



ROSSETI



Public Joint-Stock Company

IDGC
of Northern Caucasus

IDGC OF NORTHERN CAUCASUS
ANNUAL REPORT
2016

THE ENERGY OF NEW ACHIEVEMENTS



Previously reviewed and approved
by the Board of Directors of IDGC
of Northern Caucasus PJSC
May 10, 2017

Minutes No. 295 dated May 12, 2017

Approved by Annual
General Meeting of Shareholders
IDGC of Northern Caucasus PJSC
June 15, 2017

Minutes No. 18 dated June 19, 2017

ANNUAL REPORT IDGC OF NORTHERN CAUCASUS PJSC for 2016

The energy
of new achievements

General Director

A handwritten signature in blue ink, appearing to be "Yu.V. Zaytsev".

Yu.V. Zaytsev

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Address by Chairman of the Board of Directors IDGC of Northern Caucasus PJSC

Dear shareholders, partners, colleagues!



Being an integral part of Rosseti Power Holding, IDGC of Northern Caucasus PJSC follows the Power Grid Strategy of the Russian Federation approved by the Regulation of the RF Government dated April 3, 2013 No. 511-r., IDGC of Northern Caucasus PJSC aims at high quality of provided services, reliable power supply, timely and transparent technological connection to power networks at price affordable for consumers. To solve this objective, the company methodically works on consolidation of power grid assets, which is a necessary condition to establish a single center of responsibility for reliable and high quality power supply to consumers in the region represented by IDGC of Northern Caucasus PJSC. Actions were implemented in this area in 2016 to achieve arrangements made by the company in 2015. In particular, to implement the project of the joint power grid company establishment in the Republic of Dagestan, additional issuance of shares of Dagestan Grid Company JSC, where IDGC of Northern Caucasus PJSC was the sole shareholder, was started to carry out. The circle of potential acquirer, together with IDGC of Northern Caucasus PJSC, includes the Republic of Dagestan.

As before, in 2016 the most important vector of work of the Board of Directors and executive management bodies of IDGC of Northern Caucasus PJSC were questions aimed at solving key issues of North Caucasus power engineering: unsatisfactory payment discipline of network services consumers and excessive losses of power in distribution grids. In order to achieve benchmarks of power grid complex development set by the Power Grid Strategy of the Russian Federation, the Board of Directors, Rosseti PJSC, chaired by the Minister of Energy A.V. Novak on June 9, 2016 approved financial support to certain companies within Rosseti PJSC Group, including staged capitalization support of subsidiaries.

In 2016 the Russian economy started to demonstrate recovery from 2015-2016 recession. In opinion of many analysts, power engineering to a great extent benefits from stronger ruble and Russian economy recovery, which are expected in 2017. As before, steadily following the principles of responsible business practice, IDGC of Northern Caucasus PJSC managed to meet key expectations of stakeholders. The bottom line is that IDGC of Northern Caucasus PJSC supplied power to consumers in the North Caucasus Federal District. Methodical work to improve efficiency continued in the reporting year, including optimization of governance structure, reduction of administrative pressure at production activities, continuous monitoring of company executive bodies.

Improvement of dividend prospects and targeted work on optimization of operating and capital costs were appreciated by investors, and therefore capitalization of IDGC of Northern Caucasus PJSC grew on the background of overall positive dynamics of market cost of distribution grid companies' shares. In 2016 capitalization of IDGC of Northern Caucasus PJSC nearly doubled.

Subsidiaries of Rosseti PJSC that needed targeted support included IDGC of Northern Caucasus PJSC. Provision of such support to IDGC of Northern Caucasus PJSC will help to implement critical governmental projects related to improved reliability and development of power grid infrastructure of the North Caucasus Federal District, creation of the necessary conditions for socioeconomic development of the region as a whole. For the above purposes in 2016 the additional issuance of shares was started in the Group of Companies IDGC of Northern Caucasus PJSC (in particular, IDGC of Northern Caucasus PJSC, Dagestan Grid Company JSC and Chechenenergo JSC – subsidiary of Rosseti PJSC, power grid company managed by IDGC of Northern Caucasus PJSC). Additional issuance of IDGC of Northern Caucasus PJSC shares in the volume of 3.2 billion shares was registered by the Bank of Russia in December 2016.

Being a power grid infrastructure company, IDGC of Northern Caucasus PJSC is aware of its high social responsibility. IDGC of Northern Caucasus PJSC is a good faith taxpayer and employer. Besides, IDGC of Northern Caucasus PJSC is an efficiently organized company having a transparent and understandable corporate governance system and providing opportunities for personal fulfillment.

High-quality corporate governance to a great extent helps to improve the image and investment appeal of IDGC of Northern Caucasus PJSC, to build trustworthy relations with shareholders, investors, consumers, federal and regional authorities. The Board of Directors of IDGC of Northern Caucasus PJSC, being a strategic governance body, methodically works to implement best corporate governance practices into the company business. Thus, in 2016, with support from the executive management bodies of IDGC of Northern Caucasus PJSC and active position of the main shareholder – Rosseti PJSC – main documents that govern activities of the Board of Directors and certain

committees under the Board of Directors were updated, and the Regulations on the Corporate Secretary were adopted. As a result, the corporate governance system of IDGC of Northern Caucasus PJSC to a greater extent (vs data of the end of 2015) started to comply with principles set in the Corporate Governance Code recommended for use by the Bank of Russia.

In general, quality of corporate governance in IDGC of Northern Caucasus PJSC in many ways complies with the best practices. Business of the company is transparent, and main procedures are regulated. Procedures regulating cooperation of executive bodies, activities of governance and supervision bodies, Committees under the Board of Directors are regularly updated to meet as much as possible the interests of shareholders and the Company itself. There are specialized committees established in the company under the Board of Directors (Audit Committee, Personnel and Award Committee, Committee for Reliability, Committee for Strategy and Development, Committee for Technological Connection to Electric Power). Priority areas of the company activities include perfection of the internal control and risk management system, development of internal audit function. The Internal Audit and Control Directorate is functioning, which administratively report to the General Director, being functionally subordinate to the Audit Committee of the Board of Directors, which also performs methodological support of risk management.

Dividend Policy of IDGC of Northern Caucasus PJSC is recorded in a separate document – Dividend Policy Regulations; there are Information Policy Regulations and Insider Information Regulations, which also help to efficiently implement interests of our shareholders.

Certainly, there is room for development in part of introduction of reference standards of corporate governance in IDGC of Northern Caucasus PJSC. Thus, one director meeting the criteria of independence

according to the Corporate Governance Code of the Bank of Russia operates in the existing composition of the Board of Directors. But the Corporate Governance Code recommends that the independent directors make at least one third of the elected composition of the Board of Directors. Composition of the Board of Directors of IDGC of Northern Caucasus PJSC to a great extent depends on the structure of the stock capital of the company. However, the company and its governance bodies do their best so that members of the Board of Directors of IDGC of Northern Caucasus PJSC are individuals with adequate professionalism, experience and independence for formation of their own position, capable of making objective and bona fide judgments, independent on influence of executive bodies of the company, certain groups of shareholders or other stakeholders, which complies with status of an independent director defined by the Code. Detailed report on compliance with these and other recommendations of the Russian Corporate Governance Code is included by the company into the 2016 Annual Report.

Quality of company governance is carried out on a regular basis, also with involvement of an independent rating agency. Thus, annually governance quality of IDGC of Northern Caucasus PJSC is checked by an external independent rating agency – Expert RA (RAEX). Expert RA Company, being the largest international rating agency in Russia, has sufficient experience and reputation to prepare an objective report. In 2016 the company governance rating quality was confirmed as A++.gq (highest level of governance quality) assigned in 2014. Corporate governance quality ratings have positive dynamics starting from initial assignment of the rating in 2009.

Besides, Expert RA JSC rating agency assigned “5 star” rating (highest quality) to the annual report of IDGC of Northern Caucasus PJSC for 2015 after audit of 100 annual reports of the companies from Russia and

neighboring countries for 2015. Besides, the rating agency rated the annual report of IDGC of Northern Caucasus PJSC for 2015 as the report complying with best practice in part of completeness and quality of information disclosure on company strategy. Besides, according to “Corporate Transparency of Largest Russian Companies” research made by the Russian Regional Network of Integrated Reporting, IDGC of Northern Caucasus PJSC was assigned the level of transparency II in the final rating. The company was included into the rating group of companies “Disclosure of Information According to International Requirements”. Besides, in the category “Corporate Governance” the annual report of IDGC of Northern Caucasus PJSC was rated first among 182 companies.

Repeatedly the experts of Expert RA agency drew attention of IDGC of Northern Caucasus PJSC to the fact that insufficient number of in-person meetings of the Board of Directors had negative impact at quality of corporate governance of the company. In 2016 we tried as much as necessary not to reduce the number of in-person meetings. At the in-person meetings there were discussions held and solutions developed on the main problems regarding improvement of business efficiency and financial and economic condition of branches and subsidiaries of IDGC of Northern Caucasus PJSC, implementation of actions aimed at following decisions of the Government Commission on issues of social and economic development of the North Caucasus Federal District, establishment of tariffs for power transmission services in 2016-2017 at economically justified level and collection of tariff revenue, cooperation with law enforcement agencies, approval of the organizational structure of the executive apparatus, approval of candidates for certain positions in the executive apparatus of the company defined by the Board of Directors, compliance with the business plan

including the investment program and information on key operation risks, compliance with decisions made at the meetings of the Board of Directors, progress of works on the Complex Program of Actions for Reduction of Excessive Power Losses in Distribution Networks in the Territory of North Caucasus, implementation of actions to consolidate grid assets, etc.

We, the members of the Board of Directors of IDGC of Northern Caucasus PJSC, are aware of our responsibility to shareholders and believe that our main objective is bona fide and competent fulfillment of company management duties. As before, in the future we will be doing our best to ensure company value growth and protection and effective exercise of investors' rights.

Sincerely yours,
**Sergey Alexandrovich
Arkipov**

Address of the General Director of IDGC of Northern Caucasus PJSC

Dear shareholders, partners, colleagues!



In 2016 IDGC of Northern Caucasus PJSC managed to achieve positive dynamics in the main production and financial parameters of business.

Performing its primary objective to ensure accident-free and uninterrupted power supply to constituent entities of the Russian Federation included into the North Caucasus Federal District, the company reduced specific accident incidence rate by 10.3% by 2015. The average duration of power supply interruption to consumers was reduced by 25.5%. This was helped by performance of the repair program in the Company branches, where 913.55 M RUR were drawn. As a result, around 3.5 K km of overhead power transmission lines, 1.4 K of transformer substations, 890 transformers were thoroughly repaired.

The investment program of the Company was financed with 1.707 billion RUR, or 138% of the plan. 52.53 MVA transformer capacities and 103 km transmission lines were launched.

Substantial success was achieved in increasing affordability of the power transmission services: in 2016 versus 2015 timing of technological connection in the category of up to 150 kW reduced by 11% (i.e. by 16 days). Cost of technological

connection reduced by 21%. Connected capacity increased 2.14 times – up to 366 MW – compared to the previous year.

The main issue in business and development of the company are still non-payments of inefficient territorial grid companies. Meanwhile, the complex of actions to improve payment discipline of consumers implemented by the company helped to increase the level of settlements for power transmission services for 2016 by 5.7%, as a result it amounted to 95.7%. Coverage of the overdue accounts receivable by the claims work also increased – up to 97%, which is 6% higher than the 2015 parameter.

Within compliance with decisions of the Government Commission on issues of social and economic development of the North Caucasus Federal District, meaningful cooperation was organized with the authorities of constituent entities of the North Caucasus Federal District, law enforcement agencies. As a result, 1.7 K joint raids were held with representatives of security agencies, certain actions were developed and implemented to fight unaccounted consumption, information campaign to prevent non-payments and stealing of power was in progress. However, IDGC of Northern Caucasus PJSC not only took actions to influence debtors, but also found ways to reward food faith consumers with the help of special promos.

Despite consolidation of assets of territorial grid companies with high excessive losses by the company, in general power losses in Company branches in 2016 were reduced by 0.15%.

In 2016 IDGC of the North Caucasus PJSC continued implementation of measures to increase the efficiency of operating activities and reduce costs, taking into account the maintenance of the required level of reliability of energy supply to consumers, quality and accessibility of services. The decrease in managed operating expenses in 2016 in relation to

2012 in order to implement the Strategy for the development of the power grid complex of the Russian Federation, approved by the order of the Government of the Russian Federation of April 3, 2013 No. 511-r, amounted to 987.5 M RUR or 22.4%.

The company pays a lot of attention to supporting social and youth programs; such activities are another contribution of the Company to development of constituent entities of the North Caucasus Federal District.

All achievements are first of all the credit of the many thousands of our company staff. We strive that all employees share success of the Company, are aware of their affiliation with the corporate values and are proud to be a part of the large and united team of professionals. For this purpose 5,997 employees or 67% of the whole headcount improved their professional skills using various training programs

Improvement of production and financial parameters confirms efficiency of the taken course and management decisions. Orientation at solving most critical issues, development of priority areas makes it possible for the company to grow potential and to feel confident about the future. Besides, we understand well enough that trust is capital to be earned on a daily basis. Continuing to strive for most comfortable conditions for our consumers, we see our objective as making the Company business more effective and profitable.

Sincerely yours,
Yury Viktorovich
Zaytsev

Address of the creative team of authors to users

Dear users!

Please find below the Annual Report of IDGC of Northern Caucasus PJSC (hereinafter may be referred to as IDGC of Northern Caucasus, Company, IDGC of Northern Caucasus OJSC) for 2016. This report is intended first of all for our real and potential investors and is oriented at them. The annual report is drafted in accordance with requirements of the **Russian law** in the securities market. However, we believe that other groups of stakeholders influence greatly the sustainable development of IDGC of Northern Caucasus PJSC, namely: state authorities (federal and regional), regional population, consumers and clients, company staff, suppliers, mass media. Therefore, we found it impossible to restrict ourselves to requirements of the Russian law, having also included into the report the elements of the Sustainability Reporting System (GRI). **This report contains Standard Reporting Elements from GRI Manual on sustainability reporting.** When drafting the Annual Report, we used the Manual version GRI G4.

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

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

This Annual Report has substantial differences from certain reports issued previously. Thus, reports for 2013-2014 were prepared to a large extent with account of business parameters of the subsidiary of IDGC of Northern Caucasus PJSC – Dagenergoset OJSC (according to consolidated reporting principle), and in certain cases (for the period up to May 1, 2013) – organization that operated power grid assets in the Republic of Ingushetia. This report contains individual parameters of business of IDGC of Northern Caucasus PJSC (company branches). The specified **coverage limit** of this Annual Report may substantially impact comparability to previous reports and/or other similar organizations.

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

The English version of the Annual Report is shortened compared to the Russian version.

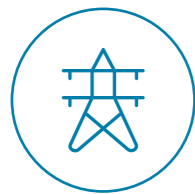
Sincerely yours,
Team of IDGC of Northern
Caucasus PJSC

Company review and context of its business

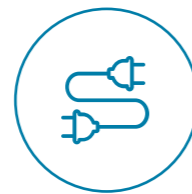
Company profile

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

Key business activities:



transmission
and distribution
of electrical
energy



technological
connection of
consumers to grid
infrastructure

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

Year of registration of the legal entity	2006
Industry	Electric Power Industry
Region	North Caucasus Federal District, Russian Federation
Included into Power 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	at the stock market of the Moscow Stock Exchange
Ownership structure	Rosseti PJSC (92%), other shareholders (8%)
Network length	75.5 K km
Installed capacity	12.1 GVA
Number of 6-110 kV substations	17.6 K

Revenue according to Russian Accounting Standards, M RUR

2016	15,701.2
2015	14,548.6
2014	13,494.8
2016 variation vs 2015	7.9%

Net loss according to Russian Accounting Standards, M RUR

2016	-1,234.2
2015	-3,018.4
2014	-1,637.2
2016 variation vs 2015	-59.1%

Revenue according to International Financial Reporting Standards, M RUR

2016	17,912.5
2015	16,079.3
2014	14,763.3
2016 variation vs 2015	11.4%

Net profit (loss) according to IFRS, M RUR

2016	-5,147.2
2015	6,144.1
2014	-8,406.1
2016 variation vs 2015	-11,291.3 M RUR

Supply from the grid to consumers and neighboring TGOs, M kWh

2016	10,237
2015	10,457
2014	10,534
2016 variation vs 2015	-2.1%

Electric energy losses, %

2016	16.16
2015	16.30
2014	15.57
2016 variation vs 2015	-0.15 pp



Company structure

Organizational business structure

- IDGC OF NORTHERN CAUCASUS PJSC
- Dagenergo branch
- Ingushenergo branch
- Kabbalkenergo branch
- Karachayevo-Cherkesskenegero branch
- Sevkavkazenergo branch
- Stavropolenergo branch

GRID COMPANIES

DAGESTAN GRID COMPANY JSC
 Area of responsibility: Republic of Dagestan
 Capital structure: IDGC of Northern Caucasus PJSC – 100%

CHECHENENERGO JSC
 Area of responsibility: Chechen Republic
 Capital structure: Rosseti, PJSC – 72.66%
 Chechen Republic – 27.34%

POWER SUPPLY COMPANIES

DAGESTAN RETAIL ENERGY COMPANY, PJSC
 Area of responsibility: Republic of Dagestan
 Capital structure: Rosseti, PJSC – 51%
 Other shareholders – 49%

OTHER COMPANIES

DAGENERGOSET OJSC
 Area of responsibility: Republic of Dagestan
 Capital structure: IDGC of Northern Caucasus PJSC – 100%

KABBALENERGO, JSC
 Area of responsibility: Kabardino-Balkarian Republic
 Capital structure: Rosseti, PJSC – 65,27%
 Other shareholders – 34,73%

INGUSHENERGO JSC
 Area of responsibility: Republic of Ingushetia
 Capital structure: Rosseti, PJSC – 49%
 Other shareholders – 51%

KALMENERGOSBYT JSC
 Area of responsibility: Republic of Kalmykia
 Capital structure: Rosseti, PJSC – 100%

KARACHAYEVO-CHERKESSKENERGO JSC
 Area of responsibility: Karachay-Cherkess Republic
 Capital structure: Rosseti, PJSC – 100%

SEVKAVKAZENERGO, JSC
 Area of responsibility: Republic of North Ossetia – Alania
 Capital structure: Rosseti, PJSC – 49%
 Other shareholders – 51%

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

- **from the date of establishment (August 2006) to March 2008** – IDGC of Northern Caucasus PJSC (when established – SGC OJSC) was only dealing with management of regional power companies (see the section “Brief History” for more details);
- **from September 2006** – six Northern Caucasus 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 PJSC (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 PJSC transferred the power grid equipment of the Ingush branch of the republican grid company – Ingushenergo OJSC;
- **from April 2010** – IDGC of Northern Caucasus PJSC transferred for lease the power grid equipment of Dagenergo branch to its 100% subsidiary Dagenergo OJSC (more details in “Participation in commercial organizations” section);

- **from May 2013** – in connection with expiration of the power grid equipment lease agreement between IDGC of Northern Caucasus PJSC and Ingushenergo OJSC the Ingush 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 PJSC), power grid equipment of the branch of IDGC of Northern Caucasus PJSC – Dagenergo – was transferred for lease to Dagestan Grid Company JSC (property lease agreement previously executed with Dagenergo OJSC is terminated);
- **since August 2015** – six Northern Caucasus utility companies went under management of IDGC of Northern Caucasus PJSC;
- **since July 4, 2016** in accordance with the resolution of the Arbitration Court of the Chechen Republic on opening of bankruptcy administration, IDGC of Northern Caucasus PJSC did not perform functions of the sole executive body of Nurenergo OJSC. By the Resolution of the Arbitration Court of the North Caucasus Federal District dated January 26, 2017 the specified resolution of the Arbitration Court of the Chechen Republic was canceled. Since January 26, 2017, IDGC of Northern Caucasus PJSC continues to perform functions of the sole executive body of Nurenergo OJSC.



Brief history

Creation 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 (20 km) power transmission lines with 8 kV voltage at the time were outgoing from it.

1913

PYATIGORSK TPP

A thermal power plant was put into operation in Pyatigorsk. Scientists headed by M. Shatelen 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

Southern Grid Company (SGC), JSC was charged with the management of the following joint stock companies: Kabbalkenergo; Karachaevo-Cherkessenergo; Kalmenergosbyt; Sevkavkazenergo; Dagestan Energy Supply Company; Nurenergo; Ingushenergo; KEUK; Stavropolenergo; Dagenergo.

Power engineering reform

April 2006 - September 2007

DISAGGREGATION BY ACTIVITY

The grid assets of Kabbalkenergo, OJSC; Karachaevo-Cherkessenergo, 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 Organization (KEUK OJSC). Kabbalkenergo, OJSC; Karachaevo-Cherkessenergo, 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 OJSC was renamed as Interregional Distribution Grid Company of Northern Caucasus, Open Joint-Stock Company.

December 25, 2007 - April 1, 2008

CONSOLIDATION

Reorganization of IDGC of Northern Caucasus OJSC was finalized by taking over Dagenergo, OJSC; KEUK, OJSC; and Stavropolenergo, OJSC. IDGC of Northern Caucasus, OJSC 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 reorganized 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 PJSC from January 1, 2011.

January 27, 2010 - February 8, 2011

DAGENERGOSET, JSC

A subsidiary - a grid company Dagenergoset OJSC - was established, which goes under management of IDGC of Northern Caucasus OJSC.

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 OJSC had its agreements on delegation of authority of a sole executive body terminated.

August 21, 2015

ENERGY SUPPLY COMPANIES MANAGEMENT

Six energy supply companies again go under management of IDGC of Northern Caucasus PJSC.

Key corporate events of 2016

Production activities

In connection with deprivation of Ingushenergo JSC of the status of the subject in the wholesale power and capacity market, its exclusion from the register of wholesale market subjects and termination of power and capacity supply (purchase) in the wholesale market in respect to the joint stock company, the order of the Ministry of Energy of Russia dated November 25, 2015 No.888 assigned the status of last resort provider to IDGC of Northern Caucasus PJSC in the territory of the Republic of Ingushetia from December 1, 2015, and before the effective date of the decision on assignment of the status of last resort provider to the winner of the tender in respect to the specified area of business, but not more than for 12 months.

During 2016 the branch of IDGC of Northern Caucasus PJSC – Ingushenergo performed functions of the last resort provider in the territory of the Republic of Ingushetia. The Ministry of Energy of Russia held tenders for assignment of the last resort provider status in the territory of the republic. Due to absence of applications for participation in 2016, the tenders were recognized as failed. The Order of the Ministry of Energy of Russia dated November 22, 2016 No.1233 assigned the status of the last resort provider to IDGC of Northern Caucasus PJSC in the territory of the Republic of Ingushetia from December 1, 2016 and until the decision takes effect on conferring the Guaranteeing Supplier status on the winner of the contest with regard to the specified last resort provider activity area, but for a term not in excess of 12 months.

To perform functions of the last resort provider, IDGC of Northern Caucasus PJSC buys and sells power and capacity in the wholesale power and capacity market (WPCM), and sells power and capacity in the retail market of the Republic of Ingushetia.

Functioning of IDGC of Northern Caucasus PJSC in WPCM is governed by the Federal Law dated March 26, 2003 No.35-FZ "On Power Engineering", Rules of Wholesale Power and Capacity Market approved by the Regulation of the Government of the Russian Federation dated December 27, 2010 No. 1172, Agreement on connection to the trading system of wholesale power market and Regulations of the wholesale market, being annexes to the specified agreement. In 2016 no substantial changes were made to activities of last resort providers at WPCM to regulations.

Human capital

May 11, June 17, November 29 – organizational structure of the executive apparatus of IDGC of Northern Caucasus PJSC was approved, which provides for centralization of most administrative and management functions of branches on the basis of the executive apparatus

from July 1 to August 15 – a united student team Elbrus with total headcount of 35 people worked at power utilities of IDGC of Northern Caucasus PJSC.

HR Management Program of IDGC of Northern Caucasus PJSC was approved for the period of 2016-2017 (Minutes dated April 27, 2015 No.193, Order of IDGC of Northern Caucasus PJSC dated **July 1, 2016** No.430 "On Approval of HR Management Program").

In order to develop internal corporate culture of IDGC of Northern Caucasus PJSC based on principles of stimulation of performance and good faith competition, to determine compliance of managers of IDGC of Northern Caucasus PJSC with the stated requirements, and to improve HR potential, the Regulations on Evaluation of Managers of IDGC of Northern Caucasus PJSC was developed, the Tender Committee was formed to make HR decisions in respect to employees of IDGC of Northern Caucasus PJSC and managed Companies.

In Q3 2016 managers of EPGD of IDGC of Northern Caucasus PJSC were certified, and activities of managers and structural subdivisions of the company were evaluated.

In connection with enforcement of the Federal Law dated July 3, 2016 No. 272-FZ "On Making Amendments to Certain Legal Acts of the Russian Federation On Issues of Higher Liability of Employers for Violations of Legislation in Part Related to Remuneration", correspondent amendments were made to the Collective Agreement of the Company, which regulate timing of salary bonus payment and liability of the employer for violation of norms of the Labor Code of the Russian Federation.

In order to improve material interest of Company employees in meeting the parameter of power losses and level of funds collection from end users, **from April 2016** certain regulations were introduced and implemented, which govern additional stimulating payments: Regulations on remuneration of EPGD/HPP personnel for results of work on introduction of power consumption regime limitation, Regulations on additional material stimulation of the director of the branch and managers of EPGD/HPP for performance of an additional task to reduce level of losses, Regulations on remuneration of EPGD/HPP personnel in branches of IDGC of Northern Caucasus PJSC for achievement of the planned level of power losses in assigned areas/feeders/service zones in power networks.

Corporate governance and interaction with shareholders and investors

March 1 – the company provided its reporting according to RAS for 2015, the result was net loss.

April 4 – the company provided the consolidated reports according to IFRS for 2015, the net loss versus the loss of the year before was produced.

April 29 – the company provided its reporting according to RAS for 3 months of 2016, the result was reduced net loss vs identical value a year before.

June 20 – 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 revision of the Regulations on the Board of Directors was approved).

July 28 – the company provided its reporting according to RAS for 6 months of 2016, the result was reduced net loss vs identical value a year before.

August 23 – the extraordinary General Meeting of Shareholders made the decision to issue additional ordinary shares to implement measures of investment and repair programs, to reduce losses of power in the networks, to reduce debt load.

August 23 – the company provided its consolidated reporting according to IFRS for 6 months of 2016, the result was reduced net loss vs identical value a year before.

October 31 – the company provided its reporting according to RAS for 9 months of 2016, the result was reduced loss vs identical value a year before.

Cooperation with authorities and public relations

April 26 – the operation Headquarters were established for cooperation with authorities, public and mass media in issues of strengthened payment discipline of power consumers. A plan of actions was implemented to improve efficiency of activities and financial and economic condition of IDGC of Northern Caucasus PJSC in part of cooperation with authorities, public and mass media.

The Doors Open Day of IDGC of Northern Caucasus PJSC was held within the Day of the Russian Entrepreneurship with involvement of public organizations, representatives of small and medium business, regional and federal mass media.

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 organization of the maximum effective infrastructure.

IDGC of Northern Caucasus supplies power to consumers in the territory with the total area of 170 K sq.m. (1% of the territory of Russia) with population of 9.8 M people (around 6% of the Russian population).

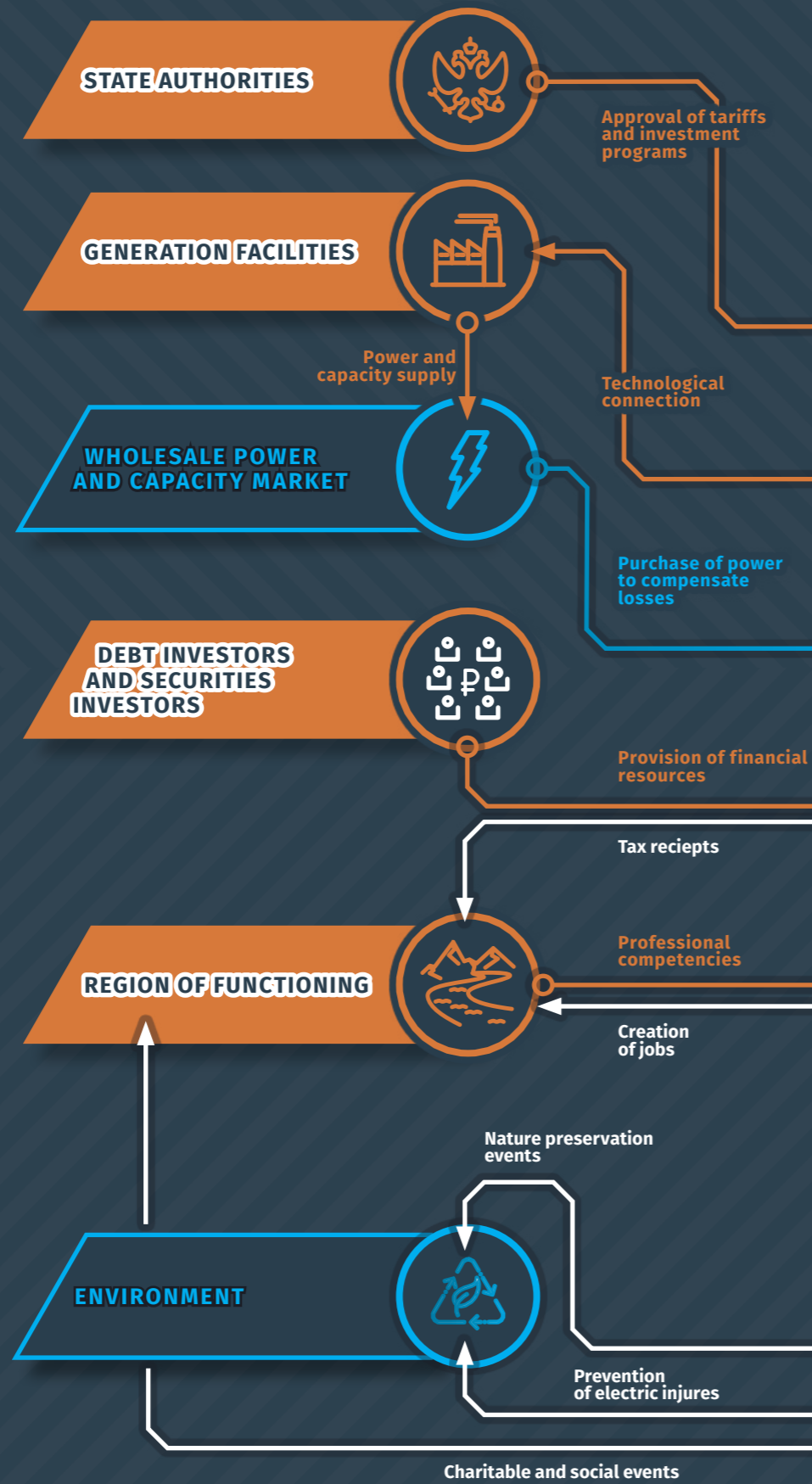
The company is the leader in the territory of the Northern Caucasus Federal District in part of power transmission services with the market share of around 60% (share of productive power supply to the total supply in the region of presence).

Additional information on position of IDGC of Northern Caucasus PJSC in the industry is contained in the sections of this Annual Report: Company Profile, Key Corporate Events of 2016, Macroeconomic Factors of Development, Territory of Responsibility and Regional Policy, Consolidation of Power Grid Assets, Production Report.

Share of net electricity supply, to total supply in the region of presence

Region	Share of IDGC			2016 variation vs 2015	Main reasons for deviations
	2014	2015	2016		
Stavropol Territory	50.77%	56.12%	56.91%	0.79%	Performance of technological connection agreements
Republic of North Ossetia – Alania	25.88%	63.47%	63.53%	0.06%	Performance of technological connection agreements
Republic of Ingushetia	100.00%	100.00%	100.00%	0.00%	-
Karachay-Cherkess Republic	69.80%	70.78%	70.38%	-0.40%	Growth by neighboring TGOs
Kabardino-Balkarian Republic	45.83%	51.83%	52.65%	0.82%	Performance of technological connection agreements
In total	50.13%	60.02%	60.48%	0.46%	

How do we create value



MISSION

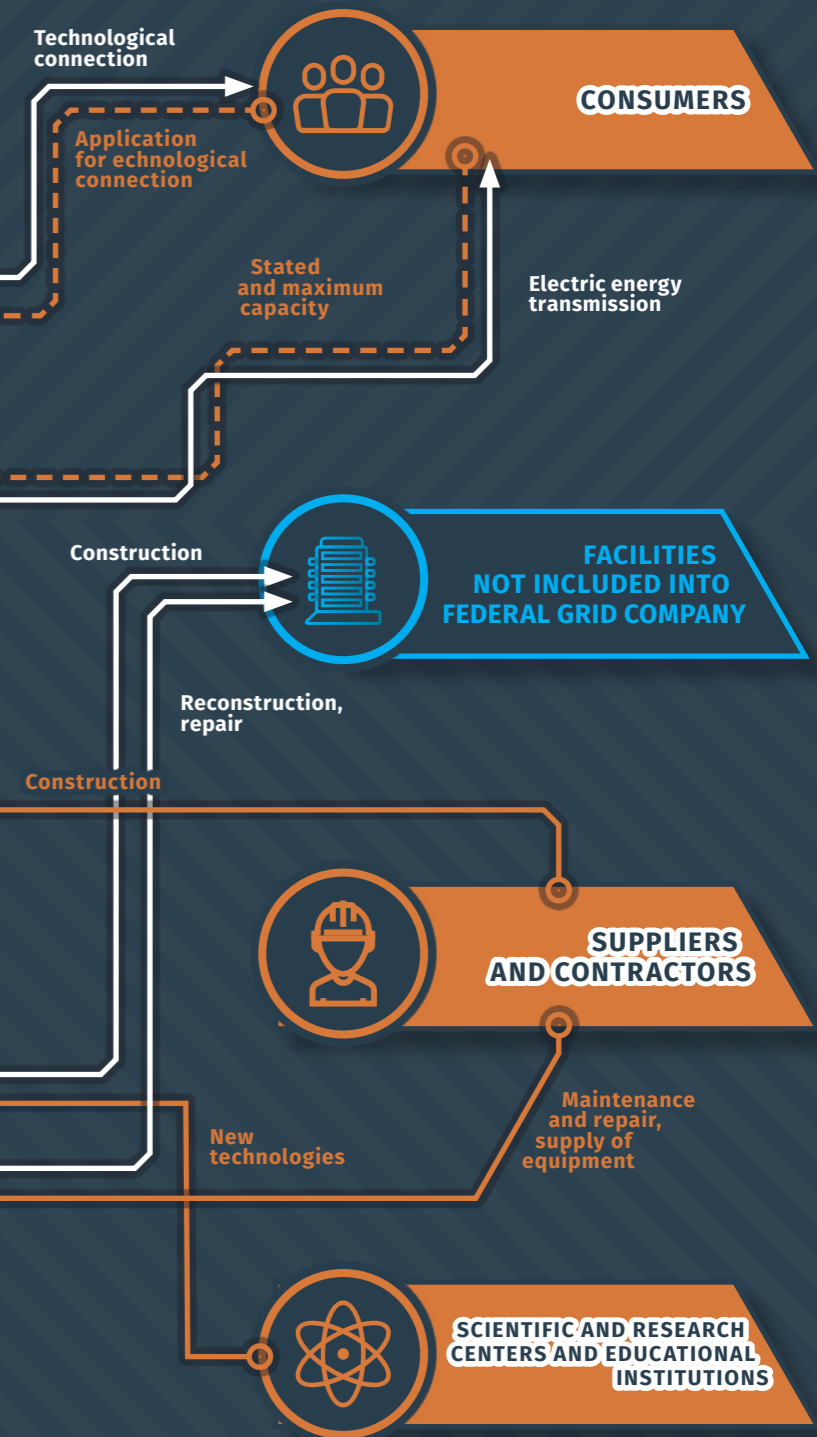
STRATEGIC DEVELOPMENT OF INDUSTRY

GOALS AND OBJECTIVES

- PRODUCTION ACTIVITIES
- TECHNOLOGICAL CONNECTION
- TRANSMISSION AND DISTRIBUTION OF POWER
- RESOURCE MANAGEMENT
 - FINANCIAL
 - MATERIAL AND TECHNICAL RESOURCES
- PERSONNEL
- SUSTAINABILITY
 - INVESTMENTS AND INNOVATIONS
 - TECHNICAL OUTFIT AND EQUIPMENT RENOVATION
 - CORPORATE GOVERNANCE
 - ENVIRONMENT
 - HEALTH AND SAFETY
 - SOCIAL COMPETENCIES

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

GROUPS OF STAKEHOLDERS



Macroeconomic factors of development

Economy: start of Russian economy recovery from 2015-2016 recession

In 2016, under influence of actions taken by the Government of the Russian Federation to saturate the markets, the implemented tariff and monetary and credit policy, the consumer inflation in Russia dropped down to single-digit values. Following the results of the year, inflation was 5.4%, in average the consumer prices for the year increased by 7.1% (in 2015 – 12.9% and 15.5%, accordingly). Such considerable moderation of inflation was due to low growth of prices for food. Besides, positive influence at inflation reduction was provided by lower indexation of prices and tariffs for goods (services) of infrastructure sector companies.

In accordance with assessment I, in 2016 the produced GDP was 85,880.6 billion RUB. GDP reduction slowed down to 0.2% YoY.

In the end of 2016, positive trends started to develop in the global economy. The composite Global PMI index in Q4 2016 demonstrated maximum quarterly average growth, which makes it possible to expect accelerated growth of global economy in 2017.

In the beginning of 2017 the international economic organizations updated their short-term and long-term forecasts. The International Monetary Fund (IMF) expects accelerated growth of global economy from 3.1% in 2016 to 3.4% in 2017 and to 3.6% in 2018.

Oil prices were fixed in the range of 50-56 USD per barrel due to gradual reduction in excessive supply. In the end of 2016 the oil cartel countries for the first time in 8 years managed to agree on restriction of oil production level. The agreement was also supported by Russia, where reduction in production will amount to 0.3 M barrels per day.

The Energy Information Administration of the Ministry of Energy of the USA expects growth of oil prices up to 56.2 USD per barrel in 2018. In the end of January 2017 the consensus-forecast of oil prices prepared by the Ministry of Economic Development of Russia was at the level of 55.6 USD per barrel in 2017 with subsequent growth up to 61.2 and 63.3 USD per barrel in 2017 and 2018 accordingly.

The industrial production index increased in December by 3.2%, as of the end of 2016 – by 1.1% YoY. Production and distribution of electrical energy, gas and water increased by 1.5%.

In 2016 the global financial markets differed by various trends that were predetermined by serious changes in the global politics. In particular, these include exit of Great Britain from EU and elections of a new US President. December of 2016 demonstrated significant optimism among investors, which was replaced by skepticism and doubts in the beginning of 2017. This was expressed in stable reduction of US dollar and low activity in the shares market. After considerable weakening of the Russian national currency in respect to the main global currencies in January 2016, caused by reduction of global oil prices and internal factors (such as behavior of major players in the Russian currency exchange market), since the middle of February 2016 the ruble started gaining strength, and volatility of its exchange rate was gradually reducing. This was helped by increasing oil price in the global commodities markets, preserved moderately stringent monetary and credit policy of the Bank of

Russia and weakening expectations in respect to increased rate of the US Federal Reserve System till the end of 2016. In summer months ruble strengthening was promoted by seasonal growth of demand for rubles in connection with traditional mass payment of dividends by Russian companies. In October – November the exchange rate of the Russian national currency somewhat reduced in respect to the main global currencies under conditions of growing expectations of tightened monetary and credit policy of the US Federal Reserve System till the end of 2016 and growth of profitability of the US governmental bonds after the presidential elections in the USA.

In December the business environment of the internal currency exchange market improved, the ruble became stronger. This was promoted by considerable growth of oil quotations in the beginning of the month and their stabilization at the achieved level after execution of an agreement by the member countries of OPEC and other oil producing states on restriction of oil production, as well as large-scale sales of foreign currency revenues by Russian exporters. Following the results of 2016, the official exchange rate of USD to RUR reduced by 17%, down to 60.6569 RUR for USD as of January 1, 2017, the rate of EUR to RUR – by 20%, down to 63.8111 RUR per EUR. In total, for January – December (in terms of December 2016 to December 2015) the actual strengthening of ruble to US dollar was 15.6%, to EUR – 20.5%.

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

According to operational data of SO of UES, JSC, power consumption in the Unified Energy System of Russia in 2016 made 1,026.7 billion kW-h, which is 1.8% higher than the volume of consumption in 2015. Power consumption in total in Russia in 2016 amounted to 1,054.4 billion kW-h, which is 1.7% more than in 2015. Not taking into account the influence of the additional day of the leap year, power consumption in UES of Russia and in Russia in total increased by 1.5% and 1.4%, accordingly. Increased power consumption in UES of Russia in 2016 was due to temperature factor: in January and December 2016 there was considerable ambient air temperature reduction in the energy system relative to similar parameters of 2015 by 4.6°C and 5.7°C accordingly, in the summer period in July and August the ambient air temperature exceeded similar values of 2015 by 2.3°C and 3.0°C, accordingly. Maximum power consumption in UES of Russia in 2016 was recorded on December 20, 2016 and amounted to 151,052 MW, which is 5.1% more than maximum of 2015.

According to operational data of the branch of SO of UES JSC, Unified Dispatcher Management of Energy System of South (UDM of South), power consumption in the Unified Energy System of South (UES of South) in January – December 2016 was 90,698.5 M kW-h, which is by 3.2% more than consumption for the same period of 2015.

Source: SO of UES, JSC <http://www.so-cdu.ru/>, UDM of South <http://so-ups.ru/>.

Securities market: positive dynamics on the background of improved macroeconomic parameters and targeted operation of companies to improve business efficiency

Certain optimism is preserved in most global markets in the new 2017. Growing oil, maintained parameters of asset purchase by the European Central Bank, expectation of global economy growth by IMF and World Bank, and intentions of the new administration of the US President D. Trump to stimulate the national economy promoted purchase of risk assets by investors.

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



RTS index in 2016 demonstrated positive dynamics

+52%

In general in 2016 the dynamics of capitalization of the companies in the distribution grid complex demonstrated

Regional development in 2016: one of the highest rates of industrial production is observed in the North Caucasus Federal District

Some of the highest rates of industrial production were observed in the North Caucasus Federal District. In January – December 2016, growth of industrial production volumes was present in all federal districts. Increase in industrial production volumes for January – December 2016 by 20% and more, versus the same period of the previous year, was also fixed in the Republic of Dagestan. The highest drop was fixed in

positive dynamics on the background of improved dividend prospects and methodical work over optimization of capital and operating costs of companies. MICEX Index – Power Engineering increased by 100%.

Source: calculations of IDGC of Northern Caucasus, RBC.

In 2017 Russia is approaching the next presidential elections. This may mean attention to tariffs in power engineering, and potential growth of social costs will stimulate consumption. Power companies as companies oriented at the internal market, as some analysts note, have the highest growth potential, since they will win from ruble strengthening and Russian economy recovery.

2017 for IDGC of Northern Caucasus PJSC is also the year of issuance of additional shares, which will continue, as expected, for most of 2017. In connection with this, the possible factor influencing cost of company shares will be the structure of stock capital developed after such issuance.

the Republic of North Ossetia – Alania (by 12.9%). In December 2016 the most significant growth of prices was noted in the Kabardino-Balkarian Republic – 1.3% as a result of non-food price increase by 2.3%.

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

Area of responsibility and regional policy

We operate in the entire territory of the North 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 North 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 North 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 North Caucasus Federal District, Krasnodar Territory and Republic of Adygea.

Ensuring effective long-term planning of development of the North 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 North 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

In 2016 the district was managed by:

- **from May 12, 2014 to July 28, 2016 – Sergey A. Melikov**, the authorized representative of the President of the Russian Federation in the North Caucasus Federal District;
- **from July 28, 2016 – Oleg E. Belaventsev**, the authorized representative of the President of the Russian Federation in the North Caucasus Federal District.

The body for coordination of cooperation of executive authorities is the Governmental Commission on Issues of Social and Economic Development of the North 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).

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

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 North 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 North Caucasus Federal District.

Value for the region:

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

Value for power engineering:

- commissioning of new capacities for power supply of the North 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 characterized 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.

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.

We see the mission of IDGC of Northern Caucasus PJSC 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.

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

- a)** In order to achieve the benchmark **“increased reliability and quality of power supply to level compliant with consumer demand, including improved quality of consumer care (such as reduction of steps required for technological connection to power networks)”** the interactive service was developed, submission of the application for technological connection to networks of IDGC of Northern Caucasus PJSC through a corporate website was provided. It is also planned to put the automated system in pilot operation for control of techno-

logical connection of power consumers to networks of IDGC of Northern Caucasus PJSC and controlled Companies on a standard platform 1C: Enterprise 8. Power Engineering. Management of distribution grid company”.

- b)** In order to achieve the benchmark **“increased safety of power supply, including reduction of total number of accidents, including non-recorded accidents”**, a complex of actions is performed, which is aimed at injury rate reduction.
- c.1)** In order to achieve the benchmark **“increased load capacities”** technological connection agreements were made. Connection of new consumers, as expected, will make it possible to provide for achievement of the set benchmark in the future.
- c.2)** Effect from application of methodology for **reduction of investment costs** in respect to 2012, adopted in 2013, in 2016 amounted to 18.5 M RUB, VAT excluded, or 29%. It is planned to apply this methodology in implementation of the investment program, as in the reporting year.
- c.3)** Following the results of 2016 the Company complied with requirement of the Directive by the Government of the Russian Federation dated July 4, 2016 No. 4750p-P13 **on reduction of specific operating costs** in the reporting period by at least 10%. Additional information is reflected in the subsection of the Annual Report “Efficiency Management Program”.
- c.4)** **Power loss value** for 2016 reduced by 85 M kW-h, or 5.38% of power losses of 2012. In this area the power loss reduction program is implemented.
- d)** Compared to 2012 the **number of TGOs is reduced** by 22%. Since 2016 the Criteria for inclusion of power facilities owners to territorial grid organizations took effect, approved by the Regulation of the RF Government dated February 28, 2015 No.184 “On inclusion of power facilities owners into territorial grid organizations”. Further plans of the company include implementation of Program for consolidation of power grid assets of IDGC of Northern Caucasus PJSC for 2015-2017, as well as depriving of TGOs non-compliant with criteria of the relevant status.

Prospects of development of IDGC of Northern Caucasus PJSC are reflected in this subsection, in the sections of the 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), “Interaction with consumers of services” (in terms of bringing the consumer care system in compliance with requirements of Consumer Care

Quality Standards of IDGC of Northern Caucasus PKSC), “Anti-Corruption Policy” (in terms of achievement of objectives of corruption prevention and fight), “Consolidation of Power Grid Assets” (in terms of fulfillment of Power Grid Assets Consolidation Program of IDGC of Northern Caucasus PJSC), “Information Technology and Telecommunications” (in terms of information about the future course of action in the field of ICT), “Public, Government and Mass Media Relations” (in terms of work on generation and promotion of the positive image of IDGC of Northern Caucasus PJSC in the community, implementation

of the unified coordinated information policy; organization of targeted and sequential work for explanation of current and strategic tasks achieved by the Company; for protection of Company interests in public conflicts and crisis situations), as well as in the section “Corporate Governance” and Appendix No. 7 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.

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

In 2016 development of IDGC of Northern Caucasus PJSC took place along the following priority areas of business:

POWER GRID ASSETS CONSOLIDATION


Minutes dated December 27, 2012 No. 121, April 12, 2013 No. 129

1. Consolidation of property of TGO-debtors
2. Consolidation of ownerless power grid property

Certain agreements are implemented for consolidation of power grid assets with executive authorities of the constituent entities of the Russian Federation and other subjects of power engineering.

By the decision of the Board of Directors dated September 30, 2015 (Minutes dated October 2, 2015 No. 211), the Program for consolidation of power grid assets of IDGC of Northern Caucasus PJSC was approved for 2015-2017.

In accordance with the approved Program in 2015-2017, 11 projects were planned for consolidation.

 **“Power grid assets consolidation”**

ENSURING ACCESSIBILITY OF POWER SUPPLY INFRASTRUCTURE AND QUALITY OF TECHNOLOGICAL CONNECTION TO ELECTRIC POWER GRIDS OF IDGC OF NORTHERN CAUCASUS PJSC

Minutes dated September 11, 2014 No. 174

Interactive service was developed, namely, submission of an application for technological connection to networks of IDGC of Northern Caucasus PJSC by means of a corporate website. Pilot project was implemented for automated system

of technological connection management in Eastern power networks of Stavropolenergo branch, and pilot operation was started in all subdivisions of power networks of Stavropolenergo branch.

 **“Technological connection”**

PROVISION OF THE ESTABLISHED LEVEL OF RELIABILITY AND QUALITY OF SERVICES PROVIDED


Minutes dated September 15, 2011 No. 80

In terms of technological connection to power networks, interactive service was developed, application may be submitted for technological connection to networks by means of the corporate website.

In terms of interaction with consumers of services – implementation of client-oriented policy by creation and functioning of the system for centralized care of service consumers. In 2016 to improve quality and affordability of services of IDGC of Northern Caucasus PJSC, and to study satisfaction of consumers with quality of provided services, IDGC of Northern Caucasus PJSC performed research by written survey of consumers.

In terms of technical equipment and renovation of equipment in branches of IDGC of Northern Caucasus PJSC in the reporting period performed actions to improve level of operation, reliability and stability of operation of power networks in different periods (thunderstorm, flood, high temperature,

autumn-winter period). Across all the production divisions emergency-response action plans were fulfilled. Timely investigation of technological disturbances was organized. Occasional inspections of 6-110 kV overhead lines were carried out to identify and cut down trees, which potentially could fall on lines. In compliance with the schedule, major equipment status is constantly monitored. Actions were completed for repair and operational maintenance of equipment, buildings and structures in the scope according to annual operation orders of branches of IDGC of Northern Caucasus PJSC. Under the investment program, technical re-equipment and reconstruction of overhead lines was carried out, including replacement of poles and non-insulated wires with self-supporting insulated ones, as well as replacement of oil switches with vacuum ones.


 **“Strategy of Development and Prospects of Development”, Annex 3 to Russian-language Annual Report, “Interaction with Consumers of Services”, “Technical Outfit and Equipment Renovation”**

IMPLEMENTATION OF THE INTEGRATED PROGRAM OF ACTIVITIES FOR REDUCING EXCESSIVE POWER LOSSES IN THE DISTRIBUTION GRIDS ON THE TERRITORY OF NORTH CAUCASUS; REDUCTION OF LEVEL OF LOSSES IN NETWORKS AND DEVELOPMENT OF METERING SYSTEMS

Minutes dated April 21, 2011 No. 72, dated January 12, 2015 No. 183

In 2016 performance of actions of the Comprehensive Program amounted to 208.2 RUB mln. Financing amounted to 343.9 RUB mln, VAT included. For the period of implementation of the Comprehensive Program as of January 1, 2017, 505,477 meters were installed (according to acts of performed works according to form KS-2 adopted in accounting statements).

Actual electric energy losses in grids of IDGC of Northern Caucasus, PJSC were 1,973 mln kWh, or 16.16% of grid supply. Compared to the same period of 2015, with growth of supply to the grid by 2.23% the growth of losses in absolute terms was 25 mln kWh, and reduction in relative terms was 0.15 pp. A complex of actions is implemented aimed at optimization (reduction) of loss level.

 **“Investment Activities and Capital Construction”, “Production Report”**

GENERATION AND IMPLEMENTATION OF PROGRAMS FINANCED WITH FEDERAL BUDGET FUNDS, AS WELL AS FUNDS OF THE NATIONAL WELFARE FUND OF RUSSIA (NWF) AND PENSION SAVINGS; PROVISION OF TARGETED AND EFFECTIVE USAGE OF FUNDS FROM THE FEDERAL BUDGET, NWF AND PENSION SAVINGS

Minutes dated October 22, 2014 No. 176

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

It is implemented to reduce commercial power losses in networks of IDGC of Northern Caucasus PJSC in the territory of the Republic of Dagestan, the Republic of Ingushetia and

Chechen Republic. The comprehensive program provides for actions to organize, upgrade and automated metering of power in all points of commercial metering, and in key supply centers, where technical metering of power is required, which will make it possible to reduce commercial losses to the level of normative values. The program is implemented since 2011.

 **“Investment Activities and Capital Construction”**

IMPLEMENTATION OF THE IT, AUTOMATION AND TELECOMMUNICATIONS STRATEGY OF IDGC OF NORTHERN CAUCASUS PJSC, IMPROVED EFFICIENCY OF WORKS FOR INTRODUCTION OF STATE-OF-THE-ART INFORMATION TECHNOLOGIES

Minutes dated January 11, 2008 No. 18, dated July 26, 2012 No. 108

Under the Plan of Activities of IDGC of Northern Caucasus PJSC for 2016, for implementation of the IT, Automation and Telecommunications Strategy of IDGC of Northern Caucasus

PJSC for the period till 2016, some projects were implemented in the Company in the reporting period.

 **“Innovative Development”, “IT and Telecommunications”**

ACTIVITY TO MONITOR AND COORDINATE PROCUREMENT SYSTEM

Minutes dated October 31, 2006 No. 3

Standard of Procurement of Rosseti PJSC (Procurement Regulations). Actually in 2016 for needs of IDGC of Northern

Caucasus PJSC, 466 purchases were implemented for the total amount of 4,212,927.36 K RUB, VAT excluded.

 **“Procurement Activities”**

IMPROVED LEVEL OF ANTI-TERRORIST AND ANTI-SUBVERSION PROTECTION OF IDGC OF NORTHERN CAUCASUS PJSC POWER GRID COMPLEX FACILITIES

Minutes dated August 17, 2012 No. 61

168 audits were performed on status of anti-terrorist protection of power facilities, 39 training sessions were provided for actions of employees of security firms in case of emergencies, including 1 with participation of EMERCOM,

sessions and briefings are provided on a weekly basis for employees of security firms. Interaction was organized with territorial security and internal affairs authorities.

 **“Technical Outfit and Equipment Renovation”**

ATTESTATION OF EQUIPMENT, MATERIALS AND SYSTEMS AT THE COMPANY'S FACILITIES

Minutes dated June 9, 2014 No. 169

Actions in part of attestation of equipment, materials and systems at Company's facilities were not taken in the reporting year.


PERFECTION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM, DEVELOPMENT OF INTERNAL AUDIT FUNCTION

Minutes dated August 4, 2014 No. 172

To implement Strategy of Development and Improvement of ICS of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC, approved by the decision of the Board of Directors of Rosseti PJSC dated February 10, 2014, the Company by decision of the Board of Directors on March 14, 2016 approved the Internal Control Policy of IDGC of Northern Caucasus PJSC (new revision). The internal control policy defines objectives, principles of functioning and elements of ICS of the Company,

main functions and responsibility of ICS participants, procedure to assess efficiency of ICS.

Besides, in the Company there are internal documents regulating ICS issues. In the reporting year the Company implemented certain actions aimed at ICS improvement.

 **"Risk Factors and Risk Management System", "Internal Control System"**

ADOPTION OF A SYSTEM FOR MANAGEMENT OF PRODUCTION ASSETS

Minutes dated June 1, 2012 No. 103

In accordance with the decision of the Board of Directors of IDGC of Northern Caucasus PJSC dated April 26, 2016 the Plan was approved for development of system for management of production assets of IDGC of Northern Caucasus PJSC for

2016-2018. Within performance of actions of the Plan for development of system for management of production assets of IDGC of Northern Caucasus PJSC for 2016-2018, in 2016 actions were implemented on key objectives.

 **"Technical Outfit and Equipment Renovation"**

ORGANIZATION OF WORK FOR RECORDING DATA ON MAXIMUM ALLOWABLE CAPACITY OF CONSUMERS PREVIOUSLY CONNECTED TO THE COMPANY'S ELECTRIC POWER GRIDS

Minutes dated June 20, 2013 No. 135

For purposes of ensuring process of fixation and monitoring of power, in the Company there is an order "On fixation of power parameters" jointly with relevant orders of branches, Regulation on technological connection of power plants to power networks of IDGC of Northern Caucasus PJSC, controlled Companies. Report of data on maximum permitted capacity of

consumers connected to power networks of IDGC of Northern Caucasus PJSC is provided in Annex 5 to Russian-language Annual Report.

 **"Technological connection", Annex 5 to Russian-language Annual Report**

Today IDGC of Northern Caucasus PJSC is a dynamically developing company. In the subsequent years the Company intends to target its efforts at successful implementation of objectives within the chosen course. Development of IDGC of Northern Caucasus PJSC in the specified areas of business will make it possible in the long run to become the competence leader, the largest infrastructural company and center of responsibility for reliable supply to consumers in the territory of the North Caucasus Federal District. Besides, strategic objectives of its development for the future year and longer

run are seen by IDGC of Northern Caucasus PJSC as provision of systemic reliability, safety and stable functioning of the distribution power grid complex of North-Caucasus Federal District, improved efficiency of Company's business, as well as subordinate power companies, upgrade of power grid assets as a result of innovative large-scale technological upgrade, development of socially responsible business practice, considerable increase of Company's profitability, as well as generation of an investment-attractive image.

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.

In order to develop RMS in the Company, the Board of Directors approved the Risk Management Policy (Minutes dated March 25, 2016 No. 231).

Main risk factors

Risk significance – combination of probability of risk occurrence and value of impact for the Company in monetary and other terms. Assessment of risk significance is carried out with account of available risk passports or by experts in accordance with the following scale:

Level of risk significance

Critical	
Significant	
Moderate	

Dynamics of risk significance vs 2015 and during 2016 (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).




Bold font is for group of risks defined by the Bank of Russia for the purposes of reflection in quarterly reports of the issuer (quarterly report). Decomposition of these risks was carried out approximately and may be clarified in accordance with information reflected in quarterly reports.

RMS participants

The core participants of the risk management process are:

- Board of Directors;
- Authorized Committee under the Board of Directors;
- Auditing Commission;
- executive bodies (Management Board, General Director);
- risk owners;
- risk management subdivision;
- executors of risk management measures;
- internal audit subdivision.

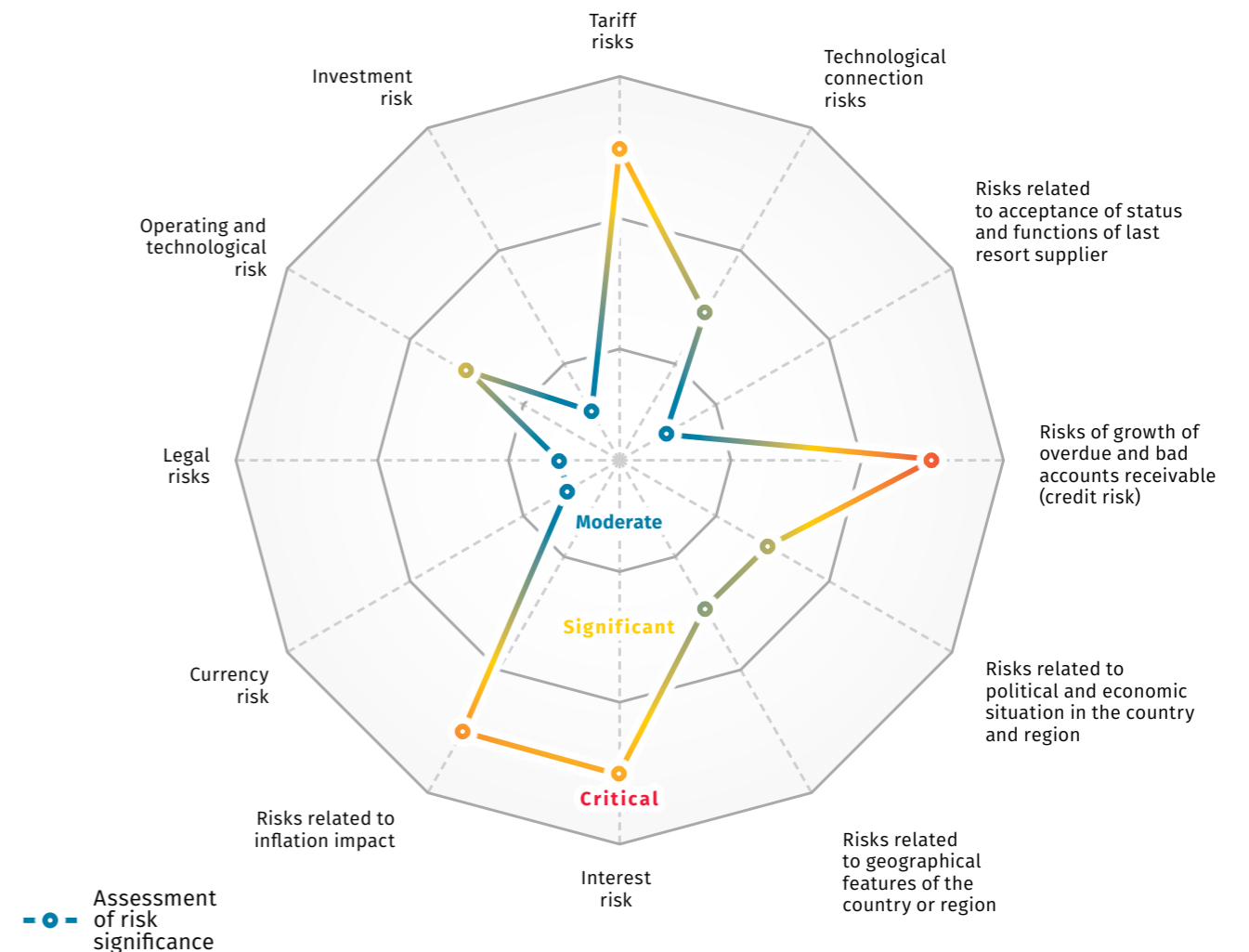
Assessment of risk significance

Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
Industry risks			
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.	
Technological connection risks	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	
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 organizations	
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 pre-trial process, legal proceeding and by enforcement 2. Maximum cooperation with authorities, law enforcement and supervision agencies on issues of payment discipline for power	

Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
Country and regional risks			
Risks related to political and economic situation in the country and region	Introduction of anti-Russia sanctions by the European Union resulted in instability of the currency exchange rates, limitations on supplies of imported raw materials and equipment. In case of potential occurrence of military conflicts, IDGC of Northern Caucasus PJSC bears the risk of its primary assets breakdown	<ol style="list-style-type: none"> 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 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 	↑
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 North Caucasus Federal District	Maintaining non-regular commands of civil defense of IDGC of Northern Caucasus PJSC ready for actions to confine accidents and emergencies: <ul style="list-style-type: none"> inspection of commands' provision with material and technical means; commands' training. 	↑
Financial risks			
Interest risk	Change of interest rates on credit products	<ol style="list-style-type: none"> Execution of credit products with a fixed rate Transition to use of flexible credit products (overdrafts and/or revolving credit lines) 	↑
Risks related to inflation impact	Depreciation of real income value. Increased expenses. Depreciation of real value of accounts receivable.	<ol style="list-style-type: none"> Timely correction of tariffs. Timely purchase of the necessary materials for repair works, performance of production programs Increased discipline of payments, elimination of non-payment risks 	↑
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. Besides, the regulation of the Government of the Russian Federation dated September 16, 2016 No. 925 establishes the priority of goods of Russian origin, works, services provided by Russian entities, when purchasing goods, works, services by a competition, auction and other methods of procurement, apart from procurement from a single vendor (contractor), in respect to goods originating from a foreign state, works, services provided by foreign entities	↓
Legal risks			
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	↓

Risk name	Risk description	Actions to minimize risk effects	Assessment of risk significance and dynamics
Risks related to business of IDGC of Northern Caucasus PJSC			
Operating and technological risk	Risk of non achievement of power transmission services reliability set during tariff regulation	<ol style="list-style-type: none"> Timely implementation of technical and organizational actions developed on the basis of investigation of technological faults (accidents) Effective organization of emergency and recovery works to reduce duration of interruption of power supply to consumers related to technological faults (accidents) 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 	↓
Investment risk	Risk of non-compliance with timing of financial investments utilization both in monetary and financial terms	<ol style="list-style-type: none"> Timely approval of investment programs in the Ministry of Energy of Russia Monitoring of timely execution of contracts Monitoring of timely acceptance of performed works and facilities commissioning 	↓

Assessment of risk significance



3. Management report



Analysis of financial condition and business results

Revenue from sale of products (services) as of the end of 2016 made

15,701.2 M RUB,
which is by 1,152.6 M RUB or by 7.9% higher than the level of 2015,

including revenue from power

transmission services – 14,081.5 M RUB, which is by 515.8 M RUB or by 3.8% higher than 2015 level.

Growth of revenue is due to Company's performance of power sale activities for the full calendar year as a result of assignment of status of the last resort supplier in the territory of the Republic of Ingushetia since December 1, 2015. Revenue from power sale as of the end of 2016 made 667.5 RUB mln.

Prime cost (with account of commercial and management costs) made 14,961 RUB mln, which is 1,384.8 RUB mln or 10.2% higher than 2015 level. The main factor

of prime cost increase is performance of the function of the last resort supplier in the Republic of Ingushetia.

As of the end of 2016, the balance of other income and expenses made (-2,064) RUB mln, which is 2,006.4 RUB mln or 49.3% higher than the actual in 2015. Deviation of actual balance of other income and expenses in respect to the actual of the previous year was due to reduction of balanced reserve for bad debts for 2,651.2 RUB mln, which is provided by improvement of payment discipline of consumers for the provided services of power transmission, as well as restructuring of debt of Dagestan Grid Company JSC for the leased power grid property.

Following the results of activities of 2016, IDGC of Northern Caucasus PJSC gained net loss in the amount of 1,234.2 RUB mln, which is 1,784.2 RUB mln or 59.1% lower than 2015 level.

Main financial indicators (according to Russian Accounting Standards)

Indicator name	2016*	2015*	2014
	mln RUB	mln RUB	mln RUB
Proceeds	15,701.2	14,548.6	13,494.8
From power transmission	14,081.5	13,565.7	12,280.7
From technological connection	127.7	142.4	436.0
From power sale	667.5	53.2	0.0
From other activities	824.6	787.3	778.1
Prime cost of products (services)	14,289.8	13,405.2	12,165.2
Gross profit	1,411.4	1,143.4	1,329.5
Managerial expenses	203.2	144.6	122.2
Commercial expenses	468.0	26.4	0.0
Profit (loss) from sales	740.2	972.4	1,207.3
Interest receivable	136.6	137.7	127.3
Interest payable	873.2	650.9	355.4
Income gained from participation in other organizations	0.0	0.6	0.0
Other income, total	2,024.7	2,278.4	1,691.5
Other expenses, total	3,352.2	5,835.6	4,533.5
Profit (loss) before taxation	-1,323.8	-3,097.4	-1,862.7
Profit tax and other payments	-89.7	-79.0	-225.5
Net profit (loss)	-1,234.2	-3,018.4	-1,637.2
EBITDA	1,611.0	-437.2	395.9

* Prime cost for 2015-2016 is specified in accordance with the accounting statements (not taking into account "internal turnover" between activity of power and capacity transmission and resale).

Analysis of financial condition and business results of the company

Indicator name	2016	2015	2014
Liquidity indices			
Cash ratio	0.27	0.18	0.24
Quick ratio	0.60	0.40	0.59
Current ratio	0.64	0.44	0.66
Financial stability indicators			
Equity ratio (financial independence)	0.44	0.46	0.54
Ratio of total debt to EBITDA	6.65	-21.45	19.11
Current assets coverage ratio	-0.51	-1.24	-0.50

Profitability indices			
Profitability of internal capital (ROE)	-8.0%	-18.0%	-8.5%
Return on total assets (ROTA) by profit before tax	-3.8%	-9.2%	-5.6%
EBITDA profitability	10.3%	-3.0%	2.9%
Business activity parameters			
Ratio of accounts receivable and payable growth rates	163.7%	82.2%	86.6%
Ratio of total accounts receivable and accounts payable	64.9%	39.7%	48.3%
Ratio of most liquid accounts receivable and payable	75.5%	61.9%	69.1%

Cash ratio amounted to 0.27, i.e. money and short-term financial investments of the Company cover short-term liabilities by 27%.

Quick ratio amounted to 0.60, i.e. most liquid assets of the Company cover short-term liabilities by 60%.

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

Equity ratio (financial independence) for 2016 amounted to 0.44, which is 0.02 below the appropriate index for 2014. Reduction is due to loss according to results of the reporting period.

Accounts receivable growth rate for 2016 amounted to 171.7%, accounts payable growth rate – 104.9%. Ratio of accounts receivable and payable growth rates amounts to 163.7%.

Accounts receivable as of the end of 2016 makes 64.9% of the total accounts payable.

Analysis of change to accounts receivable*, RUB mln.

Indicator	as of December 31, 2016	as of December 31, 2015	as of December 31, 2014
Accounts receivable, including:	4,491	2,615	2,773
Buyers and customers	3,919	2,296	2,653
for power transmission	2,663	2,048	2,608
Bills receivable			
Advances paid	14	15	17
Other receivables	558	304	103

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

The total amount of accounts receivable of IDGC of Northern Caucasus as of the end of the reporting period was 4,491 RUB mln, as of December 31, 2015 – 2,615 RUB mln. The accounts receivable is shown minus the bad debts reserve. As of December 31, 2015 accounts receivable before subtracting the reserve was 13,110 RUB mln, amount of reserve – 10,495 RUB mln, as of December 31, 2016 the amount of accounts receivable before subtracting of the reserve was 14,083 RUB mln, the reserve amount is 9,592 RUB mln. Increased accounts receivable were due to:

- increased debt for sold power by 605 RUB mln (+459.0%), including end consumers of power by 603 RUB mln,
- increased debt of property lease by 655 RUB mln (+22.1%),
- other increased debt by 879 RUB mln (+79.9%).

Growth of debt on above areas of business was partially compensated by reduction of debt for power transmission services – by 1,108 RUB mln (-12.5%) and for technological connection services – by 69 RUB mln (-95.3%).

As of December 31, 2015 the reserve was 80.05% of the accounts receivable amount, as of December 31, 2016 – 68.11%.

Bad debt reserve as of December 31, 2016 was established in the amount of 9,592 RUB mln, which is by 902 RUB mln (-8.6%) less than on December 31, 2015. Reserve decrease is related to writing off bad debts with the reserve in the amount of 1,717 RUB mln. The volume of the overdue accounts receivable as of December 31, 2016 is 11,702 RUB mln. Compared to December 31, 2015 increase of overdue debt was 478 RUB mln (4.3%).

Analysis of change to accounts payable*, RUB mln.

Indicator	as of December 31, 2016	as of December 31, 2015	as of December 31, 2014
Accounts payable, including:	6,917	6,593	5,747
Trade payables	5,401	4,623	4,407
Bills payable	-	-	-
Advances received	199	304	375
Taxes and duties	439	892	308
Other payables	878	774	657

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

As a result of the claims work implemented by the Company to recover overdue accounts receivable for the power transmission services provided, in 2016 positive court decisions were obtained on 150 cases for the total amount of claims of 1,970.4 RUB mln, no refusals were granted on recovery of main debt, claims for penalties for the amount of 6.5 RUB mln were denied (22 cases).

For the same period of 2015 the positive court decisions were made in respect to claims for the amount of 1,601.2 RUB mln (209 cases), refusals were granted for the amount of 5.77 RUB mln (22 cases, 5.43 RUB mln of differences, 0.34 RUB mln of penalties).

Following the results of obtained court decisions in 2016 the court orders were received for the amount of 991.7 RUB mln, where 330.87 RUB mln or 33.4% were repaid. For the same period of 2015 the court orders were received for the amount of 1,455.2 RUB mln, where 505.5 RUB mln or 34.7% were repaid.

Coverage of overdue debts by actions aimed at its reduction as of December 31, 2016 is 97% and is at stable high level (94-96% for 2016; as of December 31, 2015 – 91%).

Accounts payable for 2016 was 324 M RUB higher than the level of 2015 and as of December 31, 2015 it amounted to 6,917 M RUB.

The following changes were observed:

- payables under “Suppliers and Contractors” item were 778 M RUB higher due to increased debt for electric power transmission services by 1,084 M RUB, for the purchase of electricity and capacity on the wholesale market by 344 M RUB, for other suppliers and contractors by 79 M RUB and decrease in arrears to construction companies by 567 M RUB, repair organizations by 162 M RUB;

- payables on advances received amounted to 199 M RUB, which is by 105 M RUB (35%) below the 2015 year. This reduction is due to reduction of advances for technological connection.

Taxes and duties debt in 2016 was lower than in 2015 by 453 M RUB, other payables – higher by 104 M RUB.

Overdue accounts payable of IDGC of Northern Caucasus PJSC as a result of 2016 is 4,234 M RUB.

Obligation-secured loans (stock obligations)

In accordance with the Listing Rules of MICEX Stock Exchange CJSC, the Order of Director General of MICEX Stock Exchange CJSC No.995-p dd August 14, 2015 a decision was made to assign identification number to the Program of Stock Obligations of

IDGC of Northern Caucasus PJSC in connection with receipt of the relevant application. The assigned identification number: 4-34747-E-001P-02E dated August 14, 2015

Main data on Program of Stock Obligations of Series 001P (inconvertible interest-bearing certified stock obligations with mandatory centralized storage):

Maximum amount of nominal costs of stock obligations, which may be placed within the framework of Stock Obligations Program	total nominal cost of all issues of stock obligations placed under open subscription within Stock Obligations Program, not more than 6,000,000,000 RUB inclusive
Maximum term of repayment of stock obligations placed within the Stock Obligations Program	with repayment term of not later than on day 3,640 from the date of placement of stock obligations of a separate issue placed within Stock Obligations Program
Validity period of Program of Stock Obligations	open ended

In April 2016, within Stock Obligations Program of IDGC of Northern Caucasus PJSC, the terms were approved for issue of stock obligations – inconvertible interest-bearing certified stock obligations with mandatory centralized storage of series BO-001P-01 in the quantity of 1,350,000 pieces, with nominal cost of 1,000 RUB each, with total nominal cost of 1,350,000,000 RUB with repayment term on day 1,820 from the date of start of stock obligations placement under open subscription.

On April 22, 2016 the order of the General Director of CJSC MICEX Stock Exchange No. 498-r included issue of stock obligations of IDGC of Northern Caucasus PJSC of series BO-001P-01, placed within Program of Stock Obligations, into the “Third Level” section of securities list admitted for trading in CJSC MICEX Stock Exchange with assignment of the identification number 4B02-01-34747-E-001P dated April 22, 2016.

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

Data on issues, securities of which are not repaid

Kind, series (type), form and other identification signs of securities	bearer interest-bearing inconvertible certified stock obligations with mandatory centralized storage, Series BO-001P-01, ISINRU000A0JWF06, bearer certified
Identification number of issue and date of its assignment	4B02-01-34747-E-001P dated April 22, 2016
Organization that assigned the identification number to the securities issue	CJSC MICEX Stock Exchange
Quantity of securities in the issue, pcs.	1,350,000
Volume of securities issue, at nominal cost	1,350,000,000,00 RUB
Status of issue securities	traded
Quantity of interest (coupon) periods, for which income (coupons, interest) is paid for issue securities	10 by 182 days
Term (date) of issue securities repayment	April 22, 2021



On October 27, obligations were fully performed on payment within the first coupon period in the amount of

87.507 RUB mln.

In accordance with the Listing Rules of MICEX Stock Exchange CJSC, the Director General of MICEX Stock Exchange CJSC No.995-p dd September 23, 2016 a decision was made to assign identification number to the Program of Stock Obligations of series 002P of IDGC of Northern Caucasus PJSC in connection with receipt of the relevant application. The assigned identification number: 4-34747-E-002P-02E dated September 23, 2016

Main data on Program of Stock Obligations of Series 002P (bearer inconvertible interest-bearing certified stock obligations with mandatory centralized storage placed under open subscription):

Maximum amount of nominal costs of stock obligations, which may be placed within the framework of Stock Obligations Program:	up to 25,000,000,000 RUB, inclusive
Maximum term of repayment of stock obligations placed within the Stock Obligations Program:	not later than on day 10,920 from the date of start of placement of stock obligations within stock obligations program
Validity period of Program of Stock Obligations	open ended

As of the end of 2016 the stock obligations of IDGC of Northern Caucasus PJSC within the Program 002P (identification number: 4-34747-E-002P-02E) were not placed.

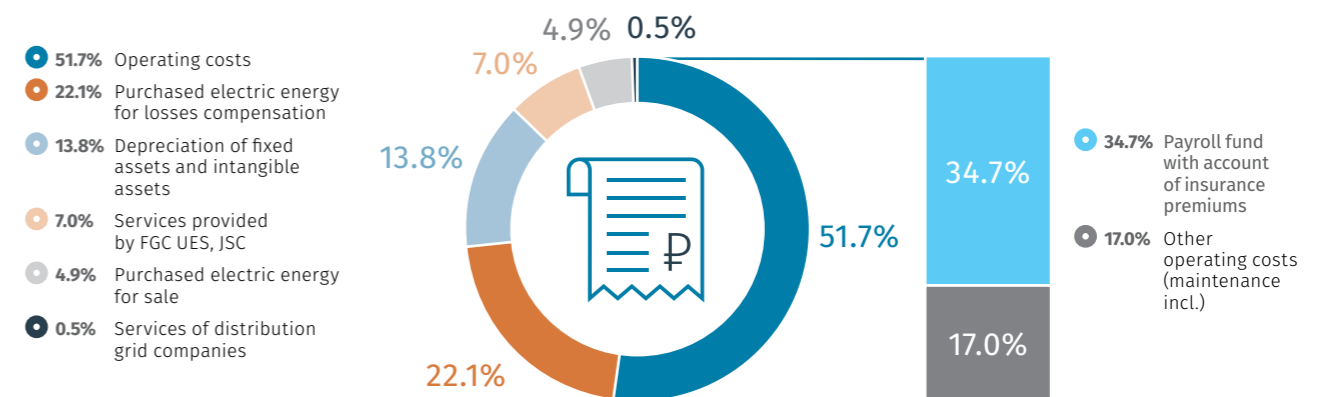
Cost optimization and efficiency management

Cost structure

Actual costs of the Company (with account of management and commercial costs) for 2016 amounted to 14,961 RUB mln, which is 1,384.8 RUB mln or 10.2%, higher than actual for 2015.

Increased costs for 2016 versus actual of 2015 were due to performance of last resort supplier function by the Company.

Prime cost structure (with account for commercial and managerial expenses) in 2016



The cost of purchased power to compensate losses for the reporting period amounted to 3,304.2 million rubles. (22.1% of total expenses). In absolute terms, growth by 2015 amounted to 151.9 million rubles.

The cost of purchased power for sale during the reporting period amounted to 725.9 million rubles. (4.9% of total expenditures).

The expenses for the services of PJSC FGC UES amounted to 1,051.7 million rubles. (7% of total costs). Growth in comparison with 2015 in absolute terms amounted to 181.7 million rubles.

Expenses for services of distribution grid companies following the results of 2016 made 75.3 million rubles. (0.5% of total costs). Compared with last year, the cost reduction amounted to 401.5 million rubles.

Depreciation of fixed assets and intangible assets for 2016 is higher than in 2015 by 52.4 million rubles, which is associated with the commissioning of fixed assets in accordance with the Company's investment program.

Expenses for labor payment in 2016 amounted to 4,017.1 million rubles. (26.9% of total costs). Growth in comparison with 2015 in absolute terms amounted to 395.9 million rubles.

Efficiency management program

In order to improve quality of the services provided, the Company is implementing a program to improve operational efficiency and reduce costs.

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

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

Decrease in managed operating expenses in 2016 in relation to 2012, in order to implement the Strategy for Development of Power Grid Complex of the Russian Federation, approved by the Regulation of the Government of the Russian Federation No. 511-r of April 3, 2013, amounted to 987.5 million rubles, or 22.4 %.

Besides, following the results of 2016 the Company complied with requirement of the Directive by the Government of the Russian Federation dated July 4, 2016 No. 4750p-P13 on reduction of specific operating costs in the reporting period by at least 10%.

Distribution of net profit and dividend policy

Dividend policy

In order to increase transparency of mechanism for definition of dividend amount on shares of IDGC of Northern Caucasus PJSC, 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 PJSC 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 capitalization.

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.

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 PJSC 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 PJSC "To Shareholders and Investors/Frequently Asked Questions"

Distribution of profit for 2013-2015, RUB mln*

	for 2013 (AGMS 2014)	for 2013 (AGMS 2015)	for 2013 (AGMS 2016)
Unallocated profit (loss) in the reporting period, including:	537.564	-1,637.180	-3,018.404
Reserve Fund			
Profit for development	403.172	-	-
Dividends	134.392	-	-
Coverage of losses from previous years			
For reference: Non-allocated profit with account of retrospective reflection of changes to accounting policy of the company	537.564		

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

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

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

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

Information on paid dividends calculated (announced for 2014-2016)

Date of making decision on dividend payment (AGMS date)	Reporting period, for which dividends were calculated and paid	Dividends calculated		Share of announced dividends in net profit of reporting year, %	Dividends paid as of December 31, 2016, RUB mln	Share of paid dividends, %
		total, RUB mln	per 1 share, RUB			
June 19, 2013	2012	160.3	2.8586	25	158,2	98,7
June 24, 2014	2013	134.4	0.8695	25	133,7	99,5

Announced dividends for shares for the specified periods were not paid in full due to absence of relevant data (details) for dividend payment in the register of shareholder. In connection with expiry of the dividend payment period for 2012, the amount of unclaimed dividends for 2012 in the amount of 2.1 million rubles was restored by the Company to the account "Retained earnings".

Status of net assets, RUB mln

	as of the end of 2014	as of the end of 2015	as of the end of 2016
Net assets	18,309	15,288	15,696
Authorized capital	155	155	155

The AGMS of IDGC of Northern Caucasus PJSC made no decisions on the payment of dividends for the period 2014-2015 in connection with the Company operating at a loss.

The decision on distribution of the Company's net profit (loss) following the results of 2016 will be taken at the annual General Meeting of Shareholders taking into account the recommendations of the Board of Directors of the Company.

Net assets of IDGC of Northern Caucasus PJSC during the last three years exceed the authorized capital of the company. The increase in the value of net assets in 2016 relative to 2015 is due to the growth of current assets as a result of the reporting year.

Ensuring security of economic activity

During 2016, 5,457 applicant materials were sent to law enforcement and controlling bodies, including:

- 5,105 appeals to the bodies of internal affairs of the subjects of the North Caucasus Federal District were sent for the revealed facts of theft of electric power;
- on facts of evasion from payment of accounts receivable for transfer of the electric power – 87;

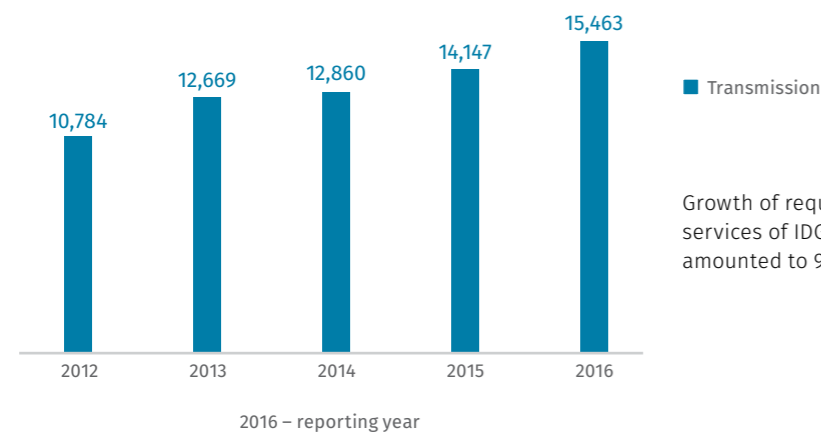
- on facts of evasion from payment of accounts receivable for the supply of electricity – 214;
- on the facts of theft of inventory-material values – 29;
- appeals sent in respect to the Company's employees – 22.

As a result of the inspections, 37 criminal cases were filed against the applicant's submissions and appeals, including: 22 cases of inventory theft, 9 – power theft, 3 – fraudulent activities, and 2 on cases of authority abuse, 1 – on commercial bribery.

Tariff policy

Main activities of IDGC of Northern Caucasus PJSC (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.

Dynamics of required gross revenue of IDGC of Northern Caucasus PJSC for 2012-2016



Growth of required gross revenue for power transmission services of IDGC of Northern Caucasus PJSC in 2016 amounted to 9.3%.

Tariffs for power transmission services

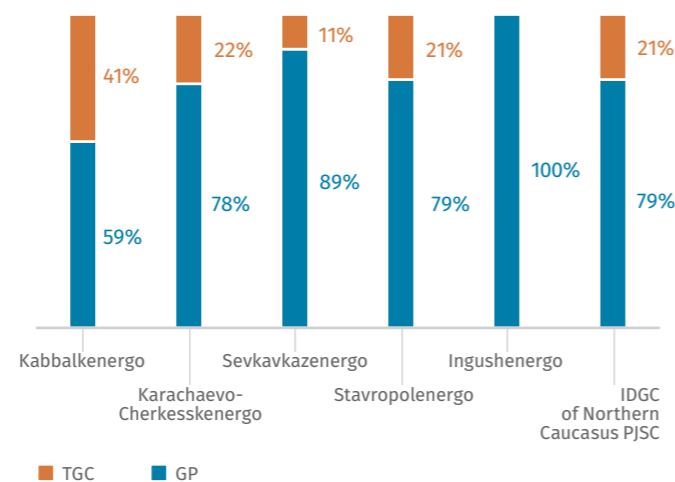
Regulation of activities of IDGC of Northern Caucasus PJSC branches (Kabbalkenergo, Karachaevo-Cherkesskenergo, Sevkavkazenergo, Stavropolenergo), starting from 2011, has been carried out using the method of return on invested capital (RAB). The first long-term period: 2011-2017.

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

In the branches of IDGC of Northern Caucasus PJSC, the largest share in the revenue belongs to last resort suppliers: from 100% in the Ingushenergo branch to up to 59% in the Kabbalkenergo branch.

The largest share in the revenue from territorial grid companies is in Kabbalkenergo branch (41%), the lowest – in Sevkavkazenergo branch (11%).

Structure of IDGC of Northern Caucasus PJSC for power transmission services in 2016 broken down by consumer groups



Analysis of variations of average tariff for power transmission services broken down by branches, kop./kW-h

Branch	2012	2013	2014	2015	2016
Stavropolenergo	100.7	107.0	116.3	125.4	133.5
Sevkavkazenergo	108.9	115.1	117.4	182.6	189.5
Karachaevo-Cherkesskenergo	147.1	150.8	148.2	149.0	156.2
Kabbalkenergo	146.9	156.0	145.9	154.5	169.7
Ingushenergo	n.a.	170.0	160.0	171.1	205.0
Total	113.0	121.4	125.3	141.1	151.2
Growth, %	103.4%	110.0%	103.2%	112.6%	107.1%

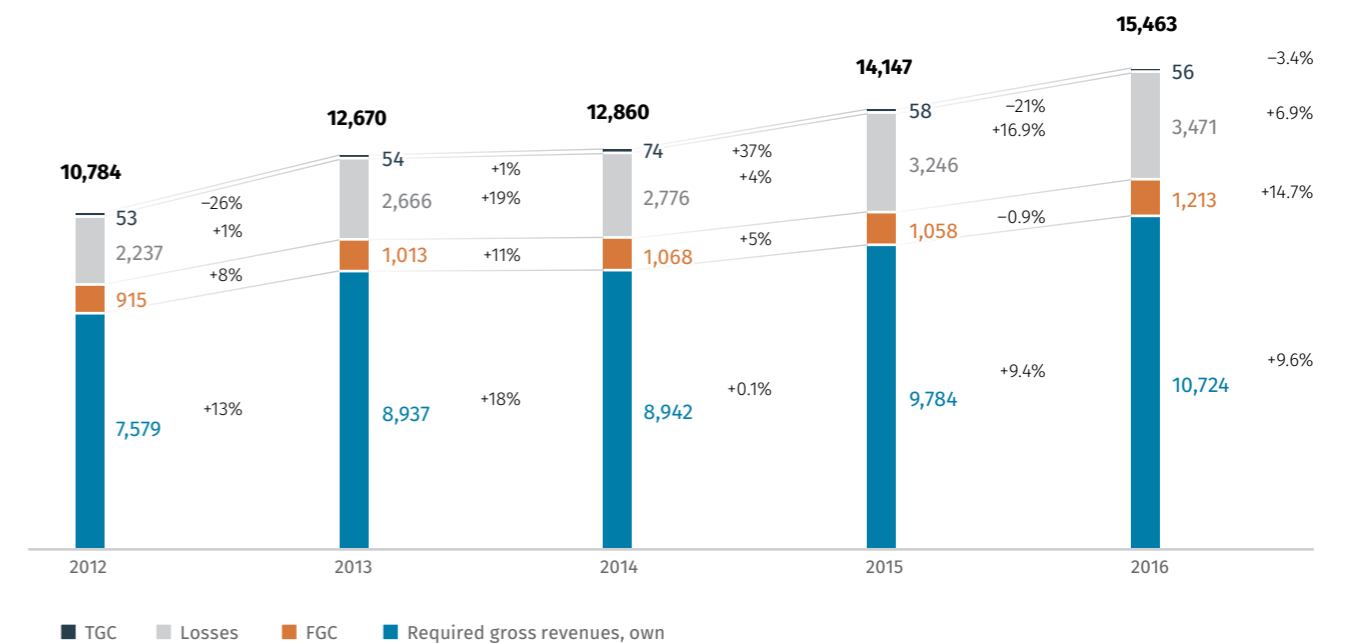
Growth of average tariff for power transmission services of IDGC of Northern Caucasus PJSC in 2016 amounted to 7.1%.

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

Branch	2012		2013		2014		2015		2016	
	total	own	total	own	total	own	total	own	total	own
Stavropolenergo	5,801	3,561	6,510	4,130	7,040	4,481	7,481	4,781	8,140	5,230
Sevkavkazenergo	1,655	1,288	1,817	1,387	1,736	1,331	2,371	1,787	2,463	1,874
Karachaevo-Cherkesskenergo	1,513	1,253	1,607	1,295	1,529	1,218	1,517	1,167	1,569	1,168
Kabbalkenergo	1,815	1,478	1,884	1,518	1,764	1,370	1,905	1,454	2,166	1,634
Ingushenergo	0	0	852	606	792	543	871	595	1,124	817
Total	10,784	7,579	12,669	8,937	8,942	14,147	9,784	15,463	10,724	10,724

Growth of required gross revenue for power transmission services of IDGC of Northern Caucasus PJSC in 2016 amounted to 9.3%, for own maintenance – 9.6%.

Dynamics of structure of required gross revenues for power transmission in IDGC of Northern Caucasus PJSC



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 PJSC 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 PJSC, 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, 2015 No.72** «On establishment of standardized tariff rates, rates per unit of maximum power, formulas of payment for technological connection and establishment of fee for technological connection to distribution power grids of Kabardino-Balkarian branch of IDGC of Northern Caucasus PJSC for 2016»;
- **by Resolution of the Main Directorate for Tariffs and Prices of the Karachaevo-Cherkess Republic of December 30, 2015, No. 216** "On Establishing Fees for Technological Connection of Power Receiving Devices of Applicants to Power Networks of Territorial Grid Organizations of the Karachaevo-Cherkess Republic";
- **by Resolution of the Regional Service for Tariffs of the Republic of North Ossetia-Alania of December 24, 2015, No. 65** "On Establishing Amount of Fees for Technological Connection of Power Receiving Devices for Power Consumers to Power Grid Facilities of Territorial Grid Organizations of the Republic of North Ossetia-Alania for 2016»;
- **by Resolution of the Regional Tariff Commission of the Stavropol Territory on December 24, 2015 No. 66/10** "On establishment of standardized tariff rates, rates per unit of maximum capacity and formulas for calculating fee for technological connection of power receivers of power consumers to power grid facilities of territorial grid organizations of the Stavropol Territory for 2016";
- **by Resolution of the Regional Energy Commission of the Republic of Ingushetia of 30 November 2015 No. 20** "On establishment of fees and payment formulas for technological connection to power grids of territorial grid organizations of the Republic of Ingushetia for 2016".

Analysis of variations of averaged rate per unit of power* broken down by branches

Type of standardized tariff rate	Kabbalkenergo branch	Karachaevo-Cherkessenergo branch*	Sevkavkaz-energo branch*	Ingushenergo branch*	Stavropolenergo 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 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	263.52	63.20	31.55	91.75	14.71
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	121.29	23.10	16.68	42.71	5.18
Standardized tariff rate to cover expenses for inspection of applicant's performance of the TC by the grid company, RUB/km – S1.2	46.67	13.60	8.71	29.29	2.66

Type of standardized tariff rate	Kabbalkenergo branch	Karachaevo-Cherkessenergo branch*	Sevkavkaz-energo branch*	Ingushenergo branch*	Stavropolenergo branch*
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	95.56	26.5	6.16	19.75	6.87
Rate to cover expenses of the grid company for construction of overhead power transmission lines – S2**, RUB/km	75,223.39	56,361.4	79,823.2	65,429.57	2128.48**
Rate to cover expenses of the grid company for construction of cable power transmission lines – S3**, RUB/km	108,887.56	84,848.9	114,357.6	120,494.38	1,576.68**
Rate to cover expenses of the grid company for construction of substations – S4**, RUB/km	144.46	110.5	431.4	208.70	847.79

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

** rates are specified per unit of maximum power.

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 amount of payment included into payment for technological connection of power receivers 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.

Kabbalkenergo branch

Standardized tariff rates and rates per unit of maximum power are set by the Order of the State Committee of the Republic of Kabardino-Balkaria on energy tariffs and housing supervision dd. December 30, 2015 No. 72 «On establishment of standardized tariff rates, rates per unit of maximum power, formulas of payment for technological connection and establishment of fee for technological connection to distribution power grids of Kabardino-Balkarian branch of IDGC of Northern Caucasus PJSC for 2016".

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, above 150 kW to 670 kW and above 670 kW.

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 1,029.752 K RUB for 2016.

Economically reasonable fee for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, was not determined by the regulator.

Karachaevo-Cherkessenergo branch

Standardized tariff rates and rates per unit of maximum capacity are set by Resolution of the Main Directorate for Tariffs and Prices of the Karachaevo-Cherkess Republic of December 30, 2015, No. 216 «On Establishing Fees for Technological Connection of Power Receiving Devices of Applicants to Power Networks of Territorial Grid Organizations of the Karachaevo-Cherkess Republic».

Tariffs are set for the power range of up to 150 kW inclusive at the voltage level in the point of connection 0.4-10 kV.

Lost income related to the implementation of technological connection of power devices of the applicants, for inclusion into tariffs for power transmission services were determined by the regulatory authority in the amount of 281.4 K RUB.

Economically reasonable fee for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, for one source of power supply (with account of capacity previously connected in this point of connection and provided that the distance from the borders of the applicant's area to power grid facilities is not more than 300 m in cities and settlements and not more than 500 m in the rural areas) was determined by the regulatory authority in the amount of 68.50 RUB/kW.

Sevkavkazenergo branch

Standardized tariff rates and rates per unit of maximum capacity are set by Resolution of the Regional Service for Tariffs of the Republic of North Ossetia-Alania of December 24, 2015, No.

65 «On Establishing Amount of Fees for Technological Connection of Power Receiving Devices for Power Consumers to Power Grid Facilities of Territorial Grid Organizations of the Republic of North Ossetia-Alania for 2016».

Tariffs are differentiated by the voltage levels at the point of connection: 0.4 kV and 6-10 kV, as well as power ranges: up to 150 kW inclusive, from 150 to 670 kW inclusive and from 670 kW to 8,900 kW.

Lost income related to the implementation of technological connection to power networks were not determined by the regulatory authority.

Economically reasonable fee for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, was not determined by the regulator.

Stavropolenergo branch

Standardized tariff rates and rates per unit of maximum capacity are set by Resolution of the Regional Tariff Commission of the Stavropol Territory on December 24, 2015 No. 66/10 «On establishment of standardized tariff rates, rates per unit of maximum capacity and formulas for calculating fee for technological connection of power receivers of power consumers to power grid facilities of territorial grid organizations of the Stavropol Territory for 2016».

Tariffs are differentiated by the voltage levels at the built facility: 0.4 kV and 6-10 kV, power ranges: up to 150 kW, above 150 kW, with breakdown into a rural settlement and an urban settlement, and also differentiated by brands and cross sections of wires, lines and cables, transformer types.

Lost income related to the implementation of technological connection to power networks within required gross revenue for power transmission for 2016 was determined by the regulatory authority in the amount of 15,533.6 K RUB.

Economically reasonable fee for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, was not determined by the regulator.

Ingushenergo branch

Standardized tariff rates and rates per unit of maximum capacity are set by Resolution of the Regional Energy Commission of the Republic of Ingushetia of 30 November 2015 No. 20 «On establishment of fees and payment formulas for technological connection to power grids of territorial grid organizations of the Republic of Ingushetia for 2016».

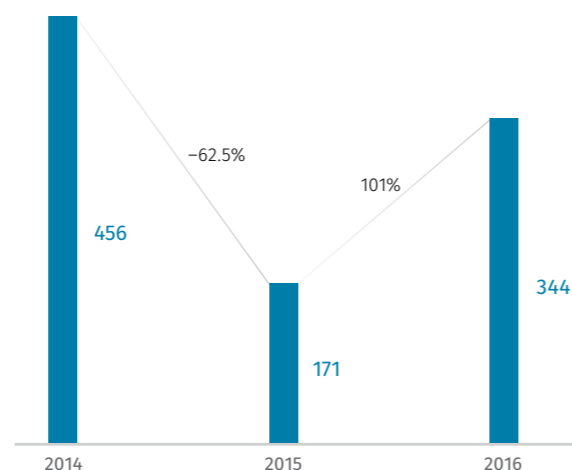
Tariffs are differentiated by the voltage levels at the point of connection: 0.4 kV and 6-10 kV, as well as power ranges: up to 15 kW inclusive, from 15 to 150 kW, from 150 kW to 670 kW.

Lost income from connection of power receivers of applicants with connected capacity of up to 15 kW inclusive is approved by the regulatory authority in the amount of 2,313,44 K RUB.

Economically reasonable fee for technological connection of power devices of consumers with connected capacity of up to 15 kW, inclusive, for one source of power supply (with account of capacity previously connected in this point of connection and provided that the distance from the borders of the applicant's area to power grid facilities is no more than 300 m in cities and settlements and not more than 500 m in the rural areas) was determined by the regulatory authority in the amount of 664.51 RUB/kW.

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

Dynamics of average amount of rates per unit of capacity



2016 – reporting year

Reduction of rates per unit of power is due to the fact that in 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 analyze 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.

Production Report

Transmission and distribution of power

Results of production activities for 2016

Branch name	Supply into the grid, mln kW-h	Supply from the grid to consumers and adjacent TGCs within borders of balance and operating responsibility, mln kW-h	Losses	
			mln kW-h	%
Stavropolenergo branch	7,216	6,235	981	13.60
Sevkavkazenergo branch	1,580	1,246	335	21.18
Karachaevo-Cherkessenergo branch	1,175	989	186	15.80
Kabbalkenergo branch	1,524	1,287	236	15.50
Ingushenergo branch	715	481	235	32.83
Total	12,210	10,237	1,973	16.16

According to business results of IDGC of Northern Caucasus PJSC, in 2016 the volume of power output from the grid to consumers and adjacent territorial grid companies within borders of balance and operation responsibility amounted

to 10,237 M kW-h, which vs 2015 indicators (10,457 M kW-h) is less by 220 M kW-h or 2.10%. The main reason is termination of operating activities of Dagenergo branch (networks of Makhachkala) from July 1, 2015.

Actual power losses in 2015-2016

Branch name	Power losses						
	Actual 2015		Actual 2016			Change*	
	mln kW-h	%	mln kW-h	%	% (under comparable conditions**)	mln kW-h*	pp
Stavropolenergo branch	971	13.82%	981	13.60%	-	10	-0.22%
Sevkavkazenergo branch	357	22.51%	335	21.18%	-	-23	-1.33%
Karachaevo-Cherkessenergo branch	194	16.60%	186	15.80%	-	-8	-0.80%
Kabbalkenergo branch	233	15.76%	236	15.50%	-	3	-0.26%
Ingushenergo branch	192	28.10%	235	32.83%	-	43	4.72%
Total**	1,947	16.30%	1,973	16.16%	-	25	-0.15%

* Calculated as difference between 2016 value and 2015 value.

** For comparability of conditions, 2015 indicators do not take into account the indicators of Dagenergo branch (Makhachkala networks) in connection with termination of its operating activities since July 1, 2015.

Actual power losses in grids of IDGC of Northern Caucasus, PJSC were 1,973 mln kWh, or 16.16% of grid supply. Compared to the same period of 2015, with growth of supply to the grid by 2.23% the growth of losses in absolute terms was 25 mln kW-h, and reduction in relative terms was 0.15 pp.

Reduction of power losses

As a priority direction IDGC of Northern Caucasus, PJSC is implementing a set of activities intended to optimize (reduce) the level of losses.

Due to implementation of a complex of actions for optimization of losses, in 2016 the volume of savings amounted

Resource saving and energy efficiency

In 2016 within implementation of Regulation of Rosseti PJSC "On unified technical policy in power grid complex" the following actions were performed:

Engagement in energy saving and energy efficiency improvement activities

In order to ensure implementation of the Energy Saving Pro-

gram and improve the energy efficiency of IDGC of Northern Caucasus PJSC for the period of 2015-2019 (approved by the decision of the Board of Directors of IDGC of Northern Caucasus PJSC on December 30, 2014) in the executive apparatus and in the branches of IDGC of Northern Caucasus PJSC in accordance with the order of PJSC Rosseti dated September 9, 2013 No. 561

The 2016 plan for reducing electric energy losses (in natural unit) was completed to the extent of 101.3%.

Plans/forecasts of future development

In 2017 it is expected that level of power losses in networks of branches of IDGC of Northern Caucasus PJSC to the level of 14.35%. By 2022 it is planned to reduce power losses in branches of IDGC of Northern Caucasus PJSC to the level of 13.79%.

On organization of work on energy saving and energy efficiency in Rosseti PJSC, responsible managers were appointed for monitoring implementation of the Program, working groups have been set up, which analyze program implementation.

In the field of energy conservation and energy efficiency, the target indicators in accordance with the Program are:

- loss of power during transmission and distribution in electric grids;

- consumption of power resources for utility needs;
- availability of modern power metering devices in the retail market in accordance with the Program for the development of power metering systems. The numerical values of the Program targets are set for the period from 2015 to 2019.

Information on volume of used resources

Planned and actual values of target indicators for 2016

Indicator name	Measurement unit	2016	
		Plan	Actual
Power losses	mln kW-h	1,920.58	1,972.58
	mln RUB, excluding VAT	3,223.89	3,487.93
	% of supply to grid	15.72	16.16
Consumption for auxiliary needs of substations	mln kW-h	24.84	25.13
Consumption of power resources for local needs of administrative and production buildings, total, including:	mln RUB, excluding VAT	161.42	190.09
	K toe	5.70	6.26
electric energy	mln kW-h	38.61	41.55
	K toe	4.63	4.99
	mln RUB, excluding VAT	152.76	178.01
	mln kW-h/m ²	0.10	0.11
thermal energy (building heating systems)	Gcal	4,300.28	6,024.72
	K toe	0.61	0.86
	mln RUB, excluding VAT	6.22	10.08
	Gcal/m ³	0.23	0.32
natural gas (including liquefied)	K m ³	395.12	354.28
	K toe	0.46	0.41
	mln RUB, excluding VAT	2.44	2.00
Consumption of natural resources for local needs of administrative and production buildings, total, including:	mln RUB, excluding VAT	3.00	2.52
	K m³	121.45	96.47
hot water supply	K m ³	0.19	0.17
cold water supply	mln RUB, excluding VAT	0.02	0.03
	K m ³	121.26	96.30
mln RUB, excluding VAT		2.98	2.49
	Consumption of motor fuel by motor transport and special equipment, total, including:	K l	6,418.92
gasoline, including:	K toe	7.42	7.17
	mln RUB, excluding VAT	190.45	186.26
	K l	4,896.53	4,565.94
	K toe	5.54	5.17
motor transport	mln RUB, excluding VAT	139.11	139.38
	K l/100 km	0.02	0.02
	K l	3,092.83	3,084.35
	K toe	3.50	3.49
special equipment	mln RUB, excluding VAT	82.24	93.78
	K l/100 km	0.02	0.02
	K l	1,803.71	1,481.58
	K toe	2.04	1.68
diesel fuel, including:	mln RUB, excluding VAT	56.88	45.59
	K l/100 km	0.02	0.02
	K l/m.hr	0.02	0.02
	K l	1,522.39	1,622.76
motor transport	K toe	1.88	2.00
	mln RUB, excluding VAT	51.34	46.88
	K l/100 km	0.05	0.06
	K l	278.25	512.11
K toe		0.34	0.63
	mln RUB, excluding VAT	9.36	14.97
	K l/100 km	0.02	0.04

Indicator name	Measurement unit	2016	
		Plan	Actual
special equipment	K l	1,244.14	1,110.65
	K toe	1.53	1.37
	mln RUB, excluding VAT	41.98	31.91
	K l/100 km	0.04	0.04
	K l/m.hr	0.01	0.01
Other types of fuel for motor transport and special equipment, total, including:	K toe	0.09	0.28
	mln RUB, excluding VAT	1.52	3.26
natural gas (including liquefied)	K l	76.54	246.73
	K toe	0.09	0.28
	mln RUB, excluding VAT	1.52	3.26

The Company used no other types of power resources in the reporting year.

The area of administrative and production buildings was 314.9 K m² in the 2016 reporting year and 314.9 K m² in the previous 2015 year.

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.

Target and supporting actions to reduce power losses

Name	Effect in natural terms, mln kW-h		Economic effect, mln RUB		Costs for actions, mln RUB	
	Plan	Actual	Plan	Actual	Plan	Actual
Target actions	91.02	94.26	188.59	240.94	13.89	13.89
Supporting actions	10.71	8.82	33.70	28.53	4.86	28.06
Total	101.73	103.08	222.29	269.47	18.75	41.96

Main target actions to reduce power losses

Action name	Effect in natural terms, mln kW-h	Economic effect, mln RUB	Costs for actions, mln RUB
	Actual	Actual	Actual
Disconnection of equipment under low loads and at substations with seasonal load	4.24	6.62	1.32
Balancing of phase loads in power grids	1.50	1.92	0.75
Optimization of operating voltages in power supply centers	0.41	0.93	0.01
Detection of unaccounted consumption of power	36.30	125.02	11.81
Implementation of additional raids for control recording of readings	51.80	106.45	0.0
Total	94.26	240.94	13.89

As a result of 2016, the effect from the implementation of targeted measures to reduce the losses of electric power amounted to a total of 94.26 million kW-h in the amount of 240.94 million rubles.

The effect from implementation of supporting measures amounted to 8.82 million kW-h in the amount of 28.53 million rubles. Sources of energy saving program financing are included in the costs related to prime cost – 41.96 mln RUB.

In connection with the lack of sources of financing, implementation of targeted measures to reduce the consumption of resources for local needs was not carried out.

According to the results of 2016, the targeted measures to reduce the consumption of resources for local needs was not planned.

Technological connection

In 2016 experts of IDGC of Northern Caucasus PJSC performed actions for technological connection of large facilities that are of importance for economic development of constituent entities of the North

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 North Caucasus Federal District to support domestic agricultural producers.

In the Stavropol Territory electricity supply networks of a residential microdistrict in the city of Mikhailovsk with requested capacity of 5 MW, poultry breeding sites within the boundaries of the city of Svetlograd with requested capacity of 1.2 MW, power plants of two supermarkets Lenta in Shpakovskiy district, in the territory of SPKk Rus, with requested capacity of 1.3 MW and in the village of Inozemtsevo with maximum capacity of 1.2 MW were commissioned.

In the Kabardino-Balkaria Republic in the Cherkesskiy district power plants of the Zaragizhskaya MHPP were connected requested capacity of 28.8 MW, in the village of Proletarskaya the industrial building for processing of agricultural products with capacity of 3.7 MW was connected, in the city of Baksan a furniture factory with maximum capacity of 2.26 MW was connected, also power plants for 2 MW in the fruit storage were connected in the village of Kishpek.

In the Karachaevo-Cherkess Republic, the Zelenchukskaya HPP-HPSP with connected generation capacity of 300 MW and consumption in propulsion mode of 156 MW is connected.

In North Ossetia, storage zones of the military unit in Mozdok with requested capacity of 1 MW were connected to networks, as well as anti-avalanche galleries and tunnels of the Alagir-Nizhny Zaramag highway with maximum capacity of 1.5 MW.

In the Republic of Ingushetia in Karabulak, a complex of buildings and facilities of the military unit, a residential neighborhood in the city of Nazran with requested capacity of 1.3 MW are connected to the networks.

To ensure accessibility of the energy infrastructure and quality of technological connection to the Company's electrical networks, including simplification of the connection procedure, an interactive service was developed, namely, the application for technological connection to the networks of IDGC of Northern Caucasus PJSC through a corporate site. At the same time the pilot project was implemented for automated system of technological connection management in Eastern power networks of Stavropolenergo branch, and pilot operation was started in all subdivisions of power networks of Stavropolenergo branch.

Recording data on maximum allowable capacity of consumers previously connected to the Company's electric power grids

To ensure the process of recording and monitoring of capacity, the Company has the following management tools:

- order of IDGC of Northern Caucasus OJSC dated December 4, 2012, No. 311 "On recording of power parameters" in conjunction with the corresponding orders of the branches;
- Regulations on technological connection of power plants to the electric grids of IDGC of Northern Caucasus PJSC, managed Companies, approved by the order of IDGC of Northern Caucasus PJSC dated August 11, 2015, No. 477 "On technological connection of electrical installations to electrical networks" in conjunction with the corresponding orders of the branches, subsidiaries and managed Companies.

Report of data on maximum permitted capacity of consumers connected to power networks of IDGC of Northern Caucasus PJSC is provided in Annex 5 to Russian-language Annual Report.

Number of requests for technological connection to Electric Power Grids of joint stock company

Branch name	Number of requests, pcs.	For total power, MW
2014		
Stavropolenergo branch	3,425	193.31
Sevkavkazenergo branch	1,288	122.17
Karachaevo-Cherkesskenergo branch	1,302	174.47
Kabbalkenergo branch	1,311	65.88
Ingushenergo branch	890	46.93
Dagenergo branch	110	1.06
Total	8,326	603.82

Branch name	Number of requests, pcs.	For total power, MW
2015		
Stavropolenergo branch	3,224	155.37
Sevkavkazenergo branch	1,982	93.63
Karachaevo-Cherkesskenergo branch	1,308	66.15
Kabbalkenergo branch	1,301	44.33
Ingushenergo branch	934	66.24
Dagenergo branch	754	18.80
Total	9,503	444.52
2016		
Stavropolenergo branch	3,449	197.33
Sevkavkazenergo branch	2,084	148.41
Karachaevo-Cherkesskenergo branch	1,288	75.84
Kabbalkenergo branch	1,426	39.83
Ingushenergo branch	986	57.76
Total	9,233	519.17

Number of concluded agreements for technological connection to Electric Power Grids of joint stock company

Subdivision name	Number of concluded agreements, pcs.	Volume of executed agreements, MW	Volume of cash receipts, RUB mln
2014			
Stavropolenergo branch	3,270	151.70	456.20
Sevkavkazenergo branch	1,137	36.57	28.53
Karachaevo-Cherkesskenergo branch	1,148	154.10	1.46
Kabbalkenergo branch	1,301	29.96	3.74
Ingushenergo branch	866	34.70	1.27
Dagenergo branch	110	1.06	0.70
Total	7,832	408.09	491.90
2015			
Stavropolenergo branch	3,165	92.28	117.34
Sevkavkazenergo branch	1,203	29.17	2.69
Karachaevo-Cherkesskenergo branch	1,132	39.94	1.51
Kabbalkenergo branch	1,295	28.66	2.01
Ingushenergo branch	682	55.73	1.56
Dagenergo branch	445	5.76	0.78
Total	7,922	251.54	125.89
2016			
Stavropolenergo branch	3,343	103.94	100.60
Sevkavkazenergo branch	1,519	35.84	6.82
Karachaevo-Cherkesskenergo branch	1,107	28.57	1.45
Kabbalkenergo branch	1,423	35.60	8.34
Ingushenergo branch	918	48.89	3.50
Total	8,310	252.83	120.71

Number of executed connections to Electric Power Grids of joint stock company

Subdivision name	Number of executed connections, pcs.	Volume of connected capacity, MW	Volume of revenue, RUB mln
2014			
Stavropolenergo branch	2,799	252.86	410.11
Sevkavkazenergo branch	941	15.19	1.33
Karachaevo-Cherkessenergo branch	1,057	13.77	1.44
Kabbalkenergo branch	1,272	31.45	22.59
Ingushenergo branch	746	16.00	0.48
Dagenergo branch	65	0.20	0.03
Total	6,880	329.47	435.98
2015			
Stavropolenergo branch	2,889	91.95	135.26
Sevkavkazenergo branch	1,270	18.59	1.45
Karachaevo-Cherkessenergo branch	1,102	17.15	2.13
Kabbalkenergo branch	1,061	21.15	2.86
Ingushenergo branch	544	19.89	0.61
Dagenergo branch	174	1.98	0.61
Total	7,040	170.72	142.92
2016			
Stavropolenergo branch	2,735	81.36	99.72
Sevkavkazenergo branch	1,273	31.01	11.25
Karachaevo-Cherkessenergo branch	1,210	170.25	10.47
Kabbalkenergo branch	1,240	61.15	5.53
Ingushenergo branch	630	22.17	0.72
Total	7,088	365.94	127.69

Expected dynamics of indicators in part of activities for technological connection for period from 2017 to 2021

Indicator	Units of measurement	2017 Plan	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
REVENUES						
TECHNOLOGICAL CONNECTION SERVICES	thousand RUB	88,065.85	15,614.95	29,479.03	15,716.89	11,182.88
Applicants of maximum capacity up to 15 kW inclusive (with account of previously connected power receivers)	thousand RUB	2,053.64	2,156.18	2,263.38	2,376.64	2,495.97
From 15 to 150 kW	thousand RUB	2,423.63	4,828.75	5,070.18	5,323.69	5,589.88
From 150 to 670 kW	thousand RUB	1,675.08	1,758.83	1,846.78	1,939.11	2,036.07
Min 670 kW	thousand RUB	81,887.82	6,853.94	20,298.68	6,077.44	1,060.97
Power generating facilities	thousand RUB	25.68	17.25	0	0	0
SALE VOLUMES						
NUMBER OF COMPLETED AGREEMENTS, SIGNED TECHNOLOGICAL CONNECTION CERTIFICATES	pcs.	4,692	5,029	5,269	5,531	5,807
Applicants of maximum capacity up to 15 kW inclusive (with account of previously connected power receivers)	pcs.	4,406	4,626	4,856	5,099	5,355
From 15 to 150 kW	pcs.	180	317	333	349	368
From 150 to 670 kW	pcs.	68	68	73	78	82
Min 670 kW	pcs.	37	17	7	5	2
Power generating facilities	pcs.	1	1	0	0	0
VOLUME OF CONNECTED CAPACITY (EXECUTION OF AGREEMENTS, SIGNED TECHNOLOGICAL CONNECTION CERTIFICATES)	kW	219,757.1	146,751.6	141,185.6	114,667.6	94,185.1
Applicants of maximum capacity up to 15 kW inclusive (with account of previously connected power receivers)	kW	33,351.5	35,022.9	36,768.9	38,606.1	40,536.4
From 15 to 150 kW	kW	10,894.3	21,432.4	22,504.0	23,629.2	24,810.7
From 150 to 670 kW	kW	17,675.5	20,592.1	21,621.7	22,702.8	23,838.0
Min 670 kW	kW	154,835.8	69,704.2	60,291.0	29,729.5	5,000.0
Power generating facilities	kW	3,000.0	0	0	0	0

Interaction with consumers of services

Policy pursued by IDGC of Northern Caucasus PJSC in the sphere of interaction with consumers of the Company's services is customer-oriented and aimed at facilitating interaction between services consumers and the Company. Client orientation of the company is implemented by creation and functioning of the system for centralized care 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 PJSC, to Customer Service Centers opened in accordance with the requirements of the Service Quality Standards for service consumers of IDGC of Northern Caucasus PJSC, as well as Customer Service Outlets. The Customer Service Center is located in Stavropol, besides, 62 Customer Service Outlets are in operation (on the basis of district electric networks of branches).

In 2016 IDGC of Northern Caucasus PJSC received 34,671 appeals and complaints of consumers, including:	– 148 complaints on commercial power metering;
– 27,251 applications for services provision.	– 7 complaints for technological connection;
– 9,224 applications for technological connection;	– 6 complaints for maintenance of power grid facilities;
– 290 complaints on power disconnection;	– 3 complaints for additional services;
– 94 complaints on power transmission;	– 37 complaints on other subjects.

Number of complaints received in 2016 increased vs 2015 by 21.9%, and the number of applications for provision of technological connection services increased by 5.2%. All received complaints and applications were considered within time specified.

The main form of service is full-time service by acceptance of written applications via the company's office – 17,451 applications, 12,026 were face-to-face communications.

In the correspondence form in 2016 the service consumers could cooperate with IDGC of Northern Caucasus PJSC by means of a call-centre, "Hot Line" and the system of automatic notification of service consumers by phone 8-800-775-91-12 (24/7 during operator's working hours). For 2016 around 1,713 incoming calls of consumers were handled, and more than 1,800 outgoing calls were made to notify the consumers. 765 applications of consumers were received via the call-center.

Interactive service form

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 "Consumer Questionnaire". The Internet Reception Office interactive service enables an interested party to:

- ask an expert to answer their question;
- send an application, a request for additional service, as well as an application request (for technological connection, recovery of technical conditions and etc.);
- question – answer;
- inform of electric energy theft.

Through interactive service "Web Reception" in 2016, 54 consumer complaints were received, and timely response to them was sent by feedback.

In 2016 to improve quality and affordability of services of IDGC of Northern Caucasus PJSC, and to study satisfaction of consumers with quality of provided services and support, IDGC of Northern Caucasus PJSC performed research in June and October by written survey of consumers. Research of consumer satisfaction was carried out by anonymous written poll. In total 1,258 respondents were interviewed, and the following results were obtained:

- 74% of respondents, or 931 consumers surveyed in general were satisfied with the work of the company;
- 18% of respondents, or 227 consumers surveyed assess the company's performance as satisfactory;
- 7% of the respondents, or 88 consumers have expressed wishes aimed at improvement of quality of customer service;
- 0.95% of the respondents, or 12 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 PJSC can also be estimated by analyzing 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 2016 at the level of 0.8975.

The actual level of quality of services in 2016 amounted to:

- Stavropolenergo branch – 0.7977;
- Sevkvkazenergo branch – 0.8561;
- Ingushenergo branch – 0.84 at planned value of 0.8975 and possible deviation of 20% during the first long-term period;
- Kabbalkenergo branch – 0.9916;
- Karachaevo-Cherkessenergo branch – 0.8675 at planned value of 1.0102 and possible deviation of 20% during the long-term period.

In 2017 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 PJSC:

- CSC (Customer Service Center) opening in Vladikavkaz, Nazran;
- expansion of interactive services for online-support of consumers of services (online consultations, use of SMS messengers, etc.);
- 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 PJSC;
- Round tables with business community representatives;
- performance of works aimed at simplifying customer interaction with IDGC of Northern Caucasus PJSC.

Power grid assets consolidation

Principles of work organization for consolidation of power grid assets and cooperation with territorial grid organizations

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 PJSC, the determining criterion of consolidation is economic effectiveness of transactions.

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

1. Consolidation of property of TGO-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;
- foreclosure of debtors' property in accordance with the procedure of enforcement proceeding;
- bankruptcy of territorial grid companies-debtors and acquisition of property at an auction held within the framework of bankruptcy proceedings.

Since 2015, IDGC of Northern Caucasus PJSC rents property of JSC Alaniyaelektroset. Lease payments are offset against debt.

As part of the enforcement proceedings, the bailiff seized the property (including the power grid) of SUE KBR Chegemenergo (Kabardino-Balkaria Republic, Chegem), and in August 2016 it was evaluated for further sale. The owner does not agree with the results of the assessment and will appeal against them in court.

According to the statements of the Group of Companies of IDGC of Northern Caucasus PJSC in 2015, bankruptcy procedures were introduced in relation to the MUP KES Kaspenergo (Republic of Dagestan, Kaspiisk) and MUP Elektroset (Republic of Dagestan, Kizilyurt). The process of bankruptcy of enterprises is long and will not be completed before 2017-2018.

In 2016, under the request of IDGC of Northern Caucasus PJSC in relation to JSC Nalchik City Power Grid Company, bankruptcy procedure was introduced.

2. Consolidation of ownerless power grid property

During consolidation of ownerless property it shall be noted that 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 is possible by implementation of the following arrangement (procedure defined by current roadmaps on consolidation):

1. Jointly with the authorities, inventory of municipal property in the constituent entities to identify ownerless property;

2. Registration of municipal property rights to the property in the manner prescribed by law;
3. Transfer of property to rent in accordance with the law.

At present, joint inventory of municipal property is completed in the Kabardino-Balkaria Republic and Karachaevo-Cherkess Republic.

In the Republic of North Ossetia-Alania and the Republic of Dagestan, authorities did not take part in the inventory. The consolidation road map in the territory of the Stavropol Territory was not signed due to the refusal of the executive authorities of the entity from the proposed mechanism for consolidation of grid assets on the basis of IDGC of Northern Caucasus PJSC.

Mechanism was defined for consolidation of movable ownerless property by the Rules of IDGC of Northern Caucasus PJSC 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 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.

During the period from 2015 to 2016, 1,200 properties of ownerless property technologically connected to the Company's networks were identified.

Considering the considerable amount of financing necessary to recognize the property rights of IDGC of Northern Caucasus PJSC to objects in court, as well as the need to create judicial precedents on this issue at the first stage, in the Republic of Dagestan, the Republic of North Ossetia-Alania, the Karachaevo-Cherkess Republic and the Stavropol Territory 5 objects were chosen, where «pilot» projects are implemented for recognizing their property rights. Currently, the necessary documentation is collected and prepared.

In addition, management of the Republic of North Ossetia-Alania and the Republic of Dagestan prepared draft cooperation agreements on the registration of rights to ownerless electric grid assets, which, if signed, will enable the Company to keep ownerless property and reflect the costs of the Company's accounting, and in the future register ownership of the property on the basis of judicial decisions.

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.

RF Government Decree dated February 28, 2015 No. 184. approved the criteria for classifying the owners of transmission facilities as the territorial grid companies. In 2016 12 territorial grid organizations were deprived of the status in the territory of the North Caucasus Federal District. Appeals on consolidation from owners of property, deprived of the status of a territorial grid organization, were not received by IDGC of Northern Caucasus PJSC. The only exception is MUE Elektroset (Kizilyurt, Republic of Dagestan). Currently, the procedure for determining the appropriateness of the transaction for the lease of this property is under way.

Implementation of agreements for consolidation of power grid assets with executive authorities of the constituent entities of the Russian Federation and other subjects of power engineering.

1. In July and August 2014, the updated roadmaps were signed with the heads of the republics of the North Caucasus Federal District for consolidation of 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-balance 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 due to owner's refusal.

In 2015, inventory of power grid property in the territory of Kabardino-Balkarian Republic was completed. Authorities of the Republic are carrying out actions on technical inventory of objects. Completion timing is not defined. Inventory of facilities – 100%, technical inventory and passportization - 69%.

Also, an inventory with the authorities was completed in the territory of the Karachaevo-Cherkess Republic, lists of ownerless and municipal property were drawn up. Municipalities are working on setting objects for cadastral registration. In some municipalities, there are no sources of financing for registration of facilities.

Inventory in the territory of the Republic of Dagestan was carried out by JSC Dagestan Grid Company without participation of representatives of the authorities of the Republic. The provisional lists of ownerless and municipal property compiled by JSC Dagestan Grid Company were agreed by the Government of the Republic of Dagestan in January 2017.

In the Republic of North Ossetia-Alania, the inventory was carried out by IDGC of the North Caucasus PJSC, as part of implementation of the Company's local regulations. The lists of property were sent for approval to the Republic of North Ossetia-Alania in early 2017.

In the Republic of Ingushetia, an inventory of the republican electric grid property was carried out. Work on inventory of ownerless property will be continued in 2017.

2. On June 19, 2015, the Roadmap for the establishment of a joint electric grid company and the consolidation of the power grid complex of the Republic of Dagestan and the Agreement on cooperation for implementation of the joint-stock company creation project were signed between IDGC of Northern Caucasus PJSC and the authorities of the Republic of Dagestan.

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

From July 1, 2015, the operating activities of JSC Dagestan Grid Company were launched.

The company leases the assets of IGES, JSC Sulaksky HydroCascade and Stavropolelektroset OJSC, formerly rented from OJSC Dagenergoset, as well as property of Makhachkalagorelektroseti and Makhachkala City Electricity Network Company LLC, formerly leased by IDGC of Northern Caucasus PJSC.

In accordance with the road map, until November 1, 2016, the Republic of Dagestan had to pay for the additional issue of shares of JSC Dagestan Grid Company. However, funds in the budget of the Republic of Dagestan for payment of an additional share issue of the Company are not provided. On this fact, during the year 2016, appeals were sent to the Chairman of the Government of the Republic of Dagestan twice. The answer was not received.

3. On June 17, 2016 and August 4, 2016 PJSC Rosseti and the Republic of Ingushetia signed a Cooperation Agreement and a Roadmap for the establishment of a joint electric grid company. The signed documents provide for creation of a joint electric grid company by the Republic of Ingushetia and IDGC of Northern Caucasus PJSC by means of contributing power grid assets of the parties to the authorized capital.

On June 30, 2016, a joint meeting was held with the participation of the representatives of the Republic of Ingushetia, PJSC Rosseti and IDGC of Northern Caucasus PJSC, which reflects the crucial issue about the fact that at the first stage of joint company creation, the property shall be contributed, which was completed by construction, put in operation and registered in accordance with the procedure established by applicable law.

The parties conducted an inventory of property subject to be paid as a contribution to the authorized capital of the joint company. The drafts of constituent documents have been agreed.

At the meeting of the working group of September 13, 2016, the need was noted to maintain the republican power grid property until the time of its contribution into the authorized capital of the joint company in the proper technical condition. At the meeting on January 12, 2017, the Government of the Republic of Ingushetia supported the proposal of IDGC of Northern Caucasus PJSC to transfer the republican property for free use to the operating organization in accordance with the procedure established by law.

On February 16, 2017, the Ministry of Property and Land Relations of the Republic of Ingushetia published a notice on holding an auction for the right to execute a contract for gratuitous use. IDGC of Northern Caucasus PJSC intends to participate in the bidding.

Volumes of power grid assets consolidation

By the decision of the Board of Directors dated September 30, 2015 (Minutes dated October 2, 2015 No.211), the Program for consolidation of power grid assets of IDGC of Northern Caucasus PJSC was approved for 2015-2017.

This Program consists of projects for acquisition and lease of property belonging to organizations located in the territory of the subjects of the North Caucasus Federal District, for which there are preliminary consents of the owners available, claims are being made to foreclose the property in court or their consolidation is provided for by approved road maps.

In accordance with the approved Program for 2015-2017, 11 projects were planned for consolidation.

The approved consolidation program in 2016 plans to consolidate 7 TGOs.

Monitoring of volumes of power grid asset consolidation

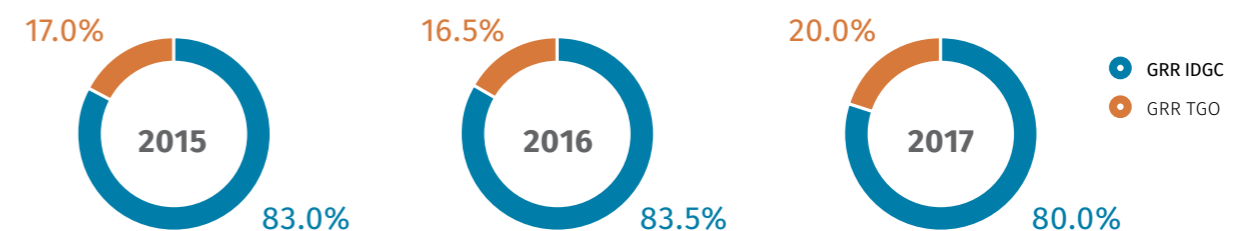
Name	Volume of power grid assets consolidation for the period								
	2014			2015			2016		
	MVA	Km	C.u.	MVA	Km	C.u.	MVA	Km	C.u.
Total for IDGC of Northern Caucasus PJSC	1,334	6,763	41,507	1,748	8,545	54,138	1,762	8,581	64,904
Purchase of power grid assets	1	0	5	0	0	0	0	0	0
Lease of power grid assets	1,333	6,763	41,502	1,748	8,545	54,138	1,762	8,581	64,904
Other (permanent ownership and usage)	0	0	0	0	0	0	0	0	0
Other (temporary ownership and usage)	0	0	0	0	0	0	0	0	0

* With account of subsidiaries and managed Companies

Share of IDGC of Northern Caucasus PJSC in required gross revenue (GRR) of North Caucasus Federal District

In 2016, the share of GRR of IDGC of Northern Caucasus PJSC (excluding subsidiaries and managed Companies) in the GRR of the subjects of the North Caucasus Federal District was 78.7%, an increase of 0.6% compared to 2015.

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



The change in the share of GRR of IDGC of Northern Caucasus PJSC in the structure of the NCFD GRR is caused by the following:

In 2015:

Since January 1, IDGC of Northern Caucasus PJSC rents property of JSC Alaniyaelektroset.

In 2016:

The change in the share of GRR of IDGC of Northern Caucasus in 2016 is a consequence of tariff decisions taken in the subjects of the North Caucasus Federal District.

In 2017:

Decrease in the share of the Company's GRR in the GRR of the subjects of the North Caucasus Federal District is associated with the termination of contracts with JSC Essentukskaya Grid Company (Essentuki) and JSC Stavropolenergoinvest (Stavropol) by the decision of the Arbitration Court of the Stavropol Territory. In addition, in 2017, a tariff for power transmission services was set for SUE GC "Resorts of development of the Stavropol Territory" and LLC DagEnergy.

Investment activities and capital construction

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

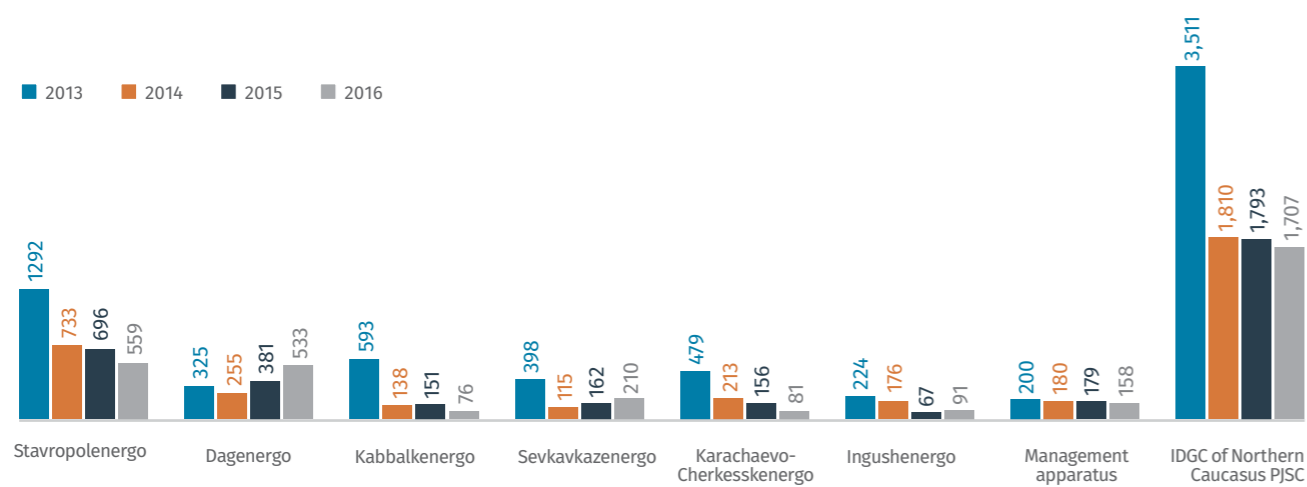
- maintaining and operating equipment necessary for sufficient, reliable, and uninterrupted power supply to consumers;

- lowering production costs, in particular, through improvement of equipment efficient performance;
- upgrading main assets;
- ensuring safe operation of equipment;
- commissioning new capacities in case of necessity to cover load deficiency or create capacity margin.

The 2016 investment program of IDGC of Northern Caucasus, PJSC has been approved by Order No. 1035 of the Ministry of Energy of the Russian Federation dated December 25, 2015.

Major investment program indicators for 2016

IDGC of Northern Caucasus PJSC	2016				
	Capital investments	Introduction to fixed assets	Funding	New power	
	mln RUB, excluding VAT	mln RUB, excluding VAT	mln RUB, including VAT	MVA	km
Stavropolenergo branch	279.0	230.5	558.9	52.30	34.98
Sevkavkazenergo branch	73.1	46.9	209.8	0.09	24.05
Karachaevo-Cherkesskenergo branch	51.0	57.4	80.6	0.14	16.69
Kabbalkenergo branch	49.1	19.5	75.7	0.00	0.00
Ingushenergo branch	8.3	2.7	91.5	0.00	0.00
Dagenergo branch	180.5	182.3	533.0	0.00	27.30
Management apparatus	210.1	1,229.7	157.6	0.00	0.00
Total	851.1	1,769.0	1,707.0	52.53	103.02



Compared to 2013, funding for 2014-2016 decreased by more than 50%. The reduction in the volume of financing in the investment program from 2013 is due to retention of growth of power transmission tariffs in accordance with RF Government Decree No. 1178 of December 29, 2011 "On pricing

in the field of regulated prices (tariffs) in power engineering". The reason is also in the unsatisfactory payment discipline of last resort suppliers and related TGOs, in connection with which it was decided to reduce funds for investment programs in the long term.

Stream and structure of financing of investment program

In 2016, IDGC of Northern Caucasus, PJSC carried out activities targeted at enhancing reliability and non-interruption of electric energy supply to consumers, as well as at increasing

installed capacity to enable connection of additional loads and prolonging operation term of power facilities.

Financing of capital investments of IDGC of Northern Caucasus PJSC in 2016 amounted to 1,707.0 million rubles, VAT including, where technical modernization and reconstruction – 952.5 million rubles, new construction – 363.6 million rubles, other measures aimed at increasing the energy reliability of power grid facilities – 391.0 million rubles, including branches.

Structure of capital investment financing, RUB mln, including VAT

Indicator name	2014	2015	2016
Total	1,810.1	1,792.2	1,707.0
Programs	1,168.9	929.9	723.6
Technical re-equipment and reconstruction	895.5	774.1	520.9
New construction	273.4	155.8	202.7
Technological connection (TS), including:	295.3	330.6	360.4
Objects of TS with capacity above 750 kW (VN, SN1)	221.3	222.7	276.9
Objects of TS with capacity from 100 to 750 kW (SN2)	33.4	11.2	2.8
Objects of TS with capacity from 15 to 100 kW	4.7	10.0	7.8
Objects of TS with capacity up to 15 kW	34.9	43.3	42.1
Generation	0.9	43.4	30.9
Distribution networks	110.4	145.0	82.4
Automation of technological management (apart from Automated System of Commercial Power Metering)	57.5	212.6	159.1
Means of power metering, control	58.1	21.4	0.0
Safety support programs	13.2	1.7	3.6
Purchase of power grid assets, land plots and other objects	0.2	13.1	0.0
Other programs and actions	106.6	138.5	377.9
For reference:			
Technical re-equipment and reconstruction	1,099.4	1,024.9	952.5
New construction	475.2	380.6	363.6
Other	235.5	387.3	391.0

Karachaev-Cherkesskenergo branch

Financing of capital investments	mln RUB
Technical re-equipment and reconstruction	48.6
New construction	0.1
Other activities	32.0
Total	80.6

Among the most important objects implemented in 2016, the following shall be noted:

- Upgrade of information collection and transmission system at SS 110 kV Karachaevsk. The facility is implemented in accordance with the instruction of JSC SO of UES.

Kabbalkenergo branch

Financing of capital investments	mln RUB
Technical re-equipment and reconstruction	58.2
New construction	1.4
Other activities	16.1
Total	75.7

Among the most important objects implemented in 2016, the following shall be noted:

- Modernization of information collection and transmission system, Stage II at the power grid facilities: Substations Chegem-2, Iskoz, Malka, PTF, Nartkala, Kashkhatau, Aushiger. The facility is implemented in accordance with the instruction of JSC SO of UES.

Sevkavkazenergo branch

Financing of capital investments	mln RUB
Technical re-equipment and reconstruction	172.7
New construction and expansion of existing facilities	19.6
Other activities	17.5
Total	209.8

In the reporting year, the following measures were implemented for technical re-equipment and reconstruction:

- Reconstruction of 110/35/6 kV Substation Zaramag. The facility is implemented in accordance with the regulation of JSC SO of UES, as well as for technological connection of the mountain-recreational complex "Mamison". Reconstruction of SS 110/35/6 kV Zaramag will increase the volume of electric energy for construction of the objects of the mountain-recreational complex "Mamison". The facility is planned to be commissioned in 2017.

STAVROPOL

CHERKESK

PYATIGORSK

NALCHIK

VLADIKAVKAZ

NAZRAN

Dagenergo branch

Financing of capital investments	mln RUB
Technical re-equipment and reconstruction	355.5
New construction	34.3
Other activities	143.2
Total	533.0

Among the largest facilities for technical re-equipment and reconstruction and new construction introduced in 2016, measures should be noted that were implemented in accordance with the Order of the Ministry of Energy of Russia on April 3, 2015, No. 215 "On approval of list of regions with high risks of power supply disruption and list of activities on reducing risks of power supply disruption in such regions" with the aim of increasing the capacity of the main transmission lines of 110 kV:

- Reconstruction of 110 kV overhead line No. 134 Makhachkala-110 – Shamkhal-Tyagovaya, reconstruction of 110/35/10 kV Substation Makhachkala-110;
- Reconstruction of 110 kV overhead line No. 139 Aktash-Sulevzent;
- Construction of the main selective high-speed protections at 110 kV Aktash substation, 110 kV overhead line No. 137 of the Chirurtsky HPP Cascade – Aktash;
- Construction of automatic voltage reduction limiting devices at 110 kV Khunzakh SS, 110 kV Levashi SS, 110 kV Kizlyar-1 SS, 110 kV Kizlyar-2 SS, 110 kV Babayurt SS;
- Construction of automatic equipment to limit overload of equipment at 110 kV Hunzakh SS, 110 kV Tloh-Khunzakh overhead power transmission line, 110 kV Gergebil SS, 110 kV Buinask-1 overhead power transmission line – Gergebil, 110 kV Miatly SS, 110 kV Miatly-Dylym overhead power transmission line, 110 kV Aktash overhead power transmission line, 110 kV overhead power transmission line Aktash-Sulevzent, Aktash-Kizlyar-2.

Stavropolenergo branch

Financing of capital investments	mln RUB
Technical re-equipment and reconstruction	222.6
New construction	241.1
Other activities	95.2
Total	558.9

Among the largest objects of this area are the following:

- Reconstruction of 110/10/6 kV Substation Severnaya in Stavropol. Implementation of the facility is aimed at completing the works to eliminate the emergency situation at 110/10/6 kV Substation Severnaya and restore the operability of the power supply system under a permanent scheme, as part of the implementation of clause 3.1. of the minutes of the meeting of the Commission for Prevention and Elimination of Emergencies and Fire Safety in the Stavropol Territory of October 29, 2014 No. 9. In 2016, work was carried out installation of power cables, reactors, DC board, auxiliary board. In 2017, it is planned to complete the works (installation of relay protection and automation cabinets, Sirius protection kits and commissioning works) to commission the facility.

Among the largest objects of this area are the following:

- Construction of 110 kV Beshtau Substation with taps of 110 kV overhead line for technological connection of power receivers of the residential microdistrict Zapadny in Pyatigorsk to the power grids of the branch of IDGC of Northern Caucasus PJSC – Stavropolenergo – 1 start-up complex. Implementation of the facility is aimed at securing the technological connection of the residential microdistrict "Zapadny" in Pyatigorsk. The object was put into operation.
- Construction of 10 kV overhead transmission line, complete containerized transformer substation 10-0.4 kV to provide technological connection of power receiving devices of the hypermarket located in the village of Vinzady, Stavropol Territory. Implementation of the facility is aimed at securing the technological connection of Dorinda LLC. Construction, installation and commissioning of the facility in 2016 were completed in full. In order to commission the facility in 2017, it is necessary to coordinate the placement of a distribution point of the transformer substation – 10 kV, the access road and the 10 kV cable line passing through the privately owned land, and to obtain permission from Rostekhnadzor to allow the electrical installation to be commissioned.
- Construction of 35 kV Lenta substation with 35 and 10 kV overhead lines to provide technological connection of power receivers of the Lenta shopping complex in Inozemtsevo settlement. Implementation of the facility is aimed at securing technological connection of LLC Lenta. The object was put into operation.

Ingushenergo branch

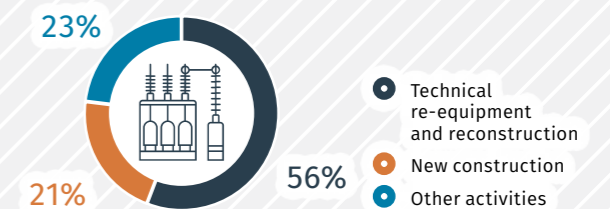
Financing of capital investments	mln RUB
Technical re-equipment and reconstruction	0.8
New construction	67.1
Other activities	23.5
Total	91.5

MAKHACHKALA

Executive apparatus

Financing of capital investments	mln RUB
Technical re-equipment and reconstruction	94.1
Other activities	63.5
Total	157.6

Structure of capital investment financing in 2016



Contribution to fixed assets in IDGE of Northern Caucasus PJSC in 2014 amounted to 2,394.5 mln RUB, in 2015 – 2,805.0 mln RUB, in 2016 – 1,769.0 mln RUB, including branches:

- **Stavropolenergo:** 2014 – 1,097.5 mln RUB, 2015 – 1,002.1 mln RUB, 2016 – 230.5 mln RUB;
- **Dagenergo:** 2014 – 435.9 mln RUB, 2015 – 228.9 mln RUB, 2016 – 182.3 mln RUB;
- **Kabbalkenergo:** 2014 – 140.6 mln RUB, 2015 – 126.3 mln RUB, 2016 – 19.5 mln RUB;
- **Sevkavkazenergo:** 2014 – 355.0 mln RUB, 2015 – 337.2 mln RUB, 2016 – 46.9 mln RUB;
- **Karachaev-Cherkesskenergo:** 2014 – 235.0 mln RUB, 2015 – 197.8 mln RUB, 2016 – 57.4 mln RUB;
- **Ingushenergo:** 2014 – 112.4 mln RUB, 2015 – 609.3 mln RUB, 2016 – 2.7 mln RUB;
- **Executive apparatus:** 2014 – 18.2 mln RUB, 2015 – 303.4 mln RUB, 2016 – 1,229.7 mln RUB.

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

To reduce commercial power losses in networks of IDGC of Northern Caucasus PJSC in the territory of the Republic of Dagestan, the Republic of Ingushetia and Chechen Republic, the comprehensive program is implemented to reduce excessive losses. The comprehensive program provides for actions to organize, upgrade and automated metering of power in all points of commercial metering, and in key supply centers, where technical metering of power is required, which will make it possible to reduce commercial losses to the level of normative values. The program is implemented since 2011.

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

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

In 2016 performance of actions of the Comprehensive Program amounted to 208.2 RUB mln. Financing amounted to 343.9 RUB mln, VAT included.

Performance of Comprehensive Program

Name	Performance, mln RUB, VAT excluded		
	Actual 2016	also as a result of the following	
		federal budget funds	own funds of the Company
Republic of Dagestan	1.1	-	1.1*
Chechen Republic	207.1	207.1	-
Republic of Ingushetia	-	-	-
Total	208.2	207.1	1.1

*Design and estimate documentation was adjusted (including completion of state expertise of the project).

Financing of Comprehensive Program

Name	Financing, mln RUR, VAT included		
	Actual 2016	also as a result of the following	
		federal budget funds	own funds of the Company*
Republic of Dagestan	249.8	189.4	60.4*
Chechen Republic	94.1	94.1	-
Republic of Ingushetia	-	-	-
Total	343.9	283.5	60.4

*In February 2016, identical requirements were offset. The accounts payable of IDGC of Northern Caucasus PJSC to JSC Dagenergostroy in the amount of 60,405 thousand rubles, VAT included, were repaid to pay off the debt of Dagenergostroy JSC to IDGC of Northern Caucasus PJSC for penalty for failure to comply with the deadline for completion of work under the contract dated June 15, 2011 No. 035/11 (Republic of Dagestan) on the basis of the decision of the Arbitration Court at NP Energoostroy dated June 10, 2013 No.128/2013 and the ruling of the Arbitration Court of the Republic of Dagestan dated December 08, 2015 No.A15-2257/2015.

From the start of implementation of the Comprehensive Program its performance amounted to 3,662.5 RUB mln. Financing amounted to 4,741.4 RUB mln:

Name	Performance 2011-2016, mln RUB, VAT excluded	Financing 2011-2016, mln RUR, VAT included
Republic of Dagestan	1,656.9	2,515.8
Chechen Republic	1,514.2	1,647.4
Republic of Ingushetia*	491.2	578.2
Total	3,662.5	4,741.4

*In April 2015, implementation of the Comprehensive Program in the territory of the Republic of Ingushetia was completed. 45,408 metering devices were put into operation. The volume of commissioned fixed assets – 491.2 million rubles, without VAT.

Implementation of the Comprehensive Program was carried out through:

- federal budget funds – 3,339.0 million rubles, without VAT;
- Company's own funds – 322.9 million rubles, without VAT;
- other funds – 0.6 million rubles, without VAT.

The Comprehensive Program was funded from the following sources:

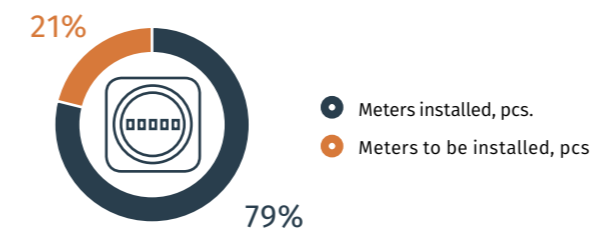
- at the expense of the federal budget – 4 236.7 million rubles, VAT included;
- at the expense of the Company's own funds – 504.0 million rubles, VAT included;
- at the expense of other funds – 0.7 million rubles, VAT included.

For the period of implementation of the Comprehensive Program as of January 1, 2017,

505,477 meters were installed

(according to acts of performed works according to form KS-2 adopted in accounting statements).

Name	Fact of meter installation, pcs.	Automated meters, pcs.	Meters to be installed, pcs.
Republic of Dagestan	322,077	309,553	130,739
Chechen Republic	137,992	119,352	-
Republic of Ingushetia	45,408	41,857	-
Total	505,477	470,762	130,739



In 2016, 107,919 meters installed in the territory of the Chechen Republic (Grozny, Shalinsky, Urus-Martanovsky, Achkhoy-Martanovsky, Shelkovsky, Nozhai-Yurtovsky, Kurchaloevsky, Gudermes RESS) were put into operation, as well as 1,226.7 million rubles, without VAT, of fixed assets. The integrated power metering system of the Chechen Republic was put into commercial operation in full, the total volume of fixed assets put into operation – 1,514.2 million rubles, without VAT, and 137,992 meters.

Performance of target indicators of Comprehensive Program

Name	2011	2016
Republic of Dagestan (without Makhachkala)	38%	28.41%
Republic of Ingushetia	40%	32.83%
Chechen Republic (without Grozny, Argun, Gudermes)	34%	23.52%

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

In terms of quantity and cost terms it is as follows:

- losses in the Republic of Ingushetia decreased from 40% in 2011 to 32.83% in 2016, while the economic effect as of December 31, 2016 amounted to 101.8 million kW-h, or 257.6 million rubles,
- losses in the Republic of Dagestan decreased from 38% in 2011 to 28.41% in 2016, while the economic effect as of December 31, 2016 amounted to 783.3 million kW-h, or 1,128 million rubles,
- losses in the Chechen Republic decreased from 34% in 2011 to 23.52% in 2016, while the economic effect as of December 31, 2016 amounted to 188.0 million kW-h, or 353.3 million rubles.

Results of investment program implementation

In 2016 due to implementation of activities included in the investment program, reliable and uninterrupted power supply to consumers was provided, and possibility of technological connection of new consumers of the North Caucasus Republics and Stavropol Territory was increased.

Implementation of measures to reduce specific investment costs

When implementing the investment program, a methodology was used to reduce investment costs for 2012, adopted in 2013. The effect of Methodology application in 2016 amounted to 18.5 million rubles, VAT excluded, or 29%.

The level of electricity losses is reflected in the section of the Annual Report "Production Report"/ "Transmission and Distribution of Power".

The number of executed technological connection agreements, including the preferential category of applicants

Indicator name	Existing agreements as of January 01, 2016		TC agreements signed in the current period (total)		TC agreements terminated in the current period		Agreements fulfilled (signed acts of TC)		Existing TC agreements as of December 31, 2016	
	pcs.	kW	pcs.	kW	pcs.	kW	pcs.	kW	pcs.	kW
up to 15 kW, inclusive	4,287	36,398	7,640	60,421	408	3,559	6,561	50,128	4,958	43,131
including individuals up to 15 kW inclusive	2,895	25,329	5,299	42,542	173	1,568	4,611	35,478	3,410	30,826
above 15 and up to 150 kW, inclusive	415	25,326	488	30,648	156	8,798	361	22,457	386	24,720
including Applicants with 50% discount	0	0	16	1,405	0	0	5	288	11	1,117
including Applicants who used instalments	1	50	10	3,310	0	0	11	3,360	0	0
above 150 kW and less than 670 kW	233	80,246	148	49,448	63	21,267	129	41,024	189	67,403
min 670 kW	104	434,687	32	89,277	9	126,298	34	61,129	93	339,537
power generating facilities	11	193,835	2	23,050	0	0	3	191,200	10	25,685
Total, not taking into account temporary TC	5,050	770,491	8,310	252,844	636	159,922	7,088	365,938	5,636	500,475
temporary technological connection	4	150	2	480	0	0	6	630	0	0
Total with account of temporary TC	5,054	770,641	8,310	253,324	636	159,922	7,094	366,568	5,636	500,475

Share of equipment with excessive service life

Equipment	Share of equipment with excessive service life, %				
	2012	2013	2014	2015	2016
Power transformers (>25 years)	72.86	70.92	68.23	71.18	70.70
High voltage circuit breakers (>25 years)	54.95	53.9	54.15	55.96	58.03
Overhead power transmission lines (>35 years)	50.72	53.73	55.98	60.47	64.70
Cable power transmission lines (>25 years)	53.34	51.5	53.93	67.53	69.47

Indicators of specific emergency rate are shown in the Annual Report section "Information on main production assets".

Long-Term investment program

The long-term investment program of IDGC of Northern Caucasus PJSC for the period of 2016-2022

was approved by the Order of the Ministry of Energy of Russia on December 30, 2015 No. 1470.

The implementation of the approved investment program of IDGC of Northern Caucasus PJSC is a prerequisite for sustainable operation and development of the power of the North Caucasus Federal District, and will prevent 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 PJSC 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.

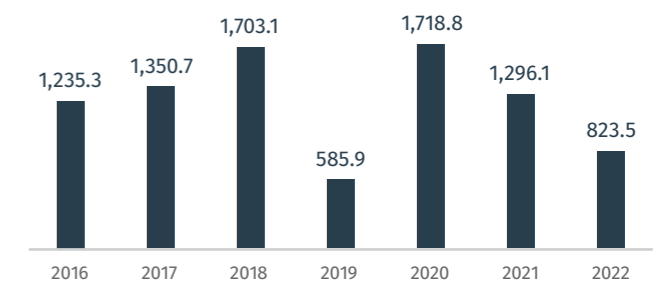
Within the investment program, the following tasks are provided:

- 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 PJSC, the total funding for the period of 2016-2022 amounts to 8,713.3 M RUB, VAT included:

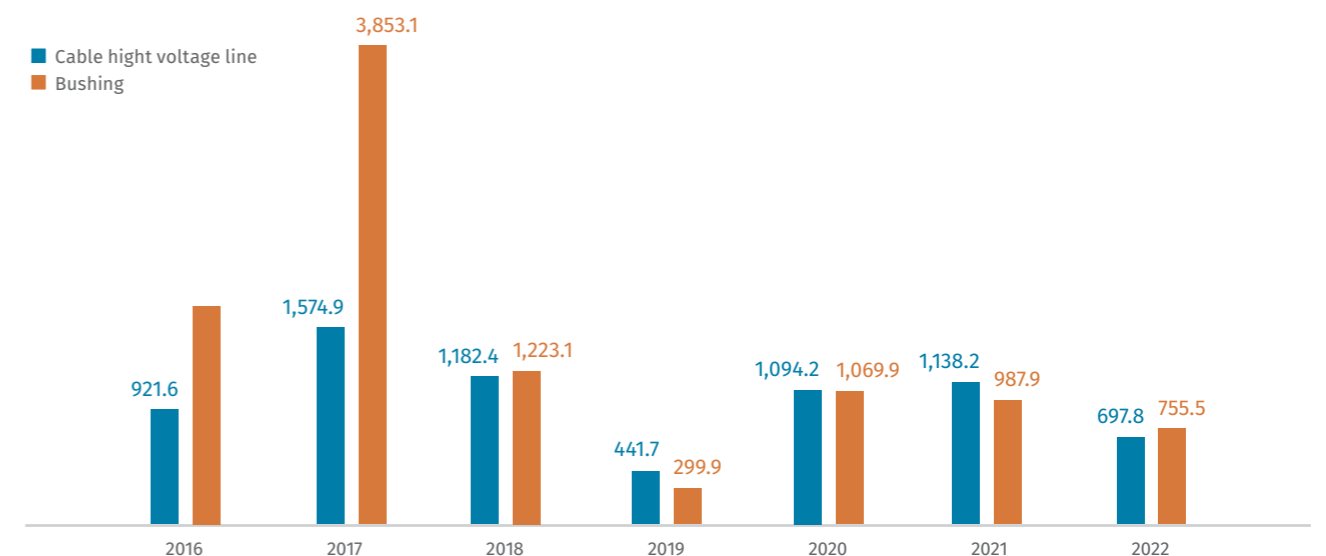
- 2016 – 1,235.3 mln RUB;
- 2017 – 1,350.7 mln RUB;
- 2018 – 1,703.1 mln RUB;
- 2019 – 585.9 mln RUB;
- 2020 – 1,718.8 mln RUB;
- 2021 – 1,296.1 mln RUB;
- 2022 – 823.5 mln RUB.

Volume of financing of investment program for 2016-2022, M, VAT included



Since 2020, the volume of financing of the investment program will increase. All funds will be spent on technical re-equipment 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.

Volume of planned capital investments and commissioning of fixed assets in accordance with the investment program for 2015-2022, M, without VAT



Capital construction

Capital construction quality management

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 the Regulations for implementation of investment projects of IDGC of Northern Caucasus PJSC in terms of performance of design and survey works, registration of initial permits and construction and installation works” dated December 14, 2016 No. 849.
- order “On Approval of the Procedure for Implementation of Construction Control at the Power Grid Complex Facilities” dated March 6, 2017 No. 141;
- order “On approval of Standard contract for provision of construction control services at facilities of power grid complex of IDGC of Northern Caucasus PJSC” dated January 25, 2017 No. 42;
- order “On evaluation of effectiveness of contractors’ activities” of November 3, 2016 No. 757;
- order approving the Procedure for assessing the compliance of completed facilities of the power grid complex of IDGC of Northern Caucasus PJSC, dated February 9, 2016, No. 69 (as amended by Order No. 819 of December 6, 2016).

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

The structural division of IDGC of Northern Caucasus PJSC, organizing construction supervision (technical supervision of construction) in accordance with the Regulations on Capital Construction Department and job descriptions of employees, is the Department of Capital Construction in the amount of 11 specialists, including the Department Manager reporting to the Deputy Director General for investment activities.

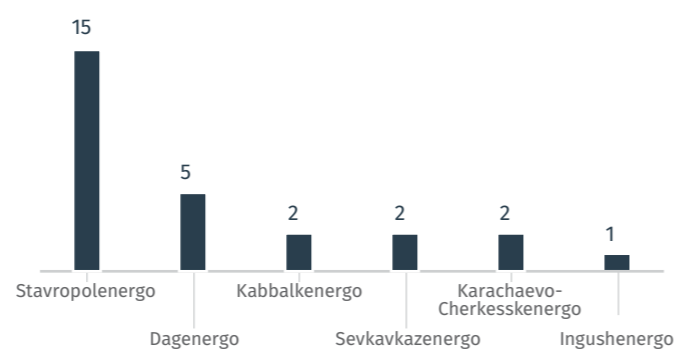
According to the Regulations for implementation of investment projects of IDGC of Northern Caucasus PJSC regarding the execution of design and survey works, preparation of initial permits and construction and installation works approved by the order of IDGC of Northern Caucasus PJSC dated December 14, 2016 No. 849, construction (reconstruction) supervision of objects is carried out by the capital construction divisions of the Company (capital construction groups in the Republics and the capital construction department for Stavropol Territory), in the number of 27 specialists.

Realization of construction supervision in the reporting year was carried out by the specialists of the construction supervision of the Company in the number of 27 persons, as

well as by contracted external contractors on a contractual basis in the amount of 2 people (JSC Scientific Research Engineering Center of Interregional Distribution Companies, the deadline for executing the works from September 12 to December 31, 2017 on the site “Reconstruction of 110/10 kV Substation Yuzhnaya, Karachaevo-Cherkesskenergo”).

At the same time, in 2016, the coverage of constructed capital construction projects of the Company’s investment program with independent construction supervision was 4%.

Distribution of personnel of construction supervision in branches of IDGC of Northern Caucasus PJSC (27 persons)

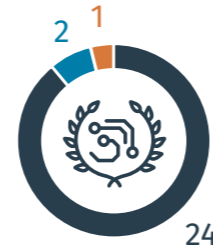


Professional education of specialists (27 pers.)



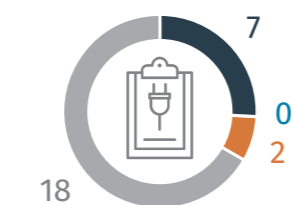
- 15% Industrial and civil construction
- 74% Electrical
- 11% Other

Experience in power engineering (27 pers.)



- 89% More than 5 years
- 7% From 3 to 5 years
- 4% Less than 3 years

Distribution of personnel by electrical safety groups (27 pers.)



- 26% Group 5 of ES
- 0% Group 4 of ES
- 7% Group 3 of ES
- 67% Group 2 of ES



4. Technical outfit and equipment renovation

Information on main production assets

Information on main production assets for 2014-2016

Asset type	Unit of measurement	2014	2015	2016
Substations 6-110 kV	pcs.	17,887	17,671	17,643
Installed capacity (total)	MVA	11,892.5	12,173.9	12,140.6
SS 35-110 kV	pcs.	586	593	594
	MVA	8,465.3	8,770.7	8,767.0
Transformer substations, RTP 6-10(35)/0.4 kV	pcs.	17,301	17,078	17,049
	MVA	3,427.3	3,403.2	3,373.6
Distribution stations 6-35 kV	pcs.	0	0	0
Length of overhead lines 0.4-110 kV along the highway	km	75,851.7	75,385.9	75,458.5
High voltage line 220 kV and higher	km	8.8	8.8	8.8
110 -150 kV overhead line	km	6,320.1	6,255.9	6,388.3
35 kV overhead lines	km	5,453.7	5,489.6	5,494.8
6-10 kV overhead line	km	32,379.3	32,216.4	32,180.4
0.4 kV overhead lines	km	31,689.7	31,415.2	31,386.1
Length of cable lines 0.4-220 kV	km	3,289.5	3,346.7	3,093.6
Cable line 220 kV and higher	km			
Cable line 110 kV	km			
Cable line 35 kV	km	5.0	5.7	5.0
Cable line 6-10 kV	km	1,850.4	1,882.0	1,883.6
Cable line 0.4 kV	km	1,434.1	1,459.0	1,205.0

In branches of IDGC of Northern Caucasus PJSC in the reporting period performed actions to improve level of operation, reliability and stability of operation of power networks in different periods (thunderstorm, flood, high temperature, autumn-winter period). Across all the production divisions emergency-response action plans were fulfilled.

Timely investigation of technological disturbances was organized. Occasional inspections of 6-110 kV overhead lines were carried out to identify and cut down trees, which potentially could fall on lines. In compliance with the schedule, major equipment status is constantly monitored.

Accident prevention is closely connected with implementation of repair and investment programs of the Company.

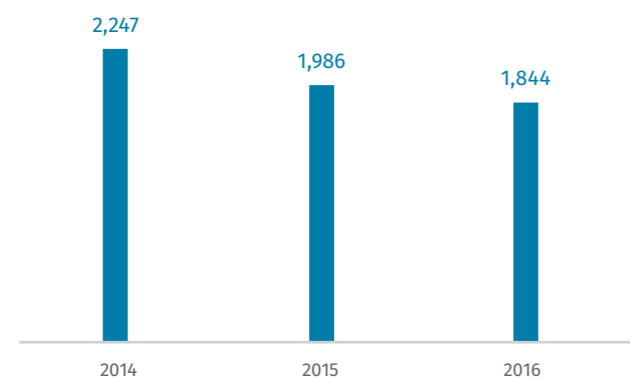
Actions were completed for repair and operational maintenance of equipment, buildings and structures in the scope according to annual operation orders of branches of IDGC of Northern Caucasus PJSC.

Under the investment program, technical re-equipment and reconstruction of overhead lines was carried out, including replacement of poles and non-insulated wires with self-supporting insulated ones, as well as replacement of oil switches with vacuum ones.

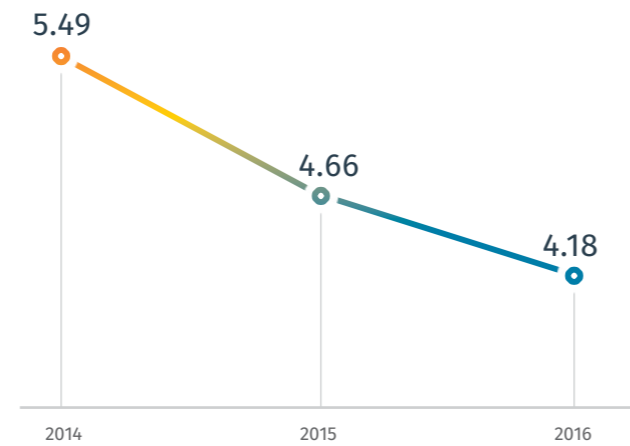
Training and retraining of workers and specialists was carried out in accordance with the approved schedules. Emergency response training was conducted with operational staff in the right scope according to schedules. Maintenance and commissioning of relay protection devices was implemented in the scopes of investment and repair programs. Briefings for operating and maintenance personnel at workplaces were carried out.

Thunderstorm and flood periods were **successfully passed**, including high temperature period.

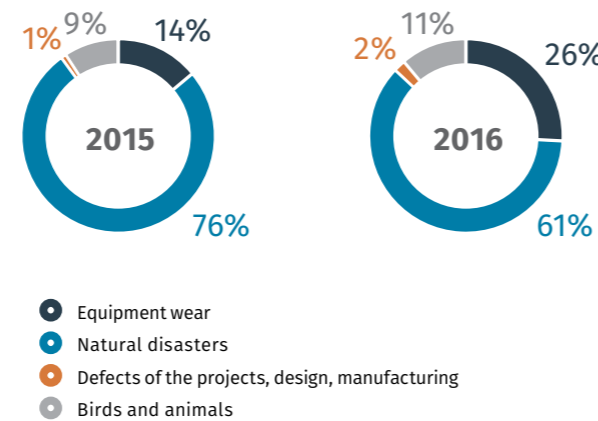
Dynamics of accidents number at facilities



Dynamics of specific accident rate at facilities (number of accidents per 1,000 conventional units)



Main reasons for accidents for the reporting and previous year



Indicators of repair program of IDGC of Northern Caucasus PJSC

Work Name	2014	2015	2016
Capital repair of high voltage lines, km	4,259.4	3,226.2	3,415.2
Clearance of high voltage line routes, ha	1,547.0	1,311.9	1,150.1
Repair of transformers and self-contained transformers, pcs.	1,074.0	694.0	890.0
Repair of switching devices, pcs.	4,312.0	3,886.0	4,923.0
Repair campaign, M RUB	1,151.8	902.1	913.6

Information on implementation of production assets management system in IDGC of Northern Caucasus PJSC

In accordance with the decision of the Board of Directors of IDGC of Northern Caucasus PJSC dated April 26, 2016. (Minutes No. 239 of April 28, 2016) approved the Development Plan for the Production Assets Management System of IDGC of Northern Caucasus PJSC for 2016-2018.

Within performance of actions of the Plan for development of system for management of production assets of IDGC of Northern Caucasus PJSC for 2016-2018, in 2016 actions were implemented on the following key objectives:

- implementation of functionality of the Automated System for Maintenance and Repair Management in the Production Asset Management System, including the implementation of network reporting formats;
- performance of works to improve the accuracy of assessment of technical condition of production assets. In accordance with the distribution of responsibility for updating the algorithms of technical condition assessment for the group of companies of PJSC Rosseti, the specialists of the Company headed the subgroup on text status indices for the subgroup of equipment "Switchgears";
- certification of production warehouses and storage areas for emergency reserve, vehicles;
- certification of industrial buildings and structures;
- implementation of functionality of the Automated Control System for Diagnostics of Production Assets;
- implementation of functionality of the Automated Control System for technical inspection of production assets.

Information on improved level of anti-terrorist and anti-subversion protection of IDGC of Northern Caucasus PJSC power grid complex facilities

118 power facilities of the Company are under physical protection, security is provided by security companies, Extra-Departmental Security of the Ministry of Internal Affairs of Russia, who were announced as winners in the tenders held. The number of employed security personnel is 688 people.

168 audits were performed on status of anti-terrorist protection of power facilities, 39 training sessions were provided for actions of employees of security firms in case of emergencies, including 1 with participation of EMERCOM, sessions and briefings are provided on a weekly basis for employees of security firms. Heads of branches and managed Companies took part in 20 meetings of regional anti-terrorist commissions on organization of anti-terrorist protection of power facilities.

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

Quality Management System

IDGC of Northern Caucasus PJSC in the period from 2013 to 2016 used the method of "Return on invested capital" RAB, providing for establishment of long-term parameters for regulating reliability and quality of services provided as part of long-term regulatory parameters by the return on invested capital method.

By the decision of the authorized bodies in the field of state regulation of tariffs for the period from 2013 to 2016 the following planned values of reliability and quality indicators of rendered services were established:

Name of grid company in constituent entity of the Russian Federation	year	Level of reliability of implemented goods (services)	Level of quality of implemented goods (services)	
			Indicator of quality level of implemented TC	Indicator of quality level of consumer care
Stavropolenergo branch	2013	0.0297	Not approved	1.0102
	2014	0.0292	1	0.8975
	2015	0.0288	1	0.8975
	2016	0.0284	1	0.8975
Kabbalkenergo branch	2013	0.0047	Not approved	1.0102
	2014	0.00469	Not approved	1.0102
	2015	0.00456	Not approved	1.0102
	2016	0.00450	Not approved	1.0102
Karachaevo-Cherkesskenergo branch	2013	0.0292	Not approved	1.0102
	2014	0.0298	Not approved	1.0102
	2015	0.0284	Not approved	1.0102
	2016	0.0279	Not approved	1.0102
Sevkavkazenergo branch	2013	0.0752	Not approved	1.0102
	2014	0.0746	1	0.8975
	2015	0.0739	1	0.8975
	2016	0.0731	1	0.8975
Ingushenergo branch	2013	0.00812	Not approved	1.0102
	2014	0.0079	1	0.8975
	2015	0.0078	1	0.8975
		0.0077	1	0.8975

Following the results of activity of IDGC of Northern Caucasus PJSC on performance of established planned indicators of reliability and quality of provided services the following actual results were achieved in the period from 2015 to 2016:

Name of grid company in constituent entity of the Russian Federation	year	Level of reliability of implemented goods (services)	Level of quality of implemented goods (services)	
			Indicator of quality level of implemented TC	Indicator of quality level of consumer care
Stavropolenergo branch	2013	0.02476	Not approved	0.9848
	2014	0.02104	1.003	0.83243
	2015	0.0189	1.04	0.817
	2016	0.0114	1.0018	0.8004
Kabbalkenergo branch	2013	0.004776	Not approved	1.0013
	2014	0.00154	Not approved	0.982
	2015	0.00102	Not approved	0.985
	2016	0.00062	Not approved	0.9353
Karachaevo-Cherkesskenergo branch	2013	0.01772	Not approved	1.0097
	2014	0.01219	Not approved	0.9863
	2015	0.0147	Not approved	0.987
	2016	0.0056	Not approved	0.86077
Sevkavkazenergo branch	2013	0.0248	Not approved	1.0014
	2014	0.0132	1	0.8624
	2015	0.0068	1.02	0.8621
	2016	0.0047	1.0257	0.8561
Ingushenergo branch	2013	0.001657	Not approved	0.9986
	2014	0.001168	1	0.8786
	2015	0.0006	1	0.8325
	2016	0.0003	1	0.8608

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

Based on the results of activities of IDGC of Northern Caucasus PJSC for 2013-2016, reliability level indicator has been achieved with significant improvement, customer service quality and quality level indicators of implemented

technological connection are within the permissible deviations from the set planned values stipulated by the order of the Ministry of Energy of October 14, 2013 No. 718

No Quality Management System was implemented in the Company in 2016.

In addition, during the reporting period, IDGC of Northern Caucasus PJSC carried out work to implement measures aimed at improving the state of labor protection:

- competitions of professional skills of the personnel on repair and maintenance of substation equipment and cable networks were held;
- shows-competitions of the state of labor protection, fire safety were held;
- Days of Labor Protection, Traffic Safety and Fire Safety were held on a monthly basis;
- comprehensive and thematic inspections of the state of labor protection, operation of equipment, fire safety, work with personnel in electrical networks were completed;
- activities were performed within the third party injury prevention program;
- the requirement was fulfilled to include sections on interaction and mutual responsibility for observance of norms and rules of labor protection in executed contracts;
- the norm was applied to prohibit the work of contractors in the territory of existing facilities in the event of violations of labor protection requirements and standards, instructions of the responsible employees of IDGC of Northern Caucasus PJSC;
- incoming inspection of the delivered personal protective equipment was implemented in order to exclude the purchase and use of poor-quality products by personnel;
- annual training of personnel was held on rendering first aid to the injured using a training dummy;
- training seminars were held with employees of labor protection units;
- training was conducted with production personnel without interruption of production;
- measures were taken to work with personnel in accordance with approved plans and schedules;
- planned inspections of permanent workplaces and working brigades were performed by participants in the production and technical councils of the system of internal technical control of branches and managed companies;
- periodic training of personnel was held on skills of safe work and first aid rendering to the injured;
- status and compliance with the scheme of dispatching names on the equipment of electrical installations were checked;

- off-schedule checks of working brigades and workplaces were carried out by authorized inspectors;
- procurement of personal protective equipment and electrical protective equipment for work in electrical installations at the expense of the employer was made.

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

- instructions on labor protection, job descriptions, technological maps and regulations on structural divisions were revised for compliance with recent safety requirements and inclusion of duties of responsible participants in the internal technical control system into them;
- instructions for labor protection when working in general electrical networks and when working on overhead lines under induced voltage were developed and approved. All electrical personnel are familiar with the contents of the instructions against signature;
- verification of switchgear circuits completed with switchgear cells, verification of local instructions for operation of complete switchgears was held;
- conformity analysis of the currently used, accepted and newly introduced complete switchgears to regulatory requirements was implemented;
- programs were developed for production training of personnel of working professions and engineering and technical workers, programs were coordinated with Rostekhnadzor.

Environmental Policy

One of the main directions of the environmental policy of IDGC of Northern Caucasus PJSC is to reduce the level of negative impact on the environment from production processes during maintenance, repairs, construction and reconstruction of power grid facilities.

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

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



development of draft standards for maximum permissible emissions of pollutants into the atmosphere



landscaping

The most significant measures aimed at compliance with the legislation in the field of environmental protection during the reporting period were as follows:

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

Volume of waste by hazard class

Name of waste types grouped by hazard classes	Waste generation for the reporting period, tons
Wastes of all hazard classes, total	1,729.594
Total of hazard class 1	0.597
Total of hazard class 2	17.250
Total of hazard class 3	30.233
Total of hazard class 4	602.121
Total of hazard class 5	1,079.393

Dynamics of payments for adverse impact at environment in general for the Company for 2014, 2015, 2016, K RUB

	2014	2015	2016
at water facilities	810.571	677.259	522.500
at atmospheric air	60.188	46.948	65.278
for waste disposal	951.883	1,745.032	1,684.633
Total	1,822.642	2,469.239	2,272.411

Dynamics of environmental costs (from data on current costs for environmental protection) in total for the Company in 2014, 2015, 2016 in K RUB

	2014	2015	2016
	1,315.418	3,885.801	4,297.370

In order to solve environmental problems, staff of branches of IDGC of Northern Caucasus PJSC receives initial training within the framework of professional development.

In branches of IDGC of Northern Caucasus PJSC in 2016, internal environmental audit of economic activity was carried out by own forces without involvement of outside organizations and without material costs. As a result of the audit, acts were issued to conduct internal environmental audits in the branches where information on state statistical reporting is indicated, where data on generated waste (located in a closed equipped room, generated domestic solid waste) is reflected.

In 2016 no works were performed to implement the environmental management system in IDGC of Northern Caucasus PJSC.

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

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

Innovative development

Implementation of the Company Innovative Development Program

Innovative activity of IDGC of Northern Caucasus PJSC is carried out in accordance with the Innovative Development Program of IDGC of Northern Caucasus PJSC (the Program) designed to create effective mechanisms aimed at modernizing the power grid complex, enhancing scientific and technical and inventive activities, adapting to introduction of innovations, improvement and development of the innovation system. The program is the key basic document of IDGC of Northern Caucasus PJSC in the field of scientific and technological development, new developments and research. The program determines and systematizes the innovative activity of the Company, establishes activities in the field of scientific, technical, technological and innovative development. It was developed in 2011 in accordance with the decision of the Board of Directors of the Company (Minutes No. 78 of August 1, 2011). In 2016, the Program was updated taking into account the new conditions, in accordance with the target model of innovative development and the requirements for innovative development programs. The purpose of innovative development is the transition to an electrical network of a new technological structure with qualitatively new characteristics of reliability, efficiency, accessibility, manageability and customer-oriented power grid complex as a whole. A power network of the new technological order is a power system, characterized by the following basic properties:

- automatic control of the power grid based on principles of distributed (multi-agent) control;
- real-time self-diagnostics of parameters and modes of operation of the power system, individual objects and units of equipment in order to increase system and consumer reliability, reduce transaction costs, etc.;
- flexible automatic reconfiguration of the network in response to changing its parameters and topology (including prevention of accidents/self-recovery of the network after accidents);
- providing specialized services and services to various categories of consumers.

The implementation of the Program is aimed at creating effective conditions for ensuring the following:

- achievement of target indicators of labor productivity and creation of high-productive workplaces provided for in the Decree of the President of the Russian Federation of May 7, 2012, No. 596 "On Long-Term State Economic Policy";
- development and implementation of a set of measures aimed at refusing to use obsolete and inefficient technologies and introducing modern Russian technologies;
- leadership of the Company in its industry in relation to similar companies, including foreign ones;
- growth of long-term investment in basic and applied research and development;
- linking the program of innovative development to approved long-term development programs, the investment program, other documents of the Company, as well as documents of state strategic planning.

Key directions of innovative development



transition to digital substations of voltage class 35-110 (220) kV and their large-scale introduction



transition to digital active-adaptive networks with distributed intelligent automation and control system



transition to integrated effectiveness of business processes and automation of management systems



application of new technologies and materials in the electric power industry

List of implemented actions of Innovative Development Program:

Transition to digital active-adaptive networks with distributed intelligent automation and control system

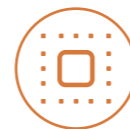


Introduction of digital substation technologies is currently one of the most dynamically developing areas in the formation of intellectual energy. This fact is caused by the desire of energy companies to improve the efficiency of the power grid, while the main task is still to ensure reliable power supply. In order to maintain reliable power supply, digital control systems need to be put in step by step. Now in Russia there are no adapted normative and legal documents regulating activity on introduction of technologies of digital substations. Therefore, construction of a digital substation must be carried out within the framework of a "pilot" project. The main task of introducing digital substations is to optimize the construction and purchase of power grid equipment, leading to reduction in operating and capital costs.

In the reporting period, due to the lack of financial capacity of the Company, work in the field of transition to digital substations was not planned or carried out.

As part of the issue development on feasibility study for use of digital substation technologies, for 2019 it is planned to perform a research on analysis of operational costs for equipment of substations in the balance sheet of Rosseti PJSC in order to determine economic efficiency of switching to digital substation technologies. This work will allow to structure operating costs and conduct a comparative analysis of technologies used in the construction of substations.

Transition to digital active-adaptive networks with distributed intelligent automation and control system



The goal of the project on transition to digital active-adaptive networks is the creation of a Smart Grid system aimed at improving reliability of the power grid complex and upgrade of the distribution network, by automating the technological processes of the electric distributed network.

In the reporting period due to the lack of financial capacity of the Company, work on creation of an actively adaptive network was not planned or carried out.

The first stage to create an active-adaptive network for 2018-2020 includes planned actions for development of a charging infrastructure for electric transport in the territory of the Company's presence. Within the framework of these actions, 4 charging stations are planned to be installed in the territory of the Company's area of responsibility.

Transition to integrated effectiveness of business processes and automation of management systems



In accordance with the Development Plan for the Production Assets Management System of IDGC of Northern Caucasus PJSC for 2016-2018, approved by the Protocol of the Meeting of the Board of Directors of IDGC of Northern Caucasus PJSC dated April 28, 2016 No. 239, held on April 26, 2016, the following actions of the priority tasks were performed in 2016:

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

- implementation of functionality of the Automated Control System for Production Assets Technical Certification (Order of IDGC of Northern Caucasus PJSC dated December 12, 2016 No. 837 "On Commissioning of Production Assets Technical Certification ACS Functionality").

Action name	Plan, mln RUB	Actual, mln RUB	% achievement
Development of the production assets management system, including performance of works to automate processes of production assets management with simultaneous integration of Production Assets Management Systems of IDGC of Northern Caucasus PJSC with subsystem of production assets management ASSO Rosseti for needs of IDGC of Northern Caucasus PJSC	9.17	9.10	99.2

Costs for implementation of these measures in the reporting period amounted to

9.1 mln RUB,
which is 99.2% of the planned amount. Reduction in the cost of work occurred during performance of trade and procurement procedures.

Application of new technologies and materials in the electric power industry



These measures are aimed at the implementation of the Strategy for Development of the Power Grid Complex of the Russian Federation, approved by the RF Government Decree No. 511-r of April 3, 2013, as well as the Decree of the Government of the Russian Federation of July 24, 2013 No. 1307-r "Development of the Composite Materials Industry" in part of increasing efficiency and reducing the unit cost of investments and compliance with the requirements of a unified technical policy at all stages of the life cycle of power facilities through development of new technical solutions with a wider application of new construction materials, creation of an industrial base and corresponding standard solutions, industry standards and organization standards.

For pilot application of composite poles, the following facilities of JSC Chechenenergo are defined:

- construction of 110 kV overhead line L-128 of Substation Oisungur – Substation Yaryksu;
- construction of HVL 35 kV L-48 SS "Oisungur" – SS "Sayasan";
- construction of 10 kV overhead transmission line F-7 at SS Achkhoi-Martan, village Achkhoi-Martan;
- construction of a 0.4 kV overhead line from Transformer Substation 7-6, village Achkhoi-Martan.

Proposals for construction of the above mentioned overhead lines were submitted for inclusion in the investment program of JSC Chechenenergo, but in connection with the scenario conditions prescribing the annual reduction of expenses of JSC Chechenenergo and the deficit of funding sources in the investment program of JSC Chechenenergo, funds for construction of L-128, L-48, F-7 and HVL 0,4 kV are not taken into account.

The construction costs of these overhead lines are stipulated by the Comprehensive Development Program of the Chechen Republic for 2015-2020 (CDP), but up to now the sources of financing for this program have not been determined.

Knowledge management system development



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

For information awareness of personnel of the profile services of the branches and managed Companies of IDGC of Northern Caucasus PJSC in the field of innovative developments of equipment, materials and technologies, it was arranged to conduct review and training technical workshops with the following companies:

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

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

Cooperation with scientific organizations and innovative companies



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

- Federal State Educational Establishment of Higher Professional Education «Kabardino-Balkarian State Agricultural University named after V.M. Kokov»;
- Federal State Educational Establishment of Higher Professional Education "Grozny State Oil Technical University named after Academician M.D. Millionshchikov";
- Federal State Educational Establishment of Higher Professional Education "Dagestan State Technical University";
- Federal State Educational Establishment of Higher Professional Education "Gorsky State Agrarian University";
- Federal State Educational Establishment of Higher Professional Education "North Caucasus State Humanitarian-Technological Academy";
- Federal State Educational Establishment of Higher Professional Education "North Caucasian Mining and Metallurgical Institute (State Technological University)".

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

- cooperation in educational, scientific and scientific-practical spheres;
- targeted training of specialists for the needs of the companies of the distribution grid complex;
- professional training, retraining and advanced training of employees of IDGC of Northern Caucasus PJSC;

- organization of a dialogue on the site of the university with the participation of representatives of the electric power industry organizations, public authorities, scientific institutions, public organizations and other stakeholders to develop joint positions on topical issues of functioning and development of the power grid complex in the field of power engineering development with companies of innovative profile.

When carrying out activities to interact with higher education institutions within the framework of innovation activities in the reporting period, the Company carried out the following work.

To ensure reliable and uninterrupted power supply to consumers of power during the thunderstorm period (April-October), employees of IDGC of Northern Caucasus PJSC identified a number of problems for the solution, on the basis of which together with NIU "MEI" technical tasks were prepared for research work on the following topics:

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

The specified topics are approved for implementation with a deadline in 2017-2018.

Performance indicators of the Company Innovative Development Program

Performance indicator	Unit of measurement	Year
Costs of research and development carried out by third-party organizations, by executors (universities, research organizations, innovative small and medium-sized businesses)	thousand RUB	-
where projects implemented within		-
process platforms	thousand RUB	-
of universities	thousand RUB	-
scientific organizations	thousand RUB	-
Costs for purchase of innovative products (technologies, solutions, goods, works, services identified by the approved Program of Innovative Development of the Company)	thousand RUB	9,100

Implementation of R&D Program of the Company

One of the main areas of the Innovative Development Program is implementation of research and development projects (R&D).

The goal of R&D is to solve technical, technological, management tasks by developing innovative ideas and solutions aimed at increasing the efficiency of distribution grid complex, as well as increasing intellectual property of the Company for further commercialization of innovative solutions and products.

When selecting and evaluating proposals for R&D projects, special attention is paid to projects aimed at creating new equipment and technologies in the main development target areas, with the aim of further improving the power grid complex. The final results of R&D projects are aimed at improving basic production activities of power grid companies.

The R&D projects approved for implementation are included in the Research and Development Plan of IDGC of Northern Caucasus PJSC.

List of ongoing R&D projects

In 2016, it was planned to carry out research and development work on the topic "Development and manufacture of an experimental industrial sample of an ice-melting installation with a pilot application at the Aleksandrovskaaya substation, Stavropolenergo" (cost of 24 million rubles).

The issue of determining the source of financing for the said R&D topic was considered by the Management Board of IDGC of Northern Caucasus PJSC, which noted that within the framework of the Company's investment program for the period from 2016 to 2021, it was not possible to determine the source of financing in connection with tariff deficiency and acute shortage of funds, and the decision was made to reconsider the possibility of financing that work during development of the investment program for the period from 2017 to 2022.

Within the framework of the medium-term program for the implementation of innovative development program for 2017-2019, the following R&D topics are planned for implementation:

- R&D "Development of a monitoring system for lightning and switching surges in the secondary circuit of substations and protective system for secondary overvoltage protection" (deadline: 2017-2018);
- R&D "Research and development of technical solutions to improve the reliability of the external insulation of overhead lines and outdoor switchgear substations in areas with different pollution conditions" (deadline: 2017);
- R&D "Development of a feasibility study for the pilot implementation of multi-shielded screen type arresters on 35 kV overhead lines" (deadline: 2017);
- R&D "Analysis of operating costs for substation equipment owned by the PJSC Rosseti in order to determine economic efficiency of transition to digital technology plants" (deadline: 2019).

Scientific and Technical Council of the Company

The Scientific and Technical Council of IDGC of Northern Caucasus PJSC was not created, work in the field of innovative, scientific and technical and technological development, operational activities, reconstruction and upgrade of production assets, increase of reliability and efficiency of the power grid complex is carried out within the working group on the development and implementation of the Program Innovative Development of IDGC of Northern Caucasus PJSC. The Working Group is a permanent collective expert-advisory and consulting body in the sphere of formation and practical implementation of the Company's technical and innovation policies.

The main objectives of the Working Group are:



scientific and methodical, information-analytical and expert maintenance of the Company's activities in the field of innovation and technological development;



generation of proposals for implementation of advanced technical and technological solutions in the operation, upgrade, reconstruction and new construction of power grid facilities;



increased efficiency of research and development, implementation of innovation and investment projects

The main task of the Working Group is to determine the priority and promising areas of the Company's activities that contribute to increasing efficiency and accelerating scientific and technological progress in the energy sector.

Composition of the Working Group on Development and Implementation of IDGC of Northern Caucasus PJSC Innovative Development Program

Full Name	Position
Misirov B.Kh.	First Deputy General Director- Chief Engineer, Director of the Working Group
Goncharov V.A.	Deputy Chief Engineer on Operation, Deputy Director of Working Group
Shuvalov V.V.	Deputy General Director for Investment Activities
Makushin V.V.	Deputy Chief Engineer for Operational Technological Management
Desyuk A.V.	Director of the Technological Development and Innovation Department
Temirbulatov A.P.	Head of the IT Department
Kharebov O.A.	Director of Operations and Repair Department
Scherbina S.N.	Head of the Capital Projects Department
Vaschenko M.V.	Director of Technical Policy Department, Secretary of Working Group


In 2016, in accordance with the work plan, the Scientific and Technical Council (STC) of IDGC of Northern Caucasus PJSC held 4 meetings of the Working Group.


Topics of the Working Group meeting:


- development of a monitoring system for lightning and switching surges in the secondary circuit of substations and protective system for secondary overvoltage protection;
- development of technical solutions to improve the reliability of the external insulation of overhead lines and outdoor switchgear substations;
- development of a feasibility study for the pilot implementation of multi-shielded screen type arresters on 35 kV overhead lines;
- review of the possibility of pilot operation of RMK-35 arresters based on Sevkavkazenergo branch.

IT 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 power grid complex as a whole and IDGC of Northern Caucasus PJSC in particular, cannot be organized without such elements as:

 automated business management systems, allowing to provide efficiency and business continuity of the company.

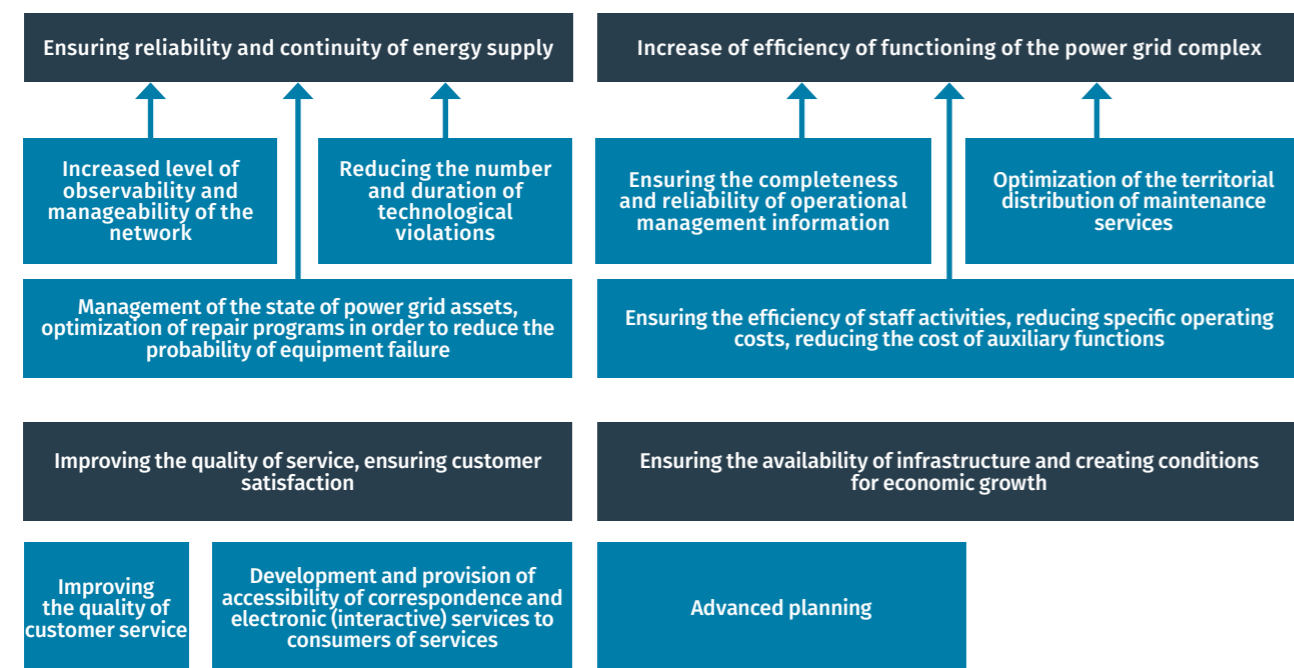
 communication systems and IT infrastructure to ensure efficiency of the totality of these automation tools, as well as smooth communication for all employees of the company.

 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;

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 power grid complex.

Activities in the field of IT



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 ITT Strategy). This Strategy defines

the objectives of development of information technologies of the company, strategic initiatives and activities to achieve them, approved by the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes of July 26, 2012 No. 108) and identifies the following principles of IT building.

IT building principles

IT areas	Description of development principle
1. IT-solutions	<ul style="list-style-type: none"> 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 Reevaluation of the value and the new positioning of the IT management process as a service
2. IT organization	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Ensuring a transparent mechanism for the provision of IT services and control of the quality Ensuring continuous improvement and efficiency
5. IT infrastructure	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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

Under the Plan of Activities of IDGC of Northern Caucasus PJSC for 2016, for implementation of the IT, Automation and Telecommunications Strategy of IDGC of Northern Caucasus PJSC for the period till 2016, some projects were implemented in the Company in the reporting period, including:

- Ensured implementation of an automated document management system providing a through workflow between Rosseti PJSC and IDGC of Northern Caucasus PJSC, and between subsidiaries and managed Companies of IDGC of Northern Caucasus PJSC. 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 PJSC, Rosseti PJSC, subsidiaries and managed Companies 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 PJSC, works were performed to finalize the program complex “Emergency” for the organization of the automated accounting of acts of the investigation of fires at the facilities of power grid complex, and integration with production assets management system was carried out.
- As part of the integrated power metering system implementation in the Northern Caucasus, maintenance of the 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 fibreoptical channel of corporate data network for exchange with 3 branches of the Company, and a single telephone network was arranged. Transition to unified IP-numbering plan was implemented to reduce probability of collisions and to increase speed of errors elimination in data network operation.
- The pilot operation was launched for an automated system to control technological connection of consumers to power grids of IDGC of Northern Caucasus PJSC, which allows to automate the business process of technological connection management.
- The additional modules of the automated management system to control certification of electric network equipment within the automation process of formation of long-term and annual plans for maintenance and repairs, technical inspection and diagnostics of electric equipment are developed and put into operation.

Development of automated process control systems (APCS)

Modernization of automated process management in IDGC of Northern Caucasus PJSC will be held in the scope of modernization of the information collection and transmission subsystem (ICTS). As the target program in 2011 the Program of Modernization was developed for “Information collection and transmission systems” (ICTS), which, in accordance with an agreement on technological cooperation with branches of SO of UES, has been agreed by branch of JSC SO of UES ODU of the South and the North Caucasian RDU.

Annual update of ICTS modernization programs in branches and managed Companies is carried out in accordance with adjustment of the volume of financing of the investment program of IDGC of Northern Caucasus PJSC and JSC Chechenenergo with mandatory approval of changes by ODU of the South and the North Caucasian RDU.

This program provides for the timing of the activities for each power grid facilities (stations, CUS) separately.

As part of the Agreement No. SDU-4/2010 on technological cooperation between JSC SO of UES and IDGC of Northern Caucasus PJSC, in order to ensure the reliability of the UES of Russia, the power grid company is working on the modernization of telemetric information collection and transmission system.

Modernization of ICTS is carried out in order to improve reliability and observability of power grid facilities of PJSC Rossetti, to replace obsolete equipment and build a state-of-the-art software and hardware complex system for collecting and transmitting information.

Modernization and extension of ICTS IDGC of Northern Caucasus PJSC shall improve reliability and observability of electric networks by organizing collection, processing and transmission to appropriate control centers and centers of process information network management.

In branches and managed Companies of IDGC of Northern Caucasus PJSC, works were performed to replace and install new state-of-the-art systems of remote control of power grid facilities (ISTOK 1.0, Telekanal-2M, Dekont, etc.), state-of-the-art dispatcher and technological communication digital channels were organized (fiber optic, PP, HF AKST etc.) in accordance with the ICTS modernization programs agreed by branches SO of UES, North Caucasian RDU and ODU of South. Dates and objects of ICTS modernization mentioned in the program are updated annually, depending on scenario conditions and financial possibilities in formation and adjustment of the investment program of IDGC of Northern Caucasus PJSC.

Over the past year works were performed for construction and commissioning of remote control engineering of substations, establishment of digital data and communication links, including fiber optic links:

- **In 2016, work was done on the following sites:**
 - branch of IDGC of Northern Caucasus PJSC – Stavropolenergo:
- **110 kV “Promyshlennaya” (remote control engineering, communication channels) – 10,985,823.66 RUB, VAT included;**
 - branch of IDGC of Northern Caucasus PJSC – Kabbalkenergo:
- **110 kV “Nartkala” (links) – 24,995,983.94 RUB, VAT included;**
- **110 kV “Aushiger” (remote control engineering, communication channels) – 19,536,098.22 RUB, VAT included;**
 - branch of IDGC of Northern Caucasus PJSC – Karachaevo-Cherkessenergo:
- **110 kV “Karachaevsk” (remote control engineering, communication channels) – 11,630,759.34 RUB, VAT included.**

Reduced ITT costs

Integrated development of ITT in the framework of a unified Strategy has allowed the company to reduce operating costs for ITT in 2016.

The price effect of the initiative “Development of existing and introduction of new services” is calculated by the expert and amounted to 1.7 M RUB per year 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.

In 2016, 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 the Company 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 the Company 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 (DC) 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 ITT

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 PJSC, 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), 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 joint stock 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 PJSC, minutes dated December 23, 2015 No.220).

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

- Order of IDGC of Northern Caucasus PJSC "On organization of purchasing activity", order of IDGC of Northern Caucasus PJSC "On establishment of norms for procurement of certain types of products, works, services in IDGC of Northern Caucasus PJSC, instruction of IDGC of Northern Caucasus PJSC "On payment under agreements with subjects of MSP".

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

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 procurements, 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 Standard 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 organized by product sellers.

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

- open and closed;
- in electronic form or using hard copies;
- with or without re-auction;
- with preliminary qualification selection of procurement participants, or without such;
- with or without an option to submit alternative proposals;
- in one-, two- or multi-stage form;
- special procedures for procurement of complex goods;
- 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);
- 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:

- the initial (maximum) contract price does not exceed 10 M RUB. (with value added tax);
- 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:

- 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);
- 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);
- 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 2016 for needs of IDGC of Northern Caucasus PJSC, 466 purchases were implemented for the total amount of 4 212 927.36 K RUB, VAT excluded.

Also by types of purchases:

- **74 purchases by open RFQs** for sum of 112,232.87 K RUB, VAT excluded (15.88% of the total procurement amount, 2.66% of the total amount of purchases in terms of value);
- **14 purchases by results of OKP** for sum of 32,402.96 K RUB, VAT excluded (3.00% of the total procurement amount, 0.77% of the total amount of purchases in terms of value);
- **54 purchases by open single-stage tenders** for sum of 986,092.13 K RUB, VAT excluded (11.59% of the total procurement amount, 23.41% of the total amount of purchases in terms of value);
- **78 purchases by open RFPs** for sum of 1,202,758.90 K RUB, VAT excluded (16.74% of the total procurement amount, 28.55% of the total amount of purchases in terms of value);
- **27 purchases from a single source** for sum of 43,632.57 K RUB, VAT excluded (1.04% of the total procurement volume in terms of cost);
- **117 purchases from a single source by results of failed open procedures** for sum of 1,822,049.47 K RUB, VAT excluded (43.25% of the total procurement volume in terms of cost).

Also by types of activity:

- **Reconstruction and technical re-equipment of power grid facilities – 62 purchases** for sum of 1,008,328.51 K RUB, VAT excluded (13.30% of the total procurement amount, 23.93% of the total amount of purchases in terms of value);
- **Energy repair production – 181 purchases** for sum of 1,170,628.19 K RUB, VAT excluded (38.84% of the total procurement amount, 27.97% of the total amount of purchases in terms of value);
- **IT-procurement – 18 purchases** for sum of 47,581.65 K RUB, VAT excluded (3.86% of the total procurement amount, 1.13% of the total amount of purchases in terms of value);
- **Other procurement – 185 purchases** for sum of 1,986,389.02 K RUB, VAT excluded (39.70% of the total procurement amount, 48.19% of the total amount of purchases in terms of value).

Volume of open competitive procurement procedures was 337 purchases. The number of purchases using e-commerce made 337 purchases in the amount of 4,155,536.3 K RUB, VAT exclude (88.41% of total purchases, 95.00% 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 161.9 million, VAT excluded, or 3.70% of the declared value of the planned competitive procurement.

The volume of purchases from small and medium-sized enterprises amounted to 3,695.5 M RUB, VAT excluded (412 purchases), or 90.00% of the actual volume (98.41% 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 2017, together with JSC SME Corporation, training seminar will be organized on participation of SMEs in the procurement in accordance with the Federal Law of July 18, 2011 No. 223-FZ On procurement of goods, works and services of certain kinds of legal entities.

In accordance with the approved list in 2016 in the IDGC of Northern Caucasus PJSC, the share of purchases only in small and medium business enterprises accounted for 313,405.28 K RUB, VAT excluded (13% of total volume).

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. Besides, in order to improve control of payment discipline under agreements with small and medium business enterprises, it is planned to review the report on payment under agreements on a quarterly basis at meetings of the Board of Directors.

In 2016, in order to ensure the financial stability of IDGC of Northern Caucasus PJSC in the current economic environment, the effective use of funds and prevention of procurement of goods, works and services not related to the implementation of the priorities of IDGC of Northern Caucasus PJSC, as well as having superior characteristics, valuation of individual purchases of goods was established, which determines the requirements for certain types of goods, works and services procured by IDGC of Northern Caucasus PJSC.



5. Corporate governance

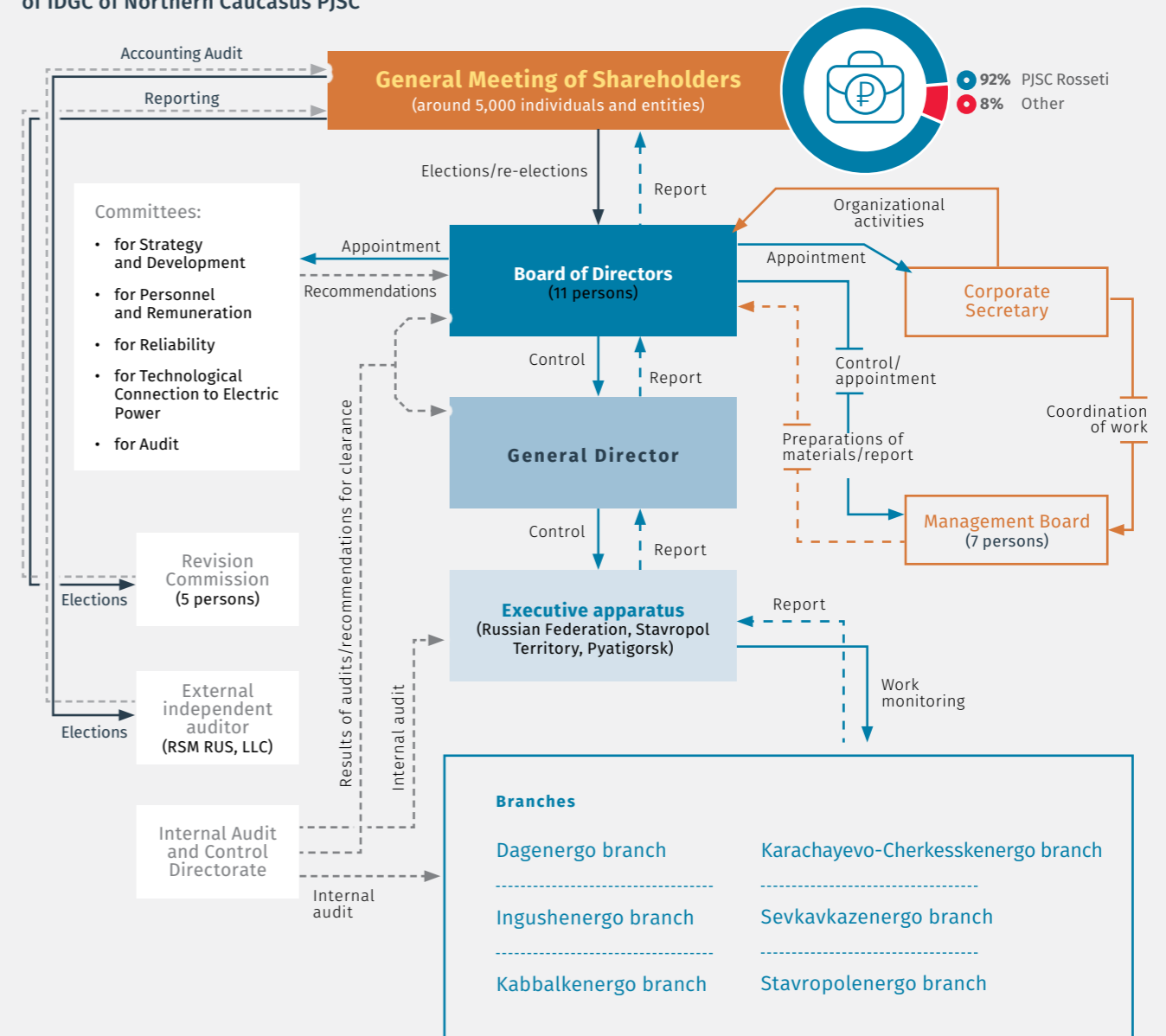


Corporate Governance means the aggregate of processes ensuring management and control of the company's activities and including relations between shareholders, the Board of Directors, and executive bodies of IDGC of Northern Caucasus PJSC in shareholders' interests.

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 PJSC, 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, approved on March 21, 2014 by the Board of Directors of the Bank of Russia and recommended for use by the letter of the Bank of Russia dated April 20, 2014 No.06-52/2463 (Corporate Governance Code, Code).

Main elements of corporate governance model of IDGC of Northern Caucasus PJSC



Documents

The basic principles of corporate governance as enshrined in the Articles of Association of IDGC of Northern Caucasus PJSC, 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 PJSC are presented on the company's website under "To Shareholders and Investors/ Articles of Association and Internal Documents".

Analysis of state

The Corporate Governance Code recommended for use of joint stock companies by the Bank of Russia covers IDGC of Northern Caucasus PJSC. In this regard we continue to solve task of adaptation and acceptable implementation of the Code recommendations into corporate governance of IDGC of Northern Caucasus PJSC. To this end, since 2016 we annually conduct analysis of corporate governance practice of IDGC of Northern Caucasus PJSC on 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").

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

Factors of growth - what was done

<ul style="list-style-type: none"> Internal Code of Corporate Governance, Regulations on Insider Information and Information Policy Independence of registrar Independence of audit process Activity and independence of the Board of Directors, efficient regulation of its activities Implementation of social projects Informative value of corporate site and cooperation with stakeholders 	<ul style="list-style-type: none"> Dividend policy was approved Risk management and internal control policies, HR potential development program were adopted Employees were trained for further preparation of IFRS reporting Shares were included into quotation lists B of MICEX and RTS Strategy and Development Committee was established 	<ul style="list-style-type: none"> Simultaneous participation of members of the Board of Directors in management bodies of more than 5 companies reduced to 1 director Intensity of committees' work at the Board of Directors increased by more than 70% Reporting on IFRS for 2011 was prepared and disclosed Social report was prepared 	<ul style="list-style-type: none"> Compositions of the Audit Committee and HR and Remuneration Committee at the Board of Directors were elected, comprising independent directors Code of Corporate Ethics was approved High level of transparency was achieved 	<ul style="list-style-type: none"> Key aspects of corporate governance were regulated, close cooperation was implemented between members of corporate governance Integrated report was started to introduce Some charitable actions were implemented
<p>2009 A.gq (6+) high level of governance quality / developed practice</p> <ul style="list-style-type: none"> Absence of tender procedure in selection of auditor Absence of Dividend policy regulations Insufficient experience of committees at the Board of Directors Absence of IFRS reporting Absence of documents on corporate social responsibility Absence of social report 	<p>2010 A+.gq (7) very high level of governance quality / developed practice</p> <ul style="list-style-type: none"> Simultaneous participation of members of the Board of Directors in management bodies of more than 5 other companies Absence of tender procedure in selection of auditor Insufficient experience of committees at the Board of Directors Absence of IFRS reporting Absence of documents on corporate social responsibility Absence of social report 	<p>2012 A+.gq (7) very high level of governance quality / developed practice</p> <ul style="list-style-type: none"> Absence of Code of Corporate Ethics Absence of English version of website Low share of in praesentia meetings of the Board of Directors 	<p>2013 A+.gq (8) very high level of governance quality / best practice</p> <ul style="list-style-type: none"> High concentration of rights of ownership to shares Availability of declared shares Insufficient number of in praesentia meetings of the Board of Directors in 2012 	<p>2014-2016 A++.gq Highest Management Quality Level</p> <ul style="list-style-type: none"> Business operating at a loss according to IFRS Prevailing number of in absentia meetings of the Board of Directors Absence of ISO 9001 Certificate Absence of ratings (credit, risk management, attractiveness of employer)
<p>Retaining factors - to be done</p>				

Source: Expert RA, IDGC of Northern Caucasus PJSC.

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 PJSC principles, which are enshrined in the Code. The conducted analysis showed that IDGC of Northern

Caucasus PJSC observes more than 50% of such principles, and taking into account the partial compliance – 90%. Therefore, in most cases, we use alternative mechanisms and corporate governance tools (see Appendix No. 7 to the Russian-language Annual Report)

Plans

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

- maintain existing compliance (presented in Appendix No. 7 to the Russian-language Annual Report);
- continue performance of annual independent comprehensive analysis of compliance of practices of IDGC of Northern Caucasus PJSC with the principles, which are enshrined in the Code, and adopt a plan for implementation of certain provisions of the Code, if so necessary.

Management and supervisory bodies

Management bodies of IDGC of Northern Caucasus PJSC:

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

General Meeting of Shareholders – supreme management body of IDGC of Northern Caucasus PJSC

In 2016, there was one General Meeting of Shareholders and one extraordinary General Meeting of Shareholders of IDGC of Northern Caucasus PJSC.

June 20 – annual General Meeting of Shareholders of IDGC of Northern Caucasus PJSC

Decisions (Minutes of June 22, 2016 No.16):

- approve the annual report, annual financial statements;
- not to pay dividends on ordinary shares as of the end of 2015;
- elect the members of the Board of Directors and the Revision Commission;
- approve the auditor;
- approve of restated Regulations on the Board of Directors of IDGC of Northern Caucasus PJSC.

August 23 – extraordinary General Meeting of Shareholders of IDGC of Northern Caucasus PJSC

Decisions (Minutes of August 25, 2016 No. 17):

- determine the number, par value, category (type) of authorized shares of IDGC of Northern Caucasus PJSC and the rights granted by these shares;
- amend and supplement Articles of Association of IDGC of Northern Caucasus PJSC (in terms of increasing the number of authorized shares);
- increase the authorized capital of IDGC of Northern Caucasus PJSC by issuing additional shares.

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 of IDGC of Northern Caucasus PJSC:

- introduction of amendments and additions to the Articles of Association;
- reorganization and liquidation of the company;
- increase and decrease of the authorized capital;
- determination of the number of members in the Company's Board of Directors, election of members to the Board of Directors, and early termination of their powers;
- election of the members to the Revision Commission and early termination of their powers;
- approval of auditor;
- making decision on the delegation of the authority of Sole Executive Body to the management company (manager) and early termination of its powers;

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 PJSC, 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 PJSC and the Code of Conduct of IDGC of Northern Caucasus PJSC.

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

Election of the Board of Directors of IDGC of Northern Caucasus PJSC members is carried out by transparent procedure (recorded in the Articles of Association 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 are posted on the website of IDGC of Northern Caucasus PJSC in the "To Shareholders and Investors/Corporate Governance/Materials to General

- 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 in the Federal Law "On Joint-Stock Companies";
- approval of in-house documents governing the activity of the company's bodies;
- making decision on paying remunerations and/or compensations to the members of the Board of Directors and the Revision Commission;
- 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 assigned to the responsibility of the General Meeting of Shareholders may not be delegated to the Board of Directors or executive bodies. The General Meeting of Shareholders does not have the right to take decisions on matters not reserved to them by the Federal Law On Joint Stock Companies.

Meeting of Shareholders" and "To Shareholders and Investors/ Corporate Governance / Board of Directors".

We believe that the structure of IDGC of Northern Caucasus PJSC 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 PJSC, there are no independent directors. However, we believe that all persons elected to the Board of Directors of IDGC of Northern Caucasus PJSC, have sufficient professionalism, experience and independence to form their own position, and the ability to make objective and conscientious decisions.

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

In 2016 there were

52 Board of Directors of IDGC of Northern Caucasus PJSC meetings

(7 of them – in the full-time/part-time form). In total they examined 321 questions

The Board of Directors considered the issues related to implementation of the strategy of IDGC of Northern Caucasus PJSC. Among the key decisions taken by the Board of Directors, are the following:

- internal documents were approved – the Regulation on payment of remuneration and compensation to members of the Committees of the Board of Directors as amended (the Minutes of 20 February 2016 No. 226, November 11, 2016 No. 266);
- authorities of the Management Board member were terminated early, members of the Management Board were elected (Minutes of February 20, 2016 No. 226, dated June 20, 2016 No. 250);
- draft long-term investment program of the Company was endorsed for the period from 2016 for purposes of conductance of a public consultation in accordance with Clause 7 of the Rules for approval of investment programs of electric power industry actors as approved by Resolution No. 977 of the Government of the Russian Federation dated December 1, 2009 "On investment programs of electric power industry actors" (Minutes of February 29, 2016 No. 227);
- the internal document was approved – Regulations on development and implementation of innovative development program of IDGC of Northern Caucasus PJSC (Minutes of March 4, 2016 No. 228);
- Business Plan summarized on the basis of RAS principles and business plan of IDGC of Northern Caucasus PJSC consolidated on IFRS principles were approved, as well as forecast performance indicators for 2017-2020 (Minutes of March 15, 2016 No. 230);
- internal document of the Company was approved: Regulation of formation, adjustment of the Investment Program and preparation of reports on its performance in the IDGC of Northern Caucasus PJSC, as amended (the Minutes of April 13, 2016 No. 234);
- internal document of the Company was approved: Regulations on investment activity of IDGC of Northern Caucasus PJSC, as amended (Minutes of April 13, 2016 No. 234);
- internal document of the Company was approved: Internal Audit Policy of IDGC of Northern Caucasus PJSC, as amended (Minutes of March 15, 2016 No. 230);
- internal document of the Company was approved: Internal Control Policy of IDGC of Northern Caucasus PJSC, as

amended (Minutes of March 15, 2016 No. 230);

- nominees were approved for separate positions of the executive apparatus of the Company, determined by the Board of Directors of the Company (Minutes of March 15, 2016 No. 230, March 25, 2016 No. 231, May 13, 2016 No. 241, November 29, 2016 No. 269, January 9, 2017 No. 275);
- internal document of the Company was approved: Risk Management Policy of IDGC of Northern Caucasus PJSC, as amended (Minutes of March 25, 2016 No. 231);
- draft long-term investment program of the Company was approved since 2016 (Minutes of March 31, 2016 No. 232);
- plan of measures was approved for enhancement of activities efficiency and improvement of the financial-and-economic standing of branches, subsidiaries and affiliates of the Company (Minutes of April 7, 2016 No. 233);
- action plan was approved for implementation of decisions of the Government Commission on the socioeconomic development of the North Caucasus Federal District by the Company (Minutes of April 14, 2016 No. 235);
- action plan was approved for the establishment of tariffs for electric power transmission services in the 2016-2017 at economically justified level and collection of tariff revenue for each of subsidiary, affiliate and branch of the Company (Minutes of April 7, 2016 No. 233);
- plan of cooperation with law enforcement bodies of the Company was approved (Protocol of April 7, 2016, No. 233);
- on approved with law enforcement bodies of the Company Engagement Plan (Protocol of 7 April 2016g.2016g. No. 233);
- on convention of Extraordinary General Meeting of Shareholders (Minutes of June 9, 2016 No. 247, July 18, 2016 No. 253) and repeated Extraordinary General Meeting of Shareholders (Minutes of August 18, 2016 No. 258);
- plan of development of the System for the Production Assets Management of IDGC of Northern Caucasus PJSC for 2016-2018 was approved (Minutes of April 28, 2016 No. 239);
- program was approved to improve operational efficiency and reduce costs of IDGC of Northern Caucasus PJSC (Minutes of June 9, 2016 No. 247);
- method for calculation and evaluation of achievement of Key Performance Indicators by General Director of IDGC of Northern Caucasus PJSC was approved (Minutes of May 4, 2016 No. 240);
- Regulations on the Procedure of formation and use of sponsorship and charity fund of IDGC of Northern Caucasus PJSC (Minutes of May 16, 2016 No. 242);
- corrected business plan of the Company was approved, including the investment program and information on key operational risks for 2016 and the forecast performance indicators for 2017-2020 (Minutes of May 25, 2016 No. 244);
- price was determined for listing additional ordinary shares of IDGC of Northern Caucasus PJSC (Minutes of December 22, 2016 No. 273);
- compositions of committees under the Board of Directors (Minutes of July 22, 2016 No. 254) were elected;

- internal document of the Company was approved: Procedure for registration of investment projects of the Group of Companies Rosseti, corresponding to selection criteria provided by the RF Government Decree of December 30, 2015 No. 1516 (Minutes of September 7, 2016 No. 259);
- changes were made to calculation method and evaluation of achievement of key performance indicators of the General Director of the Company (Minutes of September 23, 2016 No. 262, December 29, 2016 No. 274, January 9, 2017 No. 275);
- internal document of the Company was approved: Regulation on Corporate Secretary of IDGC of Northern Caucasus PJSC (Minutes of November 21, 2016 No. 268);
- internal document of the Company was approved: Order on organization of sale of non-core assets of IDGC of Northern Caucasus PJSC (Minutes of November 11, 2016 No. 266);
- the adjusted register of key operational risks of the Company was approved (Minutes of November 11, 2016 No. 266);
- the report of the Director General on management of the Company's key operational risks for 2015 was considered (Minutes of April 28, 2016 No. 239);
- report of the Directorate of Internal Audit and Control of the Company was approved on implementation of the work plan and the results of Internal Audit for 2015 (Minutes of April 28, 2016 No. 239);
- report on evaluation of effectiveness of the internal control system and the Company's risk management system by the end of 2015 was approved; instructions were issued to the Director General of the Company to develop and implement a set of measures to improve the system of internal control and risk management system, to provide increased maturity level of ICS and RMS as of the end of 2016 (Minutes of May 16, 2016 No. 242);
- consolidated work plan for work of Internal Audit and Control of IDGC of Northern Caucasus PJSC and managed Companies was taken into account for 2016 (Minutes of March 15, 2016 No. 230);
- Program of internal audit quality assurance and improvement of IDGC of Northern Caucasus PJSC was approved, and it was instructed to the Internal Audit and Control Directorate of the Company to ensure internal assessment in accordance with Clause 5.2 of the Guarantee Program (Minutes of December 29, 2016 No. 274).

Categories of issues discussed by Board of Directors in 2016, %



- 29% Development of corporate governance and interaction with shareholders
- 23% Economics and finance
- 13% Improved reliability of the grid, innovative, technical development, investments, capital construction, production safety
- 8% Realization of services and energy efficiency policy
- 7% Internal control, risk management, anti-corruption activities, economic safety
- 6% Approval of transactions
- 5% HR policy
- 4% Procurement management
- 3% Management of properties and power grid assets consolidation
- 2% Interaction with the community, authorities, charity

Details of the decisions taken by the Board of Directors in 2016 – see the website of the company “To Shareholders and Investors/Corporate Governance/Board of Directors”.

The competence of the Board of Directors – the most important issues of the company's activities in accordance with Russian law and art.15 of the Articles of Association of IDGC of Northern Caucasus PJSC:

- identification of priority areas of the joint stock company's activities and development strategy;
- convention of General Meetings of Shareholders, approval of the agenda of the General Meeting of Shareholders;
- approval of equity instruments;
- election and early termination of powers of the General Director;
- determination of the number of the Management Board, election of members of the Management Board, and early termination of their powers;
- recommendations on the amount of dividend on shares and dividend payment procedure;
- approval of internal documents, except for internal documents, approval of which is within the competence of the General Meeting of Shareholders;
- approval of business plan, including investment program;
- establishment and liquidation of the branches and representative offices;

- approval of major transactions in cases stipulated in the Federal Law “On Joint-Stock Companies”;
- approval of the registrar, terms and conditions of the agreement with registrar, as well as termination of the agreement;
- bringing the Director General and Management Board members to disciplinary responsibility and their remuneration;
- review of General Director reports on activity, on execution of the decisions of the General Meeting of Shareholders and the Board of Directors;
- determination of the company's attitude to issues in agendas of General Meetings of Shareholders (Participants) and sessions of Boards of Directors of subsidiaries and affiliated companies;
- definition of insurance policies;
- approval of nominees for specific positions within the executive apparatus;
- preliminary approval of the collective agreement, agreements concluded as part of regulation of social and employment relationships, approval of documents on private pension support for employees;
- creation of Board of Directors' committees, election of committee members and early termination of their powers;
- determination of procurement policy;
- approval of target values of key performance indicators and reports on their achievement;
- defining the policy aimed at improvement of reliability of distribution grid complex and other components of power grid industry including approval of strategic plans for improving reliability of power grid complex, power grid complex development and its safety;
- approval of the rules of material incentives for the General Director, rules of material incentives for the top managers; approval of the top managers list;
- application for listing of shares and (or) equity securities, convertible into its 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 assigned to the responsibility of the Board of Directors may not be delegated to the General Director or the Management Board of IDGC of Northern Caucasus PJSC.

Responsibility of the Board of Directors members is recorded in:

- art. 71 of the Federal Law “On Joint-Stock Companies”;
- Articles of Association of IDGC of Northern Caucasus PJSC;
- Regulations on the Board of Directors of IDGC of Northern Caucasus PJSC;
- Regulations on the Management Board of IDGC of Northern Caucasus PJSC;
- Regulations on Insider Information of IDGC of Northern Caucasus PJSC.

Quantity composition of the Board of Directors of IDGC of Northern Caucasus PJSC

11 people

In 2016 two compositions of the Board of Directors were acting.

Existing composition of the Board of Directors elected by the annual General Meeting of Shareholders on June 20, 2016

ARKHIPOV

SERGEY ALEXANDROVICH

Non-executive director

Chairman of the Board of Directors

First elected to the Board of Directors of IDGC of Northern Caucasus, PJSC on June 24, 2014.

Born in 1967. Higher education, 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".

- 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 Management Board.
- In August 2014 the authority of S.A. Arkhipov as Acting General Director of IDGC of Northern Caucasus OJSC was discontinued.
- Since 2015 and as of the end of 2016 he serves as a chief advisor to Rosseti PJSC.
- Also in 2014, 2015, 2016 he was Deputy Chairman of the Board of Directors of Chechenenergo JSC, in 2015 and 2016 – Chairman of the Board of Directors of IDGC of South PJSC, and in 2014, 2015, 2016 – Chairman of the Board of Directors of IDGC of Northern Caucasus PJSC.

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

RAKOV

ALEXEY VIKTOROVICH

Non-executive director

Deputy Chairman of the Board of Directors

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

Born in 1975. He graduated from Penza State Technical University specializing in

"Software of computer facilities and automated systems" (higher education), Penza Training Center, the qualification "accountant of industrial enterprises" (vocational education), Penza

State Technical University, specialty "Electric power systems and networks", Finance Academy under the Government of the Russian Federation, specialty "Finance and credit" (higher education).

- 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 2016 holds the position of Director of the Department of realization of grid services and interaction with the power market participants in Rosseti PJSC.
- Since July 2016 – Chairman of the Strategy and Development Committee of the Board of Directors of IDGC of Northern Caucasus PJSC.
- Also in 2014-2016 was the member of the management bodies and committees at the Boards of Directors of the following companies:
- from 2014 to 2015 – member of the Strategy and Development Committee of the Board of Directors of IDGC of Northern Caucasus PJSC, from 2014 to 2015, from 2015 to 2016 and from 2016 – Chairman of the Strategy and Development Committee of the Board of Directors of IDGC of Northern Caucasus PJSC,
- from 2015 to 2016, from 2016 – member of the Board of Directors of Kabbalkenergo JSC,
- from 2016 – member of the Board of Directors of MOESK PJSC.

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

BOKHUN

DMITRY LEONIDOVICH

Non-executive director

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

Born in 1982. Higher education, graduated from St. Petersburg State University (economist-mathematician) and the Academy of Public Administration under the President of the Russian Federation (lawyer).

- Since November 2010 to September 2015 held the office of project manager Stroyproekt LLC.
- Since October 2015 to October 2015 – Director of Projects of ProektTekhStroy LLC.
- Since October 2015 and as of the end 2016 – Director of the Property Management Department of PJSC Rosseti.
- Since 2016 is the member of the Board of Directors of JSC NIC UES and JSC Directorate of FOCL-HVL.

The share of Bokhun D.L. in the authorized capital of IDGC of Northern Caucasus PJSC – 0.0194%, the share of ordinary shares of IDGC of Northern Caucasus PJSC owned by Bokhun D.L. – 0.0194%. He does not participate in authorized capital of subsidiaries of IDGC of Northern Caucasus PJSC and does not own ordinary shares of subsidiaries of IDGC of Northern Caucasus PJSC.

GRINKEVICH

EGOR BORISOVICH

Non-executive director

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

Born in 1974. Higher education, graduated from the Omsk State University (mathematician).

- From 2008 to 2011 he headed the Department of Competitive Pricing of NP Market Council.
- From 2009 – member of the Supervisory Board of ANO UC Market Council.
- From 2011 to 2016 – Deputy Director of the Department of Power Engineering Development of the Ministry of Energy of Russia.
- In 2013, he was a member of the Board of Directors of TKG-5 OJSC, and in 2015 and 2016 – the Board of Directors of IDGC of Center and Volga PJSC.

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

DOROSHENKO

OLGA NIKOLAYEVNA

Non-executive director

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

Born in 1980. Higher education, 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 department of economics, 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 2016 – Deputy Director of the Territorial Monitoring Department – Head of the Department of interaction with federal, regional, territorial and municipal authorities, Deputy Director of Territorial Development Department of the Ministry of Caucasus of Russia.

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

ZAYTSEV YURY VIKTOROVICH

Executive director

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

Born in 1970. Higher education, he graduated from the Military University of the Defense Ministry of the Russian Federation and the St. Petersburg State Engineering and Economic University. Ph.D. (Economics)

- 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 OJSC.
- February 17, 2014 he was appointed as Acting First Deputy General Director of IDGC of Northern Caucasus OJSC.
- On May 13, 2014 – First Deputy General Director of IDGC of Northern Caucasus OJSC.
- From 28 August 2014 and as of the end of 2016 – the General Director, Chairman of the Management Board of IDGC of Northern Caucasus PJSC.
- In the period from 2014 to 2015 he was a member of the Board of Directors of Dagenergoset OJSC.

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

IVANOVA TATYANA ALEKSANDROVNA

Non-executive director

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

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

- From September 2008 to June 2013 – Head of Department of Tariff Policy Development and Tariffs Calculation Methodology, Tariff Planning Department of OJSC IDGC Holding (Rosseti OJSC).
- From July 2013 and as of the end of 2016 – Head of Tariff Methodology Department, Tariff Policy Department of PJSC Rosseti.
- Since July 2016 and as of the end of 2016 – member of the Audit Committee of the Board of Directors of IDGC of Northern Caucasus PJSC.
- Also in 2013, 2014, 2015 was the member of the Strategy and Development Committee of the Board of Directors of IDGC of Northern Caucasus PJSC.

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

OZHERELYEV ALEXEY ALEXANDROVICH

Non-executive director

First elected to the Board of Directors of IDGC of Northern Caucasus, PJSC on June 24, 2014.

Born in 1986. Higher education, he graduated from the Moscow State Institute of Economics, Statistics and Informatics, specialty "Finance and credit".

- 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 2016 – the Head of the Directorate of organization management bodies of Rosseti PJSC.
- Since 2016 – Corporate Secretary of PJSC FGC UES.
- Since July 2016 and as of the end of 2016 – Chairman of the Audit Committee of the Board of Directors of IDGC of Northern Caucasus PJSC.
- Also in 2014-2016 was the member of the management bodies and committees at the Boards of Directors of the following companies:
- from 2014 to 2015 – Member of the Board of Directors of R&D Center of South, JSC,
- from 2014 to 2015 – Member of the Board of Directors of Kurortenergo CJSC,
- from 2014 to 2015, from 2015 to 2016, from 2016 – member of the Board of Directors of Energoservis Kubani OJSC,
- from 2014 to 2015 – member of the Audit Committee of the Board of Directors of IDGC of Northern Caucasus PJSC, from 2015 to 2016 – Chairman of the Audit Committee of the Board of Directors, member of the Strategy and Development Committee at the Board of Directors of IDGC of Northern Caucasus PJSC,
- from 2016 – member of the Committee for Strategy and Development under the Board of Directors of IDGC of Center PJSC,
- from 2016 – member of the Committee for Strategy and Development under the Board of Directors of IDGC of Center and Volga PJSC.

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

SASIN NIKOLAY IVANOVICH

Independent member of the Board of Directors

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

Born in 1969. Higher education, graduated from the Volsk Higher Military Base School of Red Star Order of Lenin Komsomol (engineer-economist).

- In the period from November 2007 to November 2012 – Chairman of SPKK Rassvet.
- Since 2010 and as of the end of 2016 – Chairman of the Stavropol regional office of the All-Russian public organization of small and medium-sized businesses OPORA RUSSIA.
- From April 2011 to February 2013 – General Director of South-Logistic LLC.
- From February 2013 to October 2013 – Commissioner at the Governor of the Stavropol Territory to protect the rights of entrepreneurs in the Government of the Stavropol Territory.
- From October 2013 to January 2014 – Executive Director of TAIS LLC.
- From January 2014 to November 2014 – Commissioner at the Governor of the Stavropol Territory to protect the rights of entrepreneurs in the Government of the Stavropol Territory.
- Since November 2014 and as of the end of 2016 – Executive Director of LLC TAIS.
- Since August 2015 and as of the end of 2016 – Director of Investments, SPK Goryachevodsky. Since December 2015 and as of the end of 2016 – a member of the Management Board, Coordinator in the North Caucasus Federal District of the All-Russian Public Organization for Small and Medium-Sized Enterprises OPORA RUSSIA.
- Since July 2016 and as of the end of 2016 – member of the Strategy and Development Committee of the Board of Directors of IDGC of Northern Caucasus PJSC.

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

TOSCHENKO VLADIMIR VALERYEVICH

Non-executive director

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

Born in 1987. Higher education, graduated from Moscow State University named after MV Lomonosov, "State regulation of the economy"; Candidate of Economic Sciences.

- In the period from 2010 to 2012 he was Assistant to the Chairman of the Management Board of JSC FGC UES.
- In 2012 – Advisor to Chairman of the Management Board of FGC UES, JSC.
- From 2012 to 2013 – Head of the Expert Department of JSC FGC UES.
- Since 2013 and as of the end 2016 – Director of the Affairs Management Department of PJSC Rosseti.

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

CHEVKIN DMITRY ALEXANDROVICH

Non-executive director

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

Born in 1976. Higher education, graduated from the Finance Academy under the Government of the Russian Federation (economist).

- From December 2009 to May 2013 he held the position of Head of the Directorate of Analytics and Performance Management, Head of Personnel Management and Organizational Design Department, Director of Personnel Management Department of JSC FGC UES.
- Since May 2013 and as of the end of 2016 – Director of the Department of Personnel Policy and Organizational Development of PJSC Rosseti.
- Since July 2016 – member of the Audit Committee of the Board of Directors, member of the Personnel and Remuneration Committee of the Board of Directors of IDGC of Northern Caucasus PJSC.
- He was also a member of the Personnel and Remuneration Committee of the Board of Directors of IDGC of Northern Caucasus PJSC in the periods from 2012 to 2013, from 2013 to 2014.

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

Composition of the Board of Directors elected by the annual General Meeting of Shareholders on June 11, 2015 (valid until June 20, 2016)

ARKHIPOV SERGEY ALEXANDROVICH

Non-executive director

Chairman of the Board of Directors

See the existing composition of Board of Directors.

MANGAROV YURY NIKOLAYEVICH

Deputy Chairman of the Board of Directors

Non-executive director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on June 19, 2013.

Born in 1956. Higher education, he graduated from the Plekhanov Moscow Institute of National Economy on specialty "Economic Cybernetics".

- 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 OJSC.
- Since January 2015 – Chief adviser of Rosseti PJSC.

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

AYRAPETYAN ARMAN MUSHEGOVICH

Non-executive director

First elected to the Board of Directors of IDGC of Northern Caucasus PJSC on May 30, 2008.

Born in 1978. Higher education, he graduated from the Rostov State Economic Academy and the Rostov State University.

- 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 OJSC (from April 2013 – Rosseti OJSC).
- 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 PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

DOROSHENKO OLGA NIKOLAYEVNA

Non-executive director

See the existing composition of Board of Directors.

ZAVIZENOV KONSTANTIN VLADIMIROVICH

Non-executive director

First elected to the Board of Directors of IDGC of Northern Caucasus, PJSC on June 24, 2014.

Born in 1974. Higher education, he graduated from the Perm State Technical University (engineer – chemical engineer), as well as regional intersectoral retraining center at Perm State Technical University (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 held the position of Deputy Director of the Department of Electricity Development Ministry of Russia.

ZAYTSEV YURY VIKTOROVICH

Executive director

See the existing composition of Board of Directors.

OZHERELYEV ALEXEY ALEXANDROVICH

Non-executive director

See the existing composition of Board of Directors.

PAVLOV ALEXEY IGOREVICH

Non-executive director

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

Born in 1982. Higher education, 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 PJSC and its subsidiaries and does not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

PRONIN NIKOLAY NIKOLAYEVICH

Non-executive director

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

- Born in 1952. Higher education, he graduated from N.E. Bauman MVTU (mechanical engineer).
- In 2008-2014 worked at the posts of First Deputy Chief, Head of Economic Security Department of JSC FGC UES.
- From August 2014 to November, he headed the Security Department of PJSC Rosseti.
- In December 2015 – Director of the Department of Economic Security of PJSC Rosseti.

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

RAKOV ALEXEY VIKTOROVICH

Non-executive director

See the existing composition of Board of Directors.

SHAYDULLIN FARID GABDULFATOVICH

Non-executive director

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

Born in 1955. Higher education, he graduated from the Ural Electromechanical Institute of Railway Transport, specialty "Electrification of Railway Transport".

- Since July 2013 worked as the head of directorate of Assets Status Analysis of the Production Assets Management Department of Rosseti PJSC.

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

Involvement of directors in work of Board of Directors and relevant committees in 2016

	Corporate year	Board of Directors	Audit Committee	Personnel and Remuneration Committee	Strategy and Development Committee
Held meetings, total		52	14	8	15
including meetings in presentia (in presentia/absentia)		7	4	0	2
Ayrapetyan Arman Mushegovich	2015-2016	1/27			
including in person*		0/3			
Arkhipov Sergey Alexandrovich	2015-2016	51/52			
including in person	2016-2017	7/7			
Bokhun Dmitry Leonidovich	2016-2017	23/25			
including in person		3/4			
Grinkevich Egor Borisovich	2016-2017	10/25			
including in person		0			
Doroshenko Olga Nikolayevna	2015-2016	29/52			
including in person	2016-2017	2/7			
Zavizenov Konstantin Vladimirovich	2015-2016	2/27			
including in person		0/3			
Zaytsev Yury Viktorovich	2015-2016	51/52			
including in person	2016-2017	6/7			
Ivanova, Tatyana Aleksandrovna	2016-2017	24/25	7/7		
including in person		4/4	2/2		
Mangarov Yury Nikolayevich	2015-2016	27/27		8/8	
including in person		2/3		-	
Ozherelyev Alexey Alexandrovich	2015-2016	52/52	14/14		6/8
including in person	2016-2017	5/7	4/4		0/0
Pavlov Alexey Igorevich	2015-2016	19/27	7/7		
including in person		2/3	1/2		
Pronin Nikolay Nikolayevich	2015-2016	27/27	7/7		
including in person		3/3	2/2		
Rakov Alexey Viktorovich	2015-2016	52/52			15/15
including in person	2016-2017	7/7			2/2
Sasin Nikolay Ivanovich	2016-2017	22/25			12/15
including in person		3/4			0/2
Toschenko Vladimir Valeryevich	2016-2017	24/25			
including in person		4/4			
Chevkin Dmitry Alexandrovich	2016-2017	21/25	4/7	3/3	
including in person		2/4	1/2	-	
Shaydullin Farid Gabdulfatovich	2015-2016	23/27			
including in person		3/3			

*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.

Remuneration of Board of Directors members

Remuneration due to members of the Board of Directors fits with the market conditions and is established so that to ensure attraction of highly qualified specialists to participate in the company's work and to motivate such specialists for honest and efficient activities.

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 PJSC (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 PJSC 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.

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 Specialized Committee under Board of Directors
- 10% of S(1) – for membership in Specialized Committee under Board of Directors
- S(1) – remuneration for participation in meetings of the 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 capitalization for the period of operation of the Board of Directors.

Amount of paid remuneration and costs compensated to members of the Board of Directors of IDGC of Northern Caucasus PJSC, during 2016, K RUB.

Indicator name	2016
Remuneration for participation in the management body work	4,670.89
Salaries	
Bonuses	
Fees	
Benefits	
Other types of remuneration	
Total	
Reimbursement of expenses	234.35

Committees of the Board of Directors

Committees of the Board of Directors of IDGC of Northern Caucasus PJSC established to increase the efficiency of the Company's Board of Directors activities, and to develop recommendations for the Board of Directors and the executive bodies of IDGC of Northern Caucasus PJSC

In IDGC of Northern Caucasus PJSC the following committees are established and operate:

1. Audit Committee;
2. Personnel and Remuneration Committee;
3. Reliability Committee;
4. Strategy and Development Committee;
5. Committee for Technical Connection to Electric Grids.

In its activities the committees are guided by:

- Russian legislation;
- Articles of Association of IDGC of Northern Caucasus PJSC;
- Regulations on the committees and internal documents of IDGC of Northern Caucasus PJSC;
- plans for the committees.

Regulations on committees

Committee name	Information on approval by the Board of Directors
Reliability Committee	Minutes dated August 17, 2015 No. 205
Audit Committee	Minutes dated April 2, 2015 No. 190 On March 14, 2016 the new revision was approved, Minutes of March 15, 2016 No. 230, November 9, 2016 changes made, Minutes of November 11, 2016 No. 266
Personnel and Remuneration Committee	Minutes dated August 4, 2014 No. 172
Strategy and Development Committee	Minutes dated December 23, 2009 No. 50, On March 24, 2016 changes and additions were made, Minutes of March 25, 2016 No. 231
Committee for Technical Connection to Electric Grids	Minutes of January 30, 2009 No. 36

The texts of the Regulations on committees are available on the website of IDGC of Northern Caucasus PJSC in the section "To Shareholders and Investors/Articles of Association and Internal Documents/ Corporate Governance Procedures' Documents".

Committee meetings are available on the website of IDGC of Northern Caucasus PJSC in the section "To Shareholders and Investors/ Corporate Governance/Board Committees/Reliability Committee".

Audit Committee

Key tasks of the Committee:

- consideration of accounting (financial) statements of the Company and supervision over the process of their preparation;
- control over the functional reliability and efficiency of internal control system, the risk management system and the corporate governance practices;
- control over conductance of external audit and selection of the auditor;
- ensuring independence and objectivity of the Internal Audit function discharge;
- supervision over the functional efficiency of the system for non-admittance of fraudulent actions of the Company's workers and third parties.

Compositions of the Audit Committee in 2016

Elected by decision of the Board of Directors dated July 22, 2015 (Minutes dated July 27, 2015 No.203)	Elected by decision of the Board of Directors dated July 20, 2016 (Minutes dated July 22, 2016 No.254)
1. Ozherelyev Alexei Alexandrovich , Head of Directorate of the organization of activity of management of Rosseti PJSC (Chairman)	1. Ozherelyev Alexei Alexandrovich , Head of Directorate of the organization of activity of management of Rosseti PJSC (Chairman)
2. Pavlov Alexey Igorevich , Head of the Corporate Finance Department of Finance Department of Rosseti PJSC	2. Chevkin Dmitriy Alexandrovich , Director of the Department for HR Policy and Organizational Development of Rosseti PJSC
3. Pronin Nikolai Nikolayevich , Director of the Security Department of Rosseti PJSC	3. Ivanova Tatiana Aleksandrovna , Head of Tariff Methodology Department, Tariff Policy Department of PJSC Rosseti

The positions are specified as of the date on which the committee composition was approved

Report on committee activity in 2016

14 meetings, 4 of which were held in full-time/part-time form. The following issues were considered in 2016 at the meetings of the Audit Committee of the Board of Directors:

- prior approval of external auditor of the IDGC of Northern Caucasus PJSC for audit of accounting (financial) statements for 2016, prepared in accordance with Russian Accounting Standards and audit of the consolidated financial statements for 2016, prepared in accordance with IFRS.

Individual decisions and issued recommendations:

Minutes dated May 4, 2016 No. 55

- it is recommended to the Board of Directors to propose to the Annual General Meeting of Shareholders to approve the auditor of the IDGC of Northern Caucasus PJSC, RSM RUS LLC, recognized as the winner at an open one-stage tender without pre-qualification of bidders.
- effectiveness of the external audit was evaluated, including assessment of external auditor reports.

Individual decisions and issued recommendations:

Minutes dated May 4, 2016 No. 55

- the auditor's report and the procedures carried out by RSM RUS LLC in process of audit of accounting (financial) statements of IDGC of Northern Caucasus PJSC for 2015, were recognized as in compliance with the terms of the Agreement and the requirements of the Russian Federation legislation;
- it is recommended to the Board of Directors of IDGC of Northern Caucasus PJSC, to include the conclusion of the Audit Committee on the level of efficiency and quality of the external audit process into the list of materials provided to persons entitled to participate in the annual General Meeting of Shareholders of the Company.
- periodically written information was reviewed, provided by the external auditor, on the main problems of the accounting (financial) statements of IDGC of Northern Caucasus PJSC.

Individual decisions and issued recommendations:

Minutes dated April 27, 2015 No. 54

- it is recommended that the General Director makes a list of fixed assets, in respect to which it is necessary to carry out measures for state registration of rights, to develop a schedule for implementation of measures for the state registration of rights to individual assets.

Minutes dated December 26, 2016 No. 65

- it is recommended to the General Director to inform the Committee and the Expert Committee on activities carried out by IDGC of Northern Caucasus PJSC in order to minimize the risks identified by the external auditor in the Written Information, availability of reasoning for electricity loss volumes, taken into account for tax purposes, availability of an order issued on the basis of the audit.
- information was discussed on non-standard transactions and events of IDGC of Northern Caucasus PJSC, as well as the formation of a reserve for bad debts and estimated liabilities.

Individual decisions and issued recommendations:

Minutes dated April 27, 2015 No. 54

- take into account information of the management on non-standard transactions and events, as well as on formation of a reserve for bad debts and estimated liabilities, and management information on compliance with legal requirements and internal regulations regarding corporate procedures aimed at the approval of the relevant transactions.
- analysis of essential aspects of the accounting policy and amendments thereto was completed.

Individual decisions and issued recommendations:

Minutes dated December 26, 2016 No. 65

- take into account the information of IDGC of Northern Caucasus PJSC on significant aspects of the Accounting Policy 2016 and absence of plans for change in Accounting Policy in 2017.
- accounting (financial) statements of IDGC of Northern Caucasus PJSC were periodically reviewed, prepared in accordance with RAS, as well as consolidated financial statements prepared in accordance with the IFRS.

Individual decisions and issued recommendations:

Minutes dated April 27, 2015 No. 54

- it is recommended to the Board of Directors to submit for approval by the annual General Meeting of Shareholders the annual accounting (financial) statements of IDGC of Northern Caucasus PJSC for 2015, prepared in accordance with Russian Accounting Standards.

Minutes dated May 27, 2016 No. 57

- take into account the accounting (financial) statements of IDGC of Northern Caucasus PJSC for Q1 of 2016 prepared in accordance with RAS.
- it was instructed to the Secretary of the Committee to provide information to the Board of Directors about the main trends in the indicators of the accounting (financial) statements of IDGC of Northern Caucasus PJSC for the Q1 of 2016 prepared in accordance with RAS.

Minutes dated September 5, 2016 No. 60

- take into account the accounting (financial) statements of IDGC of Northern Caucasus PJSC for 6 months of 2016 prepared in accordance with RAS;
- it was instructed to the Secretary of the Committee to send information to the Board of Directors about the main trends in the indicators of the accounting (financial) statements of IDGC of Northern Caucasus PJSC for 6 months of 2016, prepared in accordance with RAS;
- it is recommended that the Director-General submits within the composition of materials on the issue "On review of interim accounting (financial) statements of IDGC of Northern Caucasus PJSC" for 9 months of 2016, prepared in accordance with Russian Accounting Standards the following information:
 - on proportion of expenses (with detailed decoding) in administrative expenses of IDGC of Northern Caucasus PJSC to exercise the functions of the sole executive body of the managed Companies;
 - on reasons for resulting loss on the lease of property in the territory of the Republic of Dagestan;
 - on measures taken by the IDGC of Northern Caucasus PJSC to collect overdue receivables for 6 months of 2016.

Minutes dated November 2016, No. 63

- take into account the interim accounting (financial) statements of IDGC of Northern Caucasus PJSC for 9 months of 2016 prepared in accordance with RAS;
- it was instructed to the Secretary of the Committee to provide for sending information to the Board of Directors about the main trends in the indicators of the accounting (financial) statements of IDGC of Northern Caucasus PJSC for 9 months of 2016, prepared in accordance with RAS.
- new versions of the Internal Control Policy of IDGC of Northern Caucasus PJSC of IDGC of Northern Caucasus PJSC and the Internal Audit Policy of IDGC of Northern Caucasus PJSC were considered before approval by Board of Directors.**

Individual decisions and issued recommendations:**Minutes dated February 19, 2016 No. 52**

- it is recommended to the Board of Directors to approve the Internal Audit Policy and Internal Control Policy of IDGC of Northern Caucasus PJSC in the new edition.
- internal audit plan and budget were approved for 2016. (Minutes dated August 22, 2016 No.59, December 17, 2016 No. 64).**
- periodically reports were considered on execution of work plan and internal audit activities results.**

Individual decisions and issued recommendations:**Minutes dated March 21, 2016 No. 53**

- it was instructed to the Director of Internal Audit and Control Directorate to finalize a report on implementation of the work plan and results of the internal audit for 2015 regarding disclosure of information on results of official investigations and expert and analytical activities, where internal audit participated, and then submit a report for approval by the Board of Directors;
- it was recommended to the Board of Directors to approve the report of the Directorate of Internal Audit and Control on implementation of the work plan and the results of Internal Audit activities for 2015.

Minutes dated May 27, 2016 No. 57

- take into account the report of the Directorate of Internal Audit and Control on implementation of the work plan and the results of Internal Audit activities for Q1 2016;
- it was instructed to the Director of the Directorate of Internal Audit and Control to bring to the nearest formal meeting of the Committee the issue «On consideration of audit results of the accounts receivable management system, audit on implementation of information technology policy».

Minutes dated September 5, 2016 No. 60

- the report of the Internal Audit and Control Directorate on implementation of the work plan and the results of the internal audit activity for 6 months of 2016 was approved;
- it was recommended to the General Director to ensure adoption of administrative and motivational measures for persons, fault of which allowed critical and significant violations/shortcomings identified by the internal auditor, as well as for persons, who do not implement timely corrective actions provided by organizational and administrative documents.

Minutes dated December 26, 2016 No. 65

- the report of the Internal Audit and Control Directorate on implementation of the work plan was approved, and take into account results of the internal audit activity for 9 months of 2016.
- information of the management on implementation of the Internal Control Policy of IDGC of Northern Caucasus PJSC was considered.**

Individual decisions and issued recommendations:**Minutes dated September 5, 2016 No. 60**

- take into account information of the management on implementation of the Internal Control Policy;
- it was recommended that the General Director to consolidate control functions carried out within the framework of the internal control system, regulations on structural divisions and branches, as well as in the job descriptions of employees.
- reports of management of IDGC of Northern Caucasus PJSC were heard periodically on implementation of corrective actions to address deficiencies revealed by the Revision Commission, the internal auditor, the external control (supervision) bodies, on the implementation of measures taken on the facts of notification about potential cases of fraudulent actions of employees as well as the results of the completed investigations.**

Individual decisions and issued recommendations:**Minutes dated March 21, 2016 No. 53**

- it was recommended to the Director General to abandon the practice of canceling corrective actions/comments on results of internal audit and other control measures;
- it was recommended to the management to present at the next formal meeting of the Audit Committee the information on response actions and compensation of obtained direct and indirect losses.

Minutes dated September 5, 2016 No. 60

- take into account information of the management on implementation of corrective actions to address deficiencies revealed by the Revision Commission, the internal auditor, the external control (supervision) bodies, on the implementation of measures taken on the facts of notification about potential cases of fraudulent actions of employees as well as the results of the completed investigations for H1 of 2016;
- recommend to the management to ensure compliance and fulfillment of the following internal documents: Rules of interaction of internal audit unit with structural divisions and branches of IDGC of Northern Caucasus PJSC and the Guidelines for monitoring execution of plans of corrective measures to eliminate violations and shortcomings identified by the results of internal audits.
- report was considered on efficiency of the internal control system and the risk management system of IDGC of Northern Caucasus PJSC.**

Individual decisions and issued recommendations:**Minutes dated April 27, 2015 No. 54**

- the internal audit to finalize the internal audit report on effectiveness of the internal control system, risk management system for 2015 based on the comments made by the Committee during its consideration of the materials on the agenda;
- recommend to the Board of Directors to approve the internal audit report on the effectiveness of internal control systems, risk management systems for 2015.

Personnel and Remuneration Committee**Key tasks of the Committee:**

- elaboration of recommendations on the amount of awards payable to members of the Board of Directors of the Company;
- elaboration of principles and criteria for determination of the amount of awards payable to members of the Board of Directors, members of the collegial executive body and the person discharging the functions of Sole Executive Body of the Company including a management organization or executive manager;
- elaboration of proposals on determination of essential conditions of contracts concluded with members of the Board of Directors, members of the collegial executive body and the

- Internal Audit Guarantee and Quality Improvement Program of IDGC of Northern Caucasus PJSC was preliminarily considered.**

Individual decisions and issued recommendations:**Minutes dated November 9, 2016, No. 62**

- Internal Audit Guarantee and Quality Improvement Program of IDGC of Northern Caucasus PJSC was approved.
- it was recommended to the Board of Directors to approve the Internal Audit Guarantee and Quality Improvement Program of IDGC of Northern Caucasus PJSC.

person discharging the functions of Sole Executive Body of the Company;

- determination of the criteria for selection of candidates for membership in the Board of Directors, the collegial executive body and for the position of Sole Executive Body of the Company as well as preliminary evaluation of such candidates;
- regular evaluation of the activities of the person discharging the functions of Sole Executive Body (management organization, executive manager) and members of the collegial executive body of the Company, and also preparation of proposals on their re-appointment possibility for the Board of Directors.

Compositions of Personnel and Remuneration Committee in 2016

Elected by decision of the Board of Directors dated July 22, 2015 (Minutes dated July 27, 2015 No.203)	Elected by decision of the Board of Directors dated July 20, 2016 (Minutes dated July 22, 2016 No.254)
1. Mangarov Yuriy Nikolayevich , Chief Advisor of Rosseti PJSC (Chairman)	1. Mangarov Yury Nikolayevich , Chief Advisor of Rosseti PJSC (Chairman)
2. Petrieva Yulia Vladimirovna , Chief Expert, Tariff Department, Economic Directorate, OJSC OGC-2	2. Chevkin Dmitriy Alexandrovich , Director of the Department for HR Policy and Organizational Development of Rosseti PJSC
3. Erpsher Nataliya Ilinichna , Director, Directorate of Organizational Development of HR Policy and Organizational Development Department, Rosseti PJSC	3. Petrieva Yulia Vladimirovna , Chief Expert, Tariff Department, Economic Directorate, OJSC OGC-2

The positions are specified as of the date on which the committee composition was approved

Report on committee activity in 2016

- 8 absentia meetings were held. The Committee previously considered and made recommendations to the Board for decision-making on the following key issues:
- organizational structure of the branches management office and executive office of IDGC of Northern Caucasus PJSC was previously discussed;
 - typical organizational structure of the branch management office of IDGC of Northern Caucasus PJSC was previously discussed;
 - recommendations were issued on quantitative composition of the Management Board of IDGC of Northern Caucasus PJSC, election and termination of powers of members of the Management Board;

- nominees for specific positions within the executive apparatus were previously approved;
- Personnel Management Program of IDGC of Northern Caucasus PJSC was approved for the period of 2016-2017;
- list of the Top Managers of IDGC of Northern Caucasus PJSC was previously considered.

In addition, Deputy Chairman of the Committee and Secretary of the Committee were elected, Budget of the Committee was approved, as well as the Committee's work plan for the 2016-2017 corporate year.

Reliability Committee

Key tasks of the Committee:

- expert evaluation of production programs, plans for technical re-equipment, reconstruction, new construction and repair of electrical power grid complex facilities, analysis of their elaboration and execution from the point of view of ensuring satisfaction of the requirements to the reliability of functioning and technical condition of electric power grids;
- evaluation of the completeness and sufficiency of measures taken following the results of accident investigation in accordance with the Rules for Investigation into the Causes of Accidents in Electric Power Industry (approved by Resolution No. 846 of the Government of the Russian Federation dated October 28, 2009) as well as control of their execution;
- expert evaluation of the quality of investigation into causes of technological disturbances (accidents);
- expert evaluation of the Company's activities in the field of accident prevention work (ensuring preparedness, organization and conductance of emergency recovery works at electric power industry facilities);
- expert evaluation of the programs for prevention of the injury risks the Company personnel and outsiders are exposed to at the Company's electric power installations as well as control over their execution;
- control and evaluation of the Company's technical services activities to the extent of ensuring reliable functioning of electric power grids and production safety;
- expert evaluation of the system of internal control within the Company;
- expert evaluation of the occupational safety management system within the Company;
- expert evaluation of the environmental policy implementation program;
- expert evaluation of fire and industrial safety.

Compositions of Reliability Committee in 2016

Elected by decision of the Board of Directors dated July 22, 2015 (Minutes dated July 27, 2015 No.203)	Elected by decision of the Board of Directors dated July 20, 2016 (Minutes dated July 22, 2016 No.254)
1. Magadeev Ruslan Raisovich , Deputy Director, Situation Analytical Center of Rosseti PJSC (Chairman)	1. Magadeev Ruslan Raisovich , Deputy Chief Engineer, Rosseti PJSC (Chairman)
2. Misirov Boris Khyzyrovich , First Deputy General Director – Chief Engineer of IDGC of Northern Caucasus PJSC	2. Shpilevoy Sergey Vladimirovich , Deputy Director of Directorate - Director of Production Activity Analysis Department, Situation Analytical Center of Rosseti PJSC
3. Mikheev Dmitriy Dmitrievich , Head of the Unit for Prospective Development of Electric Power Industry of the Department for Development of Electric Power Industry of the Russian Federation Ministry of Energy	3. Smaga Mikhail Vladimirovich , Deputy Director of the Technical Supervision Center branch of Rosseti, PJSC
4. Smaga Mikhail Vladimirovich , Deputy Director of the Technical Supervision Center branch of Rosseti, PJSC	4. Misirov Boris Khyzyrovich , First Deputy General Director – Chief Engineer of IDGC of Northern Caucasus PJSC
5. Kumukova Marina Khalitovna , Director of Department for Corporate Governance and Cooperation with Shareholders of IDGC of Northern Caucasus PJSC	5. Alikov Konstantin Batyrbekovich , Deputy General Director, Realization and Development of Services, IDGC of Northern Caucasus PJSC
6. Shpilevoy Sergey Vladimirovich , Deputy Director of Directorate - Director of Accident Rate Analysis Department, Directorate of Accident Rate Analysis and AVR Methodology, Situation Analytical Center of Rosseti PJSC	6. Chernov Alexey Valeryevich , Deputy General Director for Economics and Finance of IDGC of Northern Caucasus PJSC
	7. Lobov Evgeniy Vladimirovich , Advisor, OJSC N+Development

The positions are specified as of the date on which the committee composition was approved

Report on committee activity in 2016

6 meetings were held, one – in the form of joint attendance. The Committee previously considered and made recommendations to the Board for decision-making on the following key issues:

- on progress of preparation of the IDGC of Northern Caucasus PJSC to work in flood, fire and storm periods of 2016;
- on implementation of the Program of liquidation of "bottlenecks" in the grid complex of IDGC of Northern Caucasus PJSC;
- on readiness of IDGC of Northern Caucasus PJSC to organization and conduct of rescue and recovery operations in the autumn-winter period of 2015-2016;
- on approval of the plan schedule for Development of the System of Management of the Production Assets of the Company for 2015-2018;
- on reliability of indicators, including indicative ones, in 2015;

- on outcome of IDGC of Northern Caucasus PJSC work in the flood period of 2016;
- on readiness of IDGC of Northern Caucasus PJSC to organization and conduct of rescue and recovery operations in the autumn-winter period of 2016-2017;
- on progress of implementation of reliability improvement programs at the facilities of IDGC of Northern Caucasus PJSC;
- on readiness of IDGC of Northern Caucasus PJSC for autumn-winter period of 2016-2017;
- on target model of the system for operational technological control of the distribution electric power grid complex for the branches of IDGC of Northern Caucasus PJSC.

In addition, the organizational questions were considered: the election of the deputy chairman and the secretary of the committee, budgeting and work plan for the committee.

Strategy and Development Committee

Key tasks of the Committee:

- to determine priority areas, strategic goals, and main principles of IDGC of Northern Caucasus PJSC strategic development;
- to assess efficiency of operation of IDGC of Northern Caucasus PJSC;
- to improve investment appeal of IDGC of Northern Caucasus PJSC;
- to correct the current development strategy of IDGC of Northern Caucasus PJSC;
- to monitor progress of implementation of the adopted programs, projects and reformation process of the Company;
- to determine and perfect IDGC of Northern Caucasus PJSC business planning and budgeting policies;
- to control the implementation of approved business plan and budget of IDGC of Northern Caucasus PJSC.
- to control organization and functioning of the risk management system.

Compositions of Strategy and Development Committee in 2016

Elected by decision of the Board of Directors dated July 22, 2015 (Minutes dated July 27, 2015 No.203)	Elected by decision of the Board of Directors dated July 20, 2016 (Minutes dated July 22, 2016 No.254)
1. Rakov Alexey Viktorovich , Director, Department of Realization of Power Grid Services and Interaction with Subjects of Power Markets, Rosseti PJSC (Chairman)	1. Rakov Alexey Viktorovich , Director, Department of Power Metering and Interaction with Subjects of Power Markets, Rosseti PJSC (Chairman)
2. Vodolatskiy Pavel Viktorovich , Director, Directorate on Handling Bad Accounts Receivable, Rosseti PJSC	2. Vodolatskiy Pavel Viktorovich , Director, Design Office Project, Rosseti PJSC
3. Konyushenko Petr Petrovich , Advisor to Chairman of NP Market Council	3. Pankstyanov, Yury Nikolayevich , Director of the Tariff Policy Department of Rosseti, PJSC
4. Kumukova Marina Khalitovna , Director of Department for Corporate Governance and Cooperation with Shareholders of IDGC of Northern Caucasus PJSC	4. Lavrova Marina Aleksandrovna , Head of the Subsidiaries and Affiliates Economics Administration of the Economic Planning and Budgeting Department of Rosseti, PJSC
5. Ozherelyev Alexei Alexandrovich , Head of Directorate of the organization of activity of management of Rosseti PJSC	5. Serebryakov Konstantin Sergeevich , Head of the Corporate Events of Subsidiaries and Affilites, Administration of the Department for Corporate Governance and Interaction with Shareholders and Investors of Russian Grids, PJSC
6. Pankstyanov Yury Nikolayevich - Director of the Tariff Policy Department of Rosseti, PJSC	6. Sasin Nikolay Ivanovich , Representative Office of OPORA RUSSIA in North Caucasus Federal District
7. Sasin Nikolay Ivanovich , member of the Management Board, OPORA RUSSIA, coordinator of OPORA RUSSIA in the North Caucasus Federal District	7. Kumukova Marina Khalitovna , Director of Department for Corporate Governance and Cooperation with Shareholders of IDGC of Northern Caucasus PJSC
8. Sedykh Nadezhda Vitalievna , Chief Expert, Directorate of Economics, subsidiaries and affiliates of Rosseti PJSC	8. Erdyniev Anton Alexandrovich , Deputy Director of the Electric Power Industry Development Department of the Ministry of Energy of Russia

The positions are specified as of the date on which the committee composition was approved

Report on committee activity in 2016

15 meetings held, two of which – in the form of part-time and form of presence. The Committee provisionally examined and developed recommendations for the Board of Directors for taking decisions on such issues of IDGC of Northern Caucasus PJSC activities as:

- consideration of proposals for target indicators of power grid assets consolidation program of IDGC of Northern Caucasus PJSC in 2015-2017 and additional acquisition of property at the expense of an additional issue of shares;
- on review of results of field visit of the Ministry of Energy of Russia to check progress of implementation of the integrated program of activities for reducing excessive power losses in the distribution grids on the territory of republics of North Caucasus;
- on consideration of work results on implementation of the integrated program of activities for reducing excessive power losses in the distribution grids on the territory of North Caucasus;
- on consideration of the results of work on implementation of measures for consolidation of power grid assets;
- on consideration of adjusted Directive Schedule of works completion of the Integrated Program of actions to reduce energy losses in the territory of the Republic of Dagestan, providing time of equipment delivery and completion of works at facilities;
- on approval of results of execution of the target values of quarterly key performance indicators of the Director General of IDGC of Northern Caucasus PJSC;
- on approval of benchmarks of cash flow of IDGC of Northern Caucasus PJSC;
- on approval of the Methodology for calculation and evaluation of achievement of key performance indicators of General Director of IDGC of Northern Caucasus PJSC;
- on approval of the report on fulfillment of Business Plan including the Investment Program and information on key operational risks;
- on approval of the report on execution of business plan aggregated on the RAS principles and consolidated by the IFRS principles of IDGC of Northern Caucasus PJSC Group;

- on approval of plans of actions to eliminate comments detected following the results of field visit of the Ministry of Energy of Russia to check progress of implementation of the integrated program of activities for reducing excessive power losses in the distribution grids on the territory of republics of North Caucasus;
- approval of the schedule plan of activities to be taken for reduction of the amount of overdue receivables for electric energy transfer and settlement of disputes;
- on approval of the Program for Consolidation of Electric Power Grid Assets of IDGC of Northern Caucasus PJSC for 2015-2017;
- on approval of the Business Plan of IDGC of Northern Caucasus PJSC Group (aggregated based on RAS principles and consolidated based on IFRS principles);
- on approval of the adjusted plan-schedule for elimination of backlogs in facilities of the Comprehensive Program of Measures in the territory of the Chechen Republic;
- on approval of the adjusted Register of Key Operational Risks of the Company.

The committee examined reports from the General Director of the Company on:

- management of key operational risks of IDGC of Northern Caucasus PJSC;
- progress of works on the integrated program of activities for reducing excessive power losses in the distribution grids on the territory of North Caucasus;
- on implementation of plans of actions to eliminate comments detected following the results of field visit of the Ministry of Energy of Russia to check progress of implementation of the integrated program of activities for reducing excessive power losses in the distribution grids on the territory of republics of North Caucasus.

The Committee considered organizational questions: the election of the deputy chairman and the secretary of the committee, approval of the budget and work plan for the committee.

Committee for Technical Connection to Electric Grids

Key tasks of the Committee:

- to develop proposals on improving the legal base of anti-monopoly legislation and provide consumers with non discriminatory access to technological connection to the electricity grids;
- to develop proposals on improving the internal regulations and the IDGC of Northern Caucasus PJSC standards on providing consumers with non discriminatory access to technological connection to the electricity grids;
- to develop principles and criteria for evaluating the company's efficiency on technological connection of consumers to the electricity grids;
- to evaluate the efficiency on technological connection of consumers to the electricity grids;
- to analyze the current situation and prepare recommendations to the Board of Directors concerning technological connection of consumers to the electricity grids.

Compositions of Committee for Technical Connection to Electric Grids in 2016

Elected by decision of the Board of Directors dated July 22, 2015 (Minutes dated July 27, 2015 No.203)	Elected by decision of the Board of Directors dated July 20, 2016 (Minutes dated July 22, 2016 No.254)
<ol style="list-style-type: none"> 1. Tsikanov Arsen Makhmudovich, Acting Deputy General Director for Realization and Development of Services, IDGC of Northern Caucasus, PJSC (Chairman) 2. Kumukova Marina Khalitovna, Director of Department for Corporate Governance and Cooperation with Shareholders of IDGC of Northern Caucasus PJSC 3. Masaleva, Irina Borisovna, Director of the Department for Grid Prospective Development and Technological Connection of Rosseti, PJSC 4. Miromanov Sergey Ivanovich, Deputy Director, Administration for Technological Connection Regulation of the Department for Grid Prospective Development and Technological Connection of Rosseti, PJSC 5. Nedobuga Dmitriy Nikolayevich, Head of the Department for Technological Connection of Customers of IDGC of Northern Caucasus PJSC 6. Pavlov, Alexander Valeryevich, Lead Advisor to the Unit for Prospective Development of Electric Power Industry of the Department for Development of Electric Power Industry of the Russian Federation Ministry of Energy 	<ol style="list-style-type: none"> 1. Alikov Konstantin Batyrbekovich, Deputy General Director, Realization and Development of Services, IDGC of Northern Caucasus PJSC (Chairman) 2. Masaleva, Irina Borisovna, Director of the Department for Grid Prospective Development and Technological Connection of Rosseti, PJSC 3. Kumukova Marina Khalitovna, Director of Department for Corporate Governance and Cooperation with Shareholders of IDGC of Northern Caucasus PJSC 4. Nedobuga Dmitriy Nikolayevich, Head of the Department for Technological Connection of Customers of IDGC of Northern Caucasus PJSC 5. Ilin Dmitriy Olegovich, Deputy Director, Separate Subdivision of AESK PJSC in Moscow

The positions are specified as of the date on which the committee composition was approved

Report on committee activity in 2016

3 absentia meetings were held. The Committee monitored the activity of IDGC of Northern Caucasus PJSC on the technological connection of consumers to distribution grids, including contract work and general statistics of connection subject

to certain consumer groups, for 2015. Organizational questions were discussed: the election of the deputy chairman and the secretary of the committee, approval of the budget and work plan for the committee.

Remunerations to members of the committees under the Board of Directors

Awarding remunerations to members of the committees under the Board of Directors is made in compliance with the Regulations on payment of remuneration and compensations to members of committees. The texts of the Regulations are available on the website of IDGC of Northern Caucasus PJSC 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 attendance

Member of the Committee shall receive remuneration in the amount equivalent to two minimum monthly wages of the first category established by the branch tariff agreement in the RF electrical power complex (the Agreement) on the day of the committee meeting, taking into account indexation established by the Agreement;

To the Chairman (Deputy Chairman) for the meeting where he or she served as Chairman of the Committee, remuneration was increased by 50%.

Remuneration for participation in each meeting held in absentia form

The following is paid to the member of the committee: remuneration in the amount equivalent to a minimum monthly tariff rate of first category subject to indexation set by the Agreement.

To the Chairman (Deputy Chairman) of the committee for the meeting where he or she served as Chairman of the Committee, remuneration is increased by 50%.

Remuneration paid to members of committees under IDGC of Northern Caucasus, PJSC Board of Directors in 2016, K RUR

Committee name	Remuneration amount
Strategy and Development Committee	780.79
Personnel and Remuneration Committee	115.82
Reliability Committee	180.8
Audit Committee	108.43
Committee for Technical Connection to Electric Grids	154.06
Total	1,339.9

Remuneration payment was made in cash.

Management board - collegial executive body

Election and size of the Management Board are determined by the Board of Directors of IDGC of Northern Caucasus PJSC upon presentation of the General Director.

Competence of the Management Board of IDGC of Northern Caucasus PJSC:

- working out strategic development plan of the company and presenting it for consideration by the Board of Directors;
- working out an annual (quarterly) business plan including investment program, preparation of the business plan performance report and investment plan performance report as well as approval (adjustment) of the cash flows (budget) of the company;
- preparation of the annual report on financial and business performance of the company and the report on the execution by the Management Board of the decisions of the General Meeting of Shareholders and the Board of Directors;
- reviewing reports by the deputies of the General Director and the heads of business divisions of the company on the execution of approved plans, programs and orders; reviewing reports, documents and other information on the activity of IDGC of Northern Caucasus PJSC and its subsidiary and dependent companies;
- making decisions on matters assigned to the responsibility of Supreme Management Bodies of organizations in which IDGC of Northern Caucasus PJSC owns 100%;
- preparation of reports on financial and business performance of organizations in which IDGC of Northern Caucasus PJSC owns 100 % of authorized capital and the presentation of these reports for consideration by the Board of Directors;
- making decisions on closing transactions dealing with properties, works and services book value whereof is equal to 1 – 25% of the book value of assets of IDGC of Northern Caucasus PJSC as defined according to the accounting statements as of the latest reporting date;
- effective risk management within the framework of the current activities of IDGC of Northern Caucasus PJSC; 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;
- decisions on other matters related to the management of day-to-day activity of the company within the decisions of the General Meeting of Shareholders, the Board of Directors as well as matters assigned to the responsibility of the Management Board by the General Director.

In 2016 the Management Board of IDGC of Northern Caucasus PJSC included the following persons.

ZAYTSEV YURY VIKTOROVICH

Chairman

Elected to the Management Board of IDGC of Northern Caucasus in February 2014.

Born in 1970. Higher education, he graduated from the Military University of the Defense Ministry of the Russian Federation and the St. Petersburg State Engineering and Economic University. Ph.D. (Economics)

- 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 PJSC.
- February 17, 2014 he was appointed as Acting First Deputy General Director of IDGC of Northern Caucasus PJSC.
- Since May 13, 2014 – First Deputy General Director of IDGC of Northern Caucasus PJSC.
- From 28 August 2014 he is the General Director, Chairman of the Management Board of IDGC of Northern Caucasus PJSC.

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

ALIKOV KONSTANTIN BATYRBEKOVICH

Elected to the Management Board of IDGC of Northern Caucasus in June 2014.

Born in 1970. Higher education, graduated from Bratsk Industrial Institute ("Construction and road machines and equipment"), the North-Caucasian State Technological University ("Electricity").

- From 2006 to June 2015 held various positions in IDGC of Northern Caucasus OJSC: Acting Deputy Director for the implementation and development of services of the branch Stavropolenergo, Director of the Department of Power Metering and Energy Saving, Director of the Department of Power Metering, Acting Deputy General Director for implementation and development of services, Head of Power Metering Department, Head of Department of Energy Saving and Energy efficiency, Head of Power Transport and Metering, Head of Power Balances and Losses Valuation Department, head of Balances Department.
- Between June 2015 to May 2016 served as Deputy Director for the implementation and development of services of branch of IDGC of Northern Caucasus PJSC – Stavropolenergo.
- In April – May 2016 – Acting Deputy General Director for Realization and Development of Services, IDGC of Northern Caucasus, PJSC.
- From May 2016 and as of the end of 2016 – Deputy General Director on Realization and Development of Services, member of the Management Board of IDGC of Northern Caucasus PJSC.
- From July 2016 – member of the Reliability Committee of the Board of Directors, chairman of the Committee for Technological Connection to Electric Power Networks at the Board of Directors of IDGC of Northern Caucasus PJSC.

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

DYNKIN PAVEL BORISOVICH

Elected to the Management Board of IDGC of Northern Caucasus in November 2014. By the decision of the Board of Directors, dated February 18, 2016 the powers of P.B. Dynkin as the member of the Management Board were terminated.

Born in 1973. Higher education, he graduated from the Far Eastern State University, specialty – economist-orientalist, the translator of the Chinese language. He graduated from the Finance Academy under the Government of the Russian Federation, specialty – Master of Business Administration (MBA), Finance. Ph.D. (Economics).

- 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 did not participate in authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and did not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

MEDALIEV MUKHAMED KHAMZETOVICH

Elected to the Management Board of IDGC of Northern Caucasus in April 2014.

Born in 1954. Higher education, he graduated from the Kabardino-Balkarian State University, "Physics" and "Jurisprudence". He graduated from the Dzerzhinsky Krasnoznamenaya 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. As of the end of 2016 – Deputy General Director of IDGC of Northern Caucasus on security. From 2013 to July 2016 – Adviser of IDGC of Northern Caucasus.

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

MISIROV BORIS KHYZYROVICH

Elected to the Management Board of IDGC of Northern Caucasus in February 2014.

Born in 1963. Higher education, 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 PJSC.
- Since August 1, 2011 – The Deputy General Director of IDGC of Northern Caucasus PJSC for Technical Issues – Chief Engineer.
- On July 24, 2013, First Deputy General Director – Chief Engineer of IDGC of Northern Caucasus PJSC.

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

THAKAKHOVA IVETTA VLADIMIROVNA

Elected to the Management Board of IDGC of Northern Caucasus in June 2014. Born in 1976.

Higher education, graduated from the Kabardino-Balkarian State University ("Accounting and audit").

- In the period from 2008 to September 2012 – Head of Economic Department of IDGC of Northern Caucasus OJSC.
- Since September 2012 to June 2013 – Economics Director of IDGC of Northern Caucasus OJSC.
- In June 2013 served as Acting Deputy General Director for Economics and Finance of IDGC of Northern Caucasus OJSC.
- From June 2013 to April 2014 served as Deputy General Director for Economics and Finance of IDGC of Northern Caucasus OJSC.
- From April 2014 to May 2016 – Advisor, IDGC of Northern Caucasus PJSC.
- In April – May 2016 – Acting First Deputy General Director of IDGC of Northern Caucasus PJSC.
- From May 2016 and as of the end of 2016 – First Deputy General Director, member of the Management Board of IDGC of Northern Caucasus PJSC.

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

CHERNOV ALEKSEY VALERIEVICH

Elected to the Management Board of IDGC of Northern Caucasus in June 2014.

Born in 1977. Higher education, graduated from the Karachay-Cherkess State Technological Institute ("Management").

- From 2006 to May 2016 held various jobs of Director, Tariff Directorate, Director of Economics, Head of the Tariff Department, Head of the department of tariffs of IDGC of Northern Caucasus OJSC.
- In April – May 2016 – Acting Deputy General Director for Economics and Finance, IDGC of Northern Caucasus, PJSC.
- From May 2016 and as of the end of 2016 – Deputy General Director on Economics and Finance, member of the Management Board of IDGC of Northern Caucasus PJSC.
- Since July 2016 – member of the Reliability Committee of the Board of Directors of IDGC of Northern Caucasus PJSC.
- The share of Chernov A.V. in the authorized capital of IDGC of Northern Caucasus PJSC – 0.0004%, the share of ordinary shares of IDGC of Northern Caucasus PJSC owned by Chernov A.V. – 0.0004%.

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

SHUVALOV VLADIMIR VLADIMIROVICH

Elected to the Management Board of IDGC of Northern Caucasus in April 2014.

Born in 1971. Higher education, he graduated from the Military University of the RF Defense Ministry, specialty "Jurisprudence". 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 Karachaevo-Cherkessskenergo.
- From March 2014 – Acting Deputy Director General for investment, IDGC of Northern Caucasus PJSC.
- On May 13, 2014 he was appointed Deputy Director General for investment IDGC of Northern Caucasus PJSC.

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

In 2016, members of the Company's Management Board did not make transactions on acquisition and (or) alienation of the shares of IDGC of Northern Caucasus PJSC.

Remuneration to members of the Management Board

Management Board members as staff members of IDGC of Northern Caucasus PJSC, receive the payment for their work on the positions held in accordance with the labor 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 Directors-General of IDGC of Northern Caucasus PJSC is the Regulation on Financial Incentives and Social Package of Top Managers of IDGC of Northern Caucasus PJSC (approved by the Board of Directors of IDGC of Northern Caucasus PJSC on June 10, 2011, Minutes of June 15, 2011 No. 76).

For work as a part of the governing body, members of the Management Board may receive a monthly allowance of up to 15% of salary. The amount of such allowance is established by order of the Director General.

Amount of paid remuneration and costs compensated to members of the Management Board of IDGC of Northern Caucasus PJSC, during 2016, K RUB

Indicator name	2016
Remuneration for participation in the management body work	446.29
Salaries	23,578.06
Bonuses	10,082.73
Fees	
Benefits	
Other types of remuneration	14.39
TOTAL	34,121.47

Reimbursement of expenses	1,200.0
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General Director - Sole Executive Body

Competence of General Director –

issues of managing current business of IDGC of Northern Caucasus PJSC (excluding matters assigned to the responsibility of the General Meeting of Shareholders, the Board of Directors, and the Management Board).

The General Director shall follow:

- Federal Law “On Joint Stock Companies” and other regulatory legal acts of the Russian Federation;
- Articles of Association of IDGC of Northern Caucasus PJSC;
- labor contract concluded with him or her by the Board of Directors of the Company.

The General Director acts without power of attorney, including taking into account limitations set out in legislation, the Articles of Association and decisions of the Board of Directors and performs the following functions:

- ensures execution of the company’s activity plans required for reaching its goals;
- organizes maintenance of accounting records and preparing financial reports of the Company;
- disposes the property of IDGC of Northern Caucasus PJSC, makes transactions on its behalf, issues powers of attorney, opens settlement accounts and other accounts in banks and other credit institutions (as well as in organizations of securities market professionals in cases stipulated in laws);
- issues orders, approves (confirms) guidelines, local regulatory acts and other in-house documents, and gives instructions binding upon all employees;
- approves the regulations on branches and representative offices;
- approves staffing chart and official salaries of employees based on the administrative structure;
- exercises rights and bears responsibilities of an employer in respect of the employees in accordance with the labor law;
- performs functions of the Chairman of the Management Board;

- assigns responsibilities among deputies of the General Director;
- provides for review of the Board of Directors the annual report, accounting statements, profit distribution of IDGC of Northern Caucasus PJSC;
- solves other issues.

In 2016 IDGC of Northern Caucasus PJSC was led by Zaytsev Yuri Viktorovich (Board of Directors decision on appointment passed on August 28, 2014). Information about Yu. V. Zaytsev is represented within the composition of the Board of Directors and the Management Board.

In 2016, the General Director of IDGC of Northern Caucasus, PJSC did not make transactions on acquisition and/or alienation of shares of IDGC of Northern Caucasus PJSC and (or) its subsidiaries and affiliated companies.

General Director Remuneration

The General Directors’ employment conditions, guarantees, and compensation for the period they fulfill their duties, are determined by the employment contract, whose conditions are determined by the person authorized by the Board of Directors. The size of the IDGC of Northern Caucasus PJSC General Director’s salary and material incentives (remuneration) are determined in accordance with the Bylaw on material incentives for the General Director of IDGC of Northern Caucasus PJSC as approved by decision of the Company’s Board of Directors of IDGC of Northern Caucasus PJSC on June 15, 2011 (Minutes No. 76) and separate decisions of the Board of Directors of the Company.

The Bylaw on material incentives for IDGC of Northern Caucasus PJSC General Director regulates the size of the quarterly and annual premium for achieving KPIs and also considers lump sum payments for performing especially important tasks or for receiving awards from the Government, Ministry of Energy of Russia, and corporate awards.

Revision Commission - permanent business and financial supervisory body

Objectives of the Revision Commission are as follows:

1. 1) exercise of control over financial and economic activities of the company;
1. 2) independent assessment of the data contained in the company’s annual report and annual financial statements.

Competence of the Revision Commission is defined by art. of Articles of Association and includes:

- verification (audit) of financial, accounting, payment, and other documents of the company related to the financial and business activities for the compliance with laws of the Russian Federations, the Company’s Charter, and other in-house 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;
- supervision over the accumulation and use of reserve and other special purpose funds;
- checking 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;
- supervision over the compliance with the procedure for the writing off bad debts as losses of the company;
- 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;
- supervision over preservation and use of fixed assets;
- checking the cash and property, asset utilization and other resources, 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 Revision Commission;
- make recommendations to authorities;
- 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 text of the Regulations is available on the website of IDGC of Northern Caucasus PJSC in the section “To Shareholders and Investors/Articles of Association and Internal Documents/ Corporate Governance Procedures’ Documents”.

The Revision Commission is entitled to (and – should any material violation in finance and economic activities be found – shall) require the calling of an extraordinary General Meeting of Shareholders.

Composition of the Revision Commission

Quantitative composition of Revision Commission – 5 people

In 2016, the Revision Commission work was done by two compositions.

At the end of 2016 (the date of the Annual General Meeting of shareholders) the composition of the Revision Commission elected by the Annual General Meeting of Shareholders of IDGC of Northern Caucasus on June 20, 2016 was in effect (Minutes of June 22, 2015 No. 15). The positions are specified as of the date on which the commission composition was approved.

KIM SVETLANA ANATOLYEVNA

Chairman

Born in 1981. Graduated from the Moscow State University of Communications, specialty – “Commerce”.

- 2010 – 2013 – Head of Investment Control Division, Control and Revision Department, “FGC UES”, OJSC
- From June 2013 heads the Administration for Auditing Activities of the Department for Controlling and Auditing Activities of Rosseti, PJSC.

KABIZSKINA YELENA ALEKSANDROVNA

Born in 1964. Graduated from Far Eastern Fishery Engineering Institute (qualification “economist engineer”).

- From November 2013 to March 2014 – Head of the Methodological Support Administration of the Internal Audit Department of MOESK, OJSC.
- From April 2014 – Deputy Head of the Administration for Auditing Activities of the Department for Controlling and Auditing Activities of Rosseti, PJSC.

KIRILLOV ARTEM NIKOLAYEVICH

Born in 1984. Graduated from Moscow Power Engineering Institute, qualification “electrical engineer”.

- In 2009-2012 he worked in FGC UES OJSC as the chief expert of Control and Audit department.
- In 2012-2013 – Chief Expert of the Control and Audit Examinations Department of FGC UES, JSC
- 2013-2015 – Head of the Investment Audit Department of Rosseti, PJSC
- Since 2015 – Deputy Head of Revision Management Directorate, Rosseti PJSC.

MALYSHEV SERGEY VLADIMIROVICH

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 the period of January to November 2013 – Head of the Investment Audit Unit of the Internal Control and Risk Management Administration of FGC UES, PJSC.
- Since December 2013 – Lead Expert of the Administration for Auditing Activities of the Department for Controlling and Auditing Activities of Rosseti, PJSC.

SHMAKOV IGOR VLADIMIROVICH

Born in 1974. Higher education.

- From 2008 to 2012 – Head of Department for Internal Control and Risk Management of IDGC of South OHSC.
- From 2012 to 2013 held the position of Head of Internal Control Directorate of JSC FGC UES.
- From June 2013 to 2016 – Head of the Internal Audit Directorate of PJSC Rosseti.
- Since June 2016 – Deputy General Director of Controlling, member of the Board of Directors of PJSC Kubanenergo.

At the end of 2016 (the date of the Annual General Meeting of shareholders) the composition of the Revision 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 specified as of the date on which the commission composition was approved.

KIM SVETLANA ANATOLYEVNA

Chairman

See the current composition of the Revision Commission.

GUSEVA YELENA YURYEVNA

Born in 1970. She graduated from the Academy of Labour and Social Relations (qualification “economist”).

- From May 2009 to September 2013 she worked as the chief specialist of the Internal Audit Department of IDGC of South OJSC.
- From September 2013 to February 2015 – Lead Expert of the Investment Audit Department, Directorate of Audit and Internal Audit, Administration of Internal Audit and Control of Rosseti PJSC.
- From March 2015 works as the Lead Expert of the Investment Audit Department, Directorate of Audit and Internal Audit, Administration of Internal Audit and Control of Rosseti PJSC.

KABIZSKINA YELENA ALEKSANDROVNA

See the current composition of the Revision Commission.

KIRILLOV ARTEM NIKOLAYEVICH

See the current composition of the Revision Commission.

MALYSHEV SERGEY VLADIMIROVICH

See the current composition of the Revision Commission.

Members of the Revision Commission did not participate in authorized capital of IDGC of Northern Caucasus PJSC and its subsidiaries and did not own ordinary shares of IDGC of Northern Caucasus PJSC and its subsidiaries.

Remuneration of Revision Commission members

In June 2015 the annual General Shareholders' Meeting approved a new edition of the Regulation on payment to members of the Revision Commission of remunerations and compensations. According to the current regulation, remuneration shall be paid to the members of the Revision Commission based on the results of the corporate year and depends on the degree of his or her participation in the work of the Revision Commission (counted as execution of their additional responsibilities as the President or the Secretary of the Revision Commission). Compensation is determined by the base portion of remuneration. The baseline reward due to a member of the Revision Commission shall be established proceeding from the company's revenue during the financial year calculated as per RAS in accordance with the scale as follows (see the attachment). If, during the corporate year, the member of the commission actively participated in additional reviews carried out by the Auditing Commission or control actions undertaken by the Auditing Commission or control actions dedicated to individual issues that were conducted by decision of the General Meeting of Shareholders, the Board of Directors or by demand of the shareholder(s) jointly holding at least 10 % of voting shares of the Company, Chairman of the Revision Commission shall be entitled to solicit from the General Meeting of Shareholders increase of the actual amount of reward.

The text of the specified Regulations is available on the corporate website of IDGC of Northern Caucasus PJSC in the section “To Shareholders and Investors/Articles of Association and Internal Documents/ Corporate Governance Procedures' Documents”.

In 2016 members of the Revision Commission received payments in the amount of 705.56 K RUB. Payment of remuneration was done with monetary funds.

The Regulation also provides for payment of compensation to members of the Company's Revision Commission for expenses related to participation in the activities of the Company's Revision Commission.

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. The Corporate Secretary of IDGC of Northern Caucasus PJSC shall have knowledge, background and qualification sufficient to perform the assumed duties, flawless reputation and enjoy confidence of the shareholders. Besides, the Corporate Secretary of IDGC of Northern Caucasus PJSC has the necessary powers and resources to solve his or her objectives.

GAYDEY OLESYA BORISOVNA**Corporate Secretary**

First elected as the Corporate Secretary of IDGC of Northern Caucasus PJSC in July 2010.

Born in 1983. Higher education, 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” and “Corporate Secretary of Company”.

- She has been working in IDGC of Northern Caucasus PJSC 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 heads the Corporate Governance Department of IDGC of Northern Caucasus PJSC. She has extensive experience in organizing activities for management of public and non-public companies.

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

Auditor

Key information about auditor of IDGC of Northern Caucasus PJSC

Full business name: «RSM RUS», Limited Liability Company

Abbreviated business name: RSM RUS, LLC

TIN: 7722020834 PSRN: 1027700257540

Location: 4 Pudovkina ul., Moscow, 119285

Website: <http://rsmrus.ru/>

E-mail: mail@rsmrus.ru

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 primary state registration number (PSRN) 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.

Auditor selection procedure

In order to ensure the independence and objectivity of the external auditor, selection of external auditor of the Company was carried out through open competitive procedures with B2B-energo electronic trading platform. Information 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.

Following the outcome of conductance of an open one-stage tender without qualification pre-selection for the right to conclude contracts for conductance of the mandatory annual audit of the statements of SDCs for 2015-2017, the winner was RSM RUS LLC. Binding audit of financial statements for 2016 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 PJSC in 2015-2017 was determined in the amount of 7,734,052.17 RUB, VAT included.

The specified auditor is also approved by decision of the annual General Meeting of Shareholders of IDGC of Northern Caucasus PJSC (Minutes of June 22, 2016 No. 16).

The amount of payment for services of the auditor was approved by the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes on August 15, 2016 No. 257).

In 2016 the auditor did not provide other (non-audit) services to IDGC of Northern Caucasus PJSC

Registrar

By decision of the Board of Directors of IDGC of Northern Caucasus PJSC (Minutes of April 19, 2007 No. 8) Registrar Society STATUS Joint-Stock Company (License No. 10-000-1-00304 of March 12, 2004 (unlimited) issued by the Federal Securities Market Commission of the Russian Federation) was approved.

STATUS JSC keeps the register of all registered equity securities of IDGC of Northern Caucasus PJSC.

For the convenience of shareholders of IDGC of Northern Caucasus PJSC there are transfer agents for the company's shares. The list of transfer agents on shares of IDGC of Northern Caucasus PJSC is published on the site of IDGC of Northern Caucasus PJSC 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 PJSC through maintenance and storage of the register of shareholders by the registrar.

The register of shareholders of IDGC of Northern Caucasus PJSC is conducted by an independent registrar. Selection and appointment of an independent registrar, availing of all the technical means as may be required and having an impeccable reputation, allows us to ensure reliable and efficient registration of ownership rights to shares of IDGC of Northern Caucasus PJSC.

Information on transactions

In 2016 IDGC of Northern Caucasus PJSC did not commit transactions that are recognized as major transactions in accordance with the existing Russian law¹.

Report on transactions of interest of IDGC of Northern Caucasus PJSC, in 2016 is presented in Appendix No.6 to the Russian-language Annual Report.

Authorized capital

General information about shares

Instrument type	Ordinary share
Stock exchange platform	Moscow Stock Exchange (Russia, Moscow)
Security code	MRKK
ISIN code	RU000A0JPPQ7
State registration No.	1-01-34747-E
Volume of issue	154,562,275 pcs.
Authorized capital	154,562,275 RUB
Nominal cost per share	1 RUB
Authorized shares	3,258,695,653 pcs.
Nominal currency	Russian rouble (RUB)
Date of trading start at Moscow Stock Exchange	June 19, 2008
Free-float	max 8%
Entry in index calculation base	index of Moscow Stock Exchange shares of companies with regulated activities

¹ As well as other transactions provided for in paragraph 9 of clause 70.3 of Chapter 70 of the Regulation on Information Disclosure by Issuers of Equity Securities (approved by the Bank of Russia on December 30, 2014 No. 454-P).

Main shareholder rights

Right	Reference to norm of regulatory act and Articles of Association of IDGC of Northern Caucasus PJSC	Share of ownership of voting shares by shareholder (shareholders*)				
		any	1%	2%	10%	25%
Participation in the General Meeting of Shareholders personally or by proxy and vote on all matters assigned to the responsibility of 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 PJSC	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 proposal to agenda of General Meeting of Shareholders	subcl. 2 cl. 6.2 Article 6, cl. 13.1 Article 13 of the Articles of Association; subcl. 1 Article 53 of the Federal Law "On Joint Stock Companies"	✗	✗	✓	✓	✓
Getting information on the activities of IDGC of Northern Caucasus PJSC and familiarization with documents	subcl. 3 cl. 6.2 of art. 6, para. 1 cl. 26.5 Article 26 of the Articles of Association, subcl. 4 Article 11, Article 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"	✓	✓	✓	✓	✓
Exercising right of pre-emptive purchase of shares and issuable securities convertible into shares which are issued by subscription, in amounts proportional to the number of ordinary shares they own	cl. 5.5 Article 5, subcl. 5 cl. 6.2 Article 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 Northern Caucasus, obtaining a part of its property	subcl. 6 cl. 6.2 Article 6 of the Articles of Association, subcl. 2 Article 31 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Review of the list of persons having the right to participate in the General Meeting of Shareholders	cl. 4 Article 51 of the Federal Law "On Joint Stock Companies"	✗	✓	✓	✓	✓
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"	✗	✗	✓	✓	✓
Nomination of candidates to the Revision Commission	cl. 13.1 Article 13 of the Articles of Association; subcl. 1 Article 53 of the Federal Law "On Joint Stock Companies"	✗	✗	✓	✓	✓
Initiation of holding of the extraordinary General Meeting of Shareholders	para. 1 cl. 14.3 Article 14 of the Articles of Association; cl. 1 Article 55 of the Federal Law "On Joint Stock Companies"	✗	✗	✗	✓	✓
Initiation of the examination (audit) of financial and economic activity of IDGC of Northern Caucasus PJSC	cl. 24.7 Article 24 of the Articles of Association; cl. 3 Article 85 of the Federal Law "On Joint Stock Companies"	✗	✗	✗	✓	✓
Introduction to accounting documents and minutes of Management Board meetings and request copies of these documents	para. 2 cl. 26.5 Article 26 of the Articles of Association; para. 1 cl. 1 Article 91 of the Federal Law "On Joint Stock Companies"	✗	✗	✗	✗	✓
Appeal of decisions of the management bodies of the Company entailing civil and legal consequences, in cases and in accordance with the procedure specified by the legislation of the Russian Federation	para. 7 cl. 6.2 Article 6 of the Articles of Association, cl. 7 Article 49, cl. 6 Article 68 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Requesting recovery of losses caused to the Company	para. 8 cl. 6.2 Article 6 of the Articles of Association, para. 4 cl. 3 Article 6 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓
Disputing transactions made by the Company on the grounds specified by the legislation of the Russian Federation and requesting application of effects of their invalidity, as well as application of effects of invalidity of negligible transactions of the Company	para. 9 cl. 6.2 Article 6 of the Articles of Association, cl. 6 Article 79, cl. 1 Article 84 of the Federal Law "On Joint Stock Companies"	✓	✓	✓	✓	✓

* Shareholders holding in aggregate size designation of the voting shares, may jointly implement the corresponding right.

✓ – Right available.

✗ – Right unavailable.

Information on share issues

The initial placement of shares was effected on the date of state registration of IDGC of Northern Caucasus PJSC on August 4, 2006 through the acquisition of shares of a sole founder – RAO "UES of Russia".

Issue	Prospectus registration date	Information on state registration of issue	Information on state registration of issue on issue results	Number of listed shares, pcs.	Nominal cost, RUB	Issue objectives
1	Not registered	December 27, 2006 1-01-34747-E	December 27, 2006	150,000	1	Establishment of 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	Fulfillment of the program of activities for reducing excessive power losses in the distribution grids
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		

On December 15, 2016 Bank of Russia registered the additional issue of ordinary shares of IDGC of Northern Caucasus PJSC, state registration number 1-01-34747-E.

Equity capital structure as of December 31, 2016

Information on number of registered persons in register of shareholders (without disclosure of data on nominal holders customers)

Share holder type	Number of registered persons	Number of shares, pcs.	Equity interest, %
Owners - natural persons	2,238	835,942	0.54%
Owners - legal entities	45	517,646	0.33 %
Nominal holders (first level)	2	150,359,226	97.28%
Trustees (not nominal holders, depositors)	1	2,838,192	1.84%
Securities of unknown person	1	11,269	0.003%
Total	2,287	154,562,275	100%

Data on participation of foreign investors in the authorized capital

Total	pcs. thousand shares	303.7
	% in authorized capital	0.2%
including by countries in thousand pcs. of shares:		
Australia		0.5
Republic of Austria		30.0
Belize		15.4
Bermuda		5.0
The British Virgin Islands		7.7
Kingdom of Sweden		0.7
Latvian Republic		3.2
Republic of Lithuania		9.0
Cayman Islands		1.6
Republic of Azerbaijan		0.4
Republic of Belarus		0.2
Republic of Cyprus		148.7
Republic of Seychelles		4.5
United Kingdom of Great Britain and Northern Ireland		1.1
Ukraine		0.3
Federal Republic of Germany		0.002
Swiss Confederation		75.2

Information about persons with more than 5% of shares registered

Shareholder	Location	Number of shares, pcs.	Equity interest, %
Rosseti PJSC (owner)	Moscow, Russian Federation	142,197,293	92.00

Information on share of the Russian Federation, constituent entities of the Russian Federation, municipal formations in authorized capital

Category of shareholder	Russian Federation	Constituent entities of the Russian Federation	Municipal formations	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 authorized capital		0.0003	0.2621	0.2624

Company on stock market

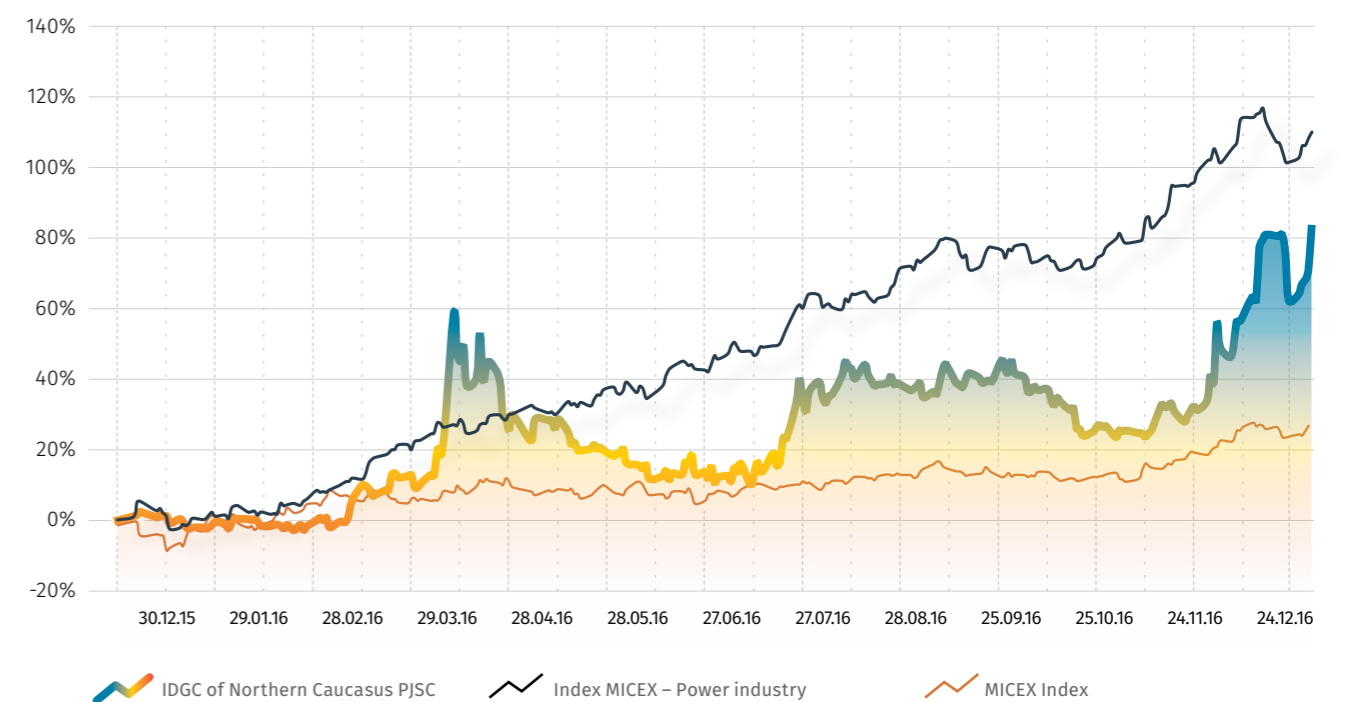
Capitalization, value and dynamics of shares of IDGC of Northern Caucasus PJSC for 2014-2016 on the basis of trading on MICEX Stock Exchange CJSC

Indicator	December 31, 2014	December 31, 2015	December 31, 2016	Dynamics 12 months (2016), %
Weighted average price (as of the year end), RUB	11.9	12.4	22.55	82
Closing price, RUB	12.1	12.5	22.05	76
Capitalization*, billion RUB	1.8**	1.9	3.5	83
Indicator	2014	2015	2016	Dynamics 12 months (2016), %
Maximum price per year, RUB	21.9	20.1	24.1	20
Minimum price per year, RUB	9.3	11.6	11.9	3
Average daily trading volume, M RUB	0.4	0.4	0.8	100
Average daily trading volume, K pcs.	24.6	25.8	42.5	65
Average daily volume of trading, transactions	113	82	173	111

* Product of number of shares of the relevant category (type) per market price of one share disclosed by trading organizer.

** 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 PJSC to the organized trading in MICEX Stock Exchange CJSC.

Dynamics of capitalization of IDGC of Northern Caucasus PJSC, Index of Micex-Power Industry and MICEX Index in 2016



Information on trends and factors that influenced dynamics of capitalization is provided in the section "Strategic Report" of the Annual Report.

Participation in commercial organizations

Subsidiaries

We carry out relationships with subsidiaries in accordance with the requirements of the Russian Federation legislation, the Charter and other regulatory documents of the Company and charters of managed Companies and subsidiaries.

General conditions for corporate interaction are established by the procedure for interaction between IDGC of Northern Caucasus PJSC and business companies whose shares (stakes) are held by IDGC of Northern Caucasus PJSC. The document regulates corporate planning, organization and control of corporate actions during consideration of issues by the management bodies of subsidiaries, which are to be defined by the Articles of Association of PJSC IDGC of Northern Caucasus PJSC. The full text of document is available on the website in the section "To Shareholders and Investors/Articles of Association and Internal Documents/ Corporate Governance Procedures' Documents".

Management of subsidiaries is carried out along the following areas:

- participation of representatives of IDGC of Northern Caucasus PJSC in the management bodies;
- formation and control of implementation of the development strategy;
- planning and control of financial and economic activities;
- development and implementation of standardized business processes, internal documents and statements, corresponding to standards of corporate governance of IDGC of Northern Caucasus PJSC;
- formation and implementation of personnel policy.

The core goals of interaction are:

- ensuring stable financial development, functioning profitability and promotion of investment attractiveness;
- ensuring protection of rights and legally protected interests of shareholders;
- harmonization of relations between shareholders, officials and members of labor collectives, exclusion of conflicts arising between and within the said groups;
- elaboration and implementation of a coordinated and efficient investment policy.

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

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

Subsidiaries of IDGC of Northern Caucasus PJSC

Full business name	Joint Stock Company "Dagestan Grid Company"	Open Joint Stock Company "Dagenergoset"
Abbreviated business name	Dagestan Grid Company JSC	Dagenergoset OJSC
Location	Makhachkala, Republic of Dagestan, Russian Federation	367020, Russian Federation, Republic of Dagestan, Makhachkala, ul. Dakhadaeva, 73a
Key business activities	Transmission and distribution of power, technological connection of consumers to grid infrastructure	Does not perform production activities
Authorized capital, RUB	100,000	150,000
Share of participation of IDGC of Northern Caucasus PJSC in authorized capital, %	100	100
Share of voting shares owned by IDGC of Northern Caucasus PJSC, %	100	100
Revenue for 2016, mln RUB	2,859.9	-
Financial result for 2016, mln RUB	- 3,347.1	- 674.8

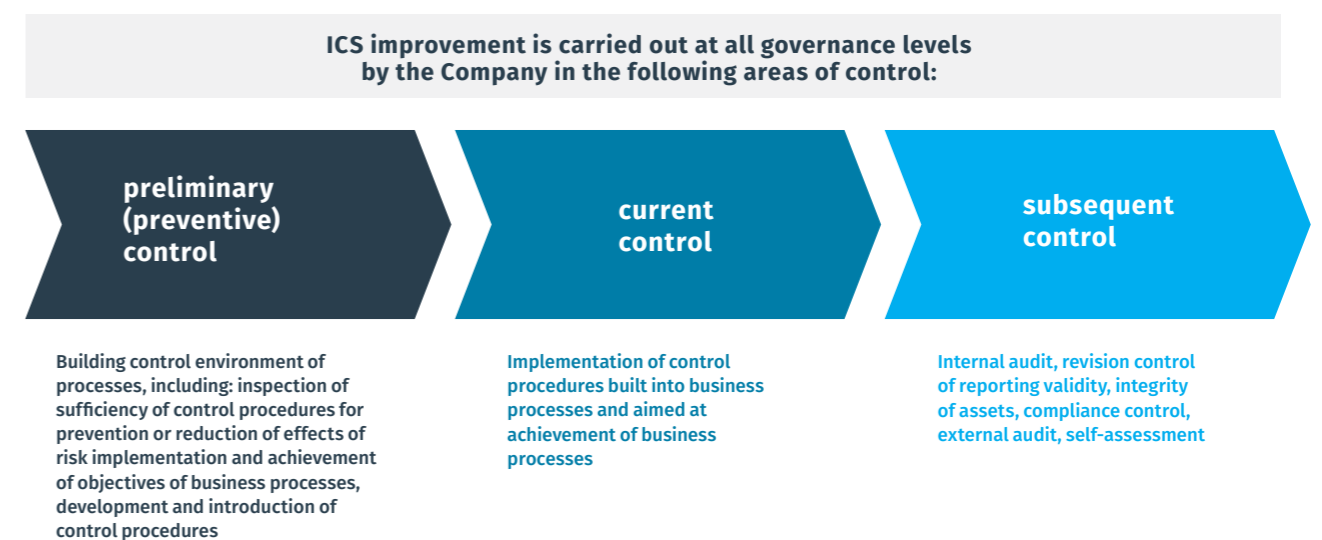
Additionally: Information on financial contributions to other shares and stakes is provided in Annex 8 to Russian-language Annual Report.

Internal Control System

Internal Control System of the Company (ICS) – element of general system of Company management. The internal control system (ICS) encompasses all the branches of the Company's activities; control procedures must be fulfilled constantly within all the processes (activity branches) of the Company at all the management levels and are aimed at achievement of reasonable guarantees of target achievement in the following areas:

- efficiency and effectiveness of activities of the Company, preservation of the assets of the Company;
- compliance with the requirements of the legislation as may be applicable to the Company and the local regulatory instruments of the Company inclusive of execution of business activity acts and maintenance of accounting records;
- ensuring consistency and timeliness of accounting (financial) and other statements.

Internal Control System



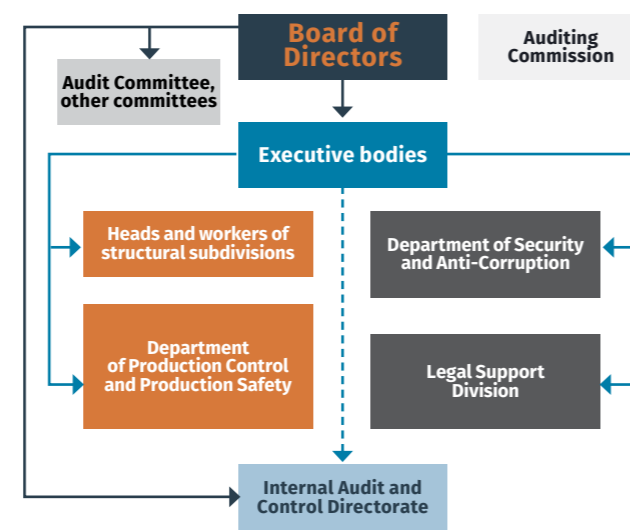
To implement Strategy of Development and Improvement of ICS of Rosseti PJSC and subsidiaries and affiliates of Rosseti PJSC, approved by the decision of the Board of Directors of Rosseti PJSC dated February 10, 2014 (Minutes No. 143), the Company by decision of the Board of Directors on March 14, 2016 (Minutes March 15, 2016 No. 230) approved the Internal

Control Policy of IDGC of Northern Caucasus PJSC (new revision). The internal control policy defines objectives, principles of functioning and elements of ICS of the Company, main functions and responsibility of ICS participants, procedure to assess efficiency of ICS..

Besides, in the Company there are the following internal documents regulating 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;
- documents aimed at improvement of the internal control system for maintaining accounting, tax reporting and making accounting (financial) statements of IDGC of Northern Caucasus PJSC, approved by the Order dated December 29, 2015 No. 790 "On accounting policy of IDGC of Northern Caucasus PJSC";
- methodology to assess efficiency of the internal control system and the risk management system of IDGC of Northern Caucasus PJSC approved by the order of January 22, 2016 No. 25.

Participants of Internal Control System



Functions of ICS participants

Participant name	Main functions in the field of ICS
Revision Commission	<ul style="list-style-type: none"> • exercises control over financial and economic activities of the Company, the results of which shall prepare proposals/recommendations for the improvement of ICS; • performs independent verification of the integrity of data in the annual report of the Company and annual accounting reports of the Company.
Board of Directors	<ul style="list-style-type: none"> • determines the principles and approaches to organization of the internal control system of the Company, in particular, approving of in-house documents of the Company determining the organization and strategy of ICS development and improvement and approving of the Internal Control Policy of the Company; • carries out control over the activities of the executive bodies of the Company in the core (priority) branches; • considers the report of the Management Board on organization and functioning of the internal control system of the Company; • annually considers reports of the internal auditor on efficiency of the internal control system; • considers the results of an external independent evaluation of the internal control system efficiency.
Audit Committee of the Board of Directors	<ul style="list-style-type: none"> • carries out preliminary consideration of in-house documents of the Company determining the organization and strategy of development and improvement of the internal control system of the Company, the Internal Control Policy and subsequent amendments thereto prior to their approval by the Board of Directors; • carries out preliminary consideration of the results of evaluation of efficiency of the internal control system following the outcome of the report of the internal auditor on efficiency of the internal control system as well as information on the results of conductance of an external independent evaluation of the internal control system efficiency prior to their consideration by the Board of Directors and prepares proposals/recommendations on improvement of the internal control system of the Company; • carries out control over the internal control system to the extent of consideration of issues related to control over the consistency of the accounting (financial) statements of the Company, over selection of external auditor, over ensuring compliance with the regulatory legal requirements, to the extent of consideration of the report of the Management Board on organization and functioning of the internal control system as well as to the extent of consideration of issues related to analysis and evaluation of execution of the Internal Control Policy.
Other Committees of the Board of Directors	<ul style="list-style-type: none"> • carry out control over fulfilment the established financial and operational performance indicators, supervision over compliance of the applicable legislation, the rules and procedures established by the local regulatory instruments as well as supervision over consistency and timeliness of statements generated by the Company.
Executive bodies of the Company (Management Board, Sole Executive Body)	<ul style="list-style-type: none"> • ensuring creation and efficient functioning of ICS; • bearing responsibility for execution of decisions of the Board of Directors to the extent of organization of ICS.

Participant name	Main functions in the field of ICS
Management Board of the Company	<ul style="list-style-type: none"> • shapes the directions and plans for development and improvement of ICS; • carries out preparation of statements on the financial and business activities of the Company, on organization and functioning of the internal control system of the Company; • considers the results of an external independent evaluation of ICS efficiency and develops measures for ICS development and improvement.
General Director of the Company	<ul style="list-style-type: none"> • approves of regulatory and methodological documents of the Company related to issues of ICS organization and functioning except for documents approval whereof is referred to the competence of the Board of Directors of the Company; • ensures execution of the Company's activity plans required for reaching the goals of the Company; • organizes maintenance of accounting and managerial records, preparation of accounting (financial) and other statements; • submits for consideration to the Board of Directors of the Company statements on the financial and business activities of the Company, on organization and functioning of the internal control system of the Company.
Collegial working bodies created by the executive bodies of the Company for discharge of specific functions (commissions, work groups etc.)	<ul style="list-style-type: none"> • perform control procedures and/or elaborate recommendations on improvement of control procedures, individual components (elements) of internal control and the internal control system
Heads of units and structural subdivisions of the Company	<p>discharge functions related to elaboration, recording, adoption, monitoring and development of the internal control system in the functional activity areas of the Company wherein they are held responsible for organization and coordination/performance wherein by virtue of regulatory documents of the Company/regulations on structural subdivisions; in particular, they:</p> <ul style="list-style-type: none"> • ensure implementation of the internal control principles; • organize building efficient processes (activity branches) inclusive of elaboration of new control procedures and modification of those in place with account for the risks detected; • ensuring procedural regulation of the supervised processes (activity branches); • organize execution of control procedures; • carry out evaluation (monitoring) of control procedures execution; • carry out evaluation of the supervised processes (activity branches) for the necessity of their optimization for increase of efficiency and conformity to the changing conditions of the external and internal environment, organize elaboration of proposals on control procedures improvement; • ensure elimination of deficiencies in control procedures and processes (activity branches) as may be detected.
Workers of structural subdivisions of the Company executing control procedures (by virtue of their official duties)	<ul style="list-style-type: none"> • execute control procedures; • ensure timely informing of their line managers of cases where execution of control procedures is rendered impossible due to any reasons whatsoever and/or where the control procedures design needs to be modified due to changes in the internal and/or external conditions of the Company's functioning; • present for consideration to the line management proposals on adoption of control procedures in the corresponding activity areas.
Legal Support Division	<ul style="list-style-type: none"> • 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; • 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 • monitors compliance with the internal organizational and administrative documents, industry guidelines, directives, standards and regulatory activities in the field of legal support;
Department of Security and Anti-Corruption	<ul style="list-style-type: none"> • 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; • 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.

Participant name	Main functions in the field of ICS
Department of Production Control and Production Safety	<ul style="list-style-type: none"> carries out continuous departmental technical control of compliance with requirements of normative-technical, organizational-administrative documents in operation of power grid equipment, buildings and structures regulated by "Rules of Technical Operation of Electrical Stations and Networks, other normative documents and also control of works to reduce accidents, industrial injuries and occupational disease carried out in the Company.
Internal Audit and Control Directorate	<ul style="list-style-type: none"> elaborates and supports adoption of core and methodological documents on building and improvement of the internal control system; assists the management in building the control environment, elaboration of recommendations on description of control procedures and their adoption in processes (activity areas) and assigning responsibilities to officials; coordinates activities related to maintenance and monitoring of the target condition of the internal control system; prepares information on the conditions of the internal control system for stakeholders; interacts with state control and supervision bodies in connection with internal control issues; following the results of an internal audit conductance - elaborates recommendations on improvement of control procedures, individual components (elements) of internal control and the internal control system; performs internal independent evaluation of efficiency of the internal control system and issue of recommendations on increase of efficiency and effectiveness of the internal control system.

To guarantee that the ICS is efficient and conforms to the objectively changing requirements and conditions, the Company conducts evaluation of efficiency of ICS for conformity to the target condition and the maturity level.

The strategy for development and improvement of the internal control system of Rosseti, PJSC and subsidiaries and affiliates approved by decision of the Board of Directors of Rosseti, PJSC dated February 10, 2014 (Minutes No. 143) (Strategy of ICS Development), 6 levels of internal control system maturity are defined (from 1 "zero" to 6 "high").

During the reporting year, the Company implemented the following key actions to improve the ICS:

- allocated to the necessary extent and with the necessary access rights the local network resources in the Company;
- regulations on departments and job descriptions of employees with accumulation of information about their new editions, validity of the documents placed were published at allocated resources;
- information was provided on functionality appointment to functional verticals and distribution of the functions by management levels;
- functions were identified that were not provided, but actually executed by structural units and individual employees of the Company, and appropriate changes were made to the Regulations of structural divisions and job descriptions of employees;
- thorough analysis was made on powers of officials of the Company's executive office with implementation of the direct functionality and work in the various collegial bodies to identify incompatible duties, following which, no pre-conflict situations and conflicts of interest have been identified.

The implementation of these measures has improved the level of maturity of ICS from 3.7 (between "Satisfactory" and "Doderate") to 4.1 points ("Moderate"). Internal independent evaluation of ICS efficiency was implemented by internal auditor of the Company, external independent evaluation was not conducted.

The question of ICS effectiveness as of the end of 2016 was

considered at the meeting of the Board of Directors of 30 May 2017 (Minutes of June 2, 2017 No.299) with preliminary discussion of this issue by the Audit Committee of Board of Directors on 30 March 2017. (Minutes dated March 31, 2017 No. 69) and the decision to take into account the results of the self-evaluation of the internal audit activity for 2016:

In order to further implement the Development Strategy of the ICS, for 2017 the following recommendations were proposed aimed at improving the ICS:

- social adaptation of standard risk matrix and controls in the Company, designed by PJSC Rosseti by primary and auxiliary business-processes of the Company. Their implementation, testing of the environment;
- formation of a division in the organizational structure of the Company, which organizes the quality management system;
- formation of the Company's goals hierarchy by resource of the formed unit for implementation of quality management system. Decomposition of targets for its core business activities and the Company's executive office;
- development of uniform (unified) approaches to approval of standards, regulations, rules and procedures regulating primary and secondary business processes;
- improving efficiency of information systems continuity, including databases, operating time, knowledge, etc.;
- functional separation by internal audit, methodological development of internal control and risk management (risk management) between independent functional units;
- increased automation level of business processes of the company, including those, automation of which is not implemented;
- development of automated mechanisms for bringing orders (via Automated Diagnostics Control System) to the level of experts in the branches of the Company;
- exclusion/avoidance of conflicts of interest among the Company's employees, segregation of incompatible duties (executor/control functions, authorization of transactions);

- development and introduction of additional control procedures for the preparation of internal and network reporting and accountability measures in order to create timely, accurate, quality reporting of any area.

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.

Targets and objectives, main principles of organization and functioning of internal audit, functions and responsibilities of internal audit are defined in the Internal Audit Policy of IDGC of Northern Caucasus PJSC (new edition), approved by the Board of Directors on March 14, 2016 (Minutes No. 230 dated March 15, 2016).

The Company approved the following documents that regulate internal audit function:

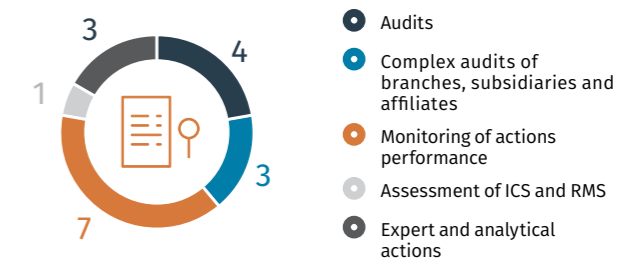
- form and structure of the report of the Internal Audit and Control Directorate on implementation of the work plan and the results of the internal audit (approved by the Audit Committee of the Board of Directors dated April 30, 2015, Minutes No. 45);
- instruction on formation and use of a Unified Classifier of violations and deficiencies approved by order dated June 26, 2015 No. 79r;
- methodology to assess efficiency of the internal control system and the risk management system approved by the order of January 22, 2016 No. 25;
- guidance on conducting internal audits of IDGC of Northern Caucasus PJSC and managed Companies and Glossary of Internal Audit, approved by the order of January 28, 2016 No. 38;
- Regulations of interaction of Internal Audit and Control Directorate with structural and separate subdivisions of IDGC of Northern Caucasus PJSC and managed Companies during inspections and monitoring of the execution of corrective action plan, approved by the order of May 31, 2016 No. 336;
- guidance on monitoring performance of plans of corrective measures to eliminate violations and shortcomings identified by the results of internal audits, approved by order of July 7, 2016 No. 456;
- program of guarantee and improvement of internal audit quality, approved by the Board of Directors on December 26, 2016 (Minutes of December 29, 2016 No. 274) with preliminary examination by the Audit Committee of the Board of Directors on November 7, 2016 (Minutes of November 9, 2016 No. 62).

The goal of Internal Audit is assisting the Board of Directors and Executive Bodies of the Company in enhancement of efficiency of the Company management, improvement of their financial and economic activities, inter alia – by way of a systemic and consistent approach to analysis and evaluation of the systems of risk management, internal control and corporate governance as instruments for ensuring reasonable assuredness of achievement of the goals set to the Company.

In 2016, the average number of employees that perform the internal audit function was 7 people.

Internal Auditor in 2016 carried out 18 audits

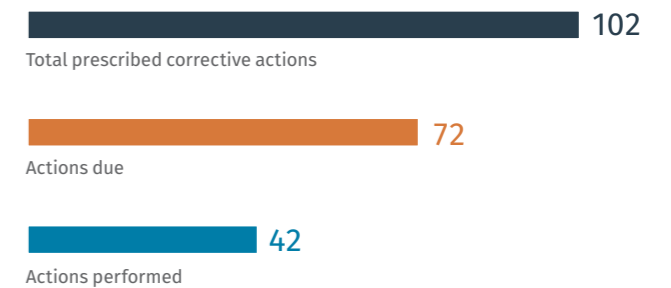
Results of control actions implemented by internal audit in 2016



As a result of audits conducted by the internal audit in 2016, it was ordered to perform 102 corrective actions aimed at elimination and future prevention of violations and deficiencies identified by internal audit.

Of the 72 events, the period of execution of which occurred in the reporting year, 42 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.

6. Anti-Corruption Policy

In accordance with the order of the IDGC of Northern Caucasus PJSC of June 24, 2016 No. 405 "On commissioning of the organizational structure of the executive office of IDGC of Northern Caucasus PJSC", changes to executive office organizational structure were made. Functions implementing anti-corruption policy of PJSC Rosseti and its subsidiaries and affiliates in the Company were transferred to the Department of Security and Anti-Corruption of IDGC of Northern Caucasus PJSC, which includes the Group of Anti-Corruption Compliance Procedures (Group). The purpose of activity of the structural unit is to implement the provisions of the Anti-Corruption Policy of PJSC Rosseti and its subsidiaries and affiliates (Anti-Corruption Policy), combating corrupt practices of the Company and the managed Companies, to ensure the implementation of anti-corruption and corporate compliance procedures.

The activities of the Company and its managed Companies in the field of combating corruption in the reporting period was regulated by the fundamental document – the Anti-Corruption Policy adopted by the Board of Directors of IDGC of Northern Caucasus PJSC, on December 30, 2014 (Minutes No. 183). Implementation of regulations and anti-corruption policy requirements was carried out in the framework of the List of anti-corruption measures in PJSC Rosseti and its subsidiaries and affiliates (Annex 1 to the Anti-Corruption Policy) and the Action Plan for prevention and combating corruption in IDGC of Northern Caucasus PJSC in 2016 (Plan).

In order to improve the legal regulation of anti-corruption activities of the Company and the managed Companies, to form a common approach to work on prevention and combating corruption in 2016, a number of organizational and administrative documents governing the main areas of work were developed, implemented and updated:

- the procedure for obtaining and processing information about the chain of owners of counterparties;
- the procedure for receiving, considering and resolving complaints of the applicants on possible corruption;
- the implementation of the provisions of the Anti-Corruption Policy of PJSC Rossetti and its subsidiaries and affiliates in the branches of IDGC of Northern Caucasus PJSC and the managed Companies;
- notification of employees about the receipt of gifts in connection with their official position;
- improvement of anti-corruption activities in the IDGC of Northern Caucasus PJSC;
- the organization of work to declare information about the property, income and obligations of proprietary nature;
- the procedure for official checks on the facts of corruption;
- prevention of corruption – prevention and settlement of conflict of interest in IDGC of Northern Caucasus PJSC and managed Companies;
- improvement of the activities for the implementation of anti-corruption policies in managed Companies.

Tasks and responsibilities were assigned for the implementation of anti-corruption policy in managed Companies to security units of managed Companies. Work was organized on amendments to the organizational and administrative documents of managed Companies, governing anti-corruption activities, regulations on structural security departments, job descriptions of structural security departments employees, taking into account the assigned tasks and functions. Study by employees of security departments of managed Companies of the Russian Federation laws was organized, including decrees of the President, regulations of the RF Government, ministries and agencies, "Anti-Corruption Policy of Rossetti OJSC" and subsidiaries and affiliates of Rossetti OJSC, organizational administrative documents of PJSC Rossetti, IDGC of Northern Caucasus PJSC, regulating the activity of prevention and combating corruption.

As part of the implementation of standards and procedures designed to ensure diligent work, in order to identify facts of affiliation and other abuse in Q1 in 2016, measures were performed to verify information on income, property and obligations of property nature for 2015 in respect of employees, substituting offices in IDGC of Northern Caucasus PJSC, managed Companies, and their close relatives. Results of declaration campaign were considered on February 29, 2016 at the Commission of IDGC of Northern Caucasus PJSC, managed Companies and its subsidiaries on compliance with corporate ethics and settlement of conflict of interest (Commission) (Minutes dated February 29, 2016 No. 3). In November 2016 measures were taken to verify information on income, property and obligations of property nature in respect to the candidate for the position of Advisor to the Director General of IDGC of Northern Caucasus PJSC and its close relatives.

Within the task of the annual declaration of conflict of interest, in Q3 the campaign was carried out on the annual declaration of conflict of interest of employees of administrative personnel of the executive apparatus of the Company and managed Companies for 2015 in accordance with the order of IDGC of Northern Caucasus PJSC of March 22, 2016 No. 157 "On measures to prevent corruption – prevention and settlement of conflict of interest in IDGC of Northern Caucasus PJSC and managed Companies". Results of declaration for 2015 were considered on August 12, 2016 at the Commission of IDGC of Northern Caucasus PJSC, managed Companies and its subsidiaries on compliance with corporate ethics and settlement of conflict of interest (Minutes dated August 12, 2016 No.5).

In order to limit influence of private interests, personal interests of employees (candidates) at their implemented labor functions, business decisions made, identification, prevention and resolution of the conflict of interest in the reporting period, work was undertaken to verify the declarations of conflict of interest of candidates for work in the Company and managed Companies. 357 declarations of candidates for the job were checked, the corresponding conclusions were prepared. 26 opinions were issued and transmitted that influenced the decision on non-conclusion of the employment contract with the candidate for the vacant position. Identified cases of pre-conflict situations/ conflict of interest of candidates (employees) are considered in the Commission and resolved in due course.

As part of implementing requirements of a single Anti-Corruption Standards in conducting anti-corruption control in the procurement, employees of the Group checked procurement documentation and participants in the procurement/contracting parties in order to assess their level of trustworthiness and integrity, conflict of interest settlement, exclusion of affiliation and other abuse associated with jobs held in IDGC of Northern Caucasus PJSC. According to the results of checks, 297 opinions were made. Some possible signs of corruption were identified that have a negative impact on effectiveness and financial stability of the Company.

For comprehensive assessment of the Company's contractors, to identify potential corruption risks, the degree of reliability of the counterparty, inspections of contractors are carried out systematically, as well as inspections of their beneficiaries in order to exclude affiliation, corruption collusion and other abuse at the stage of draft agreements.

At the stage of execution of the agreement, control was carried out concerning of compliance with requirements of Anti-Corruption Clauses and timely provision of changes made to the chain of counterparty owners.

Pursuant to the plan of actions to improve maturity of internal control and risk management systems of IDGC of Northern Caucasus PJSC, they analyzed regulations on work of commissions/committees, duties and powers of top managers of IDGC of Northern Caucasus, members/chairmen of Commissions, Committees and other collegial bodies of the Company. No pre-conflict situations/conflicts of interest have been identified.

On a permanent basis, work is carried out to form list of Company's insiders, on timely notification of persons included in the list of insiders, transmission of information about insiders to securities trading organizer (stock exchange), preparation and direction of the relevant statements, as well as to verify the chain of owners of procurement participants, compilation and checking information about the concluded agreements with counterparties of the Company, managed Companies, beneficiaries, entering data into BIAS (automatic system of analysis and collection of information on beneficiaries) in PJSC Rossetti.

In order to coordinate work on combating corruption in the Company, managed Companies, to study and resolve problems arising in implementation of anti-corruption policy in the branches and managed Companies, on February 2, 2016 in the executive office of the Company (Pyatigorsk) a meeting was held with the participation of employees of branches and managed Companies, responsible for the implementation of anti-corruption policies in the field. In the format of the active dialogue they discussed issues related to key areas of work, in particular, campaign to declare information about the property, income and obligations of property nature and prevent and resolve conflicts of interest, to consider and resolve applicants' complaints about possible cases of corruption, checking agreements in order to identify the affiliation, abuse, respect of anti-corruption standards and procedures by employees, etc. At the end of the meeting they worked out proposals with a view to increase work on the effectiveness of prevention and combating corruption in the power grid complex of the North Caucasian Federal District (Minutes of February 2, 2016 No. 1).

In order to evaluate the progress and effectiveness of the implementation of anti-corruption policy in the branches and managed Companies, analysis (research) was carried out on prevention and combating corruption in the branch Sevkavkazenergo, JSC Sevkavkazenergo, Digorsky power sales department of JSC Sevkavkazenergo, Kabbalkenergo branch, JSC Kabbalkenergo and Baksansky district power sales department of JSC Kabbalkenergo, JSC Karachaevo-Cherkessenergo and Prikubansky ESO, CSC.

In accordance with requirements of the Anti-Corruption Policy, the managed Companies took part in collective initiatives of combating and prevention of corruption. In February and March, with the participation of employees of the Group, JSC Karachaevo-Cherkessenergo and JSC Sevkavkazenergo were merged with Anti-Corruption Charter of Russian Business (Charter) (certificate of merger dated February 16, 2016 No. 0149 and dated March 22, 2016 No. 2359). Events of Companies joining the Charter are covered in regional media and reflected in the company's official website.

In the framework of cooperation with law enforcement agencies in identification and investigation of corruption, interaction was established with leaders and senior officials of the Main Directorate of the Russian Interior Ministry in the North Caucasus Federal District, measures were provided to assist the authorized representatives of law enforcement agencies to investigate possible corruption offenses involving employees and contractors Company.

To ensure effective interaction of structural security subdivisions of the Company, managed Companies with law enforcement agencies, in order to streamline the process of review and execution of requests of law enforcement agencies, queries, protests and representations of the prosecutor's office, as well as decisions relating to seizure of documents and conducting a search of the premises of the executive office of IDGC of Northern Caucasus PJSC, timely and quality execution of applications, protection of legitimate interests of IDGC of Northern Caucasus PJSC, the Company developed and implemented an order on approval of procedure for review of applications from law enforcement agencies and prosecutors.

The procedure establishes a unified system of review/ implementation in IDGC of Northern Caucasus PJSC of the applications from law enforcement agencies, queries, protests and representations of the prosecutor's office, as well as decisions relating to seizure of documents and conducting a search in the Company, which is based on the principles of legality, the complex nature of execution, coordination of Company's structural units, rapid response to incoming requests of law enforcement agencies and prosecutors.

In 2016, in cooperation with law enforcement authorities, materials were collected, which made it possible to prosecute employees of the Company and managed Companies for crimes of corruptive nature (four criminal cases for 2016).

At a later stage in order to fulfill the tasks of prevention and combating corruption, additional coverage is required in the area of organization of work for the implementation of the Anti-Corruption Policy (revised) in subsidiaries and managed Companies, and control over the execution of instructions of the Company management in the field of combating corruption at the local level, monitoring implementation of procedures for the purpose of their evaluation, interaction with structural divisions of IDGC of Northern Caucasus PJSC, law enforcement agencies and authorities. It is also necessary to focus on opening and localization of specific negative processes, countering corrupt practices, organization of emerging threats, development of appropriate measures to minimize the threat to Company.

7. Public Relations, Governmental and Mass Media Relations



Communications with state authorities and public organizations

In 2016

104 working meetings

were held with the heads of regions and relevant departments of the North Caucasus Federal District.

Therefore, IDGC of Northern Caucasus PJSC was able to move forward in dealing with such important issues as:

- power grid assets consolidation;
- development of energy sector of the North Caucasus Federal District;
- improving the quality of power supply to consumers and reducing power losses in the network;
- optimization of the processes of technological connection to electric networks;
- payments for the services of electric power transmission.

As part of the comprehensive action plan to reduce the debt for the consumed energy, approved by the executive bodies of subjects of the North Caucasus Federal District and approved by the Office of the Plenipotentiary Representative of the RF President in the North Caucasian Federal District, 27 meetings were attended in the regional commissions to eliminate debt for delivered energy resources in the Russian regions, located within the North Caucasus Federal District.

Within preparation for the autumn-winter period, the meeting was attended "On the state and problems of development of fuel and energy complex of the North Caucasus Federal District" at the site of the Ministry of North Caucasus Affairs of the Russian Federation, organized by the Ministry of Energy of the Russian Federation; 8 events were held in the Russian Federation regions, located within the North Caucasus Federal District.

In 2016, three meetings were attended in the Commission on prevention and liquidation of emergency situations and fire safety in the North Caucasus Federal District, 6 meetings were held with the leaders of the North Caucasian Regional Emergency Center of Russia.

In May 2016 the Forum was organized and held on the development strategy of the distribution grid complex of the

Republic of Dagestan till 2020, with the involvement of the top management of PJSC Rossetti, IDGC of Northern Caucasus PJSC, public organizations, business representatives, regional and national media.

In 2016 IDGC of Northern Caucasus PJSC has been implementing active congress and exhibition activities, as a result of which the Company participated in the following regional, federal and international events:

- **the annual St. Petersburg International Economic Forum** (16-18 June 2016);
- **XV International Investment Forum Sochi-2016** (September 29 – October 2, 2016) – a modern platform for constructive dialogue between business and government with a view to the implementation of investment projects;
- **International Power Forum Rugrids-Electro** (18-19 of October 2016, Moscow), which became a unique professional platform, designed to give the power industry a new vector of development, including innovative technologies;
- **V International Forum on Energy Efficiency and Energy ENES 2016** (November 23-25, Moscow), conducted with the support of the Russian Ministry of Energy. The key themes of the forum were energy efficiency, innovative technologies in the energy sector, infrastructure development of geographically remote sparsely populated areas;
- **IV Forum of Mass Media** (December 8-10, 2016, Pyatigorsk), conducted with the support of the RF President in the North Caucasian Federal District that brought on its site the heads of the North Caucasus Federal District, representatives of the federal bodies of executive government, federal and regional mass media

Social communications

In 2016 a number of special innovative projects were implemented, which contributed to the effective construction of social communications.

Within the developed and approved **Action Plan to improve the efficiency of operations and improve the financial and economic condition of IDGC of Northern Caucasus PJSC in terms of interaction with the authorities, the public and the media** large-scale comprehensive work was performed, aimed at improving the payment discipline in the North Caucasus Federal District. To achieve the result, all forms and methods of interaction with the public were involved: citizens' gatherings, meetings with collectives, raids, youth volunteer activities, actions in the media and social networks, information delivery through clergymen in religious institutions, as well as in interactive form in educational institutions and at youth venues. To broadcast the stated goal, all possible information methods of influence on the target audience were widely used: videos on TV, radio, information messages in the Internet media, printed (federal and regional) media, social networks, printing products.

Stop the Thief Promo

In the regions of the Company's presence, mobile groups of activists were created in the number of 5-7 people to conduct explanatory work with consumers to prevent theft of electricity with the distribution of visual printed products. Initiative volunteer groups "Stop the Thief!" included representatives of the Youth Councils of branches and managed Companies of IDGC of Northern Caucasus PJSC, students of profile universities and colleges.

Text content and design mock-ups have been developed, information-propaganda posters, booklets, flyers, stickers, memos of employee of IDGC of Northern Caucasus PJSC (Code of Conduct) have been produced. Stickers "Stop the Thief!" with the appeal "For someone who does not pay for power, his neighbor pays twice" were applied next to homeowners, organizations and enterprises whose owners are malicious defaulters or are caught in illegal connections to electric grids. Leaflets and booklets were distributed during raids, in CSCs, on streets, in mosques.

The following was distributed:

- information leaflets – 46,300 pcs.;
- posters-memos for employees – 400 pcs.;
- memos to power consumers – 16,000 pcs.;
- "Stop the Thief!" stickets – 26,700 pcs.

The promo "Anti-Rating of Non-Payers Areas"

was held in the North Caucasus Federal District, with the publication in the media of the information on top areas with bad taxpayers, which is a motivating factor for regional authorities in strengthening the payment discipline.

Promo "On the Raid with the Fourth Authority"

informational support of raids on disconnection of defaulters facilities from electric power supply of objects, revealing the facts of power theft, checking points of reception of ferrous and non-ferrous metals with placement in their territories of warning information posters. 47 raids were conducted with participation of mass media.

The promo "Let there be light!"

creation of a series of video clips with the participation of famous athletes, spiritual leaders, cultural figures, heads of different levels of the subjects of the North Caucasus Federal District. Organization of demonstration of video clips on the republican television channels, placing them in social networks. In the videos the media persons, for example, encourage to pay for electricity. 14 videos were made.

Promo "#YESToenergysaving" and "#NOtopowertheft"

holding press conference and thematic competition of journalistic skill in the territory of the responsibility of the branch of IDGC of Northern Caucasus PJSC – Stavropolenergo. When working in social networks, the hashtags #PowerEngineersAgainstEndofLight and #PatriotofCaucasusPays were used.

PR-contest "Golden Support"

was aimed on revealing the best consumers of the electric power, who pay for consumed power resources on time and in full. Presentations cups were awarded to 11 teams of enterprises of the agro-industrial complex of the Stavropol Territory, valuable gifts were given to physical persons, winners of the "Best Consumer" nomination.

Roundtable "Non-payment: how to change the situation in housing and communal services in the North Caucasus?"

dedicated to the problem of debt growth in the region, was held on the basis of Kommersant editorial. The General Partner was IDGC of Northern Caucasus PJSC, whose representatives were the main speakers of the event. Representatives of the authorities, municipal enterprises and invited experts took part in the discussion. As a result of the event, 7 information and analytical publications were published with the broadcast of the position of IDGC of Northern Caucasus PJSC on the designated topic.

In accordance with the actively pursued social policy of PJSC Rosseti in 2016, effective work was carried out in the Internet space. It was proposed to speak up, ask a question of concern or report power theft in the North Caucasus energy sector in social networks. Official accounts of the company were established in networks:

- Facebook – www.facebook.com/paomrskskru;
- Instagram – www.instagram.com/mrsk_sk;
- VK – https://vk.com/mrsk_sk;
- Odnoklassniki – www.ok.ru/mrsksk;
- Twitter – <https://twitter.com/ostrikovsu>.

The accounts were created and managed by the heads of the branches, managed Companies of the company. Here they also place up-to-date information on functioning of the power grid complex in the subjects of the North Caucasus Federal District.

Project "Our networks are securing the Caucasus"

In 2016, IDGC of Northern Caucasus PJSC for the second time acted as the general partner of the North Caucasus Youth Forum "Mashuk-2016", held under the auspices of the Office of the Plenipotentiary Representative of the President of the Russian Federation in the North Caucasus Federal District, the Ministry of Education and Science of the Russian Federation, Federal Agency for Youth Affairs. At this site, the communication project "Our Networks Are Securing the Caucasus" was realized, in which more than two thousand young and active participants of the Forum were involved in one way or another. The project made it possible to popularize the energy profession and for the second consecutive year became the winner of the All-Russian competition "MediaTEK", held by the Ministry of Energy of Russia among the federal companies of the fuel and energy complex.

Within the framework of the project of IDGC of Northern Caucasus a number of significant presentations, insightful meetings, competitions, quizzes and master classes were held. There was a pavilion containing five main directions, designed in the form of stands:

- the stand "Energy of Russian Networks" presented the company's work on the implementation of youth policy;
- the stand "Energy of Communication" reflected the work of the Forum in the on-line mode;
- the stand "Energy of the North Caucasus" illustrated the development of the electric grid complex in the subjects of the North Caucasus Federal District, the history of the energy of the North Caucasus in figures and facts;
- the stand "Safe Energy" – along with the demonstration of the videos on electric safety, practical skills were practiced here for resuscitation of a victim of electric shock with the use of the robotic dummy "Gosha", contests, quizzes were held, and brochures "Memo on electrical safety" were given out;
- stand "Fair Energy" – videos on the payment discipline of electricity consumers were supported by presentations on the topic, holding quizzes, as well as dissemination of information on the results of raid work to identify debtors and energy thieves.

Visual complement was a layout of HPP "White Coal" prepared for the forum – the first industrial hydroelectric power plant of Russia (1903).

Forum Audience:

- more than 2500 young people aged 18 to 30 years of various ethnic groups and confessions representing the subjects of the Russian Federation, as well as near-abroad countries;
- Forum guests – heads of subjects, politicians, athletes, actors, public figures;
- mass media representatives.

Effect:

- published information messages in the media – more than 300, mentions on the Internet – 5870;
- magnets made for participants of the forum with symbols of IDGC of Northern Caucasus PJSC and PJSC Rosseti – 7,000;
- a photo contest was held in the social network Instagram with a hashtag of IDGC of Northern Caucasus PJSC – about 10 000 likes of the winner;
- posted in the Instagram network – 12.5 thousand photos with a hashtag of Rosseti PJSC, IDGC of Northern Caucasus PJSC, Bright Energy, etc. The number of views in the Instagram network is 6.5 mln.

Pavilion of IDGC of Northern Caucasus PJSC within the framework of the forum "Mashuk-2016" became a platform for meeting with the heads of the republics, well-known politicians, public figures, actors of the theater and cinema, Olympic champions.

In the Feedback Book, more than 50 participants of the Forum shared their impressions, expressing their gratitude to IDGC of Northern Caucasus PJSC for active work with young people.

As a result of the event, a number of the company's most active employees were acknowledged with letters of gratitude from the management of PJSC Rosseti, IDGC of Northern Caucasus PJSC and the Office of the Plenipotentiary Representative of the President of the Russian Federation in the North Caucasus Federal District.

In 2016 the program of public and information measures to prevent cases of injury to third-parties at facilities of the electric grid complex of IDGC of Northern Caucasus was implemented.

Within the framework of the Program a number of creative actions were carried out, 24 tours to the objects of the electric grid complex of the North Caucasus were organized.

Stavropolenergo branch:

- «quest game» (3 games) for students of secondary school No.28, Energetik settlement, school No.6 in Pyatigorsk and children resting in the children's health camp "Solnechniy" in Kazinka village;
- competition "Most Electrically Safe Hostel of SKFU";
- competition of children's drawings "Good and Evil Power";
- raids on the inspection of points of reception of non-ferrous and ferrous metals;
- "Electric Safety Week" in general education institutions.

Kabbalkenergo branch:

- "round table" on the topic of compliance with electrical safety rules in the Tersky district electric networks;
- - promos on electrical safety for students of the Kabardino-Balkaria Road Transport College with demonstration of the work of electricians brigade of the Kabbalkenergo branch, students of grades 9-11 of school No. 11 in Nalchik, the senior group of a kindergarten in the village of Zayukovo, pupils of grades 5-11 of the school of the Baksansky district;
- - Children's poetry competition for the World Day for Labor Protection "Let the labor be safe for the electrician!";
- - training for pupils of a boarding school in Terek;
- - «Open Day» and the promo "Together Brighter" for the students of the Kabardino-Balkarian State Agrarian University named after. V.M. Kokov (tour to the substation "Nalchik" for the students of 1-2 courses), the Chegem branch of the Kabardino-Balkarian College "Builder" (tour to the Chegem RES and to the substation "Chegem-2").

Karachaevo-Cherkesskenenergo branch:

- five tours for pupils of the republican rehabilitation center "Hope" for minors and pupils of the day branch "Isle of Hope" of this center in Prikubanskiy RES, for students of school No.1 in Ust-Dzheguty - in Ust-Dzhegutinsky RES, for students of SKGGTA and students of the school No. 4 in Cherkessk - to 110 kV Substation "Yuzhnaya", for students of the school at Ikon-Khalk - at the training ground of the branch in Adyge-Khabl'skie RES.

Sevkavkazenergo branch:

- the promo "To an Electrically Safe Summer" was held during the summer school holidays (June-August): 130 inspections of electrical installations located near or on the territory of children's school camps, summer children's recreation centers were organized. Of these, 3 raids were conducted with the participation of representatives of regional media, local government administrations, the Ministry of Education of the Republic of North Ossetia-Alania.

Ingushenergo branch:

- the promo to distribute informational materials (flyers) in the banking and post offices, medical centers of the republic, administrations of settlements (held throughout the year).
- radio interview at the NTRK "Ingushetia" about the danger of electric injury and ways to prevent electric trauma (July 2016).

In the territory of the North Caucasus Federal District, 1714 lessons on electrical safety were conducted in educational institutions, orphanages, during which memos, bookmarks on the subject of children's electrical safety, coloring books, exploration games made with regard to uniform content and corporate style, were distributed.

Issued and distributed:

- exploration game - 1,800 pcs.;
- coloring books - 1,800 pcs.;
- information brochures-memos - 5,000 pcs.

On TV channels and radio stations, social videos on the prevention of electric injury were broadcast on a regular basis, 67 press releases were distributed in the media, 554 publications were published.

Power engineers of IDGC of Northern Caucasus PJSC and its branches, with active information support, covered almost all categories of citizens with preventive measures. Specialists of the company took part in 472 rural gatherings, organized meetings and talks with members of public associations of fishermen at the beginning of the summer season, and initiated speeches at 196 parental meetings in educational institutions. They conducted explanatory work with the population in 331 settlements. Informational coverage was provided to raids on the verification of electrical installations located on or near schools and children's holiday camps.

As part of the prevention of theft of equipment that causes electrical injuries, 27 raids have been conducted jointly with law enforcement agencies to check the reception points of ferrous and non-ferrous metals with the placement of warning information posters on their territories.

In 2016, it implemented plan of events dedicated to the 80th anniversary of the branch of IDGC of Northern Caucasus PJSC – Stavropolenergo.

A **retro tram was launched**, decorated with photographs depicting historical events related to the stages of development of the energy system of Russia and foundation of Stavropolenergo. The goal is to inform and remind residents and guests of Pyatigorsk that the Caucasian Mineralnye Vody became the territory of origin and formation of the domestic and world electric power industry, that the current capital of the North Caucasus Federal District was the center of development of the electric power industry in pre-revolutionary Russia.

Within the framework of this project, a press conference was held at the Memorial Stela dedicated to the founding of the world's first energy system located at the intersection of Kirov Avenue and Malygina Street in the center of Pyatigorsk.

Internet competition of multimedia presentations was held. Within three and a half months on the pages of the branch of IDGC of Northern Caucasus PJSC – Stavropolenergo in social networks VKontakte and Facebook there was an online contest of multimedia presentations of all eight production departments and the executive office of the branch.

The aim of the project is to present in the Internet space the largest electric grid company in the region responsible for the uninterrupted and reliable power supply to consumers in the Stavropol Territory.

In honor of the 80th anniversary of the Stavropol power system in the territory of Western Electric Networks of the branch of IDGC of Northern Caucasus PJSC – Stavropolenergo **a memorial stone was set**. The initiative belonged to the power engineer with 25-year experience, the head of the Western Electric Grids, Alexander Kamensky.

The goal of the project is to perpetuate the contribution of power engineers to the development of the region, to instill respect for the profession, to bring pride in new generations for the glorious history of the enterprise, which is not only the largest branch of IDGC of Northern Caucasus PJSC, but also one of the leading economic actors by many indicators.

The **"Virtual Museum"** of Stavropolenergo was opened – a historical timeline of one of the oldest energy companies in the region is embodied in a new Internet project. Considering that many people from the Stavropol power system have perfectly proved themselves at high management positions, at the enterprises of domestic energy and in authorities of different levels, in the framework of celebrating the 80th anniversary in the administrative building of Stavropolenergo, the Board of Honor of the best employees of the enterprise was opened with the Memorable Photo Gallery.

Layout HPP "White Coal" was made – the first industrial hydroelectric power plant of Russia (1903) with the reproduction of a historic building, the landscape with the existing first tram, which is one of the oldest in Russia, and the oldest in the North Caucasus, launched on September 1, 1903. Presentation of the layout was held at the site of the North-Caucasian Youth Forum "Mashuk-2016".

PR-promo "House for the birds" was held with the support of the Ministry of Education and Youth Policy of the Stavropol Territory. In order to educate a humane and environmentally appropriate attitude to the environment, attracting children and adolescents to active environmental protection, power engineers together with students from schools in Pyatigorsk and Stavropol made more than 100 starling houses with the logo and anniversary symbols on the front.

Within the framework of the 80th anniversary of Stavropolenergo, a series of essays were shown on STV channel about the best specialists in this important and challenging profession.

Communication with mass media

Analysis of information activity by subsidiaries of PJSC Rosseti in 2016 showed that IDGC of Northern Caucasus PJSC received 10,373 mentions in the media, 95.3% of which were neutral or positive.

During 2016, regional TV channels broadcast 270 television programs and broadcasts, 154 radio pieces on the Company business, federal media published 288 publications, regional media – 6,127 publications. 1,106 press releases were prepared on topics of payment discipline, receivables, legal work, combating unrecorded consumption, compliance with electrical safety regulations, provision of services of technological connection of new facilities etc., which were sent to the 105 e-mails of mass media.

14 campaign videos were made on strengthening the payment discipline, and aired on regional TV channels (804 airings).

In 2016, we worked closely with the federal media: Kommersant, Rossiyskaya Gazeta, Expert, AIF, Komsomolskaya Pravda, RIA Novosti, News Agency Interfax, TASS, News Agency Regnum, News Agency Kavpolit, GTRK et al.

The project «Power Transmission» was further developed on the channel Russia-1 with involvement of regional branches of the Russian State Television and Radio Broadcasting Company – Stavropol TV, Kabardino-Balkaria TV, Karachay-Cherkessia TV, Alania TV. Power Transmission – a specialized TV program 5-6 minutes long reaching 7 million people, aired on a regular basis since 2013 in “prime time” during the local broadcast on the TV channel “Russia-1”, gained popularity and found its audience in number of subjects of the North Caucasus federal District. 18 footages were shown in 9 programs in 2016. The project made it possible to significantly expand the audience, to cover new information space for the purpose of objective and operational information about the Company’s activities.

IDGC of Northern Caucasus PJSC in the reporting year built its work in accordance with a uniform internal and external information policy of the Rosseti Group of Companies. The directions of this policy are determined by the order of PJSC Rosseti dated August 21, 2015 No.152 “On the Group’s unified communications policy Rosseti”. In the reporting period the main objectives were creation and promotion of a positive image of the IDGC of Northern Caucasus PJSC, ensuring effective public relations management and publicity capital management (image property and business reputation).

The principles of interaction of IDGC of Northern Caucasus PJSC with the public and the media:

- disclosure of the company’s activities in accordance with the Regulation on Information Policy of IDGC of Northern Caucasus PJSC;
- providing relevant information, covering all the aspects of the company’s activities in a maximally complete and unbiased way;
- provision of timely responses to all information inquiries submitted.

Charity

IDGC of Northern Caucasus PJSC, as a socially-oriented company, pursues a policy of social responsibility, which is realized in annual charitable actions. The Company continues to develop and strengthen cooperation with sponsored social institutions. Among the social institutions of the Stavropol Territory, which the network company provides assistance to on a regular basis, is GKUZ «Specialized Child’s Home “Mashuk” for children with central nervous system damage, with mental disorders,» GOU “N.K. Krupskaya Orphanage», 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) boarding school No. 12 of VIII kind».

In 2016, the priority in the provision of charitable assistance was given to educational and sports institutions, which are significant and in demand in terms of education and training young personnel for the power grid complex of the North Caucasus Federal District.

Assistance was provided to:

- The “Memory” Charitable Foundation in the Republic of Ingushetia for the construction of a real estate object in the territory of “North Caucasus Fuel and Energy College named after A.Yu. Tsurov” for 360 places, intended for conducting educational activities in the Republic of Ingushetia;
- The state budgetary institution “Sports Training Center”, subordinated to the Ministry of Physical Culture and Sports of the Republic of Ingushetia, to support the parachute team of the republic, organize and participate in sports competitions at the federal and international levels;
- Autonomous non-profit organization “School of Wrestling of Kuramagomed Kuramagomedov” in the Republic of Dagestan for financial and economic activities, organization and participation in sports competitions of federal and international levels.

The branch of IDGC of Northern Caucasus PJSC – Sevkavkazenergo provided charitable assistance to the children of the orphanage – the Victoria school for the Knowledge Day, children’s sports school No. 2 in Vladikavkaz.

The branch of IDGC of Northern Caucasus – Kabbalkenergo conducted a charitable action to support poor families.

The branch of “IDGC of Northern Caucasus PJSC – Karachaevo-Cherkesskenergo” for the Victory Day helped to restore the bridge that connects two parts of the monument to the young

partisan Dima Yurchenko, located in the Aksaut ravine. The branch took part in charitable actions “Prepare the child for school”, “It is easy to help”, organized by the Office of the Ombudsman for Children’s Rights in the Karachaevo-Cherkess Republic and the Public Council of the Ministry of Internal Affairs in Karachaevo-Cherkessia, provided charitable assistance to the children’s social institutions of the Karachaevo-Cherkess Republic for the Children’s Day, the All-Russian Day of Legal Aid to Children, rendered material assistance to large families and families who found themselves in a difficult life situation.

Plans for 2017

In 2017, active work will continue on formation and promotion of a positive image of IDGC of Northern Caucasus PJSC in the community, on conduct of a unified coordinated information policy of the Company and joint-stock companies operated by the Company; on organization through the mass media of purposeful and consistent work on explaining current and strategic tasks to be performed by the Company; on defending the interests of the Company in public conflicts and crisis situations.

In accordance with the tasks outlined, in 2017 it is planned to hold long-term PR actions in key areas of the company’s activities.

All planned and implemented actions and events will receive full-scale information support.

Fight against non-payments and losses of electricity in networks

- Promotions: “Mass media against power thieves”; “District without losses”; “Fair energy”; “Stop the Power Thief!”; “Let the light be!”; “Useful QR-code”
- “Round table” on the topic “Loss of electricity in networks: how to get rid of energy theft in the North Caucasus?” on the basis of the newspaper Kommersant.

Electrical safety

- Promotions: “How to make friends with electricity”; “Fundamentals of electrical safety”; “Safe energy”.
- Information support in mass media and social networks of raids on checking the condition of electrical installations on the eve of school holidays in the territory of children’s health camps and educational institutions.
- Demonstration of videos on electrical safety on TV on an ongoing basis.
- Conduction of master classes on the basics of electrical safety and provision of first aid in universities and colleges, on the platform of the “Mashuk” Youth Forum.

Reliability and Trouble Free Operation. Popularization of power engineer profession

- Promotions: “Success Story”; “LEP-STOP”; “There is a problem”; “Energy Quest”.
- “ABC of Housing” on the TV channel STV-24.
- Cycle of information and insightful materials about the power grid complex of the North Caucasus.
- TV and Internet project “Faces of Power Engineering”. A series of materials about representatives of the working specialties of the energy industry aimed at popularizing the energy profession. (“Power Transmission”).

Customer-oriented approach

- “Map of disconnections” project
- Creation of the section “Attention, disconnections!” at the corporate website of IDGC of Northern Caucasus PJSC.

Environment

- Promos “Help the birds!”; “Power Landing”; promo for collection and recycling of luminescent mercury-containing bulbs in stations for working with consumers of district power networks.

Victory Day

- Promos “Pay for veteran”; “We remember”; “Tree as a memory”.
- Series of publications in regional mass media and social networks on Great Patriotic War veterans – power engineers, memorable events with participation of power engineers (ascends, meetings, etc.).

8. Human capital and social responsibility



HR and Social Policy

HR policy of IDGC of Northern Caucasus PJSC is an integral long-term strategy of personnel management, the main purpose of which is the full and timely satisfaction of the Company's needs in labor resources. The development of the Company's personnel policy is based on a set of principles, forms and methods of preserving, strengthening and developing human resources.

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.

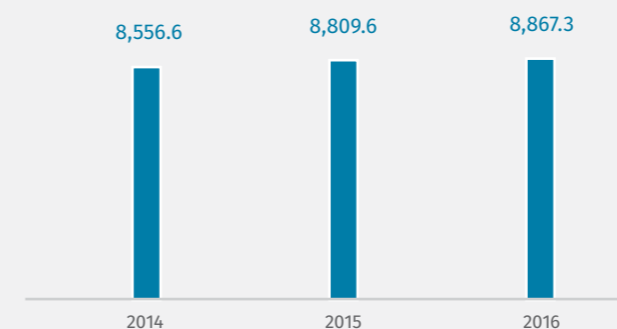
These key objectives of personnel and social policy are achieved by implementing a set of measures in various areas of activities and achievement of the set targets:

- 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

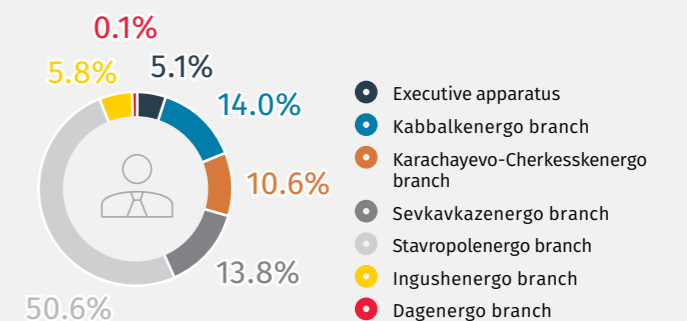
The average number of employees of IDGC of Northern Caucasus PJSC in 2016 amounted to 8,867.3 persons, which is higher than the same period of 2015 by 0.65% (58 persons).

Average number of employees of IDGC of Northern Caucasus PJSC in dynamics for 2014-2016



Minor growth of average headcount in 2016 was due to recruitment of production personnel to production departments and districts of power networks.

Distribution of average number of employees in 2016

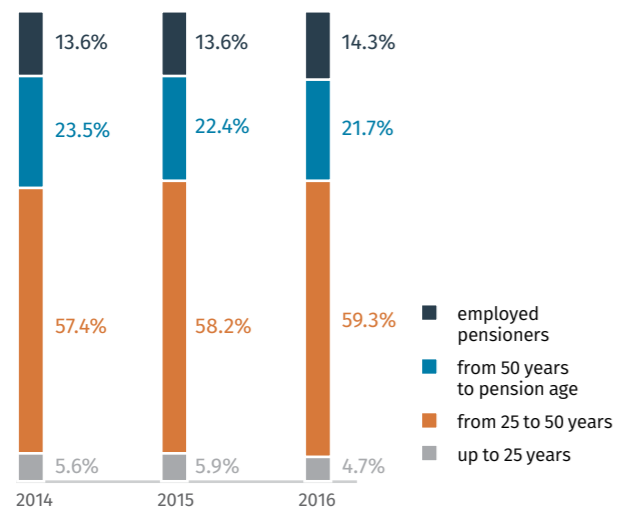


Company staffing for the last three years remains stable and is maintained at quite high level, not below 98%.

The average age of employees of the Company in 2016 was 46 years (in 2015 – 47 years).

The considerable share of employees of IDGC of Northern Caucasus PJSC is personnel aged from 25 to 50 years (59.3%). For three years, the share of employees in the age category “from 50 years to pension age” has been reducing (by 1.8 pp from 2014).

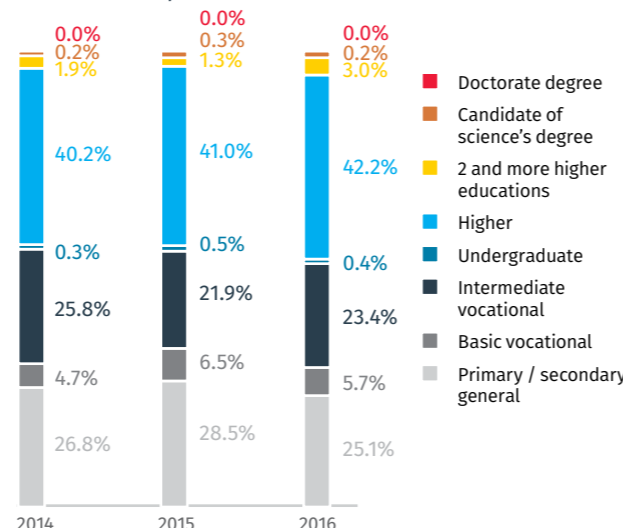
Structure of personnel of IDGC of Northern Caucasus PJSC by age in dynamics for 2014-2016, %



In 2016, the share of specialists in the age of 25 to 50 years increased (by 1. pp), who are the most employable and qualified personnel.

IDGC of Northern Caucasus PJSC staff has quite a high level of skills of workers – 75% of the employees of the company have vocational education. This indicator increased by 17 pp for the last three years.

Structure of personnel of IDGC of Northern Caucasus PJSC by education in dynamics for 2014-2016, %



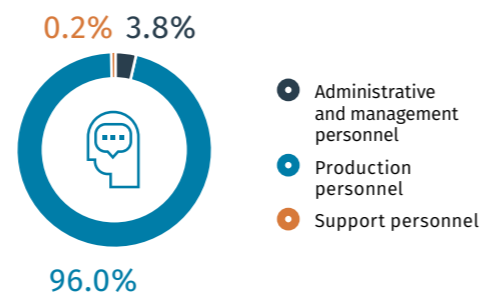
Personnel training and development

Training is one of the priorities of the Personnel and Social Policy of the Company and is regulated by the standard of organization SO 5.053 “Training, retraining and advanced training of personnel”, with the Rules for work with personnel in the organizations of the electric power industry of the Russian Federation.

The share of employees who took part in training activities in the reporting year off-the-job to the average number of staff is 41.1% (3,641 people), which is 27.9 pp. (2,501 people) higher than in 2015.

The largest share among the trained is production personnel – 96% (3,494 people). This indicator in 2015 was 94.5%. The structure of the personnel who received training in the context of administrative management, production and support staff categories, is presented further:

Structure of personnel who took part in training events off the job by categories, %.



On the basis of corporate training centers in 2016 professional training, retraining and upgrade was provided to 2,831 people, which amounts to 77.8% of the total number of trainees, which is 12.7 pp higher than in 2015 (in 2015 on the basis of corporate training centers 742 people were trained (65.1% of the number of trainees)).

The main share of trainees on the basis of corporate training centers is also production personnel – 98.5% (2,789 people).

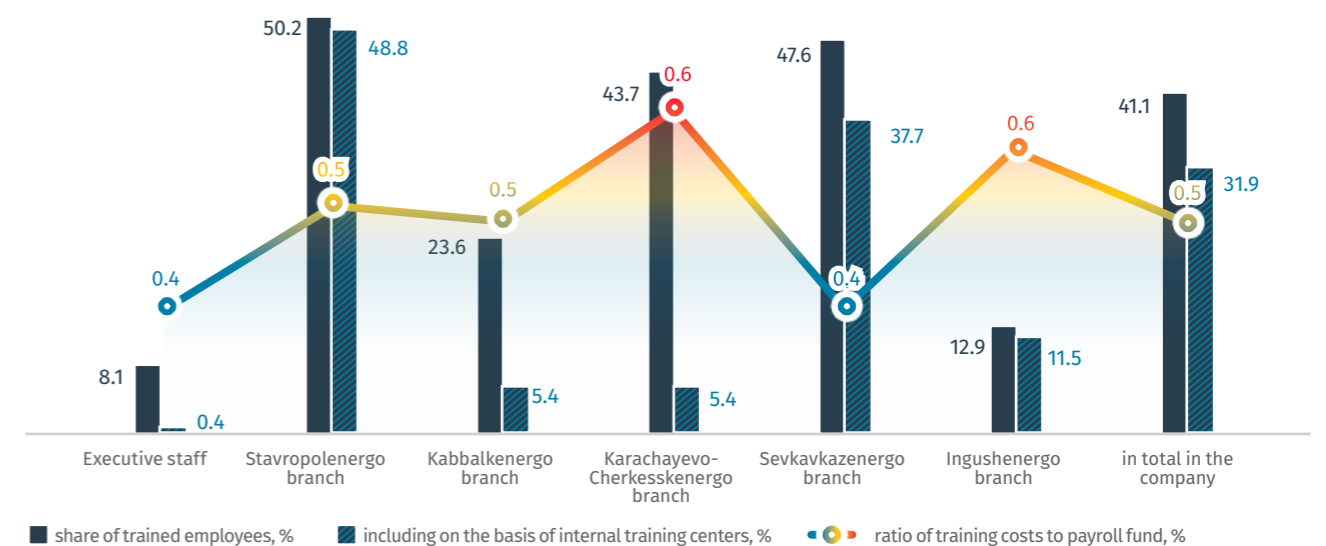
Key suppliers of educational services, apart from internal training centers, are the following:

- FBU “Teaching office “RTN”, Moscow
- NOU “Moscow “SKOLKOVO” Management School, Moscow
- CHU DPO “Training Center” Cherkessk Federal State Autonomous Educational Institution for Additional Vocational Education “St. Petersburg Energy Industry Institute for Further Training”, St. Petersburg
- GKOU SPO “Kabardino-Balkarian College “Builder”, Nalchik
- FGAOU DPO “IPK TEK”, Ramenskoye.

Actual costs for training (regardless of source) amounted to 18,804.5 K RUB, including 8,648.3 K RUB (46%) to train staff in their own training centers. In 2015, for staff training 11447.7 K RUB were allocated, of which for training in corporate training centers - 7,979.2 K RUB (69.7 %). The low specific weight of the costs of training in their own training centers is due to the differentiated prices for training employees of the Company and employees of outside organizations. Thus, for training of the Company’s employees by training centers, reduced rates are applied. In addition, the prices of training centers are substantially lower than the prices of regional training organizations of DPO.

The ratio of the actual costs of training personnel to the payroll fund amounted to 0.46% in the reporting year (in 2015 – 0.31%).

Share of employees who took part in training events off-the-job and ratio of training costs to payroll fund in the reporting year, %



Due to the lack of operating activities of the branch of IDGC of Northern Caucasus PJSC – Dagenergo, its employees in the reporting year were not sent for training.

A large proportion of staff training costs with low share of trained personnel in the branches Kabbalkenergo and Ingushenergo is due to the organization of the mandatory planned training of executives and members of evaluation committees to comply with industrial safety requirements.

Information about training centers of IDGC of Northern Caucasus PJSC



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 PJSC. In 2016 it trained 2,612 employees of the Company, representing 43.6% 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":

- training of new employees;
- training of workers for the second profession;
- retraining of workers and professionals;
- certification of workers and specialists in occupations within the jurisdiction of Rostekhnadzor;
- pre-training of managers and professionals on safety regulations and rules for technical operation;
- seminars and training workshops.

Staff of Kabbalkenergo and Sevkavkazenergo branches of the Company is annually trained in the training classrooms – structural subdivisions of branches.

The classroom of Sevkavkazenergo branch is not licensed for educational activity, but 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 Kabbalkenergo 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 PJSC organized cooperation with all leading educational institutions located in the territory of the North Caucasus Federal District, including:

- Federal State Educational Establishment of Higher Professional Education "Grozny State Oil Technical University named after Academician M.D. Millionshchikov";
- Federal State Educational Establishment of Higher Professional Education "Dagestan State Technical University";
- Federal State Educational Establishment of Higher Professional Education "North Caucasus State Humanitarian-Technological Academy";
- Federal State Educational Establishment of Higher Professional Education North-Caucasian Federal University;
- Federal State Educational Establishment of Higher Professional Education "Kabardino-Balkarian State Agricultural University named after V.M. Kokov";
- Federal State Educational Establishment of Higher Professional Education "North Caucasian Mining and Metallurgical University (State Technological University)";
- Federal State Educational Establishment of Higher Professional Education South-Russian State Technical University (Novocherkassk Polytechnic Institute);
- GBOU SPO Regional Multi-Profile College, Stavropol;
- ANO Energy College, Kaspiisk;
- GBOU SPO Nevinnomyssky Energy College, Nevinnomyssk;
- GBOU SPO Ardon Agro-Technological College, Ardon;
- GBOU NPO Professional Lyceum No. 6;
- GBOU SPO St George Regional College "Integral";
- Federal State Educational Establishment of Higher Professional Education "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, prediploma practice annually on the base of the Company. In 2016, 239 students of higher and secondary vocational educational institutions have passed the practice on the basis of the branches of the Company, 15 graduates who have successfully completed the practice in their specialty were recruited into the Company.

From July 1 to August 15 a united student team Elbrus with total headcount of 35 people worked at power utilities of IDGC of Northern Caucasus PJSC. In October 2016 events devoted to the All-Russian closure of the seventh labour season of student teams of the power grid complex, which was attended by the student team "Elbrus" of 7 persons were held in the Moscow region on the basis of Park-Hotel "Olympian". According to the results of various competitions organized on the celebrations, the student team "Elbrus" won 2 prizes (2nd place in the competition of wall newspapers and 2nd place at the festival of concert numbers).

Working with HR reserves

Formation and development of the personnel reserve is one of the priorities of the Company 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 (approved by the order of IDGC of Northern Caucasus OJSC dated October 30, 2014 No.670, 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;

3. youth HR reserve.

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 of the Company includes 189 employees, and personnel reserve for key positions – 113 employees, the youth talent pool – 9 employees.

Since 2011 the Company implemented a program to work with the youth talent pool. The youth reserve is formed at the level of the executive body of the Company to involve young specialists in solving problems that are relevant for the company, creating additional opportunities for professional and personal development of young employees of the

Company, assisting in raising the level of their professional and managerial training. The structure of the youth talent pool includes high-potential young specialists, who are characterized by a high level of learning ability, an active life position (when considering candidates for the staff reserve, preference is given to employees who actively participate in the life of the Company, research activities with rationalization proposals), high motivation to build a long-term career in the Company. At present, the youth personnel reserve includes 9 young specialists.

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 PJSC with the participation of invited experts) on a wide range of issues related to the field of activity of the head of the production unit: technological, organizational, human resources management.

In 2016, employees in the amount of 49 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 2016 fifteen employees of the Company executive office of the Company 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. In addition, in 2016, two employees of the Stavropolenergo branch took part in the International Forum of Young Power Engineers and Industrialists "Forsazh-2016".

Main provisions of the Company's policy in the area of staff remuneration

The Company's policy in the field of remuneration is aimed at providing employees with a fair wage at a level not lower than the average for the industry and the region, taking into account the skills and responsibilities. The Company applies a time-bonus system of labor remuneration.

Basic principles and procedures of remuneration for work of the Company branches employees are workers governed by the Regulations on remuneration of employees, being an integral part of the Collective Agreement of IDGC of Northern Caucasus PJSC for 2013-2015, taking into account the extension of its validity for the period from 2016 to 2018.

Salary of the Company's employees consists of the following elements:

- labor remuneration on official salaries (tariff component);
- surcharges and allowances for working conditions deviating from normal ones, and special working conditions;
- bonus for the main indicators of production and economic activity;

- long-service awards;
- remuneration for fulfillment of especially important tasks;
- bonuses to employees for identifying uncountable and non-contractual use of electricity;
- compensatory payments in the form of material assistance, compensation of expenses for payment for electricity, encouragement of employees for holidays, anniversaries, retirement, lump sum payments when the employee leaves for annual paid leave and other payments.

In order to maintain a competitive level of wages of the Company's employees, the current Collective Agreement of the Company provides indexation of the size of MMTS with a frequency of once every six months in accordance with the consumer price index in the Russian Federation (based on the Federal State Statistics Service) for the corresponding six-month period preceding indexation.

Social responsibility

The main goals of the social policy of IDGC of Northern Caucasus PJSC are the following:

- creating an image of the social responsible Company with a view to attracting and retaining qualified personnel;
- creation of a favorable working environment;
- ensuring a decent standard of living for employees of the Company at retirement age;
- protection of workers' health and safety;
- assistance in the development of physical culture and sports in the team;
- material stimulation of workers;
- providing material support to employees in the event of unforeseen circumstances;
- material support of pensioners – former employees of the Company.

An integral part of social policy is responsibility for the social climate in the work collectives of the Company.

One of the main legal acts regulating social and labor relations in the branches and ensuring the preservation of the existing level of social benefits and guarantees for employees, is the Collective Agreement for 2015-2018 years. The collective agreement of the Company is concluded in full compliance with the norms of the Labor Code of the Russian Federation.

In order to create favorable conditions and improve the social protection of workers, the Company entered into agreements for voluntary health insurance of workers and insurance against accidents and illnesses. The agreement of voluntary health insurance provided the opportunity to outpatient care, inpatient, dental and rehabilitation treatment of employees in accordance with the terms of the insurance contract. The insurance agreement for accidents and illnesses provides insurance protection for employees in the event of temporary disability, permanent disability (disability), loss of professional capacity for work or death as a result of an accident.

In order to ensure a decent standard of living for the employees of the Company at the retirement age, to create conditions for the effective resolution of personnel issues related to the recruitment, retention and motivation of personnel, the Regulations on non-state pension provision are in force in the Company.

The Company annually provides targeted material support for non-working pensioners, war veterans. Non-working pensioners, veterans, awarded for the duration of departmental awards, marks of distinction and honors shall be paid as surcharges to the state pension.

In order to develop a common corporate culture, to promote the development of the creative potential of employees, to draw attention to issues of morality and spirituality, the children of the Company employees have been actively involved in the children's drawing competition organized by PJSC Rossetti in the period from February 29 to March 11, 2016.

On February 23, 2016 the team of IDGC of Northern Caucasus PJSC took part in the ascent of Mount Beshtau (Pyatigorsk), dedicated to the celebration of the Defender of the Fatherland Day.

On April 8, 2016 the football team of IDGC of Northern Caucasus PJSC took part in the mini-football tournament "Rossetti Cup", where it came 3rd in the silver play-off.

With the active support of the Council of Veterans and Council of Youth on May 6, 2016 a solemn event dedicated to the celebration of Victory Day with participation of veterans, combatants was organized and held.

On 7, 2016 the team of IDGC of Northern Caucasus PJSC in cooperation with the employees of the branch Stavropolenergo took part in the ascent of Mount Beshtau (Pyatigorsk), dedicated to the celebration of Victory Day.

On May 16-24, 2016 the team of IDGC of Northern Caucasus PJSC took part in the All-Russia volleyball tournament among men's teams of physical culture groups and sports clubs and associations of enterprises of fuel and energy complex, in settlement Lazarevskoye, where the team won the first prize.

On June 1, 2016 in connection with the celebration of International Children's Day a ceremony was organized, where orphans and children left without parental care in the Orphanage No. 10 named after N.K. Krupskaya received gifts.

Between August 5 and August 19, 2016 IDGC of Northern Caucasus PJSC took an active part in the North Caucasian Youth Forum "Mashuk" as a general partner. The activities of IDGC of Northern Caucasus PJSC was highly appreciated by the Office of the Plenipotentiary Representative of Russian President in the North Caucasian Federal District and Directorate of the Forum "Mashuk-2016".

Company's stand became one of the main educational centers of the Forum. The participants were able to get acquainted with the specifics of the industry functioning under a separate program.

Key Performance indicators

The system of key performance indicators of the Company was set by the decision of the Board of Directors dated April 29, 2016 (Minutes dated May 4, 2016 No. 240).

The composition and method of calculation of KPIs were adjusted by the decision of the Board of Directors of the Company dated December 26, 2016 (Minutes of December 29, 2016 No. 274) and the decision of the Board of Directors of

In addition, the pavilion of PJSC Rossetti - IDGC of Northern Caucasus PJSC was an informative platform for all the guests and participants of the Forum, through relevant thematic exposition of both applied and educational nature. The exhibition of the tent included thematic stands: "Energy of Russian Networks", "Energy of the North Caucasus", "Safe Energy", "Fair Energy" and "Energy of Communication" with relevant and insightful content.

Within the exposition, thematic awareness-raising campaigns and activities were held regularly developed in accordance with the concept of the Forum. For two weeks, participants and guests of the Forum attended lessons on electrical safety, first aid, competitions and quizzes on the basic knowledge of the history of electricity. Visitors were also briefed on importance of timely payment for electricity.

In December 2016 events were organized in 5 sponsored orphanages of "IDGC of Northern Caucasus PJSC" to celebrate the New Year with gifts to the children.

Within celebration of the New Year, employees' children aged from 0 to 14 years were given Christmas gifts.

The Company pays great attention to strengthening of the corporate spirit. Thus, on December 22, 2016 a ceremony dedicated to the celebration of the Power Engineer's Day was organized, when employees were awarded in connection with their professional holiday.

In total within Group of Companies IDGC of Northern Caucasus PJSC in 2016 they awarded 846 employees, including:

- awards of PJSC Rossetti – 181 employees, inclusion into the Board of Honor – 1 pers.;
- awards of the Ministry of Energy of the Russian Federation – 68 employees;
- awards of IDGC of Northern Caucasus PJSC – 155 employees;
- awards of the Association RaEl – 17 employees;
- regional awards – 80 employees;
- awards of branches/Companies – 344 employees.

the Company dated December 30, 2016 (Minutes of January 9, 2017 No. 275) pursuant to the Russian Federation Government Directive of March 3, 2016 No. -P13 and of July 4, 2016 No. 4750p-P13 in terms of KPI "Payment of electricity losses", "Level of payment for power transmission services", "Return on invested capital (ROIC)", "Reduction of specific operating expenses (costs)", "Improvement of labour performance".

In accordance with the specified decisions the Board of Directors established the following composition and target values of key performance indicators for 2016.

Quarterly Indicators

Composition of indicators	Target value in 2016
No growth of major accidents	No growth
No growth of injured by accidents	No growth
Indicator of financial stability and liquidity	SK/ZK \geq 0.87
MKTL \geq 0.72	\geq 100%
Payment of electricity losses	\geq 100%
Level of electricity losses	\leq 17.43%
Level of payment for power transmission services	\geq 100.7%

Annual indicators

Composition of indicators	Target value in 2016
Profitability of shareholders' investments (TSR)	> change of MOEX RCI index (regulated companies index) for the reporting period + 0.01 percentage points
Return on invested capital (ROIC)	\geq planned value calculated in accordance with the forecast indicators of the Company, set in accordance with the business plan formed according to principles of the consolidated financial statements (IFRS)
Reduction of specific operating expenses (costs)	\geq 10%
Level of electricity losses	\leq 15.72
Achievement of reliability level of provided services	\leq 1
Reduction of specific investment costs	\leq 1
Compliance with facility commissioning schedule	\geq 95
Compliance with timing of technological connection	\leq 1.1
Increased labour efficiency	\geq 748 RUB/man-hour
Share of purchases from small and medium-sized business entities	\geq 10% for share of purchases, where participants are only small and medium-sized business entities, and
\geq 18% for share of purchases from small and medium-sized business entities (including agreements performed by subcontractors/ associate contractors from small and medium-sized business entities)	\geq 90%
Efficiency of innovative activities	\geq 90%

Actual values, taking into account the terms and procedures of reporting, which is a source of information for their calculation, at the time of annual report generation were not summarized and approved by the Board of Directors.

Comparing the current values to the previous years is not performed due to a change in approaches to setting targets and calculating the actual values of KPIs.

The KPI system applied in the Company is interconnected with the size of the variable part of management compensation – for each of the indicators there is a specific weight set in the scope of paid bonuses, quarterly and annual bonuses are paid subject to compliance with respective KPIs.

Contact information

Full business name

Публичное акционерное общество «Межрегиональная распределительная сетевая компания Северного Кавказа» (Russian)

Interregional Distribution Grid Company of Northern Caucasus, Public Joint-Stock Company (English)

Abbreviated business name

ПАО «МРСК Северного Кавказа» (Russian)

IDGC of Northern Caucasus, PJSC (English)

Location/Registered address/Mailing address

13a Podstantsionnaya str., Energetik Settlement, Pyatigorsk, Stavropol Territory, 357506, Russian Federation

Corporate Internet site

<http://www.mrsk-sk.ru>

Primary state registration number

1062632029778

INN [Taxpayer Identification Number]/KPP [Tax Registration Reason Code]

2632082033/263250001

Telephone

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General Director

Zaytsev Yuri Viktorovich

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Shareholders and Investors Service

Kutsevich Anna Fedorovna, Head of the Unit for Interactions with Stockholders of the Department for Corporate Management and Interactions with Stockholders

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Corporate Secretary

Gaydey Olesya Borisovna, Head of the Corporate Governance Unit of the Department for Corporate Governance and Cooperation with Shareholders

Telephone: +7 (8793) 40-17-52

E-mail: gaydey-ob@mrsk-sk.ru

Press Center

Vlazneva Ala Evgenievna, Director, Mass Media Relations Department

Telephone: +7 (8793) 40-17-77

E-mail: press@mrsk-sk.ru

Hot line for clients

8-800-200-99-97

Address of Internet reception for clients

<http://www.mrsk-sk.ru/customer/internet-reception/ask-specialist/>

Registrar

STATUS JSC

Address: 109544, Moscow, ul. Novorogozhskaya, 32, bldg 1

Website: <http://www.rostatus.ru>

E-mail: office@rostatus.ru

Telephones: for issuers +7 (495) 974-83-45, for shareholders +7 (495) 974-83-47, for general issues +7 (495) 974-83-50.

License dated March 12, 2004 No.10-000-1-00304 (unlimited), issued by the Federal Securities Market Commission of the Russian Federation

Contacts and details of IDGC of Northern Caucasus PJSC are published on the company website in "Company/Contacts and Details".

Glossary

For the purposes of this Annual Report, the following basic concepts, definitions and abbreviations are used.

ABBREVIATIONS AND ACRONYMS

EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
RAB	Regulatory Asset Base, return on 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
HV	high voltage
HS	High school
city of	city
HAPP	hydraulic accumulating power plant
GTRK	state television and radio broadcasting company
LRS	Last resort supplier
GES	hydraulic power plant/city power networks (depending on the context)
S&A	subsidiary/affiliate
Unit	unit
UES of Russia	unified energy system of Russia
H&U	housing and utilities
CJSC	Closed Joint-Stock Company
Named after	Named after
TIN	taxpayer identification number
ITT	information technologies, automation and telecommunications
CL	cable lines
km	kilometer
kop.	kopec
KPI	Key Performance Indicators
CDTN	corporate data transmission network
MIA of Russia	Ministry of Internal Affairs of Russian Federation
MGES	small GES
M	million
B	billion
MICEX	Closed Joint-Stock Company MICEX Stock Exchange
IDGC	Interregional Distribution Grid Company
SME	small and medium enterprise
IFRS	International Financial Reporting Standards
MUE	Municipal Unitary Enterprise
GRR	gross revenue requirement
VAT	value added tax
R&D	research and development work
NP	non-profit partnership
NC	new construction
OJSC	Open Joint Stock Company
LLC	Limited Liability Company

WPCM	wholesale power and capacity market
PJSC	Public Joint Stock Company
CSC	customer service center
PP	percentage point
SS	substation
RAS	Russian Accounting Standards
RTS	Regional Tariff Service
RTS	Open Joint Stock Company Russian Trading System Stock Exchange
RUB	ruble
RF	Russian Federation
RES	district power networks
ICS	Internal Control System
MM	mass media
Line	Line
RMS	risk management system
TV	television
TS	transformer substation/technological connection (depending on the context)
TGC	territorial grid company
ICE	Industrial civil engineering
incl.	including
K	thousand
F.	form of accounting statements
FSC of Russia	Federal Securities Commission
pcs.	piece

UNITS OF MEASUREMENT

Ampere (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
Volt-ampere (VA)	off-system unit of measurement of full capacity of electric current
Litre (l)	metric unit of volume measurement

TERMS

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)	Analytical index equal to the 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	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
Subsidiary/Affiliate (S&A)	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 company 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	economically reasonable amount of funds necessary to a company to carry out regulated activities during accounting regulation period
Distribution Companies	open joint stock companies formed as a result of the division of AO-energo by activity-based transmission facilities not belonging to the Unified National (All-Russian) Power Grid
Registrar	legal 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 PJSC and other natural and legal persons with an interest in financial and economic activity of IDGC of Northern Caucasus PJSC (definition of "stakeholders" is used in international practice to refer to this category of persons)
Executive Office (Control Unit)	control unit (headquarters) IDGC of Northern Caucasus PJSC, carrying out accounting and control functions, system-wide coordination and administration of branch offices and managed Companies
Executive director	member of the executive organ (s) of IDGC of Northern Caucasus PJSC
Key Performance Indicators (KPI)	system of financial and non-financial indicators affecting qualitative or quantitative change of the results with regard to the strategic goal of IDGC of Northern Caucasus PJSC

Company, IDGC of Northern Caucasus	IDGC of Northern Caucasus PJSC/IDGC of Northern Caucasus OJSC
Corporate Governance	the aggregate of processes ensuring management and control of the Company's activities and including relations between shareholders, the Board of Directors, and executive bodies of the IDGC of Northern Caucasus PJSC in shareholders' interests
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 competitor of the Company or is associated with the government. 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	legal person under the management of IDGC of Northern Caucasus PJSC under the contract on transfer of powers of the sole executive body. At the end of 2016 the managed Companies of IDGC of Northern Caucasus PJSC were: grid: Chechenenergo JSC, Dagestan Grid Company JSC, energy supply: Dagestan Energy Retail Company PJSC, Kabbalkenergo PJSC, Kalmenergosbyt PJSC, Karachaevo-Cherkessenergo JSC, Sevkavkazenergo JSC Other (are not in operations): Dagenergoset OJSC, Ingushenergo JSC.

Limitation of liability

This Annual Report of IDGC of Northern Caucasus PJSC for 2016 is only for information purposes and does not present itself an advice or a convincing reason for carrying out transactions with the securities of IDGC of Northern Caucasus PJSC. The Annual Report was prepared on the basis of the information available to IDGC of Northern Caucasus PJSC at the time it was compiled.

The Annual Report contains information on the results of IDGC of Northern Caucasus PJSC activities for 2016 (in a number of cases for a longer period), assessments and predictions by IDGC of Northern Caucasus PJSC authorized management bodies concerning future events, development prospects for IDGC of Northern Caucasus PJSC and industry that IDGC of Northern Caucasus PJSC is most involved in, as well as the likelihood of certain events or completion of certain actions.

Information in this Annual Report on physical entities is disclosed in accordance with personal information legislation of the Russian Federation. IDGC of Northern Caucasus PJSC has received authorization 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 PJSC or any person working on behalf of the Company may be responsible for, are categorically limited by the reservations set out below. Forecast statements may include statements concerning business activities, financial condition, income, economic indicators, results of business and production activities, production and consumption volume policies, disbursements, expenses, growth prospects, useful life of assets, reserves, time scale for starting and completing production projects, acquisition, liquidation or disposal of certain legal entities, other similar factors and economic forecasts concerning IDGC of Northern Caucasus PJSC activities, as well as the industry and market in which IDGC of Northern Caucasus PJSC operates. All claims included in this Annual Report, other than statements containing historical facts, may be statements of a forecast nature. Words such as "consider", "expect", "intend", "plan", "will", "may", "should", "could be", "suggest", "anticipate", "try", "presume", "rely upon", "continue", "aim" and any word or expression with similar meaning or facts with disclaimers usually indicate the forecast nature of the statement.

Any opinions or forecasts presented in this Annual Report are the views of IDGC of Northern Caucasus PJSC, its governing bodies, management, and 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 PJSC 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 PJSC 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 PJSC 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 PJSC does not take responsibility for distributing or publishing any updates or changes to statements of a forecast nature, which reflect changes in expected or new information, as well as subsequent events, conditions or circumstances. Acquisition of IDGC of Northern Caucasus shares is related to risks described in this Annual Report. Neither IDGC of Northern Caucasus PJSC, 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.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

**RSM RUS LTD**

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17.03.2017

~ Рели. 1746

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of PJSC "IDGC of Northern Caucasus"

Audited entity:

Interregional Distribution Grid Company of Northern Caucasus, Public Joint Stock Company
(abbreviated name - **PJSC IDGC of Northern Caucasus**);

Location: 13A, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, 357506, the Russian Federation.

Primary state registration number – 1062632029778.

Auditor:**RSM RUS Ltd.**

Location: 4, Pudovkina Str., Moscow, 119285;
Tel.: (495) 363-28-48; Fax: (495) 981-41-21;
Primary state registration number – 1027700257540;

RSM RUS Ltd. is a member of Self-regulatory organization of auditors Association "Sodruzhestvo" (membership certificate # 6938, ORNZ 11306030308), location: 21, Michurinsky Ave., bldg. 4, Moscow, 119192.

Opinion

We have audited the consolidated financial statements of **PJSC IDGC of Northern Caucasus** and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of 31 December 2016, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Impairment of non-current assets

In our opinion, this matter was one of most significance in our audit due to a significant share of property, plant and equipment in total assets of the Group, high level of subjectivity of assumptions used to determine a value in use of property, plant and equipment as well as materiality of judgments and estimates made by the management.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value of the property, plant and equipment.

Therefore, the value in use for property, plant and equipment as at 31 December 2016 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment during the operating activities and upon disposal, to determine the recoverable amount of these assets.

We have performed procedures of analysis and testing of the model used in making the estimates, assessment of adequacy of assumptions underlying the estimates, including assumptions in respect of projected revenue, tariffs solutions, discount rates etc.

We have also reviewed the relevant controls in respect of the estimates, consideration by management of estimation uncertainty and changes in approaches as compared to the previous period. We have reviewed the actual outcomes of the use of the model to obtain sufficient and appropriate audit evidence about whether the management in making the estimates complied with IFRS requirements, the methods used in estimates of tests are appropriate and are applied consistently and the changes in estimates are reasonable based on information available at the date of preparation of the accounts.

For testing the model of estimate and underlying assumptions, we have engaged an expert in accordance with the procedure established by ISA.

We have evaluated the accuracy and sufficiency of disclosures to the consolidated financial statements of information about determination of the value of property, plant and equipment, including information about uncertainties taken into consideration when making impairment test estimates.

Non-current assets are disclosed in Note 7 and 8 to the consolidated financial statements.

Impairment of accounts receivable

In our opinion, this matter was one of most significance in our audit due to significant balances of the Group's accounts receivable as at 31 December 2016, and because the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Group's customers.

We have performed procedures of evaluation of the adequacy of the Group's policy on reviewing accounts receivable and determining if accounts receivables impairment allowance should be established, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including review of accounts receivable payments, review of maturity dates and overdue debts, review of customers' financial solvency.

We performed audit procedures in respect of information used by the Group to determine the impairment of accounts receivable, accounts receivable ageing structure, tested the accuracy of accrued accounts receivables impairment allowance based on the estimates documented by the management.

Accrued accounts receivables impairment allowance is disclosed by the Group in Notes 12 and 28 to the consolidated financial statements.

Recognition and measurement of revenue

Recognition and measurement of revenue were matters of most significance in our audit due to certain imperfection of mechanisms of operation of retail electricity market and it leads to disagreements between electric grid companies and energy supply companies in respect of volume of electricity consumption and capacity. The assessment by the Group's management of favorable outcome of the dispute resolution is, to a large extent, subjective and is based on the assumptions of dispute resolution.

We evaluated the internal control over revenue recognition, reviewed the accuracy of determined revenue amounts based on concluded contracts for electricity transmission and other work (services), on a sample basis obtained confirmations of accounts receivable balances from the counterparties, reviewed and evaluated existing procedures for confirming the volume of electricity transmitted and outcomes of litigations in respect of disputed amounts for the provided services, and also performed other procedures to obtain sufficient and appropriate audit evidence, in order to confirm the accuracy, in all material respects, of the amounts of revenues recognized in the consolidated financial statements.

Revenue is disclosed in Note 22 to the consolidated financial statements.

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of most significance in our audit because they require a lot of management judgments in respect of significant amounts in dispute in the course of litigations and claim settlements.

The audit procedures included review of court rulings made by courts of different levels, review of adequacy of management judgments and documents confirming the assessment of possibility of outflow of economic resources following dispute resolutions, conformity of the prepared documentation with the existing contracts and compliance with the law.

Accrued provisions and contingent liabilities of the Group are disclosed in Notes 21, 31 to the consolidated financial statements.

Responsibilities of Management and the Audit Committee of the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statement, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the Audit Committee of the Board of Directors all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Management Board Chairperson

Audit Certificate No. 05-000015. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 15 November 2011 No. 24. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706004215

Manager responsible for the audit

Audit Certificate No. 02-000028. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Institute of Professional Auditors" dated 15 November 2011 No.182. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21606060060



N.A. Dantser

O.V. Andrienko

PJSC IDGC of Northern Caucasus
Consolidated Statement of Financial Position as at 31 December 2016
(thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	13,755,544	14,993,930
Intangible assets	8	98,471	99,930
Accounts receivables and loans issued	12	80,082	82,764
Deferred tax assets	9	2,855,064	2,984,760
Other non-current assets	10	1,071,176	1,060,702
Total non-current assets		17,860,337	19,222,086
Current assets			
Inventories	11	581,219	532,046
Income tax receivable		25,818	38,925
Trade and other receivables	12	4,283,014	3,431,965
Prepayments for current assets	13	45,263	16,905
Cash and cash equivalents	14	2,933,184	1,604,508
Non-current assets held for sale	15	3,411	8,583
Total current assets		7,871,909	5,632,932
TOTAL ASSETS		25,732,246	24,855,018
EQUITY AND LIABILITIES			
Equity			
Share capital	16	154,562	154,562
Additional paid in capital	16	5,052,502	5,052,502
Reserve for issue of shares	16	1,642,300	–
Reserves		(99,492)	(109,315)
Retained earnings /(loss)		(3,922,773)	1,231,819
Total equity		2,827,099	6,329,568
Non-current liabilities			
Loans and borrowings	17	5,805,943	4,126,758
Trade and other payables	19	458,031	470,879
Employee benefits	18	626,288	660,876
Total non-current liabilities		6,890,262	5,258,513
Current liabilities			
Loans and borrowings	17	4,900,486	5,260,877
Trade and other payables	19	10,328,944	6,866,043
Provisions	21	181,920	113,063
Other taxes payable	20	603,535	693,651
Income tax payables		–	333,303
Total current liabilities		16,014,885	13,266,937
Total liabilities		22,905,147	18,525,450
TOTAL EQUITY AND LIABILITIES		25,732,246	24,855,018

These consolidated financial statements were approved by management on 16 March 2017 and were signed on its behalf by:

General Director First Deputy



[Handwritten signature]

I.V. Thakahova
By proxy №2 from 1 January 2017

Chief Accountant

[Handwritten signature]

N.V. Larionova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 50.

PJSC IDGC of Northern Caucasus**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016***(thousands of Russian Roubles, unless otherwise stated)*

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	22	17,912,482	16,079,258
Operating expenses	23	(22,257,535)	(24,335,421)
Other operating income	24	150,468	13,988,755
Operating profit/(loss)		(4,194,585)	5,732,592
Finance income	26	172,443	166,618
Finance costs	26	(993,919)	(848,727)
Profit/(loss) before income tax		(5,016,061)	5,050,483
Income tax (expense)/benefit	27	(140,990)	1,060,182
Profit/(loss) for the year		(5,157,051)	6,110,665
Other comprehensive income			
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Remeasurement of net defined benefit liability	18	11,350	34,053
Related income tax		(1,527)	(613)
Total items that will never be reclassified subsequently to profit or loss		9,823	33,440
Other comprehensive income for the year, net of income tax		9,823	33,440
Total comprehensive profit/(loss) for the year		(5,147,228)	6,144,105
Profit/(loss) per share - basic and diluted (in Russian Roubles)	16	(33.37)	39.54

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 50.

PJSC IDGC of Northern Caucasus
Consolidated Statement of Cash Flows for the year ended 31 December 2016
(thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Operating activities			
Profit/(loss) before income tax		(5,016,061)	5,050,483
<i>Adjustments for reconciliation of profit/(loss) before income tax and net cash flows:</i>			
Depreciation and amortisation	7, 8, 23	1,529,427	1,487,836
Allowance for impairment of accounts receivable	23, 28	1,307,193	4,711,630
Reversal of allowance for obsolescence of inventories	11	1,966	(2,639)
Impairment of property, plant and equipment	7, 23	870,019	1,804,780
Provision for unused vacation		25,273	(23,172)
Provision for legal processes	21	131,989	329,506
Finance income	26	(172,443)	(166,618)
Finance costs	26	993,919	848,727
Gain on disposal of property, plant and equipment	24	(14,778)	(46,885)
Gain on deconsolidation of subsidiary		–	(13,624,951)
Other non-cash transactions		(8,003)	(7,328)
Operating profit before working capital changes		(351,499)	361,369
<i>Changes in working capital:</i>			
Change in accounts receivable		(2,639,706)	(4,628,253)
Change in prepayments for current assets		(28,358)	1,218
Change in inventories		(5,670)	207,374
Change in assets related to the employee benefit fund		8,827	19,407
Change in accounts payable		3,728,427	4,041,584
Change in employee benefits liabilities		(79,624)	(5,803)
Change in other taxes payable		(90,116)	(11,761)
Cash flows from operations before income tax and interest paid		542,281	(14,865)
Interest paid		(892,484)	(779,093)
Income tax paid		(333,303)	(89,455)
Net cash flows from operating activities		(683,506)	(883,413)
Investing activities			
Acquisition of property, plant and equipment and intangible assets		(912,350)	(1,273,038)
Proceeds from disposal of property, plant and equipment		1,986	12,906
Proceeds from disposal of assets held for sale		859	3,463
Acquisition of intangible assets		(43,213)	(54,086)
Loans issued		(74,727)	–
Interest received		103,668	107,873
Net cash flows used in investing activities		(923,777)	(1,202,882)
Financing activities			
Issue of shares		1,642,300	–
Received loans and borrowings		7,977,632	2,703,354
Repayment of loans and borrowings		(6,675,492)	(864,542)
Dividends paid	16	(571)	(57)
Repayment of finance lease liabilities		(7,910)	(6,153)
Net cash flows from financing activities		2,935,959	1,832,602
Net increase/(decrease) in cash and cash equivalents		1,328,676	(253,693)
Cash and cash equivalents at the beginning of the year	14	1,604,508	1,858,201
Cash and cash equivalents at the end of the year	14	2,933,184	1,604,508

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 50.

PJSC IDGC of Northern Caucasus
Consolidated Statement of Changes in Equity for the year ended 31 December 2016
(thousands of Russian Roubles, unless otherwise stated)

	Share capital	Additional paid in capital	Reserves	Retained earnings/ (loss)	Total equity
Balance at 1 January 2015	154,562	5,052,502	(142,755)	(4,878,846)	185,463
Profit for the year	–	–	–	6,110,665	6,110,665
Remeasurement of defined post-employment benefit liability (Note 18)	–	–	34,053	–	34,053
Income tax on other comprehensive income	–	–	(613)	–	(613)
Total comprehensive income for the year	–	–	33,440	6,110,665	6,144,105
Balance at 31 December 2015	154,562	5,052,502	(109,315)	1,231,819	6,329,568
			Reserve for issue of shares	Retained earnings/ (loss)	Total equity
Balance at 1 January 2016	154,562	5,052,502	–	1,231,819	6,329,568
Loss for the year	–	–	–	(5,157,051)	(5,157,051)
Remeasurement of defined post-employment benefit liability (Note 18)	–	–	–	11,350	11,350
Income tax on other comprehensive income	–	–	–	(1,527)	(1,527)
Total comprehensive loss for the year	–	–	–	9,823	(5,147,228)
Transactions with owners, recorded directly in equity					
Additional issue of shares	–	–	1,642,300	–	1,642,300
Write off of unclaimed dividends payable	–	–	–	2,459	2,459
Total transactions with owners, recorded directly in equity	–	–	1,642,300	2,459	1,644,759
Balance at 31 December 2016	154,562	5,052,502	1,642,300	(99,492)	2,827,099

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 50.

PJSC IDGC of Northern Caucasus
Notes to the Consolidated Financial Statements for the year ended 31 December 2016
(thousands of Russian Roubles, unless otherwise stated)

Note 1. Background

(a) The Group and its operations

Public Joint Stock Company Interregional Distribution Grid Company of Northern Caucasus (hereafter, the “Company” or “PJSC IDGC of Northern Caucasus”) and its subsidiaries (together referred to as the “Group”) comprise joint stock companies established and registered in accordance with the Civil Code of the Russian Federation. The Company was set up on 14 June 2006. Until 1 August 2007 the Company was named OJSC Southern Grid Company.

On 1 April 2008 the reorganization of the Company was completed through the merger of the grid companies of JSC Stavropolenergo, JSC Dagenergo, and JSC Caucasian Energy Management Company.

The Company’s registered office is 13A, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, the Russian Federation, 357506.

The Group consists of the Company and its subsidiaries:

Name	Ownership, %	
	31 December 2016	31 December 2015
JSC Grid Company of Dagestan	100.0	100.0

The Group’s principal activities are the transmission of electricity and the connection of customers to the electricity grid.

As at 31 December 2015 the Russian Government presented by the Agency for State Property Management owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of PJSC ROSSETI, which in turn owned 92.00% of the Company’s shares.

As at 31 December 2016 the Russian Government presented by the Agency for State Property Management owned 88.75% of the voting ordinary shares and 7.01% of the preference shares of PJSC ROSSETI, which in turn owned 92.00% of the Company’s shares.

(b) Relations with the state and current regulation

Since its foundation the Company has been under control of the Government of the Russian Federation. The Government of the Russian Federation influences the Group’s activities through setting power transmission and distribution and connection tariffs.

In accordance with the legislation, the Group’s tariffs are controlled by the Federal Antimonopoly Service and by the Executive Bodies of the constituent entities of the Russian Federation in the field of state regulation of tariffs.

(c) Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the national economics and financial markets, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. Management of the Company believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (hereafter, “IFRSs”).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2010.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s and its subsidiaries’ functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

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(d) Going concern

These consolidated financial statements have been prepared on a going concern basis.

As at 31 December 2016 the Group had a net working capital deficit of RUB 8,142,976 thousand (as at 31 December 2015: RUB 7,634,005 thousand).

For the year 2016 a net loss of the Group amounted to RUB 5,147,228 thousand (for the year 2015: a net profit of RUB 6,144,105 thousand) and the impairment of the Group's property, plant and equipment in the amount of RUB 870,019 thousand (for the year 2015: RUB 1,804,780 thousand).

Tariff setting issues in the Dagestan Republic are under control of Management and the Board of Directors of the Company, the strategic decisions are taken in order to improve finance results of the company in the region.

Management of the Group monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines. As at 31 December 2016 the Group had unused credit lines in the amount of RUB 1,193,705 thousand (as at 31 December 2015: RUB 1,213,815 thousand). Management considers that the Group has the ability to raise additional loans and borrowings.

In order to increase efficiency of working capital management the Group is focused on an increased collection of trade receivables, including doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables for electricity transmission and settlement of disputes with customers. The issues regarding collection of receivables are considered by the Board of Directors on a regular basis.

Management believes that the Group has adequate resources to continue operating activities and to repay current liabilities, that measures taken by the Group would be able to improve finance statements of the Group and there is no significant uncertainty regarding the Group's ability to continue as going concern in the foreseeable future.

(e) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 7 – Property, plant and equipment;
- Note 9 – Deferred tax assets;
- Note 11 – Inventories;
- Note 12 – Trade and other receivables;
- Note 18 – Employee benefits;
- Note 21 – Other provisions.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Business combinations including entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

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(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(ii) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

(iii) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: trade and other receivables, cash and cash equivalents.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest

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method, less any impairment losses. Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 12.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Cash and cash equivalents are presented in Note 14.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

(iv) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other operating income, net" in profit or loss for the year.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be

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measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment and investment property are recognised in profit or loss for the year as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month an assets is completed and ready for use. Land is not depreciated.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

Type of property, plant and equipment	Useful lives (years)
Buildings and structures	10-80
Electricity transmission network	10-60
Equipment for electricity transformation	5-40
Other property, plant and equipment	3-20

Depreciation methods, estimated useful lives and residual values of property, plant and equipment are reviewed at each financial year end and adjusted if appropriate.

(f) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortisation is recognised in profit or loss for the year on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives of intangible assets for the current and comparative periods are as follows:

Type of intangible assets	Useful lives (years)
Licenses and certificates	3-7
Software	1-10
Other	1-10

Amortisation methods, estimated useful lives and residual values of intangible assets are reviewed at each financial year end and adjusted if appropriate.

Among the Research and Development group are development, engineering and technological works. Expected useful lives are determined in each case of pending of Research and Development results, but it is not able to be more than 5 years.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the consolidated statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognized in profit or loss on a straight line basis over the lease term

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(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment losses

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest

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level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past services are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

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The actuarial gain or loss related to the defined benefit obligation is recognised in other comprehensive income.

(iii) Other non-current employee benefits

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(l) Revenue

(i) Electricity distribution

Revenue from distribution and sales of electricity is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for distribution and sales of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Antimonopoly Service.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue is recognized when act of acceptance is signed. For contracts where connection services are performed in stages, revenue is recognized in the proportion to the stage of completion when act of acceptance is signed by the customer.

(iii) Other services

Revenue from installation, repair and maintenance services and other sales is recognized when the services are provided or when the significant risks and rewards of ownership of the goods have passed to the buyer.

(m) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and discounts on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, financial leasing, discounts on financial instruments and impairment losses recognised on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax expense

Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognised in profit or loss for the year except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only when they are declared (approved by shareholders) before or on the reporting date. Dividends are disclosed in the notes to the financial statements when they are declared after the reporting date, but before the consolidated financial statements are authorised for issue.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided

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to the General Director. The amount of each segment item reported is the measure reported to the General Director. Total amounts of segment information are reconciled to those in the consolidated financial statements (Note 6).

(r) Related parties

As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of Russian Federation has control, joint control or significant influence both over them and the Group.

(s) Impact of new Standards and amendments

The following standards and amendments which are effective from 1 January 2016 the Group applied for the first time. However, they do not significantly impact the consolidated financial statements:

- *Annual Improvements 2012-2014 Cycle.*
- *IFRS 14 Regulatory Deferral Accounts;*
- *Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets;*
- *Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Investment Property*
- *Amendments to IFRS 10 Consolidated Interim Condensed Financial Statements and IAS 28 Investments in Associates;*
- *Amendments to IFRS 11 Joint Arrangements;*
- *Amendments to IAS 27 Separate financial statements;*
- *Amendments to IAS 1 Presentation of Financial Statements;*
- *Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates in respect of accounting and disclosure of information about a subsidiary of an investment entity measured at fair value.*

Note 4. New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 and which the Group has not early adopted. The Group intends to adopt applicable standards when they become effective. None of them is expected to affect the consolidated financial statements of the Group, except the following set out below.

- **IFRS 9 Financial Instruments.** In 2014 the IASB issued the final version of IFRS 9, which reflects all phases of financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing impact of IFRS 9 on its consolidated financial statements.
- **IFRS 15 Revenue from Contracts with Customers.** IFRS 15 was issued in 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing impact of IFRS 15 on its consolidated financial statements.
- **IFRS 16 Leases.** IFRS 16 is single guidance for lease accounting and contains requirements for related disclosures. The new standard replaces IAS 17 *Leases* and the related interpretations on lease. IFRS 16 is partly or fully retrospectively effective for annual periods beginning on or after 1 January 2019, with earlier application permitted under the simultaneous application of IFRS 15.
- **Disclosure Initiative (Amendments to IAS 7).** The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The amendments are expected to result in additional disclosures but they do not affect financial position or financial performance of the Group.

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The following new standards, amendments and interpretations may affect the Group consolidated financial statements but the effects are not expected to be significant.

- **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12).** The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments.
- **Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).** The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- **Transfers of Investment Property (Amendments to IAS 40).** The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).** The effective date is deferred indefinitely. Adoption is permitted.
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration.** The interpretation is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- **Various Improvements to International Financial Reporting Standards** issued by IASB within 2014-2016 Annual Improvements Cycle. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

Note 5. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

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The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(f) Non-derivative financial liabilities

Fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 6. Operating segments

The General Director of the Company has been determined as the Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation and segments relating to other activities.

The General Director regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

In accordance with requirements of IFRS 8 based on the information on segments revenues and profits before income tax reported to the General Director the following reporting segments were identified:

- Electricity Transmission Segments: Dagestan Republic, North Ossetia-Alania Republic, Stavropol region, Kabardino-Balkaria and Karachaevo-Cherkessia Republics, Republic Ingushetia - the main activity of which is the provision of electricity transmission and distribution services within the Russian Federation;
- The other segment includes operations of JSC Grid Company of Dagestan (OJSC Energoservice) which didn't meet any of the quantitative thresholds for determining reportable segments. Since 1 July 2015 JSC Grid Company of Dagestan was included in the Dagestan Republic segment.

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

Other revenue and a loss before tax in the Republic Ingushetia segment included revenue from electricity sales (Note 22) and expenses on the purchased electricity and capacity for implementation (Note 23) caused by the performance of guaranteed supplier functions in the Republic Ingushetia since 1 December 2015. This activity is not primary for the Company, it is not analyzed by the General Director separately and is not allocated in a separate segment.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. The reconciliation of items measured as reported to the General Director with similar items in these Consolidated Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue and profit before income tax, as included in the internal management reports that are reviewed by the General Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

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(i) Information about reportable segments

For the year ended 31 December 2016

	Electricity Transmission Segments						Total
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkarian Republic	Karachayevo- Cherkessian Republic	Ingushetia Republic	
Revenue							
Revenue from external counterparties	7,998,254	2,863,627	1,944,691	2,025,556	1,480,024	1,492,553	17,804,705
Inter-segment revenue	–	551,217	–	–	–	–	551,217
Total segment revenue	7,998,254	3,414,844	1,944,691	2,025,556	1,480,024	1,492,553	18,355,922
Including:							
<i>Electricity transmission</i>	7,859,942	2,801,371	1,920,558	2,014,295	1,464,000	822,698	16,882,864
<i>Technological connection</i>	99,717	4,180	11,247	5,531	10,469	723	131,867
<i>Other revenue</i>	38,595	609,293	12,886	5,730	5,555	669,132	1,341,191
Accrual of contingent liabilities reserve	(16,886)	(20,366)	(10,253)	(407)	(550)	(3,167)	(51,629)
Recovery of contingent liabilities reserve	6,988	9,223	1,203	25,560	423	12,415	55,812
Finance income	75,702	–	18,177	19,322	14,153	9,230	136,584
Finance costs	(484,266)	–	(116,081)	(123,822)	(90,095)	(58,912)	(873,176)
Depreciation and amortization	(781,230)	(496,791)	(233,752)	(210,403)	(185,121)	(127,403)	(2,034,700)
Profit/(loss) before income tax	(149,023)	(3,956,792)	(174,852)	178,873	12,498	(395,919)	(4,485,215)
Income tax	(26,367)	205,414	40,129	(53,231)	(15,831)	78,491	228,605

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For the year ended 31 December 2015

	Electricity Transmission Segments						Other	Total
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkarian Republic	Karachayevo- Cherkessian Republic	Ingushetia Republic		
Revenue								
Revenue from external counterparties	7,337,151	2,699,180	2,004,010	1,749,825	1,406,069	800,766	–	15,997,001
Inter-segment revenue	179	956,802	–	–	–	–	264	957,245
Total segment revenue	7,337,330	3,655,982	2,004,010	1,749,825	1,406,069	800,766	264	16,954,246
Including:								
<i>Electricity transmission</i>	7,164,707	3,086,834	1,992,000	1,743,121	1,399,193	745,686	–	16,131,541
<i>Technological connection</i>	135,263	1,647	1,448	2,855	2,132	607	–	143,952
<i>Other revenue</i>	37,360	567,501	10,562	3,849	4,744	54,473	264	678,753
Accrual of contingent liabilities reserve	(7,783)	(392,050)	(944)	(27,404)	(1,590)	(29,425)	–	(459,196)
Recovery of contingent liabilities reserve	4,693	130,611	8,605	998	102	15,459	–	160,468
Finance income	72,308	5,532	20,010	17,787	14,097	7,936	–	137,670
Finance costs	(343,151)	(28,709)	(95,298)	(84,289)	(66,826)	(37,423)	–	(655,696)
Depreciation and amortization	(767,827)	(490,230)	(249,958)	(201,722)	(190,710)	(107,845)	(291)	(2,008,583)
Profit/(loss) before income tax	126,318	(5,175,490)	(1,104,069)	(381,581)	75	(264,275)	(4,253)	(6,803,275)
Income tax	(94,624)	540,014	203,168	61,322	(14,526)	44,356	851	740,561

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As at 31 December 2016

	Electricity Transmission Segments						Total
	Stavropol Region	Dagestan Republic	North Ossetia-Alania Republic	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	Ingushetia Republic	
Reportable segment assets	8,795,541	8,824,781	3,359,578	3,339,505	2,241,898	1,919,900	28,481,203
<i>Including property, plant and equipment</i>	<i>7,276,094</i>	<i>7,539,880</i>	<i>1,999,288</i>	<i>2,192,088</i>	<i>1,900,850</i>	<i>967,166</i>	<i>21,875,366</i>
Reportable segment liabilities	2,579,852	5,659,520	807,713	784,163	560,696	909,940	11,301,884
Capital expenditure	264,085	225,842	81,780	40,688	49,861	13,639	675,895

As at 31 December 2015

	Electricity Transmission Segments						Total
	Stavropol Region	Dagestan Republic	North Ossetia-Alania Republic	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	Ingushetia Republic	
Reportable segment assets	9,454,308	9,303,495	3,413,744	3,107,751	2,212,765	1,726,013	29,218,076
<i>Including property, plant and equipment</i>	<i>7,785,171</i>	<i>8,020,259</i>	<i>2,135,802</i>	<i>2,369,071</i>	<i>2,038,688</i>	<i>1,169,252</i>	<i>23,518,243</i>
Reprotable segment liabilities	2,387,856	3,032,634	750,929	716,787	519,412	533,207	7,940,825
Capital expenditure	706,539	147,615	188,916	78,277	82,462	2,030	1,205,839

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(ii) Reconciliation of reportable segment revenue, profit/(loss) before income tax and assets and liabilities

Reconciliation of key segment items measured as reported to the General Director with similar items in these consolidated financial statements is presented below.

Reconciliation of segment revenue is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Segment revenues	18,355,922	16,954,246
Inter-segment revenue elimination	(551,217)	(957,245)
Unallocated revenues	107,777	82,257
Revenues per consolidated statement of profit or loss and other comprehensive income	17,912,482	16,079,258

The Group performs its activities in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

Reconciliation of reportable segment loss before income tax is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Reportable segment loss before income tax	(4,485,215)	(6,803,275)
Differences in accounting for property, plant and equipment between RAS and IFRS	711,663	693,787
Impairment of property, plant and equipment	(870,019)	(1,804,780)
Adjustment for finance leasing	9,160	8,360
Adjustment for inventories evaluation	(38,802)	(211)
Adjustment for allowance for impairment of accounts receivable	85,202	(1,324,164)
Employee retirement benefit obligations recognition	33,797	(63,891)
Reclassified expenses for the purposes of IFRS	(27,316)	(444,185)
Discounting of long-term receivables	9,763	15,383
Discounting of long-term payables	(56,069)	(48,911)
Adjustment for impairment of investments to subsidiaries and associates	100	(80,150)
Effect from disposal of subsidiary	–	13,624,951
Other provisions adjustments	–	1,323,075
Other adjustments	(1,431)	(42,506)
Unallocated items	(386,894)	(3,000)
Profit/(loss) before income tax per consolidated statement of profit or loss and other comprehensive income	(5,016,061)	5,050,483

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Reconciliation of reportable segment total assets is presented below:

	31 December 2016	31 December 2015
Total segment assets	28,481,203	29,218,076
Adjustment for net book value of property, plant and equipment	(10,111,347)	(9,950,125)
Adjustment for allowance for impairment of accounts receivable	547,993	462,791
Discounting of accounts receivable	(31,771)	(41,534)
Recognition of assets related to employee benefits	283,683	273,124
Adjustment for deferred tax calculation	(207,890)	(1,534,767)
Inventories written-off	–	(5,785)
Adjustment for finance leasing	–	(1,250)
Other adjustments	(40,122)	(2,017)
Unallocated assets	6,810,497	6,436,505
Total assets per consolidated statement of financial position	25,732,246	24,855,018

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2016	31 December 2015
Total segment liabilities	11,301,884	7,940,825
Adjustment for discounting of accounts payable	(629,586)	(685,655)
Post-employment benefits liabilities	626,288	660,876
Adjustment for deferred tax calculation	(1,180,602)	(1,046,046)
Adjustment for finance leasing	–	7,910
Adjustment for other provisions	–	242,496
Income tax payables adjustment	–	210,278
Other adjustments	(15,397)	21,900
Unallocated liabilities	12,802,560	11,172,866
Total liabilities per consolidated statement of financial position	22,905,147	18,525,450

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Note 7. Property, plant and equipment

	Land plots and buildings	Electricity transmission networks	Equipment for electricity transformation	Constructio n in progress	Other	Total
Cost						
Balance at 1 January 2015	1,424,890	8,681,551	8,574,450	6,523,022	3,020,501	28,224,414
Additions	1,024	435	6,022	1,325,322	49,005	1,381,808
Transfer	466,974	498,810	777,185	(2,808,867)	1,065,898	–
Disposals	(1,455)	(3,995)	(1,416)	(57,392)	(38,318)	(102,576)
Disposals due to deconsolidation of subsidiary	–	(4,508)	(54,857)	(15,331)	(34)	(74,730)
Transfer to non-current assets held for sale	(315)	–	–	–	(1,383)	(1,698)
Balance at 31 December 2015	1,891,118	9,172,293	9,301,384	4,966,754	4,095,669	29,427,218
Balance at 1 January 2016	1,891,118	9,172,293	9,301,384	4,966,754	4,095,669	29,427,218
Additions	17	1	52	1,122,895	34,834	1,157,799
Transfer	18,151	216,956	207,404	(1,777,152)	1,334,641	–
Disposals	(262)	(917)	(2,475)	(82,798)	(9,247)	(95,699)
Balance at 31 December 2016	1,909,024	9,388,333	9,506,365	4,229,699	5,455,897	30,489,318
Accumulated depreciation and impairment						
Balance at 1 January 2015	(389,586)	(4,268,941)	(3,014,509)	(2,124,989)	(1,495,114)	(11,293,139)
Accrued depreciation for the year	(84,475)	(431,781)	(482,500)	–	(449,805)	(1,448,561)
Impairment loss	(134,438)	(498,015)	(690,408)	(447,406)	(34,513)	(1,804,780)
Transfer to PPE	(47,369)	(56,248)	(9,107)	506,028	(393,304)	–
Disposals	308	3,157	657	32,276	26,072	62,470
Disposals due to deconsolidation of subsidiary	–	3,089	37,711	9,830	34	50,664
Transfer to non-current assets held for sale	58	–	–	–	–	58
Balance at 31 December 2015	(655,502)	(5,248,739)	(4,158,156)	(2,024,261)	(2,346,630)	(14,433,288)
Balance at 1 January 2016	(655,502)	(5,248,739)	(4,158,156)	(2,024,261)	(2,346,630)	(14,433,288)
Accrued depreciation for the year	(93,127)	(385,806)	(490,675)	–	(518,147)	(1,487,755)
Impairment loss	(7,614)	(456,313)	(113,589)	(642,521)	(6,607)	(1,226,644)
Reversal of impairment loss	21,560	93,365	155,816	82,846	3,038	356,625
Transfer of impairment loss	–	(1,978)	(18,266)	21,052	(808)	–
Disposals	129	818	1,145	46,257	8,939	57,288
Balance at 31 December 2016	(734,554)	(5,998,653)	(4,623,725)	(2,516,627)	(2,860,215)	(16,733,774)
Net book value						
At 1 January 2015	1,035,304	4,412,610	5,559,941	4,398,033	1,525,387	16,931,275
At 31 December 2015	1,235,616	3,923,554	5,143,228	2,942,493	1,749,039	14,993,930
At 31 December 2016	1,174,470	3,389,680	4,882,640	1,713,072	2,595,682	13,755,544

As at 31 December 2016 construction in progress includes advances for the acquisition of property, plant and equipment of RUB 536,133 thousand (as at 31 December 2015: RUB 569,763 thousand).

As at 31 December 2016 advances issued for the acquisition of property, plant and equipment with a carrying amount of RUB 80,242 thousand were impaired (as at 31 December 2015: RUB 89,628 thousand). The impairment loss was recognised in operating expenses.

As at 31 December 2016 construction in progress includes construction materials of RUB 92,852 thousand (as at 31 December 2015: RUB 23,321 thousand).

For the year ended 31 December 2016 borrowing costs totalling RUB 42,011 thousand with a capitalisation rate of 11.87% were included in the cost of property, plant and equipment and consisted of interests on loans (as at 31 December 2015: RUB 114,039 thousand with a capitalisation rate of 12.16%).

For the years 2016 and 2015 there was no capitalisation of depreciation charge.

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Determination of recoverable amount of property, plant and equipment

At each reporting period the Group assessed whether there was any indication that property, plant and equipment may be impaired. For those cash-generating units where such indication exists, the Group performed impairment testing in order to estimate the recoverable amount of the property, plant and equipment.

As at 31 December 2016 and 31 December 2015 the assessment of property, plant and equipment was performed in order to detect any indications of impairment.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value of the property, plant and equipment. Therefore the value in use for property, plant and equipment as at 31 December 2016 and 31 December 2015 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the use of property, plant and equipment in the business to its ultimate disposal to determine the recoverable amount of the assets.

Cash-generating units are determined by the Group based on the geographical location of the branches and subsidiaries which are the smallest identifiable groups of assets that generate cash inflows that are independent of other assets of the Group.

Determination of recoverable amount of the assets of cash-generating units as at 31 December 2016

The following key assumptions were used in assessing the recoverable amounts of the assets of cash-generating units as at 31 December 2016:

- cash flows were projected based on the provisions of Methodical instruction on testing power grid assets for impairment (approved by Order no. 558p of PJSC ROSSETI dated 17 December 2014, with amendments no. 583p of 15 December 2015 and no. 543p of 14 December 2016) and forecast data until 2021;
- forecasted cash flows for the periods: 2017-2021 (for Dagenengo branch, JSC Grid Company of Dagestan and Ingushenergo branch); 2017-2022 (for Kabbalkenergo branch and Sevkavkazenergo branch); 2017-2025 (for Karachayevo-Cherkesskenergo branch); 2017-2026 (for Stavropolenergo branch) were determined based on the best estimate by management of PJSC IDGC of Northern Caucasus on electricity transmission volumes, operating expenses, capital expenditures and tariffs approved by the regulatory authorities for the year 2017 etc. A longer forecast period for Sevkavkazenergo branch, Karachayevo-Cherkesskenergo branch and Stavropolenergo branch was chosen as the stable cash flows will not be achieved by the end of 2021. For these branches the chosen forecast period is from the date of impairment testing till the end of five years period following the latest year of the current approved tariff regulation period or other number of years when the use of other period duration is more appropriate for the impairment testing purpose.
- forecasted tariffs on electricity transmission for the forecast period were estimated based on business plans, adjusted and agreed by PJSC ROSSETI, which were based on tariff models formed using average year increase of rate on electricity transmission services (in accordance with forecast on social and economic development of Russian Federation for 2017 and planning period of 2018-2019);
- forecasted electricity transmission volumes for all CGUs were determined on the basis of annual business plans of PJSC IDGC of Northern Caucasus for 2017-2021;
- forecasted cash flows were discounted to their present value at a nominal weighted-average cost of capital of 10.91%;
- the growth rate of the net cash flows in the post-forecast period amounted to 3.3% for Dagenengo branch, JSC Grid Company of Dagestan; 3.4% for Ingushenergo branch; 2.3% for Kabbalkenergo branch; 3.1% for Karachayevo-Cherkesskenergo branch, Sevkavkazenergo branch and Stavropolenergo branch. The difference in the long-term growth rates for the CGU is associated with the difference in the durations of forecasting period.

As a result of impairment testing as at 31 December 2016 the Group recognized impairment loss in the amount of RUB 1,226,644 thousand on property, plant and equipment and construction-in-progress of the Ingushetia Republic and the Dagestan Republic operating segments (Note 6). Also the Group recognized the reversal of impairment loss in the amount of RUB 347,239 thousand on property, plant and equipment and construction-in-progress of the North Ossetia-Alania Republic operating segment.

The sensitivity analysis of the main assumptions for PJSC IDGC of Northern Caucasus is presented below:

- For Dagenengo branch JSC Grid Company of Dagestan an increase in necessary gross revenue to the base value in each period of 10% leads to the absence of an impairment loss.

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- For Ingushenergo branch an increase in necessary gross revenue to the base value in each period of 10% leads to the absence of an impairment loss.
- For Kabbalkenergo branch, Karachayevo-Cherkesskenergo branch, Stavropolenergo branch:
 - change in the level of investment in forecast and post-forecast periods,
 - ratio of the investment level (capital expenditures) to the amount of depreciation in forecast and post-forecast periods
 - ratio of the investment level (capital expenditures) to the amount of depreciation in forecast and post-forecast periods, changes in NGR to the base value in each period,
 - changes in discounting rate,
 - change in the level of operating expenses
 Within reasonable range does not lead to impairment
- For Sevkavkazenergo branch:
 - A decrease in NGR to the base value in each period of 5% leads to an impairment loss in the amount of RUB 105,489 thousand.
 - An increase in operating expenses amount of 5% leads to an impairment loss in the amount of RUB 105,489 thousand.

Note 8. Intangible assets

	Certificates and licences	Software	Research and development	Other	Total
<i>Cost</i>					
At 1 January 2015	199	82,249	3,000	26,112	111,560
Additions	582	53,446	–	58	54,086
Reclassification	–	–	(3,000)	3,000	–
Disposals	–	(21,177)	–	(280)	(21,457)
Disposals due to deconsolidation of subsidiary	(199)	(7,128)	–	(37)	(7,364)
At 31 December 2015	582	107,390	–	28,853	136,825
At 1 January 2016	582	107,390	–	28,853	136,825
Additions	1,058	41,924	–	231	43,213
Disposals	–	(11,624)	–	(3,077)	(14,701)
At 31 December 2016	1,640	137,690	–	26,007	165,337
<i>Accumulated amortisation</i>					
At 1 January 2015	(159)	(23,934)	–	(1,081)	(25,174)
Amortisation charge	(224)	(35,292)	–	(3,759)	(39,275)
Disposals	–	21,177	–	281	21,458
Disposals due to deconsolidation of subsidiary	186	5,882	–	28	6,096
At 31 December 2015	(197)	(32,167)	–	(4,531)	(36,895)
At 1 January 2016	(197)	(32,167)	–	(4,531)	(36,895)
Amortisation charge	(234)	(37,651)	–	(3,787)	(41,672)
Disposals	–	11,624	–	77	11,701
At 31 December 2016	(431)	(58,194)	–	(8,241)	(66,866)
<i>Net book value</i>					
At 1 January 2015	40	58,315	3,000	25,031	86,386
At 31 December 2015	385	75,223	–	24,322	99,930
At 31 December 2016	1,209	79,496	–	17,766	98,471

For the years 2016 and 2015 there was no capitalization of amortization charge.

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Note 9. Deferred tax assets

(a) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Property, plant and equipment	720,493	785,671	(129)	(25)	720,364	785,646
Other non-current assets	1,225	898	(130)	(23)	1,095	875
Inventories	–	–	(6,590)	(4,192)	(6,590)	(4,192)
Trade and other receivables	1,880,894	2,029,782	–	–	1,880,894	2,029,782
Other current assets	8,149	389	–	–	8,149	389
Provisions	–	19,299	–	–	–	19,299
Employee benefits liabilities	–	–	(36,540)	(30,800)	(36,540)	(30,800)
Trade and other payables	36,825	8,922	(57,400)	(80,272)	(20,575)	(71,350)
Finance lease liability	–	1,582	–	–	–	1,582
Tax loss carry-forwards	821,728	253,529	–	–	821,728	253,529
Deferred tax assets / (liabilities)	3,469,314	3,100,072	(100,789)	(115,312)	3,368,525	2,984,760
Set-off of tax	(100,789)	(115,312)	100,789	115,312	–	–
Unrecognized deferred tax assets	(513,461)	–	–	–	(513,461)	–
Net deferred tax assets	2,855,064	2,984,760	–	–	2,855,064	2,984,760

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(b) Movement in deferred taxes during the year

	1 January 2016	Recognised in profit or loss	Recognised in equity	31 December 2016
Property, plant and equipment	785,646	(65,282)	–	720,364
Other non-current assets	875	220	–	1,095
Inventories	(4,192)	(2,398)	–	(6,590)
Trade and other receivables	2,029,782	(148,888)	–	1,880,894
Other current assets	389	7,760	–	8,149
Provisions	19,299	(19,299)	–	–
Employee benefits liabilities	(30,800)	(4,213)	(1,527)	(36,540)
Trade and other payables	(71,350)	50,775	–	(20,575)
Finance lease liability	1,582	(1,582)	–	–
Tax loss carry-forwards	253,529	568,199	–	821,728
Unrecognized deferred tax assets	–	(513,461)	–	(513,461)
Net deferred tax assets	2,984,760	(128,169)	(1,527)	2,855,064

	1 January 2015	Recognised in profit or loss	Recognised in equity	Disposal of subsidiary	31 December 2015
Property, plant and equipment	655,507	129,445	–	694	785,646
Other non-current assets	(15,714)	19,537	–	(2,948)	875
Investments	(30)	30	–	–	–
Inventories	(3,839)	579	–	(932)	(4,192)
Trade and other receivables	1,280,703	1,037,249	–	(288,170)	2,029,782
Other current assets	1,495	(1,106)	–	–	389
Provisions	74,399	(3,454)	–	(51,646)	19,299
Employee benefits liabilities	(30,633)	446	(613)	–	(30,800)
Trade and other payables	(76,561)	13,321	–	(8,110)	(71,350)
Finance lease liability	2,812	(1,230)	–	–	1,582
Tax loss carry-forwards	1,363,404	469,583	–	(1,579,458)	253,529
Unrecognized deferred tax assets	(1,667,138)	(263,432)	–	1,930,570	–
Net deferred tax assets	1,584,405	1,400,968	(613)	–	2,984,760

Management believes that in the future the Company would have enough pre-tax income to utilize the deferred tax assets.

The deductible temporary differences do not expire under current tax legislation. Tax losses could be utilized within 10 years from their origination which expire in 2023-2026.

(c) Unrecognised deferred tax assets

As at 31 December 2016 unrecognised deferred tax assets included the deferred tax in the amount of RUB 401,763 thousand on tax losses carried forward and the deferred tax in the amount of RUB 111,698 thousand on temporary differences arising in respective of a loss-making subsidiary JSC Grid Company of Dagestan.

Note 10. Other non-current assets

	31 December 2016	31 December 2015
Assets related to the employee benefits (Note 18)	283,683	273,124
Accounts receivable related with PJSC FGC UES	787,319	787,319
Other	174	259
Total	1,071,176	1,060,702

Assets related to the employee benefits relate to the Group contributions accumulated in “solidary” and employees’ individual pension accounts with the Non-State Pension Fund of Electric Power Industry and Non-State Pension Fund “Professional”. Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Long-term receivables on settlements with PJSC FGC UES refer to unsettled payments under the technical scope assignment agreement with PJSC FGC UES. Due to a dispute between the Group and PJSC FGC UES under this

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agreement, receivables for services provided by the Group and payables (advances received) are presented in the financial statements separately. Under this agreement, the Group is not recording receivables in the amount of RUB 787,319 thousand net within the advances received until the completion of work and the signing of the delivery and acceptance certificate by PJSC FGC UES. Since no consensus was reached under this agreement (including as at the reporting date) with PJSC FGC UES not confirming any full settlement under the agreement, the Group concluded that receivables and payables should not be presented net. The receivables are recorded as long-term receivables within other non-current assets. The payables represent short-term payables, as the obligations were to be performed by 1 January 2015 under the agreement and should be treated as short-term payables until full settlement (Notes 19, 28).

The Group's exposure to credit and currency risks is disclosed in Note 28.

Note 11. Inventories

	31 December 2016	31 December 2015
Raw materials and consumables	574,767	541,094
Other inventories	17,466	–
<i>Allowance for obsolescence of inventories</i>	<i>(11,014)</i>	<i>(9,048)</i>
Total	581,219	532,046

Note 12. Trade and other receivables

	31 December 2016	31 December 2015
<i>Non-current accounts receivable and loans issued</i>		
Trade receivables	76,657	80,096
<i>Trade receivables impairment allowance</i>	<i>(448)</i>	<i>(1,039)</i>
Other receivables	3,873	3,707
Total	80,082	82,764
<i>Current accounts receivable</i>		
Trade receivables	13,137,183	12,870,680
<i>Trade receivables impairment allowance</i>	<i>(9,973,749)</i>	<i>(10,226,049)</i>
Other receivables	954,145	391,464
<i>Other receivables impairment allowance</i>	<i>(615,759)</i>	<i>(205,772)</i>
VAT recoverable	275,575	249,712
Loans issued	419,789	314,505
Prepaid taxes, other than income tax	85,830	37,425
Total	4,283,014	3,431,965

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 28.

Note 13. Prepayments for current assets

	31 December 2016	31 December 2015
Advances given	51,646	27,081
<i>Advances given impairment allowance</i>	<i>(6,383)</i>	<i>(10,176)</i>
Total	45,263	16,905

Note 14. Cash and cash equivalents

	31 December 2016	31 January 2015
Cash at bank and in hand	1,363,184	1,603,618
Cash equivalents	1,570,000	890
Total	2,933,184	1,604,508

As at 31 December 2016 cash and cash equivalents include balances in the amount of RUB 1,248,600 thousand (31 December 2015: RUB 1,270,000 thousand), which represent minimum required balances on the accounts in order to get additional finance income at interest rates of 0.10-9.20% per annum as at 31 December 2016 and 6.87-8.08% per

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annum as at 31 December 2015. The requirement to maintain minimum level of cash balances does not restrict the Company's ability to use cash at any time, however, in case of breaking requirement on minimum required balances interest income would not be accrued.

As at 31 December 2016 cash equivalents are represented by a deposit in bank of JSC Gazprombank with a maturity of less than 3 months and an interest rate of 8% per annum.

All cash and cash equivalents are denominated in RUB.

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

Note 15. Non-current assets held for sale

The movement in the non-current assets held for sale was as follows:

	2016	2015
Balance at 1 January	8,583	10,539
Additions	–	1,640
Disposals	(5,172)	(3,596)
Balance at 31 December	3,411	8,583

Note 16. Equity

Share capital

	31 December 2016	31 December 2015
Number of ordinary shares authorised, issued and fully paid (in shares)	154,562,277	154,562,277
Par value (in RUB)	1	1
Total share capital (in RUB)	154,562,277	154,562,277

Additional paid in capital

As at 31 December 2015 and 2016 additional paid in capital consists of share premium in the amount of RUB 4,887,179 thousand and income from receiving borrowings at below-market rates from the Group's founder in the amount of RUB 165,323 thousand.

Dividends paid and declared

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's profit in the statutory accounts can differ significantly from that reported in the consolidated financial statements prepared under IFRS.

At the annual general meeting of shareholders of PJSC IDGC of Northern Caucasus held on 20 June 2016 the decision was made to declare no dividends on ordinary shares of the Company for the year 2015.

For the year ended 31 December 2016, the Group paid dividends for the previous periods of RUB 569 thousand and income tax related to dividends of RUB 2 thousand, and also wrote off accounts payable for unclaimed dividends in the amount of RUB 2,459 thousand. As at 31 December 2016 dividends payable of the Group amounted to RUB 695 thousand.

At the annual general meeting of shareholders of PJSC IDGC of Northern Caucasus held on 11 June 2015 the decision was made to declare no dividends on ordinary shares of the Company for the year 2014.

For the year ended 31 December 2015, the Group paid dividends for the previous periods of RUB 57 thousand and income tax related to dividends of RUB 8 thousand. As at 31 December 2015 dividends payable of the Group amounted to RUB 3,725 thousand.

Additional issue of shares

On 23 August 2016 an Extraordinary General Meeting of Shareholders of the Company approved an increase in the share capital of PJSC IDGC of Northern Caucasus through issuance of 3,258,695,653 additional ordinary registered uncertified shares with a par value of 1 rouble each.

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At the meeting of the Board of Directors of the Company held on 21 December 2016 the decision was made to set the offering price of one additional ordinary share of PJSC IDGC of Northern Caucasus in the amount of RUB 17.45.

Additional issue and registration of prospectus of ordinary inscribed uncertified shares of the Company placed under an open subscription was registered in accordance with the decision of the Bank of Russia dated 15 December 2016.

Advances received as prepayment for share issue as at 31 December 2016 in the amount of RUB 1,642,300 thousand were recognised as a reserve for issue of shares directly within equity.

Profit/(loss) per share

The calculation of profit/(loss) per share is based upon the profit/(loss) for the year and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

<i>In shares</i>	2016	2015
Number of shares issued as at 1 January	154,562,277	154,562,277
Weighted average number of ordinary shares as at 31 December	154,562,277	154,562,277
	Year ended	Year ended
	31 December 2016	31 December 2015
Weighted average number of ordinary shares	154,562,277	154,562,277
Profit/(loss) for the year	(5,157,051)	6,110,665
Weighted average profit/(loss) per ordinary share – basic and diluted (in RUB)	(33.37)	39.54

Note 17. Loans and borrowings

Non-current loans and borrowings

	Effective interest rate, %	Currency	Year of maturity	31 December 2016	31 December 2015
Loans					
PJSC Sberbank*	8.20-12.41	RUB	2017-2019	5,000,000	4,852,109
JSC Gazprombank*	10.50-13.00	RUB	2018-2019	2,305,943	2,499,694
Bonds	13.00	RUB	2021	1,350,000	–
Finance lease liability				–	7,910
Total non-current debt				8,655,943	7,359,713
<i>Less current portion of long-term debt and finance lease liability</i>				(2,850,000)	(3,232,955)
Total				5,805,943	4,126,758

Current loans and borrowings

	Effective interest rate, %	Currency	31 December 2016	31 December 2015
Borrowings				
PJSC ROSSETI**	–	RUB	30,000	30,000
Other			–	2,000
Total borrowings			30,000	32,000
Promissory notes				
PJSC ROSSETI**	–	RUB	1,541,035	1,541,035
PJSC FGC UES**	–	RUB	421,729	423,041
Total promissory notes			1,962,764	1,964,076
<i>Payables on interest on loans</i>			57,722	31,846
<i>Current portion of long-term debt</i>			2,850,000	3,225,045
<i>Current portion of finance lease liability</i>			–	7,910
Total			4,900,486	5 260,877

* Loans from government-related entities.

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** Borrowings and promissory notes from the parent company and its subsidiary.

For the year ended 31 December 2016 the Company repaid loans in the amount of RUB 6,675,492 thousand (for the year ended 31 December 2015: RUB 864,542 thousand). In 2016, the Company raised RUB 4,146,337 thousand using previously open credit lines and using a new credit line – RUB 2,481,295 thousand, and also placed bonds in the amount of RUB 1,350,000 thousand.

All loans listed above are bank loans with fixed interest rate.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As at 31 December 2016 and 31 December 2015 all loans and borrowings of the Group were unsecured.

Financial lease liabilities are payable as follows:

	31 December 2016			31 December 2015		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
From 1 to 5 years	–	–	–	–	–	–
Less than 1 year	–	–	–	9,026	1,116	7,910
Total	–	–	–	9,026	1,116	7,910

Issuance of securities

On 27 July 2015 exchange-traded bond program and listing prospectus were approved by the Company's Board of Directors, according to which a decision was made to issue non-convertible interest-bearing documentary exchange-traded bearer bonds, which are placed through public subscription within the framework of the exchange of bonds, no more than RUB 6 billion, inclusive, and with a maturity of no more than 3,640 days from the date of commencement of exchange bonds placement as a separate issue, placed within the exchange-traded bond program. In 2016 the Company placed bonds in the amount of RUB 1,350,000 thousand.

On 16 August 2016 exchange-traded bond program and listing prospectus were approved by the Company's Board of Directors, according to which a decision was made to issue non-convertible interest-bearing documentary exchange-traded bearer bonds, which are placed through public subscription within the framework of the exchange of bonds, no more than RUB 25 billion, inclusive, and with a maturity of no more than 10,920 days from the date of commencement of exchange bonds placement as a separate issue, placed within the exchange-traded bond program. As at 31 December 2016 these bonds have not yet been admitted to organized trading.

Note 18. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power and Non-State Pension Fund "Professional");
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners and others.

The amounts of defined benefit liability recognised in the consolidated statement of financial position are as follows:

	31 December 2016	31 December 2015
Net post employment benefits liability	538,459	569,149
Net other long-term employee benefits liability	87,829	91,727
Net defined benefit liability	626,288	660,876

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Changes in value of assets related to employee benefit fund are set out below.

	For year ended	
	31 December 2016	31 December 2015
Value of assets as at 1 January	273,124	274,373
Income on plan assets	19,386	18,158
Other movements in accounts	124	185
Benefits paid	(8,951)	(19,592)
Value of assets as at 31 December	283,683	273,124

The assets related to pension programs and defined benefit are administrated by Non-state Pension Fund, Non-state Pension Fund of the Power Industry and Non-state Pension Fund "Professional". The assets are not assets of the Fund, because in accordance to the agreements with The Fund the Group is able to use accumulated contributions for reducing of future contributions or recovery financing other plans or transfer to other fund on own initiative.

	31 December 2016	31 December 2015
Defined benefit liability	(626,288)	(660,876)
Value of assets	283,683	273,124
Net	(342,605)	(387,752)

Movements in net defined benefit liability are as follows:

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	Post-employment benefits	Other long-term employee benefits	Post-employment benefits	Other long-term employee benefits
Defined benefit liability as at 1 January	569,149	91,727	562,430	69,857
Current service cost	19,214	9,125	18,776	7,379
Past service cost and curtailments	(35,652)	(8,101)	10,249	2,551
Interest expenses on liabilities	49,127	7,259	61,519	6,926
<i>Remeasurement (gain) /loss arising from:</i>				
- changes in demographic actuarial assumptions	(8,823)	(725)	(135,691)	134
- changes in financial actuarial assumptions	(23,498)	(2,114)	94,087	8,764
- experience adjustments	20,971	5,970	7,551	8,255
Contributions to plan	(52,029)	(15,312)	(49,772)	(12,139)
	538,459	87,829	569,149	91,727

Expenses recognized in profit or loss for the period are as follows:

	For the year ended	
	31 December 2016	31 December 2015
Employee service cost	(15,414)	38,955
Remeasurement of other long-term employee benefit liability	3,131	17,153
Interest expenses	56,386	68,445
Total expenses recognized in profit or loss	44,103	124,553

(Income)/expenses recognized in other comprehensive income for the period are as follows:

	For the year ended	
	31 December 2016	31 December 2015
(Gain)/loss on changes in demographic actuarial assumptions	(8,823)	(135,691)
Loss/(gain) on changes in financial actuarial assumptions	(23,498)	94,087
(Gain)/loss on experience adjustments	20,971	7,551
Total income recognized in other comprehensive income	(11,350)	(34,053)

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Movements in remeasurement recognized in other comprehensive income for the period are as follows:

	2016	2015
Remeasurement as at 1 January	108,235	142,288
Changes in remeasurement	(11,350)	(34,053)
Remeasurement as at 31 December	96,885	108,235

Key actuarial assumptions are as follows:

Financial assumptions

	31 December 2016	31 December 2015
Discount rate	8.50%	9.50%
Potential increase in salary and wages	4.70%	6.00%
Inflation rate	4.70%	6.00%

Financial actuarial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is:

- for defined benefit plans including non-state pension provision of employees – 10.53 years;
- other long-term employee benefits – 10.63 years.

Assumptions regarding future mortality were based on published statistics and mortality tables. Estimates were based on the mortality table of the Russian population for 2011 adjusted in respect of employees, male and female, on 70% and 40%, respectively. The mortality table for 2011 was applied in respect of unemployed pensioners, male and female, adjusted on 30% and 5%, respectively.

Demographic assumptions

	31 December 2016	31 December 2015
Expected retirement age (years)		
- males	60	60
- females	55	55
Average employee turnover	7.5%	7.8%

The sensitivity of the defined benefit liability to changes in the key actuarial assumptions is presented below:

	Changes in assumptions	Effects on liability
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 5.33%
Potential increase in salary and wages	Increase/decrease by 0.5%	Increase/decrease by 0.46%
Potential increase in pensions (inflation)	Increase/decrease by 0.5%	Increase/decrease by 5.06%
Employee turnover level	Increase/decrease by 10%	Decrease/increase by 1.22%
Mortality level	Increase/decrease by 10%	Decrease/increase by 2.58%

The above sensitivity analysis was based on the method of each actuarial assumption changes within other actuarial assumptions remaining constant. The valuation method similar to the estimation measurement method of the present value of liabilities (projected unit credit method) was applied to the key actuarial assumptions used in the sensitivity calculation of the present value of liabilities, recognized in the Consolidated Statement of Financial Position.

For 2017 the expected payment under defined long-term benefit plans amounts to RUB 53,967 thousand, including:

- under defined benefit plans, including non-state pension provision of employees in the amount of RUB 42,053 thousand;
- under other long-term employee benefits in the amount of RUB 11,914 thousand.

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Note 19. Trade and other payables

	31 December 2016	31 December 2015
<i>Non-current accounts payable</i>		
Trade payables	458,031	470,879
Total	458,031	470,879
<i>Current accounts payable</i>		
Trade payables	8,140,411	4,773,862
Other payables and accrued expenses	1,395,898	1,250,444
Payables to employees	592,414	612,880
Dividends payable	695	3,725
Advances from customers	199,526	225,132
Total	10,328,944	6,866,043

The Group's exposure to currency and liquidity risk related to payables is disclosed in Note 28.

Note 20. Other taxes payable

	31 December 2016	31 December 2015
Value added tax	381,463	328,522
Payments to social funds	116,825	122,727
Property tax	53,408	47,168
Other taxes payable	51,839	195,234
Total	603,535	693,651

Note 21. Other provisions

	2016	2015
Balance as at 1 January	113,063	2,031,806
Increase for the period	214,511	498,999
Provisions used	(63,132)	(1,747,528)
Disposal of provisions due to deconsolidation of subsidiary	—	(500,721)
Decrease due to changes in accounting approaches	(82,522)	(169,493)
Balance as at 31 December	181,920	113,063

Other provisions relate to legal proceedings and unsettled legal claims against the Group.

Note 22. Revenue

	Year ended	Year ended
	31 December 2016	31 December 2015
Electricity transmission	16,882,864	15,734,295
Connection services	131,867	143,952
Electricity sales	667,495	53,225
Rental income	16,480	14,254
Other revenue	213,776	133,532
Total	17,912,482	16,079,258

Other revenue is comprised of installation, repair and maintenance services, transportation services and other sales.

From 1 December 2015, pursuant to order of the Russian Ministry of Energy no. 888 of 25 November 2015 PJSC IDGC of Northern Caucasus undertook the function of guaranteeing electricity supplier in Ingushetia Republic (for the period till the winner will be determined but no more than for 12 months). Hence, the Company is involved in a new type of activity - purchasing electricity on the wholesale market and selling it on the retail market.

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Note 23. Operating expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Personnel costs (Note 25)	6,557,003	6,055,275
Purchased electricity for compensation of technological losses	5,798,330	5,157,763
Electricity transmission	1,674,075	1,365,268
Depreciation and amortization	1,529,427	1,487,836
Allowance for impairment of trade and other receivables	1,307,193	4,711,630
Purchased electricity and power for sale	885,216	48,595
Impairment of property, plant and equipment	870,019	1,804,780
Raw materials and supplies	835,404	737,621
Rent	661,473	642,123
Taxes other than income tax	296,611	366,342
Electricity and heat power for own needs	240,281	224,167
Repairs and maintenance	223,647	242,818
Other provisions	131,989	329,506
Expenses related to maintenance of assets	131,715	109,553
Security services	119,647	101,419
Management services	83,708	82,800
Business trip expenses	70,963	55,822
Social expenditures and charity expenses	43,082	17,872
Telecommunication and information services	39,696	32,767
Consulting, legal and audit services	33,479	28,273
Other production works and services	3,516	6,504
Transportation	744	2,074
Other expenses	720,317	724,613
Total	22,257,535	24,335,421

Note 24. Other operating income

	Year ended 31 December 2016	Year ended 31 December 2015
Fines and penalties	76,189	262,643
Write-off of accounts payable	21,099	13,015
Non-contractual electricity consumption	19,828	28,115
Gain on disposal of property, plant and equipment	14,778	46,885
Insurance repayments	12,096	5,855
Gain on deconsolidation of subsidiary	-	13,624,951
Other income	6,478	7,291
Total	150,468	13,988,755

Note 25. Personnel costs

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	4,928,853	4,544,439
Payroll taxes	1,466,765	1,348,547
(Income)/expenses in respect of defined benefit plan (Note 18)	(16,438)	29,025
Expenses in respect of other long-term employee benefits (Note 18)	1,024	9,930
Remeasurement of net defined liabilities on other long-term employee benefits, net of deferred tax (Note 18)	3,131	17,153
Other personnel costs	173,668	106,181
Total	6,557,003	6,055,275

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Note 26. Finance income and costs

	Year ended 31 December 2016	Year ended 31 December 2015
Finance income		
Interest income on current bank accounts and loans issued	136,584	132,877
Interest income on assets related to employee benefit obligations	19,386	18,158
Discounting of financial instruments	16,473	15,581
Other finance income	–	2
Total	172,443	166,618
Finance costs		
Interest expenses on financial liabilities measured at amortised cost	873,666	728,212
Defined post-employment benefits plans (Note 18)	49,127	61,519
Amortization of discount of financial instruments	62,779	49,109
Defined other long-term benefits (Note 18)	7,259	6,926
Interest expense on finance lease liabilities	1,088	2,847
Other interest expenses	–	114
Total	993,919	848,727

Note 27. Income tax expense

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax expenses		
Current tax charge	–	(43,570)
Over provided in prior years	(12,821)	(297,216)
	(12,821)	(340,786)
Deferred income tax benefit		
Deferred income tax charge	(128,169)	1,400,968
Total income tax benefit	(140,990)	1,060,182

The Group's applicable tax rate in 2016 and 2015 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation of effective tax rate:

	Year ended 31 December 2016	%	Year ended 31 December 2015	%
Profit/(loss) before income tax	(5,016,061)	100	5,050,483	100
Income tax at applicable tax rate	1,003,212	(20)	(1,010,097)	(20)
Tax effect of items which are not deductible or taxable for taxation purposes	(617,920)	12	2,367,495	35
Over provided in prior years	(12,821)	–	(297,216)	(5)
Unrecognized deferred tax assets	(513,461)	10	–	–
Total	(140,990)	3	1,060,182	10

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Note 28. Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group's Audit Committee oversees how management of the Group monitors compliance with the internal control procedures.

(b) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

The levels of determination of fair value have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As at 31 December 2016 the Group holds investments in equity securities of RUB 173 thousand classified as available for sale measured at fair value and belong to Level 1 in the fair value hierarchy (as at 31 December 2015: RUB 132 thousand). Valuation of available-for sale investments is made on a recurring basis using quoted market prices.

As at 31 December 2016 the fair value of long-term bank loans and borrowings in the amount of RUB 10,364,100 thousand (as at 31 December 2015: RUB 6,849,178 thousand) was calculated on the base of observable market data (Level 2) using weighted average interest rates on loans to nonfinancial organizations in Russian Roubles over 1 year published by Bank of Russia for December 2016.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

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To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by contract and depends on the amount of capacity to be connected. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure of the Group. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2016	31 December 2015
Trade and other receivables <i>(net of allowance for impairment)</i>	3,581,902	2,913,087
Cash and cash equivalents	2,933,184	1,604,508
Loans issued	419,789	314,505
Total	6,934,875	4,832,100

At 31 December 2016 the Group's ten most significant debtors account for RUB 2,444,613 thousand of the trade receivables carrying amount (as at 31 December 2015: RUB 2,088,878 thousand).

The maximum exposure to credit risk for trade receivables at the reporting date by type was:

	31 December 2016	31 December 2015
Electricity transmission	9,388,028	9,719,807
Electricity sales	737,132	131,859
Connection services	3,401	72,231
Other sales	3,085,279	3,026,879
<i>Less: Allowance for impairment of accounts receivable</i>	<i>(9,974,197)</i>	<i>(10,227,088)</i>
Total	3,239,643	2,723,688

Impairment losses on accounts receivable

The aging of trade and other receivables at the reporting date was:

	31 December 2016		31 December 2015	
	Gross	Impairment	Gross	Impairment
Not past due	1,530,820	(24,992)	1,786,785	(61,768)
Past due less than 3 months	1,316,703	(104,177)	1,238,534	(403,138)
Past due more than 3 months and less than 6 months	1,050,283	(569,220)	604,339	(580,022)
Past due more than 6 months and less than 1 year	1,227,199	(938,340)	2,690,172	(2,688,360)
Past due more than 1 year	9,046,853	(8,953,227)	7,026,117	(6,699,572)
Total	14,171,858	(10,589,956)	13,345,947	(10,432,860)

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	2016	2015
Balance as at 1 January	(10,432,860)	(7,310,523)
Accrued allowance for doubtful debts during the period	(1,699,258)	(5,266,976)
Receivables written off against allowance for bad debts	1,150,097	99,176
Disposal of allowance due to deconsolidation of subsidiary	–	1,490,117
Decrease in allowance due to changes in accounting estimates	392,065	555,346
Balance as at 31 December	(10,589,956)	(10,432,860)

The allowance accounts in respect of trade receivables are used by the Group to record impairment losses, unless the Group considers that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the corresponding financial asset.

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(d) Offsetting of financial assets and financial liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	31 December 2016		31 December 2015	
	Trade and other accounts receivable	Trade and other accounts payable	Trade and other accounts receivable	Trade and other accounts payable
Gross amounts	8,808,064	8,840,355	9,091,862	6,609,960
Allowance for doubtful accounts receivable	(952,966)	–	(3,397,458)	–
<i>Amounts offset in accordance with IAS 32 offsetting criteria</i>	6,201,720	6,201,720	5,321,765	5,321,765
Net amounts presented in the statement of financial position:	1,653,378	2,638,635	372,639	1,288,195
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	406,100	406,100	242,872	242,872
Net amount	1,247,278	2,232,535	129,767	1,045,323

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The contractual maturities of financial liabilities presented including estimated interest payments and excluding the impact of netting agreements:

31 December 2016

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Loans and borrowings	7,393,665	10,719,773	5,707,956	2,414,095	2,597,722	–	–	–
Exchange-traded bonds	1,350,000	2,106,333	175,500	175,500	175,500	175,981	1,403,852	–
Promissory notes	1,962,764	1,962,764	1,962,764	–	–	–	–	–
Trade and other payables	9,207,716	9,826,283	8,743,093	2,890	1,510	–	2,192	1,076,598
Total	19,914,145	24,615,153	16,589,313	2,592,485	2,774,732	175,981	1,406,044	1,076,598

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31 December 2015

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Loans and borrowings	7,415,649	8,482,518	3,830,157	2,554,319	2,098,042	–	–	–
Promissory notes	1,964,076	1,964,076	1,964,076	–	–	–	–	–
Finance lease liability	7,910	9,026	9,026	–	–	–	–	–
Trade and other payables	5,711,591	6,317,310	5,240,712	–	–	–	–	1,076,598
Total	15,099,226	16,772,930	11,043,971	2,554,319	2,098,042	–	–	1,076,598

Accounts receivable and accounts payable related to the accounting approach to settlements with PJSC FGC UES in the amount of RUB 787,319 thousand (Note 10) are not included in the amounts represented in credit risk and liquidity risk. The Company does not expect any cash inflows and outflows related to these amounts.

(f) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The Group operates within the Russian Federation. The major part of the Group's purchases and sales is denominated in RUB. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rate and is subject to the limited risk of interest rate changes.

Management of the Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings management of the Group gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for early repayment of loans on borrower's initiative which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

The majority of interest rates on long term and short term loans and borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

Fair values sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss for the year. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(g) Fair values

Management determined that at the reporting date the fair value of cash and short-term deposits, trade receivables and trade payables and other short-term liabilities approximates their carrying value, mainly due to short-term maturities of these instruments.

(h) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

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The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their share capital at all times.

Note 29. Operating leases

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 1 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Operating lease rentals are payable as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Less than one year	500,313	467,141
Between one and five years	358,918	401,829
More than five years	397,150	522,635
Total	1,256,381	1,391,605

During the year RUB 661,473 thousand was recognised in the statement of profit or loss and other comprehensive income in respect of operating leases (2015: RUB 642,123 thousand).

Note 30. Commitments

As at 31 December 2016 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 1,201,697 thousand (as at 31 December 2015: RUB 1,109,538 thousand).

Note 31. Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management of the Group believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

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(d) Environmental matters

The Group and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management of the Group believes that there are no significant liabilities for environmental damage.

Note 32. Related party transactions

(a) Control relationships

As at 31 December 2016 and 31 December 2015 PJSC ROSSETI was the Parent company of the Company. The party with ultimate control over the Company is the Russian Government, which holds the majority of the voting rights in PJSC ROSSETI.

The majority of the Group's transactions are with the subsidiaries of PJSC ROSSETI and other state controlled entities.

(b) Transactions with the Parent and entities under control of the Parent and balances on settlements

Transactions with the Parent and its subsidiaries were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue:		
<i>Transactions with the entities under control of the Parent</i>		
Electricity transmission	6,500,495	6,973,866
Rental income	6,377	6,483
Other revenue	165,780	93,794
Other income	25,462	–
Interest income on loans issued	30,558	25,004
Expenses:		
<i>Transactions with the Parent</i>		
Management services	76,525	76,525
Services for technical supervision	17,727	15,366
<i>Transactions with the entities under control of the Parent</i>		
Electricity transmission	1,586,046	1,273,604
Purchased electricity for compensation of technological losses	3,538,482	3,212,326
Electricity and heat power for own needs	110,770	101,423
Purchased electricity for sale	998	–
Other expenses	146,738	76,649
Interest expenses	118,759	–

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All outstanding balances with related parties are to be settled in cash within a year of the statement of financial position date. None of the balances are secured.

Balances on settlements with the Parent and its subsidiaries are presented below:

	31 December 2016	31 December 2015
Trade and other receivables	3,418,970	2,620,415
<i>Allowance for impairment of trade receivables</i>	<i>(2,302,284)</i>	<i>(2,019,734)</i>
Loans issued	419,789	314,505
Exchange-traded bonds	1,350,000	–
Promissory notes and loans received	2,025,328	1,994,076
Advances received	1	31,312
Trade and other payables	8,102,375	4,480,684
<i>Discounting of trade accounts payable</i>	<i>(629,586)</i>	<i>(685,655)</i>
Other provisions	305	36,483

Related party revenue for electricity transmission and connection services is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Transactions with other state-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Antimonopoly Service and by the Executive Bodies of the constituent entities of the Russian Federation in the field of state regulation of tariffs.

Revenues from state-controlled entities for the year ended 31 December 2016 constitute 7% (2015 – 6%) of total revenues, including 6% (2015 – 6%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2016 constitute 1% (2015 – 1%) of total transmission costs.

(d) Transactions with management and close family members

The Group determines the members of the Board of Directors, the Management Board and senior managers of the Group as key management personnel.

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

Salary and bonuses which are paid to members of Board of Directors and Key Management Personnel for performing their job responsibilities consist of wages, non-cash benefits, bonuses calculated on the basis of the results for the period presented in the Company's obligatory financial statements prepared in accordance with Russian accounting principles and payments to social funds.

There are no transactions or balances with key management personnel and close family members except the following:

	Year ended	Year ended
	31 December 2016	31 December 2015
Salaries and bonuses, including social taxes	70,633	33,584
Personnel (income)/costs in respect of post-employment defined benefit plan	814	(266)
Interest costs in respect of long-term employee benefits liabilities	200	388
Remeasurement of defined liabilities on long-term employee benefits recognised in other comprehensive income	(15)	(1,252)

The amounts of key management personnel remuneration disclosed in the table are recognized as expenses related to key management personnel for the current year and presented in personnel costs (Note 25).

The present value of defined benefit and defined contribution liabilities and other long-term employee benefits plans includes liabilities related to key management personnel in the amount of RUB 3,102 thousand (2015: RUB 2,104 thousand).

Note 33. Events after the reporting period

On 9 January 2017 the Group repaid its debt to PJSC ROSSETI in the total amount of RUB 1,571 million including promissory notes of RUB 1,541 million and the loan in the amount of RUB 30 million.

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On 14 February 2017 the Group entered into a new loan agreement with Bank VBRR (JSC) with a limit of RUB 500 million.

On 7 March 2017 the Group received an act following the field tax audit on the correctness of calculation and timeliness of tax payment for 2013-2014 prescribing an additional charging of taxes, penalties in the total amount of RUB 141 million. The Group does not agree with the claims of the tax authorities and prepares objections to this act. The Group estimates the probability of paying the accrued amount as low.

