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Pre-approved by the Board of Directors of
IDGC of Northern Caucasus, PJSC

Approved by the Annual
General Meeting of Shareholders of
IDGC of Northern Caucasus, PJSC

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2015 ANNUAL REPORT OF IDGC of Northern Caucasus, PJSC for 2015

General Director Yu.V. Zaytsev

Pyatigorsk, 2016

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Address from the Chairman of the Board of Directors, IDGC of Northern Caucasus

Dear shareholders, partners, colleagues!

In 2015 the business of IDGC of Northern Caucasus was done under challenging macroeconomic conditions. However, steadily following the principles of responsible business practice, the company could meet key expectations of its stakeholders. And above all, being a reliable partner of the business and the government, the Company supplied power to the economy in the entire territory of operation – in the Northern Caucasus Federal District. Besides, the challenges of time make us to forward most of our efforts at improvement of performance, also through optimisation of the management structure, reduction of administrative pressure at production activities, continuous monitoring of operation of Company's executive bodies.

Being an integral part of the energy holding Rosseti, IDGC of Northern Caucasus complied with the Russian Federation Power Grid Complex Strategy approved by the order of the RF Government dated April 3, 2013 No.511-r. IDGC of Northern Caucasus goes for provision of high quality services, reliable power supply, timely and transparent technological connection to power grids at prices affordable for consumers. To solve this task, the Company systematically works on consolidation of power grid assets, which is mandatory to create a unified centre of liability for reliable and high-quality power supply to consumers in the region represented by IDGC of Northern Caucasus. Important decisions were made, and critical agreements were achieved in this area in 2015. In particular, the Program of Power Grid Asset Consolidation was approved. Besides, the project was launched to create a power grid company in the Republic of Dagestan – Dagestan Grid Company, JSC. The agreement on realisation of this project was signed with the management of the Republic within the Saint Petersburg International Economic Forum in June 2015. Dagestan Grid Company started to function since July in the last year. In 2016 actions will be taken to convert Dagestan Grid Company JSC, subsidiary of IDGC of Northern Caucasus, into a joint venture, shareholders of which shall be the Republic of Dagestan and IDGC of Northern Caucasus.

As before, the most critical vector of work of the Board of Directors and executive management bodies of IDGC of Northern Caucasus in 2015 was related to issues aimed at resolution of key power problems in the Northern Caucasus – low payment discipline of grid services consumers and abnormal losses of power in distribution mains. In 2015 the Board of Directors made a fundamental decision in this area – from August of the previous year six utility companies – last resort suppliers of the Northern Caucasus Federal District and the Republic of Kalmykia went under management of IDGC of Northern Caucasus. We believe that this action will create the necessary conditions for closer and more effective cooperation between grid and utility companies of the region on the basis of productive and mutually beneficial cooperation.

Being the power grid infrastructure company, IDGC of Northern Caucasus is aware of its high social responsibility. IDGC of Northern Caucasus is a good faith tax payer and employer. Besides, IDGC of Northern Caucasus is an effectively organised company with a transparent and clear corporate governance system, which provides opportunities for maximum personal fulfilment.

We are confident that quality corporate governance to a large extent helps to improve the image and the investment appeal of IDGC of Northern Caucasus, to build relationships of trust with shareholders, investors, consumers, federal and regional authorities. Therefore, the Board of Directors of IDGC of Northern Caucasus as the strategic management body systematically works to implement corporate governance best practices into the company's business. In this respect the year of 2015 was not an exception. Under auspices of the executive management bodies of IDGC of Northern Caucasus and the active position of the primary shareholder - Rosseti PJSC, last year the main documents that regulate activities of the Board of Directors and the Revision Commission were updated, and the system of remuneration for the members of the Board of Directors and the Revision Commission was revised. As a result, to the extent possible, the methods of short-term motivation were excluded, and the system of remuneration for the members of the Board of Directors used in IDGC of Northern Caucasus for the most part became compliant with the principles and recommendations of the Corporate Governance Code recommended for use by the Bank of Russia.

In general, quality of corporate governance of IDGC of Northern Caucasus in many ways complies with the best quality practices. Business of the company is transparent, and main procedures are regulated. Specialised committees are established in the company under auspices of the Board of Directors (audit, HR and remuneration, reliability, strategy and development, technological connection to power grids). Priority activities of the company include improvement of the internal control and risk management system, internal audit function development. The Internal Audit and Control Directorate is functioning, which administratively reports to the General Director, being functionally subordinate to the Audit Committee of the Board of Directors, to methodologically support the risk management.

The dividend policy of IDGC of Northern Caucasus is recorded in a separate document - Dividend Policy Regulations; the Information Policy Regulations are in effect, which also helps to effectively implement the interests of our shareholders.

Obviously, there are areas of improvement left in IDGC of Northern Caucasus in part of introduction of reference standards of corporate governance. Thus, there are no directors within the Board of Directors of the company, who are not related to the company, its major shareholder or the government. In normal conditions, according to the Russian Corporate Governance Code, such directors may not be recognised independent. The composition of the Board of Directors to a large extent depends on the structure of the company's share capital. Thus, 92% of shares of IDGC of Northern Caucasus belong to Rosseti PJSC. Besides, in our opinion, all members of the Board of Directors of IDGC of Northern Caucasus are individuals with sufficient professionalism, experience and independence to produce their own opinion, are capable of making their own good faith judgements, regardless of influence of company's executive authorities, individual groups of shareholders or other stakeholders, which complies with the status of an independent director defined by the Code. The detailed report on compliance with these and other recommendations of the Russian Corporate Governance Code is included by the company into the 2015 Annual Report.

Quality of company governance is regularly analysed, also with engagement of an independent rating agency. Thus quality of governance of IDGC of Northern Caucasus is inspected by an independent rating agency RAEX. RAEX agency, being the largest international rating agency in Russia, has sufficient experience and reputation to issue an objective report. In 2015 the company governance quality rating A++.gq was confirmed (Highest governance quality level),

which was assigned in 2014. Corporate governance quality ratings have positive dynamics, starting from the initial assignment of the rating in 2009.

On repeated occasions the experts of RAEX agency called attention of IDGC of Northern Caucasus to the fact that insufficient number of physical meetings of the Board of Directors negatively impacts quality of the company corporate governance. In 2015 a big step forward was made to strengthen involvement of directors into the Board activities. A quarter of the meetings of the Board of Directors were held in the form of joint presence. At physical meetings they discussed and produced solutions for the main issues in respect to generation of a list of priority events to ensure financial stability of the company, as well as progress of completion of actions on this list; the business plan and the report on its completion; progress of works on the Comprehensive Program of Actions for Reduction of Abnormal Power Losses in Distribution Mains in Northern Caucasus; completion of commissions of the Board of Directors; operating activities of Dagestan Grid Company JSC; consolidation of power grid assets of territorial grid companies; effectiveness of management of Chechenenergo JSC grid company.

We, the members of the Board of Directors of IDGC of Northern Caucasus, are aware of our responsibility to the shareholders and believe that our main objective is good faith and competent performance of our obligations for company management. As before, we will further make maximum efforts in the field of company value growth support, as well as protection and effective exercise of investors' rights.

Sincerely yours,
Sergey A. Arkhipov

Address from the General Director, IDGC of Northern Caucasus

Dear shareholders, partners, colleagues!

IDGC of Northern Caucasus in 2015 completed its main task - provided reliable power supply to consumers of the Northern Caucasus Federal District. The company operated under challenging circumstances due to non-payment by ineffective territorial grid companies and private utility companies, low tariffs, as well as unfavourable macroeconomic infrastructure.

Despite the difficulties, IDGC of Northern Caucasus and managed Companies (Dagestan Grid Company JSC, Chechenenergo JSC) were among the first ones in Rosseti companies to obtain the Passport of availability for the fall-winter period of 2015-2016.

The main priority is to perform the strategic task of power supply to Northern Caucasus regions. We were able to reduce the accident interest rate for 2015 by 11%. Our branches forwarded 902 M RUB for the repair program, and 71% of all works were completed in house.

Business of IDGC of Northern Caucasus in 2015 was done while searching for optimal forms of business processes organisation with stringent requirement to reduce operating costs. Within the existing tariff and balance solution, every investment project was thoroughly analysed, the approach to planning and management of the investment program was modified. Capital investments amounted to 1,793 M RUB, which made it possible to commission 370 km of reconstructed and new power transmission lines, 144 MVA of transformer capacity.

We improved the quality indicators of the provided services: the timing for handling the request for technological connection of consumers was reduced by 20%, the timing to execute the agreements for technological connection was reduced by 16%. Within the year 7,042 technological connections were implemented in five regions of operating business of the company for 170.83 MW of power.

The main issue is still non-payment of consumers for services of power transmission, which undermine the financial and economic stability of the company. We carry out the systematic work with the debtors, with significant support from the Executive Office of the Plenipotentiary Representative of the RF President in the Northern Caucasus Federal District.

In order to minimise the issue of non-payment, 210 suites were filed for the amount of 5,919.2 M RUB, covering up to 91% of the overdue accounts receivable. 193 suits for the amount of 3,386.6 M RUB were settled during the year. Following the claim related work, the debt in the amount of 3,696.1 M RUB was repaid.

Effective performance of strategic tasks, forward movement and winning leadership positions is not possible without the proper personal potential. The highly professional team is the main competitive advantage of the business, therefore, two thirds of the production personnel of our company were trained and upgraded in 2015. One of the most important objectives of the management is also effective feedback with work teams, trade unions.

We plan to improve the corporate governance tools in compliance with the leading global standards. The foundation for this is productive work of the management, the Board of Directors and the shareholders of the company.

New circumstances dictate novel ways of development. There are relevant challenges confronting IDGC of Northern Caucasus, to overcome which, the company management and the team apply every effort. Despite the available difficulties and tough calls, we are determined to achieve the positive result in business.

Sincerely yours,
Yuri V. Zaytsev

Address of the Deputy General Director for Economic and Financial Affairs, IDGC of Northern Caucasus

Dear shareholders, partners, colleagues!

The cost of net assets of IDGC of Northern Caucasus as of the end of 2015 amounted to 15.3 billion RUB. Based on the results of business in 2015 IDGC of Northern Caucasus had a net loss of 3.02 billion RUB. In opinion of the auditor firm LLC RSM RUS, the financial position, the results of business and cash flow of IDGC of Northern Caucasus during the period from January 1, 2015 to December 31, 2015, inclusive, are accurately reported in the 2015 accounting statements.

The main reasons for such financial result in 2015 include outstripping growth of uncontrollable costs in comparison to growth of revenues from power transmission services, continuing low payment discipline of consumers, standardization of approaches to formation of reserves in order to bring closer the reporting according to the Russian Accounting Standards and the International Financial Reporting Standards.

Besides, in 2015 the controllable costs were reduced by 19.6% compared to actual costs in 2012. The Directive of the Russian Federation Government to reduce operating costs at least by 2-3% annually was complied with. Effect from realisation of actions was 9.1% or 0.5 billion RUB.

During the tariff campaign in 2015, work was done to optimise tariff and balance solutions.

The branch of IDGC of Northern Caucasus - Stavropolenergo, as well as Karachaevo-Cherkess, Kabardino-Balkarian, North-Ossetian branches continue to function under conditions of RAB-regulation with expiration in 2017. For the Ingushskiy branch since 2014 there have been long-term parameters of regulation set using the method of long-term indexation until 2016.

The financial status of the company remains stressful in connection with low payment discipline of consumers of services – territorial grid companies that operate in the territory of the Northern Caucasus Federal District. To exclude counterparties with potentially high risks of non-payment from the financial mutual settlements and the regional tariff “pot”, as well as within plans to handle the overdue accounts receivable, IDGC of Northern Caucasus through property lease entered the city grid property management in Vladikavkaz.

In order to ensure liquidity and solvency of IDGC of Northern Caucasus with free limits on loan agreements, in 2015 the operating and investment activities were financed for the amount of 1.8 billion RUB. In order to improve financial stability of IDGC of Northern Caucasus under current economic conditions, we developed a List (Plan) of Priority Actions to improve financial health for the period of 2015-2019. In process of List development we analysed the reasons for accumulated negative effects since 2008, defined the actions for their potential compensation and prevention of reasons for their occurrence in subsequent periods. The List (Plan) of Priority Actions is based on measures to reduce open risks of non-payment for power transmission services, strengthened control over payment discipline and increased collectability of revenues, additional actions to reduce costs and expenses.

Sincerely yours,
Valeriy V. Kuyumchev

Address of the creative team of authors to users

Dear users!

We would like to bring to your attention the Annual Report of IDGC of Northern Caucasus, PJSC (hereinafter referred to IDGC of Northern Caucasus, PJSC, Company, IDGC of Northern Caucasus, OJSC) for 2015. This report is intended for and primarily aimed at our existing and potential investors. The Annual report has been compiled in accordance with the requirements of the **Russian law** in the securities market. However, we believe that other groups of stakeholders influence to a large extent the sustainable development of IDGC of Northern Caucasus, namely: state authorities (federal and regional), population of the region, consumers and customers, company personnel, suppliers, mass media. Therefore, we did not think it fit to restrict ourselves to the requirements of the Russian law and have included the elements of the Sustainability Reporting System (GRI) (“C+” level of application with external confirmation). **This report contains the Standard Reporting Elements from the GRI Sustainability Reporting Guidelines.** We used GRI G4 guidelines to prepare the Annual Report.

We believe that **substantial aspects of the report** are those that describe the creation of value for each group of stakeholders, and factors that may impact substantially the result of such process, namely: business model and position in the industry, strategy, macroeconomic factors of development, analysis of corporate governance quality, management’s statement in respect to financial and economic status of the company, assessment of business risks.

During the preparation of the report **we tried to take into account all available information requests of the stakeholders that we were aware of.** Thus, information for a section aimed at the “Government and Region” group of stakeholders is mainly produced on the basis of provisions of regulatory acts that govern management in companies partially owned by the government; for the “Shareholders and Investors” section - based on the queries from shareholders and investors that we received, based on the study of reports by equity analysts and opinion of independent experts in the field of corporate governance and work with investors; for the “Consumers and Customers” section - based on the provisions of regulatory acts that govern provision of information for consumers and procurement; for “Personnel” section - based on own expert opinion of the company and within discussion of report subjects with certain employees of the company in the sample. **No public hearing of the report was held,** since in our opinion it would result in unjustified growth of company’s controllable costs. In the short run we plan to preserve the existing practice. We are open to conversation with stakeholders on the issue of reports composition and are ready to improve it so that the Annual report becomes an effective tool for attraction of investments and strengthening of business reputation of IDGC of Northern Caucasus.

This Annual Report is substantially different from two previous reports. Thus, reports for 2013-2014 were prepared to a large extent with account of business indicators of the subsidiary of IDGC of Northern Caucasus – Dagergoset JSC (according to the principle of consolidated statements), and also in separate instances (for the period until May 1, 2013) – organisation that operated the power grid equipment in the Republic of Ingushetia. This report contains individual business indicators of IDGC of Northern Caucasus (company branches). The specified **coverage limit** of this Annual Report may substantially impact comparability to previous reports and/or other similar organisations.

The table that indicates location of G4 GRI standard reporting elements in the Annual Report is attached to the Annual Report.

**Sincerely yours,
Team of IDGC of Northern Caucasus**

1. Company overview and its business context

Company profile

Changing without compromising our integrity

IDGC of Northern Caucasus is an interregional grid distribution company operating in the power engineering sector of Russia. The company is a natural monopoly, tariffs for services of which are set by governing bodies.

Main types of activities:

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

Year of legal entity registration

2006

Industry

power engineering

Region

Northern Caucasus Federal District, Russian Federation

Included into energy holding Rosseti PJSC

Share in the market of power transmission services

around 60%

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

Manages five utility and two grid companies

Shares are traded on the Moscow Exchange

Structure of owners: Rosseti PJSC (92%), other shareholders (8%)

Network length*

121.7 K km

Installed capacity*

16 GVA

Number of substations*

26.7 K

Average number of employees

8.8 K people

**Data as of the end of 2015*

Revenues according to RAS, M RUB

2015	14,548.6	2015 vs 2014 variance 7.8%	Average dynamics for 3 years 5.5%
2014	13,494.8		
2013	13,076.0		

Net profit (loss) according to RAS, M RUB

2015	-3,018.4	2015 vs 2014 variance 84.4%	Average dynamics for 3 years -160.1%
2014	-1,637.2		
2013	537.6		

Revenues according to IFRS, M RUB

2015	16,079.3	2015 vs 2014 variance 8.9%	Average dynamics for 3 years 8.3%
2014	14,763.3		
2013	13,711.7		

Net profit (loss) according to IFRS, M RUB

2015	6,144.1	2015 vs 2014 variance +14,550.2 M RUB	Average dynamics for 3 years +2,022.9 M RUB
2014	-8,406.1		
2013	2,098.3		

Grid output to consumers and adjacent local grid operators, M kW*hr

2015	10,457	2015 vs 2014 variance -0.7%	Average dynamics for 3 years 4%
2014	10,534		
2013	9,685 **		

Power losses*

2015	16.94%	2015 vs 2014 variance 1.37 percentage points	Average dynamics for 3 years 1.18 percentage points
2014	15.57%		
2013	14.59% **		

* When put under comparable conditions for the periods in grid companies and without consolidated networks, the level of power losses in 2015 amounted to 14.49%, which is below the 2014 indicators in the same limits of the grid complex by 0.22 percentage points.

** In 2013 the indicators of the Ingush branch of IDGC of Northern Caucasus were taken into account from the start of the operating activities (May 1, 2013).

Total length of power transmission lines of IDGC of Northern Caucasus amounts to 121,734 km, including:

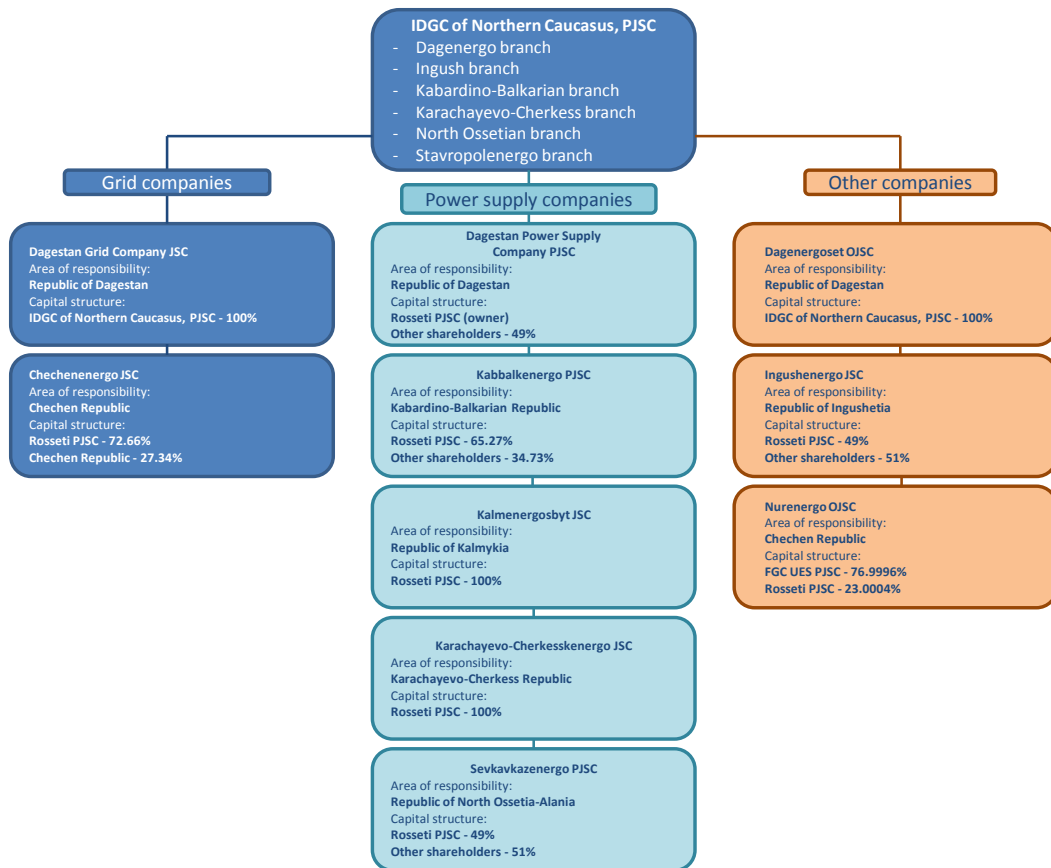
Subdivision	Overhead power transmission lines, km	Cable power transmission lines, km	Total power transmission lines, km
Stavropolenergo branch	48,593	2,327	50,920
Dagenergo branch	35,590.7	978.6	36,569.3
North Ossetian branch	7,209	1,003.7	8,212.7
Karachayevo-Cherkess branch	6,839.3	144.3	6,983.6
Kabardino-Balkarian branch	10,926.5	162	11,088.5
Ingush branch	7,960.1	-	7,960.1
Total	117,118.6	4615.6	121,734.2

Step-down substations

Balance of IDGC of Northern Caucasus branches includes 803 step-down substations 35 kV and higher with total capacity of power transformers of 10,983 MVA. Besides, the balance of IDGC of Northern Caucasus branches includes 25,936 transformer substations 6-10 kV with total capacity of 5,039 MVA.

Branch	Number of substations, pcs.	Capacity of substations, MVA	Substations with breakdown by voltage classes			
			35 kV and above		6-10 kV	
			Quantity, pcs.	Capacity, MVA	Quantity, pcs.	Capacity, MVA
Stavropolenergo branch	11,743.0	7,101.6	358.0	4,945.6	11,385.0	2,156.0
Dagenergo branch	8,490.0	3,839.4	206.0	2,332.7	8,284.0	1,506.8
North Ossetian branch	1,733.0	1,871.2	76.0	1,380.0	1,657.0	491.2
Karachayevo-Cherkess branch	1,524.0	1,335.9	62.0	1,041.8	1,462.0	294.1
Kabardino-Balkarian branch	2,464.0	1,533.4	73.0	1,048.5	2,391.0	484.9
Ingush branch	785.0	340.7	28.0	234.9	757.0	105.8
Total	26,739.0	16,022.3	803.0	10,983.4	25,936.0	5,038.8

Business organisational structure



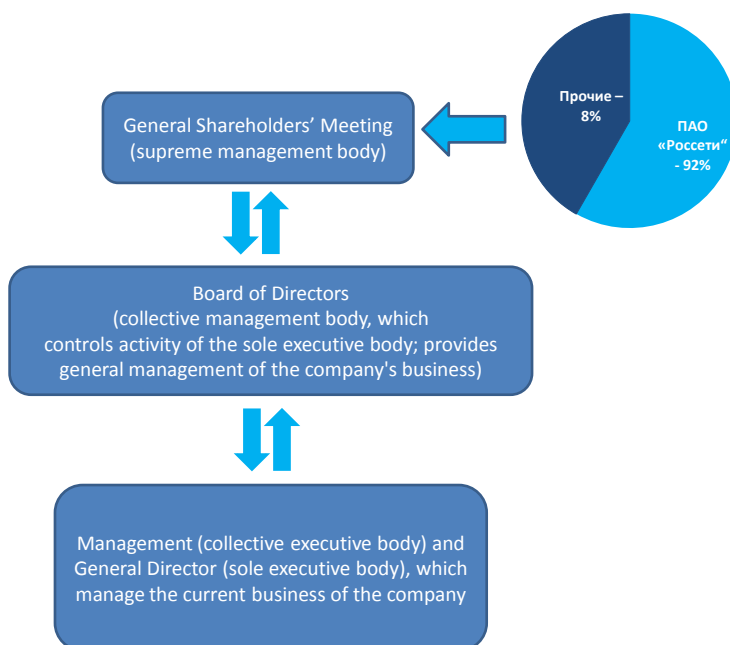
All companies are managed by IDGC of Northern Caucasus PJSC

Key changes in structure of IDGC of Northern Caucasus and scale of business:

- from the date of establishment (August 2006) to March 2008 – IDGC of Northern Caucasus (established as YuSK OJSC) dealt only with management of power companies of the region (more details in the “Brief history” section);
- from September 2006 – six Northern Caucasus utility companies went under management of SGC OJSC (agreements were terminated in the end of 2011);
- in the end of March 2008 – as a result of attachment of grid companies to IDGC of Northern Caucasus (which became branches of IDGC of Northern Caucasus), the company started its business of power transmission (more details in the “Brief history” section);
- from September 2008 – IDGC of Northern Caucasus transferred the power grid equipment of the Ingush branch of the republican grid company – Ingushenergoset PJSC;
- from April 2010 – IDGC of Northern Caucasus transferred for lease the power grid equipment of Dagenergo branch to its 100% subsidiary Dagenergoset OJSC (more details in “Non-current assets” section);
- from May 2013 – in connection with expiration of the power grid equipment lease agreement between IDGC of Northern Caucasus and Ingushenergoset OJSC the Ingush branch started its power transmission business;
- since July 2014 – in connection with execution of the grid complex lease agreements in Makhachkala, Dagenergo branch started its power transmission business;
- from July 2015 – functions as a grid distribution company Dagestan Grid Company JSC (100% subsidiary of IDGC of Northern Caucasus), power grid equipment of the branch of IDGC of Northern Caucasus - Dagenergo - was transferred for lease to Dagestan Grid Company JSC (property lease agreement previously executed with Dagenergoset OJSC is terminated);

- since August 2015 - six Northern Caucasus utility companies went under management of IDGC of Northern Caucasus.

Structure of ownership and owners



Brief history

Brief milestone description	Event description
Established of 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 started up on the Podkumok River (Stavropol Krai). The longest 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 put the thermal power plant in a ring with Bely Ugol HPP (the prototype of the Russian Unified Energy System).
	1992 RAO UES of Russia, JSC 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 registered for the energy systems in Northern Caucasus (Ingush, Kabardino-Balkar, Karachay-Cherkess, and North Ossetian) in Zheleznovodsk (Stavropol Territory).
	March 2005 Rehabilitation and restructuring project The Rehabilitation and Restructuring Project was approved for the AO-energos managed by KEUK, OJSC.
	September 2006 AO-energo management

Brief milestone description	Event description
	Southern Grid Company (SGC), JSC was charged with the management of the following joint stock companies: Kabbalkenergo; Karachaevo-Cherkessskenergo; Kalmenergosbyt; Sevkavkazenergo; Dagestan Energy Supply Company; Nurenergo; Ingushenergo; KEUK; Stavropolenergo; Dagenenergo.
Power engineering reform	April 2006 – September 2007 Disaggregation by activity The grid assets of Kabbalkenergo, OJSC; Karachaevo-Cherkessskenergo, OJSC; Sevkavkazenergo, OJSC; and Ingushenergo, OJSC were transferred as payment for an extra issue of shares of the Open Joint Stock Company Caucasian Power Management Organisation (KEUK OJSC). Kabbalkenergo, OJSC; Karachaevo-Cherkessskenergo, OJSC; Sevkavkazenergo, OJSC; and Ingushenergo, OJSC became energy supply companies, and four network branches were created within the structure of KEUK, OJSC.
	August 4, 2006 SGC OJSC State registration of SGC OJSC was executed (by the decision of the only founder - RAO UES of Russia, OJSC).
	August 1, 2007 IDGC of Northern Caucasus SGC, JSC was renamed as Interregional Distribution Grid Company of Northern Caucasus, Open Joint-Stock Company.
	December 25, 2007 – April 1, 2008 Consolidation Reorganisation of IDGC of Northern Caucasus was finalised by taking over Dagenenergo, OJSC; KEUK, OJSC; and Stavropolenergo, OJSC. IDGC of Northern Caucasus, JSC became a unified operating distribution grid company in 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. Provides corporate governance for operating IDGCs. The title to batch of shares of IDGC of Northern Caucasus is transferred to IDGC Holding, OJSC.
Work on investment appeal and management structure	June 2008 Entering capital markets Start of trading of IDGC of Northern Caucasus shares in MICEX and RTS.
	November 30, 2010 Transition to RAB The Federal Tariff Service Russia approved the transition to RAB tariff regulation for five branches of IDGC of Northern Caucasus from January 1, 2011.
	January 27, 2010 – February 8, 2011 Dagenergoset OJSC A subsidiary – a grid company Dagenergoset OJSC – was established, which goes under management of IDGC of Northern Caucasus.
	March 23, 2011 Energoservice, OJSC A subsidiary – an energy service company Energoservice OJSC – was established to increase energy efficiency of grid companies in the region.
	December 15, 2011 Split-off of energy supply companies IDGC of Northern Caucasus had its agreements on delegation of authority of a sole executive body terminated.
	August 21, 2015

Brief milestone description	Event description
	Energy supply companies management Six energy supply companies again go under management of IDGC of Northern Caucasus.

Key corporate events of 2015

Production activities, work to reduce accounts payable for power transmission services

From January 1 – lease of the grid equipment of Alaniyaelectroset JSC, being one of the worst debtors, with the condition of setting off lease payments to repay debt for power transmission services. As a result, the level of settlements for 12 months of 2015 for the North Ossetian branch amounted to 72%, which was higher than the level of the similar period of 2014 by 30%, and debt of Alaniyaelectroset JSC to IDGC of Northern Caucasus was reduced by 112 M RUB.

April 3 – Dagestan Grid Company JSC established on the basis of 100% subsidiary IDGC of Northern Caucasus – Energoservice JSC (by renaming and changing the OKVED codes).

July 1 – in the territory of the Republic of Dagestan (included into the zone of responsibility of IDGC of Northern Caucasus), Dagestan Grid Company started functioning (in the future – joint venture of the Republic of Dagestan and Rosseti PJSC represented by IDGC of Northern Caucasus).

August 21 – six energy supply companies – last resort suppliers of the Northern Caucasus Federal District and the Republic of Kalmykia went under management of IDGC of Northern Caucasus.

September 30 – Ministry of Energy of Russia approved the corrected investment program of IDGC of Northern Caucasus for 2015 (correction towards reduction of capital costs).

from December 1 – picking up the functions of the last resort supplier and supply activities in the Republic of Ingushetia in connection with depriving of Ingushenergo JSC of the last resort supplier status.

IDGC of Northern Caucasus took the following actions to reduce debts of bad counterparties for the provided services of power transmission:

- work is in progress to execute “direct” agreements for provision of power transmission services. In the Stavropol Territory **in quarter IV 2015** the contractual campaign started to execute agreements for power transmission services with large solvent consumers in the retail market;
- jointly with the Governments of the constituent entities of the Northern Caucasus Federal District, the work was performed to develop and approve the Comprehensive Action Plans to eliminate debts for the supplied power in regions of the district, which were approved **in March** by the Authorized Representative of the RF President in the Northern Caucasus Federal District S.A. Melikov;
- establishment of a Commission was initiated to monitor financial status, to improve payment discipline and to ensure financial stability of power grid complex enterprises and other power engineering facilities in the territory of the Republic of Ingushetia under management of the First Deputy Chairman of the Government of the Republic of Ingushetia;
- work of territorial executive authorities was activated, which monitor the status of settlements for consumed power, meetings were held on non-payment for provided power transmission services.

December 25 – the Ministry of Energy of Russia approved the investment program of IDGC of Northern Caucasus for 2016-2020.

Human capital

April, September – approved the updated organisational structure of the company's executive apparatus.

July 1 – August 15 the united student construction brigade “Elbrus” worked at power grid facilities of IDGC of Northern Caucasus with total headcount of 26 people. On October 14-15, 2015 in Moscow on the base of the Moscow Energy Institute the ceremonial events of the All-Russian Closure of the Sixth Labour Season of Student Brigades of the Power Grid Complex took place.

The Agreement was signed to amend the Collective Agreement of IDGC of Northern Caucasus for 2013-2015 with account of amendments and additions in 2014 and to extend its duration for the period of 2016-2018.

Corporate governance and cooperation with shareholders and investors

March 2 – the company provided its reporting according to RAS for 2014, the result was net loss vs profit a year before.

April 6 – the company provided the consolidated reports according to IFRS for 2014, the rising loss was demonstrated.

April 29 – the company provided its reporting according to RAS for 3 months of 2014, the result was net loss vs profit a year before.

June 11 – the annual General Meeting of Shareholders was held (new members of the Board of Directors and the Revision Commission were elected, the Auditor was approved, the decision was made not to pay the dividends, new revisions of the Charter and internal documents were approved).

July 30 – the company provided its reporting according to RAS for 6 months of 2014, the result was net loss vs profit a year before.

August 14 – the issue of stock bonds was assigned an ID (placement at Moscow Stock Exchange).

August 28 – the company provided the consolidated reports according to IFRS for 6 months of 2014, the rising loss was demonstrated.

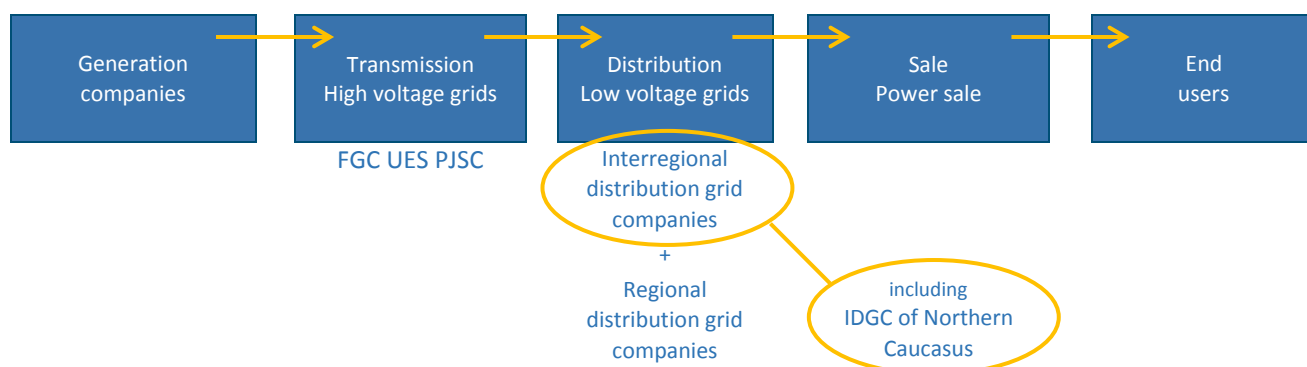
October 30 – the company provided its reporting according to RAS for 9 months of 2014, the result was net loss vs profit a year before.

2. Strategic report

Business model and position in the industry

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

Place of IDGC of Northern Caucasus in overall scheme of Russia's power engineering industry



IDGC of Northern Caucasus supplies power to consumers in the territory with the total area of 171 K sq.m. (1% of the territory of Russia) with population of 9.5 M people (around 6% of the Russian population).

The company is the leader in the territory of the Northern Caucasus Federal District in part 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 productive power supply to total supply in region of presence

Region	Share of IDGC of Northern Caucasus			2015 vs 2014 variance	Main reasons for variances
	2013	2014	2015		
Stavropol Territory	51.34%	50.77%	56.12%	5.35%	Performance of technological connection agreements, growth of consumption by large consumers
Republic of North Ossetia-Alania	27.39%	25.88%	63.47%	37.58%	Consolidation of networks of Vladikavkaz and Alagir since January 1, 2015
Republic of Ingushetia	100.00%	100.00%	100.00%	0.00%	Performance of technological connection agreements
Karachayevo-Cherkess Republic	69.92%	69.80%	70.78%	0.98%	
Kabardino-Balkarian Republic	45.97%	45.83%	51.83%	6.00%	Performance of technological connection agreements
Total	50.83%	50.13%	61.96%	11.83%	

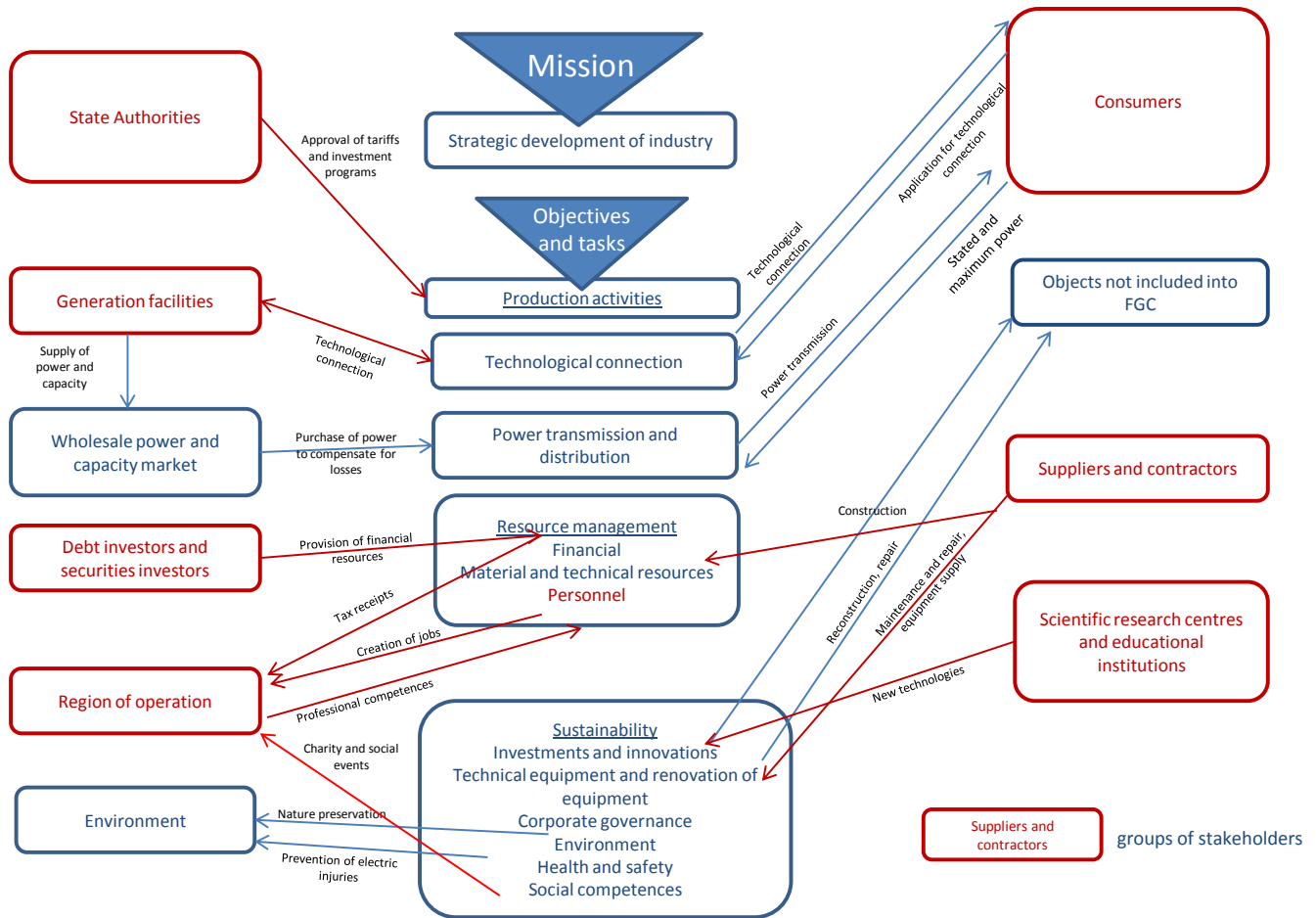
Position of IDGC of Northern Caucasus in Rosseti PJSC Group of Companies

Indicator	Rosseti Group	IDGC of Northern Caucasus	
	Value*	Value	% in group volume
Length of power transmission lines, M km	2.3	0.1	4.3
Transformer capacity of substations, GVA	751	16	2.1
Productive supply, billion kW*hr	715	10.5	1.5
Average number of employees, K people	218	8.8	4.0

* 2014 data

Source: Rosseti PJSC, IDGC of Northern Caucasus

How do we create value



Power of cooperation

Business of IDGC of Northern Caucasus is organised to most fully meet the requirements of stakeholders.

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

Stakeholder	Provided resources	Area of business model influenced by stakeholder; description of impact	Created values
Government and Region			
Federal State Authorities:			
- Government of the RF / Ministry of Energy of Russia Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: Code of Business Conduct (see the section of the website "To Shareholders and Investors / Charter and Internal Documents"); Unified Technical Policy in Power Grid Complex Regulations (see the section of the website "Company / Technical Policy") Cooperation with stakeholder in reporting year is reflected in sections "Strategic Report", "Risk Factors and Risk Management System", "Tariff Policy", "Investment Activities and Capital Construction", "Public and Governmental Relations"	Strategic development benchmarks	Mission (defines the company's mission via specification of the mission of the power grid complex and strategic benchmarks)	Development of a catalyst for growth of cities, population and economy in general via construction of power grids
	Approved investment programs	Defines main areas of company investments via approval of investments programs	Support of social well being
			Provision of economy and social sector functioning via supply of the necessary resource
			Budget and tax proceeds for development of economy and social sector

Stakeholder	Provided resources	Area of business model influenced by stakeholder; description of impact	Created values
- Federal Antimonopoly Service Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: Code of Business Conduct (see the section of the website “To Shareholders and Investors / Charter and Internal Documents”); Unified Technical Policy in Power Grid Complex Regulations (see the section of the website “Company / Technical Policy”) Cooperation with stakeholder in reporting year is reflected in sections “Strategic Report”, “Tariff Policy”, “Public and Governmental Relations”	Approved tariffs for power transmission and technological connection of consumers	Production activities: technological connection, transmission and distribution of power (sets the parameters of company’s business and predetermines generation of financing sources by establishment of socially just and economically justified size of payment for the company services)	Support of industry competitiveness via use of an acceptable and economically justified tariff Ability to effectively regulate tariffs and monitor their application via productive cooperation
Region			
Regional State Authorities Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: Code of Business Conduct (see the section of the website “To Shareholders and Investors / Charter and Internal Documents”); Anti-Corruption Policy (see the section of the website Rosseti PJSC “About Company / Anti-Corruption Policy”); Program of partnership between IDGC of Northern Caucasus and subjects of small and medium business (see the section of the website “Procurement / Procurement Management”); Unified Technical Policy in Power Grid Complex Regulations (see the section of the website “Company / Technical Policy”) Cooperation with stakeholder in reporting year is reflected in sections “Tariff Policy”, “Investment Activities and Capital Construction”, “Public and Governmental Relations”	Management decisions (cooperation on consolidation of power grid assets, improved payment discipline)	Production activities – transmission and distribution of power (participate in joint inventory of the power grid complex to detect unattended power grid equipment and its registration, creation of joint working teams to assess efficiency of business of territorial grid organisation, development of mechanisms to consolidate ineffectively functioning organisations)	Budget and tax proceeds for development of economy and social sector Support of social well being
Generation facilities Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: Code of Business Conduct (see the section of the website “To Shareholders and Investors / Charter and Internal Documents”); Unified Technical Policy in Power Grid Complex Regulations (see the section of the website “Company / Technical Policy”) Cooperation with stakeholder in reporting year is reflected in sections “Investment Activities and Capital Construction”, “Production Report”	Power and capacity	Production activities: technological connection, transmission and distribution of power (submit an application to connect generation facilities)	Provision of consumers’ access to large and economically effective generators Reduced volumes of generating capacities reserves, which otherwise the consumers would have to maintain to ensure reliable power supply
Suppliers and contractors Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: Code of Business Conduct (see the section of the website “To Shareholders and Investors / Charter and Internal Documents”); Anti-Corruption Policy (see the section of the website Rosseti PJSC “About / Anti-Corruption Policy”); Unified Technical Policy in Power Grid Complex Regulations (see the section of the website “Company / Technical Policy”) Cooperation with stakeholder in reporting year is reflected in sections “Procurement Activities”, “Anti-Corruption Policy”	Equipment; maintenance, repair, construction (materials, competences, saved time and labour resources)	Resource management – material and technical support Sustainability: investments and innovations, technical equipment and renovation of equipment, health and safety (provide for supply of equipment and materials, performance of works under contracts, provide for proper level of work and material quality via performance of the stated customer’s requirements)	Monetary resources for business development Maintaining employment and suitable life style of contractors’ and suppliers’ staff Growth of competences via realisation of new projects of the customer

Stakeholder	Provided resources	Area of business model influenced by stakeholder; description of impact	Created values
Scientific research centres and educational institutions Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: Code of Business Conduct (see the section of the website “To Shareholders and Investors / Charter and Internal Documents”); Unified Technical Policy in Power Grid Complex Regulations (see the section of the website “Company / Technical Policy”); HR and Social Policy, HR Management Regulations, Executive Apparatus Employees’ Remuneration Regulations Cooperation with stakeholder in reporting year is reflected in sections “Innovative Development”, “Human Capital and Social Responsibility”	Cutting-edge technologies, human resources	HR management – personnel Sustainability: investments and innovations, technical equipment and renovation of equipment (provide for supply and introduction of cutting-edge technologies, HR supply)	Monetary resources Growth of competences via design and development of new projects Employment of graduates from educational institutions
Public Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: Code of Business Conduct (see the section of the website “To Shareholders and Investors / Charter and Internal Documents”); Anti-Corruption Policy (see the section of the website Rosseti PJSC “About / Anti-Corruption Policy”); Rules of the Unified Communication Policy Realization; Unified Technical Policy in Power Grid Complex Regulations (see the section of the website “Company / Technical Policy”) Cooperation with stakeholder in reporting year reflected in sections “Public and Governmental Relations”	Independent business evaluation	Sustainability: health and safety, environment, social competences (continuously evaluate reputation, significance of projects for the region economy, competence, impact at region environment, social responsibility of business via practice of public reprimand or approval)	Ensuring reliable power supplies Maintaining population employment Charity and sponsor projects Confidence in environmental stability
Shareholders and investors (debt investors, investors into shares)			
Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: see the section of the website “To Shareholders and Investors / Charter and Internal Documents”; Credit Policy Regulations, Top Managers’ Material Incentive and Benefits Regulations, General Director Material Incentive Regulations, Insurance Protection Regulations, Regulations on Placement of Temporarily Free Monetary Funds Cooperation with stakeholder in reporting year is reflected in sections “Credit Policy and Debt Position”, “Corporate Governance”	Money, securities, other things, titles or other rights of monetary value Innovations and corporate governance technologies Competences	Production activities – transmission and distribution of power (help to establish a centre of responsibility for reliable power supply to consumers of the region, consolidation of networks via contribution of power grid equipment to charter capital) Resource management - financial resources (provide for inflow of money to implement projects via purchase of company’s securities, issue of loans to the company) Sustainability: investments and innovations, corporate governance (stimulate introduction of corporate governance best practices in the company via requirements set to the object of investment)	Interest (for use of borrowed funds) Income in the form of foreign exchange difference of share quotes Dividends Ability to sell shares at any time via a liquid securities market Absence of legal risks (violation of legal rights and interests), when investing into shares via operation of a transparent corporate governance mechanism
Consumers and customers			
Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: ✓ Code of Business Conduct (see the section of the website “To Shareholders and Investors / Charter and Internal Documents”); ✓ Standard “System of Centralised Service to Consumers of Services”, Standard “Public Technological and Pricing Audit of Investment Projects”; ✓ Unified Procurement Standard of Rosseti PJSC, Program of Partnership between IDGC of Northern Caucasus and	Monetary resources	Production activities: technological connection, transmission and distribution of power (determine stable cash flow of the company, creating opportunities or obstacles to plan activities and develop the region)	Power for functioning of production, business, household

Stakeholder	Provided resources	Area of business model influenced by stakeholder; description of impact	Created values
subjects of small and medium business (see section of the website “Procurement / Procurement Management”); ✓ Anti-Corruption Policy (see the section of the website Rosseti PJSC “About / Anti-Corruption Policy”); ✓ Unified Technical Policy in Power Grid Complex (see the section of the website “Company / Technical Policy”) Cooperation with stakeholder in reporting year is reflected in sections “Investment Activities and Capital Construction”, “Power Transmission and Distribution”, “Technological Connection”, “Settlements with Consumers”, “Anti-Corruption Policy”			
Personnel			
Principles of cooperation are recorded in internal documents of IDGC of Northern Caucasus: Code of Business Conduct (see the section of the website “To Shareholders and Investors / Charter and Internal Documents”); Collective Agreement: Anti-Corruption Policy (see the section of the website Rosseti PJSC “About / Anti-Corruption Policy”); Unified Technical Policy in Power Grid Complex (see the section of the website “Company / Technical Policy”) Cooperation with stakeholder in reporting year is reflected in sections “Innovative Development”, “Anti-Corruption Policy”, “Human Capital and Social Responsibility”	Professional competences, management decisions, ideas	HR management – personnel Sustainability: investments and innovations, social competences (provides for functioning of a power grid complex via involvement of human resources, provides for development of power grid complex of the region through application of new management decisions, inflow of the necessary professional competences)	Ensuring employment Suitable remuneration level Comfortable work conditions Opportunity for self-realisation Growth of professional competences Supporting suitable living standards of employees and their families

Responsible business practice for us is:

- compliance with ethical norms;
- non-distribution of knowingly false statement;
- corruption fighting and extirpation;
- good faith compliance with RF law;
- maintaining reputation of IDGC of Northern Caucasus as a responsible tax payer;
- fair competition;
- respect for human rights;
- non-discrimination of any type;
- compliance with principles of fair pricing and advertising;
- respect for property rights, including intellectual property.

Trends and factors of development in 2015

Economy: stagnation of economic activity, crisis phenomena in economy of Russia on the background of geopolitical stress, sanctions and countersanctions, reduced prices for oil, currency fluctuations

Economic situation in 2015 was developing under impact of deteriorating external economic conditions, first of all, reduction of oil prices, continuing economic sanctions by the EU and USA, keeping the trend towards reduction in investment and consumer activities, as well as a large-scale outflow of capital that also strengthened as a result of repayment of a considerable volume of external debt in H1 2015.

According to various expert estimates, reduction of Russia's GDP as of the end of 2015 made from 3.6 to 4%. As of the end of 2015, according to the first estimate of the Federal State Statistics Service, GDP dropped by 3.7% versus the previous year. In December 2015, according to the estimate of the Ministry of Economic Development of Russia, reduction made 3.5% in annual estimate. There is an opportunity noted for the RUB exchange rate to strengthen on the background of possible oil prices rise, cancellation of sanctions and acceleration of GDP growth in China.

In industrial production as a whole with the exception of seasonal and calendar components in December reduction slowed to -0.1% vs. -0.7% in November. The extraction of minerals recovered its growth (October - 0.3%, November - 0.4%, December - 0.2%).

Decline in investments into fixed assets continued in 2015. In December, decrease of deseasonalized dynamics, according to the Russian Ministry of Economic Development, was 1.3% (in October, decline of 0.3%, in November - 1.1%).

Decline in real wages with the exception of seasonal factors in December 2015, according to preliminary data, accelerated to - 0.9% in November after stabilization.

Real disposable income in December 2015 has returned to positive values. The increase amounted to 1.9% vs the previous month, being seasonally adjusted (decrease of 1.3% in November).

Export of goods in 2015 was estimated at US \$ 339.6 billion (down by 31.8% vs 2014), import - US \$ 194.0 billion (37.0% decrease vs 2014). The trade surplus in 2015 is estimated to have amounted to US \$ 145.6 billion and decreased by 23.3% vs 2014

According to data of the Federal State Statistics Service, inflation in December 2015 was 0.8%, YTD -12.9% on average for the year to the previous year - 15.5% (in 2014: since the beginning of the month - 2.6%, YTD - 11.4%, on average for the year to the previous year - 7.8%).

Source: Ministry of Economic Development of Russia, IDGC of Northern Caucasus

The imposition of economic sanctions against Russia, some Russian citizens and Russian companies leads to an acceleration of the rate of inflation, lower ratings of Russia and number of Russian companies (including power ones). Despite this, according to the representatives of the Ministry of Economic Development, there are no plans to revise the rates of natural monopolies' tariffs indexation. The need to optimize the investment programs, taking into account the tariff decisions that have been taken earlier is stated. The response on the part of IDGC of the Northern Caucasus to these challenges was to optimize internal processes, namely the reduction of the bureaucratic burden on the business processes of the company, implementation of cost management program.

Power engineering: reduced consumption due to temperature factors

Electricity consumption in Russia in 2015 decreased by 0.4% compared to 2014 year. Electricity production in Russia in 2015 increased by 0.2% compared to 2014 year. Reduced power consumption in 2015 is due, primarily, to temperature factors, as well as a change in the working hours of institutions and savings factor. In Q4 2015 in Russia as a whole power consumption decreased by 2.9% compared to the same period of the previous year. Despite the general decline, power consumption in the Northern Caucasus Federal District in 2015 was 3.2% higher than consumption in comparison to the year of 2014. Total volumes of consumption and generation of power consist of indicators of the Republic of Dagestan, the Republic of Ingushetia, Kabardino-Balkaria, Karachaevo-Cherkessia, Republic of North Ossetia-Alania, Chechnya and Stavropol Territory power systems. Maximum increase in electricity consumption relative to 2014 was recorded in the Republic of Dagestan (+ 6.2%). Reduction of power consumption for 12 months in 2015 as compared to 2014 year was recorded in the power system of the Republic of North Ossetia-Alania (-1.6%).

Source: System Operator of the Unified Energy System

The main activity of IDGC of the Northern Caucasus in the power market is the provision of power transmission services to consumers, as well as technological connection of consumers to the network infrastructure. An indicator of efficient power transmission is the relative value of losses in electric networks. Actual reporting power losses in branches of IDGC of the Northern Caucasus in 2015 accounted for 16.94% of power supply to the grid. In comparable conditions on the composition of the equipment (excluding the consolidated networks' indicators) there was a reduction achieved vs indicators in 2014 by 0.22%.

Thus, the external threats manifested in the last year do not have a material impact on the company's strategy, but on the contrary, confirmed the correctness of the strategic benchmarks, which always consist in stability, availability, and security of supply. As an infrastructure company, IDGC of Northern Caucasus, while providing for increasing internal efficiency, should develop at a faster pace. We are confident that IDGC of North Caucasus tomorrow is a company that will not only successfully meet the challenges of the present, but also effectively absorb change and transform the future trends, ensuring and promoting the welfare of the population, business and government.

Area of responsibility and regional policy

We operate in the entire territory of the Northern Caucasus Federal District. The district was established by the Decree of the RF President dated January 19, 2010. The territory of the district is 170,439 sq.m. (1% of the entire territory of Russia).

The region has specific social and economic, political and natural characteristics, which may pose threats for formation and functioning of economically stable and investment-attractive subjects of power engineering markets. However, we are confident 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 engineering industry. The main conditions for turning threats into opportunities, as we believe, include persistent pursuing of the strategic benchmark for achievement and maintenance of operating efficiency, as well as responsible and honest company management.

Factors of 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.

The Order of the Russian Federation Government dated December 17, 2012 No.2408-r approved the state program of the Russian Federation “Development of Northern Caucasus Federal District Until 2025”. The total volume of the state program financing for the entire period of its implementation will amount to approximately 2.5 trillion RUB. The state program is aimed at stimulation of economic development of regions by establishment of new centres of economic growth, coordination of infrastructure investments by the government and investment business strategies with account of priorities of spatial development and resource limitations.

The state program includes the following subprograms:

- Development of investment appeal of the Northern Caucasus Federal District;
- Development of a specially protected ecological and resort region of the Russian Federation - Caucasian Mineralnye Vody;
- Development of a tourist cluster in the Northern Caucasus Federal District, Krasnodar Territory and Republic of Adygea.

Ensuring effective long-term planning of development of the Northern Caucasus Federal District, assessment of influence and sufficiency of its resource support as broken by constituent entities of the Russian Federation will be carried out within 7 territorial subprograms (for each of the constituent entity of the district).

Besides, the Order of the RF Government dated September 6, 2010 No.1485-r approved the Strategy of Social Economic Development of the Northern Caucasus Federal District until 2025.

Implementation of the strategy actions and the program, as we expect, will have a positive effect at the economic growth of the region in general and growth of a number of large power consumers.

Source: Northern Caucasus Development Corporation, IDGC of Northern Caucasus

District management

The manager of the district is Sergey A. Melikov, the authorized representative of the President of the Russian Federation in the Northern Caucasus Federal District. He was appointed to this job on May 12, 2014.

The body for coordination of cooperation of executive authorities is the Governmental Commission on Issues of Social and Economic Development of the Northern Caucasus Federal District (Chairman - D.A. Medvedev, Chairman of the RF Government; grounds for establishment – Regulation of the RF Government dated December 8, 2010 No.1003).
<http://government.ru/departments/216/>.

The coordinator of federal executive bodies' activities and their territorial authorities is the Interregional Directorate of the Ministry of Regional Development of the Russian Federation for the Northern Caucasus Federal District (established in 2010).

The Decree of the President dated May 12, 2014 No.321 for the purposes to comprehensively solve issues related to creation of the conditions for social and economic development of the Northern Caucasus established the Ministry of the Russian Federation on Northern Caucasus Matters. The manager of the Ministry is Lev V. 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 Northern Caucasus Federal District.

Value for the region:

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

Value for power engineering:

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

Constituent entities of the Russian Federation included into the area of responsibility of IDGC of Northern Caucasus are characterised by quite a weak development of the territory. However, we believe that the developed infrastructure, including power engineering one, is the necessary condition for territory development and city growth. Understanding our responsibility in this area, we apply every effort to build a high-technology, reliable and safe network infrastructure.

Social situation

The Northern Caucasus Federal District differs by a complex and diverse ethnic composition concentrated within a relatively small area.

Value for the region:

- direct dependence of public and political situation on the situation in the sphere of interethnic relations.

Value for power engineering:

- compliance with ethical business conduct norms (recorded in the Code of Business Conduct of IDGC of Northern Caucasus);
- building a productive dialogue with authorities of the district constituent entities;
- ensuring protection of power grid equipment facilities.

Development strategy and prospects

The Presidential Decree dated November 22, 2012 №1567 “On Joint Stock Company Russian Networks” provided for design of the development strategy of Rosseti PJSC and the power grid complex of Russia as a whole. Such Russia’s Power Grid Complex Development Strategy is approved by the RF Government Order dated April 3, 2013 No.511-r.

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

Despite the external challenges (increased geopolitical tensions, decrease in energy prices, weakening of the rouble, inflation growth), the vector of our development remains unchanged - to become a leader and competence center responsible for reliable power supply of consumers of the North Caucasus region and to keep this status. As before, during strategic planning, we use more the foresight method - the benchmarks are unchanged, but the means and tools to achieve them are adjusted by us according to the realities and the actual business conditions. We believe that this way we can ensure flexibility and efficiency in solving the problems.

The horizon of our strategic planning is medium-term, which is directly related to forecasting of socio-economic development of Russia, which is also carried out in the medium term.

We see the mission of IDGC of Northern Caucasus as reliable and high-quality meeting the growing needs of the economy and social development of the Russian Federation constituent entities, located in the company's area of responsibility, with the payment for the services acceptable for the consumers.

Realisation of Russian Federation Power Grid Complex Development Strategy in IDGC of Northern Caucasus

Benchmarks and objectives of strategic development	Unit of measurement	Benchmark	2015 actual	What was made for this purpose	2015 plan	Planned actions to achieve strategic objectives
a) increased reliability and quality of power supply to level corresponding to the demand of the consumers, including:						
increased quality of consumers' service (including reduction in number of stages required for technological connection to power networks)	number of stages	by 2016: from 6 to 5: by 2018: down to 4	5	Interactive service was developed, namely, submission of an application for technological connection to networks of IDGC of Northern Caucasus by means of a corporate website	4	Putting into experimental service the automated system of management of technological connection of power consumers to networks of IDGC of Northern Caucasus and managed Companies on the standard platform 1C: Enterprise 8. Power Engineering. Distribution grid company management.
b) increased power supply safety, including reduction of total quantity of accidents, including undocumented accidents;	accidents	Not specified	0	A complex of actions is performed that is aimed at reduction of injury rate	-	Performance of a complex of actions aimed at reduction of injury rate
c) increased efficiency of a power grid complex, including:						
increased load of capacities	in percent from installed capacity of transformers by all levels of voltage minus the necessary redundancy	Not specified	31% (increase by 6% from the plan)	Technological connection agreements were made	25%	Connection of new consumers

reduction of specific investment costs by 30% in respect to 2012 level (in RUB per physical unit (km, MVA)	%	≥30 by 2017 (in RUB per physical unit (km, MVA)	Effect from application of methodology in 2015 made 132.3 M RUB, VAT excluded	During realisation of the investment program, the Methodology of Investment Costs Reduction was used in respect to 2012, approved in 2013	≥ 15	Application of the specified Methodology
reduction of operating costs with account of inflation per unit of electrical equipment maintenance	RUB	by 15% until 2017 in respect to 2012 level	Costs reduced by 836,245 K RUB (19%) vs 2012 level	See Annual Report subsection “Efficiency management program”	≥ 17.02%	See Annual Report subsection “Efficiency management program”
reduced value of losses	M kW*hr, %	until 2017 by 11% vs 2012 level	For 2015 the losses made 16.94%, under comparable conditions of 2012 the losses made 13.55% (reduction by 62 M kW*hr, which amounts to 3.91% of power losses in 2012)	Within program to reduce power losses	16.81%	Within program to reduce power losses
e) reduction of number of territorial grid organisations	%	by 50% vs 2012 level, by 50% until 2030 vs 2017 level	In comparison to 2014, the number of the territorial grid organisations was reduced by 3% *	From January 1, 2015 the property of Alaniyaelektroset JSC (Vladikavkaz) was transferred for lease by IDGC of Northern Caucasus	The indicator is not planned	1. Implementation of Program for consolidation of power grid assets of IDGC of Northern Caucasus for 2015-2017 2. Deprivation of status of territorial grid organisations, which do not comply with the criteria

* The data are based on the fact that the Criteria for inclusion of electric grid owners to the territorial grid companies approved by the RF Government Decree dated 28 February, 2015 No.184 «On placing the owners of transmission facilities to the territorial grid companies», thus depriving the status of territorial grid companies that do not meet the Criteria launched in 2016.

Prospects of development of IDGC of Northern Caucasus are reflected in the sections of this Annual Report “Production Report” (in terms of target dynamics of indicators of power losses in distribution networks, technological connection, planned activities for interaction with customers of the company), “Investment Activity and Capital Construction” (in terms of information on the long-term investment program), “Information Technology and Telecommunications” (in terms of information about the future course of action in the field of ICT), as well as in the section “Corporate Governance” and Appendix No.6 to the Russian-language Annual Report “Report on Compliance of IDGC of Northern Caucasus PJSC with Principles and Recommendations of Corporate Governance Code” information is available on the planned measures of the company in the area of corporate governance improvement.

Key performance indicators and company remuneration policy

Key performance indicators

Achievement of priority objectives of IDGC of Northern Caucasus is estimated employed in the company by the system of key performance indicators (KPIs).

Since 2015, the composition of the performance indicators of IDGC of Northern Caucasus has been substantially modified to take into account the priorities defined by the Power Grid Complex Development Strategy, approved by the Russian Federation Government on April 3, 2013 No.511-r.

The main targets that are accounted for in the KPI system of the Company's General Director are the following:

- to increase the reliability and quality of power supply;
- to increasing security of supply;
- to reduce investment and operating costs;
- to execute the investment program.

The system of key performance indicators of the Company's General Director is established on the basis of the following:

- subparagraph 50 of paragraph 15.1, Article 15 of the Charter of IDGC of Northern Caucasus,
- Board of Directors' decision of March 6, 2015 (Minutes dated March 10, 2015 No.187) on the issue No.3 «On approval of the Methodology of Calculation and Evaluation of Key Performance Indicators of the Company's General Director”.

In 2015, the following composition of KPI was used:

Planned KPIs and data on their actual achievement

Indicator	Unit of measurement	2015 (plan)	2015 (actual) *
Annual indicators			
<i>Defining bonus size</i>			
Profitability of shareholders' investments (TSR – total shareholder return)	%	≥ average value of indicator for companies included into the base for calculation of the MICEX-Power	5

		Engineering index (MICEX PWR), or $\geq$ the average value of the indicator for three last years, including the reporting year.				
Return on invested capital (ROIC)	unit	≥ 0.9	25			
Reduction of specific operating costs	%	≥ 17.02	19			
Power loss level	%	≤ 16.81	16.94			
Achievement of provided services reliability level	unit	1	1			
Reduction of specific investment costs	%	≥ 15	18.2			
Compliance with schedule of facilities commissioning	%	≥ 95	74			
Compliance with timing of technological connection	unit	≤ 1.1	1			
Labour efficiency indicator	RUB/man hour	920	939			
Quarter indicators						
Indicator	Unit of measurement	2015 (plan)				
		Q1	Q2	Q3	Q4	
Defining bonus size						
No growth of large accidents	unit	0	0	0	0	
Prevention of growth of injured from accidents	unit	≤ 0.1017	≤ 0.1017	≤ 0.1017	≤ 0.1017	
Financial stability indicator – financial leverage coefficient	unit	≤ 0.83	≤ 0.84	≤ 0.87	≤ 0.68	
Payment of power losses (for companies of Northern Caucasus Federal District)	unit	$\geq 100\%$	$\geq 100\%$	$\geq 100\%$	$\geq 100\%$	

*Results of KPI achievement for 2015 are preliminary.

According to the expected results, the target values of key performance indicators of the General Director of IDGC of Northern Caucasus as of the end of 2015 were achieved by 78%. The indicators “Compliance with schedule of facilities commissioning” and “Power loss level” were not achieved.

The key performance indicators’ system used in the company is mutually connected to the size of the variable part of management remuneration – for each of the indicators, a specific weight is set in the volume of paid bonuses, quarterly and annual bonuses are paid, if the appropriate KPIs are achieved.

In addition, in order to increase the material interest of workers classified as key management staff of IDGC of Northern Caucasus, the decision of the Board of Directors (Minutes dated June 15, 2011 No.76) approved the Regulations on Material Incentives and Benefits for Top Managers of IDGC of Northern Caucasus. The list of performance indicators of Top Managers is the individual reflection of performance indicators of the Company’s General Director and makes it possible to evaluate the performance of each direction of the company.

Members of the Board of Directors Remuneration

Remuneration of the Board of Directors’ members complies with market conditions and is set to ensure involvement and participation of highly qualified specialists, to encourage them for fair and effective operation.

The procedure for determining and payment of remuneration to the members of the Board of Directors is reflected in detail in the Regulations on Payment of Remuneration and Compensations to Members of the Board of Directors of IDGC of Northern Caucasus (approved by the Annual General Meeting of Shareholders, Minutes dated June 16, 2015 No.15). The text of the Regulations is available on the website of IDGC of Northern Caucasus in the section “To Shareholders and Investors / Articles of Association and Internal Documents / Corporate Governance Procedures’ Documents”.

Remuneration criteria

The main 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 work results for the period from the moment of candidate election to the members of the Board of Directors to the moment of Board of Directors' election in a new composition. Remuneration as a one-off payment in RUB is paid to the members of the Board of Directors.

The amount of remuneration for participation in the Board of Directors by each member of the Board of Directors is calculated with account of the total number of Board meetings for the previous corporate year and the number of meetings, which the Board of Directors' member attended, according to the following formula:

$$S(1) = R_{\text{basic}} \times 100/130 \left(\frac{n}{m} \right), \text{ where}$$

R_{basic} – basic part of remuneration

n – number of meetings of the Board of Directors, which were attended by the member of the Board of Directors in the period between annual General Meetings of Shareholders

m – total quantity of meetings of the Board of Directors in the period between the annual General Meetings of Shareholders

The amount of the basic part of remuneration (R_{basic}) is set on the basis of the company revenues (calculated according to RAS for the financial year) and makes:

Revenue	R_{basic}
above 200 billion RUB	1,000,000 RUB
above 30 billion RUB	900,000 RUB
above 10 billion RUB	800,000 RUB
above 1 billion RUB	700,000 RUB
above 600 M RUB	600,000 RUB
below 600 M RUB	500,000 RUB

Remuneration is not paid, if the member of the Board of Directors did not attend more than 50% of the meetings held.

Additional charges and remuneration:

The following charges are additionally specified:

- 30% of $S(1)$ - to Chairman of Board of Directors
- 20% of $S(1)$ - to Chairman of Specialised Committee under Board of Directors
- 10% of $S(1)$ - for membership in Specialised Committee under Board of Directors

Additional remuneration is paid from net profit to members of the Board of Directors in case of increased size of the company's market capitalisation for the period of operation of the Board of Directors.

Before the annual General Meeting of Shareholders in 2015 the revision of the Regulations on Payment of Remuneration and Compensations to Members of the Board of Directors of IDGC of Northern Caucasus was in effect (approved by the Annual General Meeting of Shareholders, Minutes dated June 3, 2008 No.15). The text of the Regulations is available on the website of the company in the section "To Shareholders and Investors / Articles of Association and Internal Documents / Corporate Governance Procedures' Documents". According to these Regulations, the main criterion of remuneration to the members of the Board of Directors was participation in

the meetings and work of the Board of Directors. Additional remuneration may be paid for the indicator of company's net profit according to data of annual accounting reports, approved by the General Meeting of Shareholders, and for the indicator of company's market cost growth.

Remuneration paid to members of Board of Directors during 2015, K RUB

Indicator	Remuneration amount
Remuneration for participation in work of the management body	8,160
Salary	–
Bonuses	–
Commissions	–
Benefits	–
Compensation of costs	690
Other types of remuneration	–
Total	8,850

Remuneration to Management Board Members

Members of the Management Board as full-time staff of IDGC of Northern Caucasus (the Deputy General Directors on various activities) are paid for their work on the positions held in accordance with the labour contracts. In addition, members of the Management Board may receive bonuses, commissions, benefits and (or) reimbursement of expenses, as well as other material grants.

The main document governing the remuneration of Deputy General Directors of IDGC of Northern Caucasus, is the Regulations on Material Incentives and Benefits of Top Managers of IDGC of Northern Caucasus, approved by the decision of the Board of Directors dated June 10, 2011 (Minutes dated June 15, 2011 No.76).

For their work within this managing body, members of the Management Board may receive a monthly allowance of up to 15% of salary. The size of such allowance is established by Order of the General Director.

Remuneration paid to members of Management Board of IDGC of Northern Caucasus during 2015, K RUB

Indicator	Remuneration amount
Remuneration for participation in work of the management body	400
Salary	19,473
Bonuses	2,804
Commissions	–
Benefits	–
Compensation of costs	1,791
Other types of remuneration	20
Total	24,488

General Director remuneration

Working conditions, guarantees and compensations to the General Director during performance of their duties are determined by the labour contract, the terms of which are defined by a person authorized by the Board of Directors. The size of the salary of the General Director of IDGC of Northern Caucasus and financial incentives (remuneration) are determined in accordance with

the Regulations on Material Incentives of the General Director of IDGC of Northern Caucasus, approved by the decision of the Board of Directors of IDGC of Northern Caucasus dated June 15, 2011 (Minutes No.76), and individual decisions of the Board of Directors of the Company.

Regulations on Material Incentives of the General Director of IDGC of Northern Caucasus regulate the size of the quarterly and annual bonuses for the achievement of key performance indicators, and provide a one-time bonus for completing important tasks and in case of granted state, departmental and corporate awards.

Remuneration to members of committees under Board of Directors

Payment of remuneration to members of committees under the Board of Directors is made in accordance with the Regulations on Payment of Remuneration and Compensation to members of committees. Texts of the Regulations are available on the website of IDGC of Northern Caucasus in the section “To Shareholders and Investors / Articles of Association and Internal Documents / Corporate Governance Procedures’ Documents”.

Remuneration for participation in each meeting held in the form of joint presence

The following is paid to the member of the committees:

remuneration in the amount equivalent to two minimum monthly tariff rates of the working first grade set by the industrial tariff agreement in the RF power grid complex (Agreement) on the day of the committee meeting, with account of indexation set by the Agreement;

To Chairman (Deputy Chairman) for a meeting, where he or she served as the Committee Chairman, the following is paid:

remuneration is increased by 50%.

Remuneration for participation in each meeting held in absentia

The following is paid to the member of the committee:

remuneration in the amount equivalent to one minimum tariff rate of the working grid grade, with account of indexation set by the Agreement.

To Chairman (Deputy Chairman) of a committee for a meeting, where he or she served as the Committee Chairman:

remuneration is increased by 50%.

Remuneration paid to members of committees under Board of Directors of IDGC of Northern Caucasus during 2015 (with account of tax payments), K RUB

Committee	Remuneration amount
Audit committee	177
HR and remuneration committee	234
Reliability committee	120
Strategy and development committee	398
Committee on technological connection to power grids	131
Total	1,060

Remuneration was paid by monetary funds.

Remuneration to Revision Commission members

Before the annual General Meeting of Shareholders, the Regulations on Payment of Remuneration and Compensations to Members of the Revision Commission of IDGC of Northern Caucasus was in effect (approved by the Annual General Meeting of Shareholders, Minutes dated May 30, 2008 No.1). Under this provision, for participation in check (audit) of financial and economic activity, a member of the Revision Commission was paid a lump sum remuneration in the amount equivalent to 25 minimum monthly wages of the working first grade tariffs. The amount of one-time compensation was established by the branch tariff agreement in the power grid complex of the Russian Federation for the duration of the examination (audit), taking into account the indexation established by the branch tariff agreement. The amount of remuneration paid to the Chairman of the Revision Commission was increased by 50%. Payment of remuneration and compensation to specialists (experts) employed by the Revision Commission, who are not members of the Commission, was carried out on the basis of contracts made with IDGC of Northern Caucasus (the conditions were approved by the Board of Directors).

In June 2015 the Annual General Meeting of Shareholders approved the new edition of the Regulation on Payment of Remuneration and Compensation to members of the Revision Commission. According to the current Regulations, the remuneration is paid to the member of the Revision Commission on the results of the corporate year and depends on the degree of their participation in the work of the Revision Commission (taking into account their performance of additional duties as the Chairman or the Secretary of the Revision Commission). The remuneration is determined by the base part of the remuneration. The basic remuneration of a member of the Revision Committee is established on the basis of the company's revenue, calculated under RAS for the fiscal year in accordance with the appropriate scale (shown in the Regulations). If the member of the commission during the corporate year took an active part in extra inspections of the Revision Commission or control activities on specific issues, conducted by the decision of the General Meeting of Shareholders, the Board of Directors or at the request of the shareholder (s) holding in aggregate at least 10% of the voting shares of the Company, Chairman of the Revision Commission shall be entitled to apply to the General Meeting of Shareholders to increase the actual amount of remuneration.

Texts of the specified Regulations are available on the corporate website of IDGC of Northern Caucasus in the section "To Shareholders and Investors / Articles of Association and Internal Documents / Corporate Governance Procedures' Documents".

In 2015 the payments were made to members of the Revision Commission in the amount of 717 K RUB with account of taxes. Remuneration was paid by monetary funds.

The Company also reimbursed for expenses incurred in attending meetings of the Board of Directors, the Revision Commission, the specialized committees of the Board of Directors.

Priority areas of business and report of the Board of Directors and results of company development on priority areas of business

In the reporting year the Board of Directors of IDGC of Northern Caucasus (minutes dated March 16, 2015 No.188) had its priority area of business as the realisation of actions of centralisation and automation of the treasury function by the company. In order to fulfil the instruction of the President of the Russian Federation dated May 7, 2014 No.Pr-1032, instruction of the Russian Federation Government dated May 13, 2014 No.ISh-P13-3464 Rosseti PJSC developed the schedule for realisation of the project for centralisation and automation of the

treasury and finance function in Rosseti PJSC, which provided for transfer of treasury functions of branches to executive apparatus of subsidiaries and affiliates since March 30, 2015.

IDGC of Northern Caucasus took the following actions to implement the project ahead of the schedule of realisation of the project for centralisation and automation of the treasury and finance function for centralisation of the Treasury:

- optimisation of banking accounts was held, seven settlement accounts were closed before February 28, 2015; since February 25, 2015 cash settlements in the company were stopped;
- all payments of IDGC of Northern Caucasus were transferred to authorised banks: Sberbank PJSC, BANK GPB (JSC), JSB RUSSIA OJSC, SMP BANK JSC;
- agreements were re-executed for power transmission services with credit of revenues to the settlement account of the executive apparatus of IDGC of Northern Caucasus until February 20, 2015;
- actions were taken to lay off treasurers of branches (6 people) with transfer of treasury functions of branches to the executive apparatus of IDGC of Northern Caucasus.

The system of treasury centralisation in IDGC of Northern Caucasus started to function since March 1, 2015 (according to the schedule, since March 30, 2015).

By the decision of the Board of Directors of IDGC of Northern Caucasus dated May 22, 2015 (minutes dated May 25, 2015 No.196), it was instructed to ensure timely realisation of actions provided for by the Scheduled Plan for integration into the unified IT-system of the Unified Treasury of Rosseti PJSC. Actions were performed within time prescribed, and from July 1, 2015 IDGC of Northern Caucasus has been processing payments via the Unified Treasury of Rosseti PJSC.

Besides, in 2015 development of IDGC of Northern Caucasus also took place along the following priority areas of business:

Business area	Section of IDGC of Northern Caucasus Annual Report with summary on results of business development in specified priority areas of business
Consolidation of power grid assets	"Consolidation of power grid assets"
Ensuring availability of power infrastructure and quality of technological connection to power grids of IDGC of Northern Caucasus	"Technological connection"
Ensuring established level of reliability and quality of provided services	"Development Strategy and Prospects", "Tariff Policy", "Cooperation with Customers", "Increased Reliability of Power Grids"
Organisation of work to record data of maximum permitted power of earlier connected consumers of power grids of IDGC of Northern Caucasus	"Technological connection"
Implementation of Complex Program of Actions to reduce abnormal power losses in distribution grids in the territory of Northern Caucasus. Reduction of losses in grids and development of accounting systems	"Investment Activity and Capital Construction", "Production Report"
Formation and implementation of programs financed by funds of the federal budget, as well as funds of the Russia's National Wellbeing Fund and pension savings; ensuring target and effective use of funds of the federal	"Investment Activity and Capital Construction", "Production Report"

Business area	Section of IDGC of Northern Caucasus Annual Report with summary on results of business development in specified priority areas of business
budget, National Wellbeing Fund and pension savings	
Realisation of Strategy of IDGC of Northern Caucasus in the field of information technologies, automation and telecommunications	“Innovative Development”, “Information Technologies and Telecommunications”
Introduction of a system for management of construction of the most important investment projects	“Investment Activity and Capital Construction”
Activity to monitor and coordinate the procurement system	“Procurement Activities”
Transition to innovative development	“Innovative Development”
Increased level of antiterrorism and antisabotage security of the electricity grid facilities of IDGC of Northern Caucasus	“Increased Reliability of Power Grids”
Improved system of internal control and risk management, development of internal audit function	“Risk Factors and Risk Management System”, “Internal Control System”

Risk Factors and Risk Management System

The IDGC of Northern Caucasus operates a risk management system (RMS), the aim of which is to ensure the sustainable continued operation and development of the company by the timely identification, assessment and management of risks that threaten the effective implementation of economic activities and reputation of the company, workers' health, the environment, and property interests of shareholders and investors.

The goals of risk management in 2015 were achieved in accordance with the current Risk Management Policy (approved by the Board of Directors of IDGC of Northern Caucasus, the minutes dated August 4, 2014 No.172).

Risk management system participants

The main participants of the risk management process are the following:

- Board of Directors;
- Audit Committee of the Board of Directors;
- executive bodies (Management Board, General Director);
- risk owners;
- Internal Audit and Control Directorate;
- risk management action performers.

Main risk factors

Business of the company is accompanied by risks that investors have to take into account. Please find below the risks that IDGC of Northern Caucasus finds most significant today.

Significance of a risk means a combination of the risk probability and the extent of effects for the Company in monetary or other terms.

Risk significance was estimated with account of available risk passports or by experts in accordance with the following scale:

Level of risk significance

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

Dynamics of risk significance vs 2014 and during 2015 (if available) is shown with account of available risk passports or by expert method with the help of arrows: ↑ (risk significance growth) ↓ (risk significance reduction).

Decomposition of risk data was carried out approximately and in accordance with information reflected in Company's quarterly reports.

Assessment of risk significance

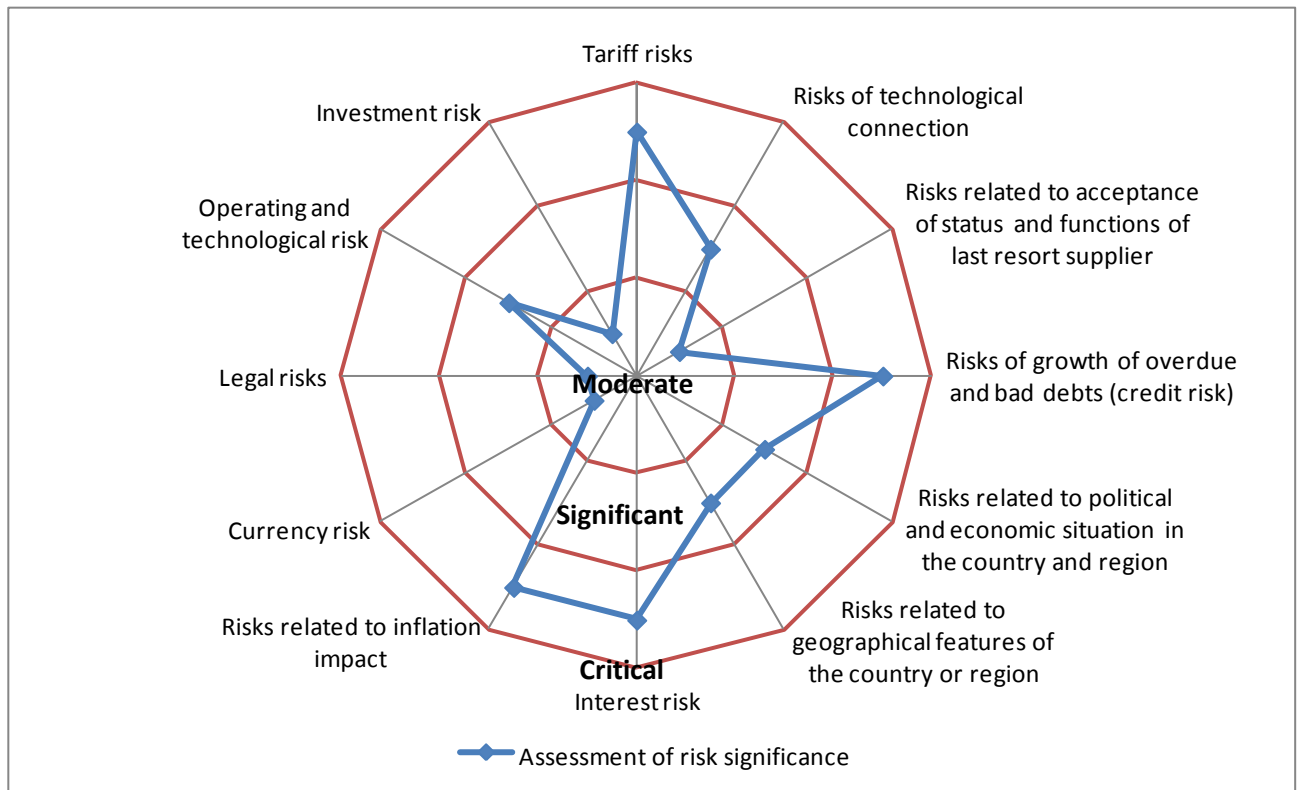
No.	Risk name	Risk description	Actions to minimise risk effects	Assessment of risk significance and dynamics
Industrial risks				
1	Tariff risks	Partial accounting of tariff setting costs	1. Provision of support materials to regulatory bodies (Regional Tariff Services of regions) that confirm the level of economically justified costs 2. Work with a regional regulator to defend the position on the need of anticipatory growth of IDGC income as the backbone company of the region.	
2	Risks of technological connection	Approval of individual tariff for technological connection at the level below the stated one	Cooperation with tariff regulation bodies to justify payment on the individual project	
3	Risks related to acceptance of status and functions of last resort supplier	Growth of accounts receivable of last resort supplier for supplied power and accounts payable of last resort supplier to wholesale market for electricity and power	Cooperation with government of RF constituent entity on the issue of power payment by utility enterprises and budget-dependent organisations	
4	Risks of growth of overdue and bad debts (credit risk)	Growth of overdue accounts receivable under lease agreements and power transmission services agreements	1. Recovery of overdue accounts receivable through legal proceeding. 2. Detection of reasons for differences and settlement of differences under a pre-action protocol, settlement of differences through legal proceeding with absence of agreements with a counterparty. 3. Cooperation with authorities on issues of payment discipline for power.	

No.	Risk name	Risk description	Actions to minimise risk effects	Assessment of risk significance and dynamics
			4. Media coverage on enterprises-debtors and negative consequences of non-payment by debtors. 5. Execution of agreements on restructuring of overdue debts, assignment (cession) agreements. 6. Forwarding applications to law enforcement agencies on issues of payment discipline.	
Country and regional risks				
5	Risks related to political and economic situation in the country and region	Introduction of anti-Russia sanctions by the European Union, which via certain macroeconomic factors manifest themselves within RF (instability of the currency exchange rates, limitations on supplies of imported raw materials and equipment, etc.). In case of potential occurrence of military conflicts, IDGC of Northern Caucasus bears the risk of its primary assets breakdown	1. Expansion of opportunities of small and medium enterprises access to procurement carried out in accordance with the Federal Law "Concerning Procurement of Goods, Works, Services by Certain Types of Legal Entities" with the purpose of import substitution of raw materials and equipment. 2. Blackout measures at facilities with the purpose to complicate visual reconnaissance of special services and spot bombing, as well as ensuring absence of visibility of lit objects from height of 200 m and distance of observation of 4,000 m	
6	Risks related to geographical features of a country and a region, including higher risk of disasters, potential stoppage of transport connection	Imposition of the state of emergency in certain territories of the Northern Caucasus Federal District	Maintaining non-regular commands of civil defence of IDGC of Northern Caucasus ready for actions to confine accidents and emergencies: inspection of commands' provision with material and technical means; commands' training.	
Financial risks				
7	Interest risk	Change of interest rates on credit products	1. Execution of credit products with a fixed rate. 2. Transition to use of flexible credit products (overdrafts and/or revolving credit lines). 3. Continuous monitoring of debt capital market and contracting banks, and, if possible, debt restructuring. 4. Continuous optimisation of loan portfolio with account of amended market indicators. 5. Monitoring of credit resource market with the purpose to detect more profitable credit terms. 6. Increasing share of tools with a fixed rate at the level acceptable for	

No.	Risk name	Risk description	Actions to minimise risk effects	Assessment of risk significance and dynamics
			the company. 7. Potential expansion of the circle of partner banks, first of all, at the expense of institutes that suffered least from the global financial crisis. 8. Searching for alternative sources of borrowing.	
8	Risks related to inflation impact	Depreciation of real income value. Increased expenses. Depreciation of real value of accounts receivable.	1. Timely correction of tariffs. 2. Timely purchase of the necessary materials for repair works, performance of production programs. 3. Increased discipline of payments, elimination of non-payment risks.	
9	Currency risk	Risk that variations of currency exchange rates will negatively impact financial results of the company	Currently the whole revenue, the majority of operating and investment expenses of the company are nominated in roubles. Besides, the company has no debts on credits and loans in foreign currency. Therefore, variation of currency exchange rates has no significant impact at results of financial and economic activity of the company.	
Legal risks				
10	Legal risks	Risks related to change of legal practice on issues related to issuer's business	Due diligence of executed business operations for compliance with the existing law and company interests.	
Risks related to business of IDGC of Northern Caucasus				
11	Operating and technological risk	Risk of non-achievement of power transmission services reliability set during tariff regulation	1. Timely implementation of technical and organisational actions developed on the basis of investigation of technological faults (accidents). 2. Effective organisation of emergency and recovery works to reduce duration of interruption of power supply to consumers related to technological faults (accidents). 3. Timely performance of requirements set by Methodological Instructions to Calculate Level of Reliability and Quality of Supplied Goods and Provides Services for Organisation On Management of Unified National (All-Russian) Power Grid and Territorial Grid Companies approved by the Order of the Ministry of Energy of the Russian Federation dated October 14, 2013 No.718.	

12	Investment risk	Risk of non-compliance with timing of financial investments utilization both in monetary and financial terms	1. Timely approval of investment programs in the Ministry of Energy of Russia. 2. Monitoring of timely execution of contracts. 3. Monitoring of timely acceptance of performed works and facilities commissioning.	
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Assessment of risk significance



3. Management report

Financial results

Analysis of financial condition and business results

Revenue from sale of products (services) as of the end of 2015 made 14,548.6 M RUB, which is by 1,053.8 M RUB or by 7.8% higher than the level of 2014, including revenue from power transmission services – 13,565.7 M RUB, which is by 1,285.0 M RUB or by 10.5% higher than 2014 level.

Revenue growth is due to increase of average tariff for power transmission services by 13.1 kopecks/M kW*hr and obtaining revenue from power sales in the amount of 53.2 M RUB as a result of transfer of last resort supplier functions to IDGC of Northern Caucasus in the Republic of Ingushetia since December 1, 2015.

Prime cost (with account of commercial and management costs) amounted to 13,576.2 M RUB, which is by 1,288.8 M RUB or by 10.5% higher than the level of 2014.

Growth is due to lease of power grid equipment of Alaniyaelektroset JSC from January 1, 2015 and sales activities in the Republic of Ingushetia.

According to the 2015 business results, IDGC of Northern Caucasus received net loss in the amount of 3,018.4 M RUB, which is by 1,381.2 M RUB higher than 2014 level.

Loss from operation is due to creation of bad debts reserves in the accounting of IDGC of Northern Caucasus (balance of 3,454.8 M RUB). Creation of reserves was carried out in accordance with the Order of the Ministry of Finance of Russia dated July 29, 1998 No.34n (with amendments from December 24, 2010 No.186n) for realisation of the prudence concept in accounting and generation of valid information on financial results.

Main financial indicators (according to Russian Accounting Standards)

No.	Indicator	2015	2014	2013
		M RUB		
1	Revenues	14,548.6	13,494.8	13,076.0
1.1.	From power transmission	13,565.7	12,280.7	11,151.6
1.2.	From technological connection	142.4	436.0	1,190.3
1.3.	From power sales	53.2	0.0	0.0
1.4.	From other activities	787.3	778.1	0.0
2	Prime cost of products (services)	13,405.2	12,165.2	10,617.7
3	Gross profit	1,143.4	1,329.5	2,458.3
4	Management costs	144.6	122.2	0.0
5	Commercial costs	26.4	0.0	0.0
6	Profit (loss) from sales	972.4	1,207.3	2,458.3
7	Interest receivables	137.7	127.3	62.2

No.	Indicator	2015	2014	2013
		M RUB		
8	Interest payables	650.9	355.4	188.8
9	Income from participation in other organisations	0.6	0.0	0.0
10	Other income, total	2,278.4	1,691.5	2,503.8
11	Other costs, total	5,835.6	4,533.5	4,017.1
12	Profit (loss) before tax	-3,097.4	-1,862.7	818.3
13	Profit tax and other fees	-79.0	-225.5	280.7
14	Net profit	-3,018.4	-1,637.2	537.6
15	EBITDA	-437.2	395.9	2,773.0

Analysis of financial condition and company business results

Indicator	Calculation methodology	2015	2014	2013
Liquidity indices				
Cash ratio	(Money and monetary equivalents + Short-term financial investments) / Short-term liabilities = (p. 1240 f.1 + p. 1250 f.1) / p. 1500 f.1	0.18	0.24	0.32
Quick ratio	(Money and monetary equivalents + Short-term financial investments + Accounts receivables of less than 12 months + Other current assets) / Short-term liabilities = (p. 1260 f.1 + p.1250 f.1 + p.1240 f.1 + p.1232 f.1) / p. 1500 f.1	0.40	0.59	0.69
Current ratio	(Current assets - Accounts receivable of more than 12 months)/Current liabilities = (p.1200 f.1-p.1231f.1) / p. 1500 f.1	0.44	0.66	0.78
Financial stability indicators				
Equity ratio (financial independence)	Equity capital / Total liabilities = p.1300 f.1 / p.1700 f.1	0.46	0.54	0.61
Ratio of total debt to EBITDA	(Long-term borrowed funds + Short-term borrowed funds) / EBITDA = (p.1410 f.1 + p.1510 f.1) / EBITDA	-21.45	19.11	2.37
Current assets coverage ratio	(Current assets – Accounts receivable of more than 12 months – Short-term liabilities) / Current assets = (p.1200 f.1 – p. 1231 f.1 – p.1500 f.1) / p. 1200 f. 1	-1.24	-0.50	-0.28
Profitability indices				
Return on equity (ROE)	(Net profit / Equity)*100% = [p. 2400 f2 / ((page 1300 f.1 report. + p. 1300 f.1 basic.) / 2)]*100%	-18.0%	-8.5%	2.9%
Return on total assets (ROTA) by profit before tax	(Profit before tax / Total assets)*100% = [p. 2300 f2 / ((page 1600 f.1 report. + p. 1600 f.1 basic.) / 2)]*100%	-9.2%	-5.6%	2.6%

Indicator	Calculation methodology	2015	2014	2013
EBITDA profitability	$(\text{EBITDA} / \text{Revenues from sale (p. 2110 f. 2)}) * 100\%$	-3.0%	2.9%	21.2%
Business activity				
Ratio of accounts receivable and payable growth rates	Total accounts receivable = Total value of accounts receivable as of the end of reporting period / Total value of accounts receivable as of the end of the basic period = p. 1230 f. 1 report. / p. 1230 f. 1 basic. Total accounts payable = Total value of short-term accounts payable as of the end of the reporting period / Total value of short-term accounts payable as of the end of basic period = (p.1450 f.1 report. + p. 1520 f. 1 report.) / (p.1450 f.1 basic.+ p. 1520 f. 1 basic.) Total accounts receivable / Total accounts payable = (p. 1230 f. 1 report. / p. 1230 f. 1 basic.) / ((p.1450 f.1 report. + p. 1520 f. 1 report.) / (p.1450 f.1 basic.+ p. 1520 f. 1 basic.))	82.2%	86.6%	267.8%
Ratio of total accounts receivable and accounts payable	Total accounts receivable as of the end of reporting period / Total accounts payable as of the end of reporting period = p. 1230 f.1 / (p. 1450 f.1 + p. 1520 f.1).	39.7%	48.3%	55.7%
Ratio of most liquid accounts receivable and payable	Most liquid accounts receivable as of the end of reporting period / accounts payable to suppliers and contractors as of the end of reporting period = (p. 123201 f1 + p.123206 f. 1) / (p. 1521 f.1 + p. 1528 f.1)	61.9%	69.1%	97.0%

Cash ratio amounted to 0.18, i.e. money and short-term financial investments of the Company cover short-term liabilities by 18%.

Quick ratio amounted to 0.40, i.e. most liquid assets of the Company cover short-term liabilities by 40%.

Current ratio amounted to 0.44, i.e. current assets of the Company cover short-term liabilities by 44%.

Equity ratio (financial independence) for 2015 amounted to 0.46, which is 0.08 below the appropriate index for 2014. Reduction is due to loss according to results of the reporting period.

Accounts receivable growth rate for 2015 amounted to 94.3%, accounts payable growth rate – 114.7%. Ratio of accounts receivable and payable growth rates amounts to 82.2%.

Accounts receivable as of the end of 2015 makes 39.7% of the total accounts payable.

Market indicators of operation in 2013-2015 (in accordance with Russian Accounting Standards)

Indicator	Calculation methodology	2013	2014	2015
P/E	capitalisation/net profit	1.62	-1.12	-0.63
P/S	capitalisation/revenues	0.07	0.14	0.13
EV	Company cost with account of all sources of financing = amount of market capitalisation of the enterprise and its net debts, M RUB	5,471.9	7,538.2	9,685.3
EV/EBITDA	-	1.97	19.04	-22.15
Debt/EBITDA	-	2.37	19.11	-21.45

Growth of company cost (EV) in 2015 is due to growth of company capitalisation and increased net debt as a result of raising funds.

Income structure (according to Russian Accounting Standards)

Indicator	2013		2014		2015	
	M RUB	%	M RUB	%	M RUB	%
Revenue from sale of products and services	13,076.0	100.0%	13,494.8	100.0%	14,548.6	100.0%
Power transmission services	11,151.6	85.3%	12,280.7	91.0%	13,565.7	93.2%
Technological connection services	1,190.3	9.1%	436.0	3.2%	142.4	1.0%
Revenues from power sales	0.0	0.0%	0.0	0.0%	53.2	0.4%
Other products (services) of main business	734.1	5.6%	778.1	5.8%	787.3	5.4%
Non-core products (services)	0.0	0.0%	0.0	0.0%	0.0	0.0%

Revenues from sale of products (services) as of the end of 2015 amounted to 14,548.6 M RUB, which is by 1,053.8 M RUB (7.8%) higher than in 2014.

Revenues from power transmission services amount to the main share in the income structure of IDGC of Northern Caucasus. As of the end of 2015, this type of income amounted to 13,565.7 M RUB (93.2% of the total revenues), which is 10.5% higher than in 2014.

Revenues from technological connection services for 2015 amounted to 142.4 M RUB (1.0% of the total revenues), which is 67.3% lower than in 2014.

Other income brought 787.3 M RUB to the company (5.4% of the total revenues), which is 1.2% higher than 2014 level.

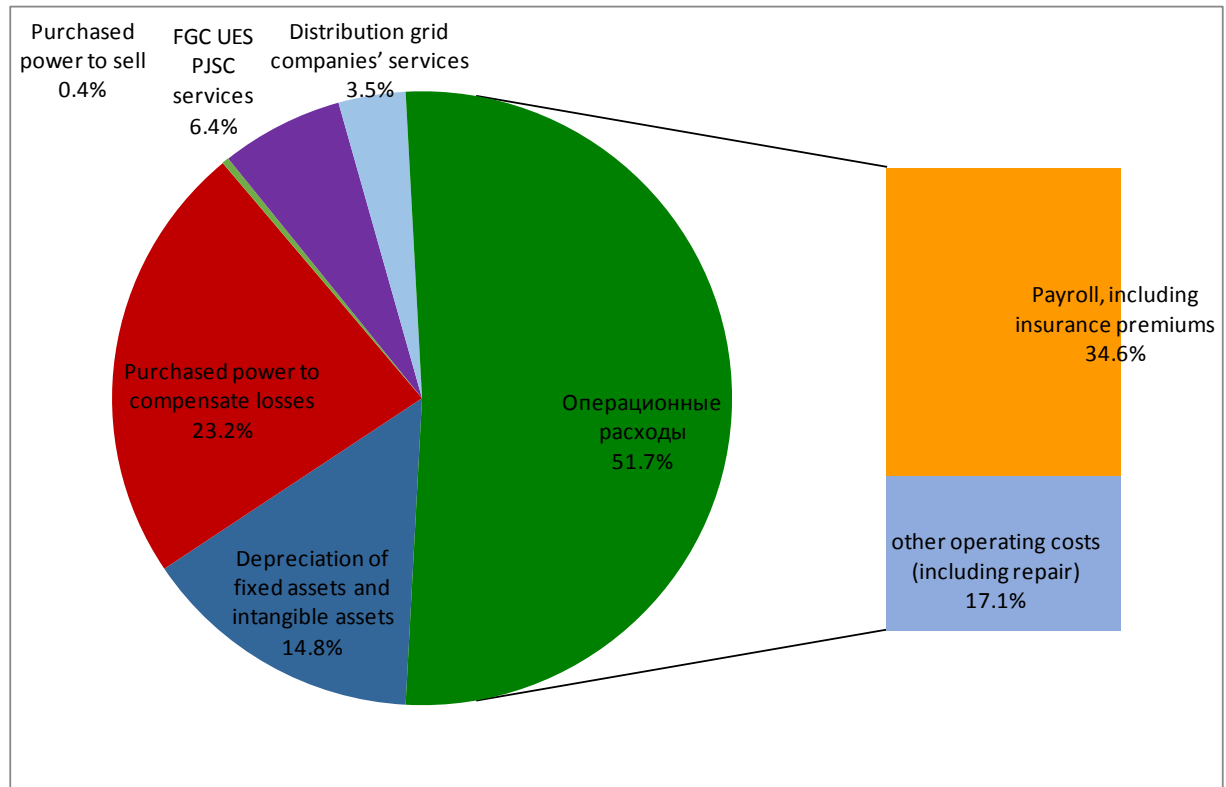
Besides, in connection of transfer of last resort supplier functions in the Republic of Ingushetia to IDGC of Northern Caucasus, as of the end of 2015 the revenues from power sales amounted to 53.2 M RUB.

Cost structure (according to Russian Accounting Standards)

Indicator	2013		2014		2015	
	M RUB	%	M RUB	%	M RUB	%
Prime cost of products (services)	10,617.7	100%	12,287.4	100%	13,576.2	100%
Depreciation of fixed assets and intangible assets	1,765.9	16.6%	1,903.2	15.5%	2,009.3	14.8%
Purchased power to compensate losses	2,104.1	19.8%	2,675.6	21.8%	3,152.2	23.2%
Purchased power to sell					49.9	0.4%
Purchased power for production and auxiliary needs	151.5	1.4%	161.3	1.3%	161.4	1.2%
FGC UES PJSC services	721.5	6.8%	770.5	6.3%	870.0	6.4%
Distribution grid companies' services	56.6	0.5%	483.4	3.9%	476.9	3.5%
Raw materials	694.7	6.5%	738.8	6.0%	648.7	4.8%
Services of production nature	437.1	4.1%	483.0	3.9%	275.1	2.0%
Labour payment costs	2,859.3	26.9%	3,108.5	25.3%	3,621.2	26.7%
Insurance contributions	814.4	7.7%	889.8	7.2%	1,070.0	7.9%
Contributions to NPO	28.5	0.3%	0.0	0.0%	0.0	0.0%
Taxes and fees	100.6	0.9%	167.0	1.4%	211.9	1.6%
Other expenses	883.5	8.3%	906.4	7.4%	1,029.6	7.6%

*Structure of prime cost is represented with account of management and commercial costs.

Prime cost structure (with account of commercial and management costs) in 2015



Actual costs of the Company (with account of management and commercial expenses) for 2015 amounted to 13,576.2 M RUB, which is by 1,288.8 M RUB or by 10.5% higher than actual expenses for 2014.

Expenses for purchased power to compensate for losses in the reporting period amounted to 3,152.2 M RUB (23.2% of total expenses). In absolute terms the growth by 2014 made 476.6 M RUB.

Expenses for purchased power to sell in the reporting period amounted to 49.9 M RUB (0.4% of total expenses).

Costs for FGC UES PJSC services amounted to 880 M RUB (6.4% of total expenses). Growth vs 2014 in absolute terms amounted to 99.5 M RUB.

Costs for services of distribution grid companies as of the end of 2015 amounted to 476.9 M RUB (3.5% of total expenses). Compared to the last year, reduction of expenses amounted to 6.5 M RUB.

Depreciation of fixed assets and intangible assets for 2015 is higher than the level of 2014 by 106.1 M RUB, which is related to commissioning of fixed assets according to the Comprehensive Program of Actions for Reduction of Abnormal Power Losses in Distribution Mains of the Company.

Expenses for labour payment in 2015 amounted to 3,621.2 M RUB (26.7% of total expenses). Growth vs 2014 in absolute terms amounted to 512.6 M RUB.

Increased expenses for 2015 vs 2014 actual are due to lease of power grid equipment of Alaniyaelektroset JSC since January 1, 2015 and sales activities in the Republic of Ingushetia since December 1, 2015.

Efficiency management program

Reduction of managed operating expenses in 2015 in respect to 2012, for the purposes to perform the Russian Federation Power Grid Complex Development Strategy approved by the Order of the Government of the Russian Federation dated April 3, 2013 No.511-r, amounted to 836.2 M RUB, or 19%.

In order to perform the Directive of the Government of the Russian Federation dated April 16, 2015 No.2303-P13 for reduction of specific operating costs by at least 2-3% annually, the reduction of specific operating costs in 2015 relative to 2014 level amounted to 497.4 M RUB, or 9.3%.

Analysis of accounts receivable variation*, M RUB

Indicator	As of December 31, 2015	As of December 31, 2014	As of December 31, 2013
Accounts receivable, including:	2,615	2,773	2,224
Buyers and customers	2,296	2,653	2,127
for power transmission	2,048	2,608	1794
Bills receivable	-	-	-
Advances paid	15	17	47
Other accounts receivable	304	103	50

*Indicators are specified in accordance with the accounting statements of IDGC of Northern Caucasus for the reporting period

The total amount of accounts receivable of IDGC of Northern Caucasus as of the end of the reporting period amounted to 2,615 M RUB (as of December 31, 2014 – 2,773 M RUB). Accounts receivable is shown minus the reserve for bad debts. As of December 31, 2014, accounts receivable before the reserve was 9,881 M RUB, the amount of the reserve is 7,108 M RUB, as of December 31, 2015 the amount of accounts receivable before the reserve made 13,110 M RUB, the amount of the reserve is 10,495 M RUB. Reduction of accounts receivable is due to increased share of the reserve for bad debts. As of December 31, 2014 the reserve is 71.93% of the amount of the accounts receivable, as of December 31, 2015 – 80.05%.

Accounts receivable of buyers and customers amounted to 2,296 M RUB, which is 357 M RUB (13.47%) below the indicator as of December 31, 2014. This reduction is due to the fact that accounts receivable in the amount of 2,296 M RUB is reflected in the balance minus the reserve for bad debts, the amount before the reserve amounted to 12,534 M RUB, the amount of the reserve amounts to 10,238 M RUB.

Accounts receivable for advances paid amounted to 15 M RUB, which is by 2 M RUB (11.76%) below the indicator as of December 31, 2014. This reduction is due to the fact that accounts receivable in the amount of 15 M RUB is reflected in the balance minus the reserve for bad debts, the amount before the reserve amounted to 25 M RUB, the amount of the reserve amounts to 10 M RUB.

During the reporting period, the accounts receivable, recovery of which was unreal, was written off in the amount of 0.872 M RUB, also for power transmission services provided - 0 M RUB.

The main share of accounts receivable of the company (78.31%) was summed up in settlements for provided power transmission services.

Debt for power transmission services to IDGC of Northern Caucasus as of December 31, 2015 amounted to 8,844.9 M RUB (growth by 1,929 M RUB). The level of settlements for power

transmission services provided for 2015 amounted to 13,935 M RUB, or 87%, which is higher than level of the similar period of 2014 by 2%.

The most complicated regions in part of payment discipline for power transmission services are Kabardino-Balkaria, Republic of North Ossetia-Alania, Republic of Dagestan and Republic of Ingushetia.

The largest debtors for provided power transmission services, the share of which as of December 31, 2015 amounts to more than 5% of accounts receivable:

- Nalchik City Power Grid Company OJSC: debt was 897.0 M RUB (10.1% of the total accounts receivable), debt is overdue. There were no payments in 2015;
- Kabbalkkommunenergo MUP: debt amounted to 659.4 M RUB debt was 659.4 M RUB (7.5% of the total accounts receivable), growth of debts in 2015 – 387.1 M RUB, debt amounts to 11.3 settlement periods. The level of payment for January - December 2015 amounted to 45%;
- Stavropolenergosbyt PJSC: debt was 946.5 M RUB (10.7% of the total accounts receivable), growth of debts in 2015 – 397.1 M RUB, debt amounts to 2 settlement periods. The level of payment for January - December 2015 amounted to 92%;
- Vladikavkazenergo VMUP: debt was 1,726.2 M RUB (19.5% of the total accounts receivable);
- Alaniyaelektroset JSC: debt was 1,230.2 M RUB (14% of the total accounts receivable), reduction for 2015 – 112 M RUB (in the main part by settlement of mutual homogeneous requirements under agreements of power grid equipment lease). 2015 payments amounted to 112 M RUB;
- Sevkavkazenergo PJSC: debt was 659.5 M RUB (7.5% of the total accounts receivable), growth for 2015 – 635.1 M RUB 2015 payments amounted to 1,374.5 M RUB, or 68%;
- Ingushenergo JSC: debt was 946.5 M RUB (10.7% of the total accounts receivable), growth for 2015 – 233 M RUB 2015 payments amounted to 565.8 M RUB, or 71%;
- Dagestan Power Sales Company PJSC: debt was 570.5 M RUB (6.5% of the total accounts receivable), growth for 2015 – 291.4 M RUB 2015 payments amounted to 295 M RUB, or 48%.

In order to reduce accounts receivable, IDGC of Northern Caucasus takes all actions specified by the existing legislation:

- claims are sent on a monthly basis to counterparties on violation of timing of compliance with agreement obligations;
- overdue debts are recovered through legal proceeding and within enforcement proceedings;
- mutual homogeneous requirements are settled, and assignment (cession) agreements are executed;
- meetings of commissions of IDGC of Northern Caucasus are held to control accounts receivable and settlements for power transmission services registered in the company's balance;
- monitoring is in progress over compliance with Comprehensive Plans of Actions to Reduce Debts for Supplied Energy in Regions, developed and approved jointly with Governments of constituent entities of the Northern Caucasus Federal District and approved by the Authorised Representative of the RF President in the Northern Caucasus Federal District S.A. Melikov;

- meetings of territorial executive authorities are initiated, which monitor status of settlements for consumed energy resources on issues of non-payment;
- applications are forwarded to law enforcement and supervision authorities of the Northern Caucasus Federal District on facts of evasion from payment of power transmission services;
- on a monthly basis, information on non-payment for power transmission services is sent to the Intergovernmental Working Group under the Main Directorate of the Ministry of the Interior in the Northern Caucasus Federal District;
- work is in progress to detect power consumption without an agreement executed and without registration;
- disconnection (limitation) of power consumption mode is introduced in respect to consumers that violate timing of agreement obligations performance in part of repayment of overdue debts;
- power grid assets are consolidated: thus, since January 1, 2015 the lease agreement was signed with Alaniyaelektroset JSC, it is planned to purchase its property as repayment of debt;
- information on negative consequences of non-payment for energy resources is regularly covered in mass media.

As a result of claims work by IDGC of Northern Caucasus to recover overdue accounts receivable for power transmission services, in 2015 they submitted 210 claims for the amount of 5,919.2 M RUB, positive legal judgements were received within 193 legal proceedings for the total amount of requirements of 3,386.6 M RUB, within 22 proceedings recovery in the amount of 5.4 M RUB was denied. The share of claims settled for the benefit of IDGC of Northern Caucasus amounted to 99.99%, which is equal to the value of the specified index for the last year. For 12 months of 2014, 243 claims were submitted for the amount of 4,467.6 M RUB, positive judgements were made in respect to claims for the amount of 3,092.6 M RUB (177 cases), claims for the amount of 10.29 M RUB were denied (3 cases).

According to results of received legal judgements, in 2015 there were warrants of execution received for the amount of 1,455.2 M RUB, where 505.5 M RUB or 34.7% were repaid. For the same period of the previous year, there were warrants of execution received for the amount of 2,030.1 M RUB, where 457.4 M RUB or 22.5% were repaid.

Coverage of overdue debts by actions aimed at its reduction is at stable high level, and as of the end of 2015 it amounted to 92%.

Analysis of accounts payable variation, M RUB

Indicator	As of December 31, 2015	As of December 31, 2014	As of December 31, 2013
Accounts payable*, including:	6,593	5,747	3,993
Suppliers and contractors	4,623	4,407	2,882
Bills payable	-	-	-
Advances received	304	375	382
Taxes and fees	892	308	215
other accounts payable	774	657	514

*With account of other long-term obligations (p.1450 of the Balance Sheet)

Accounts payable for 2015 was 846 M RUB higher than the level of 2014 and as of December 31, 2015 it amounted to 6,593 M RUB. The following changes were observed:

payables under suppliers and contractors item were 216 M RUB higher due to increased debt for electric power transmission services by 749 M RUB, for the purchase of electricity and capacity on the wholesale market by 73 M RUB and decrease in arrears to construction companies by 275 M RUB, repair organizations by 37 M RUB, according to the calculations with suppliers of electric energy purchased to compensate losses by 220 M RUB, to other suppliers and contractors by 74 M RUB.

payables on advances received amounted to 304 M RUB, which is by 71 M RUB (81%) below the 2014 year. The bulk of the debt amount is advances on technological connection.

Taxes and Levies debt in 2015 was higher than in 2014 by 584 M RUB, other payables - higher by 117 M RUB.

Overdue accounts payable of IDGC of Northern Caucasus as a result of 2015 is 2,756 M RUB.

Status of net assets (in accordance with Russian Accounting Standards), M RUB

Indicator	As of the end of 2013	As of the end of 2014	As of the end of 2015
Net assets	20,082.8	18,308.5	15,287.7
Charter capital	154.6	154.6	154.6

Net assets of IDGC of Northern Caucasus for the last three years exceed the charter capital of the company. Reduction of net assets value in 2015 vs 2014 is due to company operating at a loss as of the end of the reporting year.

Distribution of net profit and dividend policy

Distribution of profit for 2012-2014*

	for 2012 (AGMS 2013)	for 2013 (AGMS 2014)	for 2014 (AGMS 2015)
Non-distributed profit (loss) of reporting period, including:	641,385	537,564	-1,637,180
Reserve fund			
Profit for development	481,039	403,172	-
Dividends	160,346	134,392	-
Repayment of previous years' losses			
For reference:			
Non-distributed profit with account of retrospective reflection of changes in accounting policy of the company	877,775	537,564	

*Information on profit distribution in accordance with resolutions of annual general meetings (AGMS)

AGMS 2013 (for 2012) – AGMS Minutes dated June 19, 2013 No.13

AGMS 2014 (for 2013) – AGMS Minutes dated June 24, 2014 No.14

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

Dividend policy

In order to increase transparency of mechanism for definition of dividend amount on shares of IDGC of Northern Caucasus, in 2010 the Board of Directors developed and approved the Regulations on Dividend Policy (dated August 17, 2010 No.61). The text of the Regulations is published on the website of the company in the section “To Shareholders and Investors / Articles of Association and Internal Documents / Dividend Policy Documents”.

Dividend Policy of IDGC of Northern Caucasus is based on the balance of interests of the company and its shareholders with definition of amount of dividend payments, respect and strict observance of shareholders' rights and is aimed at increasing investment appeal of the company and growth of its market capitalisation.

Decision on payment of dividends is made, if the following criteria are met simultaneously:

- availability of net profit according to results of the financial period;
- availability of net profit according to the results of the financial period not taking into account reevaluation of financial investments;
- ratio of debt (as of the end of the period) to EBITDA is less than three – if this criterion is not met, the priority to payment of dividends is repayment of borrowed funds.

If these conditions are complied with, the amount of paid dividends is determined as the balance of net profit (without taking into account of reevaluation of financial investments) according to the results of the period after its distribution for creation of the obligatory reserves, investments and repayment of previous years' losses from operating activities.

Dividend payments are distributed among shareholders proportionately to the number of shares they have.

Time and procedure of dividend payment is determined by the Articles of Association or the decision of the General Meeting of Shareholders. If the company fails to perform its obligations, the shareholders shall be entitled to claim payment of the announced dividends through legal proceeding.

Besides, we would like to pay attention of shareholders that in case of absence of correct and full data of a registered person in the register of shareholders, which is necessary to pay (transfer) dividends to him or her, dividends may not be paid. Therefore, for the purposes of most complete and effective exercise of rights of owners of IDGC of Northern Caucasus shares, we kindly ask that our shareholders make timely corrections to their personal account, if data about the shareholder has changed. It may be done through provision of a fully filled questionnaire of a registered person to a company registrar (STATUS JSC). Additional information may be received on the website of the registrar <http://rostatus.ru/> in the section “To Shareholders” and the section of the website of IDGC of Northern Caucasus “To Shareholders and Investors / Frequently Asked Questions”.

Information on paid, charged (announced) dividends for 2013-2015

Date of decision making on dividend payment (AGMS date)	Reporting period, for which dividends were charged and paid	Dividends charged		Share of announced dividends in net profit of reporting year, %	Dividends paid as of December 31, 2015, M RUB	Share of dividends paid, %
		total, M RUB	per 1 share, RUB			
June 19, 2013	2012	160.3	2.8586	25	157.8	98.4
June 24, 2014	2013	134.4	0.8695	25	133.6	99.4

Announced dividends for shares were not paid in full due to absence of relevant data (details) for dividend payment in the register of shareholders.

Credit history and debt status

Credit history

Credit history is good.

Debt status

As of January 1, 2015 IDGC of Northern Caucasus had payables on loans and borrowings in the amount of RUB 7,563.8 million.

As of the end of 2015 IDGC of Northern Caucasus is in arrears on loans and borrowings in the amount of RUB 9,377.7 million.

The weighted average interest rate on the loan portfolio of IDGC of Northern Caucasus was 13.7% as of January 1, 2016, and as of January 1, 2016 - 11.7%.

In accordance with the business plan for 2016 the company plans to refinance the debt on the loan agreements in the amount of 3,225 M RUB by free credit limits, as well as by execution of new loan agreements

Additional attraction of credit resources is not planned.

Bond-secured loans (exchange-traded bonds)

In accordance with the Listing Rules of ZAO MICEX Stock Exchange, Director General of ZAO MICEX Stock Exchange on August 14, 2015 adopted the following decisions: to assign the identification number to the program of exchange-traded bonds of IDGC of Northern Caucasus in connection with the receipt of an appropriate application.

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

Primary data on Exchange-Traded Bonds Program:

Identification criteria of Exchange-Traded Program of non-convertible interest-bearing certificated exchange-traded bonds in bearer form with obligatory centralised storage

Maximum amount of nominal values of total nominal value of all issues of exchange-traded bonds placed exchange-traded bonds, which may be placed under open subscription within the program of exchange-traded within the Exchange-Traded Bonds Program: bonds, not more than 6,000,000,000 (six billion) RUB, inclusive

Maximum timing of exchange-traded bonds with the repayment period of not more than on 3,640 (three thousand repayment placed within the Exchange- six hundred forty) day from the date of start of placement of Traded Bonds Program: exchange-traded bonds of separate issue placed within the exchange-traded bonds program

Duration of Exchange-Traded Bonds unlimited
Program:

Besides, as of the end of 2015, in connection with unfavourable market condition, the specified exchange-traded bonds of the company were not placed.

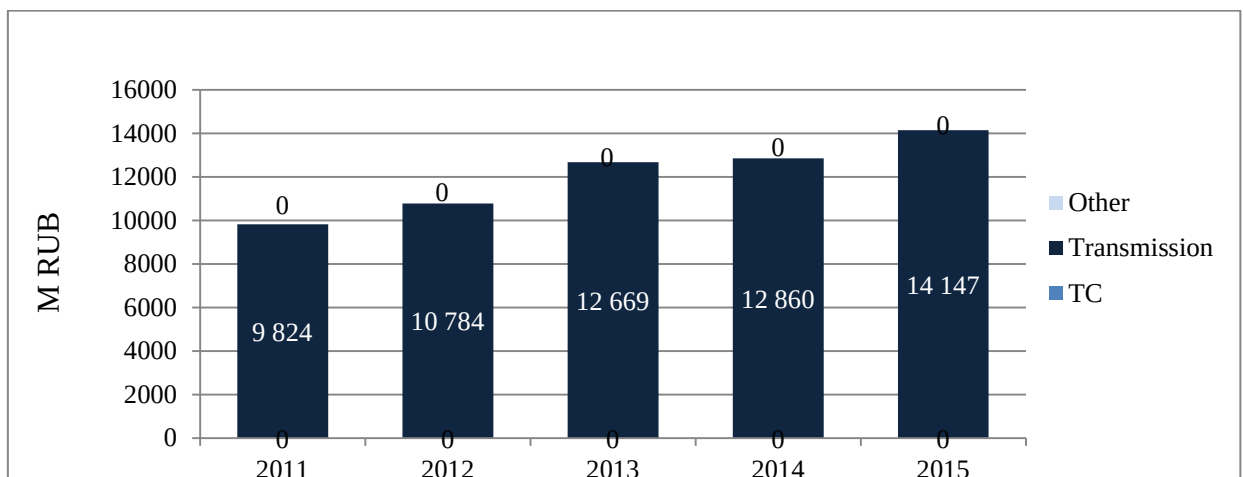
Tariff policy

Main activities of IDGC of Northern Caucasus (transmission of electric energy along distribution networks with voltage of 110 to 0.4 kV, technological connection of consumers to the network infrastructure) are regulated.

Regulation is carried out in accordance with the following:

- ✓ Federal Law dd. March 26, 2003 No.35-FZ “On Electric Power Industry”;
- ✓ Rules of non-discriminatory access to electricity transmission and delivery of those services (approved by the RF Government Decree dd. December 27, 2004 No.861);
- ✓ RF Government Decree dd. December 29, 2011 No.1178 “On pricing in in the field of regulated prices (tariffs) in the electric power industry”;
- ✓ Decree of the Government of the Russian Federation dd. May 4, 2012 No.442 “On the functioning of retail electricity markets, full and (or) partial restriction of electric power consumption mode”;
- ✓ Order of the Federal Tariff Service dd. August 6, 2004 No.20-e/2 “On approval of instructional guidelines for calculation of regulated tariffs and prices for electricity and heat in retail (consumer) market”;
- ✓ Order of the Federal Tariff Service dd. February 17, 2012 No.98-e “On approval of instructional guidelines for calculation of tariffs for electricity transmission set by using the method of long-term indexation of the necessary gross revenue”;
- ✓ Order of the Federal Tariff Service dd. March 30, 2012 No.228-e “On approval of Guidelines for regulation of tariffs using the method of return on invested capital”;
- ✓ Order of the Federal Tariff Service dd. September 11, 2012 No.209-e/1 “On approval of Guidelines for determining the amount of payment for technological connection to electric networks”;
- ✓ RF Government Decree dd. January 21, 2004 No.24 “On approval of standards of information disclosure by subjects of wholesale and retail power markets”;
- ✓ Order of the Federal Tariff Service dd. September 11, 2014 No.215-e/1 “On approval of Guidelines for definition of lost income related to the implementation of technological connection to electric networks”;
- ✓ Order of the Federal Tariff Service dated September 16, 2014 No.1442-e “On approval of Guidelines for calculation of tariffs for electric energy (power) for population and equivalent consumer categories, tariffs for transmission of power supplied to population and equivalent categories of consumers”.

Dynamics of IDGC of Northern Caucasus revenues for 2011-2015



2015 – reporting year

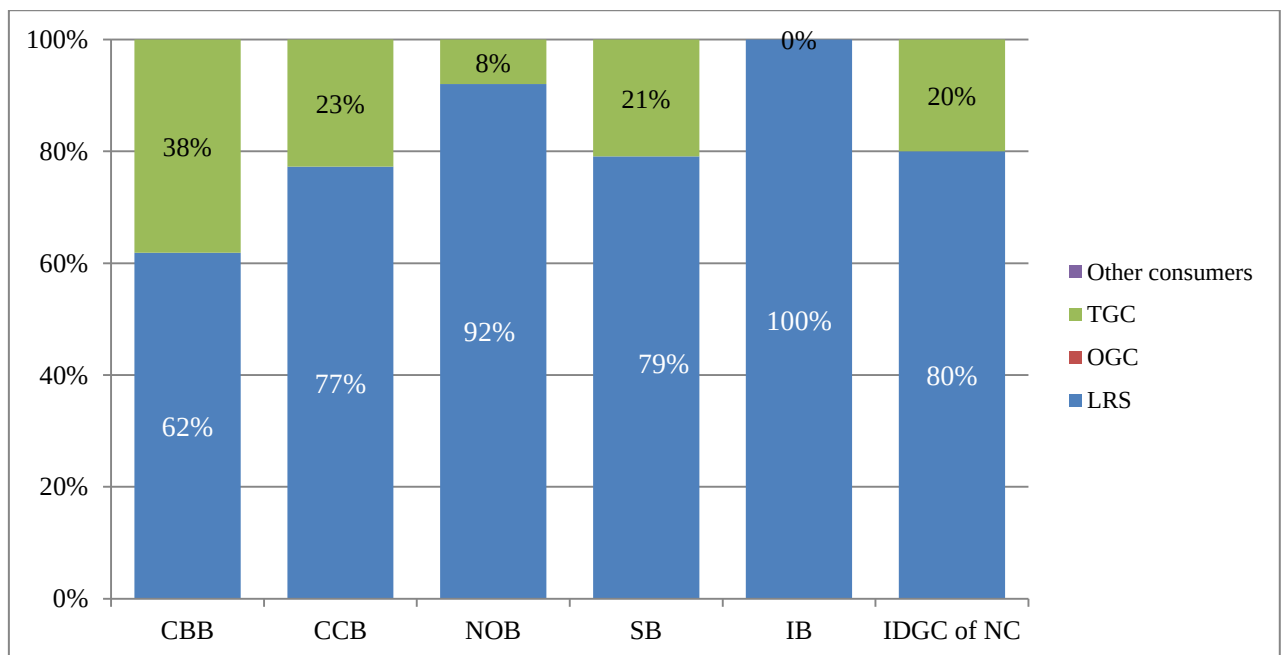
Growth of the necessary gross profit for power transmission services of IDGC of Northern Caucasus in 2015 amounted to 10%.

Tariffs for power transmission services

Regulation of activities of IDGC of Northern Caucasus branches (Kabardino-Balkaria, Karachay-Cherkessia, North Ossetia, Stavropolenergo), starting from 2011, has been carried out using the method of return on invested capital (RAB). The first long-term period: 2011-2017

Regulation of the activities of the Ingush branch of IDGC of Northern Caucasus since 2014 has been carried out using the method of long-term indexation of the necessary gross revenue for the period of 2014-2016.

Structure of IDGC of Northern Caucasus for power transmission services in 2015 broken down by consumer groups



In the branches of IDGC of Northern Caucasus, the largest share in the productive supply belongs to last resort suppliers: from 100% in the Ingush branch to up to 62% in the Kabardino-Balkarian branch. The largest share of productive supply to the territorial grid companies is in Kabardino-Balkaria branch (38%), the lowest - in the North Ossetian branch (8%).

Analysis of changes of average tariff for power transmission services broken down by branches, kopecks/kW*hr

Branch	2011	2012	2013	2014	2015
Stavropolenergo branch	95.3	100.7	107.0	116.3	125.4
North Ossetian branch	119.5	108.9	115.1	117.4	182.6
Karachayevo-Cherkess branch	135.6	147.1	150.8	148.2	149.0
Kabardino-Balkarian branch	137.5	146.9	156.0	145.9	154.5
Ingush branch	not reported	not reported	170.0	160.0	171.1
Total	109.3	113.0	121.4	125.3	141.1
Growth, %	112.2%	103.4%	110.0%	103.2%	112.6%

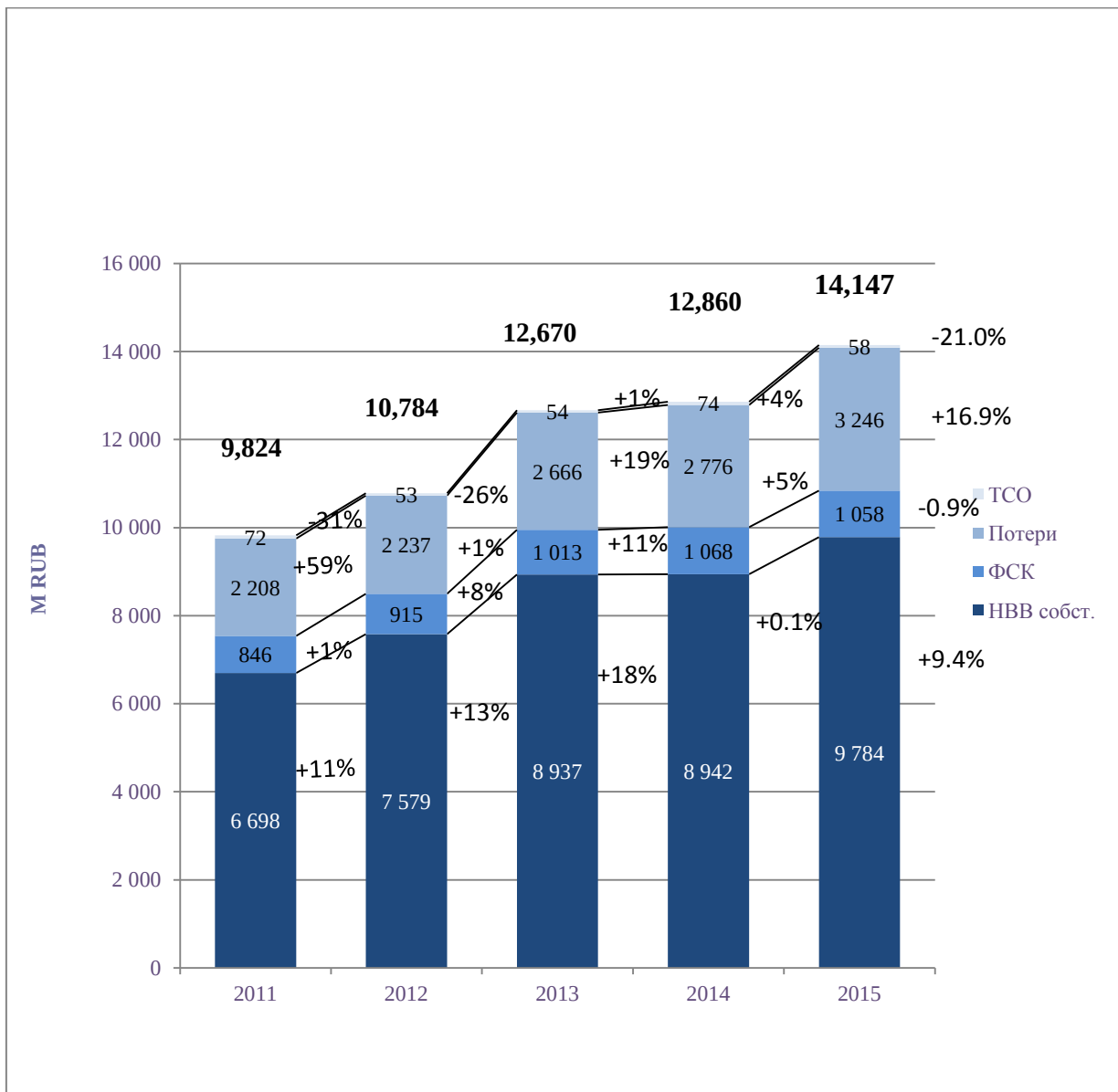
Growth of average tariff for power transmission services in 2015 in IDGC of Northern Caucasus amounted to 12.6%.

Dynamics of necessary gross revenues for power transmission services broken down by branches, M RUB

Branch	2011		2012		2013		2014		2015	
	total	own.	Total	own.	Total	own.	Total	own.	Total	own.
Kabardino-Balkarian branch	1,647	1,331	1,815	1,478	1,884	1,518	1,764	1,370	1,905	1,454
Karachayevo-Cherkess branch	1,352	1,097	1,513	1,253	1,607	1,295	1,529	1,218	1,517	1,167
North Ossetian branch	1,699	1,280	1,655	1,288	1,817	1,387	1,736	1,331	2,371	1,787
Stavropolenergo branch	5,125	2,990	5,801	3,561	6,510	4,130	7,040	4,481	7,481	4,781
Ingush branch	0	0	0	0	852	606	792	543	871	595
Total	9,824	6,698	10,784	7,579	12,669	8,937	12,860	8,942	14,147	9,784

Growth of the necessary gross profit for power transmission services of IDGC of Northern Caucasus in 2015 amounted to 10%, for auxiliary needs - 9.1%.

Dynamics of gross revenue requirement structure for power transmission by IDGC of Northern Caucasus



Tariffs for technological connection services

Basic provisions on calculation of the payment amount for technological connection of power devices of consumers of electric energy, facilities for electrical energy generation to the network infrastructure of the branches of IDGC of Northern Caucasus are determined in accordance with the Guidelines for determining amount of payment to the electric networks, approved by Order of the Federal Tariff Service dated September 11, 2012 No.209-e / 1 "On approval of guidelines for determining the amount of payment for technological connection to power grids".

Executive authorities of the Russian Federation in the field of state regulation of tariffs for the calculation of payment 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 of payment for technological connection;

2) by application of a grid company, a fee for technological connection to territorial distribution electric network of power receivers of individual consumers with maximum capacity of at least 8,900 kW at voltage level of 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 electric networks, has the right to choose the type of payment rate for technological connection. Selection of the payment rate is carried out by the applicant at the stage of execution of the technological connection contract.

If the applicant does not choose the type of the rate, the grid company has the right to choose the rate at its own and to calculate the amount of payment for technological connection.

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

- by the Order of the State Committee of the Republic of Kabardino-Balkaria on energy tariffs and housing supervision dd. December 30, 2014 No.83 «On establishment standardized tariff rates, formulas of payment for technological connection and rates per unit of maximum power for use in calculation of payment for technological connection to distribution power grids of Kabardino-Balkarian branch of IDGC of Northern Caucasus for 2015”;
- by the Resolution of the General Directorate for tariffs and prices of the Republic of Karachay-Cherkessia of December 30, 2014 No.163 “On establishment of payment for technological connection of power devices of applicants to power grids of grid organizations of the Karachay-Cherkess Republic”;
- by the Decision of the Regional Tariff Service of the Republic of North Ossetia-Alania dd. December 24, 2014 No.68 “On establishing amount of payment for technological connection of electricity consumers to power grid facilities of territorial grid companies of the Republic of North Ossetia-Alania in 2015”;
- by the Decision of the Regional Tariff Commission of Stavropol Territory dd. December 18, 2014 No.66 / 3 “On approval of standardized tariff rates, rates per unit of maximum power and formulas for calculating amount of payment for technological connection of electricity consumers to electric grid facilities of Stavropol Territory territorial grid companies for 2015”;
- by the Resolution of the Regional Energy Commission of the Republic of Ingushetia dd. December 30, 2014 No.28 “On establishment of payment and formulas of payment for technological connection to electric grids of territorial grid companies of the Republic of Ingushetia in 2015”;
- by the Resolution of the Republican Tariff Service of the Republic of Dagestan dd. December 26, 2014 No.144 “On establishment of payment and formulas of payment for technological connection to electric networks of IDGC of Northern Caucasus”.

Analysis of changes in averaged rate per unit of power* by branches

Type of standardized tariff rate	Kabardino-Balkarian branch*	Karachayevo-Cherkess branch*	North Ossetian branch*	Ingush branch*	Stavropolenergo branch*	Dagenergo branch*
Standardized tariff rate to cover expenses for technological connection of energy-receiving devices of power consumers, power grid facilities owned by grid companies and other entities, for actions	247.89	63.20	42.67	85	12.73	89.89

specified in clause 16 of methodological instructions to determine the amount of payment for technological connection to power grids approved by the Federal Tariff Service, excluding the subclauses “b” and “c” of clause 16, per 1 kW of maximum capacity RUB/kW - S1						
including						
- Standardized tariff rate to cover costs for preparation and issue of technical conditions by a grid company to an applicant (hereinafter referred to as the TC), RUB/kW – S1.1	106.90	25.40	20.16	41	4.51	not specified
- Standardized tariff rate to cover expenses for inspection of applicant's performance of the TC by the grid company, RUB/km – S1.2	47.42	13.20	10.10	30	2.24	not specified
- Standardized tariff rate to cover expenses for participation of a grid company for visual inspection of applicant's devices by an official of the federal state energy supervision body, RUB/km – S1.3						
- Standardized tariff rate to cover expenses for actual connection of the applicant to the grid by the grid company and connection of a switching device (fixation of the switching device in “on” position) RUB/kW – S1.4	93.57	24.60	12.41	14	5.98	not specified
Rate to cover expenses of the grid company for construction of overhead power transmission lines – S2, RUB/km (January 01, 2015-September 30, 2015) (October 01, 2015-December 31, 2015)	148,342.8 74,171.4	85,597.5 44,798.7	206,791 103,395.5	116,804 58,402	255,652.8 127,826.4	112,697.6 56,348.8
Rate to cover expenses of the grid company for construction of cable power transmission lines – S3, RUB/km (January 01, 2015-September 30, 2015) (October 01, 2015-December 31, 2015)	204,678.5 102,339.2	169,697.8 84,848.9	not specified	168,255.7 84,127.8	231,512.9 115,756.5	222,736.4 111,368.2
Rate to cover expenses of the grid company for construction of substations - S4, RUB/kW (January 01, 2015-September 30, 2015) (October 01, 2015-December 31, 2015)	350.98 175.49	221.10 110.5	498.9 249.45	259.44 129.72	not specified	286.61 143.3

* Data on applicants that applied for technological connection, above 15 to 150 kW at voltage of 6-10 kV.

According to the order of the Federal Tariff Service dated September 11, 2012 No.209-e / 1 “On approval of the Guidelines for determining the amount of payment for technological connection to electric networks” Standardized tariff rates S2, S3, S4 are set by the regulator in 2001 prices.

In accordance with the RF Government Decree of December 29, 2011 No.1178 from October 1, 2015 the size of power receivers included into payment for technological connection with maximum capacity of not more than 150 kW to cover the investment component for the construction of transmission facilities - from the existing electric grid facilities to connected power devices and (or) electric power facilities cannot be more than 50% of the amount of these costs.

Kabardino-Balkarian branch

Standardized tariff rates and the rates per unit of maximum power were established by the Order of the State Committee of the Republic of Kabardino-Balkaria on energy, tariffs and housing supervision on December 30, 2014 No.83 “On the establishment of standardized tariff rates, formula of payment for technological connection and rates per unit of maximum power to be used in calculation of payment for technological connection to distribution power grids of Kabardino-Balkarian branch of IDGC of Northern Caucasus in 2015”.

Tariffs are differentiated by the voltage levels at the point of connection: 0.4 kV and 6-10 kV and power ranges: up to 150 kW and from 150 kW to 8900 kW.

Order of the State Committee of the Republic of Kabardino-Balkaria on energy, tariffs and housing supervision dated September 28, 2015 No.24 amended Annex No.1 to the Order of December 30, 2014 No.83 for the allocation of rate application periods from January 1, 2015 to September 30, 2015 and from October 1, 2015 to December 31, 2015.

Lost income related to the implementation of technological connection of power devices of the applicants with the maximum power not exceeding 15 kW, including, was approved by the regulatory authority in the amount of 993.46 K RUB for 2015.

Economically reasonable fee for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, is determined by the regulator in the amount of 5,369.9 RUB (VAT included) for one connection.

Karachayevo-Cherkess branch

Standardized tariff rates and the rates per unit of maximum power were established by the Resolution of the Main Department for Tariffs and Prices of the Karachay-Cherkess Republic on December 30, 2014 No.163 “On establishment of payment for technological connection of power devices of applicants to power grids of grid companies in Karachay-Cherkess Republic”.

Tariffs are set in the power range not exceeding 150 kW, inclusive, at the voltage level in the point of connection of 0.4-10 kV. Besides, periods of rate application are allocated from January 1, 2015 until September 30, 2015 and from October 1, 2015 until December 31, 2015.

Lost income related to implementation of technological connection to electric networks, was not approved by the regulator.

Economically reasonable rate of payment for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, per one power source (based on the capacity previously connected to this connection point and provided that the distance between the applicant's site boundaries to the electric grid facilities is not more than 300 meters in cities and urban-type settlements and not more than 500 meters in rural areas), was determined by the regulator at 68.90 RUB/kWh.

North Ossetian branch

Standardized tariff rates and the rates per unit of maximum power established by the Resolution of the Regional Tariff Service of the Republic of North Ossetia-Alania on December 24, 2014 No.68 «On establishing amount of payment for technological connection of power consumers to the power grid facilities of territorial grid companies of the Republic of North Ossetia-Alania 2015”.

Tariffs are differentiated by the voltage levels at the point of connection: 0.4 kV and 6-10 kV and power ranges: from 15 to 150 kW inclusive, and above 150 to 670 kW. Besides, periods of

rate application are identified from January 1, 2015 to September 30, 2015 and from October 1, 2015 to December 31, 2015.

Lost income related to implementation of technological connection to electric networks, was not approved by the regulator.

Economically reasonable payment for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, per one power source (based on the capacity previously connected to this connection point and provided that the distance between the applicant's site boundaries to the electric grid facilities is not more than 300 meters in cities and urban-type settlements and not more than 500 meters in rural areas), was determined by the regulator at 2,203.37 RUB/kWh per one connection.

Stavropolenergo branch

Standardized tariff rates are rates per unit of maximum power are established by the Decision of the Regional Tariff Commission of Stavropol Territory dd. December 18, 2014 No.66/3 "On approval of standardized tariff rates, rates per unit of maximum power and formulas for calculating amount of payment for technological connection of electricity consumers to electric grid facilities of Stavropol Territory territorial grid companies for 2015";

Tariffs are differentiated by the voltage levels at the point of connection: 0.4 kV and 6-10 kV and power ranges: up to 150 kW inclusive, above 150 to 670 kW, inclusive, above 670 kW. Besides, periods of rate application are identified from January 1, 2015 to September 30, 2015 and from October 1, 2015 to December 31, 2015.

The value of lost income from connection to consumers up to 15 kW, inclusive, in 2015, was approved by a regulator in the amount of 12,211 K RUB.

Economically reasonable payment for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, per one power source (based on the capacity previously connected to this connection point and provided that the distance between the applicant's site boundaries to the electric grid facilities is not more than 300 meters in cities and urban-type settlements and not more than 500 meters in rural areas), was determined by the regulator at 5,296.38 RUB per one connection.

Ingush branch

Standardized tariff rates and rates per unit of maximum power are set by the Resolution of the Regional Energy Commission of the Republic of Ingushetia dd. December 30, 2014 No.28 "On establishment of payment and formulas of payment for technological connection to electric grids of territorial grid companies of the Republic of Ingushetia in 2015".

Tariffs are differentiated by the voltage levels at the point of connection: 0.4 kV and 6-10 kV and power ranges: up to 15 kW inclusive, above 15 kW to 150 kW, above 150 kW to 670 kW. Besides, periods of rate application are identified from January 1, 2015 to September 30, 2015 and from October 1, 2015 to December 31, 2015.

The value of lost income from connection of power receivers of applicants with connected capacity of up to 15 kW, inclusive, was approved by a regulator in the amount of 2,058.8 K RUB.

Economically reasonable rate of payment for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, per one power source (based on the capacity previously connected to this connection point and provided that the distance

between the applicant's site boundaries to the electric grid facilities is not more than 300 meters in cities and urban-type settlements and not more than 500 meters in rural areas), was determined by the regulator at 500 RUB/kWh.

Dagenergo branch

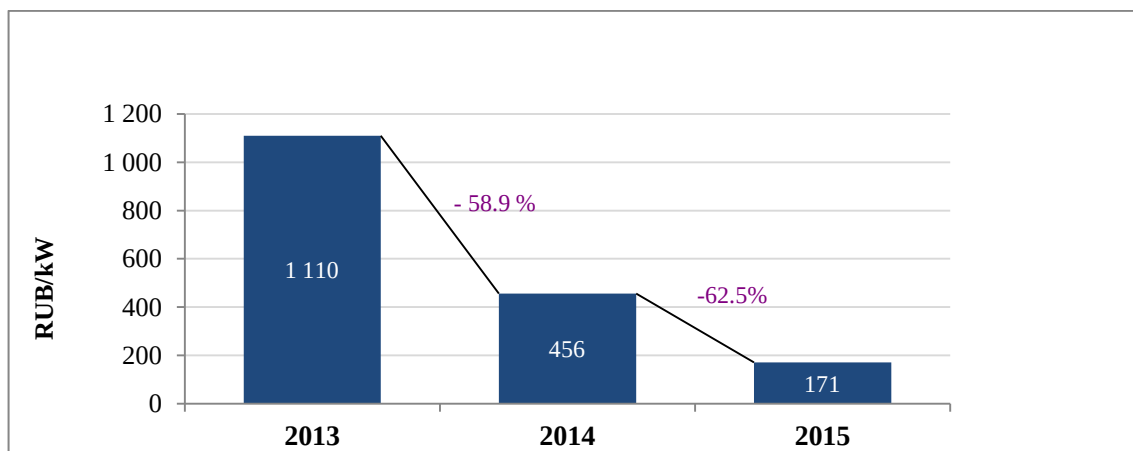
Standardized tariff rates and the rates per unit of maximum power were established by the Resolution of the Republican Tariff Service of the Republic of Dagestan on December 26, 2014 No.144 «On establishment of payment and formulas of payment for technological connection to electric networks of IDGC of Northern Caucasus».

Tariffs are differentiated by the voltage levels at the point of connection: 0.4 kV and 6-10 kV and power ranges: up to 15 kW inclusive, above 15 kW to 150 kW, above 150 kW to 670 kW. Besides, periods of rate application are identified from January 1, 2015 to September 30, 2015 and from October 1, 2015 to December 31, 2015.

Lost income related to implementation of technological connection to electric networks, was not approved by the regulator.

Economically reasonable payment for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, per one power source (based on the capacity previously connected to this connection point and provided that the distance between the applicant's site boundaries to the electric grid facilities is not more than 300 meters in cities and urban-type settlements and not more than 500 meters in rural areas), was not determined by the regulator.

Dynamics of average amount of rates per unit of capacity



2015 – reporting year

Reduction of rates per unit of power is due to the fact that in 2014-2015, in most cases, during application to the grid company with the intention to carry out the technological connection, the Applicant would choose the payment rate S1 (“ink”). Expenditures on new construction (“last mile”) were provided at their own expense.

The branches of IDGC of Northern Caucasus do not analyse the frequency of use (selection by an applicant) of a particular method to calculate the technological connection fee.

As a result, the comparative analysis of the choice of the calculation method by the applicant may not be reflected graphically.

Non-current assets

Property of IDGC of Northern Caucasus is a set of financial and material resources (objects of movable and immovable property), which are used for the core and related activities.

The core of the property includes power facilities with voltage class of 110 kV and below. Assets related to power facilities are not used under lease agreements.

Register of non-core assets

In order for IDGC of Northern Caucasus to exit from non-core activities, as well to reduce costs associated with maintenance of non-core assets, IDGC of Northern Caucasus implements actions to sell objects that are not involved in the core activities. In order to improve the work on management of non-core assets, the Board of Directors of the company approved the Register of Non-Core Assets of IDGC of Northern Caucasus. In accordance with the decision of the Board of Directors of IDGC of Northern Caucasus on October 20, 2014 (Minutes of October 22, 2014 No.176), the General Director was instructed to present in Q1 of the year following the reporting year, for the consideration of the Board of Directors of the Company, the report on transactions related to alienation of the fixed assets classified in accordance with the law to real estate, construction in progress, the purpose of using which is not production, transmission, dispatching, distribution of electric and thermal energy, as well as shares (stakes) of subsidiaries and affiliates, not engaged in production, transmission, dispatching, distribution and sale of electricity and thermal energy (report on sale of non-core assets).

The current Register of Non-Core Assets of IDGC of Northern Caucasus, with changes and additions was approved by the Board of Directors on February 18, 2016 (Minutes of February 20, 2016 No.226) within report of the General Director on progress of non-core assets sale in 2015.

Sale of the objects included in the said register shall be in accordance with the requirements of the Regulations on organization of sale of non-core assets of IDGC of Northern Caucasus, approved by the Board of Directors on July 31, 2014 (Minutes of August 4, 2014 No.172).

These Regulations determine the procedure for organizing the sale of non-core assets, establish requirements for information support for sales and the following methods of sale:

- sale at auction with a starting price equal to the market value;
- sale by public offer with the price of the original proposal, equal to the initial price of the auction that was declared invalid, and the minimum offering price equal to 50% of the price of the original proposal;
- sale without announcement of the price, when non-core assets may be sold at a price, which is the maximum of the ones declared by contenders.

Sale of housing and utilities included in the Register of Non-Core Assets is carried out in accordance with the Regulations on disposal of housing and utilities of IDGC of Northern Caucasus, approved by the decision of the Board of Directors on December 23, 2009 (Minutes No.50), with amendments and additions approved by decisions of the Board of Directors (minutes dated April 3, 2012 No.99, dd. October 2, 2014 No.175). Citizens living in the accommodation are able to buy these premises on favourable terms.

Subsidiaries

We make relationships with affiliated companies in accordance with the requirements of the Russian legislation, the Articles of Association and internal documents of the Company, as well as charters of controlled entities and subsidiaries.

General terms of corporate interaction are established the Procedure of interaction of IDGC of Northern Caucasus with economic entities, whose shares (stakes) are owned by IDGC of Northern Caucasus. The document regulates corporate planning, organization and control of corporate actions when subsidiaries controls bodies consider issues to be determined in accordance with the Articles of Association of IDGC of Northern Caucasus. The full text of the document is available on the website in the section “To Shareholders and Investors / Articles of Association and Internal Documents / Corporate Governance Procedures’ Documents”.

Subsidiaries are controlled in the following key areas:

- participation of representatives of IDGC of Northern Caucasus in the management bodies;
- formation and control of implementation of the development strategy;
- planning and control of financial and economic activity;
- development and implementation of standardized business processes, internal documents and statements, complying with corporate governance standards of IDGC of Northern Caucasus;
- formation and implementation of HR policy.

Main objectives of cooperation are as follows:

- ✓ ensuring stable financial development, profitability of functioning, increasing investment attractiveness;
- ✓ protecting the rights and lawful interests of shareholders;
- ✓ harmonization of relations between shareholders, officials and members of labour collectives, with the exception of conflicts between and within these groups;
- ✓ development and implementation of coordinated and efficient investment policy.

Dagestan Grid Company JSC (until April 3, 2015 – Energoservice OJSC) was established in 2011 on the basis of the decision of the Board of Directors of IDGC of Northern Caucasus (minutes dated December 24, 2010 No.68). Energoservice OJSC was aimed to increase energy efficiency of IDGC of Northern Caucasus and other grid companies in the territory of the Northern Caucasus Federal District. In June 2015 the Republic of Dagestan and IDGC of Northern Caucasus made an agreement on cooperation for implementation of the project to establish a joint stock company Dagestan Grid Company, and signed a Roadmap to establish a joint power grid company and to consolidate the power grid complex of the Republic of Dagestan (hereinafter referred to as the Roadmap). Dagestan Grid Company JSC was established as a result of renaming of Energoservice OJSC (100% subsidiary of IDGC of Northern Caucasus), which was assigned a new name, new location and new OKVED codes (including 40.10.2 “Power Transmission”). Within the Roadmap the power grid facilities of IDGC of Northern Caucasus located in the territory of the Republic of Dagestan, were transferred for lease to Dagestan Grid Company JSC since July 1, 2015. Besides, the Roadmap provides for participation of the Republic of Dagestan in the additional issue of shares of Dagestan Grid Company JSC.

Dagenergoset JSC was established on January 27, 2010. Since April 1, 2010 power grid facilities of the branch of IDGC of Northern Caucasus – Dagenergo – was transferred for lease to Dagenergoset OJSC. Establishment of a subsidiary of IDGC of Northern Caucasus was the initiative of the company management dictated by the intention to take the power engineering of Northern Caucasus from the financial crisis, as well as to provide for dividend income to shareholders. The implemented actions made it possible to identify a problematic area in the power grid complex for its target readjustment and to eliminate the negative impact of negative results of Dagenergo branch business at indicators of the company's general statements. As a

result, already in two years the company could pay dividends to shareholders. Dagenergoset OJSC transmitted power in the territory of the Republic of Dagestan from 2010 until 2015.

Subsidiaries of IDGC of Northern Caucasus

Full company name	Joint Stock Company Dagestan Grid Company	Open Joint Stock Company Dagenergoset
Short company name	Dagestan Grid Company JSC	Dagenergoset OJSC
Location	Russian Federation, Republic of Dagestan, Makhachkala	367020, Russian Federation, Republic of Dagestan, Makhachkala, ulitsa Dakhadaeva, 73 a
Main types of activities	Transmission and distribution of power, technological connection of consumers to grid infrastructure	Not engaged into production activities
Charter capital, RUB	100,000	150,000
Share of IDGC of Northern Caucasus in charter capital, %	100	100
Share of voting shares owned by IDGC of Northern Caucasus, %	100	100
Revenues for 2015, M RUB	1,312.69	1,259.70
Financial result for 2015, M RUB	-1,149.08	-3,753.20

Additionally: Information on financial investments into other shares is provided in Annex No.5 to the Russian Annual Report.

Production report

Power transmission and distribution

According to results of production activities of IDGC of Northern Caucasus for 2015, the actual level of power losses amounted to 16.94%.

In 2015 vs 2014 the borders of the Company varied in connection with consolidation of networks of Vladikavkaz and Alagir (North-Ossetian branch). Besides, since July 1, 2015 the networks of Makhachkala (included into Dagenergo branch since July 1, 2014) were included into Dagestan Grid Company JSC.

When put under comparable conditions for the periods in grid companies and without consolidated networks, the level of power losses in 2015 amounted to 14.49%, which is below the 2014 indicators in the same limits of the grid complex by 0.22 percentage points.

Results of production activities for 2013-2015

Branch	Power output to grid, M kW*hr	Output from grid to consumers and adjacent territorial grid companies within balance and operation responsibility, M kW*hr	Losses	
			M kW*hr	%
2013				
Stavropolenergo branch	6,720	5,796	924	13.75%
Dagenergo branch	-	-	-	-
North Ossetian branch	1,576	1,429	147	9.33%
Karachayevo-Cherkess branch	1,224	1,015	209	17.09%
Kabardino-Balkarian branch	1,423	1,192	232	16.27%
Ingush branch (since May 1, 2013)	396	254	142	35.97%

Branch	Power output to grid, M kW*hr	Output from grid to consumers and adjacent territorial grid companies within balance and operation responsibility, M kW*hr	Losses	
			M kW*hr	%
Total	11,340	9,685	1,654	14.59%
2014				
Stavropolenergo branch	6,947	5,995	952	13.70%
Dagenergo branch (since July 1, 2014)	632	431	201	31.74%
North Ossetian branch	1,601	1,453	148	9.25%
Karachayevo-Cherkess branch	1,173	982	191	16.30%
Kabardino-Balkarian branch	1,469	1,237	231	15.76%
Ingush branch	655	436	220	33.51%
Total	12,477	10,534	1,943	15.57%
2015				
Stavropolenergo branch	7,027	6,055	971	13.82%
Dagenergo branch (until June 30, 2015)	646	460	186	28.75%
North Ossetian branch	1,588	1,230	357	22.51%
Karachayevo-Cherkess branch	1,167	973	194	16.60%
Kabardino-Balkarian branch	1,481	1,248	233	15.76%
Ingush branch	682	490	192	28.10%
Total	12,590	10,457	2,133	16.94%

According to business results of IDGC of Northern Caucasus, in 2015 the volume of power output from the grid to consumers and adjacent territorial grid companies within borders of balance and operation responsibility amounted to 10,457 M kW*hr, which vs 2014 indicators (10,534 M kW*hr) is less by 77 M kW*hr or 0.73 percentage points.

The main reason for reduction of power output from the grid to consumers is consolidation of grids of Vladikavkaz and Alagir (within the North Ossetian branch) with high level of power losses.

Actual losses of power in 2014-2015

Subdivision	Power losses						
	2014 actual		2015 actual			Variance	
	M kW*hr	%	M kW*hr	%	% (under comparable conditions)	M kW*hr*	percentage points
Stavropolenergo branch	952	13.70%	971	13.82%	13.82%	20	0.12
Dagenergo branch	201	31.74%	186	28.75%		-15	-2.99
North Ossetian branch	148	9.25%	357	22.51%	8.71%	209	13.26
Karachayevo-Cherkess branch	191	16.30%	194	16.60%	16.60%	2	0.30
Kabardino-Balkarian branch	231	15.76%	233	15.76%	15.76%	2	0.00

Subdivision	Power losses						
	2014 actual		2015 actual			Variance	
	M kW*hr	%	M kW*hr	%	% (under comparable conditions)	M kW*hr*	percentage points
Ingush branch	220	33.51%	192	28.10%	28.10%	-28	-5.40
Total	1,943	15.57%	2,133	16.94%	14.49%	191	1.37

*Comparable conditions are provided without account of consolidated networks of Vladikavkaz and Alagir (North-Ossetian branch) and grids of Makhachkala (Dagenergo branch).

Actual losses of power in power grids of IDGC of Northern Caucasus amounted to 2,133 M kW*hr, or 16.94% from output to the grid. Compared to similar period of 2014, with growth of output to the grid by 0.91%, growth of power losses amounted to 191 M kW*hr, or 1.37 percentage points.

When put under comparable conditions for the periods in grid companies and without consolidated networks, the level of power losses in 2015 amounted to 14.49%, which is below the 2014 indicators in the same limits of the grid complex by 0.22 percentage points.

Forecast

It is expected that in 2016 the level of power losses in networks of IDGC of Northern Caucasus will drop to 15.72%. By 2020 it is planned to reduce the power losses in branches of IDGC of Northern Caucasus to the level of 13.08%.

Actions to reduce power losses

A complex of actions aimed at optimisation (reduction) of power losses level is implemented in IDGC of Northern Caucasus within the priority area.

Due to implementation of a complex of actions for optimisation (reduction) of power losses, in 2015 the volume of savings amounted to 64.7 M kW*hr (169.0 M RUB), at the same time due to organizational actions – 42.3 M kW*hr (116.4 M RUB), due to technical actions – 0.3 M kW*hr (0.4 M RUB), due to actions for power accounting improvement – 22.2 M kW*hr (52.2 M RUB).

In 2015 there were no actions planned on upgrade of the power accounting systems. At the same time during 2015 they purchased and installed 3.3 K accounting devices with the option of remote data collection for the total amount of 8.9 M RUB.

The plan for reduction of power losses for 2015 (in natural units) is performed by 117.6%.

Activity in the field of power saving and increase of energy efficiency

1. Organisation of work on power saving and increase of energy efficiency of IDGC of Northern Caucasus in 2015 was performed in accordance with the following:

- Federal Law No.261-FZ “On power saving and increase of energy efficiency and on amendments to certain legal acts of the Russian Federation”,
- Resolution of the Government of the Russian Federation dated May 15, 2010 No.340 “On procedure of establishing requirements to programs in the field of power saving and increase of energy efficiency of companies performing regulated types of activities”,
- Resolution of the Government of the Russian Federation dated December 1, 2009 No.977 “On investment programs of power engineering subjects”,

- resolutions of executive bodies of the constituent entities of the Russian Federation in the field of governmental regulation of tariffs in respect to organisations that perform activities of power transmission:

- ✓ Resolution of the Ministry of Energy, Housing and Utilities and Tariff Policy of the Republic of Kabardino-Balkaria dated June 27, 2010 No.14 “On requirements to programs in the field of power saving and increase of energy efficiency of companies performing activities in the territory of the Republic of Kabardino-Balkaria”,
- ✓ Resolution of the General Directorate for tariffs and prices of the Republic of Karachay-Cherkessia dated July 18, 2012 No.29/1 “On establishing requirements to program in the field of energy saving and energy efficiency increase of Karachay-Cherkessia branch of IDGC of Northern Caucasus for 2013-2017”,
- ✓ Resolution of the Regional Tariff Service of the Republic of North Ossetia-Alania dated January 30, 2014 No.4 “On approval of unified boiler tariffs for power transmission service in grids of the Republic of Northern Ossetia-Alania”,
- ✓ Resolution of the Regional Tariff Commission of the Stavropol Territory dated March 13, 2012 No.15/1 “On establishing target indicators of energy saving and energy efficiency increase, achievement of which must be provided in process of implementation of the program in the field of energy saving and energy efficiency increase of organisations that transmit power in the Stavropol Territory”,
- ✓ Resolution of the Regional Energy Commission of the Republic of Ingushetia dated December 31, 2010 No.13 “On requirements to programs in the field of energy saving and increase of energy efficiency of organisations that perform regulated activities in the territory of the Republic of Ingushetia”;

- and also in accordance with the Program of Energy Saving and Energy Efficiency Increase of IDGC of Northern Caucasus for the period of 2015-2019 (hereinafter referred to as the Program), approved by the decision of the Board of Directors of IDGC of Northern Caucasus, Minutes dated January 12, 2015 No.183.

2. In order to ensure implementation of the Program, responsible managers were appointed in the executive apparatus of IDGC of Northern Caucasus and in branches of IDGC of Northern Caucasus, who are responsible for monitoring of Program implementation, work teams were created, which perform the analysis of Program implementation.

3. The target indicators in accordance with the Program were accepted as follows in the field of energy saving and energy efficiency increase:

- power losses during transmission and distribution along power grids;
- consumption of energy resources for auxiliary needs;
- availability of state-of-the-art power accounting devices in the retail market in accordance with the Program for development of energy accounting system. Numerical values of target indicators of the Program are set for the period of 2015-2019.

Information on volumes of energy resources consumed in 2015

Name	Unit of measurement	Plan	Actual
Power losses, including:	M kW*hr	2,139.7	2,133.1
	% to output to grid	16.81	16.94
auxiliary power consumption	M kW*hr	24.99	23.04
Consumption of resources for housekeeping needs,	M RUB	440.99	440.22
also by type of resources			

Name	Unit of measurement	Plan	Actual
fuel and energy, including:	ton of fuel oil equivalent	14,516	14,036
	M RUB	437.66	437.30
	ton of fuel oil equivalent per m2 of the premises area	0.02	0.02
power	M RUB	186.44	197.05
	M kW*hr	42.04	40.72
heat	M RUB	7.82	10.05
	Gcal	4,842.36	5,341.66
natural gas	M RUB	2.73	2.67
	M m ³	0.40	0.47
motor gasoline	M RUB, VAT included	176.58	160.61
	M l	5.33	4.70
diesel fuel	M RUB, VAT included	60.67	59.38
	M l	1.71	1.76
liquefied carbon gas (LCG, fuel for transport facilities)	M RUB, VAT included	3.39	7.53
	M l	0.16	0.30
cold water supply	M RUB	3.31	2.89
	M m ³	0.12	0.10
hot water supply	M RUB	0.02	0.03
	M m ³	0.0002	0.0002
Availability of state-of-the-art power accounting devices in retail market	%	81.67%	81.67%

No other power resources were consumed by the company.

4. The program consists of sections, targeted sub-programs (events) and related activities, which divide, in turn, into measures to reduce electricity losses during transmission and distribution among electric power grids and measures to reduce energy consumption at the sites of production and housekeeping needs and divided into organizational and technical measures.

The target measures include measures whose implementation provides for reduction in consumption of energy (including electricity), and (or) water for at least 15% of the annual consumption of the resource, with the return on investment of 80% on investment over 5 years for the consumption of energy resources and (or) water for production and housekeeping needs and return on investment of up to 10 years for measures to ensure the reduction of losses in transmission and distribution of electric energy.

Supporting measures to optimize consumption for production and housekeeping needs and activities to reduce electricity losses include actions with positive energy efficiency and not complying with the criteria of inclusion into target ones.

At the same time measures for optimization of electrical networks, as well as measures to identify the non-contractual consumption are performed each year, are to "support" the current level of electricity losses and do not affect the balance of power performance of the company.

For 2015 the total effect was planned as 55.0 M kW*hr (139.5 M RUB), and for subprograms:

- from organisational actions – 35.9 M kW*hr (94.9 M RUB);
- from implementation of accounting systems development program – 18.7 M kW*hr (44.1 M RUB);
- from implementation of technical measures for losses reduction – 0.4 M kW*hr (0.5 M RUB).

As of the end of 2015 the total effect was planned as 64.7 M kW*hr (169.0 M RUB), and for subprograms:

- from organisational actions – 42.3 M kW*hr (116.4 M RUB);
- from implementation of accounting systems development program – 22.2 M kW*hr (52.2 M RUB);
- from implementation of technical measures for losses reduction – 0.3 M kW*hr (0.4 M RUB).

Effect from implementation of actions that “support” the existing level of losses amounted to 8.0 M kW*hr for the amount of 16.6 M RUB.

Costs for implementation of actions to reduce energy losses 72.7 M RUB. Sources of energy saving program financing were investments provided for by the investment program in the volume of 56.3 M RUB, as well as costs referred to prime cost - 16.4 M RUB.

Technological connection

In 2015 IDGC of Northern Caucasus performed actions for technological connection of large facilities that are of importance for economic development of constituent entities of the Northern Caucasus Federal District. Socially important objects were connected: kindergartens, schools, out-patient clinics, polyclinics, other institutions. Some agroindustrial facilities were connected to grids within agreements made with constituent entities of the Northern Caucasus Federal District to support domestic agricultural producers.

In the Stavropol Territory they put in service the power supply grids for an antibiotics factory with requested capacity of 20 MW in Stavropol, meat chilling and storage department with capacity of 6 MW in Nevinnomyssk, pump stations and irrigation machines were connected in Ipatovskiy district with requested capacity of 2 MW, a facility of total capacity of 9.6 MW is connected in Zapadniy microdistrict of Pyatigorsk – applicant MU UKS of Pyatigorsk Administration.

In the Republic of Kabardino-Balkaria the recent connections to the grids included a construction site of a pure polymer plant in Mayskiy district with capacity of 1.7 MW, a furniture factory in Baksan with capacity of 1.5 MW, enterprises of agroindustrial complex, outpatient clinics in several villages, a store of a large retail chain in Zayukovo village of Baksanskiy district, a workshop for metal tiles production in Nalchik, etc.

In Karachay-Cherkessia from the start of the year they connected to the grids a sports palace in Uchkeken village of Malokarachaevskiy district, kindergartens in Ust-Dzheguta, Znamenka village and settlement Mayskiy of Prikubanskiy district, a building of the Pension Fund Directorate in settlement Kavkazskiy.

In North Ossetia kindergartens, new residential microdistricts, a shopping mall, socially important facilities were connected to the grids. Among the largest ones - a military town of two troop units with a construction complex, a motodrome in Vladikavkaz, a production shop of Sevostintara OJSC.

In the Republic of Ingushetia in Karabulak a plant of polymer pipes and lining materials production with requested capacity of 4 MW was connected.

To ensure availability of power infrastructure and quality of technological connection to power grids of IDGC of Northern Caucasus, including simplification of the connection procedure, an interactive service was developed to submit an application for technological connection to company grids through a corporate website. The automated system of management

of technological connection of power consumers to networks of IDGC of Northern Caucasus and managed Companies on the standard platform “1C: Enterprise 8. Power Engineering. Distribution grid company management” was put into experimental service based on Stavropolenergo branch – Eastern Power Grids.

Number of applications for technological connection to power grids

Branch	Number of applications, pcs.	For total capacity of, MW
2013		
Stavropolenergo branch	3,133	321.57
Dagenergo branch	0	0.0
North Ossetian branch	1,059	76.34
Karachayevo-Cherkess branch	1,018	178.85
Kabardino-Balkarian branch	1,200	83.21
Ingush branch	642	20.98
Total	7,052	681
2014		
Stavropolenergo branch	3,425	193.310
Dagenergo branch	110	1.06
North Ossetian branch	1,288	122.17
Karachayevo-Cherkess branch	1,302	174.47
Kabardino-Balkarian branch	1,311	65.88
Ingush branch	890	46.93
Total	8,326	604
2015		
Stavropolenergo branch	3,224	155.37
Dagenergo branch	754	18.80
North Ossetian branch	1,982	93.63
Karachayevo-Cherkess branch	1,308	66.15
Kabardino-Balkarian branch	1,301	44.33
Ingush branch	934	66.24
Total	9,503	445

Number of executed agreements for technological connection to power grids

Subdivision	Number of executed agreements, etc.	Volume of executed agreements, MW	Volume of receipts, M RUB
2013			
Stavropolenergo branch	2,931	279.272	433.906
Dagenergo branch	0	0	0.013
North Ossetian branch	955	50.896	1.724
Karachayevo-Cherkess branch	951	16.109	16.024
Kabardino-Balkarian branch	1,128	60.68	11.296
Ingush branch	359	6.127	4.003
Total	6,324	413	466.966
2014			
Stavropolenergo branch	3,270	151.703	456.20
Dagenergo branch	110	1.057	0.698
North Ossetian branch	1,137	36.565	28.53
Karachayevo-Cherkess branch	1,148	154.104	1.460
Kabardino-Balkarian branch	1,301	29.955	3.739
Ingush branch	866	34.697	1.273
Total	7,832	408	491.9
2015			
Stavropolenergo branch	3,165	92.28	117.343

Subdivision	Number of executed agreements, etc.	Volume of executed agreements, MW	Volume of receipts, M RUB
Dagenergo branch	445	5.75	0.774
North Ossetian branch	1,203	29.17	2.686
Karachayevo-Cherkess branch	1,132	39.9	1.510
Kabardino-Balkarian branch	1,295	28.66	2.009
Ingush branch	682	55.7	1.565
Total	7,922	251.54	125.887

Number of completed connections to power grids

Subdivision	Number of completed connections, pcs.	Volume of connected capacity, MW	Volume of revenues, M RUB
2013			
Stavropolenergo branch	2,682	136.267	1170.266
Dagenergo branch	0	0	0
North Ossetian branch	644	14.243	2.1100
Karachayevo-Cherkess branch	986	13.437	5.4060
Kabardino-Balkarian branch	1,150	14.918	9.1830
Ingush branch	333	5.946	3.3830
Total	5,795	185	1190.35
2014			
Stavropolenergo branch	2,799	252.857	410.11
Dagenergo branch	65	0.202	0.030
North Ossetian branch	941	15.194	1.33
Karachayevo-Cherkess branch	1,057	13.766	1.44
Kabardino-Balkarian branch	1,272	31.451	22.59
Ingush branch	746	16.003	0.475
Total	6,880	329	435.975
2015			
Stavropolenergo branch	2,889	91.95	135.26
Dagenergo branch	174	1.98	0.61
North Ossetian branch	1,270	18.59	1.45
Karachayevo-Cherkess branch	1,102	17.15	2.13
Kabardino-Balkarian branch	1,061	21.15	2.86
Ingush branch	544	19.89	0.61
Total	7,040	170.72	142.92

Expected dynamics of indicators in part of activities for technological connection of IDGC of Northern Caucasus for period of 2016-2020

No.	Indicator	Unit of measurement	2016 Plan	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
1	2	3	6	13	14	15	16
I	REVENUES	K RUB					
2.	TECHNOLOGICAL CONNECTION SERVICES	K RUB	131,439.14	66,604	16,011	1,911	1,920
2.1.	<i>Applicants of maximum capacity of up to 15 kW inclusive (with account of previously connected power receivers)</i>	K RUB	1,935.42	1,692	1,761	1,858	1,920

No.	Indicator	Unit of measurement	2016 Plan	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
2.2.	<i>From 15 to 150 kW</i>	K RUB	4,002	0	0	0	0
2.3.	<i>From 150 to 670 kW</i>	K RUB	10,438	0	0	0	0
2.4.	<i>At least 670 kW</i>	K RUB	115,063.65	64,912	14,249	53	0
2.5.	<i>Power generation facilities</i>	K RUB	0	0	0	0	0
II	SALES VOLUMES (kW*hr / MW)						
2.1.	Number of completed agreements, signed technological connection certificates	pcs.	4,420.0	3,655.0	3,789.0	3,921.0	4,048.0
2.1.1.	<i>Applicants of maximum capacity of up to 15 kW inclusive (with account of previously connected power receivers)</i>	pcs.	4,153.0	3,629.0	3,779.0	3,915.0	4,048.0
2.1.2.	<i>From 15 to 150 kW</i>	pcs.	165.0	0.0	0.0	0.0	0.0
2.1.3.	<i>From 150 to 670 kW</i>	pcs.	76.0	0.0	0.0	0.0	0.0
2.1.4.	<i>At least 670 kW</i>	pcs.	26.0	26.0	10.0	6.0	0.0
2.1.5.	<i>Power generation facilities</i>	pcs.	0.0	0.0	0.0	0.0	0.0
2.2.	Volume of connected power (Completion of agreements, signed technological connection certificates)	kW	142,476.53	108,020.2	63,452.7	71,438.3	29,160.3
2.1.2.	<i>Applicants of maximum capacity of up to 15 kW inclusive (with account of previously connected power receivers)</i>	kW	29,291.7	25,983	27,090	28,133	29,160
2.2.2.	<i>From 15 to 150 kW</i>	kW	10,716.7	0	0	0	0
2.2.3.	<i>From 150 to 670 kW</i>	kW	26,143.1	0	0	0	0
2.2.4.	<i>At least 670 kW</i>	kW	76,324.99	82,038	36,362	43,305	0
2.2.5.	<i>Power generation facilities</i>	kW	0.0	0	0	0	0

Rosseti PJSC on behalf of the Ministry of Energy of Russia prepared a standard-setting initiative of transition to use of the maximum capacity of electricity consumers as a base for calculation of tariffs and determination of scope of services provided by grid companies. In order to prepare supporting materials, to be able to perform the calculation of tariff consequences of such a transition, information is required on the maximum power by consumer categories. In accordance with the instruction of the Ministry of Energy of Russia dated 2014, Rosseti PJSC organized work on collection of information on the volumes of reserved maximum power.

In response to requests, according to the schedule of activities for certification of the maximum power of electricity consumers in subsidiaries and affiliates of Rosseti PJSC approved by the decree of Rosseti PJSC, following the results of 2015:

1. Information was collected about consumers of electrical energy for the period of 2011-2015 using software package "Redundant maximum power".
2. The calculations of the maximum capacity were made, the results of which lead to issue (re-issue) of documents on technological connection and sending those to consumers, the maximum

capacity of the power receivers of which is at least 670 kW. Kabardino-Balkar, Ingush, Karachayevo-Cherkess, North-Ossetian branches of IDGC of Northern Caucasus, subsidiary of Stavropolenergo, Chechenenergo JSC, Dagestan Grid Company JSC confirmed the data on the value of the maximum power with documents.

3. On the basis of the work performed on registration of documents on technological connection, the Kabardino-Balkar branch completed work on amendments and additions to power transmission services agreements in terms of information on the maximum power of consumers. Similar work is being done in the Karachaevo-Cherkess and North-Ossetian branches of IDGC of Northern Caucasus, as well as in Dagestan Grid Company JSC.

4. The calculations were made on the extent of feeding centres load.

Interaction with customers

Policy of IDGC of Northern Caucasus in the field of interaction with consumers of Company services is of client-oriented nature, aimed at simplicity and accessibility of interaction of service consumers and the Company. Customer service is carried out in full-time or part-time form of interactive customer communication. Client focus of the company is implemented through establishment and operation of a system for centralized support of service consumers.

The customer service system is based on the following guidelines.

Sufficient awareness of consumers about the company and services. Complete and reliable information about all procedures of interaction with the company is public, available in an accessible form for service consumers.

Territorial accessibility and comfort of full-time service of the company. Location of infrastructural elements of full-time service provides for coverage of the responsibility area and availability of service users support.

Availability and efficiency of correspondence and interactive services of the company. Channels of correspondence communication with customers provide for round the clock access to correspondence service and efficiency of the company's response to user requests.

Qualified service. Organization of all forms of service provides for a high level of qualification and competence of the company staff.

Transparency of customer service business processes and objectivity of consideration of consumer complaints. The grid company provides for an objective and impartial examination of complaints in a timely manner, possibility of appealing the decisions, the procedure of which is communicated to consumers in accordance with the principle of sufficiency of information.

The customer service system includes three forms of consumer service: live service, correspondence service and interactive service that can be attributed to the form of correspondence service. Information exchange between the company and service consumers is carried out by means of communication channels.

Full-time form provides for immediate applications of consumers to branches of IDGC of Northern Caucasus, to Customer Service Centres opened in accordance with the requirements of the Service Quality Standards for service consumers of IDGC of Northern Caucasus, as well as Customer Service Outlets. In 2015 one Customer Service Center was opened in the city of

Stavropol, as well as 62 Customer Service Outlets (on the basis of district electric networks of branches).

In 2015 IDGC of Northern Caucasus received 27,082 appeals and complaints of consumers, including:

- 20,530 applications for services;
- 8,745 applications for technological connection;
- 241 complaints – on power disconnection;
- 155 complaints – on power transmission;
- 157 complaints – on commercial power accounting;
- 10 complaints on technological connection;
- 13 complaints on maintenance of power grid facilities;
- 1 complaint for additional services;
- 1 complaint on service quality;
- 35 complaints – on other subjects.

Number of complaints received in 2015 reduced vs 2014 by 10.32%, and the number of applications for provision of technological connection services increased by 0.7%. All received complaints and applications were considered within time specified; 377 of 613 complaints received by the company were recognised as justified upon consideration, for all 377 complaints actions were taken to eliminate the incident.

The main form of service is full-time service by acceptance of written applications via the company's office – 12,525 applications, 8,247 were face-to-face communications.

In the correspondence form in 2015 the service consumers could cooperate with IDGC of Northern Caucasus by means of a call-centre, “Hot Line” and the system of automatic notification of service consumers by phone.

Services are provided by an outsourcing company by phone 8-804-333-33-69.

working hours

daily

from 9 am to 6 pm (in the operator's mode) and

from 6 pm to 9 am in automatic answering device mode.

For 2015 around 1,050 incoming calls of consumers were handled, and more than 1,500 outgoing calls were made to notify the consumers. 750 applications of consumers were received via the call-centre.

Interactive form of service

At the corporate website at http://www.mrsk-sk.ru/customer/internet-reception/ask_specialist/ in the section “To Consumers” there are interactive services available, such as “Personal Account”, “Web Reception” and “Service Consumers Questionnaire”.

By means of the interactive service “Internet Reception” a stakeholder may:

- ask a question to an expert;
- send an application, a request for an additional service, as well as an applicant-intent (for technological connection, for recovery of technical conditions, etc);
- send an application;
- send a request for an additional service;
- ask a question and get an answer;
- report power theft.

Through interactive service “Web Reception” in 2015, 36 consumer complaints were received, and timely response to them was sent by feedback.

In 2015, to improve the quality and accessibility of services of IDGC of Northern Caucasus, as well as for the study of satisfaction with the quality of services of IDGC of Northern Caucasus, in October a study conducted by written survey of consumers. In October 2015 written polling of service consumers were conducted through anonymous questionnaires to examine customer satisfaction with service quality and support.

In total 776 respondents were interviewed, and the following results were obtained:

71% of respondents, or 551 consumers surveyed in general were satisfied with the work of the company;

23% of respondents, or 178 consumers surveyed assess the company's performance as satisfactory;

5% of the respondents, or 39 consumers have expressed wishes aimed at improvement of quality of customer service;

1.03% of the respondents, or 8 consumers estimated the work of the company to provide additional information and notification about additional services as insufficient.

The “Consumers” section contains information about the list of areas of responsibility.

The quality of work with the consumers of IDGC of Northern Caucasus can also be estimated by analysing the performance of planned targets of quality of service established by the authorized bodies of executive power in the field of state regulation of tariffs for 2015 at the level of 0.8975.

The actual level of quality of services in 2015 amounted to:

Stavropolenergo branch - 0.8169;

North Ossetia branch - 0.8621;

Ingushetia branch - 0.8235 with a planned value of 0.8975 and a possible variance during the long-term period of 20%;

Kabardino-Balkarian branch - 0.985;

Karachay-Cherkessia branch - 0.978 with a planned value of 1.0102 and a possible deviation in the long term of 20%.

In 2016 the following activities are planned to bring the service consumer servicing system in compliance with quality standards of service consumers of IDGC of Northern Caucasus:

- ✓ CSC opening in Vladikavkaz;
- ✓ advisory services to consumers through the company "Hot Line" in the telephone mode, as well as through the Internet services;
- ✓ conduct service consumer surveys in writing;
- ✓ hold “Open Days” for consumers in branches of IDGC of Northern Caucasus;
- ✓ performance of works aimed at simplifying customer interaction with IDGC of Northern Caucasus.

Consolidation of power grid assets

The main objectives of consolidation of power grid assets are as follows:

- ✓ ensuring reliable and uninterrupted functioning of the electric power industry of the North Caucasus Federal District;
- ✓ creation of a unified approach to tariff setting;
- ✓ creation of a single center of responsibility for quality of services provided.

Besides, for IDGC of Northern Caucasus, the determining criterion of consolidation is economic effectiveness of transactions.

The key areas for consolidation of power grid assets are the following:

1. Consolidation of the property of the territorial grid companies-debtors.

Over the years, there is the problem of debt repayment by territorial grid companies for delivered electricity. In this regard, one of the possible mechanisms for the resolution of this problem is consolidation of power grid assets.

The main ways to consolidate assets of these companies are the following:

- ✓ purchase / lease of power grid assets to repay the debt;
- ✓ bankruptcy of territorial grid companies-debtors and acquisition of property at an auction held within the framework of bankruptcy proceedings.

2. Consolidation of ownerless power grid property.

The legislation provides various mechanisms for acquiring ownership of movable and immovable objects of ownerless property, however, no methods for direct acquisition of rights to ownerless power grid equipment by power grid companies are legally established.

Consolidation of ownerless real estate (procedure defined by current roadmaps on consolidation):

- ✓ jointly with the authorities, inventory of municipal property in the constituent entities to identify ownerless property;
- ✓ registration of municipal property rights to the property in the manner prescribed by law;
- ✓ transfer of property to rent in accordance with the law.

Consolidation of movable ownerless property (procedure defined by the rules of IDGC of Northern Caucasus on work with ownerless power grid facilities, technologically connected to the company grids):

- ✓ identification of ownerless movable property, technologically connected to the company grid;
- ✓ evaluation of the technical condition of the objects;
- ✓ depending on the technical condition of the objects, definition of further actions in respect of objects: poor state - construction of analogues; satisfactory condition - recognition of property rights through court.

3. Consolidation of facilities built in the regions of the Northern Caucasus Federal District within framework of the Federal Target Programs.

✓ Transfer of facilities for free use / maintenance as prescribed by law.

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

This Resolution approved the criteria for classifying the owners of transmission facilities as the territorial grid companies. According to this resolution, executive authorities analysed compliance of power grid companies with approved criteria, the relevant information is published on the official websites of the said bodies on 1 November 2015. For the territorial grid companies that do not meet the approved criteria, prices (tariffs) for power transmission services were revised in 2016.

Thus, in 2015, working with the territorial grid companies that do not meet the criteria of referring owners of power grid facilities to the territorial grid companies, was carried out.

5. Establishment of joint territorial grid companies with authorities of the Northern Caucasus Federal District.

Given the high social and economic importance of the issues of energy supply and the need to strengthen the role of public authorities of constituent entities of the Northern Caucasus Federal District in enhancing payment discipline of budget-dependent enterprises, currently ways are considered to create power grid companies jointly with the authorities of the Northern Caucasus Federal District in regions.

Execution of agreements on consolidation of power grid facilities with executive authorities of the Russian Federation and other power industry entities

Information on Agreements/Roadmaps, Programs, etc. signed with the authorities of the Northern Caucasus Federal District / territorial grid companies and progress of their implementation

The activities set out in these Roadmaps are not fulfilled.

In July and August 2014, the updated roadmaps were signed with the heads of the republics of the Northern Caucasus Federal District for consolidation of power grid complex of subjects, providing for the following:

- inventory of power grid assets of republics to generate a list of municipal and ownerless property with its subsequent transfer for lease;
- acquisition of the power grid complex of Alaniyaelektroset JSC (Vladikavkaz, Republic of North Ossetia-Alania) and its rent for the period of corporate procedures;
- work together with the authorities to consolidate the assets of the territorial grid companies organizations, improvement of their payment discipline and formation of reasonable tariff decisions based on consolidation.

On December 1, 2014 an agreement for lease of power grid equipment of Alaniyaelektroset JSC was signed. Acquisition of the property of Alaniyaelektroset JSC did not take place in 2015.

In 2015, together with the authorities of Kabardino-Balkarian Republic, a joint inventory was held. Lists of identified municipal property that was not properly registered, as well as of

ownerless property were made. Currently, authorities of the Republic are carrying out actions on technical inventory of objects.

In other regions, the inventory is carried out mainly by IDGC of Northern Caucasus.

On June 19, 2015 IDGC of Northern Caucasus and the authorities of the Republic of Dagestan signed the Roadmap to create a joint grid company and to consolidate the power grid complex of the Republic of Dagestan and the Agreement on cooperation in the project of establishing a joint stock company.

These documents provide for the establishment of a joint stock company based in the territory of the Republic of Dagestan on the basis of a subsidiary of IDGC of Northern Caucasus, with the following structure of the authorized capital: IDGC of Northern Caucasus - 51%, Republic of Dagestan - 49%.

Operating activities of Dagestan Grid Company, JSC, started from July 1, 2015.

In 2015, the company accepted for rent the assets of IGES LLC, Sulak HydroCascade JSC and Stavropolelektroset JSC that were previously rented by Dagergoset JSC, as well as property of Makhachkalagorelektroseti and Makhachkala City Power Grid Company LLC previously rented by IDGC of Northern Caucasus.

In accordance with the roadmap, until November 1, 2016 the Republic of Dagestan must make payment of the additional issue of shares of Dagestan Grid Company JSC. To ensure the participation of the Republic of Dagestan in the authorized capital of Dagestan Grid Company JSC, IDGC of Northern Caucasus is currently conducting corporate procedures on the additional issue of shares of Dagestan Grid Company planned for completion in July 2016.

Analysis of implementation of power grid assets consolidation program

The Board of Directors decision dated September 30, 2011 (Minutes of the October 4, 2011 No.82) approved the Program for consolidation of power grid assets of IDGC of Northern Caucasus in 2011-2015.

Due to the fact that in 2015 the duration of the approved consolidation program expired, the decision of the Board of Directors dated September 30, 2015 (Minutes of October 2, 2015 No.211) approved IDGC of Northern Caucasus power grid assets consolidation program for 2015-2017.

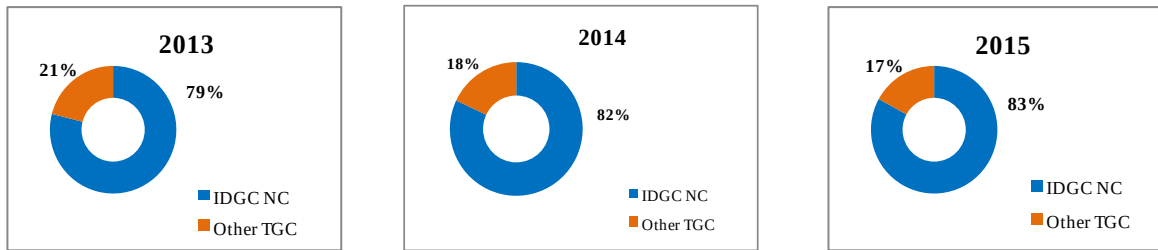
This program consists of projects for acquisition and lease of property belonging to entities located in the territory of the Northern Caucasus Federal District, for which there is preliminary agreement of the owners to date, claims work is in progress on foreclosure of the property in court, or their consolidation is provided for by approved roadmaps.

In accordance with the approved program for the period of 2015-2017, 11 projects are planned for consolidation. No consolidation transactions are planned in 2015, no consolidation of power grid assets in the territory of the Karachay-Cherkess and Chechen Republic in 2015-2017 is planned.

Consolidation programs in subsidiaries and controlled companies of IDGC of Northern Caucasus were not approved.

In 2015, the share of GRR of IDGC of Northern Caucasus in the GRR of the Northern Caucasus Federal District was 83%, an increase over 2014 year - 1%.

Share of GRR of IDGC of Northern Caucasus in GRR of constituent entities of the Northern Caucasus Federal District



Increased share of GRR of IDGC of Northern Caucasus in structure of GRR of the Northern Caucasus Federal District is caused by the following:

In 2013:

1. The contract for lease of power grid assets of Sulak HydroCascade OJSC was signed.
2. Property of Kizlyar City Electric Networks OJSC (Kizlyar) was acquired.

In 2014:

1. The contract was signed for lease of power grid assets of MGES OJSC and MGESK LLC (Makhachkala).

In 2015

1. From January 1, 2015 property of Alaniyaelektroset JSC was transferred for rent by IDGC of Northern Caucasus.

Investment activity and capital construction

Investment options

Investment planning is an integral part of business planning and budgeting system of IDGC of Northern Caucasus. When we are drawing up an investment program, we take into account the impact of its implementation on the economy of society as a whole. When implementing the investment policy, implementation of which is reflected in the annual investment programs, the following activities are carried out:

- keeping in operation the equipment necessary for adequate, reliable, uninterrupted power supply to consumers;
- reduction of production costs, also through improvement of equipment operation efficiency;
- upgrade of fixed assets;
- ensuring safety of the equipment;
- introduction of new capacity, when needed to cover the deficit of loads or there is need for a power reserve.

The investment program of IDGC of Northern Caucasus for 2015 was approved by Order of the Ministry of Energy of the Russian Federation on September 30, 2015 No.708.

Main parameters of the investment program for the period of 2013-2015

Branch	Capital investments	Commissioning of fixed assets	Financing	Capacity commissioning		Capacity growth	
	M RUB, VAT excluded	M RUB	M RUB, VAT included	MVA	km	MVA	km
2013							
Total	3,224.4	2,398.8	3,511.1	277.0	621.4	201.0	461.0
Stavropolenergo branch	1,043.2	1,069.7	1,291.5	122.8	166.3	108.1	118.1
Dagenergo branch	485.4	239.3	325.3	86.7	318.0	66.3	293.5
North Ossetian branch	421.6	148.0	398.2	1.9	45.0	1.9	6.7
Karachayevo-Cherkess branch	424.2	419.1	478.8	40.0	74.6	24.0	33.2
Kabardino-Balkarian branch	445.1	495.1	592.7	25.7	17.5	0.7	9.5
Ingush branch	194.4	7.9	224.5	0.0	0.0	0.0	0.0
Management apparatus	210.4	19.8	200.0	0.0	0.0	0.0	0.0
2014							
Total	2,261.5	2,394.5	1,810.1	159.8	520.1	79.3	148.2
Stavropolenergo branch	960.9	1097.5	733.4	63.2	150.5	33.6	70.0
Dagenergo branch	343.9	435.9	254.9	56.3	88.9	16.9	2.0
North Ossetian branch	150.4	355.0	115.4	11.4	89.1	4.9	35.6
Karachayevo-Cherkess branch	189.7	235.0	212.8	1.0	85.8	0.1	0.0
Kabardino-Balkarian branch	144.8	140.6	137.7	16.7	3.7	13.6	1.4
Ingush branch	144.3	112.4	175.9	11.2	102.1	10.2	39.3
Management apparatus	327.5	18.2	179.9	0.0	0.0	0.0	0.0
2015							
Total	1,256.3	2,805.0	1,792.7	143.7	370.1	45.2	120.3
Stavropolenergo branch	677.4	1,002.1	695.6	111.8	93.4	31.7	53.1
Dagenergo branch	139.8	228.9	381.4	2.8	148.0	2.8	51.1
North Ossetian branch	176.4	337.2	161.7	26.6	55.1	10.3	11.7
Karachayevo-Cherkess branch	76.7	197.8	156.4	0.4	27.4	0.1	0.3
Kabardino-Balkarian branch	89.5	126.3	151.5	0.0	18.1	0.0	0.0
Ingush branch	30.3	609.3	67.2	2.0	28.2	0.3	4.0
Management apparatus	66.1	303.4	179.0	0.0	0.0	0.0	0.0

Focus and structure of financing of capital investments

In 2015 IDGC of Northern Caucasus carried out work aimed at improving the reliability and security of power supply to consumers, increase in installed capacity for connection of additional loads and extending the life of power objects.

The financing of capital investments of IDGC of Northern Caucasus in 2015 was 1,792,700,000 RUB, VAT inclusive, where technical re-equipment and reconstruction -1,024.9 MRUB, new construction - 380.6 M RUB, and other activities aimed at improving energy reliability of power supply facilities - 387.3 M RUB, including branches:

Stavropolenergo branch: financing amounted to 695.6 M RUB, including technical re-equipment and reconstruction - 261.3 M RUB, new construction - 327.8 M RUB, other activities - 106.5 M RUB.

As part of the 2015, investments for technical re-equipment and reconstruction amounted to 261.3 M RUB, VAT included:

Among the largest objects in this direction the following should be highlighted:

- Reconstruction of 110 kV overhead line L-10 Mashuk 330 –"E-2". The volume of capital investments in 2015 amounted to 40.7 M RUB. The sum of the fixed assets amounted to 40.7 M RUB in money terms, excluding VAT, in physical terms - 7.7 km. Implementation of the object will increase the capacity of the line by replacing the wire and providing compliance with the requirements of the branch of OJSC Grid Company UES North Caucasian RDU on the protocol of the meeting of representatives of IDGC of Northern Caucasus, the branches of PJSC FGC UES MES South, PMES Stavropol and branch of Grid company US North Caucasian RDU on improving the reliability of the operating area of the grid complex of the North Caucasian RDU of February 25, 2011.
- Upgrade of 110/35 / 10kV Substation Achikulak in Neftekumsky area. The volume of capital investments in 2015 amounted to 5.5 M RUB. Amount of fixed assets commissioning, taking into account the volume of construction in progress in prior periods (69.9 M RUB, VAT excluded) amounted to 75.4 M RUB, VAT excluded. Commissioning of the reconstructed facilities will increase the reliability of electrical substations.
- Upgrade of 110/10 / 6 kV Severnaya substation. In connection with the need to eliminate the emergency at 110/10/6 kV Substation Severnaya and to restore functionality for a permanent scheme of power supply systems, as part of the claim. 3.1. of the Minutes of the meeting of the Commission for prevention and elimination of emergencies and ensuring fire safety in the Stavropol region on October 29, 2014 No.9, in 2015 works were carried out on the installation of the transformer with capacity of 63 MVA. The volume of capital investments and commissioning of fixed assets amounted to 57.1 M RUB without VAT.

As part of the 2015, investments into new construction amounted to 327.8 M RUB, excluding VAT:

Among the largest objects in this direction the following should be highlighted:

- Construction of 110 kV Substation Beshtau with inputs of 110 kV overhead lines in the city of Pyatigorsk. The volume of capital investments in 2015 amounted to 270.6 M RUB. The volume of capital investments in 2015 amounted to 270.6 M RUB. Thus, taking into account the volume of construction in progress of the previous periods - 217 340 000 RUB, the sum of the fixed assets input within the I and III launch facilities amounted to 459.7 M RUB in money terms, excluding VAT, in physical terms 16 MVA of transformer capacity and 1.28 km overhead lines (inputs) were put in service. The volume of construction in progress within II launch complex at the end of the year amounted to 28.3 M RUB, VAT excluded. Further implementation of the object will increase the reliability of electricity supply and allow for connection of new consumers.

Dagenergo branch: financing of capital investments amounted to 381.4 M RUB, including technical re-equipment and reconstruction - 342.1 M RUB, new construction - 5.1 M RUB, other activities - 34.2 M RUB.

Among the most important objects for re-equipment, reconstruction and new construction, put in service in 2015, the following should be noted:

- In accordance with the orders of the Ministry of Energy of Russia No.431 dd. August 13, 2013 and No.215 dated April 3, 2015 "On approval of list of regions with high risk of power failure and list of measures to reduce risk of power failure in such regions", in order to increase the capacity of the main power lines 110 kV, in the framework of the implementation of investment programs, the following activities were performed: "Reconstruction of 110 kV overhead line No.139-Aktas Sulevkent", "Reconstruction of scheme of ice melting with automatic control of SS Sergokala (110 kV overhead line No.182 Levashi - Sergokala).

- Construction of 6 kV transmission line from 110/6 kV Derbent – Zapadnaya for power supply to Border Department of the Federal Security Service at Kosmodemyanskaya ulitsa of Derbent. Implementation of the project provides the necessary electricity supply to the consumers.
- Reconstruction of 0.4-10 kV overhead line to provide power supply to Derbent during celebration of the 2000th anniversary.
- Reconstruction of SS Gergebil and SS Khunzakh for output of the power of Gotsatlinskaya HPP. Implementation of the project provides an increase in supply of electric energy. Objects are made on the basis of the agreement of technological connection to Gotsatlinskaya HPP.

Kabardino-Balkarian branch: financing of capital investments amounted to 151.5 M RUB, including technical re-equipment and reconstruction - 32.7 M RUB, new construction - 1.5 M RUB, other activities - 117.3 M RUB.

Among the most important objects implemented in 2015 year, the following should be noted:

- Upgrade of 110/10 / 6kV Substation Nalchik-110. The substation is the main substation in the power supply system of Nalchik. Reconstruction of the substation will improve the reliability of electricity supply, eliminate the possibility of damage to the equipment working with congestion and provide electricity to the developing region of Kabardino-Balkaria.
- Upgrade of telecommunication information collection and transmission system, Stage 2. By upgrading telecommunication information collection and transmission system they provide for accurate, reliable and legitimate information of all kinds on electric power metering, telemechanics control on the basis of digital communication channels.
- Reconstruction of 110 kV overhead line L-87 from PS Nartkala to PS Prokhladnaya will improve the reliability of power supply in rapidly developing regions of Kabardino-Balkarian Republic.
- Reconstruction of the SS 110 Zalukokoazhe with URZA at 110 kV overhead lines No.1. Reconstruction of Relay Protection and Automation at Substation Zalukokoazhe will improve the reliability and uninterrupted operation of the substation.

North Ossetian branch: in 2015, the financing of capital investments amounted to 161.7 M RUB, including technical re-equipment and reconstruction - 79.4 M RUB, new construction and expansion of existing facilities - 23.5 M RUB, etc. - 58.8 M RUB.

During the reporting year, we implemented the following measures for technical re-equipment and reconstruction:

- Works on the reconstruction of 110/35/6 kV Zaramag were started. The object is implemented with the aim of technological connection of mountain and recreation complex Mamison.
- As part of the reconstruction of 110/35/6 kV Substation Beslan, in 2014 they carried out the replacement of transformer T-2 16 MVA with transformer of 25 MVA. In the reporting year, the facility was put into operation. The reconstruction has increased the reliability of the substation equipment.
- The works on reconstruction of 0.4 kV F-1, F-2 TP 3-4 SS Razdolnaya, Vinogradoe village were carried out. As a result of the reconstruction, wires of 0.4 kV with length of 2.75 km were replaced, as well as a power transformer of 0.16 MVA with transformer having capacity of 0.25 MW. This work will improve the reliability of electricity supply and the quality of electricity supplied to consumers in Mozdok district. Also as part of the investment program, works were performed on relay protection and emergency reconstruction at overhead line of 110 kV No. 20, 21, 22 from SS B-1 and the reconstruction of relay protection and emergency in the 110 kV overhead line No. 73, 74 from SS RP-110. As a result of this work, more advanced equipment was installed, with an increased range of functions, which improves the degree of protection of overhead line and substation equipment.

Karachayev-Cherkess branch: financing of capital investments in 2015 amounted to 156.4 M RUB, including technical re-equipment and reconstruction - 130.9 M RUB, new construction - 0.3 M RUB, other activities - 25.1 M RUB.

With the aim of technological connection (to increase maximum power) of power plants Zelenchukskaya HPP-PSPP, in 2015 reconstruction of the following facilities was carried out:

- 110/10 kV SS Yuzhnaya. Organization of high speed protections of 110 kV overhead Zelenchukskaya - Yuzhnaya (L-42).
- 110/10 kV SS Yuzhnaya. Equipment of 110/10 kV SS Yuzhnaya with devices and equipment for organization of the PA channels along 110 kV overhead lines Cherkessk – Yuzhnaya (L-217), and along 110 kV overhead line Yuzhnaya - Zelenchukskaya (L-42).
- Organization of high-speed protection of 110 kV overhead Zelenchukskaya – TOK of Moscow. Replacement of cells' busbar wire at 110 kV overhead line Tok of Moscow - Zelenchukskaya HPP (L-143) and 110 kV overhead line Cherkessk – Tok of Moscow (L-218) and busbars of switchgear 110 kV of grade AC-150 for the wire with cross-section of at least AS-185.
- 110/35/10 kV SS Zelenchuk. Organization of high-speed protection of 110 kV overhead Zelenchukskaya - Zelenchuk (L-144).
- 110/10 kV SS Karachaevsk. Organization of high-speed protection of 110 kV overhead Zelenchukskaya - Karachaevsk (L-31).
- To issue the necessary power to tourist-recreational complex Arkhyz reconstruction of overhead line 110 kV L-221 SS Cherkessk-330-Akademicheskaya was carried out on length of 21.4 km.
- At 110 kV outdoor switchgear in 110/35/10 kV SS Zelenchuk they installed two additional linear cells for connection of 110 kV overhead line Akademicheskaya - Cherkessk-330 (L-221) according to “in&out” scheme.

Ingush branch: financing of capital investments in 2015 amounted to 67.2 M RUB, including technical re-equipment and reconstruction - 11.0 M RUB, new construction - 22.3 M RUB, other activities - 33.9 M RUB.

Executive Office: financing of capital investments amounted to 179.0 M RUB, including technical re-equipment and reconstruction - 167.5 M RUB, other activities - 11.4 M RUB.

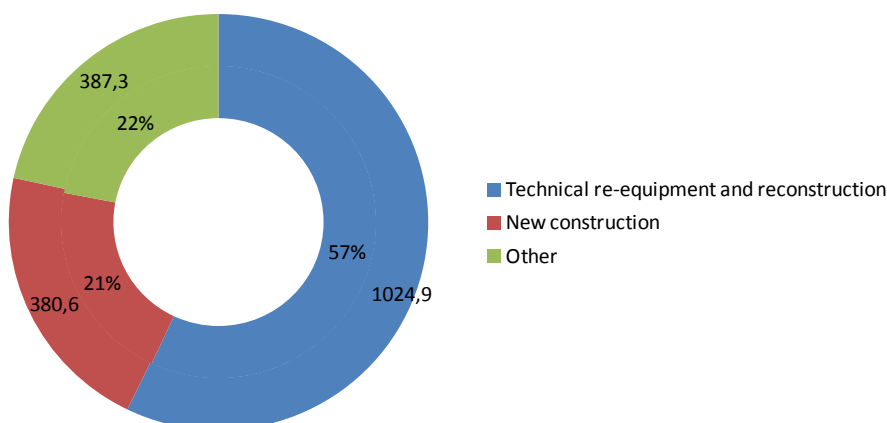
Structure of financing of capital investments, M RUB, VAT included

	2013	2014	2015
Total	3,511.1	1,810.1	1,792.7
Critical projects	483.1	386.6	162.4
<i>Technical re-equipment and reconstruction</i>	267.7	140.7	26.0
<i>New construction</i>	215.4	245.9	136.4
Highly important programs	273.1	316.8	170.7
<i>Technical re-equipment and reconstruction</i>	273.1	316.8	170.7
<i>New construction</i>	0.0	0.0	0.0
Programs	518.7	465.5	596.8
<i>Technical re-equipment and reconstruction</i>	429.7	438.0	577.4
<i>New construction</i>	89.0	27.5	19.4
Technological connection, including	628.6	295.3	330.6
<i>Objects of technological connection with capacity above 750 kW (VN, SN1)</i>	508.9	221.3	222.7
<i>Objects of technological connection with capacity from 100 to 750 kW (SN2)</i>	32.5	33.4	11.2
<i>Objects of technological connection with capacity from 15 to 100 kW</i>	21.3	4.7	10.0
<i>Objects of technological connection with capacity of up to 15 kW</i>	65.8	34.9	43.3

	2013	2014	2015
<i>Generation</i>	0.0	0.9	43.4
Distribution networks	385.7	110.4	145.0
Automation of technological management (apart from automated system of commercial power metering)	213.8	57.5	212.6
Means of power metering and monitoring	237.4	58.1	21.4
Safety programs	59.9	13.2	1.7
Purchase of power grid assets, land plots and other objects	102.6	0.2	13.1
Other programs and actions	608.2	106.6	138.5
<i>For reference:</i>			
<i>Technical re-equipment and reconstruction</i>	1,449.2	1,099.4	1,024.9
<i>New construction</i>	840.0	475.2	380.6
<i>Other</i>	1,221.8	235.5	387.3

Compared to 2013 and 2014, commissioning of fixed assets increased slightly in 2015. The increase in the fixed assets is due to the completion and commissioning of fixed assets of the Comprehensive Programme of measures to reduce abnormal losses in distribution networks in the territory of the Republic of Ingushetia. Furthermore, in 2015 they commissioned 110 kV Substation Beshtau with inputs of 110 kV overhead line for grid connection of residential neighbourhood Zapadny in Pyatigorsk.

Structure of financing of capital investments in 2015



Among the programs, the Comprehensive Program of measures to reduce abnormal losses of power implemented at the expense of the federal budget.

In order to reduce commercial losses of electricity in the networks of IDGC of Northern Caucasus in the territory of the Republic of Dagestan, Ingushetia and the Chechen Republic they implemented a comprehensive program of measures to reduce abnormal losses. The comprehensive program includes activities for organization, modernization and automation of energy accounting for all the points of commercial account, as well as key supply centers, which requires technical accounting of electricity to reduce commercial losses to the level of standard indicators. The program has been implemented since 2011.

The total cost of the project in accordance with the investment program of IDGC of Northern Caucasus in 2016-2020, approved by Order of the Ministry of Energy of Russia on December 25, 2015 No.1035, is 5,267.3 MRUB, VAT included

Total number of metering points covered by the program is 636,126 pcs.

In 2015 performance of Comprehensive Program actions amounted to 52.2 M RUB. Financing amounted to 170.7 M RUB, VAT included.

Performance of Comprehensive Program:

Name	Performance, M RUB, VAT excluded		
	2015 actual	also at the expense of	
		federal budget	own funds of the Company ²
Republic of Dagestan	2.0	- 1.21	3.2
Republic of Ingushetia	-	-	-
Chechen Republic	50.2	71.6	-21.3
Total	52.2	70.4	-18.2

¹In July 2015 they carried out an adjustment on performed volumes of work on upgrade and automation of metering at connections of 110/35/10 kV KSUE of the Republic of Dagestan upon comments identified by the specialized services of IDGC of Northern Caucasus (-1.2 M RUB).

²In Q4 2015 within the Comprehensive Program of the Chechen Republic, costs are excluded for travel of staff sent to the Chechen Republic to coordinate the formation of productive supply of electricity and linkage of metering points to power centers (for 2014-2015 in the amount of 18.9 M RUB), to address the remarks revealed by a planned field inspection of the Ministry of Energy of Russia on implementation of the Comprehensive Programme in the territory of the Republic of Dagestan, the Chechen Republic and the Republic of Ingushetia in the October-November 2015 (order of the Ministry of Energy of Russia dd. August 17, 2015 No 570).

In December 2015, they recalculated the amount of interest on loans obtained in the framework of the Comprehensive Program of the Chechen Republic (-3.2 M RUB.) and the Republic of Dagestan (3.2 M RUB) due to a technical error in the software product "1C Enterprise".

Funding of Comprehensive Program:

Name	Funding, M RUB, VAT included		
	Actual 2015	also at the expense of	
		federal budget	own funds of the Company*
Republic of Dagestan	3.2	-	3.2
Republic of Ingushetia	-	-	-
Chechen Republic	167.6	113.5	54.0
Total	170.7	113.5	57.2

*In December 2015, they recalculated the amount of interest on loans obtained in the framework of the Comprehensive Program of the Chechen Republic (-3.2 M RUB) and the Republic of Dagestan (3.2 M RUB) due to a technical error in the software product "1C Enterprise".

Travel expenses of staff sent to the Chechen Republic for work on the automation of KSUE for 2014 and the first 9 months of 2015 were excluded for the total amount of -18,148 M RUB.

In Q4 2015, the Comprehensive Program of the Chechen Republic excluded the cost of travel of staff, sent to the Chechen Republic (for 2014-2015 in the amount of -18.9 M RUB.), in order to address the remarks revealed during planned site inspections by the Ministry of Energy of Russia on implementation of the Comprehensive Program in the territory of the Republic of Dagestan, the Chechen Republic and the Republic of Ingushetia in the October-November 2015 (order of the Ministry of Energy of Russia dated August 17, 2015 No.570).

In December 2015 similar claims were set off. Accounts payable of IDGC of Northern Caucasus were paid to SKERK JSC in the amount of 75.4 M RUB, VAT included, to repay debt of SKERK KSC to IDGC of Northern Caucasus for the penalty for non-compliance of the deadline for works completion under the contract dated June 15, 2011 No.112 / 2011 (Chechen Republic) on the basis of the decision of the Arbitration Court of Stavropol region dated July 9, 2015 and Resolution of the Sixteenth Arbitration Court of Appeal dated November 24, 2015 on the case No.A63-2779 / 2015.

Since the start of implementation of the Comprehensive Program, the completion amounted to 3,454.2 M RUB. Funding amounted to 4,397.5 M RUB:

Name	Performance in 2011-2015, M RUB, VAT excluded	Financing in 2011-2015, M RUB, VAT included
Republic of Dagestan	1,655.8	2,266.0
Republic of Ingushetia	491.3	578.3
Chechen Republic	1,307.1	1,553.3
Total	3,454.2	4,397.5

Implementation of the Comprehensive Programme was carried out at the expense of:

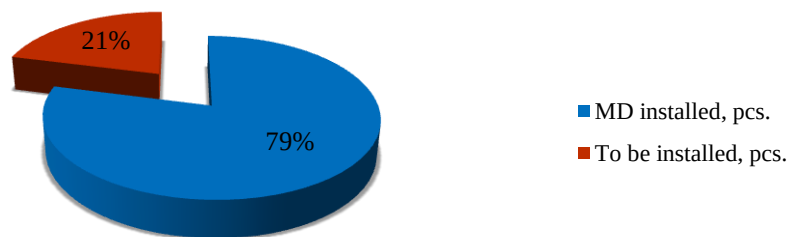
- Federal budget – 3,131.8 M RUB, without VAT;
- Company's own funds - 321.8 M RUB, without VAT;
- Other assets - 0.6 M RUB, without VAT.

Financing of the Comprehensive Program is implemented through the following sources:

- At the expense of the federal budget – 3,953.2 M RUB, VAT included;
- At the expense of own funds of the Company - 443.6 M RUB, VAT included;
- By other means - 0.7 M RUB, VAT included.

During the period of implementation of the Comprehensive Program, as of 1 January 2016, 502,711 metering devices were installed (according to acts of performed works of KS-2 form accepted for accounting).

Name	Fact of metering devices installation, pcs.	Automated metering devices, pcs.	Metering devices left to be installed, pcs.
Republic of Dagestan	322,075	273,970	130,741
Republic of Ingushetia	45,408	43,437	-
Chechen Republic	135,228	119,865	2,764
Total	502,711	437,272	133,505



In December 2012 they put into operation 10,772 metering devices installed in the territory of the Republic of Dagestan (Tabasaranskies RES). The volume of commissioned fixed assets - 49.2 M RUB, without VAT.

In April 2015 performance of the comprehensive program in the Republic of Ingushetia was completed. 45,408 meters were put in service. The volume of commissioned fixed assets is 491.3 M RUB, without VAT.

In December 2015 they put into operation 30,073 metering devices installed in the territory of the Chechen Republic (Vedenskie, Nadterechnie, Naurskie, Shatoyskie RES). The volume of commissioned fixed assets is 287.5 M RUB, without VAT.

Achievement of targets of Comprehensive Program of measures to reduce abnormal energy losses in distribution networks in the territory of the Northern Caucasus

Name	2011	2015
Republic of Dagestan (without Makhachkala)	38%	28%
Republic of Ingushetia	40%	28%
Chechen Republic (without Grozny, Argun, Gudermes)	34%	25%

Since the beginning of implementation of the Comprehensive Program, the effect of installation of metering devices and operation of the entire system as a whole was demonstrated in reduction of commercial losses of electricity and, as a consequence, increased productive supply.

In the terms of quantity and value it looks as follows:

- Losses in the Republic of Ingushetia decreased from 40% in 2011 to 28% in 2015, with economic effect as of December 31, 2015 amounting to 101 M kWh, or 256 M RUB;
- Losses in the Republic of Dagestan decreased from 38% in 2011 to 28% in 2015, with economic effect as of December 31, 2015 amounting to 783.3 M kWh, or 1,128 M RUB;
- Losses in the Chechen Republic have decreased from 34% in 2011 to 25% in 2015, with economic effect as of December 31, 2015 amounting to 158.3 M kWh, or 272 M RUB.

Results of implementation of 2015 investment program

In 2015, through implementation of measures included in the investment program, reliable and uninterrupted power supply to consumers was provided, as well as the increased possibility of technological connection of new consumers of the Northern Caucasus and the Stavropol Territory.

Implementation of measures to reduce the specific investment costs

When implementing the investment program, the technique was used to reduce investment costs vs 2012, as adopted in 2013. The effect of using the methodology was 132.3 M RUB in 2015, without VAT.

Level of power losses

Information in part of losses reduction for 2015, M kW*hr

Indicator	UOM	2015
Stavropolenergo branch		
Output to grid	M kW*hr	7,026.74
Losses	M kW*hr	971.30
	%	13.82
Dagenergo branch		
Output to grid	M kW*hr	646.06
Losses	M kW*hr	185.76
	%	28.75
Kabardino-Balkarian branch		
Output to grid	M kW*hr	1,481.13
Losses	M kW*hr	233.42
	%	15.76
Karachayevo-Cherkess branch		
Output to grid	M kW*hr	1,166.56
Losses	M kW*hr	193.63
	%	16.60
North Ossetian branch		
Output to grid	M kW*hr	1,587.88

Indicator	UOM	2015
Losses	M kW*hr	357.44
	%	22.51
Ingush branch		
Output to grid	M kW*hr	681.59
Losses	M kW*hr	191.55
	%	28.10
IDGC of Northern Caucasus		
Output to grid	M kW*hr	12,589.96
Losses	M kW*hr	2,133.10
	%	16.94

Number and volume of executed contracts for technological connection

In the reporting year they executed 7,040 contracts for technological connection with total connected capacity of 171 MW, including the privileged category of applicants - 6624 contracts with a total connected capacity of 50 MW.

Distribution of executed contracts for technological connection by branches

No.	Indicator	Unit of measurement	2015 actual
Stavropolenergo			
1	Completed technological connection agreements, including	pcs.	2,889
1.1.	for preferential categories of applicants	pcs.	2,760
2.	Completed technological connection agreements, including	MW	92
2.1.	for preferential categories of applicants	MW	24
Dagenergo			
1	Completed technological connection agreements, including	pcs.	174
1.1.	for preferential categories of applicants	pcs.	161
2.	Completed technological connection agreements, including	MW	2
2.1.	for preferential categories of applicants	MW	1
Kabardino-Balkarian branch			
1	Completed technological connection agreements, including	pcs.	1,061
1.1.	for preferential categories of applicants	pcs.	984
2.	Completed technological connection agreements, including	MW	21
2.1.	for preferential categories of applicants	MW	5
Karachayevo-Cherkess branch			
1	Completed technological connection agreements, including	pcs.	1,102
1.1.	for preferential categories of applicants	pcs.	1,035
2.	Completed technological connection agreements, including	MW	17
2.1.	for preferential categories of applicants	MW	6

No.	Indicator	Unit of measurement	2015 actual
North Ossetian branch			
1	Completed technological connection agreements, including	pcs.	1,270
1.1.	for preferential categories of applicants	pcs.	1,210
2.	Completed technological connection agreements, including	MW	19
2.1.	for preferential categories of applicants	MW	10
Ingush branch			
1	Completed technological connection agreements, including	pcs.	544
1.1.	for preferential categories of applicants	pcs.	474
2.	Completed technological connection agreements, including	MW	20
2.1.	for preferential categories of applicants	MW	4
IDGC of Northern Caucasus			
1	Completed technological connection agreements, including	pcs.	7,040
1.1.	for preferential categories of applicants	pcs.	6,624
2.	Completed technological connection agreements, including	MW	171
2.1.	for preferential categories of applicants	MW	50

Number of power centers of 35 kV and above with restriction on TC

Branch	Number of power centers of 35 kV and above with restriction on TC as of the end of 2015			
	according to data of control measurements of the performance day		with account of agreements for TC executed	
	pcs.	Deficit of power MVA	pcs.	Deficit of power MVA
Stavropolenergo branch	35	361.2	48	488.45
Dagenergo branch	69	227.86	72	240.73
North Ossetian branch	0	0.0	0	0
Karachayevo-Cherkess branch	1	1.78	1	1.78
Kabardino-Balkarian branch	9	25.86	10	30.64
Ingush branch	6	13.85	6	14.65

Level of wear of fixed assets

Dynamics of level of wear of fixed assets from 2013 to 2015

Type of equipment	2013	2014	2015
	%	%	%
Stavropolenergo branch	59.5	60.8	62.1
Transformer equipment	54.2	55.3	56.4
Switching devices	46.2	47.4	48.5
General	50.2	51.3	52.5
Line type			
Overhead line 35-220 kV	67.2	68.2	69.3
Overhead line 0.4-10 kV	69.2	70.2	71.3

Type of equipment	2013	2014	2015
	%	%	%
Cable line 35-220 kV	1.0	2.0	3.0
Cable line 0.4-10 kV	69.2	70.2	71.3
General	68.8	70.2	71.7
Dagenergo branch	72.2	73.3	74.3
Transformer equipment	70.0	71.0	72.0
Switching devices	64.2	65.3	66.4
General	67.1	68.1	69.2
Line type			
Overhead line 35-220 kV	76.1	77.2	78.3
Overhead line 0.4-10 kV	78.1	79.2	80.3
Cable line 35-220 kV	77.0	78.0	79.0
Cable line 0.4-10 kV	78.1	79.2	80.3
General	77.4	78.4	79.5
Kabardino-Balkarian branch	70.5	71.7	73.0
Transformer equipment	65.2	66.3	67.4
Switching devices	67.2	68.2	69.3
General	66.2	67.3	68.4
Line type			
Overhead line 35-220 kV	73.1	74.2	75.3
Overhead line 0.4-10 kV	75.1	76.2	77.3
Cable line 35-220 kV	1.0	2.0	3.0
Cable line 0.4-10 kV	75.1	76.2	77.3
General	74.8	76.2	77.6
Karachayevo-Cherkess branch	71.5	72.7	74.0
Transformer equipment	69.2	70.2	71.3
Switching devices	65.2	66.3	67.4
General	67.2	68.2	69.3
Line type			
Overhead line 35-220 kV	74.1	75.2	76.3
Overhead line 0.4-10 kV	76.1	77.2	78.3
Cable line 35-220 kV	1.0	2.0	3.0
Cable line 0.4-10 kV	76.1	77.2	78.3
General	75.8	77.2	78.6
North Ossetian branch	72.0	73.2	74.5
Transformer equipment	67.2	68.2	69.3
Switching devices	73.1	74.2	75.3
General	70.2	71.2	72.3
Line type			
Overhead line 35-220 kV	72.2	73.2	74.3
Overhead line 0.4-10 kV	74.1	75.2	76.3
Cable line 35-220 kV	1.0	2.0	3.0
Cable line 0.4-10 kV	74.1	75.2	76.3
General	73.8	75.2	76.6
Ingush branch	77.7	78.9	80.1
Transformer equipment	82.0	83.0	84.0
Switching devices	71.2	72.2	73.3
General	76.6	77.6	78.7
Line type			
Overhead line 35-220 kV	77.1	78.2	79.3

Type of equipment	2013	2014	2015
	%	%	%
Overhead line 0.4-10 kV	79.1	80.2	81.3
Cable line 35-220 kV	1.0	2.0	3.0
Cable line 0.4-10 kV	79.1	80.2	81.3
General	78.8	80.2	81.6
IDGC of Northern Caucasus	70.6	71.8	73.0
Transformer equipment	68.0	69.0	70.1
Switching devices	64.5	65.6	66.7
General	66.2	67.3	68.4
Line type			
Overhead line 35-220 kV	73.3	74.4	75.5
Overhead line 0.4-10 kV	75.3	76.4	77.5
Cable line 35-220 kV	13.7	14.7	15.7
Cable line 0.4-10 kV	75.3	76.4	77.5
General	74.9	76.3	77.6

Share of equipment with service life above norm

Share of equipment with service life above norm as of December 31, 2015

Branch	Share of equipment with expired normal service life, %	
	SS	Power transmission line
Stavropolenergo branch	85%	53%
Dagenergo branch	74%	21%
North Ossetian branch	91%	49%
Karachayevo-Cherkess branch	81%	51%
Kabardino-Balkarian branch	78%	31%
Ingush branch	77%	49%

Long-term investment programs

The long-term investment program of IDGC of Northern Caucasus for the period of 2016-2020 was approved by the Order of the Ministry of Energy of Russia on December 25, 2015 No.1035.

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

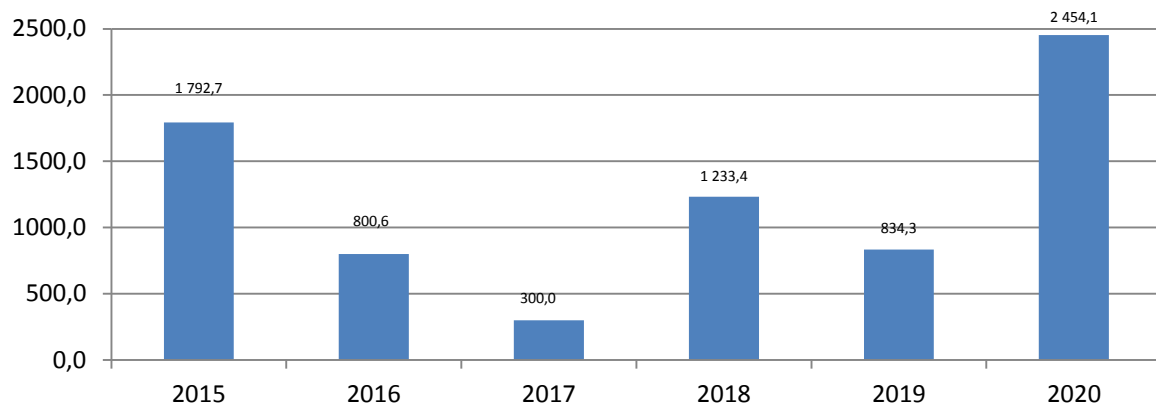
The investment program of IDGC of Northern Caucasus is designed in accordance with the development plans of the territories, the technical state of electrical networks, taking into account the importance of power supply facilities, taking into account the forecasts of revenue from electric power transmission and receipts under the contracts for technological connection.

Within the investment program, the following tasks are provided:

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

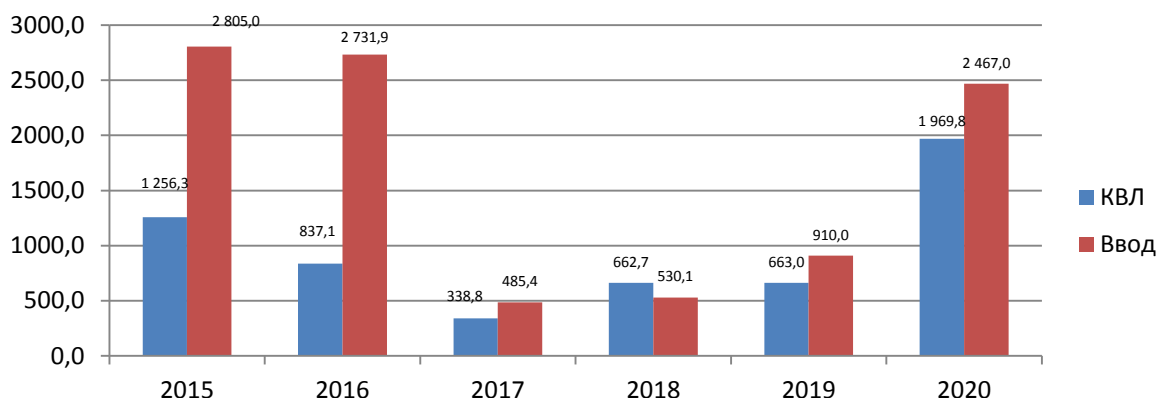
In accordance with the approved investment program of IDGC of Northern Caucasus, the total funding for the period of 2016-2020 amounts to 5,622.400 M RUB, VAT included.

Volume of financing of investment program for 2015-2020, M, VAT included



Since 2018, the volume of financing of the investment program will increase. All funds will be spent on modernization and reconstruction of the existing power grid facilities, as well as the construction of new facilities. The reconstruction will improve the work of substation equipment and overhead power lines, improve the quality and reliability of electricity supply, as well as reduce the level of losses in the networks.

Amount of planned capital investments and commissioning of fixed assets in accordance with the investment program for 2015-2020, M, without VAT



In the period from 2017 to 2020 the volume of capital investments will increase from 338.8 to 1,969.8 M RUB, plus there will be an increase in the fixed assets from 485.4 to 2,467.0 M RUB. It should be noted that in 2015 and as planned in 2016, a significant increase in the volume of

input on fixed assets is due to the introduction of a comprehensive program of measures to reduce abnormal losses in the territory of the Republic of Dagestan, Ingushetia and Chechnya.

Quality management of capital construction

Within implementation of the resolution of the Russian Government dated June 21, 2010 No.468 «On procedure of construction supervision during construction, reconstruction and overhaul of capital construction facilities», in order to verify compliance of work performed in the course of construction, reconstruction, repair of capital construction with requirements of project documentation, technical regulations, urban development plan of the land plot, the results of engineering surveys, construction supervision is carried out, and the following organizational and administrative documents of the company are introduced:

- order "On approval of procedure of construction supervision at the facilities of electric grid complex" from December 22, 2014 No.811;
- order "On approval of the Rules of organization and construction of the Regulations on the procedure of acceptance of completed construction projects" dated April 23, 2015 No.248;
- order "On approval of the Procedure for checking availability of construction contractors to carry out construction contracts at the facilities of electric grid complex of IDGC of Northern Caucasus" dated October 10, 2014 No.62;
- decree On approval of the Policy on quality of capital construction management of IDGC of Northern Caucasus dated October 1, 2014 No.166r;
- order "On approval of the Capital Construction Quality Control Concept" dated April 6, 2015 No.230;
- order "On Approval of Procedures for acknowledgment and acceptance of volume and quality of construction and installation works" dated December 30, 2014 No.838.

In order to implement control measures, determined by requirements of the Russian legislation in the field of capital construction, IDGC of Northern Caucasus identified the appropriate resources for the implementation of construction supervision.

The structural division of IDGC of Northern Caucasus, organizing construction supervision (technical supervision of construction), is the Department of Capital Construction in the amount of 12 specialists, reporting to the Deputy Director General for investment activities.

According to the Rules of organization of construction, construction supervision is carried out by capital construction teams of branches of IDGC of Northern Caucasus (the capital construction departments) in amount of 36 professionals.

Increased reliability of power grids

Branches of IDGC of Northern Caucasus in the reporting period took actions to increase the level of exploitation, reliability and stability of electricity networks. All production departments made plans for emergency measures. Timely investigation of technological violations was organised. Snap inspections of 6-110 kV overhead lines were carried out to identify and cut down trees threatening to fall on the wires. In accordance with the schedules, constant monitoring of the main equipment is in progress.

Preventing accidents is closely linked with the implementation of maintenance and investment programs of the company.

The measures of repair and maintenance of equipment, buildings and structures were taken in accordance with the scope of the annual operational orders from branches of IDGC of Northern Caucasus.

As part of the investment program, technical re-equipment and reconstruction of overhead lines was carried out, including the replacement of poles and bare wire with self-supporting insulated wire and replacement of oil circuit breakers with vacuum ones.

Training and retraining of workers and specialists was carried out in accordance with the approved schedules.

Emergency response training was conducted with operational staff in the right scope according to schedules.

Maintenance and commissioning of relay protection devices was implemented in the scopes of investment and repair programs.

Briefings for operating and maintenance personnel at workplaces were carried out.

In total there are 26 mobile teams formed in IDGC of Northern Caucasus to eliminate consequences of emergencies, the total number of personnel - 117 people who have at their disposal 53 units of car and lifting equipment.

Summary information on equipment of mobile teams of IDGC of Northern Caucasus

Branch	Number of mobile subdivisions	Headcount of mobile subdivisions	Reserve of staff independent supply	Number of equipment			
			Total quantity of packed meals	Total equipment	including		
					Cross-country brigade group	Offroad vehicle	Lifts (towers)
					total	total	total
Stavropolenergo branch	18	81	243	36	18		18
North Ossetian branch	1	9	24	4	2	1	1
Karachayevo-Cherkess branch	2	8	16	4	2		2
Kabardino-Balkarian branch	3	11	33	5	3		2
Ingush branch	2	8	24	4	2		2
Total	26	117	340	53	25	1	2500

Number and capacity of reserve power supply sources (RPSS)

Branch	Number of RPSS, pcs.	Total capacity of RPSS, kW	Fuel reserve, hr
Stavropolenergo branch	20	610.2	123
North Ossetian branch	4	159	41.6
Karachayevo-Cherkess branch	13	206.3	52.1
Kabardino-Balkarian branch	1	80	12
Ingush branch	2	89.5	24
Total	40	1,150.5	252

To eliminate the effects caused by natural disasters, emergencies, accidents, complex technological disturbances and early restoration of electricity supply to consumers, branches of IDGC of Northern Caucasus signed contracts for emergency repair work with contractors.

Means and resources of contractors

Branch, where automatic takeover is planned	Contractor	Number of mobile teams	Number of people	Number of equipment
Stavropolenergo branch	Stavropolsetenergoremont OJSC	4	28	17
Kabardino-Balkarian branch Karachayevo-Cherkess branch North Ossetian branch	Northern Caucasus Energy Repair Company OJSC	4	12	24
Total		8	40	41

In turn, for the purpose of cooperation in elimination of accidental damage to the electric grid facilities of IDGC of Northern Caucasus, agreements were made between the company and the grid companies:

- with IDGC of South PJSC dated July 26, 2011;
- with FGC UES PJSC – MES of South dated October 1, 2008;
- with Kubanenergo PJSC dated April 15, 2014.

In order to implement the norms of the Federal Law dated July 21, 2011 No.256-FZ “On safety of fuel and energy complex”, to ensure reliable operation of the distribution grid complex of IDGC of Northern Caucasus, a set of measures is implemented to ensure the safety of electric grid companies, namely: electrical substations, providing power supply to vital facilities are equipped with engineering and technical remedies to ensure the physical protection and guard.

Innovative Development

One of the strategic goals of IDGC of Northern Caucasus is to ensure maximum reliability and quality of operation of the distribution grid complex of the Northern Caucasus, as well as access to the distribution network infrastructure for customers in the regions of the North Caucasus, inside the area of responsibility of the grid company.

IDGC of Northern Caucasus attaches great importance to energy conservation, energy efficiency, environmental protection and occupational safety, improvement of reliability and quality of operation of the distribution grid complex, responsibility for operation of which is assigned to a grid company. The approach in the implementation of the company's strategy is to develop new and to find the most effective known to the market innovative solutions for the challenges that the company faces, the most important of which is to ensure reliable operation of obsolete and worn-out networks.

The purpose of the Innovative Development Program is to ensure a quantum leap in the development of IDGC of Northern Caucasus to the world-class high-tech power grid company. This goal can be achieved through a balanced innovative development of IDGC of Northern Caucasus by creating a modern grid infrastructure to world standards by improving the reliability, quality and efficiency of power transfer process, as well as effective management of the grid assets of the company.

To achieve the specified goal, the following main objectives of the Innovative Development Program were identified:

- development and testing of new technologies;
- implementation of complex pilot projects;
- commercialisation of new technologies of interest in the domestic and foreign technological markets;
- development and introduction of new services;
- development, upgrade and increased energy efficiency of operated equipment, transport, special machines, mechanisms;
- improvement of business processes of the company and introduction of new methods in management;
- development of innovative activities system.

The main areas of R&D performed in the company within realisation of the R&D program are the following:

- systematic issues of power grid complex development (automated management system, active-adaptive network, IT, SmartGrid, SCADA);
- secondary equipment of substations;
- high voltage overhead and cable lines;
- distribution power grids 0.4-20 kV.

On the basis of the R&D plan for 2015-2019 in 2015 it was planned to hold tenders for purchase of the following subjects:

- R&D “Design and testing of composite supports of overhead line 0.4-35 kV” (10 M RUB, including research – 4 M RUB, development – 6 M RUB);
- R&D “Development and manufacturing of a pilot sample of ice melting machine with pilot introduction at SS Aleksandrovskaya of Stavropolenergo (20 M RUB, including research – 8 M RUB, development – 12 M RUB).

Actually the procurement procedures were not performed.

In 2015, funds were planned for financing of R&D in the amount of 1.82 M RUB.

In the reporting period the final settlements were made with Energy Technology Research Institute LLC in the amount of 1.82 M RUB under the agreement to perform R&D “Development of methods and devices for remote detection of damaged insulators in 6-35 kV overhead lines”. Works under the contract were fully completed in 2014. Due to the protracted periods of execution of works, funding in 2014 in the amount of 1.82 M RUB was postponed to 2015.

By the end of 2015, according to results of R&D performed by IDGC of Northern Caucasus, the following results were received:

- for R&D “Development of methods and devices for remote detection of damaged insulators in overhead lines 6-35 kV”, a prototype of the device was made, and is currently undergoing test operation in the service lines of the Kabardino-Balkarian branch;
- for development “Development and creation of web-based architecture, enterprise distributed information-educational environment of IDGC of Northern Caucasus”, the

training program was developed, which is set in the educational plant of the branch Stavropolenergo and is used in the training of the technical staff;

- for R&D “Research and development of the principles of building an integrated microprocessor device diagnosing the operational DC system”, a prototype device was developed, and currently the specified device is undergoing test operation at the substation Severo-Zapadnaya of the North Ossetian branch;
- for R&D “Complex research on marginal current carrying capacity of the wires of overhead transmission lines and development of information icing control system” they developed an ice melting installation layout, which has been successfully tested at SS Essentuki-2, branch "Stavropolenergo".

In the reporting period IDGC of Northern Caucasus and TMK-Center LLC received a patent for the invention No.2546643 dd. March 4, 2015 “SYSTEM FOR MELTING OF ICE ON OVERHEAD LINES” (the term of the patent expires on December 30, 2033).

In 2014 IDGC of Northern Caucasus and TMK-Center LLC received a patent for utility model No.142064 dated May 16, 2014 “INSTALLATION FOR ICE MELTING ON OVERHEAD LINES” (the term of the patent expires on December 30, 2023).

These documents were obtained by the results of research carried out by TMK-Center LLC under the contract number 119/2012 of May 4, 2012 "Research and development work “Complex research on marginal current carrying capacity of overhead power lines wires and development of information icing control system”. The cost of work amounted to 20 M RUB. Work under the contract was performed in 2013.

As part of the further development of this research topic, it is planned to produce an industrial design installation, followed by the use at overhead lines 6-10-35-110 kV prone to icing.

Work on the commercialization of intellectual property rights of IDGC of Northern Caucasus, resulting from research and development was not carried out.

The share of allocations for R&D financing in the total volume of internal revenues in the reporting period amounted to 0.000013%.

Performance indicators

Performance indicator name	Unit of measurement	2015
Costs for R&D performed by external organisations, including by contractors (higher educational institutions, scientific organisations, innovative companies of MSB)	M RUB	1.8
where for projects implemented within		
technological programs	M RUB	
higher educational institutions	M RUB	
scientific organisations	M RUB	
Costs for upgrade and retraining of HR in higher educational institutions per one employee	RUB/person	11.5

No scientific or technical council was established in IDGC of Northern Caucasus.

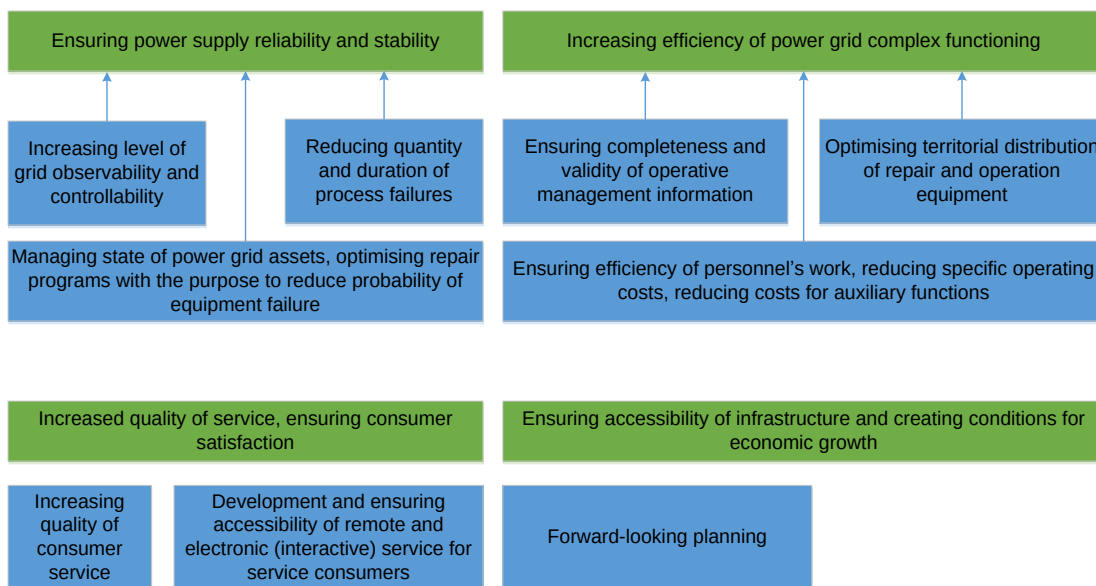
Information technologies and telecommunications

IDGC of Northern Caucasus is a modern energy company, the effectiveness of which depends substantially on the use of information technology and automation. Under modern conditions, operation of the electric grid complex as a whole and IDGC of Northern Caucasus in particular, cannot be organized without such elements as:

- Automated business management system, allowing to provide efficiency and business continuity of the company.
- Automated process control systems that provide process optimization for transporting electrical energy, reduction of 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 to ensure efficiency of the totality of these automation tools, as well as smooth communication for all employees.

The greatest role of information technology is played in the implementation of the key business objectives of the company, such as ensuring the reliability and security of energy supply and improving the quality of service, ensuring customer satisfaction. The growth of process automation can also provide a more efficient functioning of the grid complex.

Activities in the field of IT



The introduction of new, development of existing ones and maintenance of already implemented projects in the field of information technology relates to continuing operation, which is conducted in accordance with the Strategy of Information Technology and Telecommunications of the Company (hereinafter - the Strategy). This Strategy defines the objectives of development of information technology of the company, strategic initiatives and activities to achieve them, approved by the Board of Directors of IDGC of Northern Caucasus (Minutes of July 24, 2012) and identifies the following principles of IT building.

IT building principles

IT areas	Development principle description
1. IT solutions	• Constant interaction with business units and customers of IT services in the Company • Standardization of IT processes across all divisions of the Company, including production services • Development and implementation of standards for management of design software and project portfolio • Revaluation of the value and the new positioning of the IT management process as a service
2. IT organization	• The centralization of the IT function and the introduction of effective mechanisms to coordinate the activities of all the IT departments of the Company • Development of an optimal model of cooperation between the units of the Company to jointly address problems of implementation and operation of IT solutions. • Formation of a universal, flexible IT service management model
3. IT processes	• The introduction of effective solutions to control the execution of IT processes, IT services • The implementation of processes and solutions aimed at increasing the level of knowledge and competence of staff of the 1st line support • Enforcement of regulations of the IT process model (standards, procedures, methodologies)
4. IT services	• Ensuring a transparent mechanism for the provision of IT services and control of the quality • Ensuring continuous improvement and efficiency
5. IT infrastructure	• Creation of a centralized integrated monitoring system • Creating a unified directory service, the unification of basic network services and applications • Support for business processes of technological connection at the branch level, organization of new jobs. • Providing a reliable user access to centralized resources by improving the reliability of the network equipment. • Interaction with related departments in terms of the transition to the standard server platforms, monitoring, standardization of communication channels, transition to IP telephony
6. IT security	• Ensuring the protection of information and telecommunication and technological infrastructure • Ensuring the protection of automated process management systems • Ensuring the protection of restricted information • Organization and management of user access • Providing a public key infrastructure • Provide monitoring of the state of security of information and telecommunication infrastructure

In accordance with the action plan of IDGC of Northern Caucasus for 2015 to implement the Strategy of IDGC of Northern Caucasus in the field of information technology, automation and telecommunications for the period up to 2016 in the reporting period IDGC of Northern Caucasus has implemented a number of projects, including:

- Ensured implementation of an automated document management system providing a through workflow between Rosseti PJSC and IDGC of Northern Caucasus, and between subsidiaries of IDGC of Northern Caucasus. The system automates the main processes of office: receiving, sending and registering mail, accounting and control of movement of documents, creation of documents in files, use of archive documents. Organized automated control of documents

execution (formation of orders, definition of owners, alert delivery). Provides online users with access to a single repository of electronic documents.

The system also implements training, coordination and approval of the corporate organizational and administrative documents, the exchange of documents between IDGC of Northern Caucasus, Rosseti PJSC, subsidiaries of the company.

- In order to establish uniform principles about the investigation and accounting of fires that have occurred in the electric grid subsidiaries of IDGC of Northern Caucasus, a contract was signed, and efforts made to finalize the program complex “Emergency” for the organization of the automated accounting of acts of the investigation of fires at the facilities of electric grid complex.
- As part of the integrated power metering system implementation in the Northern Caucasus, a data center was organized, for the deployment and operation of automated power management system servers, trouble-free and fully functional operation of the equipment was organized.
- Within the framework of the “System project of communication networks”, an internal fibre-optical channel of corporate data network of the Kabardino-Balkarian branch was organized as well as a single telephone network with Karachaevo-Cherkess branch.
- Implementation of “Project of services and unified communication services (VCS) development” in the framework of the “Development of existing and introduction of new services” allowed to move to high-definition video conferencing.
- Introduction of automated control system for technological connection of consumers of electricity to networks of IDGC of Northern Caucasus is in progress, allowing to automate the business process of technological connection management.
- Developing additional modules of the automated control system of power equipment certification within the automation process of the formation of long-term and annual plans of maintenance and repair, technical inspection and diagnostics of electric equipment.

Reduced ICT costs

Integrated development of ICT in the framework of a unified strategy has allowed the company to reduce operating costs for ICT in 2015.

The price effect of the initiative “Development of existing and introduction of new services” is calculated by the expert and amounted in 2015 to 1.7 M RUB through reduction of the cost of communication services. The main costs of telecommunications are aimed at construction / reconstruction of the fibre-optic network and the creation of active network equipment. Increase of the length of its own fibre-optic lines made 460.6 kilometres (+95.6%), communication nodes of fibre-optic data transmission network increased by 49 units (+87.5%).

In 2015, being guided by the requirements of information security, as well as reduction of costs for the maintenance of the existing fleet of server equipment and the purchase of new server capacity, the need for rapid delivery of resources, reducing energy consumption and optimizing the load distribution between information systems, specialists of IDGC of Northern Caucasus carried out a thorough analysis of the existing technologies to achieve designated purposes.

Universal solutions found were technologies provided by Microsoft, the possibility of which in conjunction with the existing equipment in IDGC of Northern Caucasus equipment allowed to build solutions for clustering of capacity and virtualization of server roles.

During the study, a test laboratory was built, where the infrastructure has been deployed and the necessary information systems were configured. Thoroughly studying and putting into practice new skills, experts of the company on their own acquired professional knowledge and experience in configuring, building and installing server capacity, data storage systems, switching equipment needed to build cluster solutions and storage area networks within the shortest time possible.

The result is a robust, highly available hardware and software complex (private cloud), which allows the server to provide operational capacity and resources for data storage. Used virtualization technologies allow for optimal allocation of information systems, with virtual elimination of downtime, as well as for dynamic load balancing, with great reduction of power consumption of the equipment. Placement of information systems in a virtual environment will significantly reduce costs for the purchase of new equipment in the near future. Reducing the number of server fleet has led to significant savings in the purchase of spare parts and accessories.

After thorough testing, the complex was put into operation, and the process of migration of existing information systems to the Virtual Data Center started. After the transfer of information systems, tests were carried out, which once again confirmed the high performance of the new complex, namely: high availability, fault tolerance, security, productivity, the ability to quickly provide the necessary resources, ease of management, scalability. The Virtual Data Center is the heart of the Company's IT infrastructure and due to its characteristics and professionalism of administrators it ensures reliable operation of such vital information systems, such as: e-mail, database 1C, and many others, at the same time providing opportunities for rapid deployment of new information systems.

Further areas in the field of ICT

Development will continue on the basis of import substitution and reduction of costs. The priority areas of work in 2016 are the following: creation of a common information space of IDGC of Northern Caucasus, further modernization of the IT infrastructure, development and modernization of inter-regional corporate data transmission network, as well as development of information systems on the basis of complex "1C-Energy".

It is also planned to expand the range of IT services to local and remote users (access to corporate email and corporate resources with solutions from AltEl, installation, updates of software, as well as increased monitoring of software and hardware).

Procurement Activities

Normative regulation of procurement activities (existing organizational and regulatory documents of the Company governing the procurement activities):

Uniform Procurement Standard of Rosseti PJSC (Regulation on procurement) (hereinafter - the Standard) (approved by the Board of Directors of IDGC of Northern Caucasus, minutes dated December 21, 2015 No.220).

The main organizational and administrative documents of the Company regulating the purchasing activities include:

- Order of IDGC of Northern Caucasus “On organization of purchasing activity” (released in 2013), order of IDGC of Northern Caucasus “On the harmonization of procurement procedure, not related to the implementation of the priority tasks of the Company” (released in 2015).

Principles of building procurement activities of IDGC of Northern Caucasus:

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

Equality, justice, non-discrimination and unjustified restrictions of competition in relation to the participants of purchase - the choice of suppliers, contractors, performers, carried out mainly through competitive selection, on the basis of equal competitive opportunities, the absence of discrimination and unreasonable restrictions in relation to the participants of procurement in accordance with the requirements to potential participants of procurement procedures and the goods, works and services, 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 for the totality of the price and non-price pre-established criteria for determining the economic and other required procurement efficiency.

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

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

Professionalism and competence of the employees involved in the procurement of Rosseti PJSC and Rosseti SAC PJSC - personal responsibility of officials for the effective organization of procurement procedures, as well as their decisions on procures, flawless execution of actions prescribed by the regulatory procurement documents.

Compliance with current legislation governing the organization of procurement and anti-corruption legislation, including anti-corruption standards of procurement.

Procurement standard provides for the following procurement methods:

- tender;
- auction;
- request for proposals;
- request for prices;
- purchase from a single source;
- simple purchase;
- small purchase;
- purchase through participation in procedures organised by product sellers.

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

- a) open and closed;
- b) in electronic form or using hard copies;
- c) with or without re-auction;
- d) with preliminary qualification selection of procurement participants, or without such;
- e) with or without an option to submit alternative proposals;
- f) in one-, two- or multi-stage form;
- g) special procedures for procurement of complex goods;
- h) with the 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);
- i) procurement for the right to execute a framework agreement with one or more participants of procurement.

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 prices;
- simple purchase or minor purchase;
- purchase from a single supplier (executive, contractor).

The auction is held in the procurement of products for which there is a competitive market of producers and in respect to which the initiator of procurement set forth detailed requirements in the form of technical specifications. Rosseti CPB PJSC has the right to determine the list of products purchased only by the results of the auction.

RFP is conducted in compliance with at least one of the following conditions:

- a) the initial (maximum) contract price does not exceed 10 M RUB. (with value added tax);
- b) works are carried out on construction, reconstruction and technical upgrading of electric grid facilities required for the implementation of measures on technological connection of preferential groups of applicants.

Preferential groups of applicants mean:

- 1) connection of applicants' power installations at voltage up to 20 kV with 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 installations at voltage up to 20 kV with 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 installation at voltage of up to 20 kV and 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 to work on the construction (reconstruction) of electric grid facilities with the exception of work on construction of objects from existing networks to connected electrical installations.

Application of the request for quotations may be carried out during procurement of simple goods, for which there is a functioning market, the only criterion is the price and the initial (maximum) contract price which does not exceed 5 M RUB (with value-added tax). RFQ may

also be carried out on the results of the open competition procedures, among the participants, which have signed a framework agreement.

Simple purchases are carried out at the initial (maximum) contract price of 100,000 rubles up to 500,000 rubles inclusive (with the value-added tax). Simple purchase by the decision of the Customer can be carried out at the initial (maximum) contract price of less than 100,000 rubles. (with value added tax)

Small purchases are made at the initial (maximum) price of the purchase of up to 100,000 rubles. (with value-added tax).

Reasons to sign the agreement with a single source are defined by the standards and may be held if approved at the meeting of the Central Procurement Body of the Company.

Purchases by participating in procedures organized by the 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 provide an honest and fair competition for participants of procurement.

Actually in 2015 for needs of IDGC of Northern Caucasus they made 481 purchases for the total amount of 2,284.6 M RUB, VAT excluded.

Also by type of purchases:

89 purchases with open requests for prices for the amount of 143,507.94 K RUB, VAT excluded (18.50% of the total number of purchases, 6.28% of the total volume of procurement in cost terms);

32 purchases following OKP results prices for the amount of 216,210.12 K RUB, VAT excluded (6.65% of the total number of purchases, 9.46% of the total volume of procurement in cost terms);

28 purchases in open single-stage tenders for the amount of 520,854.49 K RUB, VAT excluded (5.82% of the total number of purchases, 22.79% of the total volume of procurement in cost terms);

153 purchases with open requests for proposals for the amount of 1,015,340.70 K RUB, VAT excluded (31.80% of the total number of purchases, 44.44% of the total volume of procurement in cost terms);

14 purchases from a single source for the amount of 20,398.69 K RUB, VAT excluded (0.89% of the total volume of procurement in cost terms);

107 purchases from a single source following the results of non-completed open procedures for the amount of 361,590.53 K RUB, VAT excluded (15.94% of the total volume of procurement in cost terms).

Also by type of activities:

“New construction and extension of power grid facilities” - 17 purchases for the amount of 161,306.28 K RUB, VAT excluded (3.53% of the total number of purchases, 7.06% of the total volume of procurement in cost terms);

“Reconstruction and technical re-equipment of power grid facilities” - 116 purchases for the amount of 784,694.16 K RUB, VAT excluded (24.11% of the total number of purchases, 32.77% of the total volume of procurement in cost terms);

“Energy repair facility” - 235 purchases for the amount of 1,056,119.95 K RUB, VAT excluded (48.85% of the total number of purchases, 46.22% of the total volume of procurement in cost terms);

“IT procurement” - 18 purchases for the amount of 38,523.81 K RUB, VAT excluded (3.74% of the total number of purchases, 1.68% of the total volume of procurement in cost terms);

“Other purchases” - 95 purchases for the amount of 279,957.32 K RUB, VAT excluded (19.75% of the total number of purchases, 12.25% of the total volume of procurement in cost terms);

Including the scope of open competitive procurement procedures in the amount of 467 purchases. The number of purchases using e-commerce made 408 purchases in the amount of 2,241.2 M RUB without VAT (85% of total purchases, 98.8% of the total purchases (excluding purchases from a single source) in value terms). The share of public procurement procedures (open tenders, requests for proposals, competitive negotiations, closed requests for prices as a result of open competitive negotiations) in the procurement structure was 100% of the total number of completed procurement procedures and 100% of the total procurement by value.

The economic effect on the results of the procurement procedures for the period amounted to RUB 140.2 million, VAT excluded, or 6% of the declared value of the planned competitive procurement.

The volume of purchases from small and medium-sized enterprises amounted to 1,851.5 M RUB, VAT excluded (452 purchases), or 81.62% of the actual volume (94.16% by number).

The company has approved a list of goods, works and services, procurement of which is carried out in small and medium-sized businesses. This measure is aimed at improving access of small and medium-sized businesses to procurement carried out by the company. An additional tool to attract small and medium-sized businesses to participate in trade and procurement procedures in 2016 is planned as holding 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 accordance with the approved list dated July 1, 2015, IDGC of Northern Caucasus announced 18 purchases from small and medium enterprises in the amount of 230,301.57 K RUB without VAT.

In order to increase the transparency of procurement activities and enhance the competitive environment among small and medium-sized enterprises (hereinafter - SMEs) in the framework of the Road Map “Improving access of small and medium-sized businesses to the procurement of

infrastructure monopolies and state-owned companies”, approved by the RF Government on May 29, 2013 No.867-r, and also to improve the availability of information on current procurement procedures among SMEs in the “Procurement” / section “Procurement for SMEs” on the Company's official website there is information about the parts of the procurement plan, providing for the purchase only from SMEs, as well as procurement, which is planned to attract SMEs as subcontractors.

In 2016, in order to ensure the financial stability of IDGC of Northern Caucasus 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 priorities of IDGC of Northern Caucasus, as well as having superior characteristics, the establishment of a valuation of individual purchases of goods, it is planned to approve organizational and administrative documents, which determine the requirements for certain types of goods, works and services procured by IDGC of Northern Caucasus.

Public and governmental relations

Directorate of Public Relations of IDGC of Northern Caucasus, structural units for relations with the public branches during the year built their work in accordance with a uniform internal and external information policy of the Rosseti Group of Companies. Directions of this policy are determined by the order of Rosseti dated April 30, 2013 No.271 / 284 “On unified information policy of Rosseti. In the reporting period, the main objectives included creation and promotion of a positive image of IDGC of Northern Caucasus, to ensure the effective management of public relations and publicity capital (image property and business reputation).

Active work was in progress on development of interaction with the media, public authorities and members of the public with an interest in the company. In order to ensure maximum openness and transparency, representatives of IDGC of Northern Caucasus regularly participated in national and international conferences and seminars.

Principles of interaction of IDGC of Northern Caucasus with the public and the media:

- Disclosure of the company's activities in accordance with the Regulation on Information Policy of IDGC of Northern Caucasus;
- Provision of relevant information that fully and objectively covers all aspects of the company's activities;
- Providing timely responses to requests for information received.

Communication with public authorities and civil society organizations

In 2015, 68 meetings with regional leaders and relevant departments of the North Caucasus Federal District were held. As a result, IDGC of Northern Caucasus could make significant progress in addressing important issues, such as:

- Consolidation of power grid assets;
- Development of energy sector of the North Caucasus Federal District;
- Improving the quality of power supply and reduction of power losses in networks;
- Optimization of processes of technological connection to electric networks;
- Optimization of payment for services on electric power transmission.

Social communications

In line with its ambitious social policy, Rosseti PJSC in 2015 implemented a program of public and information measures to prevent cases of injury of third parties at facilities of the power grid complex of IDGC of Northern Caucasus.

1,305 lessons on electrical safety were held in educational institutions, orphanages in the North Caucasus Federal District, where memos, bookmarks were handed out on the topic of child electrical safety, all 3,160 schools of the North Caucasus Federal District were provided with posters on electrical safety in Russian and national languages .

TV channels and radio stations regularly broadcasted public service announcements for the prevention of electric injuries – the total of 111 broadcast outlets. 57 TV stories and reports were issued about activities in educational institutions and children's holiday camps, checking electrical installations, located near schools, including radio STRBC “Karachay-Cherkessia”, information and music programs “Vesti Karachay-Cherkessia” and “Republic”, TRBC “Arkhyz-24”, ASTRBC (All-Russian State Television and Radio Broadcasting Company) “Stavropolye”, STRBC “Alania”, ASTRBC “Kabardino-Balkaria”.

Power engineers of IDGC of Northern Caucasus and its branches, with the active information support covered with preventive measures virtually all categories of citizens. The company's specialists took part in the 50 village meetings, at the beginning of the summer season, organized meetings and discussions with members of the public associations of anglers, initiated performances at parents' meetings in schools. Raids of electrical inspections arranged on or near schools and children's holiday camps in the country were covered in the news; extra posters explaining the risk of electrical shocks at the power grid facilities, located near bodies of water for recreation and fishing were installed.

As part of prevention of theft of equipment, which is the cause of electric injuries, jointly with law enforcement authorities they carried out 32 raids on verifying points of reception of ferrous and non-ferrous metals and installed warning posters in their premises.

At the initiative of the power engineering branch of IDGC of Northern Caucasus – Stavropolenergo, the contest “Best Electrically Safe Dormitory of the Stavropol Territory” was organized with the award ceremony, which found support from the management of the Northern Caucasus Federal University (SCFU).

On September 16, 2015 the presentation “Electricity is Dangerous” was held for students of the Northern Caucasus Federal University. In the run-up to the International Festival of Social Projects, employees of the department of Public Relations of Stavropolenergo held an introductory meeting with students of 1 and 2 years of the Humanities Institute of SCFU, who chose to study “Advertising and Public Relations”.

Through program “Week of Electrical Safety in Schools of the Territory” developed by experts of Stavropolenergo in cooperation with the Ministry of Education of Stavropol Territory, twice a year there are promos on electrical safety in educational institutions: before autumn and summer vacations.

In Karachaevo-Cherkessia Republic they conducted four quizzes on the topic of prevention of electric injuries among children: in the secondary school in settlement Kavkazskoe of

Prikubansky district, country camps “Sosenka” in Zelenchukskiy district and “Lesnoe” in Prikubansky district, as well as for the pupils of the republican rehabilitation center “Nadezhda” for minors and full-time students of the “Ostrovok nadezhdy” department in the center.

As part of the memoranda of cooperation with public authorities, signed in all regions of the Northern Caucasus Federal District, specialists of the grid company held joint preventive actions with the participation of regional authorities in the sphere of education, energy, regional Ministry of Internal Affairs authorities, Ministry of Emergency Situations, Rostekhnadzor, among which the greatest impact was produced by press conferences, “round tables” on electrical safety.

Within information support of activities related to strengthening of payment discipline of the consumers and reduction of receivables, information was regularly posted in the media about negative consequences of non-payment for energy resources - in 2015 they distributed 192 press releases on the debt problem, published 10 analytical materials in the news agency “Interfax”, “AIF”, “MK-Kavkaz”, “Komsomolskaya Pravda”, “Ekspert-Yug”, “Vestnik Kavkaza”, “Chernovik”, “Vesti respubliki”, “Serdalo”. On TV “Karachay-Cherkessia” they organized a direct line with participation of Deputy Director for development and realization of Karachay-Cherkessia Branch of IDGC of Northern Caucasus Service on reducing accounts receivable for power transmission services.

Power engineers of Karachay-Cherkessia Branch presented the regional branch of the “All-Russian Electrical Trade Union” in the interdisciplinary Games of trade union organizations of the republic – “Ready for Labour and Defence”.

In order to optimize work with citizens, business community and NGOs, as well as to improve business reputation, to form and promote positive image, in 2015 the company continued to work in the online format of the Public Reception of the General Director of IDGC of Northern Caucasus.

Communication with media

Following the results of information activity rating of Rosseti subsidiaries rating, in 2015 IDGC of Northern Caucasus came out with the result of 10,263 mentions in the media, 96.4% of which were neutral or positive.

During 2015, regional TV channels broadcasted 76 television programs on the Company's activities, and 2,394 publications were published in regional media.

“Power Transmission” (specialized monthly television program in the regions of presence with timing of 5-6 minutes and coverage of 7 million people) made it possible to significantly expand the target audience, to cover new information space for the purpose of objective and operational notification about the Company's activities.

IDGC of Northern Caucasus as a socially oriented company is pursuing a policy of social responsibility, which is realized in the annual charity events. IDGC of Northern Caucasus continues to develop and strengthen cooperation with the sponsored social institutions. Among the social institutions of the Stavropol Territory, which are regularly assisted by the Grid Company, there is GKUZ “Specialized Orphanage Mashuk” home for children with central nervous system damage, mental disorders, GOU “Krupskaya Orphanage No.10”, “GKS (K) OU “Special (correctional) boarding school No.27”, GOU for orphans and children left without

parental care “Orphanage (mixed) No.32”, GKS (K) OU “Special (correctional) comprehensive school - boarding school No.12 of type VIII”.

Within the socially oriented policy, Karachaevo-Cherkessia branch in 2015 continued its participation in the charity event “Jam Day”, where power engineers congratulated more than 20 children from the social institutions of the Republic on their birthdays: the orphanage “Zabota”, Infant Orphanage, boarding school of the settlement Khusa Kardonik, orphanage of the settlement Moskovskiy and rehabilitation center “Nadezhda”.

The team of Karachay-Cherkessia Branch participated in a charity fair “To Help is Easy” on Children's Day, where financial assistance was provided to a family with two seriously ill children. As part of the charity event “Police Santa Claus” power engineers in cooperation with law enforcement officers congratulated children of families in difficult situations, and inmates of the rehabilitation center “Nadezhda”.

In February 2015, the team of Kabardino-Balkarian branch held a charity event - collected private funds, and provided targeted assistance to low-income families of the Republic.

In order to preserve the history of creation of the power grid complex of the Northern Caucasus, work is in progress to implement the communication project, associated with the legendary power facility Bely Ugol HPP, owned by the branch of IDGC of Northern Caucasus - Stavropolenergo.

In the building of hydropower museum of Bely Ugol HPP the employees of Stavropolenergo collected historical documents, surviving parts of the equipment, decorated stands, where more than 100-year history of the legendary facility is presented. Through the implementation of the project, the historical and cultural monument of the federal significance was not only saved, but also made available to visitors.

Plans for 2016

The implementation of the complex of events dedicated to the 80th anniversary of the branch of IDGC of Northern Caucasus - Stavropolenergo, including:

- launch of a retro tram, decorated inside and outside with photographs depicting historical events related to the stages of development of the energy system of Russia and Stavropolenergo development;
- production and presentation of the stand layout of Bely Ugol HPP as a prototype of the world's first grid;
- PR-campaign "House for the birds" with the support of the Ministry of Education and Youth Policy of the Stavropol Territory (making birdhouses with the logos of the Company and jubilee symbols together with the students of secondary schools);
- anniversary bicycle race in the territory of the Caucasian Mineral Waters;
- conducting "round table" with representatives of the executive authorities, meetings at the level of the production units with the participation of representatives of regional state administrations and management of electrical networks, sporting events.

For the Children's Day the PR department specialists of the branch Stavropolenergo plan to organize a quest game on electrical safety among students of educational institutions, as well as orphanages, located in the Stavropol Territory. This date will coincide with a drawing contest on the asphalt among branch employees.

The opening of the branch Stavropolenergo customer service department, which will deal with appeals of citizens on issues of payment for the consumed energy, technological connection of new facilities, the installation of electricity meters.

The campaign “Energy of Good Books” of Karachaevo-Cherkessia Branch - events to collect books for their subsequent transfer to the sponsored orphanages, schools, libraries. Books from power engineers will be signed.

In 2016 it will be the 100th anniversary since the birth of the Hero of the Soviet Union Osman Kasaev, with a street named after him, where Karachay-Cherkessia branch is located. The campaign will include events dedicated to this date.

Congress and Exhibition Activity

In 2015 IDGC of Northern Caucasus took part in the regional, federal and international congress and exhibition events:

- The annual St. Petersburg International Economic Forum (16-18 June 2015);
- XIV International Investment Forum “Sochi-2015” (September 1, 2015) - a modern platform for constructive dialogue between business and the authorities with a view to the implementation of investment projects;
- International electric power forum Rugrids-Electro (Moscow) became a unique professional platform, designed to give the power industry a new direction of development, also in the field of innovation.

Anti-corruption policy

On December 30, 2014 the Board of Directors of IDGC of Northern Caucasus, adopted anti-corruption policy of Rosseti PJSC and Rosseti SAC PJSC in the new edition (Minutes No.183) as a single basic document containing a set of interrelated principles, procedures and specific activities aimed at preventing and combating corruption in IDGC of Northern Caucasus.

The basic principles of anti-corruption policy are the following:

- Compliance with applicable laws and generally accepted standards;
- Compliance with the legitimate rights and interests, the protection of business reputation of employees, partners, contractors and other persons, adherence to commercial secrets in the implementation of anti-corruption measures;
- A personal example of leadership in the formation of a culture of intolerance towards corruption and the establishment of the intra-warning systems (prevention), and combating corruption;
- The involvement of employees, awareness of employees of the organization about the provisions of anti-corruption laws and their active participation in shaping and implementing anti-corruption standards and procedures;
- Proportionality of the anti-corruption procedures implemented to corruption risk in IDGC of Northern Caucasus;
- Effectiveness of anti-corruption procedures, conducting anti-corruption measures that ensure ease of implementation and bring significant result;

- Responsibility and certainty of punishment for employees of IDGC of Northern Caucasus, regardless of position, length of service and other conditions if they have committed corruption offenses in connection with the performance of job duties;
- Openness of business: informing partners, contractors and the public on IDGC of Northern Caucasus anti-corruption standards of doing business;
- Constant control and monitoring of the effectiveness of implemented anti-corruption standards and procedures, as well as control of their execution.

In order to implement the provisions and principles of the anti-corruption policy aimed at preventing and combating corrupt practices, on 16 February 2015 the Directorate of Anti-Corruption Compliance Procedures was established as a structural unit of IDGC of Northern Caucasus (staffing level - 5 people) with direct submission to the Director General.

In order to implement the provisions and requirements of the Anti-Corruption Policy, within the framework of anti-corruption measures in the List of Rosseti PJSC and Rosseti SAC PJSC (Appendix No.1 to the Anti-Corruption Policy) a plan of actions to counter (prevent) corruption, to control compliance of IDGC of Northern Caucasus was developed and implemented for 2015.

In order to improve the legal regulation of anti-corruption activities, the formation of a common approach to work on the prevention and combating of corruption, they developed organizational and administrative documents (on measures to implement the provisions of the Anti-Corruption Policy of Rosseti PJSC and Rosseti SAC PJSC in the branches of IDGC of Northern Caucasus, controlled Companies; on approval of the reception, consideration and resolution of complaints about possible cases of corruption, measures to prevent corruption-prevention and settlement of conflict of interest in IDGC of Northern Caucasus, managed companies and its subsidiaries, on the approval of the Methodological recommendations on anti-corruption standards of conduct, the organization of work for the declaration of information about the property, income and property obligations; on approval of the report employees of the receipt of gifts in connection with their official position; "Anti-corruption clause"; "Procedure for obtaining and processing information about the chain of owners of counterparties, including final beneficiaries in IDGC of Northern Caucasus and managed Companies").

On the basis of these documents, unified mechanisms started to work in IDGC of Northern Caucasus to verify the information on the chain of owners of counterparties, including beneficiaries (including final ones), to handle personal information during disclosure of information about the owners' chain of contractors. An interactive channel of communication with applicants through the corporate website was established, a Commission on compliance with corporate ethics and conflict of interest settlement was founded, work is in progress on declaration of income and conflict of interest of employees, legal education and formation of the foundations of law-abiding behaviour among power sector workers, many other anti-corruption procedures were launched.

To determine the specific business processes and business operations in the business of IDGC of Northern Caucasus, the implementation of which is most likely to commit corruption offenses employees, corruption risks were assessed.

Within implementation of requirement of a single Anti-Corruption Standard while conducting anti-corruption control in procurement, review of procurement documentation and participants in the procurement / contracting parties is carried out in order to assess their level of trustworthiness and integrity, conflict of interest, exclude affiliation and other abuses associated

with jobs held in IDGC of Northern Caucasus. At the stage of execution of contracts, monitoring of compliance with the anti-corruption clause is carried out, as well as of timely provision of changes included in the chain of the contracting party owners.

In order to implement measures aimed at improving the efficiency and financial sustainability of the company, they developed and put into practice the parameters to assess reliability and financial stability of the organization (individual) - the counterparty, which is a party in a contractual relationship with IDGC of Northern Caucasus, affiliates and managed companies. This procedure allows to define the emerging categories of risk for the company, the degree of reliability of the counterparty and financial stability of the organization (individual) – counterparty, to organize the estimates and characteristics used by the department. As corruption risks are identified, conclusions are prepared on reliability of the counterparty, risk categories are defined for cooperation with the partner.

The use of parameters of reliability and financial stability assessment of the organization (individual) in process of audit of contracts coming from the structural units of IDGC of Northern Caucasus to the Directorate for approval, has shown its effectiveness. During the reporting period, the Directorate checked more than 600 contracts. With regard to nine contracting parties, the company management received information materials, indicating the presence of information about possible affiliation and unreliability of counterparties. In respect of one counterparty in 2015 pre-conflict situations were revealed with the employees of the company, in terms of conflict of interest in connection with his possible participation in the decision to purchase goods, the rights to which are owned by himself or other persons, which are associated with personal interest of the employee. This situation was considered at the Commission of IDGC of Northern Caucasus, managed companies and subsidiaries on compliance with corporate ethics and conflict of interest and was settled.

Within implementation of standards and procedures designed to ensure fair work in practice, to identify the facts of affiliation and other abuses, in February 2015 the Directorate, in cooperation with the Department of Personnel Management and Organizational Design of IDGC of Northern Caucasus took measures to check information about income, property and property obligations in relation to citizens applying for positions and employees, replacing positions in IDGC of Northern Caucasus and their close relatives.

In order to limit the influence of private interests, personal interest of employees at their performed labour functions and business decisions made, in the current year work was undertaken to identify, prevent and resolve conflicts of interest. In August 2015, during the declaration on conflict of interest of employees of IDGC of Northern Caucasus campaign, managed companies and its subsidiaries in 2014, an event was held to declare the conflict of interests of workers included in the list of posts subject to declaration. The results of this work were considered on August 29, 2015 at the Commission of IDGC of Northern Caucasus on compliance with corporate ethics and conflict of interest. Within this study they tested 68 candidates' declarations of conflict of interest and prepared the appropriate amount of the final conclusions.

Pursuant to the decision of the Board of IDGC of Northern Caucasus dated March 30, 2015 the Directorate of anti-corruption compliance procedures performs the functions of monitoring compliance with the requirements of IDGC of Northern Caucasus on insider information legislation:

- Keeps records of persons who have access to material information;

- Sends a notification on the inclusion / exclusion of a person from the list of insiders;
- Participates in the events on the conclusion of agreements with insiders of the insider information confidentiality protection, providing for a ban on the insiders' use of insider information for personal gain or enrichment of third parties;
- Keeps records of insider transactions with shares in the company;
- Brings information on violations to the government;
- Prepares and sends quarterly reports to the Board of Directors.

In the reporting period, work was carried out on acceptance of the company's employees, partners, contractors and other (natural and legal) persons messages on possible cases of corruption. To this end, the company created an interactive channel of communication with applicants, working telephone "hot line" and used a postal channel to collect messages and personal contacts. The necessary records are kept. In 2015, messages on the subject of potential corruption violations in the company were inspected.

As part of the legal education, formation of foundations for law-abiding behaviour of workers in collaboration with the Directorate of Public Relations, they updated the section "Anti-Corruption Policy" at the official website of IDGC of Northern Caucasus, posted information materials on the implementation of anti-corruption policy, and published the article in the corporate newspaper Rosseti PJSC "Meet Compliance Control of IDGC of Northern Caucasus". In order to implement the anti-corruption standards of conduct for employees in the corporate culture of the company, they developed and applied specific rules affecting the overall ethics of business relations, employee behaviour (Code of Conduct of IDGC of Northern Caucasus, Guidelines for the prevention and combating of corruption in the IDGC of Northern Caucasus and managed Companies).

In accordance with the requirements of the Anti-Corruption Policy, IDGC of Northern Caucasus took part in collective initiatives for combating and preventing corruption. In May 2015 the event was held on IDGC of Northern Caucasus joining the Anti-Corruption Charter of Russian Business (certificate of merger dated May 25, 2015 No.2071). The event on IDGC of Northern Caucasus joining the Anti-Corruption Charter of Russian business was covered in the regional media and is reflected on the official website of the company.

In connection with the transfer of powers of the sole executive body of last resort suppliers of the North Caucasus Federal District and Republic of Kalmykia to the management organization - IDGC of Northern Caucasus - analysis of activities undertaken for the implementation of the Anticorruption policy by the said suppliers was performed. In view of the identified deficiencies, actions were developed in managed Companies to improve the performance and effectiveness of anti-corruption.

In the framework of cooperation with law enforcement agencies in identification and investigation of corruption, cooperation was established with leaders and senior officials of the Chief Ministry of Internal Affairs of Russia in the North Caucasian Federal District, measures are in place to assist the authorized representatives of law enforcement agencies to investigate possible corruption offenses involving employees and contractors IDGC of Northern Caucasus.

In accordance with the approved plan of measures to counter (prevent) corruption, to control compliance of IDGC of Northern Caucasus for 2016, the Directorate of Anti-Compliance Procedures of the company continues to implement anti-corruption policy activities of Rosseti PJSC and Rosseti SAC PJSC.

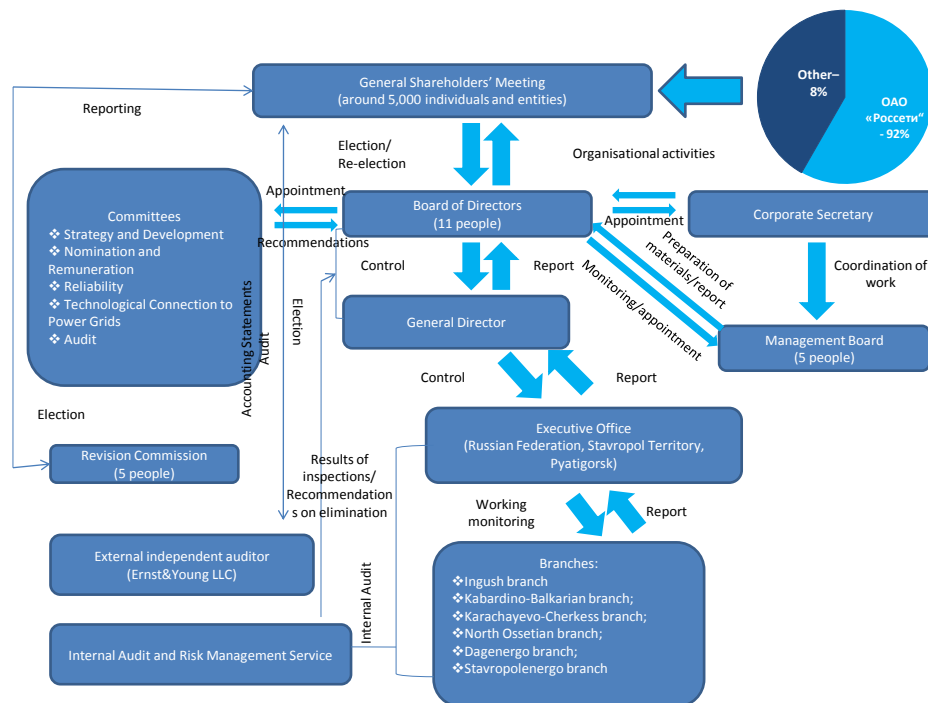
4. Corporate Governance

By corporate governance we mean the set of processes that provide control and monitoring of the company's activities and include relations between shareholders, the Board of Directors and executive bodies of IDGC of Northern Caucasus in the interests of shareholders.

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

We provide corporate governance of IDGC of Northern Caucasus, guided by the principles of accountability, fairness, transparency and responsibility. We strive to the fullest extent to follow the best corporate governance principles enshrined in the current edition of the Russian Code of Corporate Governance.

Main elements of corporate governance model of IDGC of Northern Caucasus



Documentation

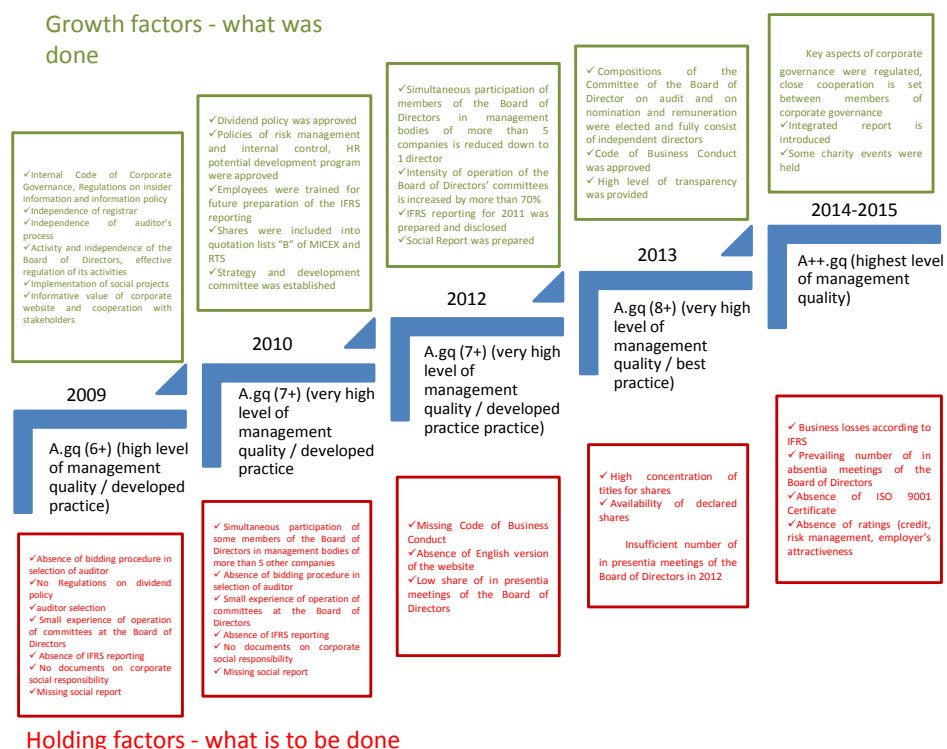
The basic principles of corporate governance as enshrined in the Articles of Association of IDGC of Northern Caucasus, are detailed in the Corporate Governance Code and other internal documents of the Company and are based on the norms of the Russian legislation, the Russian Code of Corporate Governance. Texts of local regulatory documents of IDGC of Northern Caucasus are presented on the company's website under "To Shareholders and Investors / Articles of Association and Internal Documents".

Analysis of state

The Russian Corporate Governance Code, adopted in 2014, covers the activities of IDGC of Northern Caucasus. In this regard, in the coming years, our goal is to adapt and to implement in acceptable manner the corporate governance provisions of the Russian Code into activities of IDGC of Northern Caucasus. To this end, in 2015 we conducted analysis of management practice of IDGC of Northern Caucasus on its compliance with the Code, using the recommendations of the Bank of Russia (the letter of the Bank of Russia of February 17, 2016 No.IN-06-52 / 8 “On disclosure of report on compliance with principles and recommendations of Corporate Governance Code in annual report of public joint stock company”).

In addition, in 2015, we carried out an annual **external independent audit of** IDGC of Northern Caucasus management quality by rating agency Expert RA (RAEX). The analysis was performed on the main factors: the rights of owners, management and control bodies, information transparency, corporate social responsibility, operational efficiency and market position. Methodology is available on the rating agency 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.

Reflecting quality of management of IDGC of Northern Caucasus in independent ratings by rating agency Expert RA



Source: Expert RA, IDGC of Northern Caucasus

Besides, in connection with the adoption of an updated Russian Corporate Governance Code, we conducted **an independent analysis** of compliance practices of IDGC of Northern Caucasus principles, which are enshrined in the Code. The analysis showed that IDGC of Northern Caucasus observes more than 50% of such principles, and taking into account the partial

compliance - 90%. In most cases, we use alternative mechanisms and corporate governance tools (see Appendix No.6 to the Russian-language Annual Report).

Plans

Our major plans in terms of corporate governance best practices in the company in the medium term are as follows:

- Maintain existing compliance (presented in Appendix No.6 to the Russian-language Annual Report);
- In connection with the adoption of the Russian Corporate Governance Code, to complete a separate comprehensive analysis of compliance of practices of IDGC of Northern Caucasus with the principles, which are enshrined in the Code, and to adopt a plan for implementation of certain provisions of the Code;
- Develop and approve a new version of the Corporate Governance Code of IDGC of Northern Caucasus, taking into account the provisions of the Russian Code of Corporate Governance.

Management and Control Bodies

Control bodies of IDGC of Northern Caucasus:

- General Meeting of Shareholders;
- Board of Directors;
- Management Board (collective executive body);
- General Director (sole executive body).

The body of control over financial and economic activity - Audit Commission.

General Meeting of Shareholders

- The supreme body of management of IDGC of Northern Caucasus

In 2015, there was one General Meeting of Shareholders of IDGC of Northern Caucasus.

June 11 - Annual General Meeting of Shareholders of IDGC of Northern Caucasus

Decisions (Minutes of June 16, 2015 No.15):

- Approve the annual report, annual financial statements;
- Not to pay dividends on ordinary shares for 2014;
- Elect the members of the Board of Directors and the Audit Committee;
- To approve the auditor;
- To approve the Articles of Association and the Regulations on procedure of preparation and holding of the General Meeting of Shareholders, the Regulations on the Auditing Committee in a new version.

The competence of the General Meeting of Shareholders - the most important issues of the company's activities in accordance with Russian law and art.10 of the Articles of Association Charter of IDGC of Northern Caucasus:

- Introduction of amendments and additions to the Articles of Association;
- Reorganization and liquidation of the company;
- Increase and decrease of the authorized capital;
- Determining the number of Board of Directors, election of its members and early termination of their powers;
- Election of members of the Audit Commission and early termination of their powers;

- Approval of the auditor;
- The decision to transfer the powers of the sole executive body of the managing organization (managing director) and early termination of its powers;
- Approval of annual reports, annual financial statements, as well as distribution of profit (including payment (declaration) of dividends);
- Making decisions on approval of transactions in cases stipulated by the Federal Law "On Joint Stock Companies";
- Approval of internal documents regulating the activities of bodies;
- A decision on the payment of members of the Board of Directors and Audit Committee members' remuneration and (or) compensation;
- A decision on the treatment of the application for delisting of shares and (or) equity securities, convertible into its shares;
- Decide on other matters.

Matters referred to the competence of the General Meeting of Shareholders may not be delegated to the Board of Directors and executive bodies. The general meeting of shareholders may not consider and make decisions on matters not within its competence by the Federal Law "On Joint Stock Companies".

Board of Directors

- Governing body that determines the company's development strategy

We believe that a professional Board of Directors is a key element of the corporate governance system of IDGC of Northern Caucasus, affecting the performance of the company and provide strategic guidance and oversight of the executive bodies in the interests of shareholders and the company itself.

In its activities, the Board of Directors is governed by the Federal Law "On Joint Stock Companies", other normative legal acts of the Russian Federation, the Articles of Association of IDGC of Northern Caucasus, the Regulations of 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 North Caucasus and the Code of Conduct of IDGC of Northern Caucasus.

We rigorously strive to ensure that a candidate for the Board of Directors of IDGC of Northern Caucasus 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 the Board of Directors of IDGC of Northern Caucasus carried out by members of a transparent procedure (recorded in the Charter of the Company), allowing the shareholders to get information about the candidates, sufficient to form a picture of their personal and professional qualities. Information on the candidates, as well as shareholders, to nominate for inclusion on the list for election to the Board of Directors posted on the website of IDGC of Northern Caucasus in the "To Shareholders and Investors / Corporate Governance / Materials to General Meeting of Shareholders" and "To Shareholders and Investors / Corporate Governance / Board of Directors".

We believe that the structure of IDGC of Northern Caucasus Board of Directors is balanced, including the qualifications of its members, their experience, knowledge and business qualities.

According to the Corporate Governance Code recommended for application by the Bank of Russia, under normal circumstances a member of the Board of Directors, who is associated with the company, its significant shareholder, an essential counterpart or competitor company, 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, there are no independent directors. However, we believe that all persons elected to the Board of Directors of IDGC of Northern Caucasus, have sufficient professionalism, experience and independence to form their own position, and the ability to make objective and conscientious decisions.

Decisions at a meeting of the Board of Directors of IDGC of Northern Caucasus adopted by a majority vote of the members of the Council who vote, except for the cases stipulated by the Russian Federation legislation and the Company's Articles of Association. The quorum for a meeting is at least half of the elected members of the Board of Directors.

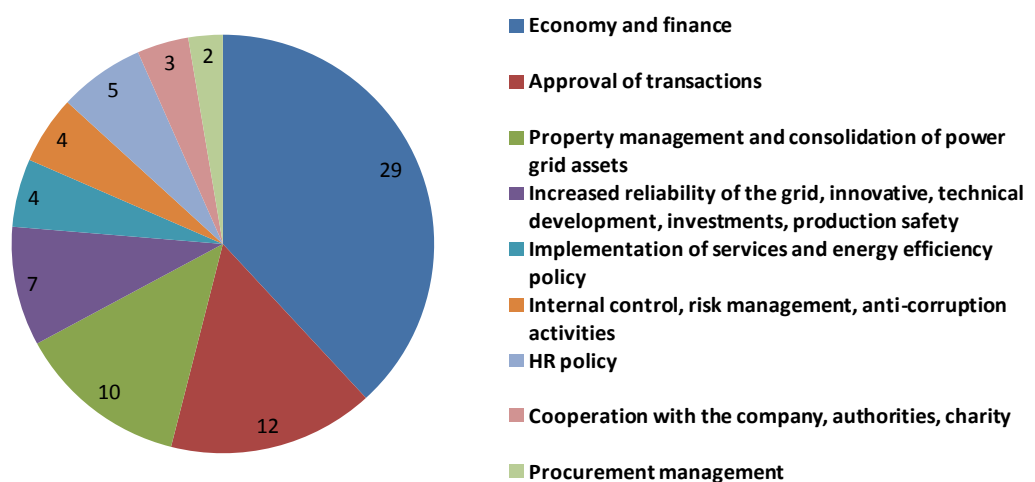
In 2015 there were 40 Board of Directors of IDGC of Northern Caucasus meetings (10 of them - in the full-time / part-time form). In total they examined 265 questions.

The Board of Directors considered the issues related to implementation of the strategy of IDGC of Northern Caucasus. Among the key decisions taken by the Board of Directors, are the following:

- Approved the policy to ensure integrated security of IDGC of Northern Caucasus (Minutes of February 16, 2015 No.184);
- Approved the list (plan) of urgent measures to ensure the financial stability of IDGC of Northern Caucasus for the period of 2015-2019 (Minutes of February 16, 2015 No.185, on March 16, 2015 No.188, on July 16, 2015 No.202);
- Approved the investment policy (minutes of March 2, 2015 No.186);
- Approved the method of calculating and evaluation of key performance indicators of the company's General Director (Minutes of March 10, 2015 No.187);
- Define priorities of IDGC of Northern Caucasus: implementation of measures for the centralization and automation of treasury functions (Minutes of March 10, 2015 No.187);
- Approved the business plan, including an investment program for 2015 and the forecast for 2016-2019 (Minutes of April 1, 2015 No.189);
- Approved the Regulation on the Audit Committee of the Board of Directors of IDGC of Northern Caucasus in the new edition (Minutes of April 2, 2015 No.190);
- Approved the draft of the adjusted investment program for 2015 and the period of 2016-2020 (Minutes of the April 2, 2015 No.190);
- Reviewed report on the effectiveness of internal control and risk management of IDGC of Northern Caucasus for 2014; sole executive body was instructed to implement a set of measures to develop and improve the system of internal control and risk management proposed in the Report on the effectiveness of internal control in 2014, including the improvement of the quality system implementation of the internal audit function, ensuring improvement of the internal control system maturity (minutes dated April 24, 2015 No.192);
- approved the report on the execution of the business plan, including an investment program for 2014 (Minutes of the June 5, 2015 No.198);
- Approved customer service quality standards of IDGC of Northern Caucasus in the new edition (Minutes of June 15, 2015 No.199);
- Approved the Board of Directors' work plan for 2015-2016 (Minutes of July 27, 2015 No.203);
- Selected compositions of the Committees at the Board of Directors (Minutes of July 27, 2015 No.203, September 14, 2015 No.209);

- Considered the report of the Board of Directors Audit Committee of IDGC of Northern Caucasus, on the work done in the 2014-2015 corporate year (Minutes of July 27, 2015 No.203);
- To approve contracts on transfer of powers of the sole executive body of Dagestan Energy Retail Company PJSC, Sevkavkazenergo PJSC, Kabbalkenergo PJSC, Ingushenergo JSC, Karachayevo-Cherkessskenergo JSC, Kalmenergosbyt JSC as a transaction of interest (minutes of August 21, 2015 No.206);
- Approved the program for consolidation of power grid assets of IDGC of Northern Caucasus in 2015-2017 (Minutes of October 2, 2015 No.211);
- Considered plan of corrective actions on the results of audits for 2014 and information on the progress of its implementation (Minutes of November 5, 2015 No.215);
- Approved the revised business plan, including the investment program and information on the key operational risks for 2015 (Minutes of the December 3, 2015 No.218);
- Approved the Regulation implementing unified communication policy of IDGC of Northern Caucasus (Minutes of December 23, 2015 No.220);
- Approved the Uniform Procurement Standard (Regulation on Procurement) (Minutes of December 23, 2015 No.220);
- Approved the Rules of consideration and settlement of disputes and conflicts of interests in Group companies Rosseti (Minutes of December 23, 2015 No.220);
- Approved the work plan of the Internal Audit and Control Directorate of IDGC of Northern Caucasus for 2016; sole executive body was entrusted with presenting to the Board of Directors of the consolidated plan of the internal audit of IDGC of Northern Caucasus and controlled companies (Minutes of January 11, 2016 No.222);
- Approved the adjusted summary business plan based on RAS principles and adjusted consolidated business plan based on IFRS principles of the Group of IDGC of Northern Caucasus for 2015 (Minutes of January 11, 2016 No.223);
- Approved the business plan of IDGC of Northern Caucasus, which includes investment program for 2016 and forecast figures for 2017-2020 years (Minutes of January 11, 2016 No.223).

Group issues considered by Board of Directors in 2015, %



Details of the decisions taken by the Board of Directors in 2015 - see the website of the company "To Shareholders and Investors / Corporate Governance / Board of Directors".

The competence of the Board of Directors - issues of company's business in accordance with Russian law and art.15 of the Articles of Association of IDGC of Northern Caucasus:

- Determination of priority directions of activity and development strategy of the company;
- Convening of General Meetings of shareholders, approval of the agenda of the General Meeting of Shareholders;
- Approval of equity instruments;
- Election of the Director General and early termination of his powers;
- Determination of the composition of the Board, election of Board members, early termination of their powers;
- Recommendations on the amount of dividend on shares and its payment procedure;
- Approval of internal documents, except for internal documents, the approval of which is within the competence of the General Meeting of Shareholders;
- Approval of the business plan, including the investment program;
- Establishment of branches and representative offices and their liquidation;
- Approval of major transactions in cases stipulated by the Federal Law "On Joint Stock Companies";
- Registrar's approval of contract with him, as well as termination of the agreement;
- Brought to disciplinary responsibility of the Director General and Board members and their remuneration;
- Consideration of reports on the activities of the Director General, on the implementation of the General Meeting of Shareholders and the Board of Directors;
- Determining the position of the company on a number of agenda items of general meetings of shareholders (members) and meetings of the Boards of Directors of subsidiaries and dependent companies;
- Definition of insurance policies;
- Approval of candidates for certain positions in the executive office;
- Preliminary approval of the collective agreement, agreements concluded within the framework of regulation of social and labour relations, approval of documents on non-state pension provision of workers;
- Creation of Board committees, the election of committee members and early termination of their powers;
- Definition of procurement policies;
- Approval of the target values of key performance indicators and reports on their implementation;
- Definition of policies aimed at improving the reliability of distribution grids and other electric grid facilities, including approval of strategic programs to improve the reliability of the electric grid complex development of electric grid complex and its safety;
- Approval of the regulations on material incentives for the General Director, the provisions on material incentives for top managers; approval of the list of senior managers;
- Filing an application for listing of shares and (or) equity securities, convertible into shares;
- Making decisions to join industry and cross-industry standards, regulations and other documents in the sphere of electric power industry;
- Definition of principles and approaches to risk management and internal control systems;
- Other issues in accordance with the Federal Law "On Joint Stock Companies" and the Articles of Association of the Company.

Matters referred to the competence of the Board of Directors may not be delegated to the Director General and the Management Board of IDGC of Northern Caucasus.

Responsibility of the Board of Directors is fixed in the following:

- Art.71 of the Federal Law “On Joint Stock Companies”;
- The Articles of Association of IDGC of Northern Caucasus;
- Regulations on the Board of Directors of IDGC of Northern Caucasus;
- Regulations on the Management Board of IDGC of Northern Caucasus;
- Regulations on insider information of IDGC of Northern Caucasus.

The quantitative composition of the Board of Directors of IDGC of Northern Caucasus - 11 persons. In 2015, there were two members of the Board of Directors.

The current members of the Board of Directors elected by the Annual General Meeting of Shareholders June 11, 2015

Arkhipov Sergey Alexandrovich

Chairman of the Board of Directors

He was born in 1967. In 1990 he graduated from Alma-Ata Power Engineering Institute on specialty “Electric power systems and networks”. Also he graduated from the Academy of National Economy under the Government of the Russian Federation in the specialty “Management of company development”; Candidate of Economic Sciences. In the period from July 2010 to October 2012 he held the post of Director-General in IDGC of South OJSC. From October 2012 to April 2013 he worked as Deputy Executive Director - Technical Director of IDGC Holding JSC (from April 4, 2013 – Rosseti JSC). Since April 2013, he held various management positions at Rosseti JSC: Deputy General Director - Technical Director, Deputy General Director - Chief Engineer, Deputy Director-General of the North Caucasus and Southern federal districts, Adviser. In February 2014 he was appointed Acting General Director of IDGC of Northern Caucasus, also took the post of Chairman of the Board. In August 2014 the authority of S.A. Arkhipov as Acting General Director of IDGC of Northern Caucasus was discontinued. Since 2015 and as of the end of 2015 he serves as a chief advisor to Rosseti PJSC.

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

Mangarov Yuri Nikolaevich

Deputy Chairman of the Board of Directors

Non-Executive Director

The Board of Directors of IDGC of Northern Caucasus, was elected for the first time on June 19, 2013.

He was born in 1956. In 1978 he graduated from the Plekhanov Moscow Institute of National Economy on specialty "Economic Cybernetics" (qualification “economist-mathematician”).

In the period from 2010 to 2013, he held various positions in FGC UES JSC - Deputy Chairman of the Board - Chief of Staff, Deputy Chairman of the Board. In the period from 2012 to 2013 - Deputy Executive Director - Head of the Administration of IDGC Holding JSC (from April 2013 – Rosseti JSC). He served as Deputy Director-General in 2013 - Head of the Administration of Rosseti. From December 2013 to January 2015 - Advisor of Rosseti. Between January 2015 and as of the end of 2015 - Chief adviser of Rosseti PJSC.

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

Ayrapetyan Arman Mushegovich

Non-Executive Director

The Board of Directors of IDGC of Northern Caucasus, was elected for the first time on May 30, 2008.

He was born in 1978. He graduated from the Rostov State Economic Academy and the Rostov State University.

From 2009 to 2010 - Deputy Head of the Center for Strategy and Development of JSC "IDGC Holding". In 2010-2011 - Director of the Department for Cooperation with the responsible executives of Olympstroy Group of Companies. From December 2012 to July 2013 - Director of Property Management Department of IDGC Holding JSC (from April 2013 – Rosseti JSC). From July 2013 to December 2015 he headed the Department of Accounting and Property Management of Rosseti PJSC.

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

Doroshenko Olga Nikolaevna

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 11, 2015.

She was born in 1980.

She graduated from the Pyatigorsk State Technological University majoring in "Finance and credit".

From May 2011 to August 2012, she held 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 economy department of finance, accounting and administration. In the period from September 2012 to September 2014 she was deputy head of department, head of the department of 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. Between September 2014 and as of the end of 2015 - Deputy Director of the Territorial Monitoring Department - Head of the Department of interaction with federal, regional, territorial and municipal authorities of the Ministry of Caucasus of Russia.

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

Zavizenov Konstantin Vladimirovich

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 24, 2014.

He was born in 1974. In 1996 he graduated from the Perm State Technical University (qualification "engineer - chemical engineer"), as well as regional intersectoral retraining center at Perm State Technical University (qualification "Economist-manager").

In the period from February 2007 to late 2013, he held various management positions at INTER RAO UES JSC: Head of the Department of investment programs, the head of the Department for internal control and risk management, the Director of the Internal Control and Risk Management. Since the end of 2013 and as of the end of 2015 held the position of Deputy Director of the Department of Electricity Development Ministry of Russia.

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

Zaitsev Yuri Viktorovich**Executive Director**

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 11, 2015.

He was born in 1970. He graduated from the Military University of the Defense Ministry of the Russian Federation and the St. Petersburg State Engineering and Economic University. Candidate of Economic Sciences.

From 1997 to 2013 he held executive positions in commercial structures. On February 14, 2014 he was included in the composition of the Management Board of IDGC of Northern Caucasus. February 17, 2014 he was appointed as Acting First Deputy General Director of IDGC of Northern Caucasus. On May 13, 2014 - First Deputy General Director of IDGC of Northern Caucasus. From 28 August 2014 and as of the end of 2015 - the General Director, Chairman of the Management Board of IDGC of Northern Caucasus.

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

Ozherelyev Alexey Alexandrovich**Non-Executive Director**

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 24, 2014.

He was born in 1986. In 2006 he graduated from the Moscow State Institute of Economics, Statistics and Informatics.

From 2009 to 2011 he served as Counsellor and Deputy Head of Department, Head of Department of the Department of Economic Regulation and Property Relations in the fuel and energy complex. From 2011 to 2013 he served as Deputy Head of Corporate Governance Department of FGC UES JSC. Since 2013, and as of the end of 2015 - the Head of the Directorate of organization management bodies of Rosseti PJSC.

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

Pavlov Alexey Igorevich**Non-Executive Director**

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 11, 2015.

He was born in 1982. In 2004 he graduated from St. Petersburg State University with a degree in "Mathematical Methods of Operations Research".

Since February 2010 to December 2011 he worked as head of the department of credit analysis of Barclays Bank. From April 2012 to April 2014 - Deputy Head of the Corporate Finance Department of UES FGC OJSC. From April to September 2014 - the chief credit analyst of Raiffeisenbank CJSC. Between September 2014 and as of the end of 2015 he's been managing finances of Rosseti PJSC.

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

Pronin Nikolay Nikolaevich**Non-Executive Director**

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 11, 2015.

He was born in 1952. In 1976 he graduated from the Bauman Moscow Higher Technical School (qualification "mechanical engineer").

In 2008-2014 he worked on the post of the first deputy head of the Economic Security Department of FGC UES JSC. Since August 2014 to November he headed the security department of Rosseti JSC. In December 2015 - the director of the Economic Security Department of Rosseti PJSC.

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

Rakov Alexey Viktorovich

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 11, 2015.

He was born in 1975. In 1997 he graduated from Penza State Technical University specializing in “Software of computer facilities and automated systems”, in 1998 - Penza Training Center (vocational education), the qualification “accountant of industrial enterprises”, in 2001 - Penza State Technical University, specialty “Electric power systems and networks”, in 2012 - Finance Academy under the Government of the Russian Federation, specialty “Finance and credit”.

Since December 2008 to May 2011 he served as the chief specialist of Integrated Energy Systems JSC. From May 2011 to January 2013 he was deputy head of the Department of Power Transport of IDGC of Center OJSC. Since the end of January 2013 and as of the end of 2015 held the position of Director of the Department of realization of grid services and interaction with the power market participants in Rosseti PJSC.

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

Shaydullin Farid Gabdulfatovich

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 11, 2015.

He was born in 1955. In 1978 he graduated from the Ural Electromechanical Institute of Railway Transport, specialty “Electrification of Railway Transport”.

Since July 2013, and as of the end of 2015 works as the head of the analysis of the production assets of the Asset Management Department of Rosseti PJSC.

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

**Composition of the Board of Directors of IDGC of Northern Caucasus elected by the
Annual General Meeting of Shareholders on June 24, 2014**

Arkhipov Sergey Alexandrovich

Chairman of the Board (since December 2014)

See the current composition.

Mangarov Yuri Nikolaevich

Deputy Chairman of the Board (since December 2014)

Non-Executive Director

See the current composition.

Varlamov Nikolay Nikolaevich

Deputy Chairman of the Board (until December 2014)

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 19, 2013.

He was born in 1974. He graduated from the Lomonosov Moscow State University, specialty “Oriental Studies. African Studies” (Bachelor of Oriental Studies, economist with knowledge of Chinese), the Finance Academy under the Government of the Russian Federation (Master of Economics).

From 2008 to 2011 - State Secretary - Deputy Head of the Federal Financial Monitoring Service. In the period from 2011 to 2013 he was Deputy Chairman of the Board of FGC UES JSC. From 2013 to January 2015 - Deputy Director General for Control and Audit of Rosseti PJSC. From January 2015 - Deputy General Director - Head of the Office of Rosseti PJSC.

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

Ayrapetyan Arman Mushegovich

Non-Executive Director

See current composition.

Varvarin Alexander Viktorovich

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 19, 2013.

He was born in 1975. In 1998 he graduated from the Griboyedov Institute of International Law and Economics, specialty "Jurisprudence" (qualification "Lawyer").

Since 2006, he is member of the Board, General Director of "Center of Corporate Relations and Economic Disputes", since 2009 - Managing Director, Corporate Relations and Legal Support of the Russian Union of Industrialists and Entrepreneurs.

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

Zavizenov Konstantin Vladimirovich

Non-Executive Director

See the current composition.

Zuykova Olga Valentinovna

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 24, 2014.

She was born in 1964. She graduated from the Ivanovo Lenin Power Engineering University, specialty "Power Systems" (qualification "Electrical engineer").

From October 2008 to June 2013 she headed the Directorate of industrial control and safety of IDGC Holding JSC. Since June 2013 led the production safety management of production safety management department of Rosseti PJSC.

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

Levitskaia Alina Afakoevna

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 19, 2013.

She was born in 1954. In 1976, she graduated from Khetagurov North Ossetian State University, specialty "Russian language and literature. "Candidate of Philology.

From 2010 to 2012 -. Director of the Department of education and socialization of children of the Ministry of Education and Science of the Russian Federation. Since 2012 is the rector of the North Caucasus Federal University, and Professor of the Department of the Russian language. Since 2012 is a member of the Council for Interethnic Relations of the Governor of the Stavropol Territory, the Council of Rectors of the North Caucasus Federal District and the Council of Rectors of the Southern Federal District, the working groups on preparation of proposals for formation of Open Government system in the Stavropol Territory and on tourism in the North Caucasus Federal District on the topic "Popularization and Promotion of North Caucasus

Resorts". Since 2012 is the deputy chairman of the Council on personnel policy at the Governor of the Stavropol Territory. Since 2012 she participates in the Association of Technical Universities, since 2013 - the Association of the Leading Universities.

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

Mezhevich Valentin Efimovich

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 24, 2014.

He was born in 1947. In 1970 he graduated from the Irkutsk Polytechnic University, majoring in "Thermal power plants", candidate of technical sciences.

From March 2001 to September 2013 - a member of the Federation Council of the Federal Assembly of the Russian Federation, First Deputy Chairman of the Economic Policy Committee. Since October 2013, he was Deputy General Director for Strategic Communications in Rosseti PJSC.

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

Ozherelyev Alexey Alexandrovich

Non-Executive Director

See current composition.

Terebkov Fedor Alexeevich

Non-Executive Director

Was first elected to the Board of Directors of IDGC of Northern Caucasus on June 24, 2014.

He was born in 1984. He graduated from the State University in 2006 - Higher School of Economics with a degree in "Finance and credit".

From November 2009 to April 2012 - Head of JSCB Svyaz Bank OJSC. From April 2012 to September 2013 is the deputy head of the Corporate Finance Department of FGC UES JSC. Since September 2013 led the capital markets, structured finance and management of the corporate finance department of Rosseti PJSC.

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

In 2015, the members of the Board of Directors of IDGC of Northern Caucasus have not committed transactions on purchase and (or) the alienation of shares of the company.

Involvement of Directors in work of Board of Directors and relevant committees in 2015

	Corporate year	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy and Development Committee
Total meetings held		40	11	8	18
Including in absentia (absentia-presentia)		10	4	0	2
Ayrapetyan Arman Mushegovich	2014-2015 2015-2016	32/40**	4/6	-	-
Including in presentia*		8/10	1/1	-	-
Arkhipov Sergey Alexandrovich	2014-2015 2015-2016	39/40	-	-	-
Including in presentia		10/10	-	-	-
Varlamov Nikolay Nikolaevich	2014-2015	16/16	6/6	-	-

	Corporate year	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy and Development Committee
Including in presentia		3/4	1/1	-	-
Varvarin Alexandr Viktorovich	2014-2015	16/16	-	6/6	-
Including in presentia		2/4	-	0/0	-
Doroshenko Olga Nikolaevna	2015-2016	3/24	-	-	-
Including in presentia		1/6	-	-	-
Zavizenov Konstantin Vladimirovich	2014-2015 2015-2016	21/40	-	-	-
Including in presentia		4/10	-	-	-
Zaytsev Yuri Viktorovich	2015-2016	23/24	-	-	-
Including in presentia		5/6	-	-	-
Zuykova Olga Valentinovna	2014-2015	15/16	-	-	-
Including in presentia		4/4	-	-	-
Levitskaya Alina Afakoevna	2014-2015	4/16	-	-	-
Including in presentia		1/4	-	-	-
Mangarov Yuri Nikolaevich	2014-2015 2015-2016	37/40	-	8/8	-
Including in presentia		7/10	-	0/0	-
Mezhevich Valentin Efimovich	2014-2015	14/16	-	-	-
Including in presentia		4/4	-	-	-
Ozherelyev Alexey Alexandrovich	2014-2015 2015-2016	36/40	10/11	-	11/11
Including in presentia		6/10	3/4	-	2/2
Pavlov Alexey Igorevich	2015-2016	14/24	4/5	-	-
Including in presentia		4/6	2/3	-	-
Pronin Nikolay Nikolaevich	2015-2016	21/24	3/5	-	-
Including in presentia		6/6	1/3	-	-
Rakov Alexey Viktorovich	2015-2016	24/24	-	-	18/18
Including in presentia		6/6	-	-	2/2
Terebkov Fedor Alexeevich	2014-2015	15/16	-	-	-
Including in presentia		2/4	-	-	-
Shaydullin Farit Gabdulfatovich	2015-2016	24/24	-	-	-
Including in presentia		5/6	-	-	-

Note:

*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 in the Council/committee.

Board of Directors Committees

Committees of the Board of Directors of IDGC of Northern Caucasus

created in order to improve the efficiency of the Board of Directors, making recommendations to the Board of Directors and executive bodies of IDGC of Northern Caucasus.

In IDGC of Northern Caucasus the following committees are established and operate:

1. The Audit Committee
2. The Nomination and Remuneration Committee
3. The Reliability Committee
4. The Strategy and Development Committee
5. The technological connection to electric networks Committee

In its activities the Committee is guided by:

- Russian legislation;
- The Articles of Association of IDGC of Northern Caucasus,
- Regulations on the committees and internal documents of IDGC of Northern Caucasus;
- Plans for the committees.

Provisions on Committees

Name of Committee	Information on approval of the Board of Directors
Reliability Committee	Minutes from the August 17, 2015 No.205
Audit Committee	Minutes dated April 2, 2015 No.190
Nomination and Remuneration Committee	Minutes from the August 4, 2014 No.172
Strategy and Development Committee	Minutes of December 23, 2009 No.50
Technological connection to electric networks Committee	Minutes of January 30, 2009 No.36

The texts of the regulations on committees are available on the website of IDGC of Northern Caucasus in the section “To Shareholders and Investors / Articles of Association and Internal Documents / Corporate Governance Documents Procedures”.

Committee meetings are available on the website of IDGC of Northern Caucasus in the section “To Shareholders and Investors / Corporate Governance / Board Committees / Reliability Committee”.

The Audit Committee

For preliminary consideration of issues related to the control of financial and economic activity of IDGC of Northern Caucasus, the Board of Directors on October 30, 2008 established the Audit Committee of the Board of Directors.

Key tasks of the committee:

- Control over the annual independent audit of the consolidated financial statements and accounting (financial) reporting;
- Assessment of the auditor's report, which is available as materials for the Annual General Meeting of Shareholders;
- Overseeing preparation of quarterly and annual reports by executive bodies, as well as the fairness of these statements;
- Evaluation of candidates for auditors;
- Control of the internal control systems in the field of accounting and finance and internal audit activities;

- Assessment of the effectiveness of internal control procedures and preparation of proposals for their improvement;
- Considering before forwarding to the Board of Directors of the independent appraiser's report on the evaluation of assets and liabilities of the company for major and other transactions, the decision on conclusion of which is made by the Board.

Compositions of Audit Committee in 2015

Elected to the Board of Directors on July 31, 2014 (Minutes of the August 4, 2014 No.172)	Elected to the Board of Directors on July 22, 2015 (Minutes of July 27, 2015 No.203)
1. Varlamov Nikolay Nikolaevich (Chairman), Deputy Director General for audit work of Rosseti OJSC 2. Ayrapetyan Arman Mushegovich, director of the Department of Accounting and Property Management of Rosseti OJSC 3. Ozherelyev Alexei Alexandrovich, Head of Directorate of the organization of activity of management of Rosseti OJSC	1. Ozherelyev Alexei Alexandrovich (Chairman), Head of the Directorate organization controls Rosseti PJSC 2. Pavlov Alexey Igorevich, head of the Corporate Finance Department of Finance Department of Rosseti PJSC 3. Pronin Nikolai Nikolaevich, Director of the Security Department of Rosseti PJSC

Positions are indicated as of the date of approval of the composition of the committee

Report on Committee's activities in 2015

11 meetings, 4 of which were held in full-time / part-time form. Among the significant results of the work of the Committee:

- Recommended the candidature of external auditor for the audit of accounting (financial) statements for 2015 prepared in accordance with Russian Accounting Standards and the audit of the consolidated financial statements for 2015 prepared in accordance with IFRS (Committee meeting minutes dated April 30, 2015 No.45);
- Evaluated the effectiveness of the external audit, including an assessment of the external auditor (the committee meeting minutes dated April 30, 2015 No.45);
- Periodically reviewed written information provided by the external auditor on the main issues of the accounting (financial) statements of IDGC of Northern Caucasus (Committee meeting minutes dated April 13, 2015 No.44, April 30, 2015 No.45);
- Discussed the information on non-standard transactions and events of IDGC of Northern Caucasus, as well as the formation of provision for doubtful debts and estimated liabilities (Committee meeting minutes dated February 25, 2015 No.41, March 20, 2015 No.42);
- Analysed significant accounting policies and changes thereto (Committee meeting minutes dated December 31, 2015 No.51);
- Periodically reviewed accounting (financial) statements prepared in accordance with RAS and consolidated financial statements prepared in accordance with IFRS (Committee meeting minutes dated April 13, 2015 No.44, April 30, 2015 No.45, dated June 3, 2015 No.46, dated September 28, 2015 No.49, dated December 31, 2015 No.51);
- Agreed on the plan and budget of the Internal Audit for 2016 (committee meeting minutes dated December 2, 2015 No.50);
- Approved the form and structure of the internal audit unit report on the implementation of the work plan and the results of the internal audit activity in the new edition (Committee meeting minutes dated April 30, 2015 No.45);
- Periodically reviewed reports on implementation of the work plan and the results of the internal audit activity (Committee meeting minutes dated February 25, 2015 No.41, March 20, 2015 No.42, June 3, 2015 No.46, September 28, 2015 No.49);
- Periodically heard reports of management of IDGC of Northern Caucasus with the reports on the implementation of corrective action plans to address deficiencies identified by the Audit

Commission, the internal auditor, the external control bodies (Committee meeting minutes dated February 25, 2015 No.41, April 30, 2015 No.45, dated September 28, 2015 No.49);

- Periodically reviewed the sole executive body reports on key operational risks of IDGC of Northern Caucasus (Committee meeting minutes dated March 20, 2015 No.42, September 28, 2015 No.48);

- Considered the report on effectiveness of the internal control system of IDGC of Northern Caucasus (Committee meeting minutes dated February 25, 2015 No.41).

Nomination and Remuneration Committee

Created by the Board of Directors of IDGC of Northern Caucasus (Minutes dated October 30, 2008 No.33).

Key tasks of the committee:

- Development of principles and criteria for determining the remuneration of members of the Board of Directors, Management Board and General Director of the company, defining the essential conditions of contracts;
- Definition of criteria for selection of candidates for membership of these controls;
- Evaluation of the activities of the executive bodies of the company.

Nomination and Remuneration Committee in 2015

Elected to the Board of Directors July 31, 2014 (Minutes of August 4, 2014 No.172)	Elected to the Board of Directors on July 22, 2015 (Minutes of July 27, 2015 No.203)
1. Mangarov Yuri Nikolaevich (Chairman), Advisor of Rosseti OJSC 2. Varvarin Alexandr Viktorovich, Managing Director, Corporate Relations and Legal Support RSPP 3. Erpsher Natalia Ilyinichna, Head of Organizational Development Directorate, personnel policy and organizational development department of Rosseti OJSC	1. Mangarov Yuri Nikolaevich (Chairman), Chief Advisor of Rosseti PJSC 2. Petrieva Julia Vladimirovna, leading expert of the department of tariffs of Economic management of OGC-2 JSC 3. Erpsher Natalia Ilyinichna, Head of Organizational Development Directorate, personnel policy and organizational development department of Rosseti PJSC

Positions are indicated as of the date of approval of the composition of the committee

Report on Committee's activities in 2015

8 absentia meetings. The Committee previously considered and made recommendations to the Board for decision-making on the following key issues:

- Approval of the organizational structures of control of subsidiaries and the executive office of IDGC of Northern Caucasus;
- Approval of the method of calculation and evaluation of key performance indicators of the Director General;
- Changes in the internal document: Regulations on material incentives for the General Director;
- Approval of candidates for certain positions in the executive office of the company;
- Approval of the personnel reserve lists of IDGC of Northern Caucasus.

It also considered the report of General Director of IDGC of Northern Caucasus on the causes of deterioration of the financial and economic condition of the company and the measures taken in the quarter 4 of 2014 and quarter 1 of 2015 to ensure its financial stability. We consider organizational matters: the election of the deputy chairman and the secretary of the committee, approval of the budget committee.

Reliability Committee

Created by the Board of Directors of IDGC of Northern Caucasus (Minutes of November 30, 2007 No.15).

Key tasks of the committee:

- Examination of investment programs and plans to repair power units, analysis of their implementation;
- Assessment of measures introduced after accidents and major technological violations, control over their execution;
- Monitoring and evaluation of activities of technical services in terms of ensuring the reliability of network equipment and facilities;
- Analysis of the performance of contractual and economic mechanisms of reliability management;
- Informing the Board of Directors on the status of major energy facilities of the company.

Compositions of Reliability Committee in 2015

Elected to the Board of Directors on July 31, 2014 (Minutes of the August 4, 2014 No.172)	Elected to the Board of Directors on July 22, 2015 (Minutes of July 27, 2015 No.203)
1. Magadeev Ruslan Raisovich (Chair), the Deputy Director of Situation and Analytical Center of Rosseti OJSC	1. Magadeev Ruslan Raisovich (Chair), Deputy Director of the Situation and Analytical Center of Rosseti PJSC
2. Misirov Boris Hyzyrovich, First Deputy General Director - Chief Engineer of IDGC of Northern Caucasus	2. Misirov Boris Hyzyrovich, First Deputy General Director - Chief Engineer of IDGC of Northern Caucasus
3. Reshetnikov Mikhail Yurievich, Counsellor, Acting Deputy Director General for Legal Support of IDGC of Northern Caucasus	3. Mikheyev Dmitry Dmitrievich, head of the Department of perspective development of electric power industry of the Russian Ministry of Electricity
4. Shpilevoy Sergey Vladimirovich, Deputy Head of the Situation and Analytical department - Head of Information and Analytical Department of Rosseti OJSC	4. Smaga Mikhail Vladimirovich, deputy director of the branch of Rosseti PJSC - Technical Inspection Centre
	5. Kumukova Marina Khalitovna, Director of Corporate Governance and Shareholder Relations of IDGC of Northern Caucasus
	6. Shpilevoy Sergey Vladimirovich, Deputy Head of Department - Head of Department analysis of accidents and accident analysis methodology ABP Situation and Analytical Center of Rosseti PJSC

Positions - at the date of approval of the composition of the committee

Report on Committee's activities in 2015

2 meetings in absentia. The Committee examined the information on the company's readiness for the autumn-winter period of 2015-2016 years. In addition, the organizational issues: election of the deputy chairman and the secretary of the committee, budgeting and work plan for the committee.

Strategy and Development Committee

Created by the Board of Directors of IDGC of Northern Caucasus (Minutes of December 23, 2009 No.50).

Key tasks of the committee:

- Determination of priority directions, strategic goals and basic principles of the strategic development of IDGC of Northern Caucasus;

- Assessment of the efficiency of IDGC of Northern Caucasus;
- Increasing the investment attractiveness of IDGC of Northern Caucasus;
- Adjustment of the existing development strategy of IDGC of Northern Caucasus;
- Determination and improvement of policy in the field of business planning and budgeting of IDGC of Northern Caucasus;
- Monitor the implementation of the approved business plan and budget of IDGC of Northern Caucasus.

Committee for Strategy and Development in 2015

Elected to the Board of Directors July 31, 2014 (Minutes of the August 4, 2014 No.172)	Elected to the Board of Directors on July 22, 2015 (Minutes of July 27, 2015 No.203)
1. Rakov Alexei Viktorovich (Chairman - November 2014), Director of the Department of sales activity and interaction with the subjects of the wholesale electricity market of Rosseti OJSC 2. Lisavin Andrey Vladimirovich * (Chairman - October 2014), Head of Directorate of Implementation of Rosseti OJSC Strategy 3. Vodolatsky Pavel Viktorovich**, Head of Directorate on problem receivables of Rosseti OJSC 4. Ivanova Tatyana Alexandrovna, Head of the Office of Tariff Methodology of Rosseti OJSC 5. Kolyada Andrey Sergeevich, Head of Corporate Governance Department of the Office of the share capital and interaction with shareholders and investors of Rosseti OJSC 6. Reshetnikov Mikhail Yurievich, Counsellor, Acting Deputy Director General for Legal Support of IDGC of Northern Caucasus 7. Yascheritsyna Yuliya Vitalievna, Director of Economic Planning and Budgeting Department of Rosseti OJSC	1. Rakov Alexei Viktorovich (Chairman), Head of the implementation of grid services and interaction with the electricity market participants Rosseti PJSC 2. Vodolatsky Pavel Viktorovich, Head of the Directorate on problem receivables, Rosseti PJSC 3. Konyushenko Peter Petrovich, Advisor to the President of NP Market Council 4. Kumukova Marina Khalitovna, Director of Corporate Governance and Shareholder Relations of IDGC of Northern Caucasus 5. Ozherelyev Alexei Alexandrovich, Head of Directorate on organization of control bodies, Rosseti PJSC 6. Pankstyanov Yuri Nikolaevich, Head of Tariff Policy of Department of Rosseti PJSC 7. Sasin Nikolai Ivanovich, member of the Board of "SUPPORT of RUSSIA", coordinator "SUPPORT OF RUSSIA" in the North Caucasus Federal District 8. Sedykh Nadezhda Vitalievna, chief expert of the Department of Economics of Rosseti SAC PJSC

* Powers terminated on October 31, 2014 (Minutes of the Board of Directors on November 5, 2014 No.177).

** Elected to the Committee, October 31, 2014 (Minutes of the Board of Directors on November 5, 2014 No.177). Positions are indicated as of the date of approval of the composition of the committee

Report on the Committee's activities in 2015

18 meetings, two of which - in presentia. The Committee previously considered and made recommendations to the Board for decision-making on issues of activity of IDGC of Northern Caucasus, such as:

- Termination of participation of IDGC of Northern Caucasus in other organizations;
- Approval of the benchmarks of cash flow;
- Approval of the business plan, including the investment program;
- Approval of the adjusted consolidated RAS on the principles of the business plan, and adjusted IFRS consolidated on the principles of the business plan of the group IDGC of Northern Caucasus for 2015;
- Approval of the execution of the target values of key performance indicators of the Director-General and senior managers of the company;
- Reduction of overdue receivables for electric power transmission services;
- Determination of priority directions of activity of IDGC of Northern Caucasus;
- Approval of the schedule of elimination of the backlog on the projects of the Comprehensive Program of measures to reduce abnormal energy losses in the distribution networks on the territory of the republics of the North Caucasus ";

- Approval of internal document: the consolidation of power grid assets Program for 2015-2017.

Committee's reports of the Director General of the company have been considered with respect to:

- Implementation of the company's Board of Directors orders;
- The progress of the Comprehensive Program of measures to reduce abnormal power losses in the distribution network in the North Caucasus;
- The implementation of the consolidation of power grid assets Program for 2011-2015, the consolidation of power grid assets of the territorial grid companies and execution of road maps on the consolidation of power grid assets;
- Fulfilment of the schedule of the project of centralization and automation of treasury functions;
- Business plan execution, including the investment program;
- Key operational risk management of IDGC of Northern Caucasus.

The Committee discussed organizational matters: election of the deputy chairman and the secretary of the committee, approval of the budget and work plan for the committee.

Technological connection to electric networks Committee

Created by the Board of Directors of IDGC of Northern Caucasus (Minutes of January 30, 2009 No.36).

Key tasks of the committee:

- Develop proposals for improving the legal framework of anti-monopoly regulation and ensure non-discriminatory access to services for the technological connection of consumers to electric networks;
- Development of proposals on improvement of internal regulations and standards of IDGC of Northern Caucasus to ensure non-discriminatory access to services for the technological connection of consumers to electric networks;
- Development of principles and criteria for evaluating the effectiveness of the company's technological connection of consumers to electric networks;
- Assessment of the effectiveness of the technological connection of consumers to electric networks;
- Analysis of the current situation and propose to the Board of Directors in terms of technological connection of consumers to power grids.

Committee for technological connection to electric networks in 2015

Elected to the Board of Directors July 31, 2014 (Minutes of the August 4, 2014 No.172)	Elected to the Board of Directors dated 11 September 2015 (Minutes of September 14, 2015 No.209)
1. Varvarin, Alexander Viktorovich (Chairman), Managing Director, Corporate Relations and Legal Support RSPP 2. Kalenyuk Egor Vladimirovich, Acting Deputy General Director for Development and Sales of IDGC of Northern Caucasus 3. Korneev Alexander Yurievich, Head of Regulation of Technological Connection, Perspective Development and Technological Connection Department, Rosseti OJSC 4. Nedobuga Dmitry Nikolaevich, Head of Department of Technological Connection of Consumers, IDGC of Northern Caucasus	1. Tsikanov Arsen Makhmudovich (Chairman), Acting Assistant Director-General for the implementation and development services IDGC of Northern Caucasus 2. Kumukova Marina Khalitovna, Director of Corporate Governance and Shareholder Relations of IDGC of Northern Caucasus 3. Masaleva Irina Borisovna, Director of Department of Perspective Network Development and Technological Connection, Rosseti PJSC 4. Miromanov Sergei Ivanovich, Deputy Head of Regulation of Technological Connection, Perspective Development and Technological Connection Department,, Rosseti PJSC

Elected to the Board of Directors July 31, 2014 (Minutes of the August 4, 2014 No.172)	Elected to the Board of Directors dated 11 September 2015 (Minutes of September 14, 2015 No.209)
5. Reshetnikov Mikhail Yurievich, Counsellor, Acting Deputy Director General for Legal Support of IDGC of Northern Caucasus	5. Nedobuga Dmitry Nikolaevich, Head of Department of Technological Connection of Consumers, IDGC of Northern Caucasus 6. Pavlov Alexander Valerievich, Senior Adviser of the Department of Perspective Development of Electric Power Industry of the Russian Ministry of Energy

Positions are indicated as of the date of approval of the composition of the committee

Report on the Committee's activities in 2015

5 meetings in absentia. The Committee carried out quarterly monitoring of activities of IDGC of Northern Caucasus on technological connection of consumers to distribution grids, including contract work and general statistics connection, taking into account individual consumer groups. We consider organizational matters: the election of the deputy chairman and the secretary of the committee, approval of the budget and work plan for the committee.

Governing body - collective executive body

Election and determination of the number of members of the Board by the Board of Directors of IDGC of Northern Caucasus, on the proposal of the Director General.

The competence of the Management Board of IDGC of Northern Caucasus:

- 1) development and submission to the Board of Directors of the Company's development strategy;
- 2) preparation of the annual (quarter) business plan, including the investment program and the results of their performance, as well as approval (adjustment) of cash flows (budget) of the Company;
- 3) preparation of the annual report on financial and economic activity of the company, on the implementation of the Board of the General Meeting of Shareholders and Board of Directors;
- 4) consideration of reports of Deputy Directors-General and heads of separate structural divisions of the company on the results of implementation of approved plans, programs, instructions, reviewing reports, documents and other information about the activities of IDGC of Northern Caucasus and its subsidiaries and affiliates;
- 5) making decisions on matters within the competence of the supreme management bodies, 100% of the share capital owned by IDGC of Northern Caucasus;
- 6) preparation and submission to the Board of Directors reports on financial and economic activities of business entities, 100% of the share capital owned by IDGC of Northern Caucasus;
- 7) decision on execution of transactions, the subject of which is property, works and services, the cost of which ranges from 1% to 25% of the book value of assets of IDGC of Northern Caucasus, according to the financial statements for the last reporting date;
- 8) effective risk management within the framework of the current activities of IDGC of Northern Caucasus; approval of the budget for the activities of risk management in the company within the limits agreed by the Board of Directors; the resolution of cross-functional (performed several structural units) objectives for risk management;
- 9) other issues of the current activities of the company management in accordance with the resolutions of the General Meeting of Shareholders, the Board of Directors, as well as the issues presented to the Board by the Director General.

In 2015, the Management Board of IDGC of Northern Caucasus is as follows.

Zaitsev Yuri Viktorovich**Chairman**

Was elected to the Management Board of IDGC of Northern Caucasus in February 2014.

He was born in 1970. He graduated from the Military University of the Defence Ministry of the Russian Federation and the St. Petersburg State Engineering and Economic University. Candidate of Economic Sciences.

From 1997 to 2013 he held executive positions in commercial structures. February 14, 2014 is included in the composition of the Management Board of IDGC of Northern Caucasus. February 17, 2014 appointed as Acting First Deputy General Director of IDGC of Northern Caucasus. On May 13, 2014 - First Deputy General Director of IDGC of Northern Caucasus. On August 28, 2014 the General Director, Chairman of the Management Board of IDGC of Northern Caucasus.

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

Misirov Boris Khyzyrovich

Was elected to the Management Board of IDGC of Northern Caucasus in February 2014.

He was born in 1963. He graduated from Kalinin Leningrad Polytechnic Institute, specialty "Electric power stations". Completed training program: "Practice of organizing and carrying out regulated purchases of RAO UES of Russia, "Organization and management of operation and maintenance service of electric distribution networks".

On November 16, 2007 he was appointed as Deputy General Director of IDGC of Northern Caucasus. On August 1, 2011 - The Deputy General Director of IDGC of Northern Caucasus for Technical Issues - Chief Engineer. On July 24, 2013, First Deputy General Director - Chief Engineer of IDGC of Northern Caucasus.

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

Medaliev Mukhamed Khamzetovich

Was elected to the Management Board of IDGC of Northern Caucasus in April 2014.

He was born in 1954. He graduated from the Kabardino-Balkarian State University, "Physics" (1976) and "Jurisprudence" (2005). He graduated from the Dzerzhinsky Krasnoznamennaya Higher School of KGB at the Council of Ministers of the USSR as "operational officer with knowledge of English".

In 2006 he accepted the post of the Head of the security department of USC JSC, and then was appointed as the Head of the security department. At present - Deputy General Director of IDGC of Northern Caucasus on security.

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

Shuvalov Vladimir Vladimirovich

Was elected to the Management Board of IDGC of Northern Caucasus in April 2014.

He was born in 1971. In 1995 he graduated from the Military University of the RF Defense Ministry, specialty "jurisprudence". In 2007 he graduated from the Russian Academy of Public Administration under the President of the Russian Federation, specialty "state and municipal management", specialization - finance, taxes and credit.

From 2005 to 2011 - General Director of Metallspetsprom LLC. In 2011-2012 - Deputy General Director for logistics and procurement in Kubanenergo. In 2013-2014 - Deputy General Director for General Affairs of Ingushenergo. From March 2014 - Acting Deputy Director General for investment, IDGC of Northern Caucasus. On May 13, 2014 he was appointed Deputy Director General for investment IDGC of Northern Caucasus.

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

Dynkin Pavel Borisovich

Was elected to the Management Board of IDGC of Northern Caucasus in November 2014.

He was born in 1973. In 1995 he graduated from the Far Eastern State University, specialty - economist-orientalist, the translator of the Chinese language. In 2004 he graduated from the Finance Academy under the Government of the Russian Federation, specialty - Master of Business Administration (MBA), Finance. Candidate of Economic Sciences.

In 2011-2014 - Asset Management and Development Director of Far Eastern Energy Management Company OJSC. Since April 2014 was appointed as Acting Deputy Director General for Economy and Finance of IDGC of Northern Caucasus, and in February 2015 was confirmed as the Deputy General Director for Economics and Finance. In July 2015 he was transferred to the post of adviser on financial matters.

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

These persons do not own shares of IDGC of Northern Caucasus. In 2015, the company's Board members have not committed transactions on purchase and (or) disposal of shares of IDGC of Northern Caucasus.

CEO

- The sole executive body

The competence of the Director General -

issues of management of current activity of IDGC of Northern Caucasus (except for the issues referred to the competence of the General Meeting of Shareholders, the Board of Directors and Management).

The Director-General is guided by:

- Federal Law "On Joint Stock Companies" and other regulatory legal acts of the Russian Federation;
- The Articles of Association of IDGC of Northern Caucasus;
- Labour contract concluded with him or her by the Board of Directors.

General Director acts without a power of attorney with the restrictions stipulated by the legislation, the Articles of Association and decisions of the Board of Directors, and performs the following functions:

- Ensures that the company's action plans are sufficient to attain its objectives;
- Organizes accounting and reporting;
- Disposes of property of IDGC of Northern Caucasus, makes transactions on its behalf, issues a power of attorney, opens in banks, other credit organizations (and in cases stipulated by law - in organizations, professional participants of securities market) settlement and other accounts;
- Issues orders, approves (accepts) instructions, local regulations and other internal documents, gives instructions that are binding for all employees;
- Approves regulations on branches and representative offices;
- In accordance with the organizational structure of the executive body, approves staffing and salaries of employees;
- Exercises in respect to employees the rights and obligations of the employer under labor law;
- Performs the functions of Chairman of the Board;

- Allocates responsibilities among the Deputy Director-General;
- Submits the annual report to the Board of Directors, as well as the annual financial statements, profit distribution IDGC of Northern Caucasus;
- Solves other issues.

In 2015 IDGC of Northern Caucasus was led by Zaytsev Yuri Viktorovich (Board of Directors decision on appointment passed on August 28, 2014). Information about Yu. Zaytsev is represented within the composition of the Board of Directors and the Management Board.

In 2015, the General Director of IDGC of Northern Caucasus did not make the acquisition and (or) disposal of shares in IDGC of Northern Caucasus, and (or) its subsidiaries and affiliated companies.

Audit Committee

- Permanent inspection body for financial and economic activities

The tasks of the Audit Committee are:

- 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 shall be determined by Art. 24 of the Charter, and includes:

- Verification (audit) of financial, accounting, payment and other documents of the company, related to the implementation of financial and economic activities for its compliance with the Russian legislation, the Charter and internal documents of the Company;
- Verification and analysis of the financial condition of the company, its solvency, functioning system of internal control and risk management systems, the liquidity of assets, the ratio of debt to equity, accuracy and timeliness of calculation and payment of interest on bonds and on other securities;
- Monitor the expenditure of funds;
- Control over the formation and use of reserve and other special funds;
- Checking the timeliness and correctness of settlement transactions with counterparties and budget, as well as the settlement operations on wages, social insurance, and payment of dividends and other payment transactions;
- Monitoring compliance with the established procedure of writing off the losses of insolvent debtors;
- Checking operations conducted in accordance with the existing agreements;
- Verification of compliance with the use of material, labour and financial resources in the financial and economic activities of existing instruments, norms and standards, approved budgets, and other documents regulating the activity;
- Control of the safety and use of fixed assets;
- Checking the cash and property, asset utilization and other resources, the identification of the causes of non-production losses and expenses, identification of reserves to improve the company's financial condition;
- Verification of compliance with orders to eliminate violations and deficiencies previously identified by the Audit Commission;
- Make recommendations to governments;
- Other actions (events).

Audit Commission functions as laid down in the Regulation on the Audit Commission of IDGC of Northern Caucasus, approved by resolution of the Annual General Meeting of Shareholders (Minutes of June 16, 2016 No.15). The full text of the Regulations can be found on the website of IDGC of Northern Caucasus in the section “To Shareholders and Investors / Articles of Association and Internal Documents / Corporate Governance Documents Procedures”.

The Audit Commission has the right, and in the case of serious violations in financial and economic activity of the company is obliged to demand the convening of an Extraordinary General Meeting of Shareholders.

Members of the Audit Commission

The Audit Commission consists of 5 people.

During 2015 the work of the Audit Commission was carried out by two teams.

At the end of 2015 (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 11, 2015 was in effect (Minutes of June 16, 2015 No.15). The positions are indicated as of the date of approval of the commission.

Kim Svetlana Anatolievna

Chairman

She was born in 1981. Graduated from the Moscow State University of Communications, specialty – “commerce”.

Chief Expert of the Department of Control and Audit of FGC UES JSC - in 2009-2010. From 2010 to June 2013 - Head of Department of Investments Control, Department of Control and Audit of FGC UES JSC. Since June 2013 heads the Office of Internal Audit, Department of Internal Audit and Control, Rosseti PJSC.

Guseva Elena Yurievna

She was born in 1970. She graduated from the Academy of Labour and Social Relations (qualification "Economist").

From May 2009 to September 2013 she was the chief specialist of the Internal Audit and Risk Management Department of IDGC of the South JSC. From September 2013 to February 2015 - the leading expert of the Investment Audit Department, Office of Audit and Internal Audit, Department of Internal Audit and Control, Rosseti PJSC. Since March 2015 working as a chief expert of the Investment Audit Department, Office of Audit and Internal Audit, Department of Internal Audit and Control of Rosseti PJSC.

Kabizskina Elena Alexandrovna

She was born in 1964. She graduated from the Far Eastern Institute of Fishing Industry (qualification "engineer-economist").

From September 2005 to October 2010 - Head of the Department for Internal Control and Risk Management, Deputy Head of UES FGC OJSC Control and Audit Department. From November 2013 to March 2014 - Head of Methodological Support Department in Internal Audit Office, MOESK OJSC. From April 2014 - Deputy Head of Internal Audit Directorate in Internal Audit and Control Department of Rosseti PJSC.

Kirillov Artem Nikolaevich

He was born in 1984. He graduated from the Moscow Power Engineering Institute, qualification "electrical engineer".

In 2009-2013 he worked in FGC UES OJSC as the chief specialist, chief expert of Control and Audit department. In 2013 - 2015 years - Head of Investment Audit Office, Internal Audit Department, Rosseti PJSC. Since 2015 - Deputy Head of Control Directorate, Department of Controls, Rosseti PJSC.

Malyshev Sergey Vladimirovich

He was born in 1965. He graduated from Yaroslavl Higher Military School (qualification "economist-financier").

From May 2010 to April 2011 - he worked as the lead advisor of the Financial Supervision of the Russian Federation Ministry of Defence. From May 2011 to December 2012 - Chief Specialist of the Department of Capital Construction of Gazpromneft Aero JSC. In January-November, 2013 - head of the Investment Audit Department, Department of Internal Control and Risk Management of FGC UES JSC. Since December 2013 - the leading expert of the Investment Audit Department of the Office of Audit and Audit Activities, Department of Internal Audit and Control of Rosseti PJSC.

At the beginning of 2015 (prior to 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 24, 2014 was in effect (Minutes of June 24, 2014 No.14).

Kim Svetlana Anatolievna**Chairman**

See the current members of the Audit Commission.

Bunyaeva Maria Viktorovna

She was born in 1982. She graduated from the Kuban State Technological University, specialty "Accounting, analysis and audit".

From August 2010 to April 2012 was the chief specialist of the Department of Economic Security, Security Department of Kubanenergo. From May to August 2012 - the leading expert of the Department of Economic Security, Directorate of Economic Security, Security Department of Rosseti. Since August 2012 - the leading expert of the Office of Audit Activities and Internal Audit, Department of Internal Audit and Control, Rosseti PJSC.

Guseva Elena Yurievna

She was born in 1970. She graduated from the Academy of Labour and Social Relations (qualification - "economist").

From 2009 to 2013 she worked as the chief specialist of the Internal Audit Department of IDGC of the South JSC. Since 2013 - the leading expert of the Office of Audit Activities and Internal Audit, Department of Internal Audit and Control, Rosseti PJSC.

Kirillov Artem Nikolaevich**Chairman**

See the current members of the Audit Commission.

Ochikov Sergei Ivanovich

He was born in 1983. He graduated from the Krasnoyarsk State Technical University, majoring in "Power stations and substations", Siberian Federal University, majoring in "Economics and management of enterprises in the energy sector."

From December 2009 to March 2013 he worked as a leading specialist in the sector of risk management and internal control organization, Directorate of Internal Audit Control and Risk Management of IDGC North-West JSC. In the period from March to November 2013 - Chief Expert of Investment Audit Department, Internal Control and Risk Management Department of FGC UES JSC. Since November 2013 - the leading expert of the Office of Audit Activities and Internal Audit of the Internal Audit and Control Department of Rosseti PJSC.

Members of the Audit Committee did not participate in the Articles of Association capital of IDGC of Northern Caucasus and its, and they do not own ordinary shares of IDGC of Northern Caucasus and its subsidiaries.

Corporate Secretary

In IDGC of Northern Caucasus there is a Corporate Secretary elected, who ensures proper observance of the procedure of preparation and holding of the General Meeting of Shareholders and Board of Directors. We believe that the Corporate Secretary of IDGC of the North Caucasus, has the knowledge, experience and expertise, sufficient for the execution of his or duties, an impeccable reputation and enjoys the confidence of shareholders. In addition, the Corporate Secretary of IDGC of Northern Caucasus has the necessary powers and resources to carry out his or her tasks.

Gaydey Olesya Borisovna

Corporate Secretary

First elected as the Corporate Secretary of IDGC of Northern Caucasus in July 2010.

She was born in 1983. In 2005 she graduated from the North Caucasus State Technical University, majoring in "jurisprudence". She attended upgrade training at the State University - Higher School of Economics on the program "corporate document exchange" (2011) and "Corporate Secretary of Company" (2013).

She has been working in IDGC of Northern Caucasus since 2006. From April 2008 to October 2015 she held the positions of lead, and then the chief specialist of the Corporate Governance Department. From October 2015 she's headed the Corporate Governance Department of IDGC of the North Caucasus. She has extensive experience in organizing activities for management of public and non-public companies.

She does not participate in authorized capital of IDGC of Northern Caucasus and its subsidiaries and owns no ordinary shares of IDGC of Northern Caucasus and its subsidiaries.

Auditor

Key information about auditor of IDGC of Northern Caucasus

Full company name: Limited Liability Company RSM RUS.

Abbreviated name: RSM RUS Ltd.

INN: 7722020834 OGRN: 1027700257540

Location: 119285 Moscow, ul. Pudovkina, d. 4.

Internet Address: <http://rsmrus.ru/>

E-mail: mail@rsmrus.ru

Telephone reception / fax: +7 (495) 363-28-48, 981-41-21

RSM RUS is a member of the self-regulating organization NP "Audit Association of the Commonwealth" (Certificate No.6938, according to the decision of the Board of NP AAC of 25 September 2013) for the main registration records (ORNZ) number: 11306030308.

Today Audit Company RSM Rus is a full member of RSM International (RSMi), which occupies the 7th place among the largest international networks of independent companies providing services in audit, tax and consulting services, and represented in more than 100 countries worldwide.

Audit Company RSM RUS is among the leaders on the Russian market of audit and consulting services, successfully operating since 1992 and has 17 branches in the territory of Russia.

Procedure for selecting an auditor

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 about the competition for the right to sign for 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. Evaluation of participants was carried out on criteria that were pre-established and stated in the conditions of competition.

As a result of an open one-stage tender without preliminary qualification for the right to conclude contracts for carrying out statutory audit of annual reports for the 2015-2017, RSM Rus was recognized as the winner. Binding audit of financial statements for 2015 includes an audit of financial statements prepared in accordance with Russian Accounting Standards and audited consolidated financial statements prepared in accordance with IFRS for the year ended December 31, 2015.

Cost of services for IDGC of Northern Caucasus in 2015-2017 was determined in the amount of 7,734,052.17 RUB, VAT included.

This auditor was also approved by the decision of the Annual General Meeting of Shareholders of IDGC of Northern Caucasus (Minutes of June 16, 2015 No.15).

The amount of payment for services of the auditor was approved by the Board of Directors of IDGC of Northern Caucasus, the minutes on August 4, 2014 No.172.

Rotation of auditors of IDGC of Northern Caucasus for period of 2012-2015

Year	Auditor	Agreement	Subject of Contract	Remuneration, RUB
2012	ZAO "KPMG"	No.C-MSKZ-12-01059 / 370/2012 from November 19, 2012	Audit of accounting (financial) statements for 2012, prepared in accordance with Russian Accounting Standards	2,253,222.00
2012	ZAO "KPMG"	No.C-MSKZ-12-01060 / 367/2012 from November 16, 2012	Audit of consolidated (accounting) financial statements for 2012, prepared in accordance with IFRS	3,540,000.00
2013	ZAO "KPMG"	NiO-MSKZ-13-01381 on October 31, 2013	Audit of accounting (financial) statements for 2013, prepared in accordance with Russian Accounting Standards	2,253,222.00

Year	Auditor	Agreement	Subject of Contract	Remuneration, RUB
2013	ZAO "KPMG"	NiO-MSKZ-13-01206 on October 10, 2013	Audit of consolidated (accounting) financial statements for 2013, prepared in accordance with IFRS	3,736,352.00
2014	OOO "Ernst and Young"	No.315/2014/TCE-2014-00108 of August 28, 2014	Audit of financial statements prepared in accordance with RAS, and audit of the consolidated financial statements prepared in accordance with IFRS, in 2014	4,271,114.74
2015	OOO "RSM Rus"	No.15a073 on October 15, 2015	Audit of financial statements prepared in accordance with RAS, and audit of the consolidated financial statements prepared in accordance with IFRS for 2015	2,578,017.39

In 2015, the auditors did provide to IDGC of Northern Caucasus any other (non-audit) services.

Registrar

The Board of Directors of IDGC of Northern Caucasus (Minutes of April 19, 2007 No.8) approved the Registrar – Joint Stock Company Registrar Company STATUS (license No.10-000-1-00304 of March 12, 2004 (perpetual) issued by the Federal Commission for the Russian Securities Market).

STATUS JSC keeps the register of all registered equity securities of IDGC of Northern Caucasus.

For the convenience of shareholders of IDGC of Northern Caucasus, Sberbank of Russia performs the functions of the transfer agent for the company's shares. The list of units of Sberbank PJSC, exercising the functions of transfer agent for shares of IDGC of Northern Caucasus, is published on the site of IDGC of Northern Caucasus in the section "To Shareholders and Investors / Registrar".

Interaction with registrar

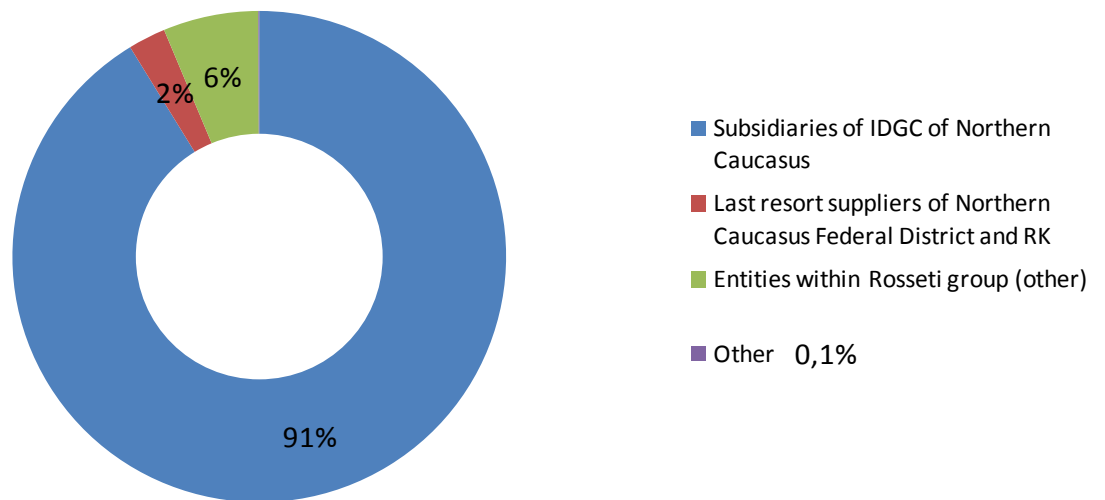
We provide protection and registration of the property rights of our shareholders for securities of IDGC of Northern Caucasus through maintenance and storage of the register of shareholders by the registrar.

The register of shareholders of IDGC of Northern Caucasus is conducted by an independent registrar. Selection and appointment of an independent registrar having all necessary technical facilities and an impeccable reputation allows us to provide reliable and efficient registration of ownership of shares of IDGC of the North Caucasus.

Information on transactions

Information on major transactions and transactions of interest of IDGC of Northern Caucasus, in 2015 is presented in Appendix No.4 to the Russian-language Annual Report.

2015 Transactions, transactions of interest, in% of the total amount of all transactions



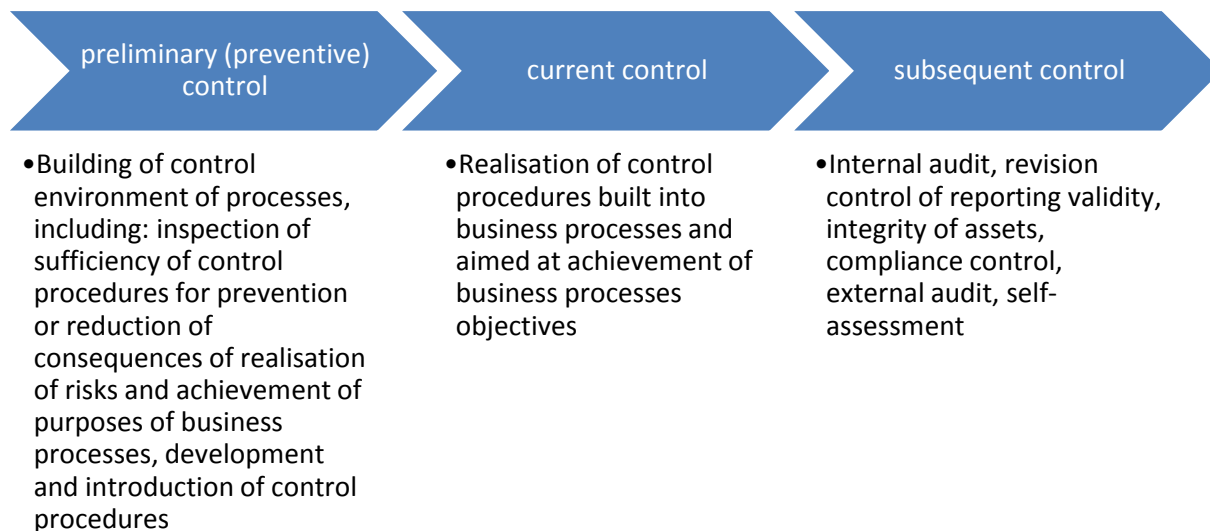
Internal Control System

The internal control system of IDGC of Northern Caucasus (ICS) is an element of the company's overall management system. ICS covers all areas of activity, monitoring procedures are carried out consistently in all processes (business) of the company at all levels of management and are intended to provide reasonable assurance regarding the objectives in the following areas:

- efficiency and effectiveness of the company's activities, the safety of the company's assets;
- compliance of IDGC of Northern Caucasus with applicable legal requirements and local regulations of the company, including the commission of economic activity and accounting of the facts;
- ensuring the reliability and timeliness of financial (accounting) and other reports.

Internal Control System

ICS improvement is carried out at every level of Company management in the following areas:

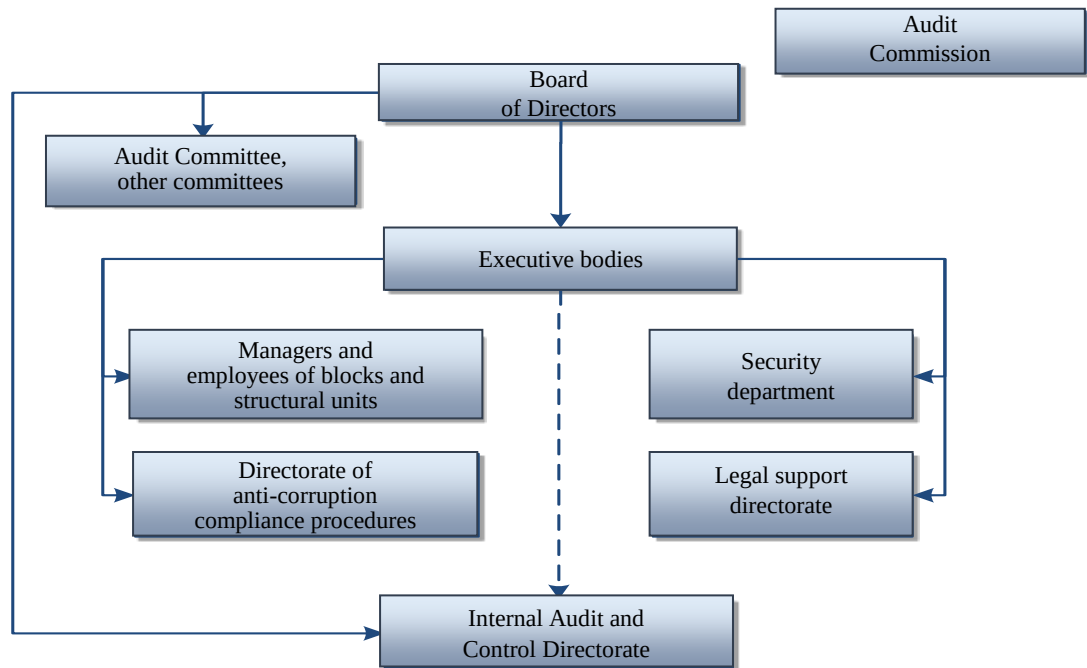


In order to implement the Strategy of Development and Improvement of the internal control system of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC, approved by the Board of Directors of Rosseti PJSC dated February 10, 2014, Minutes No.143 (ICS Development Strategy), in IDGC of the North Caucasus, the Board of Directors on August 4, 2014 (minutes No.172) approved the internal control policy of IDGC of Northern Caucasus (new edition). The internal control policy defines the objectives, principles and elements of the company's ICS, main functions and responsibilities of the ICS participants, the procedure for evaluating the effectiveness of ICS.

In addition, in IDGC of Northern Caucasus, the following internal documents regulate the ICS issues:

- Regulation of accounting audits conducted by external control (supervision) in the new version, approved by the order of December 22, 2015 No.760;
- Order by December 31, 2014 No.842 "On Accounting Policy of IDGC of Northern Caucasus in 2015".

Members of the internal control systems



Functions of ICS members

Member name	Main functions in ICS
Audit committee	- exercises control over financial and economic activities of the Company, the results of which shall prepare proposals / recommendations for the improvement of ICS; - provides an independent assessment of the data contained in the Company's annual report and annual accounting statements of the Company
Board of Directors	- defines the principles and approaches to the organization of the ICS as well as strategy development and improvement of the ICS of the Company; - control and organization of the internal audit activity; - monitors activities of the Company's executive bodies on the main (priority) areas
The Audit Committee of the Board of Directors	- It carries out a preliminary review prior to approval by the Board of Directors of the Company's internal documents, defining the organization and the strategy of development and improvement of the Company's ICS - It carries out a preliminary review before consideration by the Board of Directors of the results of assessing the effectiveness of ICS according to the internal auditor's report on the effectiveness of the ICS as well as reports on the results of external independent evaluation of the ICS, preparing proposals / recommendations for the improvement of ICS; - It carries out a preliminary review before consideration by the Board of Directors of questions about the organization and results of the internal audit activity; - It oversees the functioning of the reliability and efficiency of ICS in terms of addressing issues related to the supervision of the reliability of the accounting (financial) statements of the Company for the selection of the external auditor and the conduct of the external audit for the enforcement of regulatory and legal requirements, as well as part of the consideration of issues related to analysis and evaluation of implementation of internal control policies
Other Board of Directors Committees	oversee the implementation of the set of financial and operating performance, compliance with applicable law, the established local regulations of rules and procedures, as well as the accuracy and timeliness of reporting by the

Member name	Main functions in ICS
	Company formed (in the framework of their competences established by the Board of Directors)
General Director, Management Board	ensure the establishment and daily operation of the Company effective and reliable ICS
Heads of units and divisions	organize an effective control environment supervised processes (activities), are responsible for the effectiveness of achieving the operational goals of supervised processes (activities) and the execution of control procedures
Employees of structural subdivisions of the Company, operating control procedures by virtue of their official duties	- perform control procedures within the ICS functioning in accordance with the job descriptions and established statutory - provide timely information to supervisors about when the execution of control procedures for any reason become impossible and / or required by the design change control procedures in relation to changes in internal and / or external conditions of the Company's operation, including providing the development and submission to the leadership proposals for the implementation of control procedures in the relevant areas of activity
Legal Support Directorate	- provides control of compliance with the legislation of draft orders, instructions, regulations and other acts of a legal nature, issued by the Company; - participates in the preparation together with other structural units of draft agreements, carries out their legal expertise, sight, view of the Company's management proposals to address identified in the course of the examination of contracts inconsistencies with current legislation and the Company's interests; - It ensures the preparation and approval of projects of proxies, maintaining the register of issued warrants, their systematization and storage of copies of powers of attorney issued - It monitors compliance with the internal organizational and administrative documents, industry guidelines, directives, standards and regulatory activities in the field of legal support;
Security Department	- develops and supervises the implementation of action plans for improvement of the counter-terrorism security of power grid facilities; - checks prospective counterparts and business partners, implementation of permanent monitoring execution of commercial transactions for the economic security of employees and the degree of insecurity; - organizes and ensures the safety of the fixed on paper and electronic media; - organizes and ensures the safety of the material and intellectual values.
Corporate governance and anti-corruption compliance procedures	- carries out activities to prevent and counter corruption and other offenses, conflicts of interest; - organizes the work on the disclosure of information on the chain of owners (beneficiaries) contractors Company; - organizes activities to verify information about the income of employees in positions according to the list of posts of the Company, subject to declaration of income; - monitors compliance with the law on insider information;
The Internal Audit and Control	- develops and provides a basic introduction and methodological documents for the construction and improvement of the ICS; - coordinates the maintenance and monitoring of the state of the target ICS; - prepares information on ICS able to stakeholders - develops on the results of the internal audit recommendations for the improvement of control procedures, the individual components (elements) of the internal control and ICS; - carries out an internal independent evaluation of the effectiveness of the ICS and the issuance of recommendations to improve the efficiency and effectiveness of the ICS

In order to ensure that ICS is effective and meets the objective changing requirements and conditions, IDGC of Northern Caucasus is evaluating the effectiveness of ICS: its compliance with the target state and level of maturity.

ICS Development Strategy defined 6 ICS maturity levels from 1 ("zero") to 6 ("high").

During the year, the Company implemented the following key actions to improve the ICS:

- changes in the Company's Articles of Association with regard to the classification of the competence of the Board of Directors:
 - annual review of management information on the organization, functioning and effectiveness of risk management and internal control systems of the Company;
 - definition of the principles and approaches to risk management and internal control systems of the Company;
 - organization of at least 1 time per year analysing and evaluating the risk management and internal control systems ;
 - control and organization of the internal audit function, including the approval of the plan of the internal audit activity, the report on the implementation plan of the internal audit and the internal audit unit budget, the approval of the appointment decision, dismissal of, as well as the definition of remuneration of the head of the internal audit department;
 - monitoring compliance of the company's executive bodies approved by the Company's strategy, hearing reports of the Director General on the implementation of the approved strategy of the Company;
- It defines the responsibilities of the executive bodies on a regular basis, reporting to the Board of Directors for the creation and operation of an effective system of risk management and internal control in the Company;
- The Board of Directors approved the form and the report of the internal audit unit of the structure and control of the Company on the implementation of the work plan and the results of the internal audit activity;
- introduced the practice of full-time consideration of the Board of Directors to management of key operational risks of failure indicators (goals) of the business plan at its initial approval, adjustment, and when considering the performance reports;
- introduced the practice of consideration by the Management Board of the company management report on operational risk management of failure to reach the main objectives and other business processes of the company;
- started to use automated methods to identify and fix the violations, abuses and embezzlement;
- improved and updated the organizational structure of the company in accordance with the continuously updated goals and objectives;
- carried out self-assessment process owners the efficiency of its business processes (updating purposes, optimization of processes: requirements and test procedures) with the approval of local regulations in the new versions on the basis of self-assessment;

The implementation of these measures has improved the level of maturity of ICS 3.5 (between "satisfactory" and "moderate") to 3.7 points (between the "Okay" and "moderate").

Internal independent assessment of the effectiveness of ICS was conducted by an internal auditor of the Company, external independent assessment was not carried out.

The question on the basis of the effectiveness of ICS in 2015 was considered at the meeting of the Board of Directors (Minutes of 16.05.2016 No.242) with a preliminary discussion of this issue by the Board of Directors Audit Committee (Minutes of 27.04.2016 No.54).

In order to further implement the Strategy of ICS Development for 2016, the following activities are planned to improve the ICS:

- approval of action plans for 2016 for the management of key operational risks and operational risks, and other key business processes;
- approval of the Internal Audit Policy in the new edition;
- approval of the Internal Control Policy in the new edition;
- approval of the Regulation on the Audit Committee of the Board of Directors in the new edition.

Unit responsible for the implementation of the internal audit function in the Company is the Directorate of Internal Audit and Control.

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 unit, the approval of the appointment decision, removal from office and definition of remuneration of the head of internal audit unit.

The objectives of the principles, functions and responsibilities of internal audit are defined in the Internal Audit Policy of IDGC of Northern Caucasus (new edition), approved by the Board of Directors on August 4, 2014 (Minutes No.172).

IDGC of Northern Caucasus approved the following documents regulating the internal audit function:

- Regulations on the Internal Audit and Control Directorate (approved on April 7, 2015);
- form and structure of the report of the Internal Audit and Control Directorate on implementation of the work plan and the results of the internal audit (approved by the Audit Committee of the Board of Directors dated April 30, 2015, Minutes No.45);
- instruction on formation and use of a Unified Classifier of violations and deficiencies (approved by order of IDGC of Northern Caucasus dated June 26, 2015 No.79r);
- guidance on conducting internal audits and internal audit glossary approved by order of January 28, 2016 No.38.

The main objectives of the Internal Audit are:

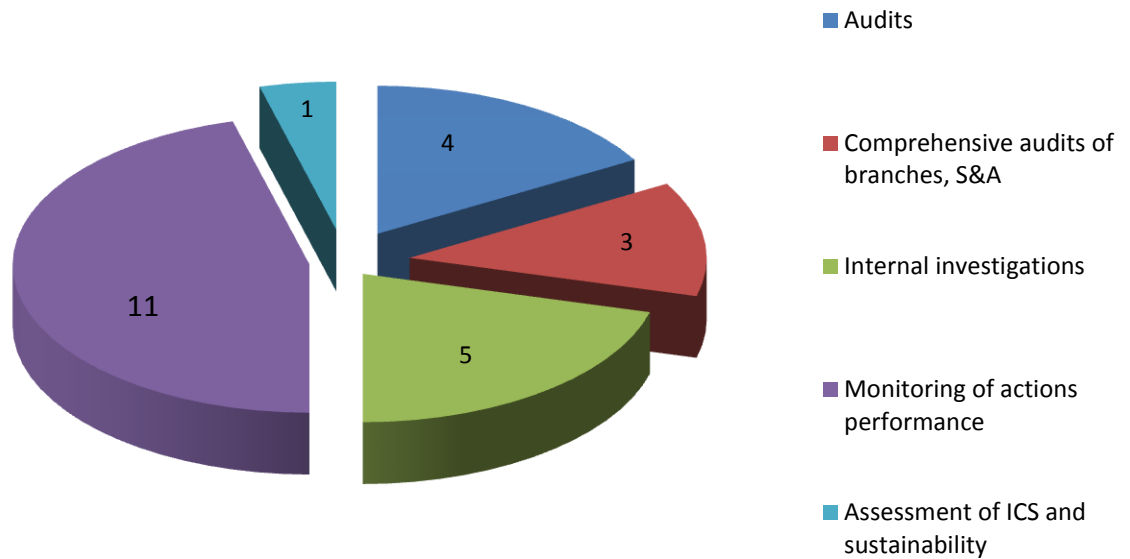
1) to provide the Board of Directors / Audit Committee of the Board of Directors and executive bodies of IDGC of the North Caucasus with independent and objective assurances that the company has adequate systems of internal control, risk management and corporate governance;

2) assist the Company's management in building effective systems of internal control, risk management and corporate governance by providing advice.

In 2015, the average number of employees that perform the internal audit function was 4.75 people.

Internal Auditor in 2015 carried out 24 audits.

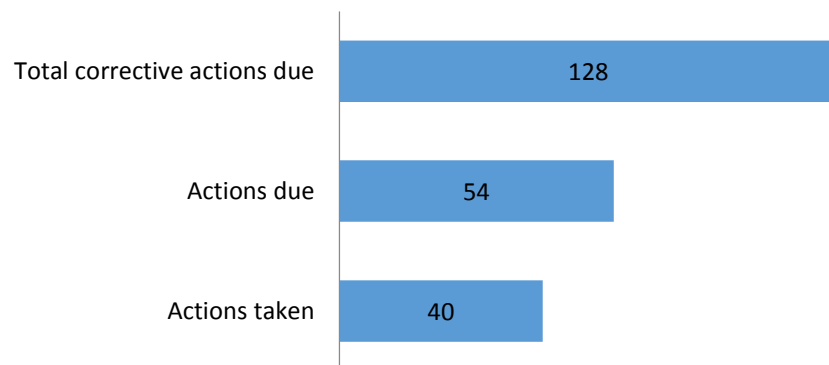
Results of control activities carried out by the internal audit in 2015



As a result of audits conducted by the internal audit in 2015, it was ordered to perform 128 corrective actions aimed at elimination and future prevention of violations and deficiencies identified by internal audit.

Of the 54 events, the period of execution of which occurred in the reporting year, 40 corrective actions were performed.

Corrective actions



Implementation of corrective actions is monitored by the Board of Directors Audit Committee hearing periodic reports by the management of the company on the implementation of corrective action plan to address the deficiencies identified by the Audit Commission of the company, the internal auditor of the company, external oversight bodies.

Share capital

General information about shares

Type of tool	Ordinary share
Exchange marketplace	The Moscow Stock Exchange (Moscow, Russia)
Code security	MRKK

ISIN code	RU000A0JPPQ7
State registration number	1-01-34747-E
Scope of issue	154,562,275 pcs.
Authorized capital	154,562,275 rub.
Nominal cost	1 ruble
Authorized shares	174,969,777 pcs.
Currency denomination	Russian ruble
Date of commencement of trading on the Moscow Stock Exchange	June 19, 2008
Free-float	not more than 8%

Basic rights of shareholders

Right	Reference to regulation and Articles of Association of IDGC of Northern Caucasus	Ownership of the voting shares by shareholder (shareholders*)				
		any	1%	2%	10%	25%
Participation in person or by proxy at the General Meeting of Shareholders with the right to vote on all matters within its competence	subcl. 1 cl. 6.2 Article 6, cl.11.8 Article 11 of the Articles of Association, subcl. 2 Article 31 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Alienation of shares owned by them without consent of other shareholders and IDGC of Northern Caucasus	para. 4 cl. 2.5 Article 2 of the Articles of Association; para. 4 cl. 1 Article 2 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Making proposals to the agenda of the General Meeting of Shareholders	subcl. 2 cl. 6.2 Article 6, cl. 13.1 Article 13 of the Articles of Association; cl. 1 Article 53 of the Federal Law "On Joint Stock Companies"	X	X	✓	✓	✓
Getting information on the activities of IDGC of Northern Caucasus and familiarization with documents	subcl.3 cl. 6.2 Article 6, para. 1 cl.26.5 Article 26 of the Articles of Association, cl. 4 Art. 11, Art. 91 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Receiving dividends declared	subcl. 4 cl. 6.2 Article 6 of the Articles of Association, subcl. 2 Article 31 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
The use of the right of pre-emption placed through subscription of additional shares and securities convertible into shares in proportion to the number of ordinary shares held by them	cl. 5.5 Article 5, subcl. 5 cl. 6.2 Art. 6 of the Articles of Association; cl. 1 Article 40 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
In case of liquidation of IDGC of the North Caucasus, a part of its property	subcl. 6 para. 6.2 Art. 6 of the Articles of Association, subcl. 2 Article 31 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Introduction of the list of persons entitled to participate in the General Meeting of Shareholders	cl. 4 Art. 51 of the Federal Law "On Joint Stock Companies"	X	✓	✓	✓	✓
Nomination of candidates to the Board of Directors	cl. 13.1 Article 13, subcl. 14.9.2 cl. 14.9 Article 14 of the Articles of Association; cl. 1 Article 53 of the Federal Law "On Joint Stock Companies"	X	X	✓	✓	✓
Nomination of candidates to the Audit Commission	cl.13.1 Article 13 of the Articles of Association; cl. 1 Art. 53 of	X	X	✓	✓	✓

Right	Reference to regulation and Articles of Association of IDGC of Northern Caucasus	Ownership of the voting shares by shareholder (shareholders*)				
		any	1%	2%	10%	25%
	the Federal Law "On Joint Stock Companies"					
Initiation of the Extraordinary General Meeting of Shareholders	para. 1 cl. 14.3 Article 14 of the Articles of Association; cl. 1 Art. 55 of the Federal Law "On Joint Stock Companies"	X	X	X	✓	✓
Initiation of the examination (audit) of financial and economic activity of IDGC of Northern Caucasus	cl.24.7 Article 24 of the Articles of Association; cl. 3 Art. 85 of the Federal Law "On Joint Stock Companies"	X	X	X	✓	✓
Introduction to accounting documents and minutes of Board meetings and request copies of these documents	para. 2 cl. 26.5 Article 26 of the Articles of Association; para. 1 cl. 1 Art. 91 of the Federal Law "On Joint Stock Companies"	X	X	X	X	✓

* Shareholders holding in aggregate size designation of the voting shares, may jointly implement the corresponding right.

✓ – Right available.

X – Right unavailable.

Information on share issues

The initial placement of shares was effected on the date of state registration of IDGC of Northern Caucasus August 4, 2006 through the acquisition of shares of a sole founder - RAO "UES of Russia".

Release	Prospectus registration date	Information on the state registration of the issue	Information on the state registration of the placement report	Number of shares, pcs.	Nominal value, RUB.	The purposes of issue
1	not recorded	December 27, 2006 1-01-34747-E	December 27, 2006	150,000	1	The establishment of the 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, Stavropolenergo JSC, KEUK JSC)
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 measures to reduce abnormal power losses in distribution networks
7	May 30, 2013	May 30, 2013 1-01-34747-E-006D	November 14, 2013	98,469,787	1	
Total number of shares outstanding				154,562,275		

Shareholding Structure

on December 31, 2015

Information on number of registered persons in register of shareholders (without disclosure of data on nominal holders customers)

Type of shareholder	Number of registered persons	Number of shares	Shareholding in %
Owners - individuals	2,244	850,171	0.56%
Owners - legal entities	44	517,394	0.33%
Nominees (first level)	2	150,345,249	97.27%
Trustees (not nominal holders, depositors)	1	2,838,192	1.84%

Type of shareholder	Number of registered persons	Number of shares	Shareholding in %
Securities of unknown person	1	11,269	0.003%
in total	2,292	154,562,275	100%

Data on participation of foreign investors in the authorized capital

Total	K pcs. of shares	1,892.1
	% of share capital	1.2%
including by countries in K pcs. shares:		
Republic of Cyprus		1,628.5
Republic of Austria		94.5
Swiss Confederation		92.3
UK		22.7
Belize		15.4
Latvian republic		12.1
Belarus		9.8
Republic of Lithuania		4.6
Republic of Seychelles		4.5
British Virgin Islands		3.2
Cayman Islands		1.6
The State of Israel		1.0
Kingdom of Sweden		0.7
Australia		0.5
The Republic of Azerbaijan		0.4
Ukraine		0.3
Germany		0.002

Information about persons with more than 5% of shares registered

Shareholder	Location	Number of shares.	Shareholding in%
Rosseti PJSC (owner)	Russian Federation, Moscow	142,197,293	92.00
Yurenergokonsalt LLC (trustee)	357500, Stavropol Territory, Pyatigorsk, ul.Podstantsionnaya 18	2,838,192	1.84

Information on share of the Russian Federation, constituent entities of the Russian Federation, municipal formations in authorized capital

Shareholder category	Russian Federation	Constituent entities of the Russian Federation	Municipalities	In 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

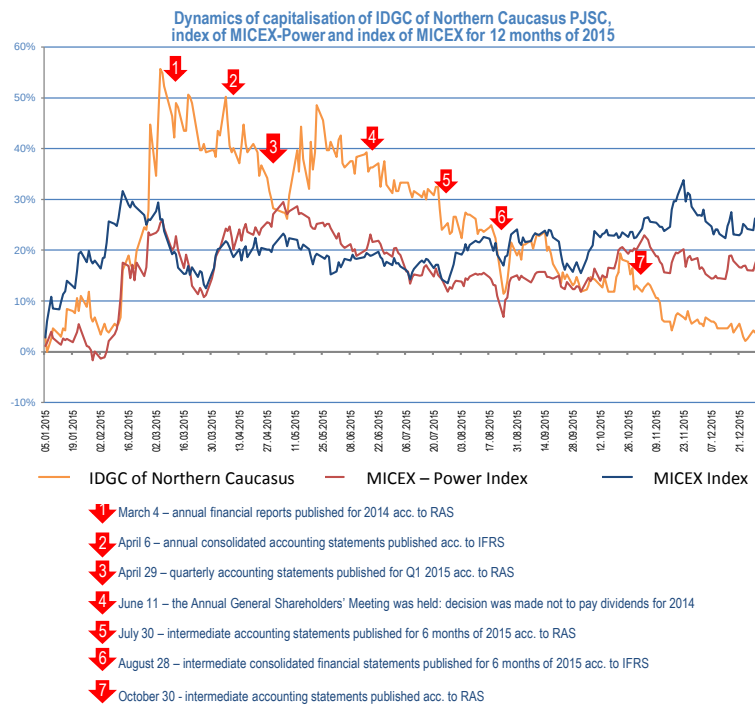
Company on stock market

Capitalisation, value and dynamics of shares of IDGC of Northern Caucasus for 2013-2015 on the basis of trading on MICEX Stock Exchange CJSC

Indicator	December 31, 2013	December 31, 2014	December 31, 2015	Dynamics of 12 months(2015), %
Weighted average price (end of year), RUB	15.4	11.9	12.4	4
Closing price, RUB	15.44	12.1	12.5	3
Capitalisation, billion RUB	0.9	1.8 *	1.9	6
Indicator	2013	2014	2015	Dynamics of 12 months(2015), %
Maximum price for the year, RUB	29.8	21.9	20.1	-8
Minimum price for the year, RUB	11.9	9.3	11.6	25
Average daily trading volume, M RUB	1	0.4	0.4	0
Average daily trading volume, pcs.	46,746	24,574	25,794	5
Average daily trading volume of transactions	209	113	82	-27

* In 2014, there was an increase in the market value of the company with reduction of the cost of one share at the expense of the admission of additional 98,469,787 shares of IDGC of Northern Caucasus to the organized trading in MICEX Stock Exchange CJSC.

Dynamics of capitalization of IDGC of Northern Caucasus, MICEX-Power index and MICEX index in 2015



Additional information about trends and factors affecting the dynamics of capitalization, is presented in the annual report "Trends and factors of development in 2015" of the annual report.

5. Human capital and social responsibility

Personnel policy

The key objectives of the personnel and social policy of IDGC of the North Caucasus that are designed to achieve targeted benchmarks of the Power Grid Complex of Russia Development Strategy are the following:

- Planning staffing needs - ensuring availability of accurate information on the operational 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's staffing needs with required qualifications;
- Ensuring efficiency of the staff, productivity growth in the Company.

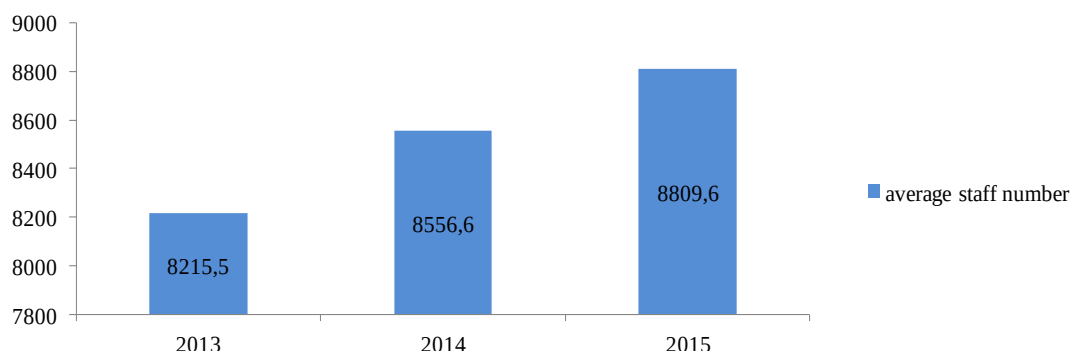
These key objectives of personnel and social policy are achieved by implementing a set of measures in various areas of activities and achievement of the set targets:

- in organizational design;
- in the field of staffing and staff development;
- in the field of efficiency of activity of personnel management (staff motivation);
- in the area of social benefits and guarantees;
- in security operations personnel and labour culture.

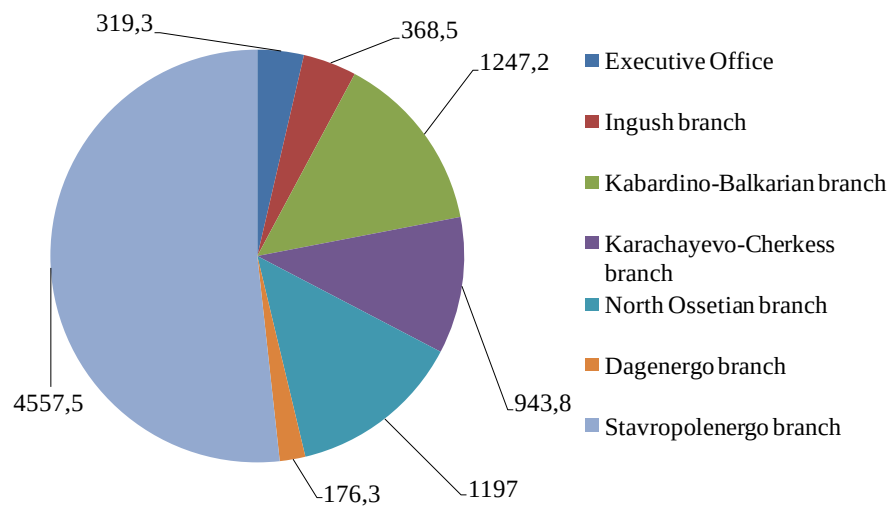
Number and structure of staff

The average number of employees of IDGC of Northern Caucasus in 2015 amounted to 8,809.6 persons, which is higher than the same period of 2014 by 2.9% (253 persons). The growth of the average number in 2015 is due to intake of additional staff in connection with rent of power grid assets of Vladikavkaz HPPs for rent by the North Ossetian branch on December 1, 2014.

**Average number of employees of IDGC of Northern Caucasus
in dynamics for 2013-2015**

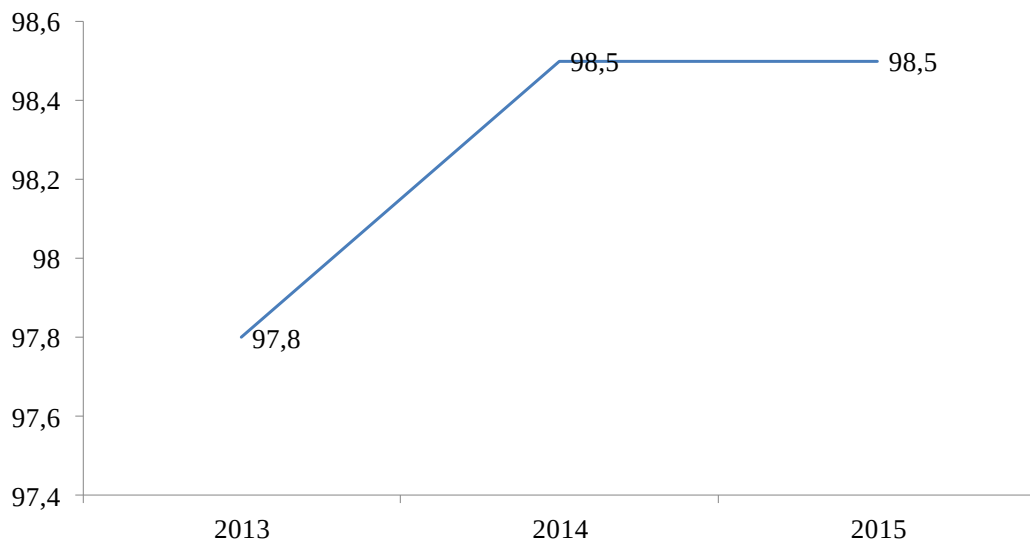


Distribution of average headcount in 2015



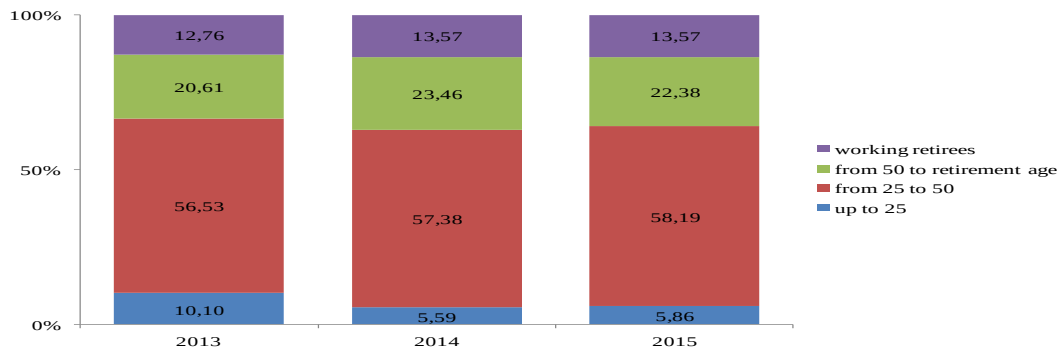
As of December 31, 2015 the number of employees was 9,050 persons.

The level of personnel security in IDGC of Northern Caucasus at the end of 2015 remained unchanged at 98.5% compared to the same period of 2014, indicating stability of the staffing situation in the company.



In general, in IDGC of Northern Caucasus staffing for three years remains at a fairly high level and corresponds to the targets of personnel and social policies implemented in the company.

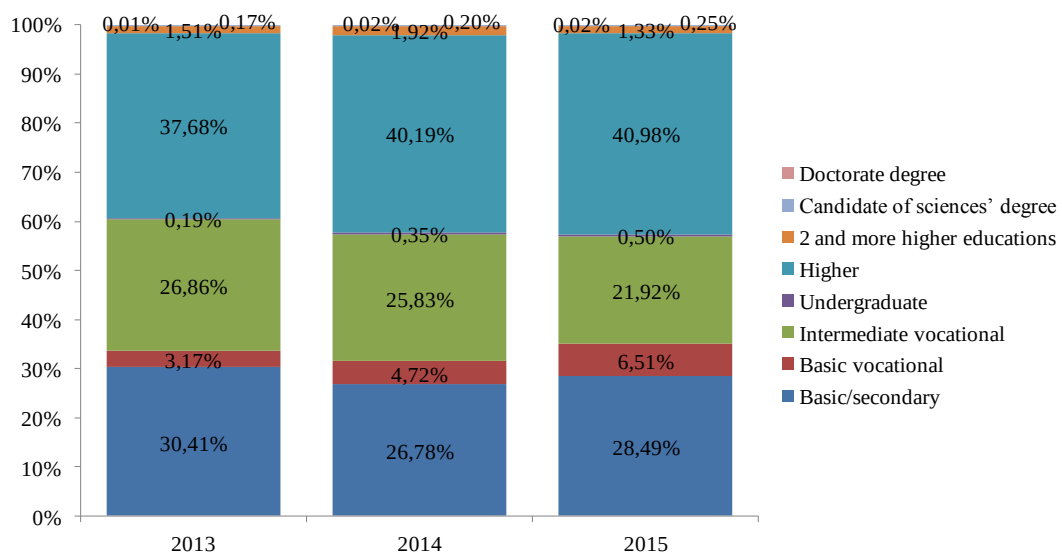
Personnel structure by age in dynamics for 2013-2015



In 2015, the share of young specialists (0.27%) and the proportion of professionals between the ages of 25 to 50 years (0.81%), which are the most employable and qualified personnel, increased, which was the result of the work done to attract young professionals.

The average age of employees was 47 years in 2015.

Structure of personnel by level of education in dynamics for 2013-2015

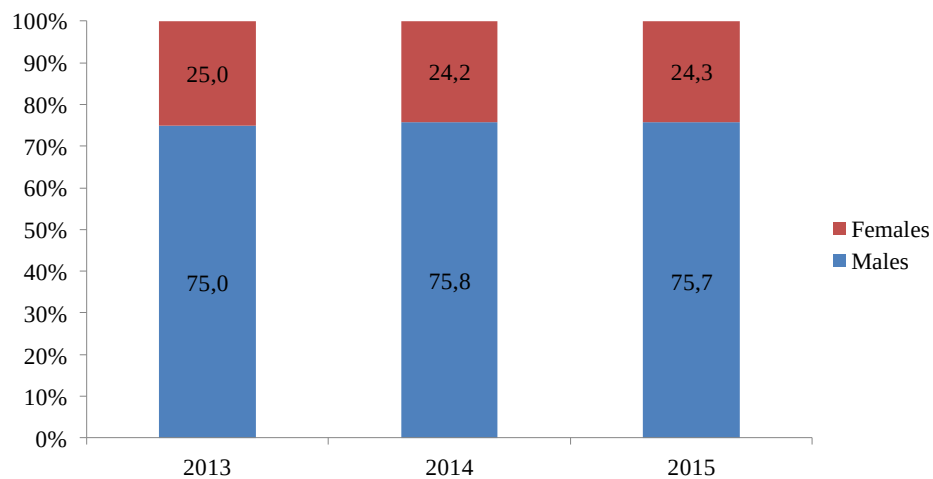


IDGC of Northern Caucasus staff has quite a high level of skills of workers. As of the end of 2015 around 72% of the employees of the company have vocational education.

Analysis of dynamics of the educational level of the personnel in comparison with the year 2014 shows little change in each category of workers.

In order to increase the qualification level of workers who do not have professional education, systematic work on training, retraining and advanced training of personnel was executed.

Personnel structure by gender for 2013-2015



Gender composition of employees corresponds to the typical ratio for grid companies' staff. At the end of 2015 the proportion of men working in IDGC of Northern Caucasus was 75.7%, due to the specifics of the company.

Training and Development

Planning and implementation of training programs, retraining and advanced training of personnel is carried out with a view to ensure unconditional fulfilment of the requirements for mandatory staff training in IDGC of Northern Caucasus, according to the rules of work with the personnel at the enterprises of electric power industry and the requirements of Rostekhnadzor.

Annual events for staff training based on the principles of timeliness, consistency and continuity, allowing for each employee to reveal their potential and to raise the level of professional development to meet the qualification requirements of the current and target positions.

In 2015, training events were attended by 5,402 people, which amounted to 62.6% of the average number of employees of IDGC of Northern Caucasus.

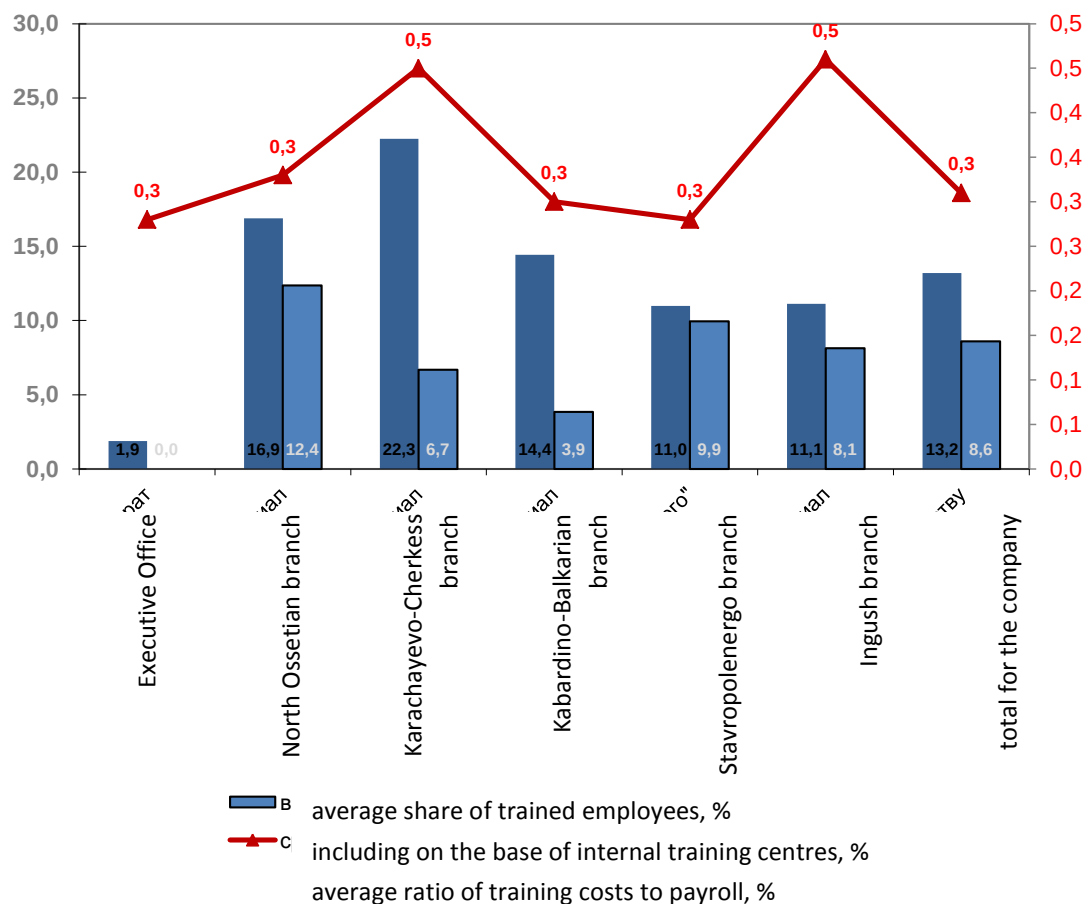
Training, retraining and advanced off-the-job training covered 1,140 employees, or 13.2% of average headcount.

Expenditure on off-the-job training of personnel in the reporting year amounted to 11,447.7 K RUB or 0.31% of the actual payroll employees.

In the absence of operations of the branch of IDGC of Northern Caucasus – Dagenergo - its employees in the reporting year were sent for training.

Specific indicators of personnel training in the context of branches and the executive office of IDGC of Northern Caucasus as a whole are as follows:

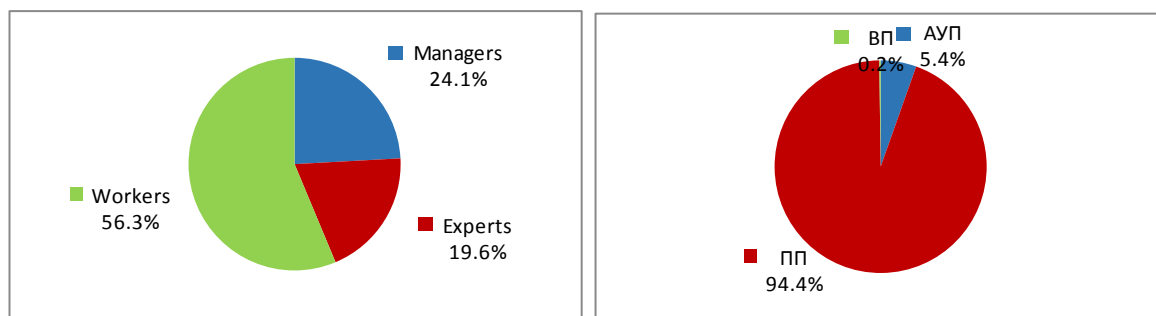
Percentage of employees who participated in off-the-job training activities, and ratio of costs for preparation for payroll in reporting year, %



Significant funds for training of personnel in the executive office of the company (873 K RUB) were spent in connection with implementation of measures on preparation of personnel reserve, while the number of personnel, sent for training, was 6 people.

Taking into account the specifics of IDGC of Northern Caucasus and problems of training, structure of employees who took part in educational activities, differs by prevalence of workers and production staff. The structure of personnel trained in the context of categories: executives / professionals, workers and administrative management (AMS), production (PS) and support staff (SupS) is presented below:

Structure of employees who participated in training events by category, %



Information about training centers of IDGC of Northern Caucasus



One of the largest professional industrial educational institutions is located in the territory of the North Caucasus Federal District – NOU Learning Works (Essentuki), founded by IDGC of Northern Caucasus. In 2015 it trained 2275 employees of the Company, representing 42.1% of the total number of employees trained. The number of seats for training at the training center is 256, throughput capacity is up to 2,000 people a year. The educational building has 11 classrooms, 7 laboratories, and a library. Classes are equipped with multimedia complexes, computers. NOU "Learning Works" is equipped with the electric grid training ground with the energy facilities of all kinds, on the basis of which professionals and workers are also trained. There is a hotel for 110 persons.

Main courses from NOU "Learning Works":

- Preparation of new jobs;
- 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.

Staff of Kabardino-Balkaria and North Ossetia branches of the Company is held annually in the training classroom based - structural subdivisions of branches.

The classroom of North Ossetia branch has the license for educational activity, is equipped with workshops, laboratories, class with specific equipment, grounds, 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 the Kabardino-Balkarian branch is not licensed, but has a technical library, instructional materials, computers, a video projector, a 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 grounds in the premises of RES, on the basis of which specialists and workers of branches are trained.

Interaction with educational institutions

In order to maintain and develop human resource capacity, in accordance with previously concluded agreements on cooperation, IDGC of Northern Caucasus organized cooperation with all leading educational institutions located in the territory of the North Caucasus Federal District, including:

- FGBOU VPO Grozny State Oil Technical University named after Academician M.D. Millionschikov;
- FGBOU VPO Dagestan State Technical University;
- FGBOU VPO North-Caucasian State Humanitarian and Technological Academy;
- FGBOU VPO North-Caucasian Federal University;
- FGBOU VPO Kabardino-Balkarian State Agricultural University named after V.M. Kokov;
- FGBOU VPO North Caucasus Mining and Metallurgical University (State Technological University);
- FGBOU VPO South-Russian State Technical University (Novocherkassk Polytechnic Institute);
- GBOU SPO Regional Multi-Profile College, Stavropol;
- ANO Energy College, Kaspiysk;
- GBOU SPO Nevinnomyssky Energy College, Nevinnomyssk;
- GBOU SPO Ardon Agro-Technological College, Ardon;
- GBOU SPO Karachaevo-Cherkessky Energy College, Cherkessk;
- GBOU NPO Professional Lyceum No.6;
- GBOU SPO St George Regional College "Integral";
- FGBOU VPO Gorsky State Agrarian University;
- GBOU SPO North Caucasus Fuel Energy College named after T.Ts. Tsurov.

Students of these vocational schools have the opportunity to undergo evaluation, production, pre-diploma practice annually on the base of IDGC of Northern Caucasus. In 2015, 235 students of higher and secondary vocational educational institutions have passed the practice on the basis of the branches of IDGC of Northern Caucasus, 4 graduates who have successfully completed the practice in their specialty were recruited into the company.

From 1 July to August 15, 2015, in the electric grid facilities of IDGC of Northern Caucasus, a combined student construction team "Elbrus" (hereinafter - SCT) consisting of 26 people worked. In the period from 14 to 15 October 2015 in Moscow on the basis of VPO NRU "MEI" there was a solemn ceremony of closing of the sixth All-Russian Labour Season of Student Teams in the Power Grid Complex. Of the total number of the teams (66 units), the event was attended by 18 top teams, including the SCT "Elbrus" of IDGC of Northern Caucasus in the amount of 5 people. In the course of events SCT commander "Elbrus" Cyril Kostyukov was awarded with gratitude of Rosseti PJSC and memorable gifts.

Working with personnel reserve

Formation and development of the personnel reserve is one of the priorities of IDGC of Northern Caucasus HR unit. The main objective of the work with the personnel reserve in the company is to provide staffing needs of the company for employees, prepared for duty target positions. To achieve these goals, the Regulations are developed and applied to work with personnel reserve (further - Rules).

In accordance with the requirements of the Rules, the company established:

1) management talent pool - the following positions:

Head of Department, Directorate, Division, Service;

Deputy Director of the branch by area of activity;

Deputy Chief Engineer by area of activity;

Chief Accountant;

Department Head, Division, Service;

Supervisor of Power Grids.

2) staff reserve for key positions:

Chief Engineer of RES;

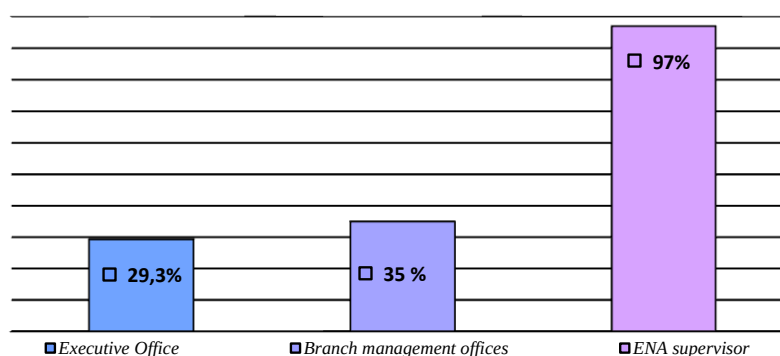
RES Foreman;

DS Manager.

The personnel reserve of the Company consists of highly qualified professionals with experience of at least three years in the field, profile target positions; with good results in production activities; with the capacity required for further professional development and career growth.

At present, the management of personnel reserve includes 200 employees, and personnel reserve for key positions - 135 employees.

Provision of management positions with personnel reserve at the end of the reporting period



The low percentage of provision of personnel reserve for key positions in the executive office of the company and branch management offices is due to actions carried out in 2015 to optimize the number of administrative staff.

Since 2011, IDGC of Northern Caucasus is implementing a program to work with the youth talent pool. Youth personnel reserve is formed at the level of the executive office 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 workers, to assist in raising the level of professional and managerial training. The structure of the youth talent pool consists of high-potential young professionals characterized by high level of learning, active life (when considering candidates to the personnel reserve, preference is given to employees who are actively involved in life of the company, research activities, having rationalization proposals), high level of motivation to build a long-term career in IDGC of Northern Caucasus. At present, the youth personnel reserve consists of 9 young professionals.

For all members of the personnel reserve 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 personnel reserve is on development of practical skills – reservists are involved in development of normative documents, the target position is replaced by a reservist 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 personnel reserve for the position of Head of RES on a regular basis in the format of videoconferences (videoconferencing seminars held by managers and executive staff specialists of IDGC of Northern Caucasus 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 2015, employees in the amount of 77 people, among those included into personnel reserve were trained in NOU "Learning Works" (Essentuki) and in specialized educational institutions of additional professional education, located in Moscow and St. Petersburg. Also in 2015 fifteen employees of IDGC of Northern Caucasus, included in the personnel reserve, were trained on the base of FGAOU VPO North-Caucasian Federal University according to the program "Analysis and reduction of technological losses of electricity during its transmission through electric networks based on modern information technology", which included, apart from training, on-the-job training on the base of enterprises, research and engineering centers in Russia and in Germany.

In addition, in 2015, 3 employees of the executive office took part in training under the integrated program "Development of power grid complex leaders", organized for members of the managerial personnel reserve of Rosseti Group of Companies.

During the reporting period, 13 employees were assigned from personnel reserve to senior positions.

Currently, the company takes steps to update the composition of the personnel reserve.

Social programs and events

In IDGC of Northern Caucasus there is a valid collective agreement, developed on the basis of the Industry Tariff Agreement in the Russian power sector, defining the main parameters of the relationship of the social partners of the Company and allowing to maintain favourable working climate in the team of the company.

In accordance with the current Collective agreement, workers are provided with the following social benefits:

- Payment of vouchers for treatment and rest;
- Allocation of funds for the children's Christmas gifts;
- Partial compensation of kindergarten costs for children of certain categories of employees for purchase of vouchers with involvement of the Social Insurance Fund money to children's health camps;
- Encourage employees in connection with their professional and public holidays, in connection with the anniversary of IDGC of Northern Caucasus, in connection with the anniversary date;
- Financial assistance to employees for family reasons.

In order to improve the social protection of employees, IDGC of Northern Caucasus provided voluntary medical insurance of employees in accordance with the agreements concluded with the insurance company SOGAZ. The voluntary health insurance contract provides for outpatient services. Every employee of the company can take advantage of the medical advice of specialists, undergo laboratory examination, receive diagnostics and therapeutic procedures. In case of emergency power engineers may undergo inpatient treatment in hospitals.

In addition, IDGC of Northern Caucasus, company's branches and insurance group SOGAZ executed insurance contracts for accidents and illnesses.

In order to ensure decent living standards for the Company's employees in the retirement age, creating conditions for effective solution of personnel issues related to attraction, retention and motivation of staff, company annually approves the Program of private pension coverage of employees.

For the purpose of health improvement of children of employees of IDGC of Northern Caucasus, partial compensation of expenses is provided for purchase of vouchers to country children's summer camps with the involvement of the executive authorities of the Russian Federation.

The company annually provides targeted financial support to non-working pensioners, war veterans and home front workers during the Great Patriotic War. Non-working pensioners, veterans, awarded with departmental awards, marks of distinction and honours during their work, have premiums paid in addition to state pension.

From February 26 to March 6, 2015 a contest was held among children's drawings "Rosseti: kids are drawing!" within framework of events dedicated to the Day of the Company and the 70th anniversary of Victory in the Great Patriotic War of 1941-1945 among children of employees of Rosseti group of companies, Company employees' children took active part in the contest of children's drawings dedicated to the above activities.

On May 3, 2015 the staff of IDGC of Northern Caucasus, together with the employees of Stavropolenergo branch took part in the ascent of Mount Beshtau (Pyatigorsk), dedicated to the celebration of Victory Day.

In addition, on May 8, 2015 they organized and held a solemn event dedicated to the celebration of Victory Day with participation of veterans, combatants and students from sponsored orphanages.

On May 21-26, 2015 the team of IDGC of Northern Caucasus took part in the All-Russian volleyball tournament among men's teams of physical culture groups and sports clubs and associations of enterprises of the fuel and energy complex, in settlement Lazarevskoye, where the team won the 1st place.

From July 12 to July 18, 2015 in Kaluga Region there was an international forum of young power engineers and industrialists, "Fast and Furious-2015" (hereinafter - the Forum). The Forum is held annually since 2011. Rosseti Group of Companies has been taking part in the Forum's activities since 2013.

Topic of the forum in 2015 was "Effective Strategies of Russia". Intercompany educational streams were functioning at the event - "Energopolis" (energy infrastructure and energy efficiency), "Technopolis" (innovative development), "Production Systems of Russia" (operating efficiency and lean production), as well as the "Social Partnership", "Global Business", "Information Flow".

In addition, a separate corporate educational stream of Rosseti Group of Companies was organized. During implementation of the corporate stream, the composition of the youth personnel reserve of the power grid complex was updated, a strategic session was held for members of the Youth Councils, and a common youth policy of Rosseti Group of Companies was developed together with customized programs of young professionals.

Employees of the power grid complex were able to take part in the general activities of the Forum, where meetings were held with the Deputy Prime Minister A.V. Dvorkovich, Minister of Energy of Russian Federation A.V. Novak, Deputy Minister of Education and Science V.Sh. Kaganov in intercompany educational streams, as well as in the corporate program of Rosseti Group of Companies.

For the first time IDGC of Northern Caucasus was the general partner of the North Caucasian Youth Forum "Mashuk", held from July 23 to August 6, 2015 at the foot of Mashuk Mountain in Pyatigorsk. The event was held under the patronage of the Plenipotentiary Representative of RF President in the North Caucasian Federal District, with the assistance of the Ministry of Education and Science of the Russian Federation, the Federal Agency for Youth Affairs, Government of Stavropol Territory. At this time, members of the North Caucasian Youth Forum "Mashuk-2015" were more than 3,000 young people from the country's various regions.

The project of IDGC of Northern Caucasus included a decorated pavilion with four stands: "Energy of "Smart City", "Energy of Great Victory", "Energy of the Future", "Safe Energy", where some important presentations, informative meetings and workshops took place.

Specialists of IDGC of Northern Caucasus shared with forum participants their experience in promoting Russian innovative projects, using a vital exposition on safety tried to teach correct

use of power, to reinforce basics of providing first premedical resuscitation in case of electric shock. On the interactive map, participants of "Mashuk" could find those monuments to heroes of the Great Patriotic War, which the power engineers of IDGC of Northern Caucasus restored for the 70th anniversary of the Great Victory in all seven constituent entities of the North Caucasus Federal District. Such military memorials and obelisks include 70 pcs. The current layout of interactive 3D-sharing with Rosseti PJSC project "Smart City", which was presented by the specialists of Energostroi-MN JSC, incorporates the most advanced technologies that power engineers of the North Caucasus are going to implement at pilot sites in Dagestan, Ingushetia and Chechnya.

From September 21 to October 1, 2015 the team of IDGC of Northern Caucasus took part in the All-Russian volleyball tournament in 2015 among men's teams of physical culture groups and sports clubs companies and combining the fuel and energy complex, in the settlement Lazarevskoye, where the team won 2nd place.

On December 19, 2015 the football team of IDGC of Northern Caucasus took part in the mini-football competition organized by the branch of FGC UES PJSC - MES South, where it won the 1st place.

On December 22 at the solemn meeting in connection with the professional holiday - the Day of Energy - 46 employees of the executive office of IDGC of Northern Caucasus were awarded with departmental, sectoral and corporate awards.

In the group of companies of IDGC of Northern Caucasus 616 employees were awarded:

1. Rosseti PJSC - 34 employees,
2. Ministry of Energy of Russia - 29 employees;
3. IDGC of Northern Caucasus - 71 employees;
4. OraEl - 82 employees;
5. Regional awards - 125 employees;
6. Awards of branches / Companies - 275 employees.

Also on the professional holiday, the Day of the Power Engineer, IDGC of Northern Caucasus commissioned a high voltage substation 110 kV Beshtau for power supply of the neighbourhood "Zapadny" in the capital of the North-Caucasian Federal District Pyatigorsk. Symbolic red button was pressed by the General Director of IDGC of Northern Caucasus, Yuri Zaitsev, the Minister of Energy, Industry and Communications of the Stavropol Territory Vitaly Hotsenko and Deputy Head of Administration of Pyatigorsk Dmitry Voroshilov. Within start-up of the substation, and in connection with their professional holiday, Yuri Zaitsev and Vitaly Hotsenko awarded distinguished experts of this year with certificates of appreciation by the Governor of the Stavropol Territory, Diplomas of Rosseti PJSC and Gratuities of Rosseti PJSC. In addition, at a solemn ceremony the Director General of IDGC of Northern Caucasus was awarded with a medal "For Services to the Stavropol Territory".

Socio-cultural activities of the IDGC of Northern Caucasus made a significant contribution to the development of corporate culture.

Environmental policy

One of the main areas of environmental policy of IDGC of Northern Caucasus is to reduce the negative environmental impact of production processes for maintenance, repair, construction and reconstruction of power grid management.

The specifics of the activity of transport and distribution of power by IDGC of Northern Caucasus does not provide for significant adverse impacts at environment, which are likely to result in irreversible changes in the natural environment and environmental disasters. Requirements for electrical installations in terms of environmental safety are determined at the design stage, which provides for protection of soil against accidental leakage of oil from equipment (construction of oil receivers under oil-filled equipment in the amount of oil more than 1 t, oil drains to emergency drip trays), to protect people and wildlife from direct impact of current-carrying parts and the adverse effects of electromagnetic fields.

Main directions in the field of environmental protection in IDGC of Northern Caucasus are:

- Control over content of harmful gases from vehicle exhaust in order to avoid exceeding the permissible values, adjustment of the fuel system of cars, replacement of the car fuel system with transition to gas;
- Development of the norms of maximum permissible emissions of pollutants into atmosphere;
- Landscaping and planting.

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

- recycling of waste of I-IV hazard classes (used batteries, mercury and fluorescent lamps, etc.). In the reporting year, expenses amounted to 968.062 K RUB;
- adjustment of fuel equipment of vehicles with the aim of bringing the exhaust emissions down to established norms. Costs – 11.1 K RUB

Volume of wastes by hazard classes.

Name of waste types, grouped by hazard class	Waste generation in the reporting year, tons
Waste of all classes of danger, total	1,096.137
Total for 1 class of hazard	0.400
Total for 2 class of hazard	5,805
Total for 3 class of hazard	29.673
Total for 4 class of hazard	508.526
Total for 5 class of hazard	551.733

Dynamics of payments for negative impact on the environment, K RUB

	2013	2014	2015
at water bodies	645.916	810.571	677.259
at air	78.382	60.188	46.948
for waste disposal	1,031.084	951.883	1,745.032
Total	2,642.96	1,822.642	2,469.239

Dynamics of environmental costs, K RUB

2013	2014	2015
2,642.966	1,315.418	3,885.801

In order to address environmental challenges, staff of branches of IDGC of Northern Caucasus undergoes initial training through continuing education.

Internal environmental audit of economic activities was performed in 2015 in branches of IDGC of Northern Caucasus on their own without involvement of third parties and without material costs. The result of the audit were the acts for the internal environmental audit in the branches, which provides information on the state statistical reporting that reflects data on waste generation (generated municipal solid waste kept in a closed equipped room).

In 2015, IDGC of the North Caucasus conducted no work on implementation of the environmental management system.

In the future, in order to use promising technologies and solutions in the field of environmental protection and nature management, branches implement measures to reduce the negative impact of industrial activity at the environment.

The main directions of solving this problem are retooling and gradual decommissioning of obsolete equipment, implementation of measures for collection and storage of waste.

Charity

In order to promote socially responsible business practices, a system of charitable aid is developed on a proportional basis in all regions of operations of IDGC of Northern Caucasus.

In 2015, help was provided to religious, children, veterans, sports and other public organizations of Kabardino-Balkaria, Karachay-Cherkessia, Stavropol Territory, the Republic of North Ossetia-Alania, the Republic of Dagestan.

Charitable assistance was provided to secondary school No.28 in the village Energetik of the Stavropol Territory, which took part in the regional promotion "Wall of Remembrance" Remember me!" for the 70th anniversary of Victory in the Great Patriotic War, State Budgetary Educational Institution of Secondary Vocational Education St George Regional College "Integral" in the Stavropol Territory for purchase of materials for implementation of training activities, MOU DOD Junior Sports School of Olympic reserve No.1 in Pyatigorsk for purchase of state-of-the-art athletics mats, Charity Fund "Memory" in the Republic of Ingushetia for construction of a school for 360 seats in the territory of GBOU SPR North Caucasus Fuel and

Energy College named after Tsurov, as well as for the treatment of employees and veterans of the Company's branches.

Contact information

Full company name

Interregional Distribution Grid Company of Northern Caucasus, Public Joint-Stock Company (English)

Short company name

IDGC of Northern Caucasus, PJSC (English)

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Relevant contacts and details of IDGC of Northern Caucasus are placed on the company website in the section "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 (adjustable base of capital employed), return on invested capital method
JSC	joint-stock company
AO-energo	Joint-Stock Company for Energy and Electrification
GDP	gross domestic product
HVL	High-voltage power line
OHL	overhead lines
VMUE	Vladikavkaz municipal unitary enterprise
HV	high voltage
HS	High school
LRS	Last resort supplier
SAC	subsidiaries and affiliate companies
Unit of meas.	unit of measurement
UES of Russia	Russian Unified Energy System
H&U	Housing and utilities
CJSC	Closed Joint-Stock Company
TIN	taxpayer identification number
ICT	information technology, automation and telecommunications
CL	cable lines
km	kilometre
kop.	kopeck
KPIs	Key Performance Indicators
MIA of Russia	Ministry of Internal Affairs of Russian Federation
M	million
B	billion
MICEX	Closed Joint-Stock Company MICEX Stock Exchange
IDGC	Interregional Distribution Grid Company
IFRS	International Financial Reporting Standards
MUE	Municipal Unitary Enterprise
TPG	Trunk Power Grids
GRR	gross revenue requirement
VAT	value added tax
R&D	research and development work
NP	non-commercial partnership
NC	New construction
OJSC	Open Joint Stock Company
LLC	Limited Liability Company
WPCM	wholesale power and capacity market
PJSC	Public Joint Stock Company

SS	Substation
RAS	Russian Accounting Standards
RTS	Open Joint Stock Company "Russian Trading System" Stock Exchange
RUB	Rouble
RF	Russian Federation
ENA	Electrical Networks Area
MM	Mass Media
L	line
TS	Transformer Substation / Technological Connection (depending on context)
TRER	Technical Re-Equipment and Reconstruction
TGC	Territorial Grid Company
K	Thousand
FSC of Russia	Federal Commission for the Securities Market
UNITS	
Amps (A)	unit of electric current measurement in the International System of Units (SI)
Watt (W)	unit of electric power measurement in the International System of Units (SI)
Watt-hour (Wh)	off-system unit of work or the amount of energy produced. It is used primarily for measuring energy consumption at home, in national economy and for measurement of power generation in the electric power industry
Volt (V)	a voltage measuring unit in International Units (SI) system. It is equal to the electrical voltage causes a constant current in the circuit at 1 amp power output 1 Watt
Litre (l)	metric unit of volume measurement
TERMS	
Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)	Analytical index equal to the volume of profit before the deduction of interest expense, 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	a set of principles and methods to determine proportions between capitalized part of company profits and part of company's profits paid out as dividends, as well as a system of relations and principles to determine order and timing of payment of dividends, to determine company's responsibility for non-fulfilment of obligation to pay dividends
Subsidiaries / affiliate companies (SAC)	Company, where another company holds more than 20% of voting shares
Unified National (all-Russian) Power Grid	complex of electric grids and other power grid facilities owned by right of ownership or otherwise stipulated by federal laws by subjects of electricity and ensuring steady supply of power to consumers, functioning of the wholesale market, as well as parallel operation of Russian electric power system and electric power systems of foreign countries
Unified Energy System of Russia (UES of Russia)	a set of production and other electricity property assets of a single production process (including production in the mode of combined production of electricity and heat), and transmission of electrical energy under centralized operational dispatch management in power engineering

Sole Executive Body	officer acting on behalf of the society on the basis of the company's charter and having the right to exercise legal capacity of the society in all matters not within the competence of other bodies of company
Investment Community	investors, investment funds, credit rating agencies, stock exchanges, investment banks, investment analysts and experts
Interregional Distribution Grid Company (IDGC)	open joint-stock companies created during the restructuring of the electricity industry, generated as operational (or operational-holding) companies within the framework of the reorganization of IDGC and DGC by merger
Method of Return on Invested Capital (RAB, Regulatory Asset Base - adjustable base of capital employed)	tariff system on the basis of long-term tariff regulation, aimed at attracting large-scale investment for construction and upgrade of network infrastructure and promotion of efficiency of grid company expenses. The basic principle of the methodology is to provide a return on investment in the assets of the company over a given period corresponding to the service life of the assets and receive a fair rate of return on capital employed. Besides, this borrowed money is reimbursed not within a year, but for 20 years or more. Tariffs are set for a period of three to five years, which ensures the stability and predictability of the situation for investors, reducing their risks. Consumers, in turn, receive a guarantee of quality of services, the ability to predict the cost of electricity and, ultimately, likelihood of lower prices
Gross Revenue Requirement (GRR)	economically reasonable amount of funds necessary to a company to carry out regulated activities during accounting regulation period
Distribution Companies	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 person who is a professional securities market participant, provider of the public limited company services for conducting the register of shareholders, registration of transfer of ownership of shares, distribution of materials to shareholders and other services
Market Capitalization	the aggregate market value of all outstanding shares of the Issuer, determined by exchange quotations. Market capitalization is calculated by multiplying the number of shares of the relevant category (type) by the market price of one share disclosed by the trade organizer at the securities market and determined in accordance with the Procedure of Calculation of Market Prices of equity securities and investment units of investment funds admitted to circulation through trade organizers approved by Decree of the Federal Securities Commission of Russia on December 24, 2003 No.03-52/ps
EDITORIAL ASSUMPTIONS IN THE TEXT OF THE REPORT	
Stakeholders	shareholders, customers, contractors and business partners, investors, public authorities, employees of IDGC of Northern Caucasus and other natural and legal persons with an interest in financial and economic activity of IDGC of Northern Caucasus (definition of "stakeholders" is used in international practice to refer to this category of persons)
Executive Office (Control Unit)	control unit (headquarters) IDGC of Northern Caucasus, carrying out accounting and control functions, system-wide coordination and administration of branch offices and Managed Company
Executive Director	member of the executive organ (s) of IDGC of Northern Caucasus

Key Performance Indicators (KPI)	system of financial and non-financial indicators that affect the quantitative or qualitative change in results in relation to the strategic goals of IDGC of Northern Caucasus
Company	IDGC of Northern Caucasus
Corporate Governance	a set of processes that provide management and control over its activities and including relations between shareholders, the Board of Directors and executive bodies of IDGC of Northern Caucasus in the interests of shareholders
Independent Director	In accordance with the Corporate Governance Code (recommended by the Bank of Russia in accordance with the letter on April 10, 2014 No.06-52 / 2463) Independent Director is a person who has sufficient professionalism, experience and independence to form their own position, is able to make objective and honest opinions, independent from the influence of executive bodies, 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 significant shareholder, a significant counterparty or competitors of the Company or related entities. Additional conditions are contained in paragraphs 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
Managed Company	a legal person under the management of IDGC of Northern Caucasus under the contract on transfer of powers of the sole executive body. At the end of 2015 the Company controlled by IDGC of Northern Caucasus were: Grid: Chechenenergo JSC, Dagestan Grid Company JSC Power supply: Dagestan Energy Retail Company PJSC, Kabbalkenergo PJSC, Kalmenergosbyt PJSC, Karachaevo-Cherkessskenergo JSC, Sevkavkazenergo PJSC Other (are not in operations): Dagenergoset OJSC, Ingushenergo JSC, Nurenergo OJSC

Limitation of liability

This Annual Report of IDGC of Northern Caucasus for 2015 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. The Annual Report was prepared on the basis of the information available to IDGC of Northern Caucasus at the time it was compiled.

The Annual Report contains information on the results of IDGC of Northern Caucasus activities for 2015 (in a number of cases for a longer period), assessments and predictions by IDGC of Northern Caucasus authorized management bodies concerning future events, development prospects for IDGC of Northern Caucasus and industry that IDGC of Northern Caucasus 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 has received authorisation from physical entities, whose personal information is included in this Annual Report, to disclose this information, or personal data is used, which is placed in public sources of information.

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 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 activities, as well as the industry and market in which IDGC of Northern Caucasus 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, its governing bodies, management, and staff at the time the report was compiled. If the date of this report is not current, then the opinions and forecasts contained in it may not reflect the views of the current management or IDGC of Northern Caucasus governing bodies. 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 real results of IDGC of Northern Caucasus activities in the future may differ from forecast results for a number of reasons. The indicated reasons concern a number of well-known and unknown risks, uncertainty, and other factors. IDGC of Northern Caucasus gives no guarantee (apart from situations provided for in law), that real results, scales or indicators of its activities or of the industry it operates in, shall correspond to 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 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 IDGC of Northern Caucasus shares is related to risks described in this Annual Report. Neither IDGC of Northern Caucasus, nor its governing bodies, nor staff, shall bear any responsibility for any losses arising as a result of using this report or its contents or arising from any connection with this report.

In the reporting year most power grid companies, as well as other companies within Rosseti holding, have brought their names in compliance with the Civil Code of the Russian Federation. The English-language version of the Annual Report is shortened compared to the Russian one.