

**Kuban power and electrification public joint stock company
(Kubanenergo PJSC)**

Approved:

**By the decision of the Board of Directors
Kubanenergo PJSC**

Minutes No. 273/2017 of the 12th of May, 2017

**By the decision of the annual General Meeting of
Shareholders of Kubanenergo PJSC**

Minutes No. 39 of the 20th of June, 2017

**The Annual Report 2016
on the Kubanenergo PJSC Progress
for the Annual General Meeting of Shareholders**

**General Director
Kubanenergo PJSC**

A.I. Gavrilov

**Chief Accountant
and Head of Financial Records,
Accounts and Tax Returns Department**

I.V. Skiba

Krasnodar, 2017

About the Report

Mission of Kubanenergo PJSC

Mission of Kubanenergo PJSC is to make profit under the terms of long-term provision of reliable, high-quality and affordable electric power for customers of Krasnodar Krai and the Republic of Adygea by organizing the most efficient management of the distribution grid infrastructure using advanced technologies and innovations with account of global standards of the quality of the provided services and the best practice of corporate governance.

About the Concept

Information on how we complete our major strategic task — to ensure reliable energy supply for customers and how we plan to make success in future is disclosed on pages of this report.

Concept of the annual report reflects importance of reliability in Company activities. We understand reliability as force, confidence, responsibility, sustainability, trust and experience.

We have issued this report using paper graphics to demonstrate that pages and figures of the report stand for people and the Company with reliable nature.

This annual report includes the results of the activities of Kuban power and electrification public joint stock company for the year 2016, as well as certain important developments in the Company's activities, which took place after the reporting date - in the period from 01.01.2017 to the preliminary approval of this Annual Report by PJSC Kubanenergo Board of Directors on 11.05.2017.

For the purposes of this document, Kuban power and electrification public joint stock company is referred to as Kubanenergo PJSC, Company and, for the period before June 22, 2015, OJSC Kubanenergo.

PJSC Rosseti (OJSC IDGC Holding before April 4, 2013 and OJSC Rosseti from April 4, 2013 to July 17, 2015) and other legal entities are referred to in the form relevant for the period stated in the text.

Disclaimer

This annual report (hereinafter the "Annual Report") has been prepared with the use of information available to Kubanenergo PJSC and its subsidiaries at the time of its drafting.

The Annual Report also includes information relating to productive and economic activities of the Company in the future based on estimates and forecasts of the Company's management and made on the basis of the current situation. Due to various objective factors, the actual results of the activities may differ from these forecasts and assessments.

The Annual Report contains certain forecasting statements in relation to economic activity, economic performance and financial status of the Company and its plans, projects and expected results. The Annual Report may also contain evaluations of trends in the changes of prices for services/products, volumes of production and consumption, costs, estimated expenditure, development prospects and other similar factors, as well as forecasts in respect of the development of the industry and markets, start and end dates of certain projects for the Company's activities.

Words such as "intends", "seeks", "designs", "expects", "evaluates", "plans", "considers", "supposes", "may", "should", "will", "will continue" and other similar words and words derived from them usually indicate the forecasting nature of a statement.

Forecasting statements, by their nature, are connected to inherent risks and uncertainties, both general and specific. There is a danger of forecasts, projects and other such statements not coming to fruition. In the light of these risks, uncertainties and assumptions, the Company warns that the actual results may significantly differ from the values valid only at the time of drafting the Annual Report, which are expressed directly or indirectly in forecasting statements.

The Company does not definitely state and does not guarantee that the results indicated in the forecasting statements will be achieved. The Company does not bear any responsibility for any damages that may be incurred by physical or legal persons who relied on such statements. In each particular case, such forecasting statements constitute only one of the ways events can develop, and should not be seen as the most likely ones.

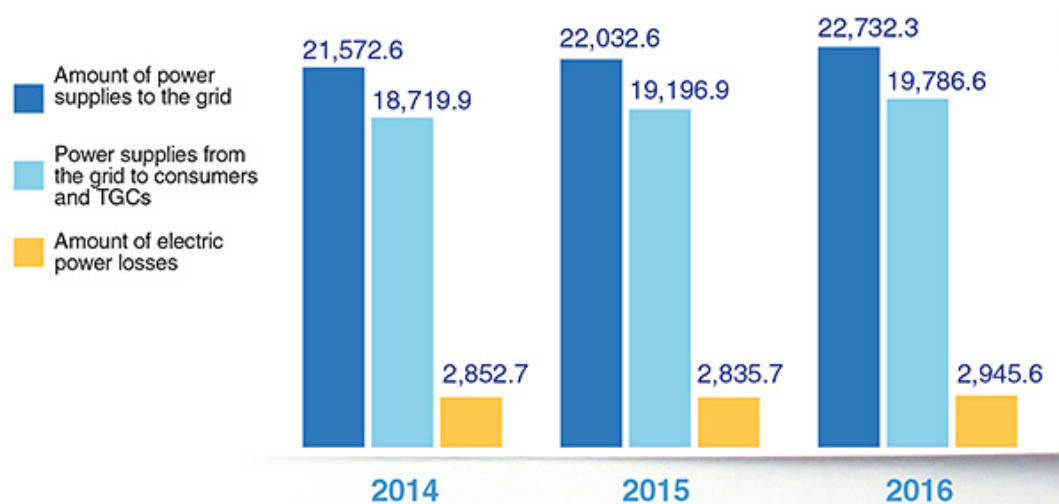
Except as expressly provided for by the law, the Company is not obligated to publish updates and changes in such statements, either on the basis of new information, or on the basis of subsequent events.

Key Performance Indicators

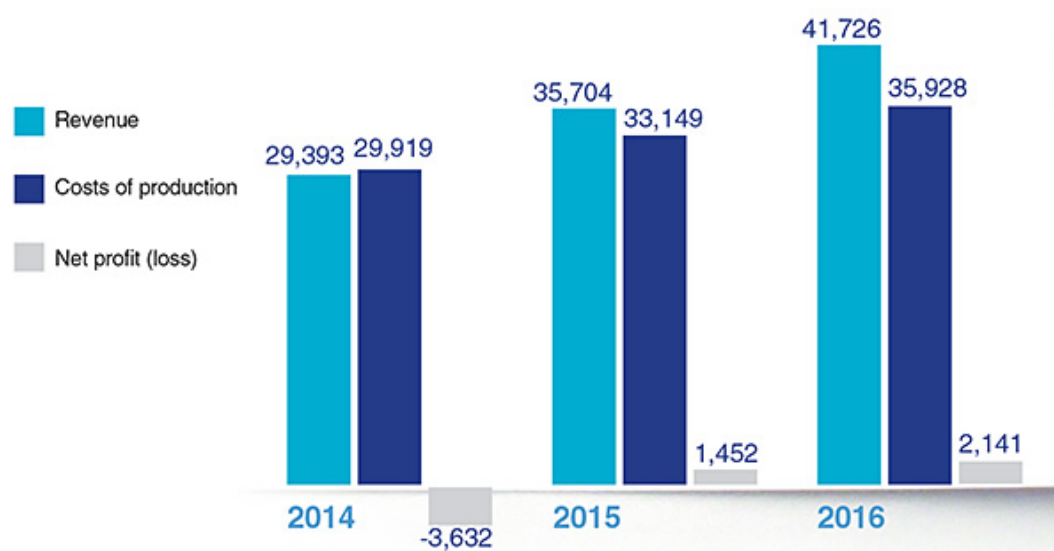
	Units of Measurement	2014	2015	2016	Change of Indicators in 2016 as Compared to 2015, %
Financial Results					
Revenue	RUB mln	29,393.4	35,704.2	41,726.2	+16.9
<i>including:</i>					
- from electric power transmission services	RUB mln	28,464.2	34,403.0	39,262.4	+14.2
- from services of technological connection	RUB mln	847.8	1,213.3	2,380.5	+96.2
Net cost	RUB mln	29,918.8	33,149.3	35,927.8	+8.4
Net profit (loss)*	RUB mln	-3,632.3	1,452.5	2,140.5	+47.4
Return on equity	%	-11.55	4.69	6.32	+1.63
Return on assets	%	-5.92	3.52	5.33	+1.81
Cash at the end of the year	RUB mln	7,071.0	2,577.5	1,245.6	-51.7
Long term loans and borrowings at the end of the year	RUB mln	14,900.0	10,000	18,912.2	+89.1
Short term loans and borrowings at the end of the year	RUB mln	2,517.0	7,071.0	79.1	-98.9
Deployment of capital investments	RUB mln	9,177	8,329	4,913	-41.0
Operating Indicators					
Total length of overhead and cable power lines (circuit length)	km	89,793.8	90,420.63	90,661.0	+0.3
Installed capacity of 35–110 kV substations	MVA	9,166.10	9,446.13	9,519.1	+0.8
Installed capacity of 10–6/0.4 kV substations in the distribution grid	MVA	4,556.83	4,643.09	4,741.06	+2.1
Average duration of power supply interruptions per one process upset	h	5.05	4.57	4.29	-6.1
Electric power supplies to the grid of PJSC Kubanenergo	mln kWh	21,572.6	22,032.6	22,732.3	+3.2
Volume of power transmission services rendered	mln kWh	17,081.7	17,457.2	18,059.1	+3.4
Electric power losses	mln kWh	2,852.7	2,835.7	2,945.6	+3.9
Connected capacity of the Consumers	MW	543	691	618	-10.6
Actual Average Staff Headcount	ppl	8,364	8,326	8,428	+1.2
Structure of the Company's Personnel by Educational Attainment:					
Higher professional education	%	42.6	43.8	45.2	+1,4 pp
Secondary and basic vocational education	%	36.2	36.8	39.4	+2,6 pp
General secondary education	%	21.2	19.4	19.4	-4,0 pp

*Taking into account administrative costs.

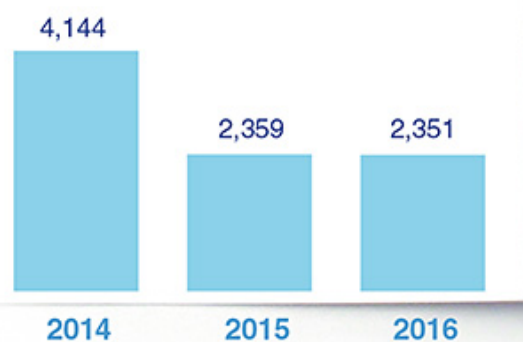
Electric Power Supplies to the Grid of Kubanenergo PJSC and Losses During Electric Power Transmission, mln kWh



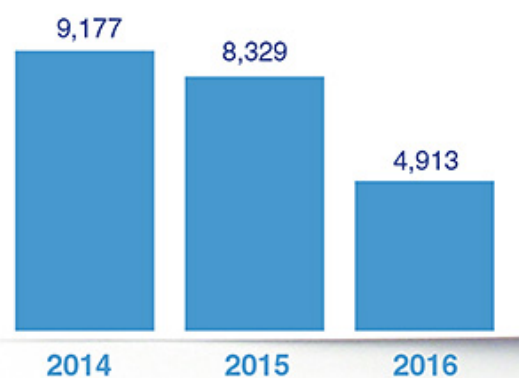
Dynamics of Key Economic Indicators of Kubanenergo PJSC in 2014– 2016, RUB mln



Dynamics of the Number of Technological Failures (Accidents) in 2014– 2016



Volume of Capital Investments Deployment in 2014– 2016, RUB mln



Address to Shareholders by the Chairman of the Board of Directors



Dear Shareholders,

In the reporting year, activities of the Board of Directors were focused on ensuring interests of shareholders of Kubanenergo PJSC, improving its financial and economic performance, enhancing shareholders', creditors' and investors' confidence in the Company.

In 2016, Kubanenergo PJSC held 32 meetings of the Board of Directors, resolutions on 234 items considered were made. Key issues examined during the meetings were the approval of strategic documents, ensuring of regular control of the Company's management, and approval of transactions. New items were as follows: issue of additional shares of the Company and the Company's charity activities.

According to the resolution of the extraordinary General Meeting of Shareholders on increasing the Company's authorized capital by RUB 5.75 bln, measures were taken to issue the Company's additional shares, an opportunity for shareholders to exercise their preemptive right when acquiring the shares was given, thus, allowing the Company to raise more than RUB 2 bln in return for the shares placed. The Company's capitalization for the reporting period increased almost by 1.5.

In order to develop and reinforce control functions, the improvement of the risk management, internal control, and internal audit systems were determined by the Board of Directors as a priority area of the Company. The Board of Directors approved the Plan of Measures Aimed at Development and Improvement of Internal Control and Risk Management Systems of Kubanenergo PJSC for 2016–2018.

Implementation of the Plan makes it possible to focus all efforts on improving the efficiency and effectiveness of the Company's activity, the soundness of assets, the reliability of accounting (financial) and other statements, the compliance with legal requirements and local regulations of the Company, and ultimately contributes to achievement the Company's goals and objectives.

Company's share in the regional energy market (of the region's NGP) in 2016 amounted to 73.9%. Total supply in the region is higher than the level of 2015 and in total amounts to 26.9 bln kWh. Growth of

Kubanenergo PJSC NGP share in 2016 is due to increase of Kubanenergo PJSC electric grid facilities, including due to consolidation of TGC electric grid assets.

In 2016, PJSC Kubanenergo continued implementing a number of major investment projects. The Company was focused on the development of the power grid infrastructure on the Black Sea and Azov Sea coasts of the Krasnodar Krai.

High rates of reconstruction and renovation of the Company's electric grids as well as the dynamic growth of technological connection volumes to the Company's grid suggest that in the future the Kubanenergo PJSC will retain a dominant position in the regional market for electricity transmission.

In the framework of the agreement signed between Kubanenergo PJSC and the Administration of the Municipal Entity of Krasnodar City at the International Investment Forum Sochi-2016, reconstruction of the largest supply centers and construction of high-voltage power transmission lines and two cable power lines are planned in Krasnodar.

During the reporting period, Kubanenergo PJSC ensured reliable and uninterrupted power supply to the customers. Planned index of the provided services reliability set by the regulating authorities – Regional Energy Commission – Pricing and Tariff Department of the Krasnodar Krai, were achieved.

Taking into account dynamic development of the Kuban Region the most important area of Kubanenergo PJSC remains timely and accessible technological connection of new customers to the electric grids. In 2016, the Company entered into 30,000 agreements for technological connection with total capacity of 734 MW.

For the reporting period, the electric facilities of such major applicants as LLC IKEA MOS (Trade and Property) (10 MW), PJSC Gazprom Invest (8.7 MW), Nemetskaya Derevnaya (5 MW) were connected to the Company's electric grids.

Under the energy efficiency program, Kubanenergo PJSC continued implementing innovative projects on improvement of the quality of electricity transmission and metering both at the Company's own expense and by attracting investors.

Kubanenergo PJSC raised private funds in order to develop and improve the energy supply metering. Following the results of energy service agreements performance, the benefit of 2016 amounted to 119.2 mln kWh, including reduction of the losses (66.9 mln kWh) and growth of net electricity supply (52.3 mln kWh).

Main production goals of Kubanenergo PJSC for 2017 is an accident-free passage of the seasons of peak loads, timely receipt of a certificate of readiness for the autumn-winter period, implementation of investment and maintenance programs and minimization of excessive losses. Taking into account increasing demand for electricity and growing loads, it's no less important to address the issue of increasing accessibility and transparency of grid connections, and the reliability and quality of services provided.

Besides, Kubanenergo PJSC sets a goal of continuous improvement of financial and economic indicators, increase of investment potential, openness and transparency of the activities in order to maximally meet shareholders' and other concerned parties' interests.

Chairman of the Board of Directors
Kubanenergo PJSC

Yu.N. Mangarov

Address of the Director General



Dear Shareholders, Partners, and Colleagues,

The absolute priority of Kubanenergo PJSC activities in 2016 was to complete all tasks entrusted on the Company in order to ensure reliable and uninterrupted power supply and technological connections to the electric grids of the Company.

During the reporting period, the Company showed sustainable growth, efficiency, reliability and stability in the achievement of business goals.

By the end of the reporting period, the Company mastered an investment program in the amount of RUB 4.9 bln. The volume of financing of design and survey, construction and installation, commissioning works, and acquisition of equipment and materials amounted to RUB 6.1 bln.

The company commissioned more than 278 MVA of transformer capacity, and more than 1,150 km of power lines.

In 2016, the first priority facility of Kubanenergo PJSC investment program, i. e. “Construction of Adygeyskaya SS 110/35/10 kV”, was commissioned. Commissioning of the substation ensured a natural growth of loads of Adygeysk as well as a possibility of connecting new customers and performing agreements for technological connection.

The total connected capacity under the performed agreements for technological connection amounted to 618 MW.

In 2016, the Company entered into more than 30,000 agreements for technological connection to electric grids for a total capacity of 734 MW and with a total value of RUB 5.301 bln (excluding VAT). The amount of collected funds amounted to RUB 1.873 bln (including VAT).

The electric power supply to the grids amounted to 22.732 bln kWh. The increase in power supply in the amount of 699.7 mln kWh (3.18%), as compared with the previous year, is due to the increase in customer demand for electricity in view of the active development of the region. The normative ratio of power losses for 2016 was fulfilled.

An important area in the Company's activity was still the implementation of the Program of Energy Conservation and Energy Efficiency Improvement. The main goals of the program are reduction of technological losses and consumption of energy resources required for production and economic needs. The benefit of 2016 is expressed in reduction of power losses by 120.2 mln kWh and reduction of costs for acquisition of energy resources required for production and economic needs by RUB 1.3 mln.

In 2016, the Company was developing the updated Innovative Development Program for 2016–2020 with an outlook until 2025. The Company's goal is to make a transition to electric grids of a new technological mode with qualitatively new characteristics of reliability, efficiency, accessibility, manageability and customer centricity of the power grid complex. Development of cooperation with universities, research organizations, small and medium-sized businesses was continued. Management System, Production Assets Management System, Risk Management and Internal Control System were improved.

Kubanenergo PJSC successfully passed the inspection by the Commission of the Ministry of Energy of the Russian Federation that checked the preparation of the power grid complex for the autumn-winter period. As a result of the Commission inspection, Kubanenergo PJSC obtained a certificate of readiness for the autumn-winter period of 2016–2017 based on the Readiness Assessment Report.

In order to enhance the efficiency and to improve financial and economic performance of Kubanenergo PJSC leading to financial stability and sustainable positive financial result of the Company, an action plan aimed at enhancement of the efficiency as well as economic and financial performance of the Company, that determines a list of internal and external measures that make it possible to improve efficiency, was developed.

The Company's objective is to introduce a continuously improving system of management and control aimed at effective and optimal use of the Company's resources with simultaneous introduction of advanced management techniques and methodological tools. In 2016, Kubanenergo PJSC approved and successfully implements two system documents that may, in the mid-run, positively influence the efficiency and quality of the Company's activities: complex of measures aimed at improvement of the management system of Kubanenergo PJSC and the Plan of Measures Aimed at Development and Improvement of Internal Control and Risk Management Systems of Kubanenergo PJSC for 2016–2018.

In 2016, the specific costs at 2012 values amounted to RUB 6.12 thou per c.u. that corresponds to 15% of reduction in operating expenses for the reporting period against the level of 2012. This positive trend is the result of the Company's systematic work on cost optimization associated with the enterprise's operations.

Following the results of 2016, the net profit of the Company amounted to RUB 2.1 bln (RUB 0.7 bln above the level of 2015). This increase is due to growing proceeds from the electricity transmission as a result of net electricity supply growth.

In 2016, Debt/EBITDA amounted to 2.11 that is by 0.12 lower as compared to the parameters of 2015.

Work to reduce power losses is one of the Company's priority areas. Following the results of 2016, the benefit from implementation of the measures pursuant to this program amounted to 120.2 mln kWh in general (RUB 495.0 mln). Loss reduction measures of the program were fulfilled; the program target level of power losses was achieved.

The Company is interested in creation of the unified center of responsibility for high-quality and reliable energy supply to customers in the territory of the Krasnodar Krai and the Republic of Adygea. In order to increase a market share of electric grid services in the customer basin of Kubanenergo PJSC and reduction of the number of TGC, the Company implements the long-term Electric Grid Assets Consolidation Program.

The Company continued introducing modern information technologies and automation tools. In 2016, automation of the system of equipment maintenance and repair, electronic certificates for substations and power lines was completed at Kubanenergo PJSC, 66.4 km of FOCL were constructed.

In order to improve the quality of customer service in 2016, the Company expanded the functionality of the Customer's Personal Account interactive service on the Company's web-site in terms of technological connections and customers service. Further improvement of Personal Account functionality in relation to forwarding request for temporary connection and for reissuance of technical documents is planned.

The Company faces challenges for further development, modernization and expansion of electricity infrastructure in the region in 2017. The main focus will be on the Southwest and Central Power Districts requiring electricity infrastructure improvement.

The priority areas in the field of technological connection are development of the Temryuk District, including energy supply to electric loads of the investment project of national importance named "Construction of Transport Transition through the Strait of Kerch", construction of Lagonaki ski tourist resort, as well as liquidation of energy deficiency in large industrial and residential centers of the region. i. e. Krasnodar, Novorossiysk, Tuapse.

The main part of investments of the long-term investment program of Kubanenergo PJSC for 2016–2020 shall be spent for reconstruction and technical re-equipment of the existing electric grids.

Overall, based on year-end results, Kubanenergo PJSC fulfilled its main task to provide reliable, high-quality power supplies to customers, and to strengthen the Company's image, which has great significance for the stable social and economic development of the Krasnodar Krai and the Republic of Adygea.

Director General
Kubanenergo PJSC

A.I. Gavrilov

About the Company

Kubanenergo PJSC and its Market Position

Kubanenergo PJSC carries out transmission and distribution of electricity to customers through the electric grids of 110 kV and less between settlements, and in rural areas, certain cities, and regional centers of the Krasnodar Krai, including the city of Sochi, and the Republic of Adygea.

Kubanenergo PJSC is a publicly-traded company, the shares of which are traded on the Russian Stock Exchange — Moscow Exchange.

The territory serviced by Kubanenergo PJSC in the Krasnodar Krai and the Republic of Adygea has an area of 83 thou.sq.km, and a population of more than 6.0 mln people.

The Company's mission is to provide reliable and uninterrupted power supplies to customers in the region and meet the growing needs of the region's economy for electricity.

Kubanenergo PJSC is the largest taxpayer of the region, and actively participates in the region's social and economic life, providing job creation and using services from companies in related industries while implementing various social programs and charity events.

The Company's principal activity is performed under conditions of a natural monopoly regulated by the government in part of:

- setting tariffs for power transmission and technological connection of customers' power receivers to the Company's electric grid;
- ensuring non-discriminatory access for customers to the specified Company's services on equal terms.

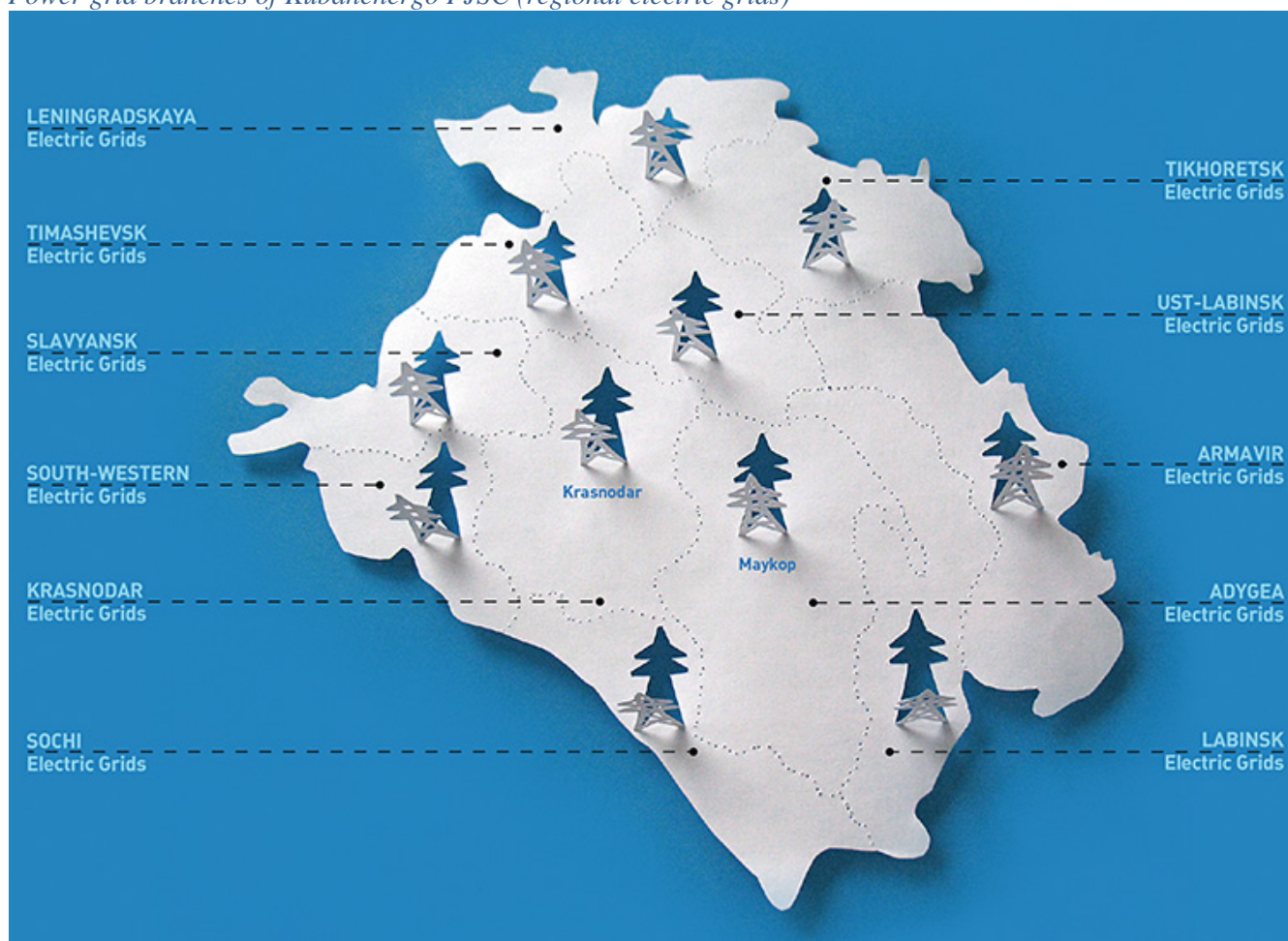
Kubanenergo PJSC today: Key asset characteristics

Total length of transmission lines	90,661 km
Maximum allowable power grid capacity (of 110 kV substations)	7,065.1 MVA
Load level of the electric power system's design capacity in 2016	65.1 % of maximum capacity (4,599 MVA) incomplete use of total capacity was due to the need for making reserve power in case of a power failure or to carry out scheduled maintenance
Total number of metering points for consumers connected to the grid of Kubanenergo PJSC in accordance with signed contracts for electricity transmission	1,131,700
Power grid branches	11

Major Company production assets in 2014–2016 as of the end of the reporting period:

Type of assets	Units of Measurement	2014	2015	2016
Substations	pcs	22,898	23,223	23,568
Installed capacity (total), including:	MVA	13,722.92	14,089.22	14,273.59
SS 35–110 kV	pcs	714	715	716
	MVA	9,166.1	9,432.7	9,519.1
Transformer substations, DTS 6-10(35)/0.4 kV	pcs	22,184	22,508	22,852
	MVA	4,556.825	4,656.516	4,754.491
OHL length along the route (total), including:	km	85,465.1	86,003.2	86,169.4
OHL of 220 kV and more	km	76.1	76.1	76.1
OHL 110–150 kV	km	4,836.6	4,962.8	4,908.3
OHL 35 kV	km	6,937.3	6,932.5	6,833.7
OHL 6–10 kV	km	32,387.25	32,556.276	32,621.765
OHL 0.4 kV	km	41,227.842	41,475.550	41,729.512
CL length (total), including:	km	2,174.1	2,217.1	2,279.9
CL 110 kV	km	78.75	78.75	81.05
CL 35 kV	km	0.46	0.46	0.944
CL 6–10 kV	km	1,620.288	1,663.414	1,722.563
CL 0.4 kV	km	474.554	473.429	475.316

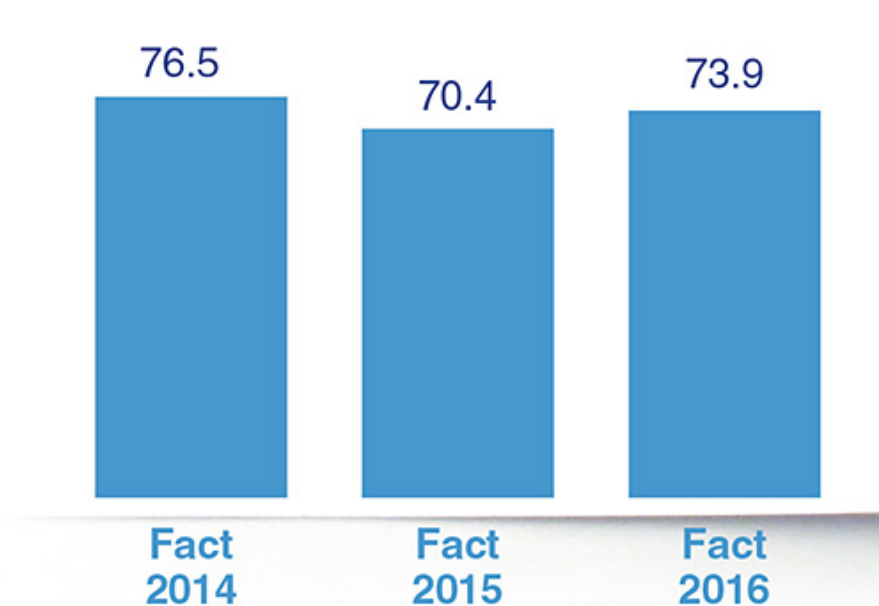
Power grid branches of Kubanenergo PJSC (regional electric grids)



Kubanenergo PJSC is the largest electric grid company in the Krasnodar Krai and the Republic of Adygea. Company's share in the regional energy market (of the region's necessary gross proceeds) in 2016 amounted to 73.9 %. Total supply in the region is higher than the level of 2014 and in total amounts to 25.5 bln kWh. High rates of reconstruction and renovation of the Company's electric grids as well as the dynamic growth of technological connection volumes to the Company's grid, suggest that in the future the Company will retain a dominant position in the regional market for electricity transmission.

In 2016 total amount of electric power supply to the grids increased by 5.5% and amounted to 26.9 bln kWh.

Company's share in the regional market for electricity transmission (of the region's necessary gross proceeds – region's NGP) in dynamics for 2014–2016, %.



Growth of Kubanenergo PJSC NGP share by 3.5% in 2016 (as compared to Company NGP share in 2015) is due to increase of Kubanenergo PJSC electric grid facilities, including due to consolidation of TGC electric grid assets.

Kubanenergo PJSC remains the leader in the market for the services rendered.

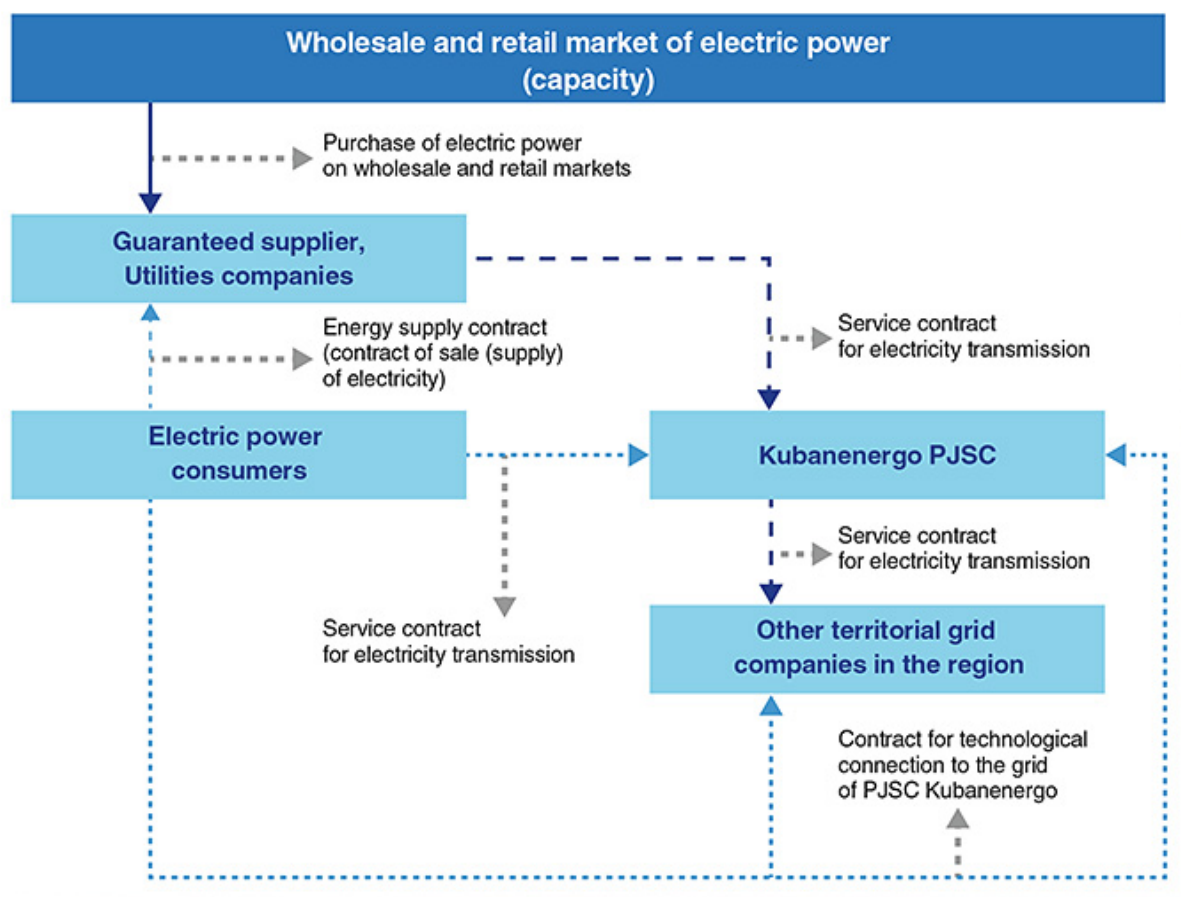
The largest companies engaged in similar activities in the Krasnodar Krai and the Republic of Adygea are: JSC NESK Electroseti, OJSC Oboronenergo, OJSC Russian Railways, and JSC NGT-Energy.

Customers of Company Services

Customers of PJSC Kubanenergo services for the transmission of electric power include:

- Individuals and legal entities having electric facilities connected to the Company's electric grids which have entered into agreements with energy supply companies¹;
- Customers that have entered into agreements for energy transmission directly with the Company (OJSC Novoroscement, CJSC Tamanneftegas, CJSC RAMO-M, LLC EuroChem-BMU, CJSC Kubanzheldormash, LLC Primorskaya Poultry Farming Plant, OJSC AgroCompany Yuzhnaya, CJSC Agro-Breeding Plant Pobeda, LLC Formika-Yug, LLC Sad-Gigant, OJSC Novorossiysk Commercial Sea Port, CJSC Abrau-Durso, OJSC Verhnebakansky Cement Plant, etc.).

¹ For the purposes of the specified agreements, energy supply companies, in turn, have signed service agreements for energy transmission with Kubanenergo PJSC. In 2016, the Company had contractual arrangements with 3 default providers and 27 energy supply companies, the largest of which are: OJSC Kubanenergosbyt (47 % revenue from actually rendered services) and JSC NESK (38 % revenue).



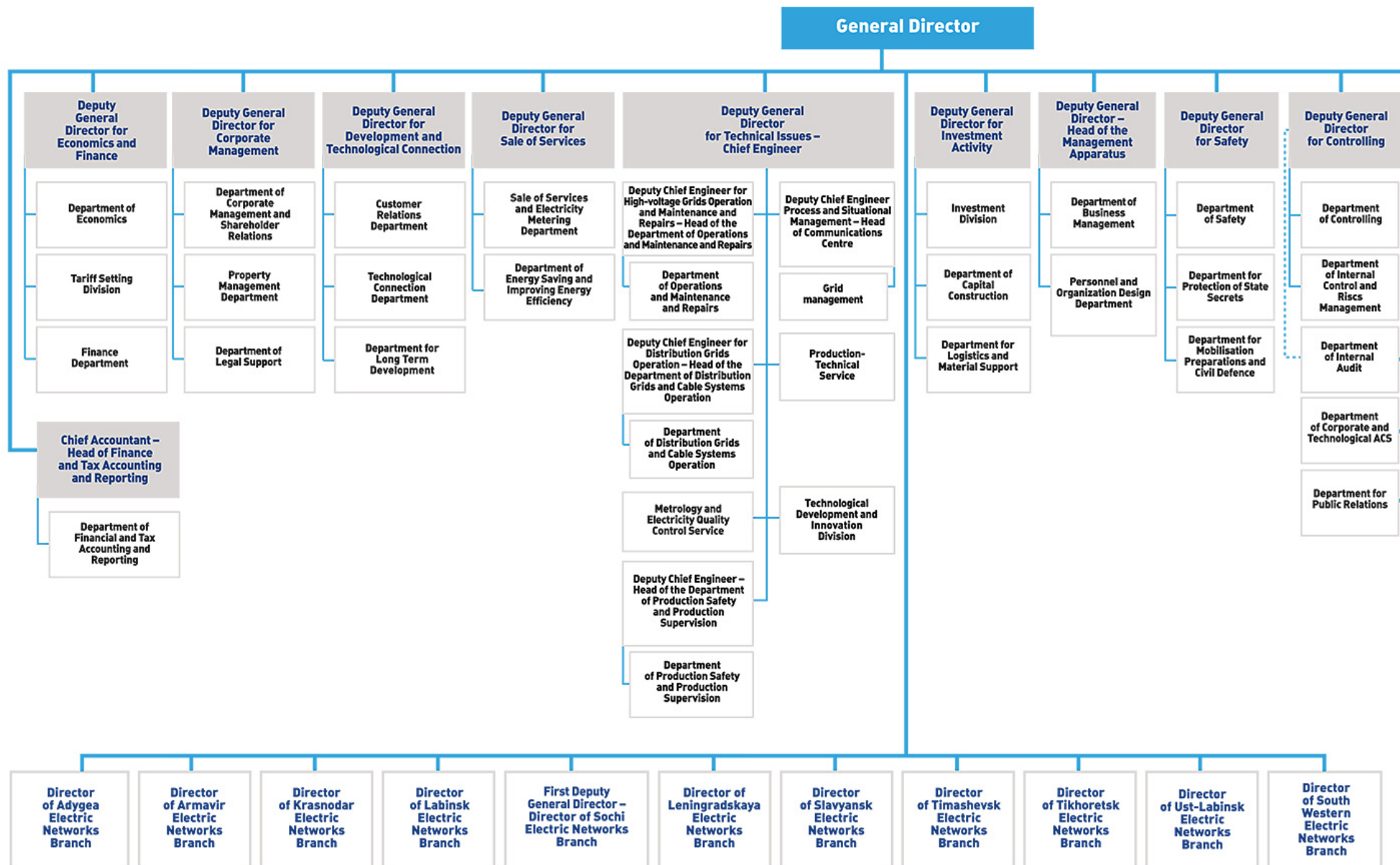
Corporate Structure

In order to ensure effective consolidation of Company resources and simultaneous implementation of latest management techniques and methodological tools, as well as use of scientific innovative technical solutions and technologies the following changes to Company corporate structure were introduced in the reporting year:

- position of Deputy General Director for Controlling is introduced; Controlling Department directly reports to Deputy General Director for Controlling,
- Internal Audit and Control Department is divided into Internal Control and Risk Management Directorate (*directly reports to Deputy General Director for Controlling*) and Internal Audit Department (*direct administrative subordination to General Director, Deputy General Director for Controlling is in charge of issues related to ensuring independence of internal audit*),
- Department of Anti-Corruption Compliance Procedure is abolished; its functions are transferred to Safety Department.

Current corporate structure of Kubanenergo PJSC is approved by the decision of the Board of Directors of 5/31/2016 (Minutes No. 241/2016)

PJSC Kubanenergo Executive Organizational Structure



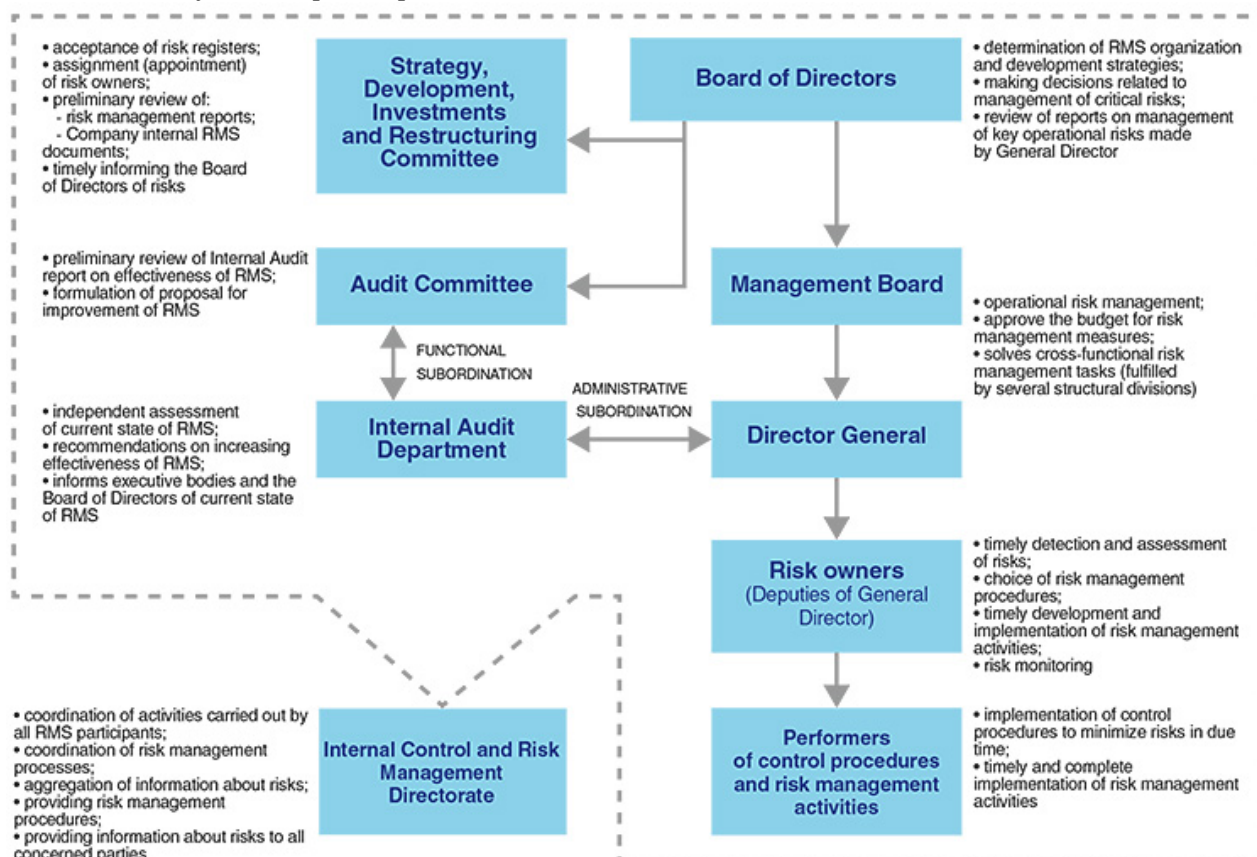
History of the Conception and Development of Kuban Power System and Kubanenergo PJSC

XIX century	The beginning of the Kuban electric power system – construction of small substations in the region.
1920	Soviet power established in Kuban, all industrial businesses nationalised.
1921	Establishment of the Electric Department under the Kuban-Black Sea Council of National Economy to manage power facilities in the Kuban. In total, there were 353 electricity stations operating in the Kuban, with a total capacity of 13.7 MW; 16,200 electric lamps and 621 electric motors were connected to the network. The Vodeltram association, which included urban and utility services for water supply, transport (trams) and electricity support of the Krasnodar city was founded. There were 45 km of transmission lines, and the electrical grids were rated for voltage of 2 kV.
1930s	North Caucasus Energy Department (Sevkavenergo) was set up to manage power facilities in the Kuban. In 1934, Sevkavenergo was divided into two independent departments – Azcherenergo (Rostov-on-Don) and Sevkavenergo (Pyatigorsk).
1944	Separation from Azcherenergo of Krasnodarenergo District Energy Department, whose main areas of activity were production, distribution and sales of electricity and thermal energy, restoration and development of energy systems, monitoring energy use and overseeing operation of power plants of organisations in the Kuban. Electricity stations, substations, districts of electrical grids, power sales, a repair and engineering works, central warehouse, environmental survey bureau, and a production and research laboratory were under the jurisdiction of Krasnodarenergo as independent self-supporting organisations.
Late 1950s – early 1960s	Construction of 110 and 220 kV main transmission lines for connection with electric power systems in southern Russia and Transcaucasia, electrification of the railway system in the Krasnodar Territory, construction of electricity distribution grid facilities, electrification of rural centres of population.
1963	Urban and rural electric grid organisations of the Kuban were transferred from the Regional Department for Public Utilities to Krasnodarenergo.
1972 – 1975	Assembly of the first two gas turbine installations in the USSR, each of 110 MW, in the Krasnodarskaya CHPP. The total capacity of the CHPP, block portion and the two gas turbines was 959 MW.
1970 - 1980	Significant increase in the volume of construction of new electricity transmission lines related to the explosive growth in electricity consumption. The total length of lines grew up to 90,000 km, and the number of 35-500 kV substations exceeded 700.
1988	Krasnodarenergo was abolished and its assets were used to set up Krasnodar Production Association of Power Supply and Electrification (Krasnodarenergo).
1993	During privatization, Krasnodarenergo was reformed into the joint stock company Krasnodarenergo. In addition to electric grid organisations it included as branches the Krasnodar CHPP, Energonadzor, repair and construction organisations, a training complex, a holiday hotel, and a Pioneer camp. 49% of shares in the Company were transferred as payment of equity capital to UES of Russia and the remaining 51% were acquired by members of the labour collective and others with the right to concessions in accordance with the State Programme for Privatisation.
2004 -2005	During restructuring of the electricity sector in Russia, Kubanenergo disengaged from service and non-core operations and dispatch functions by splitting them off into separate organisations: operating and dispatch management was transferred to SO UES; Krasnodarenergoremont, Krasnodarenergosetremont, the recreation centre hotel Energetik and the health complex Plamya were founded, and the non-profit non-governmental educational institution Kubanenergo training centre was set up.
2006	As part of restructuring of the sector, the following were separated from Kubanenergo: Kuban Generation Company (generating capacity), Kuban Transmission Networks (network facilities), Kuban Power Sales Company (guaranteed electricity supplier, purchase of electricity on the wholesale market and its supply to end users).
2008	From 1 July, Kubanenergo became a dependent company in IDGC Holding, which received a block of voting shares in the Company as succession to title according to the spin-off balance sheet as the result of structuring of RAO UES of Russia. In 2012, in connection with the acquisition by IDGC Holding of a block of additional shares in Kubanenergo, the Company became a subsidiary of IDGC Holding. The main function of the Company within IDGC Holding is to take part in the development of the electricity sector in Russia with regard to the distribution grid complex.
2013	Using JSC Russian Grids as a base, a single management company for the grid complex was formed, including transmission and power distribution networks, designed to ensure coordination of the actions of all network organizations in Russia in the field of tariffs, technical policy and investment planning, ensuring transparency of financial and economic activities, as well as in the field of anti-corruption policy. The share of JSC Russian Grids in the Company's authorized capital increased in 2013 to 92.24%.
2015	Reference to Company's public status was included into its corporate name.

Company Risk Management System

The Company operates Risk Management System (hereinafter referred to as the RMS) that is aimed at ensuring reasonable confidence that the Company achieves specified objectives as well as constant sustainable functioning and development of the Company by way of timely identification, evaluation and effective management of risks that threaten effective carrying out of economic activities by the Company and its reputation, health of employees, environment as well as financial interests of shareholders and investors. Board of Directors and Company executives manage key Company risks.

Major RMS participants:












In 2016 the Company continued to develop the risk management system in accordance with the Risk Management Policy that was approved as amended by the Company's Board of Directors on 3/17/2016 (Minutes No. 233/2016)



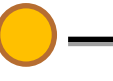

The information below specifies the risks inherent to the Company, the main measures aimed at the risk management implemented in 2016, as well as estimation of risks significance and their dynamics in comparison with 2015 and during 2016. Risk Significance means a combination of the probability of the risk and the size of its consequences for the Company in monetary and other terms. The following scale is applied:


Level of significance		Dynamics	
Critical	●	No change (or insignificant dynamics)	→
Significant	●	Increase	↑
Moderate	●	Decrease	↓

Company risks

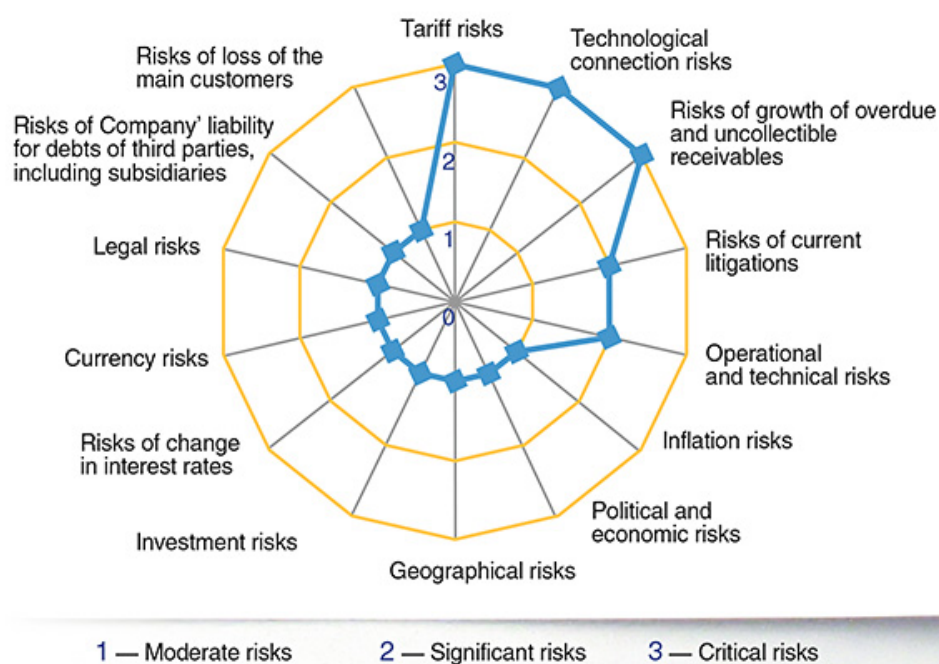
Item No.	Risk Name	Risk Description	Measures aimed at minimization of risk consequences implemented in 2016	Risk significance assessment and dynamics
Industrial risks:				
1	Tariff risks	<p>The Company is a natural monopolist and its activities are subject to state regulation. Due to the limited increase in tariffs for power transmission to customers at the level of the Government of the Russian Federation, the possibility of establishing tariffs that fail to completely cover economically justified expenses on activities related to electric power transmission is estimated as high.</p> <p>Besides, the Company is exposed to the risk of decline in revenue due to changes in the actual structure of power transmission as compared with that adopted when approving the tariffs as well as the risk of changes in tariff legislation.</p>	<ul style="list-style-type: none"> – In order to prevent and mitigate consequences of occurrence of such risks, the Company shall submit to regulatory authorities materials that justify level of economically reasonable expenses of Issuer, maintain its position that accounting for economically reasonable expenses in full is required being a core company, a “boiler” owner in Krasnodar Krai and the Republic of Adygea as well as describe and submit discrepancies to the Federal Antimonopoly Service of the Russian Federation 	
2	Technological connection risks	The key risk of the Company in terms of technological connection (TC) is a risk of shortage of funding for the implementation of TC agreements as well as approval of TC rates by regulatory authorities.	<ul style="list-style-type: none"> – Cooperation with tariffs regulation authorities on of payments supporting the cost of individual projects (including submission of information, feedback in the form of decision of tariff regulation authorities on establishing the rate, its assessment and challenge, if necessary) – development of design and estimate documents for TC projects; – improvement of the TC process. 	
3	Risks of growth of overdue and uncollectible receivables	To a greater degree, the risk applies to the debt for electric power transmission, as the revenue from power transmission services constitutes a large portion of the revenue structure of the Company. Thus, the growth of overdue / uncollectible receivables for electric power transmission has the greatest impact on Company solvency and causes increase in need for borrowed funds.	<ul style="list-style-type: none"> – analysis of the causes of disagreement between amounts of power transmitted; – execution of a schedule of activities to reduce receivables for electric power transmission services; – claims-related work; – accumulation of judicial practice and creation of positive precedents in cases where a customer unduly contests the use of supply points (e.g., refusal of utility service providers to record the amount of electricity consumed in for household needs or that determined using common metering device); – installation of collective metering devices 	
Country and regional risks:				
4	Risks associated with the political and economic situation in the country and region	<p>Major risk factors in this group may include: decrease in the ratings of the country, changes in exchange rates and the key rate, inflation. These factors may lead to an increase in the cost of purchased power grid equipment, reduced purchasing power, complicated attraction and increase in the cost of borrowed capital.</p> <p>The social and political situation in the regions where the Company is assessed as stable and the risk of occurrence in these regions, for internal reasons, of a military conflict or a state of emergency is minimal.</p>	<ul style="list-style-type: none"> – implementation of state programs on import substitution to reduce the cost of purchased equipment; – implementation of the program for decrease in operating expenses; – improvement of energy efficiency and introduction of energy-saving technologies; – implementation of measures to protect power facilities against sabotage and terrorist acts 	

Item No.	Risk Name	Risk Description	Measures aimed at minimization of risk consequences implemented in 2016	Risk significance assessment and dynamics
		The risks of terrorism and subversive activities are assessed as minimal.		
5	Risks associated with the geographical features of the country or region, including increased risk of natural disasters, possible interruption of transport communications	<p>Risks related to military conflicts, introduction of a state of emergency and natural disasters may have the following consequences:</p> <ul style="list-style-type: none"> – deterioration of the national economy and, as a consequence, deterioration of the financial situation of the Company; – damage/loss of the Company's property, which may adversely affect its ability to timely and fully meet its obligations to customers and partners. <p>Given the development of the transport infrastructure in the region, the risks of disruption of transportation due to inaccessibility and remoteness are minimal.</p> <p>According to the Company, the situation in the region will have a positive impact on activities of the Company; there is no reason to expect that a change of situation in the region may result in a failure to fulfill its obligations</p>	<ul style="list-style-type: none"> – property insurance; – cost management. – 	
Financial risks:				
6	Risks associated with changes in foreign exchange rates	The Company has no investments in foreign companies the net asset value which is exposed to changes in exchange rates, has no revenue and expenses denominated in foreign currencies (has no foreign currency settlement or deposit accounts). Risks associated with exchange rate fluctuations do not directly impact the financial and economic activity, but may lead to higher prices for power equipment. At the moment, the risk is assessed as moderate.	<ul style="list-style-type: none"> – increasing share of power equipment purchased from Russian manufacturers; – implementation of the program for decrease in operating expenses; – monitoring of the dynamics of exchange rates, analysis of the possible impact 	
7	Risks associated with changes in interest rates	<p>The Company attracts short-term and long-term borrowings from the Russian financial market. The main factor in the growth of interest rates may be as well the increase of the key rate, but in 2016 the Central Bank of Russia reduced it.</p> <p>Significant increase in interest rates in future may lead to higher debt servicing costs.</p>	<ul style="list-style-type: none"> – Company's Activity Performance Management Program is developed and implemented; – effective management of a credit portfolio is exercised; – effective placement of money for obtaining the additional income under conditions favorable to the Company is carried out; – the work with creditor banks aimed at depreciation of the loan capital of Kubanenergo PJSC for decrease in operating expenses is carried out. 	
8	Risks associated with the effect of inflation	Rising inflation rates may increase the cost of procurement and operating expenses. The Company assesses the risks associated with the effect of inflation as moderate.	<ul style="list-style-type: none"> – a comprehensive analysis of financial risks is conducted; – a business plan is prepared in accordance with the scenario; – procurement procedures are carried out in order to reduce the cost of procurement 	
Legal risks:				
9	Legal risks	Since the Company has no arrears on taxes and duties to the budgets of all levels, its tax risks are considered to be minimal. In addition, the Company does not expect the emergence of any	<ul style="list-style-type: none"> – extension of the necessary licenses for business activities; – compliance with legal and internal regulations; – monitoring of the legislation of the Russian Federation; 	

Item No.	Risk Name	Risk Description	Measures aimed at minimization of risk consequences implemented in 2016	Risk significance assessment and dynamics
		<p>significant consequences associated with changes in the tax law and civil law in the short term.</p> <p>Changes in currency and customs legislation of the Russian Federation do not affect Company's operations and, therefore, do not entail any legal risks.</p> <p>Company's exposure to the risk of suspension, modification or revocation of licenses is insignificant.</p> <p>The risks of compliance with the legislation and internal regulatory documents are identified by the results of internal and external audits of the Company, with subsequent compilation and implementation of corrective action plans.</p>	<ul style="list-style-type: none"> – planning of the Company's financial and economic activities with account of all changes in the legislation. 	
Risks associated with Company activities:				
10	Operational and technical risks	<p>Risks of the industrial activity:</p> <ul style="list-style-type: none"> – systemic customer power supply failures due to accidents and damage of grid sections and substation equipment; – reduction in quality of electricity; – violations of power transmission conditions and reduced quality of services rendered; – failure to perform timely maintenance (including diagnostics) and repairs; – accidents in related networks, leading to failures of the equipment of the Company; – abnormal power losses 	<ul style="list-style-type: none"> – scheduled and unscheduled repairs and maintenance of electric grid equipment; – upgrade, reconstruction and new construction; – technical control; – regular optimization of the structure and amount of components and spare parts in stock, etc.; – ensuring industrial safety and production control; – implementation of a program to reduce losses; – planning emergency measures (based on the analysis of technological violations) in order to mitigate the risk and to prevent occurrence of similar cases in the future 	
11	Investment risks	<p>The main risks for the Company's investment activities are the risks of incomplete disbursement of capital investment, increased construction in progress, and reduced investment program (both in volume and funding).</p>	<ul style="list-style-type: none"> – Formation (correction) of the investment program in accordance with the scenario conditions; – reallocation of funds received from the savings as the result of tender procedures to other facilities of the investment program; – implementation of measures to reduce the amount of construction in progress; – control of compliance with the terms of the procurement procedures and agreement conclusion 	
12	Risks associated with current litigations of the Company	<p>In 2016, the Company participated in judicial proceedings regarding its core activities that could significantly affect its financial situation. Judgments were passed both in favor of the Company and in favor of the plaintiffs against the Company</p>	<ul style="list-style-type: none"> – supporting the interests of the Company in court; – monitoring the judicial practice to ensure positive court decisions in favor of the Company 	
13	Risks associated with possible Company' liability for of third	<p>In 2016, the Company bore no liability for debts of the third parties since it provided no enforcement to their obligations.</p> <p>The Company has affiliated joint-stock companies with 100%</p>	<ul style="list-style-type: none"> – annual checks of subsidiaries by audit commissions of companies; – consideration of the most significant issues and decision-making on 	

Item No.	Risk Name	Risk Description	Measures aimed at minimization of risk consequences implemented in 2016	Risk significance assessment and dynamics
	parties, including subsidiaries	participations in their authorized capital and can become responsible for their debts. These obligations can have a certain negative impact on results of financial and economic activity of the Company.	them by corporate governance bodies of subsidiaries	
14	Risks associated with possibility of customers loss, which share of a turn over amounts at least 10% of total sales revenue (products, works, services) of the Company	The Company cooperates with its main customers for a long time. Possibility of loss of the main customers is considered as minimum.	– conclusion of agreements with key customers according to the legislation and on mutually advantageous conditions	

Distribution of risks by areas of significance for 2016:



Company Anti-corruption Policy

In 2016, Anti-Corruption Policy of PJSC ROSSETI and S&A of PJSC ROSSETI² approved by the Board of Directors of Kubanenergo PJSC on 12/30/2014 and implemented by the Company Order No.66 of 2/2/2015, namely the unified strategic document of PJSC ROSSETI and its S&A determining a unified approach of ROSSETI Group to implementation of requirements of Federal Law “On Counteracting Corruption” No. 273-FZ of 12/25/ 2008, was in force in Kubanenergo PJSC.

In 2016, measures on realization of Anti-corruption Policy were implemented in the following main directions:

Direction of Anti-Corruption Policy	Measures performed in 2016
Disclosure of information on owners of counterparties (up to the final beneficiary) in order to prevent conflict of interest	“Automated system for analysis and collection of information on beneficiaries” was implemented and adapted, daily work on adding information about concluded contracts, additional agreements and subcontractors of Company counterparties in the system was performed, more than 50 thou contracts were uploaded in it for 2016.
Taking measures aimed at preventing corruption in the process of cooperation with partners and counterparties	Procurement documents were approved in order to implement Orders of the Government of the Russian Federation No. VP-P13-9308 of 12/28/2011 and No. VP-P24-1269 of 3/5/2012; for 2016 1.6 thou sets of documents from counterparties were reviewed, 740 sets of documents were approved before sending them for procurement procedures.
Development and implementation of standards and procedures aimed at	Submitted income, property certificates and property-related obligations of Company executives and their close relatives for 2015 were checked for accuracy, signs of affiliation, conflict of interest, pre-conflict situations and other abusive practices related to the positions held in the Company. 424 income certificates of Company

² The document is available on the Company website, see “About the Company / Anti-Corruption Policy” section.

ensuring dedicated work	managers and their close relatives were checked. In the result of the inspection no signs of affiliation, conflict of interest, pre-conflict situations were detected.
Detection and settlement of conflict of interest	Conflict of interest of 82 Company managers were declared following the results of 2015. In the course of inspections no signs of pre-conflict situations / conflict of interest that require consideration at the meeting of the Commission of Kubanenergo PJSC on observance of corporate ethics standards and settlement of conflict of interest were detected.
Participation in collective initiatives on counteracting and preventing corruption	In 2016, an anti-corruption clause and regulations on providing information on beneficiaries were included in more than 20 thou contracts submitted for procurement procedures. Norms for disclosure of a chain of owners of counterparties including beneficiaries (as well as final ones) were adopted in the Company, conclusion of contracts without disclosing the above mentioned information was prohibited.
Control over observance of requirements of Federal Law “On counteraction to illegal use of insider information and market manipulations and on amendments to certain legal acts of the Russian Federation” No. 224-FZ of 7/27/2010 and regulatory acts adopted in accordance with it”	Control was carried out in accordance with the Regulation on Insider Information of Kubanenergo PJSC (approved by Decision of the Company Board of Directors on 8/2/2013 (Minutes No. 168/2013) and implemented by Order of the Company No. 955-A of 8/12/2013) in the following areas: <ul style="list-style-type: none"> - On-going control over compliance with the legislation - Methodological activities - Coordination of actions on development of insider information control system For “Information for Company insiders” see corporate website, “For Shareholders and Investors” section;
Methodological activities. Legal education and development of fundamentals of lawful conduct of employees, consulting and training of employees.	A new revision of the anti-corruption clause (Order No. 750 of 8/23/2016) is introduced in order to execute anti-corruption legislation of the Russian Federation; this clause must be included in all newly signed contracts. A new Order “On measures aimed at preventing corruption – preventing and resolving conflict of interest in Kubanenergo PJSC” No. 1166 of 12/28/2016 that includes an extended list of declarants was adopted within the framework of the campaign on declaring of conflict of interest for 2016.

Improvement of the following mechanisms is planned for 2017 and subsequent years:

- verification of information on a chain of owners of counterparties,
- anti-corruption standards of procurement activities,
- risk management and internal control in the area of preventing and counteracting corruption, a system for detection and resolution of conflicts of interest.

Company Code of Corporate Ethics

In order to specify ethical principles, regulations and rules of business conduct Company employees are required to observe and on the basis of the decision of the Company Board of Directors (Minutes No. 154/2013 of 3/7/2013) the Code of Corporate Ethics (Order of Kubanenergo OJSC No. 1313 of 10/29/2013 “On implementation of the Code of Corporate Ethics of Kubanenergo OJSC”) was implemented within the Company.

Company employees shall comply with the set regulation and fully observe specified rules and ethics standards.

Key Company events in 2016

January	Emergency Response and Recovery Teams of Sochi Electric Grids branch completely restored energy supply that was partially disturbed in several settlements of Tuapsinsky District due to undermining of an ETL support. D. Taran and D. Menshikov, employees of Krasnodar Electric Grids branch were thanked by the management of Krymenergo for dedicated work and high-level professionalism while recovering the consequences of emergency situation in the Republic of Crimea.
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February	Representatives of Kubanenergo PJSC took part in a round table related to housing and utilities infrastructure in Sochi. Representatives of the city administration, deputies of the City Assembly of Sochi, heads of resource providers, representatives of management companies and members of the public became participants of the meeting organized by the Sochi office of United Russia Party.
March	<p>Round-table meeting between power engineers and representatives of small and medium-sized businesses of Slavyansky, Krasnoarmeysky and Temryuksky Districts of Krasnodar Krai was held in Slavyansk Electric Grids branch of Kubanenergo PJSC. Heads of agricultural organizations, process manufacturing companies and sole proprietors were participants of the meeting where issues of technological connection to the Company electric grids were discussed.</p> <p>SGS Vostok Limited Company (part of SGS Group) confirmed compliance of Kubanenergo PJSC management system with the international standards in the field of quality management, occupational health and safety and environmental management.</p>
April	<p>Meeting of the Advisory Body to ensure effective procurement, including procurement from small and medium-sized businesses was held by the Company. Representatives of PJSC ROSSETI, Kubanenergo PJSC, Chamber of Commerce and Industry of Krasnodar Krai, All-Russian Public Organization of Small and Medium Business OPORA RUSSIA took part in the meeting.</p> <p>V. Komlevoy, Deputy of the Krymsky District of Krasnodar Krai, expressed gratitude to Dmitry Golovakha, Director of South-Western Electric Grids branch, for activities on improvement of the quality of power supply to inhabitants of Svet Khutor.</p> <p>In order to provide 42 thousand residents and 84 socially important facilities of the central part of the regional capital with reliable electric power supply, the specialists of Krasnodar Electric Grids branch installed modern equipment at 35 kV Putevaya substation.</p>
May	<p>17 employees of Kubanenergo PJSC received corporate awards for significant contribution to the development of the power grid complex and participation in ensuring reliable and continuous operation of the electrical power system of the Republic of Crimea.</p> <p>Conference on strategy for development of electric power metering intelligent systems in Russian distribution grid complex was held in Sochi at Sochi Electric Grids branch on May 26–27. Participants of the conference discussed a new draft Federal Law “On development of intelligent metering” as well as analyzed Company experience in attracting investments in development of the intelligent metering system under the terms of the energy service within the territory of Krasnodar Krai and the Republic of Adygea. Representatives of PJSC ROSSETI, Kubanenergo PJSC, Association Non-Profit Partnership of Territorial Grid Companies took part in the event.</p> <p>Specialists of Kubanenergo PJSC took certain additional measures at the facilities of Sochi distribution grid complex and ensured reliable power supply of the events that took place on May 19–20, 2016 in the resort town in the course of ASEAN – Russia summit in Sochi.</p>
June	<p>Annual General Meeting of Shareholders of Kubanenergo PJSC chaired by Yuri Mangarov, Chairman of the Board of Directors of Kubanenergo PJSC and top advisor of PJSC ROSSETI was held on June 24, 2016 in Krasnodar.</p> <p>Within the framework of implementation of the All-Russian Program of PJSC ROSSETI on development of charging infrastructure for electric vehicles, Kubanenergo PJSC installed first production samples of domestic electric charging stations for electric vehicles in Sochi.</p> <p>Company specialists restored energy supply of Tatyankovka and Maryino settlements and Thagapsh aul in Lazarevsky District of Sochi that was damaged by mudslides resulting from heavy rains.</p>

July	<p>Field meeting of a working group on enhancement of the efficiency of work with power losses in the distribution grid complex of ROSSETI Group of Companies was held in the executive office of Kubanenergo PJSC.</p> <p>Results of the work on technological connection for 2015–H1 2016 with representatives of small and medium-sized businesses of Novorossiysky, Gelendzhiksky, Anapsky, Abinsky and Krymsky Districts of Krasnodar Krai were summarized in South-Western Electric Grids branch. Participants of the meeting discussed specific projects, parameters and terms of execution of agreements for technological connection as well as changes in the legislation.</p> <p>Official ceremony of commissioning of a new supply center of Kubanenergo PJSC called Adygeyskaya SS 110/35/10 kV, was held in the Republic of Adygea. The power facility shall allow to meet the growing needs of Adygeysk and Teuchezhsky District for additional energy power and increase the investment potential of the Republic in general. The project was implemented within the framework of the Agreement on cooperation between the Cabinet of Ministers of the Republic of Adygea and ROSSETI Group of Companies.</p> <p>Employees of South-Western branch of Kubanenergo PJSC held a regular lesson on electrical safety for 200 children from different parts of Russia having holidays in the All-Russian Children Center “Smena”.</p>
August	<p>Regular raids in Shcherbinovsky District of Krasnodar Krai revealed new incidents of electric power thefts. Security Department of Leningrad Electric Grids branch of Kubanenergo PJSC in cooperation with district police officers of the Department of the Ministry of Internal Affairs of the Russian Federation in Shcherbinovsky District checked electricity meters and timely payments of inhabitants of 12 households.</p> <p>Adygea Electric Grids branch connected a large import substituting production facility (VOLMA-Maykop gypsum plant in Maykopsky District of the Republic of Adygea) to electric grids. Capacity allocated to the enterprise is equal to 3 MW.</p> <p>Emergency Response and Recovery Teams of Kubanenergo PJSC quickly restored energy supply for customers of Shkolnoye village, Belorechensky District of Krasnodar Krai that had been disturbed by a helicopter.</p>
September	<p>Within the framework of the International Investment Forum Sochi 2016, Olga Golodets, Deputy Chairman of the Government of the Russian Federation, visited Sochi Professional Technical College and the Energy Resource Center established on its basis with the participation of Kubanenergo PJSC. O. Golodets noted that cooperation of Sochi Electric Grids branch with the educational institution is a vivid example of successful social partnership.</p> <p>Within the framework of the International Investment Forum Sochi-2016, Memorandum of Understanding was signed between Kubanenergo PJSC and the Administration of Krasnodar on September 30. The Memorandum stipulates implementation of certain projects on reconstruction and construction of electric grid facilities within the territory of Krasnodar; it is planned to invest RUB 3.6 bln in these projects.</p> <p>On September 27, 2016 the Company confirmed its readiness to pass maximum loads within the autumn-winter period 2016–2017. Boris Stepanov, Chairman of the Committee, acting Deputy Head of the Department of Federal Environmental, Industrial and Nuclear Supervision Service of Russia (Rostekhnadzor), gave a passport of preparedness for operation in the autumn-winter period 2016–2017 to Dmitry Ryazantsev, Company Chief Engineer.</p> <p>A. Kharchenko, Head of Armavir, thanked power engineers of Armavir Electric Grids branch for their active civic stand and personal involvement in elimination of consequences of natural disaster that had hit the city on August 11 and personally expressed gratitude to Company employees and everybody who had rendered assistance to the city and its residents.</p> <p>Since the beginning of 2016, specialists of South-Western Electric Grids of Kubanenergo PJSC have commissioned about 150 power facilities, particularly transforming substations and overhead power lines for the technological connection of privileged customers.</p>
October	<p>Labinsk Electric Grids finished the scheduled repair of the equipment of Yaroslavskaya and Benokovo 35 kV substations. Power facilities supply more than 9 thousand residents and 16 social facilities in Yaroslavskaya, Makhoshevskaya stanitsas and Benokovo village of Mostovsky District of Krasnodar Krai.</p> <p>Service teams of Krasnodar Electric Grids branch finished overhaul of NS-16 35 kV substation that provides electric power to the residents and critical infrastructure facilities in Oktyabrsky settlement in the suburbs of Krasnodar.</p>

November	<p>Power engineers of South-Western Electric Grids branch finished overhaul of Divnomorskaya and Arkhipo-Osipovka 110 kV substations. These substations provide electric power to more than 17 thousand customers, more than 60 social facilities and two recreation and health centers in Gelendzhiksky District.</p> <p>In accordance with the regional development strategy of the agro-industrial complex, since the beginning of 2016 Kubanenergo PJSC connected 13 agricultural companies of the South-Western Power District to electric grids.</p>
December	<p>Within the framework of official honoring of power engineers on December 22, 2016 in Moscow, Alexander Novak, Minister of Energy of the Russian Federation, awarded Aleksandr Gavrilov, Director General of Kubanenergo PJSC, with a state award (award pin) "Honored Worker of Power Industry of the Russian Federation".</p> <p>Since the beginning of the year, specialists of Ust-Labinsk Electric Grids branch repaired more than 120 distribution grid power facilities and transformer substations.</p> <p>As part of activities aimed at supporting development of the agro-industrial complex, Ust-Labinsk Electric Grids branch implements priority projects on technological connection and providing additional power to the companies and facilities of the agro-industrial complex.</p>

Key Company events in 2017

January	<p>In 2017, the Company plans to invest more than RUB 40 million in implementation of repair program in five districts located within the area of responsibility of Tikhoretsky Power Grids.</p> <p>Dishonest customers of Anapsky, Gelendzhiksky, Novorossiysky, Abinsky and Krymsky Districts of Krasnodar Krai reimbursed more than RUB 8 million of damage.</p> <p>In 2016, power engineers of Slavyansk Electric Grids branch connected more than 2.5 thousand new customers to Company electric grids.</p> <p>Tikhoretsk Electric Grids started the next step of implementation and reconstruction of remote control systems at seven substations of Tikhoretsky District. The total value of the project within the framework of the Company investment program shall be equal to about RUB 300 million.</p> <p>In 2016 the Kubanenergo PJSC Customer Service Center in Sochi received about 67 thousand applications including about 9 thousand applications for technological connection.</p>
February	<p>Within the framework of the Russian Investment Forum in Sochi Veniamin Kondratyev, Governor of Krasnodar Krai, and Aleksandr Gavrilov, Director General of Kubanenergo PJSC signed an agreement on cooperation in the sphere of development of the energy infrastructure on the Taman Peninsula.</p> <p>At the Russian Investment Forum Sochi 2017 Aleksandr Gavrilov, Director General of Kubanenergo PJSC, Murat Kumpilov, acting Head of the Republic of Adygea, and Saida Kuizheva, Rector of Maykop State Technological University, signed an agreement on cooperation in personnel training for the electric power sector of Adygea.</p> <p>On the first day of the Russian Investment Forum in Sochi Aleksandr Gavrilov, Director General of Kubanenergo PJSC, and Murat Kumpilov, acting Head of the Republic of Adygea, signed an agreement on cooperation in carrying out a large scale reconstruction of 110 kV Khadzhokh substation being the largest supply center of the mountainous part of Adygea with a total value of RUB 600 mln.</p> <p>In 2016, South-Western Electric Grids branch upgraded distribution grid of Anapsky, Novorossiysky, Gelendzhiksky, Abinsky and Krymsky Districts of Krasnodar Krai. Power engineers replaced more than 35 km of old wire with self-supporting insulated wire and replaced more than 600 inputs in house properties.</p> <p>Within the framework of the program on fighting against electric power thefts, in 2016 specialists of Krasnodar Electric Grids branch installed more than 13 thousand antimagnetic seals on electric power meters of the residents of the suburbs of Krasnodar, Dinskoy, Seversky, Goryacheklyuchevsky Districts of Krasnodar Krai as well as Takhtamukaysky and Teuchezhsky Districts of the Republic of Adygea.</p>

March	<p>This year employees of Labinsk Electric Grids branch shall perform comprehensive, complete overhaul and current repair works on 21 SS in three districts of Krasnodar Krai, namely Labinsky, Kurganinsky and Mostovsky Districts. Electric power supply of 97 thousand residents, 170 socially significant facilities in 52 settlements of the krai depend on reliable performance of these supply centers.</p> <p>In 2016, Adygea Electric Grids branch performed reconstruction and technical re-equipment of 42 electric grid distribution facilities in a number of settlements in Maykop District of the Republic of Adygea. The total cost of the performed works amounted to more than RUB 32 mln.</p> <p>Specialists of Adygea Electric Grids branch started reconstruction of the overhead power line supplying Tsurevsky mountain village of Apsheronsky District of Krasnodar Krai. Innovative materials produced by domestic manufacturer, particularly, composite poles and protected insulated wire shall be used for the reconstruction.</p> <p>Within two months of the current year employees of South-Western branch of Kubanenergo PJSC revealed 72 cases of unrecorded electric power consumption (more than 2 mln kWh) during raids.</p>
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Development strategy

Mission of Kubanenergo PJSC is to make profit under the terms of long-term provision of reliable, high-quality and affordable electric power for customers of Krasnodar Krai and the Republic of Adygea by organizing the most efficient management of the distribution grid infrastructure using advanced technologies and innovations with account of global standards of the quality of the provided services and the best practice of corporate governance.



Igor Vladimirovich Shmakov
*Deputy Director General for Controlling
(coordinates activities in the field of implementation and
integration of controlling systems, quality management,
improvement of management internal control, risk management
and internal audit systems)*

"Global trends and changes in the 21st century, constantly changing external environment determine operating conditions of the power grid complex of the Russian Federation. Our Company shall comply with these conditions and be ready for an adequate response to any challenges. Key objective of the Kubanenergo PJSC Controlling Unit with regard to this issue is to introduce a continuously improving management and control system aimed at effective and appropriate use of Company resources with simultaneous implementation of advanced management techniques and methodological tools. In 2016, Kubanenergo PJSC approved and implements two system documents that may, in the mid-run, positively influence on the efficiency and quality of the Company activities: complex of measures aimed at improvement of the management system of Kubanenergo PJSC and the Plan of Measures Aimed at Development and Improvement of Internal Control and Risk Management Systems of Kubanenergo PJSC for 2016–2018."

Strategic goals and priorities of the Company

Being part of the unified distribution grid complex of Russia, the Company seeks to achieve the objectives defined at the state level, i. e. milestones for electric grid complex till 2030, set by the Development Strategy of the Electric Grid Complex of the Russian Federation³.

In order to perform the above milestones as well as ensure effective activity and development, the Company sets the following strategic goals:

- 1. Increase of electric power supply reliability of Krasnodar Krai and the Republic of Adygea;**
- 2. Improvement of the quality of customer service and increase of the accessibility of power grid infrastructure;**
- 3. Advanced grid development and implementation of new technologies;**
- 4. Increase of investment appeal and capitalization;**
- 5. Proper working conditions, increase of professional competence and loyalty of the Company personnel.**

The Board of Directors approved certain areas of Company activities as priority ones. In order to achieve the strategic goals, the Company sets specific objectives and implements Company development in the priority areas:

- 1. Innovative development:*

³ Approved by Executive Order of the Government of the Russian Federation No. 511-p of April 3, 2013.

The purpose of the innovative development of the Company is a transition to electric grids of a new technological mode with qualitatively new characteristics of reliability, efficiency, accessibility, manageability and customer centricity of the power grid complex. The Innovative Development Program sets target levels of the development of innovative trends and determines the status of assets implemented as part of the investment program as innovative ones.

The development of the updated Innovative Development Program for 2016–2020 with an outlook until 2025 has been started.

2. *Ensuring the established reliability and quality level of the rendered services in accordance with regulatory legal acts*

Increase of reliability and quality of energy supply to the level corresponding to customer needs.

Reduction in undersupply of electricity;

Cost reduction of technological connection for small and medium-sized businesses.

3. *Introduction of the Company' Production Assets Management System (hereinafter referred to as the PAMS)*

The purpose of the introduction of the Company Production Assets Management System (PAMS) is: improvement of quality of planning maintenance and repair works, productivity improvement, reduction of labor input in maintenance and repair processes by optimizing information technology solutions.

4. *Ensuring availability of the energy infrastructure and quality of technological connection to the Company electric grids.*

Efficiency improvement of production and investment activities.

Organization of work on development, approval and implementation of technological connection procedure of electrical installations of legal entities and individuals to the electric grid of Kubanenergo PJSC in accordance with the existing regulatory framework with account of a balance of interests of the grid company and customers of technological connection service.

5. *Development planning of the distributive power grid complex of Kubanenergo PJSC*

The purpose of development planning of the distributive power grid complex of Kubanenergo PJSC is to ensure development of the grid infrastructure and generating capacities in order to meet long-term and medium-term demand for electric power and capacity, create stable and favorable conditions for attraction of investments in the construction of electric power facilities and creation of an effective and balanced energy infrastructure ensuring social and economic development of Krasnodar Krai and the Republic of Adygea.

By efforts of project organizations, Kubanenergo PJSC annually performs development of Comprehensive Programs of Development of Electric Grids of 35 kV and above in the territory of the Krasnodar Krai and the Republic of Adygea for a five-year period.

6. *Implementation of environmental policy*

The purpose of the implementation of environmental policy is to ensure the introduction of energy-efficient technologies and the improvement of technological processes, which contribute to reduction of harmful effect, as well as to ensure consistent performance of environmental activities. The implementation of the priority area is an operating activity and shall be performed constantly.

7. *Increase of anti-terrorist and anti-sabotage protection level of the Company electric grid facilities.*

Improvement of the safety system (including but not limited to the automated safety management system) based on the principles of geographical distribution, security, reliability and efficiency of the Company security management system, the wholeness of integration and business processes.

8. *Measures aimed at the decrease in electricity losses using extra tariff funding sources (including energy service agreements)*

Efficiency improvement of the power grid complex through the implementation of measures aimed at reducing technological electric power losses in the process of its transmission taking into account measures on the terms of energy service agreements.

Since 12/10/2013 the Company Board of Directors have been regularly considering and approving the lists of relevant projects of the Company in the field of energy conservation and improvement of energy efficiency that are feasible on the terms of the concluded energy service agreements.

9. Measures aimed at centralization and automation of the treasury function

Updating of reporting forms and reference books “1C: Enterprise” used during preparation of templates for uploading information into automated information system of registration of treasury operations in order to organize information exchange with the unified IT system of Unified Treasury of PJSC ROSSETI.

10. Improvement of internal control and risk management system, development of internal audit function.

The purpose of implementation of internal control and risk management system, development of internal audit function is to improve business processes of the Company. The assessment of the revealed risks is regularly updated, measures aimed at their management are implemented, information on the functioning of the risk management system, on the performance of the Company risk management activities is considered by the Company management bodies.

The Plan of Measures Aimed at Development and Improvement of Internal Control and Risk Management Systems of Kubanenergo PJSC for 2016–2018 has been approved and is being implemented.

Efficiency of the Internal Control and Risk Management Systems is assessed. The results of the assessment are submitted to the Board of Directors (with preliminary consideration by the Audit Committee of the Board of Directors).

11. The Company strategy in the sphere of information technology, automation and telecommunications for the period up to 2016.

The main role of information technologies is to implement the key business objectives of the Company, such as ensuring reliable and uninterrupted electric power supply, improving customer service quality, ensuring customer satisfaction. Process automation development ensures more efficient functioning of the power grid complex.

The Company introduces new projects, develops existing ones and maintains already completed projects in terms of information technologies in accordance with the Strategy in the field of information technology and telecommunications of the Company approved by Decision of the Board of Directors of Kubanenergo PJSC on 6/20/2013 (Minutes No. 138/2012 of 6/22/2012). The implementation of the priority area is an operating activity. In case of economic feasibility, additional investments in the informatization and automation of business processes should be made.

12. Construction and operation of fiber-optic communication lines (FOCL)

Design and construction of FOCL are performed within the framework of the implementation of the Company investment program titles. The Company area of activity of “Construction and operation of fiber-optic communication lines” has lost its relevance as the Company separate priority area of activity.

Corporate network of data transfer as well as dispatch and technological communication channels in the direction of a dispatch center of Teuchezhsky PGA of Krasnodar Electric Grids branch of the Company are organized using these FOCL in accordance with modern requirements.

13. Consolidation of electric grid assets

The purpose of the consolidation of electric grid assets is the increase of necessary gross proceeds in the customer basin of PJSC Kubanenergo and reduction of the number of territorial grid companies.

The objective is the acquisition of grid assets non-influenceable by the Company and the provision of efficient use of power grid property transferred to the possession, released on loan or by other means of the consolidation of power grid property.

The Company is interested in creation of the unified center of responsibility for high-quality and reliable energy supply to customers, elimination of “fragmentarity” of the grid in Krasnodar Krai and the Republic of Adygea.

The main difficulties of the implementation of the Electric Grid Assets Consolidation Program are failure to achieve a consent of facility owners to participate in consolidation and lack of a source for measure funding.

14. Certification of equipment, materials and systems at the Company facilities

In order to organize the work on certification of equipment, materials and systems, in 2014 the Company issued the order that:

- brought into force the procedure and the methods of carrying out certification of equipment, materials and systems in the power grid complex,
- appointed a commission on admission of the Company equipment, materials and systems and approved its work regulations.

No applications for carrying out certification were submitted to the commission in 2016. In view of application of the unified technical policy in PJSC ROSSETI Group of Companies, certification of equipment, materials and systems used in the electric grid complex of Kubanenergo PJSC was carried out directly by PJSC ROSSETI.

15. Introduction of the major investment project construction management system

Availability of the specialized information project management system on the basis of Oracle Primavera (IPMS) ensured the complete implementation and management of the implementation of the Program of Olympic venues construction and development of Sochi as a mountain climate resort on reconstruction and construction of facilities of the distribution grid ensuring reliable power supply for Sochi during the 2014 Winter Olympic Games and the developing infrastructure of the city as a mountain climate resort. The area lost its relevance due to the completion of the Olympic construction in 2014. The information project management system on the basis of Oracle Primavera (IPMS) is not being used at the moment, because all its objectives have been accomplished.

16. Work in the area of labor protection

The purpose of work in the area of labor protection is to increase energy supply safety, including decrease in a total number of accidents, as well as unaccounted accidents.

The Company considers the preservation of life and health of its employees as a priority in relation to any other results of labor activity and, to this end, constantly takes measures to ensure safe working conditions in workplaces and to prevent occupational injuries and injuries of third parties at the Company facilities.

17. Decrease in specific investment costs by 30% against the level of 2012

The purpose of the priority is to improve efficiency of the electric grid complex, including: decrease in specific investment costs by 30% against the level of 2012.

The plan for reduction of investment costs in 2016 amounted RUB 327 mln, excluding VAT (22.5 %). Following the results of 2016, the actual reduction of investment costs amounted to RUB 381 mln, excluding VAT that is equal to 32%.

Decrease in operating expenses by 15% by 2017 taking into account inflation against the level of 2012 per maintenance unit of electrical equipment.

18. Decrease in operating expenses (costs) for at least 2–3% annually

The purpose of the priority is to improve efficiency of the electric grid complex, including: decrease in operating expenses by 2019 per 1 conventional unit 15% as compared to 2012.

The target levels of the decrease in operating expenses were approved by the Board of Directors of the Company.

In order to decrease expenses, from 2016 onwards the Company has been implementing the Operational Efficiency Increase and Expense Reduction Program for 2016–2020 on the

achievement of benefit due to the maintenance cost reduction per unit of the Company electrical equipment.

19. Capacity utilization increase

The purpose of the priority is to improve efficiency of the electric grid complex, including capacity utilization increase.

A natural growth of the electrical power system capacity consumed for 2016 amounted to 5.4%, besides, connection of new customers leads to additional increase in total capacity utilization of power stations of Kubanenergo PJSC.

In general, investments in Kubanenergo PJSC promote reliability enhancement, industry performance improvement, and decrease in electric power losses.

Alongside with that, the growth of investments leads to higher prices of electric grid services if the exploited capacities remain unloaded. In this regard, the purpose of the electric grid complex regulation is to ensure high load of re-exploited capacities.

Implementation of the priority areas of activities shall allow Kubanenergo PJSC to become one of the leaders of the industry thanks to high efficiency of asset management, customer-oriented approach as well as the implementation of energy-efficient technologies and the improvement of technological processes.

Report on the Company development on priority areas of activity in 2016 is provided in Appendix 5.

Development Prospects of the Company Electric Grid Facilities

The main objective of Company prospective development is modernization and expansion of its electrical power infrastructure that shall allow to eliminate the existing deficiency of power capacities and strengthen a basis for a sustainable long-term development.

Acting within Decree of the Government of the Russian Federation No. 823 of October 17, 2009 “On Schemes and Programs of Electricity Industry Prospective Development”, in 2016 Kubanenergo PJSC was directly involved in the development of the Schemes and the Programs of Electricity Industry Prospective Development in Krasnodar Krai and the Republic of Adygea for 2017–2021 and the Schemes and the Programs of Electricity Industry Prospective Development in the Republic of Adygea for 2017–2021 (the “Charts and the Programs”).

In the reporting year, upon the request of Kubanenergo PJSC, Institute ENERGOSETPROEKT JSC elaborated the Comprehensive Program of Development of Electric Grids of 35 kV and above in the territory of Krasnodar Krai and the Republic of Adygea for 2017–2021.

These documents are synchronized with the long-term investment program of PJSC FGC UES that manages the Unified National (All-Russian) Electric Grid, and correspond to the key parameters of the long-term investment program of Kubanenergo PJSC for 2016–2020.

The Scheme and the Program of Electricity Industry Prospective Development in Krasnodar Krai for 2017–2021 are approved by Executive Order of the Head of Administration (Governor) of Krasnodar Krai No. 293–r of 9/2/2016.

The Scheme and the Program of Electricity Industry Prospective Development in the Republic of Adygea for 2017–2021 is approved by Order of the Ministry of Economic Development and Trade of the Republic of Adygea No. 135–rg of 8/8/2016.

According to the Schemes and the Programs, the Company shall pay a special attention to the development of the most problematic South-Western and Central power districts of Kuban electrical power system that need improvement of electrical power infrastructure.

The priority areas in the sphere of technological connection shall also be as follows:

- development of Temryuksky District, including energy supply of electric loadings of the investment project of the national importance named “Construction of Transport Transition through the Strait of Kerch”,
- construction of Lago-naki ski tourist resort;
- elimination of power deficiency in the large industrial and inhabited centers of the Krai: Krasnodar, Novorossiysk, Tuapse.

Implementation of the development plan of the Company

In order to enhance financial stability and operating efficiency of the Company, the Board of Directors of PJSC ROSSETI approved the Development Plan for Kubanenergo PJSC for 2016–2020 (Minutes No. 232) on 6/9/2016.

The Development Plan of the Company implies the following measures to be taken:

- - those aimed at the increase of internal efficiency;
- - those that are necessary to lend support from Krasnodar Krai and the Republic of Adygea,
- - those that are necessary to lend support from the Ministry of Energy of the Russian Federation in cooperation with the Ministry of Economic Development of the Russian Federation and the Federal Antimonopoly Service of the Russian Federation;
- - those that are necessary for development of Kubanenergo PJSC on the part of PJSC ROSSETI.

All the measures planned in 2016 have been fully implemented.

Company Innovative Development

Innovative Development Program

The purpose of the Innovative Development Program of the Company (hereinafter referred to as “the Program”) is a transition to electric grids of a new technological mode with qualitatively new characteristics of reliability, efficiency, accessibility, manageability and customer centricity of the power grid complex.

The objectives of the Program are:

- achievement of the required levels of reliability, safety, quality, efficiency and accessibility of energy supply of customers by implementing new equipment, technologies and practices;
- enhancement of the Company customer-oriented approach by improving the existing ones and creating new services including high-tech ones;
- development, approbation and provision of conditions for serial implementation of innovative equipment and practices with account of comprehensive efficiency factors and on the basis of management principles of the life-cycle of objects and systems;
- improvement of the system of interaction with the subjects of the sectoral innovative ecosystem, i.e. small and medium-sized businesses, universities, research organizations, the leading domestic and foreign equipment manufacturers etc.;
- improvement of the innovation governance system and creation of the intellectual property management system;
- improvement of the Company operating efficiency on a new technological and methodological base;
- creation of personnel capacity with perspective competencies in order to ensure objectives of the Company innovative development;
- creation of conditions for the development of perspective scientific research, technological work;
 - reduction of the negative impact of the power grid complex facilities on the environment.

In the reporting year the Company implemented the Program approved by the Board of Directors (Minutes No. 115/2011 of 7/29/2011 as amended on 6/18/2012, Minutes No. 137/2012).

In the reporting year the following measures on the key areas of the Company innovative development were taken:

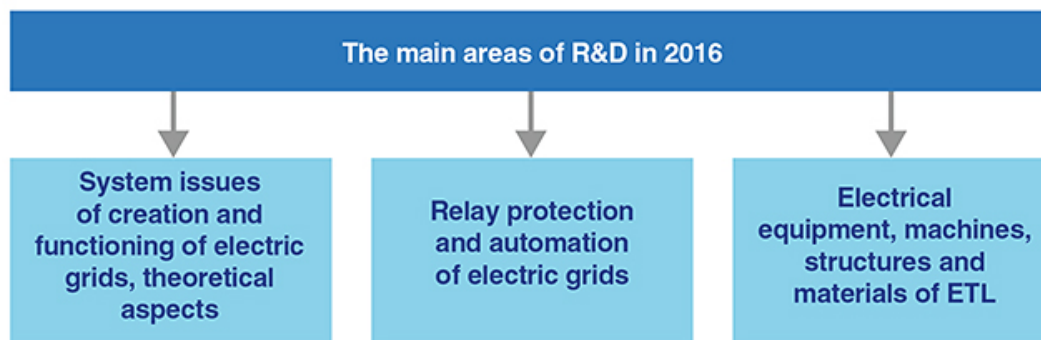
Key areas of the Innovative Development Program of the Company	Measures taken
A transition to digital substations of different voltage classes of 35–110 (220) kV	Design and survey works were performed within the project of “Reconstruction of 110 kV Tuapse-City SS” with the equipment with a digital substation system in terms of relay protection and automatic equipment, information collection and transmission system
A transition to digital active-adaptive grids with the distributed intelligent automation and management system	Completed: <ul style="list-style-type: none"> • “Implementation of intelligent electricity meters as part of the automated electric power metering system on problematic feeders at a voltage level of 0.4 kV (0.23 kV)” was introduced, 2,148 metering devices were mounted; • design and survey works on “Introduction of APCS on the basis of digital devices during the construction of 220 kV Port SS”; • five production samples of domestic electric charging stations for electric vehicles, FORA ECS-AC, were installed in Sochi Electric Grids branch.
A transition to comprehensive efficiency of business processes and automation of management systems	Completed: <ul style="list-style-type: none"> • development of the Production Assets Management System (PAMS) in terms of the expansion of its functional capability; • expansion of the functionality of the Personal Account of the Customer on the official website of Kubanenergo PJSC
The application of new technologies and materials in electric power industry	Completed: <ul style="list-style-type: none"> • design and survey works on facilities of the following pilot project: “Introduction of innovative 0.95 kV electric grid” and “Introduction of poles made of composite materials”; • introduction of innovative solutions: 6–10, 35 kV vacuum circuit breakers, local backup protection of power-transformer protection, equipment for partial discharge monitoring of power transformers insulation, digital devices of relay protection and automation supporting digital data exchange according to Protocol No. 61850 of the International Electrotechnical Commission, high-temperature wire; • design and survey works on the activity “Implementation of intelligent systems for monitoring and diagnostics of 110 kV CL performance in the process of construction of 2 Dzhemete-Pionerskaya CL of 110 kV with the installation of 110 kV cells at 110 kV Dzhemete SS”; • design and survey works involving the implementation of innovative solutions
Development of the system of elaboration and implementation of innovative production and technologies	The R&D program of the Company was performed in accordance with the concluded agreements
Development of human resources and partnership in the field of education	650 students received practical training in the Company, 38 employees of the Company were retrained in institutions of higher education

Performance indicators of the Company innovative activity in 2016, RUB thou excluding VAT:

Expenses for R&D carried out by third-party organizations, including by contractors (institutions of higher education, scientific organizations, innovative companies of small and medium-sized business)	11,166.5
of which with regard to projects implemented within	
• <i>technology platforms</i>	
• <i>Institutions of higher education</i>	2,200.0
• <i>scientific organizations</i>	8,966.5
Expenses for procurement of innovative production (technologies, solutions, goods, works, services determined by the approved Innovative Development Program of the Company)	396,090

R&D performance

One of the main areas of the Program is performance of R&D, i.e. the development of breakthrough technologies for the creation of fundamentally new technologies, methods, as well as application issues aimed at the improvement of the existing technologies and products.



In 2016 the Company carried out R&D:

R&D area	Measures taken in the reporting year
Development of a software package for address recommendations and low-cost methods of decrease in technological losses in grids of 6–10 kV of regional electric grids of OJSC Kubanenergo.	A software package for the calculation of low-cost measures aimed at the reduction of losses was received with a full set of operational documents, targeted measures aimed at the reduction of technological losses in the grid of 6–10 kV of Tbilisi RES of Ust-Labinsk Electric Grids branch were taken, the cost of the targeted measures was calculated. Following the results of positive pilot and field testing, the software package was recognized and implemented into commercial operation. On 6/16/2016 the scientific and technical committee of PJSC ROSSETI approved the results of the R&D. On 7/14/2016 a certificate on state registration of “Software package” computer program was obtained. In the fourth quarter of the reporting year the implementation (replication) of the software package began in all branches of Kubanenergo PJSC.
Creation of the unified, integrated, distributed and expanded diverse data account and storage system in the standardized form for accounting of maintenance and repair, actions of RPEA, RPEA settings with reference to the graphic scheme of equipment arrangement.	A software package allowing to integrate the existing services for relay protection and automation services in a standard format of storage and exchange (IEC 61970, IEC 61968), exclude information duplication and ensure integrity and relevance of this information with a full set of operational documents. In August 2016 acceptance tests were carried out. In November 2016 an application for state registration of the computer program was sent to the Federal Institute of Industrial Property. On 2/1/2017 the scientific and technical committee of PJSC ROSSETI considered the work results.
Development of reflectometric monitoring complex of OH transmission lines of 35–220 kV for the detection of damaged areas and icing deposits on them	Patent and information search, an analytical overview and technical and economic comparison of ETL monitoring methods for the purpose of ice and damaged area detection, analysis of metrological features of the objective, analysis of the structure and algorithms of the device performance taking into account the specifics of 35–220 kV OHL were completed. Functional and fundamental schemes of the device were developed. The software algorithm and listing were developed, the range of purchase products, materials and equipment was determined. 110 kV Gelendzhik SS of South-Western Electric Grids branch was determined as a place for installation, test performance, and pilot and field testing of the developed complex
Power line phase-differential protector with two-way supply with a function of distant backup of relay protection and commutation devices of the substations connected to branches	The comparative analysis of known technical solutions in the area of distant backup of relay protection and commutation devices of the substations connected to branches was carried out, a report on patent studies was obtained. An algorithm for the function of distant backup as part of line phase-differential protection and its requirements, functional schemes, a project of choice method of distant backup function settings were developed.

Technical policy and regulatory and technical provision

Key projects of the Company implemented in 2016 with the use of innovative, advanced, progressive technical solutions, technologies, materials and equipment:

Item No.	Branch	Facility	Key technical parameters
1	Slavyansk Electric Grids	110 kV Slavyanskaya-Krasnoarmeyskaya OHL	Introduction of 7 polyhedral poles including 4 pieces of UM110-2v-22.8 type and 3 pieces of UM110-2f+16.9 type.
2	Krasnodar Electric Grids	110/35/10 kV Adygeyskaya SS	Introduction of 3 three-pole gas-insulated circuit breakers of tank type VEB-110-2500/40-UHL1 in the amount of 3 pieces.
3	Krasnodar Electric Grids	110/35/10 kV Adygeyskaya SS	Introduction of a current transformer (gas-insulated, remote, with 600-300-150/5 windings, for the windings of the accuracy class of 0.2s/0.5/10P/10P/10P with porcelain insulation) of TOGF-110 UHL1 type in the amount of 3 pieces.
4	Krasnodar, Sochi, Slavyansk Electric Grids	110 kV Sochi SS 110 kV Bytkha SS 110 kV Vishnevaya SS 110 kV Rodnikovaya SS 110 kV Myasokombinat SS 110 kV Pavlovskaya SS 110 kV IKEA SS 110 kV HBK SS 110 kV Zaboyskaya SS	Microprocessor local backup protection of power-transformer protection of PUMA type for 110 kV 8 SS. Independent backup protection of transformer is intended for the protection of 110/10 kV power transformers equipped with a circuit breaker or a breaker on the power supply side in case of a short circuit at a substation (SS) with a failure of commutation devices or relay protection following the loss of operational current at the SS or due to other reasons.
5	Krasnodar Electric Grids	110 kV KCHPP-Kislородny Zavod OHL	Replacement of uninsulated standard wire with heat-resistant wire of AST brand (AST-150/24 with 110 kV KCHPP-Kislородny Zavod OHL, AST-120/19 110 kV "Opt to North-East SS from KCHPP-SPTA, OBD OHL" OHL). The presence of Al-Zr alloy in the composition of wire (current conductors) allows to use it for a long time at temperature of up to 210 °C, the acceptability of OHL performance in case of overloading rising the conductor temperatures for more than 90°C.
6	South-Western Electric Grids	35 kV Dzhemete-Pionerskaya OHL	Replacement of uninsulated standard wire with high-temperature wire of ASPTk brand. Increase of transmission capacity in the normal operation mode and increase of reliability in the emergency mode. Reduction of the impact of wind and glaze phenomena on the wires. The working temperature is +150–180 °C.

Regulatory and technical documents developed by the Company in the field of technical regulation for the reporting year:

No.	Number of the document	Technical regulation area	Name
1	IPB-IA-128-12	Fire safety	Instruction on fire safety measures in the laboratory of chromatographic and chemical analysis of the central isolation and surge protection service
2	IPB-IA-128-12	Fire safety	Instruction on fire safety measures in archives of the executive office of Kubanenergo PJSC
3	P 132-2016	Metrology and electric power quality	Regulation on the metrological service of Kubanenergo PJSC
4	M 010 -2016	Metrology and electric power quality	Calibration methodology. Measuring channels of the operation and information complex of the dispatch control automated system of Kubanenergo PJSC
5	–	Organization of emergency recovery works	The rules for prevention and elimination of the consequences of accidents at the electric grid facilities of Kubanenergo PJSC
6	–	Operative and	Regulation on the technological cooperation of the Kuban RDO branch of

		process management and situational management	UES SO JSC and Kubanenergo PJSC
7	PK 063 - 2016	Operative and process management and situational management	Procedure for the transmission of operational information on technological failures (accidents), deviations from normal operation modes in the performance of electric grid facilities, changes of the operational scheme condition and accidents at the facilities of the power grid complex of the UES of Russia in the operation areas of Kubanenergo PJSC
8	I 046 - 2016	Operative and process management and situational management	Instruction on the prevention of development and the elimination of failures in normal operation mode in the electrical annex of Kubanenergo PJSC
9	STO 00104604-ISM 032 - 2016	Power transmission lines	Organization of the operation of distribution grids of 0.4–10 kV of Kubanenergo PJSC
10	R 039 - 2016	Design and construction	The regulation on formation, adjustment of the investment program and preparation of reporting on the implementation of the investment program, the increase of investment efficiency and expense reduction in Kubanenergo PJSC (new revision)
11	R 022 - 2016	Design and construction	The regulation on the implementation of the investment projects of Kubanenergo PJSC regarding the performance of design and survey works, the execution of initial permit documentation and the performance of construction and installation works
12	P 090-2016	Design and construction	Provision on the investment activities of Kubanenergo PJSC (new revision)
13	R 031 - 2016	The quality of customer service (including technological connection services)	The regulation on the performance of the function of consideration of customer applications in Kubanenergo PJSC
14	–	Safety	Minimum required organizational and technical requirements for the provision of information security of ATCS used for the functioning of the power grid complex
15	Pk 057 - 2016	Diagnostics and monitoring tools	The procedure for work performance on thermal imaging control of the electrical equipment of SS and OHL of 35–220 kV
16	M 009 2016	Test methods and diagnostics of the equipment of SS of 35 kV and above	The method of semi-quantitative determination of iron content in the distilled water intended for refill of rechargeable batteries
17	I 050 - 2016	Maintenance and repair	Instruction for pressure monitoring in sealed oil-filled bushings of 110 kV
18	–	Test methods and diagnostics of the equipment of SS of 35 kV and above	Methodological guidelines for the operation of high-voltage inputs with RIP insulation manufactured by “Massa”, “Izolyator” plant.
19	I 052 - 2016	Maintenance and repair	Instruction on the painting of the poles of overhead power lines
20	STO 00104604-ISM 037 - 2016	Maintenance and repair	Planning and performance of repair works, creation of the list of objects to include in the investment program part regarding technical re-equipment and renovation with account of the life cycle of products
21	R 109 2016	ETL	The regulation on the interaction of Kubanenergo PJSC with the tenant of the poles for the installation of communications provider equipment
22	M 008 2016	Energy management	Methods for calculating the cost of the energy audit of Kubanenergo PJSC
23	I 048 - 2016	Production control	Instruction determining the actions of employees in emergency cases in the process of the use of lifting constructions
24	R 116 2016	Emergency recovery works	The regulation for support of “Accident rate” software package in Kubanenergo PJSC
25	P 133 - 2016	Staff relations	The provision on planning and staffing Kubanenergo PJSC with production personnel for the use of constructed and reconstructed electric grid facilities
26	R 107 2016	Electricity metering and service	The regulation on approval of one-line connection schemes of customers’ electrical equipment to the electric grids of Kubanenergo PJSC for the

		development	purpose of registration (actualization) of supply point groups in the trading system of wholesale electricity and capacity market
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All documents were executed by Kubanenergo PJSC without attracting contractors or incremental costs.

The Scientific and Technical Committee of Kubanenergo PJSC

In order to take reasonable decisions aimed at the increase of electric grid complex functioning reliability and efficiency, the Scientific and Technical Committee is created in the Company and regulation on it is approved (Order of OJSC Kubanenergo No. 522 of 6/16/2014).

Scientific and Technical Committee includes the heads of the structural units governed by Deputy Technical Director General, Chief Engineer, as well as chiefs of the following departments:

- Corporate and Technological ACS;
- Capital Construction;
- Economy;
- Prospective Development;
- Service Sales and Electric Power Accounting;
- Energy Saving and Enhancement of Energy Efficiency.

Deputy Technical Director (Company Chief Engineer) is the Chairman of the Scientific and Technical Committee.

17 meetings of the Company Scientific and Technical Committee were held in 2016, the following issues were considered:

- on introduction of scientific and technical documents (STD) from the STD register in the area of technical regulation of PJSC ROSSETI and S&A of PJSC ROSSETI in the List of Power Grid STD valid in Kubanenergo PJSC.
- • on consideration of the “Comprehensive Development Program of Electric Grids of 35 kV and Above in the Territory of Krasnodar Krai and the Republic of Adygea for 2014–2019 with an Outlook Until 2024,
- on formation of R&D Program for 2017,
- on the implementation of innovative solutions under the project of “Reconstruction of 110 kV Tuapse-City SS”,
- on the consideration of the results of R&D stage 3 in general in the area of “Development of a software package for address recommendations and low-cost methods of decrease in technological losses in grids of 6–10 kV of regional electric grids of Kubanenergo PJSC”,
- on selection of APCS equipment supplier with regard to 220 kV Port SS,
- on consideration of R&D stage No. 1 in the area of “Power line phase-differential protector with two-way supply with a function of distant backup of relay protection and commutation devices of the substations connected to branches”,
- on consideration of the selection of technical solution of the implementation of software and hardware complex of information collection and transmission system as a part of Tuapse-City digital substation,
- on the consideration of the results of R&D stage No. 1 in the area of “Development of reflectometric monitoring complex of OH transmission lines of 35–220 kV for the detection of damaged areas and icing deposits on them”,
- on determination of the necessity and the completion procedure of R&D in the area of “Development and deployment of high-voltage current laser meter”,
- on the consideration of the results of R&D stage No. 7 and R&D in general in the area of “Creation of the unified, integrated, distributive and expanded diverse data account and storage system in the standardized form for accounting of maintenance and repair, actions of RPEA with reference to the graphic scheme of equipment arrangement”.

- on consideration of R&D stage No. 2 in the area of “Power line phase-differential protector with two-way supply with a function of distant backup of relay protection and commutation devices of the substations connected to branches”,
- on updating of the Register of Innovative Solutions of Kubanenergo PJSC,
- on the consideration of the results of R&D stage No. 2 in the area of “Development of reflectometric monitoring complex of OH transmission lines of 25–220 kV for the detection of damaged areas and icing deposits on them”,
- on the approval of equipment replacement within the project of “Organization of communication channels and data transmission with the use of “Krasnodar – Dinskaya – Korenovskaya, Tikhoretsk, Korenovskaya – Ust-Labinsk” FOCL,
- on updating of the Register of Innovative Solutions of Kubanenergo PJSC,
- on the selection of equipment manufacturer of software and hardware complex of information collection and transmission system for the substation of the project of “Reconstruction of 110 kV Tuapse-City SS”.

Results of Operating Activities

Electricity Transmission



Edgar Garriyevich Armaganyan
Deputy Director General
for Service Sales

“Transmission and distribution of electric power to customers through electric grids of 110 kV and less is the main activity of Kubanenergo PJSC. The share of power transmission services in the total revenue of the Company for the reporting year amounted to 94.1%.

In 2016 the Company achieved the planned key indicators for electric power transmission and distribution: the revenue growth for electric power transmission services was 2.02% of the planned amount, electric power supply to the grids increased by 3.18%, electric power losses in the process of transmission amounted to 12.96% which is lower than the planned level by 0.09 pp.

Following the results of the execution of energy service agreements, the benefit of 2016 amounted to 119.2 mln kWh, including reduction of losses equal to 66.9 mln kWh.”

Key Indicators

In 2016, there was an increase in power supply to the grid of Kubanenergo PJSC, as compared with the previous year, for 699.7 mln KWh (3.18%), which is due to an increase in customer demand for electricity in view of the active development of the region.

Results of the Company' production activity for 2014–2016:

Indicators	2014	2015	2016	Change of indicators in 2016 as compared to 2015
Supply to the grid, mln KWh	21,572.653	22,032.578	22,732.291	+699.713
Supply from the grid to customers and related territorial network organizations within the limits of the balance and operational responsibility, mln KWh	18,719.929	19,196.901	19,786.650	+589.749
Electric power losses in the process of transmission,				
mln kWh	2,852.724	2,835.676	2,945.641	+109.965
%	13.22	12.87	12.96	+ 0.09 pp
Volume of power transmission services rendered,				
mln kWh	17,082	17,457	18,059	+602
RUB mln	28,464	34,403	39,262	+4,859

Actual power losses in the electric grids of Kubanenergo PJSC for the reporting pyear amounted to 2,946 mln kWh or 12.96% of the total supply to the grid, which was for 109.97 mln kWh more than the indicator of 2015. The relative level of electricity losses in 2016 also increased by 0.09 pp compared to 2015. The target for “Electric Power Losses” rate was achieved.

Overall in 2016, the Company rendered power transmission services in the amount of 18,059 mln kWh, which was for 602 mln kWh or 3.45% more than in 2015.

Measures to Reduce Power Losses

Work to reduce power losses is one of the Company priority areas.

Following the results of 2016, the total benefit gained due to implementation of the measures aimed at the decrease in electricity losses in the process of transmission was equal to 120.2 mln kWh (RUB 495.0 mln), including due to:

- ✓ organizational measures: 47.3 mln kWh (RUB 208.3 mln);
- ✓ technical measures: 4.2 mln kWh (RUB 10.8 mln);
- ✓ improvement of electric power accounting: 68.7 mln kWh (RUB 276.1 mln).

This work is supposed to be continued.

Loss reduction measures of the program were fulfilled; the program target level of power losses was achieved.

Electric Power Fiscal Accounting

The following number of subscribers was registered in Kubanenergo PJSC as of 12/31/2016:

- 56,601 legal entities with a total of 100,035 electricity metering points;
- 1,031,665 domestic customers with a total of 1,031,665 metering points.

Whereas the plan was to upgrade 55.3 thou metering points in 2016 at planned costs of RUB 241.6 mln, over 27 thou metering points were actually upgraded, and the costs amounted to RUB 280.4 mln. Failure to fulfill the plan was due to the termination of 3 out of 18 energy service agreements, 2 out of 3 terminated agreements were renewed with other energy service companies at the end of 2016, works of the renewed agreements shall be performed in 2017.

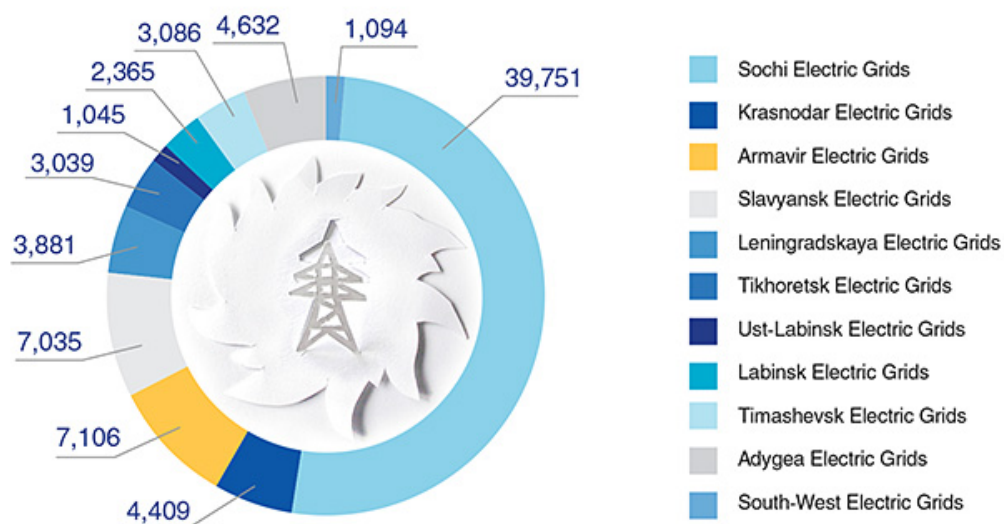
Implementing automated electric power control and accounting systems (AEPCAS)

In 2016, within the implementation of energy service agreements, the Company organized the remote data collection from 16,439 electric power metering points, whereas the automation plan was for 45,723 metering points. Failure to fulfill the plan was due to the termination of 3 energy service agreements.

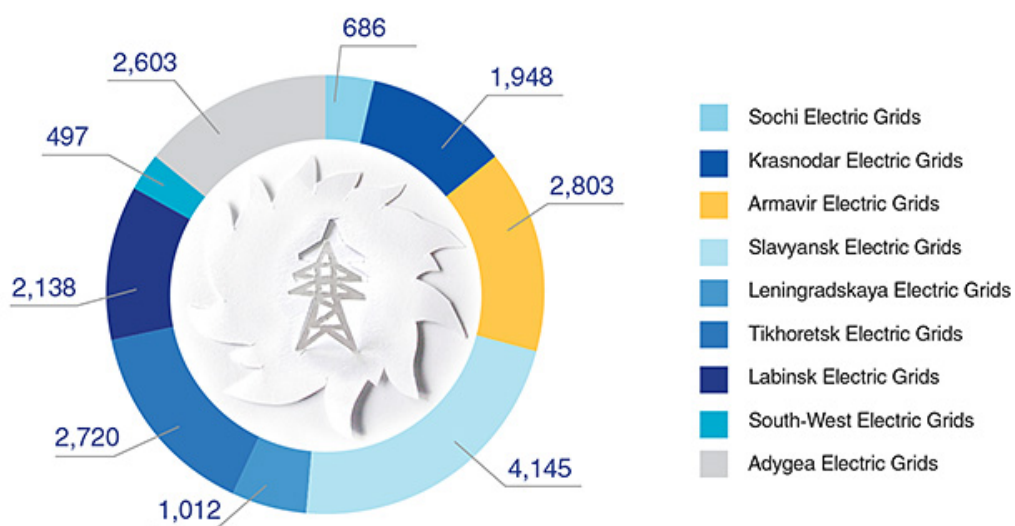
Besides, the Company investment program stipulated installation and automation of 2,148 metering devices in 2016; in fact 2,113 metering devices were installed and automated (failure to fulfill the plan was due to the termination of the power supply agreement between customers and the energy sales company).

The number of Company AEPCAS as of 12/31/2016 was 77,443 pcs (including within the framework of implementation of energy service agreements).

Total Number of AEPCAS, including those under Energy Service Agreements among Kubanenergo PJSC Branches as of 12/31/2016, pcs

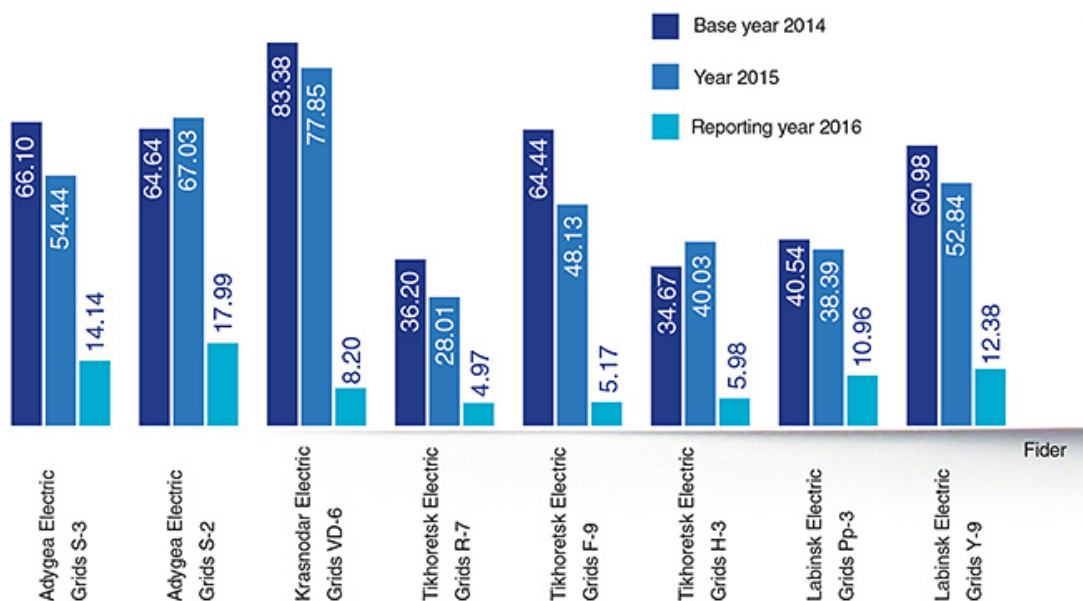


Accounting Systems Automated in 2016 under Energy Service Agreements among Kubanenergo PJSC Branches, pcs



AEPCAS implementation proved its efficiency in reducing electricity losses. In 2016, actual losses on feeders included in energy service agreements were reduced at the average to 11%.

Impact of AEPCAS Implementation in PJSC Kubanenergo Branches. Reduce of Losses on Feeders in Included PSC, %



In 2017, the Company plans to continue AEPCAS implementation under the energy service agreements. It is being planned to automate more than 28 thou Company metering points in general and to increase the number of AEPCAS to 110 thou pcs by the end of 2017 that shall amount to 9.71% of all electricity meters in the Company. Implementation of the energy service agreements allowed to reduce electric power losses by 66.9 mln KWh in the reporting year.

Technological Connection to Electric Grids of Kubanenergo PJSC



Vyacheslav Yuryevich Kostetskiy
Deputy Director General for Development
and Technological Connection

"In 2016, the Company fulfilled a good few of valid agreements for technological connection, which enabled to reduce the amount thereof by 40%, and to reduce the amount of expired agreements by 91%.

Actual revenues from the services for technological connection in the reporting period amounted to 105% of the target value."

Upcoming technological connection activities of Kubanenergo PJSC are aimed at supplying the demands of the growing economy of the Krasnodar Krai for energy facilities, transition to a unified scheme of formation and application of rates for technological connection and achieving of interests balance in determining the cost of technological connection of customers to electric grids.

In accordance with the current legislation, Kubanenergo PJSC does not refuse the connection to any applicants submitting appropriate applications.

Basic regulations governing the Company's activities for technological connection of power receivers (power plants) of legal entities and individuals to the electric grids of Kubanenergo PJSC⁴:

- Federal Law "On Electricity Production" No. 35-FZ of 3/26/2003;
- Rules for technological connection of power receivers of electricity customers, electricity production facilities, as well as electric grid facilities that belong to electric grid companies and other parties to electric grids (approved by Decree of the Government of the Russian Federation No. 861 of 12/27/2004);
- Decree of the Government of the Russian Federation "On Pricing in the Area of Controlled Prices (Tariffs) in Electric Power Industry" No. 1178 of 12/29/2011;
- Order of the Federal Tariff Service "On Approval of Guidelines for Determining the Amount of Payment for Technological Connection to Electric Grids" No. 209-e/1 of 9/11/2012.

Execution of Agreements on Technological Connection of Customers

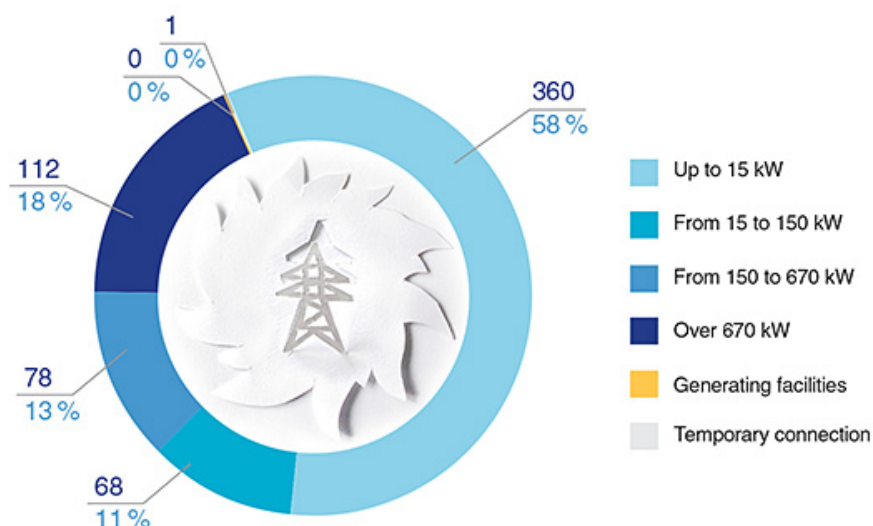
In the reporting year, the Company fulfilled 36,258 agreements for technological connection to electric grids of Kubanenergo PJSC. The total capacity under the fulfilled agreements for technological connection amounted to 618 MW which is less than the target (in MW) by 3.84%.

Connections in 2016 by customer categories, MW:

Connection Category	Number of Executed Agreements for Technological Connection	
	pcs	total capacity, MW
Up to 15 kW inclusive, total	34,890	359.58
<i>including individuals, up to 15 kW inclusive</i>	<i>29,417</i>	<i>301.98</i>
Over 15 and up to 150 kW inclusive	1,039	67.66
<i>including the applicants having 50% rebate</i>	<i>7</i>	<i>0.51</i>
<i>including the applicants having used the installment plan</i>	<i>2</i>	<i>0.17</i>
Over 150 kW and less than 670 kW	242	78.33
At least 670 kW	59	111.64
Electric power production facilities	0	0
Total amount, excluding temporary technological connections	36,230	617.21
Temporary connection	28	0.68
Total amount, including temporary technological connections	36,258	617.89

Structure of Kubanenergo PJSC Fulfilled Agreements for Connected Capacity, MW and %

⁴For the complete list of legal documents governing the technological connection process see the Company's website www.kubanenergo.ru, section "For Customers".



The largest and most important power facilities of the following applicants were connected to the electric grids of the Company in 2016:

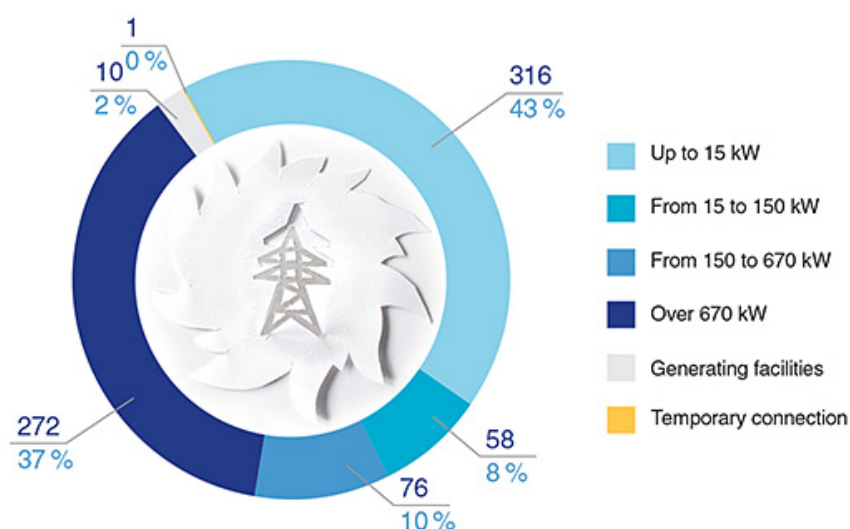
Applicant	Connected Capacity, MW
LLC IKEA MOS (Retail and Property)	10.0
LLC Gazprom Invest	8.7
CJSC Nemetskaya Derevnnya	5.0

Volume of Customer Demand for Technological Connection in 2016

In 2016, the Company entered into 30,059 agreements (with generation facilities) for technological connection to electric grids of Kubanenergo PJSC for the total capacity of 734 MW with the total value of RUB 5.301 billion, excluding VAT.

Connection Category	Number of Concluded Agreements for Technological Connection	
	pcs	total capacity, MW
Up to 15 kW inclusive, total	28,827	316.06
<i>including individuals, up to 15 kW inclusive</i>	24,147	264.39
Over 15 and up to 150 kW inclusive	886	57.99
<i>including the applicants having 50% rebate</i>	86	5.78
<i>including the applicants having used the installment plan</i>	3	0.34
Over 150 kW and less than 670 kW	231	76.26
At least 670 kW	76	272.41
Electric power production facilities	2	10.40
Total amount, excluding temporary technological connections	30,022	733.12
Temporary connection	37	0.70
Total amount, including temporary technological connections	30,059	733.82

Structure of Kubanenergo PJSC Agreements for Connected Capacity Signed in 2016, MW and %



Volume of Resulting Revenue and Collected Funds

The revenue from services for technological connection in 2016 amounted to RUB 2,381 mln (excluding VAT), which is 5% more than the target. This over-fulfillment of the revenue plan for technological connection services was due to the early fulfillment of obligations under the agreements for technological connections.

In the reporting year, the Company earned RUB 2,746 million from technological connection services, which is 31.8% less than planned. The main reasons for shortage of funds are termination and extension of technological connection agreements.

In 2017, the Company plans to earn revenues from technological connection services in the amount of RUB 764 million (excluding VAT). CJSC Tamanneftegas requiring grid connection in 2017 represents a big revenue source (RUB 118 mln (excluding VAT)).

Technological Connection of Generating Facilities

Item No.	Applicant	Connected Generation Facility	Requested capacity for technological connection of generating plants to supply power to the grid, voltage class	Effective date, price (excl. VAT) of the agreement for technological connection	Technological Connection Status as of the End of 2016
	LLC RN-Tuapse Oil Refinery (rights and obligations under the agreement transferred to Rosneft Oil Company on 9/5/2014)	Tuapse Oil Refinery	24 MW, 110 kV	4/1/2010, RUB 56,371.8 thou	In September 2013, a certificate was signed confirming the fulfillment of Stages I and II under specifications by the applicant and on examination of metering devices. Stage III under specifications is not fulfilled by the applicant.
	Kurganinsk Group Water Pipeline, North-East Water Managing Company	Power generators for sewage treatment facilities	1.0 MW, 10 kV	7/25/2013, RUB 32.0 thou	On 11/24/2015, Kubanenergo PJSC notified the applicant of the fulfillment of contractual obligations. On 1/13/2016, the Company and the Applicant signed an additional agreement on extension of the deadline for activities implementation up to 11/9/2017.

	OJSC Fanagoria Agro-Industrial Company	Mini-TPP with two gas-piston plants	2 MW, 10 kV	5/6/2015, RUB 1,076 thou	The agreement is under implementation. At 35 kV Fanagoria SS, it is necessary to provide for the reconstruction of high-voltage equipment and relay protection and automatic equipment (substation control center construction, external short-circuit protection, directional current protection, lockout devices preventing out-of-step generator operation, automatic reclosing, operative direct current cabinet installation at Fanagoria SS, Vyshestebliyevskaya SS, etc.).
	OJSC Gazprom Teploenergo	Block-modular gas-piston plant for the boiler station	5.844 MW, 6 kV.	4/17/2015, RUB 18,877 thou	The agreement is under implementation. The amount of RUB 6,663 thou (excluding VAT) was received. The scope of works includes: <ul style="list-style-type: none"> • design and construction of two 6 kV cable power lines (each 0.6 km); • installation of two 6 kV cells on busbar sections I and II of 6 kV gas turbine of 110 kV Tuapse SS, laying of four pipes 225 mm in diameter (0.8 km) by method of horizontal directional drilling.
	OJSC Verhnebakansky Cement Plant	Power plant of Verkhnebakansky Cement Plant	56.41 MW, 6 kV.	9/3/2015, RUB 93.25 thou	Full payment was received on 9/4/2015. The acceptance certificate for the fulfillment of Stage I under the specification was signed on 11/3/2016.
	JSC Tander	Power station for the storage of food and non-food products	2.4 MW, 10 kV	11/3/2016, RUB 1,377 thou	Full payment was received on 11/10/2016. Works for the construction of electric grid facilities to be made by the Company are not subject to the specifications. The agreement for technological connection will be implemented upon completion of the facility construction by the Applicant
	JSC Tander	Power station for the administrative and office building	8.0 MW, 6 kV	11/3/2016, RUB 4,590 thou	Full payment was received on 11/10/2016. Works for the construction of electric grid facilities to be made by the Company are not subject to the specifications. The agreement for technological connection will be implemented upon completion of the facility construction by the Applicant

Reliable and Effective Operation of Electrical Power Systems



Igor Nikolayevich Shishigin
Deputy Director General for Technical Issues —
Chief Engineer

"2016 was associated with adverse natural and climatic phenomena, such as:

- heavy precipitation in form of heavy rain, due to which flooding of territories and electric grid facilities occurred;
- high thunderstorm activity (average duration of thunder storms was 71.1 h, i. e. 22% more compared to 2015);
- two earthquakes with magnitude from 2.9 to 4.7 points were registered;

- excessive wind loads on ETL and substation equipment due to storms and hurricanes.

Despite the impact of adverse natural and climatic phenomena, Kubanenergo PJSC provided electricity to consumers in the Krasnodar Krai and the Republic of Adygea without long breaks.

At the year-end 2016, specific accident rate in electric grids of 6 kV and more decreased by 1.6% compared with the previous year (from 3.68 to 3.62 accidents / 1000 c.u.e.), while the under-supply of electricity decreased by 40.2% (from 6502.5 to 3889.6 thou kWh).

Accident rate decreased, in particular, due to:

- implementation of maintenance plans and target programs;
- implementation of equipment renovation programs;
- compliance with industrial safety requirements for the operation of hazardous production facilities;
- effective cooperation with Rostekhnadzor;
- technical verification of equipment for substations, power transmission lines, buildings and structures;
- implementation of a set of measures to ensure maximum readiness in the event of emergency situations;
- staff development;
- improvement of quality of accident investigation.

For successful passage of 2016/2017 autumn and winter period, 730 events were scheduled, all events were completed. In the period from September 15 to September 23, 2016, commission inspections of the readiness of branches of Kubanenergo PJSC to work in the autumn and winter period were held. All branches of Kubanenergo PJSC received certificates of readiness for work in the 2016/2017 autumn and winter period. The Commission of the Ministry of Energy of the Russian Federation issued on 9/27/2016 certificate of readiness to Kubanenergo PJSC for work in the 2016–2017 heating season No. 08-2016."

Ensuring Quality, Reliable and Uninterrupted Electric Power Supply to Customers

In order to ensure the reliability, quality and uninterrupted power supply to customers, the Company annually generates and fulfills a program of technical re-equipment, reconstruction, repair and maintenance of power facilities. Also, the Company takes measures aimed at ensuring reliable and accident-free work of its electric grids during flood seasons, periods of extreme high and low outside temperatures, lightning storm seasons, fire hazardous and fall-winter periods.

In 2016, Kubanenergo PJSC generally fulfilled the primary goal of its production activity, i. e. maintenance of sufficient functioning reliability level for the electric grid equipment.

In order to prevent fires and ignitions at the Company facilities, Order No. 169 of 3/1/2016 "On Preparation for Successful Passage of 2016 Fire Hazardous Period at Kubanenergo PJSC Facilities" was issued, all measures scheduled by the order were completed:

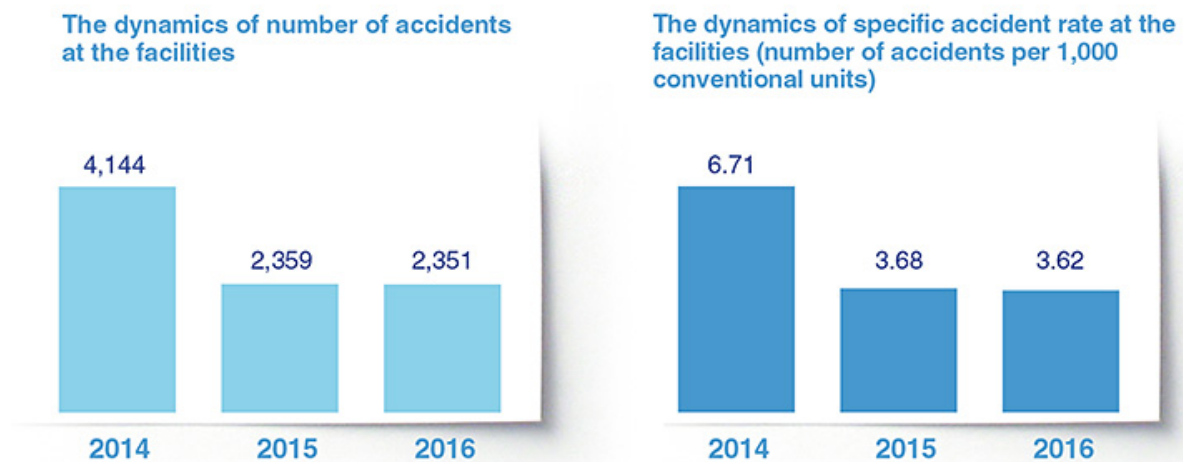
- 610 fire fighting training sessions were conducted;
- 36 joint fire fighting training sessions with participation of territorial fire unit of EMERCOM of Russia were conducted;
- 52 regulations (agreements) for operational interaction with territorial units of EMERCOM of Russia, traffic inspectorates, forestry authorities, local administrations, etc.) were executed;

No fires or ignitions at the Company's facilities or emergency outages of power grid equipment as a result of fire effect in the reporting year were recorded.

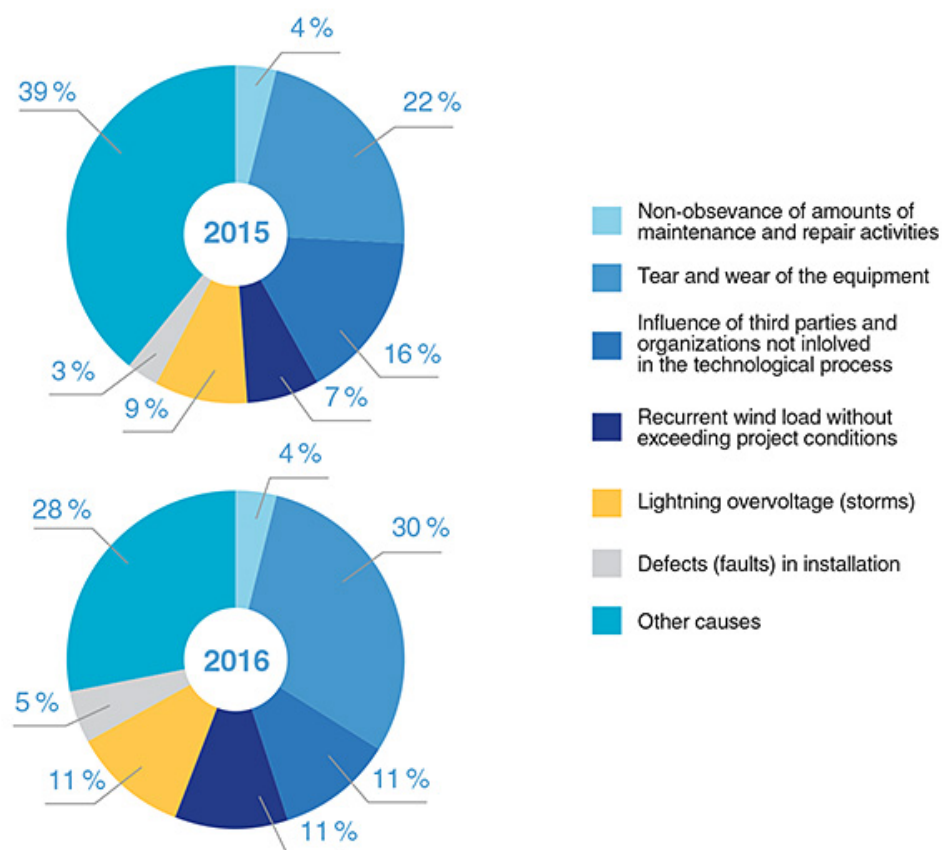
In order to ensure reliable operation of power grid facilities in the thunderstorm period, Kubanenergo PJSC issued Order No. 133 of 2/19/2016 "On Preparation for Successful Passage of 2016 Thunderstorm Period", the measures specified therein were fulfilled in time:

- engineering inspections of all substations, fuel and lubricant storages, oil facilities, and antenna-mast constructions were carried out, in particular for:
 - ✓ compliance of lightning protection with design solutions and regulatory requirements;
 - ✓ condition of stand-alone and portal lightning rods and their earthing in accordance with the design;
 - ✓ condition of earthing devices for electrical equipment of substations;
 - ✓ condition of insulation;
- reconciliation of trip recorder readings for valve-type lightning arresters and surge arresters with the last entries in the operating log or in the response log was verified;
- conductivity of surge arresters was measured without disconnection from the grid and thermal imaging control of equipment was carried out;
- preparedness of emergency recorders, fixing devices, oscilloscopes and other devices for localization of faults on overhead lines installed at the substation was ensured;
- selective engineering inspections of sections of overhead lines were carried out, in particular:
 - ✓ for earthing of ground wires in design points;
 - ✓ condition of contacts of ground wire connections with the support body;
 - ✓ condition of earthing devices for supports and anchor stays, with selective breakup of the ground;
 - ✓ condition of insulation;
- sufficiency of emergency reserve for lightning arresters and surge arresters was verified both in terms of quantity and range;
- recording of readings of lightning arrester and surge arrester trip recorders was arranged with entering into the operating log or the response log after each thunderstorm;
- recording of all ETL and substation equipment outages and faults under lightning overvoltages was arranged to assess reliability of the surge protection for switchgears and transmission lines.

In addition to the main measures to ensure reliable operation of the Company's power grid facilities, a number of additional measures was carried out.



The main causes of accidents for 2015–2016:



The main measures carried out in 2016 were aimed at:

- maintenance of the regulatory state of production assets, i. e. power transmission lines, substation equipment, relay protection and automation devices;
- timely detection and remedy of defects based on electrical equipment diagnostic results;
- improvement of lightning resistance of electrical equipment;
- development of an automated information system to monitor ice formation on the overhead line;
- ensuring preparedness for the prevention and elimination of process upsets:
 - ✓ agreements with contractors and associated power grid operators as well as EMERCOM of Russia and Roshydromet, have been extended;
 - ✓ 22 mobile brigades (129 people, 50 vehicles) have been established;
 - ✓ emergency reserve of the Company has been completed by 100%;
 - ✓ operating capacity of the existing 105 diesel generator units has been tested.

The implementation of these measures made it possible to reduce the number of process upsets occurring due to emergency shutdowns by 17.5%. There was also a decrease in the electrical energy under-supply and economic damage.

All measures instructed by the Federal Environmental, Industrial and Nuclear Supervision Service to be implemented in 2016 have been fulfilled and control thereof was discontinued.

In order to ensure reliable operation of the power grid complex in the event of loss of supply to consumers and other abnormal situations associated with the loss of supply to consumers, the Company's Command Unit is permanently operating. Representatives of the Company's Command Unit participate on a regular basis in the operations to ensure security of power supply in the Krasnodar Krai and the Republic of Adygea.

For the successful passage of the 2016/2017 autumn and winter period, all scheduled activities were fulfilled, branches of Kubanenergo PJSC obtained in advance certificates of

readiness for work in this period. The Commission of the Ministry of Energy of the Russian Federation issued on 9/27/2016 the certificate of readiness to Kubanenergo PJSC for work in the 2016–2017 heating season.

Repair-Operating Activities

The Company draws up and carries out on an annual basis a repair program that takes into account the following parameters:

- standard frequency of complete overhauls, medium repairs and running repairs of power equipment;
- technical condition of facilities;
- results of routine checks;
- need to comply with the instructions of supervisory agencies;
- mitigation of failures;
- economic feasibility and effectiveness of power grid operation.

The 2016 repairs program included:

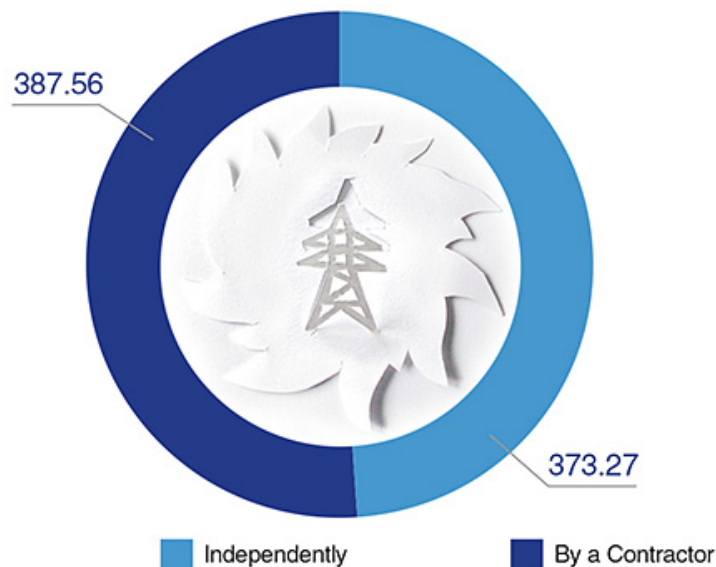
- repairs of the electricity transmission lines, substations, power equipment, devices of relay protection and emergency automation, metering instruments and systems, measuring instruments, dispatcher and production equipment, mechanization means and vehicles, as well as buildings and fittings, computers and office equipment;
- compliance with the instructions of supervisory agencies;
- implementation of target programs, including work on energy conservation, improving operational reliability of power equipment and overhead lines, preparing for the storm season, ensuring reliable operations during flooding, preparing the Company for operations during the autumn and winter period.

The repair program for the reporting year was implemented in respect of all disciplines for the total amount of RUB 715.21 million, i. e. 2% more than the target.

Basic program implementation parameters runtime over 2014 to 2017:

Description of works	2014	2015	2016	2017
Overhead line overhaul, km	2,614.7	2,706.4	2,742.5	2,702.3
Overhead line route clearance, ha	730.2	852.8	826.7	935.6
Overhaul of transformers and autotransformers, pcs	549	589	584	459
Overhaul of switching devices, pcs	2,221	2,457	2,197	2,268
Repair campaign, RUB mln	818.9	713.5	715.21	760.83

The scope of repairs planned for 2017 amounts to RUB 760.83 mln, in particular by the implementation methods, RUB mln:



A set of measures scheduled for 2017 is sufficient to ensure reliable power supply to electric power consumers of Kubanenergo PJSC.

Energy Conservation and Improvement of Energy Efficiency

In the reporting year, all work related to energy conservation and increasing energy efficiency was carried out by the Company in accordance with:

- Federal Law of the Russian Federation No. 261-FZ of 11/23/2009 “On Energy Conservation and Increasing Energy Efficiency and Amending Certain Legislative Acts of the Russian Federation”;
- Decree of the Government of the Russian Federation “On Procedure for Establishing Requirements for Programs in the Field of Energy Conservation and Improvement of Energy Efficiency of Organizations Engaged in Regulated Activities” No. 340 of May 15, 2010;
- Decree of the Government of the Russian Federation “On Investment Programs of Electric Power Industry Subjects” No. 977 of 12/1/2009 (as amended);
- Order of REC-PTD KT “On Approval of Requirements for Programs in the Field of Energy Conservation and Energy Efficiency of Organizations Engaged in Regulated Activities in the Krasnodar Krai” No. 5/2011 of 3/31/2011;
- Law of the Krasnodar Krai “On Energy Saving and Energy Efficiency Improvements in the Krasnodar Krai” No. 1912-KZ of 3/3/2010;
- Order of the Ministry of Energy of the Russian Federation “On Approval of Requirements to Program for Energy Conservation and Improvement of Energy Efficiency of Organizations with the Participation of the State and Municipality, Organizations Engaged in Regulated Activities” No. 398 of 6/30/2014;
- Regulation on Development of Programs for Energy Conservation and Improvement of Energy Efficiency of Subsidiaries and Affiliates of PJSC ROSSETI (approved by the Board of Directors of PJSC Rosseti, Minutes No. 156 of 4/29/2014),
- Program for Energy Conservation and Improvement of Energy Efficiency of Kubanenergo PJSC for 2016 to 2020 approved by the Board of Directors on 4/22/2016 (Minutes No. 235/2016) (the “Program”).

In order to ensure the implementation of the Program, Kubanenergo PJSC appointed persons in charge of the organization and supervision of its execution and established special working groups.

Kubanenergo PJSC obtained certificates of conformity to ISO 50001:2011

(GOST R ISO 50001-2012 “Energy management systems. Requirements with guidance for use”) No. 15.1552.026 of 12/28/2015.

In 2016, the Company conducted training on the following topics:

Subject of training	Number of trained persons
Energy efficiency and energy conservation when designing power grid complex	2
Energy conservation and energy efficiency (within the scope of development program for power operators' engineers as part of the course “School for Specialists in Development and Sales of Services”)	27

The Program target indicators include power losses during power transmission and distribution, energy consumption for industrial and economic needs of the Company.

Estimated and actual target values of the Program for 2016:

Item No.	Indicator	Units of Measurement	2016	
			Estimated	Actual
1	Electric power losses	mln kWh	2,889.14	2,945.64
		RUB mln, excluding VAT	7,296.91	7,445.89
		% of supply to grid	13.26 ⁵	12.96
2	Consumption for own needs of substations	mln kWh	17.12	16.60
3	Consumption of power resources for economic needs of administrative and industrial buildings, including:	RUB mln, excluding VAT	89.09	109.16
		kilotons of fuel equivalent	4.59	4.91
3.1.	electric energy	mln kWh	31.54	33.54
		kilotons of fuel equivalent	3.78	4.02
		RUB mln, excluding VAT	78.38	99.43
3.2.	thermal energy (heating systems in buildings)	Gcal	4,522.43	5,088.89
		kilotons of fuel equivalent	0.65	0.73
		RUB mln, excluding VAT	9.58	8.93
3.3.	natural gas (including liquefied gas)	thou m ³	139.46	141.39
		kilotons of fuel equivalent	0.16	0.16
		RUB mln, excluding VAT	1.12	0.80
3.4.	other energy resources (coal, fuel oil, diesel fuel, kerosene, etc.)	thou m ³	-	-
		thou l	-	-
		thou t	-	-
		kilotons of fuel equivalent	-	-
		RUB mln, excluding VAT	-	-
4.	Consumption of natural resources for economic needs of administrative and industrial buildings, including:	RUB mln, excluding VAT	2.96	4.60

⁵ The indicator is specified only for the purpose of the Program for Energy Conservation and Improvement of Energy Efficiency of the Company.

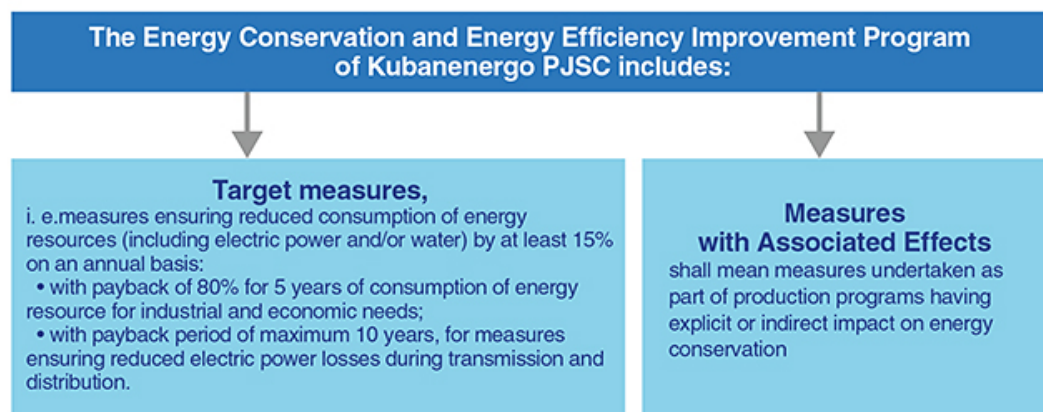
		thou m ³	79.74	131.63
4.1	<i>hot water supply</i>	thou m ³	0.24	-
		RUB mln, excluding VAT	0.24	-
4.2	<i>cold water supply</i>	thou m ³	79.50	131.63
		RUB mln, excluding VAT	2.72	4.60
4.3	<i>other types of natural resources</i>	thou m ³	-	-
		thou l	-	-
		thou t	-	-
		RUB mln, excluding VAT	-	-
5	Motor fuel consumption of vehicles and special machinery, including:	thou l	6,509.29	9,057.51
		kilotons of fuel equivalent	7.56	10.61
		RUB mln, excluding VAT	218.34	287.84
5.1.	<i>petrol, incl:</i>	thou l	4,643.80	5,525.66
		kilotons of fuel equivalent	5.26	6.26
		RUB mln, excluding VAT	161.38	182.03
5.1.1.	<i>vehicles</i>	thou l	4,643.80	5,525.66
		kilotons of fuel equivalent	5.26	6.26
		RUB mln, excluding VAT	161.38	182.03
5.1.2.	<i>special machinery</i>	thou l	-	-
		kilotons of fuel equivalent	-	-
		RUB mln, excluding VAT	-	-
		thou l/100 km	-	-
		thou l/in-service hour	-	-
5.2.	<i>diesel fuel, incl.:</i>	thou l	1,865.49	3,531.85
		kilotons of fuel equivalent	2.30	4.35
		RUB mln, excluding VAT	56.96	105.81
5.1.2.	<i>vehicles</i>	thou l	1,865.49	3,531.85
		kilotons of fuel equivalent	2.30	4.35
		RUB mln, excluding VAT	56.96	105.81
		thou l/100 km	-	-
5.2.2.	<i>special machinery</i>	thou l	-	-
		kilotons of fuel equivalent	-	-
		RUB mln, excluding VAT	-	-
5.3.	<i>Other types of fuel for vehicles and special machinery, total, including:</i>	kilotons of fuel equivalent	0.01	0.00
		RUB mln, excluding VAT	0.12	0.04
5.3.1	<i>natural gas (including liquefied gas)</i>	thou l	7.03	2.33
		kilotons of fuel equivalent	0.01	0.00
		RUB mln, excluding VAT	0.12	0.04
5.3.2	<i>electric energy</i>	mln kWh	-	-

	kilotons of fuel equivalent	-	-
	RUB mln, excluding VAT	-	-

Increased consumption of energy resources for industrial and economic needs was associated with the following objective reasons:

- As part of the measures to improve reliability of power supply in the Kuban, the area of administrative and industrial buildings has been increased by 12,000 m²;
- 25 vehicles and special machines were purchased for the purpose of the work in remote territories, including associated S&As, to increase share of repair work at distribution grid facilities carried out on an in-house basis, and to increase the number of raids to detect unaccounted electricity consumption.

The aforesaid facts resulted in an increase in energy consumption, while reducing consumption in specific values: electric energy per 1 m² of area — by 4.68%, thermal energy — by 5.32%, natural gas — by 5%, motor fuel per 1 km run — by 4.46%.



Implementation of the plan with respect to target and associated measures to reduce electric power losses in the reporting year

Description	Effects in kind, (mln kWh),		Economic effect, RUB mln		Costs for measures, RUB mln	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
Target measures	31.01	47.89	118.64	209.57	93.56	98.00
Associated measures	59.79	72.34	333.68	285.47	0	0
TOTAL	90.80	120.23	452.32	495.04	93.56	98.00

Basic target measures to reduce electric power losses implemented in 2016

Description	Effects in kind, (mln kWh),	Economic effect, RUB mln	Costs for measures, RUB mln
	Actual	Actual	Actual
Raids to detect unaccounted consumption	30.69	151.24	66.33
Raids to detect non-contractual consumption	12.09	45.09	24.92
Phase load equalization in distribution grids for 0.38 kV	2.01	5.31	5.48
Bringing grid area voltage to the rated value	0.55	1.38	0.49
Shutdown of transformers in light-load conditions at	1.56	3.96	0.52

substations with 2 or more transformers			
Shutdown of transformers at substations with season-based load	0.99	2.59	0.26

At the year end 2016, total effect from implementation of the target measures amounted to 47.89 mln kWh, or RUB 209.57 mln in monetary terms. Effect from the implementation of the “associated” measures amounted to 72.34 mln kWh for the amount of RUB 285.47 mln. *Total effect amounted to 120.2 mln kWh for the amount of RUB 495.04 mln.*

The costs for implementation of the measure amounted to RUB 98.0 mln.

Implementation of planned target and associated measures ensuring reduced consumption of resources for economic needs in the reporting period:

Description	Effects in kind				Economic effect, RUB mln		Costs for measures, RUB mln	
	Estimated		Actual		Estimated	Actual	Estimated	Actual
	kilotons of fuel equivalent	thou t	kilotons of fuel equivalent	thou t				
Target measures	-		-		-	-	-	-
Associated measures	0.058	300	0.051	634	1.47	1.29	-	-
TOTAL	-	300	-	634	1.47	1.29	-	-

Tariff Policy and Tariffs for Company Services

Company Tariff Policy

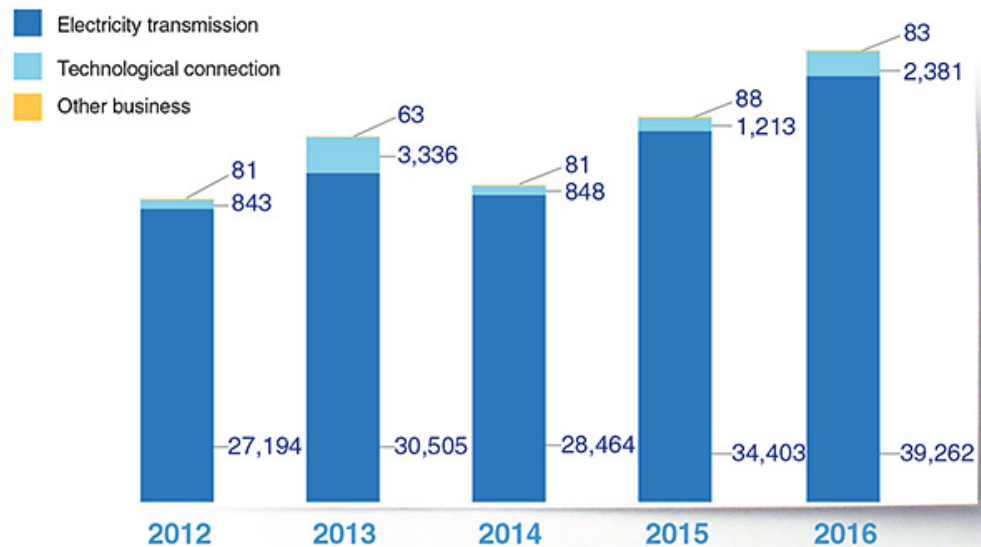
The prices (tariffs) of the Company’s services for electric power transmission and technological connections are regulated by the state and fixed by REC PTD KT orders. For the Krasnodar Krai and the Republic of Adygea where the Company operates, the uniform tariffs are set for each group of electric power customers.

Fundamental regulatory legal acts governing relations in the fields of establishing regulated tariffs and their application are:

- Federal Law No. 35-FZ of 3/26/2003 “On Electricity Production” (as amended);
- Decree of the Government of the Russian Federation No. 1178 of 12/29/2011 “On Pricing in the Area of Controlled Prices (Tariffs) in Electric Power Industry” (as amended);
- Orders of the Federal Tariff Service of Russia:
 - ✓ “On Approval of Methodological Guidelines for Regulation of Tariffs Using the Method of Return on Invested Capital” No. 228-e of 3/30/2012;
 - ✓ “On Approval of the Methodological Guidelines for the Calculation of Regulated Tariffs and Prices for Electricity (Thermal) Energy in the Retail (Consumer) Market” No. 20-e/2 of 8/6/2004;
 - ✓ “On Approval of Guidelines for Determining the Amount of Payment for Technological Connection to Electric Grids” No. 209-e/1 of 9/11/2012.

Tariffs for Electric Power Transmission Services

Dynamics of the Revenues of Kubanenergo PJSC in 2012–2016 (RUB mln):



Based on results of 2016, the actual revenue for electric power transmission services (minus the cost of loading losses) amounted to RUB 39,262 mln (excluding VAT), which is 14% more than in 2015.

Changes in actual revenues from the electricity supply services in 2016 compared with 2015 were associated with increase in the net electricity supply by 602 mln kWh, or 3%, and increase in straight-line tariffs for transmission services to “other customers” approved by REC-PTD KT by 14.5% in the second half of 2016 compared with the first half of 2016 based on decision of the FAS of Russia No. SP/9795/16 of 2/18/2016 with respect to the pretrial resolution of the dispute related to unpaid expenses for the purchase of electric power for the purpose of compensating for the losses in the grids of Kubanenergo PJSC in 2015.

In relation to Kubanenergo PJSC, starting from 1/1/2011 (taking into account the “reset” of long-term control parameters in 2012), a method of long-term tariff regulation is applied, the RAB (Regulatory Asset Base) method.

Starting from 2007, the region has been applying a “boiler” method of payment for electric power transmission: a single boiler rate applies to all customers of electric power transmission services in Kuban and Adygea belonging to the same tariff group, regardless of the grid and the grid company the customers are connected to.

The basic tariff negotiated model used for payments is the “boiler above” model:

Kubanenergo PJSC has the status of the “boiler holder” that means the higher grid company. This model stipulates that customer payments for electric power transmission services received (regardless of the grid and the grid company the customers are connected to) are transferred to Kubanenergo PJSC, after which the Company pays the subordinate organizations, to the grids of which the power devices of customers are connected, under individual tariffs.

In addition, starting from 9/22/2011, the individual scheme of “boiler below” has been applied for LLC Maykopskaya CHP:

Under this system, power transmission payments received from customers connected to LLC Maykopskaya CHP are made in accordance with the single boiler tariff to this organization, which pays for the use of the grids of Kubanenergo PJSC for rendering power transmission services under a separate tariff.

The following tariffs were established for 2016 for LLC Maykopskaya CHP pursuant to Order of REC-PTD KT No. 92/2015-e of 12/31/2015:

LLC Maykopskaya CHP — Kubanenergo PJSC	Two-part tariff		Straight-line tariff
	Electric grid maintenance rate	Rate for the payment of technological consumption (losses)	

	from 1/1/2016 to 6/30/2016		
	177,692.99 RUB/MW*month	599.04 RUB/MW*month	1.37376 RUB/kWh
	from 7/1/2016 to 12/31/2016		
	195,593.56 RUB/MW*month	565.40 RUB/MW*month	1.41817 RUB/kWh

Common boiler tariffs for the Company's electricity transmission services were established for 2016 pursuant to Order of REC-PTD KT No. 94/2015-e⁶ of 12/31/2015:

1. For Other customers:

Item No.	Tariff Groups of Electric Power (Capacity) Customers	Units of Measurement	Range of Voltage			
			High Voltage (110 kV and Higher)	Medium Voltage I (35 kV)	Medium Voltage II (1–20 kV)	Low Voltage
1	Other customers (tariffs are specified excluding VAT)		first half of 2016			
1.1	Two-part tariff					
1.1.1	– rate for maintenance of electric grids	RUB/MW*month	962,516.33	651,614.01	762,111.09	1,167,198.14
1.1.2	– rate for the payment of technological consumption (losses) in the electric grids	RUB/MWh	88.46	154.47	372.24	1,082.60
1.2	Straight-line tariff	RUB/kWh	1.52882	1.78056	2.75914	3.66388
2	Other customers (tariffs are specified excluding VAT)		second half of 2016			
2.1	Two-part tariff					
2.1.2	– rate for maintenance of electric grids	RUB/MW*month	1,122,452.19	756,781.47	882,134.68	1,405,091.80
2.1.2	– rate for the payment of technological consumption (losses) in the electric grids	RUB/MWh	88.46	154.47	372.24	1,082.60
2.2	Straight-line tariff	RUB/kWh	1.75095	2.03931	3.16018	4.19357

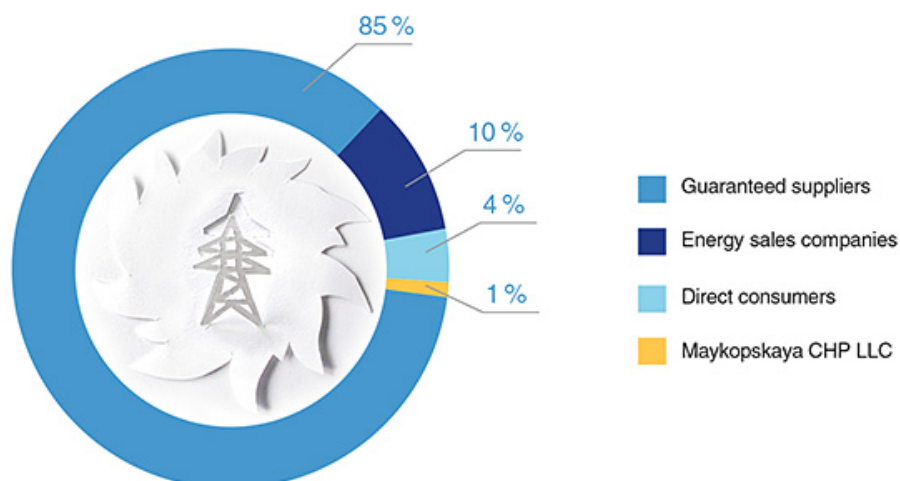
2. Population and customers equivalent for the population:

Item No.	Tariff Groups of Electric Power (Capacity) Customers	Units of Measurement	first half of 2016	second half of 2016
1.	Population and customers equivalent to the population (tariffs are specified excluding VAT)			
1.1	Population and customers equivalent to the population, except for those in paragraphs 1.2 and 1.3: providers of public services (homeowners association, homebuilding, housing or other specialized customer cooperatives or managing authority) acquiring electric power (capacity) for the provision of public services to owners and users of accommodation facilities and for the maintenance of common property in apartment buildings; renter (or their authorized persons) providing citizens with accommodation facilities of specialized housing funds, including accommodation facilities in dormitories, accommodation facilities of temporary public housing, accommodation facilities in social service buildings, accommodation facilities for temporary settlement of forced migrants, accommodation facilities for temporary settlement of citizens recognized as a refugees, as well as accommodation facilities for social protection of certain categories of citizens, acquiring electric power (capacity) for the provision of public services to users of such accommodation facilities in the amount of the electric power supplied to the citizens and for the maintenance of common property in apartment buildings which have accommodation facilities of specialized housing funds; legal entities and individuals acquiring electric power (capacity) for public living needs in settlements and residential areas with military units and paying under the power supply agreement upon readings of a common power metering device. Default providers, power supply companies, energy-supplying organizations, acquiring electric power (capacity) for			

⁶ With due account for changes made by Orders No. 1/2006-e of 1/13/2016, No. 3/2016-e of 1/20/2016, No. 4/2016-e of 1/27/2016, No. 8/2016-e of 2/3/2016, No. 10/2016-e of 2/24/2016, and No. 24/2016-e of 6/29/2016.

	further sales to citizens and customers equivalent to the categories specified in this paragraph.			
	Straight-line tariff (including the tariff differentiated by two and three day zones)	RUB/kWh	2.52180	2.40405
1.2	Population living in urban areas in homes duly equipped with stationary electric stove and/or electric heaters and customers equivalent to the population: providers of public services (homeowners association, homebuilding, housing or other specialized customer cooperatives or managing authority) acquiring electric power (capacity) for the provision of public services to owners and users of accommodation facilities and for the maintenance of common property in apartment buildings; renter (or their authorized persons) providing citizens with accommodation facilities of specialized housing funds, including accommodation facilities in dormitories, accommodation facilities of temporary public housing, accommodation facilities in social service buildings, accommodation facilities for temporary settlement of forced migrants, accommodation facilities for temporary settlement of citizens recognized as a refugees, as well as accommodation facilities for social protection of certain categories of citizens, acquiring electric power (capacity) for the provision of public services to users of such accommodation facilities in the amount of the electric power supplied to the citizens and for the maintenance of common property in apartment buildings which have accommodation facilities of specialized housing funds; legal entities and individuals acquiring electric power (capacity) for public living needs in settlements and residential areas with military units and paying under the power supply agreement upon readings of a common power metering device. Default providers, power supply companies, energy-supplying organizations, acquiring electric power (capacity) for further sales to citizens and customers equivalent to the categories specified in this paragraph.			
	Straight-line tariff (including the tariff differentiated by two and three day zones)	RUB/kWh	1.47095	1.31931
1.3	Population living in rural areas and customers equivalent to the population: providers of public services (homeowners association, homebuilding, housing or other specialized customer cooperatives or managing authority) acquiring electric power (capacity) for the provision of public services to owners and users of accommodation facilities and for the maintenance of common property in apartment buildings; renter (or their authorized persons) providing citizens with accommodation facilities of specialized housing funds, including accommodation facilities in dormitories, accommodation facilities of temporary public housing, accommodation facilities in social service buildings, accommodation facilities for temporary settlement of forced migrants, accommodation facilities for temporary settlement of citizens recognized as a refugees, as well as accommodation facilities for social protection of certain categories of citizens, acquiring electric power (capacity) for the provision of public services to users of such accommodation facilities in the amount of the electric power supplied to the citizens and for the maintenance of common property in apartment buildings which have accommodation facilities of specialized housing funds; legal entities and individuals acquiring electric power (capacity) for public living needs in settlements and residential areas with military units and paying under the power supply agreement upon readings of a common power metering device. Default providers, power supply companies, energy-supplying organizations, acquiring electric power (capacity) for further sales to citizens and customers equivalent to the categories specified in this paragraph.			
	Straight-line tariff (including the tariff differentiated by two and three day zones)	RUB/kWh	1.47095	1.31931
1.4	Customers equivalent to the population, except for those in Paragraph 71(1) Pricing Basics:			
1.4.1	Horticultural, market-gardening or dacha non-commercial associations of citizens, i. e. non-commercial organizations established by citizens on a voluntary basis in order to assist its members in achieving common social-economic targets of horticultural, market-gardening or dacha activities. Default providers, power supply companies, energy-supplying organizations, acquiring electric power (capacity) for further sales to customers' categories equivalent to the population specified in this paragraph.			
	Straight-line tariff (including the tariff differentiated by two and three day zones)	RUB/kWh	2.52180	2.40405
1.4.2	Legal entities acquiring electric power (capacity) for convicted persons consumption in detention facilities subject to the availability of separate electricity metering for these facilities. Default providers, power supply companies, energy-supplying organizations, acquiring electric power (capacity) for further sales to customers' categories equivalent to the population specified in this paragraph.			
	Straight-line tariff (including the tariff differentiated by two and three day zones)	RUB/kWh	2.52180	2.40405
1.4.3	Congregates-sponsored religious organizations. Default providers, power supply companies, energy-supplying organizations, acquiring electric power (capacity) for further sales to customers' categories equivalent to the population specified in this paragraph.			
	Straight-line tariff (including the tariff differentiated by two and three day zones)	RUB/kWh	2.52180	2.40405
1.4.4	Associations of citizens acquiring electric power (capacity) for use in household building (cold cellars sheds): non-commercial associations of citizens (garage-building and garage co-operatives) and citizens owning detached garages acquiring electric power (capacity) for public living needs not related with commercial activities. Default providers, power supply companies, energy-supplying organizations, acquiring electric power (capacity) for further sales to customers' categories equivalent to the population specified in this paragraph.			
	Straight-line tariff (including the tariff differentiated by two and three day zones)	RUB/kWh	2.52180	2.40405

Structure of revenues of Kubanenergo PJSC for electric power transmission services rendered by groups of counterparties in 2016 (%):



Analysis of changes in the average tariff for electric power transmission services rendered by Kubanenergo PJSC approved by REC-PTD KT

Indicator	2011	2012	2013	2014	2015	2016
Average Tariff, kop/kWh	185.07	183.68	193.56	174.97	201.34	235.60
Growth Rate, %		-0.8	5.38	-9,60	15.07	17.02

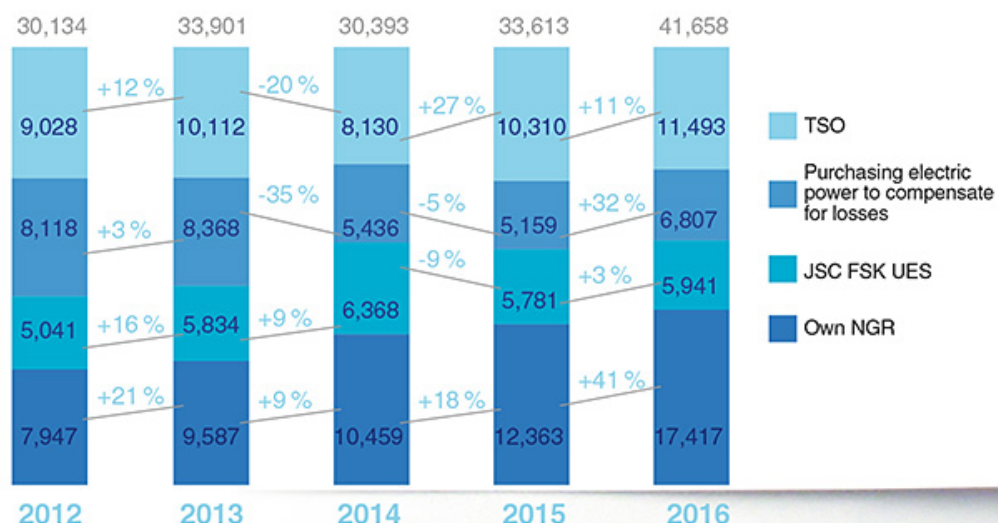
As compared with 2015, the average tariff for electric power transmission services rendered by Kubanenergo PJSC increased by **17.02%** in 2016.

Changes in the necessary gross proceeds (NGP) of Kubanenergo PJSC, (RUB mln)

2012		2013		2014		2015		2016	
Boiler NGP	Boiler NGP of Kubanenergo PJSC	Boiler NGP	Boiler NGP of Kubanenergo PJSC	Boiler NGP	Boiler NGP of Kubanenergo PJSC	Boiler NGP	Boiler NGP of Kubanenergo PJSC	Boiler NGP	Boiler NGP of Kubanenergo PJSC
30,134	7,947	33,901	9,587	30,393	10,459	33,613	12,363	41,658	17,417

According to the tariff decision of REC PTD KT, the amount of the required “boiler” gross proceeds for the transmission services of Kubanenergo PJSC in 2016 amounted to RUB 41,658 mln, including for own maintenance of RUB 17,417 mln.

Dynamics of the structure of NGP for electric power transmission of Kubanenergo PJSC (RUB mln)



For the information about tariffs for electric power transmission services in 2016 see the official website of the Company in the section [For Customers / Electric Power Transmission / Tariffs for Electric Power Transmission](#).

Tariffs for Technological Connection Services.

Order of REC-PTD KT No. 96/2015-e of 12/31/2015 (as amended and supplemented) established standardized tariff rates and the rates per unit of maximum capacity for technological connection to the electric grids of Kubanenergo PJSC for 2016. For detailed information about standardized tariff rates and the rates per unit of maximum capacity for technological connection to the electric grids of Kubanenergo PJSC for 2016 see the official website of the Company in the section [For Customers / Technological Connection / Tariffs for Technological Connection](#).

Analysis of the change in the average rate per unit of capacity for Kubanenergo PJSC, RUB/kW:

	2012	2013	2014	2015	2016
Total for Kubanenergo PJSC	517.98	517.98	512.24	538.47	573.80
Growth / Decrease, %		0.00	-1,1	5.1	6.6

In order to analyze the change of the rate per unit of capacity in Kubanenergo PJSC, the rate of payment for technological connection of power receivers of electricity customers and transmission facilities owned by grid organizations and other entities to the distribution grids of Kubanenergo PJSC, not including the construction and reconstruction of transmission facilities at voltages below 35 kV and connected capacity of less than 8,900 kW, was used.

Change in the average rate per unit of capacity, RUB/kW

	2012	2013	2014	2015	2016
Total:	1,507	6,508	258	1,756	3,853
Growth+ / decrease-, %		+331 ⁷	-96 ⁸	+581 ⁹	+119 ¹⁰

⁷ Fourfold increase in the average rate per unit of capacity in 2013 as compared to 2012 is due to the connection of a major generation facility based on individual project (in the Sochi Energy District - Inter RAO Electric Power Plants (Dgubginskaya TPS) with the capacity of 180 MW and revenue of more than RUB 3 bln).

⁸ Reduction of actual average rate per unit of capacity in 2014 is due to the connection of the following major applicants in prior periods:

- in 2012 – OJSC Novoroscement,
- in 2013 – Dzhubginskaya TPS.

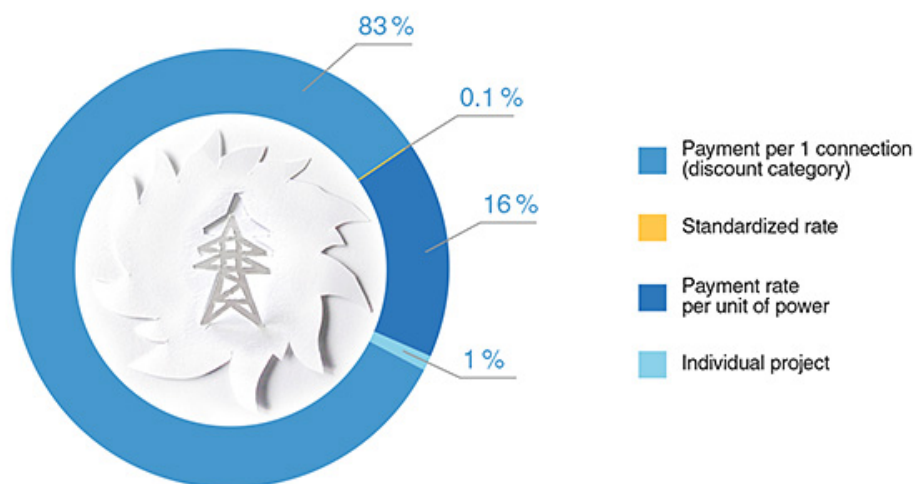
⁹ Increase in the average rate per unit of capacity in 2015 is due to the collecting of revenue under the agreements with connections based on individual project:

OJSC Oboronenergo, agreement in the amount of RUB 524,873,649.39 (excluding VAT), with the capacity of 21,000 kW,

The shortfall in income related to the implementation by Kubanenergo PJSC of technological connection of power receivers of categories of applicants, the cost for the grid connection of which is determined by taking into account the features of price-setting established by Decree of the Government of the Russian Federation “On Pricing in the Area of Controlled Prices (Tariffs) in Electric Power Industry” No. 1178 of 12/29/2011, considered in the tariff for electric power transmission services in 2012–2016, RUB thou:

2012	2013	2014 ¹¹	2015 ¹²	2016
0.00	68,339	125,092.37	103,012.62	82,944.85

Selection of a connection fee (percent ratio of the number of agreements, in which calculations are made using one of the methods vs. the total number of agreements):



LLC Gazprom Invest, agreement in the amount of RUB 181,340,745.03 (excluding VAT), with the capacity of 7,600 kW.

¹⁰ Increase in the average rate per unit of capacity in 2016 is due to the collecting of revenue under the agreements with connections based on individual project: LLC Gazprom Invest, two agreements in the amount of RUB 2,092,621,568.45 (excluding VAT), with the capacity of 8,700 kW.

¹¹ Including the undercompensated shortfall in income from the provision of incentives for technological connection of power receivers of the applicants with the maximum connected load of up to 15 kW in 2012 in the amount of RUB 56,413.52 thou considered by REC PTD KT when setting tariffs for electric power transmission via the grids of PJSC Kubanenergo for 2014.

¹² Including the undercompensated shortfall in income from the provision of incentives for technological connection of power receivers of the applicants with the maximum connected load of up to 15 kW in 2013 in the amount of RUB 7,795.10 thou as well as the shortfall in income for 2015 in the amount of RUB 95,217.52 thou considered by REC PTD KT when setting tariffs for electric power transmission via the grids of Kubanenergo PJSC for 2015.



Oleg Nikolayevich Golovakha
Head of Corporate
and Process ACS Department

"In 2016, integration of the Production Assets Management System with the Emergency Software Package was completed, the automated maintenance and repair control system was implemented, and digital certification of substations and transmission lines was automated for application in the distributed resource management system within the scope of emergency response operations.

As concerns the development of basic infrastructural IT services in 2016, the incident management system was deployed in the executive office of Kubanenergo PJSC to record user requests for technical support in the IT environment, and a catalog of IT services was developed.

110/35/10 kV Adygeyskaya Substation was teleautomated with the arrangement of digital communication channels and channels for transmission of teleinformation via FOCL and high-frequency communication channels to dispatch centers of Kubanenergo PJSC and Kuban Regional Dispatch Office. The Data Collection and Transmission System Upgrade and Expansion Program was fully completed at substations of Kubanenergo PJSC in 2016."

The Company introduces new projects, develops existing ones and maintains already completed projects in terms of information technologies in accordance with the Strategy in the field of information technology and telecommunications of the Company approved by Decision of the Board of Directors of Kubanenergo PJSC on 6/20/2012 (Minutes No. 138/2012 of 6/22/2012).

The following systems are implemented and used to control Kubanenergo PJSC activities:

1. *Automated systems of technological management (ASTM) enabling centralized control of power transmission and distribution processes.*

The ASTM development is based on an integrated approach to the automation of technological management processes and to the enforcement of common technical policy principles. For organizing dispatcher, technological communications, and telecommunications, the Company uses the departmental communications and telecommunications network, which is reconstructed with a simultaneous transition to digital channels.

2. *Automated systems of business management intended to plan and control different types of the Company's activities.*

The automation of the Company's operations is based on a uniform configuration of software system 1C: Enterprise 8.2. Manufacturing Enterprise Management.

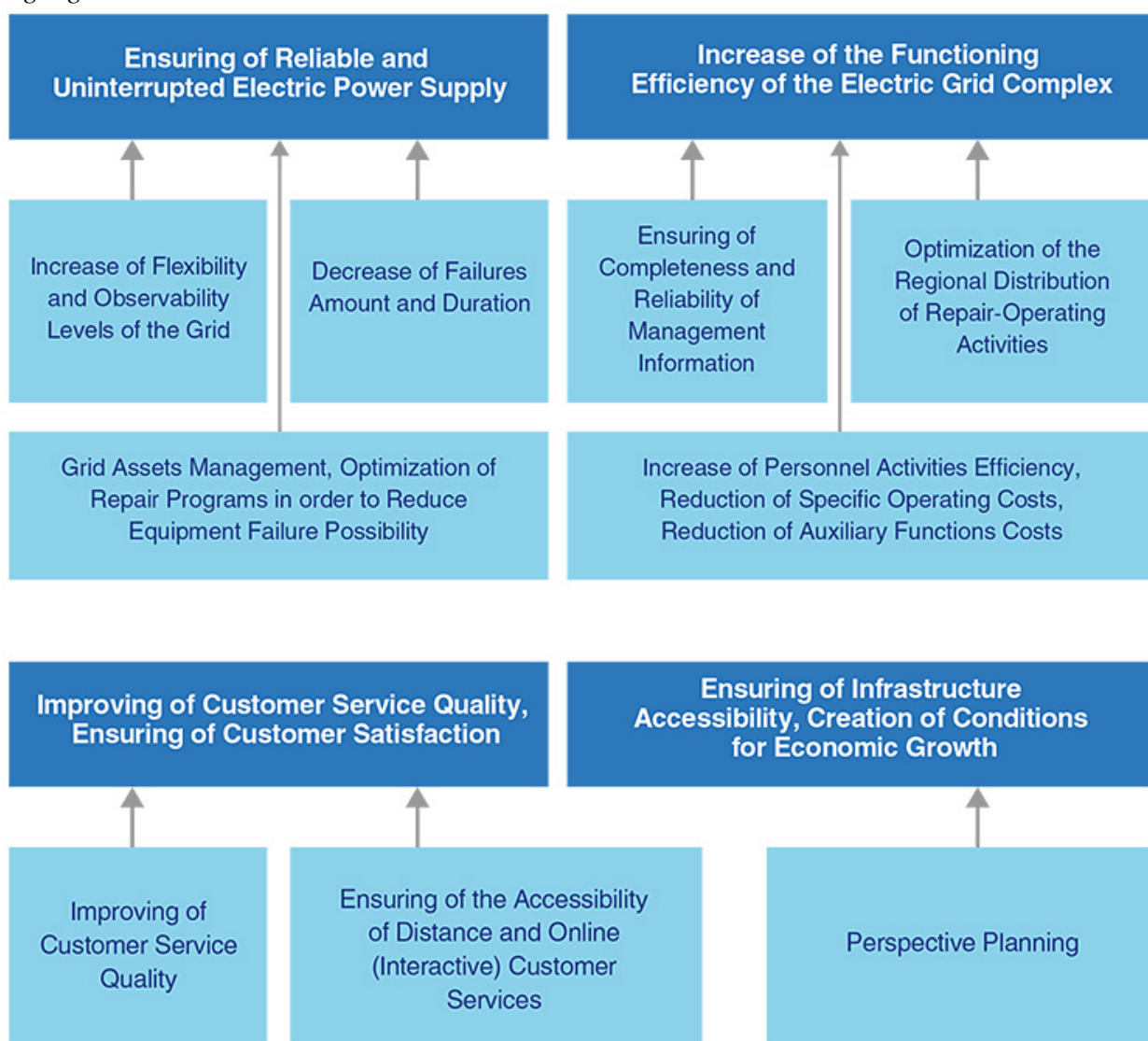
To automate management processes and work progress monitoring, the Company continues to develop the corporate software system Technological Connection.

In order to implement the Development Strategy of the Electric Grid Complex of the Russian Federation, Kubanenergo PJSC is extending the functionality of automated Production Assets Management System.

3. *Communication systems and IT infrastructure ensuring the efficiency of all mentioned automation tools, as well as continuous communication for all employees of the Company.*

The main role of information technologies is to implement the key business objectives of the Company, such as ensuring reliable and uninterrupted electric power supply, improving customer service quality, ensuring customer satisfaction. Processes automation development also ensures more efficient functioning of the power grid complex.

Efficient operation of the Company in the field of IT-technologies leads to the achievement of strategic goals:



As part of the development of major infrastructural IT-services in 2016, the following works were performed:

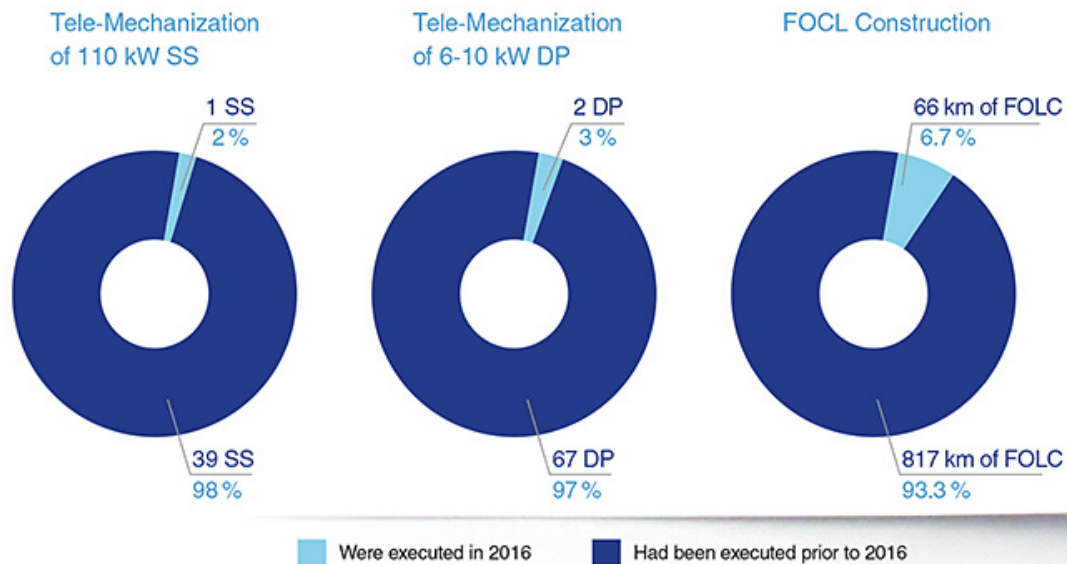
- the incident management system was deployed to record user requests for technical support in the IT environment;
- a catalog of IT services was developed.

In the reporting year under the investment program of the Company on the development of communication systems and ASTM Kubanenergo PJSC performed the following works:

- 110/35/10 kV Adygeyskaya Substation was teleautomated with the arrangement of digital communication channels and channels for transmission of teleinformation via FOCL and high-frequency communication channels to dispatch centers of Kubanenergo PJSC and Kuban RDO. The number of 110 kV SS teleautomated in accordance with the current requirements increased by 2% of its total quantity;
- teleautomatics for 35 kV Chernomorskaya Substation was upgraded and a high frequency communication channel and channel for transmission of teleinformation to the dispatcher center of Temryuk PGA;
- teleautomation of 2 distribution points with voltage of 6–10 kV with the organization of telecommunication data transmission channels in the branch Sochi Electric Grids which makes up 3% of all teleautomated distribution points of the Company;

- 66.4 km of FOCL were built, which makes up 6.7% of the total length of the Company's FOCL.
- dispatcher office of Teuchezhskiy PGA was equipped with a dispatcher panel, central receiving and transmitting station, operating information package, and dispatch switch board.

Development of ACPS, data collection and transmission network in 2016:



Within the scope of the Data Collection and Transmission System Upgrade and Expansion Program for substations of Kubanenergo PJSC in 2016, a package of measures was implemented to arrange for the transmission to the Kuban RDO of an additional volume of telemetric data for connections that can be tripped by emergency automation equipment installed at 110 kV Apsheronsk Substation, 110 kV Varenikovskaya Substation, 110 kV Nikitinskaya Substation.

Company Procurement Activities

When procuring goods, works, and services, Kubanenergo PJSC follows the norms of the laws of the Russian Federation, the Company's Articles of Association and [Unified Procurement Standard of PJSC Rosseti](#), approved as an internal document by Decision of the Company's Board of Directors of 12/25/2015, Minutes No. 227/2015.

Principles of procurement activity:

- timely (long-term and short-term) planning of procurement, rapid decision-making on adjusting the parameters of procurement;
- equality, justice, non-discrimination and unjustified restrictions of competition to the procurement participants;
- targeted and cost-effective funds use for the procurement of goods, works and services;
- absence of restrictions for admission to the procurement;
- determination of procurement parameters with regard to the specific features of purchased products, markets and circumstances under which the purchase is performed;
- competition-based selection of suppliers, contractors, executors, wherever possible and expedient, and, if possible collective decision-making in the situations where competition-based selection is not possible or expedient;
- recognition of the necessary combination of price and non-price factors ensuring efficient selection of the best offers for the Company;
- procurement transparency;
- application of advanced information technology, electronic document management tools and procurement activities automation, including the use of functional electronic trading platforms;
- collective decision making on the critical issues of the whole procurement activity and of the individual purchases arrangement;
- professionalism and competence of the Company's employees in preparing and making decisions on purchases, impeccable in terms of ethical behavior of such employees.

The methods of procurement and their application conditions are specified in the above mentioned internal documents of the Company.

Procurement methods used by the Company, in order of priority:



- tender, auction;
- request for offers, competitive negotiations, request for prices;
- simple purchase, small purchase;
- purchase from a single supplier (service provider, contractor).

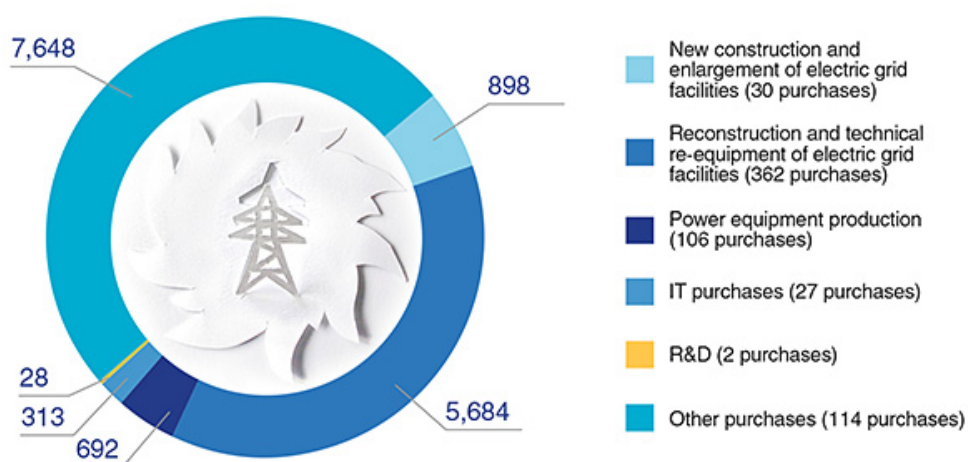
Main results of the Company's procurement activities in 2016.

In 2016, the Company conducted 641 procurement procedures for a total amount of RUB 15,263 mln (excluding VAT). 599 purchases for the amount of RUB 14,780 mln were conducted using e-commerce (excluding VAT), making 100% of the total cost of procurement (excluding purchases from a single supplier).

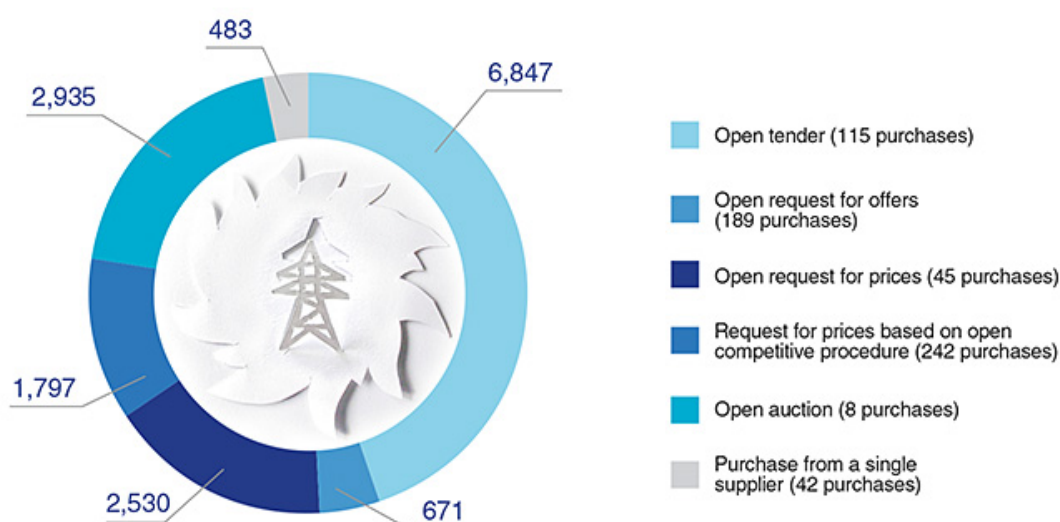
In the reporting year, following the results of scheduled procurements the Company obtained an economic effect in the amount of RUB 861 mln (excluding VAT), making 5.5% of the planned yearly costs of procurement of goods, works, services.

As of the end of 2016, the results of 22 procurements with the mark of innovative and high-technology products for the amount of RUB 1,838 mln (excluding VAT) were summarized.

Structure of the Company's procurements made in 2016, RUB mln. (in relation to the scope of procurement, excluding VAT):



Structure of the Company's procurements made in 2016, RUB mln. (in relation to the procurement procedure, excluding VAT):



Participation of small and medium businesses in the procurements conducted by Kubanenergo PJSC

Within the implementation of the Road Map on the collaboration with small and medium businesses, the Partnership Program between Kubanenergo PJSC and small and medium businesses has been effective since 2014. 29 participants have joined the program since its start.

In 2016, the winners of 77.3% of conducted procurement procedures were small and medium businesses, totaling to RUB 6,319 mln.

During 2016, the Company conducted 261 procurement procedures with small and medium businesses, totaling to RUB 2,461 mln (excluding VAT), amounting to 26.1% of the total purchases.

In order to ensure efficient procurements conducted by Kubanenergo PJSC, including procurement from small and medium business, starting from 2014, the Company has the Advisory Body involving not only the Company employees, but also the representatives of JSC MSP Corporation, the Fund for Infrastructure and Educational Programs, regional offices of the Russian Union of Industrialists and Entrepreneurs, All-Russian Public Organization of Small

and Medium Business OPORA RUSSIA, and All-Russian Public Organization Delovaya Rossiya.

Improvement of procurement activity.

The Company purchases goods and services predominantly on an open, competitive basis from suppliers offering the best price and quality ratio optimizing procurement activities through the following measures:

- using techniques to reduce the limit purchase price;
- increasing the share of open competitive procedures;
- introducing mandatory actions to reduce prices by the procurement parties (re-bidding);
- adherence to the Procurement Policy of the Company and the Partnership Program between Kubanenergo PJSC and small and medium businesses;
- operation of the Advisory Body to ensure efficiency procurement conducted by Kubanenergo PJSC, including procurement from small and medium businesses.

Ensuring Safety of Company Operations

Kubanenergo PJSC is guided by regulatory legal acts of the Russian Federation and Krasnodar Krai as well as by decisions of the Company corporate bodies when implementing measures aimed at the increase of anti-terrorist and anti-sabotage protection of facilities.

In order to ensure the Company's facilities protection, the following measures were implemented in 2016:

- Company's local regulations on increase of anti-terrorist protection of facilities and actions of the personnel when detecting suspicious objects or signs of terrorist nature are published and executed in due time;
- condition of the Company's technical security equipment is regularly examined, including Grids Control Center;
- facilities security is checked in cooperation with representatives of law enforcement agencies;
- unscheduled inspections of duties fulfillment by employees of the private security organizations protecting Company facilities are carried out;
- briefings of duty operators and personnel of field services teams on actions to be taken when detecting signs of terrorist nature at the Company's facilities are carried out weekly;
- trainings on the employees' actions to be taken when detecting foreign objects and unauthorized persons at facilities are carried out in all branches of the Company;
- joint action plans of the Company and law enforcement agencies of the Krasnodar Krai and the Republic of Adygea in case of emergency are developed, the corresponding schemes of interaction are developed and approved;
- measures aimed at the improvement of facilities anti-terrorist protection level are included into the Company's long-term investment program for the period of 2017–2021;
- arrangements are made to prepare the integrated safety and security system of the Company facilities for 2017 FIFA Confederations Cup and 2018 FIFA World Cup.

With regard to ensuring economic security of the Company's operations in the reporting year:

- 656 petitions were filed to the law enforcement agencies for causing economic damage to the Company;
- 62 criminal proceedings were initiated for causing economic damage to the Company.

Protection of Kubanenergo PJSC information resources, information and communications as well as technological infrastructure, confidential information is ensured through implementation of package of managerial and engineering procedures aimed at the

development of regulatory and administrative documents in the area of information security, and implementation of state-of-the-art certified software and hardware information security tools.

The Company's information security design concept is developed in accordance with the Company's Information Technology and Telecommunication Strategy:

- malware identification and removal is conducted using antivirus protection subsystems. Centralized monitoring of the antivirus protection tools status with the timely distribution of group security policies is carried out to ensure high performance of antivirus protection tools and dynamic response to the information security threats;
- identification of impacts on the controlled information system, which may be qualified as hacks, is performed using the hacks identification and prevention subsystem;
- information and communications as well as technological networks segmentation, traffic supervision and filtering is performed through firewalling of the information and communications network and end nodes;
- electronic signatures based on GOST compliant encryption algorithms are used to arrange the protected mail traffic;
- comprehensive measures are implemented to set the security policies on server hardware and end nodes of Kubanenergo PJSC information and communications as well as technological infrastructures.

Investment Activity



Andrey Valeryevich Golov
Deputy Director General for Investment

"In 2016, the Company Investment Program was successfully implemented in the following areas:

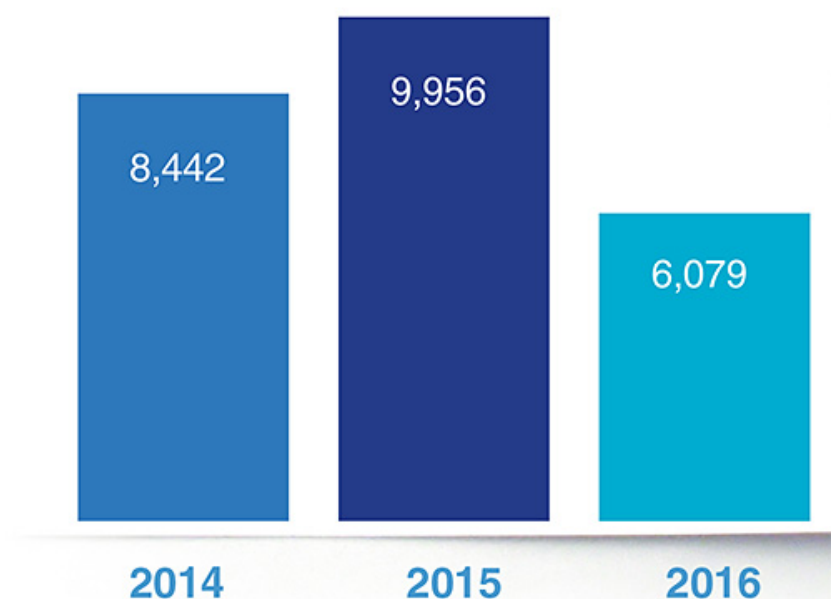
- use of capital investments in the amount of RUB 4,913.1 mln (excluding VAT) or 109% of the plan;
- deployment of fixed assets in the amount of RUB 3,602.0 mln (excluding VAT), or 108% of the plan, including 1,149.9 km of power transmission lines (125 % of the plan), 277.7 MVA of substations transformer capacity (129% of the plan);
- actual amount of finance totaled to RUB 6,078.7 mln (including VAT), or 100.5% of the plan in the reporting period."

In the reporting year, Kubanenergo PJSC investment activity was conducted within the implementation of the Investment Program for 2016 approved by Order of the Russian Ministry of Energy No. 1388 of 12/22/2016.

Main Results of the Company Investment Activity in 2016

Capital Investments	Deployment of Fixed Assets	Financing	Capacity Commissioning	
RUB mln, excluding VAT	RUB mln, excluding VAT	RUB mln, incl. VAT	MVA	km
4,913	3,602	6,079	277.7	1,149.7

Dynamics of Capital Investments of Kubanenergo PJSC in 2014–2016, RUB mln, including VAT:



In 2016, actual capital investments totaled to RUB 6,079 mln, which is 28% and 39% less than in 2014 and 2015, respectively.

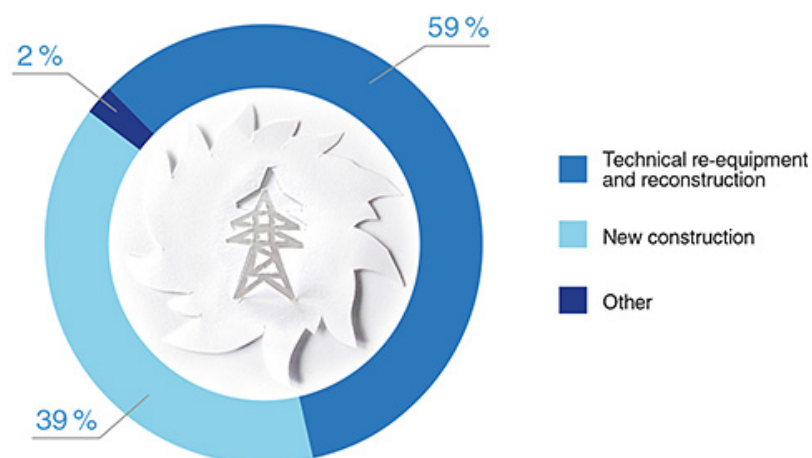
This decrease is due to the completion of works under the contracts for technological connection of state facilities required for energy supply of compressor stations at LLC Gazprom Invest, works on removal (reconstruction) of OHL 110 kV from Adler-Alpika Service Ski Resort road and railway construction area.

Areas and Financing Structure of Capital Investments

Main implementation areas of Kubanenergo PJSC Investment Program for 2016 are capital investments in technical re-equipment and reconstruction totaling to RUB 3,617 mln including VAT (59%). In the reporting year, capital investments in new construction totaled to RUB 2,364 mln including VAT (39%). Capital investments in other facilities (capital investments in intangible assets, fixed assets acquisition, research and development activities) amounted to RUB 98 mln including VAT (2%).

In 2015, the capital investments in technical re-equipment and reconstruction amounted to RUB 5,797 mln including VAT, which is 38% more than in 2016 and 12% less than in 2014.

Financing Structure of Capital Investments, RUB mln, incl. VAT



Investment projects	2014	2015	2016
Total	8,442	9,956	6,079
Principal projects, including:	473	1,063	1,490
Technical re-equipment and reconstruction	341	500	919
New construction	132	563	571
Programs of particular importance, including:	4,772	0	0
Technical re-equipment and reconstruction	4,342	0	0
New construction	430	0	0
Programs, including:	509	3,616	901
Technical re-equipment and reconstruction	508	3,604	830
New construction	1	12	71
Technological connection, including:	1,249	4,563	3,268
Facilities for technological connection with the capacity over 670 kW (HV, MV1)	270	2,661	650
Facilities for technological connection with the capacity of 150–670 kW (MV2)	71	88	94
Facilities for technological connection with the capacity of 15–150 kW	36	95	53
Facilities for technological connection with the capacity under 15 kW	872	1,719	2,471
Generation	-	-	-
Power distribution grids, including:	252	334	81
Technical re-equipment and reconstruction	252	331	81
New construction	0	3	0
Technological control automation (except for AEPCAS)	156	35	28
Electric power accounting and control tools	11	12	46
Safety programs	73	4	4
Acquisition of grid assets, plots of land and other facilities	0	0	80
Other programs and activities	947	329	180
Total	8,442	9,956	6,079
Technical re-equipment and reconstruction	6,518	5,797	3,617
New construction	1,913	4,153	2,364
Other	11	6	98

No investment projects were implemented using federal funds in the reporting year.

In the reporting year, a priority facility of Kubanenergo PJSC investment program, i. e. “Construction of Adygeyskaya SS 110/35/10 kV with installation of transformers having capacity 2x16 MVA with 110 kV overhead line approaches from 110 kV Shenji-Martanskaya OHL (2x0.5 km) and 35 kV Adygeyskaya PS-15 SS” totaling to RUB 465 mln, excluding VAT. Commissioning of this facility ensured growth of loads of Adygeysk as well as a possibility of connecting new power consumers.

Results of Investment Program Implementation for 2016

1. Implementation of measures on reduction of specific investment costs:

With the planned reduction of investment costs in the amount of RUB 265 mln, excluding VAT (22.5%), the actual reduction of costs at the year end 2016 amounted to RUB 381 mln, excluding VAT, that makes up 32%.

Reduction of construction (reconstruction) specific costs in the reporting year when compared to 2012 was:

Grid facilities	Actual in 2012	Actual specific indicator for 2016 measured in prices of 2012	Reduction of specific costs in 2016 against 2012
OHL	RUB 1,971 thou/km	RUB 864 thou/km	-56%
CL	RUB 10,578 thou/km	RUB 2,860 thou/km	-73%
SS	RUB 3,471 thou/MVA	RUB 3,099 thou/MVA	-11%

2. Performance of Agreements for technological connection in 2016:

Executed Agreements for technological connection	Total, pcs/MW	including privileged consumers categories
Total	36,258 / 617.89	31,421 / 333.45
including investment component	8,095 / 120.15	8,020 / 93.65

3. Actual level of power losses in 2016 amounted to 2,945.6 mln kWh or 12.96%.

4. Company capacity utilization amounted to 54.5% as of 12/31/2016, no open main substations growth was shown.

5. Company grid facilities wear level in 2016 was as follows:

- equipment – 83.17%,
- electric transmission lines – 75.5%.

6. Portion of the facilities with excessive service life in 2016 was as follows:

- cable lines – 48.75%,
- overhead lines – 67.49%,
- equipment – 79.42%,

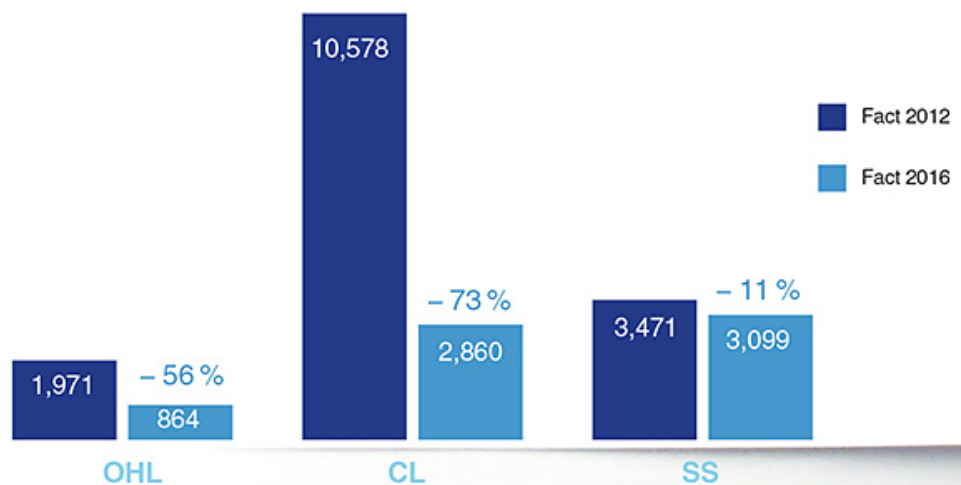
7. Specific accident rate in electric grids of 6 kV and above reduced by 1.6% at the year end 2016 when compared to the previous year (from 3.68 to 3.62 accidents/1000 c.u.).

Decrease of actual specific construction costs for distribution grids

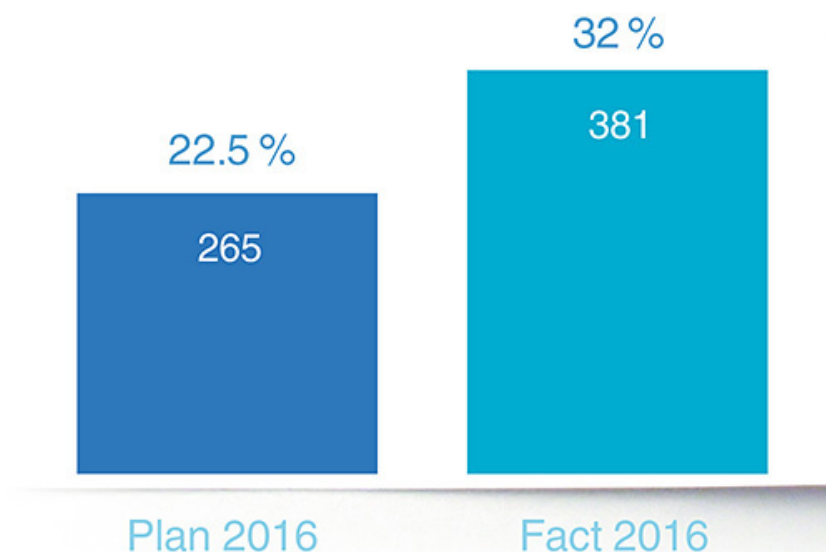
Name	Actual in 2012, RUB thou/(km/MVA)	Actual in 2016				
		Physical parameters, km/MVA	Deployment of fixed assets, RUB thou excluding VAT	Specific indicator, RUB thou/(km/MVA) gr.4/gr.3	Specific indicator measured in prices of 2012, RUB thou/(km/MVA) (gr.5/1.06/1.049/1.143/1.06)	Decrease when compared to 2012, in % (1-gr.6/gr.2)
1	2	3	4	5	6	7
OHL	1,970.68	1,127.58	1,312,011.09	1,163.57	863.69	56%
220 kV OHL (HV)						
110 kV OHL (HV)	27,518.00	12.52	49,434.08	3,947.15	2,929.88	89%
35 kV OHL (MV1)	2,163.00	11.16	29,347.73	2,630.90	1,952.86	10%
1–20 kV OHL (MV2)	1,286.00	85.11	141,443.06	1,661.96	1,233.64	4%
0.4 kV OHL (LV)	1,170.00	1,018.79	1,091,786.21	1,071.65	795.46	32%
CL	10,577.61	22.286	85,873.64	3,853.26	2,860.19	73%

220 kV CL (HV)						
110 kV CL (HV)	134,457.00	0.48	9,853.67	20,528.48	15,237.84	89%
20–35 kV CL (MV1)						
3–10 kV CL (MV2)	5,659.00	17.81	68,614.84	3,852.60	2,859.70	49%
CL under 1 kV (LV)	2,070.00	4.00	7,405.13	1,853.14	1,375.54	34%
SS	3,471.01	277.727	1,159,519.74	4,175.03	3,099.04	11%
SS, input voltage level 110–220 kV HV	3,464.00	32.00	450,367.64	14,073.99	10,446.81	-202%
SS, input voltage level 35 kV MV1	4,734.00	12.60	17,756.13	1,409.22	1,046.03	78%
SS, input voltage level 1–20 kV MV2	3,703.00	233.13	691,395.97	2,965.75	2,201.41	41%

Specific construction cost indicators for distribution grids (RUB thou, excl. VAT; in %):



Effect from investment costs decrease for distribution grids (RUB thou, excl. VAT; in %):



Capital Construction Quality Control

The company carries out construction supervision to verify compliance of works performed during construction and reconstruction of capital facilities with the requirements of the following documents:

- design documentation;
- technical regulations;
- urban land development plan;
- results of engineering surveys.

The Company performs construction supervision.

The Company implements construction supervision in accordance with the Town-Planning Code of the Russian Federation, Decree of the Government of the Russian Federation “On Procedure for Construction Supervision During Construction, Reconstruction and Overhaul of Capital Facilities” No. 468 of 6/21/2010, etc.

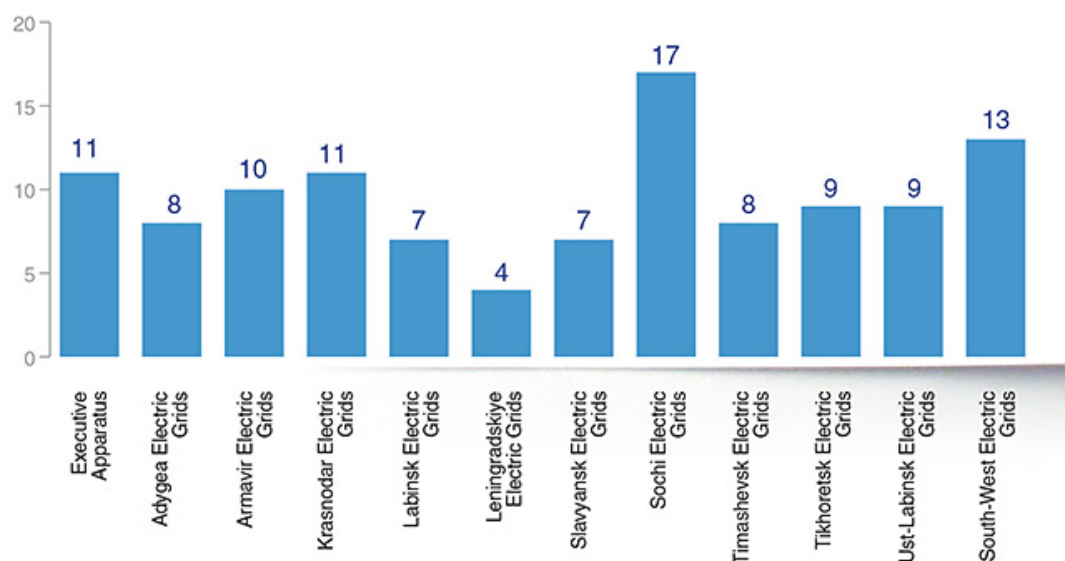
In order to perform quality control and quality management of the capital construction and the construction supervision, the Company applies the following local regulations:

- Order of Kubanenergo PJSC “On Approval of Procedure for Construction Supervision at Facilities of Kubanenergo PJSC Electric Grid Complex” No. 1036 of 12/10/2014;
- Order of Kubanenergo PJSC “On Approval of Methodological Guidelines for Confirmation and Acceptance of Scope and Quality of Installation and Construction Works Performed by Building Contractors at Electric Grid Facilities of Kubanenergo PJSC” No. 1110 of 12/29/2014;
- Order of Kubanenergo PJSC “On Approval of Procedure for Commissioning of Kubanenergo PJSC Completed Facilities” No. 304 of 4/13/2015 (as amended by Order No. 550 of 7/2/2015 and Order No. 1052 of 12/7/2015);
- Order of Kubanenergo PJSC “On Approval of Procedure for Maintenance of As-Built and Acceptance Documents at Facilities of Kubanenergo PJSC Electric Grid Complex” No. 1020 of 11/30/2015;
- Order of Kubanenergo PJSC “On Approval of Procedure for Implementation of Kubanenergo PJSC Investment Projects in Part of Fulfillment of Design and Survey Works, Execution of Initial Permissive Documentation and Performance of Construction and Installation Works” No. 784 of 8/30/2016.

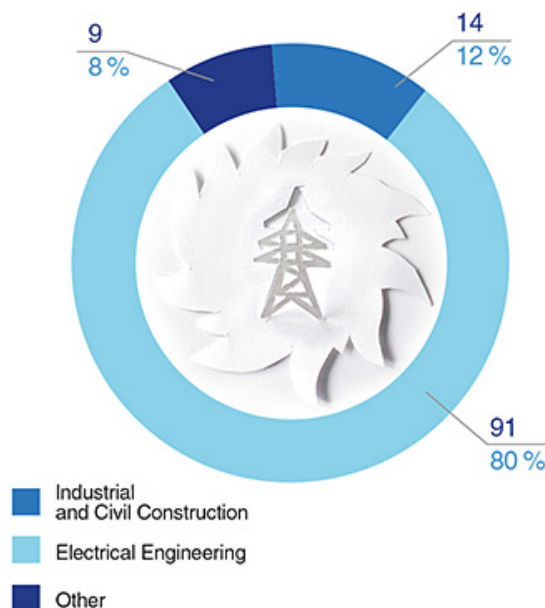
Company’s resources for construction supervision.

The Capital Construction Department is responsible for arrangement and implementation of construction supervision at Kubanenergo PJSC. The Company affiliates perform construction supervision at their facilities under the supervision and with participation of the Capital Construction Department.

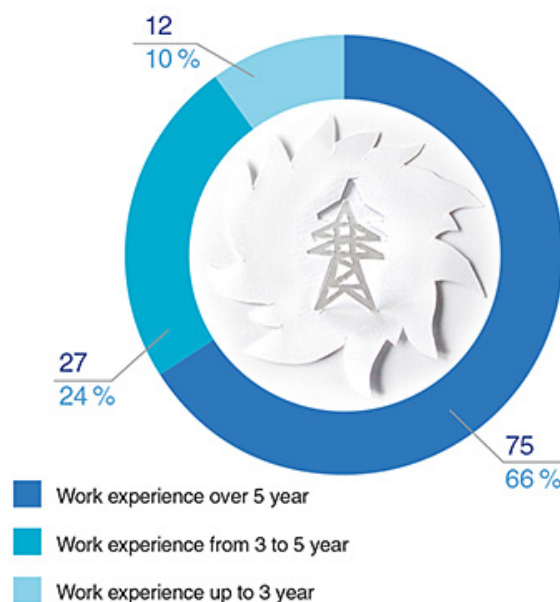
In 2016, 114 specialists of Kubanenergo PJSC were involved in the construction supervision: including the affiliated companies:



Vocational education of the Company's specialists performing the construction supervision in 2016



Work experience in Power Engineering of the Company's specialists performing the construction supervision in 2016



In the reporting year, JSC RDEC IDGC was engaged in performing independent construction supervision in relation to the facility "Construction of two 110 kV Gemete-Pionerskaya CLs with installation of 110 kV cells at 110 kV Gemete SS".

In the reporting year, the portion of facilities covered by the independent construction supervision made up 1.1% of the projects under construction.

Financial Results

Kubanenergo PJSC Accounting (Financial) Statements



Inna Viktorovna Skiba
Chief Accountant and Head of Financial Records,
Accounts and Tax Returns Department

"Kubanenergo PJSC Accounting (Financial) Statements for 2016 was prepared in accordance with the applicable laws of the Russian Federation. Unqualified audit reports on fairness of both accounting statements made in accordance with the Russian Accounting Standards and consolidated statements made in accordance with the International Financial Reporting Standards were received."

The accounting statement of Kubanenergo PJSC for 2016 is prepared based on the applicable standards and provisions of the Russian Federation regulating accounting and reporting (the "RAS"):

- Federal Law "On Accounting" No. 402-FZ of 12/6/2011;
- Order of the Ministry of Finance of the Russian Federation "On Forms of Accounting Statements of Organizations" No. 66n of 7/2/2010;
- Order of the Ministry of Finance of the Russian Federation "On Amendments to Forms of Accounting Statements of Organizations Approved by Order of the Ministry of Finance of the Russian Federation No. 66n of 7/2/2010" No. 124n of 10/5/2011;
- Order of the Ministry of Finance of the Russian Federation "On Approval of Regulations on Accounting and Reporting in Russian Federation" No. 34n of 7/29/1998;
- Chart of accounts of financial and economic activities of organizations approved by Order of the Ministry of Finance of the Russian Federation No. 94n of 10/31/2000;
- Accounting Regulations "Company's Accounting Policy", PBU 1/2008 approved by Order of the Ministry of Finance of the Russian Federation No. 106n of 10/6/2008.

The annual financial statements of Kubanenergo PJSC for 2016 prepared in accordance with the Russian Accounting Standards (RAS) include:

1. Balance sheet;
2. Statement of Financial Results;
3. Statement of Changes in Equity;
4. Cash Flow Statement;
5. Notes;
6. Audit Report.

Basic Provisions of Kubanenergo PJSC Accounting Policy:

Accounting of the Company's fixed assets is performed in accordance with the Accounting Regulation "Accounting of Fixed Assets" (PBU 6/01) approved by Order of the Ministry of Finance of the Russian Federation No. 26n of 3/30/2001. Depreciation of fixed assets is accrued

linearly based on their useful life. Depreciation is not accrued on fully depreciated items of fixed assets.

Work in progress is assessed at its actual cost of production.

Recognition of expenses as deferred expenses and equating them to assets with posting them in accounts and statements are in accordance with the principal approach approved by the Company. This approach is based on understanding of the time fact of probability of obtaining economic benefits from the asset by the Company in the future and sufficiently reliable evaluation of its value.

Advances relating to the acquisition of a non-current asset in the future as well as raw materials and supplies intended to the creation of fixed assets are stated in Fixed Assets (line 1150).

Actually commissioned real estate facilities with capital investments completed in full and primary documents duly executed are entered into accounts as fixed assets in a separate sub-account of Real Estate Facilities without Registration of Title. Depreciation of these facilities is accrued pursuant to the standard procedure on the first day of the month following the month of commissioning.

Accounting of the Company's revenues and other income is performed in accordance with the Accounting Regulations "Company Income" (PBU 9/99) approved by Order of the Ministry of Finance of the Russian Federation No. 32n of 5/6/1999.

The Company established the estimated liabilities resulting from the possible payment of compensation for unused vacations, outstanding claims of power suppliers to compensate for losses and electric power transmission services, provisions for litigations and other employee benefits, in accordance with PBU 8/2010 on "Provisions, Contingent Liabilities and Contingent Assets", approved by Order of the Ministry of Finance of the Russian Federation No. 167n of 12/13/2010.

The Company has a provision for doubtful accounts receivable which have not been repaid or with a high degree of probability will not be paid in due time stipulated by the agreement and are not secured by warrants. The provision is corrected on a quarterly basis.

The Company establishes a provision for devaluation of financial investments in case of a constant significant reduction of their cost.

Corrections relating to previous periods.

Due to the change of administrative expenses accounting procedure in the Accounting Policy for 2016, the corrections are introduced to Administrative Expenses (line 2220) and to Cost of Sales Figures (line 2120) of the Statement of Financial Results amounting to 76,485 RUB thou over the corresponding period of 2015.

The Company prepared the consolidated financial statements in accordance with the requirements of Federal Law "On Consolidated Financial Statements" No. 208-FZ of 7/27/2010.

Results of Financial and Economic Activities of the Company



Olga Vyacheslavovna Ocheredko
Deputy Director General
for Economy and Finance

"As of the end of the financial year, the Company's net profit amounted to RUB 2,141 mln, which is RUB 688 mln more than in 2015. As of the end of 2016, Debt/EBITDA ratio amounted to 2.11.

In 2016, the Company developed and implemented the Program of Operating Efficiency Improvement and Expenses Reduction of Kubanenergo for 2016–2020, aimed at the optimization of expenses, reduction of specific costs of power-generating equipment operation, reduction of power losses in the grids, and energy efficiency improvement. The Program efficiency criteria take into account the target values specified by the Development Strategy of the Electric Grid Complex of the Russian Federation (approved by Decree of the Government of the Russian Federation No. 511-r of 4/3/2013) as well as by Directive of the Government of the Russian Federation No. 4750p-P13 of 7/4/2016. As of the end of the reporting period, the target values for operating expenses reduction against the 2015 level were achieved."

Analysis of the Results of the Company's Financial and Economic Activities

As of the end of 2016, the revenue from sales of goods (services) amounted to RUB 41,726.2 mln, which is RUB 6,022.0 mln (16.9%) more than in 2015, including the revenue from electric power transmission RUB 39,262.4 mln (RUB 4,859.3 mln more than in 2015). This growth results from the increase by 601.9 mln kWh of scope of services performed and from the growth of straight-line rate for the "other" consumer group transmission services approved by REC-PTD KT in the 2 half of the year 2016 compared to the 1 half of the year 2016.

The net cost including the administrative costs amounted to RUB 35,927.8 mln, which is RUB 2,778.5 mln (8.4%) more than in 2015. This growth is caused by the increase of the electricity purchases to compensate for losses, the costs of services of distribution grid companies, the depreciation of fixed and intangible assets and other expenses.

Profit before tax amounted to RUB 3,506.2 mln, which is RUB 1,290.5 mln (58.2%) more than in 2015.

As of the end of 2016, the net profit of the Company amounted to RUB 2,140.5 mln (RUB 688.0 mln (47.4%) more than in 2015). This increase is caused by the growth of revenue from the electricity transmission as a result of net electricity supply and transmission tariff growth.

Main financial and economic indicators, RUB mln

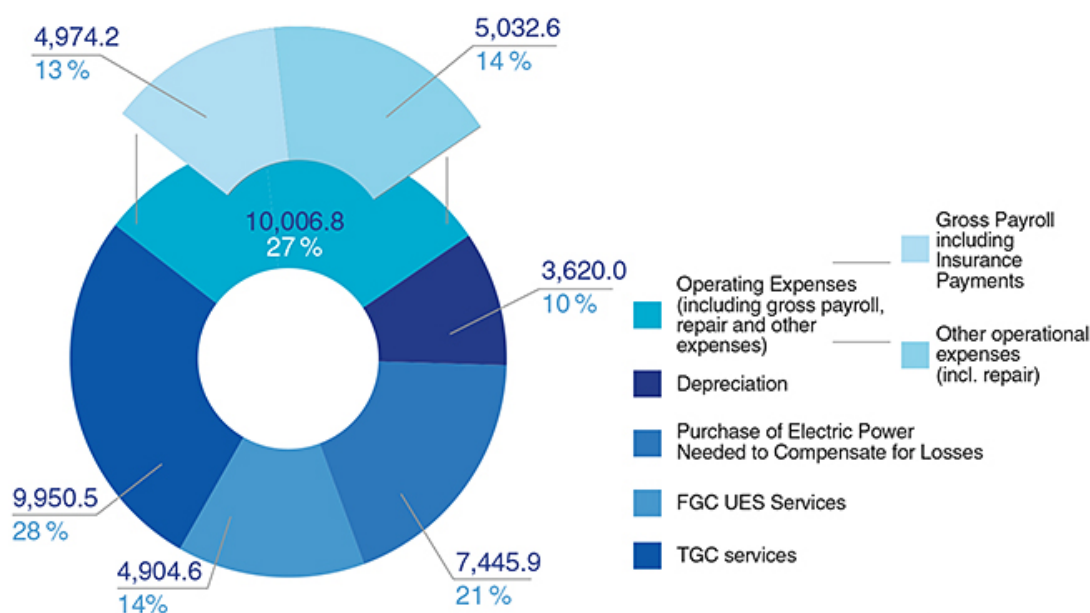
Item No.	Indicator	2016	2015	2014
1	Revenue from products (services) sales, including:	41,726	35,704	29,393
1.1	<i>from power transmission</i>	39,262	34,403	28,464
1.2	<i>from technological connection</i>	2,381	1,213	848
1.3	<i>from sales of electric power</i>	0	0	0
1.4	<i>from other activities</i>	83	88	81
2	Net costs of products (services)	-35,830	-33,149	-29,919
3	Gross profit	5,896	2,555	-525

4	Administrative expenses	-98	0	0
5	Selling expenses	0	0	0
6	Profit (loss) from sales	5,798	2,555	-525
7	Interest receivable	90	479	634
8	Interest payable	-1,889	-2,261	-1,801
9	Affiliation income	0	0.06	0
10	Other income, total	2,616	6,851	3,039
11	Other costs, total	-3,109	-5,407	-5,084
12	Income (loss) before tax	3,506	2,216	-3,736
13	Income tax and other payments	-1,366	-763	104
14	Net profit	2,141	1,452	-3,632
15	EBITDA^{13*}	9,015	7,670	540

Structure of Expenses

As of the end of 2016, net costs (including administrative expenses) amounted to RUB 35,927.8 mln, which is RUB 2,778.5 mln more than in 2015. This growth is caused by the increase of the electricity purchases to compensate for losses, the costs of services of distribution grid companies, the depreciation of fixed and intangible assets and other expenses.

Net Costs Structure (including administrative and business expenses in 2016, RUB mln and %:



As of the end of 2016, the electricity purchased to compensate for losses amounted to RUB 7,445.9 mln (21% of total expenses). In absolute terms, when compared to 2015, the increase amounted to RUB 963.1 mln, resulting from the growth of the average cost of the electricity purchased to compensate for losses.

The cost of PJSC FGC UES services amounted to RUB 4,904.6 mln (14% of total expenses). The absolute growth against 2015 amounted to RUB 103.3 mln, and is caused by the growth of actual net power flow when compared to the same period of the previous year as well

¹³ EBITDA was calculated in accordance with the following procedure:
EBITDA = Profit Before Tax (PBT) + Interests Payable + Depreciation.

as by the growth of tariff rates for the loss compensation in UNEG networks and for the electric grid maintenance.

As of the end of 2016, the cost of the distribution grid companies services amounted to RUB 9,950.5 mln (28% of total expenses). When compared to the previous year, the cost growth amounted to RUB 1,146.7 mln due to increase of the amount of the electric power transmitted through the grids of related grid companies and of their number.

As of the end of 2016, depreciation of fixed and intangible assets amounted to RUB 3,620.0 mln which is RUB 427.4 more than in 2015 due to commissioning of fixed assets under the approved investment program of the Company.

In 2016, the personnel costs, including the insurance payments, amounted to RUB 4,974.2 mln (13.0% of total expenses), which is RUB 652.1 mln (15.0%) more than at the year end 2015. The increase of costs under this item was caused by:

- the growth of tariff sums due to the tariff rates adjustment (position salary) through increase of an employee tariff multiplier within the remuneration level pursuant to the “Regulation on Personnel Competency Evaluation” (Attachment 2 to the “Regulation on Personnel Compensation and Benefits of Kubanenergo PJSC”);

- the growth of sums paid as the compensation for termination of employment contract upon mutual agreement by the parties;

- the increase of special bonus payments to the personnel for identification of unaccounted electric power consumption under the reports on unaccounted and non-contractual electric power consumption, for commissioning of capital facilities and technical re-equipment.

Other expenses in 2016 amounted to RUB 5,032.6 mln (14% of total expenses), which is RUB 514.1 mln less than at the year end 2015. The main reason for the costs reduction is the decrease of costs for the technological connection to the grids of other companies amounting to RUB 1,217.1 mln due to the recognition of the costs for the technological connection of 220 kV Buzhora SS to the PJSC FGC UES grids in December 2015.

The Program of Operating Efficiency Improvement and Expenses Reduction
The Program of Operating Efficiency Improvement and Expenses Reduction of Kubanenergo PJSC for 2016–2020 was approved by the Company’s Board of Directors on 4/22/2016 (Minutes No. 235/2016 of 4/25/2016). Implementation of measures under the Program is covered by the Business Plan, Investment Program, Energy Conservation and Energy Efficiency Improvement Program, Innovative Development Program and other dedicated programs developed by the Company.

The Program efficiency criteria take into account the target values specified by the Development Strategy of the Electric Grid Complex of the Russian Federation (approved by Decree of the Government of the Russian Federation No. 511-r of 4/3/2013) as well as by Directive of the Government of the Russian Federation No. 4750p-P13 of 7/4/2016.

The reduction of controllable operating costs in 2016 against 2012 for implementation of the Development Strategy of the Electric Grid Complex of the Russian Federation approved by Executive Order of the Government of the Russian Federation No. 511-p of 4/3/2013 amounted to RUB 623 mln or 15%, with the target value of 15%.

The reduction of operating costs in accordance with Directive of the Government of the Russian Federation No. 4750p-P13 of 7/4/2016 in 2016 against 2015 amounted to 38%, which conforms with the target value (10%).

As part of the operating efficiency improvement program, the Company implemented the following key measures:

1. Improvement of equipment, buildings, structures maintenance and overhaul control efficiency:

- re-breakdown of work techniques by process areas: 35–220 kV OHL, 35–110 kV SS; 0.4–10 kV distribution grids (OHL, TSS). Reduction of contractor resources and increase of the Company’s own resources in the amount of RUB 0.9 mln;

2. Improvement of the working capital management efficiency:
 - optimization of accounts receivable in the amount of RUB 1,679.5 mln;
 - optimization of current liabilities in the amount of RUB 89.7 mln;
3. Improvement of the fixed assets management efficiency:
 - reduction of costs for the non-core assets maintenance and management, including their disposal effects in the amount of RUB 0.7 mln;
 - consolidation of electric grid facilities in the amount of RUB 349 mln.
4. Improvement of energy efficiency:
 - measures, aimed at reduction of electric power losses in accordance with the Dedicated Power Losses Reduction Program of Kubanenergo PJSC for 2016 till 2020, and the Energy Conservation and Energy Efficiency Improvement Program of Kubanenergo PJSC for 2016–2020 in the amount of RUB 256.9 thou;
 - measures aimed at efficient use of fuel and energy resources in the amount of RUB 1.3 mln;
5. Other measures:
 - measures aimed at reduction of non-contractual electric power consumption in the amount of RUB 69.1 mln.

Analysis of the Company's financial status and operations results

Indicator/Year	As of 12/31/2014	As of 12/31/2015	As of 12/31/2016
Liquidity Ratio and Current Paying Capacity			
Absolute liquidity ratio	0.44	0.12	0.11
Quick assets ratio	0.72	0.38	0.79
Current liquidity ratio	0.81	0.45	0.92
Working Capital to Current Assets Ratio	-0.24	-1.26	-0.10
Turnover and Efficiency Ratio			
Accounts payable turnover ratio	2.50	2.77	3.26
Growth rates correlation of accounts receivable and accounts payable	0.79	1.21	1.84
Correlation of total accounts receivable and accounts payable	0.33	0.40	0.73
Share of accounts receivable in revenue	0.11	0.12	0.14
Financial Stability Indicators			
Equity Ratio	0.48	0.50	0.53
Total debt/EBITDA ratio	32.27	2.23	2.11
EBITDA/ %	0.30	3.50	4.76

As of the end of 2016, the absolute liquidity ratio reduced when compared to 2015 due to the reduction of finance. However, the Quick and Current Ratios, as well as the Working Capital to Current Assets Ratio showed upward trend when compared to the previous year due to the growth of accounts receivable and reduction of short-term loan funds, resulting from substitution of short-term loans with long-term ones, as well as from the reduction of accounts payables.

The Turnover and Efficiency Ratio growth in 2016 results from the increase of accounts receivables and decrease of accounts payables of the Company.

As of 12/31/2016, the Equity Ratio was 0.53, which is 0.03 higher than in 2015. The Ratio increased due to the Company equity capital growth through receiving of profit at the year end 2016 in the amount of RUB 2,140.5 mln, as well as due to the issue of additional Company's shares. The growth of EBITDA and interests paid ratio, as well as the reduction of total debt and EBITDA ratio are attributed to the growth of EBITDA and the reduction of interests paid by the Company in the reporting period.

Accounts Receivable

Analysis of Changes in Accounts Receivable, RUB mln

	As of 12/31/2016	As of 12/31/2015	As of 12/31/2014
Accounts Receivable, including:	7,119.42	4,900.77	3,830.30
Payments whereon are expected later than in 12 months after the reporting date	12.61	12.43	14.98
– purchasers and customers	-	-	-
– bills receivable	-	-	-
– advances paid	-	-	-
– other accounts receivable	12.61	12.43	14.98
Payments whereon are expected within 12 months after the reporting date	7,106.81	4,888.35	3,815.32
– purchasers and customers	6,410.58	4,601.99	3,267.64
<i>for power transmission</i>	6,381.93	4,591.30	3,223.64
– bills receivable	-	-	-
– subsidiaries' and affiliates' dividends in arrears	-	-	-
– participants' (founders') authorized capital payments in arrears	-	-	-
– advances paid	13.37	25.24	18.25
– other accounts receivable	682.86	261.12	529.42

The total accounts receivable of Kubanenergo PJSC as of 12/31/2016, net of the doubtful debts provision, amounted to RUB 7,119.42 mln.

As of 12/31/2016, the provision for doubtful debts amounted to RUB 2,447.22 mln, including the doubtful receivables in the amount of RUB 2,339.92 mln (reflected in the balance sheet as a reduction of accounts receivable) and the provision for advances paid for the acquisition of fixed assets in the amount of RUB 107.30 mln (reflected in the balance sheet under non-current assets, as a reduction of arrear in advances).

To reduce the accounts receivable, the Company performs claims work, including the pre-court and court dispute settlement procedures. In the reporting period, unrecoverable receivables in the amount of RUB 0.94 mln were written off.

Receivables for rendered services related to transmission of electric power to contractors of Kubanenergo PJSC as of 12/31/2016 (excluding the reserve for doubtful debts) amounted to RUB 6,381.93 mln. Disputable receivables amount to RUB 1,022.467 mln.

Growth of receivables for rendered services related to transmission of electric power (taking into account debts before deduction of the reserve for doubtful debts) amount to RUB 1,662.82 mln (27.06%) as compared to the amount of receivables in 2015 is caused by non-payments of Kubanenergoby OJSC affiliated with the TNS Energo Group of Companies the debt of which totaled to RUB 4,507.61 mln as of 12/31/2016, including the doubtful debt in the amount of RUB 671.49 mln, that makes 2.5 settling periods with the average monthly accrual of RUB 1,810.22 mln.

Receivables management:

Following the Company claims work for legal collection of receivables for the power transmission services performed in 2016, favorable judicial decisions were received in 18 legal

cases totaling to RUB 466 mln. Claims for the recovery of RUB 29 mln were dismissed. The share of claims satisfied in the Company's favor was 94%.

In 2015, the claims for the amount of RUB 98 mln were satisfied in the Company's favor (6 legal cases).

Following the results of judicial decisions, enforcement orders for the amount of RUB 304 mln were received in 2016, of which RUB 266 mln or 88% were satisfied. During the previous year, enforcement orders for the amount of RUB 455 mln were received, of which RUB 4 mln or 1% were satisfied.

Accounts Payable

Analysis of Changes in Short-Term Accounts Payable, RUB mln

	As of 12/31/2016	As of 12/31/2015	As of 12/31/2014
Short-term accounts payable, including	8,280.20	11,799.75	10,619.88
– suppliers and contractors	4,837.35	4,343.66	7,795.37
– bills payable			
– salary payable to personnel	212.34	181.16	122.58
– payables to state extra-budgetary funds	93.94	86.76	66.36
– taxes and duties payable	654.43	1,502.99	183.79
– advances received	1,922.41	3,860.09	2,187.28
– profit payable to stockholders (founders)	0.04		
– other accounts payable	559.70	1,825.09	264.50

In 2016, the short-term payables decreased by RUB 3,519.55 mln when compared to 2015 and amounted to RUB 8,280.20 mln as of 12/31/2016.

The following changes were observed:

- debts to suppliers and contractors increased by RUB 493.70 mln due to the growth of arrears in payments for the electricity transit services by RUB 387.84 mln;
- arrears in advances received decreased by RUB 1,937.68 mln, the bulk of the arrear includes advances for technical integration in the amount of RUB 1,909.49 mln.
- salary payable to personnel increased by RUB 31.17 mln, this liability is included into current liabilities;
- taxes and duties payable decreased by RUB 848.56 mln;
- other accounts payable decreased by RUB 1,265.39 mln.

As of the end of 2016, the overdue accounts payable of Kubanenergo PJSC amounted to RUB 2,073.36 mln.

In 2016, long-term accounts payable amounted to RUB 1,429.37 mln.

Loans and Credits

In 2016, Kubanenergo PJSC raised loans amounting to RUB 13,220 mln, including:

- long-term loans in the amount of RUB 10,771 mln;
- short-term loans in the amount of RUB 2,449 mln.

The raised long-term loans are used for financing investment activities, payment of dividends, as well as for repayment of loans with higher interest rates, to reduce the interest expenses of the Company. Due to refinancing, the share of long-term borrowings in the debt portfolio of the Company was increased and the average cost of Kubanenergo PJSC loan funds was reduced.

In 2016, the short-term loans were raised as part of overdraft loans and were paid off in full as of 12/31/2016.

During 2016, the Company paid off:

- short-term loans in the amount of RUB 9,978 mln;
- long-term loans in the amount of RUB 1,330 mln.

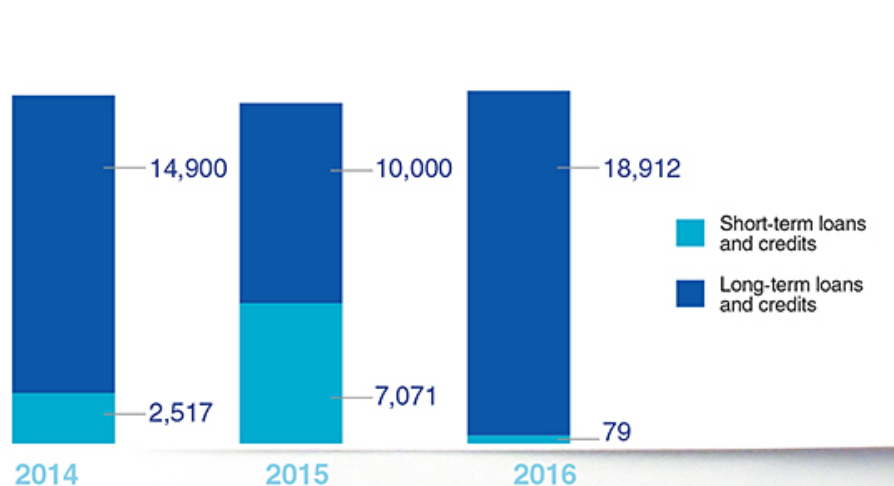
The actual amount of outstanding short-term loans and credits of Kubanenergo PJSC amounted to RUB 79 mln as of 12/31/2016, and included interests on bonds and on the loan granted by PJSC Sberbank, due to the timing difference between the accrual and payment under the loan contract terms.

The total short-term loan interests qualified as Company's expenses in 2016 amounted to RUB 540 mln.

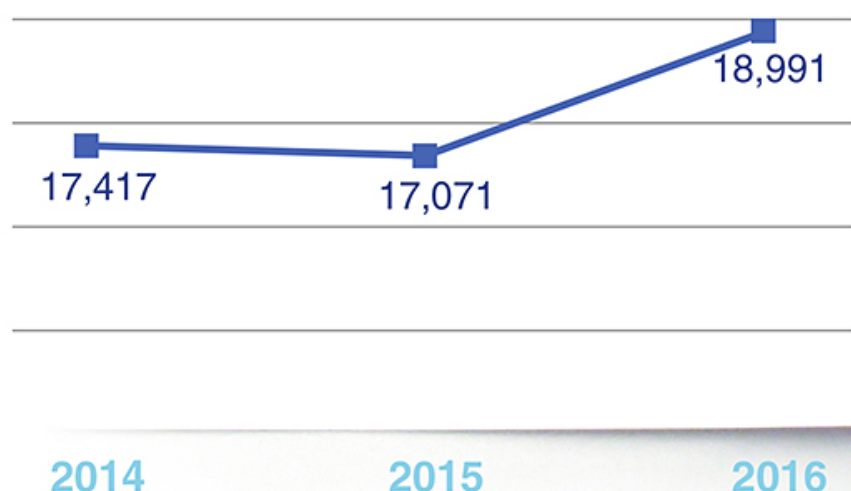
As of 12/31/2016, the total outstanding long-term loans and credits amounted to RUB 18,912 mln. The total long-term loan interests qualified as Company's expenses in 2016 amounted to RUB 1,349 mln.

Kubanenergo PJSC has no debts under loans and credits. The total outstanding interest for 2016 amounted to RUB 1,889 mln.

The structure of the Company's debt portfolio for 2014–2016, RUB mln:



Dynamics of the Company's debt portfolio for 2014–2016, RUB mln:



Kubanenergo PJSC did not cooperate with rating agencies. The Company has not been credit rated since 2009.

Company's Bond Issues

As of 12/31/2016, Kubanenergo PJSC placed two issues of exchange bonds under the Exchange Bonds Program (identification number 4-00063-A-001R-02E of 8/26/2015) approved on 7/29/2015 by the Board of Directors (Minutes No. 217/2015 of 7/31/2015):

- Issue of series 001R-02 bonds in the amount of RUB 3,400 mln under the following terms and conditions:

- ✓ maturity: ten (10) years;
- ✓ bonds acquisition offer under the agreement with bond holders not later than after 4 years;
- ✓ coupon rate set when placing bonds: from the 1st to the 14th coupon – 12.63% per annum;

- Issue of series 001R-01 bonds in the amount of RUB 3,600 mln under the following terms and conditions:

- ✓ maturity: ten (10) years, without offer;
- ✓ coupon rate: 10.44% per annum;

The bonds were placed in 2015. The borrowed funds are used to repay the loans with higher interest rates in order to reduce interest expenses of the Company. Kubanenergo PJSC has no arrears on bond issues.

On 9/20/2016, Kubanenergo PJSC Board of Directors approved Kubanenergo PJSC 002R series Exchange Bonds Program (Minutes No. 251/2016). On 10/24/2016, the Exchange Bonds Program was assigned identification number 4-00063-A-002R-02E. The Program allows for the placement of certified interest-bearing inconvertible bearer exchange bonds subject to mandatory deposit with the total nominal price of all exchange bonds issues, placed under the 002R series Exchange Bonds Program, of RUB 25 bln, inclusive, maturing on the day no later than within 10,920 days after the day of placement of the exchange bonds issue under the Exchange Bonds Program placed by public offering. In 2016, these bonds were not placed.

Corporate Governance



Irina Viktorovna Ivanova
*Deputy Director General
for Corporate Governance*

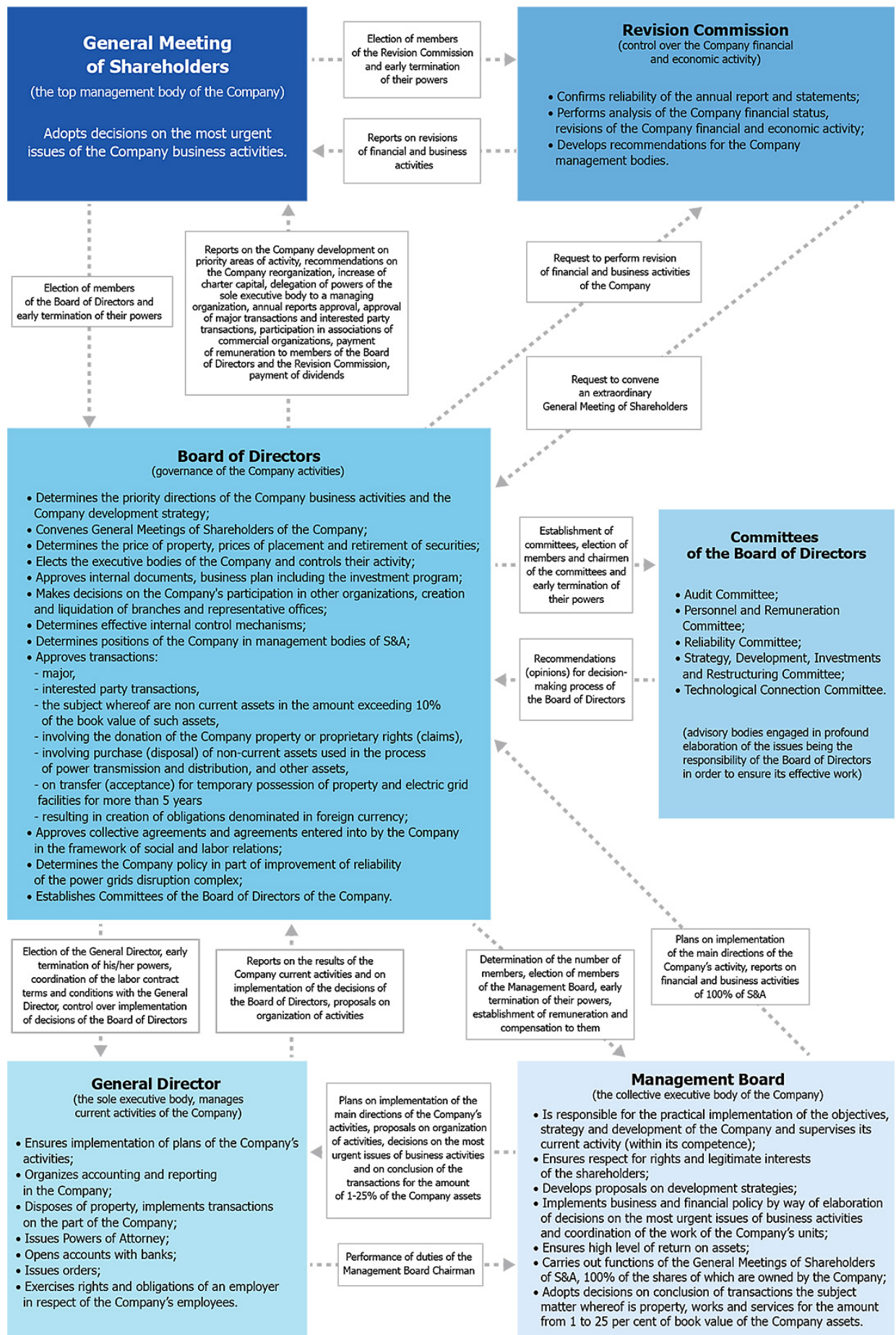
"The reporting year can be described as successful and consistent in terms of the Company's corporate governance:

- corporate events were held in due time, the management body was fully engaged in the Company's activities;
- no corporate conflicts developed, the members of management bodies refrained from actions that might cause a conflict between their and Company's interests;
- Kubanenergo PJSC disclosed information in full and in timely manner in accordance with the laws of the Russian Federation and with the Company's information policy;
- a number of Company's internal documents were approved as amended in order to bring them into accordance with recommendations of the Bank of Russia and the corporate governance practice established in PJSC ROSSETI Group of Companies.

The Company intends to maintain the attained level of corporate governance practice as well as works toward its further improvement".

Principles and Practices of Corporate Governance

The Company's corporate governance and control structure



Corporate governance is understood by the Company as a complex of processes ensuring management of and control over the Company's activity, including relationships between the shareholders, the Board of Directors and executive bodies in the interest of all participants of corporate relations that include shareholders and management bodies, as well as potential investors, service customers, Company's employees, contractors, creditors, partners, the state and local communities.

Kubanenergo PJSC considers corporate governance to be a tool to improve its business efficiency, enhance its reputation and reduce the cost of raising funds.

The company adheres to the following principles of corporate governance:

1. *Fairness.* The Company shall respect shareholders' legitimate rights and ensure equal treatment of all shareholders, as well as enable them to obtain efficient remedies in case of violation of their rights.
2. *Strategic management of the Company is performed by the Board of Directors.* The Board of Directors establishes the basic guidelines for long-term activities, principles of risk management and internal management, controls the activities of the Company's executive bodies, plays a key role in the prevention and resolution of internal conflicts and ensuring the Company's transparency.
3. *Accountability.* The Company's Board of Directors is accountable to all shareholders in accordance with the laws of the Russian Federation.
4. *Transparency.* The Company provides for timely disclosure of reliable information of all significant facts related to its activity, including its financial state, operational results, structure of property and Company management, as well as free access to such information for all interested parties.
5. *Liability.* The Company recognizes its responsibility to the shareholders of the Company and provides a reliable method of considering rights to their shares.

In order to ensure continuity of the corporate governance practices, the following internal documents have been approved and in force in the Company¹⁴:

- Corporate Governance Code;
- Regulations:
 - ✓ on General Meeting of Shareholders;
 - ✓ on Board of Directors;
 - ✓ on Management Board;
 - ✓ on Revision Commission;
 - ✓ on Committees of the Board of Director;
 - ✓ on Insider Information;
 - ✓ on Information Policy;
 - ✓ on Company's Corporate Secretary;
 - ✓ on Dividend Policy, etc.

The Company generally observes the principles and recommendations of the Corporate Governance Code recommended by the Bank of Russia in Letter No. 06-52/2463 of 4/10/2014 for application by joint-stock companies having stocks admitted to on-exchange trading (the "Corporate Governance Code")¹⁵.

¹⁴ Find the documents listed below and other internal documents on corporate governance of Kubanenergo PJSC on website www.kubanenergo.ru – section [About the Company / Constituent and in-house documents](#)

¹⁵ Report on Observance of the Corporate Governance Code is provided in Attachment 3.

Main events of the reporting year in the field of the Company's corporate governance:

- shareholders decided to increase the Company's authorized capital through placing of additional shares, the Board of Directors approved the issue documents, registered the Company's securities additional issue and prospectus;

- approval of the following Regulations as amended in order to bring them into accordance with the Corporate Governance Code and with the corporate governance practice established in PJSC ROSSETI Group of Companies:

- ✓ Regulations on Board of Directors (supplemented by the provisions on regular evaluation of the Board of Directors performance and on prevention of conflicts between the interests of the Board members).

- ✓ Regulations on Audit Committee (the Committee objectives and competences as well as the list of points in its action plan were specified).

- ✓ Regulations on Company's Corporate Secretary (the functions were extended, requirements for the Corporate Secretary position, his/her responsibilities, and duty to annually account for his/her work to the Human Resources and Remuneration Committee as well as to the Company's Board of Directors were specified).

- Regulations on Strategy, Development, Investments and Restructuring Committee of the Board of Directors were amended (the Committee competences were supplemented by the control over organization and operation of the Company's risk management system).

- the number of issues considered by the Board of Directors increased by 10.9% as compared with the previous year.

The Company intends to maintain the attained level of corporate governance practice and works toward its further improvement.

General Meeting of Shareholders

General Meeting of Shareholders is the top management body of the Company.

In accordance with the Articles of Association of Kubanenergo PJSC, the following issues, among other things, are the responsibility of the General Meeting of the Company's Shareholders:

- introduction of amendments and additions to the Articles of Association;
- reorganization and liquidation of the Company;
- Increase and decrease of the Company's authorized capital;
- split-up and consolidation of the Company's shares;
- decision-making on placement of stocks converted into shares by the Company;
- election of members of the Board of Directors and Revision Commission of the Company and early termination of their powers;
- approval of annual reports, annual accounting statements, profit distribution (including payment of dividends);
- decision-making on approval of major transactions and interested party transactions in the cases stipulated by the Federal Law "On Joint-Stock Companies";
- approval of internal documents regulating the activity of the Company bodies;
- decision-making on payment of remuneration and/or compensation to the members of the Board of Directors and the Audit Committee of the Company.
- decision-making on delisting application of the Company's shares and/or equity securities converted in its shares.

The General Meetings of Shareholders of Kubanenergo PJSC are prepared and held in accordance with the laws of the Russian Federation and Regulations on Procedure for Convening and Holding General Meeting of Shareholders¹⁶.

Two General Meetings of Company's Shareholders were held in 2016: annual and extraordinary meetings.

¹⁶ Find Regulations on Procedure for Convening and Holding General Meeting of Shareholders on the web-site www.kubanenergo.ru - section [About the Company / Constituent and in-house documents](#)

Date of the General Meeting of Shareholders (deadline for accepting ballots)	Date and Number of Minutes of the General Meeting of Shareholders	Quorum of the General Meeting of Shareholders	Decisions adopted by the General Meeting of Shareholders ¹⁷
1. Annual Meeting:			
6/24/2016	No. 37 of 6/27/2016	99.61% of total amount of placed voting shares	<ul style="list-style-type: none"> To approve the Company's annual report and annual financial statements for 2015. To approve the distribution of the Company's profits for 2015 in the amount of RUB 1,452,479 thou: <ul style="list-style-type: none"> ✓ RUB 72,624 thou. – for increase in the provision ✓ RUB 1,144,797 thou. – for dividend payment ✓ RUB 235,058 thou. – for redemption of losses. To pay the dividends on the Company's common shares for 2015 in the amount of RUB 4.047105 per share in cash. To elect the members of the Board of Directors and the Revision Commission of the Company. To approve LLC RSM RUS as the Company's auditor. To approve the Regulation on Company's Board of Directors as amended.
2. Extraordinary Meeting:			
9/19/2016	No. 38 of 9/21/2016	92.24% of total amount of placed voting shares	To increase the Company's authorized capital through placement of 57,457,846 additional ordinary registered uncertified shares with the nominal per-share price of RUB 100 totaling to RUB 5,745,784,600 by public offering at the price of RUB 100 per share paid in cash.

Board of Directors

The Board of Directors is the collective control body performing the general management of the Company's business, determining its strategy, and controlling work of the Company's executive bodies.

Main goals and objectives of the Board of Directors are as follows:

- To determine the Company's development strategy aimed at enhancement of its market capitalization and investment prospects, achievement of maximum profit and increments of assets of the Company.
- To ensure exercise and protection of rights and legitimate interests of shareholders, as well as to assist in settlement of corporate conflicts.
- To ensure completeness, reliability and neutrality of disclosure of information about the Company.
- To create effective internal control mechanisms.
- To regularly assess the Company's management work.

In order to implement the above purposes and tasks, the Board of Directors is guided by the following principles:

- To adopt decisions on the basis of reliable information on the Company's activity.
- To avoid restriction of the shareholders' rights to participate in the management of the Company, receipt of dividends and information about the Company.
- To achieve balance of convenience of different groups of shareholders and to have the most neutral decisions adopted by the Board of Directors to the benefit of all shareholders of the Company.

In its activities, the Board of Directors is guided by the Federal Law "On Joint-Stock Companies", other regulatory legal acts of the Russian Federation, the Company's Articles of Association, the Regulation on Board of Directors¹⁸.

¹⁷ Find the Minutes of the General Meetings of Kubanenergo PJSC Shareholders on the website www.kubanenergo.ru - section "About the Company / Management / Shareholders' General Meeting"

The responsibility of the Company's Board of Directors is extended compared to the standards of Federal Law "On Joint-Stock Companies"; it additionally includes the following matters:

- determination of the Company's development strategy;
- approval of business plan, including investment program;
- approval of target values of key performance indicators of the Company and reports on performance thereof;
- determination of the Company's policy;
 - ✓ with regard to improvement of a distributive electric grid complex and other electric grid facilities reliability;
 - ✓ in the area of insurance;
 - ✓ credit;
 - ✓ procurement;
 - ✓ housing;
- organization of management and control of organizations' business wherein it participates.
 - ✓ approval of the procedure of the Company's interaction with the organizations wherein it participates;
 - ✓ determination of the Company's stance on the basic issues of the agenda of the General Meetings of Shareholders (participants) and meetings of the Board of Directors of the S&A;
 - ✓ appointment of the Company's representatives in order to participate in the top management work of the organizations wherein it participates;
 - ✓ decision-making on promotion of candidates by the Company for election to governing and control bodies of the organizations wherein it participates, as well as election of the auditor;
- preliminary approval of the decisions on conclusion of the separate transactions by the Company:
 - ✓ the subject of which are non-current assets in the amount exceeding 10% of the book value of its assets;
 - ✓ involving acquisition, alienation or a possibility of alienation of property constituting fixed assets, intangible assets, assets under construction that are used in order to produce, transfer, dispatch, distribute of electric and thermal energy, as well as other types of property determined by certain decisions of the Board of Directors;
 - ✓ on transfer (acceptance) for temporary possession (use) of property and electric grid facilities for more than 5 years;
 - ✓ involving donation of the Company's property or proprietary rights (claims) to itself or to a third party; transactions involving releasing from property obligation before itself or a third party; transactions involving gratuitous provision of services by the Company to third parties;
 - ✓ which can result in creation of obligations denominated in foreign currency, transactions with derivative financial instruments;
- arrangement and control of the work of the Company's executive bodies:
 - ✓ making decision on appointment of the Company's Acting Director General;
 - ✓ bringing to a disciplinary responsibility of the Company's executive bodies and their recognition;
 - ✓ consideration of the Director General reports on Company's business;
 - ✓ control of the executive bodies work with regard to adherence to the strategy approved by the Company;
 - ✓ recommendations to the Company's executive bodies with regard any questions of its activity;
 - ✓ approval of regulations on financial incentives of the Director General and Top Managers of the Company;
 - ✓ approval of candidates for separate positions of the Company's executive office;
- preliminary approval of collective contract, agreements entered into by the Company as part of regulation of the social and labor relations, approval of documents related to non-state pension provision to the Company's employees;
 - approval of independent appraisers, financial consultants;
 - making decisions on Company's joining to industry and interindustry standards, regulations and other documents in the sphere of power industry on various areas of the Company's business, including technical regulation;
 - establishment of Committees of the Board of Directors and election of their members;
 - arrangement of the Risk Management and Internal Control Systems:
 - ✓ definition of basic principles and approaches to risk management and internal control system in the Company;
 - ✓ assessment of key operational risks as well as establishment of the acceptable size of risks for the Company;
 - ✓ arrangement of carrying out the annual analysis and assessment of functioning of Risk Management and Internal Control Systems;

¹⁸ Find the Regulation on Board of Directors of Kubanenergo PJSC on the web-site: www.kubanenergo.ru - section [About the Company / Constituent and in-house documents](#)

✓ annual consideration of issues related to arrangement, functioning and efficiency of risk management and internal control system in the Company;

✓ control and arrangement of internal audit unit work, approval of decisions on appointment and dismissal, as well as determination of remuneration of the head of internal audit unit.

The Board of Directors includes 11 persons elected by the General Meeting of Shareholders for the period up to the following annual General Meeting of Shareholders Should the Board of Directors be elected at the Extraordinary General Meeting of Shareholders, Board members are considered to be elected for the period prior to date of the following annual General Meeting of Shareholders.

The Board of Directors¹⁹

Two personal compositions of the Board of Directors acted in the reporting year.

The current Board of Directors elected at Annual General Meeting of Shareholders of the Company on 6/24/2016²⁰:

1. Yuriy Nikolayevich Mangarov, Chairman of the Board of Directors, Non-Executive Director:

Year of birth	1956
Education	Higher. Graduated from Plekhanov Russian University of Economics, qualification: "Economic Cybernetic"
Work experience for the last 5 years:	
2010–2013	Deputy Chairman of the Management Board, Head of Office of OJSC FGC UES
2012–2013	Deputy Executive Director, Head of Office (external secondary employment) of OJSC Rosseti (till April 4, 2013 – OJSC IDGC Holding)
2013–till present	Deputy Head of Office of PJSC ROSSETI (primary employment)
2013–2014	Chairman of the Human Resources and Remuneration Committee of the Board of Directors of OJSC Kubanenergo
2014–2016	Member of the Board of Directors of PJSC IDGC of the Northern Caucasus, PJSC MOESK
2014–till present	Member of the Board of Directors of JSC Yantarenergo, PJSC IDGC of Center
2015–2016	Member of the Board of Directors of PJSC Sevkavkazenergo, PJSC Kabbalkenergo, PJSC Dagestan Energy Retail Company, JSC Karachaevo-Cherkesskenenergo, JSC Kalmenergosbyt, JSC Tyvaenergosbyt, JSC Ingushenergo
2015–till present	Chairman of the Human Resources and Remuneration Committee of the Board of Directors of Kubanenergo PJSC
2015–till present	Advisor Director General, Acting Head of Administration (secondary employment) of PJSC Lenenergo.
2016–till present	Member of the Board of Directors of PJSC IDGC of the Northwest
The first/last election to the Board of Directors of Kubanenergo PJSC	6/10/2015 / 6/24/2016

2. Dmitriy Alekseyevich Bobkov, Non-Executive Director:

Year of birth	1982
Education	Higher. Graduated from Lomonosov Moscow State University, qualification:

¹⁹ The consent to disclosure of personal data indicated in section "Corporate Governance" was secured from all persons who are or were the members of the management and control bodies of Kubanenergo PJSC.

²⁰ Information about the experience of the Board members specifies only the last positions held by them for each place of employment. All positions which were held by Board members (in a chronological order) are specified in the quarterly reports of the issuer published on the web-site www.kubanenergo.ru - section [For shareholders and investor / Information disclosure / Quarterly reports of the Issuer](#).

The data on the places of work and positions of the members of the Board of Directors are specified in accordance with the data provided by them to the Company as of the end of the reporting year. Here "till present" shall mean till 12/31/2016.

	“Philology”, Postgraduate studies in the Institute of Socio-Political Research. Academic degree: Ph.D. in Economics.
Work experience for the last 5 years:	
2011–2012	Head of Federal State Institution Press Service of the Ministry of Agriculture of the Russian Federation
2012–2012	Head of State Policy Department in the area of Agro-Industrial Complex and Information of the Ministry of Agriculture of the Russian Federation
2012–2013	Deputy Director General for Media and Government Authorities Relations of OJSC Kubanenergo
2013–till present	Head of Information Policy and Public Affairs Department of PJSC ROSSETI (primary employment)
The first/last election to the Board of Directors of Kubanenergo PJSC	6/24/2016 / 6/24/2016

3. Aleksandr Yevgenyevich Bogashov, representative of the legal interests of the Russian Federation, Non-Executive Director

Year of birth	1989
Education	Higher. Graduated from Federal State Budgetary Educational Institution of Higher Professional Education the State University of Management, qualification: “Enterprise Management”
Work experience for the last 5 years:	
2011–2013	Acting Advisor of Administration of the Federal Agency for State Property Management
2012–2013	Member of the Revision Commission of OJSC VNIKTi Neftekhimoborudovanie, OJSC Stavropolneftegeofizika, OJSC VNIPneft, OJSC VNIMI, OJSC CNIEIugol, OJSC Research Center VostNII, OJSC Nefteproduktkomplekt, OJSC All-Russia Research Institute of Oil Refining, OJSC NIITeplopribor, OJSC Soyuzmorgeo, OJSC SPC Supermetall name after Ye.I. Rytvin
2012–2014	Member of the Revision Commission of OJSC Kubanenergo, OJSC Moskovskiy Neftemaslozavod, OJSC Volgogradneftegeofizika, OJSC Permneftegeofizika, OJSC CGE
2013–till present	Head of Corporate Governance Office of the Department of Corporate Governance, Price Environment and Internal Control of the Fuel and Energy Sector of the Ministry of Energy of the Russian Federation (primary employment)
2013–2014	Member of the Board of Directors of OJSC Nizhnevartovskneftegeofizika, OJSC Krasnodarneftegeofizika, OJSC Mosenergostroy Construction Industrial Company. Member of the Revision Commission of OJSC Samaraneftegeofizika. Member of the Strategy, Development, Investment and Restructuring Committee, Member of the Board of Directors of Kubanenergo OJSC
2015–2016	Member of the Revision Commission of PJSC ROSSETI
2016–till present	Member of the Board of Directors of PJSC IDGC of Center, PJSC IDGC of Volga, PJSC IDGC of South
The first/last election to the Board of Directors of Kubanenergo PJSC	6/24/2016 / 6/24/2016

4. Aleksandr Viktorovich Varvarin, Non-Executive Director

Year of birth	1975
Education	Higher. Graduate from the Institute of International Law and Economics named after Griboyedov, qualification: “Legal Science”
Work experience for the last 5 years:	
2005–till present	Vice-President for Corporate Relations and Legal Support of RSPP (primary employment)
2006–till present	Director General, Board member of Non-Commercial Partnership Center of Corporate

	Relations Development and Economic Disputes Settlement
2006–2014	Deputy Chairman of the Management Board of the Russian Union of Self-Regulatory Organization of Insolvency Practitioners
2008–till present	Chairman of the Board of Non-Commercial Partnership MSO PAU
2009–2016	Member of the Board of Directors of OJSC VTsIOM
2009–2012	Member of the Board of Directors of OJSC Rosdorzizing
2009–2016	Chairman of the Board of Directors of OJSC VNIPIneft
2011–2016	Chairman of the Board of Directors of OJSC INPC TLP.
2011–till present	Member of the Board of Directors of PJSC IDGC of Volga
2012–2013	Member of the Board of Directors of CJSC TransTelecom
2012–till present	Member of the Revision Commission of OJSC RZD
2013–2015	Chairman of the Board of Directors of OJSC Science and Production Center, OJSC CNIIMMashdetal, OJSC CNIICP, OJSC CNIILKA, OJSC CNIPIK. Member of the Board of Directors of OJSC GTLK, OJSC IDGC of the Northern Caucasus
2014–till present	Chairman of the Committee for technological connection, member of the Human Resources and Remuneration Committee of the Board of Directors of Kubanenergo PJSC
2016–2016	Member of the Board of Directors of OJSC VNII NP
The first/last election to the Board of Directors of Kubanenergo PJSC	6/17/2013 / 6/24/2016

5. Aleksandr Ilyich Gavrillov, Executive Director

Year of birth	1973
Education	Higher. Graduated from Kuban State University, qualification: “Accounting and Audit”; Kuban State Technological University, qualification: “Development and Operation of Oil-and-Gas Field”. Completed advanced training course at Ernst & Young, subject: Risk Management. Academic degree: DPhil in Economics
Work experience for the last 5 years:	
2010–2012	Professor at the Department of Economic Theory, Economics and Management of Economics Faculty of the Institute of Economy, Law and Humanitarian Specialties.
2013	Top Advisor to the Chairman of the Management Board of OJSC FGC UES.
2013–till present	Director General, Chairman of the Management Board of Kubanenergo PJSC (primary employment)
The first/last election to the Board of Directors of Kubanenergo PJSC	6/23/2014 / 6/24/2016

6. Vladimir Fyodorovich Gritsenko, Independent Director:

Year of birth	1965
Education	Higher. Graduated from Russian State University for the Humanities, qualification: “Jurisprudence”
Work experience for the last 5 years:	
2010–2012	Business Development Director of LLC Unitel Group
2012–till present	Business Development Director of LLC Unitel Engineering (primary employment)
2016–till present	Member of the Presidium of Non-Profit Partnership OPORA RUSSIA Member of the Strategy, Development, Investment and Reforming Committee, Member of the Board of Directors of Kubanenergo PJSC
The first/last election to the Board of Directors of Kubanenergo PJSC	6/24/2016 / 6/24/2016

7. Aleksandr Leonidovich Efimov, Non-Executive Director

Year of birth	1982
Education	Higher. Graduated from Moscow University of the Ministry of Internal Affairs of the

	Russian Federation, qualification: “Jurisprudence”
Work experience for the last 5 years:	
2009–2013	Director for Protocol, Head of Protocol Department of OJSC FGC UES
2013–till present	Director of Administration of PJSC ROSSETI (primary employment)
The first/last election to the Board of Directors of Kubanenergo PJSC	6/24/2016 / 6/24/2016

8. Aleksey Yuryevich Serov, Non-Executive Director

Year of birth	1979
Education	Higher. Graduated from: - Lomonosov Moscow State University, qualification: “Applied Mathematics”; - New Economic School, Master of Finance
Work experience for the last 5 years:	
2009–2012	Senior analyst in power engineering of the Stock Market Analysis Department of CJSC TKB Capital
2012–2013	Senior Analyst of Business Development Office of CJSC Business Environment
2013–till present	Director of Finance Department of PJSC ROSSETI (primary employment)
2015–till present	Member of the Board of Directors of JSC NITs UES, JSC Ingushenergo
2016–till present	Member of the Board of Directors of PJSC TRK Member of the Audit Committee of the Board of Directors of Kubanenergo PJSC.
The first/last election to the Board of Directors of Kubanenergo PJSC	6/24/2016 / 6/24/2016

9. Vladimir Vladimirovich Sofyin, Deputy Chairman of the Board of Directors, Non-Executive Director

Year of birth	1969
Education	Higher. Graduated from Ural State Technical University qualification: “Electrical Power Systems and Grids”
Work experience for the last 5 years:	
2010–2013	First Assistant Minister of the Ministry of Energy and Housing and Utility Infrastructure of the Murmansk Region
2012–2013	Director of Innovative Development of OJSC FGC UES
2013–till present	Director of Technological Development and Innovation Department of PJSC ROSSETI (primary employment)
2014–2015	Member of the Board of Directors of OJSC VNIPIenergoprom
2015–2016	Member of the Board of Directors of PJSC Lenenergo
2015–till present	Member of the Board of Directors of PJSC FTC, OJSC ENIN
2016–till present	Member of the Board of Directors of OJSC IDGC of Urals, JSC Administration of FOCL-OHL Chairman of the Audit Committee of the Board of Directors of Kubanenergo PJSC.
The first/last election to the Board of Directors of Kubanenergo PJSC	6/24/2016 / 6/24/2016

10. Kseniya Valeriyevna Khokholkova, Non-Executive Director

Year of birth	1970
Education	Higher. Graduated from the State University of Management named after Sergo Ordzhonikidze, qualification: “Organization of Management in Fuel and Energy Sector”
Work experience for the last 5 years:	
2008–till present	Deputy Head of Share Capital Administration, Head of Office of Shareholders’ Rights Enforcement of the Department of Corporate Governance and Shareholder Relations and Investors of PJSC Rosseti (primary employment)
2009–2013	Member of the Board of Directors of OJSC SZEUK

2009–2014	Member of the Board of Directors of OJSC Ingushenergo
2010–2014	Member of the Board of Directors of OJSC Volga Power Engineering Center
2013–2014	Member of the Revision Commission of OJSC IDGC of Volga Member of the Strategy, Investments and Restructuring Committee of the Board of Directors of OJSC IDGC of Siberia
2014–2015	Member of the Board of Directors of OJSC Energoservice, OJSC NITs of Volga
2014–2016	Member of the Strategy, Development, Investment and Reforming Committee, Member of the Board of Directors of Kubanenergo PJSC
2014–till present	Member of the Board of Directors of OJSC Lenenergospetsremont, OJSC Health and Recreation Resort “Energetik” Member of the Audit Committee of the Board of Directors of Kubanenergo PJSC.
2015–till present	Member of the Board of Directors of OJSC ENIN
The first/last election to the Board of Directors of Kubanenergo PJSC	6/23/2014 / 6/24/2016

11. Igor Vladimirovich Shmakov, Executive Director:

Year of birth	1974
Education	Higher. Graduated from Kuban State University, qualification: “Economic and Social Planning”
Work experience for the last 5 years:	
2008–2012	Head of Internal Audit and Risk Management Department of OJSC IDGC of South
2012–2013	Head of Internal Control Directorate of OJSC FGC UES
2013–2016	Head of Internal Audit Directorate of PJSC ROSSETI
2013–2014	Member of the Revision Commission of OJSC MUS Energetiki
2013–2015	Member of the Revision Commission of OJSC Kubanenergo, OJSC IDGC of South, OJSC Yantarenergo, OJSC NITs of South
2015–2016	Member of the Board of Directors, Chairman of the Audit Committee of the Board of Directors of PJSC IDGC of South Chairman of the Audit Committee of the Board of Directors of PJSC TRK. Member of the Revision Commission of Kubanenergo PJSC, OJSC IDGC of Urals
2015–till present	Member of the Revision Commission of PJSC ROSSETI, PJSC MOESK
2016–till present	Deputy Director General for Controlling of Kubanenergo PJSC (primary employment)
2016–till present	Member of the Revision Commission of PJSC FGC UES, PJSC IDGC of the North Caucasus Member of the Strategy, Development, Investment and Reforming Committee, Member of the Board of Directors of Kubanenergo PJSC
The first/last election to the Board of Directors of Kubanenergo PJSC	6/24/2016 / 6/24/2016

The Board of Directors which was elected by the annual General Meeting of Shareholders on 6/10/2015 and acted until 6/24/2016.²¹

1. Yuriy Nikolayevich Mangarov, Chairman of the Board of Directors, Non-Executive Director²²:

Year of birth	1956
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²¹ Information about the experience of the Board members specifies only the last positions held by them for each place of employment.

All positions which were held by Board members (in a chronological order) are specified in the quarterly reports of the issuer published on the web-site www.kubanenergo.ru - section [For shareholders and investor / Information disclosure / Quarterly reports of the Issuer](#).

The data on the places of work and positions of the members of the Board of Directors are specified in accordance with the data provided by them to the Company as of 3/31/2016.

²² The status is determined by criteria of the Corporate Governance Code recommended by the Bank of Russia in Letter No. 06-52/2463 of April 10, 2014 for application by joint-stock companies having stocks admitted to on-exchange trading.

Education	Higher. Graduated from Plekhanov Russian University of Economics, qualification: "Economic Cybernetic"
Work experience for the last 5 years:	
2010–2013	Deputy Chairman of the Management Board, Head of Office of OJSC FGC UES
2012–2013	Deputy Executive Director, Head of Office (external secondary employment) of OJSC Rosseti (till April 4, 2013 – OJSC IDGC Holding)
2013–till present	Top Advisor to PJSC Rosseti (primary employment)
2013–2014	Chairman of the Human Resources and Remuneration Committee of the Board of Directors of OJSC Kubanenergo
2014–till present	Member of the Board of Directors of JSC Yantarenergo, PJSC IDGC of Center
2014–2016	Member of the Board of Directors of PJSC IDGC of the Northern Caucasus, PJSC MOESK
2015–2016	Member of the Board of Directors of PJSC Sevkavkazenergo, PJSC Kabbalkenergo, PJSC Dagestan Energy Retail Company, JSC Karachaevo-Cherkessskenergo, JSC Kalmenergosbyt, JSC Tyvaenergosbyt, JSC Ingushenergo
2015–till present	Advisor Director General, Acting Head of Administration (secondary employment) of PJSC Lenenergo.
2015–till present	Chairman of the Human Resources and Remuneration Committee of the Board of Directors of Kubanenergo PJSC
The first/last election to the Board of Directors of Kubanenergo PJSC	6/10/2015 / 6/24/2016

2. Yelena Viktorovna Bogach, Non-Executive Director:

Year of birth	1976
Education	Higher. Graduated from Lomonosov Moscow State University, Faculty of Mechanics and Mathematics and Faculty of Economics
Work experience for the last 5 years:	
2004–2013	First Deputy Head of Department of OJSC FGC UES
2013–till present	Head of Strategic Planning Office of the Department of Strategic Projects of PJSC Rosseti (primary employment)
2015–2016	Member of the Board of Directors of PJSC Dagestan Energy Retail Company
The first/last election to the Board of Directors of Kubanenergo PJSC	6/10/2015 / 6/10/2015

3. Aleksandr Viktorovich Varvarin, Non-Executive Director

Year of birth	1975
Education	Higher. Graduate from the Institute of International Law and Economics named after Griboyedov, qualification: "Legal Science"
Work experience for the last 5 years:	
2005–till present	Vice-President for Corporate Relations and Legal Support of RSPP (primary employment)
2006–till present	Director General, Board member of Non-Commercial Partnership Center of Corporate Relations Development and Economic Disputes Settlement
2006–2014	Deputy Chairman of the Management Board of the Russian Union of Self-Regulatory Organization of Insolvency Practitioners
2008–till present	Chairman of the Board of Non-Commercial Partnership MSO PAU
2009–2016	Member of the Board of Directors of OJSC VTsIOM
2009–2012	Member of the Board of Directors of OJSC Rosdorzilizing
2009–2016	Chairman of the Board of Directors of OJSC VNIPIneft
2011–2016	Chairman of the Board of Directors of OJSC INPC TLP.
2011–till present	Member of the Board of Directors of PJSC IDGC of Volga
2012–2013	Member of the Board of Directors of CJSC TransTelecom
2012–till present	Member of the Revision Commission of OJSC RZD

2013–2015	Chairman of the Board of Directors of OJSC Science and Production Center, OJSC CNIIMMashdetal, OJSC CNIICP, OJSC CNIILKA, OJSC CNIPIK. Member of the Board of Directors of OJSC GTLK, OJSC IDGC of the Northern Caucasus
2014–till present	Chairman of the Committee for technological connection, member of the Human Resources and Remuneration Committee of the Board of Directors of Kubanenergo PJSC
The first/last election to the Board of Directors of Kubanenergo PJSC	6/17/2013 / 6/24/2016

4. Aleksandr Ilyich Gavrilov, Executive Director

Year of birth	1973
Education	Higher. Graduated from Kuban State University, qualification: “Accounting and Audit”; Kuban State Technological University, qualification: “Development and Operation of Oil-and-Gas Field”. Completed advanced training course at Ernst & Young, subject: Risk Management. Academic degree: DPhil in Economics
Work experience for the last 5 years:	
2010–2012	Professor at the Department of Economic Theory, Economics and Management of Economics Faculty of the Institute of Economy, Law and Humanitarian Specialties.
2013	Top Advisor to the Chairman of the Management Board of OJSC FGC UES.
2013–till present	Director General, Chairman of the Management Board of Kubanenergo PJSC
The first/last election to the Board of Directors of Kubanenergo PJSC	6/23/2014 / 6/24/2016

5. Sergey Mikhaylovich Katayev, Deputy Chairman of the Board of Directors, Non-Executive Director:

Year of birth	1975
Education	Higher. Graduated from the Moscow Power Engineering Institute (technical university), qualification: “Thermal Power Plants”
Work experience for the last 5 years:	
2010–2012	Head of Repair Department of OJSC RAO Energy Supply Systems of the East
2012–2014	Head of Department of Monitoring of Consumption of Non-Commercial Partnership “Market Council”
2014–till present	Director of Operative Process Management Department of PJSC ROSSETI (primary employment)
2015–2016	Member of the Board of Directors of OJSC IDGC of Urals
The first/last election to the Board of Directors of Kubanenergo PJSC	6/10/2015 / 6/10/2015

6. Anton Mikhaylovich Kislyakov, Non-Executive Director

Year of birth	1970
Education	Higher. Graduated from the Moscow State Academy of Law, qualification: “Jurisprudence”
Work experience for the last 5 years:	
2008–2016	Head of Current Activities Support Office of the Legal Support Department of PJSC ROSSETI (primary employment)
2015–2016	Member of the Board of Directors of JSC Ingushenergo. Member of the Audit Committee of the Board of Directors of Kubanenergo PJSC.
The first/last election to the Board of Directors of Kubanenergo PJSC	6/10/2015 / 6/10/2015

7. Marina Aleksandrovna Lavrova, Non-Executive Director:

Year of birth	1982
Education	Higher. Graduated from the State University of Management, qualification: "Management in Power Economy" and the Financial University under the Government of the Russian Federation, qualification: "Finance and Credit".
Work experience for the last 5 years:	
2008–till present	Head of S&A Economy Administration of the Department of Economic Planning and Budgeting of PJSC Rosseti (primary employment)
2009–2016	Member of the Board of Directors of PJSC Dagestan Energy Retail Company
2013–2016	Member of the Board of Directors of OJSC EESK Chairman of the Audit Committee of the Board of Directors of Kubanenergo PJSC.
2013–2014	Member of the Strategy, Development, Investment and Restructuring Committee, Member of the Board of Directors of Kubanenergo OJSC
2014–2016	Member of the Board of Directors of PJSC IDGC of the Northwest
2015–2016	Member of the Strategy, Development, Investment and Reforming Committee, Member of the Board of Directors of Kubanenergo PJSC
The first/last election to the Board of Directors of Kubanenergo PJSC	6/17/2013 / 6/10/2015

8. Artur Kamilovich Niyazmetov, Non-Executive Director

Year of birth	1985
Education	Higher. Graduated from the Khabarovsk State University of Economics and Law, qualification: "Finance and Credit" Academic degree: Ph.D. in Economics.
Work experience for the last 5 years:	
2011	Leading expert of CJSC Technical Inspection UES
2011–2016	Senior Teacher of the Federal State Budgetary Educational Institution of Higher Professional Education Financial University under the Government of the Russian Federation (0.25 fte) (secondary employment)
2011–2013	Deputy Chief of Department of the Ministry of Energy of the Russian Federation
2013–2014	Head of Department of the Ministry of Finance of the Russian Federation
2014–2015	Chief of Special Project Organization Office of Special Projects Implementation Department of OJSC Rosseti
2015–2016	Deputy Minister of the Ministry for Development of the Russian Far East (primary employment)
The first/last election to the Board of Directors of Kubanenergo PJSC	6/10/2015 / 6/10/2015

9. Fyodor Alekseyevich Terebkov, status: Non-Executive Director

Year of birth	1984
Education	Higher. Graduated from the National Research University Higher School of Economics, qualification "Finance and Credit"
Work experience for the last 5 years:	
2009–2012	Chief of Department of OJSC JSCB Svyaz Bank
2012–2013	Deputy Head of Corporate Finance Department of OJSC FGC UES
2013–2015	Head of Capital Markets and Structured Financing Office of Capital Markets Department of PJSC Rosseti
2015–2016	Head of Department of Loans in the Capital Markets of Bank GPB (JSC) (primary employment)
2014–2015	Member of the Board of Directors of OJSC IDGC of the Northern Caucasus
2015–2016	Member of the Board of Directors of JSC Karachaevo–Cherkesskenenergo, JSC NIIC MRSK
The first/last election to the Board of Directors	6/10/2015 / 6/10/2015

of Kubanenergo PJSC	
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10. Andrey Nikolayevich Kharin, representative of the legal interests of the Russian Federation, Non-Executive Director:

Year of birth	1979
Education	Higher. Graduated from Stavropol State University, qualification: “Jurisprudence”
Work experience for the last 5 years:	
2010–2012	Deputy Director General for Corporate Management of OJSC IDGC of the Northern Caucasus
2013–2014	Advisor Director General of OJSC DVEUK
2014–2016	Deputy Director of the Department of Corporate Management, Price Environment and Internal Control of the Fuel and Energy Sector of the Ministry of Energy of the Russian Federation (primary employment)
2014–2015	Member of the Board of Directors of OJSC IDGC of Center and Volga Region, OJSC NITs UES
2014–2016	Member of the Board of Directors of PJSC IDGC of South, OJSC VNIMI, JSC CGE
2015–2016	Member of the Board of Directors of JSC Arktikshelfneftgaz, PJSC IDGC of Center, PJSC IDGC of Volga
The first/last election to the Board of Directors of Kubanenergo PJSC	6/23/2014 / 6/10/2015

11. Kseniya Valeriyevna Khokholkova, Non-Executive Director

Year of birth	1970
Education	Higher. Graduated from the State University of Management named after Sergo Ordzhonikidze, qualification: “Organization of Management in Fuel and Energy Sector”
Work experience for the last 5 years:	
2008–till present	Deputy Head of Share Capital Administration, Head of Office of Shareholders’ Rights Enforcement of the Department of Corporate Governance and Shareholder Relations and Investors of PJSC Rosseti (primary employment)
2009–2013	Member of the Board of Directors of OJSC SZEUK
2009–2014	Member of the Board of Directors of OJSC Ingushenergo
2010–2014	Member of the Board of Directors of OJSC Volga Power Engineering Center
2013–2014	Member of the Revision Commission of OJSC IDGC of Volga Member of the Strategy, Investments and Restructuring Committee of the Board of Directors of OJSC IDGC of Siberia
2014–2015	Member of the Board of Directors of OJSC Energoservice, OJSC NITs of Volga
2014–2016	Member of the Strategy, Development, Investment and Reforming Committee, Member of the Board of Directors of Kubanenergo PJSC
2014–till present	Member of the Board of Directors of OJSC Lenenergospetsremont, OJSC Health and Recreation Resort “Energetik” Member of the Audit Committee of the Board of Directors of Kubanenergo PJSC.
2015–till present	Member of the Board of Directors of OJSC Krzhizhanovsky Power Energy Institute
The first/last election to the Board of Directors of Kubanenergo PJSC	6/23/2014 / 6/24/2016

All Company’s Board Members (elected in 2016 and now) are citizens of the Russian Federation.

Neither of the Company’s Board Members:

- held the Company’s shares or carried out transactions with them in the reporting year²³.
- was trained at the Company’s expense in the reporting year;

²³ According to the information provided to the Company by members of the Board of Directors, neither of them:

- was in kinship relations with any person being a member of management and/or financial and economic control bodies of Kubanenergo PJSC;
- was brought to administrative liability for offenses in the field of finance, taxes and dues, securities market or criminal liability for crimes in economy or for crimes against the government;
- held positions in management bodies of commercial organizations during the period when these organizations were filed for bankruptcy and / or one of bankruptcy proceedings stipulated by the legislation of the Russian Federation on insolvency;
- had conflicts of interests with the Company's Executive Bodies in the reporting year.

Activities of the Board of Directors

In 2016, 32 Board Meetings were held, of which 2 Meetings — in person and in absentia (including via videoconference), other Meetings — in absentia (by voting).

Activities of the Board of Directors in 2014–2016:

	2014	2015	2016
Number of the Board meetings held	23	27	32
<i>including in person and in absentia</i>	0	0	2
Number of issues considered	224	211	234
<i>including decisions made</i>	224	211	234
Average participation of Board members in the work of the Board of Directors	80.8%	92.7%	84.6%
<i>including the Board members, elected on:</i>			
• 6/10/2015			80.1%
• 6/24/2016			89.2%

Participation of Kubanenergo PJSC Board members in the Board Meetings in 2016:

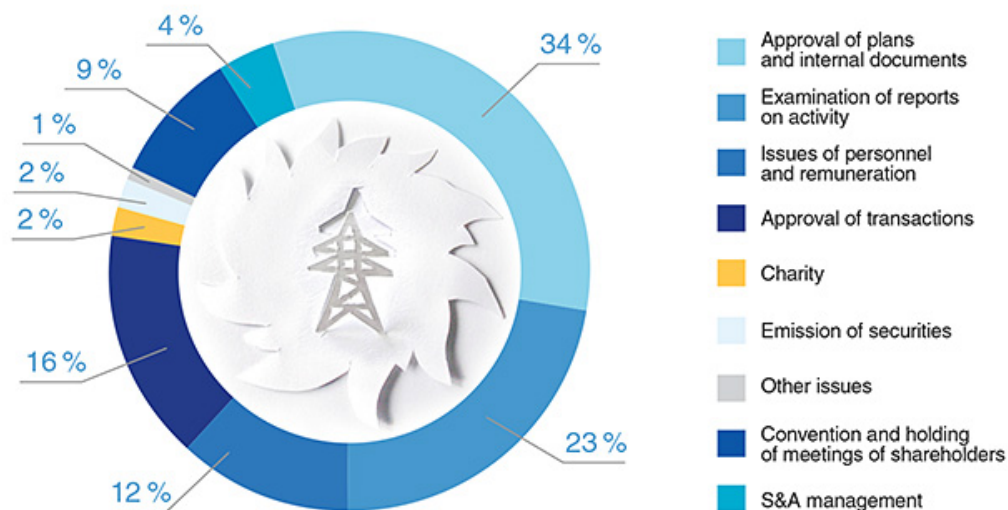
Date of the Board Meeting Board Members	20.01.2016	05.02.2016	26.02.2016	04.03.2016	17.03.2016	31.03.2016	22.04.2016	25.04.2016	27.04.2016	29.04.2016	17.05.2016	23.05.2016	31.05.2016	16.06.2016	22.06.2016	30.06.2016	07.07.2016	21.07.2016	29.07.2016	12.08.2016	26.08.2016	05.09.2016	20.09.2016	04.10.2016	26.10.2016	15.11.2016	28.11.2016	29.11.2016	05.12.2016	21.12.2016	23.12.2016	30.12.2016	Number of Meetings attended by the Board Member		
Ye.V. Bogach	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Not elected as members of the Board of Directors at the annual General Meeting of the Company's Shareholders on 24.06.2016												15 of 15							
S.M. Katayev	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●													15 of 15							
A. M. Kislyakov	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●													15 of 15							
M.A. Lavrova	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●													15 of 15							
A.K. Niyazmetov	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○													0 of 15							
A. N. Kharin	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●													15 of 15							
F.A. Terebkov	●	●	○	○	○	○	○	○	○	○	○	○	○	○	○													2 of 15							
Yu.N. Mangarov	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	32 of 32	
A.V. Varvarin	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	32 of 32	
A.I. Gavrilov	●	●	●	○	●	●	●	●	○	○	●	●	●	○	●	●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	26 of 32	
K.V. Khokhlova	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●	31 of 32	
D.A. Bobkov																●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	○	○	15 of 17		
A.Ye. Bogashov																●	●	●	●	○	○	●	●	●	●	●	●	●	●	●	●	○	○	12 of 17	
V.F. Gritsenko																●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	17 of 17	
A.L. Efimov																●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●	16 of 17	
A.Yu. Serov																●	●	●	●	●	●	●	○	●	●	●	○	●	●	●	●	●	●	16 of 17	
V.V. Sofyin																●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	○	●	15 of 17
I.V. Shmakov																●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	17 of 17	
Number of Board Members attending the Meeting	10	10	9	8	9	9	9	9	8	8	9	9	9	8	9	11	11	11	11	8	8	11	11	9	11	11	11	11	10	11	8	9			
Number of issues considered at the Meeting	2	5	9	2	11	13	1	3	17	2	14	1	13	9	17	3	1	11	3	14	3	5	11	2	10	8	2	2	12	1	15	12			

● / ○ — presence / absence of a Board member at the Meeting
 ■ / □ — in person and in absentia / in absentia Board Meeting

All the Company's Board members, being at the same time members of the Committees of the Board of Directors in 2016, were present at all the Meetings of the Committees, except for:

- A.M. Kislyakov who did not attend the meeting of the Audit Committee on 3/16/2016,
- V.V. Sofyin, who did not attend the meetings of the Audit Committee on 8/29/2016 and 9/12/2016.

The structure of issues considered by the Company's Board of Directors in 2016:



In the reporting year, the Board of Directors traditionally put focus on the approval of plans and internal documents, consideration of the Company's business reports, approval of transactions. New items included issue of additional shares of the Company and the Company's charity activities.

The major decisions adopted by the Board of Directors of Kubanenergo PJSC in the reporting year:

- the following strategic documents were approved:

- ✓ amended business plan of the Company, including the investment program and information on key operational risks for 2016 and forecast indicators for 2017–2020;
- ✓ action plan aimed at increasing work efficiency and improvement of financial and economic state of the Company;
- ✓ approval of the Company's draft long-term investment program for 2016–2021 for further public hearing;
- ✓ list of measures on reduction of losses and on improvement of economic efficiency to reach the target losses value by 2017;
- ✓ plan aimed at development of the Company's production assets management system for 2016–2018;
- ✓ action plan aimed at development and improvement of the Company's internal control and risk management systems for 2016–2018;
- ✓ regulation on the procedure for formation and use of the sponsor support and charity fund of Kubanenergo PJSC;
- ✓ procurement plan for 2017;
- ✓ procedure for organization of non-core assets sale of Kubanenergo PJSC, Non-Core Assets Disposal Program and Sales Plan;
- ✓ Program of Insurance Protection for 2017;
- ✓ Program of Internal Audit Quality Assurance and Improvement of Kubanenergo PJSC;
- ✓ Program of Non-State Pension Provision to Company's Employees for 2016;
- ✓ Internal Audit, Internal Control and Risk Management Policy, Key Operational Risks Register, Regulation on Audit Committee of the Board of Directors, Regulation on Central Tender Committee, Regulation on Corporate Secretary were approved as amended;
- ✓ Regulation on Strategy, Development, Investments and Restructuring Committee of the Board of Directors was amended;

- collective contract of Kubanenergo PJSC for 2016–2018 was preliminary approved;

- A.I. Gavrilov was elected as the Director General of Kubanenergo PJSC for a new term of three years;

- decisions on changes to the Management Board membership were adopted;

- decisions on preparation and holding of the General Meeting of Shareholders were adopted in due time;

- decision on convening an extraordinary General Meeting of Shareholders concerning the increase of the authorized capital by RUB 5.75 bln at the nominal price was adopted, additional issue and prospectus of Kubanenergo PJSC securities were approved;

- Action Plan of the Board of Directors for 2016–2017 corporate year was approved;

- Exchange Bonds Program and Prospectus of Exchange Bonds for a total amount of RUB 25 bln maturing in 30 years were approved;

- reports of the Director General on various aspects of financial and economic activity of the Company, as well as on implementation of decisions of the Board of Directors were considered regularly (quarterly, as a rule);

- interested party transactions are approved.

A Chairman of the Board of Directors, a Deputy Chairman and a Corporate Secretary are generally elected at the first meeting of a newly elected Board of Directors.

The Board of Directors approves its Action Plan for a corporate year at one of the first Board Meetings. The Action Plan is formed based on the proposals of the Chairman and members of the Board of Directors, Revision Commission, Director General, member of the Management Board, Auditor, in the following areas:

- Company's strategic development;
- mid-term and short-term planning of the Company's operations;
- organization of the Board of Directors activities;
- control over implementation of the decisions of the Board of Directors and of the General Meeting of Shareholders.

Find the Minutes of the Board Meetings of Kubanenergo PJSC on the web-site www.kubanenergo.ru – section [About the Company / Management / Board of Directors](#).

Committees of the Board of Directors

In order to ensure effective implementation by the Company's Board of Directors of its functions in relation to overall management of the Company, the Committees of the Board of Directors were established:

- Reliability Committee;
- Audit Committee;
- Strategy, Development, Investments and Restructuring Committee;
- Human Resources and Remuneration Committee;
- Technological Connection Committee.

The Committees have the status of advisory bodies engaged in profound elaboration of critical issues within the competence of the Board of Directors and preparation of recommendations (opinions) for the Board of Directors, and consider any other issues as instructed by the Board of Directors.

Activities of each Committee are governed by respective regulation establishing purposes and tasks of the Committee, the procedure for establishment thereof and organization of its work²⁴.

Personal composition of the committees and their chairmen shall be elected by the Board of Directors of the Company from among the candidates represented by members of the Board of Directors during one of the first meetings of the newly elected Board of Directors.

Members of the Audit Committee shall be elected for a period until the next election of members of this Committee. Members of the other Committees shall be elected for a period until the first meeting of the newly elected Board of Directors.

As a rule, during one of the first meetings the Committees approve their operating plans for the current corporate year to be developed on the basis of the operating plan of the Board of Directors, decisions of the Board of Directors and Committees, proposals of committee members, the Director General.

In the reporting year, all issues subject to preliminary consideration by the Committees of the Board of Directors were considered by the Committees in a timely manner.

²⁴ For the Regulations on the Committees of the Company's Board of Directors see the web-site: www.kubanenergo.ru - section [About the Company / Constituent and in-house documents](#)

For Minutes of Meetings of the Board of Directors of Kubanenergo PJSC see the web-site www.kubanenergo.ru – section [About the Company / Management / Committees under the Board of Directors](#).

Members participating in meetings of the Committees of the Board of Directors are entitled to respective remuneration. Total amount of remuneration paid to members of the Committees of the Board of Directors in 2016 amounted to RUB 1,498 thou. The Company has no outstanding amounts payable to any members of the Committees.

Reliability Committee

Date of Committee establishment	9/15/2006
Date and number of the Minutes of Meetings of the Company's Board of Directors where the Regulation on Committee was approved (as amended)	No. 219/2015 of 9/7/2015
Main Objectives of the Committee	<p>Development and presentation of recommendations (opinions) to the Company's Board of Directors with regard to the following areas of focus of the Board of Directors:</p> <ul style="list-style-type: none"> • examination of investment programs and plans for repair of power facilities, analysis of their performance in terms of integrated reliability requirements; • evaluation of completeness and sufficiency of measures taken in response to accidents and major process faults, and follow-up; • control and assessment of operation of Company's technical services with respect to: <ul style="list-style-type: none"> ✓ ensuring comprehensive operating reliability of network and generating equipment and structures; ✓ ensuring normal condition of fixed assets and provision of information on expected reliability risks associated with functioning thereof; • analysis of measures relating to the implementation of contractual and economic mechanisms for reliability management.
Members of the Committee in the Reporting Year²⁵	<p><i>Committee composition acting in the period from 7/17/2015 (as amended on 12/23/2015) to 6/30/2016:</i></p> <ol style="list-style-type: none"> 1. Ruslan Raisovich Magadeyev (Chairman of the Committee), Deputy Director of Situation and Analytical Center of PJSC Rosseti. 2. Edgar Garriyevich Armaganyan, First Deputy Director General, Director of Sochi Electric Grids Branch, Deputy Director General for Service Sales of Kubanenergo PJSC, Member of the Management Board of Kubanenergo PJSC. 3. Dmitry Dmitriyevich Mikhayev, Head of Power Development Department of the Ministry of Energy of the Russian Federation. 4. Olga Vyacheslavovna Ocheredko, Deputy Director General for Economy and Finance of Kubanenergo PJSC, Member of the Management Board of Kubanenergo PJSC. 5. Dmitry Yurievich Ryazantsev, Deputy Director General for Technical Issues, Chief Engineer of Kubanenergo PJSC, Member of the Management Board of Kubanenergo PJSC. 6. Mikhail Vladimirovich Smaga, Deputy Director of PJSC Rosseti Branch "Technical Supervision Center". 7. Sergey Vladimirovich Shpilevoy, Deputy Office Director, Head of Accident Rate Analysis Department of Accident Rate and ERW Methodology Office of the Situation and Analytical Center of PJSC Rosseti.

²⁵ Positions of members of the Committees of the Board of Directors are hereinafter indicated as of the date of election to the Committees.

	<p><i>The current composition of the Committee (elected on 7/21/2016):</i></p> <ol style="list-style-type: none"> 1. Andrey Nikolayevich Leonov (Committee Chairman), Head of Production Activity Office of the Operating and Process Control Department of PJSC Rosseti. 2. Edgar Garriyevich Armaganyan, First Deputy Director General, Director of Sochi Electric Grids Branch, Deputy Director General for Service Sales of Kubanenergo PJSC, Member of the Management Board of Kubanenergo PJSC. 3. Aleksandr Yuryevich Matyushin, Head of Maintenance and Repair Division of the Production Activity Office of the Operating and Process Control Department of PJSC Rosseti. 4. Olga Vyacheslavovna Ocheredko, Deputy Director General for Economy and Finance of Kubanenergo PJSC, Member of the Management Board of Kubanenergo PJSC. 5. Dmitry Yurievich Ryazantsev, Deputy Director General for Technical Issues, Chief Engineer of Kubanenergo PJSC, Member of the Management Board of Kubanenergo PJSC. 6. Mikhail Vladimirovich Smaga, Deputy Director of PJSC Rosseti Branch "Technical Supervision Center". 7. Sergey Aleksandrovich Shabalin, Principal Advisor to the Pricing Policy and Industry Infrastructure Control Division of the Electric Power Industry Development Department of the Ministry of Energy of the Russian Federation
Main Results of the Committee in the Reporting Year	<p><i>11 meetings in the form of absentee voting were held, 46 issues were considered.</i></p> <p>In the reporting year, the Committee submitted to the Board of Directors its opinions (recommendations) on the following key issues:</p> <ul style="list-style-type: none"> • approval of the Company's draft investment program for 2016–2021 from the viewpoint of comprehensive reliability assurance; • approval of the Production Assets Management System Development Plan of Kubanenergo PJSC for 2016–2018; • 2017 repair program review; • consideration of reports on the Company's readiness to work in the autumn and winter period, on the implementation of repair and investment programs (from the viewpoint of comprehensive reliability assurance), information on indicators of reliability and quality level of the Company's services, reports on the activities of the Company's technical services for ensuring reliable operation of the power grid complex. <p>In the reporting year, the Reliability Committee of the Board of Directors also considered the following:</p> <ul style="list-style-type: none"> • Program for improvement of efficiency, reliability, and safety of energy production for 2016, and progress reports; • Program of measures aimed at elimination of "narrow" places influencing reliable energy supply to the Company's consumers, and progress reports; • analysis of accident rate and investigation quality of causes for technological disturbances (accidents); • regular reports of the Company management on the passage of the autumn and winter period by the Company, preparation for work in fire hazardous, flooding, thunderstorm periods, implementation of reliability improvement programs at the Company's facilities, fulfillment of the instructions of controlling and supervisory authorities, comprehensive program to reduce the risks of injury to the Company's personnel and third parties, etc. <p><i>Share of issues previously considered by the Committee with preparation of recommendations for the Board of Directors in the total number of issues considered by the Committee: 37,0%.</i></p> <p><i>Participation of Committee members in the operation of this body averaged to 86.3%</i></p>

Audit Committee

Date of Committee establishment	10/16/2009
Date and number of the Minutes of Meetings of the Company's Board of Directors where the Regulation on Committee was approved (as amended)	3/18/2016 No. 233/2016, with amendments of 10/28/2016 No. 253/2016

Main Objectives of the Committee	<ul style="list-style-type: none"> • consideration of the Company's accounting (financial) statements and supervision over the process of preparation thereof; • control of reliability and efficiency of the internal control system, risk management system, corporate governance practices; • control of external audit and selection of an auditor; • ensuring independence and objectivity of the internal audit function; • supervision over functioning efficiency of the system of counteraction to unethical practice of Company's employees and third parties.
Members of the Committee in the Reporting Year	<p><i>Committee composition acting in the period from 7/17/2015 to 7/21/2016:</i></p> <ol style="list-style-type: none"> 1. Marina Aleksandrovna Lavrova (Committee Chairman), Head of S&A Economy Administration of the Department of Economic Planning and Budgeting of PJSC Rosseti, Member of the Board of Directors of Kubanenergo PJSC. 2. Kseniya Valeriyevna Khokholkova, Deputy head of Share Capital Administration, the Head of Office of Shareholders' Rights Enforcement of the Department of Corporate Governance and Shareholder Relations and Investors of PJSC Rosseti, Member of the Board of Directors of Kubanenergo PJSC. 3. Anton Mikhaylovich Kislyakov, Head of Current Activities Support Office of the Legal Support Department of PJSC Rosseti, Member of the Board of Directors of Kubanenergo PJSC. <p><i>The current composition of the Committee (elected on 7/21/2016):</i></p> <ol style="list-style-type: none"> 1. Vladimir Vladimirovich Sofyin (Committee Chairman), Director of Process Development and Innovation Department of PJSC Rosseti, Member of the Board of Directors of Kubanenergo PJSC. 2. Kseniya Valeriyevna Khokholkova, Deputy head of Share Capital Administration, the Head of Office of Shareholders' Rights Enforcement of the Department of Corporate Governance and Shareholder Relations and Investors of PJSC Rosseti, Member of the Board of Directors of Kubanenergo PJSC. 3. Aleksey Yuryevich Serov, Acting Director of Finance Department, Head of Capital Market and Strategic Investment Office of PJSC Rosseti, Member of the Board of Directors of Kubanenergo PJSC.
Main Results of the Committee in the Reporting Year	<p><i>13 meetings were held (5 in praesentia, the rest in the form of absentee voting), 42 issues were considered.</i></p> <p>On 4/27/2016, the Board of Directors considered and took note of the report on the efficiency of the internal control and risk management system of the Company based on 2015 year-end results (Minutes No. 237/2016 of 4/28/2016). For information on assessment of Company's internal control system effectiveness in the reporting year see section "Internal Control and Internal Audit".</p> <p>The following significant issues were considered at meetings of the Audit Committee of the Company's Board of Directors in the reporting period:</p> <ul style="list-style-type: none"> • the candidacy of the Company's external auditor carrying out audit of the accounting (financial) statements of the Company for 2016 prepared in accordance with RAS as well as audit of the consolidated financial statements for 2016 prepared in accordance with IFRS is pre-approved (Minutes No. 37/2016 of 4/20/2016); • the assessment of external audit efficiency is given, including the assessment of external auditor's opinion (Minutes No. 37/2016 of 4/20/2016); • written information provided by the external auditor with regard to the main problems of accounting (financial) statements of the Company was considered (Minutes No. 37/2016 of 4/20/2016, Minutes No. 47/2016 of 12/23/2016); • information related to non-standard operations and events of the Company as well as information related to creation of provisions for doubtful debts and estimated liabilities was discussed (Minutes No. 36/2016 of 3/17/2016); • substantial aspects of the accounting policy and changes planned for 2017 were considered (Minutes No. 47/2016 of 12/23/2016); • accounting (financial) statements of the Company prepared in accordance with RAS, and the consolidated financial statements prepared in accordance with IFRS were periodically considered (Minutes No. 37/2016 of 4/20/2016, Minutes No. 39/2016 of 5/31/2016, Minutes No. 41/2016 of 8/29/2016, Minutes No. 45/2016 of 11/17/2016); • the Plan of measures for the development and improvement of the internal control and risk management system of the Company for 2016–2018 was considered (Minutes No. 45/2016 of 11/17/2016); • revised Internal Control Policy, Internal Audit Policy, Regulation on the Audit

	<p>Committee of the Board of Directors of the Company were reviewed before the approval by the Board of Directors (Minutes No. 35/2016 of 2/19/2016, No. 43/206 of 10/5/2016);</p> <ul style="list-style-type: none"> the Regulation on the Internal Audit Department, structure and manpower of the internal audit department, candidacy for the position of the head of the internal audit department and his/her remuneration were coordinated (Minutes No. 40/2016 of 8/11/2016, No. 42/2016 of 9/14/2016, No. 46/2016 of 11/25/2016); a progress report of the Audit Committee was compiled for 2015–2016 corporate year for submission to the Board of Directors of the Company (Minutes No. 39/2016 of 5/31/2016); operating plans and budgets of the internal audit department for 2016 and 2017 were agreed (Minutes No. 42/2016 of 9/14/2016, No. 44/2016 of 11/2/2016); the Company Program of Warranty and Internal Audit Quality Improvement was approved (Minutes No. 44/2016 of 11/2/2016); reports on implementation of the operating plan and work results of the internal audit department were periodically considered (Minutes No. 35/2016 of 2/19/2016, Minutes No. 39/2016 of 5/31/2016, Minutes No. 41/2016 of 8/31/2016, Minutes No. 45/2016 of 11/17/2016); management information on the implementation of the Company's Internal Control Policy was reviewed (Minutes No. 45/2016 of 11/17/2016); information and reports of the Company's management were reviewed on a periodical basis with respect to the implementation of planned corrective actions to eliminate defects identified by the Company's Revision Commission, internal audit of the Company, external control and supervision bodies, with respect to the implementation of measures taken based on the information on employees' potential unfair acts and results of investigations (Minutes No. 38/2016 of 5/26/2016, No. 41/2016 of 8/31/2016); report on the efficiency of the Company's internal control system and risk management system was considered (Minutes No. 36/2016 of 3/17/2016). <p><i>Share of issues previously considered by the Committee with preparation of recommendations for the Board of Directors in the total number of issues considered by the Committee: 50,0%.</i></p> <p><i>Participation of Committee members in the operation of this body averaged to 91.3%</i></p>
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Strategy, Development, Investments and Restructuring Committee

Date of Committee establishment	2/5/2010
Date and number of the Minutes of Meetings of the Company's Board of Directors where the Regulation on Committee was approved (as amended)	2/5/2010 No. 84/2010 (with amendments of 3/18/2016 No. 233/2016)
Main Objectives of the Committee	<p>Development and submission of recommendations (opinions) to the Board of Directors on the issues related to:</p> <ul style="list-style-type: none"> identification of priorities, strategic objectives and core principles for the strategic development of the Company; assessment of its activity efficiency; enhancement of investment appeal, improvement of investment activities; control of implementation of the approved programs, projects and restructuring of the Company; dividend policy; control of the risk management system organization and functioning.

<p>Members of the Committee in the Reporting Year</p>	<p><i>Committee composition acting in the period from 7/17/2015 to 6/30/2016 (as amended on 9/4/2015):</i></p> <ol style="list-style-type: none"> 1. Aleksey Igorevich Pavlov (Committee Chairman), Head of Office of Finance of PJSC Rosseti. 2. Yuriy Nikolayevich Pankstiyarov, Head of Tariff Policy Department of PJSC Rosseti. 3. Sergey Vladimirovich Podlutsky, Head of Office of Master Planning and Reporting of Investment Department of PJSC Rosseti. 4. Marina Aleksandrovna Lavrova, Head of S&A Economy Administration of the Department of Economic Planning and Budgeting of PJSC Rosseti , Member of the Board of Directors of Kubanenergo PJSC. 5. Fyodor Nikolayevich Balaban, Head of Research and Information Department of PJSC Rosseti. 6. Aleksey Nikolayevich Goncharov, Head of Department for Cooperation with Participants of Wholesale and Retail Electricity Markets of PJSC Rosseti. 7. Kseniya Valeriyevna Khokholkova, Deputy Head of Share Capital Administration, Head of Office of Shareholders' Rights Enforcement of the Department of PJSC Rosseti, Member of the Board of Directors of Kubanenergo PJSC. 8. Pavel Nikolayevich Snikkars, Head of Power Development Department of the Ministry of Energy of the Russian Federation. 9. Olga Vyacheslavovna Ocheredko, Deputy Director General for Economy and Finance, Member of the Management Board of Kubanenergo PJSC. <p><i>The current composition of the Committee (elected on 7/21/2016):</i></p> <ol style="list-style-type: none"> 1. Aleksey Igorevich Pavlov (Committee Chairman), Director of Treasury Department of PJSC Rosseti. 2. Fyodor Nikolayevich Balaban, Deputy Head of Strategic Project Office of the Strategic Development Department of PJSC Rosseti. 3. Aleksey Nikolayevich Goncharov, Head of the Office for Cooperation and Settlement with Participants of Electricity Markets of the Department for Electricity Metering and Cooperation with Participants of Electricity Markets of PJSC Rosseti. 4. Vladimir Fyodorovich Gritsenko, Business Development Director of LLC Unitel Engineering, Member of the Board of Directors of Kubanenergo PJSC. 5. Tatyana Valentinovna Zobkova, Head of Division of the Department for Corporate Governance, Pricing Environment and Internal Control of the Fuel and Energy Sector in the Ministry of Energy of the Russian Federation. 6. Marina Aleksandrovna Lavrova, Head of S&A Economy Administration of the Department of Economic Planning and Budgeting of PJSC Rosseti. 7. Olga Vyacheslavovna Ocheredko, Deputy Director General for Economy and Finance, Member of the Management Board of Kubanenergo PJSC. 8. Yuriy Nikolayevich Pankstiyarov, Head of Tariff Policy Department of PJSC Rosseti. 9. Sergey Vladimirovich Podlutsky, Head of Office of Master Planning and Reporting of Investment Department of PJSC Rosseti. 10. Igor Vladimirovich Shmakov, Deputy Director General for Controlling of Kubanenergo PJSC, Member of the Board of Directors of Kubanenergo PJSC
<p>Main Results of the Committee in the Reporting Year</p>	<p><i>22 meetings were held (4 in person and in absentia, the others in the form of absentee voting), 52 issues were considered, recommendations to the Board of Directors with regard to the following most important issues were developed:</i></p> <ul style="list-style-type: none"> • on approval of the Company's business plan, including the investment program and information on key operational risks, as well as on approval of reports on its performance; • on approval of results of milestones performance of KPIs of the Director General of the Company; • on approval of in-house documents; • on approval of the revised register of key operating risks for the Company; • on determination of the Company's position on the issues in agendas of meetings of the Board of Directors of the Company S&A; • on approval of the action plan aimed at increasing performance efficiency as well as improvement of financial and economic state of the Company and review of progress reports; • on approval of the revised list of projects in the field of energy conservation and economic efficiency improvement to be implemented through entering into energy service contracts; • on review of Company's draft long-term investment program; • on consideration of reports of the Director General regarding competence of the Committee (including quarterly reports on implementation of decisions taken by the Board of

	<p>Directors, key operating risk management reports).</p> <p><i>Share of issues previously considered by the Committee with preparation of recommendations for the Board of Directors in the total number of issues considered by the Committee: 90,4%.</i></p> <p><i>Participation of Committee members in the operation of this body averaged to 96.0%</i></p>
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Human Resources and Remuneration Committee

Date of Committee establishment	8/6/2010
Date and number of the Minutes of Meetings of the Company's Board of Directors where the Regulation on Committee was approved (as amended)	No. 194/2014 of 8/1/2014
Main Objectives of the Committee	Development and submission of recommendations (opinions) to the Board of Directors on the issues related to establishment of selection and assessment criteria of candidates to the Company's Board of Directors and its executive bodies, formation of principles and criteria to determine remuneration amount for members of the Company's management, work assessment of the Director General and members of the Management Board, amount of remuneration to members of the Board of Directors
Members of the Committee in the Reporting Year	<p><i>Committee composition acting in the period from 7/17/2015 to 6/30/2016:</i></p> <ol style="list-style-type: none"> 1. Yuriy Nikolayevich Mangarov (Committee Chairman), Top Advisor to PJSC Rosseti, Chairman of the Board of Directors of Kubanenergo PJSC. 2. Aleksandr Victorovich Varvarin, Vice-President for Corporate Relations and Legal Support of RSPP, Member of the Board of Directors of Kubanenergo PJSC. 3. Dmitriy Aleksandrovich Chevkin, Director of Department of HR Policy and Organizational Development of PJSC Rosseti. 4. Nataliya Alekseyevna Shumakher, Chief Specialist of Office of Property Rights Enforcement of the Department of Property Management of PJSC IDGC of Center. 5. Nataliya Ilyinichna Erpsher, Head of Office of Organizational Development of the Department of HR Policy and Organizational Development of PJSC Rosseti. <p><i>The current composition of the Committee (elected on 7/21/2016):</i></p> <ol style="list-style-type: none"> 1. Yuriy Nikolayevich Mangarov (Committee Chairman), Top Advisor to PJSC Rosseti, Chairman of the Board of Directors of Kubanenergo PJSC. 2. Aleksandr Victorovich Varvarin, Vice-President for Corporate Relations and Legal Support of RSPP, Member of the Board of Directors of Kubanenergo PJSC. 3. Tatyana Valentinovna Zobkova, Head of Division of the Department for Corporate Governance, Pricing Environment and Internal Control of the Fuel and Energy Sector in the Ministry of Energy of the Russian Federation. 4. Dmitriy Aleksandrovich Chevkin, Director of Department of HR Policy and Organizational Development of PJSC Rosseti. 5. Nataliya Ilyinichna Erpsher, Head of Office of Organizational Development of the Department of HR Policy and Organizational Development of PJSC Rosseti.
Main Results of the Committee in the Reporting Year	<p><i>12 meetings in the form of absentee voting were held, 21 issues were considered.</i></p> <p>Recommendations to the Board of Directors with regard to the following main issues were developed:</p> <ul style="list-style-type: none"> - on election of the Director General of the Company for the next period; - on amendments to the composition of the management Board of the Company; - on approval of corporate structure of the Company's executive office; - on approval of the list of positions included into the category of top managers of the Company; - on approval of a procedure for calculation and assessment of Director General's KPI performance; on approval of results of milestones performance of KPIs of the Director General; - on pre-approval of candidates for certain management positions of the Company. <p>Furthermore, the Committee:</p>

	<p>- considered performance of Deputies of the Director General of the Company and recommended to the Director General to extend employment contracts with them;</p> <p>- approved a list of managerial personnel reserve.</p> <p><i>Share of issues previously considered by the Committee with preparation of recommendations for the Board of Directors in the total number of issues considered by the Committee: 71,4%.</i></p> <p><i>Participation of Committee members in the operation of this body averaged to 93.3%</i></p>
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Technological Connection Committee

Date of Committee establishment	10/11/2011
Date and number of the Minutes of Meetings of the Company's Board of Directors where the Regulation on Committee was approved (as amended)	No. 119/2011 of 10/14/2011
Main Objectives of the Committee	Development of recommendations (opinions) to the Board of Directors on the issues related to the analysis of the current situation, increase of efficiency and development of Company's activity in the sphere of technological connection of customers to electric grids
Members of the Committee in the Reporting Year	<p><i>Committee composition acting in the period from 7/17/2015 to 6/30/2016:</i></p> <ol style="list-style-type: none"> Aleksandr Victorovich Varvarin (Committee Chairman), Vice-President for Corporate Relations and Legal Support of RSPP, Member of the Board of Directors of Kubanenergo PJSC. Daniel Maratovich Bashmakov, Chairman of Krasnodar Krai Territorial Branch of All-Russian Public Organization of Small and Medium Business OPORA ROSSII. Dmitry Dmitriyevich Mikheyev, Head of Power Development Department of the Ministry of Energy of the Russian Federation. Irina Borisovna Masalyova, Director of Department of Grid and Technological Connection Prospective Development of PJSC Rosseti. Aleksandr Yuriyevich Korneyev, Head of Office of Technological Connection Regulation of the Department of Grid and Technological Connection Prospective Development of PJSC Rosseti. Vyacheslav Yuriyevich Kostetsky, Deputy Director General for Service Sales and Development, Member of the Management Board of Kubanenergo PJSC. Yelena Leonidovna Soltan, Head of Department of Technological Connection of Kubanenergo PJSC. <p><i>The current composition of the Committee (elected on 7/21/2016, as amended on 8/12/2016, Minutes No. 248/2016):</i></p> <ol style="list-style-type: none"> Aleksandr Victorovich Varvarin (Committee Chairman), Vice-President for Corporate Relations and Legal Support of RSPP, Member of the Board of Directors of Kubanenergo PJSC. Aleksandr Yuriyevich Korneyev, Head of Office of Technological Connection Regulation of the Department of Grid and Technological Connection Prospective Development of PJSC Rosseti. Vyacheslav Yuriyevich Kostetsky, Deputy Director General for Service Sales and Development, Member of the Management Board of Kubanenergo PJSC. Irina Borisovna Masalyova, Director of Department of Grid and Technological Connection Prospective Development of PJSC Rosseti. Aleksandr Valeryevich Pavlov, Principal Adviser of the Industry Regulations Development Division of the Electric Power Industry Development Department of the Ministry of Energy of the Russian Federation. Yelena Leonidovna Soltan, Head of Department of Technological Connection of Kubanenergo PJSC. Denis Yevgenyevich Sokolov, Chief Expert of Office of Technological Connection Regulation of the Department of Grid and Technological Connection Prospective Development of PJSC Rosseti.

Main Results of the Committee in the Reporting Year	<p><i>5 meetings were held (1 in praesentia and in absentia, the rest in the form of absentee voting), 23 issues were considered, including:</i></p> <ul style="list-style-type: none"> • election of the Chairman, Deputy Chairman and Secretary of the Committee; • the following issues were regularly considered: <ul style="list-style-type: none"> ✓ plan of measures for reduction of overdue liabilities related to the technological connection; ✓ reports on technological connection of customers' electric facilities and generating facilities; ✓ analysis of claim-related work on technological connection; ✓ system of prospective planning of electric grid development; ✓ current situation and problems concerning technological connection and determination of a payment for it; • the Committee's work plan was approved. <p><i>Share of issues previously considered by the Committee with preparation of recommendations for the Board of Directors in the total number of issues considered by the Committee: 13,0%.</i></p> <p><i>Participation of Committee members in the operation of this body averaged to 95.7%</i></p>
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Executive Bodies

Current activities of Kubanenergo PJSC are managed by the sole executive body, the Director General, and a collective executive body, the Management Board.

The Director General and the Management Board are accountable to General Meeting of Shareholders and the Board of Directors of the Company.

In accordance with the Company's Articles of Association, the Director General is elected by the Board of Directors and is the Chairman of the Management Board. Members of the Management Board are also elected by the Board of Directors following a proposal of the Director General of the Company in the number specified by the decision of the Board of Directors.

All members of the Management Board, including the Chairman of the Management Board, have sufficient experience, knowledge and skills required for due performance of their obligations. The Director General and members of the Management Board act in good faith in the interests of the Company and all its shareholders. In order to avoid conflict of interest and related negative consequences for the Company, members of the Management Board disclose all information on their commercial activity unrelated to the Company.

Director General

In accordance with the Articles of Association of Kubanenergo PJSC, the competence of the Director General includes all matters of the current activities of the Company, except for the matters falling within the competence of the General Meeting of Shareholders, the Board of Directors and the Management Board of the Company.

The Director General of the Company is entitled to act on behalf of the Company without any power of attorney, including, but not limited to, as follows:

- secures the implementation of plans of the Company activities, required for attaining of the set objectives;
- arranges accounting and reporting in the Company;
- disposes of the Company property, implements transactions on behalf of the Company, issues powers of attorney;
- issues local normative acts and other internal documents of the Company related to the matters within his competence, gives instructions binding on all employees of the Company;
- approves the Regulations on Branches and Representative Offices of the Company;
- in accordance with the organizational structure of the executive body of the Company, approves the manning table and salaries of the Company employees;

- exercises the rights and performs the obligations of an employer in respect of the Company's employees as required by the labor law;
- performs the functions of the Chairman of the Management Board of the Company;
- distributes duties between the Deputy Directors General.

Since 3/19/2013, the functions of the sole executive body of the Company have been performed by Aleksandr Ilyich Gavrilov²⁶.

Management Board

The Management Board is responsible for practical implementation of the Company's purposes, strategy and policy and performs management of the Company's current activity within its competence.

Main objectives of the Management Board:

- ensuring of respect for rights and legal interests of the Company's shareholders;
- development of proposals on the Company's development strategy;
- implementation of business and financial policy of the Company, elaboration of decisions on the most urgent issues of business activities and coordination of the work of the Company's units;
- increase of internal control and risks monitoring systems efficiency;
- ensuring of achievement of high level of return on the Company's assets and maximum operating profit.

The Management Board of the Company operates on the basis of the Articles of Association and the Regulation on the Management Board²⁷ approved by the Decision of the General Meeting of Shareholders of the Company.

In particular, the following issues fall within the competence of this executive body:

- approval of resolutions on the issues falling within the competence of the supreme governance bodies of economic societies in which 100% of authorized capital or all voting shares are held by the Company;
- preparation and submission to the Board of Directors of the reports on financial and business activities of economic societies, in which 100% of authorized capital or all voting shares are held by the Company;
- elaboration and submission to the Board of Directors of prospective plans for implementation of the principal areas of Company activities;
- preparation of business plan and reports on the progress of its implementation, as well as approval and adjustment of cash flow;
- preparation of report on financial and business activities of the Company, and on compliance with the decisions adopted by the General Meeting of Shareholders and the Board of Directors by the Management Board;
- establishment of social benefits and guarantees for the Company employees;
- approval of resolutions on entering into transactions the subject matter whereof is the property, works and services, the value of which makes from 1 to 25% of the book value of the Company assets.
- effective risk management within the current activity of the Company; the adoption of the

²⁶ By Decision of the Board of Directors of 3/18/2013 (Minutes No. 155/2013), A.I. Gavrilov was appointed as Acting Director General; by Decision of the Board of Directors of 6/4/2013 (Minutes No. 165/2013), Mr. Gavrilov was appointed as Director General of the Company for 3 years. By Decision of the Board of Directors of 5/23/2016 (Minutes No. 240/2016), A.I. Gavrilov was elected as the Director General of Kubanenergo PJSC for the next period from 6/4/2016 to 6/3/2019.

For more information about A.I. Gavrilov see the information on the current compositions of the Board of Directors and the Management Board.

²⁷ For the Regulation on the Management Board of Kubanenergo PJSC see the web-site: www.kubanenergo.ru - page [About the Company / Constituent and in-house documents](#).

budget for risk management measures within the limits approved by the Decision of the Board of Directors of the Company; finding of solution to risk management issues performed by several structural units.

Composition of the Management Board

The following changes in the personal composition of the Management Board took place during the reporting year:

Item No.	Content of decisions of the Board of Directors on changes in the composition of the Management Board of the Company	Date of decision of the Board of Directors
1	1. To determine number of members of the Management Board of the Company — 1 persons. 2. To terminate authorities of Yevgeniy Viktorovich Rud, member of the Management Board of the Company, Director of the Branch Slayansk Electric Grids. 3. To elect Vladimir Aleksandrovich Mikhailov, Director of the Branch Krasnodar Electric Grids, as a member of the Management Board of the Company	2/26/2016
2	To terminate authorities of Kirill Sergeyevich Konevts, member of the Management Board of the Company	6/22/2016
3	To elect Irina Viktorovna Ivanova, Deputy Director General for Corporate Governance, as a member of the Management Board of the Company	12/30/2016

The following Management Board members of the Company were in office as of the end of the accounting year²⁸:

1. Aleksandr Ilyich Gavrilov, Management Board Chairman

Year of birth	1973
Education	Higher. Graduated from Kuban State University, qualification: “Accounting and Audit”; Kuban State Technological University, qualification: “Development and Operation of Oil-and-Gas Field”. Completed advanced training course at Ernst & Young, subject: Risk Management. Academic degree: DPhil in Economics
Work experience for the last 5 years:	
2010–2012	Professor at the Department of Economic Theory, Economics and Management of Economics Faculty of the Institute of Economy, Law and Humanitarian Specialties.
2013	Top Advisor to the Chairman of the Management Board of OJSC FGC UES.
2013–till present	Kubanenergo PJSC, Director General
2014–till present	Member of the Board of Directors
Date of entering into service as the Chairman of the Management Board of Kubanenergo PJSC	6/4/2013

2. Edgar Garriyevich Armaganyan

Year of birth	1984
Education	Higher. Graduated from Kuban State Agrarian University, qualification: “Electrification and Automation”, Non-State Educational Institution of Higher Professional Education Moscow Institute of Entrepreneurship and Law, qualification: “Management of Organization”. Passed professional retraining course in: - “Management of Organization” in Bauman Moscow State Technical University on the basis of Non-Commercial Non-State Educational Institution Training Center of Kubanenergo;

²⁸ Information about the experience of the Management Board members specifies only the last positions held by them for each place of employment.

For all positions which were held by the Management Board members (in a chronological order) see the quarterly reports of the issuer on the web-site www.kubanenergo.ru - section [For shareholders and investor / Information disclosure of / Quarterly Reports of the Issuer](#).

	<p>- “Jurisprudence: civil law relations” in the Federal State Budgetary Educational Institution of Higher Professional Education Kuban State University</p> <p>Completed advanced training courses:</p> <ul style="list-style-type: none"> – at Ernst & Young, subject: Risk Management; – on the basis of the Moscow School of Management Skolkovo, subject: Development of Leaders in the Power Grid Complex.
Work experience for the last 5 years:	
2009–till present	First Deputy Director General, Director of Sochi Electric Grids Branch, Deputy Director General for Service Sales (in addition to other duties) of Kubanenergo PJSC.
2015–till present	Member of the Reliability Committee of the Board of Directors of Kubanenergo PJSC.
2016–till present	Chairman of the Board of Directors of OJSC Energoservice Kubani
Date of election to the Management Board	8/28/2014

3. Andrey Valeriyevich Golov:

Year of birth	1980
Education	<p>Higher. Graduated from Orenburg State University, qualification: “Finance and Credit”.</p> <p>Academic degree: Ph.D. in Economics.</p> <p>Completed advanced training courses:</p> <ul style="list-style-type: none"> – at Ernst & Young, subject: Risk Management; – at Autonomous Non-profit Organization “Education and Advisory Center Energopersonal”, subject: Internal control: theoretic and practical background”
Work experience for the last 5 years:	
2011–2012	Financial Director of LLC AGRIUS XXI.
2012	Sales Director of CJSC Prompostavka.
2012–till present	Deputy Director General for Investment of Kubanenergo PJSC
Date of election to the Management Board	4/9/2013

4. Dmitry Nikolayevich Golovakha:

Year of birth	1977
Education	<p>Higher. Graduated from Krasnodar Technical College, qualification: “Installation and Maintenance of Electrical Equipment of Agricultural Companies”, Kuban State Agrarian University, qualification: “Electrification and Automation of Agricultural Industry”</p> <p>Attended the course of professional retraining at Bauman State Technical University, discipline: Company management.</p> <p>Completed advanced training courses:</p> <ul style="list-style-type: none"> - in 2013, at Kuban State University, subject: Protection of Secret of State by Executive and Local Authorities of the Krasnodar Krai, - in 2014, at the Federal State Educational Institution of Continuing Professional Education “Institution of Advanced Training for High-Level Personnel and Fuel and Energy Sector Specialists”, subject: Mobilization of economy, preparation of entities for the mobilization; - in 2016, at State Public Institution of the Krasnodar Krai “Education and Methodology Center for Civil Defense and Emergency Response”, subject: Training of officials and specialists for civil defense and emergency response.
Work experience for the last 5 years:	
2008–2012	Head of Prospective Development Department of OJSC IDGC of the South.
2012–2013	Deputy Minister of the Ministry of Industry and Energy of the Krasnodar Krai.
2013–till present	Kubanenergo PJSC, South-Western Power Grids Branch Director
Date of election to the Management Board	6/14/2013

5. Lyudmila Alekseevna Golovakha:

Year of birth	1955
Education	Higher. Graduated from Kuban State University, qualifications: “Law” and “State and Municipal Management”, the Krasnodar College of Sugar Industry, qualification:

	“Electrical Equipment of Industrial Enterprises and Facilities”. Completed advanced training course at Ernst & Young, subject: Risk Management.
Work experience for the last 5 years:	
2011–2012	Director for General Issues of OJSC NESK-Elektroseti
2013–till present	Deputy Director General, Head of Office of Kubanenergo PJSC
Date of election to the Management Board	6/14/2013

6. Irina Viktorovna Ivanova

Year of birth	1973
Education	Higher. Graduated from Kuban State University, qualification: “Accounting and Audit” and “Law”. Completed professional retraining at the Bauman Moscow State Technical University, qualification: “Company Management”. Completed advanced training course at Ernst & Young, subject: Internal audit: best practice concepts and tools.
Work experience for the last 5 years:	
2003–2015	Deputy Head of the Document Check and Review Division of the Economic Security and Anti-Corruption Department of the Chief Directorate of the Ministry of Internal Affairs of the Russian Federation for the Krasnodar Krai
2015–till present	Deputy Director General for Corporate Governance of Kubanenergo PJSC
Date of election to the Management Board	12/30/2016

7. Vyacheslav Yuryevich Kostetsky

Year of birth	1974
Education	Higher. Graduated from the Institute of Economics, Law and Natural Specialties, qualification: “Jurisprudence”; the Kuban State Technical University, qualification: “Electric Power Supply”. Completed the “Company Management” professional retraining course at Bauman Moscow State Technical University on the basis of Non-Commercial Non-State Educational Institution Training Center of Kubanenergo. Completed advanced training courses: - at Ernst & Young, subject: Risk Management, and at Autonomous Non-profit Organization “Education and Advisory Center Energopersonal”, subject: Internal control: theoretic and practical background; - at FBI ITC of the FAS of Russia (seminar), subject: Tariff regulations in 2016 and regulatory authorities’ objectives for 2017.
Work experience for the last 5 years:	
2011–2012	Deputy Head of Territorial Administration of the Federal Agency for State Property Management in the Krasnodar Krai.
2013–till present	Deputy Director General for Development and Technological Connection of Kubanenergo PJSC
2013–2015	Chairman of the Board of Directors of OJSC Energoservice Kubani Member of the Strategy, Development, Investment and Restructuring Committee, Member of the Board of Directors of Kubanenergo OJSC
2013–till present	Member of the Committee for Technological Connection of the Board of Directors of Kubanenergo PJSC
Date of election to the Management Board	6/14/2013

8. Vladimir Aleksandrovich Mikhaylov

Year of birth	1982
Education	Higher. Graduated from South-Russian State Technical University (Novocherkassk Polytechnic University), qualification: “Electric Systems and Grids”. Completed professional retraining course: - at South-Russian State Technical University (Novocherkassk Polytechnic University), qualification: Process and Production Safety in the Energy Industry and Energy Supply; - at Bauman Moscow State Technical University on the basis of Non-Commercial Non-State Educational Institution Training Center of Kubanenergo, program:

	<p>Company Management.</p> <p>Completed advanced training courses:</p> <ul style="list-style-type: none"> - at LLC NPK Innovative Technologies, program: Internal Auditor Training for Environmental Management Systems; - at the National Academy of Retraining and Advanced Training of Managers and Investment Specialists, program: Ensuring environmental safety managers and specialists of general business management systems; - at Autonomous Non-profit Organization "Education and Advisory Center Energopersonal", subject: Economic Mobilization Training.
Work experience for the last 5 years:	
2011–till present	Kubanenergo PJSC, Krasnodar Electric Grids Branch Director
Date of election to the Management Board	2/26/2016

9. Olga Vyacheslavovna Ocheredko

Year of birth	1972
Education	<p>Higher. Graduated from Kuban State University, qualification: "Economic and Social Planning", the Moscow State Institute of International Relations (University) at the Ministry of Foreign Affairs of Russia, MBA "Management and Regulation of Economic Activity in the International Power Industry".</p> <p>Completed the "Company Management" professional retraining course at Bauman Moscow State Technical University on the basis of Non-Commercial Non-State Educational Institution Training Center of Kubanenergo.</p> <p>Completed advanced training courses:</p> <ul style="list-style-type: none"> – at Ernst & Young, subject: Risk Management; - at the Training and Information Center EnergoResheniye, subject: Russian Electric and Thermal Energy Industry Development, at the Bureau for Intelligent Support to Reforms in the Energy Sector, subject: FAS of Russia. Updates in tariff-making and setting balances in thermal and electric energy industry, at FBI ITC of the FAS of Russia (seminar), subject: Tariff regulations in 2016 and regulatory authorities' objectives for 2017.
Work experience for the last 5 years:	
2008–till present	Deputy Director General for Economics and Finance of Kubanenergo PJSC
2014–2015	Chairman of the Board of Directors of OJSC Recreation Center Plamya
2014–till present	Chairman of the Board of Directors of OJSC Recreation Center Energetik
2015–till present	Member of the Strategy, Development, Investment and Restructuring Committee and the Reliability Committee of Kubanenergo PJSC
Date of election to the Management Board	8/28/2014

10. Dmitry Yuryevich Ryazantsev

Year of birth	1973
Education	<p>Higher. Graduated from Kuban State Technical University, qualifications: "Electric Power Supply (by industries)" and "Enterprise Economy and Management (by industries)".</p> <p>Completed advanced training courses:</p> <ul style="list-style-type: none"> – at Ernst & Young, subject: Risk Management; - at State Fire Service Academy of the EMERCOM of Russia, discipline: Fire Safety. <p>Director</p>
Work experience for the last 5 years:	
2010–till present	Deputy Director General for Technical Issues, Chief Engineer of Kubanenergo PJSC.
2012–2013	Member of the Reliability Committee of the Board of Directors of OJSC Kubanenergo
2014–2015	Member of the Board of Directors of OJSC Energoservice Kubani
2015–till present	Member of the Reliability Committee of the Board of Directors of Kubanenergo PJSC.
Date of election to the Management Board	8/28/2014

11. Vladislav Andreyevich Statuyev

Year of birth	1956
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Education	Higher. Graduated from Dzerzhinsky Higher Naval Engineering School (St. Petersburg), qualification: "Physics and Power Facilities"; the Federal State Educational Institution of Higher Professional Education Financial University under the Government of the Russian Federation, qualification: "Enterprise Management". Advanced vocational training on "Risk Management" provided by Ernst & Young
Work experience for the last 5 years:	
2009–2013	Director of Krasnodar branch of Federal State Unitary Enterprise Federal Computer Center of Share and Commodity Information Technologies (FT-CENTER)
2013–till present	Deputy Director General for Security of Kubanenergo PJSC
Date of election to the Management Board	12/4/2013

All members of the Management Board are citizens of the Russian Federation.

All Company's Management Board members at the same time being members of the Committees of the Board of Directors attended all meetings of the Committees in 2016, except for:

- D.Yu. Ryazantsev, who did not attend meetings of the Reliability Committee on 5/30/2016 and 11/2/2016,
- O.V. Ocheredko, who did not attend meetings of the Reliability Committee and the Strategy, Development, Investment and Restructuring Committee on 8/10/2016.

Neither member of the Management Board of the Company, save for O.V. Ocheredko, held any position in management bodies of commercial organizations during the period when these organizations were filed for bankruptcy and / or one of bankruptcy proceedings stipulated by the laws of the Russian Federation on insolvency (bankruptcy). O.V. Ocheredko was the Chairman of the Board of Directors of OJSC Recreation Center Plamya during initiation of the bankruptcy case against this company in accordance with the ruling of the Commercial Court of the Krasnodar Krai of 3/3/2015 and finding OJSC Recreation Center Plamya as insolvent and commencement of the bankruptcy proceeding in accordance with the decision of the Commercial Court of the Krasnodar Krai of 9/2/2015.

Neither member of the Management Board of the Company in the reporting period:

- held shares in the Company or made transactions in respect thereof²⁹, except for Ye.V. Rud who held 30 shares in the Company,
- made transactions with the Company;
- was in kinship relations with any person being a member of management and/or financial and economic control bodies of Kubanenergo PJSC, except for L.A. Golovakha and D.N. Golovakha (mother and son);
- was brought to administrative liability for offenses in the field of finance, taxes and dues, securities market or criminal liability for crimes in economy or for crimes against the government;
- had conflict of interest with the Company.

Activities of the Management Board

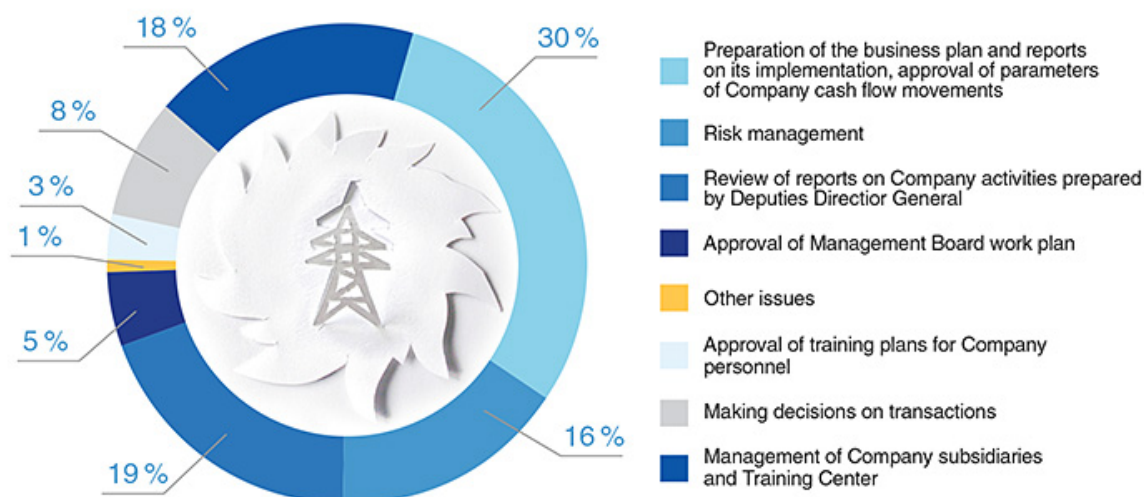
Activities of the Management Board in 2014–2016:

	2014	2015	2016
Number of meetings of the Management Board	24	22	25
<i>inter-alia, by joint attendance</i>	1	1	3
Number of issues considered	56	53	74

The meetings of the Management Board were held in the reporting period in accordance with its action plans and upon the initiative of the Chairman of the Management Board. All Management Board members were fully engaged in the meetings.

Structure of issues considered by the Management Board of the Company in 2016:

²⁹ According to the information provided to the Company by members of the Management Board.



Corporate Secretary

To ensure compliance with the procedures for calling and holding General Meetings of Shareholders as well as to arrange activities of the Company Board of Directors, the Board of Directors of Kubanenergo PJSC elects a Corporate Secretary³⁰.

The Corporate Secretary is an officer of Kubanenergo PJSC ensuring compliance of the Company with the legislation of the Russian Federation, Company Articles of Association and internal documents ensuring enforcement of rights and legitimate interests of Company shareholders.

Since 7/20/2011 Olga Vladimirovna Russu has been continuously performing functions of the Corporate Secretary of Kubanenergo PJSC:

Year of birth	1967
Education	Higher. Graduated from Krasnodar Polytechnic Institute (now Kuban State Technological University), qualification: "Economy and Organization of Food Industry", and Ural Academy of Public Administration, qualification: "Jurisprudence". Attended the course of professional retraining, program "Management of Organization" in Bauman Moscow State Technical University on the basis of Non-Commercial Non-State Educational Institution Training Center of Kubanenergo.
Work experience for the last 5 years:	
2011–till present	Chief Specialist of Department of Corporate Governance and Shareholder Relations of Kubanenergo PJSC
Date of the first / last election as the Corporate Secretary	7/20/2011 / 6/30/2016

O. V. Russu, Company Corporate Secretary:

- did not own stocks of the Company and did not carry out transactions with stocks of the Company in the reporting year;
- has no family relations with members of bodies managing and/or controlling financial and economic activities of Kubanenergo PJSC;

³⁰ Functions, procedures for appointment and dismissal, rights and duties of the Corporate Secretary specified by the Regulation on Corporate Secretary approved by the Board of Directors are available on the website www.kubanenergo.ru, see [About the Company / Constituent and in-house documents](#).

- has not been held administratively liable for offences in the field of finance, taxes and dues, securities market or prosecuted for crimes in economy or for crimes against the government;
- did not hold positions in management bodies of commercial organizations during the period when these organizations were filed for bankruptcy and/or one of bankruptcy proceedings stipulated by the legislation of the Russian Federation on insolvency,

Revision Commission

The Revision Commission is a permanent elected internal control body of Kubanenergo PJSC carrying out regular control of Company financial and economic activities, its separate divisions, officers, management of the Company and structural units of the Company executive office by conducting document and actual checks:

- legality, economic feasibility and efficiency (expediency) of economic and financial operations performed by the Company within the period audited;
- completeness and correctness of economic and financial operations reflected in Company documents.

The Revision Commission has the following objectives:

- control over financial and economic activities of the Company;
- implementation of an independent assessment of reliability of the information given in the Company annual report, annual accounting statements.

The Revision Commission shall act in the interests of the shareholders and report to the General Meeting of Shareholders. When performing its functions, the Revision Commission is independent of the officers, the Company management and Heads of structural units of the Company executive office.

In its activities, the Revision Commission is guided by the legislation of the Russian Federation, the Articles of Association of Kubanenergo PJSC and the Regulation on the Revision Commission³¹.

Composition of the Revision Commission

Two personal compositions of the Revision Commission acted in the reporting year.

Current members of the Revision Commission elected at the Annual General Meeting of Shareholders of Kubanenergo PJSC on 6/24/2016³²:

Item No.	Full name	Employer and position
1	Svetlana Anatolyevna Kim, Chairperson of the Revision Commission	Head of Office of Control Activities of the Department of Control and Revision Activities of PJSC ROSSETI.
2	Yelena Aleksandrovna Kabizskina	Deputy Head of Office of Revision Activities of the Department of Control and Revision Activities of PJSC ROSSETI.
3	Artyom Nikolayevich Kirillov	Deputy Head of Office of Revision Activities of the Department of Control and Revision Activities of PJSC ROSSETI.
4	Sergey Vladimirovich Malyshev	Leading Expert of Office of Revision Activities of the Department of Control And Revision Activities of PJSC ROSSETI.
5	Yelena Yuryevna Slesareva	Chief Expert of the Directorate of Internal Audit of PJSC ROSSETI

³¹ Find the Regulation on the Revision Commission of Kubanenergo PJSC on the website www.kubanenergo.ru, see [About the Company / Constituent and in-house documents](#).

³² Information on employers and positions of the members of the Revision Commission are specified according to the information provided to the Company as of the end of the reporting year. Here "till present" shall mean till 12/31/2016.

Members of the Revision Commission elected at the Annual General Meeting of Shareholders on 6/10/2015 and acting till 6/24/2016³³:

Ite m No.	Full name	Employer and position
1	Svetlana Anatolyevna Kim, Chairperson of the Revision Commission	Head of Office of Revision Activities of the Department of Control and Revision Activities of PJSC ROSSETI.
2	Yelena Aleksandrovna Kabizskina	Deputy Head of Office of Revision Activities of the Department of Control and Revision Activities of PJSC ROSSETI.
3	Irina Pavlovna Lukovkina	Till 12/1/2015, Chief Expert of Office of Control and Risks of the Department of Control Activities of PJSC ROSSETI.
4	Sergey Vladimirovich Malyshev	Leading Expert of Office of Revision Activities of the Department of Control And Revision Activities of PJSC ROSSETI.
5	Igor Vladimirovich Shmakov	Head of Internal Audit Directorate of PJSC ROSSETI

No transactions between the Company and members of the Revision Commission of Kubanenergo PJSC acting in 2016 were conducted in the reporting year.

No members of the Revision Commission acting in 2016 owned the Company shares in the reporting year³⁴.

Results of the Revision Commission

In 2016, the Revision Commission of the Company exercised control by conducting audits of financial and economic activities. Six meetings of the Revision Commission were held, where the following key issues were considered³⁵:

- on approval of the Program of Revision Audits of Financial and Economic Activities of the Company for 2015, including the approval of objects, terms and scope of audits, as well as procedure for conducting thereof;
- on defining the list of information, documents, materials necessary for carrying out audits on each object, ways and sources of their obtainment;
- on specification of dates of Revision Commission meetings on assessment of the Company annual report and annual accounting statements reliability for 2015 and summing up audit results;
- on consideration and approval of the Revision Commission opinion with regard to assessment of reliability of information included in the Annual Report and accounting (financial) statements of Kubanenergo PJSC for 2015;
- on consideration and approval of Revision Commission Report on results of the audit of Kubanenergo PJSC financial and economic activities for 2015;
- on election of Chairperson and Secretary of the Company Revision Commission;
- on approval of the work plan of the Company Revision Commission (for 2016–2017).

According to the results of the audit of financial and economic activities for 2015, a report and opinion were drawn up, including recommendations for improvement of the control environment of the Company and elimination of violations, both of which were sent to the Company so that the violations were eliminated and recommendations were fulfilled.

According to the work plan of the Company Revision Commission (for 2016–2017), audit of Company financial and economic activities for 2016 is scheduled for March–June 2017.

³³ Information on employers and positions of current members of the Revision Commission are specified according to the information provided to the Company as of 3/31/2016.

³⁴ According to the information provided to the Company by members of the Revision Commission.

³⁵ Minutes of Meetings of the Revision Commission of Kubanenergo PJSC are available on the website www.kubanenergo.ru, see [About the Company / Activities control system / Revision Commission](#)

Remuneration and Compensation Payable to Members of Company Executive and Control Bodies

Remuneration and Compensation Payable to Board Members

In accordance with the Regulation on Remuneration and Compensation Payable to the Board Members of Kubanenergo PJSC³⁶ approved by the Annual General Meeting of Shareholders (Minutes No. 36 of 6/11/2015), remuneration to the Board Members is paid as a lump sum based on the results of the work for the period from the moment of election of the candidate to the Board of Directors till the moment of election of a new composition of the Board of Directors:

Remuneration to the Board Members is paid based on the results of their work for the corporate year. The payment is performed in a lump sum within 60 days after the Annual General Meeting of Company Shareholders.

Remuneration amount for participation in the work of the Company Board of Directors for each member of the Board of Directors is calculated considering the following:

- basic part of remuneration stipulated on the basis of the Company revenue calculated in accordance with RAS for a fiscal year;
- total number of meetings of the Board of Directors for the last corporate year and number of meetings attended by a member of the Board of Directors.

In addition to the remuneration stated above, the following extra charges are established:

- 30% to the Chairperson of the Company Board of Directors;
- 20% to the Chairperson of the Committee of the Board of Directors;
- 10% for membership in the Committee of the Company Board of Directors.

Extra charges are paid for chairmanship and/or membership in the Committee of the Board of Directors if at least three Committee meetings of the Board of Directors were held during the corporate year.

No remuneration shall be paid if a member of the Board of Directors did not participate in more than 50% of the Board Meetings that were held from the moment of his/her election till the termination of powers.

Additional remuneration to the Board Members of is also paid from the net profit in case of increase in the amount of the Company market capitalization during the period of their work in the Board of Directors.

Kubanenergo PJSC also reimburses members of the Board of Directors for expenses related to participation in Meetings of the Board of Directors according to the standards of travel expenses compensation established and applicable in the Company at the moment of holding a meeting.

As for the Chairperson and the Board Members being restricted or banned from any payments by commercial organizations in accordance with federal laws, no remuneration or compensation were charged or paid.

Total remuneration paid to the Board Members in 2016 amounted to RUB 14,026 thou. Other remuneration to the Board Members was not paid by the Company.

Expenses of the Company Board Members were not compensated in the reporting year.

The Company has no outstanding amounts payable to the Board Members.

Remuneration and Compensation Payable to Members of Executive Bodies

Remuneration and Compensation Payable to Members of the Management Board:

³⁶ Regulation on Remuneration and Compensation Payable to the Board Members of Kubanenergo PJSC is available on the website www.kubanenergo.ru, see [About the Company / Constituent and in-house documents](#).

The Regulation does not cover the Board Members being at the same time members of the Management Board or Director General.

According to the Decision of the Company Board of Directors (Minutes No. 203/2015 of 2/25/2015), the Management Board Members are classified as first category top managers. In accordance with the Regulation on Financial Incentives and Benefit Package of Top Managers of Kubanenergo PJSC approved by the Company Board of Directors (Minutes No. 207/2015 of 4/17/2015), remuneration to the Management Board Members shall be paid in compliance with labor agreements entered into with them through establishing personal monthly bonuses for acting as members of the Company collective executive body, i.e. the Management Board of the Company.

Bonus payments to Company Management Board Members shall be preconditioned by the achievement of KPIs approved by the Company Director General for the accounting periods (quarter and year). Upon fulfillment at year-end of the conditions (strategic priorities) set by the Company Director General, the Management Board Members may be paid an extra bonus by decision of the Company Director General. For the achievement of high values of KPIs established by the Company Director General as priorities, Management Board members may be paid a special premium by decision of the Company Director General based on the Company results in the reporting year.

According to the Regulation on Procedure for Granting Compensation for Accommodation Costs approved by Company's Order No. 262 of March 27, 2015, the Management Board Members are reimbursed for accommodation costs.

Remuneration to the Director General:

Payment of remuneration to the Director General shall be governed by the Regulation on Financial Incentives for the Director General of Kubanenergo PJSC approved by the Decision of the Company Board of Directors (Minutes No. 114/2011 of 7/22/2011), taking into account amendments in accordance with the Decisions of the Company Board of Directors (Minutes No. 150/2012 of 12/29/2012 and Minutes No. 204/2015 of 3/6/2015). This Regulation shall form an integral part of the labor agreement concluded with the Director General and establish the procedure for determining, approving and changing the basic salary and types of bonuses to be paid to the Director General, as well as the procedure for payment thereof.

Bonus payment to the Company Director General shall be preconditioned by the achievement of KPIs approved by the Company Board of Directors for the accounting periods (quarter and year). Upon fulfillment at year-end of the conditions (strategic priorities) set by the Company Director General, Director General may be paid an extra bonus by decision of the Company Board of Directors. For the achievement of high values of KPIs established by the Company Director General as priorities, Director General may be paid a special premium by decision of the Company Board of Directors based on the Company results in the reporting year.

The Board of Directors may decide to pay a one-time bonus to the Director General for the performance of particularly important tasks (work) implying compliance with special timing and quality requirements, liability and importance for the industry and the state.

Total remuneration paid to the members of the Company executive bodies for 2016 amounted to RUB 82,337 thou, including:

Indicator	2016
Remuneration for participation in the work of the Management Board	1,696
Salary	40,644
Bonuses	37,789
Commissions	0
Benefits	0
Other types of remuneration	2,208
TOTAL	82,337

Total compensation paid to the members of the executive bodies of the Company for 2016 amounted to RUB 684 thou.

The Company has no outstanding amounts of remuneration and compensation payable to the members of the executive bodies.

Remuneration and Compensation Payable to Members of the Revision Commission

In accordance with the Regulation on Remuneration and Compensation Payable to Members of the Revision Commission of Kubanenergo PJSC³⁷ approved at the Annual General Meeting of Shareholders (Minutes No. 36 of 6/11/2015), remuneration is paid as a lump sum based on their performance for the corporate year.

Remuneration to the members of the Revision Commission is calculated taking into account:

- basic part of remuneration stipulated on the basis of the Company revenue calculated in accordance with RAS for a fiscal year;
- coefficient of personal participation of a member of the Revision Commission which reflects his/her participation in meetings and inspections of the Revision Commission as well as his/her fulfillment of additional duties as the Chairperson or Secretary of the Revision Commission.

No remuneration is paid to a member of the Revision Commission who participates in less than a half of meetings held during his/her membership in the Revision Commission.

Compensation to members of the Revision Commission for the expenses associated with their participation in actions taken by the Revision Commission is determined taking into account the established standards.

Total remuneration paid to the members of the Revision Commission for participation in its work in 2016 amounted to RUB 899 thou.

Expenses of members of the Company Revision Commission were not compensated in the reporting year.

The Company has no outstanding amounts payable to the Members of the Revision Commission.

Information Policy

Information policy of the Company is aimed at complete satisfaction of the demand of shareholders, potential investors, creditors, professional participants of securities market, government bodies and other persons interested in reliable information about the Company and its activities, as well as in ensuring free and easy access to such information.

Objectives, principles, the list of information and documents subject to disclosure, procedures and terms for disclosure of information by the Company are stipulated in the Regulation on Information Policy of the Company approved by the Board of Directors³⁸.

In addition to information subject to mandatory disclosure, the Company shall disclose the details of its activities, securities and shareholders, management and control bodies, major transactions and its S&A.

The Company shall disclose information in Russian and in English, in all cases when it is admissible in accordance with the laws of the Russian Federation.

The Company strives to disclose information in Russian and in English at the same time.

³⁷ Regulation on Remuneration and Compensation Payable to the Members of the Revision Commission Kubanenergo PJSC is available on the website www.kubanenergo.ru, see [About the Company / Constituent and in-house documents](#).

The Regulation covers members of the Company Revision Commission not being restricted or banned from any payments by commercial organizations in accordance with federal laws.

³⁸ Regulation on Information Policy of the Company is available on the website www.kubanenergo.ru, see [About the Company / Constituent and in-house documents](#)

Any information about Company activities is generally disclosed by way of publishing on the corporate website www.kubanenergo.ru, in the news feed of Interfax (authorized news agency), publications in printed and online mass media, as well as by means of holding meetings with shareholders and other stakeholders.

Company Director General shall ensure implementation of the Information Policy.

Principles of Information Policy of Kubanenergo PJSC

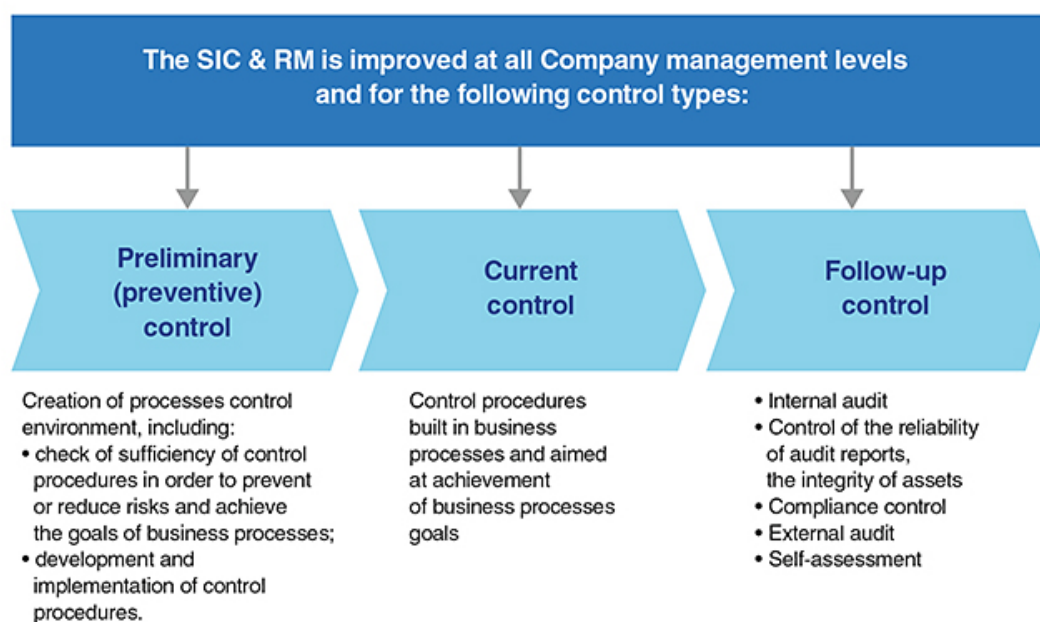
- regularity, sequencing and promptness;
- information availability;
- information completeness;
- reliability and neutrality of information disclosed;
- keeping an adequate balance between the Company transparency and its commercial interests.

Internal Control and Internal Audit

System of Internal Control

Company System of Internal Control (the “SIC”) is an element of integrated Company governance system. SIC covers all areas of Company activities; control procedures are implemented continuously in all Company processes (areas of activity), at all management levels in order to ensure reasonable guarantees as to the achievement of goals in the following areas:

- efficiency and effectiveness of activity arrangement;
- compliance with the applicable laws, as well as with the requirements of the Company local regulations;
- prevention of misconduct of Company employees and third parties with respect to the Company assets;
- ensuring reliability and timeliness of accounting (financial) and other types of statements.



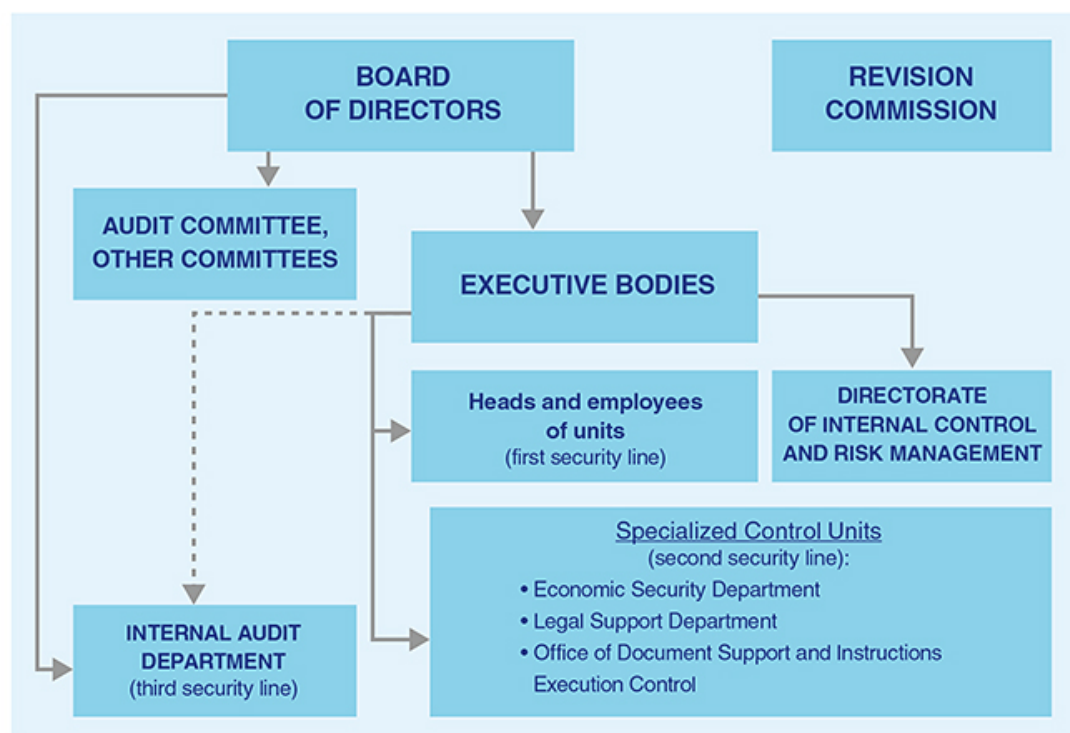
For the implementation of SIC Development and Improvement Strategy of PJSC ROSSETI and its S&A approved by the Decision of the Board of Directors of PJSC ROSSETI of 2/10/2014 (Minutes No. 143), Internal Control Policy of Kubanenergo PJSC approved by the amended Decision of the Board of Directors (Minutes No. 233-2016 of 3/18/2016) was in force in the Company in 2016. The Internal Control Policy determines objectives, principles of functioning and the Company SIC elements, main functions and responsibility of SIC participants, procedure for assessment of SIC efficiency.

Company SIC issues are also regulated by the following documents:

Item No.	Name of the document	Company Management Body that approved the document (latest revision)	Details of the Company management body decision by which the document was approved
1.	Company Articles of Association;	General Meeting of Shareholders	Minutes No. 36 of 6/11/2015
	Regulation on the Audit Committee of the Board of Directors	Board of Directors	Minutes No. 233/2016 of 3/18/2016, No. 253/2016 of 10/28/2016
	Procedure for Evaluation of Efficiency of the System of Internal Control and the System of Risk Management of ROSSETI Group of Companies	Director General	Order No. 6 of 1/12/2016
	Distribution of duties between the Deputy Director General and other managers subordinated to the Director General	Director General	Order No. 146 of 2/25/2015
	Procedure for functioning of the System of Internal Control over the intended, efficient and timely use of funds, raised through additional issue of shares of Kubanenergo PJSC for implementation of Kubanenergo PJSC Development Plan	Director General	Order No. 1185 of 12/30/2016
	Plan of measures on the Development and Improvement of the Systems of Internal Control and Risk Management of Kubanenergo PJSC for 2016–2018;	Board of Directors, Director General	Minutes No. 256/2016 of 12/2/2016, Order No. 1122 of 12/19/2016
	Regulation on Procedure for Implementation of Requirements of the Company Internal Control Policy	Director General	Order No. 45 of 1/27/2017

Moreover, to improve the Company management system aimed at the efficient and appropriate allocation of the Company resources with simultaneous implementation of elements of strategic management, advanced management technologies and methodological tools, IT technologies, the set of measures on development and improvement of the Company management system was developed and approved (Order No. 1114 of 12/16/2016).

Members of the Internal Control System



Powers and Responsibilities of Main SIC Members

Name of member	Main functions in the field of SIC
Revision Commission	<ul style="list-style-type: none"> controls the Company financial and economic activities following the results of which it prepares proposals/recommendations to improve the SIC; performs independent assessment of reliability of the information included in the Company annual report and annual accounting statements.
Board of Directors	<ul style="list-style-type: none"> specifies principles and approaches to arrangement of Company SIC, including approval of the Company internal documents that stipulate organization and strategy for the SIC development and improvement, approves the Company Internal Control Policy; implements control over the work of the Company executive bodies in main (priority) business areas; considers the report of the Management Board on arrangement and functioning of the SIC; considers reports of the internal auditor on the SIC efficiency every year; considers the results of external independent assessment of the SIC efficiency.
Audit Committee of the Board of Directors	<ul style="list-style-type: none"> implements a preliminary review prior to approval of internal documents by the Board of Directors, defining arrangement and strategy for development and improvement of the SIC, Internal Control Policy and further amendments to them; implements a preliminary review prior to the Board of Director's approval of the results of the assessment of SIC efficiency according to the information of reports of the internal auditor on the SIC efficiency, as well as information on the results of the external independent assessment of the SIC efficiency, elaborates proposals/recommendations on improvement of the SIC; implements supervision of the SIC in terms of considering issues related to the control over reliability of Company accounting (financial) statements, selection of external auditor and carrying out external audits, compliance with the regulatory and legal requirements, in part of considering reports of the Management Board on arrangement and functioning of the SIC, as well as in terms of considering issues related to the analysis and assessment of the Internal Control Policy observance.
Other Committees of the Board of Directors	<ul style="list-style-type: none"> exercise supervision of performance of the established financial and operational indices, observance of the applicable laws, rules and procedures established by the local regulations, as well as reliability and timely manner of statements prepared by the Company (within their competences established by the Board of Directors).
Director General, Management Board	<ul style="list-style-type: none"> ensure creation and efficient functioning of SIC; have responsible for implementation of decisions of the Board of Directors related to the SIC
Company Management Board	<ul style="list-style-type: none"> sets trends and plans of SIC development and improvement; prepares reports on the Company financial and economic activities, on arrangement and functioning of the Company SIC; considers results of the external independent assessment of the SIC efficiency, specifies measures on development and improvement of the SIC.
Director General	<ul style="list-style-type: none"> approves regulatory and methodological documents of the Company related to arrangement and functioning of the SIC, excluding documents the approval of which is attributed to exclusive competence of the Company Board of Directors; ensures implementation of plans of the Company activities required to achieve the set objectives; arranges maintenance of accounting records and management accounting records, prepares accounting (financial) and other statements; submits reports on the Company financial and economic activities and on the arrangement and functioning of the Company System of Internal Control to the Board of Directors for approval.
Heads of Units And Divisions	<ul style="list-style-type: none"> exercise functions on elaboration, documenting, implementation, monitoring and development of the System of Internal Control in the Company functional areas of activity, responsibility for arrangement and coordination / implementation of which is allocated to them by the Company regulatory documents / Regulations on Divisions, including: ensure implementation of the internal control principles; arrange creation of efficient processes (areas of activities), including their development and implementation regard to identified risks of new or amended current control procedures; ensure regulation of supervised processes (areas of activity); arrange implementation of control procedures;

Name of member	Main functions in the field of SIC
	<ul style="list-style-type: none"> • carry out assessment (monitoring) of implementation of the control procedures; • carry out assessment of the supervised processes (areas of activities) for required optimization in order to improve efficiency and compliance with variable external and internal environment conditions, arrange development of proposals on the control procedures improvement; • ensure elimination of identified failures in control procedures and processes (areas of activities)
Collective Working Bodies Established by the Company Executive Bodies for Execution of Specific Functions (Commissions, Working groups, etc.)	<ul style="list-style-type: none"> • implementation of control procedures and/or development of recommendations on improvement of control procedures, certain components (elements) of internal control and SIC;
Employees of Company Divisions Performing Control Procedures as Part of Their Official Duties	<ul style="list-style-type: none"> • implement control procedures; • ensure timely notification of direct supervisors if the performance of control procedures is rendered impossible for some reason and/or requires changes in the design of control procedures due to the changes in internal and/or external conditions of functioning of the Company. • submit to direct supervisors proposals on implementation of control procedures in the respective areas of activities for consideration.
Specialized Control Units: - Economic Security Department - Office of Document Support and Instructions Execution Control - Legal Support Department	<ul style="list-style-type: none"> • counteracts to the facts of unfair competition; • carries out investigations on the facts (prerequisites) of causing damage to interests of economic security of the Company; • organizes protection from theft of electric power, financial and real assets, intellectual property, prevention of other crimes against the Company property; • participates in joint checks of financial and economic activity of Company divisions for the purpose of preparation of own opinion on the facts of violations and formation of evidential base in the interests of the Company; • ensures the unified record keeping system in the Company branches and executive office; • organizes control of document execution; • organizes control of document execution with regard to activities of Deputy Director General. • carries out control of observance of legislation by the Company by way of legal review and coordination in accordance with the procedure stipulated by Company regulatory and administrative documents, as well as approval of draft contracts and agreements, draft regulatory and administrative documents, draft powers of attorney for representation of Company interests before third parties, draft applications, letters, requests, claims submitted on behalf of the Company to the legislative and executive authorities, legal authorities, law enforcement agencies; • controls and reports to the Company management of all adopted laws and regulations of the Russian Federation that influence significantly Company activities mitigating risks of failure to comply with the legislation and meet Company interests.
Directorate of Internal Control and Risk Management	<ul style="list-style-type: none"> • develops and ensures implementation of basic and methodological documents related to creation and improvement of SIC; • assists the management in development of control environment, elaboration of recommendations on description and implementation of control procedures in the processes (areas of activities) and assignment of responsibility to the officers; • coordinates activities for maintenance and monitoring of the SIC target status; • prepares information about the SIC status for interested parties; • cooperates with the state regulatory authorities on issues related to the internal control.
Internal Audit Department	<ul style="list-style-type: none"> • following the results of internal audit, develops recommendations on improvement of control procedures, certain components (elements) of the internal control and the SIC; • carries out internal independent assessment of the SIC efficiency and provides recommendations on increase of the SIC efficiency and performance.

To ensure efficiency of the SIC and compliance with the objectively changing requirements and conditions, the Company performs assessment of the SIC efficiency in relation to its compliance with the target status and maturity level.

The Internal Control System Development and Improvement Strategy of PJSC ROSSETI and its S&A approved by the Decision of the Board of Directors of PJSC ROSSETI of 2/10/2014 (Minutes No. 143) (hereinafter referred to as the “SIC Development Strategy”) determines 6 levels of the SIC maturity (from 1 (“zero”) to 6 (“high”).

In the reporting year, the Company implemented the following key measures aimed at the SIC improvement:

- Regulation on the Audit Committee of the Board of Directors of Kubanenergo PJSC was approved as amended;

- amendments were introduced to the Regulation on Strategy, Investments and Restructuring Committee of the Board of Directors of Kubanenergo PJSC;

- the Board of Directors approved and amended Company Internal Control Policy, Risk Management Policy and Internal Audit Policy;

- for splitting current and preventive control and the subsequent control functions, the Company Board of Directors approved a new Company organizational structure introducing the position of Deputy Director General for Controlling and newly created Directorate of the Internal Control and Risk Management, Internal Audit Department and Controlling Department;

- for the purpose of implementation of the current control the documents securing the SIC functioning (see to the table above for the documents regulating SIC) were approved (put in force) and executed;

- self-training of employees of specialized services on the subject “System of Internal Control. Process Control Updates” was organized;

- within a certain period of 2016, 33 activities were carried out and a Report on Implementation of the Plan of Activities on Development and Improvement of Internal Control and Risk Management Systems of Kubanenergo PJSC for 2016–2018 was considered by the Management Body;

- amendments were introduced to the regulations on Company divisions and in job descriptions of the officers of the Company Executive Bodies in part related to the addition of competences in the area of functioning of the System of Internal Control;

- employees of the Internal Audit Department and Directorate of the Internal Control and Risk Management were additionally trained in the area of Internal Control and Internal Audit.

Implementation of the specified measures made it possible to increase the SIC maturity level from the intermediate between “satisfactory” and “moderate” to “moderate”.

Internal independent assessment of the SIC and Risk Management System efficiency for 2016 was carried out by the Company Internal Auditor: According to the Audit Committee of the Company Board of Directors the SIC and SRM maturity level in 2016 corresponds to level 4 (“moderate”) (Minutes No. 51/2017 of 3/20/2017; the Board of Directors considered the issue of the SIC efficiency in 2016 (Minutes No. 271/2017 of 4/28/2017). No external independent assessment was carried out.

Implementation of the following measures on the SIC improvement is scheduled for 2017:

- implementation of the control matrices in Company business processes;
- development of the SIC for accounting and tax records maintenance and for preparation of statements, including the statements made in accordance with international standards;

- implementation of the Company integrated safety policy;
- development of a regulatory document on the functioning of the “second line of defense”, development of “horizontal” and “vertical” interaction patterns of divisions of the “second line of defense”;

- development of the SIC and SRM participants interaction pattern and its implementation in the Company;
- Development of interaction pattern for the Directorate of Internal Control and Risk Management, Controlling Department, Internal Audit Department in the Controlling Unit, and its approval by the Company regulatory and administrative document;
- Implementation of the set of activities on improvement of Kubanenergo PJSC management system (in accordance with Order No. 1114 of 12/16/2016).

Internal Audit

Objective of the internal audit is to assist the Board of Directors and the Executive Bodies of the Company in enhancing the Company management efficiency, improving its financial and economics activities, specifically through systems and sequential approach to the analysis and assessment of the Systems of Risk Management, Internal Control and Corporate Governance, as tools to provide reasonable assurance of achievement of the Company objectives.

The division responsible for implementation of internal audit function in the Company is the Internal Audit Department.

Internal audit is functionally accountable to the Company Board of Directors, which means that the Board of Directors shall implement control and organization of internal audit division activity, including:

- approval of the Plan and Report on its implementation;
- approval of the budget;
- Approval of the Decisions on appointment, dismissal of the head of internal audit division, and definition of his/her remuneration.

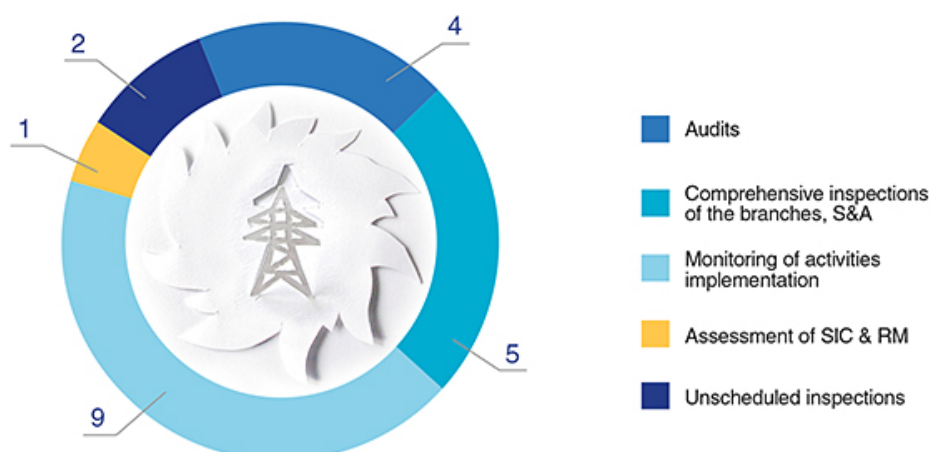
The goals and objectives, functions, basic principles of arrangement and functioning, powers of internal audit are stated in the Internal Audit Policy of Kubanenergo PJSC approved as amended by the Decision of the Board of Directors (Minutes No. 233/2016 of 3/17/2016).

Internal documents of the Company, regulating Internal Audit functions:

Name of the Document	Company Management Body that approved the document (latest revision)	Details of the Company management body decision, by which the document was approved
Guidelines on Internal Auditing and Glossary of Internal Audit	Director General	Order No. 56 of 1/27/2016
Guidelines on Monitoring of Implementation of Plans of Corrective Actions for Elimination of Violations and Faults Detected during Internal Audits	Director General	Order No. 651 of 7/27/2016
Regulation on Internal Audit Department	Board of Directors	Minutes No. 251/2016 of 9/23/2016
Program of Internal Audit Quality Assurance and Improvement	Board of Directors	Minutes No. 257/2016 of 12/6/2016
Regulations on Cooperation of the Internal Audit and Control Department with other Company Divisions during Audits and Monitoring of Implementation of the Plans of Corrective Actions	Director General	Order No. 346 of 4/26/2016
Regulations on Organizing Activities of the Internal Audit and Control Department	Director General	Order No. 511 of 6/23/2015
Instruction on Development and Use of the Unified Classifier of Violations and Faults	Director General	Order No. 600 of 7/20/2015
Unified List of Network Reports	Director General	Order No. 89 of 5/25/2016
Procedure for Evaluation of Efficiency of the System of Internal Control and the System of Risk Management of ROSSETI Group of Companies	Director General	Order No. 6 of 1/12/2016

In 2016, the number of Company employees carrying out internal audit function amounted to 5 persons.

In 2016, the internal auditor carried out 21 control activities, including:



Following the results of the control activities carried out by internal audit in 2016, 115 corrective actions aimed at elimination and further prevention of identified violations and deficiencies are to be implemented.

All 82 corrective actions with the term of implementation maturing in the reporting year, were executed.

Corrective Actions implemented in 2016:



Implementation of the corrective actions is controlled by the Audit Committee of the Board of Directors by hearing of the regular quarterly reports of the Company management on implementation of corrective action plans for elimination of deficiencies detected by the Company Revision Commission, the internal auditor, and external control bodies.

Stocks and Dividends



Irina Viktorovna Ivanova
Deputy Director General
for Corporate Governance

"In the reporting year:
• a significant Company capital gain was reported;
• according to the Decision of the General Meeting of Shareholders on the increase of the Company authorized capital, the measures were taken to issue additional Company shares by the end of 2016, an opportunity for shareholders to exercise their preemptive right when acquiring the shares was given."

Shares of Kubanenergo PJSC

	At the beginning of 2016	At the end of 2016
Securities type, class, character, form of issuance	Uncertified registered common shares	
Nominal value per share	RUB 100	
Number of outstanding securities	282,868,130	
State registration number of the issue and registration date	No. 1-02-00063-A as of 7/8/2003	
Presence / absence of special right of the Russian Federation to participate in the management of the Company ("golden share")	No special right of the Russian Federation to participate in the management of the Company ("golden share")	
Number of authorized shares which may be placed by the Company in addition to outstanding shares	194,439,107 in common stocks with a total nominal value of RUB 19,443.9 mln	

No preferred shares have been issued.

The Company does not keep and does not intend to purchase any shares on the balance sheet.

No subsidiaries or affiliates of Kubanenergo PJSC own shares in the Company.

In accordance with the Articles of Association of Kubanenergo PJSC, each registered common share of the Company grants equal scope of rights to its owner.

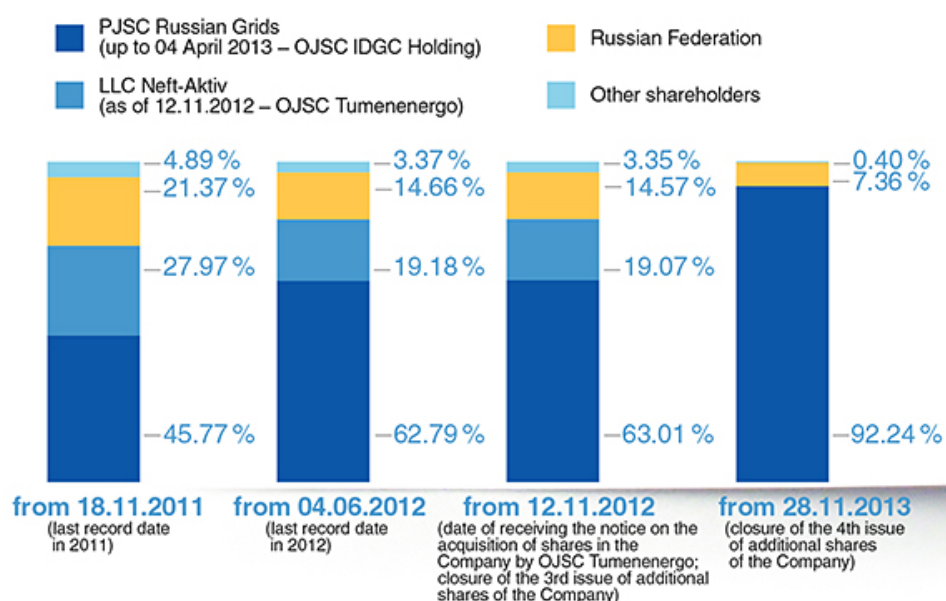
Ordinary registered shareholders of the Company are entitled to:

- 1) participate in person or through representatives in the General Meeting of Company Shareholders having a right to vote on all issues within their competence;
- 2) make suggestions for the inclusion of issues in the agenda of the General Meeting in the manner prescribed by the laws of the Russian Federation and these Articles of Association;

- 3) obtain all information on the Company activities and study Company documents in accordance with Article 91 of the Federal Law “On Joint-Stock Companies”, as well as with other regulatory legal acts of the Russian Federation and these Articles of Association;
- 4) receive dividends declared by the Company;
- 5) preemptively purchase additional shares and issuance securities placed by means of public offering, converted into shares in a quantity which is proportional to the number of ordinary shares which belong to them in cases covered by the laws of the Russian Federation;
- 6) get a part of the Company assets in case it is liquidated;
- 7) appeal against the decisions of the Company governing bodies resulting in civil law consequences subject to the laws of the Russian Federation;
- 8) demand compensation of the losses caused to the Company;
- 9) challenge transactions carried out by the Company on the grounds stipulated by the laws of the Russian Federation and demand enforcement of implications of invalidated transactions as well as enforcement of implications of void transactions of the Company;
- 10) sign an agreement on implementation of the corporate rights (the corporate agreement) among themselves as well as with creditors of the Company and other third parties ;
- 11) exercise other rights stipulated by the legislation of the Russian Federation and these Articles of Association.

Rights of shareholders are also stipulated in Company Articles of Association.

Structure of the share capital



There were no changes in the structure of the share capital of the Company during the reporting year.

Statistics on the shareholders of Kubanenergo PJSC as of 12/31/2016:

Item No.	Registered persons	Number of persons	Number of shares	% of the total number of shares
1	Individuals	1,776	341,162	0.1206
	including non-residents	2	485	0.0002
2	Legal entities, including nominal shareholders (total)	19	282,520,148	99.8770

	<i>including owners (nominal shareholders) of more than 5% of shares</i>	<i>2</i>	<i>281,749,537</i>	<i>99.6046</i>
	<i>including non-residents</i>	<i>1</i>	<i>325</i>	<i>0.0001</i>
3	Trustees	0	0	0
4	Shares in joint ownership	14	6,820	0.0024
Total according to the register:		1,809	282,868,130	100

Issue additional Company shares

On 9/19/2016 a Decision was adopted at the extraordinary General Meeting of Shareholders (Minutes No. 38 of 9/21/2016) to increase the authorized capital of Kubanenergo PJSC through placement of 57,457,846 of additional shares by public offering.

On 12/15/2016 the Bank of Russia adopted a Decision on the State registration of the additional issue and on the registration of Prospectus of uncertified registered common shares of Kubanenergo PJSC. The additional issue of shares was assigned a State Registration Number 1-02-00063-A.

The total number of shares issued is 57 mln. 457 thou. 846 of shares.

The maximum amount of money receivable upon placement of all the shares of the additional issue totals to RUB 5.75 bln.

Objectives of the issue: raising investments, enhancing financial stability of Kubanenergo PJSC.

Issue of additional shares of Kubanenergo PJSC is aimed, particularly, at raising investments for consolidation of electric grid facilities within the Company business area on the basis of Kubanenergo PJSC through their purchase from owners for a total amount of up to RUB 3.2 bln, that enables the Company to increase:

- the length of power transmission lines by 2.6 thou. km;
- total substation capacity by 857 MVA;
- number of conditional units of electric grid assets by 39.9 thou.

Offer price (including individuals on the list of people holding the preemption right) per additional common share is RUB 100.

The payment of additional shares shall be performed in cash.

From 12/20/2016 to 10/16/2017 the accepts the shareholders' requests for acquisition of the Company additional shares in the exercise of the preemption right. In the reporting year more than RUB 2 bln was raised in return for the shares placed.

Placement of additional shares of the Company shall be finished on 12/15/2017.

Information on the current issue of additional shares of Kubanenergo PJSC is published on the Company website: [Home page / For Shareholders and Investors / Information Disclosure / Disclosure of information at specific stages of the securities issue procedure / Additional issue of shares of Kubanenergo PJSC \(state registration number 1-02-00063-A of 12/15/2016\).](#)

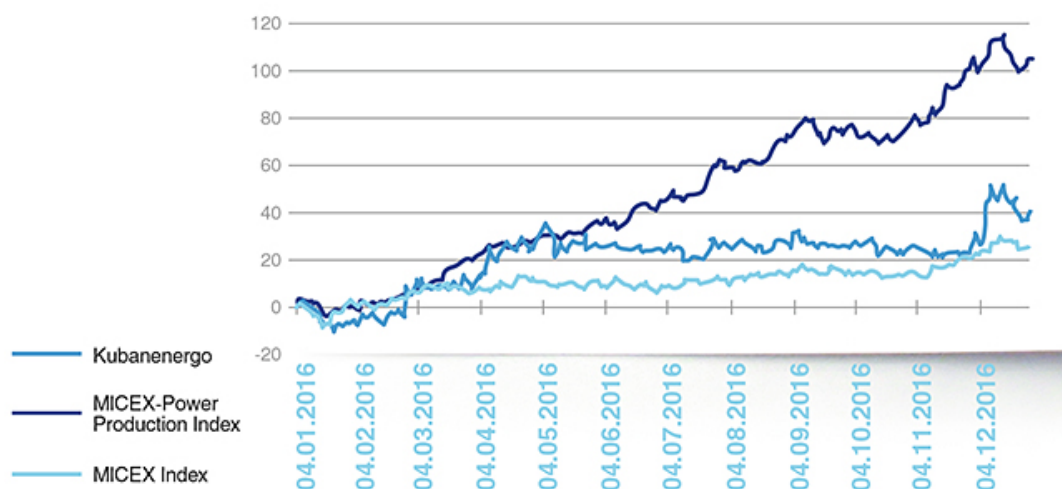
Stock Market and Capitalization of Kubanenergo PJSC

In 2016, shares of Kubanenergo PJSC were traded at PJSC Moscow Exchange as non-listed stocks, ticker symbol – KUBE, ISIN code: RU0009046767.

Information on current quotations and prices of transactions is available in both Russian and English:

- <http://moex.com>
- <http://kubanenergo.ru>

Fluctuation of price of one Kubanenergo PJSC share



Capitalization of the Company at the beginning of 2016 has reached RUB 16.92 bln and amounted to RUB 24.69 bln at the end of the year.

The capitalization maximum in 2016 amounted to RUB 25.5 bln, with the lowest drop at RUB 15.3 bln. The market price per shares in the reporting year was in the upward trend and by the end of the year increased by nearly 46% following the growth of MICEX index by nearly 29% and of the MICEX-Power Index by over 108%.

Fluctuation of price of one Kubanenergo PJSC share in 2016, RUB:

Weighted Average Price (Beginning of the Year)	Minimum Price	Maximum Price	Weighted Average Price (End of the Year)	Relative price increase over the year, %
59.8	54	90	87.3	45.99

Quotations and Trade Volumes of Stocks of Kubanenergo PJSC in 2014–2016:

Indicator	2014	2015	2016	2016/2015 (relative increase, %)
Weighted Average Share Price in the End of the Year	40.1	59.3	87.3	47.21
Trade volume, pcs.	234,200	796,480	1,675,440	110.36
Trade volume, RUB	14,301,266.5	49,070,335	124,397,570	153.51

Trade volume of the Company shares at MICEX Stock Exchange in 2016 significantly exceeded the level of 2015 and amounted to RUB 124.4 mln / 1.7 mln shares.

Low trading activity is partly caused by the consolidation of a block of shares by the Company majority shareholder (PJSC ROSSETI).

Dynamics of Trade Volume of the Company Shares

In 1Q of 2016 a relatively low trading activity was observed; the trade volume amounted to 283 thou shares. In 2Q and 3Q the trade volume increased by an average of 50%. Improved activity was observed in 4Q of the reporting year, with the trade volume amounting to approx. 543 thou shares.

Profit Distribution and Dividend Policy

The dividend policy of Kubanenergo PJSC is a total of principles and methods used by the Company to work out the correlation between the profit that goes towards capitalization and the profit that goes towards the dividends, as well as to decide on the procedure and timing of paying out the dividends, and to decide on the responsibility of the Company for failing to deliver the stated amount in dividends.

Our dividend policy is aimed at increasing the investment appeal of Kubanenergo PJSC and the growth of its market capitalization.

While increasing the capitalization, we also aim at increasing the amounts paid out as dividends to the shareholders based on the amount of profit attained in the financial year and investment requirements in relation to the development of the Company.

The Dividend Policy of the Company is determined by the Regulation on Dividend Policy of Kubanenergo PJSC established by the decision of the Board of Directors (Minutes No. 95/2010 of 9/3/2010) and published on the corporate website of the Company www.kubanenergo.ru — section [About the Company / Constituent and in-house documents](#).

Basic Principles of Kubanenergo PJSC Dividend Policy

- Ensuring a balanced approach to the interests of the Company and its shareholders while settling the volume of dividends to be paid.
- Respect and strict compliance with the rights of shareholders set forth by the applicable laws of the Russian Federation, the Articles of Association and internal documents of the Company.

Data sheet on dividends paid by Kubanenergo PJSC

Dividend Period, Year	Number and date of the Minutes of the annual General Meeting of Shareholders of Kubanenergo PJSC where the decision on the dividends payment was made	Date of drafting the list of shareholders entitled to receive dividends in the dividend period	Amount of dividends announced (accrued) on the shares of the given tier (type) per share, RUB	Total amount of dividends announced (accrued) on the total number of outstanding shares of the given tier (type), RUB	Total amount of funds paid in dividends on the company's shares of the given tier (type), RUB	Period of time set to pay out the announced dividends on the Company's shares	Means and other terms of payment of the announced dividends on the Company's shares	Reasons for default on the announced dividend payments
2005	No. 18 of 6/11/2006	4/12/2006	4.476917	80,000,000	79,662,676.97	60 days	Monetary means	Failure to provide updates on the changes in personal data by the persons registered in the list of shareholders
2006	No. 20 of 6/5/2007	4/26/2007	1.253593	22,401,000	22,303,192.20			
2007	No. 23 of 6/6/2008	4/17/2008	1.678844	30,000,000	29,873,068.07	15 days		
2015	No. 37 of 6/27/2016	7/13/2016	4.047105	1,144,797,000	1,144,067,054.17	10 working days and 25 working days ³⁹		

Following the results of 2008–2014 financial years, the General Meeting of Shareholders of the Company decided not to pay dividends.

Following the results of 2015 financial year, the decision was made to pay dividends in the amount of RUB 4.047105 per one ordinary share of the Company in cash.

According to the Company's Articles of Association, the decision on profit distribution following the results of 2016 will be taken following the results of the annual General Meeting of Shareholders.

³⁹ 10 working days for a nominee holder and a trustee who is a professional participant of the securities market shall be no more than, and 25 working days for other registered shareholders from the date of drawing up the list of persons entitled to receive dividends.

Sustainable Development



Lyudmila Alekseyevna Golovakha
Deputy Director General —
Head of Office

"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.

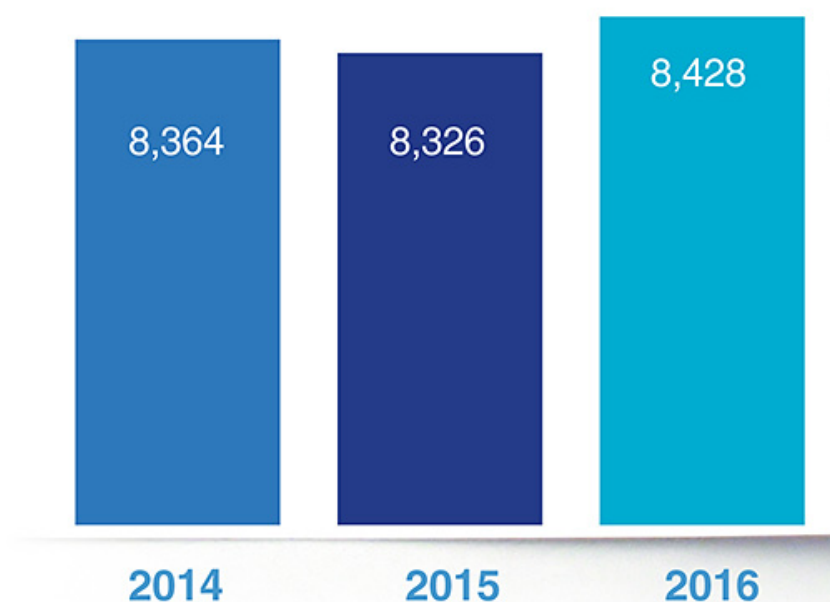
The mentioned key targets of the personnel and social policy are achieved through the implementation of a set of measures in various areas of activity and the achievement of established milestones:

- 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

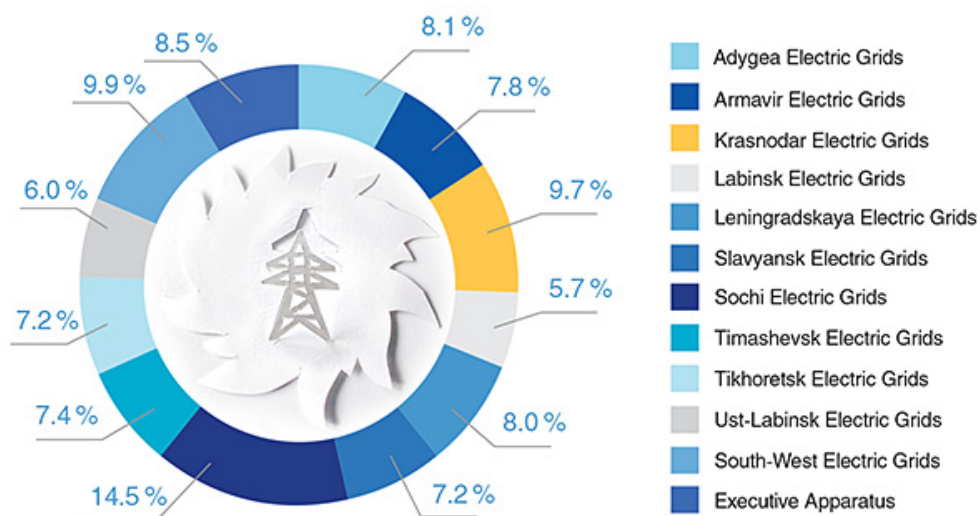
The average headcount of the Company in 2016 amounted to 8,428 people that is by 1.2% higher than in 2015.

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.

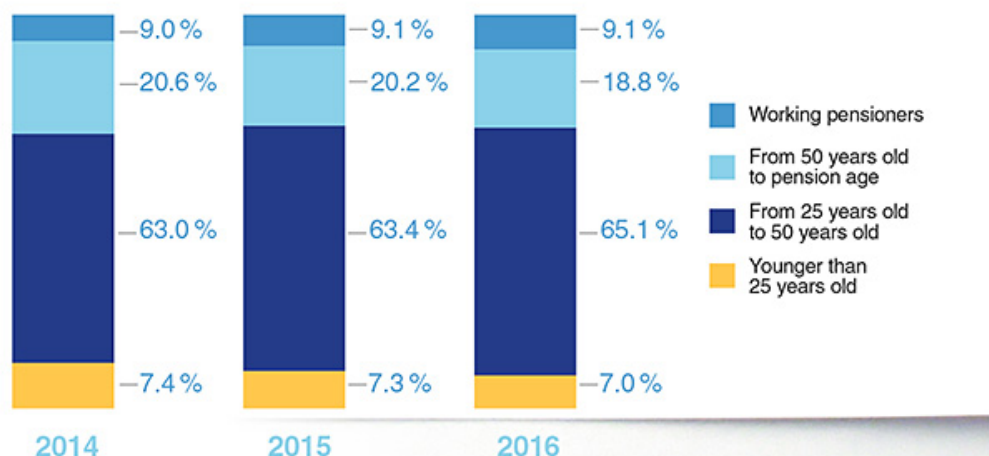
Chart Distribution of the average headcount in 2016



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.

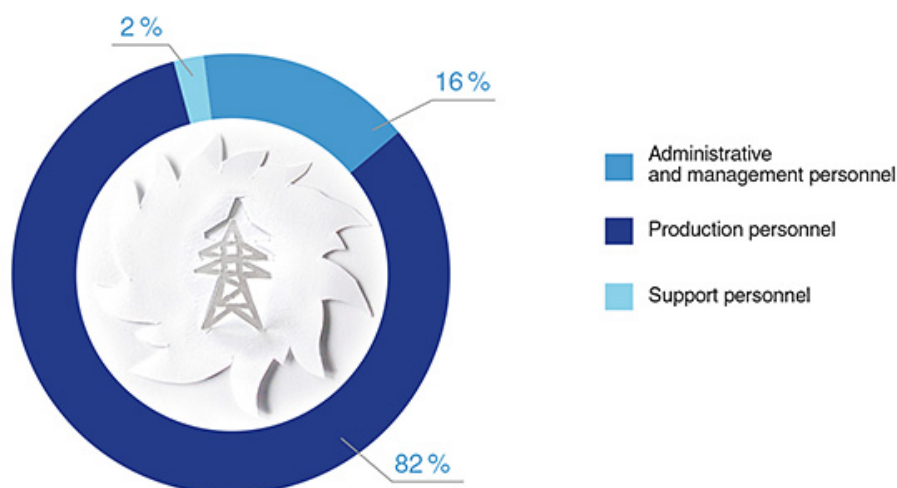
Personnel Training and Development

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).

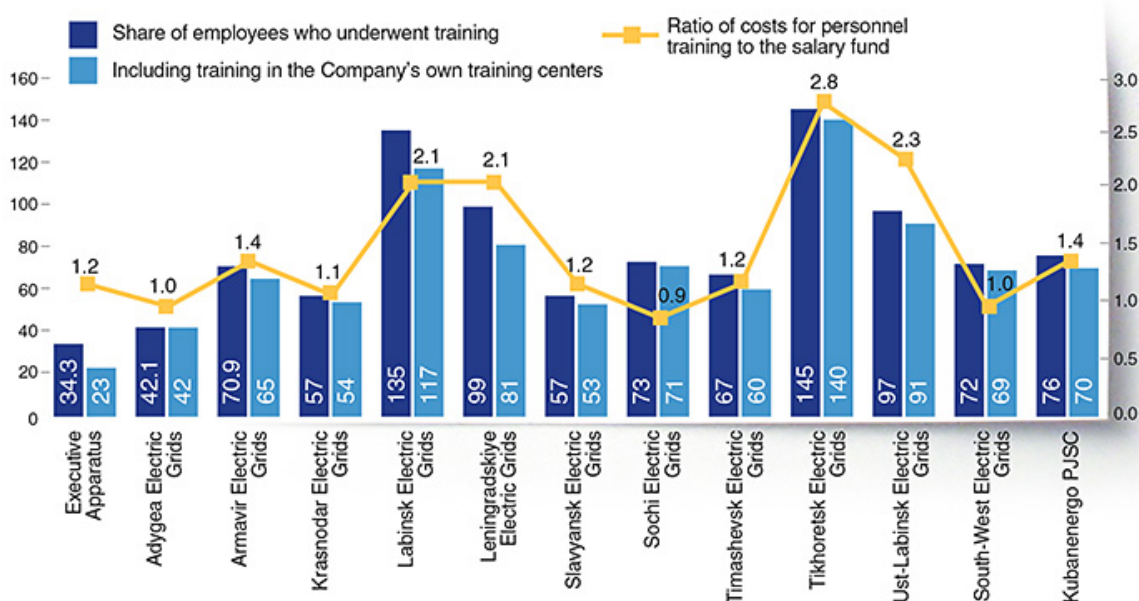
The key suppliers of educational services, besides own training center Further Vocational Training Facility Energy Institute of Advanced Training of Kubanenergo PJSC, are also as follows:

- 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.

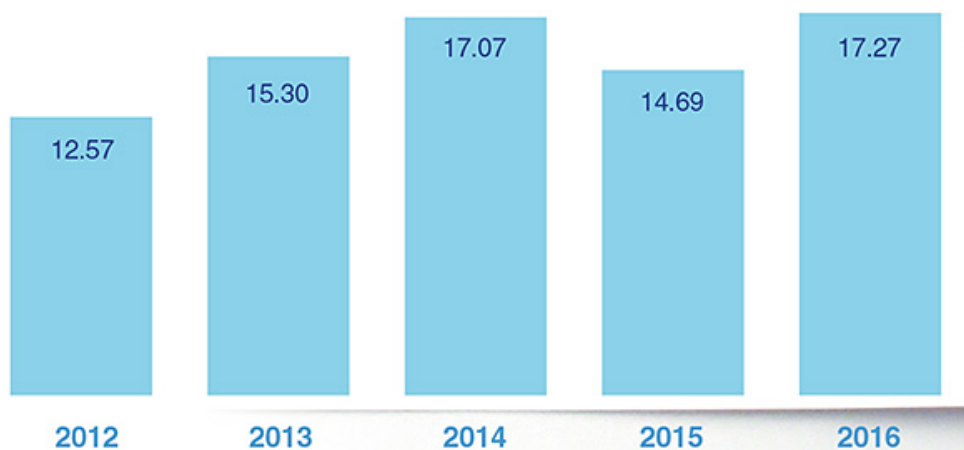
As part of the functioning of the internal technical control system in 2016, comprehensive inspections were conducted in the Company's branches of Armavir, Krasnodar, Slavyansk and Tihoretsk Electric Grids. Thematic inspections of divisions of all branches of the Company were conducted throughout the 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

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.

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.

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.

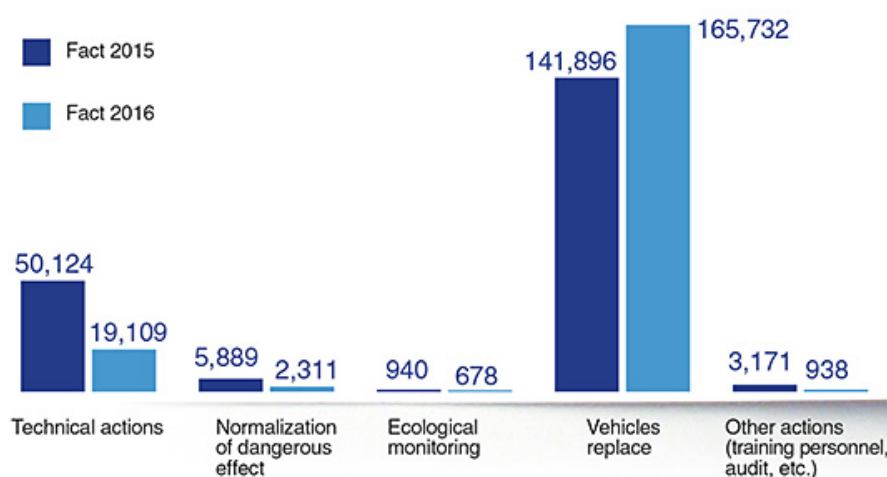
All activities planned for 2016 under the Program for Implementation of the Company Environmental Policy were successfully implemented, including:

- 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 environmental 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.

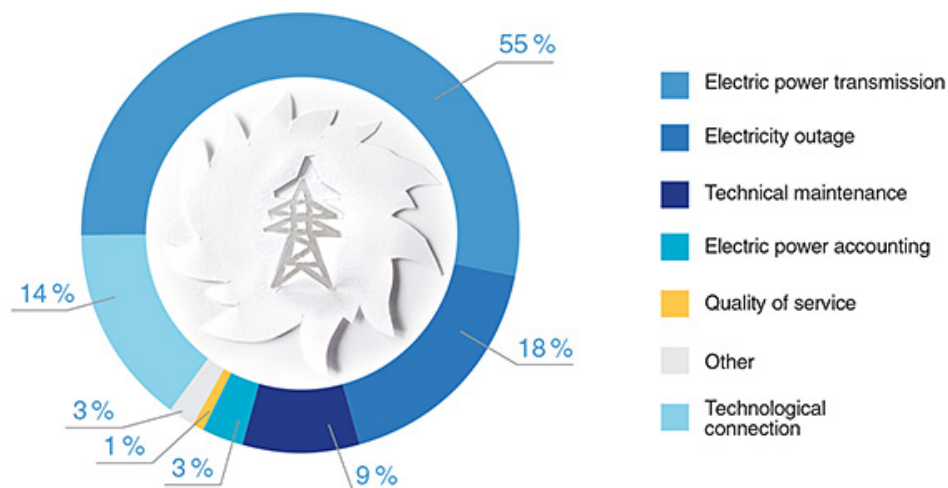
Remote customer service of Kubanenergo PJSC is organized through the Call Center work with a single federal number 8-800-100-15-52. Call Center operators promptly inform the population of the Krasnodar Krai and the Republic of Adygea about various issues related to power supply and time of emergency 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.

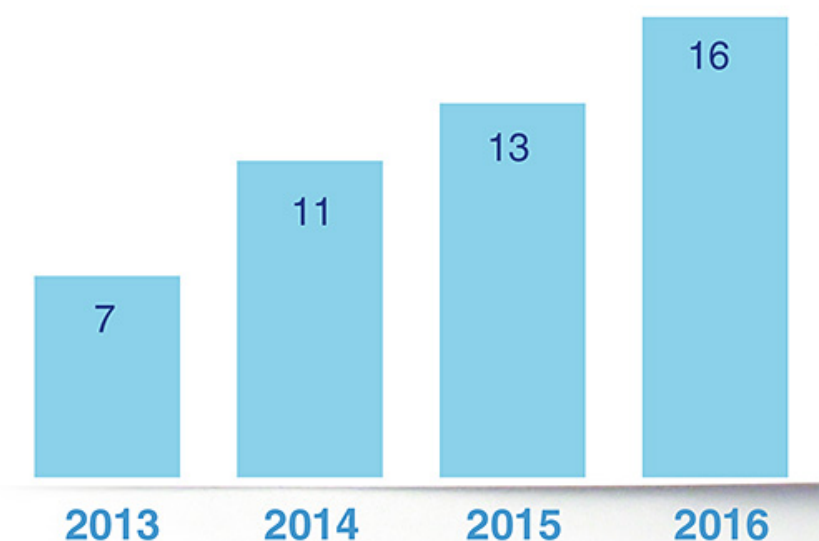
Moreover, systematic approach was observed in organization of operation of the power grid complex of the Krasnodar Krai and the Republic of Adygea that was demonstrated by the personnel of the audited branches and the central service of distribution grids.

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

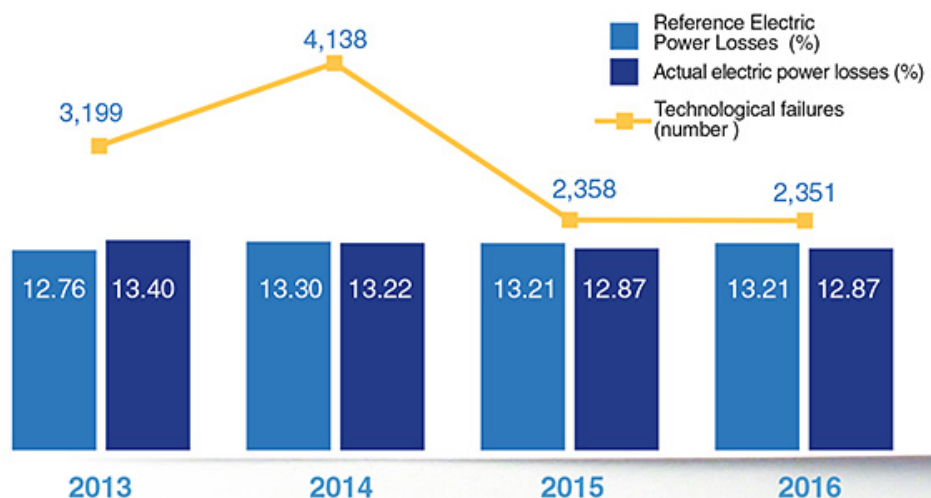
Annual analysis of functioning of the integrated management system for review by the management based on results of process effectiveness monitoring, results of internal audits and corrective and preventive actions taken show improvement of the management system.

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 Gavriloov signed an agreement on cooperation in the development of energy infrastructure on the Taman Peninsula;

- General Director of Kubanenergo PJSC Alexander Gavriloov 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 Gavriloov, 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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Reference Information

Appendices to the Annual Report

An integral part of this Annual Report of Kubanenergo PJSC are the following appendices:

Appendix 1	Annual accounting (financial) statement of Kubanenergo PJSC for 2016 and Auditor's report approving the reliability of the financial statements of Kubanenergo PJSC for 2016 compiled according to the Russian Accounting Standards (RAS)
Appendix 2	Report on Major, Other Material and Interested Party Transactions Made by Kubanenergo PJSC in 2016
Appendix 3	Report on compliance with the Russian Code of Corporate Governance recommended by the Bank of Russia in 2016
Appendix 4	Information on Non-Core Assets of Kubanenergo PJSC. Participation of Kubanenergo PJSC in other Commercial Organizations
Appendix 5	Report on the Company's Development in Priority Business Areas in 2016

Contact Information

Full Company Name	Kuban power and electrification public joint stock company
Abbreviated Name	Kubanenergo
	The company is not included in the list of strategic enterprises and strategic joint-stock companies approved by Presidential Decree No. 1009 of 04.08.2004 (as amended)
Location	Krasnodar, Russian Federation
Mailing Address	2A Stavropolskaya Street, Krasnodar, Russian Federation, 350033
Primary State Registration Number	1022301427268
Bank Details	INN / KPP 2309001660 / 997450001 acc. 40702810330020101989, in the Krasnodar branch No. 8619 of Krasnodar, corr.acc. 30101810100000000602, BIC 040349602
Telephone / Fax	+7 (861) 268-59-13 / +7 (861) 268-24-93
E-mail Address	telet@kuben.elektra.ru
Website	www.kubanenergo.ru/eng/

For Shareholders:

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Lead Specialist of the Department for Corporate Governance and Shareholder Relations	Irina Vladimirovna Podsvirova +7 (861) 212-22-76, fax: +7 (861) 212-27-08 podsvirovaiv@kuben.elektra.ru

For investors and financial analysts:

Head of the Department for Corporate Governance and Shareholder Relations	Ekaterina Evgenyevna Didenko +7 (861) 212-23-09, didenkoe@kuben.elektra.ru
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For Customers:

Head of the Customer Interaction Department	Aleksey Anatolievich Voropaev +7 (861) 212-22-74, voropaevaa@kuben.elektra.ru
Internet Reception	Company website www.kubanenergo.ru — section For customers / Customer service centre / Internet reception
Call-center	8-800-100-15-52 (24-hour)

Contacts of Customer Service Centers:

<i>Branch of PJSC Kubanenergo</i>	<i>Contact Phone</i>	<i>E-mail Address</i>
Adygea Power Grids	+7 (8772) 59-22-02	client.service@adseti.ru
Armavir Power Grids	+7 (86137) 698-03	uslugi@armset.ru
Krasnodar Power Grids	+7 (861) 255-79-84	tsok@krasnodarseti.ru
Labinsk Power Grids	+7 (86169) 691-53	cok@labnet.kuban.ru
Leningradskiye Power Grids	+7 (86145) 735-00	kazantsevali@lenseti.kuban.ru
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Tikhoretsk Power Grids	+7 (86196) 704-17	goryainovane@tihset.ru
Ust-Labinsk Power Grids	+7 (86135) 503-43	putinceva@useti.kuban.ru
South-Western Power Grids	+7 (8617) 67-84-20 (Novorossiysk), +7 (86133) 566-72 (Anapa)	novolatoe@mail.novuzs.ru

For Applicants:

In Krasnodar: Lead Specialist for Organizational Development	Veronika Nikolaevna Shevtchova +7 (861) 212-26-15, from 8 a.m. to 5 p.m. hr@kuben.elektra.ru
In Sochi: Deputy Head of the HR department of the Sochi Power Grids branch of PJSC Kubanenergo	Vera Ivanovna Smerdova +7 (8622) 690-218 personal@elsetisochi.ru

Branches of PJSC Kubanenergo as of 31.12.2016

Item No.	Name	Location	Contact phone / Fax
1.	Adygea Power Grids	358 Shovgenova Street, Maykop, Republic of Adygea, Russia	+7 (8772) 57-17-20 / +7 (8772) 56-01-41
2.	Armavir Power Grids	54 Vorovskogo Str., Armavir, Krasnodar Territory, Russia	+7 (86137) 698-59 / +7 (86137) 785-54
3.	Krasnodar Power Grids	131 Pashkovskaya Str., Krasnodar, Krasnodar Territory, Russia	+7 (861) 255-53-97 / +7 (861) 255-74-34
4.	Labinsk Power Grids	334 Mira Str., Labinsk, Krasnodar Territory, Russia	+7 (86169) 699-07 / +7 (86169) 693-11
5.	Leningradskiye Power Grids	6 Division 302 Str., Stanitsa Leningradskaya, Krasnodar Territory, Russia	+7 (86145) 703-01
6.	Slavyansk Power Grids	49 Stroitel'naya Street, Slavyansk-on-Kuban, Krasnodar Territory, Russia	+7 (86146) 431-96 / +7 (86146) 446-59
7.	Sochi Power Grids	42 Konstitutsii SSSR Str., Sochi, Krasnodar Territory, Russia	+7 (8622) 69-03-59 / +7 (8622) 61-40-71
8.	Timashevsk Power Grids	176 Lenina Str., Timashevsk, Krasnodar Territory, Russia	+7 (86130) 233-59 / +7 (86130) 234-00
9.	Tikhoretsk Power Grids	62 Dzerzhinskogo Str., Tikhoretsk, Krasnodar Territory, Russia	+7 (86196) 721-26 / +7 (86196) 769-50
10.	Ust-Labinsk Power Grids	4 Krasnodarskaya Str., Ust-Labinsk, Krasnodar Territory, Russia	+7 (86135) 421-01 / +7 (86135) 524-66
11.	South-Western Power Grids	1 Vostochny Mol, Novorossiysk, Krasnodar Territory, Russia	+7 (8617) 67-85-59 / +7 (8617) 67-81-21

Information on the Registrar

Full Company Name	Joint-Stock Company R.O.S.T. Registrar
Abbreviated Name	JS Company R.O.S.T. Registrar
INN / OGRN	7726030449 / 1027739216757
Location	bldg. 13, 18 Stomynka Str., Moscow
License for Performing the Activity of a Registrar:	
- License No.	045-13976-000001
- Issue Date	03.12.2002
- Validity	Unlimited
- Issuing Authority	Federal Commission for Securities Market (Federal Service for Financial Markets) of Russia
Contact phone / Fax	+7 (495) 771-73-35 / +7 (495) 771-73-36
E-mail Address	contact-center@rost.ru
Website	www.rost.com

JS Company R.O.S.T. Registrar has been maintaining the register of holders of securities of PJSC Kubanenergo from 16.12.2010.

JS Company R.O.S.T. Registrar does not have transfer agents able to provide services to entities registered in the register of shareholders of PJSC Kubanenergo.

Information on the Auditor

Full Company Name	Limited Liability Company RSM RUS
Abbreviated Name	LLC RSM RUS
INN / OGRN	7722020834 / 1027700257540
Location	4, Pudovkin Str., Moscow 119285
Information on Membership in the Self-Regulated Organizations of Auditors	LLC RSM RUS is a member of the self-regulatory organization of auditors Non-Profit Partnership Auditor Association "Sodruzhestvo"
Telephone / Fax	+7 (495) 363-2848 / +7 (495) 981-4121
E-mail Address	mail@rsmrus.ru
Website	http://www.rsmrus.ru/
Fiscal years, in which the auditor conducted independent audits of the accounting and financial statements of PJSC Kubanenergo	2016
The amount of remuneration of the auditor for the audit of accounting (financial) statements of the Company prepared in accordance with RAS and consolidated financial (accounting) statements prepared in accordance with International Financial Reporting Standards for 2015	RUB 1,614,104
Auditor's non-audit services rendered to the Company	In the reporting year, the auditor did not provide any non-audit services

Abbreviations and Terms

AEPCAS shall mean automated electric power control and accounting system.

ASTM shall mean automated system of technological management.

OHTL shall mean overhead transmission line.

FOCL shall mean fiber optic communication line.

Shortfall in income due to granting connection allowance to consumers of up to 15 kW shall mean regulated entity's shortfall in income resulted from the difference of actual grid connection charges from reduced payment for the grid connection as established by applicable law.

Default (Power) Provider shall mean a commercial entity that is bound, according to Federal Law No. 35-FZ dated 26.03.2003 On Electric Power Sector or by virtue of voluntarily assumed responsibilities, to enter into the power purchase agreement with any applying electricity consumer or any person acting for and on behalf of any electricity consumer and willing to purchase electric power.

GTPP shall mean gas turbine power plant.

S&A shall mean Subsidiaries and Affiliates of the Company or OJSC Russian Grids.

UNPG shall mean the Unified National (All-Russian) Power Grid.

ISG shall mean any switchgear with its equipment installed indoor, or secured from any contact with environment by means of special purpose shrouds.

CL shall mean cable power line.

Required "Boiler" Gross Proceeds shall mean an economically feasible amount of funds required by an organization to perform regulated activities during an accounting regulatory period, taking into consideration any costs incurred for the payment of the services rendered by territorial grid companies, FGC UES, as well as for the purchase of electric power needed to compensate for losses.

"Boiler" Transmission Tariffs shall mean all-in power transmission tariffs graded by the voltage level applicable within the area of the Krasnodar Territory and the Republic of Adygeya for all consumers of the power transmission services, irrespective of which grid company's grids they are connected to.

Ratio between equity and debt capital = EQ/DC , where:

EQ shall mean Company equity (line 1300, Form 1, Balance Sheet);

DC shall mean Company debt capital (line 1400, Form 1, Balance Sheet + line 1500, Form 1, Balance Sheet and line 1526, Form 1, Balance Sheet).

ECSG shall mean external complete switchgear, i.e. an electric installation designed to collect and distribute electric power.

ELT shall mean electric transmission line.

RAB (Regulatory Asset Base) shall mean a tariff regulation method for distribution grid companies, according to which required gross proceeds taken for the calculation of the tariffs shall be determined through the return on investment and shall be imposed for a long-run period. One of the key RAB parameters is imposed tariffs' longevity, recoverability of investment, which reduces investors' risks and allows executing long-term loans. Furthermore, the method secures preservation of investment, which also encourages investing in the business. At the same time, RAB implies fair return on investment made in the regulated company comparable with return on investment made in other assets with similar risks.

Modified current liquidity ratio = $(CA + EBITDA \text{ for last four quarters}) /$

$(STL - \text{advance payments})$, where:

CA shall mean Company current assets (line 1200, Form 1, Balance Sheet);

EBITDA for last four quarters shall mean revenue before Company interest, taxes and amortization expenses for last four quarters before the reporting date. The rate includes the following factors:

EBITDA for last four quarters = $EBITDA_j + EBITDA \text{ for previous year} - EBITDA_j \text{ for previous year}$, where:

j shall mean reporting period of current year; KPIs calculated as of the end of current year (Q1, half-year, 9 months or calendar year);

j for previous year shall mean respective reporting period of previous year (Q1, half-year, 9 months or calendar year).

STL shall mean Company short-term liabilities (line 1500, Form 1, Balance Sheet)⁴⁰.

Advance payments shall mean advance payments received by the Company (line 1526, Form 1, Balance Sheet).

For any estimated period EBITDA shall be calculated as profit before taxes (line 2300, Form 2, Statement of Financial Results) + Interest payable (line 2330, Form 2, Statement of Financial Results) + amortization (explanations to Form 2 of accounting statements, Table 2.1 “Net costs of sold products, works, services by cost items”, lines 6514, 6554, 6564).

Regional RGP, Required Gross Proceeds of the region shall mean an economically feasible amount of funds required by grid organizations operating within the area of the Krasnodar Territory and the Republic of Adygeya to perform regulated activities for the electric power transmission during an accounting regulatory period.

Company’s GRP, Required In-House Gross Proceeds of the Company shall mean an economically feasible amount of funds required by an organization to perform regulated activities during an accounting regulatory period, without taking into consideration any costs incurred for the payment of the services rendered by territorial grid companies, JSC FGC UES, as well as for the purchase of electric power needed to compensate for losses.

Undersupply shall mean undersupply of electric power to consumers due to the power grid operating failure.

Non-Influenceable Costs shall mean any costs free of any influence that would not change upon administrative decisions of the Company management within given period of time. Non-Influenceable Costs include: purchased electricity intended for the compensation for losses; grid distribution companies’ services; services rendered by FGC UES; wear and tear; leasing; taxes, including, but not limited to, insurance payments; rent.

R&D shall mean research and development, as well as engineering.

LV shall mean Low Voltage.

Scope of Services Rendered shall mean the amount of the electric power transmitted through the technical facilities of the power grids owned by PJSC Kubanenergo or otherwise possessed by it in compliance with the laws of the Russian Federation.

OSG shall mean outdoor switchgear, i.e. an electric facility designed to collect and distribute electric power, with power conductors installed open-air without any protection from the environmental exposure.

Supplies to the Grid shall mean the amount of the electric power collected by the distribution grid through the supply points from the Unified National Power Grid, from the generation and other related systems, realized by the voltage level against the inventory responsibility interface.

PJSC Kubanenergo, OJSC Kubanenergo, Company, Issuer shall mean the Kuban power and electrification public joint stock company.

AR shall mean Accounting Regulations.

Influenceable Costs shall mean any costs exposed by the management of the Company.

Net Supplies shall mean the amount of the electric power transmitted (supplied) by the distribution grids through the power supply points controlled by consumers and/or downstream grid companies, realized by the voltage level against the inventory responsibility interface. It corresponds to the physical electric power transmission by the power grids.

Electric Power Losses:

Actual (Reported) Electric Power Losses shall mean the difference between the amount of the electric power supplied to the power grid from other grids or by electric power producers and the amount of the electric power consumed by the power receivers connected to this grid, as well as transmitted to other grid companies.

Reference Electric Power Losses shall mean estimated amount of losses determined by a competent federal executive authority in relation to any cluster of electric transmission lines and other power grid facilities owned by respective grid company, graded by the grid voltage level. The cost of Reference Electric Power Losses shall be included in the transmission payment (tariff).

⁴⁰ Amount of short-term liabilities is adjusted on the basis of the amount of money allocated due to additional issue of shares prior to the official registration date of the Report on Results of Shares Issue; it can be adjusted on the basis of the amount of short-term credits and loans reclassified from long-term liabilities as they become due.

Excessive (Market) Electric Power Losses shall mean the difference between Actual and Reference Electric Power Losses; it shall be fully paid by the grid company that owns the grids where the Excessive Electric Power Losses occurred.

Electric Power Losses Under Load shall mean the losses that depend on transformer loads and line loads arising during the transmission process.

SS shall mean substation.

RPEA shall mean relay protection and emergency automation;

PGDA shall mean power distribution grid areas within PJSC Kubanenergo branches comprised of several grid sites and the following teams: operative dispatching team, mechanization and transportation team, electric power transport team, and operating management team (performing via the PGDA Leader).

RAS shall mean Russian Accounting Standards.

REC-PTD KT (Regional Energy Commission) shall mean Pricing and Tariff Department of the Krasnodar Territory, i.e. an executive authority of the Krasnodar Territory in the field of the state regulation of tariffs.

PGA shall mean power grid areas within PJSC Kubanenergo branches.

Grid Company, Distribution Grid Company shall mean a Company that performs electric power transmission and/or distribution through power grids.

SSIW shall mean self-supporting insulated wire.

Related Grid Company shall mean any grid company that owns or otherwise legally possesses power grid facilities directly connected to power grids of any other grid company (it is related to).

Mass Media shall mean mass communication media.

AV1, AVI shall mean Average Voltage I (35 kV).

AV2, AVII shall mean Average Voltage II (1–20 kV).

Average Staff Headcount shall mean the total sum of headcount for each calendar day of the period, including public holidays (days-off) and weekends divided by the quantity of calendar days of the period.

Staff Headcount shall mean the number of full time employees, seasonable employees, temporary employees and other employees on the rolls of the company. The Staff Headcount comprises of the employees at work and those who are absent due to whatever reason but have not terminated their employment contracts with the company, and get wages in this company.

Technical Losses shall mean electric power losses on the lines and the grid facilities resulting from any physical processes occurring during electric power transmission in accordance with technical parameters and operating modes established for such lines and facilities, taking into consideration substation in-house power consumption.

Process Upset shall mean unauthorized power grid disturbance.

TSS shall mean transformer substation.

Technological Connection shall mean the connection of any entity's and person's power receivers (power systems) to power grids of the companies that render electric power transmission services.

EMR shall mean equipment maintenance and repair.

Preset value of RPEA shall mean operating (reset) value or operating (reset) time which the relay is adjusted to.

C.u., conditional unit – equipment conditional units.

TGC shall mean territorial grid company, i.e. any commercial entity that owns or otherwise, in compliance with the federal law, possesses power grid facilities used by such company and person's power receivers (power systems) to service, and that exercises its right to enter into electric power transmission agreements through any power grid facilities not pertaining to the Unified National (All-Russian) Power Grid.

TPP shall mean thermal power plant.

Feeder shall mean the power line connecting the busbars of the switchgear with distribution and consumer power grids fed by these busbars.

Power Supply Center shall mean substation busbars for 110, 35, 6/10 kV.

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) is an indicator equal to the amount of earnings before the payment of taxes, depreciation and amortization expense, and interest on loans.

ROE (Return On Equity) is a performance indicator representing a quotient of the division of the net profit obtained in the period by equity of the organization.

ROTA (Return on Total Assets) is a performance indicator determined as quotient of net profit (or profit before tax) for the reported period by the total amount of the company's assets for the reported period.

Units of Measurement

VA — volt-ampere
W — watt
yr. — year
yrs. — years
Gcal — gigacalorie
kV — kilovolt
kVA — kilovolt-ampere
kW — kilowatt
kWh — kilowatt hour
km - kilometer
kop. — kopecks
m — meter
MVA — megavolt-ampere
MW — megawatt
mln — million
bn — billion
RUB — Russian Ruble
pp — % point, percentage point
s — second
d – day
t — ton
ths — thousand
h — hour
ppl — people
pcs — pieces
