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ENERGY OF INNOVATIONS

Annual report



ROSSETI



IDGO South

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About the Report

The present Annual Report (hereinafter - the Annual Report) is based on the information available to the Interregional Distribution Grid Company of the South, Public Joint Stock Company (hereinafter IDGC of the South, PJSC, IDGC of the South, or the Company), its subsidiaries and associates as at the date this report is prepared.

IDGC of the South

IDGC of the South unites distribution grid complexes in constituent entities of the Southern Federal District of the Russian Federation: the Republic of Kalmykia, the Astrakhan, Volgograd, and Rostov Regions – renders services for electricity transmission, grid connection of consumer terminals (power plants) owned by legal and physical entities to the Company's power grids, and carries out repair and operational activities. Services of IDGC of the South are mainly consumed by electricity sales companies, participants of the wholesale and retail electricity markets and local grid organisations.

The Company conducts its core activities under the conditions of natural monopoly with government regulation of electricity transmission tariffs and grid connection rates, as well as the provision of consumers with non-discriminatory access to power grids.

Disclaimer

Some statements in the Annual Report are “forward-looking statements” and they are subject to various risks, including potential changes in business and financial environment of the Company's activities and development prospects, potential political and economic changes in Russia, probable amendments to applicable and future regulations of the Russian electric power industry and Russian law in general, and effect of other factors.

Most of the factors mentioned are beyond the Company's control and forecast.

By their very nature, forward-looking statements involve inherent risks and uncertainties of both general and specific character, and there is a possibility that some forward-looking statements may not be fulfilled.

In the light of the foregoing, the Company informs that the actual operating results may significantly differ from the results expressed explicitly or implicitly in the forward-looking statements that are valid at the time the Annual Report was prepared.

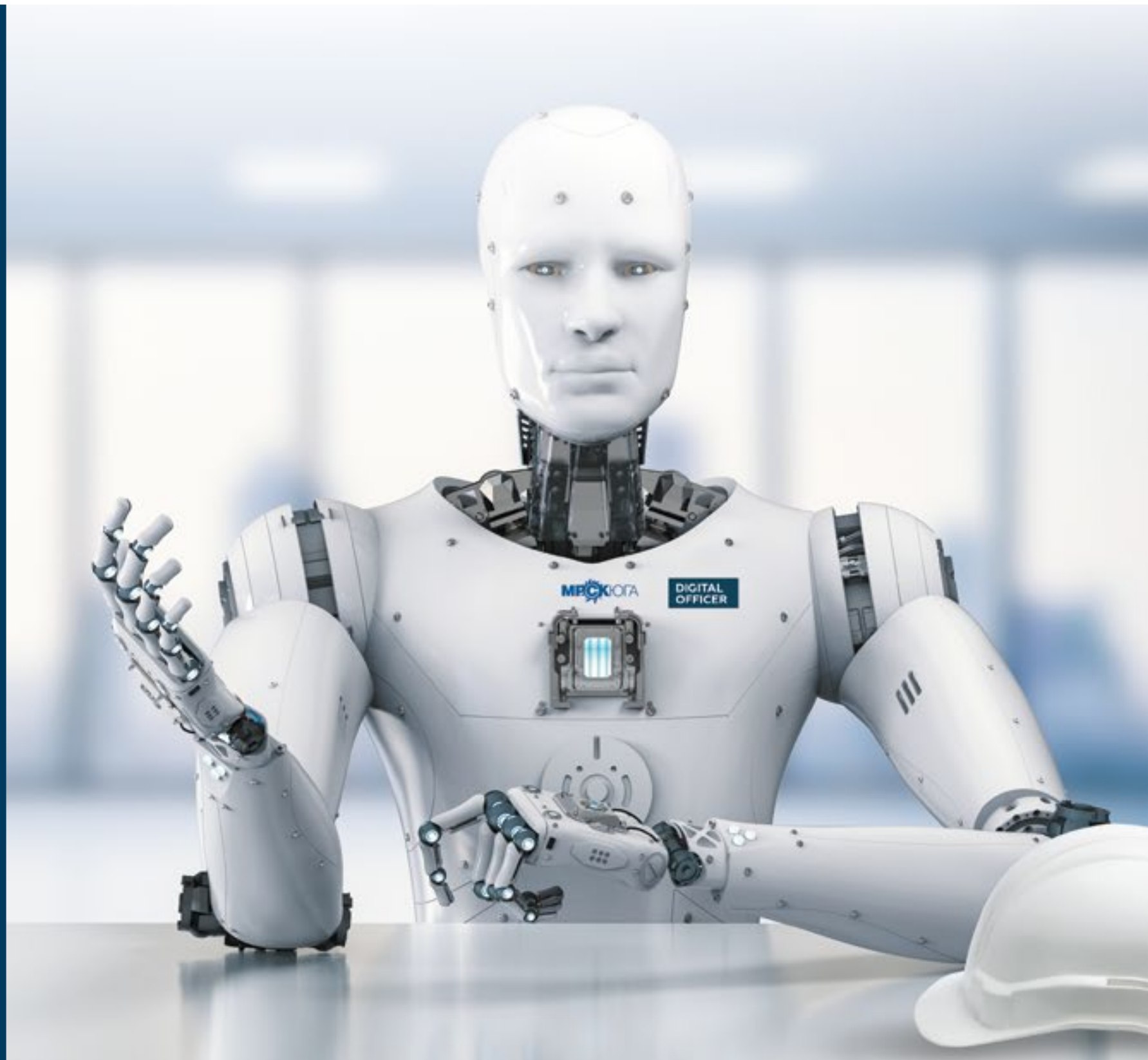
Therefore, the Company does not bear any responsibility for possible losses of physical or legal entities, whose actions relied upon the forward-looking statements. Generally, each forward-looking statement is just one of many possible scenarios and should not be treated as the most probable option.

Except for the cases explicitly stated by law, the Company does not undertake a commitment to publish forward-looking statement updates or amendments based on both new information and subsequent events.

THE CONCEPT OF DIGITAL INTERACTION

Good afternoon!
My name is DIGITAL OFFICER and I will be your guide
to the annual report.

Today we become the participants of very important events – the new era of electric power industry is coming. The network architecture is changing, as well as quality requirements, services, their providing term due to the consumers are increasing. The main thing for a consumer is constant electric light available, as well as accounting and calculations are transparent and predictable, and modern services are accessible easily, and energy-consuming projects are feasible. In 2018 IDGC of South started a number of technological solutions and began its transition into a digital platform radically changing the system of the electric grid complex organizing and managing. In this report, we will represent the most promising projects implemented by the Company within 2018.



SMART

METERING DEVICES

In 2018, 102.9 thousand smart metering devices were installed under energy service contracts, and another 50 thousand are planned to be installed this year. In total, more than 126 thousand intelligent metering devices have been installed within the territory of responsibility of IDGC of South. All meters installed are combined into their single system of commercial and technical electricity metering. This has enabled IDGC of South, PJSC to save more than 41.5 million kWh. The use of «smart meters» makes it possible to monitor the quality of power supply constantly, which eliminates voltage surges, short circuits, fires caused by illegal connections, power theft and other interference into the power supply system. The so-called «smart meters» are installed onto the ownership boundary point, the consumer has got its electronic display with the current readings of electricity consumption only.

The intelligent accounting system integrated into the software the grid company and transmits the online data itself. A consumer does not need to worry about the accounting of meters readings in timely manner, the system does it remotely. Thus, power engineers do not need to o consumers take readings, which allows to send personnel to perform the equipment repairs, to improve the reliability and quality of electricity supply. Meters also have got their ability to limit consumption upon exceeding the maximum power, so that the quality of the voltage allows the subscribers to use their modern appliances.

The automatic system of the account of the electric power consumption allows to exclude almost completely unauthorized use of the electric power, the attempts to influence indications and to reveal violators unmistakably. Smart meters transmit data themselves, depriving the violators their opportunity to interfere into the operating, allowing to disable a defaulter remotely. The information concerning any new ways to influence the readings of modern metering devices is sent to the equipment manufacturers so that they make changes timely, modifying them, leaving no chance to the criminals.



next up

1 COMPANY'S OVERVIEW

Company’s Overview

IDGC of the South’s mission

Being a professional business team, we create the basis for sustainable development of the economy of the Southern Russian regions, relying on the consolidation of energy assets and improvement of the power supply efficiency, as well as on best practices of each employee of the Company and our partners.

We constantly care about the advanced development of grids, ensuring the accessibility and availability of electricity to the consumers wherever, whenever and to whatever extent they need.

We are committed to create favourable working conditions for each of our employees so that they are able to deliver on their potential and preserve their health.

The role and mission of IDGC of the South are associated with expectations of the key market players:

- > for Investment Banking professionals – the Company as a tool for making investments to ensure their payback, reliability, profitability, and liquidity;
- > for consumers – the Company aimed at the high-quality provision of services, high quality and reliable power supply, timely and transparent grid connection;
- > for regions and local authorities – the Company ensuring the economic needs of transmission capacities, a reliable partner for the executive authorities of the Russian Federation subjects in planning and implementing the regional programmes of territorial development; the Company is a diligent taxpayer and employer;

> for employees - a diligent employer, an efficiently organised company, which has a transparent and clear corporate governance system, that provides opportunities for the maximum development of the employees' potential.

Our mission is to ensure reliable and stable electricity supply to meet the evolving needs of the economy and society, with a fair transparent pricing that makes our services affordable to consumers.

Values of IDGC of the South

- > Reliability – minimal interruptions in energy supply to consumers.
- > Responsibility – faithful attitude of the Company's employees to their duties, awareness of the work importance and accountability for its results.
- > Customer-oriented approach reflects the importance of the client's interests in the Company's priority system and, as a consequence, the management efforts to meet the customers' requirements);
- > Leadership – a personal feature allowing the Company's top and mid-level managers to make a solid team and act proactively.
- > Professionalism – an ability to reach the best results in professional activities with the minimum resources used.
- > Social responsibility – top managers' acknowledgement of their responsibility to the Company, customers, personnel, shareholders, and future generations and their efforts to provide the most positive impact on the people around.
- > Sustainability – an ability of the Company to function continuously without sudden negative changes in the internal environment and simultaneously develop and integrate new technologies.

SMART METERS

THE WIDESPREAD INTRODUCTION OF SMART METERING IS THE FIRST AND NECESSARY STEP WITHIN THE FRAMEWORK OF THE PROJECT "DIGITAL TRANSFORMATION 2030".

OBTAINING FULL CONTROL OVER THE METERING OF ELECTRICITY, ITS QUALITY, ITS VOLUME OF CONSUMPTION, THE NETWORK COMPANY RECEIVES THE ABILITY TO CONTROL PARAMETRES, LOAD DISTRIBUTION, OPERATIONAL DECISION-MAKING. THE INSTALLATION OF "SMART METERS" IS FREE AND PROFITABLE FOR A CONSUMER. THE RESPONSIBILITY REGARDING MAINTENANCE OF METERING DEVICE REMAINS WITH THE COMPANY, CONSUMERS ARE FREE FROM THESE CHARGES. A CONSUMER RECEIVES A DISPLAY ACCORDING TO WHICH DATA, THE COSTS OF ELECTRICITY MAY BE ANALYZED AND OPTIMIZED. WHEN PROGRAMMING A METER IN MULTI-TARIFF METERING A CONSUMER MAY EXERCISE ITS PRIMARY ENERGY USAGE AT NIGHT, AS NIGHT CONSUMED ELECTRICITY IS BILLED MUCH CHEAPER THAN THE DAY ONE. CONSUMERS WILL NOT NEED TO SPEND TIME ON THE READINGS TRANSFER TO POWER COMPANY, SMART GRID WILL TRANSFER SUCH INFORMATION ITSELF.

Company’s Footprint

In the reporting year, IDGC of the South operated in four regions of the Southern Federal District of Russia – the Rostov, Volgograd, and Astrakhan Regions, and the Republic of Kalmykia.

The total area of IDGC of the South footprint approximates 334 thous. km2, the population is over 8 mn people, varying from 3.65 people per 1 km2 in the Republic of Kalmykia to 41.63 people per 1 km2 in the Rostov Region.

THE COMPANY’S HISTORY¹

The Company was registered on June 28, 2007, based on the decision of the sole founder - JSC RAO UES of Russia (Decree No. 192r of JSC RAO UES of Russia dated June 22, 2007).

Later, the Management Board of JSC RAO UES of Russia, acting as an extraordinary General Meeting of Shareholders of IDGC of the South (Minutes No. 1795pr/6 dated December 25, 2007), as well as General Meetings of Shareholders of five distribution grid companies (DGC): OJSC Astrakhanenergo, OJSC Volgogradenergo, OJSC Kubanenergo, OJSC Rostovenergo, OJSC Kalmenergo resolved to reorganise the companies by merging DGCs to IDGC of the South.

On March 31, 2008, records were made in the Uniform State Register of Legal Entities on winding-up four out of five DGCs affiliated to the Company (OJSC Astrakhanenergo, OJSC Volgogradenergo, OJSC Rostovenergo, and OJSC Kalmenergo).

Since this moment, the Company has been acting as a unified operator.

In relation to OJSC Kubanenergo, the Company acted as the sole executive body until December 1, 2010.

From September 20, 2014 to March 14, 2019 (in accordance with the terms of the agreement on the transfer of powers of the sole executive body of OJSC Donenergo to the Managing Company), the Company acted as the sole executive body with respect to JSC Donenergo.

On June 19, 2015, by the decision of the Annual General Meeting of Shareholders of the Company, the Company was renamed into Interregional Distribution Grid Company of the South, Public Joint Stock Company.

IDGC of the South, which holds a dominant position in the electricity transmission services market in the Southern Federal District, is currently a part of the ROSSETI Group of Companies, one of the largest infrastructure companies in Russia, controlling about 70% of the domestic distribution grid complex in the regions.

Company’s Structure

As of December 31, 2018, the Company has in place the organisation structure approved by the Board of Directors on June 9, 2017.

COMPANY’S BRANCHES¹

Branch	Location
Astrakhanenergo	Astrakhan
Volgogradenergo	Volgograd
Kalmenergo	Elista
Kubanenergo ²	Krasnodar
Rostovenergo	Rostov-on-Don

Assigning the status of the Guaranteeing Supplier

Based on Order No. 1139 of the Ministry of Energy of the Russian Federation dated November 30, 2017 “On Appointment of the Territorial Grid Organisation as the Guaranteeing Supplier”, IDGC of the South executed functions of the guaranteeing supplier in Elista (the Republic of Kalmykia) in 2018. The status of the guaranteeing supplier was assigned on January 1, 2018. Kalmenergo's proceeds from electricity sales in 2018 totalled RUB 847.3 mn. In 2018, it supplied 163.905 mn kWh of electricity to Elista retail market, including 162.671 mn kWh of electricity under power supply contracts. A total of 91.501 mn kWh was supplied to households and equivalent consumer categories, and 1.235 mn kWh - under sales contracts.

As the guaranteeing supplier, Kalmenergo serves 1,969 consumers, among them legal entities, private entrepreneurs and persons carrying on a trade or business, as well as 36,887 consumers related to the Households category.

The level of cash payments in the electricity retail market in 2018 was 84.7% against the target of 96.1%. An 11.9% underperformance was caused by poor payment discipline of the utilities consumers in Elista.

In 2018, the wholesale market cost of electricity and power purchase was RUB 375.865 mn (excl.VAT), with sales – RUB 4.329 mn, the balance was RUB 371.536 mn. The average purchase rate in 2018 was RUB 1,877.94 per MWh. The level of liability payments in the wholesale electricity market (WEM) in 2018 totalled 100%.

1. Milestones and dates of the power industry reforms are described in detail on the Company's corporate website in the section “Reform”:<http://mrsk-yuga.ru/o-kompanii/reformirovanie/>.

1. Established by the resolution of the Board of Directors on January 11, 2008 (Minutes No. 6/2008 dated January 16, 2008), available on the Company's website at<http://www.mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-soveta-direktorov/>. All branches of IDGC of the South, except for Kubanenergo, has been acting since March 31, 2008.
2. The branch of IDGC of the South – Kubanenergo is not engaged in operating activities.

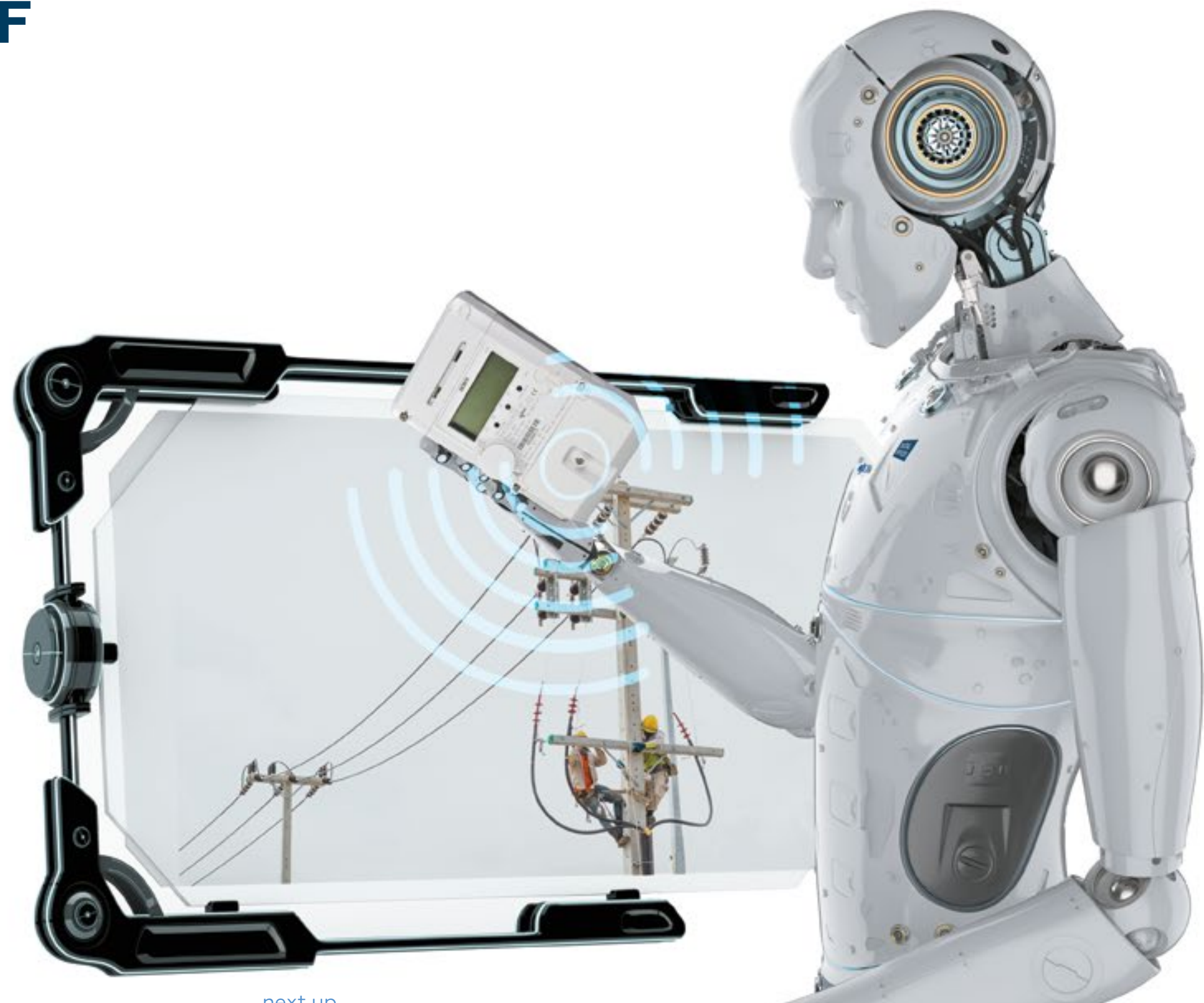
THE RECONSTRUCTION OF POWER GRIDS

OF THE REPUBLIC OF KALMYKIA

In 2018, within the first stage of reconstruction of 110 kV overhead line «Elista Zapadnaya – Elista Vostochnaya» onto the area of 1.5 km older wooden pillars were completely replaced into the metal ones, regarding worn-out insulators, coupling fittings, steal and aluminium wire and lightning-grounding wire. As a result of the reconstruction, the reliability of the power supply to the capital of the Republic of Kalmykia and adjacent areas will increase. The project plan provides its complete reconstruction of the network with its total length of 12.6 km in 2023.

In connection with the active development of individual residential construction, the residential area almost came close to the security zone of high-voltage lines, which posed a threat to life and health of people and complicated the regular maintenance of the line, and repairs scheduled. Within the reconstruction, the air line will be taken out of the residential area.

Financing of these projects amounted to above 30 million rubles. The widespread introduction of smart metering is the first and necessary step within the framework of the project «Digital Information 2030». Obtaining full control over the metering of electricity, its quality, its volume of consumption, the network company receives the ability to control parametres, load distribution, operational decision-making. The installation of «smart meters» is free and profitable for a consumer. The responsibility regarding maintenance of metering device remains with the company, consumers are free from these charges. The consumer receives a display itself and is enabled to analyze and to optimize the energy costs, is enabled to program the meter for multi-tariff accounting and to pay for energy consumed at night, which is charged much cheaper, there will be not need to spend time on transferring readings to the power sales company, the «smart grid» will transfer such data itself



next up

2 STRATEGIC REPORT

Strategic Report

Statement by the Chairman of the Board of Directors



Considering the assessment results of the corporate governance activities in 2018, the Russian Institute of Directors confirmed NRCG 6++ rating (Good Corporate Governance Practice) of IDGC of the South as per the National Rating of Corporate Governance.

Sustainable performance generates a predictable interest among Investment Banking professionals. Analysts from major investment companies – Uralsib Management Company, RUSS-INVEST Investment Company and Sova Capital Ltd. visited IDGC of the South in November 2018. The experts reviewed the Investment Programme progress results, the Innovation Development and Power Grid Facility Renovation Plans, strategies for transition to construction of digital substations and digital active-adaptive grids.

Based on 2018 performance, the Company also significantly improved its key operating results. Thus, the average duration of process upsets across all IDGC of the South's branches decreased by 14.6% year-on-year to less than two hours. Number of faults went down by 4.6%.

Last year, the Company launched the digital transformation of the regional energy systems. This will provide the customers with improved power supply and additional services, and the shareholders - with a higher earnings on the Company's shares.

Dear shareholders, partners and colleagues,

2018 has been a successful and effective for IDGC of the South: we were able not only to maintain a strong upwards trend across all core business areas, but also form a strong basis for further growth.

By the end of 2018, the Company's profit totalled RUB 1.12 bn with a 3.39% increase of capitalisation up to RUB 3.7 bn. Apart from higher profit, the Company managed to significantly cut loan service costs: the average weighted interest rate of the loan portfolio decreased from 8.91 to 8.2% per annum. Thus, RUB 252 mn were saved.

Starting from the end of 2017, the prices of shares have been persistently growing: in September 2018 the share value maxed at RUB 0.08.

It should be noted that according to the Moscow Exchange, the growth in the share value by the end of Q1 2019 exceeded 50% as compared to the reporting period. The maximum value of over RUB 0.09 per one share was recorded in March 2019.

In 2018, significant work has traditionally been implemented in terms of ensuring high quality of working conditions, care for the health and well-being of employees. IDGC of the South provides insurance and housing support for personnel, implements motivational projects to attract and retain personnel, conducts fitness and health recreational activities, develops mass sports, providing access to sports infrastructure.

High professionalism of employees, focus on development, commitment to achieving maximum results are the basis for the progressive growth and sustainability of the Company, which is responsible for the comfortable life of millions of people in the regions of the Southern Federal District.

I express my sincere gratitude to shareholders and partners for their support and trust. The Company has ambitious goals that we together can achieve with maximum efficiency.

O. Sergeeva
Chairman of the Board of Directors, IDGC of the South

Statement by the General Director



Dear shareholders,

The year of 2018 was intensive and profitable for IDGC of the South. Our specialists actively participated in interregional and international events. Among them the FIFA World Cup that was held in two cities within our operation's regions, professional trainings and occupational skills competitions, assistance to colleagues from other regions.

In H1, during preparation of the power grid infrastructure for the FIFA World Cup, IDGC of the South put into operation new substations, overhead and cable power transmission lines and trained its personnel, so that nobody felt uncomfortable and fans could fully enjoy the game during the Cup. All the events were held at a high level of proficiency. Just after the World Cup, ROSSETI Group of Companies sent its specialists to the All-Russian training of power engineers that was held in Dagestan. 126 specialists of IDGC of the South took part in this training during the period from July 20 to August 19. During this time, they outperformed the plan by 112–121%. The personnel gained a unique experience in preparation, cooperation, online decision-making, simultaneous performance of a large amount of work.

Young Professionals, the first ROSSETI Corporate Occupational Skills Championship, was held in September in Rostov-on-Don in line with the WorldSkills procedure. The Company's specialists showed a high level in each of three categories and got on the podium. A large-scale training was organised at the year-end in Kalmykia as part of the power grid complex preparation for the autumn and winter period. In general, the year results proved that professionals of IDGC of the South were able and ready to successfully solve the most sophisticated and immense challenges.

Those activities did not hinder the employees from completing their core production objectives. All the scheduled activities and programmes were fully executed, the energy complex in the regional footprint was timely prepared for the autumn and winter loads. Specialists of the Company's branches overhauled 45 transformers, over 3.2 thous. switchgears, 16 thous. km of overhead power transmission lines (PTL) during the preparation for the autumn and winter period. Over 1.2 thous. hectares of PTL buffer zones were cleared from trees and shrubs. The total repair programme costs in 2018 exceeded RUB 1.5 bn.

In 2018, under the Investment Programme, IDGC of the South commissioned 545 km of PTL (152% vs target) and 52 MVA of transformer capacity (238% vs target). Total capital investments exceeded RUB 2 bn or 125% of the approved Investment Programme. Throughout this Investment Programme, fixed assets worth RUB 2.2 bn or 116% of the target were commissioned as well. The overrun of target values was driven by the Company's commitments to build facilities providing a connection to IDGC of the South's power grids in all covered regions. Since the beginning of the year, power engineers have constructed power grid facilities worth a total of RUB 288 mn (171 km of PTLs) and commissioned nine MVA of transformer capacity just to connect the subsidised category consumers.

All activities meet the criteria of the 2030 Digital Transformation Programme. Conceptually, the development of the digital grid technology comprises three main stages:

- 1. development of the metering, communication and automation systems;
- 2. automation of control systems;
- 3. creation of artificial intelligence and new control algorithms.

Currently, the Company is actively completing the first stage tasks – 102.9 thous. smart meters were installed over the past year under the energy services contracts. Installation of automated electricity metering systems under the energy services contracts allowed IDGC of the South to save over 41.5 mn kWh in 2018. A total of over 130 thous. smart meters have been already installed across IDGC of the South's operations area. All the meters installed are united into a shared system of electric power fiscal and technical metering.

In accordance with the Innovation Development Programme through to 2020, IDGC of the South's branches plan to deliver pilot projects for the establishment of active-adaptive smart grids and digital substations in their operation areas, in particular, 110/35/6 kV Elshanskaya substation in the Volgograd Region and 110/10 kV Yubilejnaya substation in the Astrakhan Region.

Recruitment and training of the personnel for the new power industry constitute one of the critical tasks in the process of power grid infrastructure digitisation. IDGC of the South signed agreements with higher and secondary educational institutions related to the electrical power industry for subject-oriented training of employees (Platov South-Russian State Polytechnic University (NPI), Don State Technical University, Volzhsk Branch of Moscow Power Engineering Institute, Azov-Black Sea Vocational School, etc.).

Based on the 2018 performance results, the volume of grid power delivered to consumers and to allied TGOs within the balance and operational responsibility boundaries was 24,647 mn kWh, - 2.7% year-on-year. IDGC of the South reduced losses in the power grids by 61.8 mn kWh, exceeding the target by 0.23%. Electricity loss rate amounted to 9.8% in 2018. The key drivers are activities aimed at the improvement of metering systems, optimisation of power grid operating modes, phase balancing of loads, replacement of power grid equipment, power grid disaggregation, installation of self-supporting insulated wires (SIW). All these activities enable to prevent, detect, and terminate illegal access to the grid and attempts to change the meter readings. In the reporting year, 4.4 thous. actual instances of off-the-meter and non-contractual consumption in total volume of over 218 mn kWh were terminated in IDGC of the South's operations area. Bearing in mind that the embezzlement of energy resources is also a problem of insufficient awareness and the influence of stereotypes, IDGC of the South launched a PR campaign to prevent illegal consumption of electricity. It involves informative, educational, provocative, and motivating messages. In addition to distributing the informative and visual content, the Company thoroughly analysed Internet search results and contextual advertising. In this case, the priority information targeting was set to regional loss areas in the branches. Search engine

optimisation (SEO) on the corporate website and project resources helped to drive the websites distributing information about the electricity stealing out of first lines of regional search results in Yandex and Google systems. Over 14 thous. users interested in stealing electrical power were taken to the Programme resources and website topic pages. In 2018, the project involved over 11.5 mn people through social networks. In general, the campaign resulted in an increase in audience involvement and a change in sentiment of the comments to thematic posts in social networks.

IDGC of the South's focus is still on the customers and their needs. Online services of the Company cover nearly all of its business areas. The Company simplified the grid connection registration procedure to make the power grid infrastructure more accessible. Now, the procedure can be implemented via a User Account on the corporate website without visiting the Company's office. This option is popular among small and medium-sized enterprises: about 93% of their grid connection applications are submitted via user accounts. Apart from that, the applicant can sign a power supply contract simultaneously with applying for the grid connection without visiting the energy sales company. For those consumers who are more accustomed to contacting offices, in addition to IDGC of the South Service Offices, there is an opportunity to submit an application for grid connection to the regional Multifunctional Centres. Thus, the Company ensures maximum service accessibility. In September, IDGC of the South launched the Light Country portal, where the population can report online on the troubles encountered. All messages are processed by ROSSETI's centralised unified moderation service and subsequently forwarded directly to the specialists of the Company. The response period is eight working days from the moment of publication. During this time either the problem will be fixed or the applicant will receive an answer indicating the time required for addressing the issue.

Next few years are the period of mainstreaming the digital projects. The first projects will be completed in 2019. The Company counts on the achievement of expected economic benefits and higher key performance indicators. We hope that the obtained results and progress over the past few years enable us to rely on the loyalty of IDGC of the South's shareholders.

B. Ebzeev
Chairman of the Management Board, General Director, IDGC of the South

Key Performance Indicators

The key performance indicators set for the Company's General Director were based on:

- > par 15.1, Article 15 of the Articles of Association of IDGC of the South, PJSC;
- > the Resolution of the Company's Board of Directors dated April 6, 2017 (Minutes No.226/2017 dated April 10, 2017).

According to the specified Board's Resolution, the KPIs were established in 2018 (their target values were set by the Resolution of the Board of Directors dated July 16, 2018, Minutes No.280/2018 dated July 18, 2018).

QUARTERLY KPIs

Indicator	Results achieved in 2017	2018 target	Results achieved in 2018
Consolidated operating profit (EBITDA)	1Q – 8.1 2Q – 19.7 3Q – 19.7 4Q – 81.6	For Q1, six months, and nine months of the reporting year – ≥ 0%; for year – ≥ 3%	1Q – 78.6 2Q – 123.0
Consolidated net debt / EBITDA	1Q – 10.3 2Q – 8.9 3Q – 6.6 4Q – 3.7	For Q1, six months, and nine months of the reporting year ≤ 3.7%; for year – ≤ 3.3%	1Q – 3.0 2Q – 3.1
Planned measures taken to reduce accounts receivable of S&As	1Q – 108.8 2Q – 170.6 3Q – 110.1 4Q – 151.6	≥ 100.0%	1Q – 163.0 2Q – 100.4
No growth in major incidents	No growth	No growth	1Q – no growth 2Q – no growth
No growth of the number of victims of accidents	No growth	No growth	1Q – no growth 2Q – no growth

BUSINESS MODEL

The Company conducts its core activities under the conditions of natural monopoly with government regulation of electricity transmission tariffs and grid connection rates, as well as the provision of consumers with non-discriminatory access to power grids.

ALL STAKEHOLDERS

PARTNERS

Reliability of services
0.23

EMPLOYEES

The ratio of the actual costs of training personnel to the payroll during the accounting year amounted to
0.7 %

GOVERNMENT

Tax deductions
367 RUB mn

INVESTORS

Consolidated net debt / EBITDA
3.1

SHAREHOLDERS

Dividends (IFRS)
373.7 RUB mn

ENVIRONMENTAL PROGRAMMES

19,318 RUB thousand

ASSETS

INSTALLED CAPACITY

24,046.7 MVA

35–220 kV SS - 18,723.2 MVA
6–10(35)/0.4 kV SS - 5,323.5 MVA

OVERHEAD LINES LENGTH ON ROUTE LENGTH

155,897.99 km

CABLE LINES LENGTH

2,577.06 km

AVERAGE HEADCOUNT

13,599 employees

ACTIVITIES



POWER TRANSMISSION

Electric power supply
27,326.0 mn kWh
Power loss — 9,8 %



ELECTRICITY SALES

Function guaranteeing supplier in the territory of the Republic of Kalmykia in the city of Elista:

1,969 consumers

legal entities, entrepreneurs and citizens involved commercial activities and 36,887 consumers belonging to the group “population”



GRID CONNECTION

Number of technological connections
13,628
(90,6% of contracts concluded)



OTHER ACTIVITIES

Urban lighting maintenance services, etc.

REVENUE

**34,928
RUB mn**

96% 2.3% 1% 0.7%

**847
RUB mn**

**380
RUB mn**

**238
RUB mn**

TOTAL

36,394

RUB MN

NVB
35,370 RUB mn
(own 18,769 RUB mn)

Market share of NVB for electricity transmission services
82.92%

EBITDA
6,668 RUB mn

Net profit
RUB 1.12 bn (RAS)



ANNUAL KPIS

Indicator	Results achieved in 2017	2018 target
Consolidated net cash flow, RUB mn	-1,594.2	≥(-459.0)
Reduction of unit operating expenses (costs), %	9.4	≥2.0
Increase of utilisation of power supply capacity	Done	Done
Electrical losses, %	9.63	≤10.03
Reduction of unit investment costs	0.87	≤1.00
Increase in labour productivity, %	4.51	≥2.00
Innovation performance, %	107	≥90
Compliance with the commissioning schedule, %	121	≥90
Compliance with grid connection time-frames	1.0	≤1.1
Reliability of services provided	0.23	≤1.00

Considering the time limits and procedure for preparing reports and statements used to calculate the KPIs, actual KPI values for Q3 and Q4 2018 and Y2018 have not been drawn up and approved by the Company's Board of Directors at the time the Annual Report was prepared (KPIs for Q1 and Q2 of the reporting year were achieved).

The Company tied up the KPIs with the amount of variable remuneration paid to managers: each indicator was assigned a relative share of the remuneration paid. Quarter and annual bonuses are paid out only if the relevant KPIs have been achieved.

For 2018 KPIs vs 2017 KPIs refer to the tables.

THE INITIATIVES TO REDUCE TARIFFS

THE MOST RELEVANT ISSUES REGARDING HIGH TARIFFS IN ROSTOV REGION. HIGH TARIFF FOR INDUSTRIAL CONSUMERS IS THE DIRECT CONSEQUENCE OF RESTRAINING THE GROWTH RATE FOR THE POPULATION WITHIN SEVERAL YEARS. TO BALANCE THESE TARIFFS, THE REGIONAL TARIFF SERVICE WILL HAVE TO DETERMINE THE DECREASE OF CROSS-SUBSIDIZATION AND THE ANNUAL PHASED REDISTRIBUTION RATES DUE TO THE HIGHER GROWTH WITHIN THE MEDIUM AND LOW VOLTAGE LEVELS. ANOTHER RESOURCE FOR POSITIVE CHANGING AND INCREASING THE COMPETITIVENESS OF REGIONAL PRODUCTS IS THE AUDIT OF A LARGE NUMBER OF TERRITORIAL GRID COMPANIES. TODAY IN THE ROSTOV REGION THERE ARE 40 TGCS (TERRITORIAL GRID COMPANIES), AND THE PROPORTION OF THEIR EXPENDITURES EXCEEDS SIGNIFICANTLY THE PERFORMANCE OF THE ROSTOV BRANCH IDGC OF SOUTH. WITHIN THE STRUCTURE OF THE FINAL TARIFF FOR CONSUMERS, THE SHARE OF IDGC OF SOUTH IS SET AS 14 % TO 17% ONLY REGARDING DIFFERENT VOLTAGE LEVELS.

Strategy and Development Prospects

In accordance with target benchmarks given in the Strategy for Development of the Power Grid Complex of the Russian Federation approved by the Decree No.511-r of the Government of the Russian Federation dated April 3, 2013 and to improve the operating and investment performance, IDGC of the South aims at addressing the following top-priority tasks:

- > The reduction of inflation-adjusted operating expenses per unit of electrical equipment servicing against the actual level of 2012. By the end of 2018, the relevant reduction of unit operating expenses totalled RUB 1,467.3 mn or 21.55% in comparable conditions of 2012.
- > The reduction of unit operating expenses pursuant to directive No.2303p-P13 of the Government of the Russian Federation dated April 16, 2015. The Company's unit operating expenses were actually reduced by 5.7% year-on-year (vs target of 2%) or RUB 233 mn in comparable conditions of 2017.

In the reporting year, the Board of Directors made no decisions concerning the determination of focus operation areas. IDGC of the South continued with its efforts in the following focus areas specified by the Board of Directors¹:

- > applicability of recommendations on the management of intellectual property rights;
- > certification of equipment, materials, and systems at the Company's facilities;
- > provision of the energy infrastructure accessibility and high-quality connection to the Company's power grids;
- > improvement of the Internal Control and Risk Management Systems, development of the internal audit function;
- > delegation of the Sole Executive Body powers of JSC Donenergo to the Company.

Key development areas of IDGC of the South are as follows:

- > customer-oriented policy and higher availability of the power grid infrastructure;

- > coordination of the concluding procedure and supervision over the execution of agreements between administrative authorities of constituent entities of the Russian Federation within ROSSETI and the Company's area of responsibility;
- > assessment of grids expansion topology and forecasting of the power and electricity demand;
- > efficient planning of the power grid expansion through the lens of the socio-economic trending and alternations in land use planning of regions;
- > renovation and retrofitting of the power industry facilities;
- > new construction of power grid facilities;
- > energy efficiency and energy saving.

IDGC of the South has materialised and continuously updates an Interactive map of 35–110 kV substations capacities to pursue a unified approach to prospective expansion and regional planning issues and to deliver on SME investment projects. The Interactive map is a geographical map indicating the information about existing main substations and their coverage areas, loading level of power grid equipment, and scheduled renovation and new construction stages. The main substation loading is visualised through mandatory information disclosure forms corresponding to Standards of Information Disclosure for Wholesale and Retail Electricity Market Players approved by Decree No.24 of the Government of the Russian Federation dated January 21, 2004 (the latest version).

Since 2017, the Company has been constantly sending informational letters to applicants having maximum power receiver capacity of at least 5 MW to report on the availability of the Interactive map that allows the election of the optimal facility location. The data on the loading of the main substations of allied territorial grid organisations (TGO) are fee-free published and updated on the interactive maps posted on the corporate website.

1. The detailed progress results of IDGC of the South in the focus areas are given in Section "Activities of the Company's Board of Directors in 2018" herein.

EXPANDING POWER GRID COMPLEX IN THE COMPANY’S OPERATIONS AREA

IDGC of the South’s footprint comprises four regional coordination bodies overseeing the elaboration of 5-year schemes and programmes for power industry prospective development in the constituent entities of the Russian Federation:

- > the Ministry for Industry, Transport, and Natural Resources of the Astrakhan Region;
- > the Committee for Housing, Utilities, Fuel, and Energy Complex of the Volgograd Region;
- > the Ministry of Housing, Utilities, and Energy of the Republic of Kalmykia;
- > the Ministry of Industry and Energy of the Rostov Region.

In order to synchronise the prospective development schemes and programmes with the Company’s Investment Programme, IDGC of the South established working teams for working-out the former (hereinafter - working teams). These teams hold regular meetings and discuss the regional planning progress in Russian regions, location of the power grid complex facilities and power industry 5-year development programme. Employees of both IDGC of the South and the Company’s branches are involved in activities of the regional coordination bodies. The branches of IDGC of the South forward annual letters to executive authorities of a constituent entity of the Russian Federation to report on the confirmation of, or change in, the membership of a respective working team.

In 2018, the Company prepared and approved the following 5-year schemes and programmes for power industry prospective development in the constituent entities of the Russian Federation:

- > Scheme and programme of power industry development in the Astrakhan Region for 2019–2023 (approved by Order No.282-R of the Governor of the Astrakhan Region dated April 26, 2018);
- > Scheme and programme of power industry development in the Volgograd Region for 2018–2022 (approved by Decree No.333 of the Governor of the Volgograd Region dated April 28, 2018);
- > Scheme and programme of power industry development in the Republic of Kalmykia for 2019–2023 (approved by Order No.75-rg of the Head of the Republic of Kalmykia dated April 28, 2018);
- > Scheme and programme of power industry prospective development in the Rostov Region for 2018–2022 (approved by Order No.104 of the Governor of the Rostov Region dated April 28, 2018).

STRATEGIC PARTNERSHIPS

Boris Ebzeev, General Director of IDGC of the South, and Andrey Bocharov, the Governor of the Volgograd Region, discussed the areas of cooperation between the power grid company and regional authorities. including the power grid complex prospective expansion and the Investment Programme progress, tariff aspects and participation of IDGC of the South in social projects.

The Company hosted a delegation from the major South Korean energy company. Boris Ebzeev, General Director of IDGC of the South, gave a tour for foreign colleagues around a R22 substation. The visitors had a look at advanced technologies of the largest power grid company in Southern Russia.

Power engineers from the Volgograd branch of IDGC of the South shared their experience in winter operations with Italian colleagues. TERNА S.p.A. specialists, the monopolist of the Italian power grid market, got interested in the Russian’ experience in operation of innovative early icing detection systems and devices for ice melting on 35–220 kV OHL wires and cables.

During a business meeting, Sergey Morozov, the interim Governor of the Astrakhan Region and Boris Ebzeev, General Director of IDGC of the South, explored the issued of cooperation under IDGC of the South projects, renovation and digitisation of the regional power grid complex. Another matter discussed was the long-term tariff setting.

Within the framework of the Russian Investment Forum in Sochi, IDGC of the South signed an agreement with the Don State Technical University for training specialists to pursue the strategic goals of the energy industry digitisation. This agreement constituted a continuation of the parties’ cooperation. The rapid development of new technologies, integration of digital substations and smart grids, new work standards impose new requirements to the training of engineers for the Southern Russia power industry.

Investment Activities

PROGRESS FOR 2018 INVESTMENT PROGRAMME¹

2018 INVESTMENT PROGRAMME PARAMETERS BY BRANCH

Branch of IDGC of the South	CAPEX, RUB mn (excl. VAT)	Fixed assets commissioned, RUB mn (excl. VAT)	Financing, RUB mn (incl. VAT)	Capacity commissioned	
				MVA	km
Astrakhanenergo	412	394	507	17	207
Volgogradenergo	454	341	284	6	24
Kalmenergo	62	92	76	2	59
Kubanenergo	1	1	2		
Rostovenergo	1,142	1,391	1,244	27	256
Executive office	3	0	0		
Total	2,075	2,219	2,112	52	545

MAJOR INVESTMENT PROJECTS

Reconstruction of 110 kV PTL in the left-bank area of Rostov-on-Don under the motor road bed aligned with the bridge crossing on Voroshilovskogo Prospect

The line reconstruction allowed the implementation of the urban planning concepts, uninterruptible power supply of the central and left-bank areas of Rostov-on-Don, including infrastructure facilities of the newly erected Rostov Arena Stadium. The Regional Department of the State Construction Supervision Service for the Rostov Region inspected the facility and issued resolution No.01.002.2390-2018 on the compliance of the capital facility being reconstructed with requirements of technical rules, other laws, and regulations, design and estimate documentation. The resolution was approved by Order No.38/GSN/1753 dated April 13, 2018. Rostov-on-Don Architecture and Urban Development Department granted the commissioning permit No.61-310-916509-2018 dated June 29, 2018. The facility was commissioned.

Reconstruction of 110 kV Elista-Zapadnaya – Elista-Vostochnaya OHL and 35 kV Elista-Zapadnaya – Elista Poultry Plant OHL with removal from Elista dwellings zone (approximate length – 15 km)

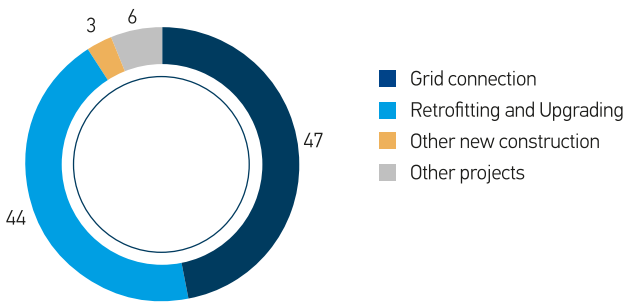
The project ensured the reliable power supply of Elista residents. The Lower Volga Office of the Federal Service for Ecological, Technological and Nuclear Supervision (Rostekhnadzor) inspected the facility and issued the commissioning permit No.5 dated December 6, 2018. The State Construction Supervision Inspectorate for the Republic of Kalmykia also inspected the facility and issued the resolution on the compliance of the reconstructed capital facility with the requirements of technical rules, other laws, and regulations and design documentation. The resolution was approved by Order No.320-P of the State Construction Supervision Inspectorate dated December 21, 2018. Elista city authorities granted the facility commissioning permit No.08-RU 08301000-60-2018 dated December 29, 2018. The facility was commissioned.

1. The Investment Programme of IDGC of the South for 2018 was approved by Order of the Ministry of Energy of Russia dated November 15, 2018.

Investment projects for increasing the customer power supply reliability through the use of Smart Grid technologies (reducing average number and average duration of outages):

- > All-around automation of 10 kV overhead lines by integrating Smart Grids in the Petrovvalsky RPG, PD Kamyshin Power Grids of IDGC of the South's branch – Volgogradenergo (first and second start-up stages).
- > All-around automation of 10 kV overhead lines by integrating Smart Grids in the Chaltyrsky RPG, PD South-Western Power Grids of IDGC of the South's branch – Rostovenergo. The facility was commissioned.

CAPEX FINANCING STRUCTURE, %



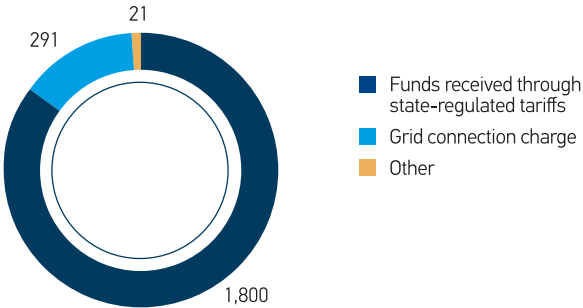
CAPEX FINANCING STRUCTURE, RUB MN (INCL. VAT)

Capex item	2016	2017	2018
Total under IDGC of the South Investment Programme	2,114	3,637	2,112
Including:			
grid connection	1,113	2,804	995
reconstruction, upgrading, and retrofitting	432	437	929
investment projects delivered through the schemes and programmes for the power industry prospective development	–	1	0
other new construction of grid facilities	54	69	67
purchase of land parcels for investment projects	0.02	0.00	–
other investment projects	515	326	121

Investment projects aimed at creation of a safe information technologies sphere for power grid facilities involved in power supply of the FIFA World Cup infrastructure in 2018:

- > Reconstruction of R-5, R-7, R-8, R-10, R-12, R-17, R-22, R-24, A-1, NG-5, T-24, R-11, and R-13 substations, dispatch control centres of PD Central Power Grids and GCC at Rostovenergo as regards the organisation of the information security system for the automated process control system and automated process management system, the Rostov Region (15 items) (para 256.1 of the FIFA World Cup 2018 Preparation Programme). The facility was commissioned.
- > Reconstruction of Tsentralnaya, Vileiskaya, Aeroport, Sovetskaya, Sportivnaya, Olimpijskaya, Festivalnaya, Razgulyaevskaya, Sibir-gora, Krasnoslobodskaya, and Dzerzhinskaya substations and GCC at Volgogradenergo as regards the organisation of the information security system for the automated process control system and automated process management system, the Volgograd Region (12 items) (para 249.2 of the FIFA World Cup 2018 Preparation Programme). The facility was commissioned.

INVESTMENT PROGRAMME FINANCING BY SOURCE

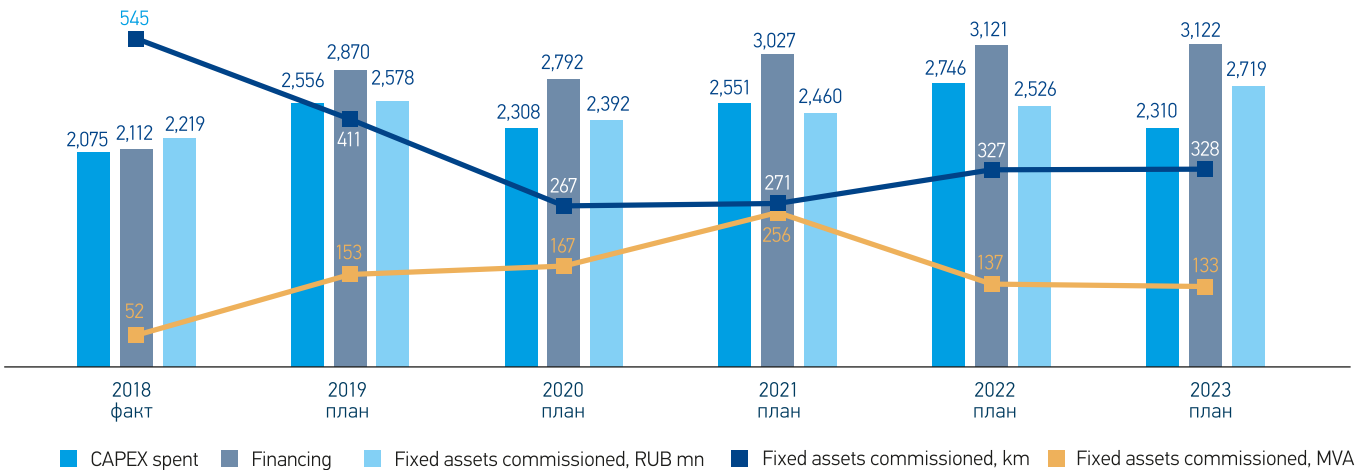


2018 Investment Programme Results

- > The average loading of transformer substations is 43.9%.
- > A measure for estimating the change in the share of net electricity supply, which is formed by electricity meters included in the Data Acquisition and Transmission System:
 - > for Astrakhanenergo branch – 7,001 thous. kWh or 24%;
 - > for Rostovenergo branch – 918 thous. kWh or 1%.
- > System Average Interruption Duration Index Δ Psaidi is –0.021.
- > System Average Interruption Frequency Index Δ Psafi is –0.037.
- > The total number of power grid connections with Capex made by the grid organisation under the Investment Programme is 2,022 thous.
- > The capacity of the electricity consumers connected totalled 220,425.1 kW.
- > In 2018, independent construction monitoring covered 50% of capital construction projects being in progress within the Company's Investment Programme.

The Long-Term Investment Programme for 2019–2023 envisages the assimilation of capital investments worth of RUB 12,471 mn (excl. VAT), financing of RUB 14,933 mn (incl. VAT), commissioning of fixed assets worth of RUB 12,675 mn. Within the period from 2019 through 2023, the Company plans to construct and reconstruct 1,604 km of PTLs and commission 847 MVA of transformer capacity.

LONG-TERM INVESTMENT PROGRAMME¹



1. The Investment Programme of IDGC of the South for 2018 and 2019–2023 was approved by Order No.11@ of the Ministry of Energy of Russia dated November 15, 2018.

Infrastructural Transformation

February

Power engineers of IDGC of the South finished the works to improve power supply in 10 remote villages and settlements of the Salsky District, the Rostov Region.

March

IDGC of the South transferred all Astrakhan power grids to a higher voltage class, which significantly enhanced the quality and reliability of consumers' power supply in Kirovsky and Sovetsky Districts of Astrakhan.

Specialists of the Volgograd branch of IDGC of the South inspected 84 power grid facilities by means of thermal imagers. The facilities comprised 31 110 kV substations, including those supplying power to large-scale industrial enterprises and the major part of household consumers of the region (Serebryakovskaya, Mikhailovskaya, Bubnovskaya-2, and Uryupinskaya), as well as 10 distribution grid transformer substations and 43 sections of 35 kV and above PTLs.

May

IDGC of the South finished the preparation of own infrastructure for FIFA World Cup 2018. Within the period from 2014 to 2018, the Company constructed and reconstructed several own power facilities for servicing the FIFA World Cup events in Rostov-on-Don and Volgograd.

In Rostov-on-Don, power engineers built 110/10 kV Sportivnaya substation that supplies power to Rostov Arena Stadium and reconstructed 110/10 kV AS-10 substation, with 80% of its capacity being allocated to supply power to new Platov International Airport in Rostov. In Volgograd, the Company reconstructed TDN substation supplying power to Volgograd Arena Stadium and 100/6 kV Aeroport substation providing lighting and electricity for Gumrak Airport.

Specialists of the Kalmykia branch of IDGC of the South replaced oil circuit-breakers with sulphur hexafluoride circuit-breakers to upgrade one of key republican substations – Elista-Zapadnaya.

June

Specialists of IDGC of the South ensured reliable power supply of the FIFA World Cup matches. Secure and uninterruptible power supply of stadiums during matches was supervised by FIFA World Cup situation-analytical centres in the Rostov and Volgograd branches of IDGC of the South. They worked in 24/7 mode until the end of the championship. Operation of IDGC of the South specialists was highly appreciated by Pavel Livinsky, General Director of ROSSETI, representatives of the Russian Ministry of Energy, heads of the Rostov and Volgograd Regions' administration.

September

Specialists of the Volgograd branch of IDGC of the South repaired 6.5 km of 110 kV OHLs supplying power to facilities of the Volga-Don Shipping Canal.

In 2018, the Kalmykia branch of IDGC of the South put on the books 230 ownerless facilities in Elista, most of which are extremely worn and require urgent repair.

The Company branch specialists repaired 33 power transformers, 2.4 thous. switchgears, 2.9 thous. km of overhead PTLs during the preparation for the autumn and winter period. IDGC of the South formed about 630 emergency and repair crews comprising over 3 thousand people and more than 1.5 thousand special vehicles.

October

On October 1, a new power grid company JSC VMES started its operations in Volgograd. The joint stock company assumed all responsibilities of its predecessor, the same-name enterprise in default, to regional consumers. As the major creditor of the municipal enterprise, IDGC of the South suggested the optimal solution – a bankruptcy proceeding through the transformation into a joint-stock company with replacing the assets. Thus, the jobs were retained and the employees enjoyed improved working conditions and social benefits. The assets were transferred to a new organisation, with the outstanding debts left for the predecessor.

December

During three months of the training held in Kalmykia, specialists of IDGC of the South outperformed a 3-year plan for clearing the PTL buffer zones from trees and shrubs by 30%. Over one thousand power industry facilities were upgraded for the digital power grid model. The personnel practiced and mastered actual cooperation during emergency recovery activities. IDGC of the South's drills held in Kalmykia involved over 270 specialists from all the Company's branches and 85 units of equipment.

By the end of 2018, the average duration of process upsets across all IDGC of the South's branches decreased by 14.6% year-on-year to less than two hours. The number of process upsets in the Company's grids went down by 4.3%. The greatest decrease in failure rate (by 5.3%) was achieved by the employees of the Company's Astrakhan and Rostov branches.

PEAK COMMISSIONING OF NEW FACILITIES

IN 2018, THE "IDGC OF SOUTH", PJSC PUT INTO OPERATION 545 KM OF POWER LINES UNDER THE PLAN HAD BEEN SET AS 357 KM (152 % OF PLAN) AND 52 MVA OF TRANSFORMER CAPACITY UNDER THE PLAN OF 22 MVA (238 % OF PLAN). THE GROWTH COMPARED TO THE INDICATORS PLANNED DUE TO THE COMMITMENTS REGARDING THE CONSTRUCTION OF FACILITIES FOR TECHNOLOGICAL CONNECTION INTO ELECTRIC GRIDS OF IDGC OF SOUTH WITHIN ALL REGIONS WHERE THE COMPANY OPERATES. JUST TO CONNECT THE PREFERENTIAL CATEGORY CONSUMERS, THE ENERGY DEVELOPPERS CONSTRUCTED 171 KM OF POWER SUPPLY LINES AND INTRODUCED 9 MVA OF TRANSFORMER CAPACITY FROM THE BEGINNING OF THE YEAR. IN 2018, THE SPECIALISTS OF "IDGC OF THE SOUTH", PJSC PERFORMED

THE TECHNOLOGICAL CONNECTION OF MORE THAN 130 SOCIAL FACILITIES TO THE GRID NETWORKS IN ROSTOV, ASTRAKHAN, VOLGOGRAD REGIONS AND REPUBLIC OF KALMYKIA. AMONGST THE FACILITIES CONNECTED TO THE POWER GRIDS OF IDGC OF SOUTH WITHIN 2018, THERE ARE MORE THAN 60 MIDWIFE AND OBSTETRIC UNITS, MOST OF WHICH LOCATED IN ROSTOV REGION, HOSPITALS IN CHERNOYARSKY AND VOLODARSKY DISTRICTS OF ASTRAKHAN REGION, MORE THAN 20 CHILDREN'S EDUCATIONAL ESTABLISHMENTS, HOUSES OF CULTURE AND RURAL CLUBS WITHIN ALL REGIONS WHERE THE COMPANY OPERATES, AS WELL AS PLAYGROUNDS, LIBRARIES, MUSEUMS AND FIRE STATIONS. ALSO, LAST YEAR, IDGC OF SOUTH IMPLEMENTED A TECHNOLOGICAL CONNECTION OF LARGE FACILITIES - 5 SOLAR POWER PLANTS IN THE ASTRAKHAN REGION WITH THEIR TOTAL CAPACITY OVER 100 MW, THE TRACTION SUBSTATIONS IN ROSTOV REGION (ABOVE 230 MW), PROVIDED THE INCREASE OF THE GENERATED POWER OF THE ROSTOV CHP-2 AND THE CENTRAL BOILER-HOUSE IN ROSTOV-ON-DON. IN THE LAST YEAR MARCH, THE SPECIALISTS OF IDGC OF SOUTH IMPLEMENTED TECHNOLOGICAL CONNECTION OF "ROSTOV-ARENA" STADIUM, THE CONNECTED CAPACITY WAS 14 MW.

THE ICE MELTING

ONTO OVERHEAD POWER LINES

Last winter was a serious challenge for IDGC of the South specialists. Compared to the previous autumn-winter period, the number of icing and frost deposits on power transmission lines has significantly increased. Providing reliable power supply to consumers in the 6 kV network and above, the specialists of IDGC of the South this winter held 226 ice melts, which is 43.9% more than in the same period of 2017–2018.

The southern climate with sharp temperature changes and high humidity in winter period causes ice on the wires and ground wires.

In the early detection of ice deposits system of IDGC of the South on the 35-220 kV overhead lines, there are more than 85 posts of control over ice deposits on the wires. It allows a real-time monitoring of the icy conditions in the area. By measuring the wire mass, air temperature and wind force, the system shows a detailed picture of the effects of adverse weather conditions on the operation of lines.

Timely detection of ice formation on wires and ground wires, warming and melting ice deposits eliminate the danger of wire breakage under the weight of ice and ensures reliable operation of power facilities.

When melting problem areas, the network pass large currents that heat the wires and ground wires, and as a result, the built up ice melts and crumbles.

The most challenging was December, when the number of heats exceeded one hundred, which is two times more than in December 2017. Most often ice deposits were melted on lines located in the Zavetinsky, Krasnosulinsky and Remontna districts of the Rostov Region and the Petrovvalsky District of the Volgograd Region, where the diameter of deposits reached 45 mm.

In total, IDGC of the South has equipped over 320 110–220 kV lines and over 350 35 kV lines with ice melting schemes.



next up

3 OPERATING RESULTS

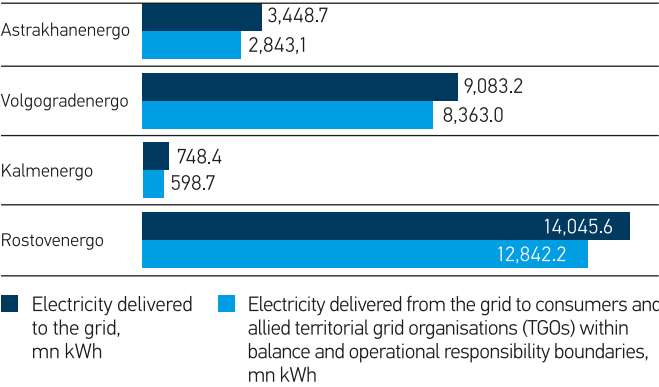
Operating results

Electricity transmission activities

ELECTRICITY DELIVERED FROM THE GRID BY THE BRANCHES OF IDGC OF THE SOUTH IN 2018

Branch	Electricity delivered to the grid, mn kWh	Electricity delivered from the grid to consumers and allied territorial grid organisations (TGOs) within balance and operational responsibility boundaries, mn kWh	Change, %	Electricity losses		
				mn kWh	%	Change, p.p.
Astrakhanenergo	3,448.7	2,843.1	0.1	605.7	17.56	−0.06
Volgogradenergo	9,083.2	8,363.0	−8.0	720.2	7.93	0.37
Kalmenergo	748.4	598.7	25.6	149.7	20.00	−2.13
Rostovenergo	14,045.6	12,842.2	−0.7	1,203.4	8.57	−0.30
Total for IDGC of the South	27,326.0	24,646.9	−2.7	2,679.0	9.80	−0.05

ELECTRICITY DELIVERED FROM THE GRID BY THE BRANCHES OF IDGC OF THE SOUTH IN 2018



On the basis of IDGC of the South activity results, in 2018 the volume of grid power delivered to consumers and to allied TGOs within the balance and operational responsibility boundaries was 24,647 mn kWh, which is lower vs 2017 by 694 mn kWh (or 2.7%) year-on-year (25,341 mn kWh in 2017).

In 2018, at Astrakhanenergo branch, the volume of grid power delivered to consumers and to allied TGOs within the balance and operational responsibility boundaries was 2,843.1 mn kWh, which is higher by 2.6 mn kWh (or 0.1%) year-on-year (2,840.5 mn kWh in 2017). The change is insignificant.

In 2018, at Volgogradenergo branch, the volume of grid power delivered to consumers and to allied TGOs within the balance and operational responsibility boundaries was 8,363.0 mn kWh, which is lower by 723.3 mn kWh (or 8%) year-on-year (9,086.3 mn kWh in 2017). The decrease was mostly attributable to the termination of the last mile model since July 1, 2017, in the Rostov Region in line with Clause 9, Art. 8 of Federal Law No.35-FZ On Electric Power Industry dated March 26, 2003 (excluded volume of 734.8 mn kWh).

In 2018, at Kalmenergo branch, the volume of grid power delivered to consumers and to allied TGOs within the balance and operational responsibility boundaries was 598.7 mn kWh, which is higher by 121.9 mn kWh (or 25.6%) year-on-year (476.7 mn kWh in 2017). Increase in power delivery is mainly due to 130.1 mn kWh growth in power consumption by TransneftEnergy, Caspian Pipeline Consortium-R.

In 2018, at Rostovenergo branch, the volume of grid power delivered to consumers and to allied TGOs within the balance and operational responsibility boundaries was 12,842.2 mn kWh, which is lower by 95.6 mn kWh (or 0.7%) year-on-year (12,937.8 mn kWh in 2017). The decrease was mostly attributable to the termination of the last mile business model since July 1, 2017, in the Rostov Regions in line with Art. 8, 9, of Federal Law No.35-FZ On Electric Power Industry dated March 26, 2003 (excluded volume of 325 mn kWh).

DYNAMICS OF POWER TRANSMISSION SERVICES PROVIDED IN 2017–2018

POWER TRANSMISSION SERVICES PROVIDED

Branch	2017		2018			Change	
	mn kWh	RUB mn	mn kWh	RUB mn	mn kWh	RUB mn	%
Astrakhanenergo	2,790.2	4,979.1	2,745.4	5,136.2	−44.8	157.1	−1.6
Volgogradenergo	8,998.3	10,684.1	8,281.1	10,778.7	−717.2	94.6	−8.0
Kalmenergo	476.7	1,188.7	598.7	1,435.3	121.9	246.6	25.6
Rostovenergo	12,749.4	17,107.8	12,684.9	18,108.2	−64.6	1,000.3	−0.5
Total for IDGC of the South	25,014.6	33,959.7	24,310.0	35,458.3	−704.6	1,498.6	−2.8

Note. The information for 2017–2018 includes the internal electricity sales.

As of the end of 2018, IDGC of the South provided the electricity in the amount of 24,310 mn kWh, including the internal electricity sales, representing a year-on-year decrease of 705 mn kWh (2.8%) (25,015 mn kWh in 2017). The decrease was mostly attributable to the termination of the last mile business model since July 1, 2017, in the Volgograd and Rostov Regions in line with Clause 9, Art. 8 of the Federal Law On Electric Power Industry No.35-FZ dated March 26, 2003.

Termination of the last mile business model in the Volgograd and Rostov Regions and the exception of grid connection of consumers, who did not renew their agreements (Russian Railways, Volzhskaya Kuznitsa, LUKOIL-Volgogradneftepererabotka, etc.), resulted in a decline of the relative electricity losses.

In 2018, Astrakhanenergo reduced its electricity losses by 2.1 mn kWh year-on-year, including a decrease of non-technical losses by 12.8 mn kWh. The electricity losses rate reduced by 0.06 p. p. in comparable terms of electricity delivered to the grid, including a scope under the last mile contract terminated in 2018.

Electricity losses of Volgogradenergo grew by 0.37 p.p in comparable terms. The rise in losses was driven by the reduction in volumes under off-the-meter supply acts included in the net delivery, and by higher transit flows to Rostovenergo.

Actual electricity losses in Kalmenergo's power grids amounted to 20% of total electricity delivered to the grid. The loss rate decreased by 2.13 p.p in comparable terms.

Rostovenergo showed a year-on-year decrease in losses by 0.3 p. p. in comparable terms of electricity delivered to the grid, including the volume under the last mile contract terminated in 2018 (325.1 mn kWh).

REDUCING ENERGY LOSSES

IDGC of the South on the priority basis implements the comprehensive measures aimed at optimising (reducing) the level of losses.

In 2017, due to these measures, the total savings in reducing the electrical energy losses amounted to 281 mn kWh worth a total of RUB 706.7 mn.

- Over 12 months of 2018, the Company held the following measures to reduce the electricity losses in its power grids:
- > organisational measures (taking readings and checking electricity meters, raids to detect off-the-meter electricity consumption, optimisation of power grids operation modes, phase load balancing, etc.) – the volume of electricity savings amounted to 227 mn kWh (81.1% of total result of the Programme to reduce electricity losses);
 - > technical measures (the repair programme procedures: power grid equipment replacement, disaggregation of the power grid, replacement of branches to incoming lines, installation of self-supporting insulated wire (SIW) – the volume of electricity savings amounted to 1.7 mn kWh (0.6% of total result of the Programme to reduce electricity losses);
 - > updating the electricity metering system (construction of the automated electricity metering system, installation of communal (building-level) meters at incoming lines to apartment buildings, installation of high-voltage meters, electricity accounting meters and consumers' electricity meters, etc.) – the volume of electricity savings amounted to 51 mn kWh (18.3% of total result of the Programme to reduce electricity losses).

In 2018, IDGC of the South automated 164.6 thous. points of metering (142.4% of the target).

Since July 20 to August 19, 126 specialists of IDGC of the South have taken part in the all-Russian training of power engineers in Dagestan. They replaced 382 damaged PTL towers, installed 26 km of self-supporting insulated wires instead of bare wires, 1.5 thous. smart meters and over 200 data collection and transmission devices. The work plan for specialists of IDGC of the South was delivered by 112–121%.

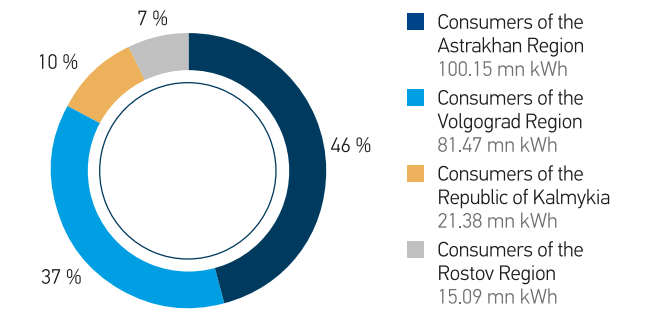
In 2018, IDGC of the South reduced losses in the power grids by 61.8 mn kWh, exceeding the target by 0.23%. Electricity loss rate amounted to 9.8% in 2018.

In the reporting year, specialists of IDGC of the South intercepted over 4.4 thous. deeds of off-the-meter and non-contractual electricity consumption in total volume of above 218 mn kWh.

In 2018, on the initiative of IDGC of the South, 168 websites and online shops were blocked and excluded from the unified register of internet resources for the distribution of information on electricity theft ways and sales of tampered electricity meters, which is forbidden in Russia.

In 2018, the Company installed the intelligent electricity metering systems, thereby saving over 41.5 mn kWh, 102.9 thous. smart meters (50 thous. smart meters are planned to be installed in 2019) under the energy services contracts.

OFF-THE-METER AND NON-CONTRACTUAL ELECTRICITY CONSUMPTION OF ELECTRICITY AT THE TERRITORY OF IDGC OF THE SOUTH IN 2018



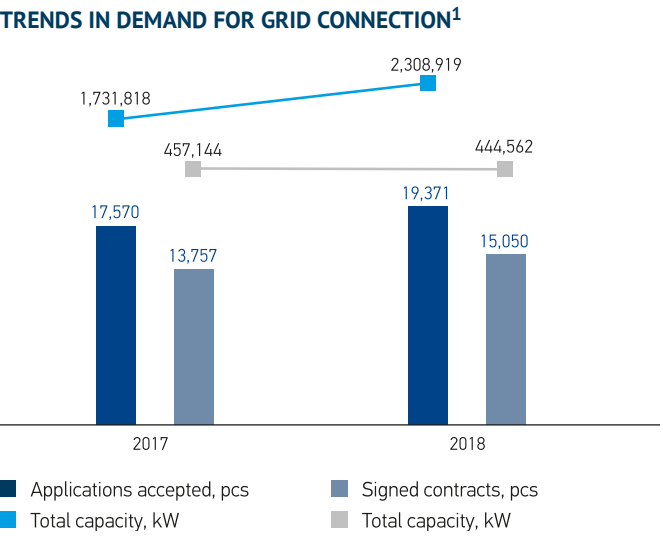
Grid connection

Under Decree No.147-r of the Government of the Russian Federation dated January 31, 2017, IDGC of the South implemented the Grid Connection target model in each covered regions in cooperation with regional executive authorities to simplify business processes and enhance the investment appeal of the Russian Federation constituent entities.

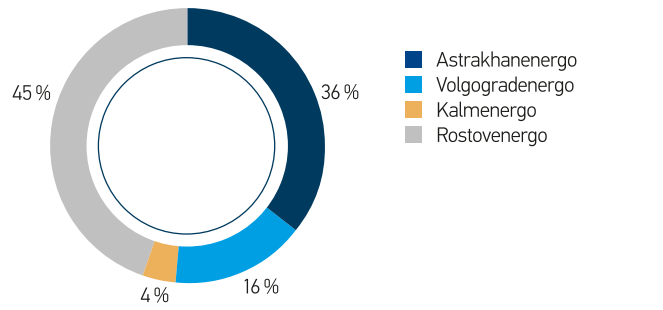
- In 2018, the Company arranged:
- > Roadmap activities on the implementation of the target model with the grid organisation as a responsible party, and the submission of branches' quarterly reports to the regional executive bodies;
 - > Interaction with the regional executive bodies to take the necessary measures on implementing indicators of the roadmaps, achievement of which target indicators are under the responsibility of relevant ministries and municipal entities.

With a view to reaching the indicators of the Grid Connection target model, the Company developed and approved the order On Grid Connections of Doing Business Applicants. In the reporting year, the Company fulfilled 90 contracts for grid connection of Doing Business applicants. Rostovenergo provided power supply to 46 such enterprises, Astrakhanenergo connected 21 consumers, Kalmenergo and Volgogradenergo provided grid connection of 12 small business enterprises each.

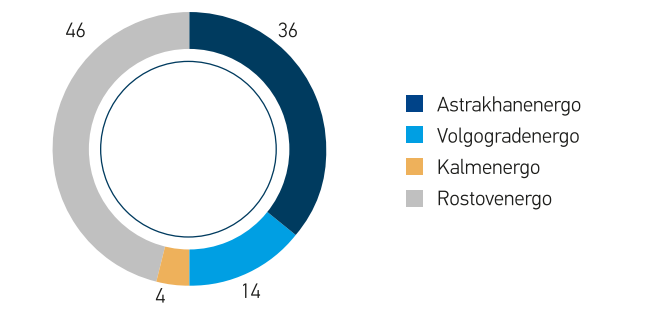
- Over 130 socially significant facilities with a total capacity of above 3.8 MW were connected to the distribution grid of IDGC of the South in 2018. Among them:
- > Remontnaya (Dubovsky District), Kolodezi (Millerovsky District), Kuteynikovo (Chertkovsky District) traction substations of Russian Railways (Rostov Region) – the required capacity was 57 MW; increase in power output of Rostov TPP-2 and the Central Boiler House of Rostov-on-Don;
 - > Rostov Arena stadium with 14 MW connected capacity;
 - > the waste recycling plant in Volgograd's satellite town - Volzhsky, which will recycle up to 450 thous. tonnes of wastes a year and consume 1 MW of power;
 - > five solar power stations in the Astrakhan Region with a total capacity of above 100 MW;
 - > the kindergarten for 260 children in Sanatorny residential complex in the Volgograd's Kirovsky District with the connected capacity of 280 kW;
 - > the grain warehouse in the Volgograd's Leninsky District, warehouses of oil and gas equipment manufacturer.



STRUCTURE OF GRID CONNECTION APPLICATIONS IN 2018

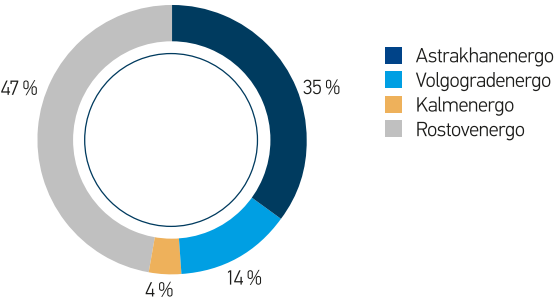


STRUCTURE OF SIGNED GRID CONNECTIONS CONTRACTS IN 2018, %

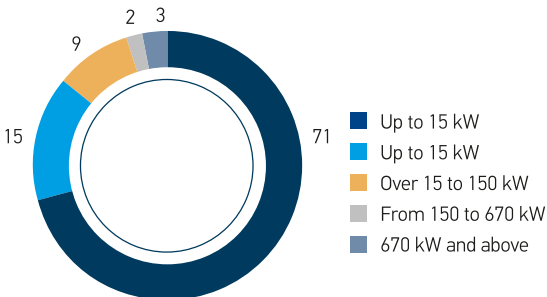


1. The data include generating facilities without temporary grid connections.

GRID CONNECTION CONTRACTS COMPLETED IN 2018, %



CATEGORIES OF APPLICANTS, NUMBER OF APPLICATIONS, %

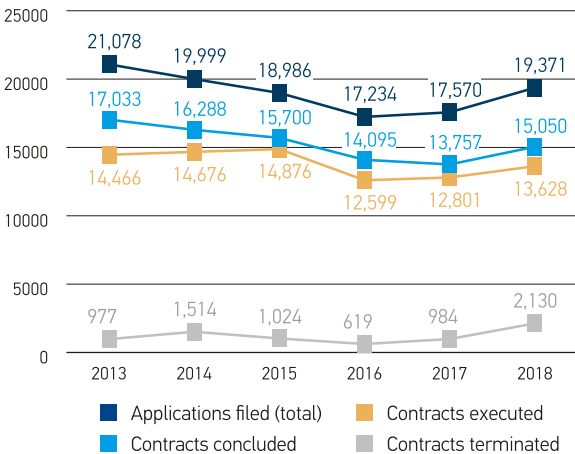


STRUCTURE OF SUBMITTED APPLICATIONS FOR GRID CONNECTION BY INDUSTRIES

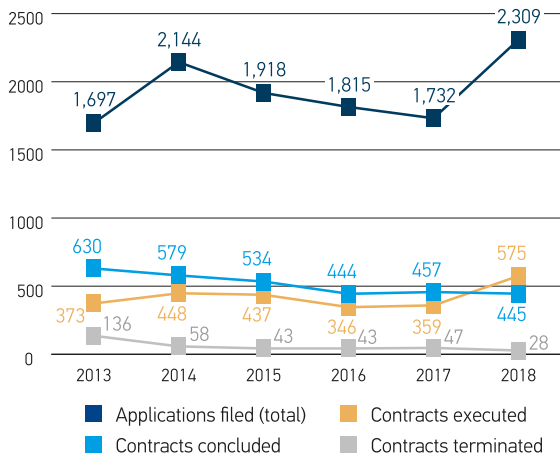
Sector of the national economy	Quantity	
	pcs	kW
Individuals	13,710	143,686
Agriculture, hunting, forestry, fishery, fish farming	350	138,118
Extraction of mineral resources	13	6,808
Processing industries	356	236,736
Production and distribution of electricity, gas and water; air conditioning (35.11. Electricity Generation and Subsections)	16	740,345
Production and distribution of electricity, gas and water; air conditioning (35.12.1. Power Transmission and 35.13. Electricity Transmission and Distribution)	13	7,934
Production and distribution of electricity, gas and water; air conditioning (others)	46	23,801
Construction	118	60,496
Wholesale and retail trade; repair of motor vehicles and bikes	338	94,889
Transportation and storage	280	158,667
Information and communications	270	16,251
Education	99	3,011
Health care and social services	33	2,618
Other	3,729	675,559
Total, including individuals	19,371	2,308,919

By the end of 2018, IDGC of the South connected 13,628 consumers to the grid for the total capacity of 575,118 kW.

DYNAMICS OF CONSUMERS' GRID CONNECTIONS, PCS



DYNAMICS OF CONSUMERS' GRID CONNECTION, MW



STRUCTURE OF GRID CONNECTION APPLICATIONS BY BUSINESS CATEGORIES

Category of applicants		Quantity		Applications	
		pcs	%	kW	For capacity
Individuals	Up to 15 kW	13,710	71	143,686	6
Small Business	Up to 15 kW	2,891	15	24,223	1
	Over 15 to 150 kW	1,838	9	131,372	6
Medium business	From 150 to 670 kW	392	2	120,280	5
Large business	670 kW and above	540	3	1,889,357	82
Total		19,371	100	2,308,919	100

Consolidation of power grid assets

Description of principles for working on consolidation of power grid assets and interaction with territorial power grid organisations

In 2018, the Company was involved in interaction on decision-making on purchase/using of power grid facilities owned by third parties in line with the Provision on activities of the Commission on grid assets consolidation and procedure of the power grid facilities purchasing (appendix to Order No.60 of IDGC of the South dated January 30, 2018). The Company's competence and responsibility concerning consolidation of power grid assets are distributed as follows:

- The Commission on power grid assets consolidation of IDGC of the South acting on a regular basis considers and makes decisions on consolidation of power grid assets located within IDGC of the South's operation area. Members of the Commission are determined by General Director's Order (IDGC of the South's Order No.327 dated June 14, 2011 (No.525 as amended on July 31, 2018);
- study groups on consolidation of grid assets in IDGC of the South's branches – Astrakhanenergo, Volgogradenergo, Kalmenergo, and Rostovenergo – preliminarily consider the issues on purchasing/assuming ownership over grad assets located in the branch's operation area. The members of study groups are approved by the Order of Deputy General Director – Branch Director;
- the grid assets consolidation department of the Executive Office Property management ensures the overall coordination of the activities of the Company's branch business units on consolidation issues, organises the Commission's meetings on consolidation of IDGC of the South's grid assets (three staffing positions deals with consolidation issues);
- structural unit of the Company's branch, which is responsible for issues relating to property management - the property management department (at IDGC of the South's branches: Astrakhanenergo, Volgogradenergo, Rostovenergo, and Kalmenergo) deals with consolidation issues (four staffing positions);
- structural units of the executive office, Company's branches that participate in considering, agreeing on the grid facilities acquisition (technical departments, electricity transmission services departments, economy and finance departments, tariff-setting departments, investment departments, legal support, grid connection and security departments).

With a view to consolidating the grid assets of territorial grid organisations (TGOs), they were proposed to hand over their electric grid assets under the management of IDGC of the South. Besides, proposals were made to hold meetings with owners of power facilities. IDGC of the South campaigns to increase awareness in the covered regions, including the creation of news topics and reporting on activities of IDGC of the South on the reliable power supply to consumers, successful disaster recovery at in-house and third-party grid facilities, advantages of Company's grid connection for consumers, supplementary services.

The Company regularly monitors the TGO's official websites concerning availability of relevant disclosures according to the Standard for Information Disclosure by the Power Wholesale and Retail Market Players (Decree No. 24 of the Russian Federation Government dated January 21, 2004).

As part of consolidation efforts, in 2018 Astrakhanenergo branch of IDGC of the South signed the lease contract with MUE Blagoustroennii Gorod within Narimanov Municipal Entity (formerly known as MUE Electroseti within Narimanov Municipal Entity).

In 2018, the study group on power grid asset consolidation of Volgogradenergo branch of IDGC of the South and Commission on power grid asset consolidation reviewed the projects on consolidation of power grid facilities owned by the following TGOs: FSBI Volgo-Don, LLC Selmash Trade; another decision taken pertains to the acquisition of 100% of PJSC VMES shares.

With a view to consolidating the power grid assets of territorial grid organisations, Rostovenergo branch of IDGC of the South proposed to hand over their power grid assets under the management of IDGC of the South. Besides, proposals were made to hold meetings with owners of power facilities. Based on the results of assessment of investment value of TGO's assets, Rostovenergo branch calculated the cost-effectiveness and reviewed an issue on the grid asset consolidation advisability/inadvisability at a meeting of the study group on the branch's power grid assets consolidation.

Kalmenergo branch of IDGC of the South covered the entire market (100%) in its region.

The Company implemented the agreements on consolidating the power grid assets signed with executive government bodies of the constituent entities of the Russian Federation and other power authorities.

The government of the Astrakhan Region approved Decree No. 180-Pr dated May 25, 2017 “On the Roadmap for improvement the reliability of power supply for consumers of the Astrakhan Region by proper maintenance and operation of power grid complexes of municipal entities of the Astrakhan Region and ownerless power grid facilities of the Astrakhan Region”.

Pursuant to the Decree of the Governor of the Rostov Region and the Strategy for Development of the Power Grid Complex of the Russian Federation approved by Decree No. 511-r of the Government of the Russian Federation dated April 3, 2013, in order to organise the management process in the field of power supply, to resolve the issues on power grids operation, to improve the quality and reliability of power supply for consumers, the Deputy Governor of the Rostov Region, V. Krupin approved a roadmap for consolidation of power grids in the Rostov Region.

Over the reporting period, there were no agreements between the Volgogradenergo branch of IDGC of the South and the executive government bodies of the Volgograd Region, as well as the local government bodies on consolidation of power grid facilities. In line with the requirements of the Volgograd Region's laws No. 223-OD dated December 28, 2015 and No. 187-OD dated December 26, 2014, the powers of the local government body for organisation of power supply in the municipal entities and cities of regional importance of the Volgograd region are exercised by the government executive bodies authorised by the Governor of the Volgograd Region. According to the information of the Committee for Housing, Utilities, Fuel, and Energy Complex of the Volgograd Region, the grid complex facilities are transferred on the basis of operational management to the State Budgetary Institution of the Volgograd Region “Volgograd Centre of Energy Efficiency.

Kalmenergo branch of IDGC of the South sent a letter to the Government of the Republic of Kalmykia proposing the creation of a collegial executive body to resolve issues on consolidation of the power grid assets of the republican and municipal property by the Company, ownerless power grid facilities located in the Republic of Kalmykia.

At the same time, the branch continued to cooperate with authorities of Elista on issues of consolidation, under the agreement dated June 21, 2017, on implementation the measures providing for the reliable power supply for consumers connected to ownerless power grid facilities.

Additionally, the meetings were held to review the mechanism and conditions of consolidation of the power grid property leased by the branch, which is a municipal property of Iki-Burulsky, Troitsky and Bolshetsarynsky rural municipal entities.

Interaction with owners or other legal holders of power grid facilities that do not meet the criterion for power grid facility owners being assigned to territorial grid organisations approved by Decree No. 184 of the Russian Federation Government dated February 28, 2015, in terms of transfer of functions for managing the power grid assets.

Pursuing the objectives aimed to improve reliability of consumer power supply, increase the market share, increase the grid complex controllability, IDGC of the South regularly engages with power grid owners, which do not comply with the criteria for inclusion of the grid facility owners to the territorial grid organisations, with the view to the power grid assets consolidation in the Company.

In 2018, in line with letter No. AN-9414/09 of the Ministry of Energy of the Russian Federation dated August 25, 2017 “On joint recommendations on the procedure for transferring of power grid facilities of Gardeners' Non-commercial Partnership to the TGO's balance book”, by Order No. 534 of ROSSETI, PJSC, dated October 3, 2017 “On Approval of Methodical Guidelines for consolidation of power grid facilities owned by horticultural, market gardening, dacha (country house) non-commercial associations of the citizens”, the Company was involved in continuous cooperation and consultation with representatives of gardeners' non-commercial partnerships on a donation of the power grid assets to the Company.

MONITORING OF VOLUMES OF POWER GRID ASSET CONSOLIDATION

POWER GRID ASSET CONSOLIDATED FOR THE PERIOD

Name of IDGC/DGC (branch of IDGC, DGC and S&A of IDGC)	2016			2017			2018		
	MVA	km	c.u.	MVA	km	c.u.	MVA	km	c.u.
IDGC of the South, PJSC	195.57	1,082.88	5,777.7	105.81	304.042	1489	188.5	480.0	4,070.0
Grid facilities acquired	89.06	749.393	4,186.3	0	9.6	18	0.50	4.06	19.72
Grid facilities in operating lease	66.87	159.142	509.6	65.81	110.742	360	129.43	159.706	1,973.747
Other (permanent rights of ownership and use)	0	0	0	0	8.7	18	9.273	119.503	338.612
Other (temporary rights of ownership and use)	39.64	174.345	1081.8	40	175	1093	49.14	199.96	1,740.48
Astrakhanenergo branch	91.7	174.345	1157.4	93	175	1176	170.4	299.7	3,626.7
Grid facilities acquired	0	0	0	0	0	0	0.50	4.06	19.72
Grid facilities in operating lease	52.06	0	75.6	53	0	83	116.2	35.356	1,676.23
Other (permanent rights of ownership and use)	0	0	0	0	0	0	4.413	63.54	192.79
Other (temporary rights of ownership and use)	39.64	174.345	1,081.8	40	175	1093	49.14	199.96	1,740.48
Kalmenergo branch	100.87	858.535	4,459.3	12.81	109.142	275.0	14.5	152.912	370.529
Grid facilities acquired	88.06	749.393	4,184.3	0	0	0	0	0	0
Grid facilities in operating lease	12.81	109.142	275.0	12.81	109.142	275.0	13.23	122.794	295.187
Other (permanent rights of ownership and use)	0	0	0	0	0	0	1.27	30.118	75.342
Other (temporary rights of ownership and use)	0	0	0	0	0	0	0	0	0
Rostovenergo branch	3	50	161	0	19.9	38	3.59	27.401	72.81
Grid facilities acquired	1	0	2	0	9.6	18	0	0	0
Grid facilities in operating lease	2	50	159	0	1.6	2	0	1.556	2.33
Other (permanent rights of ownership and use)	0	0	0	0	8.7	18	3.59	25.845	70.48
Other (temporary rights of ownership and use)	0	0	0	0	0	0	0	0	0
Volgogradenergo branch	0	0	0	0	0	0	0	0	0
Grid facilities acquired	0	0	0	0	0	0	0	0	0
Grid facilities in operating lease	0	0	0	0	0	0	0	0	0
Other (permanent rights of ownership and use)	0	0	0	0	0	0	0	0	0
Other (temporary rights of ownership and use)	0	0	0	0	0	0	0	0	0

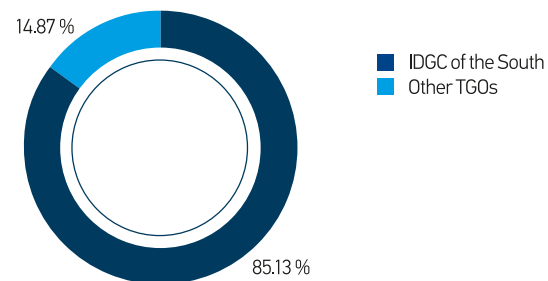
IDGC of the South acted as the Sole Executive Body of Donenergo under the Agreement on the delegation of powers of the Sole Executive Body of Donenergo to the managing company from September 20, 2014.

POWER GRID ASSET CONSOLIDATED BY DONENERGO.

Name of IDGC/DGC (branch of IDGC, DGC and S&A of IDGC)	2016			2017			2018		
	MVA	km	c.u.	MVA	km	c.u.	MVA	km	c.u.
Grid facilities acquired	0	0	0	0	0	0	0	0	0
Grid facilities in operating lease	0	0	0	0	0	0	0	0	0
Other (permanent rights of ownership and use)	0	0	0	0	0	0	0	0	0
Other (temporary rights of ownership and use)	0	0	0	0	0	0	0	0	0

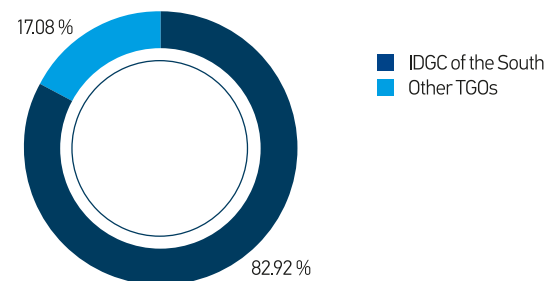
Estimation of the share of the power distribution grid complex subsidiaries in the required gross revenue (hereinafter – RGR) of IDGC of the South regions over the last three years, the change drivers ¹

MARKET SHARE BY RGR FOR ELECTRICITY TRANSMISSION SERVICES FOR 2017



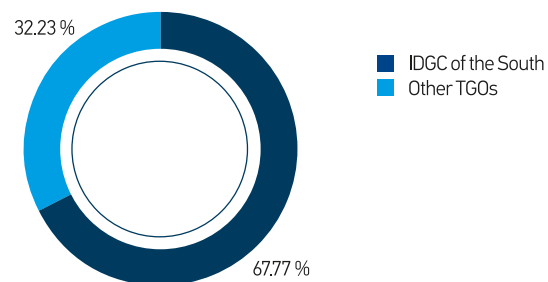
In 2017, RGR for the operation of IDGC of the South amounted to RUB 29,223.73 mn, for the operation of TGOs – RUB 5,104.85 mn.

MARKET SHARE BY RGR FOR ELECTRICITY TRANSMISSION SERVICES FOR 2018



In 2017, RGR for the operation of IDGC of the South amounted to RUB 30,336.83 mn, for the operation of TGOs – RUB 6,250.84 mn.

MARKET SHARE BY RGR FOR ELECTRICITY TRANSMISSION SERVICES FOR 2019



The Company plans that RGR for the operation of IDGC of the South in 2019 will be RUB 25,757.27 mn, for the operation of TGOs – RUB 12,250.31 mn.

The reasons behind the decline in the share of IDGC of the South in 2019 are as follows:

- > the expiry of the management agreement with Donenergo;
- > escalation of costs of PJSC FGC UES's services in TGO grids (+RUB 55.3 mn);
- > entry of new TGOs in the region (+RUB 155.7 mn): LLC Energoservice (+RUB 26.6 mn), LLC MES (+RUB 14.6 mn), LLC TESK (+RUB 12.1 mn), LLC YuSK (+RUB 10.8 mn), and LLC YugStriyMontazh (+RUB 91.6 mn);
- > increase in the number of equipment maintained at operating TGOs, including results of the previous operation (shortage of revenue);
- > growth in costs for services of some TGOs. The fastest growth was observed at MUE Gorelektroset in Astrakhan on the back of the increased number of nominal units of purchased electrical equipment and at LLC Gazpromenergo due to the reforming of this enterprise and change of the share of this TGO services.

As part of consolidation efforts, in 2018 Astrakhanenergo branch of IDGC of the South signed the lease contract with MUE Blagoustroennii Gorod within Narimanov Municipal Entity (formerly known as MUE Electroseti within Narimanov Municipal Entity).

In 2018, the Company reviewed the consolidation projects for power facilities of the following TGOs: FSBI Volgo-Don, LLC Selmash Trade; another decision taken pertains to the acquisition of 100% of PJSC VMES shares. Rostovenergo branch of IDGC of the South calculated the cost-effectiveness and reviewed an issue on the consolidation feasibility at a meeting of the study group on the branch's power grid assets consolidation.

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In 2018, IDGC of the South acted as the Sole Executive Body of Donenergo under the Agreement on the delegation of powers of the Sole Executive Body of Donenergo to the managing company from September 20, 2014.

1. To calculate the indicator "Share in regional RGR", the information defined in resolutions of single-pot tariffs on the adoption of uniform (boiler) tariffs for electricity transmission services approved by the Government executive bodies of the constituent entities of the Russian Federation in the field of state tariff regulation.

Energy Saving and Energy Efficiency Measures

In 2018, SGS Vostok Limited held the recertification audit of the energy management system in the executive office and Company's branches for the compliance with the international standard ISO 50001:2011 Energy management systems. Requirements and directions for use. The audit results confirmed the compliance of IDGC of the South energy management system with the international standard ISO 50001:2011 and allowed getting the certificate of conformity RU15/81841707.

The following targets were adopted in accordance with the energy saving and energy efficiency programme for 2017-2022:

- > electricity losses on transmission and distribution grids;
- > consumption of energy resources for business needs.

ACHIEVING TARGETS OF THE ENERGY SAVING AND ENERGY EFFICIENCY PROGRAMME

Indicator	Target in 2018	Actual in 2018
Electricity losses, share of electricity delivered to grid, %	10.03	9.8
Consumption of resources for utility needs, RUB mn (excl.VAT)	280	270
Saving, mn kWh	326	277
Saving, thous. tce	37,645	33,409
Saving value, including costs, RUB mn	832	699

POWER CONSUMPTION STRUCTURE

Indicator	Total power consumption, 2018 target		Total energy usage reducing, J				
	Physical indicator	GJ	Actual in 2015	Actual in 2016	Actual in 2017	Actual in 2018	Target in 2020
Fuel, thous. l	7,587.56	257	0.84	3.37	3.85	4.28	5.38
Electricity, mn kWh	57.13	201	0.22	3.52	0.39	0.69	3.08
Heat, GCal	15,577.67	65.4	0.008	0.44	2.72	0.42	0.4
Cooling	-	-	-	-	-	-	-
Steam	-	-	-	-	-	-	-

Increased reliability of the power system

INDICATORS OF THE REPAIR PROGRAMME OF IDGC OF THE SOUTH

Repair	2013	2014	2015	2016	2017	2018
Overhaul of overhead lines, km	14,471.6	14,776.0	14,141.7	13,844.4	13,890.2	16,002.0
Overhead line right-of-way tree clearing, Ha	262.90	1,054.70	1,050.60	1,181.60	1,135.73	1,277.00
Overhaul of transformers and autotransformers, pcs	41	38	39	41	46	45
Overhaul of switching devices, pcs	3,977	3,604	4,264	4,410	4,125	3,254
Repair campaign, RUB mn	781.8	1,419.7	1,397.6	1,533.2	1,515.3	1,551.0

ENERGY SAVING AND ENERGY EFFICIENCY INITIATIVES (2018 PROJECTS)

Name	Description
Technology shift	Installation of LED lighting systems
Equipment conversion or upgrading	Replacement of electrical heaters at the facilities with radiant ones
Change in employees' behaviour	Training of the branches' employees on Basic knowledge of the requirements of the International Standard ISO 50001. Energy Management System. Requirements and directions for use. Internal audits of the energy management system in line with the approved schedule and Standard ISM 80380011-IA/F-5300 049-2015
Operational changes	Optimisation of external lighting control by developing and introducing the lighting switching on/off schedule for the on-site territories. Reduction of the heating load in buildings or premises in non-working periods

IT advances

In October 2018, the Board of Directors of IDGC of the South approved the Policy of ROSSETI on Information Technologies, Automation and Telecommunication (ITT Policy) as the Company's internal document. The ITT Policy and 2030 Digital Transformation Concept set the principal objectives of the Company's information technologies development, strategic initiatives, trends of technological and organisational changes. Such transformation is aimed to improve reliability, efficiency, quality and availability of electricity transmission and grid connection services and to establish a new infrastructure for optimal energy transfer between power industry facilities in the region.

- The following stages are defined to achieve the set targets in the development of the ITT Policy:
- > Digital Transformation up to 2030;
 - > measures on cybersecurity provision, information security system development;
 - > introduction of the corporate information systems of electricity metering and transmission services management and production assets management;
 - > introduction and development of the corporate centralised information systems;
 - > introduction and development of the financial and business operations;
 - > optimisation and development of the ITT-infrastructure;
 - > development of the automated process control systems;
 - > development of the telecommunications;
 - > optimisation of the ITT business-processes.

Implementation of the ITT Policy in 2018

In 2018, branches of IDGC of the South arranged own and leased data transmission digital channels for 31 facilities.

Also, under the Programme on upgrading and expansion of the data acquisition and transmission system (DATS) in 2018, the branches of IDGC of the South introduced the remote control at 110 kV substations: Chernozemelskaya, B-8, and VdPTF. The Company also upgraded the telemetering equipment of 110 kV substations: Opytnaya, Kuzmichi, BT-1, and T-24. Now, these facilities comply with the grid operator requirements to control of the power system in the electrotechnical mode.

The Company provides transmission of minimum scope of remote signalling and remote information (via any communication channels, within the range of total warning alarm signalling from the substations) from 330 substations of 110 kV voltage when implementing the measures to improve observability.

IDGC of the South introduced remote control of three 6-10 kV distribution points.

For Football World Cup 2018, the Company upgraded 110 kV substations: AS-10 (Rostovenergo) and TND (Volgogradenergo). A new substation, Sportivnaya, was built using the latest SCADA technologies to cover the needs of Rostov Arena stadium. The mentioned substations acquired and transmitted consolidated telemetric information to SCADA Situational and Analytical Centre of the Ministry of Energy of the Russian Federation. A common data warehouse was created in Rostovenergo and Volgogradenergo branches to ensure data exchange during the 2018 Football World Cup.

Power supply systems of 10 communication centres were retrofitted to improve the reliability of telemetry and communication means.

The Company connected six remote hubs of the regions of power grids (RPG) to the corporate data exchange network of IDGC of the South through the Internet using encryption mechanisms. These initiatives allow online access to the Company's corporate and technological information systems without the need to visit a RPG or a production facility.

In 2018, IDGC of the South and Rostovenergo undertook the extensive efforts within the local area network of the Company's Executive Office.

The Company connected the Volodarsk RPG building to the LAN

and put a redundant communication channel to the Pravoberezhny RPG into operation.

Consumer service offices of Tsentralny, Zaboldinsky, and Privolzhsky RPGs were also connected to the LAN.

IDGC of the South completed the first stage of connection of Volgogradenergo RPG sections to the corporate data resources.

The Company established a communication channel and configured data transfer connection of JSC VMES to the centralised data resources of IDGC of the South.

The Company provided five base Wi-Fi rebroadcasting and reception stations to connect the Training Centre to the LAN for holding technical (process) meetings and training at the training and production facilities.

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ITT development plans

IDGC of the South defined a grids development vector with regard to the digitalisation for 2018–2030. In 2019, the key areas of IT development are:

- > customer orientation of the Company;
- > introduction of the intelligent electricity metering systems;
- > development of the production asset management system (PAMS);
- > creation of the common information space between the IDGC of the South and ROSSETI;
- > resolution of the issues relating the software import substitution.

The main initiatives on these objectives include the following software development and integration stages:

- > adoption of the intelligent power grid control systems on digital technologies (Pilot projects) in line with the 2030 Digital Transformation Concept;
- > continued adoption of the common corporate system based on the 1C: Holding Management basis for needs of IDGC of the South;
- > adoption of the common HR and payroll accounting system based on the basis of 1C: Payroll and HR Management. CORP of the Company;

- > development of the production asset management system modules based on the 1C: Holding Management basis;
- > adoption of software and hardware of the leasehold system in line with IFRS 16 Leases;
- > adoption of Piramida-Seti software for remote acquisition and transmission of electricity meters readings;

IDGC of the South has planned 2019 initiatives related to the automated process control system (APCS) and telecommunications also considering the 2030 Digital Transformation Concept and in line with the Innovative Development Programme of IDGC of the South:

- > connection of the remote RPG sites to the Company's corporate information systems via the Internet using encrypted transmission mechanisms;
- > installation of LAN, relocation of network hardware, personal computers, scanning and printing system in a new building of Ikryaninsky RPG and in the existing buildings of Narimanovsky and Trusovsky RPGs of Astrakhanenergo branch;
- > upgrade of the LAN in the production facilities of Volgogradenergo branch;
- > taking measures to increase LAN transfer capacity at Volgogradenergo.

"THE LIGHT COUNTRY" PORTAL

"THE LIGHT COUNTRY" PORTAL WAS STARTED ONTO THE TERRITORY OF RESPONSIBILITY OF IDGC OF THE SOUTH, PJSC WITHIN ROSTOV, ASTRAKHAN, VOLGOGRAD REGIONS AND REPUBLIC OF KALMYKIA, SINCE SEPTEMBER 25, 2018. NOWTHAT, ANY USER OF THE COMPANY SERVICES IS ENABLED TO PROVIDE INFORMATION REGARDING DIFFICULTIES ENCOUNTERED IN THE ONLINE MODE. THE MESSAGES ARE PROCESSED CENTRALLY WITHIN THE UNIFIED MODERATION SERVICE OF "ROSSETI", PJSC AND THEN IS ADDRESSED DIRECTLY TO THE SPECIALISTS. EIGHT WORKING DAYS ARE PROVIDED FOR THE REPLY FROM THE DATE OF PUBLICATION: WITHIN THIS TERM, EITHER THE PROBLEM WILL BE RESOLVED, OR THE COMPLAINANT WILL PROVIDE ITS ANSWER POINTING THE TIME NEEDED TO RESOLVE THE PROBLEM ABOVE. THE MAIN REQUESTS TOPICS SUBMITTED TO THE PORTAL ARE RELATED TO THE QUALITY OF ELECTRICITY, THE NEED FOR REPAIRING AND ELIMINATING DEFECTS OF THE ELECTRICAL EQUIPMENT.

MOST OF THE REQUESTS IN 2018 WERE IN ROSTOV REGION. EACH REQUEST IS CONSIDERED INDIVIDUALLY, THE NECESSARY ACTIVITIES WERE PERFORMED.

Procurement

Principle of procurement

- > Appropriate and efficient expenditure of monetary assets
- > Procurement transparency
- > Equality
- > Fairness
- > Absence of discrimination and unreasonable competition restrictions against the procurement participants
- > Respecting the corporate unity concerning the procurement rules
- > Control over the scope of powers and responsibility of the purchasing agents

The Company places the information on all planned and current procurement procedures at the official website of the Unified Information System (www.zakupki.gov.ru), the website of IDGC of the South www.mrsk-yuga.ru and the Company's digital trading platforms.

Procurements of IDGC of the South in 2018:

- > 788 procurement procedures;
- > RUB 15,414 mn

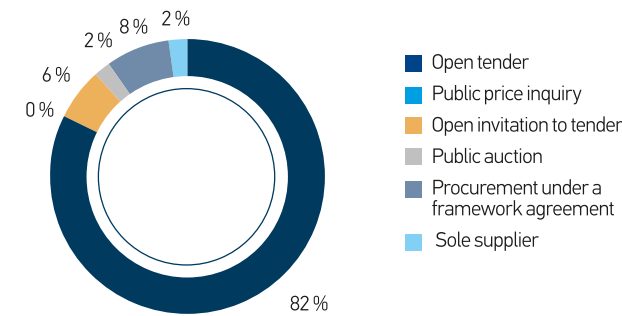
IDGC of the South focuses its efforts on the improvement of information transparency and access of participants to procurements, including mainly electronic procurement procedures. A share of competitive procurement via the digital trading platforms amounted to 100%. All suppliers and contractors are registered in the Russian Federation.

The economic effect on the outcome of the procurement procedures in the reporting period amounted to RUB 467 mn (incl. VAT) or 3.02% of the declared value of the competitive purchases.

PROCUREMENTS, PCS



PURCHASING STRUCTURE BY WAY OF CONDUCTING, %

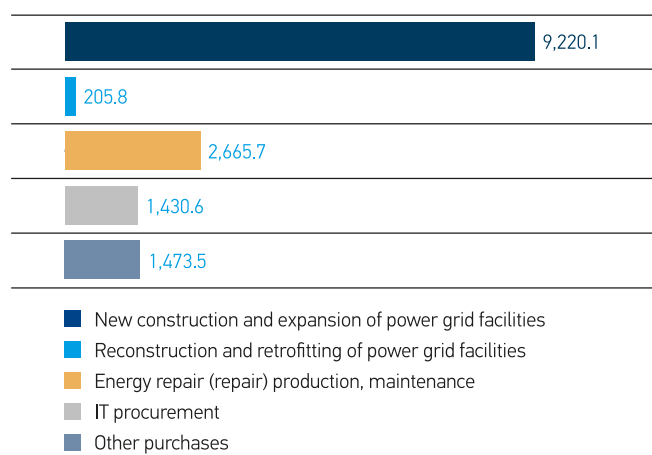


Measures to ease SMEs access to procurements of IDGC of the South:

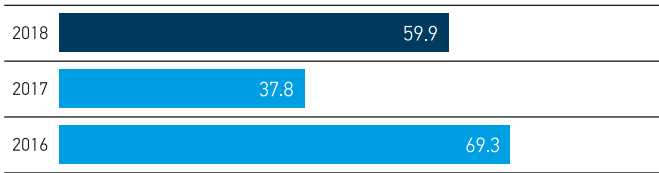
- > holding the Open Days events;
- > establishing the minimum document package to be submitted to the digital trading platforms in electronic form;
- > monitoring the payment due dates;
- > adopting the unified partnership programme for small and medium enterprises (since March 2018).

In 2018, the Company signed contracts with SMEs through tendering procedure for a total of RUB 2,379,818.69 thous. (incl. VAT), i.e. 86.57% of the total volume of the procurement procedures in value terms. The volume of only-SMEs purchases amounted to RUB 1,007,031.73 thous. (incl. VAT), i.e. 36.63% of the total volume of the procurement procedures in value terms (the data are prepared as stipulated by Decree No. 1352 of the Government of the Russian Federation dated December 11, 2014).

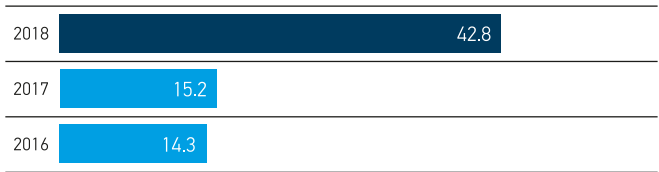
PURCHASING STRUCTURE BY ACTIVITIES, %



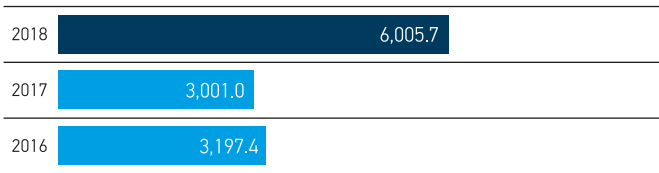
SHARE OF SME PROCUREMENTS, %



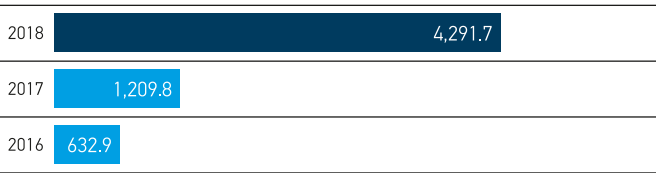
SHARE OF PROCUREMENTS FOR SMES ONLY, %



SHARE OF PROCUREMENTS FROM SMES, RUB MN



SHARE OF PROCUREMENTS FOR SMES ONLY, RUB MN



Improving Procurement Activities

IDGC of the South has in place the Operating Efficiency Improvement and Cost Reduction Programme for 2018-2022 to improve procurement efficiency. The Programme includes the measures on increasing the share of open competitive procurements and decreasing the share of single-source procurements.

In order to implement the Government Policy on SME Business Development, the Company approved the programme of the partnership between IDGC of the South and SMEs by Order No. 172 dated March 14, 2018. This Programme sets forth the measures aimed at searching and supporting reliable, qualified and responsible suppliers (contractors, executors) from among SMEs. The partnership programme specifies the requirements to SMEs, rules and conditions of joining the programme. By the end of 2018, 38 small enterprises joined the partnership programme.

Innovative Development

The Innovative Development Programme of IDGC of the South for 2016-2020 with an outlook until 2025 involves the priority trends of the Energy Saving and Energy Efficiency Innovative Development Policy of ROSSETI¹.

- The key areas of the innovative development of IDGC of the South under the programme are as follows:
- Transition to digital substations with high voltage rating of 35–110 kV;
 - Transition to digital smart grids with a distributed intellectual automation and control system;
 - Transition to integrated business processes and automation of control systems;
 - Introduction of new technology solutions and materials in power engineering.

In 2018, the Company prepared to transition to digital smart grids with a distributed intellectual automation and control system, to integrated efficiency of business processes and control systems automation, and to the introduction of new technology solutions and materials in power engineering.

The main comprehensive innovative projects included in the Mid-Term Plan of the ROSSETI's Innovative Development Programme for 2016–2020 with an outlook until 2025:

1. Delivering a project of digital smart grids in the distribution power grid complex of Volgogradenergo, a branch of IDGC of the South, through the integration of the Smart Grid system. The project provides for integrated automation of 10 kV overhead lines and main substations and for better observability of the distribution power grids in the Petrovvalsky RPG of PD Kamyshin Power Grids through the integration of the Smart Grids in order to reduce such targets as the System Average Interruption Frequency Index (SAIFI) and the System Average Interruption Duration Index (SAIDI).

The project will enhance the reliability indices of power supply to consumers (SAIFI, SAIDI) in 10 kV distribution power grids and reduce time and efforts required to locate places of failure and remove the consequences. Such result will be achieved through the possibility of continuous monitoring of the distribution power grids condition at all dispatch control levels, including the information system of task-specific monitoring, forecasting and support of the grids. This system designed within R&D initiatives is a prospective innovative trend for on-line managerial decision-making in an emergency in the area of the Company's operations.

During this innovative project, the Company fully completed construction, erection and commissioning works of the first and second start-up stages in line with the terms of Contract No.34001801004490 dated June 18, 2018 signed between KEU-Engineering LTD and Volgogradenergo.

Actual amount of funds spent for the project totalled RUB 35.01 mn vs the target of RUB 43.54 mn.

2. Delivering a project of digital smart grids in the distribution power grid complex of Volgogradenergo, a branch of IDGC of the South, by adopting the Smart Grid system, envisaging the integrated automation of 10 kV overhead lines and main substations and better observability of the distribution power grids in Chaltyrsky RPG, PD South-Western Power Grids of IDGC of the South branch – Rostovenergo.

The project requires the adoption of Smart Grid to reduce such targets as the System Average Interruption Frequency Index (SAIFI) and the System Average Interruption Duration Index (SAIDI).

While executing the project in 2018, the Company fully completed FEED, construction, erection, and commissioning stages, thus enhancing the reliability indices of power supply to consumers (SAIFI, SAIDI) in 10 kV distribution power grids and noticeably reducing time and efforts required to locate places of failure and remove the consequences. Now it is possible to monitor the distribution power grids condition at all dispatch control levels, including the information system of task-specific monitoring, forecasting and support of the grids. This system designed within R&D initiatives is a prospective innovative trend for on-line managerial decision-making in an emergency in the area of the Company's operations.

Actual amount of funds spent for the innovation project totalled RUB 24.57 mn vs the target of RUB 24.85 mn

3. Installation of icing monitoring system sensors manufactured by MIG LTD.

Industry experts highly appreciated the installed equipment following the results of the all-Russian Competition ENERGOPRORYV of innovative projects and designs in the smart electric power industry in 2014. The equipment was included in the ROSSETI Innovative Solutions Register under with the unique number No. 06-068-0059/1.

During the project, the Company fully completed FEED, construction, erection and commissioning works of the first start-up stage.

Actual amount of funds spent for the project totalled RUB 14.06 mn vs the target of RUB 16.36 mn.

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4. Use of heat-resistant PV-0-coated covers included in the ROSSETI Innovative Solutions Register in laying 110 kV cable lines in the distribution power grid complex of Rostovenergo, a branch of IDGC of the South.

In 2018, the Company laid 110 kV cable lines in the distribution power grid complex of Rostovenergo with the extensive use of heat-resistant covers included in the ROSSETI Innovative Solutions Register to physically protect the 110 kV lines from mechanical damages without thermal destruction. PV-0 coat of the covers allows keeping cables undamaged and immediate replacing phases in case of failure.

Actual amount of funds spent for the installation of heat-resistant covers amounted to RUB 105 mn.

TARGET AND ACTUAL EXPENSES BY INNOVATIVE DEVELOPMENT AREAS, RUB MN (EXCL. VAT)

Innovative development area	Target	Actual
Transition to digital substations operating at different voltages	0.00	0.00
Transition to digital smart grids with a distributed intellectual automation and control system	68.39	59.58
Transition to integrated business processes and automation of control systems	16.36	22.53
Introduction of new technology solutions and materials in power engineering	0.00	106.85
Development of the charging infrastructure for electric vehicles	6.22	6.53

Key research, development, and engineering areas (RD&E)¹

- Providing reliable (uninterrupted) and stable power supply to consumers, mitigating risks of faults in distribution power grids (ensuring reliable operation of power grids, including erection, adjustment, repair and maintenance of electrical equipment, hardware and power grid protection devices).
- Reduction of material expenses for repair and maintenance of overhead lines with minimum expenses for repair and maintenance of the system equipment.
- Transition to digital signal transmission at all control levels of substations.

5. Pilot introduction of the innovative project on Engineering solutions to combine standard distribution grid facilities and charging infrastructure for electric vehicles (medium/low voltage transformer).

In 2018, the Company completed all the construction, erection and commissioning works under this project. The initiative is 100% completed.

Actual amount of funds spent for the project totalled RUB 6.53 mn vs the target of RUB 6.22 mn.

Technical Policy and Regulatory and Engineering Provisions

In 2018, in line with the current ROSSETI's Regulations on the Unified Technical Policy in the Power Grid Complex approved by the Minutes No. 252 of ROSSETI's Board of Directors dated February 22, 2017, the following phases of activities on title projects were underway at IDGC of the South.

Major projects implemented in the reporting year

- Rostovenergo started the pilot operation of the instrument-analytical complex for X-ray examination of high-voltage circuit breakers.
- Specialists of Volgogradenergo launched the first and second start-up stages of the Smart Grid project. Petrovvalsky RPG proceeded with the installation of install vacuum reclosers at its power facilities (these reclosers are special-purpose automatic circuit breakers that are key components of the system).

1. The programme was approved by the decision of the Company's Board of Directors dated June 2, 2017 (Minute No. 234/2017 dated June 5, 2017); the programme is available on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-soveta-direktorov/>.

Integrated Management System

The following Integrated Management Systems of IDGC of the South have been adopted and are currently in place.

1. Quality Management System

The Quality Management System is an integral part of the Company's overall management system and is designed to ensure high service quality in line with the requirements of regulatory documents, meet consumers' needs and expectations, and satisfy all stakeholders, including the Company's employees, shareholders, investors, and partners.

2. Environmental Management System

The Environmental Management System is a part of IDGC of the South overall management system within its Environmental Policy. It includes organisational structure, planning of activities, allocation of responsibilities, practical work, as well as procedures, processes and resources for development, improvement of Environmental Policy measures and analysis of achieved results.

3. Energy Management System

EnMS is a tool of the Company's overall management system. It serves for continuous investigation to get information on power distribution and consumption level at the enterprise, and optimal power consumption both for production and non-production needs.

4. Labour Safety and Health Protection Management System

Labour Safety and Health Protection Management System is a part of the Company's overall management system, which allows to manage the risks and improve the Company's filed of labour safety and health protection indicators.

Company's Management Systems comply with the requirements of ISO 9001, ISO 50001, ISO 14001, OHSAS 18001 international standards.

AVAILABILITY OF CERTIFICATES

Certificate validity			Certification authority	
ISO 9001	ISO 50001	ISO 14001	OHSAS 18001	
29.12.2021	19.08.2021	29.12.2021	21.03.2021	JSC SGS Vostok Limited

Note:ISO 9001 – Quality Management System;ISO 14001 – Environmental Management System; ISO 50001 – Energy Management System;OHSAS 18001 – Labour Safety and Health Protection Management System.

Key operating results of Management Systems

- > Increased reliability and stability of electricity supply.
- > Enhanced safety of power supply.
- > Labour safety and health protection during production activities, including reduction of total number of accidents in keeping with Labour Safety and Environmental Protection legislative requirements.
- > Enhancing the energy efficiency.
- > Improving environmental safety.
- > Enhancing of quality level of grid connection services.

In general, by the end of 2018 Management System demonstrated positive operating results.

HR and Social Policy

The key objectives of IDGC of South's HR and social policy aligned with Electric Grid Development Strategy are as follows:

- > workforce requirements planning based on the reliable information on current and projected, quantitative and qualitative needs in the workforce necessary to perform the assigned tasks;
- > recruiting necessary skills when needed.
- > ensuring the performance efficacy of the personnel, the growth of labour productivity.

These key objectives of the HR and social policy are achieved through implementing a set of measures in the following areas:

- > in the field of organisational design;
- > in the field of personal number management;
- > in the field of staffing support and personnel development;
- > in the field of personnel performance management (personnel motivation);
- > in the field of social benefits and social protection;
- > in the field of occupational safety and work culture.

Headcount and personnel breakdown

In 2018, IDGC of the South's average headcount was 13,599 employees, up 0.1% year-on-year. This insignificant increase in the average headcount was caused by the recruiting of production personnel at the RPGs.

The average age of employees in 2018 remained at the level of 2017 and was 43. Staff turnover in 2018 stood at 4.2%. For the last three years, there is a decrease in the share of employees aged 50 years and older (-1.1 p.p.), while the share of employees aged between 25 and 50 years is increasing (+1.4 p.p.).

Employees of IDGC of the South are characterised by a fairly high level of qualification: 88% of employees have a professional education. This figure went up 5.9 p.p. over the last three years.

DYNAMICS OF THE COMPANY'S AVERAGE HEADCOUNT FROM 2016 TO 2018, PERSONS



INTRODUCTION OF PROFESSIONAL STANDARDS

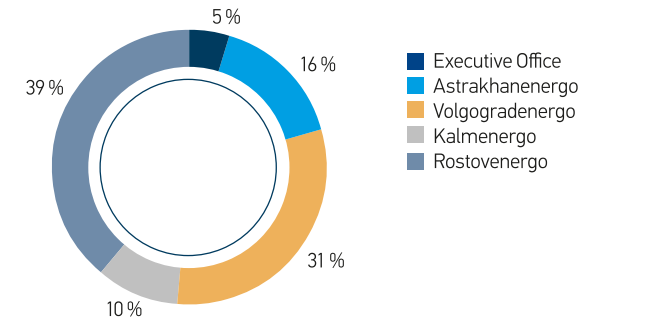
In order to introduce professional standards into the practice of working with the staff of IDGC of the South, PJSC, in the executive office and branches of the Company established respective working groups.

In compliance with the approved schedule of professional standards introduction into activities of ROSSETI Group companies (approved by ROSSETI Order No.588p dated December 30, 2016), the Company developed and approved the Regulations on inducting professional standards, with timely meeting its requirements.

As part of the activities under the Regulations, 39 professional standards were listed as of December 31, 2018. In 2018, the share of positions and occupations covered by the professional standards was 49% (6,922.6 staffing positions) of the Company's total staff perimeter.

As part of the efforts to ensure the compliance of IDGC of the South's employees with professional standards, Rostov-on-Don Training Centre Energetic held training on professional development programmes. Following the results of training, 1,313 employees received the certificates of Worker.

AVERAGE HEADCOUNT BY BRANCH IN 2018, %



The staffing level of IDGC of the South has been consistent for the last three years and maintained at a quite high level – not lower than 97%.

Personnel training and development

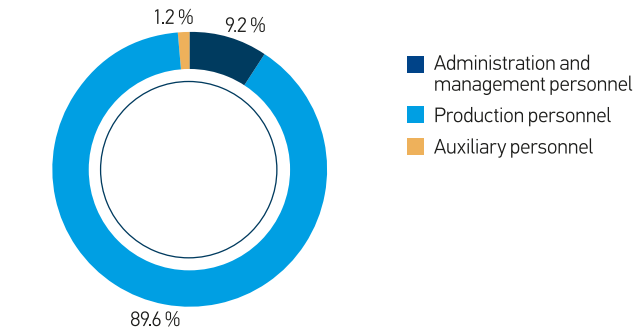
Training is one of the priorities of the Company's personnel and social policy and is governed by the Regulations on the Professional Training, Retraining and Advanced Training of IDGC of the South's employees.

The share of employees who took part in off-the-job training events in the reporting year against the average headcount is 51.4% (6,992 people), which corresponds to key target set out in the HR and Social Policy of IDGC of the South (30%) and is 17.7 p.p. year-on-year (33.7%, or 4,572 people).

Operating personnel accounts for the bulk of trainees (89.6%, or 6,268 employees). This figure stood at 85.3% (3,898 people) in 2017.

The breakdown of trainees in administration and management, production and auxiliary categories is given below:

BREAKDOWN OF OFF-THE-JOB TRAINEES BY CATEGORIES, %



In 2018, Astrakhan training centre was reorganised in a form of a merger with Rostov-on-Don Training Centre "Energetic". Eventually, the Astrakhan branch of Rostov-on-Don Training Centre "Energetic" was established. The key objectives of this project include the creation of uniform methodology and education base, training of the personnel in line of uniform educational standards agreed with IDGC of the South, and the development of adaptive training forms.

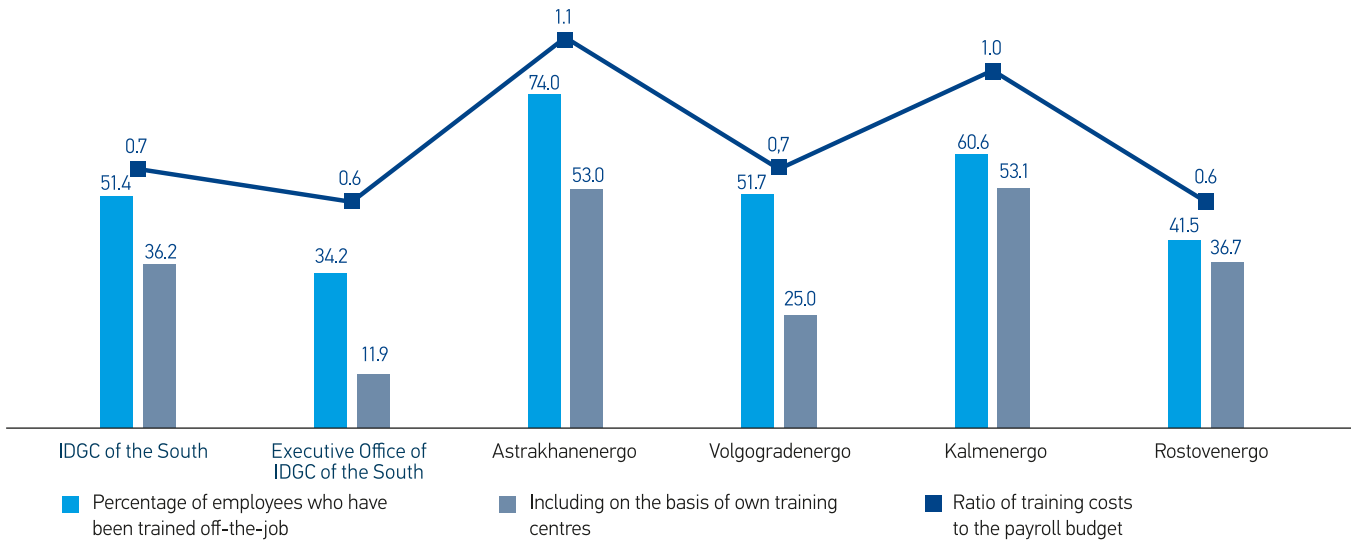
In 2018, 4,919 employees (70% of the total number of trainees) were trained, retrained and upskilled at corporate training centres, (up 13 p.p. year-on-year). In 2017, 2,595 employees (57% of total number of trainees) were trained at corporate training centres.

The majority of employees involved in training activities at corporate training centres – 95% (4,656 people) was made up of production personnel.

Expenditures on personnel training in 2018 amounted to RUB 49,793 thous., with RUB 30,799 thous. (61.9%) spent on training of personnel at corporate training centres. Expenditures on personnel training in 2017 amounted to RUB 41 297 thous., with RUB 21,347 thous. (51.7%) spent on training of personnel at corporate training centres.

In the reporting year, the ratio of actual expenditures for personnel training to the payroll budget was 0.7% compared to the same indicator of the previous year (0.7% in 2017). Expenditures on personnel training ensures its mandatory training in accordance with the requirements of professional standards and an increase in total number of trainees.

THE SHARE OF EMPLOYEES INVOLVED IN OF-THE-JOB TRAINING ACTIVITIES AND THE RATIO OF ACTUAL TRAINING COSTS TO PAYROLL BUDGET IN 2018, %



TALENT POOL OF THE COMPANY

In order to timely meet the needs of IDGC of the South in qualified personnel, create conditions to fully unlock employees' potentia, the Company is taking continuous efforts to build and expand the talent pools - management pool and youth pool.

The managerial talent pool is formed in order to ensure prompt and high-quality meeting the Company's needs in employees trained to work in managerial positions:

- > top managers;
- > middle managers (from the level of a department head);
- > managers and chief engineers of production departments and RPGs;
- > operational managers.

The Company pays special attention to the talent pool for positions of heads of engineering and technical departments.

The main criteria to include employees in the management talent pool are:

- > high professional qualification;
- > strong production performance;
- > experience in certain positions;
- > personal and business potential necessary for professional development and career growth.

In 2018, the management talent pool of the Company included 836 most promising employees. As of the end of the reporting period, the management talent pool was made up for 80.5%.

At the end of reporting year, youth talent pool of the Company included 51 employees. Youth talent pools are formed at the level of branches and at the Company from the number of young specialists under the age of 35, having a high potential for development, motivated for professional development and career growth in the Company. The youth talent pool is updated annually, as well as young specialists of the Company are additionally enlisted to replace the succession candidates assigned to higher positions and withdrawn from the talent pool.

Lists of management and youth talents pools are approved by the Personnel and Remuneration Committee of the Company's Board of Directors.

Employees of the Company's management and youth talent pools regularly are engaged in training programmes, Russian and regional conferences, where they get acquainted with the best practices of electric grid companies, study new technologies, and master more efficient techniques of operations.

In 2018, as part of the Company's personnel training, 381 succession candidates were trained in the various areas of operations in external educational organisations. During this period, 22 employees from among the management talent pool (3.1% of total headcount of the Company's management talent pools) were appointed to higher-ranking positions, and 22 employees rose to the target positions. 11 employees from young talent pool were appointed to higher-ranking position (21.6% of total headcount of the young talent pool). In 2018, there were 437 promotions to leadership positions across branches and at the executive office of the Company, 316 positions (72.3%) were filled from the internal pool, 108 of them (24.7%) - from the management and young talent pools.

THE COMPANY'S YOUTH POLICY

Within the framework of the youth policy, the Company constantly interacts with educational institutions. The most important focus areas in the reporting year are as follows:

Career guidance

As part of work with school children, the Company holds open days at its facilities, a profession-oriented Olympiad and energy classes for senior pupils and supports the #vmesteyarche and Ticket to Future (ProyeKToriya) Festivals.

With the aim of vocational orientation of schoolchildren, increasing the prestige of the energy industry professions and identifying talented young people, from 2018, ROSSETI holds at its subsidiaries and affiliates the All-Russian Schoolchildren Olympiad among 9th and 10th grade pupils in three subjects: physics, mathematics and computer science. The winners of the Olympiad gain the right to take part in Energy Project Session supported by ROSSETI.

In 2018, 262 pupils from IDGC of the South contested in this Olympiad. The winners were two participants, one of them took part in ROSSETI Energy Project Session held in Russian Children's Centre Orlyonok. Basing on results of training session, the participant from IDGC of the South represented the project of his group "Proactive analysis of the technical condition of transformers based on Big Data technologies". This project won the third place in semi-final of ENERGOPRORYV, all-Russian Competition of innovative projects and designs in electric power engineering.

In 2018, the Mobile Energy Class was created at the branch of DGC of South, Volgogradenergo. The purpose of this class is to enable senior pupils and employable youth in remote rural areas to gain in-depth knowledge and practical skills in the electric power industry. Thanks to the Mobile Energy Class, rural youth can undergo vocational training in a working specialty of electrical engineering (with a state-approved certificate) and find a job in an RPG at their place of residence. Once the training is over, the Mobile Energy Class is disassembled and transported to another remote area of electrical grids to train the next group of schoolchildren.

- > Organisation of production and pre-graduation practices of students of industry-specific schools at the Power Grid Complex facilities.

In 2018, 524 students passed production and pre-graduation practices in divisions of IDGC of South.

Organisation of specialists target training in specialty "electric-power engineering and electrical engineering" for the further employment in the Company.

In the reporting year, as part of targeted intake to higher education institutions from IDGC of the South, 78 target students received higher education, among them 21 people were enrolled in high school in 2018.

Student brigades at the Company's objects

In the reporting year, during the summer labour season, 110 students of core specialties worked at the facilities of IDGC of the South. On the basis of performance, the members of the best student brigade of the Company took part in the events dedicated to the closure of the ninth labour season of ROSSETI's student brigades within the All-Russian Gathering of Student Brigades (October 2018, Rostov-on-Don).

In 2018, together with Platov South-Russian State Polytechnic University, the basic department "Smart Grids" was established. It will provide training in the specialty 13.03.02 "Electric-power Engineering and Electrical Engineering" (bachelor and mater degree levels), training areas: "Relay Protection and Automation of Power Systems", "Electric Power Systems and Grids", and "Electric Stations".

The main objective of the basis department is to provide the Company with young professionals who are capable of servicing digital substations. The knowledge gained will enable them to become specialists in three areas at once: relay protection and automation, automated process control systems, and IT technologies.

Work with young specialists

In order to develop the potential of youth talent pools of IDGC of the South and in the course of solving actual scientific, engineering, managerial and other tasks encountered by the industry and the Company, young professionals in 2018 took part in forums and conferences of regional, industry and federal levels.

cooperation with the HR Department of IDGC of the South, the Councils of Young Specialists, the Coordination Council of Veterans under the Government of the Rostov Region, the Rostov Region Youth Policy Committee, the Centre for Patriotic Youth Education, Veterans' organisations of cities and regions, search parties, the command of the Southern Military District.

The Company oversees health status of veterans and their living conditions. The Company maintains the tradition of visiting veterans at home with congratulations and gifts dedicated to holidays and memorials. The Company assists to veterans in purchasing products and medicines. In 2018, financial assistance to veterans totaled RUB 3.2 mn. payments were timed to the Victory Day, the Power Engineer's Day. Financial assistance is also provided on applications of veterans being in difficult situation. In 2018, 101 veterans of the Company were able to get free vouchers to Znanie health resort (Adler), as well as to in Energetik recreation centre.

In order to increase the prestige of work in the Company, attract and retain highly qualified specialists, ensure the competitive position of the Company in the labour market, IDGC of the South has in place the Regulation on corporate support of branches' employees in improving housing conditions. The priority right to receive such support is given to employees of RPGs and production departments with key electrical engineering specialties, young professionals aged under and including 35 years. Receivers of compensation for the improvement of housing conditions were electricians, electrical fitters, foremen, dispatchers of the production departments of the Company's branches. The maximum amount of compensation was RUB 100 thous., the minimum amount was RUB 1.3 thous. In total, this benefit was used by 187 employees who received compensation in the total amount of RUB 9,913 thous.

Another important priority of IDGC of the South is stable social and labour relations of co-workers facilitated by effective cooperation with trade union organisations. Complying with the interests of the parties to social partnership, ensuring and maintaining social stability contributes to improving labour productivity and competitiveness of the Company. Pursuant to the collective agreement, the Company finances the costs of mass cultural, physical culture and recreational initiatives taken jointly with the primary trade union organisations. In 2018, over RUB 24.8 mn were allocated to these initiatives. (0.3% of payroll budget). All joint activities were aligned with action plans approved with the primary trade union organisations for 2018.

Due to expiration of the Company's Collective Agreement for 2015–2018, in October-December 2018, the Company held collective negotiations on parity basis attended by 15 representatives of the employer and 15 representatives of primary trade union organisations.

The result of the constructive work of the parties to the social partnership was the completed draft collective agreement of IDGC of the South for 2019-2021 meeting the requirements of both Russian legislation and the industry agreement, which covers the interests of all categories of workers, representatives of trade union organisations, and veterans of the Company.

According to the draft collective agreement, an expert opinion was obtained from "ERA of Russia" Association, which noted the highly developed social and labour relations in the Company, as well as the well-established relationship between the employer and trade unions.

On December 28, 2018, after previous approval of Collective Agreement for 2019–2021 by the Board Of Directors of the Company, it was signed by authorised representatives of the parties to the social partnership.

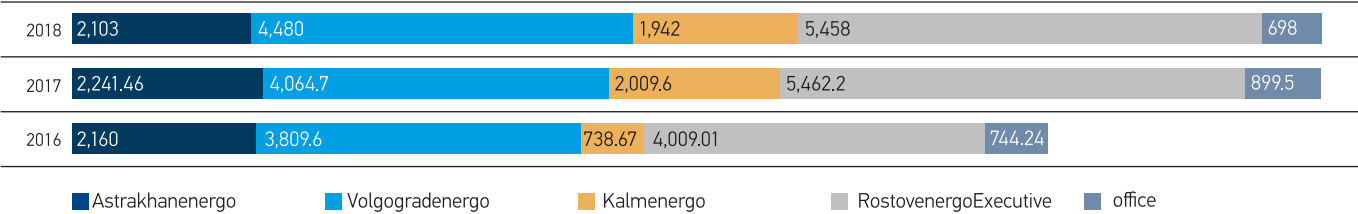
AWARDS POLICY

In order to stimulate the employees of IDGC of the South, who made a significant contribution to the development of the distribution grid complex of the South of Russia, and to encourage their achievements in the electric power industry, the Company annually grants various awards. Usually they are timed to the celebration of the professional holiday - the Power Engineers' Day, anniversaries of employees and branches. Employees are also awarded for individual achievements. In total, as of the end of 2018, 399 employees of IDGC of the South were presented with state, departmental, industry, and corporate awards, awards of territorial authorities and awards of the Company.

Motivational projects of the reporting year

- > Young specialists of IDGC of the South were trained under the programme "Management of Corporate Projects". The training was a continuation of the VII Interregional Forum of IDGC of the South's Youth Council "Social Activity of Youth Leaders".
- > The branch of IDGC of the South, Astrakhanenergo, became the winner of the regional stage of "The best Ecologically Responsible Branch" contest.
- > 30 employees of IDGC of the South were trained under the programme "School of Dispatchers" in the "Energetik" training centre in Rostov-on-Don.
- > IDGC of the South was awarded diplomas of the Ministry of Energy of the Russian Federation for a project to attract and retain young professionals, as well as for active social policy. The victory was gained through the Programme for attracting and retaining young personnel of IDGC of the South in rural areas. The project was recognised as the best in the following nominations: "Youth Policy", "Social Assistance to Employees and their Families".
- > IDGC of the South is one of the first in ROSSETI's group of companies to open an electric power qualification assessment centre. The starting professional exam for the pilot group was held in July 2018.
- > The honorary title "Honoured Power Engineer of the Russian Federation" was given for labour achievements to Sergey Kalmykov, a foreman of power line service at the branch of IDGC of the South, Rostovenergo, having 30 years work experience.
- > The first pilot group of applicants for the Qualification Assessment Centre (QAC) of IDGC of the South passed a professional exam. Employees of Rostovenergo passed independent assessment.
- > In H1 2018, 53 employees of key specialties of IDGC of the South's branches benefited from the corporate support of the Company in the form of compensation of the past year interest on loan (mortgage). This form of support is implemented as part of a programme to improve the living conditions of employees.
- > Since the beginning of the year, on the basis of the Energetik corporate training centre of IDGC of the South, over 140 employees of ROSSETI's group of companies have completed refresher courses on creating a unified distribution grid model.
- > In 2018, over 6.9 thous. employees of IDGC of the South were trained and raised their professional level - more than half of the Company's staff.

THE AMOUNT OF FUNDS ALLOCATED FOR MATERIAL ASSISTANCE TO EMPLOYEES, RUB THOUS.



THE AMOUNT OF FUNDS ALLOCATED FOR MATERIAL ASSISTANCE TO EMPLOYEES, RUB THOUS.

Branch	2016	2017	2018
Astrakhanenergo	2,160	2,241.46	2,103
Volgogradenergo	3,809.6	4,064.7	4,480
Kalmenergo	738.67	2,009.6	1,942
Rostovenergo	4,009.01	5,462.2	5,458
Executive office	744.24	899.5	698
Total for IDGC of the South	11,461.5	14,677.46	14,681

SOCIAL POLICY

The Social Policy of the Company in 2018 was based of the Sectoral Tariff Agreement (in the electric power industry for 2016–2018), the Collective Agreement of IDGC of the South for 2016–2018, internal regulations, rules, orders, and other local regulations, corporate and cultural events of ROSSETI and IDGC of the South.

The priority areas for IDGC of the South are stable social and labour relations of co-workers facilitated by effective cooperation with trade union organisations. Complying with the interests of the parties to social partnership, ensuring and maintaining social stability contributes to improving labour productivity and competitiveness of the Company.

In order to retain qualified personnel and ensure social protection of employees and their families, as outlined by the Collective Agreement of IDGC of the South for 2016-2018, the Company's employees were given various social benefits and guarantees.

IDGC of the South has in place the Regulation on the provision of vouchers to recreation houses and health camps for employees. Based on this Regulation, 762 employees and their families received health-improving rest at the Energetik recreation centre and 414 employees' children rested in health camps on the Black Sea coast of Krasnodar Territory. 2018 was marked with a year-on-year increase in the number of preferential vouchers provided for employees and their families (by 19%), as well as for children of employees (by 18%), which proves the improved social protection of employees and the strong performance of the HR and social policies of the Company. These add to employees' motivation to work towards the achievement of the Company's targets, creates the positive brand image of the Company as a social responsible organisation.

The Company pays special attention to veterans of electric power industry. By the end of 2018, 3,062 of electric power industry veterans and 117 veterans of the Great Patriotic War are registered at the Company. The Coordination Council of Veterans of the Company on a regular basis manages the activities of veteran organisations in close

Occupational Safety

On-the-job injury rate (comparative analysis of injury rates for 2017 and 2018)
In 2018, two accidents occurred at IDGC of the South: <ol style="list-style-type: none">on-the-job fatal accident with an employee of the Volgogradenergo branch;serious personal injury of an employee at the Rostovenergo branch.
No accidents happened in 2017.
Frequency (Fr) of the total injury rate (the number of injured persons per 1 thous. employees) across IDGC of the South in 2018 was 0.143 vs 0 in 2017.
The accidents occurred in the following circumstances: <ol style="list-style-type: none">On July 12, 2018, died Eduard Dekhant (born in 1991), an electric fitter for PTL repair at PD Left-Bank Power Grids of the Volgogradenergo branch. He approached a crane truck that transported reinforced-concrete add-ons under 110 kV overhead line with its wires being under voltage when the crane truck driver let the crane arm come close to the line wire and the crane truck body got under potential. Based on the accident investigation results, Internal Administrative Order No.513 was issued on July 27, 2018.On July 5, 2018, a dog attacked Armen Mkrtchan (born in 1960), the distribution grid supervisor at Dybovsky RPG of Rostovenergo branch, and inflicted multiple degloving facial wounds (serious injury). Following the accident results, Order No.410 dated August 2, 2018, was issued for PD Eastern Power Grids of the Rostovenergo branch.
Considering the causes of the accidents, the Company prepared and implemented measures to improve personnel safety.
Key improvements in working conditions
Focus areas of occupational safety enhancement at IDGC of the South: <ul style="list-style-type: none">a lower number of accidents and personnel injuries at workplaces;a lower number of occupational diseases;fewer workplaces with harmful and hazardous working conditions, as well as with high and medium levels of occupational risks;greater number of employees who passed a medical examination that proved employees are medically fit;fewer violations of occupational safety requirements by employees, contractors and other persons being at the Company's facilities;fewer violations of occupational safety requirements detected by officers of the state control and supervision agencies during inspections of the Labour Protection Management System (LPMS);implementation of measures developed based on results of the inspections of the Labour Protection Management System by the state control and supervision agencies;reduced number of accidents and injuries of contractors' employees and other persons being at the Company's facilities;

<ul style="list-style-type: none">holding meetings and consultations with the employees and their representatives regarding occupational safety issues, including the Labour Safety Committee (Commission) meetings;implementation of decisions adopted during previous performance reviews of the Labour Protection Management System;increase of benefits and compensations to the employees occupied at works in harmful and hazardous conditions;money payments for compensation of damages incurred by accidents and injuries, breached occupational safety requirements;increased funding for occupational safety measures.
To reduce the on-the-job injury risk in 2018, IDGC of the South fully executed the activities of the Programme for implementing video recording of crew permission to works under orders and instructions for 2017–2018.
Operational conversations in all the Company's branch units are mandatorily recorded using sound recorders in the Operative Dispatch Service, RPG Operative Dispatch Team. Availability of stable radio communication between the crews and the dispatcher is checked regularly, all the conversations are recorded with the sound recorder.
The employees' health and life are of top priority for the Company. Pursuant to the requirements of the Labour Code of the Russian Federation, in 2018, IDGC of the South took efforts to create safe working conditions at workplaces and prevent on-the-job injuries and third party injuries-at the Company's facilities, among them: <ul style="list-style-type: none">sticking to the Injury Risk Mitigation Programme by IDGC of the South and third parties' personnel at the power grid complex facilities from 2018 through to 2021 (approved by IDGC of the South Board of Directors, Minutes No.258/2018 dated February 2, 2018);development and approval for ultimate execution of additional on-the-job risk mitigation measures and requirements of ROSSETI organisational and regulatory documents;monitoring of working conditions, protective equipment condition, personnel provision with special clothing, safety shoes and amenities at all the Company's branches. Labour safety days were held, and commissions involving the employees of the Company Executive Office technical units (as per the schedule) worked on a monthly basis;execution of preliminary, regular, pre-trip and post-trip medical examinations;organisation of extended videoconferences chaired by Deputy General Director for Technical Issues – Chief Engineer of IDGC of the South and participated by the management of the PD, RPG, industrial safety units and heads of primary trade union organisations;operation of Labour Safety Committees in the Company Executive Office, branches and production units;investigation of causes and circumstances of accidents that occurred with the employees of ROSSETI's S&As. Issues related to accident causes and circumstances, as well as making the personnel aware of operational and informative messages on the accidents that occurred in 2018 are included in the agenda of a monthly Labour Safety Day.

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In accordance with the Regulations on Labour Safety Day, practical training and instructive admissions are organised on specially equipped training sites in all PD and RPG of the Company's branches to allow the personnel to work out the safe procedures and practices for electric facilities until they become automatic.
In accordance with this Programme, the Company has planned 106 events, from which 64 were taken in 2018, while 40 are conducted on an ongoing basis. All the activities scheduled for the reporting period were fulfilled within the established time limits.
In 2018, the Company executed the Programme for implementing video recording of crew permission to works on electric facilities under orders and instructions for 2017–2018.
The said Programme provides for a set of activities for: <ul style="list-style-type: none">pilot operation of several video recorders available on the market to select the optimal model for further wide use;drafting of required documentation;creation of a repository for video data from video recorders;procurement and distribution of video recording devices, setting of a test period of their usage and execution of awareness-building activities.
As of December 31, 2018, the Programme activities were fully accomplished.
IDGC of the South expenditures for occupational safety measures within the reporting period totalled RUB 226.431 mn, +18.5% or RUB 41,824 mn year-on-year. The major increase by RUB 23.506 mn was in employees' provision with personal protective equipment, including special clothing and safety shoes.
In 2018, specific occupational safety costs per an employee rose 19% year-on-year to RUB 13,400.
Specific costs for personal protective equipment per an employee in 2018 went up by 25% year-on-year to RUB 11,700.

In accordance with art. 226 of the Labour Code of the Russian Federation, activities for working conditions and occupational safety improvement at IDGC of the South's branches and across the entire Company are financed at a minimum rate of 0.2% of total costs of production (work execution, service rendering).
Production monitoring and activities for elimination (mitigation) of the employees' exposure to harmful factors at workplaces
In 2018, 1,391 crews worked in the Company's operations area, including 970 crews of IDGC of the South (589 – at overhead lines, 381 – at substations) and third-party crews (312 – at overhead lines, 154 – at substations). The inspections are organised so that one month is enough to cover 100% of crews working on all power grid sections, all substation groups, PTL services and other units working at electric facilities.
IDGC of the South personnel is fully furnished with protective equipment, tools, and necessary appliances. The expenditures for those purposes in 2018 totalled RUB 40,635.32 thous. vs target of RUB 40,245.686 thous. The employees are also completely furnished with special clothing and safety shoes. The total costs in 2018 amounted RUB 159,587.414 thous. vs target of RUB 158,874.145 thous.
By the year-end, a special working condition assessment was conducted at 13,602 workplaces, i.e. 100% of the total number.
The employees doing the job at workplaces that do not comply with state occupational safety regulations receive compensation for the operation in harmful working conditions, obtain additional leaves, milk and other equivalent products (or monetary compensation).
The Company does not have workplaces that did not undergo the special working condition assessment (art. 27 of Federal Law No. 426, Letter No.AB-5599/13 of the Russian Ministry of Energy dated June 9, 2018). The production monitoring of harmful and hazardous factors affecting the employees is conducted on a regular basis.

Environmental Policy

Implementation of key environmental protection objectives of the Company in 2018 with an indication of relevant costs and activities

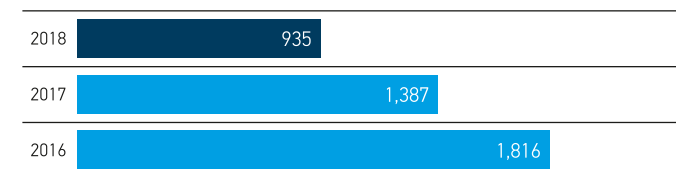
In 2018, main environmental protection objectives of IDGC of the South were fulfilled under the Environmental Policy of the Power Grid Complex and in accordance with the Company's Action Plan for Environmental Policy Implementation for 2017–2019. Pursuant to Federal Law On Protection of Environment, all production sites of IDGC of the South having a negative environmental impact are on the records of government agencies. All in all, 130 of such facilities are recorded in the Company, among them 113 of category III and 17 of category IV.

In 2018, IDGC of the South had 17 current subsoil licenses for underground water extraction: five licenses at the Volgogradenergo branch and 12 at the Rostovenergo branch. For the purpose of water resource conservation as part of license agreements, the underground water quality was assessed in 2018, including underground water level and temperature monitoring, water consumption metering, taking samples for bacteriological and chemical tests, determination of water physical properties.

For the purpose of land conservation, the Company provided the regular monitoring of utility and production wastes sorting (scrap tires, used transformers, batteries, spent mercury-containing lamps, waste oils, scrap metal, etc.) and their timely delivery to specialised organisations for neutralisation, recycling and disposal. The Company engaged accredited laboratories as per the schedules to monitor the atmospheric contaminant emissions in 2018. The test results did not show any above-limit values.

During 2018, design and authorisation documents related to atmospheric air protection and waste management were made available at all production sites of IDGC of the South. The Company avoids punitive penalties and above-limit payments for negative environmental impact through its timely rating, obtaining the authorisation documents and regular industrial environmental monitoring.

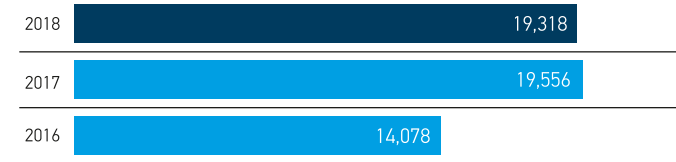
PAYMENTS FOR THE NEGATIVE ENVIRONMENTAL IMPACT OF IDGC OF THE SOUTH'S ACTIVITIES, RUB THOUS.



To improve the personnel professional skills, in 2018, IDGC of the South organised training of 62 employees under the advanced training programmes for managers and specialists in environmental protection and ecological safety, 147 employees got permits for hazardous waste management.

In the same year, the Company spent a total of RUB 19,318 thous. for environmental protection activities.

TOTAL COSTS FOR ENVIRONMENTAL PROTECTION ACTIVITIES, RUB THOUS.



Critical environmental protection activities of IDGC of the South in 2018

Pursuant to the provisions of the Stockholm Convention on Persistent Organic Pollutants, 1,056 static capacitors with trichlorodiphenyl (46.5 tonnes) were delivered for neutralisation from IDGC of the South production facilities in 2018, including 189 pcs from Astrakhanenergo, 91 pcs from Volgogradenergo, 284 pcs from Kalmenergo, and 492 pcs from Rostovenergo.

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At the beginning of the year, 3,540 items (175.676 tonnes) of extremely hazardous equipment were available at IDGC of the South facilities. IDGC of the South will stop using static capacitors with trichlorodiphenyl by 2025 in accordance with the Company's Schedule of PCB CONTAINING Equipment Decommissioning and Delivery for Destruction for 2018–2024.

Apart from that, in 2018, the Volgogradenergo branch installed 1,200 bird diverters on overhead line poles in the area of UNESCO biosphere reserve at the Volga-Akhtuba floodplain for the preservation of rear, globally endangered bird species. As part of the Repair and Investment Programmes, the Company's overhead lines were equipped with insulated bird-safe wire (a total of 397 km).

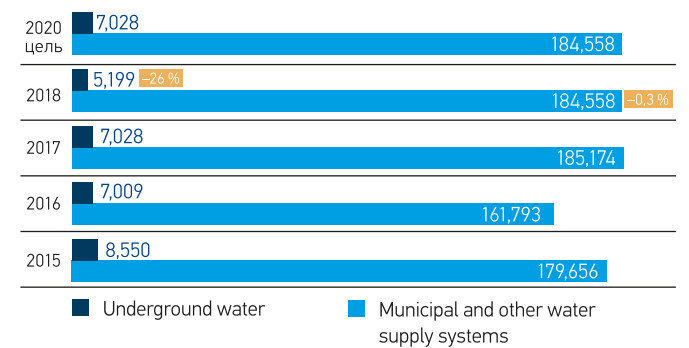
- Company's key environmental protection objectives for 2019
- Provision and monitoring of a safe level of pollutant atmospheric emissions from stationary and movable sources.
 - Personnel upskilling in environmental protection.
 - Installation of pedestal-mounted bird diverters in birds habitation and migration areas.
 - Prevention of excessive waste accumulation on production sites, timely removal of wastes from production sites.
 - Compliance with subsoil license agreements.
 - Implementation of the Company's Schedule of PCB Containing Equipment Decommissioning and Delivery for Destruction for 2018–2024.

Stakeholder Relations

In September 2018, representatives of the Company Executive Office took part in a meeting concerning the improvement of ROSSETI's Environmental Management System. The participants discussed the execution of the power grid complex Environmental Policy, results of 2017 and H1 2018, major environmental challenges of ROSSETI, as well as evaluated the efficiency and effectiveness of the Environmental Management System implementation at IDGC of the South. They also highlighted a decline in payments for negative environmental impact from 2010 through 2017, timely activities for the Company's personnel advanced training and ecological literacy enhancement, lower rates of violations (observations, incompliances) detected during internal environmental management audits.

In November 2018, JSC SGS Vostok Limited held a recertification audit in the Executive Office and Volgogradenergo branch for compliance with ISO 14001:2015 standard. The audit team concluded that the Company implemented and maintained the Environmental Management System corresponding to the standard provisions, and proved the ability to achieve compliance with ISO 14001:2015 systematically and successfully.

BREAKDOWN OF THE TOTAL VOLUME OF WATER TAKEN BY SOURCES, L



WATER CONSUMPTION, WASTE MANAGEMENT AND ENVIRONMENT PROTECTION COSTS

Indicator	2015	2016	2017	2018	Change, %	Target in 2020	Comments and indicator factor analysis
Breakdown of the total volume of water taken by sources, l							
Surface water	–	–	–	–	–	–	
Underground water	8,550	7,009	7,028	5,199	–26	7,028	Water extraction from underground sources is carried out as per the license agreements. The year-on-year reduction in water extraction volume in 2018 was driven by lower water demand.
Waste waters from another organisation	–	–	–	–	–	–	
Municipal and other water supply systems	179,656	161,793	185,174	184,558	–0.30	184,558	Waste water delivery to Vodokanal Municipal Unitary Enterprise. Growth in water extraction is not expected in 2020 as the production scope expansion is not planned.
Waste water discharge, l							
Planned	126,810	131,526	159,005	163,316	2.70	163,316	The increase of discharges was attributed to extensive facility reconstructions for FIFA World Cup 2018, as well as to production needs. Further growth in discharge volumes is not expected in 2020 as the production scope expansion is not planned.
Unplanned	0	0	0	0	0	0	
Breakdown of total wastes by type and management method, tonnes							
Class I	6.70	1.11	7.31	17.43	–	17.43	The increase of generated wastes was attributed to extensive facility reconstructions for FIFA World Cup 2018, as well as to production needs. Growth in waste generation is not expected in 2020 as the production scope expansion is not planned.
Class II	13.20	7.23	7.45	3.49	–	3.49	
Class III	18.56	52.18	39.92	61.66	–	61.66	
Class IV	2,844.01	3,496.63	2,811.48	2,916.51	–	2,916.51	
Class V	1,963.13	2,122.84	1,877.77	1,811.00	–	1,811.00	
Total	4,845.59	5,679.99	4,743.92	4,810.08	1.39	4,810.08	
Used methods of solid waste recycling, ground disposal and processing							
Re-use							Class V wastes for economic needs (scrap reinforced concrete items and sawdust)
Disposal on a dump site							Wastes of Class I–V generated during the facility operation are delivered to specialised organisations for recycling, neutralisation, disposal at facilities enlisted in the State Register of Waste Disposal Sites.

Indicator	2015	2016	2017	2018	Change, %	Target in 2020	Comments and indicator factor analysis
Total costs and investments to environment protection, RUB thous.							
Upgrading of production assets	–	–	–	–	–	–	Total environmental protection costs of IDGC of the South increased in 2016 due to a necessity to develop design documentation for waste management. Significant changes were not reported within the period from 2017 to 2018 (a 1.2% decrease)
Waste management	4326.60	5,516.47	10,111.79	10,967.64	–	–	
Discharge treatment	1,966.40	4,695.50	4,305.50	4,302.00	–	–	
Environmental remedial actions	–	–	–	–	–	–	
Total	9,648.69	14,078.09	19,556.37	19,318.00	–1.20	19,318.00	
Expenses for environmental impact prevention and Environmental Management System, RUB thous.							
Personnel for employees training	614.50	182.50	784.00	2,341.00	198	1,008.00	Higher advanced training expenses were attributed to a necessity of the personnel training due to changes in environmental legislation. To execute the Plan of the Personnel Training, Re-training and Advanced Training in 2018, the Company organised training of 62 employees under the advanced training programmes for managers and specialists in environmental protection and ecological safety of power grid facilities, as well as training for 147 employees authorised for collection, transportation, processing, recycling, neutralisation, disposal of Class I-IV wastes.
External services for Environmental Management System	0	0	0	2,341.00			

Prevention of Emergency Situations

STATISTICS OF THE FAILURE RATE AT THE COMPANY’S POWER GRID COMPLEX

Activities for power grid repair and maintenance, improvement of energy facility reliability, target programmes for equipment upgrading and replacement allowed a stable failure rate decline by all indicators and at all IDGC of the South’s branches.

In 2018, the number of failures in the grids of 6 kV and above reduced by 4.6% year-on-year from 7,568 to 7,222 incidents.

The specific failure rate went down by 5.1% year-on-year, from 6.72 to 6.38 faults per 1 thous. nominal units.

The average duration of power outages in the grids of 6 kV and above decreased by 14% year-on-year from 2.25 to 1.93 hour.

The number of failures in the grids of 110 kV and above declined from 887 to 834 accidents, down 6% year-on-year.

CHANGE IN THE FAILURE RATE IN THE GRID OF 110 KV AND ABOVE AT THE COMPANY’S FACILITIES IN 2016–2018

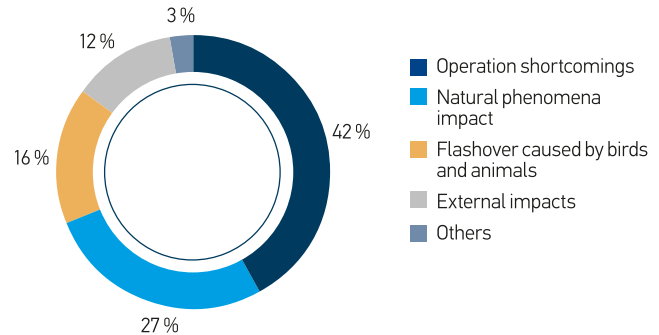


Change in the failure rate at 110 kV and above grid facilities

The main causes of failures, both in 2017 and 2018, were as follows:

- > operation shortcomings – mainly, heavy wear-out of the equipment and its elements (overage service life). This factor accounted for 42% of all the faults occurred in 2018;
- > natural phenomena impact – wind loads, atmospheric surges, etc. (27%);
- > flashover caused by birds and animals (16%);
- > external impact on energy facilities (12%).

BREAKDOWN OF CAUSES, %



In 2018, three Company's branches entered a new long-term tariff regulation period with a transition to indicative reliability indices (SAIDI, SAIFI): Astrakhanenergo, Kalmenergo, and Rostovenergo. The target index values are approved by orders of relevant regional tariff-setting services for 2018–2022. By the end of 2018, these indices were achieved in all three branches.

A new tariff regulation period at the Volgogradenergo branch will start in 2019. The branch accomplished its annual reliability target by the year-end, the target value of System Average Interruption Duration Index (SAIDI) established by the regional tariff-setting service was achieved.

Activities performed to prepare the power grid complex for operation in special periods

During preparation for operation in thunderstorm, flood, fire, autumn and winter periods in 2018, IDGC of the South undertook a set of activities aimed at provision of reliable operation of the Company's power grid facilities.

Considering preparation for operation in the thunderstorm period:

- > all substations, fuel and lubricants warehouses, mineral oil facilities and antenna mast structures underwent engineering inspections (the specialists focused on compliance with lightning protection requirements of the regulatory documents, condition of free standing and portal lightning arrestors and their design grounding, condition of SS electrical equipment grounding devices, cleanliness of oil-level gauges, insulation condition, availability of dry vegetation);
- > valve-type lightning arresters and surge arrestors disconnected for the autumn and winter period (if any) were connected; before the connection, the arrestors underwent testing and visual inspection (examination of support insulation flanges, porcelain lining, stubs, trip recorders);
- > surge arresstor conduction currents were measured without disconnection from the grid (if technically feasible) or a thermal-imaging inspection of the equipment was carried out; in addition, the results of conduction current measurements were analysed and compared with the previous measurement data;
- > readings from trip recorders of valve-type lightning arresters and surge arrestors were compared with the last records of the operating log book or trip log book, the records were updated, if required;
- > availability of emergency event recorders, recording devices, oscillographs and other units for PTL fault localisation installed on substations was provided;
- > grounding circuits of lightning protection cables disconnected for the autumn and winter period were restored on overhead lines with an ice melting circuit, the condition of spark gaps on lightning protection cable insulator strings was checked (and adjusted if required);
- > engineering inspections were conducted at random overhead line sections with a focus on the grounding of lightning protection cables in design points, condition of lightning protection cable contacts with the pole body, condition of grounding devices of poles and guy wires, condition of insulation;

SKILLS IMPROVEMENT

THE PROGRAMMES REGARDING IMPROVEMENT OF QUALIFICATION OF EMPLOYEES OF IDGC OF SOUTH INCLUDE THEIR TRAINING IN KEY INDUSTRY OCCUPATIONS IN THE FIELD OF OPERATIONAL-DISPATCH MANAGING, RELAY PROTECTING, MONITORING AND ANALYSING THE LOSSES WITHIN POWER GRIDS AND MANDATORY COURSES, INCLUDING HEALTH & SAFETY ACTIVITIES. THUS, IN 2018, THE CERTIFICATES OF A GRID SPECIALIST WERE RECEIVED BY MORE THAN 1.4 THOUSAND OF THE COMPANY EMPLOYEES, MORE THAN 1 THOUSAND BECOME EXPERTS ON SAFETY WORKS AND ACTIVITIES AT HEIGHT.

FROM THE QUANTITY OF TRAINED PERSONNEL IN 2018, MORE THAN 60% (4.9 THOUSAND PERSONS) IMPROVED THEIR SKILLS IN THE INTER-REGIONAL CORPORATE EDUCATIONAL CENTRE OF IDGC OF SOUTH "ENERGETIK". IT IS A MODERN EDUCATIONAL UNIT, WHICH PROVIDES ITS TRAINING IN MORE THAN 120 SPECIALTIES AND DIRECTIONS. THE CLASSES SPECIALLY DESIGNED REGARDING EDUCATIONAL PROGRAMMES, WERE ORGANISED FOR THE STAFF PARTICIPATED IN THE NATIONAL TRAININGS OF GRID EXPERTS IN DAGESTAN AND IN THE CORPORATE CUP OF PROFESSIONAL EXCELLENCE UNDER THE WORLDSKILLS METHODOLOGY.

- > sufficiency of the emergency reserve of lightning and surge arresters, most frequently damaged overhead line elements was checked considering both quantity and range of items;
- > based on the inspection and check results, the branches developed and approved action lists to eliminate the detected violations before the thunderstorm period; the activities were fulfilled within the assigned time limits;
- > installation of surge protection devices to overhead lines operating under reduced voltage relative to the insulation class and overhead lines with insulation reinforced due to the atmospheric contamination condition was checked for compliance with the requirements of subpar 4.2.145 of the Electrical Installations Code;
- > readiness of main and backup communication channels for operation in the thunderstorm period was checked.

The number of thunderstorm hours across IDGC of the South branches averaged 38 hours and the maximum thunderstorm activity in separate areas achieved 55 hours. In general, the thunderstorm period lasted from April 20 to October 5. The average number of thunderstorm hours reduced by 2% year-on-year.

Within the relevant period of 2018, there were 156 lightning outages of 110 kV overhead lines, 124 of them with successful automatic reclosure (79%).

For 110 kV overhead lines, the specific number of lightning outages per 100 km and per one year of operation was 1.42, which does not exceed the permissible range specified by RD 153-34.3-35.125-99 Guidelines for Protection of 6–1150 kV Power Grids from Lightning and Internal Overvoltage (0.33–2.3).

The activities performed in accordance with Order No.57 of ROSSETI dated February 16, 2018 proved to be efficient. Similar measures are scheduled for the preparation for the thunderstorm period in 2019.

Preparations for operation in the fire-hazardous period:

- > fire separation distances were made around 35–110 kV substations in areas with a higher risk of damage due to natural fires (a total of 883 SS);
- > the areas around the equipment were cleared from trees, shrubs and garbage of fire-safety purposes;
- > lists of overhead line fire-hazardous sections were updated and approved, activities for fire protection of wooden posts in areas of the overhead line fire-hazardous sections were taken;
- > gravel was replaced (cleaned) within the side curbs of substation oil receptacles, oil drains serviceability and condition of emergency tanks for oil reception from SS transformers and oil-filled equipment were checked;
- > function test of indoor and outdoor fire-fighting mains was executed with regards to pressure and water consumption rate, relevant reports were issued;
- > fire-fighting trainings were organised together with fire brigades of EMERCOM of Russia;
- > dry grass and combustible materials were removed from facility areas, buffer zones of 35–110 kV substations, transformer substations and 6–10/0.4 kV distributing points;
- > buildings, structures, premises, areas of energy facilities and motor vehicles were fully provided with primary fire-fighting equipment;

- > condition of emergency exits and evacuation routes was checked;
- > unscheduled briefings were held for the personnel (6,518 employees) on firework procedures, actions in case of fire, evacuation from buildings, rules of primary fire-fighting equipment use.

The said activities help prevent fires at the Company's energy facilities during the fire-hazardous period of 2018.

Preparations for operation in the flood period:

- To ensure reliable operation of the Company's power grid facilities during the spring-flood period in 2018, IDGC of the South issued Order No.943 dated December 27, 2017, On Preparation for the Flood Period that:
- > approved the members of the Central Flood Commission of IDGC of the South;
 - > provided for issuing of relevant orders in the Company's branches and establishment of Flood Commissions;
 - > approved the Mandatory Action Plan to provide reliable operation of power grid facilities in the flood period;
 - > ensured development of supplementary action plans;
 - > specified the list of power grid facilities, buildings and structures located in high-risk areas during the flood period of 2018;
 - > arranged the cooperation and data exchange with regional divisions of EMERCOM and the Russian Meteorological Service during the flood period.
 - > The Mandatory Action Plan approved by the above-mentioned order includes:
 - > 23 activities to be executed during preparation for the flood period;
 - > five activities to be conducted during the flood period;
 - > one activity to be carried out after the flood period.

All the activities were fully executed as per the approved Plan.

The Company's branch commissions checked the implementation of the Action Plans to provide reliable operation of power grid facilities in the flood period and issued conclusions on their readiness for the flood period in 2018. Relevant readiness certificates were signed.

The Company's branches organised regular monitoring of the groundwater level for minimising the risk of accidents at power grid facilities of IDGC of the South during the flood period.

In the flood period in 2018, IDGC of the South branches did not record any exceedance of long-time annual average water levels in their operations area.

The Company's branches did not impose high alert or special working regimes in their operation areas due to the spring flood.

Flood-induced emergency outages of power grid equipment, including consumers' de-energising, were not recorded.

Flooding of equipment, SS buildings and facilities, overhead line sections was not detected in the reporting period.

Preparations for operation in the autumn and winter period:

- > reconstructed objects significant in the autumn and winter period were put into operation (retrofitting of 110/6 kV T-13 SS and 110/35/6 kV T-25 SS of Rostovenergo; reconstruction of 110/10 kV Kamyzyak SS, 110/35/10 kV Zenzeli SS, 110/10 kV Yenotaevka SS and 110/35/6 kV Lesnaya-Novaya SS of Astrakhanenergo);
- > the Repair Programme was fully executed;
- > the demand for backup power supply sources was met (271 items with a total capacity of 4.4 MW are available, which allows providing consumers with power during emergency recovery works);
- > the emergency equipment and materials reserve required for emergency recovery works is fully completed;
- > scheduled technical inspections of equipment, buildings and structures were carried out. All facilities were allowed for further operation;

- > emergency response drills regarding employees' actions in complicated conditions of the autumn and winter period were held for the operational personnel (54 emergency response drills to introduce schedules for temporary outage in consumption; 12 joint drills with the EMERCOM – 100% of the annual plan);
- > technical availability of the overhead line ice melting circuits was provided. In accordance with the schedules approved and agreed with branches of SO UPS, JSC – Regional Dispatch Offices (RDO), 46 test ice-melting operations were carried out on 110 kV overhead lines.

The Company fulfilled both main and additional readiness conditions specified in the Regulations on Inspection of Power Industry Entities Readiness for Operation in the Autumn and Winter Period.

On November 14, 2018, IDGC of the South was granted a Certificate of readiness for operation in autumn and winter period of 2018/2019 based on the resolution of the Russian Ministry of Energy (Order No.1031 dated November 14, 2018).

CUSTOMER-ORIENTED POLICY

To improve the consumer service quality, business processes of in-person and remote interaction with the customers, customer service quality assessment, IDGC of the South has approved the Company's Consumer Service Quality Standards.

In 2018, the structure of in-person servicing departments at the Company's branches included 12 Consumer Service Centres and 102 Consumer Relation Centres.

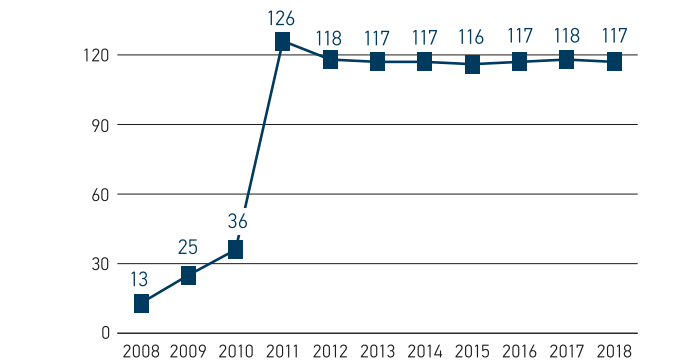
The existing infrastructure of in-person servicing fully ensures regional accessibility of the Company's services. For the development of the in-person servicing infrastructure in 2018, IDGC of the South implemented the following activities:

- > cooperation with multifunctional centres providing state and municipal services for receiving grid connection applications;
- > meetings with representatives of small and medium-sized enterprises regarding grid connection;
- > cooperation with electricity sales companies in the Company's operations areas to create conditions for a simplified grid connection of applicants;
- > opening of a new Consumer Service Centre in Astrakhan.

Guiding Principles of Consumer Servicing:

- > awareness of the consumers about the Company and its services;
- > local accessibility and convenience of in-person service;
- > availability and efficiency of remote and interactive services of the Company;
- > transparency of consumer service business processes and fair complaint investigation.

OPENING OF CONSUMER SERVICE CENTRES OF IDGC OF THE SOUTH



Remote service via telephone

IDGC of the South free hotline with number 8 (800) 100-70-60 continued its operation in 2018. It was hosted at the Rostovenergo branch.

The operators receive and record incoming calls, consult the consumers on issues concerning power supply interruptions, grid connection, additional services and other matters of the Company operation meeting the requirements of the Consumer Service Quality Standards.

IDGC of the South's branches use telephone numbers installed in Consumer Service Centres and Consumer Relation Centres for the reception of requests. The list of contact persons and telephone numbers is available on the website at <http://mrsk-yuga.ru>.

Remote interactive service via the Internet

IDGC of the South takes efforts to make its services accessible for all consumers and save their time. That is why, the Company expands the range of tools providing feedback and interaction with the customers, intensively develops interactive services on the Internet.

Interactive services of IDGC of the South are available on the Company's official website and websites of its branches. These services offers the consumer a possibility to:

- > submit an application for service (grid connection, fiscal metering);
- > send a request;
- > schedule a personal appointment;
- > evaluate service quality;
- > obtain reference data.

The consumer interactive servicing is offered at the following internet sites:

- > To Consumers section on the page of each branch on the Company's corporate website at <http://mrsk-yuga.ru> ;
- > User Account for submitting applications for grid connection of up to 150 kW capacity at lk.mrsk-yuga.ru/;
- > consumers' forum on the Company's official website at <http://dp.mrsk-yuga.ru/forum/> ;
- > booking for the Consumer Day at <http://dp.mrsk-yuga.ru/> ;
- > Light Country feedback portal at https://светлаястрана.рф/platform/portal/cons_main.

In September 2018, Light Country portal (ROSSETI project) was launched. It was designed to create an efficient online feedback mechanism for consumers at all ROSSETI subsidiaries, including IDGC of the South's branches.

Using the Light Country portal, the consumers can send messages concerning such problems as:

- > electricity outage;
- > voltage fluctuation / low voltage;
- > electric equipment defects.

The response time is eight working days from the moment of publication. During that time, the problem shall be eliminated, or a certain deadline for its solving shall be specified.

By the end of 2018, IDGC of the South received above 200 thous. requests from consumers, among them 76.5 thous. applications for service rendering and 33 thous. hotline calls. The operators provided 50 thous. consultations.

IDGC of the South objectives for customer management improvement for 2019:

- > development and expansion of the Company's share on the electrotechnical service market;
- > improved quality and efficiency of consumer notification by telephone;
- > development of interactive services on IDGC of the South website;
- > upskilling of the employees interacting with the customers.

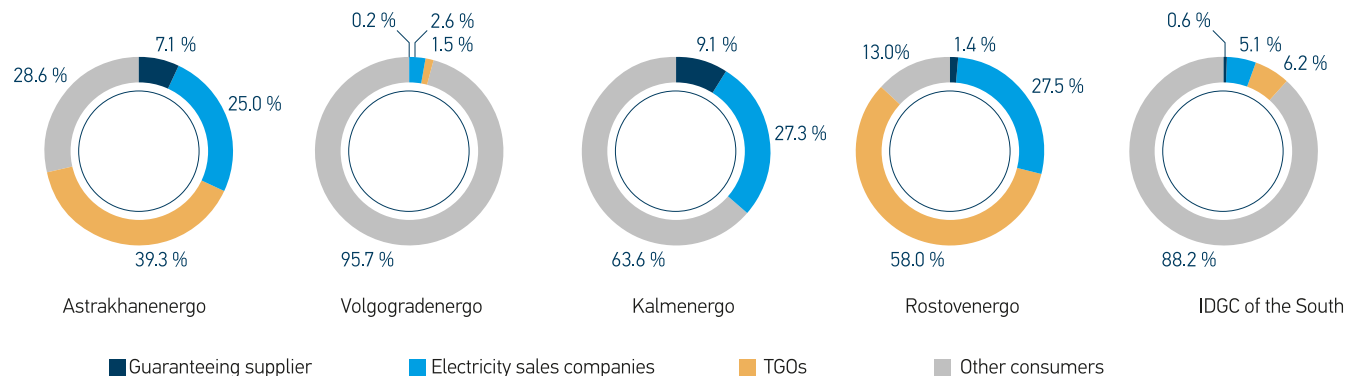
Requirements of the Unified Consumer Service Quality Standards approved by Order No.186 of the Russian Ministry of Energy, including the requirements for service offices and mandatory information disclosure on the official website, are fulfilled timely and in full.

Assessment of customer satisfaction with the service and servicing quality

Consumers' polling is organised regularly to survey their opinion on the Company's service quality. For that purpose, 1,424 responders were interviewed in 2018.

The statistic data obtained through polling prove that, in general, the consumers give a positive assessment of the customer service and are satisfied with the quality of services rendered in IDGC of the South's branches.

STRUCTURE OF POWER TRANSMISSION CONTRACTS CONCLUDED BY IDGC OF THE SOUTH AS OF DECEMBER 31, 2018, %



IDGC OF THE SOUTH SURVEY OF CUSTOMER SATISFACTION

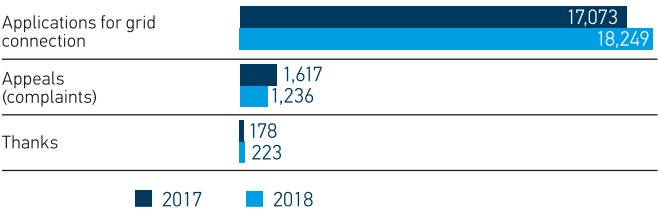
Branch of IDGC of the South	Method	Survey object	Execution period	Number of respondents	Survey purpose
Astrakhanenergo	Written questionnaire	Branch consumers	2018	514	Quality assessment of the services rendered and servicing itself
	Phone interview	Branch consumers	2018	60	
Volgogradenergo	Phone interview	Branch consumers	2018	443	Assessment of customer satisfaction with the rendered services quality
Kalmenergo	Phone interview	Branch consumers	2018	5	Quality assessment of grid connection services
Rostovenergo	Phone interview	Branch consumers	2018	345	Determination of the service quality compliance with the consumer requirements and expectations; planning of activities for development and improvement of services and consumer relation system; meeting the requirements of ISO 9001 international standard
	Phone interview	Branch consumers	2018	57	

In the reporting period, the quality and reliability indices of the services rendered were achieved in full.

Assessment of fulfilment of the approved quality indices of the services rendered for 2018

The consumers of power transmission services of IDGC of the South branches are participants of the wholesale and retail electricity markets. According to 2018 reports, in general, the Company operates under the previously signed power transmission contracts: six contracts with guaranteeing suppliers, 53 – with independent power sales companies, 65 – with territorial grid organisations, 925 – directly with consumers. Moreover, 93.73% of the total number of contracts concluded by IDGC of the South are income-producing.

DYNAMICS OF APPEALS OF IDGC OF THE SOUTH'S CONSUMERS



Projects implemented in the reporting year

- > On January 1, 2018, all Multifunctional Centres for state and municipal services in Kalmykia started to receive applications from the republican residents for connection to IDGC of the South's power grids.
- > During a seminar for the employees of the Housing, Utilities and Energy sector, IDGC of the South's online specialists told the representatives of small and medium-sized entities of Kalmykia about interactive services and grid connection applications.
- > A renovated Consumer Service Centre was opened in the Astrakhan branch of IDGC of the South. It can cover services for up to 50 customers a day.
- > IDGC of the South launched an Internet forum on its official website, where the consumers can obtain the latest information from the Company's specialists regarding electricity consumption and metering, and grid connection.
- > On September 25, 2018, Light Country portal of ROSSETI started its test operation in IDGC of the South operations area (the Rostov, Astrakhan, Volgograd Regions, and the Republic of Kalmykia) at <https://светлаястрана.рф/>.

THE ACTIVITIES AGAINST ILLEGAL

CONSUMPTION OF ELECTRICITY

For 2018, specialists of IDGC of the South PJSC have suppressed more than 4.4 thousand facts of unaccounted and non-contractual electricity consumption with a total volume of more than 218 million kWh. As a result of the Company's effective actions, this volume decreased by 38.8%. To prevent electricity theft, the electricity grid is equipped with a metering system, the so-called "smart meters", which provide the strictest metering of the resource from generation to transmission to the end user. In addition, the Company's specialists conduct regular scheduled and unscheduled inspections of electricity metering devices.

A public awareness campaign also makes its contribution, it tells the public about the consequences both for the violators themselves and for bona fide consumers, work is being done to block the spread of illegal knowledge. At the initiative of IDGC of the South PJSC in 2018, 168 sites and online stores were blocked and excluded from the Unified Register of Internet Resources for distributing information prohibited in Russia about the methods of electricity theft and selling charged electricity metering devices.

Violators who consumed the electricity without concluding a contract reimbursed IDGC of the South in 2018 almost 11 million rubles, including 7 million rubles according to acts of previous years.



next up

4 FINANCIAL REVIEW

Financial Review

Main Principles of the Accounting Policy

The regulation on the Company's Accounting Policy for preparing accounting statements in accordance with Russian Accounting Standards (RAS) was aligned with the statutory accounting requirements and also subject to tax and civil legislation of the Russian Federation.

IDGC of the South organises and maintains accounting records, prepares accounting statements in line with Federal Law No. 402-FZ of December 6, 2011 "On Accounting"; Regulations on maintaining accounting records and accounting statements in the Russian Federation approved by Order No. 34n of the Ministry of Finance of Russia dated July 29, 1998; PBU 1/2008 Accounting Regulation "Accounting Policy of an Enterprise" approved by Order No. 106n of the Ministry of Finance of Russia dated October 6, 2008; the Chart of Accounts approved by Order No. 94n of the Ministry of Finance of Russia dated October 31, 2000; RAS Uniform Corporate Accounting Principles for the Federal Grid Group (UCAP) approved by Order No. 182 of PJSC ROSSETI dated December 29, 2017; by Order No. 957 of IDGC of the South dated December 29, 2017 "On the Accounting Policy of IDGC of the South for 2018", and other relevant regulatory documents

The regulation on the Company's Accounting Policy is based on the following assumptions:

- > Going concern assumption;
- > Economic entity assumption;
- > Consistency assumption;
- > Accrual assumption.

The Company shall take inventory of assets and liabilities in accordance with Art. 11 of Federal Law No. 402-FZ dated December 6, 2011 "On Accounting" and the Methodological Guidelines for the Inventory of Assets and Financial Liabilities approved by Order No. 49 of the Ministry of Finance of Russia dated June 13, 1995 with a view to ensuring the accuracy of accounting data and accounting statements.

Fixed asset accounting shall be in accordance with PBU 6/01 approved by Order No. 26n of the Ministry of Finance of Russia dated March 30, 2001.

Fixed assets are recognised for accounting purposes at their initial cost determined by the method of receipt (acquisition in return for a fee, creation using own resources (construction), gratuitous receipt, etc.).

Assets meeting the conditions for classifying them as fixed assets with a value not exceeding RUB 40,000 per unit are recognised in accounting and accounting statements as business inventories, written off to process costs (costs of sale) as they are released into production and operation.

The Company uses the straight-line depreciation of fixed assets.

No provisions or repair pools are created for the repair of fixed assets.

Revaluation of fixed assets is not undertaken.

Leased fixed assets are shown under 01 line Fixed Assets, but are separated for the purpose of analytical accounting.

Accounting for the Company's intangible assets complies with the Accounting Regulations "Accounting for Intangible Assets" (PBU 14/2007) approved by Order No. 153n of the Ministry of Finance of Russia dated December 27, 2007.

Revaluation of intangible assets is not undertaken.

The Company depreciates all types of intangible assets on a straight-line basis.

Accounting for the Company's Research and Development (R&D) costs complies with the Accounting Regulations "Accounting for R&D Costs" (PBU 17/02) approved by Order No. 115n of the Ministry of Finance of Russia dated November 19, 2002. The Company writes off R&D costs on a straight-line basis. The writing-off period of R&D costs that gave a positive result is determined for each job, based on the expected period of use of the results obtained, during which a company can receive economic benefits (income), but not more than five years.

As financial investments, the Company recognises assets that do not have a tangible form and are capable of bringing economic benefits (income) in the future in the form of interest, dividends, or an increase in their value (as the difference between the sale price (repayment) and purchase price) as a result of the exchange, use in repayment of obligations, increasing the current market value.

Financial investments, which can be used to determine the current market value in accordance with the established procedure, are recorded in the financial statements at the end of each reporting quarter at the current market value by adjusting their cost estimate to the previous reporting date.

Financial investments, which can not be used to determine the current market value, are recorded at their initial cost.

If there is a steady decline in the value of financial investments, not used to determine the market value, which is measured by comparing the book value of financial investments with their estimated value, the Company sets up a respective depreciation reserve.

Accounting of business inventories complies with PBU 5/01 approved by Order No. 44n of the Ministry of Finance of the Russia dated June 9, 2001, with subsequent amendments and additions.

5-9	11-25	26-67	68-87	88-159	160-196
Company's Overview	Strategic Report	Operating results	Financial Review	Corporate governance	Appendices
		Business inventories for accounting purposes are estimated against the method for receipt (acquisition in return for a fee, manufactured using own resources, gratuitous receipt, etc.). The actual cost of materials purchased for a fee is the sum of the Company's actual costs of acquisition less the value added tax and other recoverable taxes.		Costs incurred by the Company in the reporting period, but related to the following reporting periods, are recorded in the balance sheet in accordance with the terms of asset recognition established by the accounting regulatory acts and are to be written off pursuant to the depreciation procedure established for this type of assets.	
		A unit of accounting for inventories is the stock number.		Current expenses of the Company's executive office less absorbed costs are recognised as management costs.	
		The cost of special clothing with a service life of over 12 months is repaid on a straight-line basis by reference to the useful life determined in accordance with the codes and standards. The Company writes off the cost of special clothing from the month it is handed over into service.		Selling expenses are recognised by the Company in the financial statements if they occur, with the exception of selling expenses associated with energy sales activities. Selling expenses associated with energy sales (acting as a guaranteeing supplier) are included in the financial statements in line 2210 of the Income Statement.	
		Inventories written off to production, sold to outside parties, retiring on other grounds, including internal movement between branches and within a branch, are estimated at the average cost of each inventory type in the context of warehouses and storage sites.		Other earnings are shown in the Income Statement less expenses related to these gains when the relevant accounting rules stipulate or do not prohibit such reflection of income; revenues and related expenses arising from the same or similar economic event that is not significant for financial characteristics of the Company.	
		The actual cost of materials is on average estimated by determining the actual cost of the material at the time of its issue (moving average estimate).		In line with PBU 7/98 "Events After the Reporting Date", the Company reflects in the financial statements the events after the reporting date that had or may have an impact on the Company's financial standing, cash flow or performance and that occurred between the reporting date and the date of signing of financial statements for the reporting year.	
		Capital reserves are created by the Company out of its profit on the basis of documents of association and decisions of the founders (shareholders).		Events after the reporting date are reflected in the financial statements by updating data on the relevant assets, liabilities, capital, income and expenses of the Company with disclosure of respective information in the Notes to the Balance Sheet and the Income Statement.	
		Section III of the balance sheet ("Capital and Reserves") in the line "Revaluation of Non-current Assets" reflects the amount of increase in the value of non-current assets as a result of their revaluation transferred on the opening balance sheet when the Company was reorganised in the form of a merger.		The Company calculates and pays away taxes and fees required under the Laws on taxes and fees of the Russian Federation and its constituent entities, as well as legislative acts of local governments on taxes and fees.	
		The Company recognises estimated liabilities when meeting the conditions of recognition in accordance with PBU 8/2010 approved by Order No. 167n of the Ministry of Finance of Russia dated December 13, 2010 as against the following obligations:		Deferred taxes are accounted for by the Company as required by PBU 18/02 "Profit Tax Accounting" approved by Order No. 114n of the Ministry of Finance of Russia dated November 19, 2002.	
		<ul style="list-style-type: none">> court proceedings that were not completed at the reporting date, with the Company acting as a plaintiff or defendant;> disagreements with the tax authorities on budget payments that were not resolved at the reporting date;> the restructuring of the Company, the sale or termination of any activity of the Company;> remunerations paid out to employees;> remunerations paid out to members of the Board of Directors> obligations on disagreements with electricity sales organisations;> obligations on disagreements with territorial grid organisations;> other similar obligations.		The Accounting Policy of the Company is amended subject to alternation of applicable laws and (or) regulatory legal acts on accounting and also when an organisation adopts new accounting methods.	
		For assessing the consequences, all the above circumstances are analysed if their consequences exceed RUB 500,000.		Any change in the Accounting Policy is approved by the Company's managerial documentation.	
		The Company divides expenses into expenses from core activities and other expenses.		In 2018, there were no significant changes in the Accounting Policy for tax purposes.	
		Expenses for core activities are the costs associated with the manufacture and sale of products, the acquisition and sale of goods, the costs associated with the production of works, the provision of services involved in core activities of the Company.		Information on the Accounting Policy under International Financial Reporting Standards (IFRS)	
				The regulation on the Company's Accounting Policy for compiling consolidated financial statements in line with International Financial Reporting Standards (IFRS) stipulates the provisions of the Accounting Policy of IDGC of the South and its subsidiaries as required by IFRS. IDGC of the South's Group (hereinafter - the Group) means IDGC of the South and its subsidiaries and affiliates.	

Group's IFRS Accounting Policy reflects the specific aspects of international financial reporting standards as applied by the Group and is used in context and in conjunction with the relevant standards and provisions of IFRS.

In line with the IFRS provisions, the purpose of financial statements is to provide information on the financial status, performance results and cash flows of the Group, which would be useful for users of financial statements when making economic decisions.

IFRS establishes requirements for recognition, measurement, presentation, and disclosure of information relating to transactions and events that are important for the understanding of financial statements. The Group's Management determines and adopts an IFRS policy so that the financial statements comply with all the requirements of each applicable IFRS standard (interpretation).

Without specific IFRS requirements, the Group's Management adopt its professional judgments and draws up accounting provisions based on the general requirements for the qualitative reporting characteristics established by the IASB Framework for the Preparation and Presentation of Financial Statements. When making judgments, the Group's Management also accepts common industry practices and the provisions of other reporting standards applicable to the Group's operations if they are consistent with IFRS requirements.

The Group systematically applies IFRS accounting policies from period to period for each category of transactions or events, except cases when IFRS standard or interpretation requires or permits the allocation of a group of transactions, for which other accounting policies are more appropriate. In the latter case, the corresponding new accounting policy will be consistently applied for each such group of transactions.

RELATED-PARTY TRANSACTIONS¹

The Company's Related parties comprise organisations of ROSSETI's Group, subsidiaries and affiliates of the Company, members of the Board of Directors and the Management Board of the Company, and other legal entities and individuals.

COST INDICATORS, TERMS, DUE DATES AND METHOD OF PAYMENT FOR RELATED-PARTY TRANSACTIONS OUTSTANDING AS OF DECEMBER 31, RUB THOUSAND.

Sign of Relatedness and Form of Indebtedness	2016	2017	2018	Terms and conditions of payment	Method of payment
Accounts receivable, including others	304,686	201,721	379,384		
– subsidiaries	121,588	108,946	108,808	On contractual terms	Non-cash
– other related parties	183,098	92,775	270,576	On contractual terms	Non-cash
Advances paid	17,707	25,700	15,225		
– to other related parties	17,707	25,700	15,225	On contractual terms	Non-cash
Allowance for doubtful accounts	12,780	108,974	108,808		
– to subsidiaries	12,780	108,808	108,808		Non-cash
– to other related parties	–	166	–		Non-cash
Other, including dividend payable/receivable	–	–	–		
Accounts Payable	7,147,474	5,619,944	5,259,447		
– to parent company	9,375	15,733	17,863	On contractual terms	Non-cash
– to other related parties	7,138,099	5,604,211	5,241,584	On contractual terms	Non-cash
Advances received	67,683	–	3		
– to other related parties	67,683	–	3	On contractual terms	Non-cash
Loans receivable and placed deposits, including interest debt	–	–	–		
Loan debt, including interest arrears	5,035,140	5,000,000	5,110,100		
– to parent company	5,035,140	5,000,000	5,110,100	Under the terms of the Loan Agreement, the maturity date is July 1, 2022.	Non-cash
Consideration payable	3,362	2,133	3,766		
– to key management personnel	3,362	2,133	3,766	Outlined by terms and conditions of the employment contract members of the Board of Directors - under the terms of the Regulation on the payment of remuneration to members of the Board of Directors	Non-cash

1. A full list of affiliated persons is given on the official website of IDGC of the South:<http://mrsk-yuga.ru/aktsioneru-investoru/spisok-affilirovannykh-lits>.

TYPES AND VOLUME OF THE COMPANY'S RELATED-PARTY TRANSACTIONS, RUB THOUSAND

Sign of relatedness and type of transaction	2017	2018
Sale of goods, works, services (excl.VAT)	447,901	497,461
– other related parties	447,901	497,461
Purchase of goods, works, services (excl.VAT)	7,259,017	7,089,578
– parent company	166,586	126,104
– subsidiaries and affiliates	–	22,514
– other related parties	7,092,431	6,940,960
Sale of fixed, intangible, and other assets (excl.VAT)	78,029	–
– other related parties	78,029	–
Purchase of fixed, intangible, and other assets (excl.VAT)	–	–
Leasing of assets from related parties (excl.VAT)	6,862	3,670
– parent company	316	436
– other related parties	6,546	3,234
Leasing of assets to related parties (excl.VAT)	10,763	9,732
– parent company	1,641	1,641
– subsidiaries and affiliates	467	467
– other related parties	8,655	7,624
Financial transactions, including loans from related parties	–	–
Interest on restructuring agreements and loans received from related parties	1,028,996	978,633
– parent company	516,610	435,983
– other related parties	512,386	542,650
Financial transactions, including loans issued to related parties and deposits placed with related parties	–	–
Interest on loans given to related parties and interest on deposits	–	–
Contributions to authorised (share) capital	–	–
Dividends receivable from shareholdings	146	1,014
– subsidiaries and affiliates	–	869
– other related parties	146	145
Dividends Payable	–	245,666
– parent company	–	245,666
Proceeds from joint activities	–	–
Rewards for guarantees made	–	–
Rewards for guarantees received, etc.	–	–
Write-off of receivables with expired statute of limitations, other bad debts, including from the allowance for doubtful accounts	–	166
– other related parties	–	166
Other transactions		
– key management personnel	123,119	136,951
– other related parties	207,313	86,140

There are no events after the reporting date (PBU 7/98).

The Company’s Tariff Policy

POWER TRANSMISSION TARIFFS

In 2018, all the constituent entities of the Russian Federation that are within the responsibility zone of IDGC of the South has in place a single-pot tariff setting method for electricity transmission services. This method is distinguished by the fact that for each and every consumer of the same voltage class the electricity is transmitted at a single rate (tariff), regardless of the grids they are connected to.

In pursuance of Decree No. 1178 of the Government of the Russian Federation dated December 29, 2011, the single-pot power transmission tariffs for 2018 were approved for H1 and H2 separately, with the following validity periods:

- > from January 1 to June 30, 2018;
- > from July 1 to December 31, 2018.

Primary consumers of the Company's electricity transmission services are as follows:

- > electricity sales companies - wholesaler and retailers that are dealing with sales of electricity to end consumers connected to the power grids of the Company's branches and grids of other grid organisations;
- > end consumers;
- > territorial grid organisations - electricity retailers transiting the electricity to the end consumers over their grids.

IDGC of the South’s branch – Astrakhanenergo

The regional single-pot model is “Pot at the top”. The pot’s holder is IDGC of the South’s branch – Astrakhanenergo. Astrakhanenergo collects all the grid’s required gross revenues (RGR) from electricity sales companies (ESCs) in the region, direct consumers at unified (single-pot) tariffs and pays for the transit over grids of territorial grid organisations (TGOs) at individual rates. Power transmission consumers settle accounts with Astrakhanenergo, both for two-rate and one-rate tariffs.

Unified (single-pot) tariffs for 2018 were approved by Decree No. 216 of the Tariff Service of the Astrakhan Region dated December 28, 2017.

From January 1, 2018, Astrakhanenergo crossed over to a new long-term regulatory period (2018–2022) using the long-term RGR indexation.

IDGC of the South’s branch – Volgogradenergo

The region put “mixed pot” computation method into practice. The pot’s holder is IDGC of the South's branch – Volgogradenergo. Volgogradenergo collects grid’s RGR from regional ESCs, direct consumers at unified (single-pot) tariffs and income-generating TGOs at individual rates and gives a portion of grid’s RGR to lower-level TGOs at individual rates. Power transmission consumers settle accounts with Volgogradenergo, both for two-rate and one-rate tariffs.

Unified (single-pot) tariffs for 2018 were approved by Order No. 53/23 of the Tariff Regulation Committee (TRC) of the Volgograd Region dated December 26, 2017.

Individual tariffs for mutual settlements between Volgogradenergo and income-generating TGOs for 2018 were approved by Order No. 53/24 of the TRC of the Volgograd Region dated December 26, 2017. By Order No. 29/1 of the TRC of the Volgograd Region dated September 19, 2018, individual tariffs were approved for mutual settlements between Volgogradenergo and PJSC Volgograd Interdistrict Power Grids (VMES) by Order No. 31/1 of the TRC of the Volgograd Region dated October 1, 2018, individual tariffs for mutual settlements between Volgogradenergo and Municipal Unitary Production Enterprise VMES (due to the replacement of this company's assets).

The required gross revenues of Volgogradenergo for 2014–2018 was calculated using long-term RGR indexation.

IDGC of the South’s branch - Kalmenergo

Due to the consolidation of the power grid assets of OJSC KalmenergoKom (equipment purchase & sale agreement dated December 19, 2016 and the property transfer and acceptance act dated December 31, 2016) as part of IDGC of the South, since 2017 only one TGO has been operating in the region - a branch of IDGC of the South - Kalmenergo.

A branch of IDGC of the South - Kalmenergo generates its revenues at single-pot tariffs for electricity net delivery to PJSC Kalmenergosbyt's consumers, other ESCs and consumers within Elista's coverage area (internal sales). Power transmission consumers settle accounts with Kalmenergo, both for two-rate and one-rate tariffs.

From January 1, 2018, Kalmenergo crossed over to a new long-term regulatory period (2018–2022) using the long-term required gross revenues (RGR) indexation.

Unified (single-pot) tariffs for 2018 were originally approved by Order No. 100-p/e of the Regional Tariff Service (RTS) of the Republic of Kalmykia dated December 26, 2017.

Pursuant to Order No. 1090/18 dated August 3, 2018 of the FAS of Russia on the cancellation of tariffs in the Republic of Kalmykia, from September 1, 2018 unified (single-pot) tariffs were approved by Order No. 63-p/e of the RTS of the Republic of Kalmykia dated August 24, 2018 at the previously set level (unchanged).

In line with Order No. 1139 of the Ministry of Energy of Russia dated November 30, 2017, the branch of IDGC of the South - Kalmenergo in 2018 acted as a guaranteeing supplier in Elista's coverage area.

Sales markups of a guaranteeing supplier of Kalmenergo for 2018 were initially approved by Order No. 101-p/e of the RTS of the Republic of Kalmykia dated December 26, 2017. Pursuant to Order No. 400/18 of the FAS of Russia dated March 29, 2018 on the cancellation of the approved sales markups by Order No. 26-p/e of the RTS of the Republic of Kalmykia dated April 27, 2018, the sales markups of the guaranteeing suppliers were approved at a new level (due to the revision of the schedule for bringing the economically viable RGR of guaranteed suppliers up to the reference one).

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IDGC of the South’s branch - Rostovenergo

The region put “mixed pot” computation method into practice. There are two large grid companies in the region - the pot’s holders: a Rostovenergo (a branch of IDGC of the South) and JSC Donenergo. Rostovenergo collects its portion of grid’s RGR from PJSC TNS Energo Rostov-on-Don and other ESCs at single-pot tariffs and from Donenergo - at individual rates and gives a portion of revenues to lower-level TGOs at individual rates. Donenergo collects its portion of grid’s RGR from PJSC TNS Energo Rostov-on-Don and other ESCs at single-pot tariffs and gives a portion of revenues to Rostovenergo and lower-level TGOs at individual rates. Power transmission consumers settle accounts with Rostovenergo, both for two-rate and one-rate tariffs.

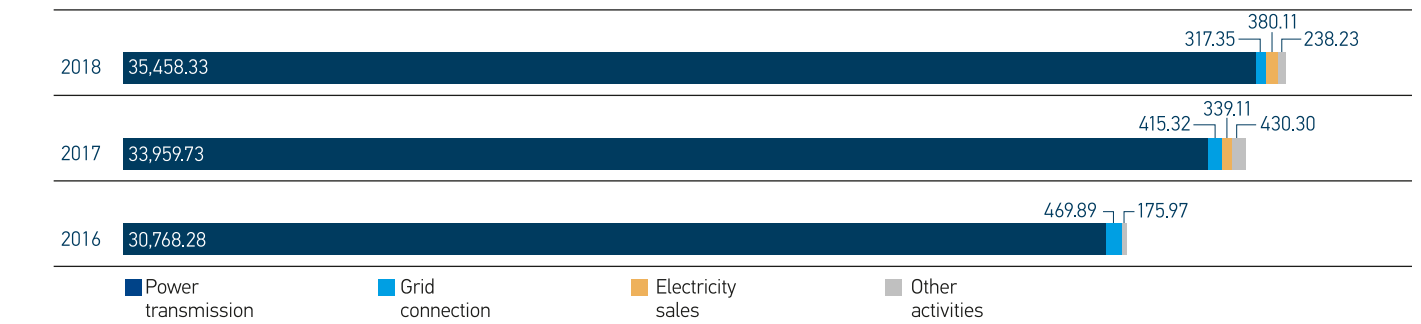
Unified (single-pot) tariffs for 2018 were originally approved by Order No. 86/8 of the Regional Tariff Service (RTS) of the Rostov Region dated December 28, 2017.

Pursuant to Order No. 1013/18 of the FAS of Russia dated July 18, 2018 on the abolition of this resolution of the RTS of the Rostov Region, from August 1, 2018 the unified (single-pot) tariffs were approved by Resolution No. 44/1 of the RTS of the Rostov Region dated August 1, 2018 at the previously established level (unchanged).

Individual tariffs for settlements between Rostovenergo (the branch of IDGC of the South) and Donenergo were approved by Resolution No. 86/7of the RTS of the Rostov Region dated December 28, 2017.

From January 1, 2018, Rostovenergo crossed over to a new long-term regulatory period (2018–2022) using the long-term RGR indexation.

CHANGES IN IDGC OF THE SOUTH' REVENUES FOR 2016–2018, RUB MN



Summarising the performance results of IDGC of the South in 2018, the revenues for power transmission services increased by RUB 1,498.6 mn (up 4.4%) and reached RUB 35,458.33 mn (excl. VAT, with the internal sales) (vs RUB 33,959.73 mn year-on-year). The drivers behind the revenue growth are as follows:

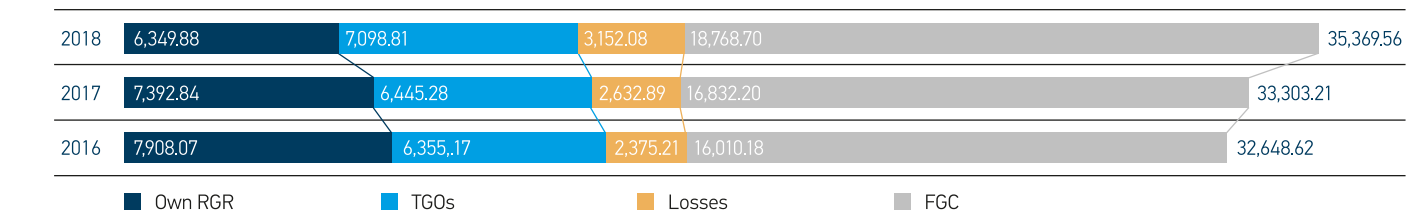
- > increase in the approved tariffs for power transmission services in 2018 vs 2017;
- > increase in the net delivery in 2018 vs 2017 (without last mile consumers).

The power transmission tariffs for 2018 approved by the state tariff regulation executive authorities of the constituent entities of the Russian Federation (hereinafter - regulatory authorities) are posted on the official website of IDGC of the South (http://mrsk-yuga.ru/pages/show/tarify_na_uslugi_po_peredache_jelektrojenerg) in line with paragraph 11 (a) of the Standards for Information Disclosure by the Power Wholesalers and Retailers (approved by Decree No. 24 of the Government of the Russian Federation dated January 21, 2004).

The average power transmission tariff in 2018 was RUB 145.86 per KWh vs RUB 139.41 per kWh in 2017, up RUB 6.45 per KWh, or up 4.6%.

It should be noted that the 2018 actual revenues for power transmission services include the revenues for power transmission services rendered when Kalmenergo (branch of IDGC of the South) was acting as the guaranteeing supplier in Elista's coverage area (so called internal sales in the amount of RUB 529.97 mn).

CHANGES IN POWER TRANSMISSION RGR STRUCTURE OF IDGC OF THE SOUTH, RUB MN



In 2018 power transmission RGR of IDGC of the South in 2018 exceeded the 2017 target by 6.2% due to the following factors:

1. Own RGR increased by 11.5%.
2. For Astrakhanenergo branch, own RGR increased by 17.2%, for Volgogradenergo branch - by 4.5%, for Kalmenergo branch - by 60.1%, and for Rostovenergo branch - by 9.5%. Significant growth of Kalmenergo's own RGR is related to the fact that the 2018 Tariff Balance Solutions (TBS) allowed for the consolidation of KalmenergoKom's power grid assets.
3. The power purchase costs to offset losses increased by 10.1%.
4. For Astrakhanenergo branch, own costs increased by 9.7%, for Volgogradenergo branch - by 9.8%, for Rostovenergo branch - by 6.9%, and for Kalmenergo branch - by 80.7%.
5. The reasons behind such increase are as follows:
 - > the growth of losses in the grids of Astrakhanenergo, Rostovenergo, and Kalmenergo in the 2018 TBSs vs the 2017 TBSs. In addition, the 2018 TBSs for Kalmenergo branch accounted for the consolidation of KalmenergoKom's power electric grid assets;
 - > rise in the weighted average purchase price of power (capacity) in the wholesale market.
6. The costs of paying for the services of PJSC FGC UES decreased by 14.1%.
7. The reduction in the costs of paying for FGC UES's services is driven by the mechanism for transition to calculations based on actual capacity.

CHANGES IN RGR FOR POWER TRANSMISSION SERVICES BY BRANCH, RUB MN

Branch	2016		2017 ¹		2018	
	Total	Own	Total	Own	Total	Own
Astrakhanenergo	4,882	2,633	5,057	2,820	5,459	3,305
Volgogradenergo	10,145	4,865	9,983	5,040	10,023	5,265
Kalmenergo	973	660	1,080	749	1,667	1,199
Rostovenergo	16,648	7,852	17,184	8,223	18,220	9,000
IDGC of the South	32,649	16,010	33,303	16,832	35,370	18,769

The increments of own RGR for power electricity transmission services in 2018 vs 2017 were as follows:

- > for Astrakhanenergo - 17.2% (2018 RGR included a partial return of the accumulated "evening-out" value);
- > for Volgogradenergo - 4.5%;
- > for Kalmenergo - 60.1% (accounting for the consolidated power grid assets of KalmynergoKom in the tariff regulation of the branch for 2018);
- > for Rostovenergo - 9.5% (2018 RGR included a partial return of the accumulated "evening-out" value).

The increase in the approved average tariff for power transmission services for 2018 vs 2017 for IDGC of the South was:

- > for Astrakhanenergo - 8.9% (the increase in the average tariff is associated with bringing the 2018 net delivery structure to the actual one);
- > for Kalmenergo - 28.1% (a significant increase in the average tariff is associated with the consolidation of the power grid assets of KalmenergoKom in the tariff regulation for 2018);

8. The costs of paying for the services of territorial grid organisations (TGOs) increased by 19.7%.

For Astrakhanenergo branch, costs decreased by 4%, while for Volgogradenergo branch and Rostovenergo branch, they increased by 28.9% and by 20.7%, respectively.

The change in the costs of paying for the TGOs's services is associated with the following factors:

- > in the Astrakhan Region: withdrawal of the status of three TGOs (JSC Zheldorremmash, Municipal Unitary Enterprise of Astrakhan Astrvodokanal, OJSC Dorado);
- > in the Volgograd Region: change in the single-pot scheme with JSC Oboronenergo, increase in the TGOs costs of paying for FGC UES's services (OJSC Russian Railways - + RUB 37 mn, Volgograd TPP-3 (a branch of OJSC Kaustik) - + RUB 6 mn), withdrawal of LLC Gazpromenergo from the mono-consumer status (on account of the lease of CJSC Tander's grids);
- > in the Rostov Region: increase of FGC UES's costs within RGR of TGOs of the Rostov Region (Russian Railways - + RUB 146 mn, JSC Energia - + RUB 41 mn, LLC Donex - + RUB 13 mn), as well as an increase in power supply equipment accepted by TGOs for leasing or ownership.

- > for Volgogradenergo - 6.5%;
- > for Rostovenergo – 4,9%.

ANALYSIS OF CHANGES IN THE AVERAGE TARIFF FOR POWER TRANSMISSION SERVICES, RUB/KWH

Branch, Company / Indicator	2016	2017	2018
Astrakhanenergo	1.6945	1.7811	1.9404
Volgogradenergo	1.0136	1.1542	1.2294
Kalmenergo	2.3068	2.4306	3.1140
Rostovenergo	1.3144	1.3888	1.4564
IDGC of the South	1.2568	1.3702	1.4730
Growth, %		109.0	107.5

Payments for grid connection

Payment for grid connection is calculated in cases when newly commissioned, previously connected renovated devices are connected, with increased maximum capacity, as well as when the power supply reliability category, connection points, type of production activities of already connected devices are changed without involving the revision of maximum capacity, but involving the change of the external power supply scheme of such devices.

Payment for grid connection when changing the category of reliability is calculated for the volume of maximum capacity of the applicant's consumer terminals with the changed category of reliability.

Payment for grid connection in cases of changes in the external power supply scheme that do not entail the revision of the maximum capacity as a result of changes in connection points, types of production activity, is calculated for the maximum capacity volume specified in the grid connection application.

The state tariff regulation authorities of the constituent entities of the Russian Federation for the calculation of fees for grid connection to the territorial distribution grids approve:

For the regulatory period:

- > standardised tariff rates (uniform for all territorial grid organisations in the territory of a constituent entity of the Russian Federation - in accordance with Federal Law No. 450 dated December 30, 2015);
- > rates per unit of maximum power (RUB/kW);
- > grid connection fee formula;
- > a fee for an applicant for grid connection of consumer terminals with the capacity up to 15 kW (including the capacity connected in this connection point before). The fee is RUB 550 maximum (incl. VAT) per connection of facilities that fall within the third reliability category (per one power source) and are located not more than 300 m in urban areas, or not more than 500 m in rural areas, away from existing grid facilities (of required voltage) of grid organisations the application is submitted to. Within the boundaries of municipal districts, urban districts, and in the inner-city territories of federal cities, the same person may carry out grid connection of consumer terminals belonging to him by right of ownership or on other legal grounds meeting the above criteria, with payment for grid connection in the amount not exceeding RUB 550, not more than once within three years.

Upon request by a grid organisation:

- > a fee for connection of consumer terminals and power generation facilities, with a maximum capacity of at least 8,9 thous. kW and a voltage of at least 35 kV, to territorial transmission grids, as well as for connection to individual project.

CHANGES OF THE AVERAGE RATES PER UNIT OF CAPACITY, RUB PER KW



For the branches of IDGC of the South for 2018, grid connection tariff options were approved:

- > for Astrakhanenergo branch of IDGC of the South - Resolution No. 207 of the Tariff Service of the Astrakhan Region dated December 22, 2017 (published in: Collection of Laws and Regulatory Legal Acts No. 51 dated December 28, 2017), as amended by Resolution No. 4 of the Tariff Service of the Astrakhan Region dated May 30, 2018 "On Amendments to Resolution No. 207 of the Tariff Service of the Astrakhan Region dated December 22, 2017" (published in: Collection of Laws and Regulatory Legal Acts No. 22 dated June 7, 2018);
- > for Volgogradenergo branch of IDGC of the South – Order No. 53/2 of the Committee of Tariff Regulation of the Volgograd Region dated December 26, 2017 (published on: Official Internet Legal Portal "State System of Legal Information", publication number: 3401201712280054, date of publication: December 28, 2017) as amended by Order No. 3/2 of the Committee of Tariff Regulation of the Volgograd Region dated January 24, 2018 (published on: Official Internet Legal Portal "State System of Legal Information", publication number: 3401201801260001, date of publication: January 26, 2018);
- > for Kalmenergo branch of IDGC of the South – Order No. 99-p/tpe of the Regional Tariff Service of the Republic of Kalmykia dated December 26, 2017 (published in: Halmgynn newspaper dated December 27, 2017 No. 239 (17804));
- > for Rostovenergo branch of IDGC of the South – Resolution No. 86/5 of the Tariff Service of the Rostov Region dated December 28, 2017 (published on: Legal Information Portal of the Rostov Region, <http://pravo.donland.ru>, publication number: 6145201712290067, date of publication: December 29, 2017) as amended by the Resolution No. 37/1 of the Tariff Service of the Rostov Region dated July 10, 2018 "On Amendments to the Resolution No. 86/5 of the Tariff Service of the Rostov Region dated December 28, 2017 (published on: Legal Information Portal of the Rostov Region, <http://pravo.donland.ru>; publication number: 6145201807120015, date of publication: July 12, 2018) and by Resolution No.74/3 dated November 27, 2018 "On Amendments to the Resolution No. 86/5 of the Tariff Service of the Rostov Region dated December 28, 2017 (published on: Legal Information Portal of the Rostov Region, <http://pravo.donland.ru>; publication number: 6145201811290032, date of publication: November 29, 2018)/

The gradation of standardised tariff rates and fee rates per unit of maximum capacity approved for the branches of IDGC of the South for 2018 and adopted by regulatory authorities involves differentiation by power ranges, voltage levels, constant/temporary power supply scheme, material, section and brand of wire and reflected in the tariff options for branches on the official website of IDGC of the South at the link: <http://mrsk-yuga.ru/potrebitelyam/tarify-na-tehnologicheskoe-prisoedinenie/> .

1. 2017 Tariff Balance Solutions were taken by the RTS of the Republic of Kalmykia with no allowances for the consolidation of KalmEnergoKom.

Financial Analysis and Performance Analysis

Proceeds from sales of products (services) in 2018 is by RUB 1,250 mn (up 3.6%) higher than in 2017. Revenues from power transmission amounted to RUB 34,928 mn (up RUB 1,489 mn year-on-year). The growth is driven by a 4.6% increase in the tariff and a decrease in the cost of load losses of electricity purchased on the wholesale electricity and capacity market, due to changes in legislation regarding the reconsideration of the compensation of the cost of load losses to consumers from August 1, 2017 (Resolution No. 810 of the Government of the Russian Federation dated July 7, 2017).

In 2018, the cost grew by RUB 2,053 mn. (7.2%) against 2017. This growth is mainly due to the growth of expenses for payment of services to territorial grid organisations, purchased electricity to compensate for losses.

By the end of 2018, the financial result came with a year-on-year increase of RUB 610 mn. This rise was caused by revenue growth across all types of regulated and other activities by RUB 1,250 mn with an increase in cost of sales, with management and selling expenses by RUB 2,041 mn, a decrease in interest payable by RUB 562 mn, as well as a decrease in the balance of other income and expenses.

BASIC FINANCIALS, RUB MN

Indicator	2016	2017	2018
Revenue	31,414	35,144	36,394
Electricity transmission	30,768	33,439	34,928
Grid connection	470	415	380
Electricity sales		860	847
Other services	176	430	238
Cost of sales	27,112	28,630	30,683
Gross profit	4,302	6,514	5,711
Management costs	706	738	730
Selling costs	0	26	22
Profit (loss) from sales	3,596	5,750	4,958
Interest receivable	95	61	47
Interest payable	2,769	3,070	2,508
Income from shareholdings	3	0	1
Other revenues	5,087	3,864	3,652
Other expenses	6,955	5,970	4,663
Profit (loss) before tax	−942	635	1,489
Income tax and other charges	69	124	367
Net profit (loss)	−1,011	511	1,122
EBITDA	4,418	6,286	6,668

ANALYSIS OF CHANGES IN ACCOUNTS RECEIVABLE¹, RUB MN

Debt item	December 31, 2016	December 31, 2017	December 31, 2018
Total accounts receivable	13,827	13,692	14,268
Trade receivables	11 408	12 128	12 760
Including electricity transmission	11,219	11,735	12,343
Bills receivable	–	–	–
Advances paid	29	33	20
Other services	2,390	1,531	1,488

1. Metrics are given as per accounting reports of the Company for the reporting period.

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Total receivables of IDGC of the South for 2018 amounted to RUB 14,268 mn, as of 2017 - RUB 13,692 mn. The growth is mainly driven to an increase in receivables for power transmission.

Trade receivables amounted to RUB 12,760 mn, + RUB 632 mn (up 5.2%) year-on-year. The key driver behind such growth is an increase in receivables for power transmission in Astrakhanenergo branch, which is caused by the non-payment of the electricity cost under off-the-meter consumption acts adopted by the Guaranteeing Supplier on suspensive terms for 2014–2018, as well as disputed service and loss charges in 2018.

The bulk of the Company's receivables (86.5%) comes from the settlements for the power transmission services rendered.

Accounts receivable under the item "Advance paid" amounted to RUB 20 mn, - RUB 13 mn (down 39.4%) year-on-year.

Other accounts receivable amounted to RUB 1,488 mn, down RUB 43 mn (39.4%) year-on-year. The reduction was mainly made up of taxes - by RUB 32 mn, promissory notes - by RUB 35 mn, other counterparties - by RUB 41 mn. Moreover, arrears in overdue fees, fines, penalties under contracts increased by RUB 65 mn (7.7%).

ANALYSIS OF CHANGES IN ACCOUNTS PAYABLE*, RUB MN

Debt item	As at December 31, 2016	As at December 31, 2017	As at December 31, 2018
Total accounts payable	13,692	10,609	9,772
Trade payables	10,411	8,116	7,281
Bills payable	0	0	0
Advances received	1,003	890	944
Taxes and charges	378	786	688
Other services	1,900	817	859

Accounts payable for 2018 decreased by RUB 837 mn vs 2017 and as of December 31, 2018 amounted to RUB 9,772 mn.

In the reporting period, the following changes were observed:

- Trade payables dropped by RUB 835 mn also due to a decrease in debt to construction organisations - by RUB 116 mn, to repair organisations - by RUB 38 mn, and as of December 31, 2018 totalled RUB 7,281 mn, including grid organisations for power transmission services - RUB 5,726 mn, construction organisations - RUB 741 mn, suppliers of fixed assets -

RUB 246 mn, other suppliers and contractors - RUB 568 mn;

- Arrears on advances received amounted to RUB 944 mn, up RUB 54 mn (up 6.1%) year-on-year;
- Tax arrears amounted to RUB 688 mn as of December 31, 2018, - RUB 98 mn (12.5%) year-on-year;
- Other accounts payable increased by RUB 42 mn (5.1 %) and reached RUB 859 mn in the reporting year

ALLOCATION AND CHANGES OF THE LOAN PORTFOLIO OF IDGC OF THE SOUTH, RUB MN

Type of loan / Source of principal loan	2016	2017	2018	Share in the total structure of debt service obligations,%
Short-term loans	7,178	2,785	1,500	6
Long-term loans	12,232	16,589	18,932	74
Bond issue	5,000	5,000	5,000	20
Total	24,410	24,374	25,432	100

The Company's debt on loans and borrowings as at December 31, 2018 amounted to RUB 25,432 mn. The loan debt to PJSC Sberbank was RUB 7,590 mn, or 30% of the total debt of the Company, to Gazprombank (JSC) - RUB 7,500 mn, or 29%, to JSC Alfa-Bank - RUB 3,000 mn, or 12%, to Bank VBRR (JSC) –

RUB 1,842 mn, or 7%, to JSC AB RUSSIA – RUB 500 mn, or 2%. The debt on the bonded loan amounted to RUB 5,000 mn, or 20% of the total debt profile.

The rise in loans and borrowings for the reporting period amounted to RUB 1,058 mn.

BONDED LOANS

In 2018, the following issues of IDGC of the South's securities were on the list of securities admitted to trading of PJSC Moscow Exchange (previously - CJSC MICEX Stock Exchange):

1. **BO-02 series bonds** , issue identification number - 4B02-02-34956-E, date of assignment of identification number - September 4, 2014. The authority that assigned the identification number to the issue is Public Joint-Stock Company MICEX-RTS Moscow Exchange. Volume of issue: the number of bonds issued - 6,000,000 with par value of RUB 1,000 each, the number of actually placed securities - 5,000,000.

Number of coupon periods, for which the yield is paid on the securities of the issue: 20

The maturity term (date) of securities of the issue: on 1,813th (one thousand eight hundred and thirteenth) day from the date exchange-traded bonds started floating.

Coupon rate: 9.24%.

The issue placed on July 19, 2017.

As of December 31, 2018, the debt on series BO-02 bonds amounted to RUB 5,000,000 thousand.
2. **The programme of exchange-traded bonds of 001P series** , the identification number of the issue is 4-34956-E-001P-02E, the date of assignment of the identification number is August 12, 2016. The authority that assigned the identification number to the issue is Public Joint-Stock Company MICEX-RTS Moscow Exchange. Volume of the issue: the value of all issues of exchange-traded bonds placed under the programme of exchange-traded bonds of 001P series is up to RUB 25,000 mn and including.

Number of coupon periods, for which the yield is paid on the securities of the issue: set by the issue terms.

The maturity term (date) for securities of the issue: no later than 10,920th (ten thousand nine hundred and twentieth) day from the date the issue of exchange-traded bonds is placed under the exchange-traded bonds programme.

The coupon rate is set by the terms of issue.

No issues were placed under the programme.

As of December 31, 2018, there was no debt under the programme of exchange-traded bonds of 001P series.

ANALYSIS OF 2018 PERFORMANCE RESULTS

The programme to improve operational efficiency and reduce costs of IDGC of the South (approved by the Board of Directors on December 29, 2017, Minutes No. 255/2017) (hereinafter - the Programme)

The Programme's activities made are included in the Business Plan, Investment Programme, Energy Saving and Energy Efficiency Programme, Innovative Development Programme, and other target programmes prepared by the Company.

The performance indicators of the Programme cover the targets set by Development Strategy for Russia's Power Grid Complex (approved by Order No. 511-p of the Government of the Russian Federation dated April 3, 2013) and Directive No. 2303p-P13 of the Government of the Russian Federation dated April 16, 2015.

Between 2017 and 2018, controllable operating costs were reduced, in line with the above Strategy, by 21.55% against the target of 15%.

In line with Directive No.2303p-P13 of the Russian Government dated April 16, 2015, operating costs in 2018 were reduced by 5.7% year-on-year against the target of 2%.

In order to increase the Company's operational efficiency, the following actions were taken:

- > Enhancing the management efficiency relative to maintenance and repair of equipment, buildings, and facilities

In order to change over to a new model of repairs, the Russian Grid Code and other industry and state regulatory and technical documents were revised with amendments allowing for on-condition repairs. Thanks to the changeover to the on-condition repair strategy, the Company can avoid (reduce) damage from process upsets (accidents) arising due to insufficient maintenance and repairs and increase the reliability of power supply to consumers and the operation of power grid equipment.

- As priority areas for improving the management of technical maintenance and repairs, the Company's management envisages the following areas:
- > improving the workmanship and performance;
 - > upgrading the security and safety level and reducing the rate of injuries;
 - > fitting out with diagnostics and technical condition monitoring devices;
 - > further developing the Production Asset Management System (PAMS).

In 2018, transportation costs were reduced through savings on fuel and lubricants costs due to the use of the GLONASS satellite vehicle monitoring system and the use of gas equipment.

- > Enhancing the working capital management

In the reporting period, the Company achieved a decrease in receivables as a result of installments on the writs of execution for PJSC Volgogradenergosbyt received under legal actions.

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The Company received payments under the agreement on debt restructuring of MUE VKH (Volgograd Utilities) in the framework of the insolvency (bankruptcy) case as related to repayment of the principal debt.

Following the measures aimed at optimising the loan portfolio, and, as a result, reducing costs for servicing borrowed funds, as at the end of 2018, costs for servicing borrowed funds were reduced by RUB 563 mn vs the level of 2017.

- > Enhancing the fixed assets management

Depreciation charges are optimised by the Company through the development and application of a unified depreciation policy.

In order to reduce the cost of maintaining non-core assets, activities for five assets were completed in full: four assets were realised through the "sale" method, one facility was liquidated through the write-off method.

- > Enhancing the procurement and supply chains management system

The activities of this section are aimed at increasing the share of open competitive procurements and reducing the share of sole source purchases in accordance with the Uniform Procurement Standard of PJSC ROSSETI. Following the results of the reporting period, the share of open competitive purchases was 97.92% against the target of $\geq 96\%$, sole source purchases was 2.08% against the target of $\leq 4\%$, purchases on electronic trading facilities was 100% against the target of $\geq 95\%$.

- > Miscellaneous Measures

Fuelled by the progress on the measures aimed at reducing electricity losses in the Company's power grids, the effect in physical terms amounted to 210.2 mn kWh and was achieved through planned measures on the replacement and modernisation of power grid equipment, in the process of implementing the Investment Programme, and also as a result of the planned detection of off-the-meter and non-contractual electricity consumption points (organisational measures).

The efforts on designing an integrated system of specialised monitoring, forecasting, and supporting for operational management decision-making in cases dangerous weather impacts occur in the area of operational responsibility of IDGC of the South are made through optimising the costs in line with by the scenario conditions stipulated in the 2018-2022 Business Plan.

CLAIM-RELATED WORK TO REDUCE OVERDUE RECEIVABLES

In 2018 the claim-related efforts made by IDGC of the South aimed at reducing the size of overdue receivables, including for power transmission services provided, achieved the following results:

- > 1,586 lawsuits received positive court decisions for a total amount of claims of RUB 4,609.1 mn, including 378 lawsuits on claims for collection of receivables for power transmission services for a total amount of claims of RUB 4,314.4 mn;
- > 87 lawsuits were withheld to recover receivables in the amount of RUB 1,188.7 mn, including 38 lawsuits on claims for collection of receivables for power transmission services for a

- total amount of claims of RUB 980.7 mn;
- > RUB 1,917.3 mn were received in the framework of the enforced collection of accounts receivable on submitted writs of execution, RUB 1,074 mn after receipt of the enforcement orders and prior to submitting them for execution, and RUB 5,907 mn as a result of voluntary payment, total financial result of RUB 3 mn in the form of cash received as part of the claim-related work amounted to RUB 8,898.6 mn;

For a comparison – in 2017:

- > 782 lawsuits received positive court decisions for a total amount of claims of RUB 5,204.6 mn, including 245 lawsuits on claims for collection of receivables for power transmission services for a total amount of claims of RUB 4,977.5 mn;
- > 83 lawsuits were withheld to recover receivables in the amount of RUB 1,225.5 mn, including 32 lawsuits on claims for collection of receivables for power transmission services for a total amount of claims of RUB 1,201.2 mn;
- > RUB 1,993.2 mn were received under legal collection of accounts receivable on submitted enforcement orders, and RUB 4,841,1 mn as a result of voluntary payment.

The coverage of overdue receivables with measures aimed at their reduction stands at a consistently high level and amounted to 92% as of December 31, 2018 (95% as of December 31, 2017), while a 3% decrease in the reporting year is related to suspensive terms of payment by guaranteed suppliers (Volgogradenergosbyt and PJSC Astrakhan Energy Sales Company) under off-the-meter consumption acts.

Among the results of the most important lawsuits proceeded in 2018, the following decisions allowed the repayment of overdue receivables, resolve differences, minimise losses to the Company, and change or form a positive case history for the Company:

1. Successful closing of the lawsuit (the case went through all instances, including the Supreme Court of the Russian Federation) initiated by the claim of minority shareholders of IDGC of the South to IDGC of the South and the Bank of Russia on invalidating the decisions of the Company's shareholders meeting, the Board of Directors and additional issues of the Company's shares.

The findings of the court made within the framework of this dispute are precedent for ROSSETI group of companies since they allow subsidiaries and affiliates to use financial assistance from ROSSETI allocated for the construction of especially significant power grid facilities without the risk of invalidating such transaction and returning the received funds due to the violation of the rights of minority shareholders expressed in the dilution of the stake of the latter.

In addition to ensuring the financial stability of the Company, financing of the power supply infrastructure development for the 2018 World Cup, the Company also excluded the potential risk in the form of return of spent funds in the amount of RUB 1,922.796 mn (in case the claims of minority shareholders are satisfied and, as a result, additional issues of shares are invalidated).

2. Settlement of disagreements with the guaranteeing supplier of the Rostov Region, PJSC TNS Energo Rostov-on-Don, regarding the amount of unbalance of losses distributed among grid organisations of the region by signing a settlement agreement in the Court of Appeal on the terms of the refusal of PJSC TNS Energo Rostov-on-Don from recovery of RUB 166.9 mn of principal debt and RUB 55.8 mn as penalties (with the amount of claims for recovery amounting to RUB 330.8 mn: RUB 268.14 mn - for the principal debt and RUB 62.7 mn - for penalties).
- Under the terms of the Settlement Agreement, the Company assumed obligations to pay the debt and the penalty in the total amount of RUB 45.2 mn, with RUB 38.4 mn - for principal debt and RUB 6.8 mn - for penalties, to reduce the amount of penalties imposed by the Company to recover from PJSC TNS Energo Rostov-on-Don from RUB 179,105.6 mn to RUB 109 mn. The eventual economic benefit of IDGC of the South amounted to RUB 152.8 mn.
3. Positive result on the dispute related to challenging the Tariff Balance Solutions: as the result of considering an appeal of the municipal stated owned enterprise Rostgorsvet on August 2, 2018, the Judicial Board on Administrative Cases of the Supreme Court of the Russian Federation managed to uphold the decision if the Rostov Regional Court dated March 27, 2018 on case No. 3a-221/2018 on refusal to satisfy Rostgorsvet's administrative claim on invalidating resolutionNo. 83/9 of the Regional Tariff Service of the Rostov Region dated December 27, 2017“On the Adjustment of the Required Gross Revenues of Rostgorsvet and individual tariffs for power transmission services for mutual settlements between Rostgorsvet and Rostovenergo (the branch of IDGC of the South) and between Rostgorsvet and Donenergo for 2018”. As a result, the following risks were excluded: on the one hand, a risk of increasing RGR of Rostgorsvet and, on the other hand, a risk of reducing own RGR of Rostovenergo, the branch of IDGC of the South.
4. Refusal to meet the requirements of Volgogradenergosbyt to recover the cost of undistributed power losses (RUB 66.832 mn) in line with clause 190 of the Basic Operating Principles of Retail Electricity Markets approved by Resolution No. 442 of the Government of the Russian Federation dated May 4, 2012 “On Functioning of Retail Electricity Markets, full and (or) partial restriction of the electric energy consumption mode”, which became the first precedent in the Volgograd Region for this category of disputes.
5. The reduction of the amount of penalties for late payment for services rendered under contracts No. 580/P, 577/P and 579/P in 2015–2016 for power transmission services over the Unified National (All-Russian) Electric Grid dated January 25, 2012 from RUB 253.4 mn to RUB 121.4 mn due to the exclusion of charging a legal penalty on the planned (advance) payments and the application of Art. 333 of the Civil Code of the Russian Federation, as well as the reduction of the amount of disputed debt under contract No. 580/P for power transmission services over the Unified National (All-Russian) Electric Grid dated January 25, 2012

- from RUB 124.5 mn to RUB 72.6 mn, the amount of penalty - from RUB 98.2 mn to RUB 5.9 mn.
6. Preventing damage to IDGC of the South in the dispute related to claims to LLC Volgaenergaset for the recovery of unjust enrichment in the amount of RUB 25.6 mn in the form of cash received at the single-pot tariff of TGOs from consumers (LLC Aurora and LLC KZSMI) bypassing the settlement scheme established by the Regulator in the region, which resulted in resolving contradictions in law enforcement practice: despite the conclusion of a direct contract between the allied grid organisation and the end consumer, the former is entitled to claim to receive payment for services only in the amount that is taken by the Regulatory Body when approving individual rates (in the amount of its RGR). According to the results of the legal dispute, the Company did not allow changes in the single-pot settlement scheme established in the Volgograd Region, according to which the Volgogradenergo branch and Municipal Unitary Production Enterprise VMES were (and remain, taking into account the findings of the Supreme Court of the Russian Federation) the payment recipients, thus the Company managed to stop the allied grid organisation from drawing-off the single-pot revenues and lending without interest at the expense of the Company and consumers of the Volgograd Region as a whole.
7. The reduction of the turnover-based fine from RUB 30.3 mn to RUB 0.7 mn calculated on charges of the violation of antitrust laws, allowing for the geographical boundaries of the commodity market, based on the location of consumers terminals (transformer substations), which was the first precedent in the Astrakhan Region.

ASSETS MANAGEMENT

Pursuant to Decree No. 596 of the President of the Russian Federation dated May 7, 2012, Directives No. 4863p-P13 of the Government of the Russian Federation dated July 7, 2016, and Order No. 894-p of the Government of the Russian Federation dated May 10, 2017, on February 21, 2018 (Minutes No. 261/2018 dated February 26, 2018) the Board of Directors resolved to approve the Programme for the disposal of non-core assets of IDGC of the South (hereinafter - the Programme).

The Programme specifies basic approaches, principles and procedures of non-core asset identification and sale, sets up criteria for attributing assets to non-core ones, the procedure of the Non-Core Asset Register keeping, approaches to non-core asset evaluation, main provisions on non-core asset disposition, as well as the procedure of reporting on processing of the Non-Core Asset Register.

By decision of the Company's Board of Directors dated February 27, 2019 (Minutes No. 301/2019 dated March 4, 2019), an up-to-date Non-core Asset Register was approved as required by the Programme.

INFORMATION ON THE SALE OF NON-CORE ASSETS FOR 2018

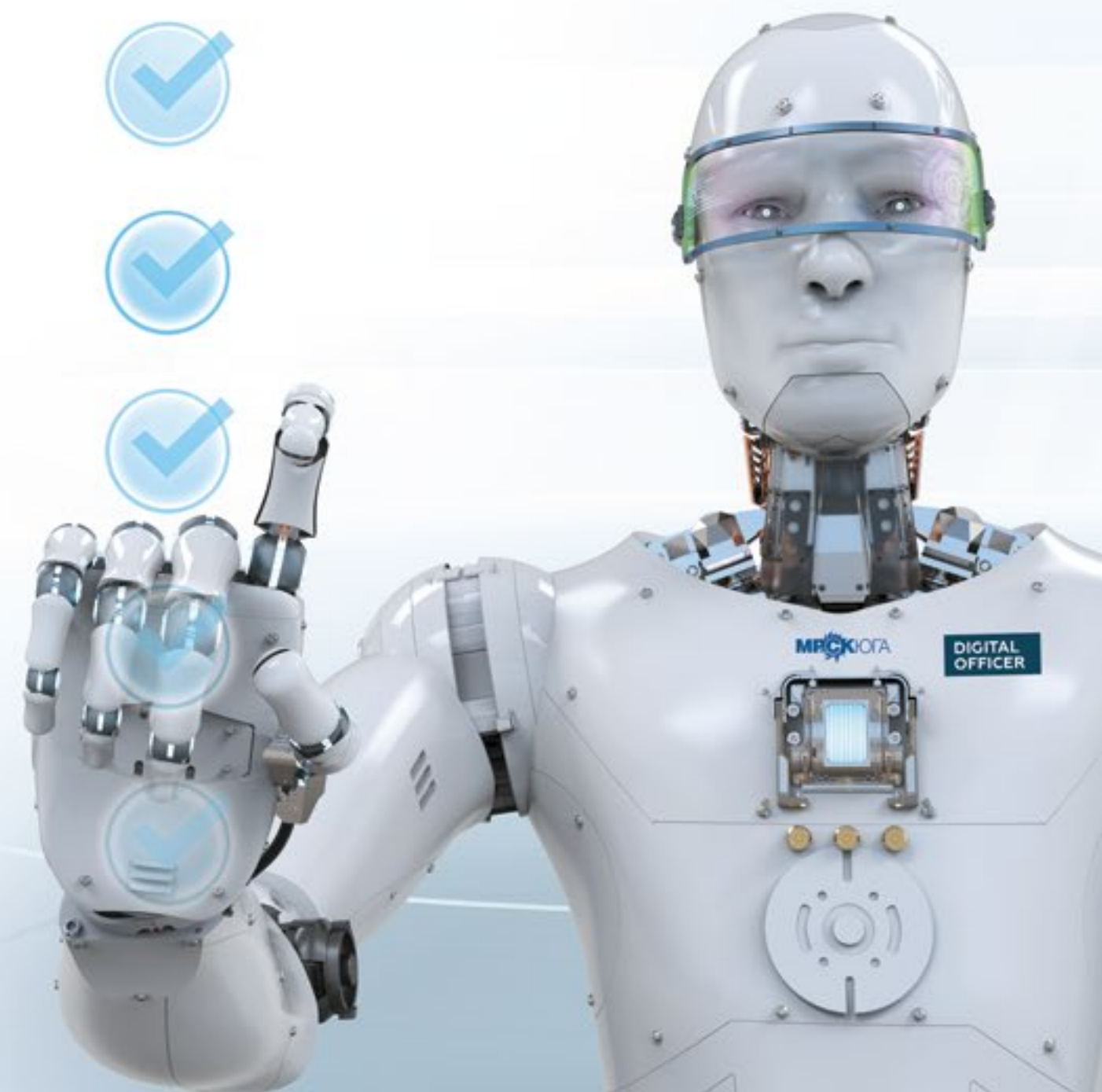
No.	Asset	Asset inventory No. (if applicable)	Balance sheet item containing the asset as at the reporting date prior to the asset divestment	Items (analytics included) containing asset disposal income and expenditure	The carrying amount of the asset, RUB thous.	Actual realisable value, RUB thous.	Deviation of actual realisable value from the carrying amount, RUB thous.
1	Single-storey modular garage building	345600010177	1152	91.01 – Income from the sale of fixed assets, apart from apartments 91.02 – Expenditure from the sale of fixed assets, apart from apartments	0.00	130.00	–
2	Garage building	345500012805	1152	91.01 – Income from the sale of fixed assets, apart from apartments 91.02 – Expenditure from the sale of fixed assets, apart from apartments	25.39	117.00	–
3	Shop building of the energy sales base at Kotelnikovsky RPG	345500012806	1152	91.01 – Income from the sale of fixed assets, apart from apartments 91.02 – Expenditure from the sale of fixed assets, apart from apartments	0.00	–	–
4	Garage building	345400010382	1152	91.01 – Income from the sale of fixed assets, apart from apartments 91.02 – Expenditure from the sale of fixed assets, apart from apartments	147.81	290.00	–
Total					173.20	537.00	

Information on the structure of the Property Complex of IDGC of the South and amendments thereto for the period from January 1 to December 31, 2018 are given in Appendix 5 to this Annual Report.

6++ ONTO THE SCALE OF NATIONAL CORPORATE GOVERNANCE RATING

The experts of the Russian Institute of Directors during their annual monitoring noted a number of positive changes concerning the practice of corporate governance in IDGC of South. In particular, the positive dynamics within the field of compliance with the rights of shareholders, the activities of management and control bodies, within the field of disclosure of information were reported. The corporate governance practices in IDGC of the South is also characterized by the key positive aspects, as extending the Board of Directors competence in terms of approval of large transactions, implementing the competitive selection of goods and services suppliers. Generally recognized audit companies are involved into the audit of the company's financial statements under IFRS and RAS, there is a comprehensive regulation of the interests conflict of the Board of Directors members and Executive bodies, etc. Also, the company demonstrates its good level of disclosure concerning financial and non-financial information on its activities.

The rating score 6++ obtained by the Company, means that the company complies with the requirements of the Russian Legislation within the field of corporate governance, follows a significant number of recommendations of the Russian Code of Corporate Governance, and is characterized by relatively low risks of loss of owners associated with the quality of corporate governance.



next up

5 CORPORATE GOVERNANCE

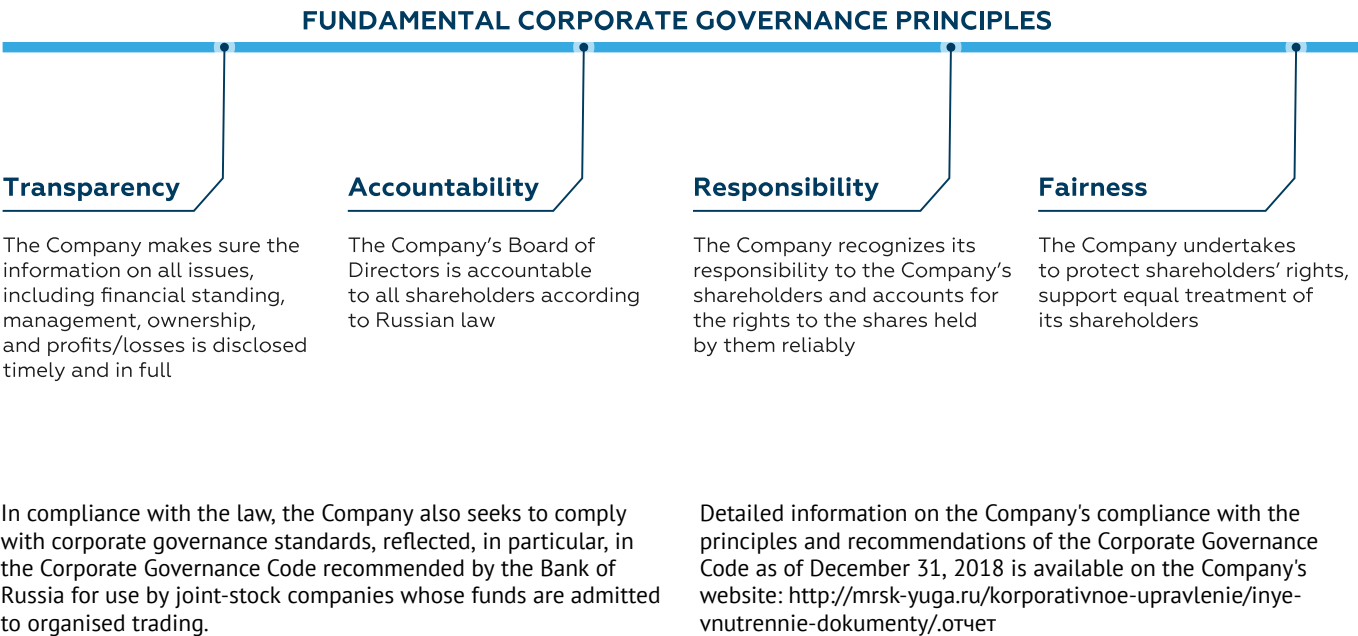
Corporate governance

Corporate governance system

Corporate governance in Company is a set of processes that provide management and control over its activities and include relations between shareholders, the Board of Directors and executive bodies of the Company in the interests of all participants of Corporate Governance.

According to investors, high-quality corporate governance ensures management integrity and transparency of the Company's activities, and therefore the risk of funds loss is significantly reduced.

Corporate governance in Company is carried out in accordance with the laws of the Russian Federation, the Company's Charter, internal documents regulating the activities of the management and governing bodies of the Company, the Corporate Governance Code¹, the Regulations on the Company's information policy, and other internal documents of the Company.



CORPORATE EVENTS CALENDAR IN 2018

Event	January	February	March	April	May	June	July	August	September	October	November	December	Total
General Meeting of Shareholders	–	–	–	–	–	1	–	–	–	–	–	–	1
Board meetings	1	5	6	3	4	4	2	4	1	4	1	6	41
Board Committees:													
– on audit	1	–	2	2	1	1	–	1	1	1	2	1	13
– on staff and remuneration	1	–	1	1	1	–	–	1	1	2	–	2	10
– on strategy, development, investment and reform	2	3	1	3	3	1	–	2	2	–	1	4	22
– on reliability	1	1	1	1	1	–	–	2	1	–	1	2	11
– on technological connection	1	–	–	1	–	1	–	–	1	1	–	1	6
Management Board	2	2	4	3	3	6	3	5	3	3	3	6	43

PROPERTY MANAGEMENT

As of December 31, 2018, IDGC of the South PJSC is the founder of three companies in which it owns 100% of the voting shares in each:

- > Energoservis of the South JSC
- > AE Sokolovskoye JSC;
- > Energetik Recreation Centre JSC.

Detailed information is provided in Appendix No. 4 to this Annual Report.

IDGC of the South PJSC carries out the corporate management of subsidiaries and affiliates through its representatives in the governing bodies of subsidiaries and affiliates according to the current legislation of the Russian Federation, the charters of IDGC of the South PJSC and subsidiaries and affiliates and Coordination Procedure of OJSC "Interregional Distribution Grid Company of the South" with business companies, whose shares are owned by IDGC of the South OJSC (Procedure), approved by the Board of Directors of the Company (Report No. 24/2009 of March 10, 2009).

In accordance with the Procedure, the Board of Directors of IDGC of the South PJSC determines the position of the Company on the agendas issues of General Meetings of Shareholders and meetings of boards of directors of subsidiaries and affiliates (instructing representatives of the Company to participate or not to participate in voting on agenda issues, vote on draft decisions "in favour", "against", "abstained"), including on the approval of the business plan (adjusted business plan) of the subsidiaries and affiliates, reports on the business plan implementation of the subsidiaries and affiliates, the distribution of profits and losses

based on financial results of the year, recommendations on the amount of dividend on shares and its payment procedure.

In 2018, 23 meetings of Boards of Directors of subsidiaries and affiliates were held, at which more than 80 issues were considered.

In order to minimise risks of non-compliance by subsidiaries and affiliates with the requirements of the current legislation of the Russian Federation in the field of information disclosure, the Company continuously monitored subsidiaries and affiliates by monitoring public information sources.

Information on the participation of the Company in commercial organisations, including the subsidiaries and affiliates of the Company, is given in Appendix 4 to this Annual Report.

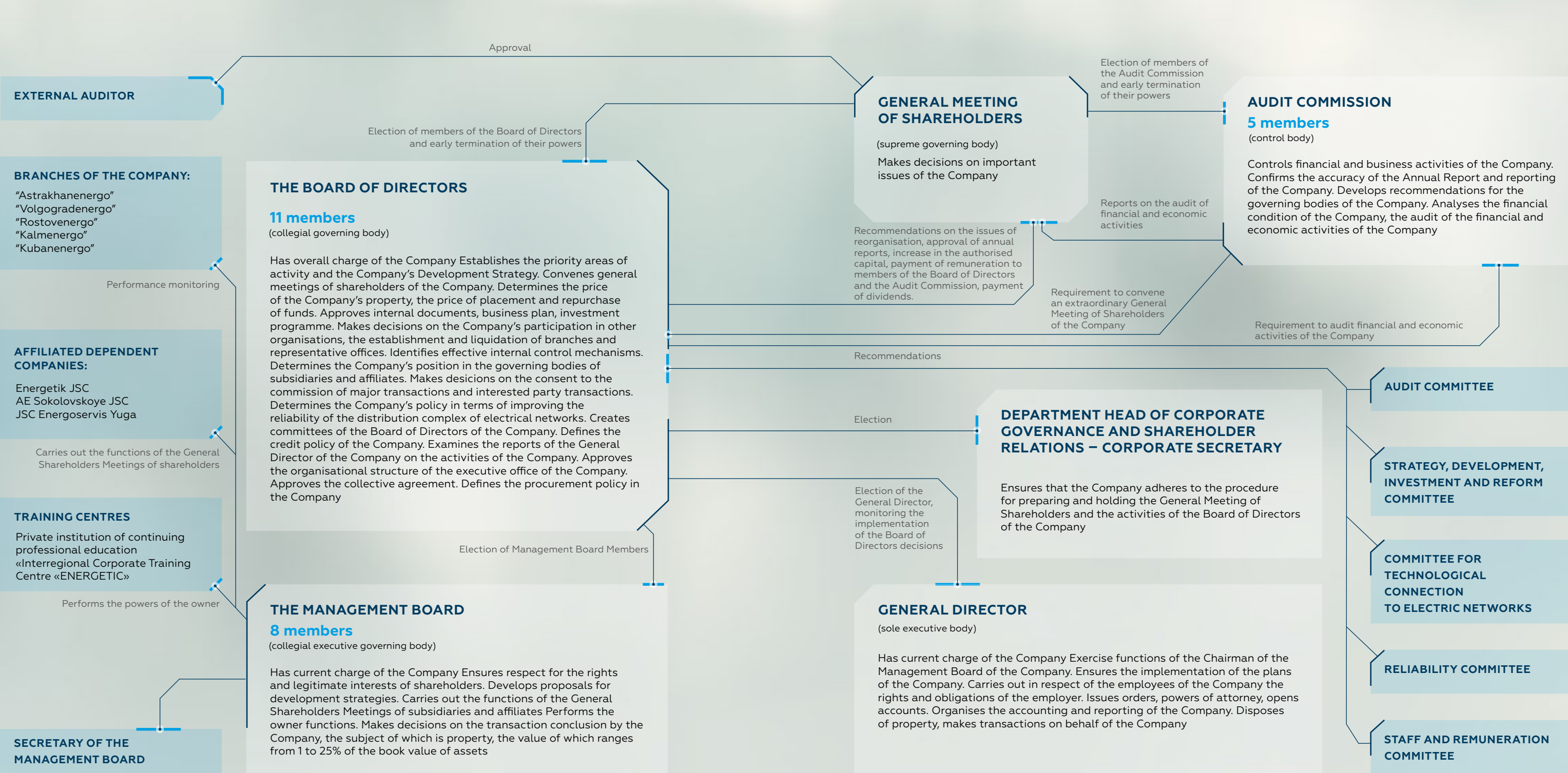
INFORMATION ON MAJOR TRANSACTIONS, AS WELL AS INTERESTED PARTY TRANSACTIONS

In 2018, the Company did not enter into transactions recognised as large transactions in accordance with the Federal Law "On Joint Stock Companies".

In 2018, the Company concluded two interested party transactions. Information on interested party transactions in IDGC of the South PJSC in 2018 is presented in Appendix 3 to the Annual Report.

1. Approved by decision of the Board of Directors of the Company in the new edition of October 31, 2017, the Report No.248/2017 of November 2, 2017, uploaded on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/inye-vnutrennie-dokumenty/>.

CORPORATE MANAGEMENT AND CONTROL SCHEME OF IDGC OF THE SOUTH PJSC



Corporate Governance Development in 2018

The corporate governance of the Company is based on the understanding that the long-term success of the Company is the result of teamwork, in which not only owners and top managers participate, but also ordinary employees, investors, suppliers, creditors and other partners. Mutually beneficial cooperation with each interested person is a contribution to the effective development and high competitiveness of the enterprise.

The most compelling argument in favour of improving the corporate governance system in 2018 is that such an improvement contributed to the growth of the Company's profitability.

In the reporting period, in order to bring the internal documents of the Company into compliance with the requirements of the Federal Law "On Joint-Stock Companies", the Corporate Governance Code and the established corporate governance practices in the Rosseti group of companies in new editions were approved by the Charter of the Company and Regulations:

- > on the Board of Directors of the Company;
- > about the Management Board of the Company;
- > Regulations on the information policy and dividend policy of IDGC of the South PJSC.

Thus, by decisions of shareholders changes made in the part of quorum defining for holding a meeting of the Board of Directors of the Company when deciding whether to agree to or to subsequently approve interested party transactions (Article 18 of the Charter), as well as in the part of the procedure for sending to the Company a Notification on possible signs of interest in the conclusion of transactions by the joint-stock company, as well as the Notification on the change of information containing indications of possible signs of interest in the conclusion of the transactions by the joint-stock company (Article 26 of the Company Charter). The procedure was clarified in terms of the organisation of accounting and tax accounting and reporting in the Company, the storage of accounting documents (in Art. 23 of the Company's Charter), and also in terms of the procedure for storing documents and the provision of information by the Company (in Art. 26 of the Company's Charter).

In addition, in order to reduce the cost of preparing and holding the General Meetings of Shareholders of the Company, the possibility of sending ballots to shareholders via e-mail and by posting them on the Company's official website on the Internet is additionally provided. The method of sending ballots in accordance with the new edition of the Charter is determined by the decision of the Board of Directors in preparation for the General Meeting of Shareholders. The changes affected Art. 11 and 12 of the Charter of the Company.

The same decision approves amendments to the Regulation on the Board of Directors of IDGC of the South PJSC, aimed at creating the possibility of using modern software to organise and conduct meetings of the Board of Directors of the Company, including the use of e-mail of the Board of Directors members and/or automated information system when sending out notifications of meetings, materials on the agenda, questionnaires for absentee voting, reflection of voting results and bringing decisions made to members of the Board of Directors.

The new edition of the Regulation on the Board of the Company provided for the introduction of changes related to the need to bring the Regulations of the Company in compliance with the legislation of the Russian Federation, namely, paragraph 1 and 2 of Art. 82 of the Federal Law "On Joint-Stock Companies" in terms of securing the obligation of members of the Board to notify the Company about signs of possible interest, as well as a new procedure for providing shareholders with access to the Reports of the Board in accordance with Art. 89–91 of the Federal Law "On Joint Stock Companies".

According to the new edition of the Regulation on the payment of remuneration and compensation to the members of the Audit Commission of the Company, the new edition specifies the deadlines for the payment of remuneration to members of the Audit Commission.

The main amendments to the Regulations on the dividend policy of IDGC of South PJSC in the new edition are related to clarifying the procedure for calculating dividends for the fiscal year and interim dividends (taking into account synchronisation with the decree of the Government of the Russian Federation of May 29, 2017 No. 1094-p), as well as conditions and grounds for payment of interim dividends.

Information technologies, which allow to bring information disclosure processes to a new level play highly important role in improving corporate governance. Placing on the website of the Company interactive annual reports, holding forums for shareholders, as well as the emergence of the opportunity to participate in General Meetings of Shareholders by filling in electronic bulletins contributed to improving interaction with shareholders and investors at a qualitatively new level.

Documents regulating the work of the corporate governance system of the Company can be found on the corporate website of the Company: <http://mrsk-yuga.ru/korporativnoe-upravlenie/vnutrennie-polozeniya/>.

CORPORATE GOVERNANCE EVALUATION

INFORMATION ON THE IMPLEMENTATION OF THE CORPORATE GOVERNANCE CODE

Corporate governance principles	Number of Code recommendations evaluated	2017						2018
		Observed	Observed partially	Not observed	Observed	Observed partially	Not observed	
Shareholder rights and equality of conditions for shareholders in the implementation of their rights	13	11	2	0	11	2	0	
The Board of Directors of the Company	36	11	19	6	13	16	7	
Corporate Secretary	2	2	0	0	2	0	0	
Remuneration system for members of the Board of Directors, executive bodies and other key employees of the Company	10	6	3	1	6	3	1	
Risk Management and Internal Control System	6	6	0	0	6	0	0	
Company Pnformation Disclosure, Information Policy	7	5	2	0	6	1	0	
Major corporate action	5	2	2	1	2	2	1	
Total	79	43	28	8	46	24	9	
	100 %							

Corporate governance independent evaluation

The Russian Institute of Directors, following the results of the assessment of corporate governance activities for the period of 2018, confirmed rating of IDGC of the South PJSC on the National Corporate Governance Rating scale at NRCG 6 ++ level – "Good Practice of Corporate Governance".

According to experts of the Russian Institute of Directors in the notification on confirmation of the of IDGC of the South PJSC (hereinafter referred to as IDGC of the South) rating, during the monitoring period (from January 1 to December 20, 2018) there were a number of positive changes in the practice of corporate governance in IDGC of the South. Thus, the experts identified the presence of new positive moments in the field of observance of the shareholders rights, the activities of management and control bodies and in the field of information disclosure.

In addition, in the notification of the Russian Institute of Directors, the positive corporate governance practices of IDGC of the South are characterised by such key positive aspects as the expansion of the competence of the Board of Directors in terms of approving material transactions, the competitive selection of suppliers of goods and services, generally recognised auditing companies are involved in auditing the Company's financial statements in accordance with IFRS and RAS, there is a comprehensive regulation of the conflict of interests of members of the Board of Directors and executive bodies, etc. The Company also demonstrates a good level of financial and non-financial information disclosure about its activities.

As a result of the analysis, the IDGC of the South rating is confirmed at the level of 6 ++ "Good practice of corporate governance".

It should be noted that the rating score of 6 ++ means that the company complies with the requirements of the Russian legislation in the field of corporate governance, follows a significant number of recommendations of the Russian Corporate Governance Code. The company is characterised by relatively low risks of owners' loss associated with the corporate governance quality.

PLANS FOR CORPORATE GOVERNANCE DEVELOPMENT

In the future, the Company seeks to form a positive dividend history. In addition, the Company expects independent directors to join the Board of Directors.

The company seeks to increase face-to-face meetings of the Board of Directors and the Board of Directors of IDGC of the South PJSC to evaluate its work and individual work of its members. In addition, the Company plans to prepare a social report that complies with the standards of Global Reporting Initiative and/or AA1000.

Governing bodies

GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY

In accordance with the Federal Law "On Joint Stock Companies" and the Charter of IDGC of the South PJSC, the supreme governing body of IDGC of the South PJSC is the General Meeting of Shareholders.

The Annual General Shareholders Meeting on the results of the activities of the Company in 2018 was held on June 9, 2018¹.

Major decisions:

1. the Board of Directors of the Company and the Audit Commission of the Company were elected ;
2. Ernst & Young LLC was approved as the auditor of the Company;
3. decision was made to pay dividends on the ordinary shares of the Company based on 2017 results.
4. The new editions approved:
 - > Charter of IDGC of South PJSC;
 - > Regulations on the Board of Directors of IDGC of the South PJSC;
 - > Regulations on the Management Board of IDGC of the South PJSC;
 - > Regulation on payment of remuneration and compensation to members of the Audit Commission of the Company in new edition.

DATA ON THE QUORUM OF GENERAL MEETINGS OF SHAREHOLDERS FOR THE LAST FIVE YEARS

Year	General Meeting of Shareholders	Date of the event	Quorum, %
2014	Extraordinary	14.03.2014	80.82
2014	Annual	25.06.2014	81.50
2015	Extraordinary	27.03.2015	79.82
2015	Annual	19.06.2015	79.27
2015	Extraordinary	30.12.2015	54.70
2016	Annual	06.06.2016	79.64
2017	Extraordinary	07.04.2017	81.20
2017	Annual	13.06.2017	80.99
2018	Annual	09.06.2018	83.30

1. The full text of decisions of the general meetings of shareholders of the Company can be found on the corporate website of the Company:<http://mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-obshchego-sobraniya-aktsionerov/>.

THE BOARD OF DIRECTORS OF THE COMPANY

The Board of Directors is a collegial governing body that exercises general management of the Company's activities, determines its Strategy, controls the activities of the Company's executive bodies and acts in accordance with the laws of the Russian Federation, the Charter, the Corporate Governance Code and the Regulations on the Board of Directors of IDGC of the South¹.

In accordance with paragraph 16.1 of Art. 16 of the Charter of the Company, the quantitative composition of the Board of Directors of the Company is 11 people. The competence of the Board of Directors of the Company has been expanded in comparison with the provisions of the Federal Law "On Joint-Stock Companies"². It additionally includes the following issues:

- > establishing of the priority areas of activity and the Company's Development Strategy;
- > approval of KPI target values of the Company and reports on their implementation;
- > approval of business plan of the Company, including the investment programme;
- > issues in the field of insurance, credit and procurement policies of the Company;
- > management and control issues of organisations in which the Company participates;
- > making decisions about obtaining consent for the Company to perform certain categories of transactions, etc.

Issues attributed to the competence of the Board of Directors of the Company cannot be transferred to the executive body of the Company for resolution.

The company considers important to have independent directors in the Board of Directors. According to the decision of the General Meeting of Shareholders held on June 9, 2018, independent director Morozov A.V. joined the current Board of Directors. Currently, elected members of the Board of Directors ensure that the interests of all groups of shareholders of the Company are respected and possess diverse knowledge and skills in the areas of accounting, strategic management, corporate management, corporate finance, risk management, as well as in areas specific to the power industry, which allows to effectively manage the Company.

Meetings of the Board of Directors are held on a scheduled basis and as needed, but not less than once every six weeks.

In order to increase the efficiency of activities and the awareness of the members of the Board of Directors in the Company, there is an introductory course for newly elected members of the Board of Directors by holding an introductory meeting with the Company's management, as well as familiarisation with the Company's internal documentation, procedure for preparing and conducting meetings, and providing advice on the Company's activities. Presentation materials with a list of internal documents of the Company and the main business processes governing the work of the Board of Directors of the Company are submitted to the newly elected members of the Board of Directors.

1. Approved by the decision of the Annual General Meeting of Shareholders on June 9, 2018 (Report No. 13 of June 15, 2018). The text can be found on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/dokumenty-reglamentiruyushchie-deyatelnost-organov-upravleniya-i-kontrolya-obshchestva/>.
2. The detailed competence of the Board of Directors of the Company and the procedure for nominating candidates to the Board of Directors of the Company are set forth in the Charter of IDGC of South PJSC in the Regulations on the procedure for preparing and holding the General Meeting of Shareholders of the Open Joint-Stock Company 'Interregional Distribution Grid Company of the South' posted on the Company's corporate website.

Structure of the Board of Directors

During 2018, two structures of the Board of Directors operated in IDGC of the South PJSC.

THE BOARD OF DIRECTORS ELECTED ON JUNE 13, 2017 BY DECISION OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY (REPORT NO. 17 OF JUNE 16, 2017)

Full name	Brief information ¹
Sergey Aleksandrovich Arkhipov <i>Chairman</i>	Chief Advisor of Rosseti PJSC Birth year: 1967 Education: higher education. Ph.D. in Economics
Olga Sergeevna Deniskina	Head of the Department for Ensuring the Current Activities of the Legal Protection Department of Rosseti PJSC Birth year: 1977 Education: higher education
Andrey Nikolaevich Meshcheryakov	Head of the department of survey and design work support and securing local approvals of Rosseti PJSC Birth year: 1979 Education: higher education
Aleksey Aleksandrovich Ozherelev	Head of the Directorate for Organising the Activities of the Management Board, Board of Directors and Interaction with Shareholders and Investors of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti PJSC Birth year: 1986 Education: higher education
Alexey Yuryevich Serov	Director of the Finance Department of Rosseti PJSC Birth year: 1979 Education: higher education. Master of Finance
Andrey Sergeevich Kolyada	Head of the Equity Capital Division of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti PJSC Birth year: 1984 Education: higher education
Yury Nikolaevich Pankstyanov	Director of the Tariff Policy Department of Rosseti PJSC Birth year: 1980 Education: higher education
Denis Aleksandrovich Spirin	Director for Corporate Governance of the Representative Office of Prosperity Management (RF) Ltd Birth year: 1980 Education: higher education
Alexander Nikolaevich Fadeev	Deputy General Director for Security of Rosseti PJSC Birth year: 1949 Education: higher education
Roman Alekseevich Filkin	Director of Electric Power Industry, Mechanical Engineering of Representative Office of Prosperity Capital Management (RF) Ltd. Birth year: 1983 Education: higher education
Boris Borisovich Ebzeev	General Director of IDGC of the South PJSC Birth year: 1975 Education: higher education. Ph.D. in Law

The current Board of Directors was elected by the decision of the Annual General Meeting of Shareholders of IDGC of the South PJSC². Shareholders of the Company in 2018 provided a high level of support to independent director Morozov A.V. when forming the structure of the Board of Directors.



Sergeeva Ol'ga Andreevna
Chairman of the Board of Directors, non-executive director

Birth year	1984
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors	09.06.2018/09.06.2018
Position at the time of election	Deputy General Director – Control Officer of Rosseti PJSC
Education	Higher education. Plekhanov Russian Academy of Economics Graduation year: 2006 Specialty: "Economics and enterprise management. Construction" Qualification: engineer-economist

Positions occupied in the last five years:
2018–31.12.2018 – Public Joint-Stock Company of Energy and Electrification of Kuban, Chairman of the Board of Directors;

2018–31.12.2018 – Interregional Distribution Grid Company of the North-West Public Joint-Stock Company, Chairman of the Board of Directors;

2018–31.12.2018 – Moscow United Electric Grid Public Joint-Stock Company, member of Board of Directors;

2018–31.12.2018 – Lenenergo Public Joint-Stock Company of Energy and Electrification, member of the Board of Directors;

2018–31.12.2018 – Interregional Distribution Grid Company of the North-West Public Joint-Stock Company, member of the Board of Directors;

2018–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, Chairman of the Board of Directors;

2017–31.12.2018 – Russian Networks Public Joint Stock Company, member of the Management Board, Deputy General Director – Head of the Apparatus;

2017–2018 – Russian Networks Public Joint Stock Company, Advisor, Chief Adviser;

2017–2017 – Department of Fuel and Energy of Moscow, Deputy Head of the Department of Housing and Communal Services of Moscow;

2016–2017 – Department of Fuel and Energy of Moscow, Deputy Head of the Department of Fuel and Energy of Moscow;

2015–2016 – Department of Fuel and Energy of Moscow, head of organisational and legal department;

2012–2015 – Department of Fuel and Energy of Moscow, head of affair management;

1. The positions of the members of the Board of Directors of the Company are indicated at the time of nomination. Details are provided on the Company's website in the Annual Report for the previous period.
2. Annual General Meeting of Shareholders on June 9, 2018, Report No. 13 of June 15, 2018.



Andrey Sergeevich Kolyada
Member of the Board of Directors

Birth year	1984
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	06.06.2016/09.06.2018
Position at the time of election	Head of Securities and Disclosure of the Department for Corporate Governance and Interaction with Shareholders and Investors
Education	Higher education. State University of Management, Institute of Management in Energy, specialty "management of the organisation." Russian State University of Trade and Economics, specialty "jurisprudence", qualification - Master of Laws

Positions occupied in the last five years:
2017–31.12.2018 – Russian Networks Public Joint Stock Company, Head of Securities and Disclosure of the Department for Corporate Governance and Interaction with Shareholders and Investors;

2016–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, member of the Board of Directors;

2014–31.12.2018 – Yantarenergoservis Open Joint-Stock Company, member of Board of Directors;

2014–31.12.2018 – Dagestan Energy Retail Public Joint Stock Company, member of Board of Directors;

2014–2016 – Lenenergo Public Joint-Stock Company of Energy and Electrification, member of the Board of Directors;

2014–2016 – Uralenergotrans Limited Liability Company, member of Board of Directors;

2014–2015 – Real Estate of North-West Energy IC Open Joint-Stock Company, member of Board of Directors;

2014–2014 – Yantarenergoservis Open Joint-Stock Company, member of Board of Directors;

2014–2017 – Russian Networks Public Joint Stock Company, Head of the Equity Capital Division of the Department for Corporate Governance and Interaction with Shareholders and Investors



Andrey Nikolaevich Meshcheryakov
Member of the Board of Directors

Birth year	1979
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	13.06.2017/09.06.2018
Position at the time of election	Head of the department of survey and design work support and securing local approvals of of the Capital Construction Department of Rosseti PJSC
Education	Higher education. Stavropol State Agricultural Academy, electrotechnical engineer

Positions occupied in the last five years:
2017–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, member of the Board of Directors;

2014–31.12.2018 – Russian Networks Public Joint Stock Company, Head of the department of survey and design work support and securing local approvals;

2013–2014 – United Directorate for Design and Construction of the Centre for the Development and Commercialisation of New Technologies (Skolkovo Innovation Centre) Limited Liability Company, engineer



Aleksey Aleksandrovich Ozherelev <i>Member of Board of Directors, Chairman of the Audit Committee, member of the Human Resources and Remuneration Committee, member of the Committee for Strategy, Development, Investments and Reform</i>	
Birth year	1986
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	13.06.2017/09.06.2018
Position at the time of election	Head of the Directorate for Organising the Activities of the Management Board, Board of Directors and Interaction with Shareholders and Investors of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti PJSC
Education	Higher education. Moscow State University of Economics, specialty "finance and credit"
Positions occupied in the last five years: 2018–31.12.2018 - Open Joint-Stock Company "Russian Networks"/Russian Networks Public Joint Stock Company, Head of the Directorate for Organising the Activities of the Management Board, Board of Directors of the Corporate Governance Department; 2017–31.12.2018 – Yantarenergo Joint-Stock Company, member of Board of Directors; 2017–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, member of the Board of Directors; 2016–31.12.2018 – Federal Grid Company of the Unified Energy System Public Joint-Stock Company, corporate secretary; 2014–2017 – Kuban Energoservice Open Joint-Stock Company, member of Board of Directors; 2014–2017 – North Caucasus Interregional Distribution Grid Open Joint-Stock Company/North Caucasus Interregional Distribution Grid Public Joint-Stock Company, member of Board of Directors; 2014–2015 – Kurortenergo Limited Liability Company, member of Board of Directors; 2014–2015 – Real Estate of the Southern IC of Energy Open Joint Stock Company; 2013–2018 – Open Joint-Stock Company "Russian Networks"/Russian Networks Public Joint Stock Company, Head of the Directorate for Organising the Activities of Management Bodies, Head of the Directorate for Organising the Activities of the Management Board, Board of Directors and Interaction with Shareholders and Investors of the Department for Corporate Governance and Interaction with Shareholders and Investors	



Andrey Vladimirovich Morozov <i>Member of Board of Directors, member of the Audit Committee, member of the Human Resources and Remuneration Committee, member of the Committee for Strategy, Development, Investments and Reform</i>	
Birth year	1978
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Lancrenan Investments Limited Company
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	09.06.2018/09.06.2018
Position at the time of election	Legal Director of the Professional Investors Association
Education	Higher education. Russian Law Academy of the Ministry of Justice of the Russian Federation. Gavrard School of Law, Master of Laws
Positions occupied in the last five years: 2018–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, member of the Board of Directors; 2018–31.12.2018 – Interregional Distribution Grid Company of the Centre and Volga Public Joint-Stock Company, member of the Board of Directors; 2017–31.12.2018 – Association of Professional Investors, Legal Director; 2008–2014 – Ulyanovsk Automobile Plant Open Joint-Stock Company, member of Board of Directors; 2003–2015 – Moscow office of NCH Advisors, Inc., Head of Legal Department	
Aleksey Yuryevich Perets <i>Member of Board of Directors, Chairman of the Human Resources and Remuneration Committee</i>	
Birth year	1980
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	09.06.2018/09.06.2018
Position at the time of election	Chief Advisor of Rosseti PJSC
Education	Higher education. St. Petersburg State University
Positions occupied in the last five years: 2018–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, member of the Board of Directors; 2018–31.12.2018 – Tyumenenergo Public Joint-Stock Company, member of Board of Directors; 2018–31.12.2018 – Tomsk Distribution Public Joint Stock Company, Chairman of Board of Directors; 2018–31.12.2018 – Interregional Distribution Grid Company of the North Caucasus Public Joint-Stock Company, Chairman of the Board of Directors; 2017–31.12.2018 – Russian Networks Public Joint Stock Company, Chief Advisor of Rosseti PJSC; 2011–2017 – own business projects in the fuel and energy complex	



Alexey Yuryevich Serov
Member of Board of Directors, member of the Audit Committee

Birth year	1979
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	13.06.2017/09.06.2018
Position at the time of election	Director of the Finance Department of Rosseti PJSC
Education	Higher education. Moscow State University named after M.V. Lomonosov, Faculty of Mechanics and Mathematics (specialty "applied mathematics"). Russian economic school. Master of Finance. Russian Economic University named after G.V. Plekhanov, specialties "banking", "risk management"

Positions occupied in the last five years:
2017–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, member of the Board of Directors;

2017–31.12.2018 – Interregional Distribution Grid Company of the Urals Public Joint-Stock Company, member of the Board of Directors;

2016–2017 – Tomsk Distribution Public Joint Stock Company, member of Board of Directors;

2016–2017 – Real Estate IC NG Joint Stock Company, member of Board of Directors;

2016–2017 – Public Joint-Stock Company of Energy and Electrification of Kuban, member of the Board of Directors;

2015–2017 – Ingushenergo Joint-Stock Company of Energy and Electrification, member of the Board of Directors;

2013–31.12.2018 – Russian Networks Open Joint-Stock Company/Russian Networks Public Joint-Stock Company, Director of the Finance Department



Lyudmila Vasilyevna Selivanova
Member of the Board of Directors

Birth year	1958
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	09.06.2018/09.06.2018
Position at the time of election	Chief Advisor of Rosseti PJSC
Education	Higher education. Moscow State University named after M.V. Lomonosov, Candidate of Economic Sciences

Positions occupied in the last five years:
2018–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, member of the Board of Directors;

2018–31.12.2018 – Interregional Distribution Grid Company of the Volga Public Joint-Stock Company, member of the Board of Directors;

2018–31.12.2018 – Public Joint-Stock Company of Energy and Electrification of Kuban, member of the Board of Directors;

2018–31.12.2018 – Russian Networks Public Joint Stock Company, Deputy General Director for Government Relations;

2017–2018 – Russian Networks Public Joint Stock Company, Advisor, Chief Adviser;

2013–2014 – European Institute JUSTO, Head of the Department of Problems of National Economy Development; Head of the Department of Economic Policy, Taxes and Taxation



Farit Gabdulfatovich Shaydullin
Member of the Board of Directors

Birth year	1955
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	09.06.2018/09.06.2018
Position at the time of election	Head of the Analytical Department of the Situation-Analytical Centre of Rosseti PJSC
Education	Higher education. Ural Electromechanical Institute of Railway Service

Positions occupied in the last five years:
2018–31.12.2018 – Interregional Distribution Grid Company of the South Public Joint-Stock Company, member of the Board of Directors;

2015–31.12.2018 – Interregional Distribution Grid Company of the Volga Public Joint-Stock Company, member of the Board of Directors;

2015–2016 – Interregional Distribution Grid Company of the North Caucasus Public Joint-Stock Company, member of the Board of Directors;

2016–2014 – Interregional Distribution Grid Company of the South Open Joint-Stock Company, member of the Board of Directors;

2013–31.12.2018 – Russian Networks Open Joint-Stock Company/Russian Networks Public Joint-Stock Company, Head of the Analytical Department of the Situational Analytical Centre



Roman Alekseevich Filkin

Member of Board of Directors, member of the Committee for Strategy, Development, Investments and Reform

Birth year	1983
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Lancrenan Investments Limited Company
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	04.07.2011/09.06.2018
Position at the time of election	Director for Electric Power Industry and Machine Building of the Representative Office of Prosperity Capital Management (RF) Ltd.
Education	Higher education. Finance Academy under the Government of the Russian Federation

Positions occupied in the last five years :	
2011–31.12.2018 – Interregional Distribution Grid Company of the South Open Joint-Stock Company/Interregional Distributive Grid Company of the South Public Joint-Stock Company, member of Board of Directors;	
2016–31.12.2018 – Kamensk-Uralsk Plant for Processing Non-Ferrous Metals Open Joint-Stock Company, member of Board of Directors;	
2015–31.12.2018 – Representative Office of Prosperity Capital Management (RF) Ltd., Director for Electric Power Industry and Mechanical Engineering;	
2014–31.12.2018 – Interregional Distribution Grid Company of the Northwest Open Joint-Stock Company/Interregional Distributive Grid Company of the Northwest Public Joint-Stock Company, member of Board of Directors;	
2013–2018 – Territorial Generating Company No. 2 Open Joint-Stock Company/Territorial Generating Company No. 2 Public Joint-Stock Company, member of Board of Directors;	
2013–2018 – Smolensk Energy Repair Open Joint-Stock Company, member of Board of Directors;	
2012–2016 – Far Eastern Joint-Stock Company for the Installation of Thermal Power Equipment Open Joint-Stock Company, member of Board of Directors;	
2012–2015 – Urengoytruboprovodstroy Open Joint-Stock Company, member of Board of Directors;	
2012–2014 – Noyabrsk elektros etstroy Open Joint-Stock Company, member of Board of Directors;	
2012–2014 – Prokatmontazh Open Joint-Stock Company, member of Board of Directors;	
2012–2014 – Kurgan Machine-Building Plant Open Joint-Stock Company;	
2009–31.12.2018 – Interregional Distribution Grid Company of the Centre and Volga Open Joint-Stock Company/Interregional Distributive Grid Company of the Centre and Volga Public Joint-Stock Company, member of Board of Directors;	
2009–31.12.2018 – Interregional Distribution Grid Company of the Centre Open Joint-Stock Company/Interregional Distributive Grid Company of the Centre Public Joint-Stock Company, member of Board of Directors;	
2009–2015 – Representative Office of Prosperity Capital Management (RF) Ltd., Joint Director for Electric Power Industry and Mechanical Engineering;	
2006–2014 – Territorial Generating Company No. 6 Open Joint-Stock Company, member of Board of Directors	



Boris Borisovich Ebzeev

Member of the Board of Directors, Chairman of the Management Board

Birth year	1975
Citizenship	Russian Federation
Nominated by (representative of shareholders groups)	Rosseti PJSC
Date of initial/last election to the Board of Directors of IDGC of the South PJSC	27.03.2015/09.06.2018
Position at the time of election	General Director of IDGC of the South PJSC
Education	Higher education. Lomonosov Moscow State University, specialty "jurisprudence", qualification - lawyer. Ph.D. in Law. Awarded the title "Honoured Energy Worker"

Positions occupied in the last five years:	
2018–31.12.2018 – Volgograd Inter-district Electric Networks Joint-Stock Company/Volgograd Inter-district Electric Networks Public Joint-Stock Company, Chairman of the Board of Directors;	
2015–31.12.2018 – Interregional Distribution Grid Company of the South Open Joint-Stock Company/Interregional Distributive Grid Company of the South Public Joint-Stock Company, member of Board of Directors;	
2014–31.12.2018 - Open Joint-Stock Company "Interregional Distribution Grid Company of the South"/Public Joint-Stock Company "Interregional Distributive Grid Company of the South", Chairman of the Management Board, General Director;	
2014–2019 – Donenergo Open Joint-Stock Company/Donenergo Joint-Stock Company, member of Board of Directors;	
2014–2014 – Open Joint-Stock Company "Interregional Distribution Grid Company of the South", First Deputy General Director;	
2012–2014 – United Energy Open Joint-Stock Company, Advisor to the General Director	

General Information about the Board Members and Conflicts of Interest

In the reporting period, none of the members of the Board of Directors of IDGC of the South PJSC:

- > did not own the shares of IDGC of the South PJSC and subsidiaries and affiliates and did not make transactions on their acquisition or alienation;
- > has no family ties with the persons that are members of the governing bodies and (or) control over the financial and economic activities of IDGC of the South PJSC;
- > not brought to administrative responsibility for offences in the field of finance, taxes and fees, the securities market or criminal liability for crimes in the field of economics or for crimes against state power;
- > did not occupy positions in the management bodies of commercial organisations during the period when a bankruptcy case was initiated and/or one of the bankruptcy procedures provided for by the legislation of the Russian Federation on insolvency was instituted (bankruptcy);

- > did not have a conflict of interest with members of the Board of Directors and the executive bodies of IDGC of the South PJSC (including related to the participation of the said persons in the governing bodies of the Company's competitors);
- > did not provide information about the acquisition possibility or the acquisition by certain shareholders of the control degree disproportionate to their participation in the authorised capital of the Company, including on the basis of shareholder agreements, the presence of ordinary shares with different nominal values.

The agreement of all members of the Board of Directors to disclose information about them in this Annual Report was obtained.

Board of Directors activities in 2018

In the reporting year 2018, 41 meetings of the Board of Directors of the Company were held (of which two meetings – in the form of joint attendance and 39 meetings – in the form of absentee voting), at which about 200 issues were considered.

Information on the participation of members of the Board of Directors in meetings held in 2018

STRUCTURE OF THE BOARD OF DIRECTORS UNTIL JUNE 9, 2018

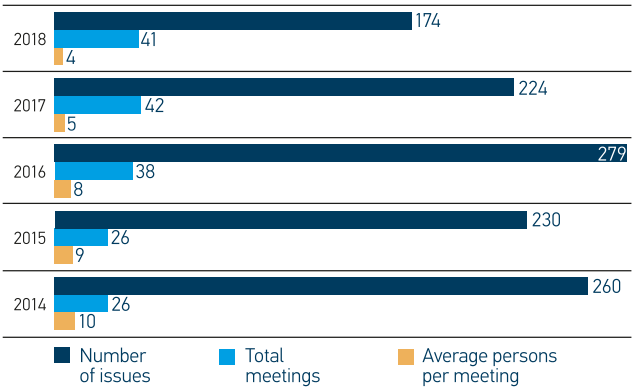
Full name	Participation Information ¹
Arkhipov S.	21/21
Deniskina O.	21/21
Meshcheryakov A.	21/21
Serov A.	20/21
Kolyada A.	21/21
Pankstyanov Yu.	21/21
Ozherelev A.	21/21
Fadeev A.	21/21
Filkin R.	21/21
Spirin D.	21/21
Ebzeev B.	21/21

1. Information on participation is presented in X/Y format, where X is the number of meetings of the Board of Directors in which the director had to take part, and Y is the number of meetings of the Board of Directors in which the director took part.

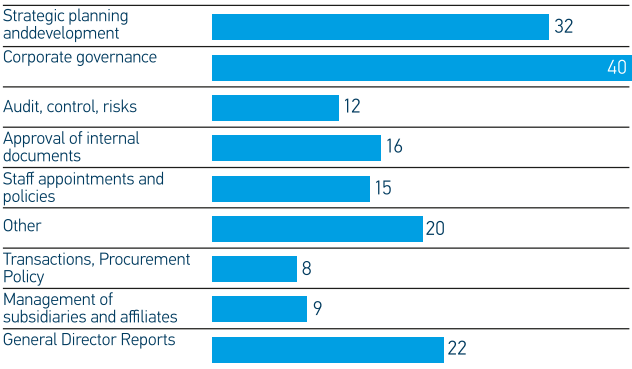
STRUCTURE OF THE BOARD OF DIRECTORS SINCE JUNE 9, 2018

Full name	Participation Information ¹
Sergeeva O.	20/20
Selivanova L.	17/20
Meshcheryakov A.	20/20
Serov A.	20/20
Kolyada A.	20/20
Shaydullin F.	20/20
Ozherelev A.	20/20
Perets A.	19/20
Filkin R.	20/20
Morozov A.	20/20
Ebzeev B.	20/20

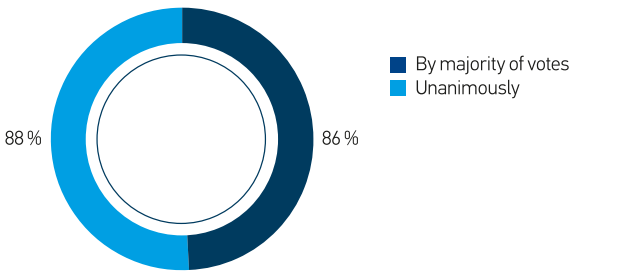
AVERAGE NUMBER OF ISSUES REVIEWED BY THE BOARD OF DIRECTORS OVER FIVE YEARS



SUBJECTS OF THE ISSUES CONSIDERED BY THE BOARD OF DIRECTORS



NATURE OF VOTING ON ISSUES IN 2018



1. Information on participation is presented in X/Y format, where X is the number of meetings of the Board of Directors in which the director had to take part, and Y is the number of meetings of the Board of Directors in which the director took part.

KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2018

Management of subsidiaries and affiliates	On determination of position of the Company on the meeting agenda of the Board of Directors of AE Sokolovskoye JSC: "On the election of the General Director of AE Sokolovskoye JSC for a new term". On participation termination of IDGC of the South PJSC in AE Sokolovskoye JSC through the disposal of shares. On participation termination of IDGC of the South PJSC in Recreation centre "Energetik" JSC through the disposal of shares
Strategic planning and development	On the interaction with the executive authorities of the constituent entities of the Russian Federation on synchronisation of the implementation of a single centre of competence on the future development of the electric power industry (Energosetproekt Institute JSC) of the schemes and development programmes of the electric power industry of the constituent entities of the Russian Federation for a five-year perspective period and the Comprehensive Programmes for the development of electric networks for a five-year perspective . On approval of the Schedule of activities of IDGC of the South PJSC to reduce overdue receivables for electric power transmission services and dispute settlement
Corporate governance	On making changes to the Decision and the Prospectus on the additional issue of securities of IDGC of the South PJSC and approval of the corresponding changes. On consideration of proposals of shareholders of the Company to include issues on the agenda of the Annual General Meeting of Shareholders of the Company and to nominate candidates to the governing and control bodies of the Company. On convocation of the Annual General Meeting of Shareholders of the Company and consideration of other issues related to its holding. On approval of the Work Plan of the Board of Directors of IDGC of the South PJSC for the second half of 2018 – the first half of 2019, etc. On committees of the Board of Directors of the Company
General Director Reports	On the report consideration of the General Director of the Company on the readiness of IDGC of the South PJSC to the autumn-winter period of 2018–2019. On approval of the report on the execution of business plan of IDGC of the South PJSC. On consideration of reports on the Company's credit policy. Consideration of the report of the sole executive body of the Company on the approval of the investment programme in the Ministry of Energy of Russia and the reasons for the deviations in the approved investment programme from the project approved by the Board of Directors of the Company (if there are deviations)
Transactions, Procurement Policy	On affiliating with the changes of the Unified Procurement Standard of Rosseti PJSC (Procurement Regulations). On approval of the composition of the Central Procurement Body of the Company – the Central Competition Commission of IDGC of the South PJSC. On consideration of the Procurement Plan of goods, works, services of IDGC of the South PJSC for 2019. On authorisation of transaction into an interested party transaction – agreement on delivery, work within the framework of the introduction of 10 kV commercial metering points at the border of balance sheet ownership with the organisation of remote data collection between IDGC of the South PJSC and Management FOCL-OHPL JSC. On preliminary approval of the decision on the transaction of the Company related to the alienation of immovable property constituting fixed assets, the purpose of which is not the production, transmission, dispatching, distribution of electric and thermal energy – property of the Zelenaya Roshcha recreation centre, located at: Levoberezhnaya st. 23, Kirov District, Rostov-on-Don, Rostov Region
Staff appointments and policies	On preliminary approval of the Collective Agreement of IDGC of the South PJSC for 2019-2021. On approval of candidates for certain positions in the executive office of the Company, determined by the Board of Directors of the Company. On the coordination of combining the members of the Management Board of IDGC of the South PJSC with positions in the management bodies of other organisations, etc.
Approval of internal documents	On amendments being made to the Regulation on the Dividend Policy of IDGC of the South PJSC. On approval of the Information Technology, Automation and Telecommunication Policy. On approval of the Programme for modernisation (renovation) of the electric grid facilities of IDGC of the South PJSC for the period of 2018–2026. On amendments being made to the Regulation on non-state pension provision for employees of IDGC of the South PJSC. On adjustment of the measures programme to reduce electrical energy losses in the grid complex of IDGC of the South PJSC for 2017 and the period up to 2021
Audit, control, risks	On consideration of the results of anti-corruption monitoring of IDGC of the South PJSC for 2017. On management of key operational risks of the Company. On consideration of the internal audit report on the results of the audit of the identification and sale of non-core assets of the Company
Other	On approval of the Methodological Guidelines for the identification of power reserves at the power centres of IDGC of the South, PJSC in a new edition. On the implementation of the Register of non-core assets of the Company. On the implementation progress of the Company's investment projects included in the list of priority objects. On provision of insurance protection of the Company

Report of the Board of Directors of IDGC of the South PJSC on the results of the Company's development in priority areas of activity

In 2018, no decisions were made on priority areas on the Board of Directors of the Company.

In the reporting year, the Company continued to work on the implementation of priority areas identified by the Board of Directors of the Company in previous periods.

Application of recommendations on the management of intellectual property rights.

On April 30, 2014, within the framework of consideration of the priority areas of IDGC of the South JSC activity (on the expediency of applying recommendations on managing intellectual property rights), the Board of Directors of the Company made decision on the expediency of applying methodological recommendations on managing intellectual property rights, developed by Ministry of Economic Development of Russia. In addition, the General Director of the Company is instructed to take into account the methodological recommendations on the management of rights to the results of intellectual activity in the preparation of measures for the implementation of the intellectual property management system at IDGC of the South JSC¹.

In accordance with the decision of the Board of Directors of the Company, IDGC of the South PJSC applies Methodological recommendations on managing intellectual property rights in organisations, developed by the Ministry of Economic Development, the requirements of which are duly taken into account when preparing measures for implementing the intellectual property management system of IDGC of the South PJSC.

In the process of conducting production activities by IDGC of the South PJSC, the requirements of the Recommendations on the management of intellectual property rights developed by the Ministry of Economic Development of the Russian Federation are fully taken into account, including the preparation of appropriate organisational measures for the implementation of the intellectual property management system at IDGC of the South PJSC.

Certification of equipment, materials and systems at the Company's facilities

On June 11, 2014, within the framework of consideration of the priority areas of IDGC of the South JSC (on certification of equipment, materials and systems at IDGC of the South JSC objects), the Board of Directors of the Company decided to entrust the General Director of the Company to create and make operational in IDGC of the South JSC "Commission on the admission of electrical equipment, materials in the 2nd quarter of 2014, as well as develop and approve the Regulations of the Commission operation on the admission of electrical equipment, materials and systems (Report No. 135/2014 of June 16, 2014).

As part of the implementation of this priority area in the Company due to changes in the organisational structure of IDGC of the South PJSC, and also in order to carry out activities regarding certification of equipment, materials and systems at the facilities of IDGC of the South PJSC, issued the Order No. 285 of May 12, 2016 "On Amendments to the Order No. 449 of June 30, 2014 of IDGC of the South PJSC "On Approval of the Regulations of the Commission for the admission of electrical equipment, materials and systems of IDGC of the South PJSC", which determined the composition of the Commission and approved the Regulations of the Commission on the admission of electrical equipment, materials and systems.

Ensuring the availability of energy infrastructure and the quality of technological connection to the Company's power grids

Increasing the energy infrastructure accessibility is one of the priorities of IDGC of the South PJSC.

In order to implement the Activity Plan (road map) "Improving the energy infrastructure accessibility", approved by the decree of the Government of the Russian Federation dated June 30, 2012 No. 1144-p, in 2018, IDGC of the South, PJSC has organized the following areas work:

- > the decree of IDGC of the South, PJSC dated December 25, 2017 No. 924 was issued "On the implementation of technological connection facilities of Doing Business category applicants";
- > the decree of IDGC of the South, PJSC dated April 13, 2018 No. 262 was issued "On the implementation of technological connection facilities of Doing Business category applicants";
- > The infrastructure of full-time services in the Company's branches has been modernized, which fully ensures the territorial accessibility of the Company's services. There are 12 customer service centres and 102 centres for working with consumers;
- > meetings with representatives of SMEs on technological connection were organized;
- > informational support and consumer awareness raising were carried out, including the promotion and development of interactive services:
- > Consumer forum on the official website (<http://dp.mrsk-yuga.ru/forum/>),
- > Sign up for Consumer's Day (<http://dp.mrsk-yuga.ru/>),
- > Feedback portal "Bright Country" (<http://dp.mrsk-yuga.ru/forum/>);
- > applications for technological connection with a capacity of up to 150 kW at voltages up to 10 kV inclusive are being received through the information and telecommunication network Internet through the personal account of the Portal for work with clients ("Portal-TP.rf" and My Account on the official website of the Company) with the ability to calculate the cost of technological connection using an interactive calculator;

1. Report No.132/2014 of May 5, 2014.

In accordance with the decree of the Government of the Russian Federation dated January 31, 2017 No. 147-p, the Company in 2018 organized work on the implementation of the target model "Technological connection to power grids".

In each region of the Company's presence, together with the executive authorities and branches of the Company, road maps of measures to achieve the indicators established in the target model "Technological connection to power grids" were developed and approved.

The implementation of road map events was organized on a regular basis, for which the network organization was responsible individual, as well as the provision of quarterly reports to the executive bodies by the branches.

The company organized interaction with regional executive authorities on a regular basis in order to take the necessary measures to implement the road map indicators, for which the responsible executives for achieving the target values are the relevant ministries and municipalities of the regions.

To study the consumer's opinions about the quality of provided services, surveys of consumers of services are regularly conducted. 1,424 respondents were surveyed in 2018.

The obtained statistic data indicate that consumers in general have a positive opinion of the level of customer service and are satisfied with the quality of the services rendered at branches of IDGC of the South, PJSC.

Improving the system of internal control and risk management, the development of the internal audit function

As a part of the improvement of the internal control and risk management systems in 2018, the Company carried out the following key activities.

1. In order to improve the management of key operational risks, the risks of core and other business processes, the introduction of a transparent and effective risk management system, Order No. 679 of September 27, 2018 approved a number of methodological documents in the field of risk management, including the form of risk passport and methodology operational risk assessment.
2. The Company approved the Action Plan for the management of key operational risks, risks of core and other business processes for 2018 (Minutes No. 298 of the Company's Management Board meeting dated November 22, 2018).
3. An order dated January 29, 2019 was developed according to the approval of the Procedure for determining the risk appetite of IDGC of the South, PJSC for 2019 and the Methodological Guidelines for the Assessment of Functional Risks, to determine the risk appetite.
4. For the effective functioning of the internal control system in accordance with common standards, the ROSSETI group of companies approved the Procedure for implementing the requirements of the Internal Control Policy of IDGC of the South, PJSC (order No. 52 dated January 26, 2018), in accordance with which, together with the process owners, a phased evaluation of the design and operational effectiveness of control procedures.
5. Order No. 802 dated November 13, 2018 updated the regulations of the Company's main business processes (19 business process regulations).
6. The process of updating the process control matrices in IDGC of the South, PJSC was organized (Order No. 926 dated December 26, 2018).
7. It is improved activities for managing key operational risks, operational risks of main and other business processes, introducing a transparent and effective risk management system, updating methodological documents in the field of evaluating operational risks and improving the effectiveness of risk management measures (Order No.679 dated September 27, 2018).
8. In order to improve the management efficiency of the integrated management system and to take into account the new requirements of the international standard ISO 9001: 2015, the order No. 686-A dated September 28, 2018 new version of the KSI ISM 80380011-IA/F-7220 002-2018 Guide to an integrated management system in areas of quality, ecology, health and occupational safety at IDGC of the South, PJSC is improved.
9. In order to determine a common procedure and rules for organizing measures for preparing for the stock-taking, stock-taking procedures during its conduct, and drawing up documents based on the results of the stock-taking, Order No. 718 dated October 11, 2018 amended the Methodological Recommendations for the stock-taking of capital, assets and liabilities.
10. A Methodology for Corruption Risk Assessment in PJSC ROSSETI and Subsidiaries and Affiliates PJSC ROSSETI was developed and approved (Order No. 199 dated March 23, 2018).

The Company has approved and implemented all necessary measures for the implementation of the Internal Control Policy and the Risk Management Policy, as well as the improvement of the internal control system and the risk management system in the Company.

Transfer of powers of the sole executive body of Donenergo JSC to the Company

On September 4, 2014, the Board of Directors of the Company prioritized the implementation of the powers of the sole executive body of Donenergo JSC.

In the reporting year, employees of IDGC of the South, PJSC in Volgogradsk, Rostov Region, organized an on-site meeting of the Technical Council of IDGC of the South, PJSC, which was also held with the direct participation of employees of Donenergo JSC.

The functionality of the automated transfer in the Ministry of Energy of Russia of data on the extent of cessation of transmission of electrical energy to consumers, indicated by network organizations in Records of the data of primary information on all cessation of transmission of electric energy (Form 8.1, approved by Order No. 1256 of the Ministry of Energy of Russia dated November 29, 2016).

During the period of 2018, IDGC of the South, PJSC, within the framework of its authority, ensured the joint operation of grid companies in order to:

- preparation of the World Cup 2018 objects in the Rostov region;
- timely execution of road map activities to achieve the indicators established in the target model "Technological connection to electric networks" of the Rostov region, approved on February 22, 2017 by the Governor of the Rostov region Golubev V. Yu.

During the period of validity of the contract of IDGC of the South, PJSC within the framework of its authority:

- > organized the reception of applications for technological connection on the principle of "one window" of IDGC of the South, PJSC and Donenergo JSC in the Rostov region, which allowed to increase the coverage of the population with the infrastructure of the adjacent network organization of Donenergo JSC, ensuring the principle of easy access to services. The presence of such a number of windows for the reception of applicants reduces the time to service citizens;
- > ensured the joint work of network companies in order to prepare the objects of the World Cup 2018 in the Rostov region;
- > organized the commissioning at Donenergo JSC of the corporate technological complex Technological Connection, which allows you to create a unified accounting and analytical system of the technological connection process and ensure the transparency of business processes for the provision of services and customer service.

On February 11, 2019, the sole shareholder of Donenergo, JSC, made a decision to terminate the powers of the sole executive body (ENO) of Donenergo, JSC, the management organization of IDGC of the South, PJSC. The deadline for IDGC of the South PJSC to fulfill the authority of Donorgo JSC AOI is March 14, 2019.

Remuneration (reimbursement of expenses) to members of the Board of Directors

The procedure for calculating and paying remuneration to members of the Board of Directors of the Company is established by the Regulations on Payment of Remuneration and Compensation to Members of the Board of Directors of IDGC of South, PJSC, in¹ accordance with which each member of the Board of Directors of the Company participates in the Board of Directors taking into account the total the number of meetings of the Board of Directors of the Company for the past corporate year and the number of meetings in which a member of the Board of Directors participated, according to the following formula:

$$S(1) = V_{\text{baza}} \times 100/130 \text{ (n / m)},$$

where S (1) is the remuneration for participation in the Board of Directors of the Company; Vbaza - the basic part of remuneration; n is the number of meetings of the Board of Directors (regardless of the form in which they are held) in which a member of the Board of Directors participated in the period between the annual General Shareholders' Meetings;

m is the total number of meetings of the Board of Directors (regardless of the form in which they are held) in the period between the annual General Shareholders' Meetings.

The size of the basic part of the remuneration (Vbaza) is established on the basis of the Company's revenue, calculated under RAS for the financial year, and is:

Revenue, bn rubles	V _{baza} , rub.
Over 200	1 000 000
Over 30	900,000
Over 10	800,000
Over 1	700,000
Over 0,6	600,000
Less than 0.6	500,000

In addition to the remuneration, the following allowances are established:

- > 30% of S (1) - to the Chairman of the Board of Directors of the Company;
- > 20% of S (1) - to the Chairman of the specialized committee under the Board of Directors of the Company;
- > 10% of S (1) - for membership in a specialized committee under the Board of Directors of the Company.

1. Approved by the decision of the annual General Meeting of Shareholders on June 19, 2015 (Minutes No. 13 of June 21, 2015). The text can be found on the Company's website: <http://mrsk-yuga.ru/korporativnoe-upravlenie/dokumenty-reklamiruyushchie-deyatelnost-organov-upravleniya-i-kontrolya-obshchestva/>.

Premiums for chairmanship and / or membership in a specialized committee are not paid if less than three meetings of the Committee of the Board of Directors were held during the corporate year.

A corporate year is the period from the moment of election of the personal composition of the Board of Directors at the annual General Meeting of Shareholders of the Company to the time of the subsequent annual General Meeting of Shareholders of the Company.

There are no arrears in the payment of remuneration to members of the Board of Directors for the last completed fiscal year.

THE AMOUNT OF REMUNERATION PAID IN 2018¹

Full name of the Member of the Board of Directors	Amount of remuneration, rub.
Sergey Aleksandrovich Arkhipov	1 123 290,11
Alexander Nikolaevich Fadeev	1 123 290,11
Olga Sergeevna Deniskina	915,597.80
Andrey Sergeevich Kolyada	984,828.57
Roman Alekseevich Filkin	1 123 290,11
Andrey Nikolaevich Meshcheryakov	915,597.80
Yury Nikolaevich Pankstyanov	915,597.80
Denis Aleksandrovich Spirin	915,597.80
Aleksey Aleksandrovich Ozherelev	984,828.57
Alexey Yuryevich Serov	915,597.80
Total	9 917 516,47

1. The remuneration was not paid to a member of the Board of Directors B. B. Ebzeev (Executive Director). The information on remuneration is disclosed on the website of IDGC of the South, PJSC as part of the quarterly report:<https://mrsk-yuga.ru/aktsioneru-investoru/ezhekvertalnyy-otchet-emitenta/>.

The total amount of remuneration to members of the Board of Directors of the Company for 2018 was 9,917,516.47 rubles. (including personal income tax).

In 2018, the members of the Board of Directors of the Company were not provided loans and did not enter into civil law contracts, including those that entailed property gain.

In 2018, members of the Board of Directors were not trained at the expense of the Company.

CORPORATE SECRETARY OF THE COMPANY

In order to properly follow the Company's procedure for preparing and holding the General Meeting of Shareholders, meetings of the Board of Directors, ensuring effective interaction between the Board of Directors, committees of the Board of Directors, the Audit Commission, the Company's Auditor, executive bodies and the executive office of the Company, the Company's Board of Directors has been elected.

In its activities, the Corporate Secretary of the Company is guided by the Federal Law “On Joint Stock Companies”, other regulatory legal acts of the Russian Federation, the Charter and internal documents of the Company, as well as the Regulation on the Corporate Secretary of IDGC of the South PJSC approved by the Board of Directors of the Company on September 30, 2016 (Protocol dated October 3, 2016 No. 202/2016).

The corporate secretary is accountable in his activities to the Board of Directors of the Company.

From December 20, 2013, the Head of the Corporate Governance and Shareholder Relations Department of the Company Elena Nikolaevna Pavlova was elected as the Company's Corporate Secretary.



Elena Nikolaevna Pavlova
Corporate Secretary

Birth year	1977
Citizenship	Russian Federation
Position at the time of election	Head of Corporate Governance and Shareholder Relations Department of IDGC of the South, PJSC
Education	Higher education. Rostov State Academy of Economics, speciality "Economics, environmental management". Rostov State Economic University "RINH", specialty "jurisprudence"
Positions occupied in the last five years: 2016–31.12.2018 - Head of the Department for Corporate Governance and Interaction with Shareholders - Corporate Secretary of IDGC of the South, PJSC; 2013–2016 - Head of the Department for Corporate Governance and Shareholder Relations of IDGC of the South, JSC / IDGC of the South, PJSC; 2013–2016 - Corporate Secretary of IDGC of the South, JSC / IDGC of the South, PJSC. Participation in the management bodies of other legal entities: 2014–31.12.2018 - Member of the Board of Directors of Energoservice of the South JSC.	

Corporate Secretary of the Company E. N. Pavlova:

- > in the reporting year did not own shares of the Company and did not make transactions with them;
- > has no family ties with the persons that are members of the governing bodies and (or) control over the financial and economic activities of IDGC of the South, PJSC;
- > not brought to administrative responsibility for offences in the field of finance, taxes and fees, the securities market or criminal liability for crimes in the field of economics or for crimes against state power;
- > did not occupy positions in the management bodies of commercial organizations during the period when a bankruptcy case was initiated and / or one of the bankruptcy procedures provided for by the legislation of the Russian Federation on insolvency was instituted;
- > did not have a conflict of interest with the executive bodies of IDGC of the South, PJSC.

Remuneration for Corporate Secretary

The Corporate Secretary of the Company was paid remuneration in the manner, amount and conditions determined by the Regulations on the payment of remuneration and compensation to the Corporate Secretary of IDGC of the South PJSC in 2016, the Regulations on the Corporate Secretary and the Regulations on the Board of Directors of IDGC of the South PJSC.

COMMITTEES OF THE BOARD OF DIRECTORS OF IDGC OF THE SOUTH, PJSC

To study the issues falling within the competence of the Board of Directors or studied by the Board of Directors in order to control the activities of the executive body of the Company and develop the necessary recommendations to the Board of Directors of the Company in 2009, the following five committees of the Board of Directors of the¹ Company were established by decisions of the Board of Directors of the Company:

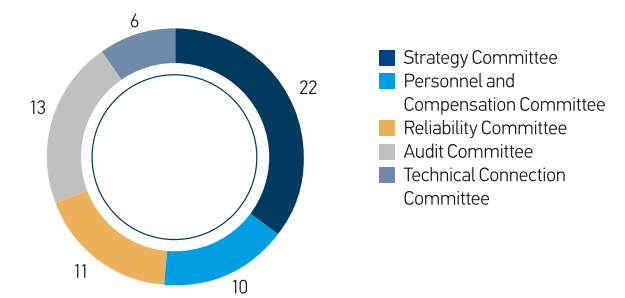
- > Committee for technological connection to electric networks;
- > Audit Committee;
- > Human Resources and Remuneration Committee;
- > Reliability Committee;
- > Committee on Strategy, Development, Investment and Reforming.

In accordance with the approved regulations on committees, committee members are elected for a term of:

1. before re-election of the Board of Directors of the Company in a new composition (in the Reliability Committee);
2. until the election of the next Committee (Audit Committee);
3. until the first meeting of the Board of Directors of the Company in the new composition (in the remaining three committees).

Committee activities in 2018

NUMBER OF COMMITTEES' MEETINGS 2018



The full text of the decisions made at the meetings of the committees can be found on the corporate website of IDGC of the South, PJSC on the Internet at: <http://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/>.

Committee for technological connection to electric networks

The goal is to ensure openness of activities and non-discriminatory access to services for technological connection of consumers to the Company's power grids.

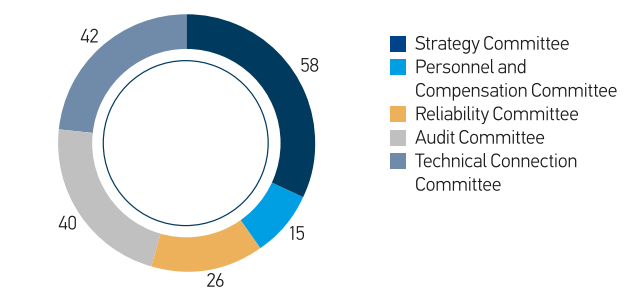
The powers of any member of the committee can be prematurely terminated by a decision of the Board of Directors of the Company, adopted by a majority vote of the members of the Board of Directors of the Company of their total number.

According to the regulations on the committees, the functions of the secretaries of the committees are performed by the Corporate Secretary of the Company, unless otherwise provided by the decisions of the committees.

Most commonly, at one of the first meetings of the committees, their work plans for the current corporate year are approved, formed on the basis of the work plan of the Board of Directors, decisions of the Board of Directors and committees, proposals of committee members, the General Director.

In 2018, each of the committees of the Board of Directors of the Company worked in two compositions, 62 meetings of the Committees were held, at which about 190 issues were considered.

NUMBER OF ISSUES IN 2018



The Committee operates in accordance with the Regulations on the Committee for Technological Connection to Electric Grids of the Board of Directors of IDGC of the South, JSC².

MEMBERS OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JULY 19, 2017¹ AND VALID UNTIL JUNE 15, 2018²

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation,%
For the period from 01/01/2018 to 06/15/2018 (the total number of meetings held is 3, including 2 full-time)			
Alexander Yurievich Korneev Chairman	Head of the Directorate for Regulation of the TP of the Network Development and Technological Connection Department of PJSC ROSSETI	3/3	100
Irina Borisovna Gubina Vice-chairman	Chief Expert of the Network Perspective Development Department of the Network Perspective Development and Technological Connection Department of ROSSETI PJSC	3/3	100
Natalya Vladimirovna Denezhnaya	Chief expert of the Directorate for Regulation of the TP of the Network Development and Technological Connection Department of PJSC ROSSETI	3/3	100

THE CURRENT COMPOSITION OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON AUGUST 27, 2018³

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation,%
For the period from 08/27/2018 through 12/31/2018 (the total number of meetings held is 3, including 2 full-time)			
Alexander Yurievich Korneev Chairman	Head of the Directorate for Regulation of the TP of the Network Development and Technological Connection Department of PJSC ROSSETI	3/3	100
Igor Georgievich Polovnev Vice-chairman	Financial Director of the Association of Professional Investors	3/3	100
Dmitry Olegovich Zhuravlev	Deputy General Director for Development and Technological Connection of IDGC of the South, PJSC	3/3	100
Yuri Vyacheslavovich Ivanov	Deputy General Director for Investment Activities of IDGC of the South, PJSC	3/3	100

The Secretary of the Committee⁴ is Yulia Romanovna Manzhosova, Leading Specialist of the Department for Corporate Governance and Shareholder Relations of IDGC of the South, PJSC.

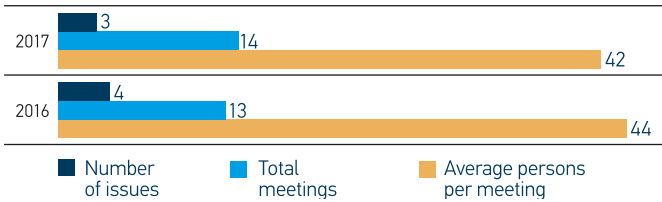
1. Minutes dated July 24, 2017 No. 240/2017.
2. Date of the first meeting of the Board of Directors of the Company in the new composition.
3. Protocol No. 281/2018 dated August 3, 2018.
4. Elected by decision of the Committee on August 2, 2017 (Minutes No. 30/2017 dated August 3, 2017). The text can be found on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-prinyatyie-komitetom-po-tekhnologicheskomu-prisoedineniyu-k-elektricheskim-setyam/>.

1. Protocol No. 22/2009 dated February 11, 2009 ; protocol No. 23/2009 dated March 2, 2009, protocol No. 37/2009 dated December 4, 2009.
2. Approved by the decision of the Board of Directors of the Company on July 19, 2017 (Minutes No. 220/2017 dated July 24, 2017), the text can be found on the Company's website<http://mrsk-yuga.ru/korporativnoe-upravlenie/dokumenty-reglamentiruyushchie-deyatelnost-komitetov-soveta-direktorov-obshchestva/>

DECISIONS TAKEN BY THE COMMITTEE

01/30/2018 Extramural	Formed proposals on the size of the budget of the Committee for Technological Connection to Electric Grids of the Board of Directors of the Company (with disclosure of itemized information) for the 1st half of 2018
04/23/2018 Joint attendance	<p>The members of the Board of Directors of the Company were advised to take note of the Report on the implementation of the Schedule of activities for the Company to reach the level of deficit-free technological connection agreements for each event in 2017.</p> <p>The results of the monitoring of the Company's activities on the technological connection of consumers to distribution grids, including contractual work and general connection statistics taking into account individual consumer groups for 2017, were taken into account.</p> <p>The report on the participation of the Company in the development of the Scheme and programme for the development of the electric power industry of the constituent entities of the Russian Federation in 2018 was taken into account.</p>
06/08/2018 Joint attendance	<p>The results of the monitoring of the Company's activities on the technological connection of consumers to distribution grids, including contractual work and general connection statistics taking into account individual consumer groups in the 1st quarter of 2018, were taken into account.</p> <p>The results of the analysis of the technological connection of the SME subjects following the results of the 1st quarter of 2018 and the results of the implementation of measures to increase the accessibility of the technological connection to the power grids were taken into account.</p>
09/07/2017 Extramural	Elected Deputy Chairman of the Committee for Technological Connection to Electric Grids of the Board of Directors of the Company Igor Georgievich Polovnev - Financial Director of the Association of Professional Investors
10/16/2018 Joint attendance	<p>The members of the Board of Directors of the Company were advised to take note of the report on the implementation of the Schedule for the implementation of overdue agreements on the implementation of technological connection following the results of the 2nd quarter of 2018.</p> <p>The results of the monitoring of the Company's activities on the technological connection of consumers to distribution grids, including contractual work and general connection statistics taking into account individual consumer groups for the six months of 2018, were taken into account.</p> <p>The management of the Company is entrusted to submit for consideration at meetings of the Committee for Technological Connection to Electric Grids of the Board of Directors information on the results of monitoring and analysis of unused capacity by consumers or on exceeding the actual power consumed by consumers over the maximum allowed capacity under the executed agreements on technological connection (except for the public and categories of consumers equated to it with the maximum power receivers up to 15 kW inclusive) on a quarterly accrual basis for 2019</p>
12/27/2018 Joint attendance	<p>The report on the implementation of KPI in terms of compliance with the terms of technological connection, as well as a report on the implementation of KPI in terms of increasing the capacity load of power grid equipment, formed as of nine months of 2018, was taken into account.</p> <p>The Report on the development of Comprehensive programs for the development of electrical networks of 35 kV and above in the constituent entities of the Russian Federation for a five-year period in 2018 was taken into account.</p> <p>The performance report on the implementation schedule of overdue agreements on the implementation of technological connection following the results of the 3rd quarter of 2018</p>

NUMBER OF ISSUES REVIEWED AT COMMITTEE MEETINGS



Audit Committee

Purpose: facilitating the effective performance of the functions of the Board of Directors in the preliminary consideration of issues related to the control over the Company's financial and economic activities.

Tasks:

- > consideration of the accounting (financial) statements of the Company and overseeing the process of its preparation;
- > control over the reliability and efficiency of the internal control system, risk management system, corporate management practices;
- > control over the conduct of an external audit and the choice of an auditor;

- > ensuring the independence and objectivity of the internal audit function;
- > supervision over the effectiveness of the system of counteracting the unfair actions of the Company's employees and third parties.

The Committee carried out its activities in accordance with the Regulation on the Audit Committee of the Board of Directors of IDGC of the South1 , PJSC, located on the Company's corporate website on the Internet.

COMPOSITION OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JUNE 30, 2017² AND VALID UNTIL JULY 31, 2018 (THE DATE OF ELECTION OF THE NEW COMMITTEE)

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation, %
For the period from 01/01/2018 to 07/31/2018 (the total number of meetings held is 7, of which 3 are full-time)			
Roman Alekseevich Filkin Chairman of the Committee, Member of the Board of Directors	Director for Electric Power Industry and Machine Building of the Representative Office of Prosperity Capital Management (RF) Ltd.	7/7	100
Alexander Nikolaevich Fadeev Member of the Board of Directors	Deputy General Director for Security of Rosseti PJSC	7/7	100
Andrey Sergeevich Kolyada Member of the Board of Directors	Head of the Equity Capital Division of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti PJSC	7/7	100

All members of the Committee were members of the Board of Directors of the Company.

THE CURRENT COMPOSITION OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JULY 31, 2018 ³			
Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation, %
For the period from 31/072018 to 31/12 2018 (the total number of meetings held is 6, of which 3 are full-time)			
Aleksey Aleksandrovich Ozherelev Chairman of the Committee, Member of the Board of Directors	Head of the Directorate for Organising the Activities of the Management Board, Board of Directors and Interaction with Shareholders and Investors of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti PJSC	6/6	100
Alexey Yuryevich Serov Deputy Chairman, Member of the Board of Directors	Director of the Finance Department of Rosseti PJSC	6/6	100
Andrey Vladimirovich Morozov Member of the Board of Directors	Legal Director of the Professional Investors Association	6/6	100

1. Approved by the decision of the Board of Directors of the Company on March 11, 2016 (Minutes No. 180/2016 dated March 14, 2016 No. 180/2016), subject to amendments to the Regulation on the Audit Committee, approved on November 2, 2016 (minutes No. 206/2016 dated November 7, 2016) and

2. Minutes dated July 3, 2017 No. 238/2017.

3. Protocol No. 281/2018 dated August 3, 2018.

5-9	11-25	26-67	68-87	88-159	160-196																
Company's Overview	Strategic Report	Operating results	Financial Review	Corporate governance	Appendices																
<p>Secretary of the Committee¹ is Elena Nikolaevna Pavlova, Head of the Department for Corporate Governance and Interaction with Shareholders, Corporate Secretary of IDGC of South, PJSC.</p> <p>The issues of organization, functioning and efficiency of the internal control and internal audit system, considered in 2018, are presented at https://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/</p> <p>Information on the assessment of the effectiveness of the Company's internal control system in the reporting year is presented in the Internal Control System section of this Report.</p> <p>Information on the activities of the Committee and major decisions²</p> <p>In the reporting year, 13 meetings (including six in the form of joint attendance) of the Audit Committee of the Board of Directors of the Company were held, at which 40 issues were considered.</p> <p>Among the substantive issues considered by the Audit Committee of the Board of Directors in 2018:</p> <ul style="list-style-type: none">> reviewed the results of anti-corruption monitoring at the end of 2017;> reviewed the Company's management information on the implementation of corrective action plans to remedy the deficiencies identified by the Company's Audit Commission, the Company's internal audit, external control (supervision) bodies, the implementation of measures taken on the facts of informing about potential incidents of unfair actions of employees, and the results of investigations conducted the results of 2017;> the content of the section of the Company's Annual Report "The System of Internal Control" was agreed upon;> taken into account the information of the Company's management on non-standard operations and events, as well as on the formation of a reserve of doubtful debts and estimated liabilities for 2017;> The Board of Directors of the Company is recommended to include the Opinion of the Audit Committee of the Board of Directors of IDGC of the South PJSC on the level of efficiency and quality of the external audit process in the list of materials provided to persons entitled to participate in the annual General Meeting of Shareholders of the Company;> approved the Report of the Internal Audit Department of IDGC of the South, PJSC on the implementation of the work plan and took note of the results of the internal audit activities for the three months of 2018;			<ul style="list-style-type: none">> approved the work plan of the Audit Committee of the Board of Directors of the Company for the 2018/2019 corporate year;> approved the terms of reference and the essential terms of the contract for the provision of services for an independent assessment of the effectiveness of the internal control system;> periodically reviewed the accounting (financial) statements of the Company prepared in accordance with RAS, as well as reports on the implementation of the work plan and the results of the internal audit activities;> heard reports of the Company's management with reports on the implementation of corrective action plans to eliminate the deficiencies identified by the Company's Audit Commission, the Company's internal auditor, and external monitoring bodies;> reviewed a report on the effectiveness of the Company's internal control system.																		
<p>NUMBER OF ISSUES REVIEWED AT COMMITTEE MEETINGS</p> <table><tr><th>Year</th><th>Number of issues</th><th>Total meetings</th><th>Average persons per meeting</th></tr><tr><td>2018</td><td>3</td><td>13</td><td>40</td></tr><tr><td>2017</td><td>3</td><td>14</td><td>42</td></tr><tr><td>2016</td><td>4</td><td>13</td><td>44</td></tr></table>						Year	Number of issues	Total meetings	Average persons per meeting	2018	3	13	40	2017	3	14	42	2016	4	13	44
Year	Number of issues	Total meetings	Average persons per meeting																		
2018	3	13	40																		
2017	3	14	42																		
2016	4	13	44																		
<p>Staff and Remuneration Committee</p> <p>Task: development and submission of recommendations (opinions) to the Board of Directors of the Company on the amount of remuneration to members of the Board of Directors of the Company, on determining the material terms of contracts with members of the Board of Directors, members of the collegial executive body and the person performing the functions of the sole executive body of the Company.</p> <p>Competence, as well as the procedure for convening and holding meetings of the Committee are defined in the Regulations on the Committee for Personnel and Remuneration of the Board of Directors of IDGC of the South, JSC, in a new edition³ posted on the Company's corporate website.</p>																					

1. Elected by decision of the Committee on August 8, 2018 (Minutes No. 86 of August 9, 2018). The text can be found on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-prinyatyie-komitetom-po-auditu/>.

2. A detailed list of issues considered by the Audit Committee is presented at <https://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/>

3. Approved by the decision of the Board of Directors of the Company on July 31, 2014 (Minutes No. 140/2014 of August 4, 2014).

THE COMPOSITION OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JUNE 30, 2017¹ AND VALID UNTIL JUNE 15, 2018 (THE DATE OF THE MEETING OF THE BOARD OF DIRECTORS IN THE NEW COMPOSITION)

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation,%
For the period from 01/01/2018 to 15.06.2018 (the total number of meetings held is 4, all in absentia)			
Alexander Nikolaevich Fadeev Chairman of the Committee, Member of the Board of Directors	Chief Advisor of Rosseti PJSC	4/4	100
Sergey Aleksandrovich Arkhipov Chairman of the Board of Directors	Chief Advisor of Rosseti PJSC	4/4	100
Roman Alekseevich Filkin Member of the Board of Directors	Director for Electric Power Industry and Machine Building of the Representative Office of Prosperity Capital Management (RF) Ltd.	4/4	100

THE CURRENT COMPOSITION OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JULY 31, 2018²

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation, %
From 06/15/2018 to 12/31/2018 (the total number of meetings held is 6, all in absentia)			
Aleksey Yuryevich Perets Chairman of the Committee, Member of the Board of Directors	Chief Advisor of Rosseti PJSC	6/6	100
Aleksey Aleksandrovich Ozherelev Deputy Chairman, Member of the Board of Directors	Head of the Directorate for Organising the Activities of the Management Board, Board of Directors and Interaction with Shareholders and Investors of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti PJSC	6/6	100
Andrey Vladimirovich Morozov Member of the Board of Directors	Legal Director of the Professional Investors Association	6/6	100

Secretary of the Committee³- Tatyana Sergeevna Kirichenko, Chief Specialist of the Department for Corporate Governance and Shareholder Relations of IDGC of the South, PJSC.

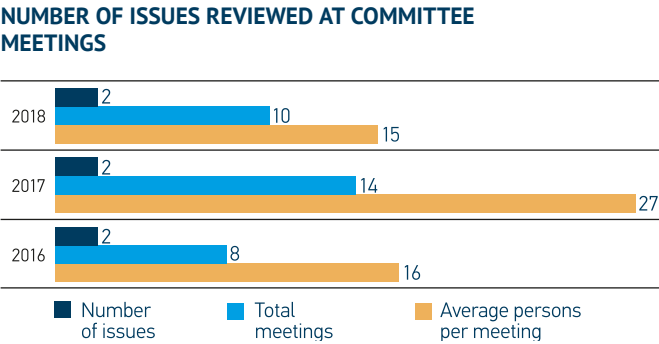
1. Minutes dated July 3, 2017.
2. Protocol No. 281/2018 dated August 3, 2018.
3. Elected by decision of the Committee on March 17, 2017 (Minutes No. 73/2017 dated March 20, 2017). The text can be found on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-prinyatyie-komitetom-po-kadram-i-voznagrazhdeniyam/>.

Information on the activities of the Committee and major decisions¹

In the reporting year, 10 meetings were held (all in absentia) of the Personnel and Remuneration Committee of the Company's Board of Directors, at which about 15 issues were considered.

Among the substantive issues considered by the Personnel and Remuneration Committee of the Board of Directors in 2018:

- > the members of the Board of Directors of the Company were recommended to agree on the candidacy of Anton Antonnaevich Muriy for the position of Deputy General Director for the implementation of services of IDGC of the South, PJSC;
- > approved and submitted to the Board of Directors of the Company the results of a preliminary assessment of candidates for members of the Board of Directors of IDGC of the South, PJSC;
- > members of the Board of Directors of the Company were recommended to approve the Report on the work of the Corporate Secretary of IDGC of the South, PJSC;
- > nominations for the positions determined by the Board of Directors of the Company are preliminarily agreed
- > reviewed the performance of the Deputy General Directors of the Company and prepared relevant recommendations to the General Director of the Company.



Strategy, Development, Investment and Reform Committee

Task: development and submission of recommendations (conclusions) to the Board of Directors of the Company on the determination of priority areas, strategic goals and basic principles of the Company's strategic development.

The competence, as well as the procedure for convening and holding meetings of the Committee are determined by the Regulations on the Committee for Strategy, Development, Investments and Reform of the Board of Directors of IDGC of the South PJSC.

1. A detailed list of issues addressed by the Human Resources and Remuneration Committee is presented at <https://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/>
2. Approved by the decision of the Board of Directors of the Company on December 1, 2009 (Minutes No. 37/2009 dated December 4, 2009), taking into account changes and amendments to the Regulation, approved by the Board of Directors on March 11, 2016.
3. Placed on the Company's corporate website at:<http://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/>.

MEMBERS OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JULY 19, 2017¹ AND VALID UNTIL JUNE 15, 2018 (THE DATE OF THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY AS A NEW MEMBER)

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation, %
From 07/19/2017 to 12/31/2017 (the total number of meetings held is 13, including 1 full-time)			
Julia Vitalievna Yazheritsyna Chairman	Director of the Economic Planning and Budgeting Department of ROSSETI PJSC	13/13	100
Alexey Viktorovich Rakov	Director of the Department for Electricity Accounting and Interaction with the Electric Power Market Entities of ROSSETI PJSC	13/13	100
Dmitry Mikhailovich Andropov	Head of the Credit and Structured Finance Department of the Finance Department of ROSSETI PJSC	13/13	100
Elena Viktorovna Bogach	Head of Strategic Planning Directorate, PJSC ROSSETI	13/13	100
Valery Vasilyevich Kataev	Chief Expert of the Consolidated Planning and Reporting Department of the Investment Activities Department of ROSSETI PJSC	13/13	100
Aleksey Aleksandrovich Ozherelev Member of the Board of Directors	Head of the Directorate for Organising the Activities of the Management Board, Board of Directors and Interaction with Shareholders and Investors of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti PJSC	13/13	100
Aleksey Aleksandrovich Rybin Board member	Deputy General Director for Economics and Finance of IDGC of South, PJSC	13/13	100
Roman Alekseevich Filkin Member of the Board of Directors	Director for Electric Power Industry and Machine Building of the Representative Office of Prosperity Capital Management (RF) Ltd.	13/13	100
Alexander Viktorovich Shevchuk	Executive Director of the Professional Investors Association	13/13	100
Irina Sergeevna Gurenkova	Head of the Directorate for Dispute Resolution in the Field of Tariff Formation of the Tariff Policy Department of ROSSETI PJSC	13/13	100

THE CURRENT COMPOSITION OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JULY 31, 2018,² AS AMENDED ON NOVEMBER 28, 2018³

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation,%
For the period from July 31, 2018 to December 31, 2018 (the total number of meetings held is 9, including 2 full-time)			
Sergey Yuryevich Lebedev Chairman until 11/28/2018	Director of the Strategic Development Department of ROSSETI PJSC	5/4	80
Anna Vladimirovna Burkova Chairman since 11/28/2018	Deputy Head of the Strategic Projects Department of ROSSETI PJSC	4/4	100
Valery Vasilyevich Kataev	Chief Expert of the Consolidated Planning and Reporting Department of the Investment Activities Department of ROSSETI PJSC	14/1	100
Anton Arkadevich Kormakov	Chief Expert of the Tariff Policy Department of the Tariff Policy Department of ROSSETI PJSC	14/1	100
Andrey Vladimirovich Morozov Member of the Board of Directors	Legal Director of the Professional Investors Association	14/1	100
Maxim Mikhailovich Pokalyuk Vice-chairman	Head of the Department for the Implementation of Innovation Projects of the Department for Technological Development and Innovations of ROSSETI PJSC	14/1	100
Aleksey Aleksandrovich Ozherelev Member of the Board of Directors	Head of the Directorate for Organising the Activities of the Management Board, Board of Directors and Interaction with Shareholders and Investors of the Department for Corporate Governance and Interaction with Shareholders and Investors of Rosseti PJSC	14/1	100
Aleksey Aleksandrovich Rybin Board member	Deputy General Director for Economics and Finance of IDGC of South, PJSC	14/1	100
Roman Alekseevich Filkin Member of the Board of Directors	Director for Electric Power Industry and Machine Building of the Representative Office of Prosperity Capital Management (RF) Ltd.	14/1	100
Alexander Viktorovich Shevchuk	Executive Director of the Professional Investors Association	14/1	100

Secretary of the Committee⁴ is Elena Nikolaevna Pavlova, Head of the Department for Corporate Governance and Interaction with Shareholders, Corporate Secretary of IDGC of South, PJSC.

1. Minutes dated July 24, 2017 No. 240/2017.
2. Protocol No. 281/2018 dated August 3, 2018.
3. Protocol No. 291/2018 dated November 29, 2018.
4. Elected by decision of the Committee on December 18, 2013 (Minutes No. 63 of December 19, 2013). The text can be found on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-prinyatye-komitetom-po-strategii-razvitiyu-investitsiyam-i-reformirovaniyu/>.

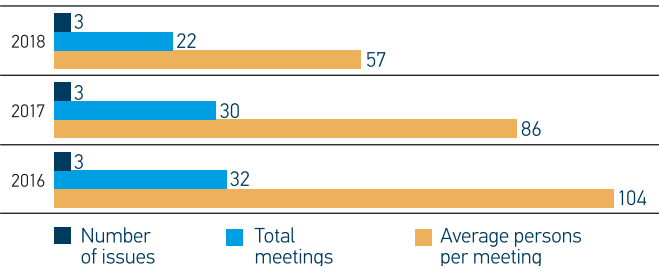
Information on the activities of the Committee and major decisions¹

In the reporting year, 22 meetings of the Committee were held (including three meetings by absentee voting), at which about 60 issues were considered.

Among the substantive issues considered by the Committee in 2018, issues were considered and recommendations were given to the Board of Directors on the approval of the adjusted business plan of IDGC of South, PJSC, including the investment programme and information on key operational risks for 2019, as well as organization, operation and effectiveness of the risk management system and revision of the Strategy in relation to all non-core assets, according to which the Preservation of Participation strategy is determined in current Register (Sales Plan) of non-core assets of IDGC of South, PJSC.

A detailed list of issues considered by the Committee for Strategy, Development, Investments and Reform is presented at <https://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/>.

NUMBER OF ISSUES REVIEWED AT COMMITTEE MEETINGS



Reliability Committee

Task: elaboration and submission of recommendations (conclusions) to the Board of Directors of the Company on the examination of investment programmes and plans for the repair of power facilities, analysis of their implementation in terms of ensuring the requirements of comprehensive reliability.

The competence, as well as the procedure for convening and holding meetings of the Committee in 2018, are determined by Regulations on Reliability Committee of the Board of Directors of IDGC of South, PJSC^{2, 3}.

MEMBERS OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JULY 19, 2017⁴ AND VALID UNTIL JUNE 15, 2018⁵

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation,%
For the period from 01.01.2018 to 15.06.2018 (the total number of meetings held is 5, all in absentia)			
Ruslan Raisovich Magadeev Chairman	Deputy Chief Engineer, Rosseti, PJSC	5/5	100
Pavel Viktorovich Goncharov Board member	Deputy General Director for Technical Issues - Chief Engineer of IDGC of South, PJSC	5/5	100
Sergey Vladimirovich Shpilevoy	Deputy Head of Department - Head of the Analysis of Production Activities Department of the Situation-Analytical Center of ROSSETI, PJSC	5/5	100
Mikhail Vladimirovich Smaga	Deputy Director of ROSSETI, PJSC branch - Technical Supervision Center	5/5	100
Aleksey Aleksandrovich Rybin Board member	Deputy General Director for Economics and Finance of IDGC of South, PJSC	5/5	100

THE CURRENT COMPOSITION OF THE COMMITTEE ELECTED AT THE MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY ON JULY 31, 2018¹

Full name of the Board member	Position and place of work at the time of election	Total number of meetings/number of meetings attended by a member of the Committee	Share of participation,%
For the period from 31.07.2018 to 31.12.2018 (the total number of meetings held is 6, all in absentia)			
Ruslan Raisovich Magadeev Chairman	Deputy Chief Engineer, Rosseti, PJSC	6/4	66
Pavel Viktorovich Goncharov Board member	Deputy General Director for Technical Issues - Chief Engineer of IDGC of South, PJSC	6/6	100
Igor Georgievich Polovnev	Financial Director of the Association of Professional Investors	6/6	100
Mikhail Vladimirovich Smaga Vice-chairman	Deputy Director of ROSSETI, PJSC branch - Technical Supervision Center	6/6	100
Aleksey Aleksandrovich Rybin Board member	Deputy General Director for Economics and Finance of IDGC of South, PJSC	6/5	83

The Secretary of the Committee is Natalya Vasilyevna Kazak², Chief Specialist of the Department for Corporate Governance and Shareholder Relations of IDGC of South, PJSC.

Information on the activities of the committee and major decisions

In the reporting year, 11 meetings of the Committee were held (all in absentia) at which about 30 issues were considered.

In 2018, the reports of the General Director on the Company's activities in terms of reliability, injuries, accident rates and the implementation of regulatory legal acts on the establishment of reliability and quality indicators for the services provided by the Company's branches, etc., were considered.

A detailed list of issues addressed by the Reliability Committee is presented at <https://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/>

All Committees of the Board of Directors of the Company acted on the basis of approved Work Plans for 2018.

During the reporting period, the Chairmen and members of the Committees held regular working meetings with top managers of the Company, heads of the structural divisions of the executive office of the Company involved in the process of business planning and strategy development of IDGC of the South, PJSC.

External experts were invited to face-to-face meetings of the Committees.

Consents of all members of the Committee to disclose information about them in this Annual Report were obtained.

1. A detailed list of issues addressed by the Human Resources and Remuneration Committee is presented at <https://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/>
2. Approved in a new edition by the decision of the Board of Directors of the Company on July 19, 2017 (Minutes No. 240/2017 dd. July 24, 2017).
3. Placed on the Company's corporate website at <http://mrsk-yuga.ru/korporativnoe-upravlenie/komitety-soveta-direktorov/>.
4. Minutes dated July 24, 2017 No. 240/2017.
5. Date of meeting of the Board of Directors of the Company in the new composition.

Remuneration (reimbursement of expenses) to members of the Committees of the Board of Directors

At the meeting of the Board of Directors of IDGC of South, JSC on February 3, 2010, all the committees of the Board of Directors of the Company approved the relevant Regulations on Payment of Remuneration and Compensation to Members of Committees of the Board of Directors of IDGC of South, JSC (Minutes No. 39/2010 dd. February 5, 2010). In addition, by the decision of the Board of Directors of the Company on January 29, 2016, all Regulations on the payment of remuneration and compensation to members of the committees of the Board of Directors of the Company were amended, providing for payment of remuneration to members of the committees who are also members of the Board of Directors of the Company¹ (Minutes dd. February 1, 2016 No. 176/2016).

The total amount of remuneration paid to members of the committees of the Board of Directors for 2018 was 2,136,370 rubles. (including personal income tax), including:

- > 1,338,632 rubles to the members of the Committee for Strategy, Development, Investments and Reform of the Board of Directors of the Company;
- > 74,566 rubles to the members of the Audit Committee;
- > 353,816 rubles to the members of the Committee for Technological Connection to Electric Grids;
- > 330,008 rubles to the members of the Reliability Committee;
- > 39,348 rubles to the members of the Open Committee for Personnel and Remuneration.

The amount of remuneration paid to the secretaries of the committees of the Board of Directors for each meeting in the form of joint attendance is the equivalent of 1 (one) MMTR (Minimum monthly tariff rate) on the day of the Committee meeting, in absentia - 0.5 (zero point five) MMTR.

There are no arrears in the payment of remuneration to members of the Board of Directors Committee for the last completed fiscal year.

1. Revisions of Regulations and Amendments to the Regulations are posted on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/vnutrennie-polozeniya/>.

Executive bodies

MANAGEMENT BOARD

The Management Board of the Company is a collegial executive body of the Company responsible for the practical implementation of the objectives of the Development Strategy and the policies of the Company, reporting to the General Meeting of Shareholders and the Board of Directors of the Company/ The Chairman of the Board in accordance with the Charter of IDGC of South, PJSC is the Director General of the Company.

The Management Board of the Company, managing the current activities of the Company, acts in the interests of the Company, guided by decisions of the General Meeting of Shareholders and the Board of Directors of the Company, in accordance with the laws of the Russian Federation, the Charter of IDGC of South, PJSC, the Regulations on the Management Board of IDGC of South, PJSC approved by the annual General Meeting of Shareholders of the Company on June 9, 2018 (Minutes No. 18 of June 15, 2018) and other internal documents of the Company.

The competence of the Management Board of the Company includes the activities of the Company in accordance with the current legislation of the Russian Federation and art. 22 of the Charter of the Company.

Board Members¹



Boris Borisovich Ebzeev
Chairman of the Board.

More information is provided in the "Board of Directors" section.

1. The composition and positions are as of December 31, 2018.



Timur Ulyumdzhevich Alaev
Member of the Management Board of the Company since 16.09.2011

Position	Deputy General Director - Director of the IDGC of South - Kalmenergo, PJSC branch
Birth year	1971
Citizenship	Russian Federation
Education	Higher education. Novocherkassk Order of the Red Banner of Labor Polytechnic Institute named after S. Ordzhonikidze, Novocherkassk, with a degree in Automatic Control of Electric Power Systems. State Academy of vocational retraining and advanced training of executives and specialists in the investment sector under the programme "Ensuring Environmental Safety by Managers and Specialists of General Economic Management Systems". Interdisciplinary Institute for Advanced Studies and Retraining of Leading Personnel and Specialists of the Russian Academy of Economics, named after G.V. Plekhanov on the federal programme of management training "Management", degree in Strategic Management, with the right to conduct professional activities in the field of management
Positions occupied in the last five years: 2016–31.12.2018 - Interregional Distribution Grid Company of South Public Joint-Stock Company, Deputy General Director - Director of the Kalmenergo branch; 2013–2016 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, Deputy General Director - Director of the Astrakhanenergo branch; 2011–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, member of the Board	



Pavel Viktorovich Goncharov
Member of the Management Board of the Company since 16.09.2011

Position	Deputy General Director for Technical Issues - Chief Engineer, Member of the Reliability Committee
Birth year	1966
Citizenship	Russian Federation
Education	Higher education. Pavlodar Industrial Institute with a degree in Electrical Systems. Volgograd Academy of State Service, retraining with a degree in State and Municipal Administration. Institute for Advanced Studies of Executives and Experts of the Fuel and Energy Complex under the programme "Organization of the Protection of Commercial Secrets" Professional retraining at State University of Management under the programme "Management of energy companies in a market economy with the right to conduct professional activities in the field of economics and management in the electric power industry". Professional retraining at Russian Academy of National Economy and Public Administration under the President of the Russian Federation under the programme "Management of the Company's Development" (2013)
Positions occupied in the last five years: 2013–31.12.2018 - Energoservice of South Open Joint-Stock Company / Energoservice of South Joint-Stock Company, Chairman of the Board of Directors; 2013–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, Deputy General Director for Technical Issues - Chief Engineer; 2010–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distribution Grid Company of South Public Joint-Stock Company, member of the Board	



Yulianna Khasanovna Dzhabrailova
Member of the Management Board of the Company since 07.09.2016

Position	Deputy General Director - Chief of Staff
Birth year	1981
Citizenship	Russian Federation
Education	Higher education. Kuban Institute of International Entrepreneurship and Management, with a degree in Finance and Credit. Kuban State Agrarian University, with a degree in agroengineering
Positions occupied in the last five years: 2016–31.12.2018 - Energetic Recreation Center Joint-Stock Company, Chairman of the Board of Directors; 2016–31.12.2018 - Interregional Distribution Grid Company of South Public Joint-Stock Company, Director of Kubanenergo branch of IDGC of South, PJSC; 2016–31.12.2018 - Public Joint-Stock Company Interregional Distribution Grid Company of South, member of the Board; 2016–31.12.2018 - Interregional Distribution Grid Company of South Public Joint-Stock Company, Deputy General Director - Head of the Board; 2015–2016 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, Deputy Chief of Staff; 2014–2015 - Interregional Distribution Grid Company of North Caucasus, Open Joint-Stock Company, Advisor; 2007–2014 - Interregional Distribution Grid Company of South Open Joint-Stock Company, Head of the Administrative and Economic Support Department	

Aleksey Aleksandrovich Rybin
Member of the Management Board of the Company since 30.09.2013

Position	Deputy General Director for Economics and Finance, member of the Committee for Strategy, Development, Investments and Reform, member of the Committee for Reliability
Birth year	1972
Citizenship	Russian Federation
Education	Higher education. Kharkiv Aviation Institute named after N.E. Zhukovsky, Kharkiv, with a degree in Aircraft Engines and Power Plants. Rostov State University, with a degree in Jurisprudence
Positions occupied in the last five years: 2018–31.12.2018 - Volgograd Inter-district Electric Networks Joint-Stock Company/Volgograd Inter-district Electric Networks Public Joint-Stock Company, member of the Board of Directors; 2013–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, member of the Board; 2012–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distribution Grid Company of South Public Joint-Stock Company, Deputy General Director for Economics and Finance	



Grigory Grigorievich Savin
Member of the Management Board of the Company since 26.02.2013

Position	Chief Accountant – Head of the Department of Accounting and Tax Accounting and Reporting
Birth year	1952
Citizenship	Russian Federation
Education	Higher education. All-Union Correspondence Financial and Economic Institute, Moscow, with a degree in Labor Economics
Positions occupied in the last five years: 2013–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, member of the Board; 2008–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, Chief Accountant - Head of the Accounting and Tax Accounting Department	



Aleksandr Aleksandrovich Chasovskoy
Member of the Management Board of the Company since 21.04.2014

Position	Deputy General Director for Security
Birth year	1957
Citizenship	Russian Federation
Education	Higher education. Moscow Higher Frontier Command Red Banner School of the KGB SSR named after Mosssovet; The Red Banner Institute of the KGB SSR named after Y.V. Andropova
Positions occupied in the last five years: 2014–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, member of the Board; 2013–31.12.2018 - Interregional Distribution Grid Company of South Open Joint-Stock Company / Interregional Distributive Grid Company of South Public Joint-Stock Company, Deputy General Director for Security	



Sergey Alekseevich Chekmarev
Member of the Management Board of the Company from 30.09.2013 to 31.12.2018

Place of work	IDGC of South, PJSC
Position	Deputy General Director - Director of Rostovenergo branch of IDGC of South, PJSC until 10.10.2018
Birth year	1976
Citizenship	Russian Federation
Education	Higher education. Novocherkassk State Technical University, Novocherkassk, with a degree in Automatic Control of Electric Power Systems
Positions occupied in the last five years: Chief Engineer of Rostovenergo OJSC Branch - North-Eastern Electric Networks; Deputy Chief Engineer of Kalmenergo branch of IDGC of South, JSC; Deputy Director for Technical Issues - Chief Engineer of Kalmenergo branch of IDGC of South, JSC; Deputy General Director - Director of Kalmenergo branch of IDGC of South, JSC	

General Information about Board Members and Conflicts of Interest

In the reporting period, none of members of the Board of IDGC of South, PJSC:

- > had kinship with persons belonging to the governing bodies and/or authorities overseeing the financial and economic activities of IDGC of South, PJSC;
- > not brought to administrative responsibility for offences in the field of finance, taxes and fees, the securities market or criminal liability for crimes in the field of economics or for crimes against state power;
- > did not occupy positions in the management bodies of commercial organisations during the period when a bankruptcy case was initiated and/or one of the bankruptcy procedures provided for by the legislation of the Russian Federation on insolvency was instituted (bankruptcy);
- > had a conflict of interest with the executive bodies of IDGC of South, PJSC.

All members of the Company's Management Board are citizens of the Russian Federation.

P.V. Goncharov, member of the Management Board, owns a share of ordinary shares of IDGC of South, PJSC in the amount of 0.0003% of the Company's authorized capital. Other members of the Company's Management Board do not own shares of IDGC of South, PJSC, shares of subsidiaries and dependent companies of IDGC of South, PJSC. Information about the conclusion of transactions by the members of the Board on the acquisition or alienation of shares was not received by the Company.

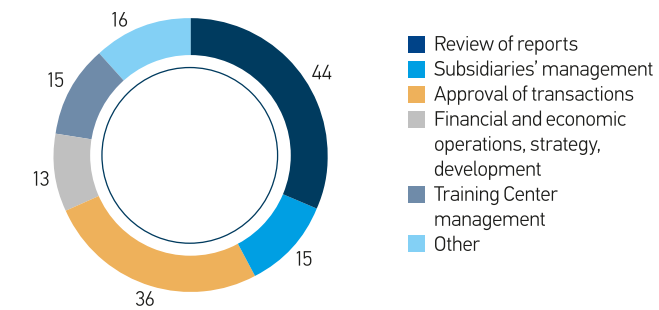
The agreement of all members of the Company's Management Board to disclose information about them in this Annual Report was obtained.

Board Activities in 2018

Kind of activity	2016	2017	2018
Number of meetings held by the Board	43	44	43
among them through joint attendance	7	3	2
Number of issues addressed	80	115	139

Meetings of the Board in the reporting year were held in accordance with the plans of its work, as well as at the initiative of the Chairman of the Board.

TOPICS ADDRESSED BY THE BOARD IN 2018



INFORMATION ON PARTICIPATION OF BOARD MEMBERS IN MEETINGS¹

Full name of Board member	Number of meetings
Boris Borisovich Ebzeev	40/43
Timur Ulyumdzhevich Alaev	40/43
Pavel Viktorovich Goncharov	42/43
Grigory Grigorievich Savin	40/43
Aleksey Aleksandrovich Rybin	40/43
Sergey Alekseevich Chekmarev	31/43
Aleksandr Aleksandrovich Chasovskoy	38/43
Yulianna Khasanovna Dzhabrailova	42/43

Among the most important issues addressed by the Company's Management Board in 2018, the following should be noted.

- > On consideration of the Report on the implementation of the Development Plan of IDGC of South, PJSC.
- > On approval of the Action Plan for the management of key operational risks of the Company for 2018.
- > On consideration of the Consolidated Performance Report based on the principles of RAS and the IDGC business plan of the Group consolidated on the principles of IDGC of South.
- > On the acquisition of additional vouchers for summer recreation holidays for the children of the Company's employees.
- > On conclusion of advertising services agreement between PFC CSKA, JSC and IDGC of South, PJSC.
- > On the status of accounts receivable for electricity transmission services.
- > On consideration of reports on the results of financial and economic activities of the Company's subsidiaries and affiliates.

The members of the Management Board of IDGC of South, PJSC systematically reviewed reports on the implementation of previously adopted decisions, monitored the Company's activities on technological connection of consumers to distribution grids, including contractual work and general connection statistics taking into account individual groups of consumers for the reporting period.

In addition, at the meetings of the Management Board of the Company, issues related to the competence of the supreme management bodies of business societies, 100% of whose authorized capital belongs to IDGC of South, PJSC, were considered.

1. Information on participation is presented in the X/Y format, where X is the number of meetings of the Board in which the member of the Board was to take part, and Y is the number of meetings of the Board in which the member of the Board took part.

Remuneration (reimbursement of expenses) of members of the Board

In accordance with the sub. 13 p. 15.1 of Art. 15 of the Company's Charter, the decision to establish remunerations and compensations paid to members of the Management Board falls within the competence of the Board of Directors of the Company.

Members of the Management Board are in the category of top managers of the Company.

In accordance with the conditions stipulated in the employment contracts between the Company and the members of the Management Board, the remuneration of a member of the Management Board is paid in the amount and manner established by the Provision on material incentives and social package of top managers of IDGC of South, JSC in a new edition¹.

Motivation of members of the Board is carried out:

- > by setting by the order of the Director General of the Company a personal allowance of up to 15% of the salary established by the top manager;
- > payment of quarterly and annual remuneration to members of the Management Board for the implementation of the relevant KPIs as top managers.

Based on the decisions of the Board of Directors of the Company² on the determination of the number of members of the Management Board of the Company and the election of members of the Management Board of the Company, as well as in accordance with Art. 21 of the Charter of IDGC of South PJSC and Art. 15 and 57 of the Labor Code of the Russian Federation with the members of the Management Board of the Company, additional agreements were concluded to employment contracts on the exercise of the powers of a member of the collegial executive body of the Company - the Management Board.

From the date of the creation of the Company's Management Board (May 19, 2008) to August 31, 2011, members of the Company's Management Board received monthly remuneration in the amount of 5 (five) minimum monthly wage rates of a first-class worker established by the industry tariff agreement in the electric power complex of the Russian Federation.

From September 1, 2011, members of the Company's Management Board for the exercise of authority receive monthly remuneration in the amount of 11% of the highest salary manager established.

The total amount of money paid to the members of the Company's Management Board for 2018 amounted to 75,200,604.58 RUB (including personal income tax of 13%)³.

This amount includes remuneration for participation in meetings of the Management Board of the Company for a total amount of RUB 1,694,433.09 (including personal income tax in the amount of 13%) for the payment of wages in the amount of 37,004,498.88 rubles (including personal income tax of 13%), for the payment of premiums - 33,570,221 rubles. and reimbursement of expenses in the amount of 2,931,451.61 rubles (including personal income tax of 13%).

1. Approved by the decision of the Board of Directors of the Company on June 14, 2011 (Minutes No. 67/2011 dd. June 16, 2011).
2. Minutesdd. May 22, 2008 No. 13/2008, Minutesdd. September 19, 2011 No. 72/2011, Minutes dd. March 1, 2013 No. 104/2013, Minutes dd. October 3, 2013 No. 116/2013, Minutesdd. April 23, 2014 No. 131/2014, Minutesdd. August 18, 2014 No. 141/2014, Minutes dd. September 12, 2016 No. 200/2016 are posted on the Company's website:http://mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-soveta-direktorov/.
3. This information is disclosed on the Internet as part of the quarterly report for the 4th quarter of 2018 on the official website of the Company:https://mrsk-yuga.ru/aktsioneru-investoru/ezhekvartalnyy-otchet-emitenta/.

DIRECTOR GENERAL

The Director General¹ is elected to the position by the Board of Directors of the Company and is the sole executive body of the Company and the Chairman of the Management Board of the Company.

The rights and obligations of the Director General are determined by the legislation of the Russian Federation, the Charter of the Company and the employment contract between the Company and the Director General.



Boris Borisovich Ebzeev²

Director General of IDGC of South, PJSC, Chairman of the Management Board of IDGC of South, PJSC from June 17, 2014, member of the Board of Directors of IDGC of South, PJSC from March 27, 2015

The results of management decisions on the main activities of the Company, taken by the General Director of the Company in 2018, are reflected in the relevant sections of this Annual Report.

Director General Remuneration

The issues of remuneration and material incentives for the General Director of the Company are governed by the Regulations on Material Incentives for the General Director of IDGC of South, PJSC³ which is an integral part of the employment contract with the General Director of the Company.

The provision on material incentives for the Director General of IDGC of the South, PJSC establishes:

- > the procedure for determining, approving and changing the salary of the Director General;
- > the procedure for establishing the allowance to the official salary for work with information constituting a state secret;

In accordance with paragraph 23.2 of Art. 23 of the Charter of the Company, the competence of the Director General includes issues related to the management of the current activities of the Company, with the exception of issues falling within the competence of the General Meeting of Shareholders, the Board of Directors and the Management Board of the Company.

The Director General, in exercising his rights and performing his duties, acts in the interests of the Company in good faith and reasonably.

- > types of bonuses:
- > bonuses for performing KPIs (quarterly, annual, additional and special),
- > one-time bonuses (for the performance of particularly important tasks (works);
- > procedure for making decisions aimed at the implementation of the approved Regulations.

Awarding of the Company's Director General in 2018 was carried out based on the results of KPI implementation determined by the Company's Board of Directors.

1. From June 29, 2014, B.B. Ebzeev was elected as Director General of IDGC of South, PJSC (Minutes dd. July 31, 2014 No. 139/2014). By the decision of the Board of Directors of the Company on May 5, 2017 (Minutes No. 230/2017 dd. May 10, 2017) the powers were extended till July 28, 2020 inclusive.
2. The profile data of B.B. Ebzeev is contained in the sections "Composition of the Board of Directors", "Composition of the Board" of this Annual Report.
3. Approved by the decision of the Board of Directors of IDGC of South, PJSC (minutes dd. June 16, 2011 No. 67/2011), subject to changes (minutes dated April 26, 2012 No. 85/2012, January 11, 2013 No. 102/2012, March 10, 2015 No. 153/2015 and July 3, 2017 No. 238/2017).

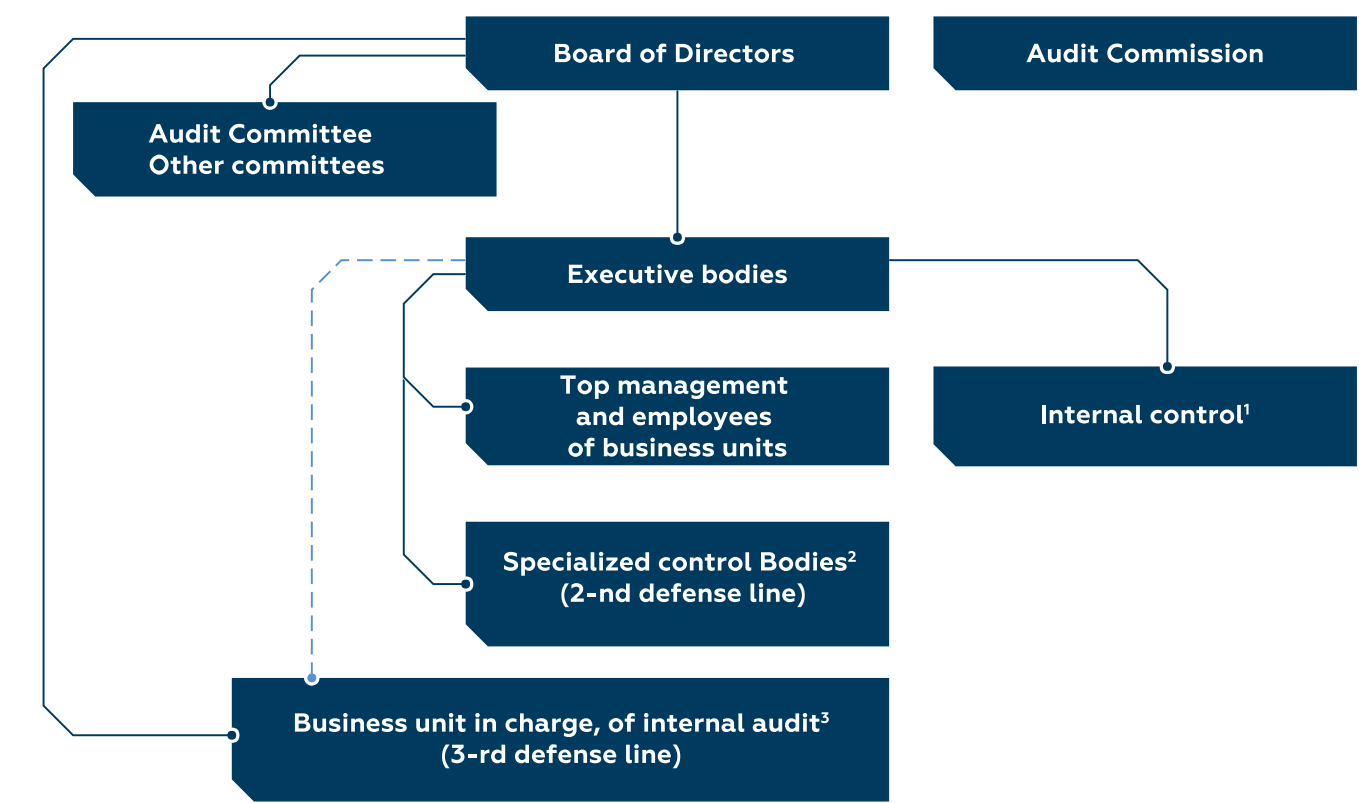
Internal control system

The Company's internal control system (hereinafter referred to as ICS) is an element of the Company's overall management system aimed at providing reasonable guarantees of achieving the goals in the following areas:

- > efficiency and effectiveness of the Company's activities, including the achievement of financial and operational indicators, the safety of the Company's assets;
- > compliance with applicable legal requirements and local regulatory acts of the Company, including when committing business facts and maintaining accounting records;
- > ensuring the reliability and timeliness of accounting (financial) and other statements.

ICS covers all areas of the Company's business. Control procedures are performed continuously in all processes (areas of activity) of the Company at all levels of management.

FUNCTIONS OF THE PARTICIPANTS OF THE INTERNAL CONTROL SYSTEM¹²³



1. The unit responsible for the implementation of the internal control functions in the Company is the Department of Internal Control and Anti-Corruption Activities.
2. Specialized control bodies in the Company: Security Department; Legal Department.
3. The subdivision responsible for the implementation of the internal audit functions in the Company is the Internal Audit Department.

The functions of the participants of the ICS are enshrined in the Company's Internal Control Policy, approved by a decision of the Board of Directors of March 14, 2016 (Minutes No. 180/2016), as well as in the regulations on structural divisions. Information on the main functions in the area of ICS is set out in Appendix 6 to the Annual Report.

In order to implement the Strategy for the Development and Improvement of ICS of ROSSETI, PJSC and Subsidiaries and Affiliates of ROSSETI, PJSC approved by the decision of the Board of Directors of PJSC ROSSETI dated February 10, 2014 (Minutes No. 143), in the Company by decision of the Board of Directors dated March 14, 2016 (Minutes No. 180/2016) approved the Internal Control Policy of IDGC of South, PJSC (order of IDGC of South, PJSC dd. April 22, 2016 No. 242). The internal control policy defines the objectives, principles of operation and elements of the Company's ICS, the main functions and responsibilities of the participants of the ICS, the procedure for evaluating the effectiveness of the ICS.

The Company has the Procedure for implementation of requirements of the Internal Control Policy, which reveals the applied aspects of the application of the standards set out in the Internal Control Policy.

The control procedures for the processes and subprocesses of the core and supporting activities, as well as the Company's management processes are documented in the control and risk matrices.

A set of measures to improve the internal control and risk management systems is implemented within the Company (Order No. 349 of May 25, 2018).

To ensure that the ICS is effective and meets objectively changing requirements and conditions, the Company's internal auditor evaluates the effectiveness of the ICS: its compliance with the target state and level of maturity.

The issue of ICS effectiveness based on the results of 2018 was considered at a meeting of the Board of Directors in May 2019 with a preliminary discussion of this issue by the Audit Committee of the Board of Directors dd. March 28, 2019 No. 94. These decisions estimated the level of maturity of the ICS as 5.3 (according to the results of 2017, the level of maturity of the ICS was rated as "optimal", 4.8 points).

External independent assessment of ICS performance as of December 31, 2018 is carried out in the Company by a consortium of Ernst&Young LLC (appraisal and consulting services) and RSM RUS LLC (an independent assessment of the effectiveness of the Company's internal control system), based on which the Company a report will be provided. ICS is rated as "effective" (3 points).

In the reporting year, the Company implemented the following key activities aimed at improving the ICS:

- > for the effective functioning of the internal control system in accordance with uniform standards, the ROSSETI group of companies approved the Procedure for implementing the requirements of the Internal Control Policy of IDGC of South, PJSC (order No. 52 of January 26, 2018), in accordance with which, together with the owners of the processes, a phased design assessment was conducted and operational effectiveness of control procedures;
- > the process of updating the process control matrices in IDGC of South, PJSC was organized (Order No. 926 of December 26, 2018);

- > improved management of key operational risks, operational risks of main and other business processes, the introduction of a transparent and effective risk management system, the updating of methodological documents in the field of operational risk assessment and improving the efficiency of risk management measures (Order of September 27, 2018 No. 679);
- > in order to increase the efficiency of management of the integrated management system and to take into account the new requirements of the international standard ISO 9001: 2015, the order of September 28, 2018 No. 686-A approved a new version of PYK ICM 80380011-IA/Ф-7220 002-2018 Guide to Integrated Management System in Areas of Quality, Ecology, Health Protection and Occupational Safety at IDGC of South, PJSC;
- > in order to determine a common procedure and rules for organizing measures for preparing for the stock-taking, stock-taking procedures during its conduct, and drawing up documents based on the results of the stock-taking, Order No. 718 dated October 11, 2018 amended the Methodological Recommendations for the stock-taking of capital, assets and liabilities;
- > - a Methodology for Corruption Risk Assessment in PJSC ROSSETI and Subsidiaries and Affiliates PJSC ROSSETI was developed and approved (Order No. 199 dated March 23, 2018).

INTERNAL AUDIT

As part of the implementation of the third line of defense, the internal audit function is implemented. The unit responsible for implementing the internal audit functions in the Company is the Internal Audit Department.

The Internal Audit Department is functionally accountable to the Board of Directors of the Company, which means that the Board of Directors controls and organizes the activities of the Internal Audit Department, including approval of the Business Plan, budget for internal audit, Report on the implementation of the internal audit activity plan of the Internal Audit Department, approval of decisions on appointment, release from the position, as well as the determination of the Internal Audit Department head remuneration.

The Internal Audit Department goals and objectives, organization and functioning basic principles are defined in the Internal Audit Policy of IDGC of the South, PJSC, approved by the decision of the Board of Directors (Protocol No. 180/2016 dated March 14, 2016 as modified by the Protocol dated March 23, 2017 No. 223 / 207).

The purpose of the Internal Audit Department is to assist the Board of Directors and executive bodies of the Company in increasing the efficiency of the Company's management, improving its financial and economic activities, including through a systematic and consistent approach to the analysis and evaluation of risk management systems, internal control and corporate management as tools to ensure reasonable confidence in achieving the goals set for the Company.

In 2018, the number of employees performing the internal audit function was six.

In 2018, the Internal Audit Unit held 69 events, including 14 verification activities and 55 other events.

EXTERNAL AUDIT

For an independent assessment of the reliability of the accounts (financial statements) prepared under RAS and IFRS, the Company engages an External Auditor on the basis of competitive procedures.

Criteria and method of choice an auditor

The candidacy of the Auditor for approval at the annual General Meeting of Shareholders is determined by the Board of Directors of the Company as part of resolving issues of preparing and holding the annual General Meeting of Shareholders.

The choice of the Company's Auditor was made based on the results of an open competition conducted by an organization authorized by the Company in accordance with the Regulations on the procedure for conducting regulated procurement of goods, works, and services for the needs of the Company.

In order to ensure the independence and objectivity of the External Auditor, the selection of the Company's External Auditor was carried out through an open competition held in the United Information System of the Russian Federation in the field of procurement (www.zakupki.gov.ru) using the electronic trading platform of Rosseti, PJSC (http:// www.etp.rosseti.ru).

Information about the competition for the right to conclude an audit services agreement in 2018–2020 was posted on the website www.zakupki.gov.ru . The end date for the competition is April 16, 2018. According to the results of the competition, Ernst & Young LLC was declared the winner. The evaluation of the contest participants was carried out according to the criteria set in advance and stated in the conditions of the contest.

The external auditor provides auditing the accounts in accordance with the requirements of the Russian Federation legislation on the basis of an agreement with him.

To carry out a mandatory audit of the accounts according to RAS and consolidated financial statements for 2018, the Board of Directors of the Company was recommended (Protocol dated May 4, 2018 No. 272/2018) and approved on June 9, 2018 by a decision of the annual General Shareholders Meeting of the Company (Protocol dated June 15, 2018 No. 18) Company Auditor - Ernst & Young LLC.

Ernst & Young LLC is a member of Self-Regulatory Organization of Auditors "Russian Union of Auditors" (SRO RUA).

Auditor's Remuneration

The amount of payment for the Auditor's services in accordance with clause 24.10 of Art. 24 of the Charter of IDGC of the South, PJSC is determined by the Board of Directors of the Company.

The service cost and the procedure for payment for the Auditor's services are specified in the contract concluded between the Company and the Auditor. With the decision of the Board of Directors of the Company¹ the amount of payment for the services of the Auditor of IDGC of the South, PJSC - Ernst & Young LLC is determined, under an agreement on the provision of audit services for auditing accounts prepared in accordance with RAS and the audit of consolidated financial statements prepared in accordance with IFRS , for the year ending December 31, 2018 (the audited period from January 1, 2018 to December 31, 2018), in the amount of 2,743,640.99 rubles (two million seven hundred and forty three thousand six hundred and forty rubles 99 kopecks), including VAT (18%). Due to the increase in the VAT rate from 1 January 2019 to 20%, the value of the contract for the provision of audit services increased to 2,769,217.30 rubles (two million seven hundred sixty nine thousand two hundred seventeen rubles 30 kopecks), including VAT. Works within special audit assignments were not carried out in the current year.

In 2019, the firm within Ernst & Young Global Limited will provide comprehensive analysis of the Company's financial and business activities and the preparation of a summary report on its results for 2016–2018 worth 10,880,100 rubles.

There is no affiliation of the Auditor with the Company employees and management. There are no business relationships (participation in the products (services) promotion, participation in joint business activities, etc.), as well as kinship between officials of Ernst & Young LLC and the Company.

AUDIT COMMISSION

The Audit Commission of IDGC of the South, PJSC is a permanently elected body of internal control. The commission protects the interests of the shareholders and is responsible for the accuracy and objectivity of the results of the inspections conducted.

The Audit Commission is guided by the legislation of the Russian Federation, the Charter, the Regulations on the Audit Commission², as well as decisions of the General Meeting of Shareholders.

The number of the Audit Commission members is determined by the Charter of the Company and is five people.

In 2018, the Company had two memberships of the Audit Commission, nine meetings of the Audit Commission were held.

THE AUDIT COMMISSION COMPOSITION FOR THE 2017/2018 CORPORATE YEAR (PERIOD FROM JUNE 13, 2017 TO JUNE 15, 2018)¹

Full name	Position
Zadorozhnaya Angelika Aleksandrovna	Head of the Control and Analytical Department of the Department for Controlling and Auditing Activities of Rosseti PJSC
Kirillov Artem Nikolaevich	Deputy Head of the Auditing Activities Department of the Department for Controlling and Auditing Activities of Rosseti PJSC
Kabizskina Elena Aleksandrovna	Deputy Head of the Auditing Activities Department of the Department for Controlling and Auditing Activities of Rosseti PJSC
Medvedeva Oksana Alekseevna	Chief expert of the Auditing Activities Department of the Department for Controlling Activities of Rosseti PJSC
Slesareva Elena Yuryevna	Chief Expert of the Internal Audit Directorate of Rosseti PJSC

During the current year, the Audit Commission conducted a scheduled audit of the financial and economic activities of IDGC of the South, PJSC for 2017, issued a positive opinion on assessing the reliability of the data contained in the Annual Report and the Company's accounts (financial statements) for 2017², and also approved the Audit Report Commission on the results of the Company's financial and economic activity audit³.

In order to eliminate the deficiencies noted by the Audit Commission, the Company issued order No. 276 dated June 27, 2018 "On the implementation of the Corrective Action Plan to remedy the deficiencies following the results of the financial and economic activity audit of IDGC of the South" PJSC for 2017 ".

The current membership of the Audit Commission for the 2018/2019 corporate year (elected by the annual General Meeting of Shareholders on June 9, 2018, Protocol No. 18)⁴

Lelekova Marina Alekseevna

Birth year	1961
Education	Higher education. Far Eastern Institute of Soviet Trade, specialty "economy", qualification: economist
Date of the first election to the Company's Audit Commission	09.06.2018
Positions occupied in the last five years: 2015–31.12.2018 - Rosseti PJSC, Director of the Department for Controlling and Auditing Activities;	
2013–2015 - Rosseti JSC, Director of the Department for Internal Audit and Control	

Kirillov Artem Nikolaevich

Birth year	1984
Education	Higher education. Moscow Power Engineering Institute, specialty "engineer"
Date of the first election to the Company's Audit Commission	25.06.2014
Positions occupied in the last five years: 2015–31.12.2018 - Rosseti PJSC, Deputy Head of the Auditing Activities Department of the Department for Controlling and Auditing Activities;	
2013–2015 - Rosseti PJSC, Head of Investment Audit Department;	
2012–2013 - FSK YeES JSC, chief expert of the Control and Audit Department;	
2009–2012 - FSK YeES JSC, chief specialist of the Control and Audit Department	

1. The decision of June 29, 2018 (Protocol dated July 2, 2018 No. 279/2018).

2. Approved by the decision of the annual General Meeting of Shareholders on June 13, 2017 (Protocol No. 17), posted on the Company's website.

1. The positions of the Company's Audit Commission members are indicated at the time of their election.

2. Protocol of the Audit Commission meeting dated April 25, 2018 No. 4.

3. Protocol of the Audit Commission meeting datedJune 8, 2018 No. 5.

4. The positions of the Company's Audit Commission members are indicated at the time of their election.

Kabizskina Elena Aleksandrovna

Birth year	1964
Education	Higher education. Far Eastern Technical Institute of Fishery and Fish Industry, Vladivostok, specialty "engineer-economist"
Date of the first election to the Company's Audit Commission	06.06.2016
Positions occupied in the last five years: 2015–31.12.2018 - Rosseti PJSC, Deputy Head of the Auditing Activities Department of the Department for Controlling and Auditing Activities; 2014–2015 - Rosseti JSC, Deputy Head of the Auditing Activities and Internal Audit Department of the Internal Audit and Control Department; 2013–2014 - JSC “MOESK”, Head of the Methodological Department of the Internal Audit Department; 2005–2013 - FSK YeES JSC, Deputy Head of the Control and Audit Department	

Kim Svetlana Anatolyevna

Birth year	1981
Education	Higher education. Moscow State University of Railway Communications, specialty "Commerce", qualification: commerce specialist
Date of the first election to the Company's Audit Commission	09.06.2018
Positions occupied in the last five years: 2015–31.12.2018 - Rosseti PJSC, Head of the Auditing Activities Department of the Department for Controlling and Auditing Activities; 2013–2015 - Rosseti PJSC, Head of the Auditing Activities and Internal Audit Department of the Internal Audit and Control Department	

Yerandina Elena Stanislavovna

Birth year	1972
Education	Higher education. Moscow State University of Environmental Engineering, speciality "Economics and Management in the branches of the agro-industrial complex", qualification: engineer-economist. State University of Management, specialty "Finance and Credit", qualification: economist
Date of the first election to the Company's Audit Commission	09.06.2018
Positions occupied in the last five years: 2016–31.12.2018 - Rosseti PJSC, chief expert of the Expert Department of the Department for Controlling and Auditing Activities; 2013–2015 - “Electrosetservice FGC”JSC “Electrosetservice FGC” JSC	

There were no transactions between the Company and the persons who performed the members duties of the Audit Commission of IDGC of the South, PJSC in 2018 in the current year.

None of the persons who were members of the Audit Commission in 2018 owned shares of the Company in the current year.

None of the members of the Audit Commission of the Company had kinship with persons belonging to the governing bodies and (or) control over the financial and economic activities of IDGC of the South PJSC, was not brought to administrative responsibility for offenses in the field of finance, taxes and fees, securities market or criminal liability for crimes in the economy or for crimes against state power, did not occupy positions in the management bodies of commercial organizations during the period when a bankruptcy case was initiated and / or one of the bankruptcy procedures provided for by the legislation of the Russian Federation on insolvency was instituted, was not trained in the current year at the expense of the Company and did not have a conflict of interest with the Company's executive bodies in the reporting year.

In 2018, the Audit Commission of the second composition held 3 meetings at which issues regarding the election of the Chairman and the Commission Secretary of the Audit Commission of the Company, approval of the Work Plan of the Audit Commission, as well as issues directly related to the conduct of audits were considered¹.

During the reporting year, the Audit Commission conducted the first stage of the audit of the financial and economic activities of IDGC of South, PJSC for 2018, the results of which approved the Act of the Audit Commission².

In order to eliminate the deficiencies noted by the Audit Commission, the Company issued order No. 932 dated December 26, 2018 "On the implementation of the Corrective Action Plan to remedy deficiencies following the first stage of the financial and economic activities audit of IDGC of the South for 2018".

Information on the payment of remuneration (reimbursement of expenses) to members of the Audit Commission

Payment of remuneration to members of the Audit Commission of the Company is carried out in accordance with the Regulation on the payment of remunerations and compensations to members of the Audit Commission of the Public Joint Stock Company "Interregional Distribution Grid Company of the South"³. Remuneration to a member of the Audit Commission is determined from the basic part of the remuneration (V_{Baz}). The basic remuneration to a member of the Audit Commission is set on the basis of the Company's revenue calculated under RAS for the fiscal year, in accordance with the scale below.

A member of the Company's Audit Commission is reimbursed for expenses related to participation in a meeting of the Company's Audit Commission and conducting an audit, according to the norms of reimbursement for travel expenses of the Company at the time of the meeting or audit.

The total amount of remuneration paid to the members of the Audit Commission of IDGC of the South, PJSC for 2018 amounted to 796.5 thousand rubles (includes personal income tax).

ANTI-CORRUPTION POLICY

The fundamental regulatory act in the fight against corruption is the Federal Law dated 25 December, 2008 No. 273-FL “On Combating Corruption” (hereinafter - the Law on Combating Corruption).

In order to implement the National Anti-Corruption Plan for 2016–2017,⁴ a new unified Anti-Corruption Policy of Rosseti PJSC and ROSSETI PJSC Subsidiaries and Affiliates was approved⁵ and put into effect.

The anti-corruption policy of the Company is a complex of interrelated principles, procedures and specific measures aimed at preventing and combating corruption offenses in the activities of this organization.

The purpose of the Anti-Corruption Policy is to form a unified approach to the implementation of the requirements of Art. 13.3 of the Law on Combating Corruption concerning the obligation of Rosseti PJSC and ROSSETI PJSC Subsidiaries and Affiliates to develop and adopt measures to prevent and combat corruption:

- > identification and subsequent eliminating the causes of corruption (prevention of corruption);
- > detection, prevention and suppression of corruption and other offenses;
- > minimization and (or) liquidation of the consequences of corruption and other offenses, including those provided by art. 19.28 of the Code of Administrative Offenses of the Russian Federation.

The main group of persons subject to the Anti-Corruption Policy is the Company's employees, regardless of their position and functions, as well as partners and contractors of Rosseti PJSC and Rosseti PJSC Subsidiaries and Affiliates, other persons due to mutual obligations between them and the Company, including anti-corruption obligations and other anti-corruption agreements.

1. Information on all decisions made can be found on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/resheniya-revizionnoy-komissii/>.
2. Protocol of the Audit Commission meeting dated October 19, 2018 No. 3.
3. Approved by the decision of the annual General Meeting of Shareholders on June 19, 2015 (Protocol No. 13), posted on the Company's website:<http://mrsk-yuga.ru/korporativnoe-upravlenie/dokumenty-reglamentiruyushchie-deyatelnost-organov-upravleniya-i-kontrolya-obshchestva/>.
4. Decision of the Board of Directors dated January 31, 2017 (Protocol No. 217/2017 dated February 2, 2017).
5. Order of IDGC of the South PJSC dated February 8, 2017 No. 81

The main directions of the Anti-Corruption Policy

1. Definition of functional units and officials responsible for the prevention of corruption offenses and anti-corruption.
2. Assessment of corruption risks (fraudulent and other illegal actions of employees of the Company or third parties).
3. Identification and settlement of interest conflicts (declaring conflicts of interest and information about income, checking applicants for hiring, etc.).
4. Development and implementation of standards and procedures aimed at ensuring fair work (Code of Corporate Governance and Gift Exchange Rules).
5. Consideration and resolution of information on possible facts of corruption and other abuses (work with complaints, telephone hotline, etc.).
6. Legal education and the formation of the employee law-abiding behavior fundamentals , counseling and training of employees (familiarization with the OAD and the local normative act against the signature to combat corruption, additional agreements to the employment contract for the AKP, placement of information on the website, training events, etc.).
7. Control of economic activity operation documentation, control of the economic feasibility of expenses in high corruption risk areas , verification of the organizational procedures and rules implementation.
8. Taking measures to prevent corruption when interacting with partners and counterparties (checking procurement participants and counterparties, checking for lack of personal contacts between management and owners for affiliation, checking supporting documents of procurement participants, introducing the Anti-Corruption Standard, introducing a unified automated system for analyzing and collecting information about counterparty beneficiaries (AS "ASIB").
9. Interaction with government bodies performing control and supervisory functions, cooperation with law enforcement agencies in the field of combating corruption.
10. Participation in collective initiatives on countering and preventing corruption (joining the Anti-Corruption Charter of Russian business, using standard anti-corruption clauses in agreements, transparent and open procurement procedures, etc.).
11. Countering bribery of foreign public officials and officials of public international organizations.
12. Adoption, analysis of the application and revision of the Anti-Corruption Policy.

The anti-corruption policy for the employees of IDGC of the South, PJSC establishes duties, in particular:

- > to refrain from committing and / or participating in the commission of corruption and other offenses in their own interests or on behalf of the Company;
- > to refrain from behavior that may be interpreted by others as a willingness to commit or participate in the commission of corruption and other offenses in their own interests or on behalf of the Company.

In pursuance of the Anti-Corruption Policy, IDGC of the South, PJSC has the following provisions and regulations:

- > Corporate Ethics Code of IDGC of the South, PJSC;
- > Regulations on the contractual work and the Uniform Procurement Standard;
- > The procedure for receiving, reviewing and resolving applications from applicants for possible facts of corruption;
- > Regulation on the settlement of interest conflicts in IDGC of the South, PJSC;
- > Regulations on the Interest Conflict Settlement Commission;
- > Provision on communication by employees of the Company on receipt of a gift in connection with their official position or the performance of official duties.

The anti-corruption policy provides for the responsibility of officials for the commission of corruption offenses and other abuses.

The measures of responsibility for corruption and other offenses in IDGC of South, PJSC include 1) disciplinary, administrative and criminal liability measures in accordance with the legislation of the Russian Federation and 2) corporate impact measures in accordance with local regulations of the Company.

IDGC of the South, PJSC conducts inspections for each reasonable suspicion or established fact of corruption within the limits allowed by the legislation of the Russian Federation.

IDGC of the South, PJSC joined the Anti-Corruption Charter of the Russian business¹.

The Company has identified and implemented measures to implement the provisions of the Anti-Corruption Charter of Russian business in the annual Anti-Corruption Plan in IDGC of the South, PJSC.

Local regulations adopted in the reporting period within the implementation of the federal anti-corruption legislation requirements

In the reporting period, the following local regulatory acts aimed at preventing corruption that meet the requirements of Russian legislation were developed and updated:

- > Methodology for assessing the risk of corruption in Rosseti PJSC and Subsidiaries and Affiliates of Rosseti PJSC;
- > Regulations on the procedure for processing personal data in an automated system for analyzing and collecting information on beneficiaries in IDGC of South, PJSC;
- > Regulation on insider information of IDGC of the South, PJSC;
- > Regulations of the Anti-Corruption Process;
- > Regulation on the settlement of interest conflicts in IDGC of the South, PJSC;
- > Regulations on the Commission of IDGC of the South PJSC on compliance with corporate ethics and interest conflict resolution.

1. Certificate of Accession dated April 2, 2015 No. 1517.

Information on possible facts of corruption and other abuses in the Company

In accordance with the “Procedure for receiving, reviewing and resolving applications of applicants (employees, counterparties of IDGC of the South” PJSC and other individuals and legal entities) about possible corruption ”,¹ in 2018, information about appeals and complaints about possible corruption was monitored.

Two appeals submitted for consideration in 2018 in IDGC of the South, PJSC were registered in a separate log. On the facts of the received appeals, service checks were conducted. According to the inspection results , the circumstances stated in the appeals were not confirmed, the facts of the interest conflict were not established.

Measures to identify and resolve interest conflict

In 2018, the annual declaration of the interest conflict of the Company's employees for 2017 was held. The number of persons subject to annual declaration in IDGC of the South, PJSC and Subsidiaries and Affiliates of IDGC of the South, PJSC was 2,213.

After the electronic declaration was completed, the declared information was checked automatically, taking into account the SPARK data and information on ownership chains, including the final beneficiaries under the concluded agreements of IDGC of the South, PJSC and Subsidiaries and Affiliates of IDGC of the South, PJSC. According to inspection results 55 incidents are revealed.

As a result of checking “incidents”, cases of pre-conflict situations and interest conflicts were not identified.

Additionally, declarations on the completeness of information on the presence of close relatives working in the Company are checked. As a result, 23 declarations were identified and refined in IDGC of the South, PJSC.

In the course of checking declarations for possible presence / absence of close relatives in the employees, either directly or directly subordinate, 49 facts were revealed and then required additional verification.

For the identified cases, job (work) instructions, regulations on structural divisions were requested. As a result of 49 possible cases:

- > 32 were not confirmed due to lack of subordination;
- > three cases require the settlement of possible interest conflicts;
- > 14 cases are settled in connection with the presence of labor dynasties.

The results of the annual declaration on April 12, 2018 were reviewed and approved at a meeting of the Commission of IDGC of the South, PJSC² on compliance with the norms of corporate ethics and interest conflicts resolution.

1. Approved by the order of IDGC of the South, PJSC dated November 2, 2017 No. 122.
2. Protocoldated April 13, 2018 No. 8.
3. From December 1, 2017, No. EY-6290.
4. Protocol dated October 1, 2018 No. 9.

In accordance with the recommendations provided by Rosseti, PJSC³ pre-conflict situations regarding labor dynasties were recognized by the Commission as permitted and not requiring additional measures. The heads of structural divisions are charged with ensuring control over the performance of official duties by production personnel assigned to labor dynasties, eliminating abuses related to the positions held and the occurrence of interest conflict.

The general director deputies - directors of branches of IDGC of the South, PJSC, in accordance with the Regulations on Interest Conflict , took measures to resolve the identified pre-conflict situations.

The results of the settlement of pre-conflict situations were reviewed and approved at a meeting of the Commission of IDGC of the South, PJSC⁴ on compliance with the norms of corporate ethics and interest conflict settlement.

Countering and preventing corruption when interacting with partners and counterparties

In 2018, IDGC of the South, PJSC built relationships with partners, contractors and third parties in accordance with anti-corruption principles and standards, carried out competitive purchases, guided by objective criteria when choosing suppliers, carried out appropriate outreach activities.

The Company conducts explanatory work with counterparties when counterparties refuse to provide information on owners and sign Agreement on the processing of personal data.

In the reporting period, IDGC of the South, PJSC carried out competitive purchases, guided by objective criteria when choosing suppliers, paying great attention to the formation of transparent business standards in the energy sector. All technical specifications and all documentation on participants in procurement procedures is subject to mandatory testing and anti-corruption expertise.

During the scheduled procurement procedures for 2018, 845 technical assignments and 1,499 evaluation reports, including analytical notes, were reviewed and agreed. At least 4,388 participants in procurement procedures were checked, of which 215 were rejected.

In addition, during the reporting period, 749 explanatory notes were reviewed on the inclusion in the agenda of the central procurement authority of issues on updating the Procurement Plan.

In the process of pre-contract work, it was checked, including the accuracy and completeness of information about the owners of contractors, and 54,351 income and expense agreements were loaded into AS AIB, of which 2 529 were contracts with the disclosure of the owners of contractors, 2 beneficiaries were counted 242.

Anti-corruption policy is presented on the official website of IDGC of the South, PJSC at: <http://mrsk-yuga.ru/>.

Participation in working groups and collective initiatives to counter and prevent corruption

In accordance with the National Anti-Corruption Plan for 2018–2020,¹ the Anti-Corruption Policy of Rosseti PJSC and its subsidiaries and affiliates of Rosseti PJSC in 2018, the Company conducted training activities to combat corruption in the executive office, branches, governance and REC of the Company. Employees of the Company recruited this year were familiarized with international legal acts in the field of anti-corruption, regulatory documents of the Russian Federation on combating corruption, with the local normative act of the Company, including in more detail with the Anti-Corruption Policy. According to the survey results

In pursuance of the Anti-Corruption Plan in IDGC of the South PJSC for 2018 in accordance with the approved Training , retraining and advanced training plan for the personnel of IDGC of the South PJSC in 2018, the Company's employees underwent advanced training, whose duties included participation South-Russian Institute of Management of the Russian Academy of National Economy and Public Administration under the President of the Russian Federation (Rostov-on-Don), St. Petersburg Academy of Security "and private institution of continuing professional education "Interregional Corporate Training Centre "ENERGETIC".

In order to ensure the reliability and accuracy of the financial (accounting) statements, ensure compliance with the requirements of regulatory documents, prevention and detection of corruption offenses, IDGC of the South, PJSC conducted audits on the financial and economic activities of the subsidiaries and affiliates of IDGC of the South, JSC and branches.

The audit programmes included the following questions:

- > verification of procurement and contract work;
- > verification of compliance with the requirements of the Anti-Corruption Policy, the implementation of measures to identify conflicts of interest.

The representative of IDGC of the South, PJSC took an active part in the working group on improving the methodological support in the field of anti-corruption². During 2018, four analytical notes were sent with proposals for consideration at the group meetings.

Information on the activities of IDGC of the South PJSC in the field of countering and preventing corruption is posted on the Internet. A new section “Anti-Corruption” has been developed on the Company's official website: <http://mrsk-yuga.ru/pages/show/protivodeystvie-korruptcii> .

Ensuring the safety of economic activity

In 2018, with the participation of the security division of IDGC of the South, PJSC, 194 materials were prepared and sent to law enforcement and supervisory authorities (2017 - 41), including:

- > on the facts of unrecorded electricity consumption before law enforcement agencies, 172 verification measures have been initiated to determine whether the actions of the violators contain the signs of crime provided for in Art. 165 of the

- Criminal Code of the Russian Federation;
- > according to the inspections results of financial and economic activities - 3 (2017 - 2);
- > as part of work on the return of overdue receivables for electricity transmission services - 6 (in 2017 - 6) (Donreko LLC, Volgogradenergosbyt PJSC, TNS Energo Rostov-on-Don PJSC);
- > for other reasons - 13, including in relation to the Company's employees - 3.

Based on the materials prepared and sent to law enforcement, supervisory authorities with the participation of PB and accompanied by PB, nine criminal cases were initiated based on the results of the procedural inspections (14 in 2017, nine of them on the facts of dismantling of electrical equipment and theft of goods and materials):

- > 1 - Art. 165 of the Criminal Code of the Russian Federation "Causing property damage";
- > 2 - Art. 204 of the Criminal Code of the Russian Federation "Commercial bribery";
- > 3 - Art. 158 of the Criminal Code of the Russian Federation "Theft";
- > 2 - Art. 159 of the Criminal Code of the Russian Federation "Fraud";
- > 1 - Art. 272 of the Criminal Code of the Russian Federation “Illegal access to computer information”.

According to the results of the criminal case material consideration, the courts issued five decisions on bringing violators to criminal responsibility (in 2017 –8, five of them - on the facts of dismantling electrical equipment and goods and materials theft):

- > 1 - Art. 204 of the Criminal Code of the Russian Federation "Commercial bribery";
- > 1 - Art. 272 of the Criminal Code of the Russian Federation “Illegal access to computer information”;
- > 1 - Art. 158 of the Criminal Code of the Russian Federation "Theft";
- > 1 - Art. 159 of the Criminal Code of the Russian Federation "Fraud" (in relation to S. A. Huruji);
- > 1 - Art. 201 of the Criminal Code of the Russian Federation “Abuse of power”.

As part of the administrative proceedings (Code of Administrative Offenses of the Russian Federation) 4,081 applicant materials were sent:

- > on the grounds of an administrative offense in accordance with Art. 7.19 of the Code of Administrative Offenses of the Russian Federation - 4 054 (in 2017 - 1 121), based on the consideration results by the courts 1,286 positive decisions were made (in 2017 - 392);
- > on the grounds of an administrative offense in accordance with Art. 9.22 of the Code of Administrative Offenses of the Russian Federation - 27, based on the results of consideration of which the Nizhne-Volzhsky Directorate of Rostekhnadzor issued 27 positive decisions.

1. Approved by the Decree of the President of the Russian Federation dated June 29, 2018 No. 378.
2. Created by the order of ROSSETI PJSC dated June 20, 2016 No. 244p.

WORK WITH INSIDER INFORMATION

In accordance with the requirements of the legislation of the Russian Federation in the field of information protection,¹ the Company approved the List of information containing confidential materials, which include insider information.

In order to enhance information security, reduce the risks of information threats and the consequences of information security rules violation, the Company approved and put into effect a number of regulatory documents in the field of information protection, including insider information:

- > Regulations on the protection of information of IDGC of the South, PJSC;

Insider category	As of December 31, 2017	Q1 of 2018		As of March 31, 2018		Q2 of 2018		As of June 6, 2018		Q3 of 2018		As of September 30, 2018		Q4 of 2018		As of December 31, 2018	
		incl.	excl.	incl.	excl.	incl.	excl.	incl.	excl.	incl.	excl.	incl.	excl.	incl.	excl.	incl.	excl.
1	31	–	–	31		5	–	36		4	4	36		1	8	29	
2	1 746	32	25	1 753		35	34	1 754		37	29	1 762		51	54	1 759	
3	–	–	–	–		–	–	–		–	–	–		–	–	–	
4	20	1	2	19		1	–	20		1	–	21		–	1	20	
Total	1 797	33	27	1 803		41	34	1 810		42	33	1 819		52	63	1 808	

RISK MANAGEMENT SYSTEM

The Company has a risk management system (hereinafter referred to as RMS), the purpose of which is to ensure the sustainable continuous operation and development of the Company through the timely identification, assessment and effective management of risks that pose a threat to the effective implementation of business activities and the Company's reputation, employee health, the environment, and property interests of shareholders and investors.

Participant name	Main functions in the field of RMS
Board of Directors	Approves the Company's internal documents defining the organization and functioning of the Company's RMS. Examines the reports of the Company's executive bodies on the organization, functioning and effectiveness of the RMS, evaluates the operation of the RMS and makes recommendations for its improvement
Authorized Committee in cooperation with the Board of Directors	Monitors the effectiveness of risk management procedures, as well as evaluating the effectiveness of risk management measures and the improvement of the RMS
Executive Bodies (Management Board)	Establish requirements for the format and completeness of information about the risks of the Company. Form directions and plans for the development and improvement of the RMS. Conduct risk portfolio analysis and develop response strategies and reallocate resources for managing relevant risks.
Risk owners	Responsible for the timely identification and assessment of risks, the choice of the method dealing with risks, the timely development and organization of the implementation of risk management measures, regular monitoring of risks
Executors of risk management activities	Responsible for timely identification and / or minimization of risks, implementation of measures aimed at risk management, timely and in full
Risk Management Division	Performs overall coordination of risk management processes.
Internal Audit Division	Performs an internal independent assessment of the effectiveness of the risk management system and issuing recommendations for improving the effectiveness and efficiency of the RMS

1. Including the Federal Law dated July 27, 2006 No. 149-FL "On Information, Information Technologies and Information Protection", the Federal Law dated July 29, 2004 No. 98-FL "On Commercial Secrets", the Federal Law of July 27, 2010 No. 224-FL "On Counteracting the Illegal Use of Insider Information and Market Manipulation and on Amendments to Certain Legislative Acts of the Russian Federation".

Main risk factors

Significance of risk is a combination of the risk occurrence likelihood and the magnitude of the consequences for the Company in monetary and other terms. Assessment of the risk significance is carried out based on the available risk passports or expertly in accordance with the following scale.







SIGNIFICANCE LEVEL




EVALUATION OF RISKS SIGNIFICANCE

Ser. No.	Risk name	Risk description	Risk consequences minimization measures	Risk assessment and dynamics
Industrial risks				
1	Tariff risk	The state policy of tariff regulation takes into account the need to curb inflation and provides for a change in regulated tariffs of grid organizations in 2017–2019 below the actual inflation index, while prices in the wholesale market are outpacing, which leads to the risk that regulators establish a tariff menu that does not ensure the collection of economically sound revenues	In order to minimize the likelihood of risk occurrence and reduce material risk, a number of measures were implemented on a regular basis in strict accordance with the current legislation of the Russian Federation and interacted with the executive authorities of the constituent entities of the Russian Federation in the field of state regulation of tariffs to ensure balanced decision making in all branches of the Company (taking into account the introduction of relevant amendments to the current legislation), including the establishment of tariffs for the transmission of electricity with indexation not lower than the level provided for by the Forecast of the SEP of the Russian Federation and the establishment of a base level of controllable expenses ensuring the necessary production and economic activity. As regards the Astrakhanenergo and Rostovenergo branches, the state regulatory authorities fulfill the obligations of phased recording in GRG of the magnitude of the return of accumulated “smoothing” and other lost revenues	
2	The risk of reducing the amount of electricity transmission services	The risk is due to the possibility of reducing the demand for electricity and the optimization of large-scale external power supply by large consumers.	In order to cover the most significant risk factors, the Company implements the following measures. Conducting work with consumers of services on the coordination of planned values for inclusion in the contract for the next year, as well as for presentation to the state regulatory bodies of tariffs. Conduct conciliation meetings with the participation of the tariff regulation authorities to make balanced decisions on the value of the predicted productive supply. Conducting periodic inspections of settlement systems of electricity metering, control readings. Monitoring of power consumption, the formation of the forecast of productive supply until the end of the year, taking into account the current dynamics of power consumption. Switching to the calculations for the services rendered for the transmission of electric energy through the general-purpose metering devices installed on the inputs of apartment buildings. Carrying out activities aimed at resolving disagreements with consumers of services for the transmission of electrical energy in terms of the volume of services and with related grid organizations and preventing their occurrence. Implementation of measures programmes to reduce electrical energy losses and programmes for the future development of electrical energy metering systems	

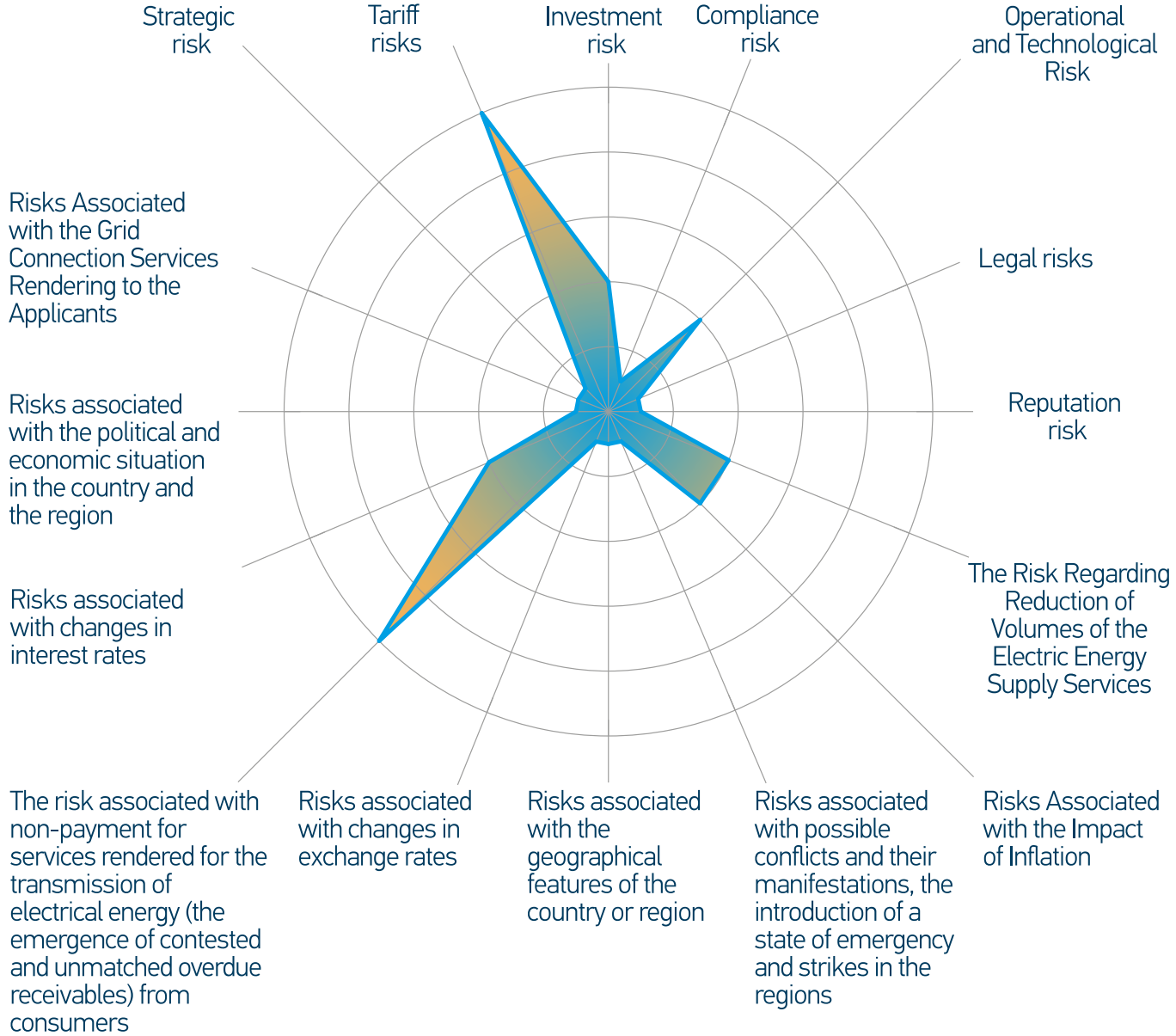
Ser. No.	Risk name	Risk description	Risk consequences minimization measures	Risk assessment and dynamics
3	Risks associated with the provision of technological connection services to applicants	Risks are due to the possible deficit occurrence in the funding source for the contracts for the implementation of technological connection; failure by the applicants to fulfill obligations under contracts for the implementation of technological connection; failure of the applicants to use the power obtained during technological connection. Due to the influence of these factors, it is possible to reduce the Company's revenue from technological connection	In order to reduce the negative effect and conditions affecting the activities, the Company takes the following measures. Removing the test readings from the settlement complexes of electricity metering by attracting additional personnel. Identification of facts of unaccounted consumption of electric energy, including with the involvement of law enforcement. Implementation of energy service contracts in order to save energy and increase energy efficiency in the use of energy resources in terms of reducing the technological consumption (loss) of electricity during transmission. Implementation of measures of the programme for the future development of electricity metering systems	
4	The risk associated with non-payment for services rendered for the transmission of electrical energy (the emergence of contested and unmatched overdue receivables) from consumers	The risk is due to the insufficiency of the existing incentive mechanisms for consumers to make timely payments for electricity transmission services, as well as the influence of macroeconomic factors (reduced solvency of consumers)	In order to reduce these risks, the Company takes the following measures. Negotiations with counterparties. Participation in meetings with interested parties on payments for electricity transmission services provided. Conclusion of debt restructuring agreements. Restriction of the electric energy consumption mode in respect of debtors, to which the restriction is possible and permissible. Claims work with consumer debtors	
Country and regional risks				
5	Risks associated with the political and economic situation in the country and the region	The risks are associated with a decrease in the economic activity of the constituent entities of the Russian Federation in the regions of presence, an increase in the cost of credit funds, which, in turn, may be caused by the instability of the external environment, international sanctions, lower credit ratings and an increase in the inflation burden. The influence of these factors may lead to a reduction in the Company's revenue and its stockholder value.	In case of destabilization of the political and economic situation in Russia or in a particular region, which may adversely affect the Company's operations, the latter will take a number of measures for crisis management in order to minimize the negative impact of the situation on PJSC "MRSK Yuga" (Public Joint-Stock Company "Inter-Regional High-Voltage Grid Company of the South") including cost reduction production and other expenses, reducing investment plans	
6	Risks associated with possible conflicts and their manifestations, the introduction of a state of emergency and strikes in the regions	The risks are associated with possible acts of unlawful interference with activities, including terrorist acts and representatives of international terrorism, as well as nationalist elements of individual states. Such actions may have a negative impact on the Company's operations.	To minimize the risk of terrorist acts, the Company takes measures to ensure production safety.	

Ser. No.	Risk name	Risk description	Risk consequences minimization measures	Risk assessment and dynamics
7	Risks associated with the geographical features of the country or region, including increased risk of natural disasters, the possible termination of transport communication	Risks are caused by natural and climatic emergencies (impact of hurricanes, rain showers, floods, snow blockages, icing, power failure as a result of fires, domestic explosions, etc.). As a result, the power supply and transport communication in the region may be interrupted.	The Company's actions to reduce the impact of these risks are in the design of power lines, taking into account the peculiarities of the weather in the region, as well as in insuring the corresponding risks.	
Financial risks				
8	Risks associated with changes in exchange rates	Negative impact on the results of the Company's financial and economic activities due to changes in currency exchange rates	To minimize the risk, the Company is implementing an import substitution plan, approved by the order of PJSC "MRSK Yuga" dated 10.10.2017 No. 762 "On the implementation of the corporate import substitution plan"	
9	Risks associated with changes in interest rates	Influence on the possible growth of the Company's expenses on raising funds for financing investment programmes	In case of significant adverse changes in interest rates, the Company will focus on attracting short-term borrowings	
10	Risks associated with the influence of inflation	The impact of the consumer price index growth on interest expenses, cost level, profitability level, and, as a result, on the financial condition and ability of the Company to fulfill its obligations	In order to reduce the impact of inflationary processes on operating activities, the Company plans investment and maintenance programs, taking into account the higher cost of materials and equipment. In addition, the Company enters into contracts on the terms of a fixed price, which does not change under the influence of inflation during the period.	
Legal risks				
11	Legal risks	Risks associated with changes in legislation, judicial practice on the issues of the Company's activities, balance of interests with other subjects of the electric power industry	Analysis of the judicial practice on the most problematic issue of law enforcement. Preparation and submission to the executive and legislative branches of the Company's legislative initiatives. Meetings on emerging issues in the industry. Attracting external consultants to strengthen the Company's legal position in practical disputes and to form a positive practice	
12	Compliance risk	Risks associated with regulatory sanctions in connection with the possible non-compliance of the Company's activities with the requirements of the legislation, local regulatory acts or other regulatory documents that must be executed	Coordination in the prescribed manner of draft responses to requests from regulatory authorities, preparation of opinions on legal issues at the request of contract executing services, participation in the process of agreeing draft agreements concluded within the framework of the Company's activities	

Ser. No.	Risk name	Risk description	Risk consequences minimization measures	Risk assessment and dynamics
Reputational risk				
13	Reputational risk	The risk is associated with the possible failure to perform fully the obligations towards customers and counterparties	In order to minimize reputational risks, the Company takes the following measures. Formation of the official position of the Company, publication of it on the official website, in the media, organization of press conferences, briefings with the participation of the Company's management, placement of information on social networks with the subsequent maintenance of the topic/discussion in the necessary direction of the Company. Demonstration of openness and readiness for dialogue with the media. Preparation and coordination of responses to media inquiries. In order to prevent reputational risks, the following measures are taken. Daily maintenance of the Company's presence in the media space. Constant interaction with editors and leading journalists of key media for timely information sharing. Daily monitoring of media and social networks. Preparation and coordination of responses to media inquiries. Holding press tours and events. Publication on the official website of the Company, in the media, on social networks of information that forms a positive information background on the results of operations and plans of the Company. Initiation in social networks of active discussions among bloggers/moderators of opinions in the necessary direction of the Company on topics related to the activities of the Company	

Ser. No.	Risk name	Risk description	Risk consequences minimization measures	Risk assessment and dynamics
Strategic risk				
14	Strategic risk	The risk of failure to achieve the strategic goals and objectives of the Company due to potential changes in the internal and external environment of the Company	In order to manage strategic risks and prevent the implementation of this risk, the Company implements the following set of measures. <ul style="list-style-type: none">➤ Implementation of investment and maintenance programs for the renovation of the electric grid complex.➤ Implementation of programs to improve the management of labor protection.➤ Conducting anti-terrorism exercises at the Company's facilities and installing engineering and technical means of protection in accordance with the approved Individual Rehabilitation Programme	
Risks associated with the Company's activities				
15	Operational and technological risk	Reducing the reliability of power supply to consumers, due to factors such as emergency situations of natural and man-made, leading to the disruption of the efficiency of electrical equipment; high proportion of equipment with excess service life; non-compliance with regulatory and technical requirements in terms of exceeding the established allowable values of the technological parameters of operation of power grid equipment	Measures taken by the Company to reduce operational and technological risk. <ul style="list-style-type: none">➤ Timely execution of the programme of repairs and technological maintenance.➤ Ice melting (if necessary).➤ Monitoring the performance of surge arresters (dischargers).➤ Monitoring the effectiveness of lightning protection	
16	Investment risk	Reduction of sources of financing for the Company's investment programs in the event of a deterioration in its financial and economic condition and, as a result, a decrease in tariff revenue if investment programs are not fulfilled. Violation of the planned deadlines for the commissioning of investment programme facilities for reasons of non-fulfillment/untimely execution by contractors and suppliers of their obligations	Measures taken by the Company to reduce the risks of investment activities. <ul style="list-style-type: none">➤ Monitoring the fulfillment of obligations by suppliers, contractors in the framework of the investment program.➤ Organization of timely adjustment of the investment program.➤ Redistribution of funds received from savings as a result of competitive procedures to other objects of the investment program.➤ Monitoring compliance with the terms of the procurement procedures	

EVALUATION OF RISKS SIGNIFICANCE



Interaction with stockholders and investors

JOINT-STOCK CAPITAL

The registered authorized capital of PJSC "MRSK Yuga" as of December 31, 2018 amounted to 6,903,905,717.70 rubles and divided into 69 039 057 177 ordinary registered uncertified stocks with a nominal value of 10 kopecks for each.

To improve the financial stability of the issuer, replenish its working capital and ensure reliable power supply of sports and infrastructure facilities during the 2018 World Cup in Rostov-on-Don, in July 2017, at an extraordinary General Meeting, stockholders decided to place additional ordinary registered uncertified stocks. In 2018, the placement of additional stocks of the Company was completed. On August 23, 2018, the Inspectorate of Federal Tax Service of Russia No. 25 in the Rostov region registered changes in the Charter regarding the size of the joint-stock capital.

The authorized capital of the Company amounted to 6,903,905,717.70 rubles.

The company has not issued any preferred stocks.

Ordinary stocks declared by the Company for placement grant their owners the rights stipulated in clause 6.2 of Art. 6 of the Charter of PJSC "MRSK Yuga".

"MRSK Yuga" conducted additional issues of ordinary registered uncertified stocks with a nominal value of 10 kopecks.

ISSUES OF THE COMPANY'S STOCKS

Ser. No.	State registration number of the issue	Volume, rub.	Category of stocks	Quantity, pcs.	Nominal value, rub.
First issue of stocks					
1	1-01-34956-E from 20.09.2007	10 000 000,0	Ordinary	100 000 000	0.1
Second issue of stocks					
2	1-01-34956-E-001D from 20.03.2008	228 296 779,1	Ordinary	2 282 967 791	0.1
3	1-01-34956-E-002D from 20.03.2008	1 620 347 283,7	Ordinary	16 203 472 837	0.1
4	1-01-34956-E-003D from 20.03.2008	439 059 322,3	Ordinary	4 390 593 223	0.1
5	1-01-34956-E-004D from 20.03.2008	2 029 712 678,4	Ordinary	20 297 126 784	0.1
6	1-01-34956-E-005D from 20.03.2008	192 111 155,0	Ordinary	1 921 111 550	0.1
7	1-01-34956-E-006D from 20.03.2008	461 582 387,9	Ordinary	4 615 823 879	0.1
Third issue of stocks					
8	1-01-34956-E from 04.08.2016	1 136 704 335,3	Ordinary	11 367 043 353	0.1
9	1-01-34956-E from 01.06.2017	789 091 776,0	Ordinary	7 860 917 760	0.1
Total				69 039 057 177	
Note. In accordance with the notification of the Federal Financial Markets Service of Russia from August 12, 2008 No. 08-EK -03/17099, the individual numbers (codes) of additional issues of stocks were canceled; the combined issue was assigned the state registration number 1-01-34956-E from September 20, 2007.					

Joint-stock capital structure

As of June 28, 2007 (creation date), 100% of the stocks belonged to the sole founder of the Company, OJSC RJSC "YeES Rossii" (Open Joint-Stock Company Russian Joint-Stock Company "Unified Energy System of Russia").

On March 31, 2008, as a result of the Company's reorganization in the form of affiliation of OJSC "Astrakhanenergo", OJSC "Volgogradenergo", OJSC "Kalmenergo" and OJSC "Rostovenergo" to it, the stockholders of the affiliated companies who did not exercise the right to demand repurchase of stocks during the reorganization of these companies.

Since July 1, 2008, as a result of the reorganization of OJSC RJSC "YeES Rossii", the owner of its block of stocks in the Company became OJSC "Holding MRSK" (renamed as OJSC "Rosseti" since April 4, 2013, and since July 17, 2015 - PJSC "Rosseti"). The block of stocks of PJSC "Rosseti" has changed, including in connection with the implementation of "MRSK Yuga" of additional issues of stocks in the following volume:

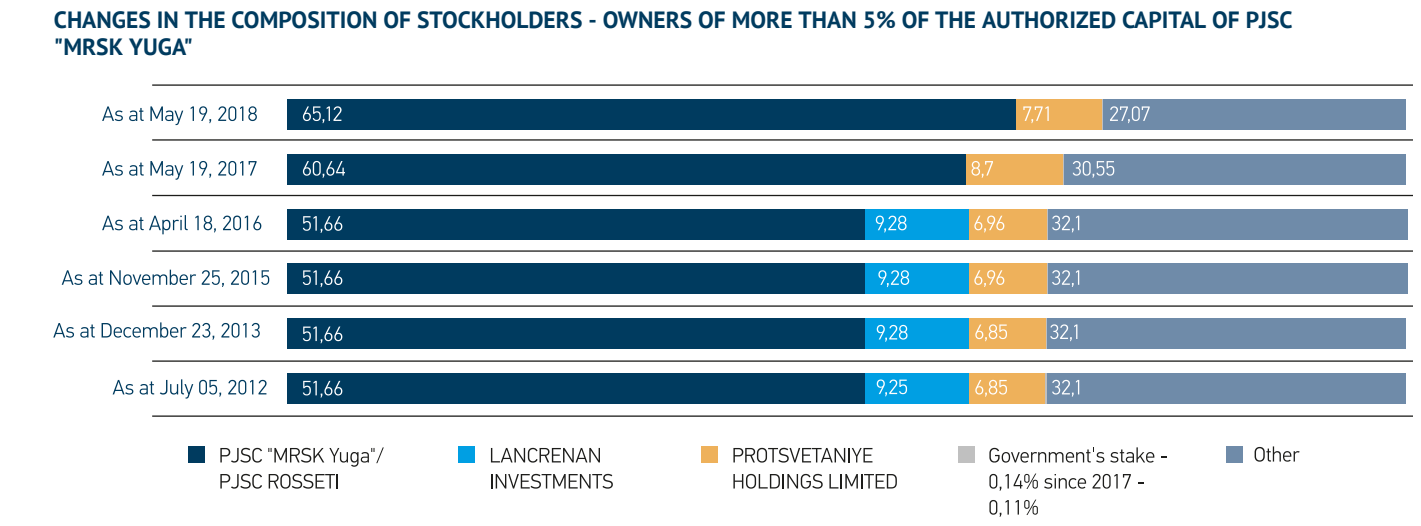
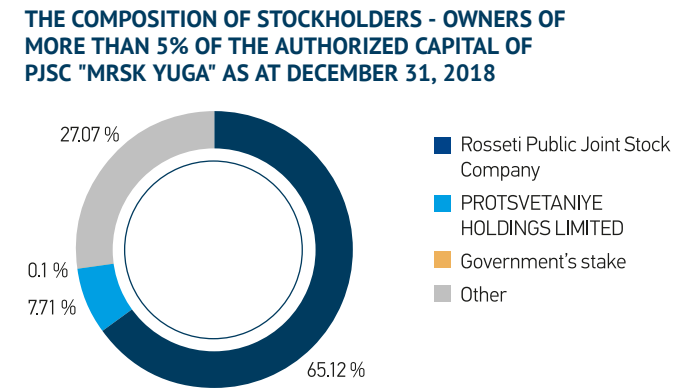
- > as of December 31, 2016 - 27,169,119,051 pcs. of ordinary stocks (53.01%).
- > as of December 31, 2017 - 44,957,319,051 pcs. of ordinary stocks (65.12%).

JOINT-STOCK CAPITAL STRUCTURE¹

Type of stockholder	Number of Company's stockholders	Number of stocks	Stockholding, %
Owners - individuals	9 139	1 413 089 604	2.05
including non-residents	39	10 511 352	0.01
Owners - legal entities	92	67 620 723 747	97.94
including non-residents	10	14 679 891	0.02
State	1	69 125 536	0.11
Accounts of unidentified persons	1	5 243 826	0.01
Total	9 232	69 039 057 177	100

Currently, the main stockholder of PJSC "MRSK Yuga" is PJSC "Rosseti", which owns 65.12%.

Stockholders - residents of the Russian Federation owns over 99% of the joint-stock capital. The remaining stocks (less than 1%) are distributed among the stockholders - legal entities and individuals of 10 countries.



GEOGRAPHY OF THE LARGEST STOCKHOLDERS BY COUNTRIES IN THE STRUCTURE OF JOINT-STOCK CAPITAL

Country	Stockholding, %	Number of stocks
Russian Federation	99.97	69 022 134 174
British Virgin Islands	0.0171	11 870 352
Cyprus	0.0029	2 014 701
Denmark	0.0005	359,753
Commonwealth of The Bahamas	0.0003	228,433
Great Britain	0.0002	206,630

CIRCULATION OF STOCKS IN THE STOCK MARKET²

Stocks of PJSC "MRSK Yuga" were admitted to trading on the Moscow Stock Exchange since July 3, 2008.

Until December 19, 2011 (date of reorganization of OJSC "RTS"), PJSC "MRSK Yuga" stocks applied to OJSC "RTS" without going through the listing procedure in two modes: "T+0" (ticker - MRKYG) and "RTS Classica" (ticker - MRKY).

Indicator	Ordinary stocks
Stock ticker	MRKY
Volume of issue	69 039 057 177
Nominal value	0.1
Nominal currency	RUB
Date of start of trading	03.07.2008
ISIN-code	RU000A0JPPG8
State registration number	1-01-34956-E

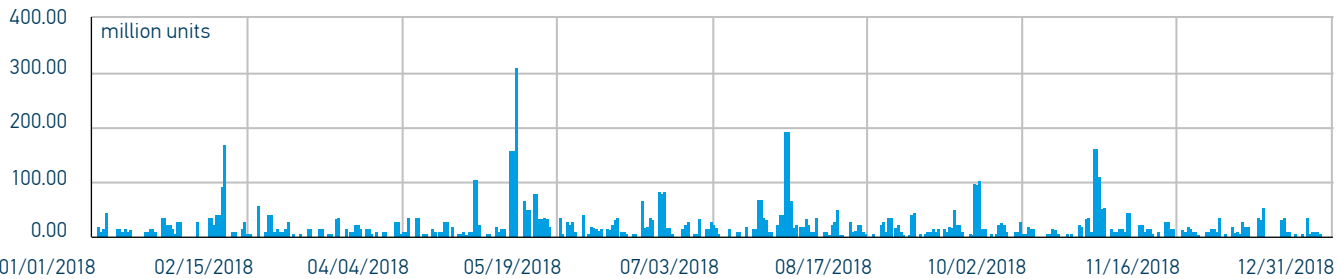
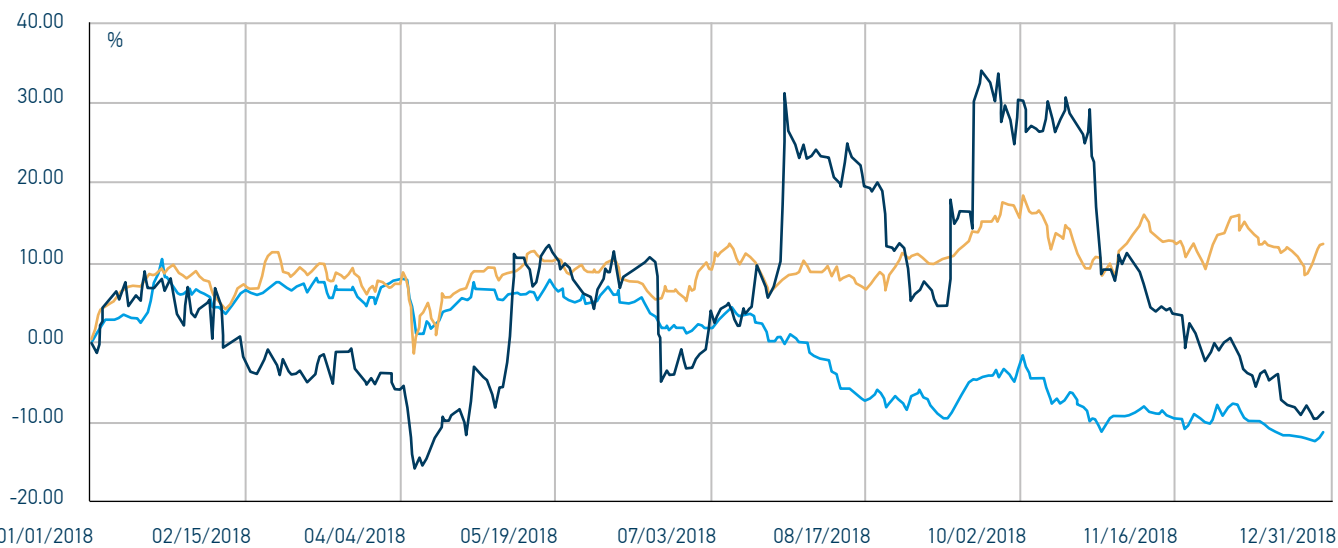
Since July 12, 2010, stocks are traded on the Moscow Stock Exchange: from July 12, 2010 to June 8, 2013 - in the Quotation list "B" (ticker until November 20, 2011 inclusive - MRKA, from November 21, 2011 - MRKY); from 9 June 2013, in accordance with the Listing Rules of the CJSC (Closed Joint Stock Company) Moscow Interbank Currency Exchange, approved by the Board of Directors of CJSC Moscow Interbank Currency Exchange on December 31, 2013, the Company's stocks are included in the second level of the List of Securities Allowed to trading on the Moscow Stock Exchange; from February 26, 2018, PJSC "MRSK Yuga" stocks have been transferred from the "Second Level" section to the "Third Level" section of the List of securities admitted to trading on the Moscow Stock Exchange.

Following the results of 2018, the market price of the PJSC "MRSK Yuga" stock on the Moscow Stock Exchange decreased from 0.0593 to RUB 0.05415, which is 8.4% compared to the beginning of the year.

The market capitalization of the Company as of December 31, 2018, according to the Moscow Stock Exchange, amounted to 3,738,464,946.13 RUB.

According to the Moscow Stock Exchange, 40 873 transactions were made. The ruble volume amounted to 387.67 million rubles, the volume of stocks - 352,085 million units, or 0.5% of the joint-stock capital.

DYNAMICS OF THE PRICE OF ONE STOCK OF PJSC "MRSK YUGA" (ACCORDING TO THE PJSC MOSCOW STOCK EXCHANGE)



The capitalization of PJSC "MRSK Yuga" in 2018 increased by 3.3% and amounted to 3.7 billion rub. For the previous 2017, capitalization showed an increase of 37.7% and amounted to 3.6 billion RUB. This growth of the market capitalization of PJSC "MRSK Yuga" is due to the general positive trends in the securities market, the additional issue of stocks, and the payment of dividends by the Company for 2015 and 2017.

To maintain securities in the quotation lists of Russian stock exchanges, the Company provides reports on compliance with corporate governance standards, as well as other information and documents in accordance with the listing rules (admission of securities to trading), the requirements of the legislation of the Russian Federation and the Bank of Russia.

1. On the last closing date of the registry to the General Stockholders Meeting on May 15, 2018.
2. The information in this section is given according to the data of PJSC Moscow Stock Exchange and CJSC 'Moscow Interbank Currency Exchange'.

INFORMATION DISCLOSURE

In 2018, the Regulations on the Information Policy of the Company were approved in a new edition. The Company's disclosure of material information is based on the principles of regularity, consistency and efficiency, availability, completeness, reliability and comparability.

The Company ensures compliance with the requirements of the legislation of the Russian Federation, the requirements of the regulators of the relevant markets, the Company's internal documents regarding information disclosure.

In order to comply with the principle of accessibility of information, the Company uses channels and methods of disseminating information about its activities that are accessible to most of the interested parties, ensuring free, easy and non-selective access to disclosed information.

The company discloses information in Russian and English in all cases where it is permissible by current legislation and does not contradict the substance of disclosure in a particular case (interviews, public statements in conditions which do not allow simultaneous translation, etc.).

The company publishes information on an information resource updated in real time and provided by a news agency (news line) in the amount and in the time provided for by the legislation of the Russian Federation.

The address of the Company's website on the Internet provided by the Interfax news agency: <http://www.e-disclosure.ru/portal/company.aspx?id=11999> .

The company publishes on the official website on the Internet information about its activities, the composition of the subsidiaries and affiliates, as well as documents, press releases, presentations, messages, news, articles, interviews, answers to frequently asked questions of stockholders and other information provided for by the legislation of the Russian Federation, internal Company documents, as well as complying with best corporate governance practices both in the Russian Federation and abroad.

The company regularly holds meetings with representatives of the investment community, participates in the work of Russian and international investment conferences.

MEETING WITH REPRESENTATIVES OF THE ANALYTICAL COMMUNITY

November 23, 2018 in Rostov-on-Don, a meeting was held with representatives of the analytical community with a visit to the production facilities of PJSC "MRSK Yuga". The meeting was attended by representatives of the largest investment companies - Holding Company "Uralsib", PJSC "IK Russ-invest" and Sova Capital Ltd. The meeting was also held with the participation of representatives of the main stockholder of the Company - PJSC "Rosseti". Top managers of "MRSK Yuga" demonstrated to analysts the investment potential of the Company. The meeting continued with acquaintance with the results of the investment programme implementation, with the programs of innovative development and modernization of power grid facilities of "MRSK Yuga", plans for transition to digital substations and active digital adaptive networks with distributed intelligent automation and control systems, the use of new technologies and approaches to the integrated efficiency of business processes automation control systems.

During the meeting, representatives of the investment community visited the Network Management Center and the substation 110 kV "Sportivnaya".

Analysts expressed a desire to hold the next meeting in 2019 after the implementation of the announced plans.

DIVIDEND POLICY

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

The dividend policy of the Company is determined by the Regulation on the dividend policy approved by the decision of the Board of Directors of the Company on February 2, 2018 in the new edition (Protocol No. 258/2018 of February 5, 2018) with amendments of July 31, 2018 (Protocol No. 281 2018).

Principles of the Company's dividend policy

- > Calculation of dividends on the use of profits without taking into account the impact of the revaluation of financial investments.
- > Maintaining the required level of financial and technical condition of the Company.
- > Compliance with the Company's practice of calculating and paying dividends to the laws of the Russian Federation and the best standards of corporate behavior.
- > The optimal combination of interests of the Company and stockholders.
- > Increasing the investment attractiveness of the Company and its capitalization.
- > Transparency (clarity) of the mechanism for determining the amount of dividends and their payment.

The dividend policy of the Company establishes the size of dividends at a level of at least 50% of net profit under IFRS. At the same time, a number of restrictions on the payment of interim dividends are allowed, including if the payment requires the attraction of debt financing, will lead to a deterioration in the solvency or non-performance of the investment program.

PROFIT DISTRIBUTION FOR 2015 – 2017, THOUSANDS RUBLES¹

Name of indicator	For 2015	For 2016	For 2017
Retained earnings (loss) of the reporting period, including:	149,575	–1 011 268	511,438
reserve fund	7 479	0	25 572
development profit	0	0	108,607
dividends	142,096	0	377,259
repayment of losses of past years	0	0	0

REPORT ON ACCRUED AND PAID DIVIDENDS TO STOCKHOLDERS OF PJSC "MRSK YUGA"

Indicator	2016 (according to the results of 2015)	2017 (according to the results of 2016)	2018 (according to the results of 2017)
Date of decision	06.06.2016	Dividends are not accrued	09.06.2018
Date of listing	24.06.2016		20.06.2018
Type of stocks	Ordinary stocks		Ordinary stocks
Dividend per stock, rub.	0.002852693		0,005 464 428 621
Accrued on stocks, rub.	142 095 765,43		377 259 000,13
Dividend payout ratio declared in the net profit of the reporting year, %	95.00		73.76
Paid, rub.	140 439 094,88		373 715 192,21
Payout ratio, %	98.83		99.06
Reasons for non-payment of declared dividends	Lack of correct requisite details of stockholders		Lack of correct requisite details of stockholders ²

In 2016, the Company paid 41% of the profit under IFRS at the end of 2015. According to the results of 2016, the Company did not declare dividends due to a loss of 1.3 billion rubles. In 2018, the total amount of dividends paid amounted to 374 million rubles at the end of 2017 (50% of the profit under IFRS).

In accordance with the Company's Charter, the decision on the distribution of profits based on dividend payments for 2018 will be made at the AGMS. According to the dividend policy of the Company, potentially 50% of net profit under IFRS can be distributed as dividends.

Report on dividends received by PJSC "MRSK Yuga"

1 013 660.61 rub. received as dividends on stocks owned by PJSC "MRSK Yuga".

1. Until February 2018, the dividend policy of the Company was carried out on the basis of the Regulations on the Dividend Policy of the Company, approved by the decision of the Board of Directors of the Company on August 31, 2010. Information on the distribution of profits in accordance with the decisions of the annual general meeting (Annual General Meeting of Stockholders, AGMS): AGMS 2016 (for 2015) - Protocol of AGMS No. 15 from June 9, 2016; AGMS 2017 (for 2016) - Protocol of AGMS No. 17 from June 13, 2017; AGMS 2018 (for 2017) - Protocol of AGMS No. 18 from June 9, 2018.

2. The company is working with stockholders to update their personal data and after receiving them provides for the re-payment of dividends within three years.

THE NET PROFIT

OF IDGC OF SOUTH INCREASED 2.2 FOLD

The company's management has significantly strengthened the financial and economic position of IDGC of the South over the past few years. The net profit for this year exceeded the target value. The main factor influenced the increase regarding net profit was the growth of boiler useful electricity supply in Volgograd, Rostov and Kalmyk branches of IDGC of the South, and as a result, the increase in revenue from electricity transfer services up to 34.93 billion rubles.

The positive dynamics were also established by an increase of the power net generating on the one hand and a decrease in losses on the other. The efficiency of expenses controlled increased, the loan portfolio with a decrease in interest rates was revised.



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6 APPENDICES

Appendices

1 RAS financial reporting with Audit report on the reliability of statement of financial performance for 2018



INDEPENDENT AUDITOR REPORT

Shareholders and the Board of Directors of the Interregional Distribution Grid Company of the South PJSC

Audit opinion

We conducted an audit of the accounting (financial) reporting of the Interregional Distribution Grid Company of the South PJSC (hereinafter referred to as the Company), consisting of the balance sheet as of December 31, 2018, the statement of financial performance for 2018 and its Appendices.

In our opinion, the attached accounting (financial) statements reflects reliably in all material aspects the Company's financial position as of December 31, 2018, as well as its financial results and cash flow for 2018 in accordance with the rules for compiling accounting records established in the Russian Federation. (financial) reporting.

Audit opinion basis

We conducted an audit in accordance with the International Standards on Auditing (ISA). Our responsibilities in accordance with these standards are described in the section "Auditor's responsibility for the audit of accounting (financial) statements" of our report. We are independent in relation to the Company in accordance with the Code of Ethics of Professional Accountants of the Council for International Ethics Standards for Accountants (IESBA Code) and ethical requirements applicable to the audit of the accounting (financial) statements in the Russian Federation, and we have fulfilled other ethical obligations in accordance with these requirements and the IESBA Code . We consider the audit evidence obtained by us sufficient and appropriate to serve as a basis for the expression of our opinion.

Key audit issues

Key audit issues are the issues that, according to our professional judgement, were the most significant for the audit of accounting (financial) statements for the current period. These issues were considered in the context of the audit of accounting (financial) statements as a whole and in our opinion on this statements, and we do not express dissenting opinions on these issues. For each of the questions below, the description of how the relevant issue was considered during our audit is provided in this context.

We have fulfilled the responsibilities described in the section "Auditor's responsibility for the audit of accounting (financial) statements" of our report, including with respect to these issues. Consequently, our audit included the implementation of the procedures developed in response to our assessment of risks of material misstatement of the accounting (financial) statements. The results of our audit procedures, including the procedures performed during the consideration of the issues listed below, serve as a basis for expressing our audit opinion on the attached accounting (financial) statements.

Key audit issue	How the relevant key issue was considered during the audit.
Recognition and evaluation of the revenue from electricity transmission services	
Recognition and evaluation of the revenue from electricity transmission services was one of the most significant issues of our audit in connection with certain specific features of electricity market functioning mechanisms, which stipulates controversy between power grid, power sales and other companies regarding the volume and cost of electricity transmitted. The amount of revenue disputed by the counterparties is significant for the Company's accounting (financial) statements. The Company's management's assessment of the risk of resolving differences in its favour is largely subjective. The revenue is recognized when, based on assumptions, differences are resolved in favour of the Company. Information on the revenue from electricity transmission services is disclosed in clause 16 of the Explanatory Notes to the balance sheet and statements of financial performance.	We reviewed the applied accounting policy with respect to recognition of the revenue from electricity transmission services, assessed the internal control system for reflection of this revenue, checked the correctness of determining the respective amounts of the revenue based on electricity transmission contracts concluded, and on a selective basis received confirmations of receivables balances from counterparties, reviewed the results of legal proceedings regarding the disputed amounts of services rendered, if any, and assessment of the Procedure for confirming the amount of electricity transmitted.
Impairment of receivables	
The issue of impairment of receivables is one of the most significant for the audit due to considerable balances of receivables on the Company's balance sheet as of December 31, 2018, and also because the management's assessment of the possibility of recovering this debt is based on assumptions, in particular, on the projections of purchasing power of the Company. Information on impairment of receivables is disclosed in clause 10 of the Explanatory Notes to the balance sheet and the statements of financial performance.	We analysed the relevance of the Company's accounting policy for consideration of receivables for creation of reserve for impairment, as well as procedures to confirm the appropriateness of estimates made by the Company's management, including analysis of payments of receivables, analysis of maturities and overdue fulfilment of obligations, analysis of buyers' solvency. We conducted audit procedures with respect to information used by the Company to determine the impairment of receivables, structure of receivables by maturity and repayment, tested the correctness of the accrued reserve based on documented management estimates.
Recognition, evaluation and disclosure of reserves and contingent liabilities	
Recognition, evaluation and disclosure of reserves and contingent liabilities in relation to litigation and claims of counterparties (including territorial power grid and power sales companies) were among the most significant issues of the audit, since they require considerable management judgement on significant amounts of balance calculations with counterparties contested in the framework of judicial proceedings or being in the process of pre-trial settlement. Information on reserves and contingent liabilities is disclosed in clause 13 of the Explanatory Notes to the balance sheet and the statements of financial performance.	Audit procedures included analysis of decisions made by courts of various instances, and testing the relevance of management's judgements regarding the assessment of risk of an outflow of economic resources due to resolution of disputes, and examining the compliance of prepared documentation with the provisions of existing contracts and legislation.

Other information

The audit of accounting (financial) statements of the IDGC of the South PJSC for 2017 was conducted by another auditor, who expressed unqualified audit opinion on these statements on February 22, 2018

The audit of accounting (financial) statements of the IDGC of the South PJSC for 2016 was conducted by another auditor, who expressed unqualified audit opinion on these statements on February 22, 2017

Other information included in the annual report of the IDGC of the South PJSC

Other information includes information contained in the annual report of the IDGC of the South PJSC, but does not include the accounting (financial) statements and our audit report on it. Responsibility for other information rests with the management. The annual report of the IDGC of the South PJSC is expected to be provided after the date of this audit report.

Our opinion on the accounting (financial) statements does not apply to other information, and we will not provide a conclusion expressing confidence in any form in response to this information.

In connection with the audit of accounting (financial) statements, our duty is to acquaint ourselves with the information above, when it will be provided to us, and to consider the question whether there are significant discrepancies between the other information and accounting (financial) statements or our knowledge obtained during the audit, and whether the other information contains other material misstatements.

Responsibility of the management and audit committee of the board of directors for accounting (financial) statements	
<p>Responsibility for the preparation and fair presentation of the specified accounting (financial) statements in accordance with the accounting (financial) statements rules established in the Russian Federation and for the internal control system that management considers necessary for the preparation of accounting (financial) statements that do not contain material misstatements due to unjust acts or errors rests with the management.</p> <p>When preparing the accounting (financial) statements, the management is responsible for assessing the Company's ability to continue its activities continuously, for disclosing information relating to the continuity of activities, and for reporting on the basis of continuity assumption, unless the management intends to eliminate the Company, stop its activities or when it has no real alternative to such actions.</p> <p>The Audit Committee of the Board of Directors is responsible for supervision over the process of preparing the Company's accounting (financial) statements.</p>	
Auditor's responsibility for the audit of accounting (financial) statements	
<p>Our purposes are to obtain reasonable assurance that the accounting (financial) statements as a whole does not contain significant discrepancies due to unjust acts or errors, and to issue an audit report containing our opinion. Reasonable certainty is a high degree of certainty, but does not guarantee that an audit conducted in accordance with International Standards on Auditing will always reveal a material misstatement, if any. Misstatement can be a result of unjust acts or errors and is considered significant if it can reasonably be assumed that individually or collectively it could affect economic decisions of users made on the basis of this accounting (financial) statements.</p> <p>In the framework of the audit conducted in accordance with the International Standards on Auditing, we apply professional judgement and maintain professional skepticism throughout the audit. In addition, we perform the following:</p> <ul style="list-style-type: none">➤ identify and assess risks of material misstatement of the accounting (financial) statements due to unjust acts or errors; develop and conduct audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting material misstatement as a result of unjust acts is higher than the risk of not detecting material misstatement as a result of errors, as unjust acts can include collusion, forgery, intentional omission, misleading information or actions to bypass the internal control system;➤ receive an understanding of internal control system that is relevant for an audit in order to develop audit procedures appropriate to the circumstances, but not to express opinion on effectiveness of the Company's internal control system;➤ assess the appropriateness of accounting policies used and the reasonableness of the determined by the management accounting estimates and disclosures of the relevant information;➤ make a conclusion about the legitimacy of the management's application of the continuity of business, and, on the basis of the audit evidence obtained, the conclusion about whether there is significant uncertainty in connection with the events or conditions that may cause considerable doubts about the Company's ability to stay continuing in operation. If we conclude that there is a significant uncertainty, we have to draw attention in the audit report to appropriate disclosures in the accounting (financial) statements or, if such disclosures are inappropriate, modify our opinion. Our conclusions are based on the audit evidence obtained prior to the date of our audit report. However, future events or conditions may cause the Company to lose its ability to continue its continuous operation;➤ assess the presentation of accounting (financial) statements as a whole, its structure and content, including the disclosure of information, and whether the accounting (financial) statements represent the underlying operations and events so that the reliable presentation is ensured. <p>We are engaged in informational interaction with the audit committee of the board of directors, bringing to its attention, among other things, information on the planned scope and timing of the audit, as well as significant remarks on the audit results, including considerable deficiencies in the internal control system, if we identify in the audit process.</p> <p>We also provide the audit committee of the board of directors with a statement that we have complied with all the relevant ethical requirements regarding independence and informed it about all the relationships and other issues that can reasonably be considered to influence the independence of the auditor, and, if necessary, on the appropriate precautions.</p> <p>Of the issues which we brought to attention of the audit committee of the board of directors, we identify the issues that were the most significant for the audit of accounting (financial) statements for the current period and, therefore, are the key audit issues. We describe these issues in the audit report, except when public disclosure of information is prohibited by the law or regulation, or when in extremely rare cases we conclude that information on any matter should not be communicated in our report, since it can be reasonably assumed that the negative consequences of communicating such information will exceed the socially significant benefits of its communication.</p> <p>The Head responsible for the audit, according to the results of which the present audit report of an independent auditor was issued, - A.B. Kalmykova.</p> <p>A.B. Kalmykova <i>PartnerErnst & Young LLC</i></p>	

February 20, 2019

5-9	11-25	26-67	68-87	88-159	160-196
Company's Overview	Strategic Report	Operating results	Financial Review	Corporate governance	Appendices
Information about the audited entity					
Name: Public Joint-Stock Company Interregional Distribution Grid Company of the South					
The entry was made in the Unified State Register of Legal Entities on June 28, 2007 and is assigned state registration number 1076164009096.					
Location: 344002, Russia, Rostov region, Rostov-on-Don, 49 Bolshaya Sadovaya St.					
Information about the auditor					
Name: Ernst & Young LLC					
The entry was made in the Unified State Register of Legal Entities on December 5, 2002 and is assigned state registration number 1027739707203.					
Location: 115035, Russia, Moscow, 77 Sadovnicheskaya nab., bld. 1.					
Ernst & Young LLC is a member of the Incorporated Society of Accountants Russian Union of Auditors (Association) (ISA RUA). Ernst & Young LLC is included in the control copy of the register of auditors and audit organisations with the main registration number of record 11603050648.					

BALANCE SHEET AS OF DECEMBER 31, 2018

			CODES	
			NIAD	0710001
			Date (day, month, year)	31.12.2018
Company	IDGC of the South PJSC	RNNBO	80380011	
Tax identification number		TIN	6164266561	
Type of economic activity	electricity transmission	RNCE	35.12	
Institutional-legal form/ownership			12247	49
Public Joint-Stock Company / Private Property		OKOPF/RCFO		
Unit of measurement: RUB, in thousands		RCMU	384	
Location (address)	344002, Rostov region, Rostov-on-Don, 49 Bolshaya Sadovaya St.			
Indicator name	Indicator code	December 31, 2018	December 31, 2017	December 31, 2016
ASSETS				
I. FIXED ASSETS				
Intangible assets	1110	1 125	1 406	1 689
including incomplete acquisition of intangible assets	1111			
Research and development results	1120	44 975	30 051	17 040
including costs for unfinished research and development	1121	19 953	16 807	9 700
Intangible search assets	1130			
Tangible search assets	1140			
Fixed assets	1150	28 180 015	28 696 683	28 564 113
land and environmental facilities	1151	30 761	30 511	30 511
buildings, machinery, equipment, facilities	1152	25 580 765	26 158 356	25 030 267
other types of fixed assets	1153	200 638	158 021	196 043
construction in progress	1154	2 071 961	2 159 154	3 070 922
advances issued for capital construction and acquisition of fixed assets	1155	1 635	475	424
raw materials and materials intended for use in fixed assets creation	1156	294 255	190 166	235 946
Profitable investments in material values	1160	-	-	3
Financial investments	1170	127 470	134 564	147 910
investments in subsidiaries				
investments in associates	1172			
investments in other organisations	1173	3 296	4 158	6 830
loans granted to organisations for more than 12 months	1174			
financial investments	1175			
Deferred tax assets	1180	405 489	399 627	433 756
Other non-current assets	1190	66 969	79 501	103 546

Section I, total	1100	28 826 043	29 341 832	29 268 054
II. REVERSIBLE ASSETS				
Inventories	1210	713 637	718 177	813 275
raw materials, materials and other similar values	1211	712 891	718 162	741 784
work in progress	1212			
finished products and goods for resale	1213	21	15	39
goods shipped	1214	725	-	71 452
other backlog and costs	1215			
Value added tax on values acquired	1220	5 446	7 990	2 983
Receivables	1230	14 267 653	13 691 892	13 826 570
Payments for which are expected more than 12 months after the reporting date	1231	1 995 606	10 980	4 644
buyers and customers	123101	1 987 866	3 106	2 694
notes receivable	123102			
prepayments	123103	1 165	1 798	1 912
other receivables	123104	6 575	6 076	38
Payments for which are expected within 12 months after the reporting date	1232	12 272 047	13 680 912	13 821 926
buyers and customers	123201	10 772 230	12 124 945	11 405 048
notes receivable	123202	-	-	-
receivables from dividend subsidiary and affiliated companies	123203	-	-	-
debt of participants (founders) on contributions to the share capital	123204	-	-	-
prepayments	123205	18 594	31 423	26 651
other receivables	123206	1 481 223	1 524 544	2 390 227
Financial investments (excluding cash equivalents)	1240	-	-	-
loans granted to organisations for a period of less than 12 months	1241	-	-	-
other short-term financial investments	1242	-	-	-
Cash and cash equivalents	1250	1 040 215	434 337	690 127
cashbox	1251	-	-	-
current accounts	1252	1 034 170	428 131	682 485
currency accounts	1253	-	-	-
other funds	1254	6 045	6 206	7 642
Other current assets	1260	269 306	266 491	271 034
Section II, total	1200	16 296 257	15 118 887	15 603 989
BALANCE	1600	45 122 300	44 460 719	44 872 043
LIABILITIES				
III. CAPITAL AND RESERVES				
Share capital (share capital, authorized fund, contributions of partners)	1310	6 903 906	6 117 814	4 981 110

Capital (before registration of changes)	1311	-	786 092	143 909
Own shares purchased from shareholders	1320	-	-	-
Revaluation of noncurrent assets	1340	14 600 286	14 630 345	14 652 936
Additional capital (without revaluation)	1350	-	-	-
Reserve capital	1360	183 146	157 574	157 574
Retained earnings (uncovered loss)	1370	(14 727 566)	(15 476 505)	(16 010 534)
previous years	1371	(15 849 277)	(15 476 505)	(16 010 534)
of reporting period	1372	1 121 711	-	-
Section III, total	1300	6 959 772	6 215 320	3 924 995
IV. LONG TERM DUTIES				
Borrowed funds	1410	23 932 022	21 588 750	17 232 022
bank loans to be repaid more than 12 months after the reporting date	1411	18 932 022	16 588 750	12 232 022
loans to be repaid more than 12 months after the reporting date	1412	5 000 000	5 000 000	5 000 000
Deferred tax liabilities	1420	1 000 247	944 306	830 913
Estimated liabilities	1430	-	-	-
Other liabilities	1450	3 368 207	3 794 797	118 948
Section IV, total	1400	28 300 476	26 327 853	18 181 883
V. SHORT-TERM LIABILITIES				
Borrowed funds	1510	1 625 511	2 798 563	7 223 561
bank loans to be repaid within 12 months after the reporting date	1511	1 515 411	2 798 563	7 188 421
loans to be repaid within 12 months after the reporting date	1512	110 100	-	35 140
Accounts payable	1520	6 403 365	6 813 989	13 572 980
suppliers and contractors	1521	4 005 603	4 399 916	10 411 233
notes payable	1522	-	-	-
debt to staff of the company	1523	335 786	278 098	293 457
debt to state extrabudgetary funds	1524	210 293	162 994	168 318
arrears on taxes and duties	1525	688 135	785 789	377 952
advances received	1526	861 147	889 569	1 002 756
debt to participants (founders) for the income payment	1527	5 200	1 762	1 812
other creditors	1528	297 201	295 861	1 317 452
Revenue of the future periods	1530	28 023	32 323	35 632
Estimated liabilities	1540	1 804 239	2 271 758	1 931 821
Other liabilities	1550	914	913	1 171
Section IV, total	1500	9 862 052	11 917 546	22 765 165
BALANCE	1700	45 122 300	44 460 719	44 872 043

A.A. Rybin
Acting General Director of the Power of Attorney Dd. 07.02.2019 No.167-19

G.G. Savin
Chief Accountant February 20, 2019

REPORT ON FINANCIAL RESULTS FOR THE 12 MONTHS OF 2018

			CODES	
			NIAD	0710001
			Date (day, month, year)	31.12.2018
Company	IDGC of the South PJSC	RNNBO	80380011	
Tax identification number			TIN	6164266561
Type of economic activity	electricity transmission	RNCE	35.12	
Institutional-legal form/ownership			12247	49
Public Joint-Stock Company / Private Property			OKOPF/RCFO	
Unit of measurement: RUB, in thousands			RCMU	384
Indicator name	Indicator code	January - December 2018	January - December 2017	
Revenue including:	2110	36 394 026	35 144 452	
electricity transmission revenue	2111	34 928 358	33 439 198	
technological connection revenue	2112	380 107	415 318	
revenue from the organization of functioning and development of UES of Russia in terms of the grid complex distribution	2113	-	-	
electricity and power resale revenue	2114	847 327	859 637	
income from participation in other organisations	2115	-	-	
rental income	2116	36 939	37 268	
income from the sale of other products, goods, works, services of industrial nature	2117	168 333	391 092	
income from the sale of other products, goods, works, services of non-industrial nature	2118	32 962	1 939	
Cost of sales including	2120	(30 683 371)	(28 630 009)	
power transmission cost	2121	(29 589 701)	(27 549 510)	
technological connection cost	2122	(144 079)	(133 599)	
cost of the organization of functioning and development of UES of Russia in terms of the grid complex distribution	2123	-	-	
electricity and power resale cost	2124	(734 564)	(795 179)	
cost from participation in other organisations	2125	-	-	
rental services cost	2126	(14 171)	(21 569)	
cost from the sale of other products, goods, works, services of industrial nature	2127	(161 142)	(119 901)	
cost from the sale of other products, goods, works, services of non-industrial nature	2128	(39 714)	(10 251)	
Gross profit (loss)	2100	5 710 655	6 514 443	
Selling and marketing expenses	2210	(22 475)	(26 234)	
Operational costs	2220	(729 689)	(738 130)	
Profit (loss) from sales	2200	4 958 491	5 750 079	
Income from participation in other organisations	2310	1 014	148	
Interest receivable	2320	47 438	61 346	
Interest payable	2330	(2 507 908)	(3 070 331)	

Other income	2340	3 652 331	3 864 141
Other expenses	2350	(4 662 545)	(5 970 119)
Profit (loss) before tax	2300	1 488 821	635 264
Current income tax	2410	(408 083)	(343 628)
including fixed tax liabilities (assets)	2421	158 095	381 415
Change in deferred tax liabilities	2430	(56 919)	(143 366)
Change in deferred tax assets	2450	9 143	(21 474)
Other	2460	88 749	384 642
Net income (loss)	2400	1 121 711	511 438
FOR REFERENCE			
Result from revaluation of non-current assets, not included in net profit (loss) of the period	2510	-	-
Result from other operations not included in net profit (loss) of the period	2520	-	-
Cumulative financial result of the period	2500	1 121 711	511 438
Base profit (loss) per share	2900	0,01625	0,00836
Diluted profit (loss) per share	2910	0,01625	0,00836

A.A. Rybin
Acting General Director of the Power of Attorney Dd. 07.02.2019 No.167-19

G.G. Savin
Chief Accountant February 20, 2019

2 Consolidated statements in accordance with IFRS with the Audit opinion on the reliability of the consolidated financial statements for 2018



Shareholders and the Board of Directors of the Interregional Distribution Grid Company of the South PJSC

AUDIT OPINION

We conducted an audit of the consolidated financial statements of the Interregional Distribution Grid Company of the South PJSC and its subsidiaries the Group, consisting of the consolidated statements of financial position as of December 31, 2018, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for 2018, as well as notes to the consolidated financial statements, including a brief Overview of accounting policies.

In our opinion, the attached consolidated financial statements reflects in all material respects the consolidated financial position of the Group as of December 31, 2018, as well as its consolidated financial results and consolidated cash flow for 2018 in accordance with International Financial Reporting Standards (IFRS).

AUDIT OPINION BASIS

We conducted an audit in accordance with the International Standards on Auditing (ISA). Our responsibilities in accordance with these standards are described in the section “Auditor’s responsibility for the audit of consolidated financial statements” of our report. We are independent in relation to the Group in accordance with the Code of Ethics of Professional Accountants of the Council for International Ethics Standards for Accountants (IESBA Code) and ethical requirements applicable to the audit of the consolidated financial statements in the Russian Federation, and we have fulfilled other ethical obligations in accordance with these requirements and the IESBA Code . We consider the audit evidence obtained by us sufficient and appropriate to serve as a basis for the expression of our opinion.

KEY AUDIT ISSUES

Key audit issues are the issues that, according to our professional judgement, were the most significant for the audit of consolidated financial statements for the current period. These issues were considered in the context of the audit of consolidated financial statements as a whole and in our opinion on this reporting, and we do not express dissenting opinions on these issues. For each of the questions below, the description of how the relevant issue was considered during our audit is provided in this context.

We have fulfilled the responsibilities described in the section “Auditor’s responsibility for the audit of consolidated financial statements” of our report, including with respect to these issues. Consequently, our audit included the implementation of procedures developed in response to our assessment of risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed during the consideration of the issues listed below, serve as a basis for expressing our audit opinion on the attached consolidated financial statements.

Key audit issue	How the relevant key issue was considered during the audit.
Recognition and evaluation of the revenue from electricity transmission services	
Recognition and evaluation of the revenue from electricity transmission services was one of the most significant issues of our audit in connection with certain specific features of electricity market functioning mechanisms, which stipulates controversy between power grid, power sales and other companies regarding the volume and cost of electricity transmitted. The amount of revenue disputed by the counterparties is significant for the Group's financial statements. The Group's management's assessment of the risk of resolving differences in its favour is largely subjective. The revenue is recognized when, based on assumptions, differences are resolved in favour of the Group. Revenues from electricity transmission services are disclosed in paragraph 7 of the Notes to the consolidated financial statements.	We reviewed the applied accounting policy with respect to recognition of the revenue from electricity transmission services, assessed the internal control system for reflection of this revenue, checked the correctness of determining the respective amounts of the revenue based on electricity transmission contracts concluded, and on a selective basis received confirmations of receivables balances from counterparties, reviewed the results of legal proceedings regarding the disputed amounts of services rendered, if any, and assessment of the Procedure for confirming the amount of electricity transmitted.
Reserve for the expected credit losses on trade receivables	
The issue of creating a reserve for the expected credit losses on trade receivables is one of the most significant for our audit due to considerable balances of trade receivables as of December 31, 2018, and also because of the management's assessment of the possibility of recovering these debts based on assumptions, in particular, on the projections of purchasing power of the Group's customers. Information on reserve for the expected credit losses on trade receivables is disclosed in paragraph 18 of the notes to the consolidated financial statements.	We analysed the relevance of the Group's trade receivables accounting policy for creation of a reserve for expected credit losses on trade receivables, as well as procedures to confirm the appropriateness of the estimates made by the Group's management, including the analysis of trade receivables payment, analysis of maturities and overdue fulfilment of obligations, analysis of buyers' solvency. We conducted audit procedures with respect to information used by the Group to determine the allowance for expected credit losses on trade receivables, structure of accounts receivable by maturity and repayment, tested correctness of the amounts of accrued reserves based on management's estimates.
Recognition, evaluation and disclosure of reserves and contingent liabilities	
Recognition, evaluation and disclosure of reserves and contingent liabilities in relation to litigation and claims of counterparties (including territorial power grid and power sales companies) were among the most significant issues of the audit, since they require considerable management judgement on significant amounts of balance calculations with counterparties contested in the framework of judicial proceedings or being in the process of pre-trial settlement. Information about the reserves and contingent liabilities is disclosed in paragraphs 26 and 30 of the notes to the consolidated financial statements.	Audit procedures, among others, included an analysis of decisions made by the courts of various instances, and consideration of the relevance of the management's judgements regarding the assessment of risk of an outflow of economic resources due to resolving disputes, examining the compliance of prepared documentation with the provisions of existing contracts and legislation, checking disclosures in the notes to the consolidated financial statements on reserves and contingent liabilities.
Impairment of non-current assets	
In connection with the signs of impairment of non-current assets as of December 31, 2018, the Group conducted an impairment test. The value of fixed assets use that represent a significant share of the Group's non-current assets was determined as of 31 December 2018 with the projected cash flow method. The issue of impairment test concerning fixed assets was one of the most significant for our audit, since the balance of fixed assets is a considerable part of the total assets of the Group at the reporting date, and also because the process of management's assessment of value is complex, largely subjective and based on assumptions, in particular, on the forecast volumes of electricity transmission, tariffs for electricity transmission, as well as operational and capital costs, which depend on the future market or economic conditions in the Russian Federation. Information about the analysis of non-current assets for the impairment is disclosed by the Group in paragraph 13 of the notes to the consolidated financial statements.	In the framework of our audit procedures, we evaluated the assumptions and methods applied by the Group, in particular those related to the projected revenue from the electricity transmission, tariff decisions, operational and capital costs, long-term rates of increase in tariffs and discount rates. We tested incoming data embedded in the model and arithmetic accuracy of the model used to determine the recoverable amount in the impairment test for fixed assets. We engaged specialists to analyse the model used to determine the recoverable amount in the impairment test for fixed assets. We also analysed sensitivity of the model to changes in key indicators of the assessment and the information disclosed by the Group about the assumptions on which the test results for impairment are most dependent.

OTHER INFORMATION

The audit of consolidated financial statements of the IDGC of the South PJSC and its subsidiaries for 2017 was conducted by another auditor, who expressed unqualified audit opinion on these statements on March 15, 2018

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

Other information includes information contained in the annual report, but does not include the consolidated financial statements and our audit report on it. Responsibility for other information rests with the management. The annual report will presumably be provided to us after the date of this audit report.

Our opinion on the consolidated financial statements does not apply to other information, and we will not provide a conclusion expressing confidence in any form in response to this information.

In connection with the audit of the consolidated financial statements, our duty is to acquaint ourselves with the information above, when it will be provided to us, and to consider the question whether there are significant discrepancies between the other information and accounting (financial) reporting or our knowledge obtained during the audit, and whether the other information contains other material misstatements.

RESPONSIBILITY OF THE MANAGEMENT AND AUDIT COMMITTEE OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Responsibility for the preparation and fair presentation of the specified consolidated financial statements in accordance with IFRS and for the internal control system that management considers necessary for the preparation of consolidated financial statements that do not contain material misstatements due to unjust acts or errors rests with the management.

When preparing the consolidated financial statements, the management is responsible for assessing the Groups's ability to continue its activities continuously, for disclosing information relating to the continuity of activities, and for reporting on the basis of continuity assumption, unless the management intends to eliminate the Company, stop its activities or when it has no real alternative to such actions.

The Audit Committee of the Board of Directors is responsible for supervision over the process of preparing the Group's consolidated financial statements.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Our purposes are to obtain reasonable assurance that the consolidated financial statements as a whole does not contain significant discrepancies due to unjust acts or errors, and to issue an audit report containing our opinion. Reasonable certainty is a high degree of certainty, but does not guarantee that an audit conducted in accordance with International Standards on Auditing will always reveal a material misstatement, if any. Misstatement can be the result of unjust acts or errors and is considered significant if it can reasonably be assumed that individually or collectively it could affect the economic decisions of users made on the basis of this consolidated financial statements.

In the framework of the audit conducted in accordance with the International Standards on Auditing, we apply professional judgement and maintain professional skepticism throughout the audit. In addition, we perform the following:

identify and assess risks of material misstatement of the consolidated financial statements due to unjust acts or errors; develop and conduct audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting material misstatement as a result of unjust acts is higher than the risk of not detecting material misstatement as a result of errors, as unjust acts can include collusion, forgery, intentional omission, misleading information or actions to bypass the internal control system;

receive an understanding of the internal control system that is relevant for an audit in order to develop audit procedures appropriate to the circumstances, but not to express an opinion on effectiveness of the Group's internal control system;

assess the appropriateness of accounting policies used and the reasonableness of the determined by the management accounting estimates and disclosures of the relevant information;

make a conclusion about the legitimacy of the management's application of the continuity of business, and, on the basis of the audit evidence obtained, the conclusion about whether there is significant uncertainty in connection with the events or conditions that may cause significant doubts about the Group's ability to stay continuing in operation. If we conclude that there is a significant uncertainty, we have to draw attention in the audit report to appropriate disclosures in the consolidated financial statements or, if such disclosures are inappropriate, modify our opinion. Our conclusions are based on the audit evidence obtained prior to the date of our audit report. However, future events or conditions may cause the Group to lose its ability to continue its continuous operation;

assess the presentation of the consolidated financial statements as a whole, its structure and content, including the disclosure of information, and whether the consolidated financial statements represents the underlying operations and events so that the reliable presentation is ensured.

obtain sufficient appropriate audit evidence regarding the financial information of organisations and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the general management, control and audit of the Group. We are solely responsible for our audit opinion.

We are engaged in informational interaction with the audit committee of the board of directors, bringing to its attention, among other things, information on the planned scope and timing of the audit, as well as significant remarks on the audit results, including considerable deficiencies in the internal control system, if we identify in the audit process.

We also provide the audit committee of the board of directors with a statement that we have complied with all the relevant ethical requirements regarding independence and informed it about all the relationships and other issues that can reasonably be considered to influence the independence of the auditor, and, if necessary, on the appropriate precautions.

Of the issues which we brought to the attention of the audit committee of the board of directors, we identify the issues that were the most significant for the audit of consolidated financial statements for the current period and, therefore, are the key audit issues. We describe these issues in the audit report, except when public disclosure of information is prohibited by the law or regulation, or when in extremely rare cases we conclude that information on any matter should not be communicated in our report, since it can be reasonably assumed that the negative consequences of communicating such information will exceed the socially significant benefits of its communication.

The Head responsible for the audit, according to the results of which the present audit report of an independent auditor was issued, - A.B. Kalmykova.

A.B. Kalmykova
Partner Ernst & Young LLC March 18, 2019

Information about the audited entity

Name: Public Joint-Stock Company Interregional Distribution Grid Company of the South

The entry was made in the Unified State Register of Legal Entities on DATE MONTH YEAR and is assigned state registration number [specify the number].

Location: Index, Russia, city, street, etc.

Information about the auditor

Name: Ernst & Young LLC

The entry was made in the Unified State Register of Legal Entities on December 5, 2002 and is assigned state registration number 1027739707203.

Location: 115035, Russia, Moscow, 77 Sadovnicheskaya nab., bld. 1.

5-9	11-25	26-67	68-87	88-159	160-196
Company's Overview	Strategic Report	Operating results	Financial Review	Corporate governance	Appendices

Ernst & Young LLC is a member of the Incorporated Society of Accountants Russian Union of Auditors (Association) (ISA RUA). Ernst & Young LLC is included in the control copy of the register of auditors and audit organisations with the main registration number of record 11603050648.

For the year ended on December 31		
	2018	2017
Revenue	36 544 975	35 303 117
Operating income	(34 503 654)	(32 688 419)
Net other income	1 764 630	1 428 144
Operating results	3 805 951	4 042 842
Financial income	111 116	85 263
Financial expenses	(2 523 593)	(3 270 864)
Financial expenses, total	(2 412 477)	(3 185 601)
Profit prior tax	1 393 474	857 241
Income tax expense	(673 077)	(102 724)
Profit for the period	720 397	754 517
Other comprehensive income/(expense)		
Net change in fair value of financial assets available for sale	-	(753)
Income tax	-	150
Total items that can be subsequently reclassified to profit or loss	-	(603)
Changes in fair value of equity investments at fair value through other comprehensive income	(862)	-
Income tax	172	-
Revaluation of defined benefit plan obligation	5 542	(4 773)
Total items that can not be subsequently reclassified to profit or loss	4 852	(4 773)
Other comprehensive income/(expense) for the period, net of income tax	4 852	(5 376)
Total comprehensive income for the period	725 249	749 141
Profit due:		
The Company Owners	720 397	754 517
Total comprehensive income due:		
The Company Owners	725 249	749 141
Earnings per share		
Basic and diluted earnings per ordinary share (RUB)	0,010	0,012

These consolidated financial statements was approved by the management on March 18, 2019 and signed on behalf of the management by the following persons:

B.B. Ebzeev
General director

G.G. Savin
Chief Accountant

CONSOLIDATED FINANCIAL STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2018 (IN THOUSANDS OF RUSSIAN ROUBLES, UNLESS OTHERWISE INDICATED)

	December 31, 2018	December 31, 2017
Assets		
Fixed assets		
Fixed assets	21 193 599	21 203 755
Intangible assets	149 897	142 125
Trade and other receivables	1 660 823	8 280
Financial investments	3 296	4 158
Deferred tax assets	232 238	602 871
Non-current assets, total	23 239 853	21 961 189
Reversible assets		
Inventories	748 036	750 976
Advanced income tax payment	434 146	460 954
Trade and other receivables	11 694 686	13 424 346
Cash and cash equivalents	1 132 261	874 632
Current assets, total	14 009 129	15 510 908
Assets, total	37 248 982	37 472 097
Capital and liabilities		
Capital		
Authorized capital	6 903 906	6 117 814
Reserve for share issue	-	786 092
Other reserves	(209 728)	(212 819)
Retained loss	(6 923 439)	(7 268 338)
Total capital due to the owners of the Company	(229 261)	(577 251)
Long term duties		
Loans	23 932 022	21 588 750
Trade and other payables	3 413 213	3 900 595
Employee benefit liabilities	97 696	117 306
Long-term liabilities, total	27 442 931	25 606 651
Short-term liabilities		
Loans	1 625 511	2 798 563
Trade and other payables	7 538 338	8 235 685
Reserves	871 463	1 407 937
Current income tax debt	-	512
Current liabilities, total	10 035 312	12 442 697
Liabilities, total	37 478 243	38 049 348
Capital and liabilities, total	37 248 982	37 472 097

3 Report on the interested party transactions concluded by the IDGC of the South PJSC in 2018

DETAILS OF INTERESTED PARTY TRANSACTIONS LESS THAN 2% OF THE BOOK VALUE OF ASSETS

No. i/o	Date of transaction	Date of approval (obtaining approval for transaction)	The body of the Company that issued the decision to grant approval for transaction	Subject matter and its essence	Person(s) interested in transaction, basis of interest
1	09.02.2018	28.12.2017	Board of Directors of the IDGC of the South PJSC (Minutes No.254/2018 dd. January 9, 2018)	<p>Contract No.4315/10001801000032 for the provision of services for the organisation of operation and development of the electric grid complex dd. 09.02.2018.</p> <p>Parties to the Contract:</p> <p>Rosseti PJSC - the Contractor;</p> <p>IDGC of the South PJSC - the Customer.</p> <p>Subject of the Contract:</p> <p>The Contractor undertakes to provide the Customer with the services for organisation of operation and development of the Customer's electric grid complex (the Service), and the Customer undertakes to accept and pay for the Service in accordance with the terms of the Contract.</p> <p>Contract price:</p> <p>The price of the Customer's services in one year is not more than 92 615 956 (ninety-two million six hundred fifteen thousand nine hundred fifty-six) roubles 89 kopecks, besides VAT (18%) 16 670 872 (sixteen million six hundred seventy thousand eight hundred seventy-two) roubles 24 kopecks.</p> <p>The marginal price of services under the Contract cannot amount to 10 or more percent of the book value of the assets of the IDGC of the South PJSC according to its financial statements as of the latest reporting date.</p> <p>Term of service:</p> <p>Term of the provision of services under the Contract: from 01.01.2018 to 31.12.2020.</p> <p>Term of the Contract:</p> <p>The Contract enters into force after the date of signing the Contract and is valid until December 31, 2020, and in part of the calculations until the Parties fulfill their obligations.</p>	Rosseti PJSC is the controlling entity of the IDGC of the South PJSC and at the same time is a party to transaction.

4 Information on participation of the IDGC of the South PJSC in other organisations

PARTICIPATION OF THE IDGC OF THE SOUTH PJSC IN COMMERCIAL ORGANISATIONS THAT ARE 100% SUBSIDIARY AND ASSOCIATED COMPANIES AS OF DECEMBER 31, 2018

No.	Name and location of the Company	Region of the Company's activity	Type of the Company's activity	Share in equity,%	The Company's revenue for 2018, (thousands of roubles)	Profit (loss), thousands of roubles	Amount of dividends received in 2018 for shares owned by the Company, RUB, in thousands
1	Energy Service of the South JSC 344002, Russian Federation, Rostov-on-Don, 49 Bolshaya Sadovaya St.	Rostov Region	Technical test, research and certification, analysis of mechanical and electrical characteristics of the final product, design and construction works implementation, professional, scientific, technical and other activities	100%	82 887	-21 208	752
2	Enterprise of Agriculture Sokolovskoe JSC , Russia, Novoshakhtinsk, Sokolovo-Kundryuchensky, 32 Kurskaya St.	Rostov Region	Production, processing and sale of own produced agricultural products	100%	55 718	30	117
3	Energetik Recreation centre JSC Russian Federation, Krasnodar region, Tuapse region, Shepsi village, 3 Shkolnaya St.	Krasnodar region	The activities of sanatorium establishment for the treatment and rehabilitation (rest) of adults, parents with children (no less than 5 years old) and organised groups of school-age children, the provision of service and household, sightseeing, tourist, cultural and entertainment services.	100%	34 618	- 3 645	0

2	20.08.2018	29.03.2018	Board of Directors IDGC of the South PJSC (Minutes No.267/2018 of 30.03.2018)	<p>Contract No.61201801013280 for the implementation of deliveries, performance of works within the framework of the implementation of 10 kV metering stations at the border of the balance sheet with the organization of remote data collection</p> <p>Parties to the Contract:</p> <p>VOLS-VL Management JSC - the Contractor</p> <p>IDGC of the South PJSC - the Customer.</p> <p>Subject of the Contract:</p> <p>The Customer hereby engages the Contractor, and the Contractor undertakes to perform, in accordance with the Terms of Reference, to deliver the Equipment, as well as perform a set of works on the implementation of 10 kV metering stations at the border of the balance sheet with the organization of remote data collection on design, installation, commissioning of the Equipment in accordance with the Customer's infrastructure with the terms of the Contract.</p> <p>Contract price:</p> <p>Marginal cost of the Contract for the implementation of deliveries, works within the framework of the introduction of 10 kV commercial metering points at the border of the balance sheet with the organization of remote data collection for the needs of Rostovenergo branch of the IDGC of the South PJSC between IDGC of the South PJSC and VOLS-VL Management JSC may not exceed 93 490 089 (ninety-three million four hundred ninety thousand eighty-nine) roubles, including all taxes and fees payable in accordance with the legislation of the Russian Federation.</p> <p>Term of the Contract:</p> <p>The contract comes into force from the moment of conclusion and is valid until January 1, 2022.</p>	Rosseti PJSC is the controlling entity of the IDGC of the South PJSC and at the same time the controlling entity of VOLS-VL Management JSC, which is a party to transaction.
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Details of interested party transactions 2% or more of the book value of the assets

No. i/o	Date of transaction	Date of approval (obtaining approval for transaction)	The body of the Company that issued the decision to grant approval for transaction	Subject matter and its essence	Person(s) interested in transaction, basis of interest and share in the issuer and the counterparty
Interested party transactions which size was 2% or more of the book value of assets in 2018 were not entered by the Company.					

PARTICIPATION OF THE IDGC OF THE SOUTH PJSC IN OTHER COMMERCIAL ORGANISATIONS, AS OF DECEMBER 31, 2017

Name and location of the Company	Date of the Company registration	Main type of the Company's activity	Share of votes of the IDGC of the South PJSC	Amount of dividends received in 2018 for shares owned by the Company, RUB, in thousands
Volgogradenergosbyt PJSC 400001, Russian Federation, Volgograd, 14 Kozlovskaya St.	01.01.2005	Purchase and sale of electrical energy	Equity shares - 0,2469% Priority shares - 1,8097%	
Federal Grid Company of the Unified Energy System PJSC 117630, Moscow, 5A Academician Chelomey St.	25.06.2002	Transmission and distribution of electric energy, electric networks connection services.	0,0009%	
ENERGOGARANT Insurance Joint Stock Company PJSC 115035, Moscow, 23 Sadovnicheskaya nab.	28.08.1992	Insurance	0,0226%	-
CHAGANSKOE CJSC 416303, Astrakhan Region, Kamyzyaksky District, Chagan village, 1 Lenin St.	25.07.1996	Agricultural activities	2,3250%	-

5 Information on the structure of property complex of the IDGC of the South PJSC and its changes for the period from 01.01.2018 to 31.12.2018

No. i/o	Name	Physical quantities: on OHL, cable networks - length of chains (km); on SS, other Assets - quantity (pcs.)	Balance (residual) value as of 01.01.2018 (RUB, in thousands)	Accrued in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	Departed in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	accrued depreciation in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	Balance (residual) value as of 31.12.2018 (RUB, in thousands)
1	Assets related to electric grid facilities, including:	-	21 809 960,00	1 654 135,00	61 976,00	2 134 384,00	21 267 735,00
1.1.	OHL 220 kV and above	456,50	80 991,00	0,00	0,00	3 861,00	77 130,00
1.2.	OHL 110 kV	19 028,30	4 040 918,00	96 741,00	242,00	308 897,00	3 828 520,00
1.3.	OHL 35 kV	12 177,02	1 029 997,00	23 420,00	855,00	81 068,00	971 494,00
1.4.	OHL 10 kV and below	128 211,70	5 568 482,00	494 575,00	3 989,00	668 887,00	5 390 181,00
1.5.	SS 220 kV and above	4,00	4 599,00	0,00	0,00	618,00	3 981,00
1.6.	SS 110 kV	638,00	4 855 507,00	102 465,00	99,00	485 443,00	4 472 430,00
1.7.	SS 35 kV	571,00	566 577,00	45 634,00	0,00	67 127,00	545 084,00
1.8.	SS 10 kV and below	30 955,00	1 300 178,00	134 633,00	526,00	155 458,00	1 278 827,00
1.9.	Cable networks (all voltage classes)	2 728,11	2 271 307,00	416 564,00	52 497,00	162 741,00	2 472 633,00
1.10.	Other Assets intended to ensure electrical connections		2 091 404,00	340 103,00	3 768,00	200 284,00	2 227 455,00
2	Non-Core Assets included in the Register of Non-Core Assets	25,00	109 513,00	1 621,00	899,00	3 715,00	106 520,00
3	Other Assets (p.3 = p.4 - p.2 - p.1)	-	4 427 415,00	548 038,00	4 081,00	533 463,00	4 437 909,00
3.1.	land owned	414,00	30 511,00	250,00	168,00	0,00	30 593,00
4	Fixed assets (balance sheet line)	150 546,00	26 346 888,00	2 203 794,00	66 956,00	2 671 562,00	25 812 164,00
5	Leased Assets related to electric grid facilities, including:	-	343 223,00	23 513,00	5 821,00	0,00	360 915,00

No. i/o	Name	Physical quantities: on OHL, cable networks - length of chains (km); on SS, other Assets - quantity (pcs.)	Balance (residual) value as of 01.01.2018 (RUB, in thousands)	Accrued in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	Departed in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	accrued depreciation in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	Balance (residual) value as of 31.12.2018 (RUB, in thousands)
5.1.	OHL 220 kV and above	0,00	0,00	0,00	0,00	0,00	0,00
5.2.	OHL 110 kV	0,00	0,00	0,00	0,00	0,00	0,00
5.3.	OHL 35 kV	0,00	0,00	0,00	0,00	0,00	0,00
5.4.	OHL 10 kV and below	234,16	56 874,00	1 346,00	0,00	0,00	58 220,00
5.5.	SS 220 kV and above	0,00	0,00	0,00	0,00	0,00	0,00
5.6.	SS 110 kV	32,00	129 425,00	212,00	373,00	0,00	129 264,00
5.7.	SS 35 kV	0,00	0,00	0,00	0,00	0,00	0,00
5.8.	SS 10 kV and below	61,00	17 450,00	0,00	0,00	0,00	17 450,00
5.9.	Cable networks (all voltage classes)	79,63	33 468,00	6 546,00	0,00	0,00	40 014,00
5.10.	Other leased Assets intended to ensure electrical connections	196,00	106 006,00	15 409,00	5 448,00	0,00	115 967,00
6	Other leased Assets	6 388,00	3 305 153,00	155 409,00	136 805,00	0,00	3 323 757,00
6.1.	land	6 379,00	3 273 330,00	154 044,00	136 473,00	0,00	3 290 901,00
7	Assets used under lease-purchase contracts related to electric grid facilities, including:	0,00	0,00	0,00	0,00	0,00	0,00
7.1.	OHL 220 kV and above	0,00	0,00	0,00	0,00	0,00	0,00
7.2.	OHL 110 kV	0,00	0,00	0,00	0,00	0,00	0,00
7.3.	OHL 35 kV	0,00	0,00	0,00	0,00	0,00	0,00
7.4.	OHL 10 kV and below	0,00	0,00	0,00	0,00	0,00	0,00
7.5.	SS 220 kV and above	0,00	0,00	0,00	0,00	0,00	0,00
7.6.	SS 110 kV	0,00	0,00	0,00	0,00	0,00	0,00
7.8.	SS 35 kV	0,00	0,00	0,00	0,00	0,00	0,00
7.9.	SS 10 kV and below	0,00	0,00	0,00	0,00	0,00	0,00
7.10.	Cable networks (all voltage classes)	0,00	0,00	0,00	0,00	0,00	0,00

No. i/o	Name	Physical quantities: on OHL, cable networks - length of chains (km); on SS, other Assets - quantity (pcs.)	Balance (residual) value as of 01.01.2018 (RUB, in thousands)	Accrued in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	Departed in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	accrued depreciation in the period from 01.01.2018 to 31.12.2018 (RUB, in thousands)	Balance (residual) value as of 31.12.2018 (RUB, in thousands)
8	Other Assets used under lease-purchase contracts designed to ensure electrical connections	0,00	0,00	0,00	0,00	0,00	0,00
9	Other Assets used under lease-purchase contracts	0,00	0,00	0,00	0,00	0,00	0,00
10	Leased assets, including lease-purchase, total	-	3 648 376,00	178 922,00	142 626,00	0,00	3 684 672,00
	(p.10 = p.5 + p.6 + p.7 + p.8 + p.9)	-		0,00	0,00	0,00	0,00
11	TOTAL (p.11 = p.4 + p.10)	-	29 995 264,00	2 382 716,00	209 582,00	2 671 562,00	29 496 836,00

6 Functions in the field of ICS

Name of the participant	Main functions in the field of ICS
Group for Internal Revision	monitors over the Company's financial and economic activities, on the basis of which prepares proposals/recommendations for improving the ICS; carries out an independent assessment of reliability of the data contained in the annual report of the Company and in the annual financial statements of the Company
Board of Directors	determines the principles and approaches to the organisation of the Company's internal control system, approves the Company's internal documents defining the ICS development and improvement organisation and strategy, approves the Company's Internal Control Policy; monitors the activities of executive bodies of the Company in the main (priority) areas; considers the report of the Board of Directors on organisation and functioning of the Company's internal control system; annually reviews reports of internal auditor on the effectiveness of internal control system; considers the results of external independent assessment of the effectiveness of internal control system.
Board Audit Committee of the Board of Directors	conducts preliminary review, prior to approval by the Board of Directors, of the Company's internal documents defining the organisation and strategy for developing and improving the Company's internal control system, the Internal Control Policy and subsequent amendments thereto; conducts preliminary review, prior to review of the Board of Directors, the results of evaluating the effectiveness of internal control system according to the report of the internal auditor on the effectiveness of internal control system, as well as information on the results of external independent assessment of internal control system, prepares proposals/recommendations for improving the internal control system of the Company ; monitors the internal control system in terms of consideration of issues related to control over the accuracy of the Company's accounting (financial) statements, selection of external auditor and conducting external audit, ensuring compliance with regulatory legal requirements, in terms of reviewing the Board's report on the organisation and functioning of internal control, as well as in consideration of issues related to the analysis and evaluation of implementation of ICS.
Other committees of the Board of Directors	monitor compliance with the established financial and operational indicators, oversee compliance with applicable laws, established rules and procedures of local regulatory acts, as well as oversee the accuracy and timeliness of reports generated by the Company.
Executive bodies of the Company (Management Board, Single Executive Body)	ensures the creation and effective functioning of ICS; responsible for the implementation of decisions of the Board of Directors in ICS.
Management Board	builds directions and plans for the development and improvement of ICS; provides reports on financial and economic activities of the Company, on organisation and functioning of the Company's internal control system; considers the results of external independent assessment of the effectiveness of ICS, develops measures for the development and improvement of ICS.
Single Executive Body	approves the regulatory and methodological documents of the Company on the organisation and functioning of ICS, with the exception of documents which approval falls within the competence of the Board of Directors of the Company; ensures the implementation of the Company's activities plans necessary to solve its tasks; organises the maintenance of accounting and management accounting, preparation of accounting (financial) statements and other statements; submits to the Board of Directors of the Company reports on financial and economic activities of the Company, on the organisation and functioning of the Company's internal control system.
Collective working bodies established by the executive bodies of the Company to perform specific functions (commissions, working groups, etc.)	conduct control procedures and/or develop recommendations to improve control procedures, individual internal control components (elements) and internal control system.

7 Basic R&D performed under the Innovation Development Programme

R&D name	Terms	Result	Planned object and effect for result appliance
Research, developmental and technological work (R&D) entitled "Research and development of technology and instrumental and analytical support for X-ray examination of high-voltage switches" (R&D Contract No.10001601000088 dd. 23.06.2016)	Start date of implementation June 28, 2016 Planned completion date June 28, 2019	Result at the end of reporting period Radiographic survey of special defective specimen (SDS) was carried out in accordance with the Program for conducting SDS radiographic imaging in laboratory conditions. Comparison of the results of SDS X-ray imaging in laboratory conditions with actually existing defects was performed. Technical requirements for the Programme apparatus complex (PAC) for X-ray examination of high-voltage low-oil switches VMT-110 have been developed. A prototype PAC was developed and a preliminary calculation of economic efficiency was drawn up. A draft instruction manual for the use of prototype PAC was developed, as well as a draft methodology for performing an X-ray examination of high-voltage low-oil switches VMT-110. Expected result Creation of technology and instrumental and analytical support for operational (on-site) monitoring of technical condition of high-voltage low-oil switches VMT-110 without their isolation and opening, namely, the creation of PAC for X-ray examination of switches of the above type	Facility Electrical equipment installed at the facilities of distribution grid complexes of the branches of the IDGC of the South PJSC - Rostovenergo, Volgogradenergo, Astrakhanenergo and Kalmenergo Effect The ability to perform operational (on-site) monitoring of technical condition of high-voltage low-oil switches VMT-110 of type without their isolation and opening, as well as the possibility of detecting defects such as contact surface wear, moving parts curvature, cracks on the internal elements, hidden defects in insulators design, corrosion, the presence of metal shavings, the absence of elements (understaffing), etc. The ability to use technology and instrumental and analytical support for high-voltage gas-insulated, air and oil switches of all voltage classes and later for gas-insulated switchgear (GIS), as well as for other types of electrical equipment and substations of distribution electric grid complexes of the IDGC of South PJSC and other subsidiary and associated companies of Rosseti PJSC, which will allow: > control technical condition of the above electrical equipment, as well as identify the presence and degree of danger of the defects without isolation and opening; > optimize the amount of installation work, including the amount of material costs necessary to maintain the above electrical equipment in working condition; > reduce by at least 20% (estimated) of the amount of material costs required for the withdrawal of work, isolation, opening of the above electrical equipment, its repair, subsequent assembly, bus isolation and commissioning

Research and development work (R&D) on the subject “Development of an electromagnetic environment monitoring system at substations with increased thunderstorm activity” (R&D Contract No.2089170/10001701000482 dd. 16.07.2017, concluded with FSBEI of Higher Education National Research University)	Start date of implementation July 16, 2017 Planned completion date December 28, 2018 (actual completion date)	Result at the end of reporting period Prototypes of the system for monitoring the state of electromagnetic environment (EME), including measuring transducers, communication interfaces and power supply units were manufactured. Prototypes of contactless capacitive sensors for surge voltages, magnetic field sensors, communication and measuring modules, digital recorders, and components of a communication node were manufactured. Design documentation for prototypes of EME condition monitoring system was developed, and measurement and switching modules, as well as digital recorders and wireless communication unit were manufactured. Software for a system for monitoring the state of EME, as well as a programme and methods for its preliminary testing were developed. Preliminary tests of monitoring system of EME were conducted. Design documentation for a sample of automated workstation of the EME monitoring system was developed. Operational documentation for the prototype of the EME monitoring system was developed. A programme and methodology for acceptance testing of the EME monitoring system was developed. Acceptance tests of a set of electrical equipment of the EME monitoring system installed on electrical equipment of SS 110/35/6 kV N-4 Rostovenergo Western Electric Networks production department were conducted, as well as received from the National Research University four sets of electrical equipment of the EME system, installed by the staff of the above-mentioned production department on electrical equipment SS 110/35/6 kV N-1, N-8, SS 110/35/10 kV N-9 and SS 110/10 kV N-13	Facility SS 110/35/6 kV N-4, N-1 and N-8 substation, SS 110/35/10 kV N-9 and SS 110/10 kV N-13 substation of Rostovenergo Western Electric Networks production department Effect Installation of the mobile (portative) automated EME monitoring systems on the above mentioned substation will allow: <ul style="list-style-type: none">➤ register, in the current time mode, levels of electromagnetic effects exceeding the maximum permissible or close to them values established by the regulatory and technical documents for various types of electrical equipment used at SS;➤ analyse the causes that result in equipment malfunctions and determine measures to eliminate deficiencies;➤ quickly and timely carry out work to eliminate violations, preventing the occurrence of emergency at substations
		Expected result Creation of a mobile (portative) automated system for monitoring the electromagnetic environment (EME) at substations, which allows:	

Research work (R&D) entitled “Development of methodological basis for the metrological support of digital substations” (R&D Contract No.10001801000215 dd. September 24, 2018, concluded with CIT Scientific and Production Association LLC)	Start date of implementation september 24, 2018 Planned completion date June 1, 2019	Result at the end of reporting period 1. The following standards, regulations and specifications were developed for metrological provision of measuring channels 61850, measuring instruments included in measuring channels 61850, reference measuring instruments intended for metrological support of the measuring channels mentioned above, and measuring instruments intended for carrying out their revision: <ul style="list-style-type: none">➤ Company standard "Methods of digital CT 6-750 kV calibration";➤ Company standard "Methods of digital VT 6-750 kV calibration";➤ Company standard "Methods of digital CT and VT 6-750 kV calibration";➤ Company standard “Technology for measuring systems for verification of electric energy metering instruments with digital inputs and outputs in accordance with IEC 61850 standard”;➤ Company standard "General technical conditions of digital combined CT and VT 6-750 kV";➤ Company standard "General technical requirements for measuring complexes of digital CT and VT calibration";➤ Company standard “General technical requirements for measuring systems for verification of electric energy metering instruments with digital inputs and outputs in accordance with IEC 61850 standard”;➤ Company standard "Measuring instruments for revision of digital substation measuring channels". 2. Technical requirements “Production of digital measurement tools for metrological support of digital substations” (First edition), as well as a general (summary) report on the implementation of the first and second stages of research were developed.	Facility The staff of the relevant production structural divisions of the executive office of the IDGC of the South PJSC, as well as the management offices of its branches and production departments Effect Transition to digital signal transmission at all control levels of substations will allow: <ul style="list-style-type: none">➤ significantly reduce material costs of cable secondary circuits and their laying channels bringing the sources of digital signals closer to the primary electrical equipment;➤ improve the electromagnetic compatibility of such modern secondary electrical equipment as microprocessor devices and secondary circuits, due to transition to optical communications;➤ simplify and ultimately reduce the cost of design of microprocessor intelligent electronic devices by eliminating the input paths of analogue signals;➤ unify the interfaces of IED devices, simplify their interchangeability (including replacement of devices of one manufacturer with devices of another manufacturer), etc.
		Expected result Development of a set of regulatory documents harmonized with existing international standards (methodological basis for digital measurements), regulating the conducting metrological control and supervision of measuring channels 61850, as well as requirements for integrating a unified information data transfer protocol from electricity metering devices into a digital substation information bus	

TECHNICAL POLICY AND REGULATORY SUPPORT

Information on key, special or major projects of the IDGC of the South PJSC, which used innovative advanced technical solutions, advanced technologies, materials and equipment that comply with the Company's technical policy (including the Programme of innovative development)

In 2018, the IDGC of the South PJSC carried out phases of work on itemised projects listed below, in accordance with the current Regulations of Rosseti PJSC on a unified technical policy in the electric grid complex, approved by the Board of Directors of Rosseti PJSC (Minutes No.252 dd. February 22, 2017).

No. i/o	Branch of the IDGC of the South PJSC	Facility name	Key engineering parameters
1	Rostovenergo, Volgogradenergo, Astrakhanenergo and Kalmenenergo	Programme apparatus complex (PAC) for operational X-ray examination and control of technical condition of high-voltage low-oil switches VMT-110 on-site without isolation and opening, created during the performance of R&D entitled "Research and development of technology and instrumental-analytical support of X-ray examination high-voltage low-oil switches", in accordance with the terms of the Contract No.10001601000088 dd. 23.06.2016	<div>1. X-ray examination of high-voltage switches will allow to detect such defects as:<ul style="list-style-type: none">> contact surface wear;> moving parts curvature;> cracks in structural internal elements;> insulators hidden defects;> corrosion;> presence of metal cuttings;> lack of structural elements.</div> <div>2. The proposed technology is also a convenient tool for rapid assessment of the state of high-voltage switches in a group or of the same type of switches, but operated at different electric power facilities. This is the way the problem of ranking switches can be solved quickly</div>
2	Volgogradenergo	Implementation of active-adaptive electrical network project in the distribution electric grid complex of Volgogradenergo, a branch of the IDGC of the South PJSC, which provides for comprehensive automation of 10 kV overhead lines introducing a Smart Grid in the Petrovalsky Distribution Zone of Volgogradenergo Production Association reduction of such performance targets as index of the average number of customer outages in the system (SAIFI) and index of the average duration of consumer outages (SAIDI)	<div>The project provides the following solutions: 1. Installation of automatic partitioning points on 10 kV OHL on PBA/TEL reclosers (TER_Rec15_AL_L5) integrated into ENTEC TEL SCADA system;</div> <div>2. Replacement of existing 10 kV MV (type VMG-133, VK-10 U2, VMP-10P) with OHL 10 kV OHL/TEL at SS 35-110 kV, their telemechanization with integration into SCADA system;</div> <div>3. Relay protection and automation device on the upgraded cells of 10 kV (Smart);</div> <div>4. Application of intelligent digital damage recorders IKZ-VZZ-MRZ with organization of data transmission via GSM/GPRS channels to the dispatch RES centre;</div> <div>5. Telemechanisation of modernized 10 kV cells and implementation of SCADA in the system;</div> <div>6. Intellectual metering systems of the automated system for commercial accounting of electric power accounting and automated process measurement system with data transfer function to the SCADA system of the network control center of the branch.</div> <div>Network architecture of the SCADA system processes and manages:</div>

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Glossary

Terms, abbreviations	Definitions
AMS	asset management system
APCS	automated process control system
CPL	cable power line
EBITDA	earnings before interest, taxes and depreciation
FAS	Federal Antimonopoly Service
FEC	fuel and energy complex
FTS	Federal Tariff Service
IDGC of the South, Company	IDGC of South PJSC
IFRS	international financial reporting standards
ITT	information technology and telecommunications
JSC	Joint-Stock Company
KPI	key performance indicators
Last mile	communication channel from service provider to subscriber
Media	media organisations
NCC	network control center
OHL	overhead power line
PDZ	power distribution zone
PL	power line
Power loss	the difference between mains and net power
PSP	power system protection
RAS	Accounting Regulations
RGR	required gross revenue
R&D WMEP	research and development wholesale market for electricity and power
RTS	Regional Tariff Service
SAC	subsidiary and associated companies
SS	substantion
TNO	territorial network organization
UNEN	Unified National Electrical Network
WS	autumn-winter period

Contact Information

General information about the Company

Full name: Public Joint-Stock Company Interregional Distribution Grid Company of the South

Abbreviated name: IDGC of South PJSC

Legal and actual address: 344002, Rostov region, Rostov-on-Don, 49 Bolshaya Sadovaya St.

Tel./ Fax: 8 (863) 238-54-64, 8 (863) 238-58-95, 8 (863) 238-55-65 (from 8:00 to 17:00 Moscow time)

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Site: http://mrsk-yuga.ru

Single hotline number:

8 (800) 100-70-60

Corporate Governance and Shareholder Relations Department

Free telephone hotline for shareholders:

Mon - Fri: from 8:00 to 17:00 Moscow time

Tel.: 8 (863) 307-08-38

Email: pavlovaen@mrsk-yuga.ru

Auditor

Full name: Limited Liability Company Ernst & Young

Abbreviated name: Ernst & Young LLC

Legal adress: 115035, Moscow, 77 Sadovnicheskaya nab., bld. 1.

Location: Russia, Moscow, 77 Sadovnicheskaya nab., bld. 1.

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OGRN 1027739707203

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Registry Holder

Full name: Joint-stock company Independent Registrar Company R.O.S.T.

Abbreviated name: NRK - R.O.S.T. JSC

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Postal adress: 107996, Moscow, 18 Stromynka St., POB 9

Tel. Single contact center customer service: 8 (495) 780-73-63

Email: rost@rrost.ru

Site: http://www.rrost.ru

Dividend Payment Hotline

Information on the payment of dividends on the IDGC of the South PJSC shares for 2015 and 2017 can be obtained from NRK - R.O.S.T. JSC by calling the hotline: 8 (495) 780-73-63 or contact NRK - R.O.S.T. JSC by email: rost@rrost.ru .

Branch registrar

Krasnodar branch of NRK - R.O.S.T. JSC

Location: 350020, Krasnodar, 176 Krasnaya St., 4th floor

Tel./ Fax: 8 (861) 255-21-01, 8 (861) 210-03-28

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Registry transfer agents

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Location: 400131, Volgograd, 19 Mira St., office 309

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