



ABOUT US

14

Kubanenergo PJSC Market Power

16

The Diagram of the Company's main activities

18

Organizational structure

20

The history of creation and development of the Kuban energy system and Kubanenergo PJSC

22

Risk Management System of the Company

27

Anti-Corruption Policy of the Company

29

Code of Corporate Ethics and official Conduct of Company Employees

30

Key events of the Company

KUBANENERGO PJSC MARKET POWER

The primary mission of Kubanenergo PJSC – is to take a profit in the conditions of long-term provision of reliable, high-quality and affordable power supply to consumers in the Krasnodar Territory and the Republic of Adygea by organizing the most efficient management of the distribution network infrastructure on advanced technologies and innovations based on international standards for quality of services and best practice corporate governance.

Kubanenergo PJSC provides a transmission and distribution of electricity to consumers through the electric power networks 110 kV and lower between residential areas, to the rural settlements, separate cities and regional centers of the Krasnodar Territory (including the City of Sochi) and the Republic of Adygea.

The whole service area of Kubanenergo PJSC in Krasnodar Region and the Republic of Adygea has 83.3 thousand square km and a population of more than 6 million people.

The principal purpose of the Company is to provide reliable and stable energy supply to consumers of this region and to meet the growing needs of the regional economy in electricity.

Kubanenergo PJSC is the largest taxpayer, which takes an active part in the social and economic life of the region, ensuring jobs and employment for the supplier plants from related industries, and bringing about various social programs and conducting charity events.

Kubanenergo PJSC is a public Company, which shares were admitted to trading on the Russian stock exchange – Moscow Exchange PJSC.

The Company conducts its main activity in the conditions of a natural monopoly regulated by the state in terms of:

- tariffication for electricity transmission services and payments for technological connection of power receivers of consumers to the electrical network of the Company;
- ensuring the open, non-discriminatory access of consumers to the specified services of the Company on equal terms.

Kubanenergo PJSC – is the largest power grid Company in the Krasnodar Territory and the Republic of Adygea. The Company share in the regional market for electricity transmission services (from the necessary gross revenue of the region) amounted to 75.5% in 2018. The high rates of reconstruction and renewal of power grid facilities of the Company, the same as dynamic growth of technological connection volumes, let to conclude that the Company will retain a dominant position in the regional market for electricity transmission services in the future.

Key characteristics of the Company in 2018

The total length of power lines	91.0 thousand km
The maximum allowable design capacity of the power system ¹	7,464.7 MBA
The load level of the design capacity of the power system in 2018.	4,918 MVA (65.88% of the maximum capacity) incomplete loading of design capacity due to the need for spare capacity (back up) in case of emergency shutdown or scheduled maintenance
The total number of electricity metering points of consumers connected to the power grids of Kubanenergo PJSC under contractual electricity transmission	1,173,955
Grid branches	11

The Company's share in the regional market for electricity transmission services (based on the required gross revenues of the region) in 2016–2018, accounted for, in %

	2016	2017	2018
Share of Kubanenergo PJSC	73.9	73.9	75.5

The increase in the share of Kubanenergo PJSC is driven by the growth of the IGR for the maintenance of the electrical networks of Kubanenergo PJSC and the consolidation of power grid assets.

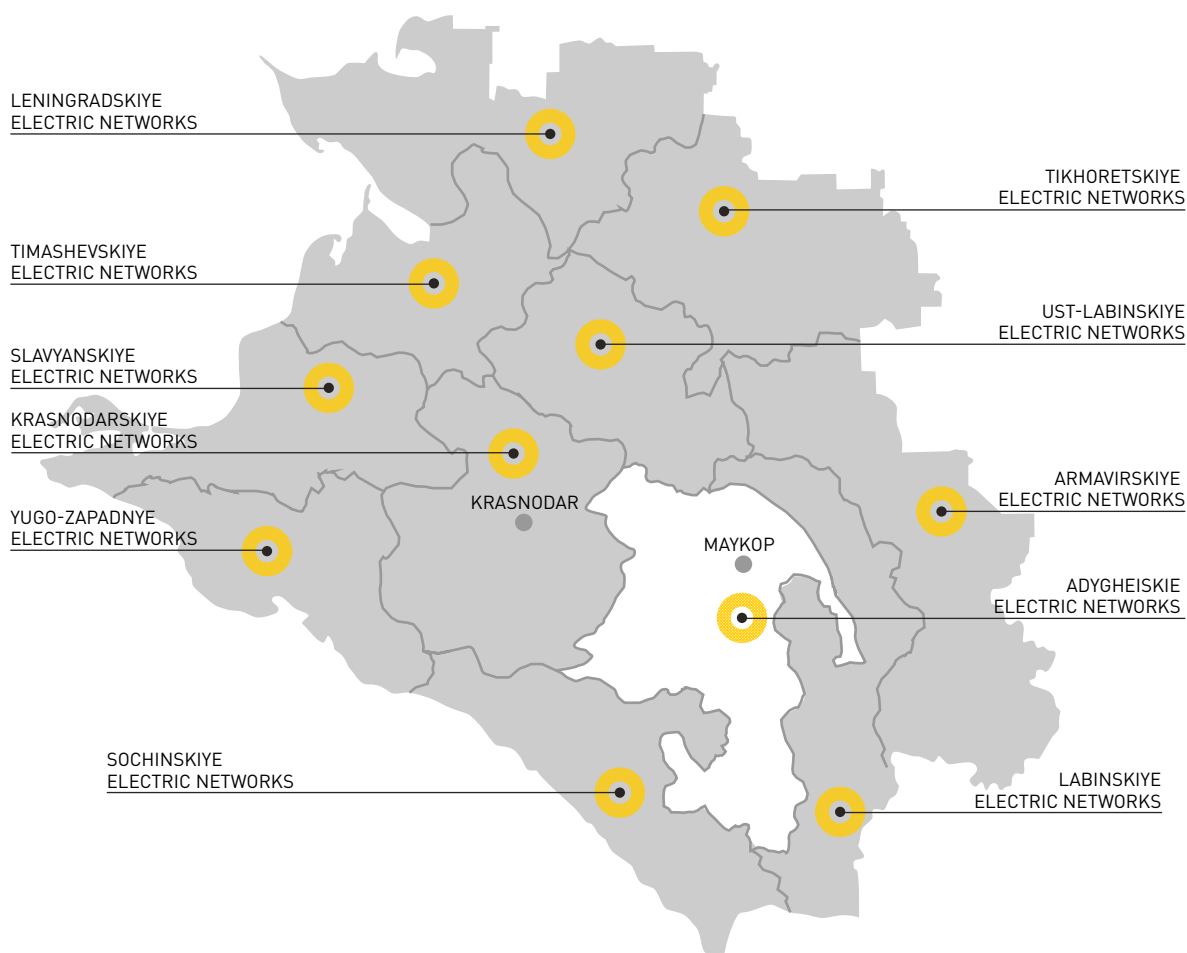
The following companies are among the largest companies carrying out similar activities in the Krasnodar Territory and the Republic of Adygea: JSC Independent Energy Service Company of Krasnodar region – NESK-Electricity Network, JSC Oboronenergo, JSC Russian Railways, JSC Neftegaztekhnika-Energy.

1. Only for 110 kV substations.

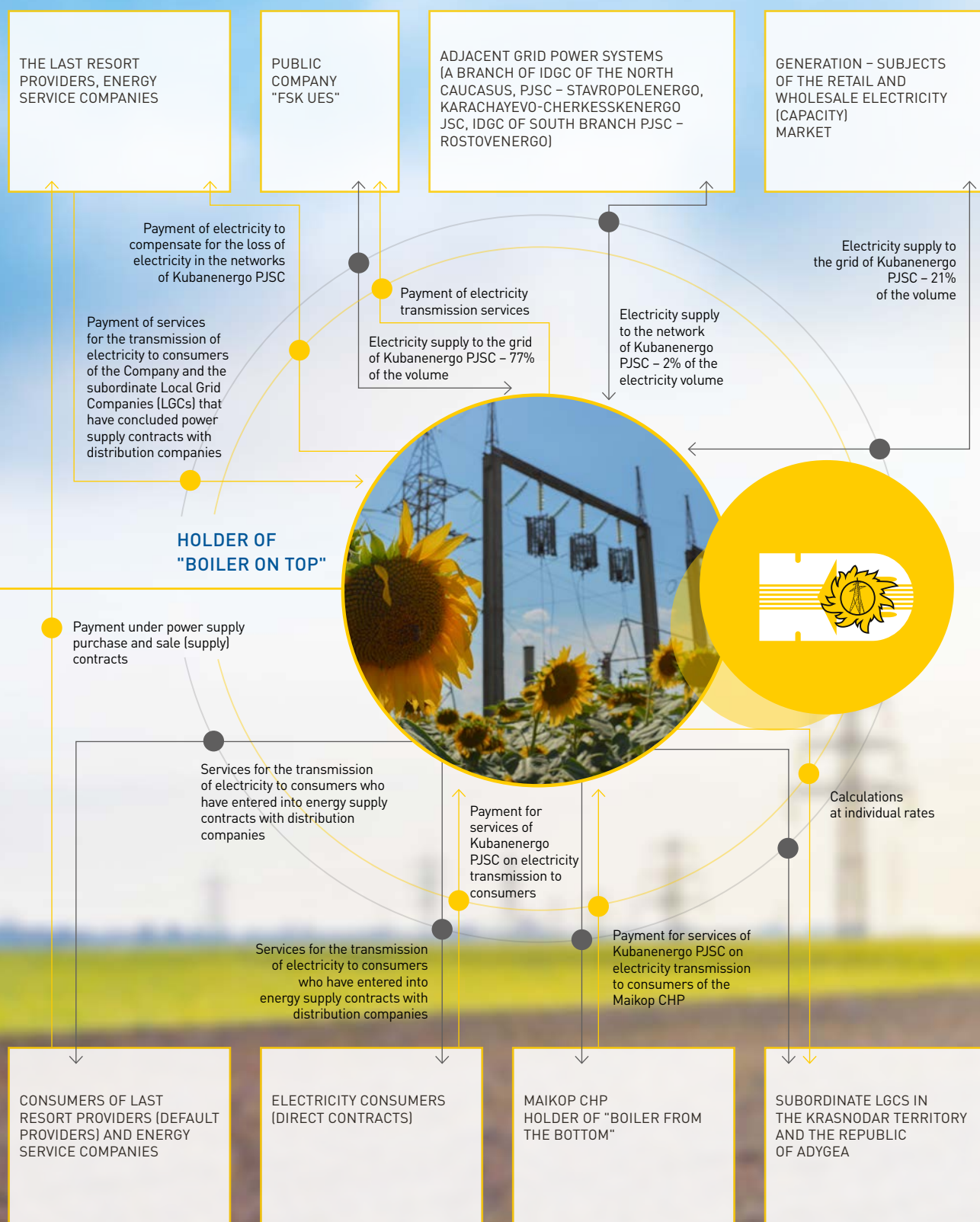
The main production assets of the Company in 2015–2018 at the end of the reporting year

ASSET TYPE	UNIT OF MEASURE	2015	2016	2017	2018
Substations	number	23,223	23,568	23,767	23,805
Installed capacity (total), including:	MegaVolt-Ampere (MVA)	14,089.22	14,273.59	14,502.54	14,833.14
35–110 kV Substation	number	715	716	715	716
	MegaVolt-Ampere (MVA)	9,432.7	9,519.1	9,696.63	9,924.07
Transformer substations, distribution transformer substations 6–10 (35) / 0.4 kV	number	22,508	22,852	23,052	23,089
	MegaVolt-Ampere (MVA)	4,656.516	4,754.491	4,819.34	4,909.07
The length of the overhead transmission line (OTL) on the highway (total), including:	km	86,003.2	86,169.4	86,545	86,480.71
OTL 220 kV and above	km	76.1	76.1	76.1	76.1
OTL 110–150 kV	km	4,962.8	4,908.3	4,907.21	4,924.34
OTL 35 kV	km	6,932.5	6,833.7	6,833.85	6,819.25
OTL 6–10 kV	km	32,556.276	32,621.765	32,710.729	32,382.92
OTL 0.4 kV	km	41,475.550	41,729.512	42,017.11	42,278.11
The length of cable lines (CL) (in total) including:	km	2,217.1	2,279.9	2,349.954	2,390.5
CL 110 kV	km	78.75	81.05	93.35	93.35
CL 35 kV	km	0.46	0.944	1.33	3.05
CL 6–10 kV	km	1,663.414	1,722.563	1,777.95	1,813.54
CL 0.4 kV	km	473.429	475.316	477.32	480.56

BRANCHES OF THE COMPANY



THE DIAGRAM OF THE COMPANY'S MAIN ACTIVITIES



Electricity comes to the Company's networks:

- by the Unified National Power Grid (UNPG) networks from PJSC Federal Grid Company of the Unified Energy System of Russia (FGC UES), – 77% in the reporting year;
- 21% directly from Generation Facilities – in the reporting year;
- from adjacent energy systems (branch of IDGC of the North Caucasus PJSC, – Stavropolenergo, Karachayevo-Cherkessskenergo JSC, a branch of IDGC of South PJSC – Rostovenergo) – 2% in the reporting year.

Consumers of Kubanenergo PJSC services for electricity transmission are:

- individuals and legal entities, which electrical systems are connected to the Company's power grids and who have concluded power supply agreements with default providers (energy service companies)¹;
- consumers who have concluded contracts for electricity transmission services directly with the Limited Liability Company connected to the Company's power grids (94 consumers in the reporting year, including Novoroscement OJSC, Tamanneftegaz CJSC, LLC EuroChem-Belorechensk Mineral Fertilizers, LLC Poultry Farm "Primorskaya", JSC APF "Fanagoria", JSC Agrofirma-tribal plant "Victory", FSBI "Kubanmeliovodkhoz" Administration, LLC "Sad-Gigant", Novorosselexport JSC, JSC "Abrau-Dyurso", JSC Verkhnebakansky Cement Plant, JSC Experimental Production Farm, Stud Farm "Leninsky Put", CJSC Stud Farm Gulkevichsky, JSC "RAMO-M", LLC "Novomol", PJSC "Novorossiysk Commercial Sea Port", LLC "Formica-Yug", LLC "Kanevskoy Gas Fitting Plant", JSC "IPP", etc.).

Payment of the Company's services for the transmission of electricity, respectively, comes from energy sales companies and direct consumers.

To compensate for the loss of electricity arising from its transmission in the Company's networks, Kubanenergo PJSC acquires the corresponding amount of electricity from power supply companies.

THE INDIVIDUAL BOILER METHOD OF PAYMENT FOR THE TRANSMISSION OF ELECTRICITY HAS BEEN OPERATING IN THE REGION SINCE 2007

For all consumers of power transmission services of the Kuban and the Republic of Adygea, belonging to the same tariff group, there is a individual (boiler) tariff, regardless of the network of which grid organization they are connected to.

THE MAIN TARIFF-CONTRACTUAL MODEL, USED FOR CALCULATIONS, IS THE "BOILER AT THE TOP"

The status of the backbone network organization – the "boiler holder" was assigned to the Company. According to this model, consumer payments for electricity transmission services rendered to them (no matter which network organization they are connected to) are received by Kubanenergo PJSC, after which the Company makes settlements with the subordinate LGCs, which networks the consumer's power receivers are connected to, at individual rates.

FROM SEPTEMBER 22, 2011, AN INDIVIDUAL "BOILER AT THE BOTTOM" MODEL FOR THE ARRANGEMENT OF LLC MAIKOP CHP NETWORK ALSO OPERATES IN THE REGION

Under this pattern, payments for the transmission of electricity from consumers connected to LLC Maikop CHP come to this grid organization at a single boiler tariff, and LLC Maikop CHP pays for the transmission of electricity through the Company's grids at the individual tariff.

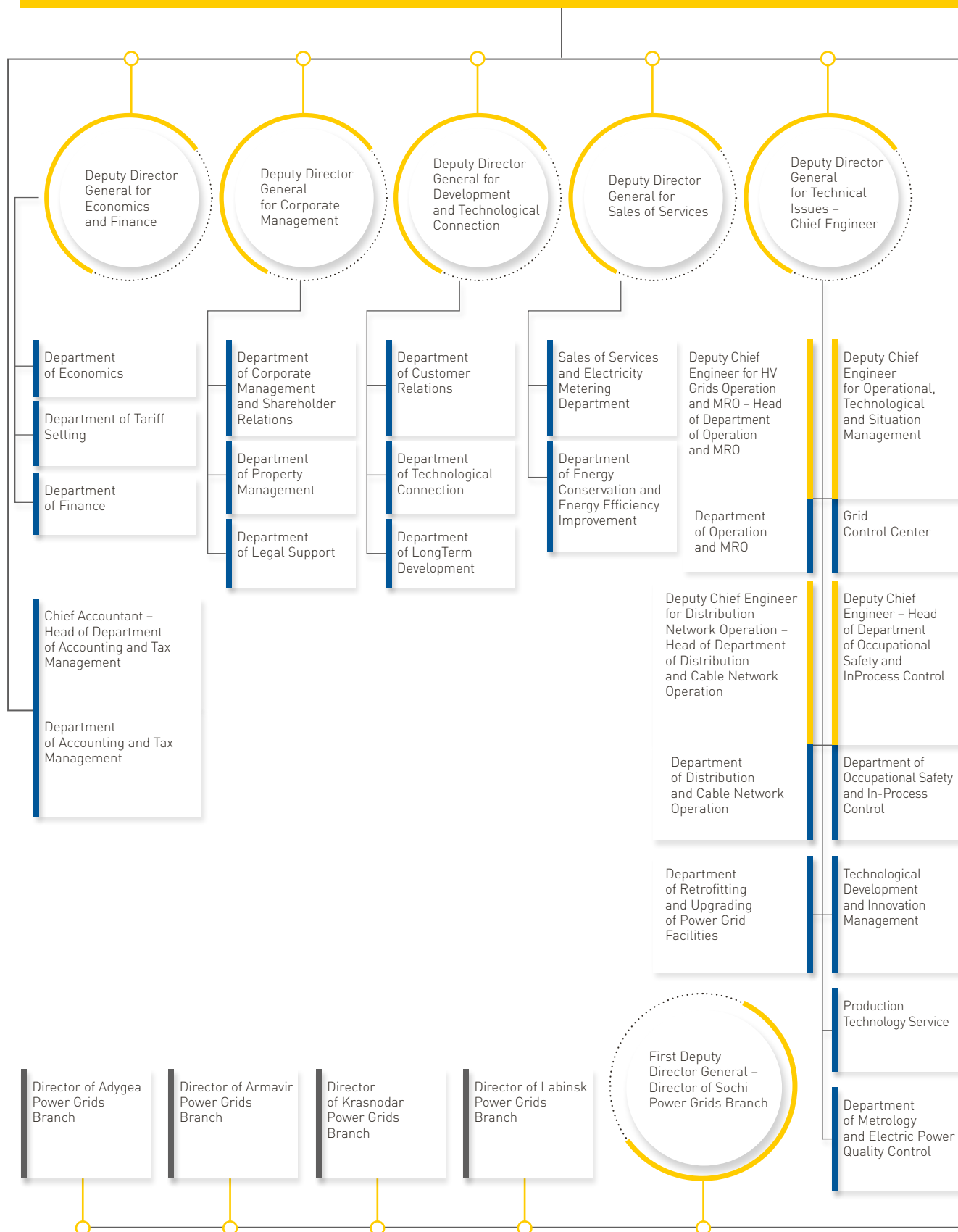


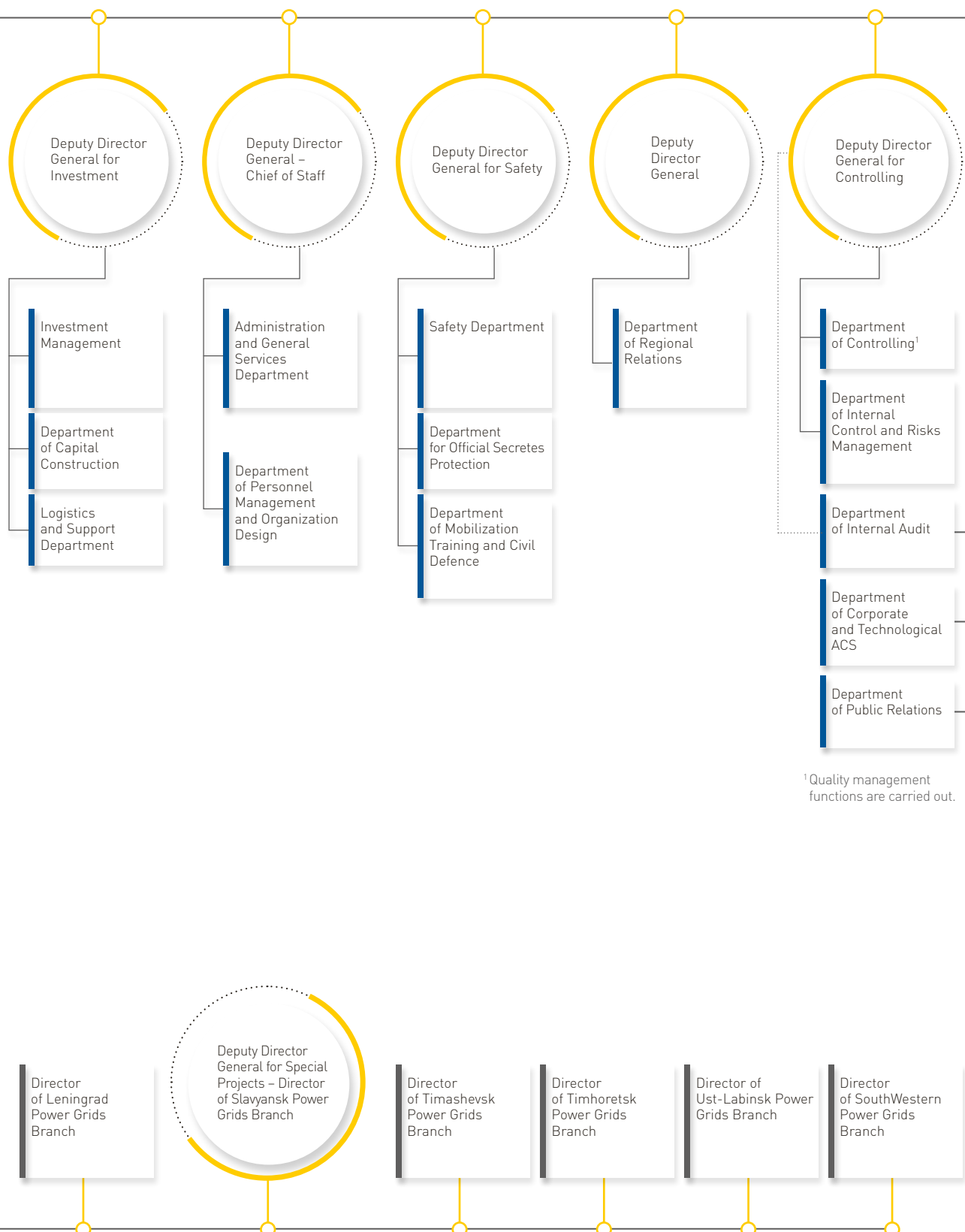
1. The last resort providers (energy service companies), in order to fulfill the specified energy supply agreements, in turn, concluded contracts for the provision of electricity transmission services with Kubanenergo PJSC. In 2018, the Company had contractual relationships with two default providers and 32 energy service companies, the largest of them are PJSC 'TNS energo Kuban' (46% of the revenue from the actually rendered services) and NESK JSC (36% of revenue).

ORGANIZATIONAL STRUCTURE

The current organizational structure of the Company meets its goals and objectives, approved by the decision of the Board of Directors of Kubanenergo PJSC on June 26, 2017 (Minutes No. 279/2017).

DIRECTOR GENERAL





¹ Quality management functions are carried out.

THE HISTORY OF CREATION AND DEVELOPMENT OF THE KUBAN ENERGY SYSTEM AND KUBANENERGO PJSC

XIX CENTURY

The beginning of the creation of the Kuban energy system – the construction of small power plants in the region.

1920

The establishment of Soviet power in the Kuban and nationalization of all industrial enterprises.

1921

Organization of the Electric Department at the Kuban-Black Sea Economic Council in order to control the Kuban power facilities.

In total, 353 power plants with a total capacity of 13.7 MW operated in the Kuban territory; 16.2 thousand lighting lamps, 621 electric motors were connected to the electrical network.

The establishment of the "Votelttram" association, comprising the city and municipal services for water supply, transport (tram) and power supply of the Krasnodar City. The length of the power lines was 45 km, the electrical networks were designed for a voltage of 2 kV.

2004–2005

In the process of reforming the electric power industry of Russia, OJSC Kubanenergo is exempt from service and non-core activities and dispatching functions by separating them into separate enterprises: functions for operational dispatch management were transferred to JSC SO UES, with the establishment of open joint-stock companies Krasnodarenergozemont, Krasnodarenergosetremont, pensionate "Energetik", the Recreational Complex Flame and with the creation of the Non-governmental non-profit educational institution Educational Center Kubanenergo.

1993

As a part of privatization, the Production Association of Power and Electrification "Krasnodarenergo" was transformed into OJSC Kubanenergo. In addition to electric grid enterprises, Krasnodar CHP, Energonadzor, repair and construction enterprises, training complex, recreation center, and a pioneer camp have become part of Kubanenergo OJSC as branch organizations.

49% of the Company's shares were transferred as payment for the authorized capital of RAO UES of Russia, the remaining 51% of shares were acquired by members of the labor collective and other persons eligible for benefits in accordance with the State Privatization Program.

1988

The abolition of the Krasnodarenergo REB and the creation on its basis of the Krasnodar Power Engineering and Electrification Production Enterprise Krasnodarenergo (Krasnodarenergo).

2006

As a part of the restructuring of the industry, OJSC Kuban Generating Company (generating capacities) was allocated from OJSC Kubanenergo, OJSC "Kuban backbone grids" (electric grid facilities), OJSC Kubanenergobyit (last resort provider, buying electricity on the wholesale market and supplying it to final consumers).

2008–2012

Since July 1, 2008 OJSC Kubanenergo becomes an affiliated company of JSC IDGC Holding, which has received a package of the Company voting shares in the succession on the spin-off balance sheet due to the reorganization of JSC RAO UES of Russia. In 2012, in connection with the acquisition of a package of additional shares of the Company JSC IDGC Holding, the Company became a subsidiary of JSC IDGC Holding.

The main function of the Company within the framework of JSC IDGC Holding is – participation in the formation of the energy industry in Russia in terms of the distribution grid complex.

2013

The joint company, managing the electric grid complex (including trunk and distribution electric grids) was formed on the basis of OJSC Rosseti. The company was designed for the coordination of all Russian network organizations in part of tariffs, technical policy, and investment planning, transparency of financial and business activities, as well as in part of anti-corruption policy.

The share of OJSC Rosseti in the authorized capital of the Company increased to 92.24%.

1930S

The creation of the North Caucasus Energy Department – Sevkavenergo, which was in charge of Kuban power facilities.

Division in 1934 The division of Sevkavenergo in 1934 into two independent departments – Azcherenergo (Rostov-on-Don) and Sevkavenergo (Pyatigorsk).

1944

Allocation of the Krasnodar Regional Electricity Board “Krasnodarenergo” (REB) from Azcherenergo; wherein production, distribution and sale of electricity and heat, restoration and development of power system, control of energy consumption and supervision of power facilities of Kuban enterprises became the core activities of Krasnodarenergo REB. Power stations, substations, power distribution zones, energy sales, repair and engineering works, central warehouse, design and survey bureau, production research laboratory came under the supervision of Krasnodarenergo REB as independent self-supporting enterprises.

LATE 1950 – EARLY 1960S

The construction of transmission lines of 110 and 220 kV for communication with the power systems of southern Russia and the Caucasus, electrification of railways, networks of Krasnodar Region, construction of distribution grid facilities, electrification of rural settlements.

1970S–1980S

A significant increase in the construction of new power lines in connection with the rapid growth of electricity consumption. The total length of the lines increased to 90 thousand km, the number of 35–500 kV substations exceeded 700.

1972–1975

Assembling the first USSR two gas turbine units (GTU) with a capacity of 100 MW each at the Krasnodar CHP. The total capacity of the combined heat and power plant, unit and two GTUs has come up to 959 MW.

1963

The enterprises of the urban and rural power grids of Kuban were transferred from the regional farm to the Krasnodarenergo REB.

2015

The company's name included an indication of its public status.

2017

The company has become a key participant in a national-scale project for the arrangement of modern energy infrastructure on the Taman Peninsula, necessary for local development, provision of electricity to the dry-cargo area of the Taman seaport, and for the construction of a transport crossing through the Kerch Strait.

Investments of Kubanenergo PJSC in the construction of Taman's power facilities will be about 7 billion rubles.

2018

The share of PJSC Rosseti in the authorized capital of the Company increased to 92.78%.

RISK MANAGEMENT SYSTEM OF THE COMPANY

The Company has a risk management system (further in the text – RMS), designed with a purpose to ensure 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 the Company's business, the health of employees, the environment, and property interests of shareholders and investors. The Board of Directors and Management control all key risks of the Company.

The main RMS participants







NAME OF PARTICIPANT	MAIN FUNCTIONS IN RMS PART
Board of Directors	<ul style="list-style-type: none"> • approves the Company's internal documents defining the organization and operation of the Company's RMS • analyzes the reports of the Company's executive bodies, concerning the organization, functioning and effectiveness of RMS, evaluates the operation of RMS and makes recommendations for improvement
Committee for Strategy, Development, Investments and Reform of the Board of Directors	monitors the effectiveness of risk management procedures, as well as evaluating the effectiveness of risk management activities and advancement of RMS
Executive bodies (Management Board, General Director)	<ul style="list-style-type: none"> • establish the requirements for the format and completeness of information about the risks of the Company; • form directions and plans for development and improvement of RMS; • analyze the portfolio of risks and develop measures for the response strategy and reallocation of resources towards the relevant risks management
Risk owners	Responsible for the timely identification and assessment of risks, the choice of risk response method, the timely development, risk management measures, and the regular risks monitoring.
The Executors of risk management activities	responsible for the early detection and/or minimization of risks, implementation of measures aimed at risk management in a timely manner and in full
Directorate for internal control and risk management	performs functions of the overall coordination of risk management procedures
Internal Audit Department	carries out an independent internal assessment of the effectiveness of the RMS and issue recommendations to improve the efficiency and effectiveness of RMS









In 2018 the Company continued developing the risk management system in compliance with the Risk Management Policy, which was approved by the Board of Directors of the Company on March 17, 2016, in a new edition (minutes No. 233/2016).

















THE MAIN RISK FACTORS OF THE COMPANY









The risks information presented below contains the name of the risks most possible in the Company, a brief description of such risks, the main risk management measures implemented in 2018, as well as a graphical depiction of the risk significance assessment and the relevant dynamics compared to 2017

during 2018. The significance of risk is understood as a combination of the probability of occurrence of the risk and the scale of consequences for the Company in monetary and other terms. There was taken the following scale:

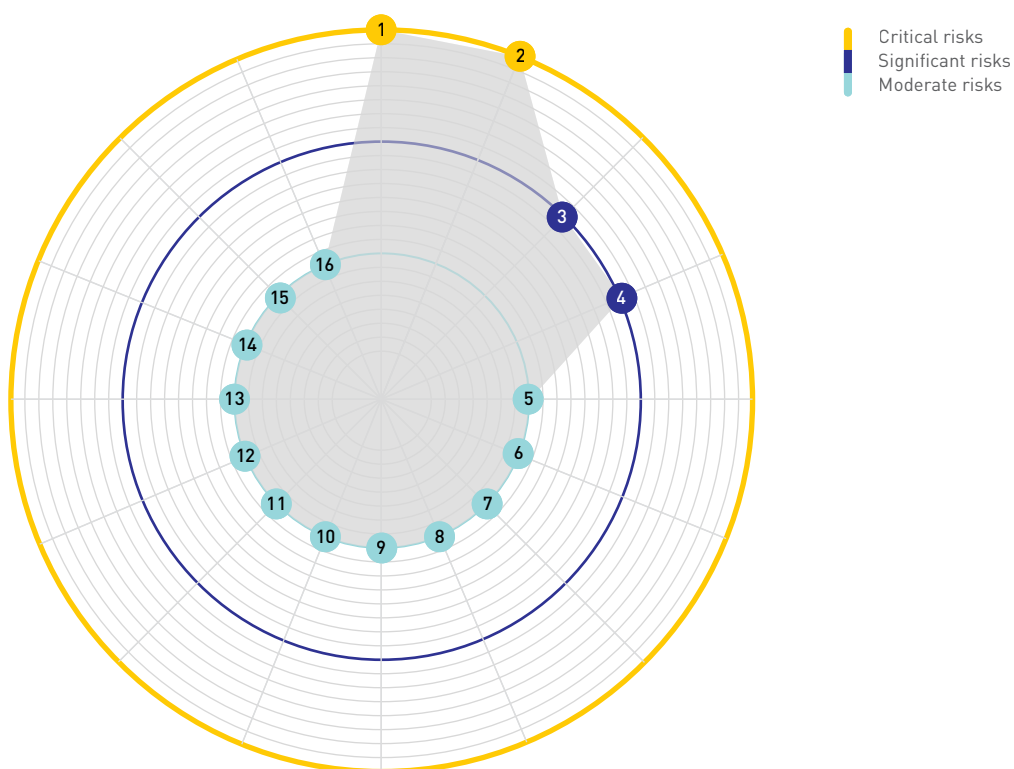
SIGNIFICANCE LEVEL		DYNAMICS	
Critical		No changes (or the dynamics is insignificant)	
Significant		Upward trend	
Moderate		Downward trend	

SEQ NO.	RISK NAME	RISK DESCRIPTION	RISK MINIMIZATION MEASURES	RISK ASSESSMENT AND DYNAMICS
Industry risks				
1	Tariff risks	Tariff regulation policy, pursued by the state, takes into account the need to contain inflation and provides for changes in regulated tariffs of network organizations in the 2017-2019 biennium below the actual inflation index with the growth of prices in the wholesale market, which leads to the risk of establishing tariff menu regulatory authorities, does not provide a reasonable revenue collection cost	To mitigate the consequences of the implementation of this risk, the Company submits substantiating materials to the regulatory bodies confirming the level of economically justified expenses of the Issuer, defends the position for the necessary faster growth of costs as a backbone Company, the "holder of the boiler" of the Krasnodar Territory and the Republic of Adygea, forms and directs disagreements to the Federal Anti-Monopoly Service of Russia	 
2	Risk of reducing the volume of electricity transmission services	The risk is due to the possibility of reducing the demand for electricity and the optimization by large consumers of external power supply diagram	In view of the economic development of the regions, covered by the Company, there was a clear upward trend in electricity consumption over the past few years. Nevertheless, the Company carries out: <ul style="list-style-type: none"> monitoring of the current and forecast economic situation; conducts preparatory work for the proper functioning of power equipment in the respective seasons of the year, including carrying out maintenance and repair of power facilities; carries out activities aimed at identifying the volume of unaccounted power consumption; carries out activities aimed at identifying the volume of unaccounted power consumption; 	 
3	Risks associated with the provision of technological connection services to the applicants	Risks are caused by the possible occurrence of a deficit in the source of funding for the implementation of contracts for the implementation of technological connection, failure of the applicants to fulfill obligations under contracts for the implementation of technological connection, failure to use by the applicants of the power obtained during technological connection. Due to the influence of these factors, a decrease in the Company's revenue is possible after technological connection	To mitigate the effects of the risk involvement, the Company: <ul style="list-style-type: none"> cooperates with tariff regulators in regard to the justification of fees, confirming the cost of individual projects; improves the process of technological connection 	 
4	Risk associated with non-payment for electricity transmission services rendered (with appearing of contested and undisputed overdue receivables) on the part of consumers	This risk is conditioned by insufficiency of the existing mechanisms of bringing incentive to consumers for timely payments for electricity transmission services, same as the influence of macro-economic factors (reduction of consumer solvency)	To mitigate the consequences of this risk, the Company: <ul style="list-style-type: none"> analyzes the reasons for the differences in the volume of transmitted electricity; executes a schedule of measures to reduce receivables for electricity transmission services; conducts a claim work; accumulating the judicial practice to create a positive precedent in cases where the consumer unduly contesting his affiliation delivery points; carries out mounting of collective electricity metering devices 	 

SEQ NO.	RISK NAME	RISK DESCRIPTION	RISK MINIMIZATION MEASURES	RISK ASSESSMENT AND DYNAMICS
Country and regional risks				
5	Risks associated with the political and economic situation in the country and the region	The risks are subject to a decrease in the economic activity of the constituent entities of the Russian Federation in the regions of presence, with an increase in the cost of credit, which, in turn, may be caused by instability of the external environment, international sanctions, lower credit ratings, and rising of inflationary pressure. The influence of these factors may lead to a reduction in the Company's revenue, in its shareholder value.	With a view of the economic advancement of the regions, covered by the Company, there is a clear upward trend in electricity consumption over the past few years. In connection with the improvement of the country's macroeconomic indicators, including an acceptable level of inflation, the Company has seen a decrease in the average capital borrowing rate. To strengthen its position, the Company undertakes: <ul style="list-style-type: none"> • reduction of operating expenses; • improving the energy efficiency and introduction of energy-saving technologies; • import substitution to reduce the cost of purchased equipment 	 
6	Risks associated with possible conflicts and their occurrence, the imposition of emergency state and strikes in the regions	Risks are caused by possible acts of unlawful interference in the activities of the Society, including terrorist acts, in particular, caused by representatives of international terrorism, and nationalist elements of individual states. Such actions may have a negative impact on the Company's activities.	To prevent the occurrence of risks, the Company: <ul style="list-style-type: none"> • carries out measures to protect against sabotage and terrorist acts of energy facilities; • interacts with law enforcement agencies; • insures property 	 
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 due to emergency situations of natural and climatic character (impact of hurricanes, torrential rains, floods and high water, snow debris, icing), the same as disruptions in power supply as a result of fires, domestic explosions, etc. As a result, electricity supply, transport can be interrupted in the region	To prevent the occurrence of risks, the Company: <ul style="list-style-type: none"> • insures property; • creates an emergency reserve; • if necessary, carries out the response of services crews to restore the supply of electricity; • if necessary, take other measures of crisis management 	 
Financial risks				
8	Risks associated with currency fluctuations	Negative impact on the results of the Company's financial and economic activities due to changes in currency exchange rates	To prevent the occurrence of risks, the Company: <ul style="list-style-type: none"> • buys power equipment from Russian manufacturers; • reduces operating expenses; • analyzes the possible impact due to the dynamics of exchange rates 	 
9	Risks associated with changes in interest rates	Influence on the possible growth of the Company's expenses of attracting credit funds for financing investment programs	In order to manage these risks, the Company: <ul style="list-style-type: none"> • pursues a balanced credit policy aimed at optimizing the structure of the debt portfolio and the available credit limit, together with optimizing the conditions of credit agreements; • works with creditors in order to reduce the cost of borrowed capital for the Company 	 
10	The risks associated with the effects of inflation	The influence of consumer price index growth on interest expenses, costs, profitability, and, consequently, on the financial condition and the ability to meet obligations by the Company	To prevent the occurrence of risks, the Company: <ul style="list-style-type: none"> • draws up a business plan in accordance with the scenario conditions; • implements an effective procurement policy; • conducts a comprehensive analysis of financial risks 	 
Legal risks				
11	Legal risks	Risks associated with changes in legislation, judicial practice on the issues of the Company's activities, disbalance of interests between the Company and other electric power engineering entities	For risks mitigation, the Company undertakes to: <ul style="list-style-type: none"> • prolongs the validity of licenses and permits necessary for conducting business activities; • complies with the laws and Internal Regulations; • monitors the legislation of the Russian Federation; • plans financial and economic activities in view of changes in legislation 	 
12	Compliance risks	Risks associated with regulatory sanctions in the case of possible non-compliance of the Company's activities with the requirements of the legislation, local regulatory acts, and other mandatory regulatory documents	In order to manage these risks, the Company: <ul style="list-style-type: none"> • improves the management and control system; • complies with the laws and Internal Regulations; • eliminates violations identified by the external control bodies; • defends the interests of the Company in the courts 	 

SEQ NO.	RISK NAME	RISK DESCRIPTION	RISK MINIMIZATION MEASURES	RISK ASSESSMENT AND DYNAMICS
Risk of loss of business reputation				
13	Reputation risk	The risk is associated with the possible default of the Company in full liabilities towards customers and counterparties	Due to the fact that the Company is the subject of a natural monopoly and there is an annual increase in the number of electricity consumers, the Company has worked out a positive practice for long-term interaction with counterparties	 
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 this risk, the Company <ul style="list-style-type: none"> • elaborates proposals and scenarios for improving the implementation of a specific strategy or program; • analyzes the effectiveness of the implementation of a specific strategy; • introduces KPIs to fulfill strategies and their alignment with the bonus payment to managers;; • monitors the structural subdivisions of the Company in relation to the ratio of the costs of a specific strategy to the benefit received and submits this information for consideration by the Board of Directors of the Company for making management decisions (including defining the volume and quality of resources) 	 
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; failure to comply with regulatory and technical requirements in terms of exceeding the established allowable values of the technological parameters of operation of electrical equipment	To prevent the implementation of risks, the Company carries out: <ul style="list-style-type: none"> • scheduled and unscheduled repairs and maintenance of power grid equipment; • technical re-equipment, reconstruction, and new construction; • technical control; • regular optimization of the structure and volume of components and spare parts; • ensuring industrial safety and production control; • introduction of a loss reduction program; • planning of emergency measures (according to the results of the investigation of technological violations) aimed at mitigating the realization of risk and preventing the occurrence of similar cases in the future 	 
16	Investment risk	Reduction of sources of financing of the Company's investment programs in the event of a deterioration in its financial and economic condition and, as a result, reduction of tariff revenue in case investment programs are not implemented. Violation of the planned deadlines for the commissioning of investment program facilities for reasons of non-fulfillment/ untimely execution by contractors and suppliers of their obligations	To prevent the occurrence of risks, the Company: <ul style="list-style-type: none"> • forms (corrects) the individual development program (IDP) in accordance with the scenario conditions; • redistributes funds received from savings by results of bidding procedures for other IDP facilities; • implements measures to reduce the volume of unfinished construction; • controls compliance with the terms of the procurement procedures and contracts 	 

Distribution of risk by significance level for 2018



- | | |
|---|------------------------|
| 1. Tariff risks | 9. Geographical risks |
| 2. Risks of technological connection | 10. Investment risk |
| 3. Risk of non-payment for electricity transmission services | 11. Interest rate risk |
| 4. Operational and technological risk | 12. Currency risks |
| 5. Risk of reducing the volume of electricity transmission services | 13. Legal risks |
| 6. Risks of Conflicts and Emergency | 14. Compliance risks |
| 7. Inflation risks | 15. Reputation risk |
| 8. Political and economic risks | 16. Strategic risk |

ANTI-CORRUPTION POLICY OF THE COMPANY

The purpose of the Anti-Corruption Policy of PJSC Rosseti and subsidiaries and affiliates of PJSC Rosseti is a common approach to the implementation of requirements of Article 13.3 of the Federal Law No. 273-FZ dated 25.12.2008 "On Combating the Corruption" concerning the Company's responsibility for development and adoption of measures to prevent and combat corruption, including:

- identification and subsequent elimination of 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.

During 2018, measures for introduction of the anti-corruption policy of the Company were carried out in the following main areas:

DIRECTION OF ANTI-CORRUPTION POLICY	ACTIVITIES TAKEN IN 2018
Organization of risk management process in preventing and combating corruption	<p>The standard methodology for assessing the risk of corruption in the Rosseti Group of Companies was put into effect by the Order of Kubanenergo PJSC of March 27, 2018, No. 308</p> <p>In accordance with the standard process control matrix, there was carried out a self-assessment of the effectiveness of control procedures of the "Anti-Corruption" activity for 2018.</p> <p>Measures have been completed under the Action Plan aimed at preventing and detecting corruption in the field of technological connection for 2018.</p>
Identify and resolve conflicts of interest	<p>The annual declaration of the conflict of interests of employees was carried out for 2017: there were collected 1,513 declarations and revealed 12 cases of pre-conflict situations.</p> <p>By the end of 2018, all cases of conflict of interest/pre-conflict situations were considered as resolved.</p> <p>There were held four meetings of the Kubanenergo PJSC Corporate Ethics and Conflict of Interest Commission and conflict of interest.</p> <p>Verification of the submitted certificates of income, property and property liabilities of the Company's executives (79 certificates) and their close relatives (319 certificates) was conducted for the year of 2017. As a result of the conducted verification, signs of affiliation, conflict of interests, pre-conflict situations were not revealed.</p>
Development and introduction of standards and procedures aimed at ensuring fair work	<p>The data of the concluded contracts, additional agreements, and subcontractors of the Company's counterparties were entered into an automated system for analysis and accumulation of information on beneficiaries on a daily basis; in 2018 there were loaded over 58 thousand contracts.</p> <p>There was declared the conflict of interest of candidates for vacancies in Kubanenergo PJSC</p>
Monitoring compliance with the requirements of the legislation of the Russian Federation, in the Company, concerning countering the unlawful use of insider information and market manipulation	<p>The control was carried out by the new Regulation on Insider Information of Kubanenergo PJSC, approved by the decision of the Board of Directors of the Company (Minutes No. 315/2018 dated 31.07.2018) in the following areas:</p> <ul style="list-style-type: none"> • current control over compliance with the legislation of the Russian Federation; • methodological work; • coordination of development activities of the insider information control system. <p>As of December 24, 2018 - the date of the last request of Moscow Exchange PJSC in the reporting year — 19 insiders — legal entities and 376 individual insiders — are on the Company's insiders list.</p> <p>During the year, 12 requests from Moscow Exchange PJSC to transfer the list of insiders to the exchange were received by the Company and processed.</p> <p>On the corporate website in the section "Shareholders and Investors/ Information for Company Insiders" contains the information for the Company's insiders.</p>

DIRECTION OF ANTI-CORRUPTION POLICY	ACTIVITIES TAKEN IN 2018
The adoption of measures to prevent corruption in cooperation with partners and contractors	<p>Approval of the procurement documentation was carried out for the execution of instructions of the Government of the Russian Federation dated 28.12.2011 No. БП-П13-9308 and dated 05.03.2012 No. БП-П24-1269. In 2018, 1.6 thousand packages of documents from counterparties were reviewed, 463 sets of documents were agreed upon before being sent to procurement procedures.</p> <p>Anti-corruption clause and counterparty obligations to provide information about beneficiaries were included in more than 36 thousand contracts</p>
Legal education and the formation of the foundations of law-abiding behavior of employees, consulting and training of employees	<p>The regulatory legal base is continuously updated, the necessary measures and anti-corruption procedures that promote the formation of an intolerant attitude towards corrupt behavior in the Company are carried out on a regular basis.</p> <p>In order to comply with the anti-corruption legislation of the Russian Federation, organizational and administrative documents on the conflict of interests were updated in the Company.</p> <p>Participation in three meetings of the working group, in one seminar-meeting on the advanced training program, in the meeting of the Central Commission of PJSC Rosseti for the observance of corporate ethics and conflict of interest, in the meeting at the end of the year, was taken jointly with representatives of the security department and countering corruption in PJSC Rosseti</p>
Participation in collective initiatives to combat and prevent corruption	<p>The results of the fourth stage of the special project of the Chamber of Commerce and Industry of the Russian Federation "Business Barometer of Corruption" were studied and used in the work; more than 40 thousand entrepreneurs from 85 regions of the country took part in the project</p>

For 2019, it is planned to approve and implement the annual anti-corruption plan, as well as to improve the mechanisms:

- risk management and internal control in the field of preventing and combating corruption;
- systems for identifying and resolving conflicts of interest;
- verification of information about the chain of ownership of counterparties;

CODE OF CORPORATE ETHICS AND OFFICIAL CONDUCT OF COMPANY EMPLOYEES

The Code of Corporate Ethics and Official Conduct of Employees of Kubanenergo PJSC (hereinafter referred to as the Code), approved by a decision of the Board of Directors of May 23, 2017 (Minutes No. 275/2017 dated 26.05.2017), is valid in the Company.

By Order No. 525 of May 26, 2017 "Concerning the implementation of the Code of Corporate Ethics and official conduct of Kubanenergo employees, all employees of the Company are familiar with the Code. The requirements of the provisions of the Code, norms and rules of professional ethics and internal corporate behavior are observed by the Company's employees in full.



KEY EVENTS OF THE COMPANY

2018

January

Sochinskiye electric networks provided a technological connection of a new kindergarten in the Loo settlement to the systems. The latest technologies and materials were used in technological connection during the construction of a transformer substation. In particular, there were used two power transformers of the latest generation with low noise, having a sealed enclosure, as well as environmentally friendly and safe equipment with hexafluorated sulfur insulation.

During the working visit to Sochi, Pavel Livinsky, General Director of PJSC Rosseti, conducted an unscheduled inspection of the Vereshchaginskaya and Bocharov Ruchei 110/10/6 kV substations. At the "Vereshchaginskaya" substation, he examined microchannel of the 110 kV cable-overhead lines "Vereshchaginskaya-Dagomys" and "Vereshchaginskaya-Alpiyskaya". The Head of PJSC Rosseti has noted a good level of operation of power facilities by the Sochi branch of Kubanenergo PJSC.

February

Krasnodarskiye electric networks completed the next stage of reconstruction of an important power supply center for Krasnodar – the 110 kV substation "Loris."

A delegation of Kubanenergo PJSC under the leadership of the Company's General Director, Gavrilov Alexander Ilyich, took part in the business program of the Russian Investment Forum, which took place from 15 to 16 February 2018 in Sochi. As a part of the participation in the forum, the General Director of Kubanenergo PJSC told the media about the Company's participation in state-scale projects, creating a modern and reliable energy infrastructure in the Krasnodar Territory and the Republic of Adygea.

March

Kubanenergo PJSC performed the maintenance of 17 substations in the power district Labinskiy. From the beginning of the year, employees of the Labinsk branch of Kubanenergo PJSC have carried out maintenance of 17 supply centers, providing electricity to consumers and more than a hundred objects of social importance in the settlements of Labinskoe, Kurganinskoe and Mostovskiy districts of the Krasnodar Region.

The alignment meeting was held at the Sochi branch of Kubanenergo PJSC, in which representatives of the public and business community were involved directly. Energy and the business community of Sochi discussed issues of technological connection.

122 thousand rubles damage was recovered by the plundering of electricity in the power district Labinskiy. In total, since the beginning of 2018, 43 cases of unauthorized consumption of electricity were detected in the power district Labinskiy during the energy raid activities. 33 acts on unaccounted consumption of electricity and 10 acts on consumers using electricity without a contract were drawn up with the recognition or their illegal actions.

On the day of the election of the President of the Russian Federation, March 18, 2018, specialists of Kubanenergo PJSC provided reliable power supply to more than 3 thousand polling stations during the election of the President of the Russian Federation in the Krasnodar Territory and the Republic of Adygea.

April

Chairman of the Krasnodar Territory Election Commission Alexey Chernenko thanked Kubanenergo PJSC for substantial assistance to the Krasnodar Territory election commissions in organizing and conducting the election of the President of the Russian Federation, which took place on March 18, 2018

Since the beginning of 2018, the specialists of the branch of Kubanenergo PJSC Labinskiye electric networks conducted a thermal imaging survey of 18 substations and six overhead transmission lines.

Exercises to work out the interaction in emergency response in the electric grid complex during the flood period were held in all branches of Kubanenergo PJSC. 1324 people and 363 units of equipment, as well as 44 backup power sources, were involved in the activities.

Awarding of the winners and prize-winners of the first stage of the All-Russian Olympiad of PJSC Rosseti School Students was held in the executive office of Kubanenergo PJSC, this stage was held in early April in Krasnodar based on Lyceum No. 48 named after them. A.V. Suvorov.

5 million rubles recovered from the plunderer of electricity in the Adygheyskiy power district. Since the beginning of 2018, violators have indemnified damage for 1.5 million kW • h to the amount of about 5 million rubles.

A delegation of Kubanenergo PJSC, under the leadership of the Company's Deputy General Director for Technical Issues, Chief Engineer Igor Shishigin, took part in the business program of the 4th All-Russian Week of Labor Protection held in Sochi from April 9 to 13, 2018 in the Main Media Center of the Olympic Park.

Kubanenergo PJSC team (Rosseti Group of Companies) won the mini-football tournament for the PJSC Rosseti Cup, which was held on April 13 of this year in Moscow at the Peschanaya stadium at the Sports School CSKA.

Specialists of the Adygea branch of Kubanenergo PJSC completed the repair of the 35 kV Kurskaya substation in the Giaginsky district.

In the Republic of Adygea there were summed up the results of the Republican competition "The best organization of labour safety" in 2017. The Adygheiskie Electric Networks, branch of Kubanenergo PJSC, took the third place in terms of scores for conditions and indicators of labor safety.

May

On May 25, 2018, the annual General Meeting of Shareholders of Kubanenergo PJSC was held in Krasnodar under the leadership of the Chairman of the Board of Directors of Kubanenergo PJSC, Chief Advisor to PJSC Rosseti Alexander Fadeev. The meeting summarized the production and financial activities of the Company in 2017.

The branch of Kubanenergo PJSC Ust-Labinskiye electric networks carried out a comprehensive repair of the substation "AGNKS" in the power district Ust-Labinskiy. In the course of the work, the branch specialists repaired the power transformers and short-circuit for power transformers, as well as performed maintenance of a sectional oil circuit breaker.

In settlement of Dolzhanskaya, Eiskiy district, the specialists of the Leningrad branch of Kubanenergo PJSC carried out a complete overhaul of 45 km of the Morevskaya – Urozhaynaya 35 kV overhead line with HVL branch line to the station Dolzhanskaya. Repair costs amounted to more than 3 million rubles.

Since the beginning of 2018, specialists of the South-Western branch of Kubanenergo PJSC have built 75 power facilities and introduced 3.37 MW of additional capacity for consumers in the preferential category of the suburbs of Novorossiysk, Anapa, Gelendzhik, as well as the Abinsk and Crimea districts of the region. About 55.7 million rubles was allocated for the construction of power facilities.

June

Specialists of Kubanenergo PJSC, at the request of the administration in Sochi, provided prompt assistance in eliminating technological disruptions on subscriber networks in the gardening partnerships Oasis, Funduchnoye, Russkaya Polyana, which are not included in the responsibility zone of Kubanenergo PJSC.

Specialists of the South-Western branch of Kubanenergo PJSC completed the overhaul of the equipment of the 110 kV Dzhiginskaya substation. The high-voltage substation provides electricity to residential consumers and dozens of social facilities in suburban settlements of Anapa.

The specialists of the Labinsk branch of Kubanenergo PJSC completed the overhaul of the equipment of the substations Rodnikovskaya, Andreedmitrievskaya and Zassovskaya. Energy facilities provide electricity to households and 15 social facilities in a number of settlements of Krasnodar.

Since 2016, the Adygea branch of Kubanenergo PJSC has installed over 18.5 thousand innovative electricity metering devices with the remote transmission of information.

The Armavir branch of Kubanenergo PJSC fixed new indicators for identifying damage sites on high-voltage transmission lines in Armavir. The introduction of the latest technical devices facilitates the rapid detection of defects and reduce the time of emergency restoration work.

The maintenance gangs of the Krasnodar branch of Kubanenergo PJSC completed the overhaul of the overhead transmission line 35 kV "Severnaya – Voengorodok", with increased throughput in the result.

Specialists of Kubanenergo PJSC held the energy charge intellectual game for the participants of the thematic "#Vmeste-Yarche" educational session at the Orlyonok All-Russian Children's Center.

July

In the Timashevskiy district of the Krasnodar Territory, specialists of the Kubanenergo Timashevsk branch completed a major overhaul of the high-voltage 110 kV "APK-Sadovod" line with a length of over 10 km. The works carried out by Kubanenergo specialists will increase the level of reliability of the power supply in this energy area and reduce the risk of technological disruptions.

Power engineers have resumed the power supply to the victims of the hail of the village. The Kubanenergo crews have restored the energy supply of the village of Novokorsunskaya, which suffered the most from a strong hail.



August

According to the results of the regional stage of the All-Russian competition of mass media, press services of fuel and energy companies and regional administrations "Media TEK-2018", Kubanenergo's PR projects took first place in the nominations "The best press service of the regional Company TEK", "Popularization of occupations of the fuel and energy complex" and "Safe Energy".

Specialists of Kubanenergo PJSC successfully completed all the activities and completed participation in the All-Russian exercises in the Republic of Dagestan. The solemn closing ceremony, during which the management and specialists of Kubanenergo were awarded diplomas and thanks on behalf of the leadership of the republic and PJSC Rosseti held in the city of Makhachkala.

The review-competition of teams of Kubanenergo student energy groups was held on August 15–16, 2018 in the city of Krasnodar, on the basis of the training area of the Energy Advanced Training Institute of Kubanenergo PJSC.

According to the results of participation in the All-Russian competition of professional skills of personnel for repair and maintenance of overhead transmission lines 110 kV in Nizhnevartovsk, the team of Kubanenergo PJSC took the honorable third place.

On August 10, 2018, in Krasnodar, on the open corporate championship of professional skill of PJSC Rosseti, the Young Professionals were selected and awarded according to the WorldSkills grades.

September

In Kubanenergo PJSC, extensive exercises were launched to prepare the power grid complex for operation in the autumn-winter period. Activities, held in the exercise framework will be primarily located in the foothills and mountain areas of the Krasnodar region and the Adygea Republic, within the operational area of responsibility of the Company.

The national team of Kubanenergo PJSC won the silver medal in swimming competition among the teams of the Rosseti Group of Companies, which took place in the city of Saratov, 12-14 of September 2018.

Oktober

On October 25, the "Illuminated Country" Portal of the Rosseti Group of Companies began work in a test mode in the regions of responsibility of Kubanenergo PJSC.

Kubanenergo specialists provided the supply of electricity to the populated areas of the Tuapse, affected by the rampant. About 250 specialists in 44 crews, as well as more than 80 pieces of equipment, including all-terrain vehicles, and emergency power supply sources were involved in emergency recovery work.

Employees of the branch of Kubanenergo PJSC Slavyanskiye electric networks revealed a violation in the electricity metering scheme at the building materials plant in the village of Taman, Temryuk District, as a result of which over 1.4 million kWh of electricity worth over 9.7 million rubles was consumed without an account.

The students' team Kubanenergo – named "Kuban Energy" became the bronze medalist of the creative festival of student groups of the Rosseti Group of Companies.

The PR service of Kubanenergo PJSC was awarded two awards at the same time as a result of participation in the IV All-Russian competition of mass media, press services of fuel and energy companies and regional administrations MediaTEK-2018.



November

Kubanenergo crews have promptly eliminated local technological disturbances in the suburbs of Novorossiysk, caused by gale-force winds with gusts up to 35-38 m/s, precipitation and ice.

Kubanenergo PJSC has confirmed the readiness to pass the maximum load of the autumn-winter period of 2018–2019. The decision of readiness of the electric power engineering entities was confirmed by the order of the Ministry of Energy of Russia dated 14.11.2018, No. 1031 "Concerning the results of the readiness rating of electric power engineering entities to work during the heating season 2018-2019".

Kubanenergo specialists are among the top three participants in two professional competencies in the V National Championship, WorldSkills Hi-Tech 2018, of the cross-industry professions in high-tech industries.



December

General Director of Kubanenergo PJSC, Gavrilov Alexander Ilyich, reported to the Deputy Minister of Energy of the Russian Federation Andrei Cherezov about the onset of the final stage in the construction of a new power center – the 220 kV Port substation, which the Company is building on the Taman Peninsula.

2019

January

Pavel Livinsky, Director General of PJSC Rosseti, inspected the completion of construction of a new power center on the Taman Peninsula – Substation "Port" 220 kV and OTL 220-110-35-10 kV during a working visit to the Krasnodar Territory.

February

On the eve of the Day of the Fatherland Defender, the meeting under the slogan "Military duty – is honor and destiny" was held within the framework of military-patriotic activity and continuity of generations with the active support of the trade union organization in the Krasnodar branch of Kubanenergo PJSC.

A seminar-meeting for representatives of small and medium-sized businesses was held at the branch of Kubanenergo PJSC Armavirskiye electric networks. At this meeting, the energy sector and the business community discussed the issues of technological connection to power grids, as well as the obligations and responsibilities of consumers in case of failure to complete the process connection procedure.

In 2018, specialists of the Krasnodar branch of Kubanenergo PJSC had identified 50 Internet resources offering services for the sale of "charged" electricity metering devices.

Deputy General Director – Chief Engineer of PJSC Rosseti Andrey Mayorov, conducted an unscheduled check at the substation "Yuzhnaya" 110/10/6 kV during his working visit to Sochi. This power center, in particular, provides power supply infrastructure facilities involved in the Russian Investment Forum, which takes place in Sochi.

As a part of his participation in the Russian Investment Forum in Sochi, General Director of Kubanenergo PJSC, Gavrilov Alexander Ilyich, told to journalists about the results of the development of the regional power grid complex in 2018

Kubanenergo PJSC will create a digital network in the Krasnodar Territory. The question is about a digital substation based on the basis of the existing 110 kV substation in Tuapse, installing reclosers (automatic control devices) in the Lazarevsky district of Sochi, and also continuing the construction of fiber-optic communication lines. In addition, it is planned to build a new digital substation in the Sochinskiy Power District.

March



March 18, 2019 – President of the Russian Federation, Vladimir Putin, solemnly opened the substation "Port" for 220 kV – strategically important object for Krasnodar region in terms of developing the investment potential of the region – on the fifth anniversary of signing of the Treaty on the entry of the Republic of Crimea to the Russian Federation in the videoconferencing mode. At the command of the President, the Director General of Rosseti PJSC, Pavel Livinsky, pressed the start button. The General Director of Kubanenergo PJSC, Alexander Gavrilov, and the corporate personnel attended the grand opening ceremony.

Investments in the creation of new energy infrastructure on the Taman Peninsula (construction of a substation and line facilities) amounted to more than 7.69 billion rubles.

The substation will provide traction for the Crimean Bridge railway and will supply electricity to the dry cargo part of the Taman seaport, as well as highways, in particular, the M25 Novorossiysk – Kerch Strait. The "Port" substation will also power all the industrial facilities under construction on the Taman Peninsula. The substation has no analogs throughout the south of Russia for its technical characteristics. It is equipped with modern high-tech equipment and based on digital technologies. The project has a high social and economic significance for the Krasnodar Territory in general.