





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 decisionmaking, 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:

development of the metering, communication and automation systems;

automation of control systems;

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