees whose duties include the performance of works at height. This training was organized mainly on-site, which resulted in increase in the number of trained personnel at a low cost of training. A significant share of training expenses for personnel with a low share of trained personnel in Kabbalkenergo and Ingushenergo branches is caused by the need to upgrade the skills of personnel requiring off-the-job training in training centers, with training of practical skills in the special training area, which resulted in increase in the cost of training with a low number of trained personnel.

Information on training centers of IDGC of Northern Caucasus PJSC



One of the largest professional industrial educational institutions is located in the North Caucasus Federal District – NOU Learning Works (Essentuki), founded by IDGC of Northern Caucasus PJSC. In 2017, it trained 4,967 employees of the Company, representing 84.1 % of the total number of employees trained. The number of places to study in the training center is 285. The training building has: 13 classes, 2 laboratories, 5 workshops, and a library. Classes are equipped with interactive and multimedia complexes, computers. NOU "Learning Works" is equipped with the power grid training area with the power facilities of all types, on the basis of which professionals and workers are also trained. There is a hotel for 100 persons.

Main courses from NOU "Learning Works":

- training of new employees;
- training of workers for the second profession;
- retraining of workers and professionals;
- certification of workers and specialists in occupations within the jurisdiction of Rostekhnadzor;
- pre-training of managers and professionals on safety regulations and rules for technical operation;
- seminars and training workshops.

The personnel of Kabbalkenergo and Sevkavkazenergo branches of the Company is annually trained in the training classrooms - structural units of branches.

The classroom of Sevkavkazenergo branch is not licensed for educational activity, but is equipped with workshops, laboratories, class with specific equipment, training areas, which are widely used in the production training using state-of-the-art methods and technologies for developing practical skills of trainees.

The classroom of Kabbalkenergo branch is not licensed, but has a technical library, instructional materials, computers, a video projector, VCR and educational posters, as well as an automated system for personnel training ASOP-Expert, a trainer-editor TFr-12trenDetail and a robot simulator "Gosha" to learn how to provide intensive care.

Classrooms have training areas in the premises of DPG, on the basis of which specialists and workers of branches are trained.

Cooperation with educational institutions

In order to maintain and develop human resource capacity, in accordance with previously concluded agreements on cooperation, IDGC of Northern Caucasus PJSC organized cooperation with all leading educational institutions located in the territory of the North Caucasus Federal District, including:

- Federal State Budgetary Educational Institution of Higher Professional Education "Grozny State Oil Technical University named after Academician M.D. Millionshchikov";
- Federal State Budgetary Educational Institution of Higher Professional Education "Dagestan State Technical University";
- Federal State Budgetary Educational Institution of Higher Professional Education "North Caucasus State Humanitarian-Technological Academy";
- Federal State Budgetary Educational Institution of Higher Education North-Caucasus Federal University;
- Federal State Budgetary Educational Institution of Higher Professional Education "Kabardino-Balkarian State Agricultural University named after V.M. Kokov";
- Federal State Budgetary Educational Institution of Higher Professional Education "North Caucasian Mining and Metallurgical University (State Technological University)";
- Federal State Budgetary Educational Institution of Higher Professional Education South-Russian State Technical University (Novocherkassk Polytechnic Institute);
- State Budgetary Educational Institution of Secondary Vocational Education Regional Multi-Profile College, Stavropol;
- ANO Energy College, Kaspiysk;
- State Budgetary Educational Institution of Secondary Vocational Education Nevinnomyssky Energy College, Nevinnomyssk;
- State Budgetary Educational Institution of Secondary Vocational Education Ardon Agro-Technological College, Ardon;
- State Budgetary Educational Institution of Primary Vocational Education Professional Lyceum No.6;
- State Budgetary Educational Institution of Secondary Vocational Education St. George Regional College "Integral";
- Federal State Budgetary Educational Institution of Higher Professional Education "Gorsky State Agrarian University";
- State Budgetary Educational Institution of Secondary Vocational Education North Caucasus Fuel Energy College named after T.Ts. Tsurov.

The main partner institution of the Company in the territory of the North Caucasus Federal District is the Federal State Budgetary Educational Institution of Higher Education of the North-Caucasus Federal University.

The main areas of cooperation of the Company with educational organizations were:

- training and professional development of employees in accordance with programs adapted to meet the needs of the power grid complex;
- ensuring that students of educational organizations will undergo practice in the Company;
- organization of work of student team at power grid facilities;
- conducting of the All-Russian competition of qualifying papers for graduates of technical universities in the specialty "Power Industry and Electrical Engineering";
- organization of targeted admission of students at the expense of budgetary funds in the profile areas for the power grid complex;
- implementation of activities within the Plan of interaction between Rosseti PJSC and Federal State Budgetary Educational Institution of Higher Education NIU MEI.

Students of these vocational schools have the opportunity to undergo assessment, production, prediploma practice annually on the base of the Company. In 2017, 303 students of higher and secondary vocational educational institutions have passed the practice on the basis of the branches of

the Company, 23 graduates who have successfully completed the practice in their specialty were recruited into the Company.

From July 1 to August 15, 2017, a united student construction team Elbrus with a total headcount of 35 persons worked at power facilities of IDGC of Northern Caucasus PJSC. In October 2017, events devoted to the All-Russian closure of the eighth working season of student teams of the power grid complex, where the student team Elbrus participated, were organized in Sochi. According to the results of various competitions organized at celebrations, the student team Elbrus won several prizes (the 2nd place at the festival of concert performances, the special prize in the competition of video clips, the third place in the competition of articles, the grand prix in the competition of wall newspapers).

Talent pool management

Formation and development of the talent pool are one of the key areas in the implementation of the Company's HR and social policy. The main objective of the work with the talent pool in the Company is to satisfy the personnel needs of the Company for employees prepared for duty target positions. For achieving these objectives, the Rules on the Talent Pool Management has been developed and is being implemented.

In accordance with the requirements of the Rules, the Company established:

1) management talent pool for the following positions:

- Head of the Department, Directorate, Office, Service (with the exception of Deputy Chief Engineer);
- Deputy Director of the branch by area (with the exception of Deputy Director of the branch - Chief Engineer);
- Deputy Chief Engineer by area;
- Chief Accountant;
- Head of the Office, Department, Service;
- Supervisor of Power Grids.

2) talent pool for key positions:

- DPG Chief Engineer;
- DPG Foreman;
- DS Manager.

3) youth talent pool.

The talent pool of the Company consists of highly qualified professionals with experience of at least three years in the area, profile target positions; with good results in production activities; with the capacity required for further professional development and career growth.

At present, the executive talent pool of the Company includes 206 employees, and the talent pool for key positions - 99 employees, the youth talent pool - 29 employees.

Since 2011, the Company implemented a program for work with the youth talent pool. The youth talent pool is formed at the level of the executive body of the Company to involve young specialists in solving problems that are relevant for the Company, creating additional opportunities for professional and personal development of young employees of the Company, assisting in raising the level of their professional and managerial training. The structure of the youth talent pool includes high-potential young specialists, who are characterized by a high level of learning ability, an active life position (when considering candidates for the talent pool, preference is given to employees who actively

participate in the life of the Company, research activities with rationalization proposals), high motivation to build a long-term career in the Company.

For all members of the talent pool the target positions are defined, individual development plans are formed, according to which the workers are trained for the target positions.

The main emphasis in the preparation of the members of the talent pool is on the development of practical skills – succession pool members are involved in development of regulatory documents, the target position is replaced by a succession pool member for the period of absence of the head (vacation, business trip, etc.).

During the reporting year, the Company organized distance learning for the members of the talent pool for the position of Head of RES on a regular basis in the format of videoconferences (videoconferencing seminars held by managers and executive personnel specialists of IDGC of Northern Caucasus PJSC with the participation of invited experts) on a wide range of issues related to the field of activity of the head of the production unit: technological, organizational, human resources management.

In 2017, succession pool members (62 persons) were trained in NOU "Learning Works" (Essentuki) and in specialized educational institutions of additional professional education located in Moscow and St. Petersburg.

Out of 154 appointments for executive positions held in the branches and the executive positions of the Company in 2017, 81 posts (52.6 %) are personneled by internal candidates, of whom 7 from management and youth talent pool (4.5 %) The provision of executive positions by the talent pool is 89.5 %.

Social responsibility

The main objectives of the social policy of IDGC of Northern Caucasus PJSC are the following:

- creation of favorable conditions for professional actualization of employees;
- ensuring and maintaining of the social stability in the Company;
- stimulation of employees to high-performance work, which contributes to their welfare.

Social benefits and guarantees of employees of the Company are regulated by the Collective Agreement of the Company for 2013-2018 in full compliance with the Labour Code of the Russian Federation.

For increasing the social security of employees, the Company concluded a voluntary health insurance agreement No. 0217LM0023 dated July 3, 2017 between the Company and SOGAZ JSC. The voluntary medical insurance program provides for the following scope of medical services for the insured: outpatient care, domiciliary care, dental care, emergency and urgent medical care, inpatient care (emergency and planned hospitalization), 24-hour advisory and dispatch services and physician supervision;

In order to ensure a adequate standard of living for the employees of the Company at the retirement age, to create conditions for the effective resolution of HR issues related to the recruitment, retention and motivation of the personnel, the Regulation on Non-State Pension Provision is in force in the Company.

The Company annually provides targeted material support for non-working pensioners, war veterans. Benefits in addition to the state pension shall be paid non-working pensioners and veterans awarded during their work with departmental awards, merit badges and honors.

Promotion of a healthy lifestyle is one of the most important areas of the Company's social policy. Therefore, the Company's employees took an active part in the following sporting events during the year:

- in March 2017, the team of the Company took part in the Volleyball Tournament of Rosseti PJSC;
- in April 2017, the team of the Company took part in the Mini Soccer Tournament "Rosseti Cup";
- in April 2017, the Futsal Team of the Company took part in the III TEC/PROM SOCHI International Cup;
- in September 2017, the team of the Company took part in the Swimming and Table Tennis Tournaments "Rosseti Cup".

In addition, 362 employees of the Company passed GTO (Ready for Labor and Defense) standards, 35 of which received gold merit badges.

In April 2017, the Company's employees took an active part in the city-wide subbotnik (Saturday voluntary work day).

During 2017, the Company's young specialists took part in the following major industry forums:

- 6 employees of the Company took part in qualifying events for participation in the International Youth Forum within the St. Petersburg International Economic Forum - 2017;
- 2 employees of the Company took part in the International Forum of Young Power Engineers and Industrialists "Forsage-2017";
- 1 employee of the Company took part in the International Youth Forum "Territory of the Initiative Youth Biryusa-2017".

In August 2017, on the site of the North Caucasus Youth Forum "Mashuk-2017" the Company organized the energy quest "Energy Call-2017" for the forum participants. Young specialists of the eight interregional grid companies of Rosseti Group came specially for the participation in the forum in Pyatigorsk from all over the country.

In addition, the Company's employees took an active part in the VII Interregional Summer Education Forum "Energy of Youth" in August 2017.

In February 2017, children of the Company's employees took part in the contest of children's drawings "Rosseti: Drawing Children".

Within celebration of the New Year, employees' children aged from 0 to 14 years were given Christmas gifts.

Thus, on December 22, 2017, a ceremony dedicated to the celebration of the Power Engineer's Day was organized, when employees were awarded in connection with their professional holiday.

In total, in 2017, within Group of Companies IDGC of Northern Caucasus PJSC 1,131 employees were awarded, including:

- state award - 1 employee;
- awards of Rosseti PJSC - 166 employees;
- awards of the Ministry of Energy of Russia - 60 employees;
- awards of IDGC of Northern Caucasus PJSC - 383 employees;
- awards of Association RaEl - 30 employees;
- regional awards - 157 employees;
- awards of branches/Companies - 334 employees.

Key Performance Indicators

Achievement of the priority development objectives of the Company is assessed by the system of key performance indicators (KPI) applied in the Company.

The system of key performance indicators for the Company's General Director is established on the basis of:

- Sub-Clause 50 Clause 15.1 Article 15 of the Charter of the Company;
- decisions of the Board of Directors of the Company dated April 5, 2017. (Minutes No 292 dated April 7, 2017)

In accordance with the specified decisions the Board of Directors established the following composition and target values of key performance indicators for 2017:

Quarterly Indicators

Composition of indicators	Target value in 2017	Results achieved
Consolidated operating profit (EBITDA)	for the first quarter, half year and 9 months of the reporting year ≥ 0 ; for the year ≥ 5.3 %	I quarter – 25.9 %; II quarter – 19.3 %,
Consolidated net debt / EBITDA	I, II, III quarter ≤ 4.2 IV quarter ≤ 3.9	I quarter – 3.7 pcs; II quarter – 4.0 pcs,
Implementation of the plan of measures for reducing the accounts receivable of subsidiaries and affiliates	≥ 100.0 %	I quarter – 425.7 %; II quarter – 696.6 %,
No growth of major accidents	No growth	No growth
No growth of injured in accidents	No growth	No growth
Level of power losses	I quarter ≤ 23.80 % II quarter ≤ 21.45 % III quarter ≤ 20.08 % IV quarter ≤ 20.63 %	I quarter – 27.04 %; II quarter – 23.80 %,
Payment of power losses	≥ 100 %	I quarter – 100 %; II quarter – 100 %,

Annual indicators

Composition of indicators	Target value in 2017
Consolidated net cash flow	$\geq - 3,952$ mln RUB
reduction in operating expenses (costs) per unit	≥ 3.0 %
Increase in the capacity utilization of power grid equipment	Achieved
Level of power losses	≤ 20.63 %
Reduction in investment costs per unit	≤ 1.00
Increase in the labour efficiency	> 3.82 %
Efficiency of innovative activities	≥ 90 %
Compliance with the facility commissioning schedule	≥ 90 %
Compliance with the timing of technological connection	≤ 1.1
Achievement of the reliability level of provided services	≤ 1.00

Actual values for III, IV quarters 2017, and also 2017, taking into account the terms and procedures of reporting, which is a source of information for their calculation, at the time of annual report generation were not summarized and approved by the Board of Directors.

Comparing the values of 2017 to the previous years is not performed due to a change in approaches to setting targets and calculating the actual values of KPIs.

The KPI system applied in the Company is interconnected with the amount of the variable part of the management remuneration - for each of the indicators there is a specific weight set in the scope of paid bonuses, quarterly and annual bonuses are paid subject to the compliance with the respective KPIs.

Contact information

Full business name

Публичное акционерное общество «Межрегиональная распределительная сетевая компания Северного Кавказа» (Russian)
Interregional Distribution Grid Company of Northern Caucasus, Public Joint-Stock Company (English)

Abbreviated business name

ПАО «МРСК Северного Кавказа» (Russian)
IDGC of Northern Caucasus PJSC (English)

Postal address

13a Podstantsionnaya str., Energetik Settlement, Pyatigorsk, Stavropol Territory, 357506, Russian Federation

Corporate Internet site

<http://www.mrsk-sk.ru>

Primary state registration number

1062632029778

INN [Taxpayer Identification Number]/KPP [Tax Registration Reason Code]

2632082033/263250001

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Corporate Secretary

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http://www.mrsk-sk.ru/customer/internet-reception/ask_specialist/

Registrar

STATUS JSC

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Website: <http://www.rostatus.ru>

E-mail: office@rostatus.ru

Telephones: for issuers +7 (495) 974-83-45, for shareholders +7 (495) 974-83-47, for general issues +7 (495) 974-83-50.

License dated March 12, 2004 No.10-000-1-00304 (unlimited), issued by the Federal Securities Market Commission

Relevant contacts and details of IDGC of Northern Caucasus PJSC are published on the Company's website in "Company/Contacts and Details".

Glossary

For the purposes of this Annual Report, the following basic concepts, definitions and abbreviations are used.

ABBREVIATIONS AND ACRONYMS	
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
RAB	Regulatory Asset Base, return on investment method
JSC	Joint Stock Company
AO-energo	joint stock company of power engineering and energy connectivity
GDP	Gross Domestic Product
HVL	high-voltage power line
HVL	overhead lines
HV	high voltage
HPP	hydraulic power plant
S&A	subsidiary/affiliate
UES of Russia	unified energy system of Russia
CJSC	Closed Joint Stock Company
INN	taxpayer identification number
IT	information technologies
km	kilometer
KPI	Key Performance Indicators
PTL	power transmission line
Mln	million
MICEX	Closed Joint Stock Company MICEX Stock Exchange
IDGC	Interregional Distribution Grid Company
SME	small and medium-sized enterprise
IFRS	International Financial Reporting Standards
MUE	Municipal Unitary Enterprise
RGP	required gross proceeds
VAT	value added tax
R&D	research and development work
NP	non-profit partnership
NC	new construction
OJSC	Open Joint Stock Company

LLC	Limited Liability Company
WPCM	wholesale power and capacity market
PJSC	Public Joint Stock Company
CSO	Customer Service Outlet
pp	percentage point
SS	substation
RAS	Russian Accounting Standards
RTS	Open Joint Stock Company Russian Trading System Stock Exchange
RUB	ruble
RF	Russian Federation
DPG	district power grids
ICS	Internal Control System
NCFD	North Caucasus Federal District
MM	mass media
RMS	risk management system
TV	television
TS / TC	transformer substation/technological connection (depending on the context)
TRE&R	technical re-equipment and reconstruction
TGC	territorial grid company
FSC of Russia	Federal Securities Commission
pcs.	piece
B2B-energo	electronic trading platform for procurement, tenders and auctions of power companies
What's app	is a freeware and cross-platform messaging and voice service
Viber	is a freeware and cross-platform messaging and voice service
RSM International (RSM)	a multi-national network of accounting firms
Telegram	a cloud-based instant messaging service
Rambler News Service	news agency
YouTube	video hosting, videohosting company that provides users with storage, delivery and display of video
InfoWatch Security	EndPoint software, product name of InfoWatch
InfoWatch INSIGHT	EndPoint software, product name of InfoWatch
WannaCry	computer virus
DLP-systems	systems for preventing information leakage

Facebook	the largest social network in the world and the company of the same name that owns it
Twitter	a social network for public messaging via the web interface, sms, instant messaging or third-party client programs for Internet users of any age
PR	Public relations (public relations, public communication, public affairs, community connections, public interaction)
UNITS OF MEASUREMENT	
Ampere (A)	unit of electric current measurement in the International System of Units (SI)
Watt (W)	unit of power measurement in the International System of Units (SI)
Watt-hour (Wh)	non-standard measurement unit of work or amount of generated power. It is used primarily for measuring power consumption at home, in national economy and for measurement of power generation in the power industry
Volt (V)	unit of voltage measurement in the International System of Units (SI). It is equal to the electrical voltage causing a constant current in the circuit at 1 amp power output 1 Watt
Volt-ampere (VA)	non-standard measurement unit of full capacity of electric current
Litre (l)	metric unit of volume measurement
TERMS	
Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)	Analytical index equal to the amount of profit before the deduction of interest expenses, taxes, depreciation and amortization
Gross domestic product (GDP)	market value of all final goods and services (that is intended for direct consumption) made during the year in all sectors of the economy in the State for consumption, exports and savings, regardless of the nationality of used factors of production
Dividend Policy	set of principles and methods used by the Company to determine proportions between a capitalized part of the Company's profits and a part of the Company's profits paid out as dividends, as well as a system of relations and principles to determine the procedure and time frames for payment of dividends, to determine the Company's responsibility for non-fulfilment of obligation to pay dividends
Subsidiaries and affiliates (S&A)	company, where another company holds more than 20% of voting shares
Unified National (all-Russian) Power Grid	complex of power grids and other power grid facilities owned on the basis of the right of ownership or otherwise as stipulated by federal laws by power industry entities and ensuring the steady supply of power to consumers, operation of the wholesale market, as well as parallel operation of the Russian power system and power systems of foreign countries

Unified Energy System of Russia (UES of Russia)	set of production and other power property assets of a single production process (including production in the mode of combined production of power and heat), and power transmission under centralized operational dispatch management in the power industry
Sole Executive Body	official acting on behalf of the Company on the basis of the Company's charter and having the right to exercise legal capacity of the Company in all issues not within the competence of other bodies of the Company
Investment community	investors, analysts, professional participants of the securities market, rating agencies, other specialized and consulting organizations in the field of finance and investment
Interregional Distribution Grid Company (IDGC)	open joint stock companies created during the restructuring of the power industry, formed as operating (or operating and holding) companies within the framework of the reorganization of IDGC and DGC by merger
Required gross proceeds (RGP)	economically reasonable amount of funds necessary for a company to carry out regulated activities during the accounting regulation period
Distribution Grid Companies	open joint stock companies formed as a result of the division of AO-energo by activity-based transmission facilities not belonging to the Unified National (All-Russian) Power Grid
Registrar	legal entity being a professional securities market participant, providing to joint stock companies services for maintenance of the register of shareholders, registration of transfer of the right of ownership to shares, distribution of materials to shareholders and other services
Market Capitalization	product of the number of shares of the relevant category (type) per market price of one share disclosed by the trading organizer in the stock market
EDITORIAL ASSUMPTIONS IN THE TEXT OF THE REPORT	
Stakeholders	shareholders, customers, contractors and business partners, investors, public authorities, employees of IDGC of Northern Caucasus PJSC and other natural and legal persons with an interest in financial and economic activity of IDGC of Northern Caucasus PJSC (definition of “stakeholders” is used in international practice to refer to this category of persons)
Executive Office (Administrative office)	administrative office (headquarters) IDGC of Northern Caucasus PJSC, carrying out accounting and control functions, system-wide coordination and administration of branch offices and controlled companies
Executive Director	member of the executive body(bodies) of IDGC of Northern Caucasus PJSC

Key Performance Indicators (KPI)	system of financial and non-financial indicators affecting qualitative or quantitative change of the results with regard to the strategic goal of IDGC of Northern Caucasus PJSC
Company	IDGC of Northern Caucasus PJSC/IDGC of Northern Caucasus OJSC
Corporate Governance	aggregate of processes ensuring management and control of the Company's activities and including relations between shareholders, the Board of Directors, and executive bodies of IDGC of Northern Caucasus PJSC in shareholders' interests
Independent Director	In accordance with the recommendations contained in the Corporate Governance Code (recommended by the Bank of Russia in accordance with the letter dated April 10, 2014 No.06-52/2463), Independent Director is a person who has sufficient professionalism, experience and independence to have own opinion and is able to make objective and honest judgements, independent from the influence of executive bodies of the Company, separate groups of shareholders or other interested parties. Thus in normal conditions a candidate may not be regarded as an independent candidate (elected member of the Board of Directors), if he or she is associated with the company, its major shareholder, major counterparty or competitor of the Company or is associated with the government. Additional conditions are contained in Clauses 103-107 of the Code.
Non-Executive Director	member of the Board of Directors, who is not a member of the executive bodies of the company and does not meet all the requirements for an independent director
Controlled Company	legal person under the management of IDGC of Northern Caucasus PJSC under the agreement on transfer of powers of the sole executive body. At the end of 2017 the controlled companies of IDGC of Northern Caucasus PJSC were: grid: Chechenenergo JSC, Dagestan Grid Company JSC, power supply: Dagestan Power Supply Company PJSC, Kabbalkenergo JSC, Kalmenergosbyt JSC, Karachaevo-Cherkessskenergo JSC, Sevkavkazenergo JSC, other (are not in operations): Ingushenergo JSC

Limitation of liability

This Annual Report of IDGC of Northern Caucasus PJSC for 2017 is only for information purposes and does not present itself an advice or a convincing reason for carrying out transactions with the securities of IDGC of Northern Caucasus PJSC. The Annual Report was prepared on the basis of the information available to IDGC of Northern Caucasus PJSC at the time of its preparation.

The Annual Report contains information on the results of IDGC of Northern Caucasus PJSC activities for 2017 (in a number of cases for a longer period), assessments and predictions by IDGC of Northern Caucasus PJSC authorized management bodies concerning future events, development prospects for IDGC of Northern Caucasus PJSC and industry that IDGC of Northern Caucasus PJSC is most involved in, as well as the likelihood of certain events or completion of certain actions.

Information in this Annual Report on physical entities is disclosed in accordance with personal information legislation of the Russian Federation. IDGC of Northern Caucasus PJSC obtained the consent of the above persons (except for the member of the Board of Directors Kolesnikov AS) for disclosure of the specified information (year of birth, education, work places for the last 5 years, ownership of shares Society).

All statements of a forecast nature, which are in this Annual Report, as well as all following oral and written forecasts which IDGC of Northern Caucasus PJSC or any person working on behalf of the Company may be responsible for, are categorically limited by the reservations set out below. Forecast statements may include statements concerning business activities, financial condition, income, economic indicators, results of business and production activities, production and consumption volume policies, disbursements, expenses, growth prospects, useful life of assets, reserves, time scale for starting and completing production projects, acquisition, liquidation or disposal of certain legal entities, other similar factors and economic forecasts concerning IDGC of Northern Caucasus PJSC activities, as well as the industry and market in which IDGC of Northern Caucasus PJSC operates. All claims included in this Annual Report, other than statements containing historical facts, may be statements of a forecast nature. Words such as “consider”, “expect”, “intend”, “plan”, “will”, “may”, “should”, “could be”, “suggest”, “anticipate”, “try”, “presume”, “rely upon”, “continue”, “aim” and any word or expression with similar meaning or facts with disclaimers usually indicate the forecast nature of the statement.

Any opinions or forecasts presented in this Annual Report are the views of IDGC of Northern Caucasus PJSC, its governing bodies, management, and personnel at the time the report was compiled. If the date of this report is not relevant, the opinions and forecasts contained therein may not reflect the current judgement of the management or governance bodies of IDGC of Northern Caucasus PJSC. Therefore, the information contained in this report may not be considered complete, exhaustive, and justified.

Forecast statements are not a guarantee of future indicators, as the actual performance of IDGC of Northern Caucasus PJSC in the future may differ from the forecast results for a number of reasons. The specified reasons concern a number of well-known and unknown risks, uncertainties, and other factors. IDGC of Northern Caucasus PJSC gives no guarantees (apart from situations provided for by the law) that the actual results, scales or indicators of its activities or the industry where it operates will correspond to the results, scales or indicators of its activities clearly expressed or suggested in any statement of a forecast nature contained in this Annual Report. IDGC of Northern Caucasus PJSC does not take responsibility for distributing or publishing any updates or changes to statements of a forecast nature which reflect changes in expected or new information, as well as subsequent events, conditions or circumstances. Acquisition of securities of IDGC of Northern Caucasus is associated with risks described in this Annual Report. Neither IDGC of Northern Caucasus PJSC, nor its governance bodies, nor the personnel shall bear any responsibility for any losses arising as a result of using this report or its contents or arising in connection with this report.

In addition, as of the date of this Annual Report, the Bank of Russia has not provided the Notice of the results of additional issue of securities of IDGC of Northern Caucasus PJSC (ordinary registered non-documentary shares, state registration number 1-01-34747-E dated December 15, 2016), due to which in some subsections of this report the information is presented without taking into account the actually placed shares of the current issue, as indicated.

The English version of the Annual Report of IDGC of Northern Caucasus PJSC is shortened compared to the Russian version of the Report.