

Sustainable Development



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"In 2016, the Company achieved key guidelines for personnel and social policy:

- the Company's need for personnel is timely met;
- personnel efficiency is ensured, resulting in increased productivity."

HR policy

The key objectives of the personnel and social policy of the Company (the "Policy") aimed at achievement of targets of the Development Strategy of Electric Grid Complex, are as follows:

- planning of personnel requirements, ensuring of availability of reliable information about operational and forecast quantitative and qualitative personnel requirements necessary and sufficient to fulfill the Company's tasks;
- timely meeting of the Company's qualified personnel requirements;
- ensuring of personnel performance, and workforce productivity growth in the Company.

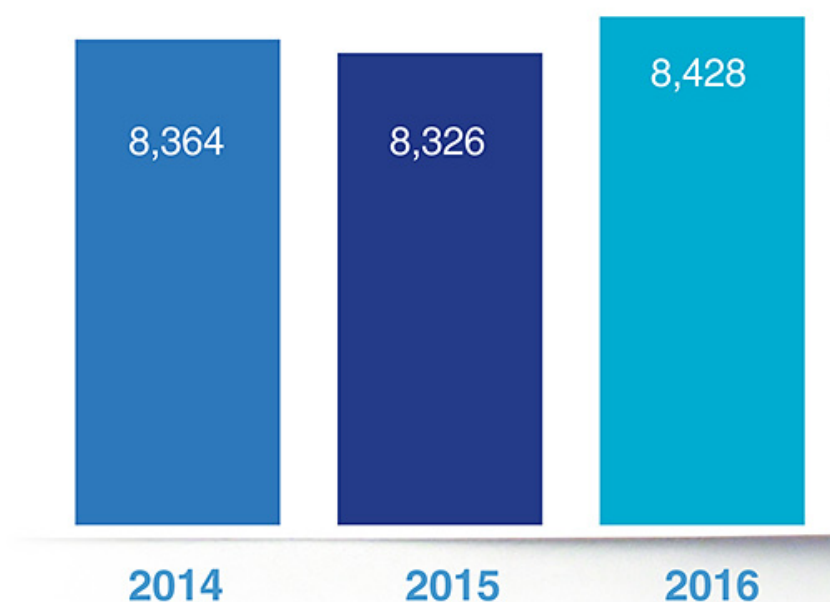
The mentioned key targets of the personnel and social policy are achieved through the implementation of a set of measures in various areas of activity and the achievement of established milestones:

- in the field of organization design;
- in the area of personnel reserve and development;
- in the area of personnel performance management (personnel motivation);
- in the area of social benefits and guarantees;
- in the area of personnel safety and working culture.

Headcount and Structure of Company Personnel

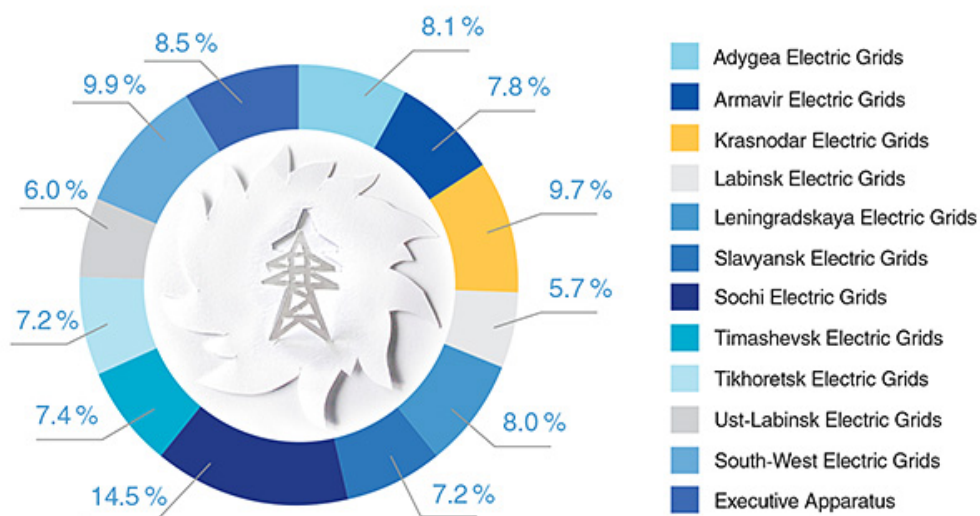
The average headcount of the Company in 2016 amounted to 8,428 people that is by 1.2% higher than in 2015.

Dynamics of the average headcount in 2014–2016, prs:



Increase of the average headcount is due to the admission of production personnel to the production departments and areas of electric grids.

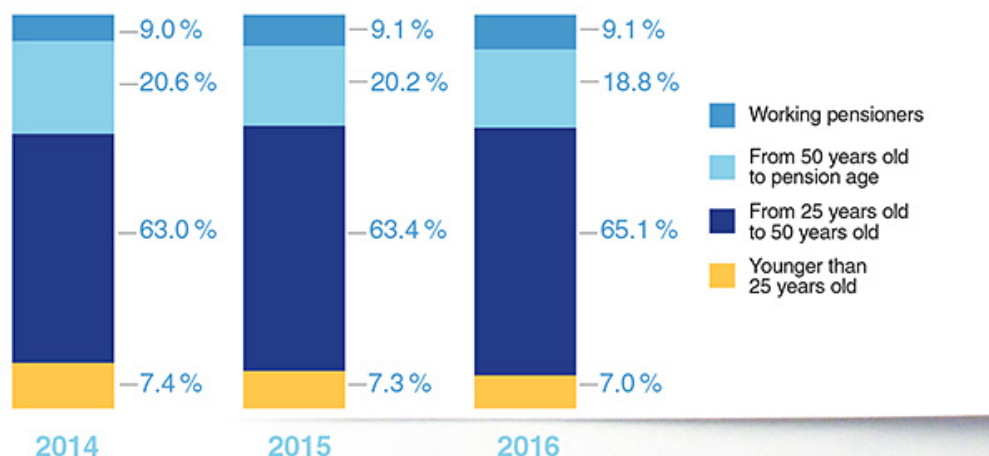
Chart Distribution of the average headcount in 2016



Over two years, the Company's staffing has been stable and maintained at a sufficiently high level, at least 97%.

The average age of employees in 2016 remained at the level of 2015 and was 41 years.

A significant proportion of employees of Kubanenergo PJSC are personnel aged 25 to 50 (65%). Over three years, there has been a decrease in the proportion of workers in the age category "from 50 years to the retirement age" (by 1.8 p.p. since 2014).



Personnel of Kubanenergo PJSC have a high level of qualification — 85% of employees have professional education. This indicator increased by 6 p.p. for the last three years.

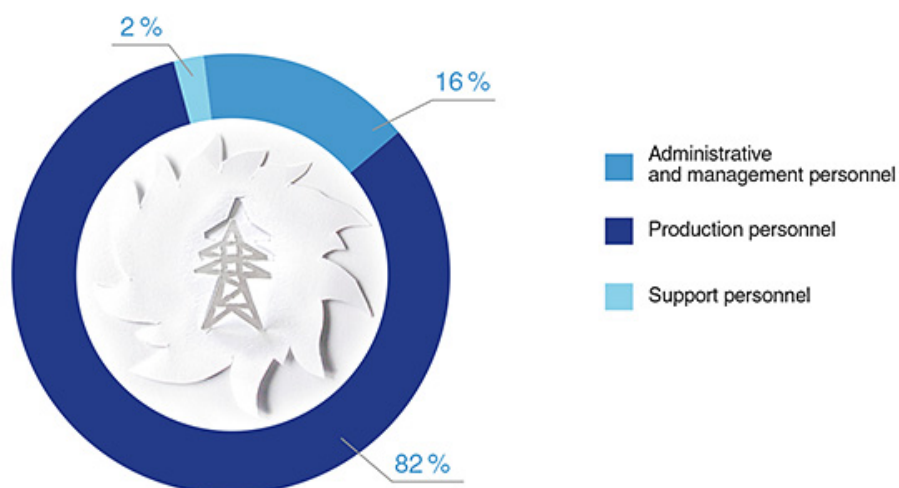
Personnel Training and Development

Training is one of the priorities of the Company's personnel and social policy and is regulated by the Rules of HR Management in Power Industry of the Russian Federation approved by Order of the Ministry of Fuel and Energy of the Russian Federation No. 49 of 2/19/2000, the Regulation on HR Management at Kubanenergo PJSC approved by Order No. 395 of 5/12/2015, as well as instructions and recommendations of supervisory bodies.

The proportion of employees who attended off-the-job training events in the reporting year to the average number of personnel is 76% (6,420 people), which is by 28.9 p.p. (2,492 people) higher than in 2015.

The largest share of the trained employees is production personnel — 82% (5,278 people). In 2015 this indicator was 70%. The structure of personnel who received training in the context of categories such as administrative and management personnel (AMP), production personnel (PP) and support personnel (SP) categories, is presented below:

Structure of the personnel attended off-the-job training events by categories, %



In 2016, 5,882 people underwent training, retraining and advance training in corporate training centers which is 91.6% of the total number of trained personnel in 2016, which is 9.6 p.p.higher than in 2015 (in 2015, 3,221 people were trained in corporate training centers (82% of the total number of trained personnel)).

The main share of the personnel trained in corporate training centers is also production personnel — 84.6% (4,974 people).

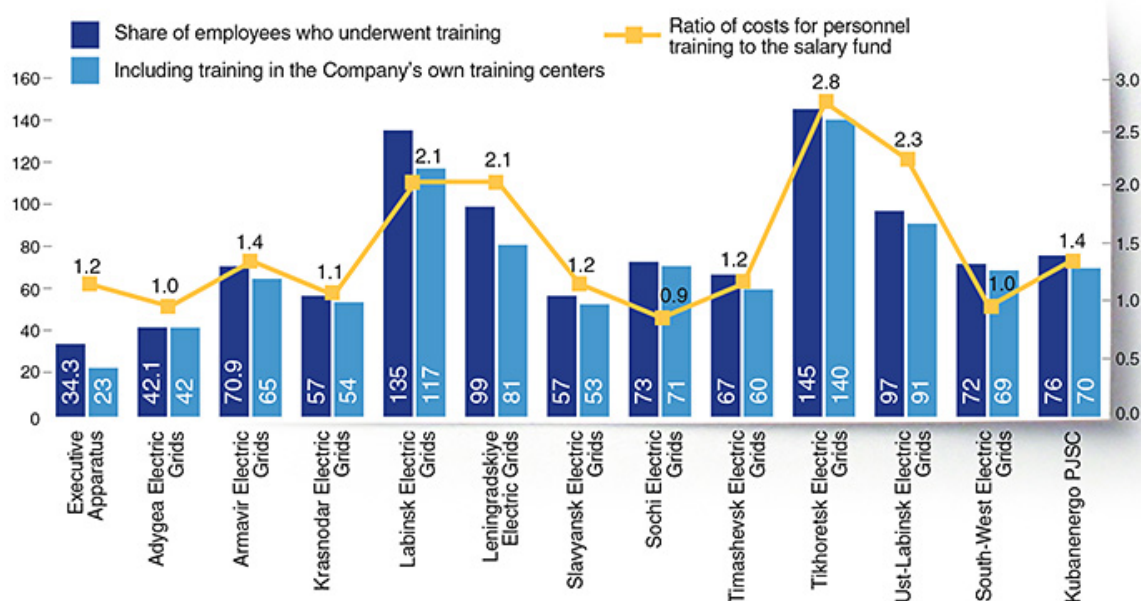
The key suppliers of educational services, besides own training center Further Vocational Training Facility Energy Institute of Advanced Training of Kubanenergo PJSC, are also as follows:

- Federal State Budgetary Educational Institution of Further Vocational Education Petersburg Power Engineering Institute for Advanced Training;
- Private Educational Institution of Further Vocational Education CSTI Progress.

The actual costs of personnel training (regardless of sources) amounted to RUB 58,871 thou of which RUB 47,567 thou (80.8%) in corporate training centers. In 2015, the costs of personnel training amounted to RUB 40,131 thou of which RUB 28,789 thou were spent on training in corporate training centers. The ratio of the cost of training in the corporate training center Kubanenergo PJSC and in outside organizations in the total amount of training costs is conditioned by the current pricing policy of training organizations.

The ratio of actual costs of personnel training to payroll budget in 2016 is 1.4% (in 2015, it amounted to 1%).

Share of the personnel attended off-the-job training and ratio of training costs to payroll in the reporting year, %



Training of the Company's Personnel in Outside Education Facilities

Retraining and advanced training of personnel of the Company is also carried out through external contractors.

In 2016, the Company's key partners in this area were:

- Federal State Budgetary Educational Institution of Higher Professional Education National Research University MPEI;
- Federal State Budgetary Educational Institution of Further Vocational Education Petersburg Power Engineering Institute for Advanced Training;

- Private Educational Institution of Further Vocational Education CSTI Progress;
- Federal State Budgetary Educational Institution of Higher Professional Education Russian Academy of Public Service under the President of the Russian Federation.

As of the end of the reporting year, there are 17 agreements in force on cooperation between the Company (branches of the Company) and educational institutions of secondary and higher vocational education in which the parties organize and develop mutually beneficial strategic cooperation in the field of educational, scientific, innovative and research activities aimed at improving the quality of training graduates in the interests of the energy industry.

The main areas of cooperation with educational partner organizations are:

- targeted training of specialists for the needs of the companies of the distribution grid complex;
- organization of the practical studies for students of educational institutions;
- cooperation in educational, scientific and scientific-practical spheres;
- organization of a dialog on the sites of educational organizations with the participation of representatives of the electric power industry organizations, science institutions, public organizations and other interested parties to develop joint positions on topical issues of functioning and development of the power grid complex;
- popularization of the profession of a power engineer among young people.

Basic number of educational institutions carrying out training in the electrical power area for needs of the Company is concentrated in the regional center, the city of Krasnodar. In these institutions of higher, secondary and primary professional education, employees and children of employees of the executive apparatus and branches of the Company are trained who will become the future Power Engineers of Kuban.

In 2016, 147 students of higher and 503 students of secondary professional education institutions passed practical training on the base of the Company. The number of students who passed practical training in Kubanenergo PJSC branches significantly exceeds the figures of the previous period.

Interaction with Company's Personnel Reserve

Formation and development of the personnel reserve is one of the priority tasks of the Company in the implementation of its HR policy.

The Company interacts with managerial personnel reserve and personnel reserve of young specialists.

In order to timely ensure the Company's needs for qualified and efficient managers and create conditions for the best fulfillment of labor potential, Kubanenergo PJSC continuously works on the formation and development of personnel reserves: the managerial talent pool and the talent pool of young specialists.

The managerial talent pool is formed in order to ensure prompt and high quality needs of the Company in employees trained to work in senior positions:

- top managers;
- middle managers (from the level of Head of Department);
- Heads and Chief Engineers of affiliates and Power Distribution Zones;
- operational managers.

Special attention is paid in the Company to the creation of a personnel reserve for the positions of heads of engineering and technical units.

The main criteria of eligibility to the managerial personnel reserve are:

- high professional qualifications;
- high production results;
- availability of work experience on certain positions;
- availability of the individual and business potential for professional development and career growth.

As of 12/31/2016 the managerial talent pool of the Company includes 366 employees.

The Company works systematically to train young specialists within the framework of the youth talent pool in order to involve young employees in solving the actual problems of the power grid complex, increase their professional competence, facilitate their career growth.

Youth personnel reserves are formed from the number of young professionals not older than 35 years old, having a high potential for development, motivated for professional development and career growth in the Company.

The composition of youth personnel reserve is updated annually, an additional young specialists of the Company are recruited to replace the succession candidates assigned to higher positions from the reserve pool.

At the end of the reporting period, the pool of young specialists in the Company includes 33 people.

Target positions are identified for each succession candidate, tutors are assigned from among the qualified managers and specialists of the Company in the relevant area of activities.

Employees of the Company's management and youth personnel reserve regularly participate in training programs, industry-wide All-Russian and regional conferences, which enable them to get acquainted with the best experience of electric grid companies, study new technologies, and learn more effective methods of work.

In 2016, as part of the Company's personnel training, 11 succession candidates were trained in the areas of activity in outside educational organizations.

In 2016, 15 job positions were staffed with candidates from the personnel reserve.

Key Performance Indicators

The system of key performance indicators of the Company (KPI) was established by the decision of the Board of Directors of the Company of 3/31/2016 (Minutes No. 234/2016 of 4/1/2016).

In 2016, the content and procedure of calculating KPIs were adjusted by the decision of the Board of Directors of the Company (Minutes No. 238/2016 of 4/29/2016, Minutes No. 260/2006 of 12/30/2016) to comply with Directives of the Government of the Russian Federation No. 1472p-P13 of 3/3/2016 and No. 4750p-P13 of 7/4/2016 in the part of KPI "Efficiency of Innovative Activity" and "Reduction of Specific Operating Expenses (Costs)."

In accordance with the above decisions of the Board of Directors of the Company, the following composition and target values of key performance indicators are established for 2016:

Quarterly Indicators

Indicators composition	Target values in 2016
Lack of major accidents	Lack of growth
Prevention of growth in number of victims in case of accidents	Lack of growth
Financial stability and liquidity indicators	Ratio between equity and debt capital ≥ 0.67 or the value stipulated in the business plan and Modified current liquidity ratio ≥ 1 or the value stipulated in the business plan

Annual Indicators

Structure of indicators	Target values in 2016
Total shareholder return (TSR)	> changes in MOEX RCI index (Regulated Companies Indices) for the reporting period + 0.01 pp
Return on invested capital (ROIC)	\geq the estimated value calculated in accordance with Company expected values and stipulated in accordance with the business plan made on the basis of the principles of consolidated financial statements (International Financial Reporting Standards)
Decrease in specific operating expenses (costs)	$\geq 10\%$
Level of power losses	\leq the value stipulated in the business plan

Achievement of reliability level of the rendered services	≤ 1
Decrease in specific investment expenses	≤ 1
Implementation of the schedule of objects' commissioning	$\geq 95\%$
Observance of terms for implementation of technological connection	≤ 1.1
Procurement rate of procurement procedures with small and medium businesses	$\geq 10\%$ for the procurement rate of procurement procedures with small and medium businesses, and $\geq 18\%$ for the procurement rate of procurement procedures with small and medium businesses (including agreements provided that subcontractors/co-contractors among small and medium businesses are involved in their implementation)
Labor productivity increase	$\geq \text{RUB } 1,500 \text{ man/h}$
Efficiency of innovative activity	$\geq 90\%$

Actual values of indicators are not summarized and approved by the Board of Directors of the Company at the time of the formation of the Annual Report, due to the timing and procedure of preparation of the reporting which is the source of information for their calculation.

The comparison of the achieved values of the current year with the previous year is not carried out due to a change in approaches to the procedure of establishing targets and calculation of actual KPI values.

The system of key performance indicators applied in the Company is interconnected with an amount of variable part of remuneration to managers: specific amount in volume of the paid bonuses is established for each indicator, quarter and annual bonuses are paid providing that all corresponding KPIs are performed.

Occupational and Industrial Safety

Occupational Safety

The basic principle of the Company's activities in the field of occupational safety and health consists in the recognition and ensuring the priority of life and health of employees in relation to the results of production activities of the Company.

Kubanenergo PJSC constantly works to improve working conditions, prevent industrial and third-party injuries in accordance with the requirements of the current laws of the Russian Federation.

In order to establish a unified system for organizing labor management in the Company and to ensure safe and normal working conditions for employees at all stages of production, monitoring compliance with occupational safety requirements at all levels of management, the Company has a Regulation on Occupational Safety Management System. The company standard of the Integrated Management System STO 00104604-ISM 007-2015, which meets the requirements of GOST 12.0.230-2007, the international standard OHSAS 18001, interstate standards for occupational safety management systems, as well as the requirements of the labor laws of the Russian Federation.

The Company's management is responsible for ensuring safe working conditions and occupational safety in Kubanenergo PJSC and their compliance with the requirements set. The Company completely fulfills requirements of the laws of the Russian Federation regarding the employer's duties in the field of labor protection of workers.

In the reporting year, the Company performed permanent OHS measures developed in accordance with requirements of Order of the Ministry of Health and Social Development of the Russian Federation "On Approval of Standard List of Measures Annually Implemented by Employer and Aimed at Improving Labor Conditions and Protection as well as Reducing Levels of Professional Risks " No. 181n of 3/1/2012. The Company constantly controls observance of the rules of labor protection during organization and performance of work in electric facilities by

employees. Behavioral audit is carried out as well as supervision of the process of organization and performance of the work directly on workplaces. Following the results of control, measures aimed at elimination and prevention of violations, including psychocorrective activities are developed.

25 conference calls were held to coordinate the work of the branches of Kubanenergo PJSC in the field of health protection and labor safety, 11 of which were held as a video conference with the participation of First Deputy Directors: Chief Engineers and Heads Of Divisions of the Company's branches. Days of Occupational Safety are held monthly that make it possible to involve a large number of the Company's employees in the process of self- and mutual control, as well as increase the employees' level of knowledge and experience in the field of occupational safety and health.

In order to exchange experience and upgrade the skills of employees, for the correct organization and optimization of monitoring activities related to compliance with the standards and requirements of labor protection and safety rules seminar retreats were held with Deputy Chief Engineers: Heads of Production Safety and Production Control Divisions of the Company's branches which addressed labor safety issues, organization of work of structural units, planning of measures for labor protection. In the form of business games involving specialists in psychophysiological assurance of the professional activity of the Company's branches, trainings were held on the functioning of the labor protection system and timely identification of potential threats and risks to the health and life of the Company's employees.

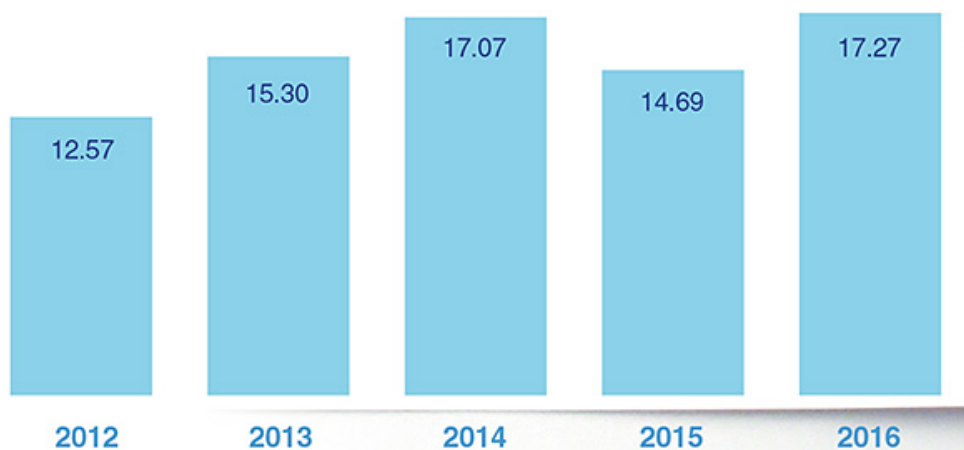
As part of the functioning of the internal technical control system in 2016, comprehensive inspections were conducted in the Company's branches of Armavir, Krasnodar, Slavyansk and Tihoretsk Electric Grids. Thematic inspections of divisions of all branches of the Company were conducted throughout the year that made it possible to identify and eliminate violations at the same time.

In general, for Kubanenergo PJSC over the past five years, there has been a decrease in the number of industrial accidents from three cases in 2012 and 2014 up to 1 accident in 2015 and 2016. In 2013, industrial accidents were not registered.

No cases of occupational diseases of the personnel of Kubanenergo PJSC were registered in 2016.

In order to ensure the preservation of life and health of employees of the Company, the necessary protective equipment and supplies were acquired in 2016 to ensure the safety of work. The annual application for the purchase of special clothing and footwear was performed in full.

Unit costs of labor protection for Kubanenergo PJSC for 1 employee in 2012–2016, thous. rubles:



Industrial Safety

Production control in the field of industrial safety is carried out in accordance with Order of the Company “On Production Control of Compliance with Industrial Safety Requirements at Hazardous Production Facilities of OJSC Kubanenergo” No. 217 of 3/16/2015, and the Regulation on Production Control of Compliance with Industrial Safety Requirements at Hazardous Production Facilities of Kubanenergo PJSC of 7/27/2015 developed in accordance with the following documents:

- Federal Law “On Industrial Safety of Hazardous Production Facilities” No. 116-FZ of 7/21/1997;
- Order of the Russian Federal Service for Ecological, Technical and Atomic Supervision “On Approval of Federal Standards and Rules of Industrial Safety ‘Safety Rules for Hazardous Production Facilities where Lifting Constructions are Used’” No. 533 of 11/12/2013;
- Industry Regulation on Production Control of Compliance with Industrial Safety Requirements at Hazardous Production Facilities.

Three hazardous production facilities were identified in Kubanenergo PJSC.

The facilities are registered in the Federal Service for Ecological, Technical and Atomic Supervision (Certificate A30-00777 of 4/7/2015). In 2016, the hazardous production facilities were operated in accordance with the requirements of technical regulatory documents.

Work related to the operation of hazardous production facilities of the Company and technical devices used therein may be performed by duly trained employees having passed pre-examination training and examination in industrial safety rules. Training, pre-examination training, initial and periodic testing of knowledge of engineering and technical workers shall be conducted in specialized organizations having appropriate permits.

Social Responsibility

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One of the priority directions of Kubanenergo PJSC activities is the social policy taking into account the interests of the Company employees.

Basic principles of the social policy of Kubanenergo PJSC consist in creation of comfortable labor and recreation conditions for employees, increase of their social security, and improvement of labor and social relations at the workplace.

When encouraging its employees and increasing their commitment in industrial activities, Kubanenergo PJSC pays particular attention to their social support. Social programs, employee assistance programs, benefits and guarantees available in the Company make it possible to attract and retain the most valuable employees, to strengthen loyalty of employees to the Company, and to promote achievement of its goals.

Requiring the greatest return and increase of each employee performance, the Company recognizes the need of granting additional social privileges and guarantees to employees exceeding the level established by the laws and financed from the Company profit.

The social policy of Kubanenergo PJSC is based on the Sectoral Tariff Agreement in the electric power industry of the Russian Federation, the collective agreement, internal regulations, rules and other local regulations.

Benefit packages for the Company employees, members of their families and pensioners in 2014–2016:

Social activities	2014	2015	2016
Financial assistance to Company employees and pensioners, RUB thou	18,002.5	20,996.56	22,074.89

Resort and recreation trips and health improvement of workers of Kubanenergo PJSC and their children, RUB thou	13,935.0	13,635.2	14,372.0
Voluntary medical insurance, number of insured (persons) / insurance premium, RUB thou	8,416 / 14,185.75	8,738 / 11,632.12	8,831 / 11,682.10
Accident insurance, number of insured (persons) / insurance premium, RUB thou	8,344 / 1,070.40	8,675 / 1,107.01	8,765 / 1,093.85

As part of the benefit package, the Company employees receive financial assistance in the following cases: the birth of a child, registration of marriage, burial of relatives, retirement, emergencies or death of the employee; compensations for child care in preschool institutions are paid as well as other payments stipulated by the collective agreement.

Being a socially responsible company, Kubanenergo PJSC takes care of its veterans and pensioners. Retired pensioners of Kubanenergo PJSC receive monthly allowances.

In the reporting period, more than 2,670 veterans and pensioners of the Company received various benefits (material assistance on the Victory Day, Power Engineer's Day, monthly financial assistance and financial assistance under applications, etc.) for the total amount of RUB 8,546.45 thou.

Health care and recreation of employees and their children play an important role in improving performance of the personnel.

This year, 812 tickets were purchased for resort and recreational trips of employees and their families, as well as 266 tickets to children's recreation camps.

Kubanenergo PJSC provides high-quality and timely health care services to its employees through the conclusion of agreements of voluntary health insurance and round the clock insurance of all employees against accidents. In compliance with the established standards, Kubanenergo PJSC maintains insurance of 100% of Company's employees under contracts of voluntary medical insurance and accident insurance.

In order to improve the social security of employees and develop non-financial incentives, Kubanenergo PJSC develops non-state pension programs.

Non-state pension programs for employees of the Company are implemented through the Private Pension Fund of the electric power industry. Non-state pension programs are designed to ensure the proper level of welfare of employees having reached the retirement age, creating conditions for effective solution of personnel issues related to the involvement, retention and motivation of personnel.

Taking into account complexity of the problem of provision of housing to employees, the Company collective agreement provides for corporate assistance and support in the improvement of their living conditions by providing financial assistance to employees when arranging a mortgage loan and repaying portion of the loan interest.

In order to develop and maintain a healthy lifestyle, Kubanenergo PJSC conducts health and fitness activities and promotes mass sports among the Company employees providing them with access to sports infrastructure.

In April, the team of Kubanenergo PJSC took part in the Cup of ROSSETI mini-football tournament dedicated to celebration of the third anniversary of the founding of PJSC ROSSETI and became a silver medalist.

In November 2016, the team of Kubanenergo PJSC took part in the sixth open chess tournament of power engineers in memory of M.M. Botvinnik.

Kubanenergo PJSC provides social support to veterans and retired employees of the Company. In 2016, active work was done on interaction with the community of veterans.

In celebration of the 71st anniversary of the Victory in the Great Patriotic War, all 11 branches and the executive office of the Company jointly conducted the following historical and memorial events: the Victory Banner Race Relay and St. George Ribbon. Employees of Kubanenergo PJSC also took part in the All-Russian Action the Immortal Regiment. Honoring and material support of veterans is an integral part of humanitarian activities of the Company.

In Kubanenergo PJSC, significant attention is paid to activities that bring together and join the team of the Company, thereby improving the corporate culture.

In 2016, the following activities were conducted:

- celebration of the Defender of the Fatherland Day;
- celebration of March 8;
- honoring of veterans of the Great Patriotic War;
- celebration of the Children's Day;
- children's creative contest called "Elektrosha Looking for Talents";
- children's drawing competition "ROSSETI: Children Draw!";
- New Year's Matinees for the children of the Company employees.

Special attention is paid to preparation and celebration of the professional holiday, Power Engineer's Day.

More than 1,550 employees of Kubanenergo PJSC were awarded state, departmental, industry, corporate awards, awards of the administration of the Krasnodar Krai, as well as the State Council — Khase of the Republic of Adygea.

The official ceremony to award the best workers of the industry took place on December 20, 2016, on the eve of the professional holiday Power Engineer's Day. In commemoration of this date, one employee of Kubanenergo PJSC was awarded the high honorary title "Honored Power Engineer of the Russian Federation", eight workers were awarded the title "Veteran of Electric Power Industry", four employees were awarded the title "Honored Worker of Kuban Fuel and Energy Complex" and two workers were awarded medals "For outstanding contribution to the development of Kuban" for numerous merits and great personal contribution to the development of the power grid complex. Moreover, work of sixteen employees of the Company was marked by departmental letters of acknowledgment and certificates of merit.

In order to promote professions of the energy sector and involve children of employees of Kubanenergo PJSC in the creative process, annual traditional competitions "ROSSETI: Children Draw!" and "Elektrosha Looking for Talents" were conducted. In general, over 300 children took part in these competitions, 229 of them were awarded with valuable prizes and gifts.

Implementing the principles of social responsibility, Kubanenergo PJSC pays great attention to charity. In 2016, the Company participated in the charity support projects aimed at supporting culture, education, development of physical culture and mass sport, as well as renovation of buildings as well as facilities of historically and culturally significant facilities.

Social work of Kubanenergo PJSC is aimed at development of social partnership, improving social security of employees and enabling general development of the Company.

Environmental Protection

Kubanenergo PJSC supplies to its customers the most efficient and environmentally friendly form of energy, electricity, and produces impacts on the environment components. The Company Environmental Management System is focused on reducing the negative impact on the environment and ensuring environmental safety of grid facilities.

Planning and implementation of environmental activities was carried out taking into account priority of significant environmental aspects in accordance with the goals set by the Environmental Policy of Kubanenergo PJSC aimed at ensuring compliance with the requirements of environmental legislation, upgrade of equipment and use of innovative and environmentally safe technologies in the reconstruction, technical re-equipment and construction of electric grids as well as sustainable use of natural resources.

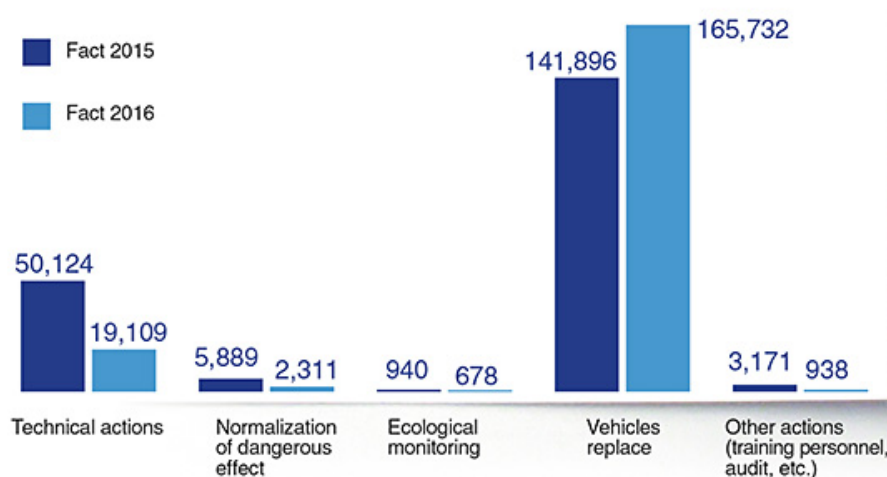
All activities planned for 2016 under the Program for Implementation of the Company Environmental Policy were successfully implemented, including:

- regulatory documents on types of negative impacts were updated with obtainment of corresponding permits;
- industrial environmental control was organized; observance of emission limit values (air pollutants), quality of the storm drains entering water body and onto local terrain, as well as safe waste management were controlled;

- the fee for a negative impact on the environment was paid in full and in due time;
- 30 KRUN 6–10 kV cells with oil circuit breakers were replaced with environmentally safer cells with vacuum circuit breakers;
- 4.74 tons of decommissioned used CS1 and CS2 type capacitors (extremely hazardous waste containing trichlordiphenyl) were transferred for disposal to JSC Kuprit (Kirov);
- 141 units of vehicles and machinery were replaced, upon expiry of their rated service life, with new vehicles meeting EURO-3 standards;
- construction of a treatment plant was completed and it was put into operation ensuring reduction in discharges of pollutants entering water body (the Pauk River);
- repairs of the emergency transformer oil collection and removal system (suction pipes, oil drains and sumps) was performed at 183 substations, including to ensure environmental safety of grid facilities;
- The sound shield of 110 kV T-1 power transformer was installed at 110/35/10 kV Anapskaya substation reducing the level of sound pressure on atmospheric air to the normative value and ensuring safety of the environment and human health;
- internal environmental audits were conducted in the Company branches and executive office, resulting in the development of measures aimed at improving the environmental management system and prevention of negative environmental impacts.

In the process of eco-oriented reconstruction, which resulted in a reduction of anthropogenic load on the environment in accordance with the Stockholm Convention on elimination in production and nonuse of persistent organic pollutants, 143 units of equipment containing trichlorobiphenyl were decommissioned. Dynamics of costs for fulfilling the above-mentioned measures is presented in the following chart:

Cost of activities of the Program for implementation of enviromental policy of Kubanenergo PJSC, RUB thou



In 2016, no cases of death of rare and endangered types of animals recorded in the Red Book were registered, including birds on ETL. Terms of Reference for reconstruction and construction of new ETL provide for measures aimed at protecting animals, namely application of the self-supporting insulated wire. Length of sections of 04–10 kV overhead lines where in 2016 works were performed with the use of self-supporting insulated wire, amounts to 0.963 thou km.

Moreover, 240 bird protection devices of anti-perching type were installed on 110 kV Belorechenskaya HPP-Martanskaya OHL (90 pcs.), 110 kV Belorechenskaya HPP-DM8 OHL (90 pcs.), 110 kV Centralnaya - Apsheronskaya OHL (60 pcs.).

The Company annually participates in spring event of cleaning and gardening of territories of municipal entities of the Krasnodar Krai and the Republic of Adygea controlled by the Company.

Organization of Interaction with Service Customers

Main function of the units carrying out interaction with service customers of Kubanenergo PJSC is to ensure rapid and easy solution of issues related to technological connection, electric power transmission, organization of the electricity accounting and additional services for citizens and legal entities within the territory of the Company operational responsibility.

In order to ensure provision of high quality services, the Company established and successfully operates 12 customer Service Centers and 41 customer Service Points in the districts of electric grids.

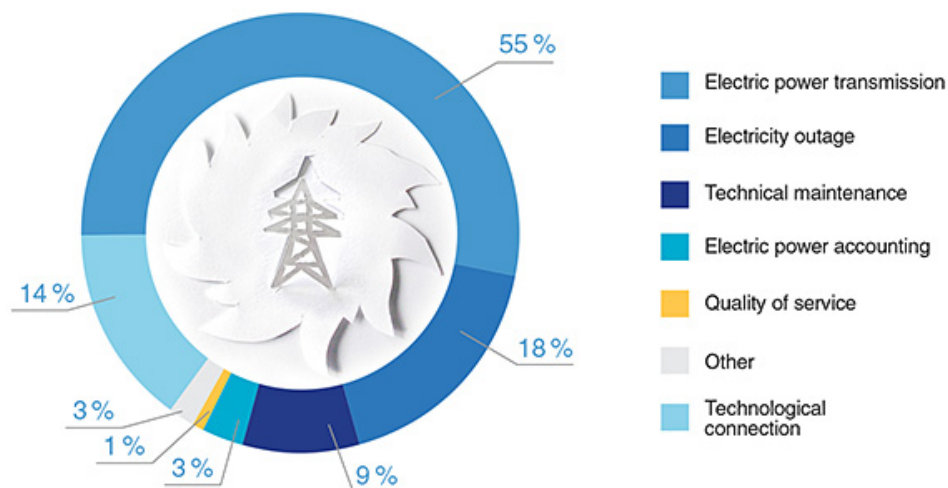
Remote customer service of Kubanenergo PJSC is organized through the Call Center work with a single federal number 8-800-100-15-52. Call Center operators promptly inform the population of the Krasnodar Krai and the Republic of Adygea about various issues related to power supply and time of emergency recovery works and scheduled repairs. Moreover, employees of the Call Center accept messages from customers on the facts of electric power theft and consult on technological connection and other Company services.

In 2016, over 233 thou customers addressed the Call Center of Kubanenergo PJSC.

In 2016, the Call Center of Kubanenergo PJSC received:

- ✓ 6,107 claims from consumers (3,044 reasonable claims). Number of claims increased by 30% as compared to 2015.
- ✓ 148 reviews (thanks) that is by 92 reviews more than in 2015.

In 2016, the Company received claims on the following issues:



Complaints of customers were considered, measures were taken to eliminate their causes.

Kubanenergo PJSC also provides on-line customer service on the web-site www.kubanenergo.ru, see [For customers / Customer service center](#) via:

- ✓ receipt of orders for services through [Customer Personal Account](#);
- ✓ receipt of customers' applications through [Interactive Feedback \(Internet Reception\)](#);
- ✓ provision of information to customers in subsection [Q&A](#).

In order to develop interactive services in 2017, Kubanenergo PJSC shall expand the Personal Account functionality with regard to technological connection and customer services.

In 2016, Kubanenergo PJSC received 1,793 applications through interactive customer services (Internet reception, Personal office, E-mail), including 1,349 applications for technological connection, which is by 745 more than in 2015 (the number increased by 123%).

Quality management system (QMS)

From February 15, 2016 to February 19, 2016 within the framework of the compliance audit, the certification body of CJSC SGS Vostok Limited (part of SGS Group) confirmed the compliance of the Company's management with the international standards in the field of quality management ISO 9001:2008, occupational health and safety OHSAS 18001:2007, and environmental management ISO 14001:2004 in the branches of Labinsk Electric Grids and Adygea Electric Grids and the Company executive office. Based on the results of the audit, the certification body concluded that the management system of Kubanenergo PJSC operates effectively, is planned and able to achieve the goals spwcified in the Policy of Kubanenergo PJSC.



The Company management system is designed to ensure the high quality of provided services in accordance with the requirements of regulatory documents, needs and expectations of consumers and satisfaction of all concerned parties, including Company employees, shareholders, investors and partners.

Major QMS participants are the Board of Directors, Director General and the Management Board, representative of the Company top management in the fields of safety and quality, Deputy Director General for Controlling, representatives of quality management of the Company branches, Controlling Department, production and technical services of the Company branches.

Priority target indicators of Company activities in the field of quality are:

- ensuring reliable and uninterrupted operation of the power grid complex;
- non-exceedance of Reference Electric Power Losses during transmission.

The following Company processes are subjects of the QMS:

- Rates setting,
- Financial & economic planning and budgeting,
- Management of development of the distribution grid complex,
- Development and implementation of investment programs,
- Grids management. Maintenance,
- Grids management. Repair service,
- Grids management. Operational and technological management,
- Technological Connection Services,
- Services of electric power transmission,
- Personnel Management,
- Procurement and maintenance supply management.
- Management of information resources and technologies,
- Management of internal infrastructure,
- Finance management,
- Legal support,
- Ecological management,
- Industrial control and labor protection,
- Interaction with service customers
- Power management.

In accordance with provisions of the Integrated Management System Policy and the set targets, the Quality Management Program for 2016 was developed and implemented, according to which targets and assessment criteria for all processes of the QMS were specified.

In 2016, the Company conducted quarterly monitoring of established performance indicators of processes and, when required, took corrective and preventive actions in order to achieve its performance targets.

In 2016, the Program of Internal Audits was completed in full that made it possible to identify problem areas in processes, environmental management system and the system of industrial and occupational safety. Cycle of internal audits conducted made it possible not only to state discrepancies existing in Company activities but also to timely prevent them. Internal audits were conducted with the involvement of technical experts in the field of distribution power grid operation, employees of relevant services of the executive office that enabled better assessment of business processes, compliance with legal requirements and internal regulations in the field of process management, industrial safety, occupational safety and environmental safety and their performance.

In the course of the audit, the Company demonstrated, among other things, commitment to one of the main principles of management system: client-oriented approach to management. Auditors were able to assess the work in this field from different sides by visiting Customer Service Center of the Labinsk Electric Grids branch, sites in Belorechensk and Mostovskiy settlement where services are implemented and developed, as well as the Customer Interaction Department of the executive office.

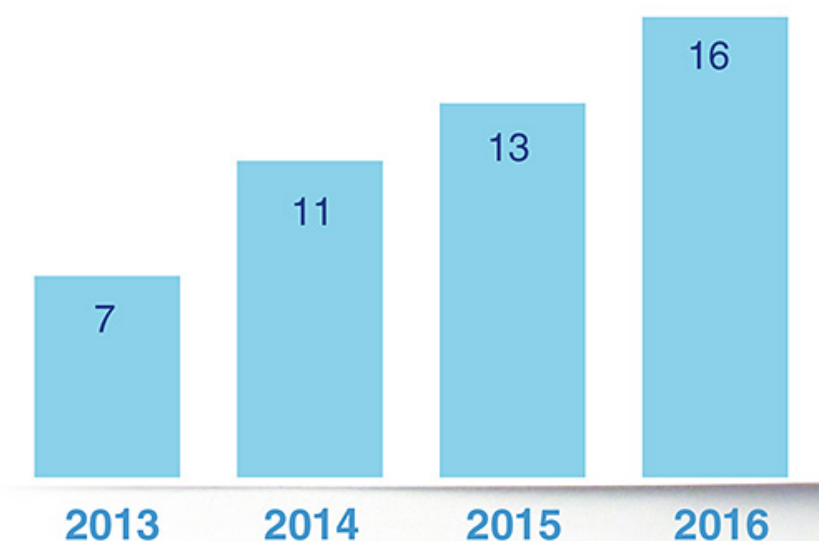
Moreover, systematic approach was observed in organization of operation of the power grid complex of the Krasnodar Krai and the Republic of Adygea that was demonstrated by the personnel of the audited branches and the central service of distribution grids.

Company activities aimed at occupational and industrial safety as well as reduction of impact on the environment were commended.

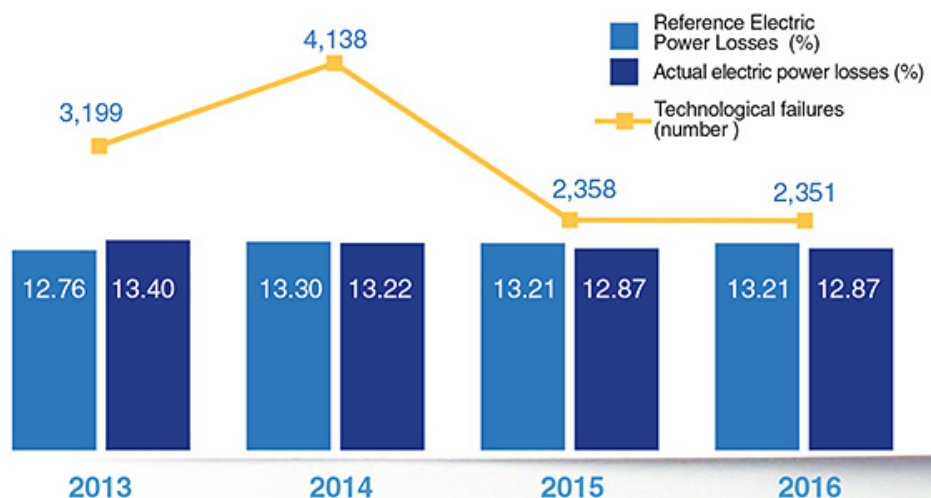
Annual analysis of functioning of the integrated management system for review by the management based on results of process effectiveness monitoring, results of internal audits and corrective and preventive actions taken show improvement of the management system.

19 processes are identified and function in the Company. For each of them, process owners set performance indicators for the process. According to the international standard ISO:9000, process effectiveness means the extent to which planned activities are realized and planned results are achieved. The process owner monitors performance indicators of processes by comparing actual values of the indicators with the planned values. During the period from 2013 to 2016, analysis has shown positive dynamics of improvement of process management quality. In 2013, in only 7 processes actual values of the indicators corresponded to the planned ones, while in 2016, 16 processes achieved the planned results.

Dynamics of process management efficiency



The chart shows dynamics of reduction of technological failures and electric power losses being Company priority targets in the field of quality.



In general, dynamics of technological failures for the period from 2013 to 2016 tends to decrease. Increase in the number of technological failures in 2014 was the result of adverse weather conditions. In the beginning of 2014, precipitation in the form of “icy rain” fell within the territory of the Krasnodar Krai and the Republic of Adygea. As a result of the natural disaster, emergency power shutdowns occurred within the territory of four power districts of the region, which led to an increase in the number of technological failures compared to the previous period.

From 2014 to 2016, there was the number of technological failures in the Company reduced by 97%.

Non-exceedance of the set Reference Electric Power Losses is the target indicator of the process “Provision of the service of electric power transmission.” In 2014 and 2015, Reference Electric Power Losses increased as compared to 2013 that is connected with an increase in consumption of electricity by end-users. Calculation of process losses directly depends on the increase of electricity exchange and dynamics of previous periods. Reference Electric Power Losses are annually approved by the Board of Directors as part of the Company business plan.

From 2014 to 2016, there is positive dynamics of implementation of this indicator that has not been exceeded within the specified period.



Vladimir Aleksandrovich Sadym
Head of the Directorate
for Public Relations

"In 2016, Kubanenergo PJSC was actively presented in public space of the region. Round tables, business meetings with authorities and business community, participation in all-Russian and international forums and their coverage in the media, as well as the implementation of a number of PR-campaigns on information support of the Company production and social activities contributed to meaningful cooperation of Kubanenergo PJSC with authorities at all levels, raising the level of awareness and openness of Company activities as a whole. Public media events featuring the Company top management also contributed to creating a positive and coherent image of the Company, as well as strengthening the goodwill of the Company and increase of public capital in the structure of its market value. Close cooperation with the mass media made it possible to raise brand awareness and increase the audience of information influence of the Company on the territory of its presence."

Communication with Governmental Authorities and Civil Society Organizations

Priority objective of Kubanenergo PJSC in the field of cooperation with governmental authorities and public relations is establishment of integrated communications with target audiences and implementation of the Unified Information Policy of PJSC ROSSETI.

In the reporting year, Kubanenergo PJSC was actively presented in public space of the region. PR specialists of the Company:

- carried out PR campaigns for the information support of implementation of the investment and maintenance programs of the Company, including commissioning of a new 110 kV Adygeyskaya substation in the Republic of Adygea, its operation in the autumn-winter period and preparation for it, prevention of non-contractual and non-metered electric power consumption, prevention of electrical accidents with third parties at the facilities of power grid complexes, explanation of procedures for technological connection to Company power grids, including meetings with representatives of small and medium-sized businesses, expanding the range of additional services, execution of energy service contracts for the installation of remote electricity meters for the Company customers as part of loss reduction, for informing consumers of the Krasnodar Krai and the Republic of Adygea of the facts of illegal replacement of electricity meters by third-party organizations;
- ensured media coverage of business meetings of the Company management with representatives of federal, regional and municipal authorities, participation of Kubanenergo PJSC in recovery of power supply within the territory of the Krasnodar Krai and the Republic of Adygea during the year caused by adverse weather conditions, visits of O. Golodets, Deputy Prime Minister of the Russian Federation, to the Resource Center for Energy in Sochi, signing of an agreement within the framework of the 15th International Investment Forum Sochi — 2016 on cooperation with the administration of Krasnodar in the reconstruction and construction of electric grid facilities, signing of a number of agreements on cooperation within the framework of the Russian Investment Forum 2017 in Sochi, rewarding A.I. Gavrilov, Director General of Kubanenergo PJSC, with a state award — (award pin) "Honored Worker of Power Industry of the Russian Federation";
- ensured participation in the work of:
 - ✓ headquarters responsible for energy supply safety;

✓ commissions responsible for financial monitoring of settlements for supplied electric power and transmission services in the Krasnodar Krai and the Republic of Adygea;

- in 2016, as part of the Program for Prevention of Electrical Injuries to Third Parties at Power Facilities of Kubanenergo PJSC, carried out round tables with participation of the Company branch management and heads of municipal entities of the Krasnodar Krai on cooperation in the field of prevention of electrical injuries among the population, respective cooperation agreements were signed.

These measures contributed to constructive cooperation between Kubanenergo PJSC and governmental authorities at all levels, raised the authorities' awareness of Company activities, and improved assessment of these activities.

Social Communications

In 2016, the Company implemented a number of targeted communications programs that improved its image of a socially responsible company.

In particular, 469 secondary educational institutions of the Krasnodar Krai and the Republic of Adygea were covered by the PR program for preventing injuries and deaths of children at power distribution facilities of Kubanenergo PJSC. More than 1050 lectures and lessons on electrical safety were conducted, about 27.6 thou students of the region attended them.

In order to prevent electrical injuries to children, creative competitions, themed tours and open days were conducted. Power engineers organized more than 30 trips for graduates of secondary educational institutions. During the school holidays of 2016, the campaign on Safe Energy – Happy Summer was held in children's recreation camps of the Krasnodar Krai and the Republic of Adygea, where Company specialists held more than 200 lectures and thematic lessons.

Kubanenergo PJSC constantly improves activities aimed at for prevention of electric injuries to children: educational animated films, audio clips and thematic presentations are created and widely used during the "lessons on electrical safety"; new forms of interaction with the target audience are developed and introduced.

The official corporate website of Kubanenergo PJSC operates an information platform on Prevention of Electrical Injuries to Children, containing all knowledge available at the branches of the Company and teaching materials for conducting thematic discussions and class hours on electrical safety.

Partners of Kubanenergo PJSC in the implementation of the program for the prevention of electric injuries to children within the framework of the concluded cooperation agreements are the Ministry of Education and Science of the Krasnodar Krai and the Republic of Adygea, field offices of the Ministry of the Russian Federation for Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters in the Krasnodar Krai and the Republic of Adygea.

In 2016, Kubanenergo PJSC took part in the social action to commemorate G.N. Nekrasov, warrior power engineer from Sochi, junior sergeant, who worked as a diesel engine driver at the Sochi power station before the Great Patriotic War and died in 1942 in Karelia. The Company was one of the initiators of the transfer of the warrior's remains from Arkhangelsk Oblast to the Kuban and their burial at a military memorial in Sochi (December 2016).

In the reporting period, work was carried out to prevent unauthorized electric power consumption and theft of electrical equipment through publications on the Company official corporate website and in regional media, broadcasting videos on TV channels, in radio air and also in social media.

Communications with the Mass Media

In order to raise brand awareness, to create a positive image of the Company, to increase the audience of information influence, the Company closely cooperated with the leading regional and industry mass media in 2016.

These public media events featuring the Company management were aimed at creating a positive and coherent image as well as strengthening the goodwill and public capital of the Company in the structure of its market value.

In 2016, 1,000 messages on Company activities were published in the print media of the Krasnodar Krai and the Republic of Adygea.

According to Interfax SCAN monitoring system, the total mentions of Kubanenergo PJSC (number of publications with the use of Company name) in the mass media in 2016 amounted to 14,562 messages (printed, electronic, radio, TV).

In the reporting period, 937 news were posted at the official corporate website of the Company. Publications were broadcast in social networks, including official accounts of the Company.

The largest segment of news reports on the activities of the Company for the estimated period was on-line media (79%). There was also quite a high proportion of central news agencies (21%).

The number of positive news reports about the activities of Kubanenergo PJSC initiated by the Company PR-divisions amounted to about 65%; number of neutral reports amounted to about 30%.

In 2016, about 400 thou visitors were registered at corporate website of Kubanenergo PJSC.

Among the most significant events of the Company reflected in the federal and regional mass media:

- participation of Kubanenergo PJSC in mitigation of natural disaster consequences at the electric grid complex of the Sochi Power District in January 2016 (a special section was created on the Company website where information about the progress of emergency recovery works, essays about the employees who participated in mitigation of effects of adverse weather conditions, photographic materials were placed; 6 information messages for mass media were disseminated; a close cooperation with the regional and district mass media and TV companies of the Krasnodar Krai was carried out; over 40 materials containing information prepared by the press service of Kubanenergo PJSC were published by the regional mass media),

- Opening ceremony of 110/35/10 kV Adygheyskaya substation. The head of the Republic of Adygea, the general director of Kubanenergo PJSC, the chairman of the State Council - Khase of the Republic of Adygea, the minister of economic development and trade of the Republic of Adygea, the management of the logistics center Romex-Kuban and of the Kuban Regional Dispatching Office took part in the opening ceremony of the substation.

- participation of Kubanenergo PJSC in mitigation of natural disaster consequences at the electric grid complex of the Krasnodar Krai and the Republic of Adygea in November 2016 (a special section was created on the Company's website where information about the progress of emergency recovery works, essays about the employees who participated in mitigation of effects of adverse weather conditions, photographic materials were placed; 4 information messages for mass media were disseminated; a close cooperation with the regional and district mass media and TV companies of the Krasnodar Krai was carried out; over 29 materials containing information prepared by the press service of Kubanenergo PJSC were covered by the regional mass media);

- prevention of unauthorized consumption of electricity and theft of electrical equipment (the Company published more than 160 press releases on the official corporate website of the Company, more than 100 stories and about 3,000 messages were broadcast on

television and radio of the Kuban). The number of materials posted in electronic media amounted to 545; 198 publications on relevant subjects were made in the printed media;

- prevention of child electric injuries (1,137 mentions in the mass media, including over 200 printed publications and 3 thousand broadcasts on the regional radio and television);
- prevention of unauthorized replacement of electricity meters by third-party organizations in the area of responsibility of Kubanenergo PJSC (appeals to the consumers of the Company were published on the official website, about 60 materials were covered by regional mass media. On the TV channels of the Krasnodar Krai and the Republic of Adygea, 25 television stories were broadcast (60 broadcasts in total).

In 2016, the Company continued to extend the content and improve the structure of the corporate web-site of Kubanenergo PJSC. The technical upgrade of the website was due to the Company wish to meet the standards of quality presentation of mandatory and voluntarily disclosed information on-line in order to ensure maximum transparency of the Company.

In order to develop the corporate culture and internal corporate traditions, to create a positive image within the team, 13 supplements of the Company to the corporate newspaper Rossiyskie Seti were issued in the period from January, 2016 to April, 2017 with publications about production achievements, essays about honored workers, young professionals and veterans of the Company.

Congress and Exhibition Activities

In order to represent Kubanenergo PJSC on key economical, political and industry platforms of the country, to increase its investment appeal, to create and maintain a positive image, to develop and strengthen international and interregional cooperation, as well as to exchange experiences, the Company participated in several congress and exhibition events in 2016:

- 5th International exhibition and conference on safety and labor protection in the fuel and energy complex SAPE 2016 (the event was held within the framework of the first All-Russian week on labor protection) (Sochi)
- 19th All-Russian Scientific and Technical Conference “Ways to Improve Reliability, Efficiency and Safety of Energy Production” (Divnomorskoye village, Gelendzhik);
- Saint Petersburg International Economic Forum 2016 (Saint Petersburg);
- International Investment Forum Sochi-2016 (Sochi);
- All-Russian Investment Forum 2017 (Sochi);

Within the framework of the • Russian Investment Forum, Kubanenergo PJSC presented exhibition projects for the construction of a 220 kV substation Port and electricity transmission lines with a voltage level of 35-110-220 kilovolts, as well as a project for the reconstruction of the 110 kV substation Khajokh.

A number of agreements were signed at the forum:

- Governor of the Krasnodar Krai Veniamin Kondratyev and General Director of Kubanenergo PJSC Alexander Gavrilov signed an agreement on cooperation in the development of energy infrastructure on the Taman Peninsula;

- General Director of Kubanenergo PJSC Alexander Gavrilov and acting Head of the Republic of Adygea Murat Kumpilov signed an agreement on cooperation in carrying out a large-scale reconstruction of the 110 kV substation Khajokh;

- General Director of Kubanenergo PJSC Alexander Gavrilov, acting Head of the Republic of Adygea Murat Kumpilov and rector of the Maikop State University of Technology Said Kuizhev signed an agreement on mutual cooperation in the training of personnel for the electric power industry of Adygea.

- International Energy Forum RUGRIDS-ELECTRO (Moscow),
- 19th International Specialized Exhibition Electrical Grids of Russia – 2016 (Moscow).
- Yalta International Economic Forum 2016 (Yalta, Republic of Crimea)

- All-Russian Startup Tour 2016 (Krasnodar)
 - International Exhibition and conference on energy conservation and efficiency ENES – 2016 (Moscow).
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