

ANNUAL REPORT 2017

MANAGING THE ENERGY

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Information on the Report

GRI 102-45

This Annual Report describes the performance of PJSC IDGC of the North-West (hereinafter – “the Company”) and its subsidiaries and affiliates. The Report contains production and financial results, as well as certain aspects of the Company's performance in sustainable development (GRI Standards) for 2017.

GRI 102-48

The Report was prepared in compliance with the regulators' requirements and documents regarding information disclosure, namely:

- ▶ the requirement of the Central Bank of the Russian Federation for joint stock companies' annual reports information disclosure;
- ▶ the requirement of PJSC Moscow Exchange for annual reports information disclosure;
- ▶ the Corporate Governance Code recommended by the Central Bank of the Russian Federation;
- ▶ the requirement of PJSC Rosseti for preparation of the subsidiaries' reporting.

The Report was compiled using the Sustainability Reporting Guidelines of GRI Standards.

The Report was based on the 2017 financial statements of PJSC IDGC of the North-West prepared according to the Russian Accounting Standards and the International Financial Reporting Standards.

The scope of information disclosed in the Annual Report is congruent with the scope of the IFRS consolidated reporting.

There were no changes in the scope of the Report, restatements, or modifications in comparable data against the previous reports.

The Annual Report of PJSC IDGC of the North-West was provisionally adopted by the Board of Directors on 03 May, 2018 (Minutes No. 279/34) and submitted for consideration of the Annual General Shareholders' Meeting on 07 June, 2018.

The presentation version of the Annual Report differs from the one provisionally adopted by the Board of Directors in the scope of information disclosed.

The complete version of the 2017 Annual Report is available at the Company's web site:
<http://www.mrsksevzap.ru/shareholdersmeetinginfo>



The interactive version of the Annual Report of PJSC IDGC of the North-West is available at:
<http://www.mrsksevzap17.downstream.ru>

THE PREPARATION PROCESS

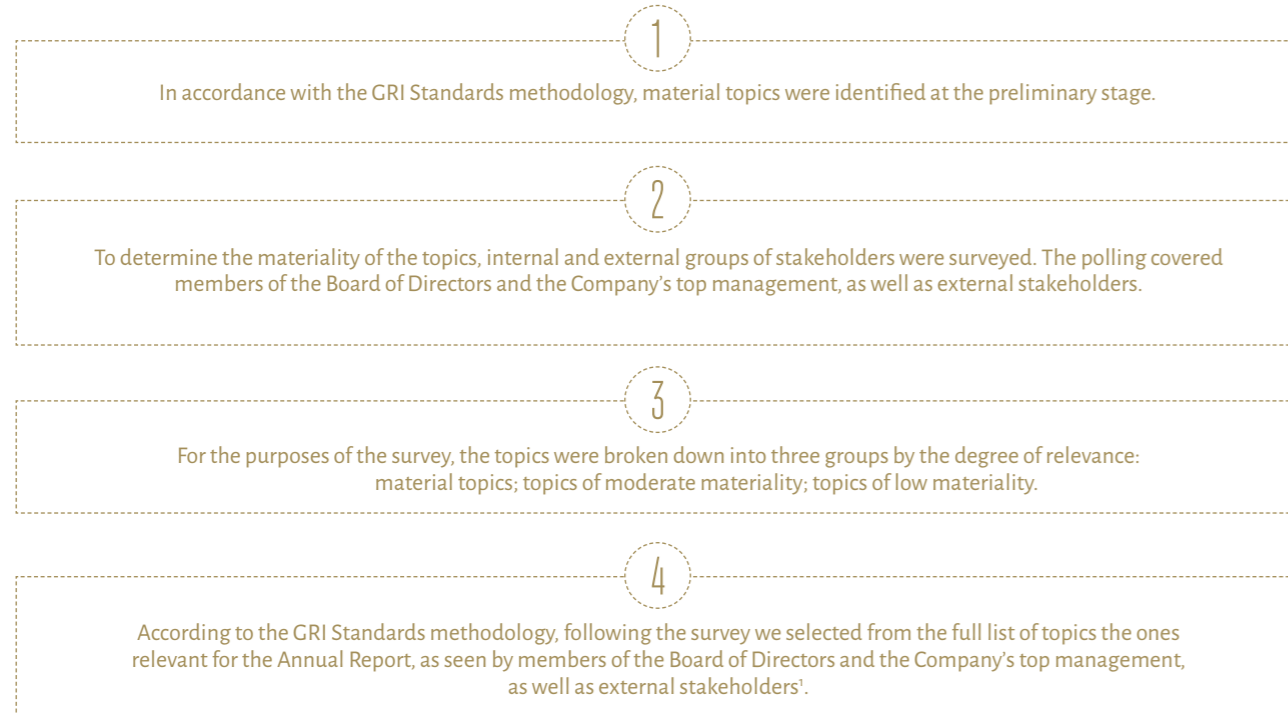
GRI 102-49

Changes in the reporting approach

The key difference is the transition to the GRI Standards reporting methodology. As in 2016, the Electric Utilities Sector Supplement was used to account for sector-specific issues.

GRI 102-46
GRI 102-47

The procedure for determining materiality



Material topics under the GRI methodology

1. The "economic" category

- 1.1. Economic performance
- 1.2. Market presence
- 1.3. Indirect economic impact
- 1.4. Procurement practice
- 1.5. Anti-corruption
- 1.6. Anti-competitive behaviour and compliance with the antimonopoly legislation

2. The "environmental" category

- 2.1. Raw and other materials
- 2.2. Energy efficiency
- 2.3. Water
- 2.4. Biodiversity
- 2.5. Emissions
- 2.6. Effluents and waste disposal
- 2.7. Compliance with standards
- 2.8. Environmental assessment of suppliers

3. The "social" category

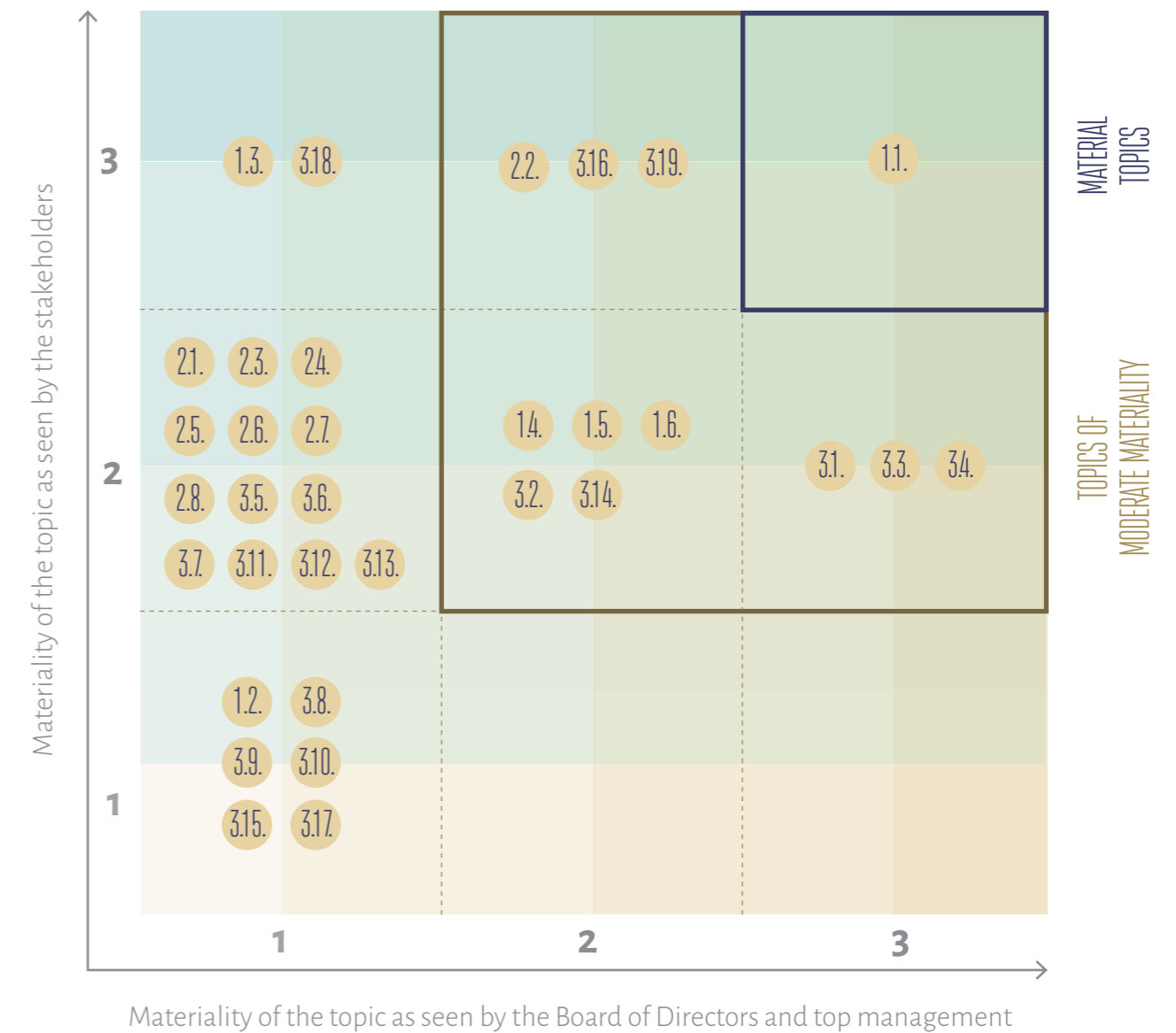
- 3.1. Employment
- 3.2. Management-staff relations
- 3.3. Occupational health and safety
- 3.4. Training and education
- 3.5. Diversity and equal opportunities
- 3.6. Non-discrimination
- 3.7. Freedom of association and collective contracts
- 3.8. Child labour
- 3.9. Compulsory labour
- 3.10. Safety practices
- 3.11. Rights of indigenous and small peoples
- 3.12. Human rights compliance
- 3.13. Local communities
- 3.14. Assessment of the impact made by the Group's suppliers on the Society
- 3.15. Politics
- 3.16. Consumer health and safety
- 3.17. Product labelling
- 3.18. Consumer privacy
- 3.19. Compliance with the law

STRATEGIC
REPORT

SUSTAINABLE
DEVELOPMENT REPORT

CORPORATE
GOVERNANCE REPORT

Materiality matrix



The Report primarily focuses on disclosing the information related to material topics. An overview of moderate materiality topics is also provided. Topics of low materiality are tackled occasionally, as these aspects are irrelevant in the opinion of the Board of Directors and the top management, as well as key external stakeholders of the Company².

¹ We received the total of 11 questionnaires from the Board of Directors and the IDGC of the North-West top management, and 8 questionnaires from external stakeholders.

² Detailed information on the key topics of interaction with the Company stakeholders is provided in the section "Sustainable development performance report – Major groups of stakeholders and interaction with them".

MANAGING ENERGY, WE CREATE FAVOURABLE CONDITIONS
FOR THE DEVELOPMENT OF THE POWER GRIDS AND
INCREASE THE POWER GRID INFRASTRUCTURE AVAILABILITY
FOR INDIVIDUALS AND BUSINESSES

47.9 RUB
BN

the revenue of IDGC of
the North-West under IFRS in 2017
(+ 5% against 2016)

24 THOUS.
PCS

the number of technological
connection contracts completed
(+ 9.1% against 2016)

6.07 %

one of the best indicators
of power losses
in the industry

1,305 KM

length of the commissioned
power lines
(+ 15.4% against 2016)

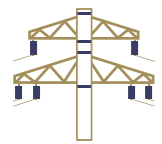
01

STRATEGIC
REPORT

COMPANY OVERVIEW

GRI 102-2

CORE ACTIVITIES



Electric power transmission services



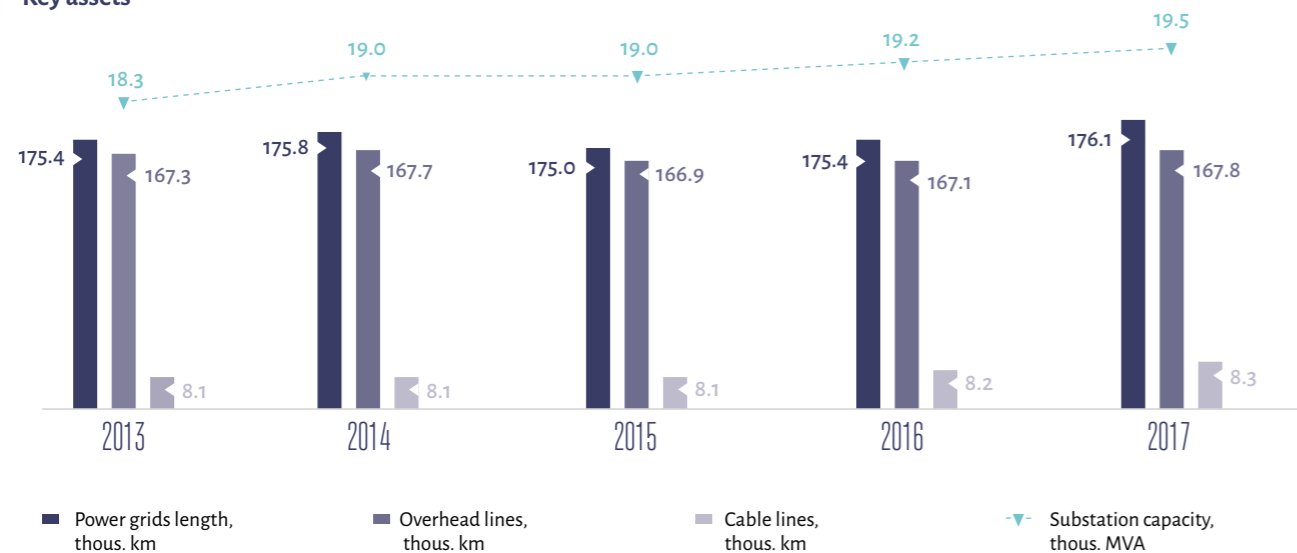
Technological connection services

We cover the territory of seven regions of the Russian Federation with the total area of 1,409,726 sq.km (8.23% of the Russian territory), the population of about 6 m people (4% of Russia) and approximately 4% of the country's gross domestic product.

8,23% of the Russian territory / **4%** of the Russian population / **4%** of the Russian gross domestic product

GRI EV4

Key assets



IDGC of the North-West is a leading power grid company in the North-western Federal District of Russia.

GRI 102-1

The Company is a natural monopoly controlled and regulated by the state authorities.

The Company was founded in 2004 due to the reform in the Russian electric power industry. PJSC IDGC of the North-West became one of the fourteen interregional power grid companies. A key feature of its business is stable consumer demand in the regions where it operates. The Company's principal shareholder is PJSC Rosseti (55.38%).

Share price trends



Stock ticker

MRKZ

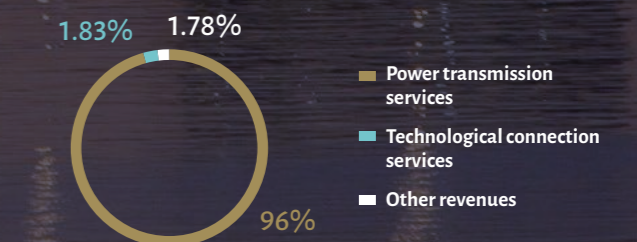
Ordinary share price as of the year end, RUB	0.052
Market capitalisation as of the year end, RUB bn	4.9
Free float Share price trends	30%

The bulk of our revenue is generated by power transmission tariffs, which are established by the state – regional regulatory bodies – subject to resolutions of the Federal Antimonopoly Service of Russia.

Our key consumers include the general public, industrial companies, governmental and social facilities.

Revenue under RAS

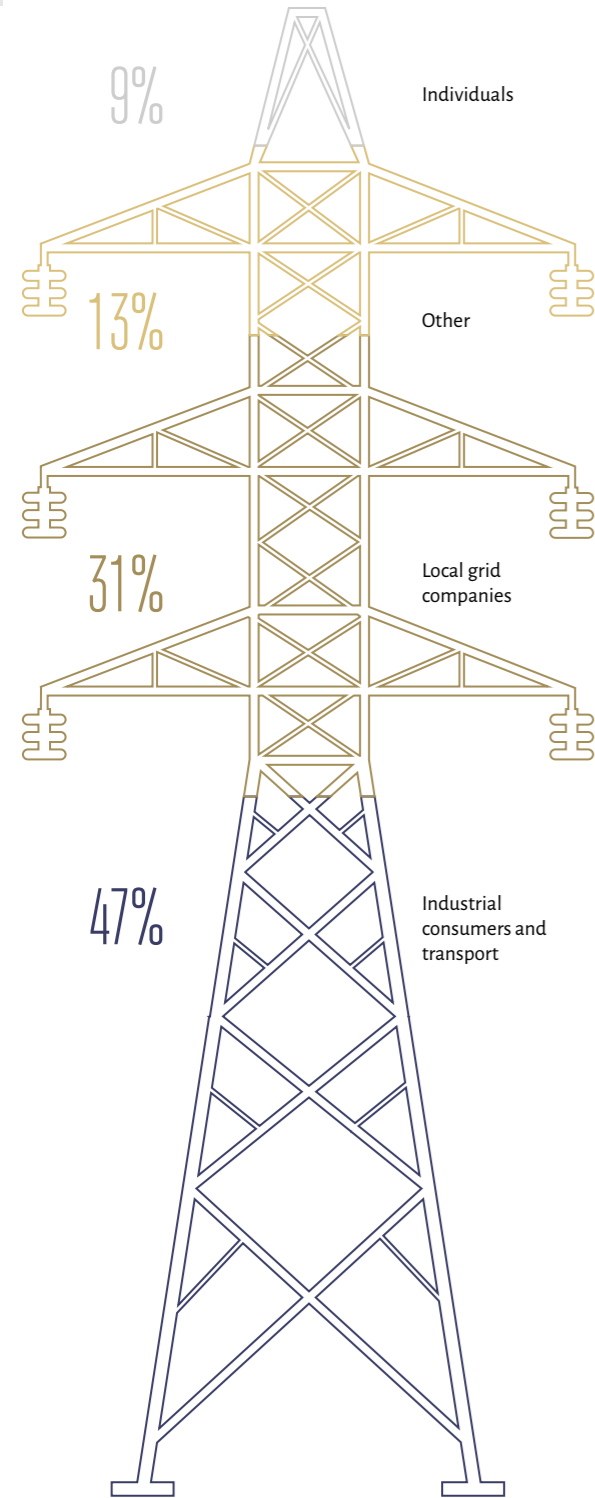
GRI 102-7



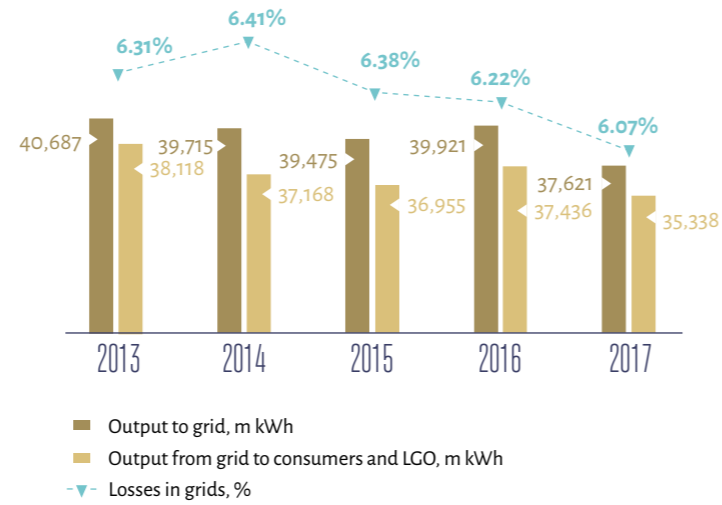
KEY PERFORMANCE INDICATORS

GRI EU12
GRI EU3

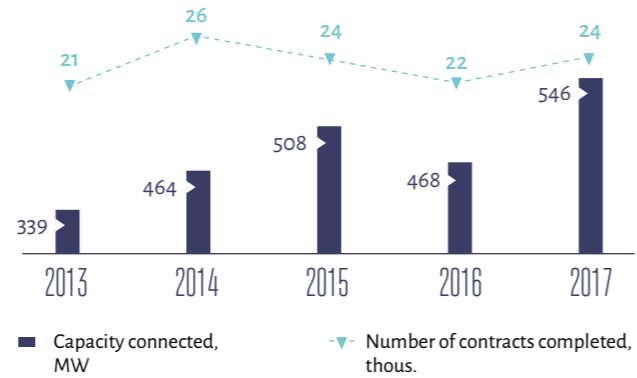
Power supply breakdown



Power output

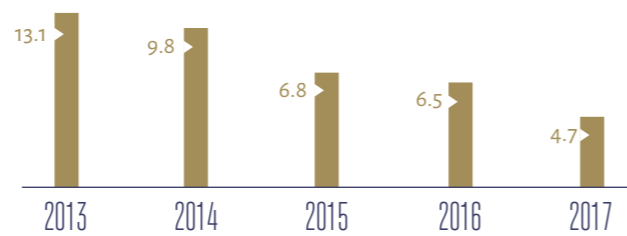


Technological connection



In 2017, the number of technological connection contracts completed exceeded the 2016 level by almost 9.1%.

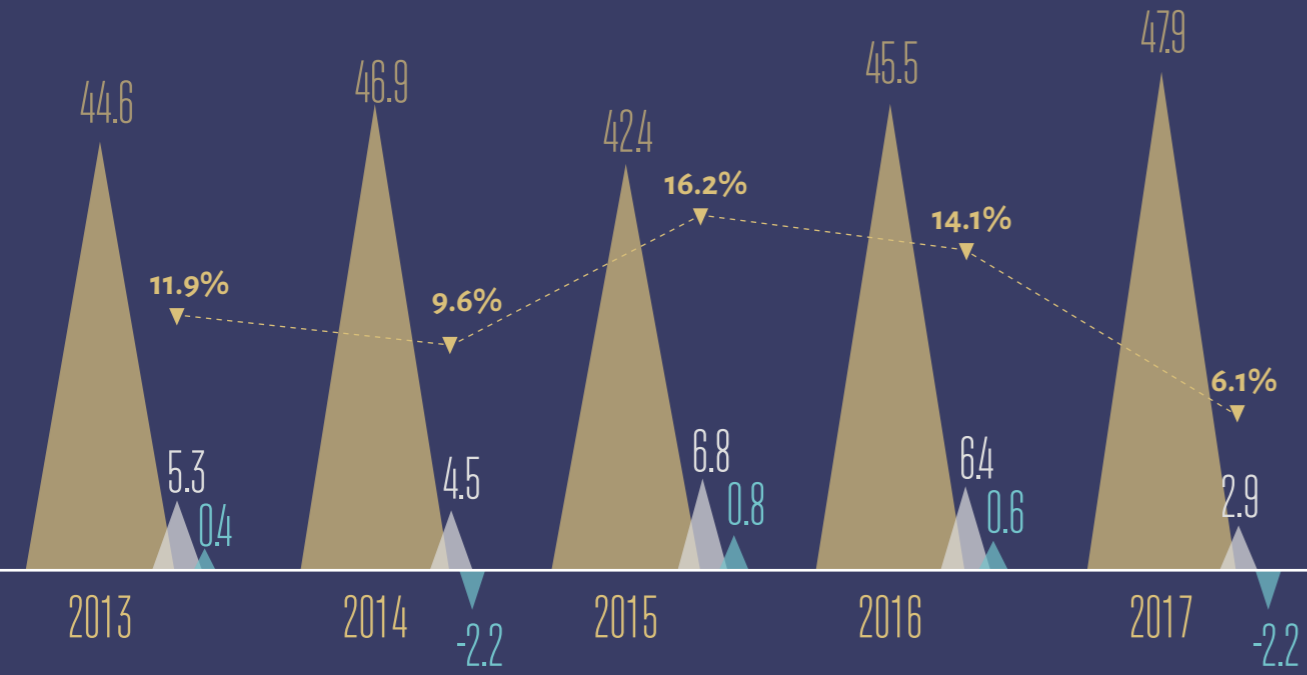
Accident rate per unit



The accident rate per unit was reduced by 27.7% in 2017.



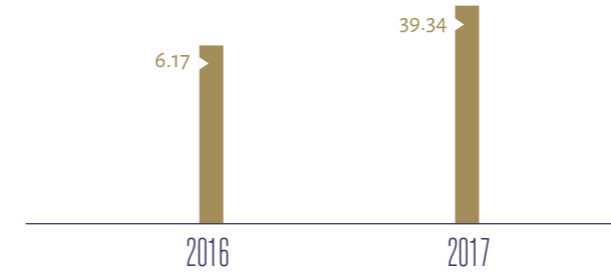
Revenue, EBITDA, net profit under IFRS



▲ Revenue, RUB bn
▲ EBITDA, RUB bn
▲ Net profit, RUB bn
▼ EBITDA margin

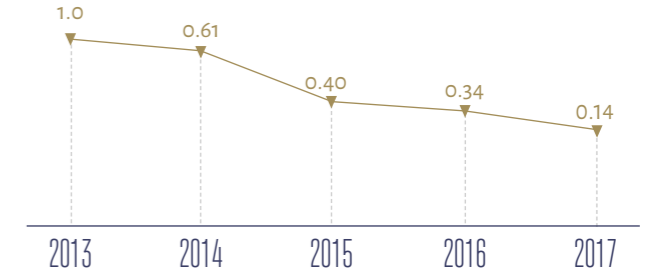
At year end, the Company made a loss of 2.2 RUB bn, due to the creation of bad debt provision.

Research and development expenses, RUB m



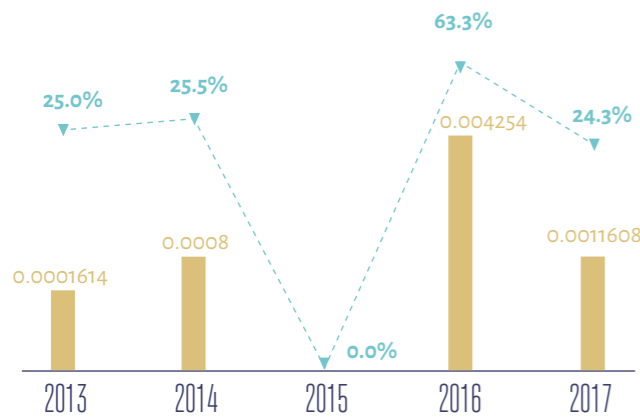
The share of R&D costs in the Company's own revenue was 0.22% in 2017, which is 9 p.p. more than the target value (0.13%).

Total injury frequency, rate



In 2017, the Company managed to reduce the occupational injury rate by 40%.

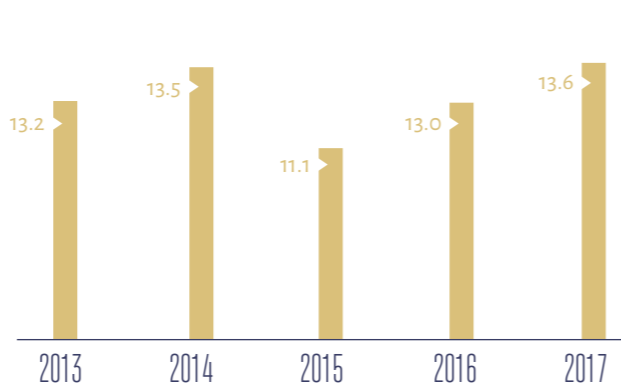
Dividend history



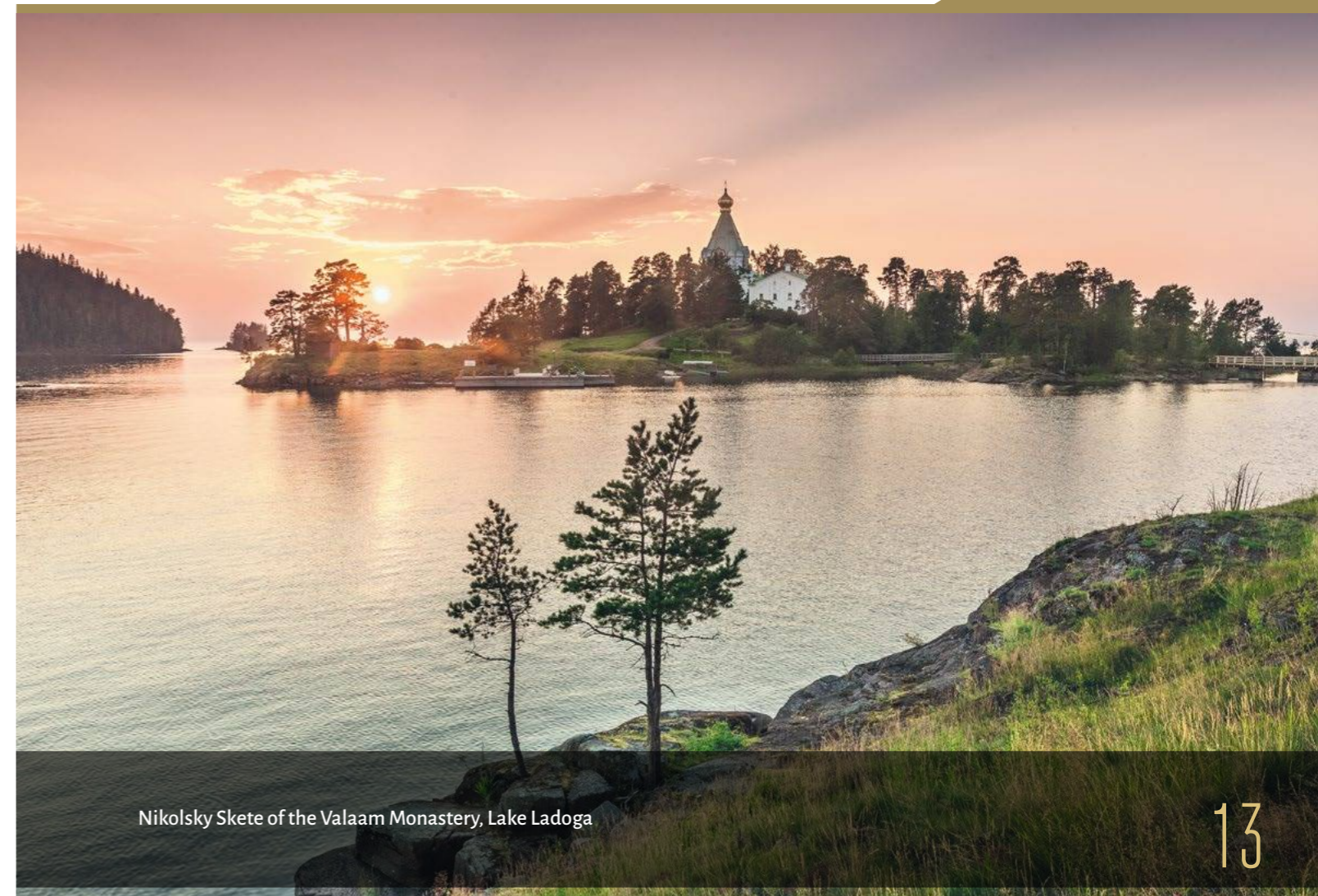
■ Dividends per ordinary share, RUB
▼ RAS to dividends payment for the year 2016.

In 2017, the Company allocated 24.34% of its net profit to dividends payment for the year 2016.

Environment protection expenses and investments, RUB m



Environment protection investments spending increased in 2017 by 4.7% to reach RUB 13.6 m. It ensures compliance of the Company's production facilities with the requirements of the Russian legislation, standards and regulations of environmental management, protection and safety.



Nikolsky Skete of the Valaam Monastery, Lake Ladoga

ADDRESS

BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

DEAR SHAREHOLDERS, PARTNERS AND COLLEAGUES,

In 2017, the Company's Board of Directors and management remained focused on the Company development, corporate governance enhancement, maintenance of the balance between the Company's and the shareholders' interests.



Strategy implementation

The Company's strategic priorities are to create the conditions for the electric grid development and to enhance the grid infrastructure availability for individuals and businesses. In the reporting year, particular attention was paid to reliability of power supply to consumers, including maintenance of the required technical level of the electric grid facilities considering the necessity to update them and optimise the operation and maintenance costs.

To boost the efficiency of operations and to perform new tasks, the Company adopted a number of internal documents and programmes restating its development priorities. Thus, the Board of Directors adopted PJSC Rosseti's guidelines "On the Unified Technical Policy in the Electric Grid System" as the Company's internal document; approved the Company's Innovative Development Programme up to 2025 and the Programme of Upgrade (Renewal) of the Power Grid Facilities of PJSC IDGC of the North-West for 2017-2026; adjusted the Plan of Developing the System of Production Facilities Management for 2016-2018.

Implementation of the above documents aims at ensuring the short-term and long-term power grid system development on the basis of innovative techniques and technologies, due to occupational and environmental safety, and reversing the tendencies of fixed assets obsolescence and depreciation of asset ownership.

Sustainable development

The sustainable development goals showing a responsible approach to economic, environmental and social issues, as well as building effective relations with all stakeholders, are viewed by the Company as a component of its development strategy.

In order to preserve a favourable environment for the current and the future generations, in late 2017, the Board of Directors approved PJSC Rosseti's Environmental Policy as an internal document and adopted the Plan of the Environmental Policy Implementation of the PJSC IDGC of the North-West for 2017-2019.

In 2017, the Board of Directors supported applications made by several non-profit organisations for charity contributions, approved the Company's financial participation in a variety of social projects, including the creation of the children's science park "Kvantorium" in Veliky Novgorod, renovation of historical monuments, organisation of international sports competitions etc.

Corporate governance

The Company keeps developing the practice of corporate governance in line with the Corporate Governance Code recommended by the Central Bank of Russia. In February 2018, the Company's Board of Directors adopted a new dividend policy, which stipulates that no less than 50% of the net profit registered in the financial reporting (including IFRS) should be allocated to dividends.

New versions of the internal documents regulating the Company management bodies' activities take into account the legislative changes and aim to raise the level of the corporate governance at PJSC IDGC of the North-West, specifically the performance of the Board of Directors.

To maintain the growth in the Company shareholders involvement, create comfortable conditions for them to exercise

their rights, increase the Company information availability, PJSC IDGC of the North-West provides an opportunity for the Company shareholders to gain free access to the function "Shareholder's personal account". Starting from the General Shareholders' Meeting of 2018, it enables the shareholders to gain remote access to the documents relevant to the agenda, to vote, to apply to the Company's executives for comments on the issues on the agenda of the General Shareholders' Meeting.

The Company's success in corporate governance improvement was reflected in the confirmation of the A++ rating ("Top quality of corporate governance"), first attributed to IDGC of the North-West in 2015.

Objectives for 2018

The key priorities of IDGC of the North-West in 2018 remain ensuring the Company's stability and efficiency, improving the quality of corporate governance focusing on boosting financial efficiency and company-shareholder interaction, guaranteeing stable power supply to consumers, as well as increasing the efficiency of the Board of Directors, eventually to result in growing investment potential of the Company. We have all the necessary resources for that, including the trust and support of key stakeholders.

Sincerely,

Yu.N. Mangarov,

Chairman of the Board of Directors of
PJSC IDGC of the North-West

ADDRESS

BY THE DIRECTOR GENERAL

DEAR SHAREHOLDERS,

In 2017, PJSC IDGC of the North-West fulfilled all its major tasks and continued the steady development of the energy system to ensure reliable and seamless power supply to seven regions of the Russian Federation within its area of responsibility.



Reliable power supply

In 2017, PJSC IDGC of the North-West implemented all the measures it had planned to maintain the operating condition of the power grid facilities, to respond to the autumn and winter seasonal challenges successfully and to ensure reliable power supply to consumers. Over ten thousand kilometres of power transmission lines and approximately three thousand switching devices were overhauled; 16.5 thousand hectares of overhead line routes were cleared. The total costs of such measures amounted to approximately 3.8 RUB bn.

Production results

The core business of the Company has always been electric power transmission services. In 2017, the power output amounted to 35.33 bn kWh, which is 5.61% less year on year. Such reduction was due to the termination of the lease agreements for the Unified National Power Grid (UNPG) facilities of the last mile.

At the same time, upgrade of the electric power metering system, introduction of a single customer base, use of advanced technologies in operating power metering devices and a number of other measures enabled us to reach the level of power losses of 6.07%. This result is one of the best achievements today among the electric grid industry companies. The total power losses reduced year on year by 201 m kWh in absolute terms.

The Company continued rendering the services of connecting new consumers to the electric grids of PJSC IDGC of the North-West. The number of technological connection contracts completed in 2017 was 24 thousand, which is 9.1% higher than that in 2016. The ratio of completed contracts to signed ones was 1.07, which reflects the trend of accumulated obligations reduction. Overall, the capacity connected in 2017 amounted to 546 MW, exceeding the results of the previous year by 14.3%.

Financial performance

According to the IFRS, the revenue of PJSC IDGC of the North-West Group amounted to RUB 47.9 bn in 2017, including: electric power transmission services – RUB 39.6 bn, power sales – RUB 6.7 bn, technological connection services – RUB 810 m. The total year-on-year revenue growth was RUB 2.3 bn (5%), which is due to the growth in power transmission services tariffs.

The management focused in 2017 on decreasing consumer accounts receivable. Measures taken by the Company throughout 2017 resulted in the settlement of overdue accounts receivable in the amount of RUB 12.5 bn, and the collection rate of the transmission services payments was 102% of the billed amounts. Nevertheless, December 2017 saw an event considerable affecting the net profits. PJSC Arkhangel'skaya Sbytovaya Kompaniya, which had an outstanding debt to IDGC of the North-West in the amount of RUB 3.27 bn, was deprived of the status of wholesale electric power and capacity supplier and underwent bankruptcy proceedings. Creating bad debt provision regarding this company became a key reason for the loss in the amount of RUB 2.2 bn incurred by the Company in the reporting period. Moreover, provisions were made for doubtful debts of unreliable debtors under power supply contracts, as well as those of JSC Shakhta Inta Ugol, LLC Vodokanal, and LLC Setevaya Kompaniya Tesla.

Investment projects

In the reporting year, we have been committed to boosting the efficiency of investment activities in the regions of our operations and to creating the conditions whereby investment funds would be allocated only to the projects highly beneficial for the regions. The amount of investment in the power system development in the regions of PJSC IDGC of the North-West operations was RUB 5.9 bn, which enabled us to improve the reliability of the equipment, and ensure technological connection of new consumers to the grids. We put into operation 1,305 kilometres of power transmission lines with the voltage of 0.4-110 kV and 415 MVA of new transformer capacity.

In 2017, several priority projects were implemented: completion of OL-110 kV to SS Verkhovye in the Komi Republic, launch of OL-110 kV between SS 110 kV No. 283 Zavelichye and SS 330 kV Velikoretskaya in the Pskov Region, renovation of SS 35 kV Iskra with its transition to 110 kV voltage class and construction of SS 110/35/10 kV Yuzhnaya in the Vologda Region.

Innovations

A major focus of the Company is implementation of the innovative development programme. Thus, in 2017, a crucial step was made in this area – the first digital substation in the North-western Federal District, SS 110kV Yuzhnaya was built in the Zashchekskiy District of Cherepovets. The project was implemented in line with the digital grid concept, using the next-generation system of automated protection and substation control. The Company launched the implementation of the pilot "Digital power distribution zone" in the Valday and Borovichi areas. Specifically, the first stage of grid upgrade was completed: installation of the distributed automated control systems and implementation of the new operational and informational system at the dispatch control centre of the Valday power distribution zone, smart record-keeping system is introduced.

Within these projects, we aim to test the innovative technologies in the field of power transmission and distribution grid management for

their further deployment throughout the operations area of PJSC IDGC of the North-West.

Implementation of the innovative development programme will serve to increase the reliability of power supply, cut operating costs and exercise remote control of the power facilities.

Personnel

Professional expertise of our employees is the foundation of reliable power system operation. PJSC IDGC of the North-West has been constantly striving to ensure most comfortable working and living conditions for the staff. The Company implements the programme of continuous learning and vocational training, a talent pool is formed and updated. In accordance with the standards of the Industry Rates Agreement in the Russian electric power industry and the effective Collective Agreement, in the reporting period the social policy expenses grew, due to an increase in the minimal monthly wage rate.

The Company's measures implemented in 2017 enabled us to reduce occupational injuries by 40% and improve labour efficiency by 8% against 2016.

Territorial development

In cooperation with ANO Strategic Partnership North-West, regional authorities, with the support of the Russian president's envoy to the North-western Federal District, the Company continued to hold power industry investment conferences, where investors meet energy companies to discuss effective and mutually beneficial solutions in the fields of technological connection and optimisation of the power infrastructure use. Throughout the year, six regional conferences were held, 66 agreements with investors were signed. The prospective capacity for connection amounted to over 122 MW. In July 2017, at the Interregional Energy Conference in St.Petersburg, which was held at the federal level for the first time, the Company signed six agreements with the total capacity of over 340 MW.

Prospects

Nowadays, the Company employees are facing not only the tasks of reliable and seamless power supply to consumers, but also the crucial drive towards modernisation and improving the performance of the power system in the Company's footprint. Therefore, a priority area for PJSC IDGC of the North-West in 2018 is to become implementation of the innovative projects within the strategy of power grids digitalisation up to 2030, which is expected to enhance the Company's production and financial performance to a great extent.

Sincerely,

A.V.Letyagin,

Director General of
PJSC IDGC of the North-West

GEOGRAPHICAL FOOTPRINT

Murmansk Region

144.9 Area of the region (sq.m)
758 Population (thous. persons)
18 Regions development level rating³

Murmansk
+ 3.5%

⚡ 6,309
⚡ 5,383
🌐 75%
👤 8%

Arkhangelsk Region

413.1 Area of the region (sq.m)
1,166 Population (thous. persons)
23 Regions development level rating³

Arkhangelsk
- 0.1%

⚡ 22,499
⚡ 3,444
🌐 75%
👤 20%

Republic of Karelia

180.5 Area of the region (sq.m)
627 Population (thous. persons)
45 Regions development level rating³

⚡ 11,919
⚡ 1,835
🌐 55%
👤 9%

Petrozavodsk
+ 0.2%

⚡ 26,509
⚡ 2,217
🌐 72%
👤 16%

Republic of Komi

416.8 Area of the region (sq.m)
851 Population (thous. persons)
50 Regions development level rating³

Syktvykar
+ 0.1%

Saint Petersburg

Saint Petersburg
2%

⚡ 39,386
⚡ 2,544
🌐 71%
👤 19%

Vologda
+ 2.1%

Pskov Region

55.4 Area of the region (sq.m)
642 Population (thous. persons)
53 Regions development level rating³

Pskov
+ 0.7%

⚡ 45,689
⚡ 2,100
🌐 98%
👤 15%

Veliky Novgorod
- 1.2%

⚡ 23,754
⚡ 2,014
🌐 75%
👤 11%

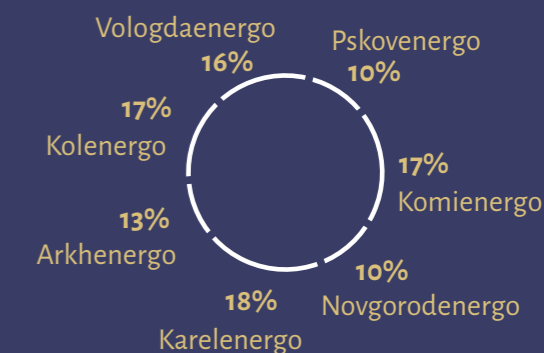
Novgorod Region

54.5 Area of the region (sq.m)
613 Population (thous. persons)
38 Regions development level rating³

Vologda Region

144.5 Area of the region (sq.m)
1,184 Population (thous. persons)
41 Regions development level rating³

INCOME BY REGION⁵



³ <http://www.profile.ru/economics/item/122912-zamorozhennaya-strana>

⁴ The share of the branches in the power transmission services market in 2017 (according to NGP)

⁵ The share of the branches' revenues in the total Company revenue

BUSINESS MODEL

CAPITALS

FINANCIAL

▶ EQUITY CAPITAL	RUB 18,2 BN
▶ BORROWED CAPITAL	RUB 14,3 BN

PRODUCTION

▶ OVERHEAD POWER LINES	1678 THOUS. KM
▶ CABLE POWER LINES	8,3 THOUS. KM
▶ SUBSTATIONS (>35 KV)	1,172 PCS.

HUMAN

▶ AVERAGE HEADCOUNT	14,661 PERS.
▶ WITH PROFESSIONAL EDUCATION	85,6 %

INTELLECTUAL

▶ INTANGIBLE ASSETS	RUB 28,3 M
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NATURAL

▶ OPERATIONS AREA	1,4 M SQ. KM
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STRATEGIC PRIORITIES

SHAREHOLDERS' INTERESTS

- ▶ Profit-making
- ▶ Capitalisation growth

COMPETITIVE PERFORMANCE INTERESTS

- ▶ Ensuring safe and reliable high-quality power supply to consumers, ongoing quality improvement and increasing availability of services
- ▶ Energy efficiency, increasing level of environmental safety, and mitigation of environmental impact
- ▶ Prevention of any growth in the number of occupational injuries
- ▶ Efficient performance of staff

DEVELOPMENT INTERESTS

- ▶ Development of a single management model (based on unified approaches, methodologies and principles) across business processes to the level of power distribution zones
- ▶ Building an efficient system of the Company's resources use
- ▶ Efficient investment activities

COMPETITIVE STRENGTHS

- ▶ HIGH LEVEL OF power supply reliability
- ▶ INCREASED LABOUR efficiency
- ▶ LOW LEVEL OF Power losses
- ▶ STABLE GROWTH in financial performance⁶
- ▶ GROWTH in capacity connected

2017 RESULTS

CAPITAL EXPANSION

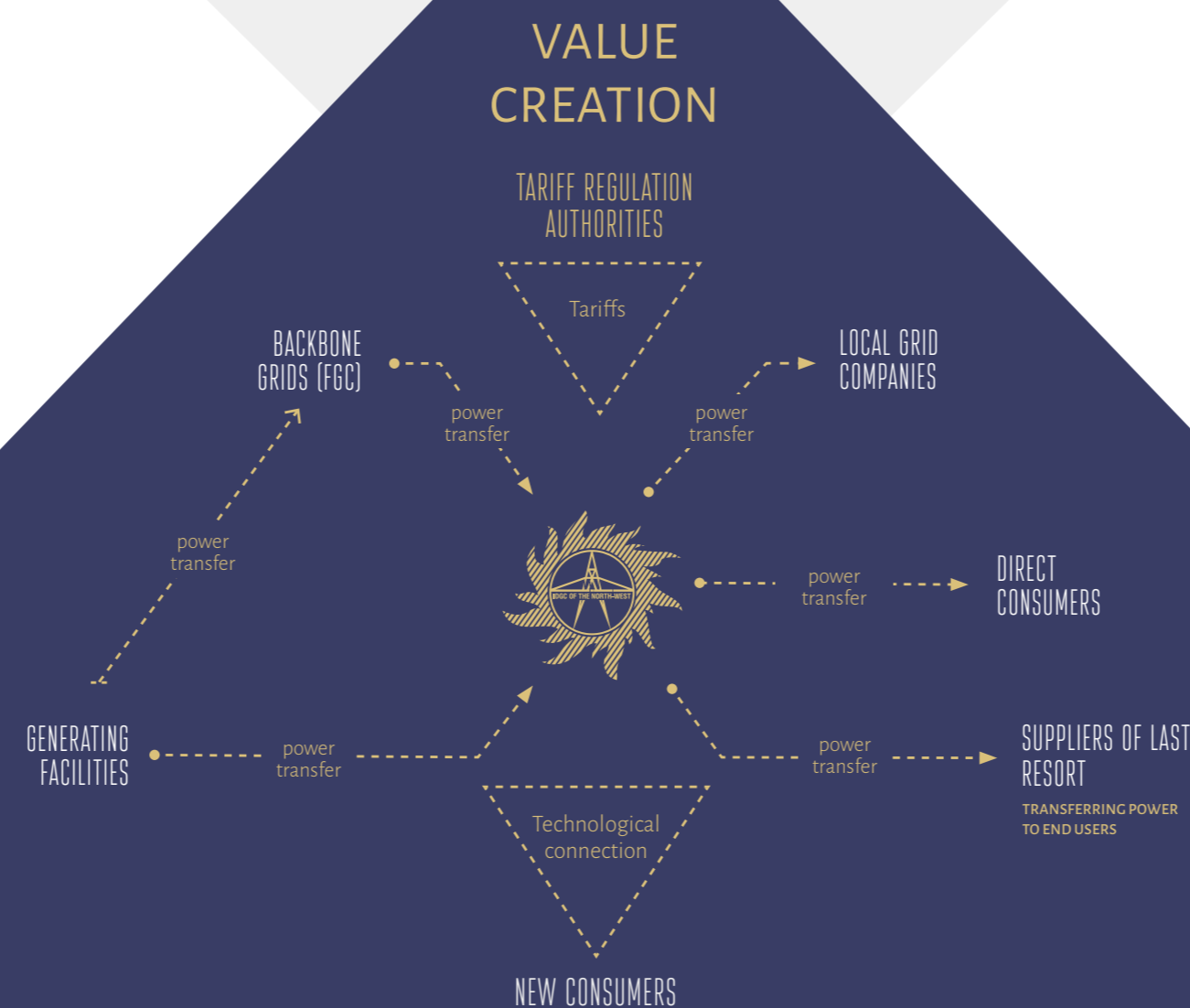
- ▶ POWER LINES PUT IN OPERATION **↑ 15.8% by 2016** 1,305 KM
- ▶ TECHNOLOGICAL CONNECTION CONTRACTS COMPLETED **↑ 9.1% by 2016** 24 THOUS.

VALUE CREATION

- ▶ **FOR CONSUMERS:** PRODUCTIVE POWER SUPPLY FROM THE GRID 35,3 M KWH
- ▶ **FOR SHAREHOLDERS:** DIVIDENDS FOR 2016 RUB 111,2 M
- ▶ **FOR THE STATE:** TAX PAYMENTS RUB 5,2 BN
INSURANCE DEDUCTIONS RUB 2,5 BN
- ▶ **FOR EMPLOYEES:** REMUNERATION OF LABOUR RUB 8,9 BN

SUSTAINABLE DEVELOPMENT

- ▶ INCREASE IN LABOUR EFFICIENCY 8%
- ▶ EMPLOYEES ENJOYED VARIOUS FORMS OF TRAINING IN 2017 8,379 PERS.
- ▶ ALLOCATED TO ENVIRONMENTAL PROTECTION **↑ 4.5% by 2016** RUB 13,6 M
- ▶ WASTE REDUCTION 9,9 %



⁶ Net of the bad debt provision for accounts receivable from PJSC Arkhangelskaya Sbytovaya Kompaniya.

HISTORICAL BACKGROUND

CHANGES IN THE COMPANY'S BUSINESS CONFIGURATION

THE STATUS OF THE SUPPLIER OF LAST RESORT WAS AWARDED

Since 1 January, 2018, PJSC IDGC of the North-West has gained the status of the electric power supplier of last resort in the Arkhangelsk Region (the operations area of PJSC Arkhenergosbyt) by Order of the Russian Ministry of Energy No. 1202 of 22 December, 2017.

ON 23 DECEMBER, 2004

Under the Russian energy industry reform, Open Joint-Stock Company Interregional Distribution Grid Company of the North-West (OJSC IDGC of the North-West) was founded.

SINCE 1 APRIL, 2008

The Company has been operating in the current configuration, including seven branches – Arkhenergo, Vologdaenergo, Karelenergo, Kolenergo, Komienergo, Novgorodenergo, Pskovenergo.

ON 29 MAY, 2008

Ordinary shares of OJSC IDGC of the North-West were admitted to trading on the MICEX stock exchange. In December 2008, the Company was listed at MICEX.

ON 3 JULY, 2015

The Company's legal name was changed to Public Joint-Stock Company Interregional Distribution Grid Company of the North-West (PJSC IDGC of the North-West).

ON 31 JANUARY, 2017

As part of the listing reform, the Company's shares were transferred to Level 2 of MICEX.

For more details on the Company's history see the official web site of the Company: <http://www.mrsksevzap.ru/abouthistory>

2017 HIGHLIGHTS

01 PRODUCTION ACTIVITIES

THE COMPANY GAVE EFFECT TO AN UPDATED TECHNICAL POLICY

MAY

By Order No.331 of PJSC IDGC of the North-West dated 18 May, 2017 the Company brought into force the updated Regulation on the Unified Technical Policy in the Power Grid System. As a result, key priorities for the technical development of the Company's power grids were formulated and adjusted, including technical specifications for the introduction of "digital substations" and "composite towers" technologies in line with the national projects implementation objectives.

POWER GRID ASSETS CONSOLIDATION

APRIL – MAY

To implement the Agreement for Cooperation with the Murmansk Region Government, Kolenergo branch rented 28 km of power lines and 10 transformer substations providing power supply to residents of Zarechensk and Kovdozero, Kandalaksha District of the Murmansk Region, as well as 40 km of power lines in the Tersky District.

DECEMBER

To implement the Agreement for Cooperation with the Republic of Karelia Government, Karelenergo branch rented 35 km of power lines and 3 transformer substations providing power supply to residents of the Belomorsky District of Karelia.



05 HOLDING REGIONAL INVESTMENT CONFERENCES IN THE ENERGY INDUSTRY

JUNE

In 2017, in cooperation with ANO Strategic Partnership North-West, regional authorities, with the support of the Russian president's envoy to the North-western Federal District, the Company continued to hold regional power industry investment conferences. Over the year, six regional conferences were held, 66 agreements with investors were signed. The prospective capacity for connection amounted to over 122 MW.

JULY

the event was held at the federal level for the first time. Within the framework of the Interregional Energy Conference in St.Petersburg, the Company signed six agreements with the total prospective capacity of over 340 MW.

06 SUSTAINABLE DEVELOPMENT

IDGC OF THE NORTH-WEST PROVIDED POWER SUPPLY TO THE SAMI VILLAGE – AN ETHNOGRAPHIC CENTRE IN THE MURMANSK REGION

MARCH

The Company performed technological connection to the power grid for the Sami Sytt neighbourhood community of the Sami indigenous minority near Lovozero of the Murmansk Region, meeting its paramount need for reliable power supply.

YEAR OF THE ENVIRONMENT

SEPTEMBER

In 2017, within the framework of the Russian Year of the Environment, PJSC IDGC of the North-West implemented a host of activities aimed to draw the public attention to the issues of environmental protection, eco-friendly development of the regions and energy efficiency.

02 INNOVATIVE DEVELOPMENT

DIGITAL SUBSTATION WAS LAUNCHED IN THE VOLOGDA REGION

DECEMBER

Vologdaenergo branch launches digital SS 110/35/10 kV Yuzhnaya in the Zashkenskiiy District of Cherepovets. It is one of the innovative national projects, providing for the installation of the iSAS automated protection and management system (next-generation digital substation), which enables the Company to increase the reliability of power supply, cut operating costs and exercise remote control and monitoring.

"DIGITAL POWER DISTRIBUTION ZONE" PROJECT IMPLEMENTED IN THE NOVGOROD REGION

DECEMBER

Valday power grids of Novgorodenergo branch launched the first stage of the science and technology initiative Energynet – digital power grids zone based on the "smart grid" technologies ("Digital power distribution zone"). It is designed to enhance the reliability and quality of the consumer power supply.

03 CORPORATE GOVERNANCE

NOVEMBER

The 2016 Annual Report of IDGC of the North-West received two MarCom Awards.

MARCOM AWARDS

DECEMBER

RAEX rating agency confirmed the corporate governance rating of PJSC IDGC of the North-West as A++-GQ – Top-level governance quality.

RAEX ЭКСПЕРТ РА

07 EVENTS AFTER THE REPORTING DATE

FREE ACCESS TO THE "SHAREHOLDER'S PERSONAL ACCOUNT"

JANUARY 2018

The Company provided its shareholders with free access to the function "Shareholder's personal account" based on the registrar's web site (<http://www.rrost.ru/ru/shareholder/online-services/personal-cabinet>). The personal account offers 24-7 access to information on the number and value of the shares they own, dividends accrued and paid, as well as enables remote participation in the General Shareholders' Meeting via the Internet etc.

NEW DIVIDEND POLICY

FEBRUARY 2018

The Company Board of Directors adopted a new dividend policy, which stipulates that no less than 50% of the net profit registered in the financial reporting (including IFRS) should be allocated to dividends.

04 INVESTMENT PROJECTS

SEPTEMBER

Komienergo branch launched OL-110 kV to SS Verkhovye for technological connection of oil production facilities of the Yaregskoye oil and titanium field.

September. Pskovenergo branch launched OL-110 kV between SS 110 kV No. 283 Zavelichye and SS 330 kV Velikoretskaya, for technological connection and implementation of compensatory measures to ensure reliable functioning of the North-West UES in case the Baltic energy systems are disconnected from the Russian UES.

DECEMBER

Vologdaenergo branch launched SS 110/35/10 Ermakovo (Iskra) including power transformers with the total capacity of 50 MVA.



08 FUTURE DEVELOPMENT

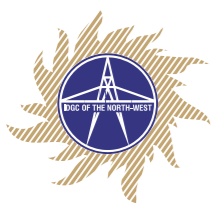
In the period of 2017–2025, the Company is to implement 26 priority investment projects in seven regions of its operations with the total value of RUB 13.8 bn including VAT.

Within the framework of the long-term investment programme for 2018–2025, the Company intends to launch the total of 4,655 km of power lines and over 1,166 MVA of substation capacity. The investment programme financing is planned as RUB 22.2 bn including VAT.

STRUCTURE

Since 1 January, 2018, PJSC IDGC of the North-West has gained the status of the supplier of last resort in the Arkhangelsk Region by Order of the Russian Ministry of Energy No. 1202 of 22 December, 2017.

EXECUTIVE BODIES	ARKHENERGO Arkhangelsk Region	VOLOGDAENERGO Vologda Region	KARELENERGO Republic of Karelia	KOLENERGO Murmansk Region	KOMIENERGO Republic of Komi	NOVGORODENERGO Novgorod Region	PSKOVENERGO Pskov Region
Average headcount 326 PERSONS	Average headcount 2,297 PERSONS	Average headcount 2,765 PERSONS	Average headcount 1,389 PERSONS	Average headcount 1,166 PERSONS	Average headcount 2,888 PERSONS	Average headcount 1,559 PERSONS	Average headcount 2,271 PERSONS
Substations capacity 2,217 MVA	Substations capacity 2,544 MVA	Substations capacity 1,835 MVA	Substations capacity 5,383 MVA	Substations capacity 3,444 MVA	Substations capacity 2,014 MVA	Substations capacity 2,100 MVA	Substations capacity
Power lines length 26.5 THOUS. KM	Power lines length 39.4 THOUS. KM	Power lines length 11.9 THOUS. KM	Power lines length 6.3 THOUS. KM	Power lines length 22.5 THOUS. KM	Power lines length 23.8 THOUS. KM	Power lines length 45.7 THOUS. KM	Power lines length



INTERREGIONAL DISTRIBUTION GRID COMPANY OF THE NORTH-WEST

BRANCHES

SUBSIDIARIES

The Group includes seven regional branches, as well as four subsidiaries. The Company participates in 12 entities operating in various industries⁷.

POWER SALES

OJSC PSKOVENERGOAGENT

Pskov Region

SHARE OF PARTICIPATION	CORE BUSINESS	REVENUE RUB
100%	Agent's services for consumer payment collection	312,792 THOUS.

OJSC PSKOVENERGOSBYT

Pskov Region

SHARE OF PARTICIPATION	CORE BUSINESS	REVENUE RUB
100%	Power sales	7,273,501 THOUS.

ENERGY SERVICE

OJSC ENERGOSERVICE OF THE NORTH-WEST

Leningrad Region

SHARE OF PARTICIPATION	CORE BUSINESS	REVENUE RUB
100%	Power metering services	15,043 THOUS.

OTHER ACTIVITIES

OJSC LESNAYA SKAZKA

Republic of Karelia

SHARE OF PARTICIPATION	CORE BUSINESS	REVENUE RUB
98%	Health and recreation	In 2017, the subsidiary did not render any services.

⁷ Detailed information on the PJSC IDGC of the North-West's participation in the entities is shown in Annex 16 to the Annual Report: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

INDUSTRY SITUATION, COMPETITIVE REVIEW

Macroeconomic performance in 2017 and the 2018-2020 outlook

According to the Russian Federal State Statistics Service, GDP increased in 2017 by 1.5%. Domestic demand was a source of economic recovery in 2017.

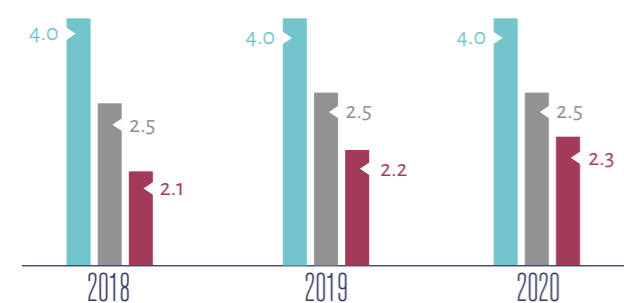
Baseline forecast of the Russian Ministry of Economic Development suggests that in 2018 the GDP growth rate will amount to 2.1%, to reach 2.2% in 2019 and 2.3% in 2020.

In the late 2017, industrial production exerted a negative impact on the economic growth trends. Thus the 1.8% year-on-year growth of industrial production in January – September was followed by its decrease by 1.7% year on year in the fourth quarter of 2017. As a result, the indicator's 2017 year-end increase (+1.0% year on year) turned out poorer than expected. In the mid-term, in 2018-2020, the Russian Ministry of Economic Development projects annual growth in industrial production in the amount of 2.5%.

Inflation (CPI) in December of the reporting year was 2.5% against 5.4% in the previous December, and the average price growth was 3.7% in 2017 (against 7.1% in 2016). Thus, 2017 saw the minimum inflation rate in the whole post-Soviet period, which was significantly lower than the benchmark set at 4.0%.

The Russian Ministry of Economic Development estimates that the annual CPI growth is to remain at the level of 4.0% in 2018-2020.

Baseline scenario of the Forecast for the Social and Economic Development of the Russian Federation in 2018 and the planning period of 2019 and 2020

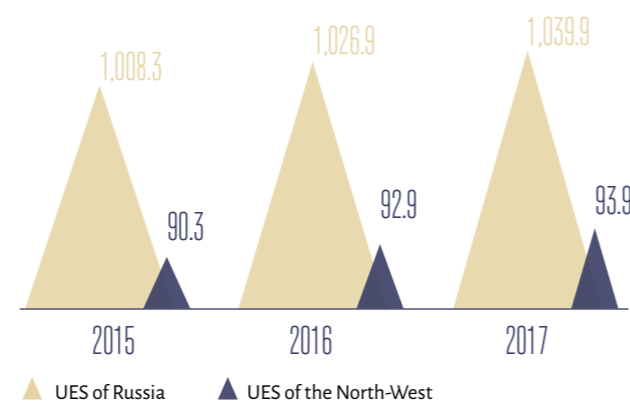


■ Consumer price index at year-end, %
■ Industrial production index, %
■ GDP growth rate, %

Industry electric power consumption

According to the JSC System Operator of the United Power System, the total Russian power consumption was 1,039.9 bn kWh in 2017, which is 1.3% more year on year (1,026.9 bn kWh in 2016). In the North-West UES, power consumption grew as well in 2017 – by 1.1% (93.9 bn kWh) year on year (92.9 bn kWh in 2016).

Electric power consumption dynamics, bn kWh

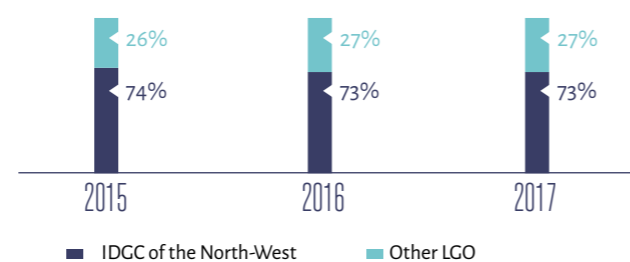


Market position of the Company

PJSC IDGC of the North-West operates in seven North-Western regions of the Russian Federation, being the largest grid company in the area.

The Company's core business is electric power transmission. In accordance with the decision of the Federal Tariff Service of Russia (Order No.191-E dated 3 June, 2008), PJSC IDGC of the North-West was included under No.47.1.116 in the register of natural power transmission monopolies. The Company's share in the power transmission market within its footprint totals approximately 73%, including the power partially transferred through the grids of the local grid operators (LGOs) – payees.

Power transmission market share (by necessary gross proceeds (NGP))*



■ IDGC of the North-West ■ Other LGO

Competitive environment

To estimate the investment attractiveness of the PJSC IDGC of the North-West shares at the stock market, the Company is usually compared to other IDGCs, though those companies are essentially not competitors, moreover, they are all subsidiaries to PJSC Rosseti.

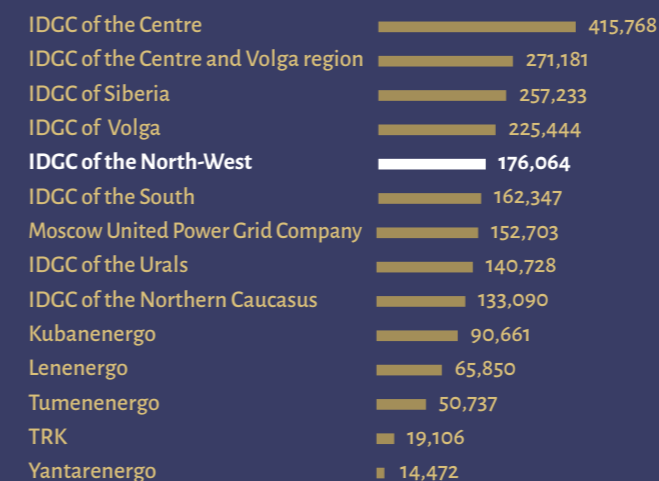
In terms of its assets and volume of services provided, PJSC IDGC of the North-West has average values among the subsidiaries of PJSC Rosseti, which makes it a sectoral "benchmark" among other IDGCs regarding the positive and negative effects of the given regulatory system. At the same time, the Company is among the best IDGCs in the industry by the amount of power losses, which is due to upgrade

of the electric power metering system, introduction of a single customer base, provision of data communication devices to electricians and a number of other measures. Moreover, the Company shows consistent reduction of the System Average Interruption Duration Index (SAIDI), System Average Interruption Frequency Index (SAIFI).

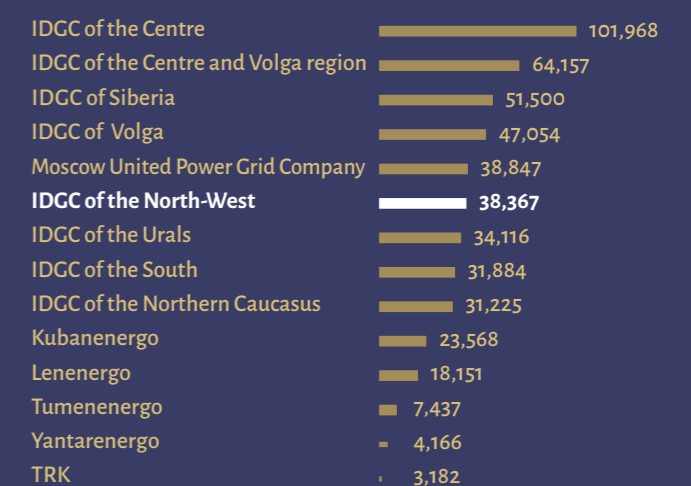
PJSC IDGC of the North-West paid dividends for the years 2015-2016. As a result, the dividend yield in 2015-2016 amounted to 15.1% and 2.5%⁸. According to the business plan of the Company, it expects stable positive dynamics of the net profit in the period before 2022.



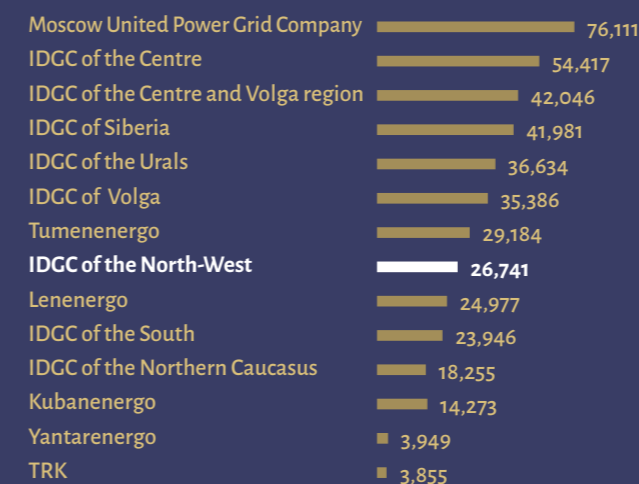
Length of power lines, km



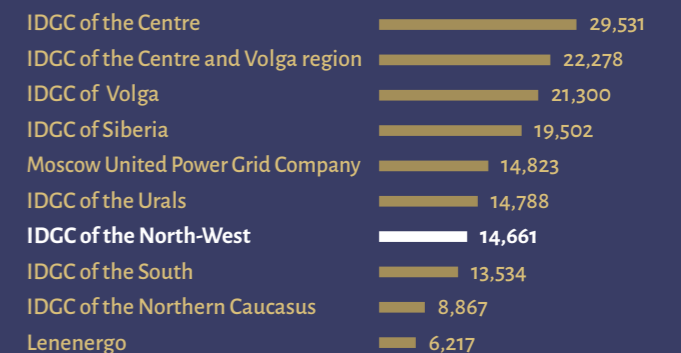
Substation and transformer station, units



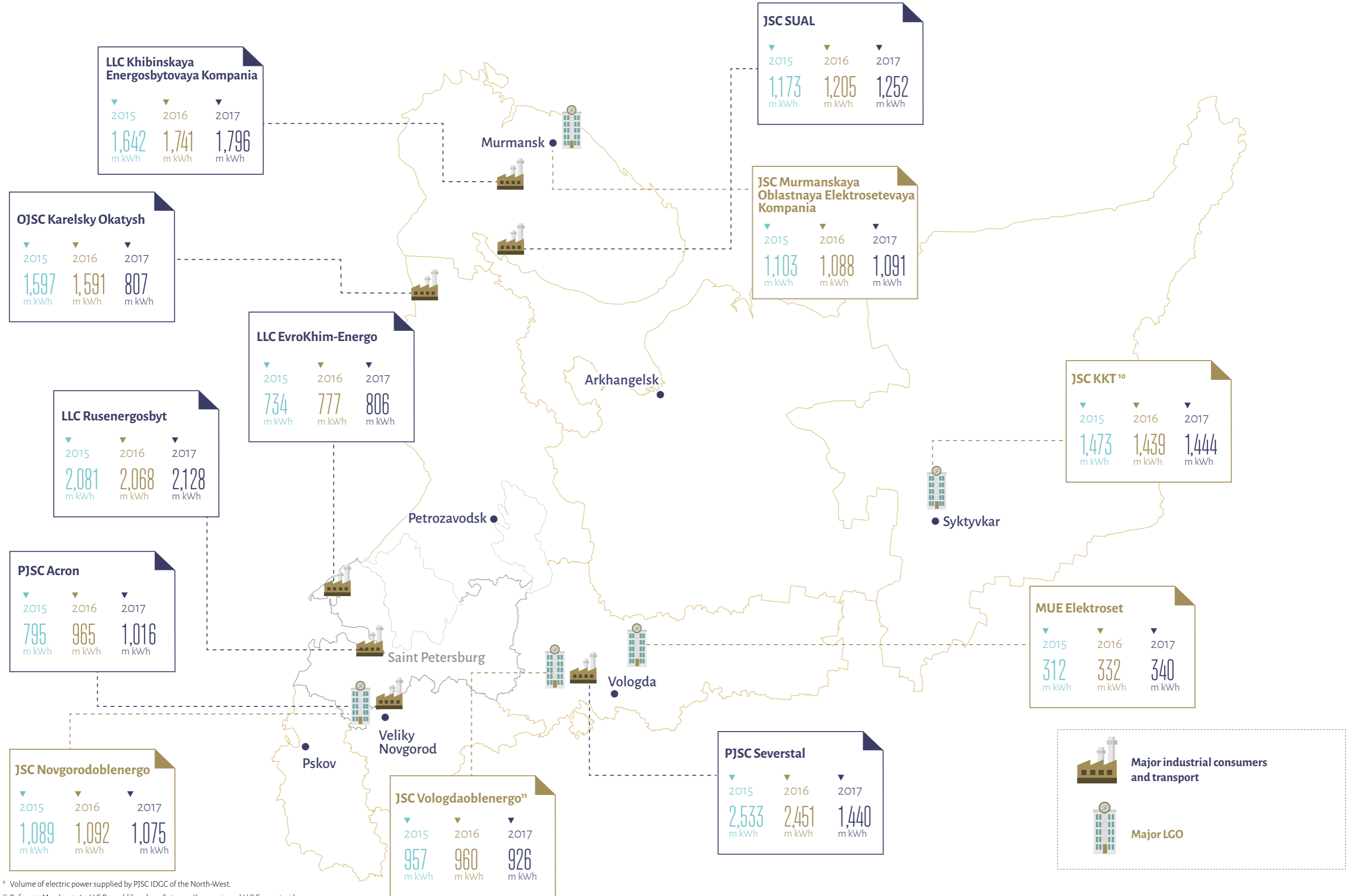
Transformer capacity, MVA



Average headcount, persons



MAJOR INDUSTRIAL CONSUMERS AND TRANSPORT⁹



⁹ Volume of electric power supplied by PJSC IDGC of the North-West.

¹⁰ Before 01 March, 2016 – LLC Respublikanskaya Setevaya Kompania and LLC Energot Reid.

¹¹ Before 25 March, 2016 – JSC Vologodskaya Oblastnaya Energeticheskaya Kompania.

STRATEGIC DEVELOPMENT GUIDELINES

THE MISSION:

The mission of PJSC IDGC of the North-West is to ensure reliable and uninterrupted power supply to consumers, stable income for shareholders through efficient management of the distribution grid system on the basis of unified strategic approaches to business.

The Company's development policy is based on the Development **Strategy of the Electric Grid System of the Russian Federation** approved by Order of the Russian Government No.511-r dated 3 April, 2013.

The key tasks of the state policy in the electric grid management are as follows:

- ▶ **development of economic methods** to boost power grid organizations' performance;
- ▶ **ensuring appropriate conditions** to stabilise tariffs;
- ▶ **attraction of new capital** to the power grid sector in the amount sufficient for modernisation and renovation of grids and maintenance of high power supply reliability.

The power grid system development strategy defines the following targets for electric grid companies:

- ▶ **higher power supply reliability and quality** to meet consumers' needs;
- ▶ **improved power supply safety**, including reduction in the total number of accidents;
- ▶ **improved efficiency** of the power grid system.

PJSC IDGC of the North-West pursues a comprehensive policy to ensure effective interaction with the regional and federal governmental authorities.

In 2017, a number of agreements were concluded between PJSC Rosseti and regional administrations in the responsibility area of PJSC IDGC of the North-West. The documents cover:

long-term prospects and aim to ensure reliable and seamless consumer power supply

implementation of the targeted programme of reduced-price technological connection

support of regional manufacturers of electric equipment and materials

digital power sector projects

The parties cooperate on the development of the regions' investment potential, consolidation of the power grid system, implementation of the long-term tariff policy aimed at modernisation and efficiency improvement of the power grid infrastructure.

The top-priority strategic development areas of PJSC IDGC of the North-West are based on the requirements of comprehensive industry and corporate regulatory documents, such as:

- ▶ the Energy Strategy of Russia;
- ▶ the Development Strategy of the Russian Electric Grid System;
- ▶ the Innovative Development, Energy Saving and Energy Efficiency Policy of PJSC Rosseti;
- ▶ the Quality Policy of PJSC IDGC of the North-West;
- ▶ the Environmental Policy of PJSC IDGC of the North-West.

STRATEGIC PRIORITIES

- ▶ Profit-making
- ▶ Ensuring reliable, high-quality and safe power supply to consumers, as well as continuous improvement of the quality and availability of services
- ▶ Energy efficiency, increasing level of environmental safety, and mitigation of environmental impact
- ▶ Prevention of an increase in the number of accident victims
- ▶ Efficient performance of staff
- ▶ Development of a single management model (based on unified approaches, methodologies and principles) across business processes to the level of power distribution zones
- ▶ Building an efficient system of the Company's resources use
- ▶ Efficient investment activities

TOP-LEVEL TARGETS

- ▶ Profit earning in an amount exceeding the 2017 business plan targets by 20%
- ▶ Absence of group accidents and (or) fatal accidents involving the Company's personnel where the fault of the Company's officials is found upon investigation
- ▶ Labour efficiency of at least 80.47 conventional units per person
- ▶ Twofold increase in disposed non-core assets compared to 2016 (from 7 assets to at least 14)
- ▶ Level of payment for the power transmission services provided – at least 100% of the revenue for December 2016 – November 2017
- ▶ Investments in the development of advanced production technologies (subject to the Innovative Development Programme) and management practices – at least 3.5% under the investment programme Company

KPIs

- ▶ Consolidated operating profit (EBITDA)
- ▶ Consolidated net debt/EBITDA
- ▶ Consolidated net cash flow
- ▶ Implementation of the plan to reduce the Company's accounts receivable
- ▶ No growth in the number of major accidents
- ▶ Reaching the reliability level of the services rendered
- ▶ Meeting the technological connection deadlines
- ▶ Decrease in unit operating expenses (costs)
- ▶ Increase in the power grid equipment capacity utilisation
- ▶ No growth in the number of accident victims
- ▶ Labour efficiency improvement
- ▶ Compliance with the commissioning schedule
- ▶ Innovation activities efficiency
- ▶ Power losses level
- ▶ Reduction in unit investment costs

RISKS

- ▶ Financial risks
- ▶ Reputational risks
- ▶ Industry risks
- ▶ Compliance risks
- ▶ Company-specific risks
- ▶ Country-specific and region-specific risks
- ▶ Strategic risks

Application of innovative technologies

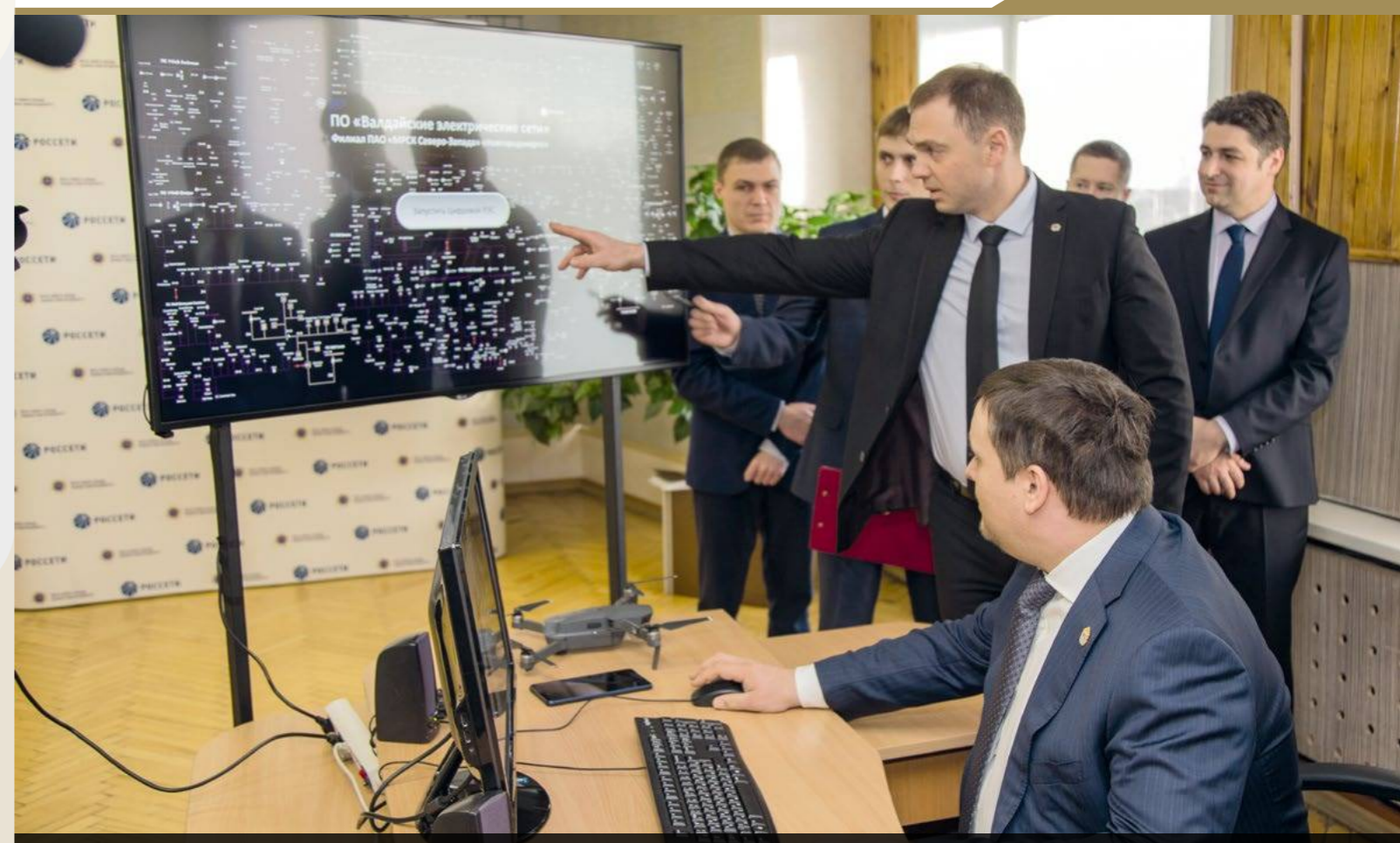
Decision of the Company's Board of Directors of 31 March, 2017 (Minutes No. 235/26) approved the Innovative Development Programme for 2016-2020 with an outlook up to 2025. It takes into account the priorities of the Innovative Development Policy of PJSC Rosseti, which aims at the transition to a power grid of the new technological setup, featuring breakthrough parameters of reliability efficiency, availability, manageability and client focus of the power grid system.

Priorities for the transfer to digitalisation are as follows:

- 1) Transition to the digital active-adaptive grids with the distributed smart system of automation and management, including:
 - ▶ development of a unified informational model of the grid;
 - ▶ transition to digital substations of various voltage classes;
 - ▶ transition to digital power distribution zones.
- 2) Transition to end-to-end efficiency of business processes and automation of the management systems;
- 3) Use of new power industry technologies and materials.

A key project of the Company's innovative development in 2017 was the construction of the digital SS 110/35/10 kV Yuzhnaya in the Zashkenskii District of Cherepovets. By the decision of PJSC Rosseti it was listed as one of the priority national projects and implemented in line with the digital grids concept using the iSAS automated protection and management system for next-generation digital substations (iSAS APMS).

In 2017, the Company began implementation of the pilot "Digital power distribution zone" project in the Valday and Borovichi distribution areas of Novgorodenergo branch.



Head of the Novgorod Region Andrey Nikitin launches the operation of the first digital power grid district based on the smart grid technology, Valday power grids of the Novgorodenergo branch, PJSC IDCC of the North-West

CONSOLIDATION OF THE POWER GRID ASSETS

Consolidation of the power grid assets pursued by PJSC IDGC of the North-West as a priority aims to implement the Development Strategy of the Power Grid System of the Russian Federation – to ensure reliable high-quality and affordable consumer power supply in the Company's operations area by setting up a grid infrastructure that is as efficient as possible and meets the global standards for grid infrastructure.

Efforts for consolidation of the power grid assets are based on consideration of incoming applications for power grid facilities' transfer made to PJSC IDGC of the North-West management; as well as identification of the power grid facilities that can be potentially attractive for their consolidation and subsequent interaction with owners of such facilities to agree upon the best conditions of the relevant deals.

When the resources are limited, PJSC IDGC of the North-West primarily focuses on considering purchases of power grid assets of LGOs, as well as other owners of electric grid facilities, including

those that were deprived of the LGO status, towards debt repayment to the Company.

Moreover, a high-priority method of power grid facilities consolidation is implementation of joint projects with regional executive authorities, stipulating consolidation of the regional and municipal power grids, as well as abandoned power grid facilities. As of today, the cooperation agreements on consolidation of the power grid system (hereinafter, the Agreements) have been signed with the governments of the Republics of Karelia and Komi, the Murmansk and Novgorod Regions. Similar Agreements are now considered for signing with the governments of the Arkhangelsk, Vologda and Pskov Regions.

The spending of PJSC IDGC of the North-West on power grid assets consolidation measured amounted to RUB 10 m in 2017.

Consolidation of the power grid assets monitoring



Major projects for consolidation of the power grid assets implemented in 2017

PJSC IDGC of the North-West	Power transmission lines, km	Transformer substations, items	Units
Power grid facilities rent			
Kolenergo branch (power grid facilities located in the Kandalaksha District of the Murmansk Region)	28	10	77
Kolenergo branch (power grid facilities located in the Tersky District of the Murmansk Region)	40	1	91
Karelenergo branch (power grid facilities located in the Belomorsk District of the Republic of Karelia)	35	3	76
Karelenergo branch (power grid facilities owned by LLC SK Energo)	5	6	121
Novgorodenergo branch (power grid facilities owned by JSC Borovichsky Kombinat Ogneuporov)	43	-	71
Power grid facilities rent purchase			
Eight transactions of purchasing power grid facilities from individuals and non-commercial organisations	16	10	53

LONG-TERM DEVELOPMENT

The system of planning and management of the power industry development was designed to ensure alignment of new generating capacities with the grid infrastructure, their technological compatibility to meet the demand for electric power (capacity) and prevention of power surplus or shortage in the power system.

Power industry development schemes and programmes of the Russian constituent entities

In order to work out proposals on the power grid infrastructure development with a view to ensure sustainable social and economic growth of the Russian regions, increase availability of the power industry infrastructure, develop competition on the power (capacity) market and align the development of backbone and distribution grids, the Company in cooperation with specialised design centres develops (updates) annually Comprehensive Development Programmes for power grids of 35 kV and more for a 5-year period in a particular constituent entity of the Russian Federation (hereinafter, CDP).

These CDPs are used as supporting materials for elaborating investment programmes of the Company's branches, developing schemes and programmes for long-term development of the electric power industry in the constituent entities of the Russian Federation

(DS&P)¹², and creating programmes for technical re-equipment of the power grid facilities.

The long-term development schemes and programmes for the electric power industry in the constituent entities of the Russian Federation are worked out by executive authorities of the Russian regions with participation of PJSC IDGC of the North-West, JSC SO UES and LGO for the period of five years taking into account the development scheme and programme for the Unified Energy System of Russia. Representatives of PJSC IDGC of the North-West are included in working groups developing DS&P and contribute to the work of the investment committees under the regional administrations.

Eventually, the coordinated investment programmes of PJSC IDGC of the North-West branches take into account the measures reflected in DS&P.

Approved development schemes and programmes for the electric power industry in the constituent entities of the Russian Federation

Russian region	Year of development	Projected period of the DS&P implementation	Details of the document approving the Russian region's DS&P
Arkhangelsk Region	2017	2017-2021	Decree of the Governor of the Arkhangelsk Region of 02.08.2017 No.85-u
Vologda Region	2017	2018-2022	Order of the Governor of the Vologda Region of 26.04.2017 No.113
Republic of Karelia	2017	2017-2021	Directive of the Head of the Republic of Karelia of 28.04.2017 No.198-r
Murmansk Region	2017	2018-2022	Directive of the Governor of the Murmansk Region of 26.04.2017 No.63-RG
Republic of Komi	2017	2017-2021	Directive of the Komi Government of 28.04.2017 No.191-r
Novgorod Region	2017	2017-2021	Decree of the Governor of the Novgorod Region of 28.04.2017 No.164
Pskov Region	2017	2017-2021	Decree of the Governor of the Pskov Region of 28.04.2017 No.21-UG

Automated system of projecting long-term changes in the grid load and power consumption

To provide complete information on the current state and the development of the power grid facilities in the regions of operation, in late 2012, PJSC IDGC of the North-West launched the subsystem "Power Facilities Display in the Google System". The project was based on the standard functional specifications for visualisation of the current load of 35+ kV power supply centres. The system contains in-

formation about the power supply centres and grid structure – the automatically processed information enables to understand future changes of load at the power supply centres and to obtain a comprehensive view. Information about parameters of the power facilities, including overloads, available capacities and planned modernisation, is displayed on the electronic map.

¹² According to the Russian Government Order No.823 of 17 October, 2009 "On schemes and programmes of long-term development in the power industry".

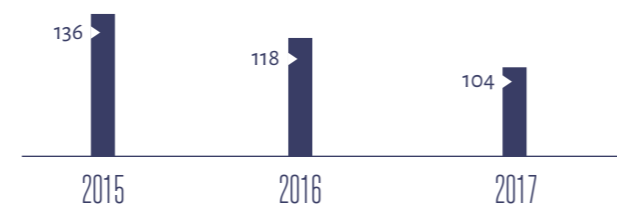
Power capacity shortage reduction

A crucial area of future development for PJSC IDGC of the North-West, as well as other distribution grid companies, is solution to the issue of power capacity shortage, which emerges, inter alia, due to the presence of closed power supply centres in the Company's operating regions – electric substations where the equipment is 100% loaded. Repair or emergency disconnection of a single transformer at such substations causes overload of the remaining facilities, the need to transfer load to other substations or scheduling power supply limitations for consumers. It also prevents the Company from connecting new consumers and from carrying out repair and maintenance of such substations.

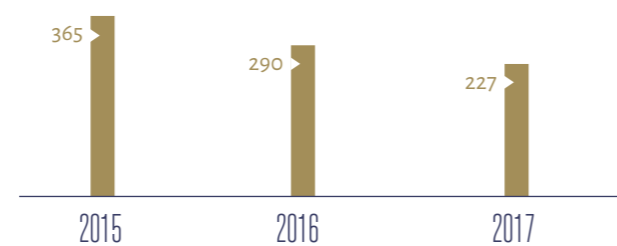
The Company makes efforts to reduce the number of shortage-ridden power supply centres. As a result, as of 31 December, 2017 shortages¹³ are experienced in 104 power supply centres of 35+ kV (9% of the total number), the capacity shortage is 227 MVA. Since 2013, due to implementation of the projects of the Company's investment programme, the number of such power supply centres has been consistently declining. By 2022, the Company plans to reduce the number of shortage-ridden power supply centres to 88 (15% fewer than in 2017).

The capacity shortage indicator is to reach 156 MVA by 2022, which is 31% less than that in 2017.

Shortage-ridden power supply centres, units



Capacity shortage, MVA



¹³ Taking into account the technological connection contracts signed.

REDUCTION OF POWER LOSSES

The Company makes systemic efforts to reduce power losses, which can be broken down into four key aspects:

1. Implementation of projects aimed at developing automated smart system of power metering, including the following:

- ▶ by attracting private investment

Since 2016, we have concluded and implemented nine energy service contracts in the total amount of RUB 899.6 m, which stipulate the benefit of power losses reduction in the amount of 383.4 m kWh over 3-4 years. The potential portfolio of energy service contracts for 2019-2023, developed on the basis of the potential loss reduction in PJSC IDGC of the North-West branches, amounts to RUB 484.5 m. Attracting investments and successful implementation of this portfolio is to enable us to boost the accuracy of power supply metering at 29,195 metering units and gain the additional benefit of loss reduction in the amount of 51.4 m kWh.

- ▶ within the Company's investment activities (tariff sources)

In the period of 2018-2021, financing sources for the projects of automated smart systems of power metering are stipulated in the Company's long-term investment programme approved by the Russian Ministry of Energy. They cover 18,469 metering units and the total costs of RUB 322.6 m net of VAT, which is to bring about the effect of loss reduction by 66.5 m kWh.

2. Energy audit of power grid facilities at the branches of PJSC IDGC of the North-West in order to find additional potential of loss reduction and energy efficiency improvement and to develop a set of specific administrative and technical activities to optimise the processes and upgrade the equipment, which will serve as the foundation of long-term investment projects.

The expenses allocated to the energy audit in 2018 amount to RUB 73.6 m. The work is to be completed by November 2018.

3. IT infrastructure upgrade and development of technological automated informational and analytical systems to determine the volume of power transmission and analyse power balances (systems "AIS Power Transport" and top-level computer system based on the platform "Piramida Seti"), including:

- ▶ Implementation of new technologies in planning, quality control and processing performance in servicing power metering systems using the mobile version of "AIS Power Transport" (dispatcher workstation, controller workstation).
- ▶ Implementation of integrated solutions with open Russian information and reference resources (state information system for housing and utilities, federal information address system, Gosuslugi) to boost the promptness of consumer databases update.

4. Vocational training and retraining of the personnel in line with the current requirements

Actual introduction of mobile tablet devices, new models of power metering units for control of the correctness of switching and precision of metering devices, as well as new models of smart devices for metering, data collection and transfer requires ongoing improvement of the personnel's theoretical knowledge and practical skills of using advanced technical equipment and applications.

PJSC IDGC of the North-West is constantly improving the competence level of the operational staff in power metering. We have developed and now carry out staff training programmes, regularly hold professional skills contests for power metering employees.

As smart power metering technologies are developing, so are the techniques of power theft used by dishonest consumers. The Company is constantly monitoring them, analysing and implementing advanced methods of counteracting "charged meters", developing and carrying out comprehensive programmes aimed at prevention of off-the-meter power consumption using such techniques.



KEY PERFORMANCE INDICATORS

Achievement of the Company's priority development goals is assessed using the KPI system¹⁴. The system of key performance indicators correlates to the variable part of the management remuneration – each of the indicators has a specific weight in the amount of incentives paid, quarterly and annual bonuses are paid on condition of the respective KPI achievement.

The system of the Director General's key performance indicators is based on:

- ▶ Item 50, Paragraph 15.1 of Article 15 of the Company Charter;
- ▶ Decision of the Company's Board of Directors dated 31 March, 2017 (Minutes No. 235/26) on Item 7 "On approval of the methodology for estimation and assessment of the key performance indicators achievement by the Company's Director General".

Under the above Decision of the Company Board of Directors, in 2017 the following set of KPIs was identified and the following target values:

Quarterly figures

Indicators	Target value in 2017
Consolidated operating profit (EBITDA)	For 3, 6 and 9 months of the reporting year ≥ 0 ; For the year $\geq 5.3\%$
Consolidated net debt/EBITDA	1, 2, 3, 4 quarter ≤ 3.0
Implementation of the plan to reduce the Company's accounts receivable	$\geq 100.0\%$
No growth in the number of major accidents	No growth
No growth in the number of accident victims	No growth

Annual indicators

Indicators	Target value in 2017
Consolidated net cash flow	$\geq - \text{RUB } 1,039.0 \text{ m}$
Decrease in unit operating expenses (costs)	$\geq 3.0\%$
Increase in the power grid equipment capacity utilisation	Achieved
Power losses level	$\leq 6.59\%$
Reduction in unit investment costs	≤ 1.00
Labour efficiency improvement	$\geq 4.96\%$
Innovation activities efficiency	$\geq 90\%$
Compliance with the commissioning schedule	$\geq 90\%$
Meeting the technological connection deadlines	≤ 1.1
Reaching the reliability level of the services rendered	≤ 1.00

Actual values of the key performance indicators considering the deadlines and procedures of drafting the reports which supply information for their estimation have not been calculated or approved by the Company Board of Directors as of the Annual Report date. In quarters 1-3 of 2017 the KPIs were achieved.

¹⁴ KPI is a set of interrelated indicators to measure the Company's performance; it includes the list of KPIs and their specific weight in the bonus system, calculation methods and assessment procedures of KPI achievement.



INVESTMENT ACTIVITIES

The 2017 investment program of PJSC IDGC of the North-West was developed considering the goals and tasks of the Unified Technical Policy in the Power Grid System and approved by Order of the Ministry of Energy of the Russian Federation No. 1333 dated 16 December, 2016.

The Company's investment activity is aimed to enhance reliability and performance of the power grid system, and to reduce losses in power grids. Achievement of investment goals will enable it to reduce operating expenses, ensure commissioning of extra capacities for connecting new consumers, and eliminate power shortage.

Cost and physical parameters of investment activities in 2017

Implementation

5,935 RUB M
(net of VAT)

Financing

7,042 RUB M
(net of VAT)

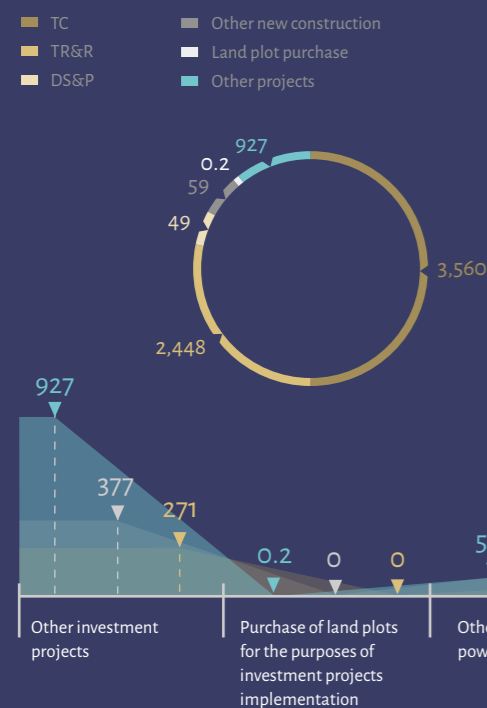
Launch of new fixed assets

5,349 RUB M
(net of VAT)

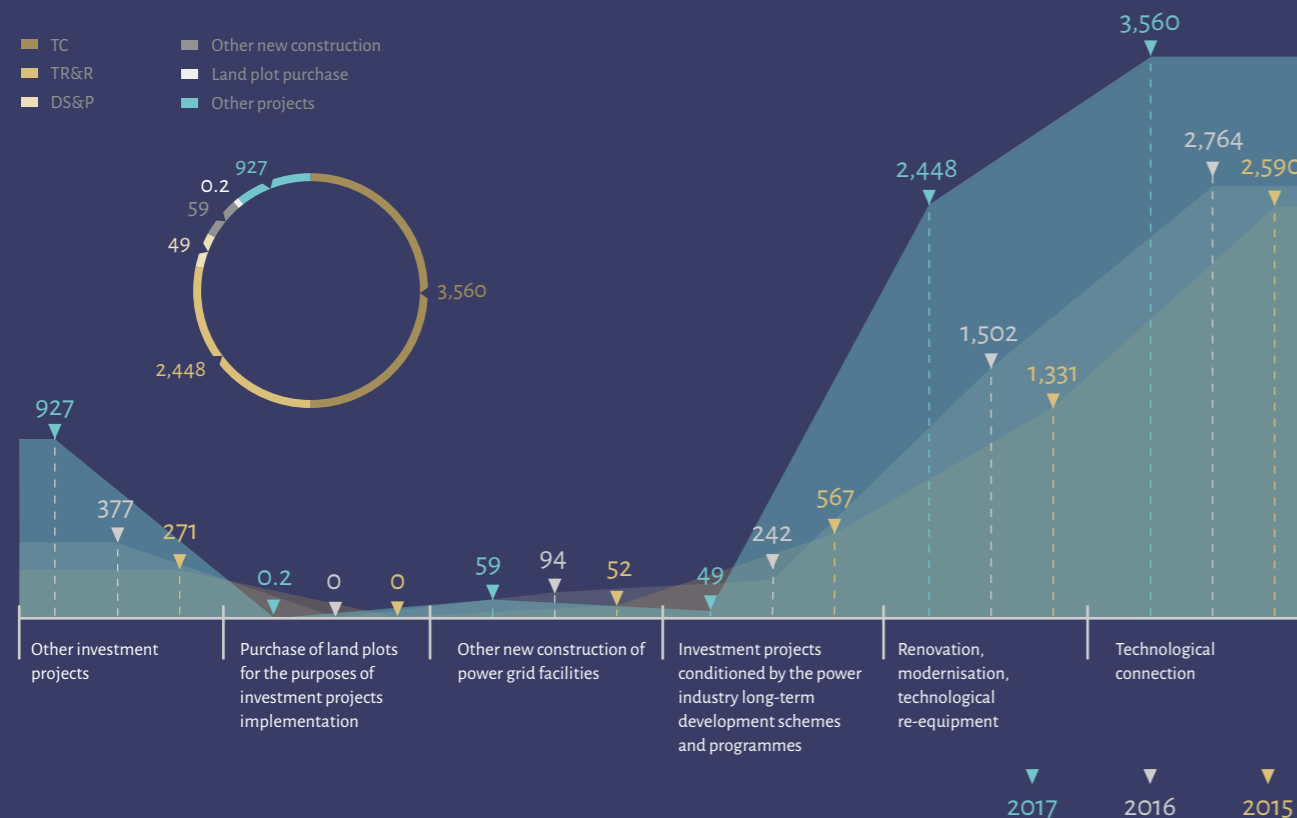
Capacity put into operation

415 MVA
1,305 KM power lines

Structure of capital investment financing in 2017, RUB m



Structure of capital investment financing in 2015-2017

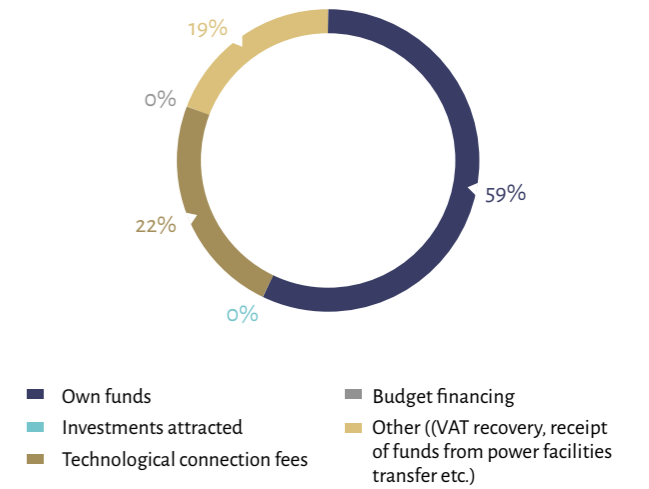


Overall, the total financing of PJSC IDGC of the North-West increased in 2017 by 42% year on year. The growth was due to signing contracts on technological connection with the State Company Avtodor and LLC Magistral Dvukh Stolits, to be implemented within the framework of building power supply facilities for the new Moscow – St.Petersburg high-speed motorway constructed for the 2018 FIFA World Cup, as well as due to large projects of technical re-equipment and renovation.

In the total financing, 50% accounted for technological connection projects, 35% – for technical re-equipment and renovation, 13% – other investment programme projects, and 1% each – investment projects whose implementation is conditioned by long-term development schemes and programmes for the power industry and other new power grid facilities construction.

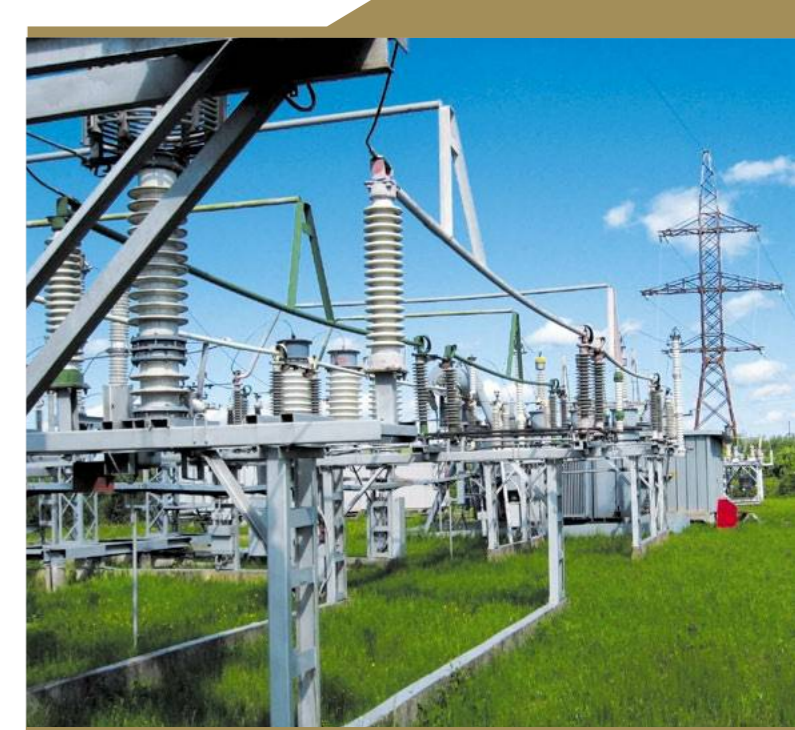
The total amount of the Company financing having increased in 2017 by 41%, the share of financing allocated to technical re-equipment and renovation projects (hereinafter – TR&R) also increased: from 30% to 35%. In absolute terms, the amount of financing allocated to TR&R projects grew by 66% year on year, which is due to the need to reduce depreciation of capital equipment, as well as carry out major projects under the investment programme: SS Zapadnaya, Iskra, Maega in Vologdaenergo branch, SS Zasheek in Kolenergo branch, SS 283 Zavelichye in Pskovenergo branch. Despite the decrease in the share of financing allocated to technological connection projects in 2017 year on year from 55 to 50%, in absolute terms, the technological connection financing volume increased by 29% due to the works performed for the State Company Avtodor and LLC Magistral Dvukh Stolits for power supply to Moscow – St.Petersburg high-speed motorway. A year-on-year increase in the share of financing – from 8% to 13% – was shown in 2017 by other investment programme projects. In absolute terms the financing of such projects grew by 146% due to the need to modernise motor vehicle fleet and the purchase of equipment and special-purpose machinery to conduct emergency recovery operations.

Sources of investment programme financing, %



The Company has no investment projects implemented with contributions from the federal budget in its investment programme.

In 2017, the project of PJSC IDGC of the North-West for renovation of SS 110/35/10/6 kV Zapadnaya in Vologda ranked first in the nomination “The best infrastructure investment project” at the annual regional contest of the Vologda Region government “Investor of the Region”. This investment project is included in the “2016-2020 power industry development scheme and programme of the Vologda Region”

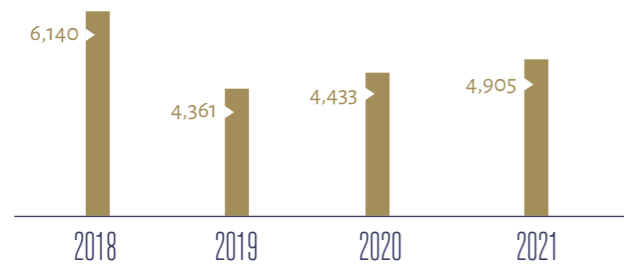


LONG-TERM INVESTMENT PROGRAMME

The investment programme of PJSC IDGC of the North-West for the period of 2016-2025 takes into account the aims and objectives of the Unified Technical Policy in the Power Grid System and approved by Order of the Ministry of Energy of the Russian Federation No. 1333 dated 16 December, 2016. The adopted investment programme was developed for the period of 2016-2025 for Novgorodenergo, and for the other six branches of PJSC IDGC of the North-West (Arkhenenergo, Vologdaenergo, Karelenenergo, Kolenergo, Komienergo, Pskovenergo) – for the period of 2016-2021.

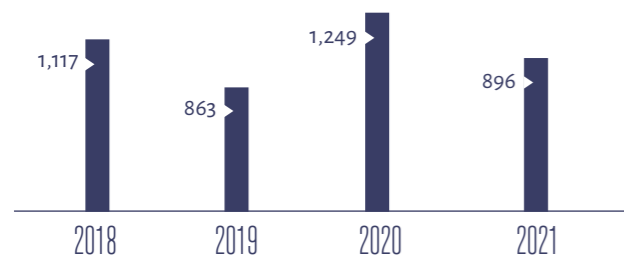
Capital investment dynamics

The dynamics of financing volume for 2018-2021, RUB m (including VAT)



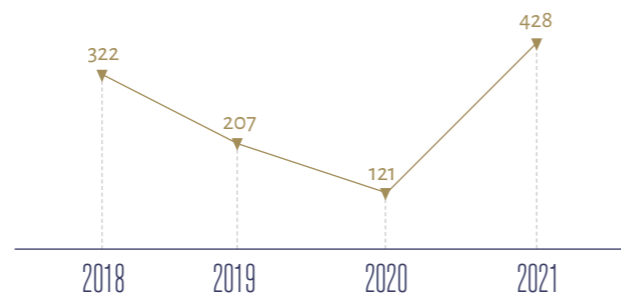
In 2018, financing of the investment programme increased due to signing technological connection contracts to be implemented within the framework of building power supply facilities for the new Moscow – St.Petersburg high-speed motorway. Further reduction in the capital investment starting 2019 is due to restrictions on the power transmission tariff growth rates and the projected decline in power consumption.

The dynamics of power lines commissioning for the period of 2018-2021, km

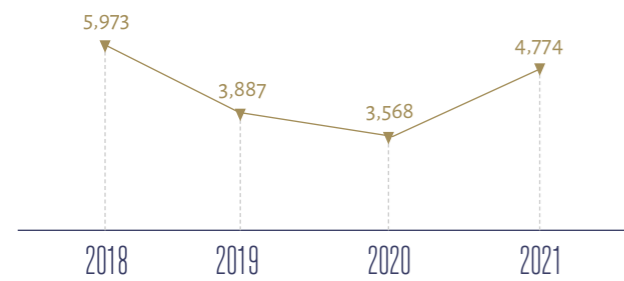


The annual fluctuations in the power lines commissioning are due to the implementation of the target programme for replacement of uninsulated wires for self-supporting insulated wires, as well as implementation of a major project – Construction of OL 110 kV and SS 110/10 kV Olkhovey by Komienergo branch.

The dynamics of capacity commissioning for the period of 2018-2021, MVA

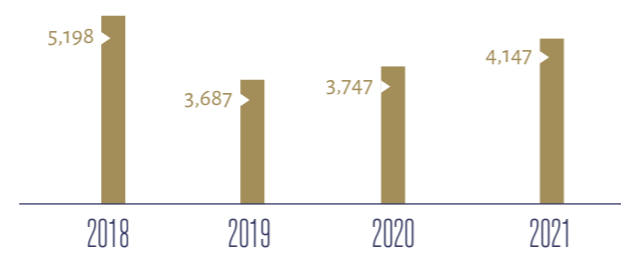


The dynamics of commissioning for the period of 2018-2021, RUB m (net of VAT)



The dynamics of fixed assets commissioning is determined by the implementation of capital investment projects, and the annual fluctuation is due to planned launch of major investment projects in 2017 and 2018.

The dynamics of implementation of capital investment projects for the period of 2018-2021, RUB m (net of VAT)



Projected decrease in the volume of capital investments in 2019–2021 is due to restrictions on the power transmission tariff growth rates.



PRIORITY INVESTMENT PROJECTS COMPLETED IN 2017

GRI 203-1

Implementing Order of the Russian Government No. 468 of 21 June 2010 "On the procedure of construction compliance monitoring in building, renovation and overhaul of capital construction facilities", to certify that the works performed during building, renovation and overhaul of capital construction facilities comply with the requirements of the design documentation, technical regulations, site development plans, engineering survey findings, construction compliance monitoring is carried out.

The coverage of the capital construction facilities under the Investment Programme of the Company by independent construction compliance monitoring was 20% in 2017.

RENOVATION OF SS ZASHEEK

2.27 km of power transmission lines



CONSTRUCTION OF SS YUZHNAJA AND OL IN THE ZASHEKSNINSKY DISTRICT OF CHEREPOVETS

0.24 km of power transmission lines
80 MVA of transformer capacity



CONSTRUCTION OF OL

between SS Zavelichie and SS Velikoretskaya
11.83 km of power transmission lines



RENOVATION OF OL L-103,104

21 km of power transmission lines



RENOVATION OF SS ISKRA IN THE VOLOGDA DISTRICT

4.1 km of power transmission lines
50 MVA of transformer capacity



STRATEGIC REPORT

SUSTAINABLE DEVELOPMENT REPORT

CORPORATE GOVERNANCE REPORT

TECHNICAL RE-EQUIPMENT OF OUTDOOR SWITCHGEAR 150 KV OF THE HYDROPOWER PLANT

125 MVA of transformer capacity



TECHNICAL RE-EQUIPMENT OF SS NO. 8

25 MVA of transformer capacity



RENOVATION OF SS UST-TSILMA

6.3 MVA of transformer capacity



RENOVATION OF SS IZHMA

for the connection of OL Lemyu - Izhma
0.28 km of power transmission lines



CONSTRUCTION OF OL, SS VERKHOVYE

for the technological connection of oil production facilities at the Yaregskoye
30.68 km of power transmission lines



RENOVATION OF SS 110/10 KV AYKINO



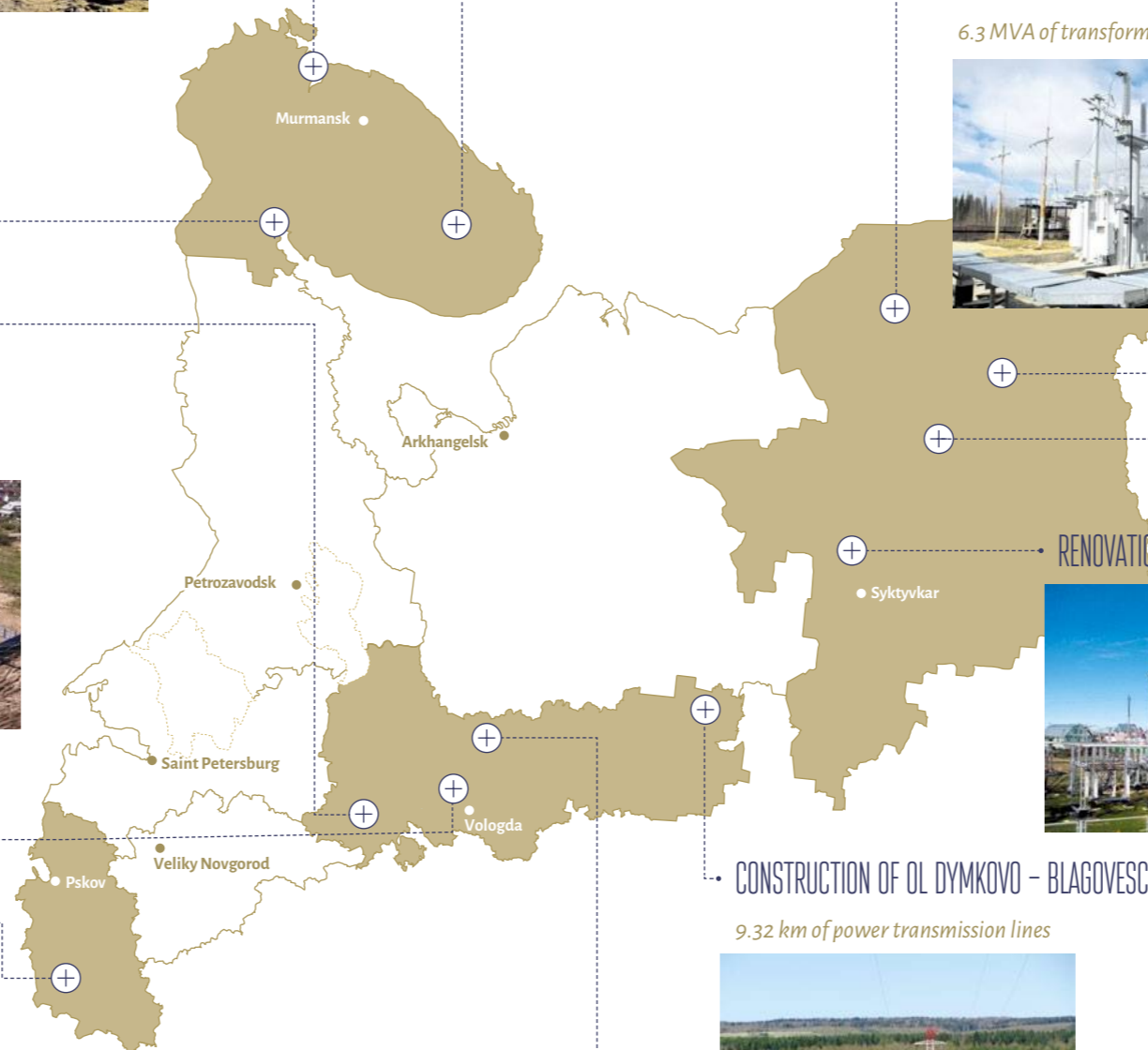
CONSTRUCTION OF OL DYMKOVO - BLAGOVESHENIE

9.32 km of power transmission lines



RENOVATION OF SS MAEGA IN THE VOLOGDA DISTRICT

0.43 km of power transmission lines
20 MVA of transformer capacity



PRODUCTION RESULTS

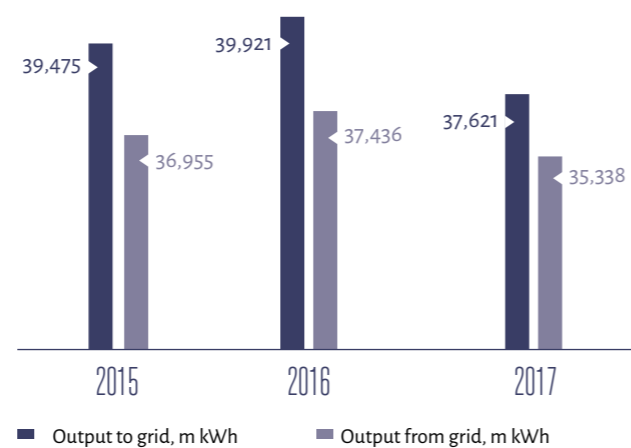
Power Transmission

Power losses level for the Company as a whole in 2017 is one of the lowest among distribution companies in Russia.

The Company's core production activity is provision of power transmission services.

Based on the results of PJSC IDGC of the North-West, the 2017 output from grid to consumers and related LGOs within the balance and operational responsibility totalled 35,337.74 m kWh, which is 2,098.6 m kWh, or 5.61% less year on year (37,436.35 m kWh in 2016), due to the decrease of power transmission resulting from the cancellation of lease contracts of the UNPG facilities of the "last mile", including those with such large consumers as PJSC Severstal, JSC Karelsky Okatysh, JSC Kondopoga.

In 2017, the output to grid for the Company as a whole reduced by 5.76% against 2016 actual results, the output from grid reduced by 5.6% compared to 2016. The main influencing factor for the output to grid and productive supply reduction is the exclusion of the "last mile" facilities from productive supply balance due to lease contracts cancellation in the second half of 2017.



Output to grid

37,621.39
m kWh

Output from grid

35,337.74
m kWh

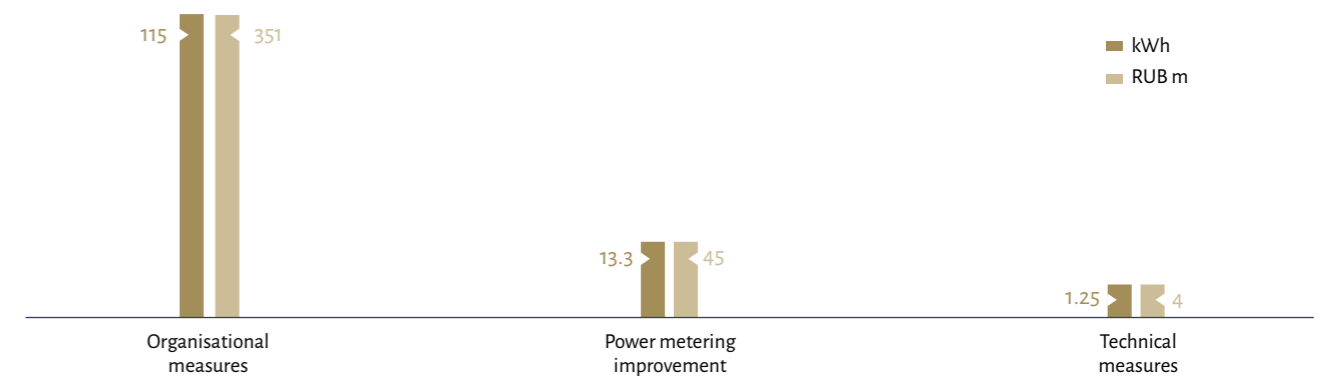
to consumers and related LGOs within the balance and operational responsibility

Power losses

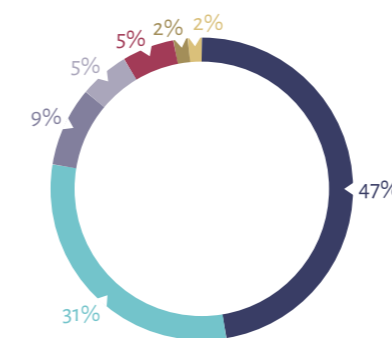
2,283.65
m kWh
(6.07%)

PJSC IDGC of the North-West undertakes a host of measures as part of the priority area work aimed at optimisation (reduction) of the losses level.

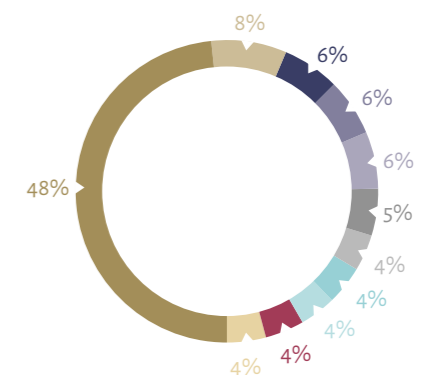
Measures undertaken in 2017 to decrease losses



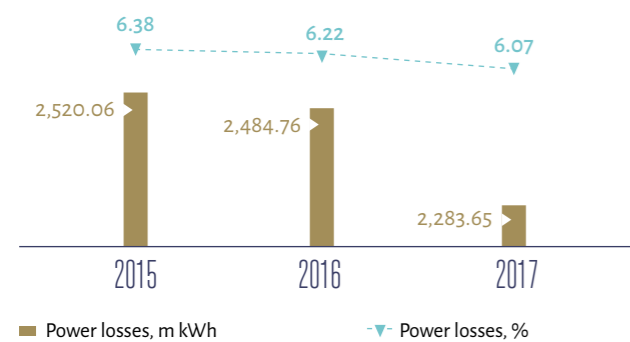
Structure by consumer groups



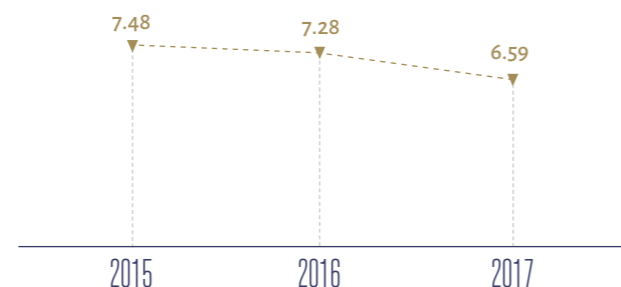
Power consumption from the grids by 10 largest consumers, %



Actual power losses in 2015-2017



Actual power losses, % in comparable conditions¹⁵



- Industrial consumers
- Local grid operators
- Individuals and similar consumers
- Transport
- Non-industrial consumers
- Agriculture
- Governmental (municipal) organisations and other budget-related consumers

- LLC Arktikenergo
- PJSC Severstal
- OJSC Komi Energosbytovaya Kompaniya
- JSC Atomenergosbyt, Kolatomenergosbyt branch
- LLC Khibinskaya Energosbytovaya Kompaniya
- PJSC Arkhenergosbyt
- OJSC Karelsky Okatysh
- OJSC Pskovenergosbyt
- JSC SUAL
- JSC Novgorodoblektro
- Other

¹⁵ Level of power losses defined for conditions comparable to the functioning of subsidiaries and affiliates (branches of subsidiaries and affiliates) in 2017 by consumer structure, set and models of operation of serviced electric grids.

TECHNOLOGICAL CONNECTION

The Company provides complex services for connection of consumers' power receivers, energy production facilities and electrical grid facilities to PJSC IDGC of the North-West electric grids. The service includes: receiving an application for technological connection, development of technical specifications, concluding an electric power transmission contract, receiving permission from the federal state energy supervision authorities for access to operation of applicant's facilities, issue of connection certificate.

By year-end 2017, there has been no exceedance of the actual value of indicator "Compliance with TC deadlines" above the approved target.

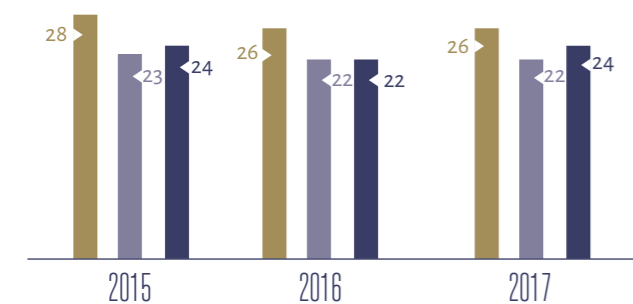
The total number of technological connection applications received and contracts concluded in 2017 remained at the same level compared to 2016. The number of contracts performed in 2017 increased by 9.1% against 2016.

By year-end 2017, the ratio of contracts performed to contracts concluded was 1.07, which implies a zero increase in accrued liabilities.

That result was achieved through the following:

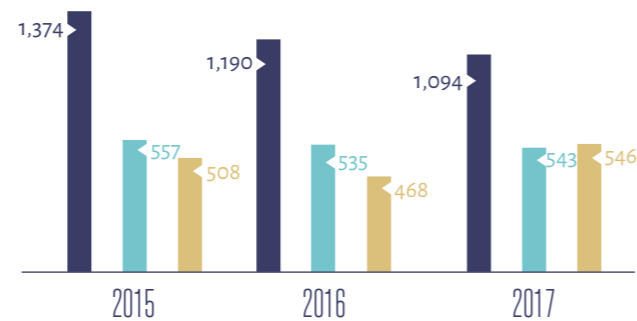
- ▶ increased share of technological connection contracts fulfilled using in-house resources;
- ▶ performance of design and survey works using in-house resources for the construction, reconstruction or upgrade of 0.4-10 kV distribution grids;
- ▶ streamlining of procurement processes;
- ▶ work with applicants using the feedback mechanism.

Dynamics of technological connection contracts completion¹⁶



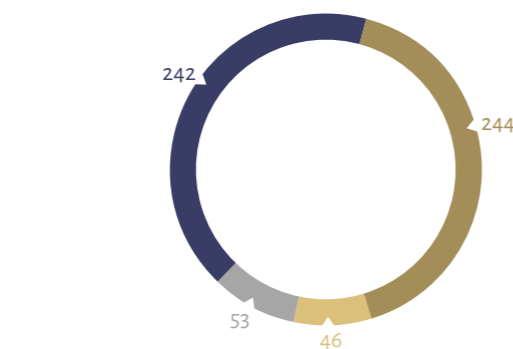
- Number of applications submitted, thous.
- Number of contracts concluded, thous.
- Number of contracts completed, thous.

Technological connection capacity¹⁷



- Contracted capacity, MW
- Maximum capacity under concluded contracts, MW
- Installed capacity, MW

Categories of technological connection consumers (including power generation facilities), MW



- Up to 15 kW
- 15 - 150 kW
- 150 - 670 kW
- Exceeding 670 kW

SOCIALLY SIGNIFICANT FACILITIES CONNECTED IN 2017:

ARKHENERGO BRANCH

Technological connection of high-rise houses of the state public agency "Major construction head office" of Arkhangelsk region, with 1.3 MW maximum capacity in Arkhangelsk city.

VOLOGDAENERGO BRANCH

Technological connection of wood-sawing plant OJSC Belozerskles with 2.5 MW of maximum capacity.

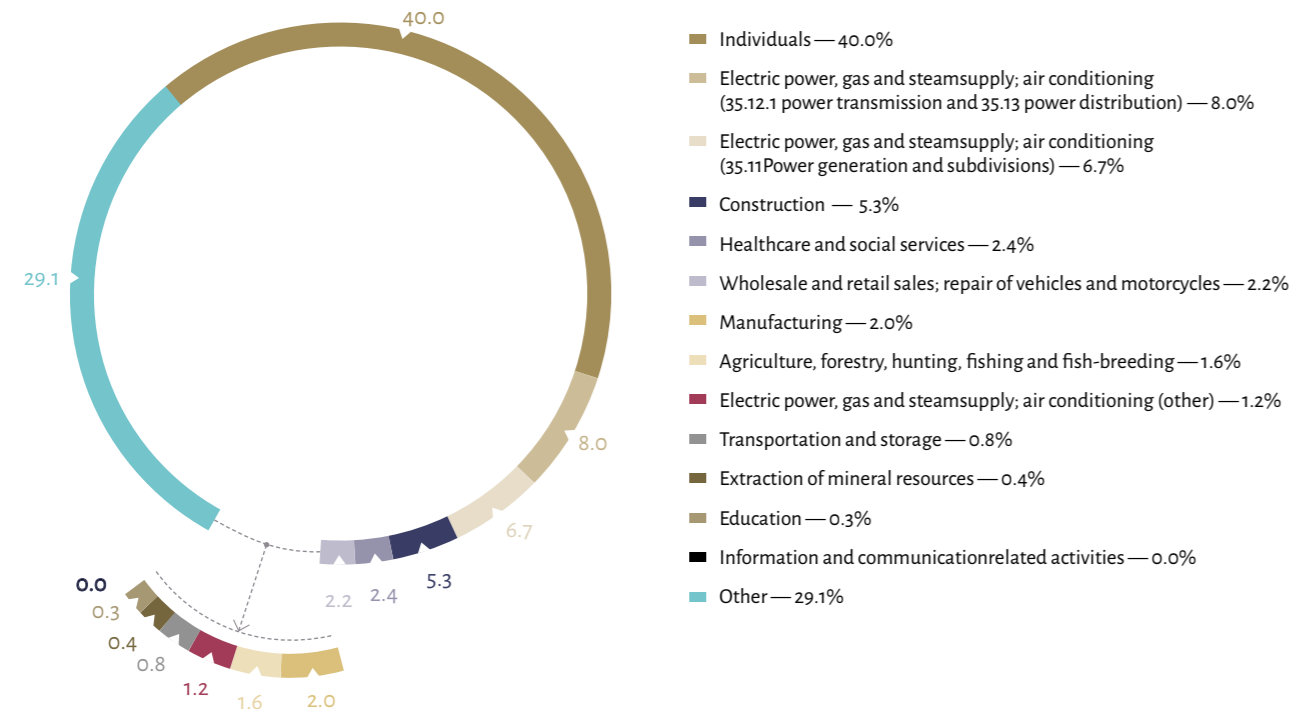
KOMIENERGO BRANCH:

Technological connection of OJSC Lukoil-Komi energy centre with 21.4 MW of maximum capacity.



Photo courtesy of OJSC ULK Group press service

The volume of services provided by consumer groups in 2017, %



Breakdown of applications in 2015-2017 (including power generation facilities)

Indicator	2015		2016		2017	
	Total capacity, MW	Applications	Total capacity, MW	Applications	Total capacity, MW	Applications
Individuals	254.4	22,857	244	21,515	243	21,719
Legal entities	1,472.0	4,789	1,203.6	4,863	921	4,435
Total	1,726.4	27,646	1,447.5	26,378	1,164	26,154

The total number of technological connection applications received in 2017 remained at the same level against 2016¹⁸.

Details of the total number of technological connection are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Other activities

Core activities of PJSC IDGC of the North-West subject to the state regulation are power transmission services and technological connection to power grids. The Company also performs the following regulated activities: power production, heat production and cold water supply services. The share of these activities is below 1% of the total revenue generated by regulated activities.

IMPROVING POWER SUPPLY EFFICIENCY, RELIABILITY AND QUALITY

Main technical areas of increasing the Company's distribution grid sector reliability and efficiency are set by the Unified Technical Policy in the Electric Grid System¹⁹, approved by PJSC Rosseti Order No. 237/28 dated 5 April, 2017.

GRIDS 6+ KV

On the whole, in 2017 the following results were achieved by PJSC IDGC of the North-West in the grids 6+ kV compared to the same period in 2016:

- ▶ **number of accidents reduced by 26.7%** (from 7,271 in 2016 to 5,332 in 2017);
- ▶ **accident rate reduced by 27.7%** (from 6.53 in 2016 to 4.72 in 2017);
- ▶ **power undersupply to consumers caused by technological disturbances compared to the previous year increased by 9.1%** (from 2,656.6 thous. kWh in 2016 to 2,898.8 thous. kWh in 2017)
- ▶ **financial damage from technological disturbances reduced by 22.5%** (from RUB 71,628.8 thous. in 2016 to RUB 55,501.8 thous. in 2017).

GRIDS 6-20 KV

Analysis of statistics for the period from January to December 2017 indicates reduction in the number of power system disturbances in 6-20 kV grids by 29.8% compared to the same period in 2016 (2016 – 5,945; 2017 – 4,171).

GRIDS 35+ KV

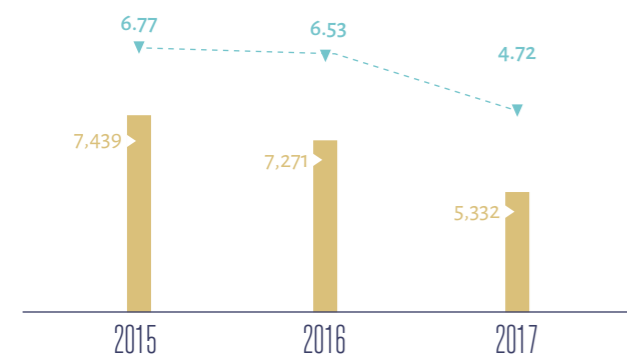
Analysis of statistics for the period from January to December 2017 indicates reduction by 12.5% in 35 kV grids and higher (2016 – 1,324; 2017 – 1,159).

Dynamics of power system disturbances

The Programme aimed at bringing clearings to normative condition by widening clearings of 35 kV OL and above was developed with the aim to increase efficiency, reliability and safety of power production and reduce the number of disturbances caused by falling trees (approved by Regulation of PJSC IDGC of the North-West No. 357 dated 11 June, 2017). The widening of clearings is implemented within the investment programme.

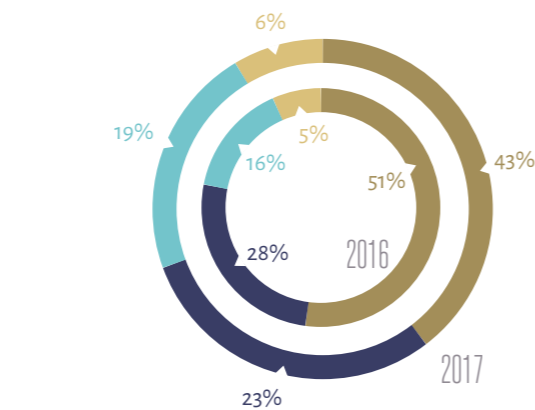
The programme aimed at reconstruction of power lines 0.4-20 kV with replacement of uninsulated wire for self-supporting insulated wire is implemented at PJSC IDGC of the North-West branches with the purpose of reduction in the number of accident disturbances of 0.4-20 kV OL due to overlapping of wires, fall of foreign objects on wires, fall of trees. Replacement of uninsulated wires for self-supporting insulated wires helps to reduce the number of technological disturbances and the costs of maintenance.

Number of accidents



■ Trends in the number of accidents at facilities, items
 ▼ Trends in per unit accident rate at facilities (accidents per 1000 c.u.)

Main reasons of accidents in 2016-2017



■ Reprecreated natural phenomenon impact
 ■ Falling trees (branches) due to atmospheric effects
 ■ Depreciation
 ■ Thunderstorm

Readiness to elimination of possible technological disruptions

In accordance with Federal Law No. 68-FZ dated 21 December, 1994 "On the protection of population and territories from accidents of natural and technical-related cause" PJSC IDGC of the North-West approved Action Plan aimed at prevention and elimination of accidents of natural and technical-related causes for peaceful and war time. In 2017 there were no accidents of natural and technical-related causes in the Company.

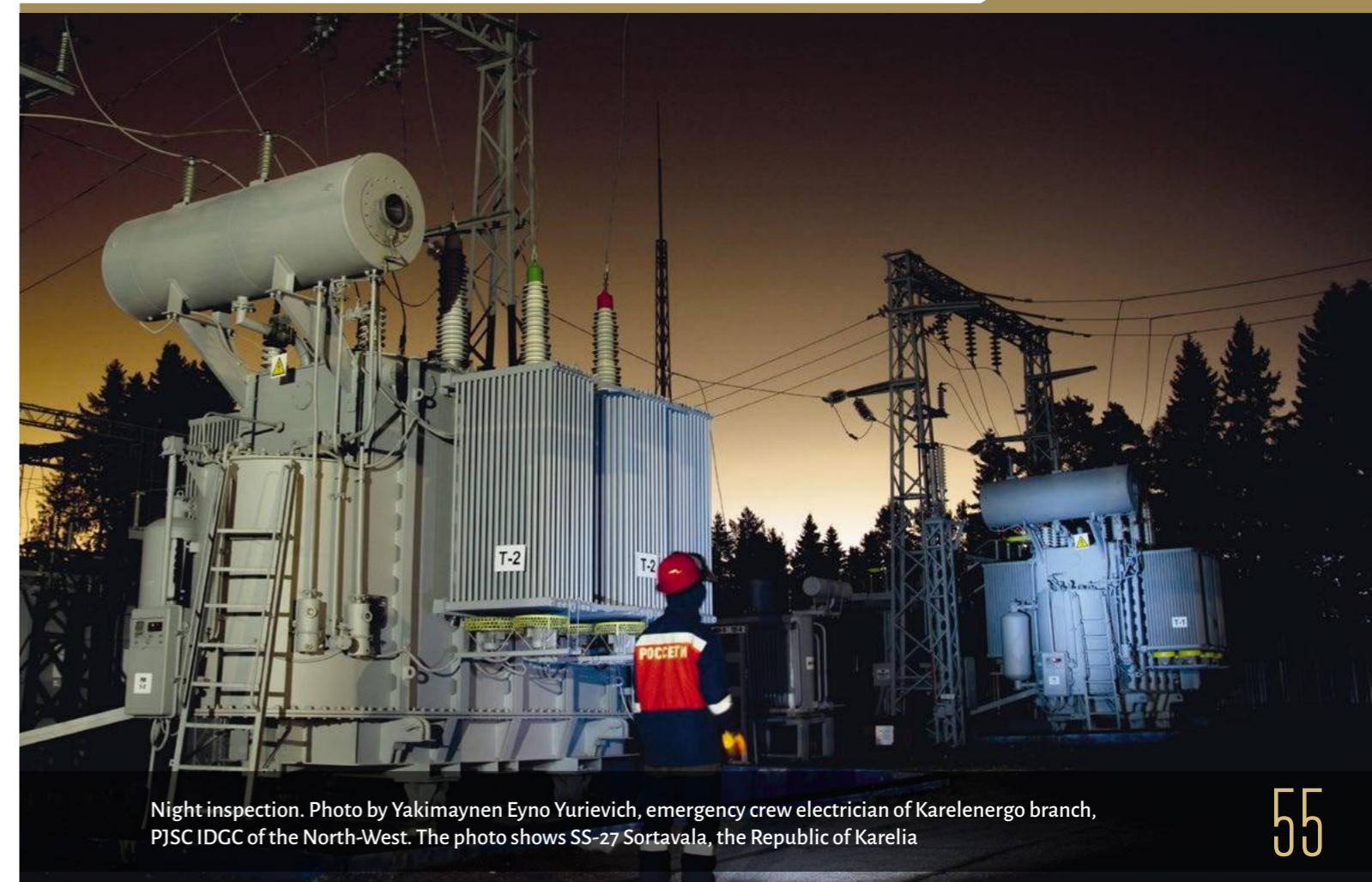
In May and June of 2017 PJSC IDGC of the North-West sent to PJSC Moscow United Electric Grid Company 14 crews containing 70 people and 20 units of equipment, including motor transport and bucket lifts. The employees of three branches participated in the works. Earlier in the region massive grid failures took place because of dangerous meteorological events (precipitation, strong wind up to 15 m/s forming ice walls up to 10 cm on OL wires). Broken OL wires and other technological damages were repaired on the territory of six municipal areas.

Regardless of the season and weather conditions, PJSC IDGC of the North-West employees are prepared for elimination of possible technological accidents: 219 employees of the company in the form of 37 mobile crews and 93 units of equipment are ready for emergency response and mitigation of large-scale shutdowns, and may be sent to assist other subsidiaries and associates of PJSC Rosseti if necessary. Additionally 48 accident emergency crews of contracting organisations may participate in power restoration works. There are 261 reserve sources of electric power supply with the total capacity of 41.9 MW.

EU28
EU29

	2015	2016	2017
Average Frequency of Power Supply Interruption SAIFI	2.428	2.051	1.599
Average Duration of Power Supply Interruption SAIDI	8.169	6.594	4.182

As indicated in the table above, PJSC IDGC of the North-West shows sustainable drive towards the reduction in the average aggregate frequency of sustained interruptions per consumer per year SAIFI and average duration of sustained interruptions per consumer per year SAIDI.



Night inspection. Photo by Yakimaynen Eyno Yurievich, emergency crew electrician of Karelenergo branch, PJSC IDGC of the North-West. The photo shows SS-27 Sortavala, the Republic of Karelia

Decrease in investment costs per unit

In 2014, the Company started implementing the "Methodology of planning the reduction of investment costs by 30% against 2012" in the development of investment programmes. The reduction in investment costs using the "Methodology of planning the reduction of investment costs by 30% against 2012" is calculated as the ratio of actual construction (reconstruction) costs per unit to target (full) construction (reconstruction) costs per unit. The indicator "Decrease in investment costs per unit" in the reporting period is deemed to have been fulfilled since its actual value does not exceed "1". In 2017, the actual target of investment cost reduction was 0.97.

Besides, the implementation of the "Methodology of planning the reduction of investment costs by 30% against 2012" resulted in a 29.5% decrease of investment costs per unit in 2017. Actual effect of investment cost reduction in 2017 investment programme was RUB 1,375 m against the targeted RUB 973 m.



Achievement of the reliability level of provided services

In 2017, all branches of PJSC IDGC of the North-West met the reliability and quality targets for provided services established by the executive authorities of the Russian constituent entities in the area

of state tariff regulation according to the regulatory acts (the overall SQ index is higher than or equal to zero).

Branch	Indicator	2017		Overall index of service reliability and quality, SQ
		Target	Actual	
Arkhenenergo	reliability level	0.0939	0.0148	0.9
	quality level	0.8975	0.8222	
	TC quality level	1.4804	1.0279	
Vologdaenergo	reliability level	0.0604	0.0158	0.65
	quality level	0.8975	0.7395	
	TC quality level	1.2812	1.0121	
Karelenenergo	reliability level	0.2630	0.0723	0.65
	quality level	1.0102	0.9659	
	TC quality level	Not established	–	
Kolenergo	reliability level	0.0418	0.0280	0.9
	quality level	0.8975	0.8276	
	TC quality level	1.4735	1.0124	
Komienergo	reliability level	0.0301	0.0245	0
	quality level	0.8975	0.9077	
	TC quality level	1.1581	1.0067	
Novgorodenergo	reliability level	0.2320	0.1904	0
	quality level	1.0102	1.0488	
	TC quality level	Not established	–	
Pskovenergo	reliability level	0.090	0.0958	0
	quality level	1.0102	0.9362	
	TC quality level	Not established	–	

Achieving the average power supply suspension duration indicator set by tariff regulating authorities

On the basis of services reliability analysis by PJSC IDGC of the North-West branches in 2017:

- the indicator of provided services reliability is achieved with significant improvement in Arkhenenergo, Vologdaenergo, Karelenenergo and Kolenergo branches,
- the indicator of provided services reliability is achieved with acceptable deviation ratio in Komienergo, Novgorodenergo, Pskovenergo branches.



Ensuring electric safety

The Company pays special attention to the implementation of communication programme aimed at prevention of electric injuries among third parties. In 2017 employees conducted a series of lectures and trainings in driving schools, fishing and hunting stores, in non-ferrous metals reception stations, at village community assemblies. Also more than 1000 industry-specific lessons on the territory of North-Western Federal District were conducted for school and college students, university students, wards of orphanages and foster homes. The campaign audience doubled and covered 43 thousand people. In the reporting period approximately 110 thousand promotion printing materials and informative manuals targeted for risk groups were published. For example, as extreme sports are becoming widespread and more popular, PJSC IDGC of the North-West developed a series of special materials with safety flight rules close to security zones of power lines. One of the key communication campaigns in 2017 was the programme of civilised power consumption culture, prevention of uncontracted and uncounted power consumption: 16 thousand copies of promotion materials devoted to characteristics and consequences of power stealing were printed and distributed for timely discovery and prevention of such cases.

Information messages devoted to power safety and power stealing prevention are regularly circulated in federal and regional mass media, including radio and TV. Besides, all the methodology and best practices are published on specialised web resources: "Power safety for grown-ups" (<https://clients.mrsksevzap.ru/powersafetyadult>), "Make friends with electricity" (<http://electrofriend.mrsksevzap.ru/>), "Power stealing" (<https://clients.mrsksevzap.ru/powersafety-theft>) and in the Company's official social media.

Best practices developed by PJSC IDGC of the North-West for effective target audiences involvement into accidents prevention programme were presented at BIOT 2017 (International Safety and Labour Protection Exhibition).

Repair and maintenance programme

The Company implements repair and maintenance measures to sustain the substations and high voltage lines equipment in good technical condition.

In 2017 PJSC IDGC of the North-West fully implemented all planned repair and maintenance measures.

Name of work item	2015	2016	2017
Overhaul of overhead lines, km	9,940	9,500	10,166
Clearing of overhead line routes, ha	17,918	16,805	16,563
Repair of switching devices, pcs	2,522	2,763	2,798
Repair and maintenance campaign, RUB m	3,177.67	3,515.20	3,800.76

All measures needed for maintaining power grid system in good technical condition, successful passing of autumn and winter period and reliable power supply of consumers are implemented in PJSC IDGC of the North-West in 2017 within the technical repairs and maintenance plan for 2017.

Implementation of the technical repairs and maintenance plan accounted for RUB 3,800.76 m (planned – RUB 3,747.55 m), or 101%.

Power supply safety

According to the regulations for implementing the uniform communication policy of PJSC IDGC of the North-West (latest version approved by the Decision of the Company's Board of Directors dated 28 December, 2017 (Minutes No. 263/18)), the Company performs information exchange with related electric power entities and divisions of the Russian Emergencies Ministry. The Company's representatives participate in interagency working groups, consumer councils, regional headquarters for ensuring safe power supply under executive authorities of the constituent entities of the Russian Federation.

Special operational periods

PJSC IDGC of the North-West implemented organisational and technical measures to prepare the power grid system for operation during special periods. Organisational and executive documents were developed, commissions were created, and inspections were carried out to control proper implementation of main and additional measures for ensuring operational readiness of the power grid system in special operation periods. Based on the results of the commission's work, Acts were obtained regarding operational readiness for the 2017 high-water period, the 2017-2018 autumn and winter period (AWP), and the Certificate of Operational Readiness for the AWP.

Organisational and technical measures performed provided for reliable power supply of consumers in special periods.

INFORMATION TECHNOLOGY

The performance of PJSC IDGC of the North-West greatly depends on information technology (hereinafter – IT) and connection infrastructure.

IT activities were performed in line with the information technologies, automation and telecommunications strategy of the Company, approved by the Board of Directors. Currently PJSC IDGC of the North-West automation architecture consists of the following types of IT systems:

- **Automated technological management systems** improving the efficiency of the production and technological system of PJSC IDGC of the North-West.

- **Automated business processes management systems:** consumer communication, technological connection of consumers, power energy transport, production assets, procurements and resources, investment, economics and finance, accounting and tax reporting, human resources, production safety management.

- **Communication systems and IT infrastructure** that support the functioning of all the above-mentioned automation systems and ensure stable communication for all employees of the Company.

Automated technological management systems

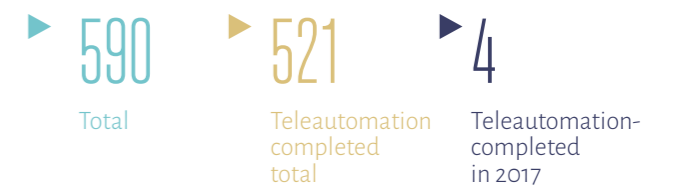
In order to improve observability and controllability of the power grid facilities of PJSC IDGC of the North-West in 2017, the Company accomplished measures aimed to upgrade the existing teleautomation systems and to install new microprocessor-based systems for

data collection and communication from the facilities. These systems provide observability of power grid infrastructure facilities and transfer dispatch control commands by equipment of these facilities operating in the common mode.

35 KV SUBSTATION



110-220 KV SUBSTATION



Details of the automated process control systems are available in the full version of the Annual Report at <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Automated business processes management systems

Main tasks in this area are the transfer of automated business processes management systems to a single local platform 1C ERP, which will help to get information from branches more promptly and reduce cost per information unit, as well as be fully in line with PJSC Rosseti technical policy requirements.

In 2017, the share of centralised automated business processes management systems increased in the Company, the existing systems were considerably modernised.

KEY RESULTS IN 2017

- ▶ The rollout of power transmission management information system of the basis of locally produced platform is performed in all PJSC IDGC of the North-West branches.
- ▶ Mobile solution is rolled out with worksites on tablets for all electricians servicing energy metering devices.
- ▶ The centralised Operational Asset Management System (OAMS) is implemented on the basis of 1C ERP platform within the 1st stage of OAMS implementation.

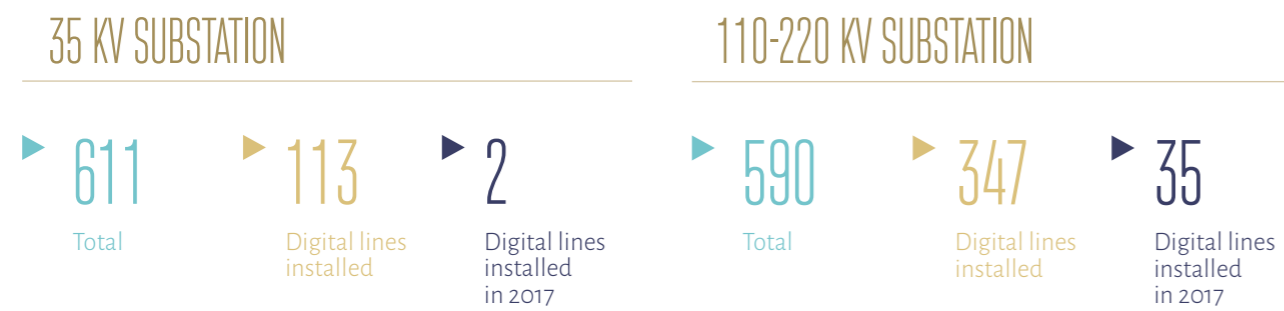
Details of the automated business process management systems are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Communication and IT infrastructure systems

At the reconstruction of existing communication channels and the construction of the new ones only solutions based on digital technologies are used which ensure higher transmission capacity and communication quality than analogue solutions. Digital networks

are capable to organise multichannel data transfer, flexible reaction to changing loads, remote management from unified management centres, as well as decrease operating costs and increase reliability.

Installing digital communication channels at 35-220 kV substations, in units



Details of the communication and IT infrastructure systems are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Further IT development plans

Further development of unified data transfer network:

- ▶ Install necessary equipment to 646 35-220 kV substations and connect 4 telesignals to dispatcher working sites. Thus there will be no substations unobserved.
- ▶ Equip all operational crews with advanced mobile connection devices, which provide connection to electric grid facilities of the Company when cellular connection is unavailable.
- ▶ Launch construction of modern mobile radio connection of DMR standard in PJSC IDGC of the North-West branches with not less than 95% target coverage of the Company's electric grid facilities, as part of OMS.
- ▶ Further centralisation of automated business processes management system on the basis of 1C ERP as stage 2nd of OAMS and procurement and resources management.
- ▶ Implement pilot project – OAMS mobile solution for operational crews that work at electric grid facilities of PJSC IDGC of the North-West.
- ▶ Launch a unified video monitoring system implementation project to monitor the activities of operational crews and store information, as part of operational security management system.
- ▶ Continue improvement and development of existing automated management systems for the benefit of PJSC IDGC of the North-West functional subdivisions.

INNOVATIVE DEVELOPMENT

The 2016-2020 Innovative Development Programme with the outlook until 2025 (hereinafter – the Programme) taking into account the top-priority areas outlined in the Policy of Innovative Development of PJSC Rosseti was launched by the decision of the Company's Board of Directors dated 31 March, 2017 (Minutes No. 235/26).

The following top-priority areas of the Company's innovative development for the period of Innovative Development Programme up to 2025 were outlined:

- ▶ Transition to and large scale implementation of digital 35-110 (220) kV substations.
- ▶ Transition to digital active-adaptive networks with the distributed intelligent system of automation and management.
- ▶ Transition to comprehensive efficiency of business processes and automation of management systems.
- ▶ Usage of new technologies and materials in the power industry.
- ▶ Development and implementation of the R&D strategy, intellectual property management.

Main comprehensive innovative projects developed in the reporting period:

Transition to and large scale implementation of digital 35-110 (220) kV substations

The key innovative development object in PJSC IDGC of the North-West is the construction of digital 35-110 kV substation Yuzhnaya in Zashchekinsky District of Cherepovets.

Subject to the decision of PJSC ROSSETI, the facility was rated among national priority facilities and will be implemented in the digital format with implementation of the automated protection and management system for new generation substations (ISAS APMS). Yuzhnaya substation is equipped with digital devices system ISAS APMS with the functionality of relay protection and automation systems, power measurement, TSS automated management, registration of accidents in accordance with IEC 61850 standard. This allows to unite all technological equipment of the substation with a single information network which transfer not only metering data from measuring devices to relay protection and automation systems, but also control commands. The possibility of equipment and all systems self-diagnosing is provided in real time mode. In case of discovered deviations from the normal working mode the system automatically involves reserve scheme and the operating staff receives necessary messages.

The ISAS APMS system analyses data received and provides recommendations for technical service of equipment which allows the Company to change the working principle from regular routine maintenance to works with defects. This principle allows to reduce costs on human resources devoted to equipment maintenance.

Yuzhnaya substation is commissioned in December 2017.



Transition to digital active-adaptive networks with the distributed intelligent system of automation and management

In the implementation of the project "Creation of automated information system of technological management of electric distribution grid system" in 2017:

- ▶ the work is continued on creating single data exchange environment between the existing different automated data collecting systems;
- ▶ set and commenced to commercial operation 2 reclosers TER_Rec35_Smart1_Tie7 with nominal capacity of 35 kV with management system and 11 vacuum reclosers 10(6) kV;
- ▶ new technologies and connection systems implemented (creation of digital connection channels, implementation of IT infrastructure) on the total sum of more than RUB 185.14 m net of VAT, which significantly improves observance and manageability of facilities.

In 2017 the pilot project "Digital power distribution zone" was launched in Valdayskiy and Borovichskiy power distribution zones of PJSC IDGC of the North-West Novgorodenergo branch: first stage of grids modernisation was implemented with the cost of RUB 57.9 m, including the installation of distributed automated management systems and implementation of new operating information system in the dispatcher control point of Valdayskiy power distribution zone.

The project will pilot innovative technologies in the area of electric power transfer and distribution grid management for their further rollout in the service zone of Novgorodenergo branch and other branches of PJSC IDGC of the North-West.

Use of new technologies and materials

The project aimed at control over the condition of line routes OL-110-220 kV with the use of air drones in PJSC IDGC of the North-West branches. Control over the condition of overhead line routes of 35-220 kV grids with the use of aerial photography allows:

- ▶ Timely find spots where trees fell on lines, broken wires, fall or damage of poles and isolation, discover and estimate potentially dangerous situations;
- ▶ Define condition of routes OL-35-220 kV in terms of location characteristics of OL route, objects in security zone, position measurements and distances between poles, width of clearing of find discrepancies in efficiency management programme requirements.

In 2018 the following measures are planned in this direction:

- ▶ Flight over aerial lines 35-110 kV to define the volumes of clearing and widening of clearings in all PJSC IDGC of the North-West branches;
- ▶ Providing PJSC IDGC of the North-West branches with air drones for equipment of 26 linear crews;
- ▶ Organising necessary steps for approval of air drones usage in production with Russian Aviation Service, the corresponding security services and local authorities.

Details of the Innovative Development Programme implementation are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Research and Development

A key priority within the innovative development of the power grid system is implementing the R&D Programme, including measures to develop breakthrough technologies designed to create revolutionary solutions and methods, and application-specific areas ensuring improvement of the existing technologies and products.

In 2017 PJSC IDGC of the North-West concluded two research and development contracts on the total sum of RUB 47.747 m net of VAT or RUB 49.429 m with VAT.

Details of the Research and Development Programme are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Research and Development Board

In order to enhance its technical activities and promote a coherent technical policy in development, engineering, construction, reconstruction, and operation of the power grid facilities, PJSC IDGC of the North-West has its Research and Development Board (hereinafter - the RDB). The RDB is a permanent collective advisory body providing scientific and technical support for the Company's operation and development.

Details of the Research and Development Board activities are available in Annex 6 to the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.



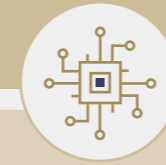
Automated control system of the operations and information centre, dispatching centre of the Volgda power distribution zone, Volgdaenergo branch



Technical solutions implemented and under implementation in the projects of new construction and reconstruction included in investment programme of PJSC IDGC of the North-West for 2017 **correspond to the requirements of Uniform Technical Policy** (approved by the decision of the Board of Directors of PJSC IDGC of the North-West №237/28 dated 05 April, 2017).²⁰



In PJSC IDGC of the North-West branches the replacement of outmoded equipment 0.4- 110 kV with significant physical depreciation **with modern equipment with improved technical characteristics and high degree of factory readiness.**



The most important project of PJSC IDGC of the North-West which uses the most progressive technical solutions is **the construction of the 110/35/10 kV Yuzhnaya SS** in the Zashkenskyy District of Cherepovets, equipped with the automated system of protection and management of new generation SS (ISAS APMS), with high level of technical processes management automation and developed IT and management systems and equipment (information acquisition and transmission system, AIIS KUE, RZ, PA, OMP, etc.). Yuzhnaya SS is equipped with digital devices system ISAS APMS based on the application of digital technologies with the use of data transfer protocol MAK-61850.

In 2017 on the territory of Novgorod region the **project “Digital power distribution zone”** is implemented which includes the implementation of solutions which provide for effective and reliable work of distribution grids, open and adaptive to new market participants. Within this project the implementation is planned on the basis of allotted pilot zones (Valdayskiy power distribution zone and Borovichskiy power distribution zone) of new key technologies which provide for transfer to target scalable business model of distribution grid company with verification of possible cost effect and performance targets. The project implementation term is 2017-2019.

The projects of power grid objects imply:

- ▶ the replacement of oil break switches to vacuum 6-35 kV;
- ▶ isolating switches and short-circuiting switches with sulfur-hexafluoride circuit breakers 110 kV;
- ▶ as well as use of sulfur-hexafluoride circuit breakers and vacuum switchers at newly constructed objects;
- ▶ use of modular switch cabinet 10-35 kV;
- ▶ construction of OL 0.4-35 kV with the use of self-supporting insulated wire;
- ▶ construction of OL 110 kV with the use of multifacet poles;
- ▶ use of modern technologically compliant intellectual microprocessor devices with increased time intervals between maintenance service periods.



The implementation of pilot projects will increase the reliability and quality of socially important objects and new investment sites:

- ▶ will provide for the implementation of innovative technologies and solutions integration into the network of intellectual commutation devices with the aim of automatic identification and localisation of breakdowns in distribution grids;
- ▶ modernisation of existing main substations by replacing outdated commutation devices and relay protection and automation devices with modern vacuum switchers and digital connection controllers with the use of digital combined meters of current and voltage;
- ▶ creation of SCADA system at the level of power distribution zone.

FINANCIAL PERFORMANCE ANALYSIS

OVERVIEW OF FINANCIAL PERFORMANCE UNDER IFRS

The revenue of the Group under IFRS increased by RUB 2,323 m, or 5%, mostly due to growth of revenue from power transmission. EBITDA of the Group for 2017 decreased by RUB 3,480 m, or 54%. The loss received by the Group in 2017 is RUB 2,172 m.

Key performance results of the Group in 2017, m RUB

Indicator	2017	2016	Absolute change	Change, %
Return	47,869	45,546	2,323	5
Operating expenses, including:	50,368	44,324	6,044	14
Variable costs	22,771	21,936	835	4
Fixed costs*	23,489	18,398	5,091	28
Depreciation and amortisation	4,109	3,990	119	3
State subsidies	6	5	1	20
Other revenues	1,333	1,210	123	10
Operating profit	-1,167	2,432	-3,599	-148
Profit before tax	-2,612	761	-3,373	-443
Profit over period	-2,172	585	-2,757	-471
EBITDA**	2,942	6,422	-3,480	-54
EBITDA margin	6.12	14.04	-7.9	-56.37
Net debt	14,249	14,432	-183	-1
Return on assets	-5.4	1.44	-6.8	-475
Return on capital	10.9	9.1	1.8	20

* Net of depreciation.

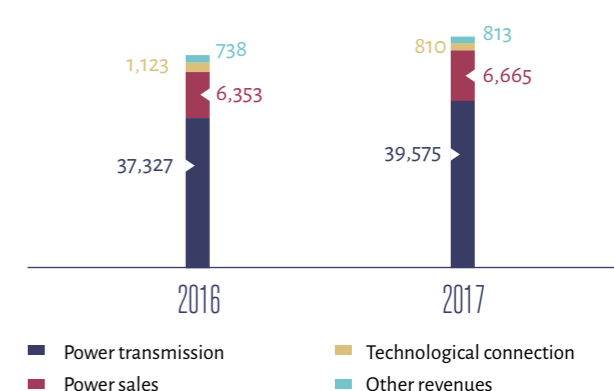
** EBITDA = Operating profit + Depreciation.

Revenue

The main part of the Group revenue is received from power transmission services. The change in this type of revenue volume depends mainly on the changes in tariffs set by the Federal Antimonopoly Service and the volumes of power transmitted in the period. The Group also receives revenue from sales of power

The revenue increased by RUB 2,323 m or 5%, from RUB 45,546 m in the year that ended on 31 December, 2016 to RUB 47,869 m in the year that ended on 31 December, 2017. The main growth factor is the indexation of tariffs on power transmission services.

Revenue breakdown, RUB m



Factor analysis of revenue

Power transmission

The revenue from power transmission services increased by RUB 2,248 m, or 6%, from RUB 37,327 m in the year that ended on 31 December, 2016 to RUB 39,575 m in the year that ended on 31 December, 2017. The revenue increased due to the indexation of tariffs on power transmission services, as well as the changes in load loss cost, accounted in equilibrium prices on electric power for the participants of wholesale power market (changes in legislation (Resolution of the Russian Government No. 810 dated 07 July, 2017).

Technological connection to grids

The revenue of the group from technological connection services decreased by RUB 313 m, or 28%, from RUB 1,123 m in the year that ended on 31 December, 2016 to RUB 810 m in the year that ended on 31 December, 2017, due to drawing up acts of a number of major technological connection contracts in 2016.

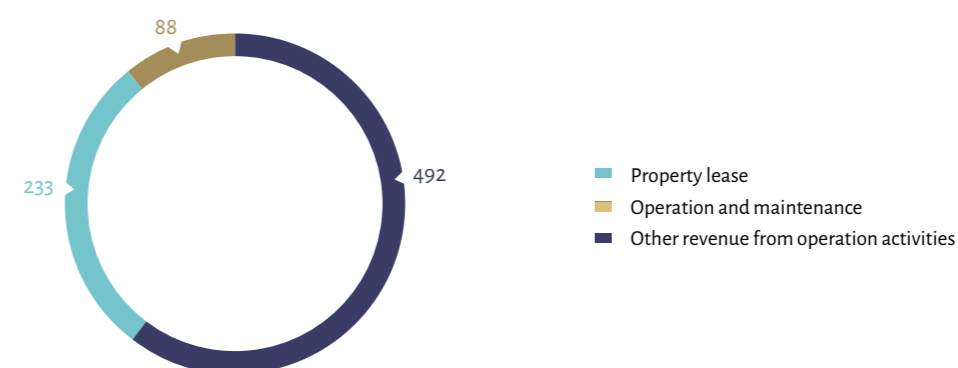
Sales of electric power

Revenue from sales of electric power increased by RUB 312 m, or 5%, from RUB 6,353 m in the year that ended on 31 December, 2016 to RUB 6,665 m in the year that ended on 31 December, 2017. Revenue increase is connected with the growth of output to grid and tariffs indexation.

Other types of revenue

Other revenue from other types of activities in 2017 accounted for RUB 813 m which was RUB 75 m or 10% higher than in 2016. The variance is due to unplanned contracts on removal / relocation of power facilities and provision of operative technical services for power grid facilities of the third parties.

Breakdown of revenues from other activities, RUB m



State subsidies

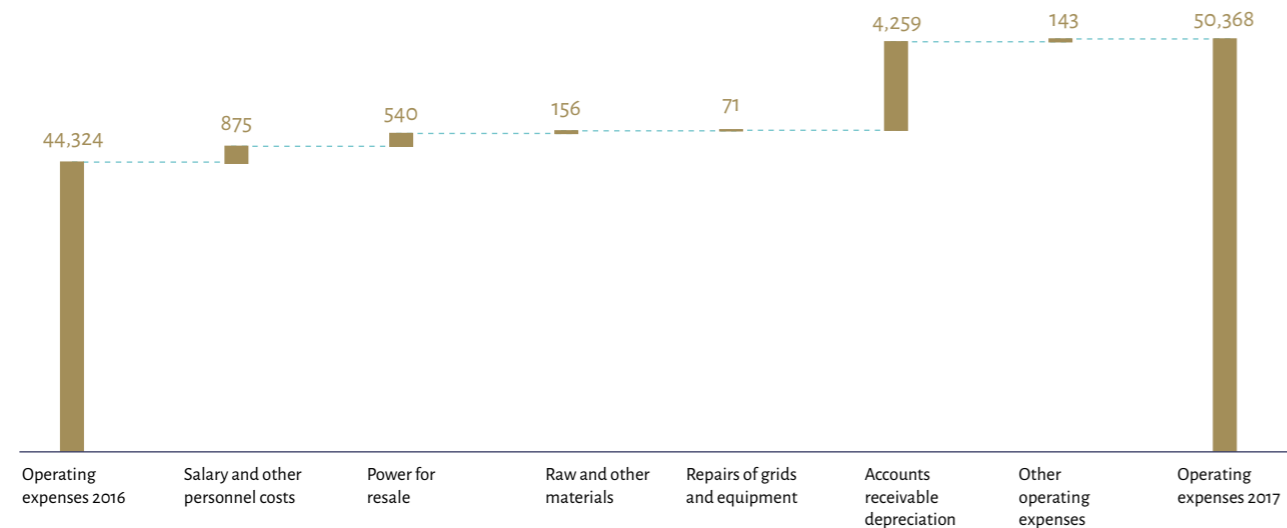
State subsidies increased by RUB 1 m or 20%, from RUB 5 m in the year that ended on 31 December, 2016 to RUB 6 m in the year that ended on 31 December, 2017. The increase is due to the growth in the occupational injuries and professional deceases of employees by increasing premiums on compulsory industrial accident social insurance premiums and professional diseases subject to payment by the insured in correspondence with the approved plan of financial provision at the expense of Social Insurance Fund, with the simultaneous reduction of subsidies on compensation of lost profits due to the difference in heat supply tariffs for population.

Other operating profits

Other operating profits include profits from non-core activities. Other operating profits of the Group increased by RUB 123 m or 10%, from RUB 1,210 m in the year that ended on 31 December, 2016 to RUB 1,333 m in the year that ended on 31 December, 2017. The increase is connected with the growth in revenue from the discovered uncontracted power consumption on RUB 14 m, increase in revenue in the form of fines and penalty fees in commercial contracts on RUB 174 m.

Operating expenses

Factor analysis of the operating expenses dynamics, RUB m



Fixed costs

Indicator	2016	2017	Change, RUB m	Change, %
Salary and other human resources-related costs	11,145	12,020	875	8
Repair of grids and equipment	679	750	71	10
Taxes except profit tax	470	520	50	11
Impairment of receivables	1,109	5,368	4,259	384
Raw materials and supplies	1,999	2,155	156	8
Other operating expenses	2,996	2,676	-320	-11
Constant costs total	18,398	23,489	5,091	28

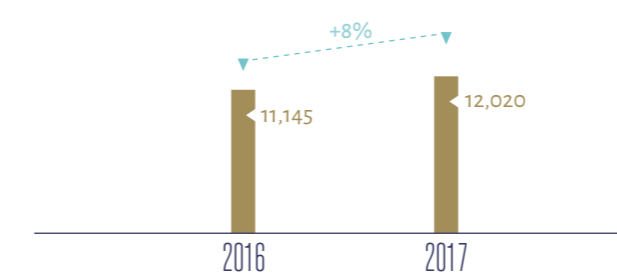
HR costs increased by RUB 875 m (8%) compared to the same period of the previous year, determined by the necessity to compile with the requirements of Industrial tariff agreement and the terms of Collective employment agreement of the Company.

The amount of impairment of receivables increased by RUB 4,259 m compared to the same period of 2016 due to sharp growth in the volume of creating bad debt provision. The biggest share of reserves accounted for Arkhenergo branch (RUB 3,304 m), of them the debt

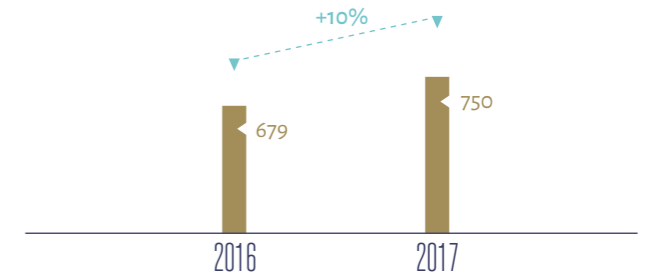
of Arkhangelskaya Sbytovaya Kompaniya accounts for RUB 3,270 m, because the latter was deprived of its status as a subject of wholesale electric power market (Order of the Ministry of Energy of the Russian Federation No. 1202 dated 22 December, 2017).

Expenses on raw materials and supplies increased by RUB 156 m (8%) compared to the same period of 2016 due to the growth in expenses on repair materials, fuel, petroleum, oil and lubricants.

Salaries and other personnel costs



Grids and equipment repairs



Variable costs

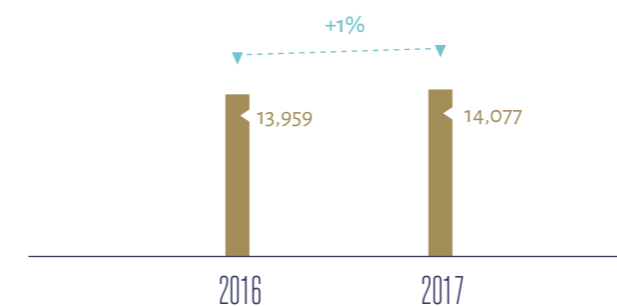
Indicator	2016	2017	Change, RUB m	Change, %
Power transmission services	13,959	14,077	118	1
Electric power for reselling	3,346	3,886	541	16
Electric power for compensation of losses	4,631	4,808	177	4
Variable costs total	21,936	22,771	835	4

Power transmission services costs increased by RUB 118 m (1%) compared to the same period in 2016. Also the costs of services of distributing electric grid companies also increased (+ RUB 439 m), but this increase was levelled by the decrease in expenses on PJSC FGC UES services (on RUB 321 m) because of the leave of the last mile consumers since 01 July, 2017 in Vologdaenergo and Karelnenergo branches.

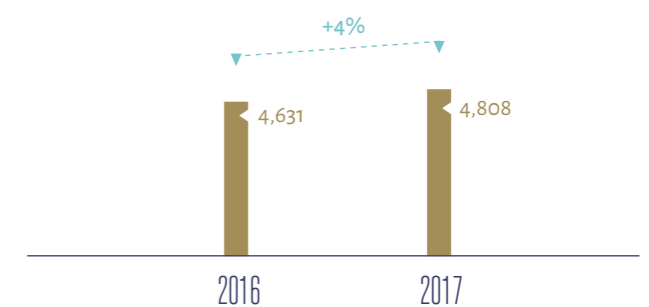
The cost of electric power for reselling increased by RUB 541 m (16%) compared to the same period in 2016 due to the growth in the total volume of electric power sales as well as the increase in the cost of buying electric power at the wholesale market.

The cost of buying electric power losses increased by RUB 177 m (4%) compared to the same period in 2016 because of the growth in the weighted average tariff and reduction in loads losses costs accounted in equilibrium prices on electric power for the participants of wholesale power market, due to changes in legislation (Resolution of the Russian Government No. 810 dated 07 July, 2017).

Power transmission services



Power for loss compensation



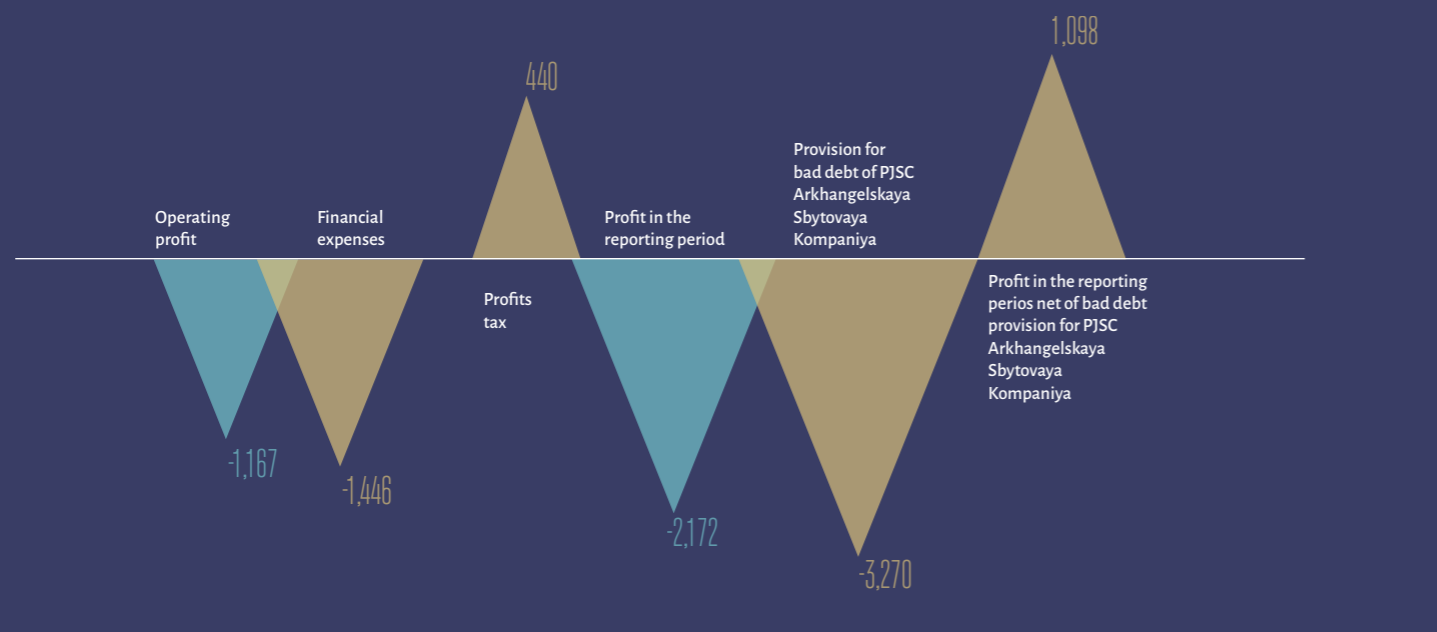
Profit before tax

The Group acknowledged loss before tax in the amount of RUB 2,612 m in the year ended on 31 December, 2017 and profit in the amount of RUB 761 m in the year ended on 31 December, 2016.

Financial result over period

Due to the influence of the factors described above the Group reported loss in the amount of RUB 2,172 m in the year ended on 31 December, 2017 and profit in the amount of RUB 585 m in the year ended on 31 December, 2016. Financial result net of accrued reserves on dubious accounts receivable of PJSC Arkhangelskaya Sbytovaya Kompaniya accounts for RUB 1,098 m.

Profit generation in 2017, RUB m



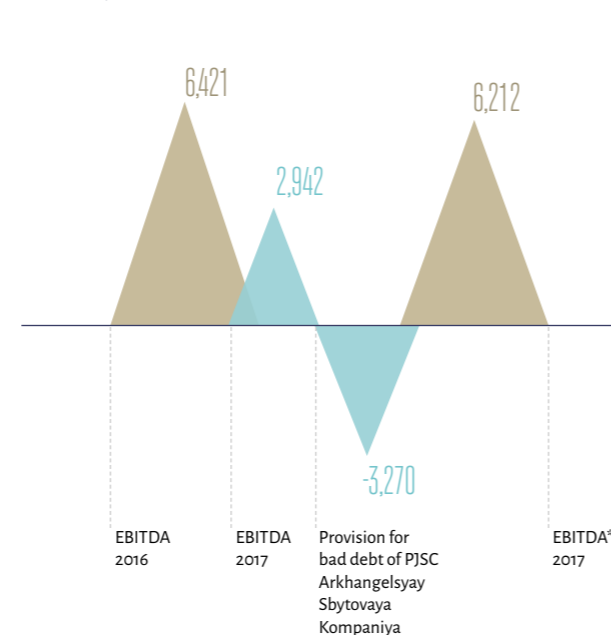
EBITDA

EBITDA indicator decreased by RUB 3,480 m (54%) compared to the same period in 2016 to RUB 2,942 m. The main reason for reduction is the increase in the Company's operating profit for 2017 on RUB 3,599 m compared to the same period in 2016. The revenue for the same period increased by RUB 2,323m with the increase of operating expenses on RUB 6,044 m.

The accrued reserves on dubious accounts receivable influenced EBITDA most significantly. As a result of 2017 reserves created / added accounted for RUB 5,368 m. The biggest share of reserves created / added is accrued to Arkhenergo branch (RUB 3,304 m), of them, RUB 3,270 m on PJSC Arkhangelskaya Sbytovaya Kompaniya because the latter was deprived of its status as a subject of wholesale electric power market and excluded from the registry of wholesale market participants and PGSC MRSC of the North-West received the status of the supplier of last resort of the Arkhangelsk Region since 01 January, 2018 (Order of the Ministry of Energy of the Russian Federation No. 1202 dated 22 December, 2017).

EBITDA indicator adjusted for accrued reserves on dubious accounts receivable of PJSC Arkhangelskaya Sbytovaya Kompaniya accounts for RUB 6,212 m which is 3% lower than the same period of the previous year.

EBITDA, RUB m



* The indicator is adjusted for accrued reserves on dubious accounts receivable of PJSC Arkhangelskaya Sbytovaya Kompaniya.

FINANCIAL AND ECONOMIC PERFORMANCE IN ACCORDANCE WITH RAS

Main financial and economic indicators, RUB m

Indicator	2015	2016	2017	Change, %
1. Revenues from sales of products (services), including:	39,623	42,433	44,307	4%
1.1. revenue from power transmission	36,881	40,583	42,710	5%
1.2. revenue from TC	804	1,123	810	-28%
1.3. revenue from power sales	946	0	0	0%
1.4. revenue from other activities	991	726	787	8%
2. Cost value	35,547	38,177	39,925	5%
3. Gross profit	4,076	4,255	4,383	3%
4. Administrative expenses	984	1,104	1,231	11%
5. Selling expenses	112	56	45	-19%
6. Sales profit / loss	2,981	3,095	3,106	0%
7. Interest receivable	197	54	40	-27%
8. Interest payable	1,800	1,622	1,408	-13%
9. Profit from participation in other organisations	2	11	5	-51%
10. Other profit	2,519	1,467	2,107	44%
11. Other losses	3,018	2,260	6,684	196%
12. Profit (loss) before tax	880	745	-2,833	Decreased 3.8 times
13. Profit tax and other payments	-236	-288	391	236%
14. Net profit (loss)	644	457	-2,441	Decreased 5 times
15. EBITDA*	6,856	6,619	3,003	-55%

Revenue from sales of goods (services) in 2017 totalled RUB 44,307 m, which is RUB 1,875 m, or 4%, more than in 2016. The increase in the aggregated revenue is mainly due to the revenue from the main activity, power transmission. Power transmission services revenue was RUB 42,710 m, which is RUB 2,127 m, or 5%, more than in 2016.

Actual cost of services sold in 2017 (including commercial and management expenses) amounted to RUB 41,201 m, which is RUB 1,864 m, or 5%, higher than in 2016. The year-on-year growth in expenses was largely due to an increase in the uncontrollable expenses (costs of LGO services and power purchased for loss compensation), as well as growth in personnel costs.

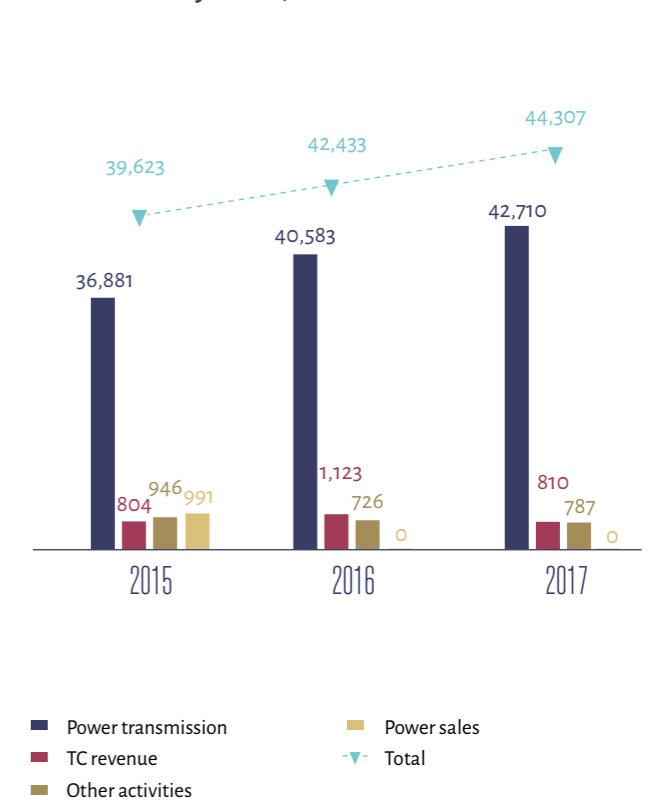
As of 2017 year-end, the Company incurred losses in the amount of RUB 2,441 m against the profit of RUB 457 m, achieved in 2016. The losses as of 2017 year-end were due to creation of bad debt provision in the amount of RUB 3,270 m – the accounts receivable from PJSC Arkhenergosbyt – as it had been deprived of the status of wholesale electric power and capacity supplier and excluded from the register of the wholesale market players, and PJSC IDGC of the North-West received the status of the provider of last resort in the Arkhangelsk Region starting 01 January 2018 (Order of the Russian Ministry of Energy No. 1202 dated 22 December, 2017). The Provision for the bad debts regarding the accounts receivable from PJSC Arkhenergosbyt also exerted a negative impact on the EBITDA indicators, which amounted to RUB 3,003 m in the reporting period, lower by RUB 3,616 m year on year.

In 2017, the sales profit amounted to RUB 3,106 m, which is RUB 11 m higher than that of 2016.

In the reporting period, the adjusted net profit (with adjustment for the bad debt provision regarding the accounts receivable from PJSC Arkhenergosbyt, and revaluation of financial investments) amounted to RUB 832 m and exceeded the last year's net profit by RUB 388 m.

* The indicator was adjusted for bad debt provision for accounts receivable from PJSC Arkhangelskaya Sbytovaya Kompaniya.

Sales revenue dynamics, RUB m



OPERATIONAL EFFICIENCY IMPROVEMENT AND COST REDUCTION PROGRAMME

Operational efficiency and cost reduction programme of PJSC IDGC of the North-West is approved by the Company Board of Directors on 09 June, 2017 (Minutes No. 245/36 of 09 June, 2017). The activities stipulated by the programme are taken into account in the business plan, investment programme, energy saving and efficiency programme, innovative development programme and other target programmes worked out by the Company.*

Performance indicators of the programme are based on target values set by the Development Strategy of the Electric Grid System of the Russian Federation approved by Order of the Russian Government No.511-r dated 3 April, 2013, and the Directive of the Russian Government No. 2303p-P13 of 16 April, 2015.

Reduction of the controllable operating expenses in 2017 against 2012, for the purposes of implementation of the Development Strategy of the Electric Grid System of the Russian Federation approved by Order of the Russian Government No.511-r dated 3 April, 2013, amounted to RUB 2,346 m, or 22%, with the target value of 15%.

Measures taken under the operational efficiency and cost reduction programme:

1. Improved efficiency of repairs and maintenance management regarding the facilities, buildings and constructions

ACTION ITEM

Revision of operating and maintenance rules and other regulatory standards and technical documentation for transition to repairs based on the technical condition.

RESULTS ACHIEVED

A positive effect was shown in reduction of the economic loss from technological disturbances caused by insufficient repairs and maintenance in the annual amount of RUB 20.8 m, starting 2019.

2. Improved efficiency of the system of managing procurement and supply chains

ACTION ITEM

Increased share of open competitive procurements and reduction in the share of purchasing "from the only source".

RESULTS ACHIEVED

Results achieved – the share of open competitive procurement procedures in the purchasing breakdown amounted to 95.2% of the total value of procurement.

Retaining the share of purchases made at electronic trading facilities.

Results achieved: the number of purchases using e-commerce amounted to RUB 99.4% of the total value of procurement.

Minimisation of the use of imported equipment and materials in the technical specifications of design solutions.

Results achieved: reduction in the specific volume of imported equipment and materials purchase by 15%.

3.

Working capital management efficiency improvement:

ACTION ITEM

Optimisation of accounts receivable (reduction in overdue debt) from the power transmission services.

RESULTS ACHIEVED

Results achieved: decrease of overdue debts by the end of the year (net of moratorium receivables) by 28%, or RUB 1,935 m (from RUB 6,869 m as of the beginning of the year to RUB 4,934 m as of the end of the year).

Inventory optimisation

Results achieved: material and production stocks decreased by the by the end of the year by 3%, or RUB 21 m (from RUB 809 m as of the beginning of the year to RUB 788 m as of the end of the year).

Measures to reduce the risk of financial resource losses due to the failure of the contractors to fulfil the prepaid obligations of works, services, equipment and commodities supply, including: introduction of restrictions on the amount and conditions of prepayment for operating contracts.

The positive effect from mitigating the risk of accounts receivable is ensured by internal administrative documentation and company regulations, which establish the terms of payment for the contracts (transactions) on the basis of the nature of small and medium businesses participation in the deals, as well as conditions of advance payments.

Control of compliance with the terms of payment under the effective regulations and contracts.

Results achieved as the reduction in the risk of the Company being charged with punitive damages amounted to RUB 2.49 m.

Loan portfolio optimisation, including opening lending limits at credit institutions in order to meet the limits of debt indicated in the Company's credit policy regulation (approved by the Board of Directors of OJSC IDGC of the North-West on 30 September, 2013, Minutes No. 135/6); to settle the previous loans in due time; to refinance the credits with the highest interest rates.

Opening lending limits at credit institutions in the amount of RUB 7,000 m, RUB 5,000 m of which are long-term credit limits; refinancing debt in the amount of RUB 45,680 m to reduce annual interest rates from 10.75% to 9.55% for the loan portfolio, and to 8% in credits. As a result of the optimisation and reduction in the volume of the loan portfolio, the savings from debt expenses of the Company amounted to RUB 357 m.

4.

Improved efficiency of the fixed assets management

ACTION ITEM

A set of measures designed to cover the capital construction projects of the Company's investment programme with independent construction compliance monitoring.

RESULTS ACHIEVED

The effect was achieved in the form of reduction in the number of technological disturbances (accidents) resulting from the low construction quality of the capital construction facilities launched, and, therefore, reduction in the volume of consumer power undersupply and in costs of repair and recovery activities.

Reduction in costs of non-core assets upkeep and management.

RUB 1.072 m.

5. Optimisation of the system of incentives and personnel remuneration, improvement of the functional organisation, headcount optimisation

ACTION ITEM

Optimisation of the spending on the indexation of wages.

Introduction (and decomposition to the level of employees of the executive offices of branches and units) of the motivation system for top management and head of branches.

Systemisation of the regulatory and administrative documents regulating functional structure.

RESULTS ACHIEVED

Under this activity, over 2017, the Company carried out wage indexation using the individual approach to various categories of employees.

6. Improved energy efficiency (management of the energy saving and loss reduction system)

ACTION ITEM

Measures to reduce losses.

Rational use of fuels, natural resources, and motor oil.

RESULTS ACHIEVED

RUB 518 m.

RUB 0.421 m.

Income from sales of non-core assets

Subject to Decree of the Russian Federation President No. 596 of 07 May, 2012 "On long-term state policy", Directive of the Russian Government No. 4863p-P13 of 07 July, 2016, Order of the Russian Government No. 894-r of 10 May, 2017, by the Company Board of Directors Decision of 30 December 2016 (Minutes No. 227/18 of 09 January, 2017) PJSC IDGC of the North-West adopted the programme for non-core assets disposal (hereinafter – the Programme) (the new version of the Programme was approved by the Company Board of Directors Decision of 26 February, 2018 (Minutes of 26 February, 2018 No. 269/24).

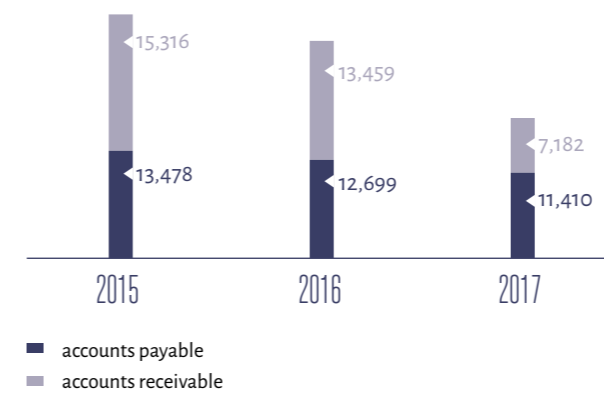
The Programme specifies key approaches, principles and mechanisms for identification and sale of the non-core assets of PJSC IDGC of the North-West, establishes the criteria for classifying PJSC IDGC of the North-West assets as non-core, the procedure for maintaining the register of non-core assets and key provisions for disposal of non-core assets, as well as the procedure of reporting on the implementation of the register of non-core assets.

By the Company Board of Directors Decision of 30 December, 2016 (Minutes of 09 January, 2017 No. 227/18), the register (plan of sales) of PJSC IDGC of the North-West non-core assets was approved as of 30 September, 2016 under the requirements of the Programme. The current register of PJSC IDGC of the North-West non-core assets as of 31 December, 2017 was approved by the Company Board of Directors Decision of 14 February, 2018 (Minutes of 16 February, 2018 No.266/21). A brief version of the Register is available at the Company's web site – <http://www.mrsksevzap.ru/property>.

Information on the sales of non-core assets of PJSC IDGC of the North-West in 2017 is shown in Annex 24 to the Annual Report <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

LIABILITIES

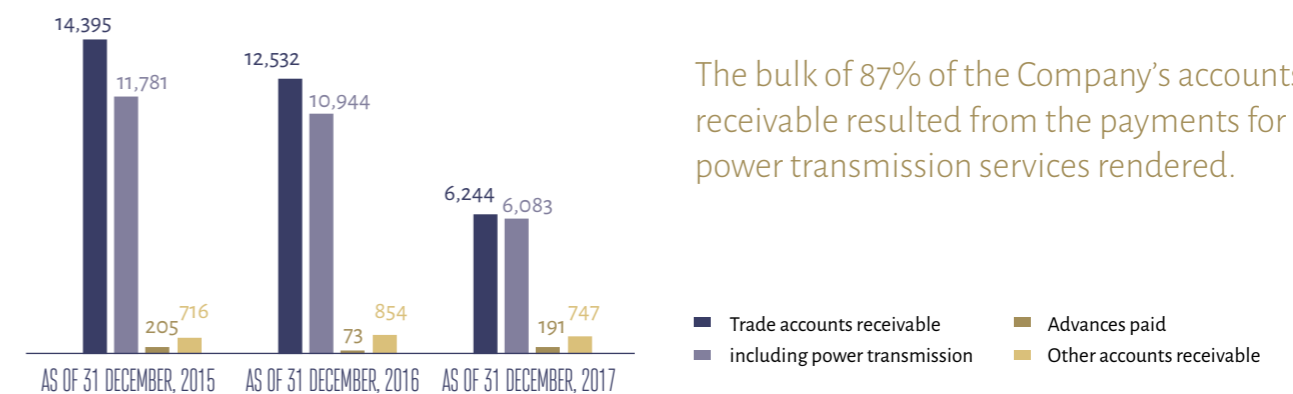
Correlation of accounts receivable and accounts payable, RUB m



In 2017, the growth rates of accounts receivable and accounts payable were lower than 1, which shows their reduction against 2016.

Accounts receivable

Analysis of changes in accounts receivable, RUB m ²¹



The bulk of 87% of the Company's accounts receivable resulted from the payments for power transmission services rendered.

Indicator	as of 31 December, 2015	as of 31 December, 2016	as of 31 December, 2017
Accounts receivable, including:	15,316	13,459	7,182
Trade accounts receivable	14,395	12,532	6,244
including power transmission	11,781	10,944	6,083
Notes receivable	0	0	0
Advances paid	205	73	191
Other accounts receivable	716	854	747

²¹The indicators are based on the Company's accounting statements of 2017.

The accounts receivable of PJSC IDGC of the North-West as of the beginning of the reporting period amounted to RUB 13,459 m; as of 31 December, 2017 – RUB 7,182 m. The reduction was due to decreasing accounts receivable from power transmission services by RUB 4,861 m (from RUB 10,944 m to RUB 6,083 m).

Trade accounts receivable as of 31 December, 2017 amounted to RUB 6,244 m, which is RUB 6,288 m (50%) less than those as of 31 December, 2016. The reduction was due to the efforts in recovering overdue accounts receivable of the consumers for power transmission and provisions made for accounts receivable of PJSC Arkhenergosbyt, which was deprived of the status of wholesale electric power and capacity supplier and underwent bankruptcy proceedings.

The changes in other accounts receivable are insignificant. In 2017, the increase amounted to RUB 11 m.

Measures for recovery of accounts receivable

The Company works with the overdue accounts receivable from the power transmission services in accordance with the Regulation on managing accounts receivable from the power transmission services recorded by PJSC IDGC of the North-West, approved by Order No.78 of 09 February, 2017 (hereinafter, the Regulations).

To reduce the amount of overdue accounts receivable and prevent its growth, the following ongoing efforts are made by the Company:

- ▶ timely claims to recover overdue accounts receivable with penalties imposed on the consumers violating the contract provisions of payment for the power transmission services;
- ▶ signing direct contracts for power transmission services with consumers of providers of last resort;
- ▶ introduction of full and (or) partial restrictions on the power use conditions for the non-paying customers upon applications of power sales companies;
- ▶ offsetting similar claims and assigning the right of demand for receivables (transfers);
- ▶ putting forward the issues of unsatisfactory consumer payment habits on the agenda of the regional collective authorities monitoring the situation with payments for electric power and services of its transmission in the North-Western regions of Russia;
- ▶ informing the federal and regional media on the Company tackling overdue accounts receivable;
- ▶ applications and appeals to the law enforcement agencies, prosecution service, investigation committee; meetings with representatives of the law enforcement agencies, police, Federal Bailiff Service, Federal Security Service, prosecution on enhancing the activities aimed at identification and prevention of crime, acceleration of court enforcement actions, seizure of the debtors' property and transaction accounts at credit organisations.

In line with the schedules set by the Regulation, in 2017 the Company sent 6,843 claims to consumers regarding outstanding contract liabilities in the total amount of RUB 15,883 m, made 762 lawsuits for the total debt amount of RUB 8,268 m, conducted negotiations with debtors.

As a result of the Company's claims activities to recover overdue accounts receivable for the power transmission services in 2017, the court sustained 625 lawsuits in the total claimed amount of RUB 7,656 m (including the penalties of RUB 722 m), dismissed the claims for 20 lawsuits in the total amount of RUB 37 m (including the penalties of RUB 8 m). The share of Company's lawsuit requirements sustained amounted to 99.5%.

In 2016, upon considering the lawsuits on overdue accounts receivable recovery for the power transmission services, the court ruled in favour of the Company for the total amount of RUB 7,585.4 m (including the penalties of RUB 369.2 m) (557 cases), dismissed the claims in the total amount of RUB 14.2 m (including the penalties of RUB 7.8 m) (24 cases).

Under the enacted court decisions, in 2017, warrants of execution were issued in the amount of RUB 6,671.8 m, RUB 5,581.1 m, or 83.6%, were settled. In 2016, warrants of execution were issued in the amount of RUB 7,579.8 m, RUB 7,013.6 m, or 92.5% were settled.

The coverage of the overdue accounts payable with activities aimed at its reduction has been consistently high, amounting to 98.9% as of 31 December, 2017.

To control the implementation of measures designed to reduce the accounts receivable, the Company drafts the schedule of PJSC IDGC of the North-West activities to reduce overdue accounts receivable from the power transmission services and dispute settlement on a quarter-by-quarter basis. The schedule and related reporting are approved by the Company Board of Directors.

Apart from the measures included in the schedule, over 2017:

- ▶ 23 warnings were issued under Article 315 of the RF Criminal Code "Non-execution of a court's judgement, decision, or any other juridical act" regarding heads of property management companies and municipal unitary enterprises;
- ▶ 13,234 requests of power sales companies for full and (or) partial restrictions on the power use conditions for the non-paying customers were fulfilled;
- ▶ criminal proceedings were initiated under P.2 Article 165 of the RF Criminal Code "Infliction of damage on property by deceit or breach of trust" against the director of LLC Partner (a branch of Kolenergo).

To prevent and counteract unlawful activities aimed at inflicting economic damage on the Company, to bring the perpetrators to responsibility in accordance with the current legislation, security units of the Company branches sent applications to regional law enforcement agencies and offices of the Russian Federal Bailiff Service.

As a result of the Company's activities, in 2017, RUB 12,497 m of overdue accounts receivable were recovered.

Necessary activities stipulated by the Regulation are carried out in respect of all the companies featuring accounts receivable. The security unit monitors these activities and closely cooperates with the Federal Bailiff Service, seizure of movable and real property and transaction accounts is implemented whenever required.

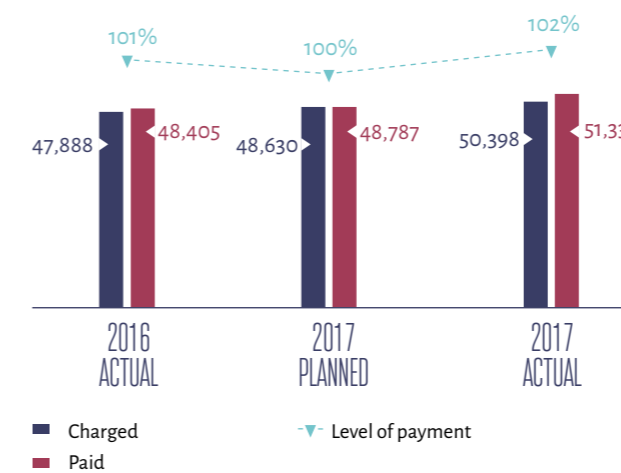
The practice of seizure of transaction accounts at lending and financial institutions was applied to the largest debtor – PJSC Arkhenergosbyt. As a result of comprehensive measures used against PJSC Arkhenergosbyt, we managed to compel it to file an application on loss of solvency and inability to remain a participant of the Russian wholesale market, which, in its turn, served as the basis for depriving it of the provider of the last resort status in the Arkhangelsk Region. Starting 1 January, 2018 this status was awarded to PJSC IDGC of the North-West.

By order of the Organised criminal activity investigation agency of the investigation department of the Ministry of Internal Affairs dated 18 October, 2017, PJSC IDGC of the North-West is recognised as a civil claimant in the criminal case against the management of PJSC Arkhenergosbyt. Within the framework of the case investiga-

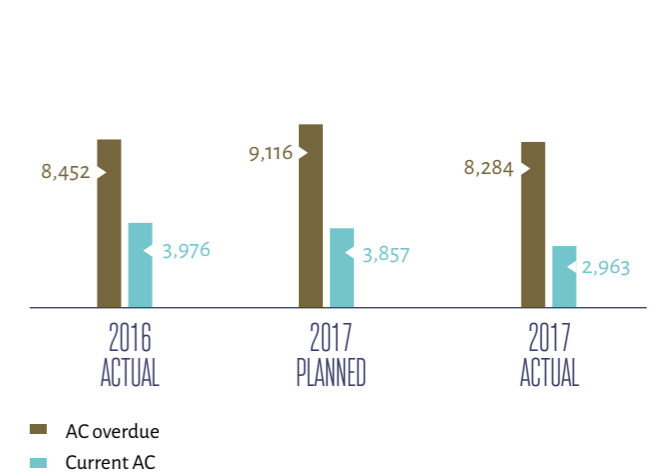
tion, the Company's security unit closely cooperates with the Federal Service for Financial Monitoring for the North-Western Federal District. The investigation authorities were provided with the necessary documents, Moscow law firm Klishin & Partners Attorneys at Law is involved in the proceedings.

Over 2017, the Company made considerable efforts to tackle accounts receivable – overdue accounts receivable was recovered ahead of the deadlines. We have built good practice of immediate execution of the court decisions on collection of overdue accounts receivable (before their entry into legal force) in accordance with Article 182 of the Russian Arbitration Procedure Code in respect of the major debtor – PJSC rkhenergosbyt. For the first time in the work of distribution companies, PJSC IDGC of the North-West managed to initiate criminal cases against two large sales companies – PJSC Arkhenergosbyt, and PJSC Vologdaenergosbyt, which are part of JSC MRSEN. The criminal cases are now on the stage of investigation. Business reputation of JSC MRSEN has suffered considerable damage, resulting in resignation of the director general of the company previously managing PJSC Arkhenergosbyt and PJSC Vologdaenergosbyt under the decision of the shareholders' meeting.

Payment for the power transmission services, RUB m²²



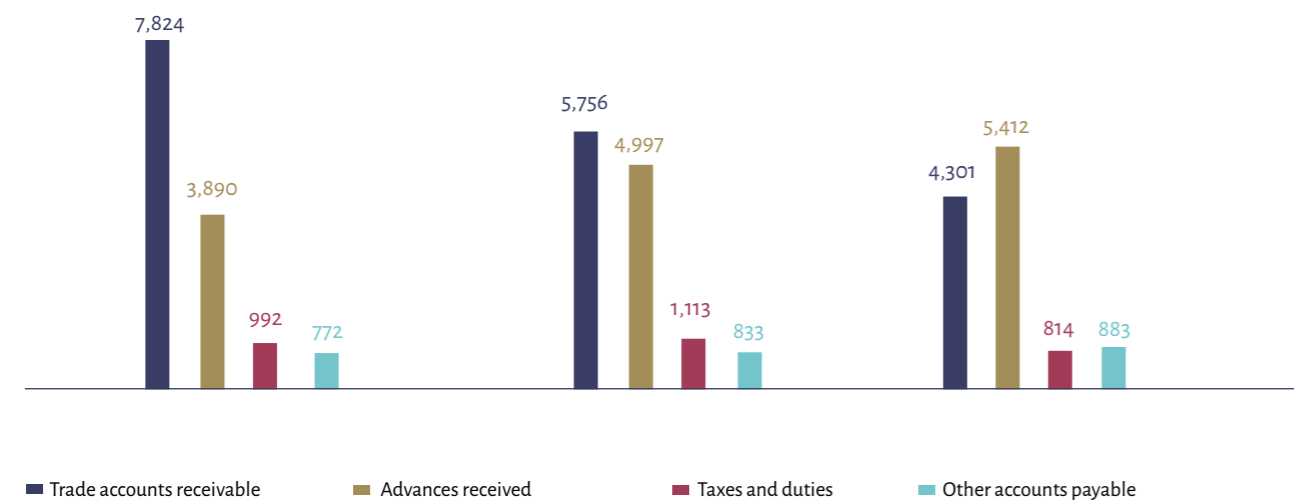
Accounts receivable for the power transmission services, RUB m²²



²² The indicators are based on the IFRS consolidated financial performance for 2017.

Accounts payable

Analysis of changes in accounts payable, RUB m ²³



Analysis of changes in accounts payable, RUB m ²³

Indicator	as of 31 December, 2015	as of 31 December, 2016	as of 31 December, 2017
Accounts payable, including:	13,478	12,699	11,410
Trade accounts receivable	7,824	5,756	4,301
Notes payable	0	0	0
Advances received	3,890	4,997	5,412
Taxes and duties	992	1,113	814
Other accounts payable	772	833	883

Accounts payable in 2017 were RUB 1,289 m lower against 2016; as of 31 December, 2017 they amounted to RUB 11,410 m. The following developments were observed:

Trade accounts payable reduced by RUB 1,455 m, including:

- ▶ Payables to PJSC FGC UES for power transmission services – by RUB 638 m;
- ▶ Payables to materials suppliers – by RUB 469 m;
- ▶ Payables to repair contractors – by RUB 222 m.

Advances received amounted to RUB 5,412 m, which is RUB 415 m (8%) higher year on year. The bulk of advances comes from technological connection services prepayment. The growth is conditioned by advances received from:

- ▶ LLC Magistral Dvukh Stolits due to the technological connection contract signed in 2016 for building power supply facilities for the new Moscow – St.Petersburg high-speed motorway (Stage 7, which is in the responsibility area of Novgorodenergo branch);
- ▶ LLC Kolskaya Verf – to ensure power supply to the Centre for construction of large-capacity marine facilities of LLC Kolskaya Verf located at: Belokamenka, the Murmansk Region;
- ▶ Federal state-owned enterprise Capital Construction Manager of the RF Ministry of Defence to provide power supply (a facility located at: the Republic of Komi, Vorkuta Area, 4 km to the North-West of Vorgashor).

LARGEST APPLICANTS OF THE COMPANY IN 2017

▶ PJSC Gazprom

technological connection of power-receiving devices for power supply to the system of main gas pipelines Bovanenkovo-Ukhta, the Republic of Komi

▶ State Company Avtodor

technological connection of power-receiving devices for power supply to the facilities of Moscow – St.Petersburg high-speed motorway, the Novgorod Region

▶ JSC Vorkutaugol

technological connection for power supply to the mines Zapolyarnaya and Severnaya

Information on issues in which the securities are not redeemed

On 28 April, 2018, the Company Board of Directors decided to purchase exchange bonds of BO-01 series (Minutes No. 278/33). The date of purchase is 22 May, 2018. The date of early redemption of the exchange bonds is 25 May, 2018.

Bond issue, bonds of BO-01 series

ID of the issue and date of its assignment:
4Bo2-01-03347-D of 12 March, 2014

Type of securities	exchange/commercial bonds
Number of securities issued, items	5,000,000
Face value, RUB	1,000
Volume of securities issue at face value, RUB	5,000,000,000
Status of the issued securities	placement complete
Beginning of placement, date	05 June, 2015
Completion of placement, date	08 June, 2015
Days to putability	1,092
Average annual interest of the credit loan, %	12.42
Maturity date for the issued securities	23 May, 2025

Other data on the liability

On 28 April, 2018, the Company Board of Directors decided to purchase exchange bonds of BO-01 series (Minutes No. 278/33)

The date of purchase is 22 May, 2018

The date of early redemption of the exchange bonds is 25 May, 2018

Information about the hosted editions of exchange-traded bonds

Bond issue, bonds of BO-02 series	ID of the issue and date of its assignment: 4BO2-02-03347-D of 12 March, 2014
Type of securities	exchange/commercial bonds
Number of securities issued, items	4,000,000
Face value, RUB	1,000
Volume of securities issue at face value, RUB	4,000,000,000
Status of the issued securities	Placement has not started

Bond issue, bonds of BO-03 series	ID of the issue and date of its assignment: 4BO2-03-03347-D of 12 March, 2014
Type of securities	exchange/commercial bonds
Number of securities issued, items	3,000,000
Face value, RUB	1,000
Volume of securities issue at face value, RUB	3,000,000,000
Status of the issued securities	Placement has not started

Bond issue, bonds of BO-04 series	ID of the issue and date of its assignment: 4BO2-04-03347-D of 12 March, 2014
Type of securities	exchange/commercial bonds
Number of securities issued, items	3,000,000
Face value, RUB	1,000
Volume of securities issue at face value, RUB	3,000,000,000
Status of the issued securities	Placement has not started

In 2016, the exchange bonds programme was registered in the total amount of RUB 25,000 m (Decision of the Company Board of Directors of 30 September, 2016, Minutes No. 220/11).

Exchange bonds programme of 001R series	ID of the programme and the date of its assignment: 4-03347-D-001P-02E of 11 November, 2016
Maximum amount of the face values of exchange bonds to be placed within the exchange bonds programme, RUB m	25,000
Maximum maturity of the exchange bonds to be placed within the exchange bonds programme, (days)	10,920
Issue form of the exchange bonds to be placed within the exchange bonds programme	certified, payable to bearer
The period of the exchange bonds programme (from the date of ID assignment to the exchange bonds programme)	unlimited

TARIFF REGULATION²⁴

Core activities of PJSC IDGC of the North-West subject to the state regulation are power transmission services and technological connection to power grids.

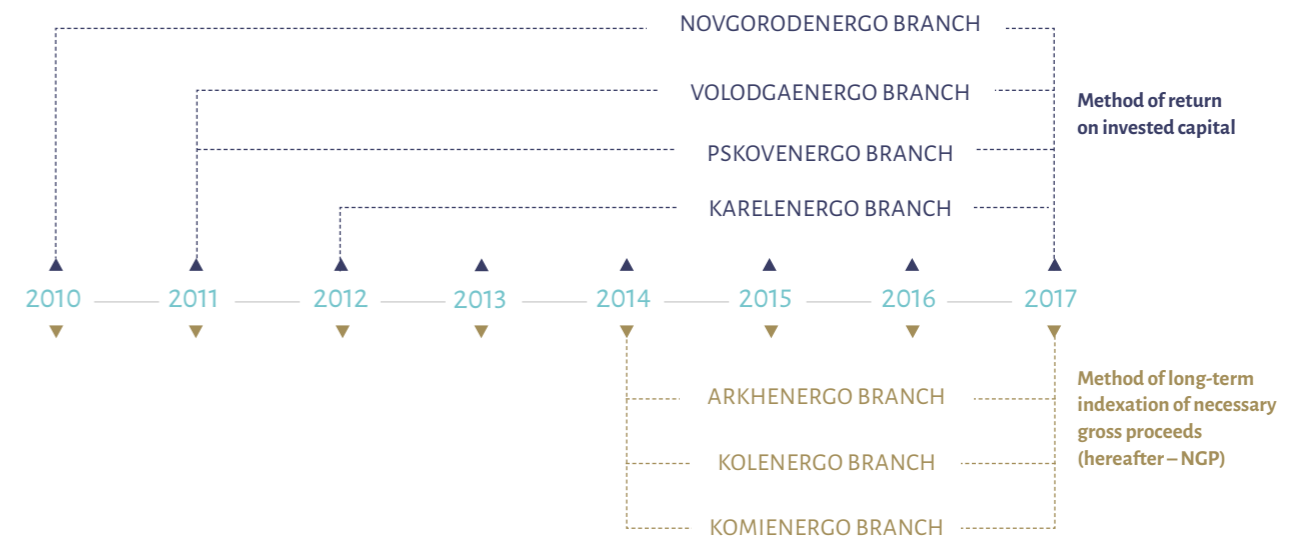
The Company also performs the following regulated activities: power production, heat production and cold water supply services. The share of these activities is below 1% of the total revenue generated by regulated activities.

Electric power transfer tariffs

Maximum rates of power tariffs are set by the FAS of Russia.²⁵

PJSC IDGC of the North-West activity on providing power transfer services is regulated at the regional level by regulated by bodies of executive power of constituent entities of the Russian Federation.

The power transmission tariffs in 2017 for all the branches of PJSC IDGC of the North-West were approved based on the established long-term parameters. The Company's branches are regulated through the following methods:



In 2017, the existing long-term regulation parameters were not reviewed. However, the Company performed annual mandatory adjustment of the branches' necessary gross proceeds stipulated by the effective legislation in the area of state tariff regulation.

In 2017, the necessary gross proceeds approved for 2017 was revised due to the following factors:

- On the basis of the Order No. 370/17 dated 21 March, 2017 issued by Federal Antimonopoly Service of Russia on the revocation of common pot tariffs on the reason of including into the payment rate the losses of cross subsidising, which contradicts section 81 of Pricing principles.

- On the basis of the Orders No. 1422/16, 1423/16 dated 11 October, 2016 and No. 1466/16 dated 14 October, 2016 issued by Federal Antimonopoly Service of Russia and decisions of Moscow Arbitration Court No. A40-234214/2016, A40-234229/2016, A40-234904/2016 about the exclusion of "energy saving allowances" from the necessary gross proceeds of the electric power grid organisations

The total change influenced by these factors accounted for RUB 0.011 bn.

²⁴ Major regulatory documents regarding tariff formation in power transmission are indicated in Annex 33 to the Annual Report.

²⁵ Decree of the RF President No.373 of 21 July, 2015 "On some issues of state governance and control in the antimonopoly and tariff regulation".

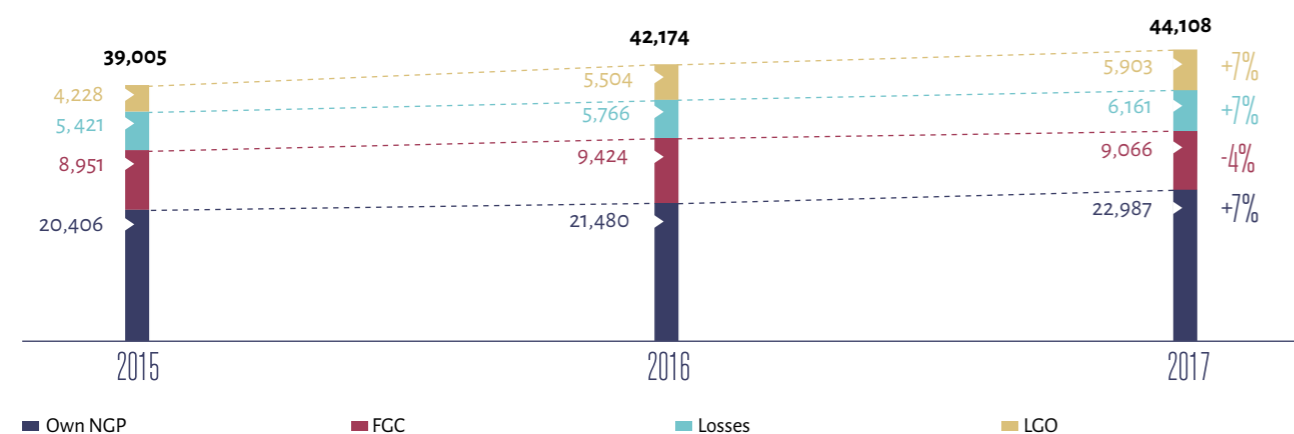
Structure of NGP

In the reporting year, there was 7% increase in own NGP brought about by the growing indices in accordance with Resolution No. 1178 of the Government of the Russian Federation dated 29 December, 2011 "On pricing in the area of regulated prices (tariffs) in the electric power industry" and 4% decrease in payment for the services of PJSC FGC UES, due to the cancellation of the "last mile" rent contracts and correspondingly the decline of paid capacity. The 30.2% increase in expenses for local grid operators' services in 2016 was mostly brought about by changes in the uniform tariff scheme and amounts of settlements between LGOs within the region. Loss-related expenses increased by 7.4%, which was caused by a higher price for power purchase to compensate for losses.

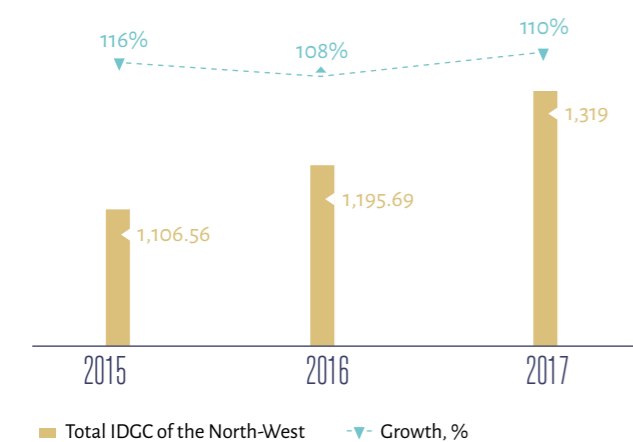
The total Company's necessary gross proceeds increased by 5%, own NGP – by 7%. The difference between the total NGP and own NGP is due to the growth in expenses for losses amounting to 7%, growth in expenses for LGO services – 7%, and reduction in the expenses for services of PJSC FGC UES – (-4%), which was due to the termination of the "last mile" rent contracts from 01 July, 2017. The highest growth in expenses related to services of LGO was shown by Arkhenergo branch, due to changes in the system of contractual relations.

Power transmission services tariffs in 2017 considerably differed by regions within the responsibility area of PJSC IDGC of the North-West. Such strong differentiation is due to varying breakdowns of consumers by voltage levels. The branches where low-voltage grids prevail, such as: Arkhenergo, Komienergo and Pskovenergo, feature high tariffs, which is due to higher costs of maintenance for such grids as compared to the branches where high-voltage grids prevail, such as: Vologdaenergo, Kolenergo, Novgorodenergo. The highest growth in the average tariff (23%) in 2017 was in Karelenergo, in Vologdaenergo the increase amounted to 19%, due to termination of the rent agreements for FGC power grid facilities ("last mile") from 01 July, 2017. In Novgorodenergo the average tariff growth amounted to 9% and in Pskovenergo to 6%, due to inclusion of the adjustments stipulated in the tariff regulation for the previous years in the NGP. In Arkhenergo, Kolenergo and Komienergo the average tariff growth was from 3% to 5%.

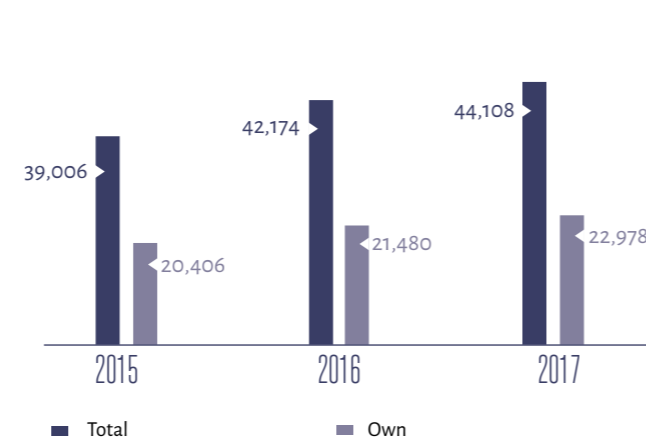
Dynamics of NGP structure from power transmission of PJSC IDGC of the North-West



Analysis of changes in the average tariffs for power transmission services by branch, RUB/kWh



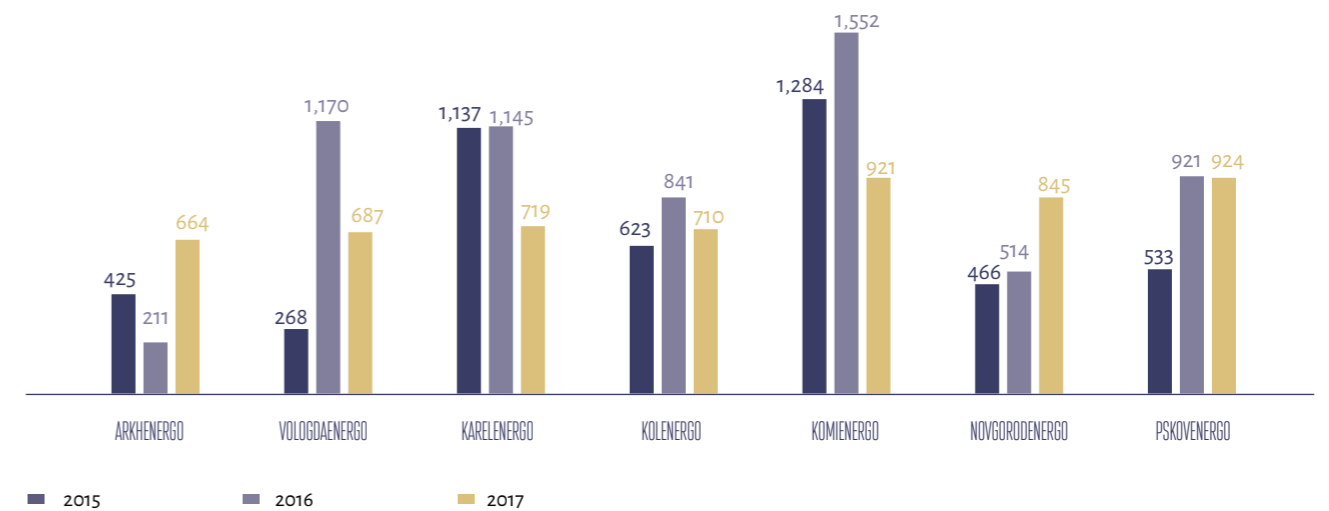
Dynamics of the necessary gross proceeds from power transmission by branch, RUB m



Technological connection tariffs

In 2017, the tariffs enabled the Company to receive revenue from technological connection services in the amount of RUB 1,549.8 m, which is 27.5% more than in 2016.

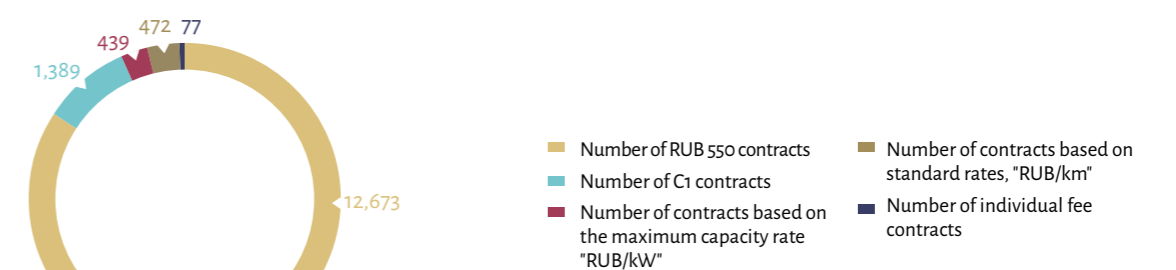
Dynamics of the average C1 rate by Company branches, 2015-2017



The dynamics of the average C1 rate is based on the total rate adopted by state tariff authorities for technological connection activities. The key reason for changes in the standardised tariff rate C1 for the technological connection activities is the growth in the consumer price index.

Details of the technological connection tariff setting are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

The number of technological connection contracts, including temporary TC, effective as of 31 December, 2017



Availability of the approved standard technological connection fees enabled the Company to reduce the number of contracts based on individual fees. The number of 2017 applications where contracts were based on individual rates amounted to 77 across the Company. The total number of technological connection contracts signed is 15,050. The largest share of the contracts signed represents subsidised technological connection up to 15 kW with the fee of RUB 550.

Monitoring of the current subsidised technological connection contracts is described in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

The amount of technological connection fees for the current contracts was RUB 29.6 m (net of VAT). The capital investment of 2017 for technological connection of the power units belonging to benefit holders was RUB 923.1 m.

MANAGING ENERGY, WE PROVIDE CONSUMERS WITH ELECTRIC POWER AND HIGH-QUALITY SERVICE, BUILDING EFFECTIVE RELATIONS WITH ALL STAKEHOLDERS

02

SUSTAINABLE DEVELOPMENT REPORT

40 %

year on year reduction in the occupational injury rate

13.57 RUB M

investment in environmental protection in 2017

1.6 SAIFI

4.2 SAIDI

improved indicators of power supply reliability in 2017 (interruption frequency and duration indices reduced)

8 %

labour efficiency growth in 2017

SUSTAINABLE DEVELOPMENT MANAGEMENT

THE COMPANY'S UNDERSTANDING OF SUSTAINABLE DEVELOPMENT

The Company's understanding of sustainable development is in line with the definition provided by the UN: "Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

GRI 102-11

In its activities, PJSC IDGC of the North-West sticks to the precautionary principle formulated in the UN Declaration on Environment and Development. This principle permeates the Company's activities of environmental management on all stages of its projects.

The Company constantly strives to comply with the requirements of the environmental legislation, boost the level of occupational and environmental safety, ensure consistent and efficient reduction of the negative impact of its operations on the environment.

GRI 102-12



Management systems

The Company has a Quality Management System (QMS) in place.

The QMS is a component of the Company management system. It is designed to ensure high quality of the services rendered in accordance with the requirements of the regulatory documents, needs and expectations of the consumers and to the satisfaction of all stakeholders, including employees, shareholders, investors and partners of the Company.

The Company's business priority is development of the efficient distribution grid facilities and ongoing improvement in the quality and availability of the services rendered, where quality is understood as compliance with the technical requirements to transmission power, as well as maintenance of the high level of consumer service.

Achievement of this priority is ensured by efficient quality management system, based on process approach and complying with the principles and requirements of the international standard ISO 9001:2008 (GOST ISO 9001-2011), implemented in the Company since 2009.

In August 2017, the Company successfully passed QMS surveillance audit carried out by the independent external auditor. For the first time, its findings revealed no non-compliance or weaknesses of the current management system, which is positive evidence of the improvement in management level. In 2018, the Company is to undergo certification audit under the new version of ISO 9001:2015 standard (GOST ISO 9001-2015), which involves implementation of risk-oriented thinking in management practice.

Details of the Management System are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

STRATEGIC
REPORT

SUSTAINABLE
DEVELOPMENT REPORT

CORPORATE
GOVERNANCE REPORT

GRI 102-16



Corporate values and sustainable development strategy

The key document outlining the general principles, standards and rules of professional ethics and corporate behaviour of PJSC IDGC of the North-West is the **Code of Corporate Ethics and Executive Conduct for Employees**, approved by the Board of Directors of PJSC IDGC of the North-West on 03 May, 2017 (Minutes No.240/31). Its provisions are the baselines for all the Company's subsidiaries and affiliates.

The Company never compromises its values for the sake of profit, considering them as a bridge for all its activities and expects the same from its business partners. We appreciate our corporate values, and therefore uphold the high level of corporate culture.

The Code of Corporate Ethics and Executive Conduct stipulates the core values:

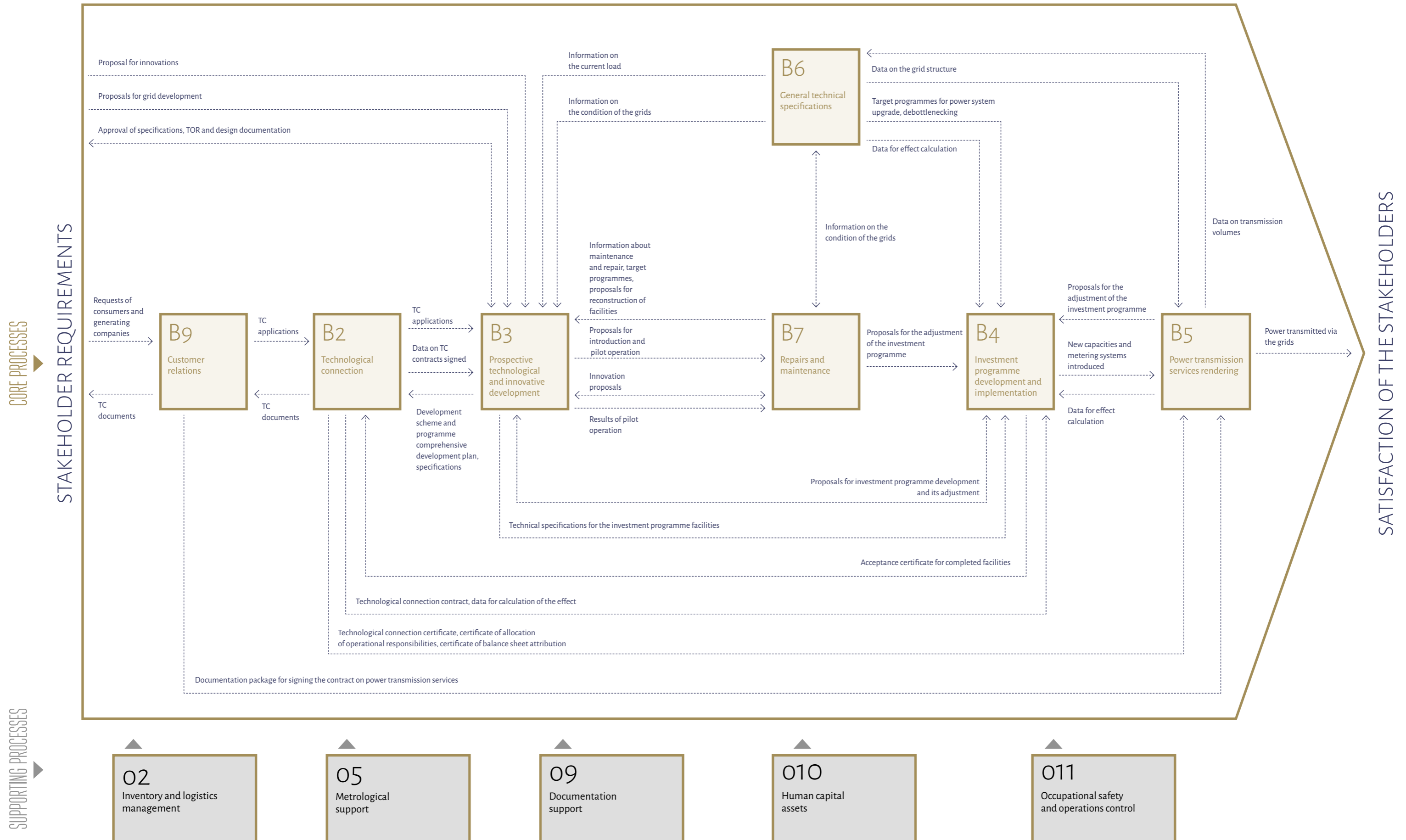
- ▶ RELIABILITY
- ▶ HUMAN RESOURCES
- ▶ EFFICIENCY
- ▶ SAFETY
- ▶ SOCIAL RESPONSIBILITY

GRI 102-12
GRI 102-13



PJSC IDGC of the North-West closely cooperates with industry and public organisations, unions and associations, including:

- ▶ Autonomous Non-Commercial Organisation – Strategic Partnership of the North-West.
- ▶ Association, Non-Commercial Partnership of Territorial Power Grid Organisations.
- ▶ Association, Non-Commercial Partnership – Market Council for Organising Efficient System for Wholesale and Retail Trade in Electric Energy and Capacity.
- ▶ Non-Commercial Partnership – Research and Development Council of the Unified Power System.
- ▶ Non-Commercial Partnership – Union of Power Industry Auditors and Energy Service Companies.
- ▶ Union Energostroy Self-Regulated Organisation – Interregional Industry Union of Employers, Association of Organisations Involved in Construction, Renovation and Overhauls of Power Facilities, Grids and Substations.
- ▶ Non-Commercial Partnership Energoproekt – Association of Organisations Preparing Design Documents for Power Facilities, Grids and Substations.
- ▶ Self-Regulated Organisation, Association – Non-Commercial Partnership EnergoProfAudit.
- ▶ Self-Regulated Organisation, Association – Saint Petersburg Builders Union.
- ▶ Interregional Industrial Association of Employers of the Power Sector of Russia.
- ▶ Anti-Corruption Charter of the Russian Business.



Owners of business processes/activity areas annually set targets for them. In 2017, the targets were approved by Order of the Company No.849 of 30 December, 2016. In line with Industry Standard 01.17 – 2016 “System of target-setting. Procedure of development, approval and control of achievement for strategic priorities and goals”, mandatory requirements are applied to targets in their formulation according to the SMART approach.²⁶

Major results of the management systems functioning:

Activities	Results
Increased reliability and quality of power supply	For details see Section “Production results”
Enhanced safety of power supply	For details see Section “Production results”
Ensured occupational safety and health protection in the course of operations, including reduction in the total number of accidents while complying with the requirements of the legislation on labour and environment protection	For details see Section “Occupational safety”
Improved energy efficiency	For details see Section “Energy saving and energy efficiency”
Environmental safety	For details see Section “Environmental protection”
Improved quality of technological connection services	For details see Sections “Technological connection”, “Programme for operational efficiency improvement and cost reduction”

GRI 102-42

Major groups of stakeholders and interaction with them

Sustainable development of PJSC IDGC of the North-West directly depends on the quality of stakeholders relations. The Company maintains responsible and open communication with all stakeholder and strives to ensure due consideration of their interests in decision-making.

In identifying stakeholder groups, we acted under the following major principles:

- ▶ shared interests and expectations towards the Group’s companies;
- ▶ the nature of their influence on achievement of the strategic goals set for the Group’s companies;
- ▶ instruments used by the Company for communication with the stakeholders.

GRI 102-40

WE CLASSIFY THE STAKEHOLDERS MOST STRONGLY LINKED TO OUR ACTIVITIES INTO THE FOLLOWING GROUPS:



Stakeholder engagement

GRI 102-43
GRI 102-44

	INTERESTS	INTERACTION INSTRUMENTS
 SHAREHOLDERS AND INVESTORS	<ul style="list-style-type: none"> ▶ Increase in shareholder value ▶ Dividend policy ▶ Financial and operational performance ▶ Investment programmes 	<ul style="list-style-type: none"> ▶ General Shareholders Meetings ▶ Corporate reports ▶ Corporate web site, press releases and presentations for investors ▶ Interaction within the framework of the Board of Directors ▶ Individual meetings with shareholders and investors ▶ Receiving and maintaining corporate governance practice ratings
 CUSTOMERS / CONSUMERS	<ul style="list-style-type: none"> ▶ Reliable and seamless power supply ▶ Timely and affordable technological connection ▶ Open and flexible interaction with customers / consumers 	<ul style="list-style-type: none"> ▶ Contracts for technological connection to power grids ▶ A system of on-site (at service centres) and off-site consumer service (application by phone or Internet services) ▶ Consumer polls on the degree of satisfaction with the service quality
 EMPLOYEES AND TRADE UNIONS	<ul style="list-style-type: none"> ▶ Providing employment and the rate of remuneration ▶ Social and medical benefits ▶ Professional growth and career opportunities 	<ul style="list-style-type: none"> ▶ Collective labour contract ▶ Meetings between the top management and the employees ▶ Negotiations with the trade union ▶ Meetings with the personnel ▶ A system of corporate media ▶ Education and development systems for employees
 BUSINESS PARTNERS, CONTRACTORS	<ul style="list-style-type: none"> ▶ Reduction in technological connection fees ▶ Clear rules and transparency in procurement ▶ Use of the market pricing mechanism ▶ Compliance with the standards of business ethics in interaction 	<ul style="list-style-type: none"> ▶ Development of mutually beneficial relations in the form of competitive bidding ▶ Interaction under regional power-industry fairs ▶ Corporate presentation day of PJSC IDGC of the North-West ▶ Meetings, congress and exhibition activities, forums, workshops
 STATE CONTROL AUTHORITIES	<ul style="list-style-type: none"> ▶ Compliance with the requirements of the Russian legislation 	<ul style="list-style-type: none"> ▶ Interaction with the state control authorities ▶ Receipt of the Certificate of Operational Readiness for the autumn and winter period ▶ Passing inspections
 LOCAL AUTHORITIES	<ul style="list-style-type: none"> ▶ Infrastructure development ▶ Implementation of the social programmes ▶ Tax payment ▶ Creation of jobs ▶ Receipt of information on the Company’s development prospects 	<ul style="list-style-type: none"> ▶ Cooperation agreements ▶ Social and charitable programmes ▶ Public reporting
 MASS MEDIA	<ul style="list-style-type: none"> ▶ Transparency of business processes ▶ Prompt access to information on the Company’s activities 	<ul style="list-style-type: none"> ▶ Prompt communication of information ▶ Arrangement of press conferences, briefings etc. ▶ Response to media requests and applications ▶ Coverage of the Company’s activities at the Company’s official pages in social media: VK.com, Facebook, Twitter, Instagram
 RESIDENTS OF THE AREAS OF OPERATION AND NON-COMMERCIAL PUBLIC ORGANISATIONS	<ul style="list-style-type: none"> ▶ Receiving information on the projects planned ▶ Development of the social infrastructure ▶ Creation of jobs ▶ Implementation of social programmes ▶ Mitigation of the negative impact on the environment 	<ul style="list-style-type: none"> ▶ Social and charitable programmes ▶ Public hearings ▶ Media coverage

²⁶ Information on achievement of the goals set for the business processes/activity areas in 2017 is available in Annex 17 to the Annual Report.

SOCIAL COMMUNICATIONS AND MEDIA INTERACTION



In the reporting period, **about 50 press events were held**, including:

- ▶ press conferences of the Director General of the Company;
- ▶ press conferences Deputies Director General – Directors of branches;
- ▶ coverage of investment conferences in the power industry;
- ▶ meetings with the heads of the regional governments;
- ▶ press events related to the coverage of the implementation of key investment projects within the Company's geographical footprint.



A key channel of communication with external audiences is the corporate web site – www.mrsksevzap.ru – an interactive web resource ensuring efficient feedback from the media and the public.

Web site traffic in 2017 was over 1.6 m page views. In 2017, over 1,000 press releases were published at the official web site of the Company.



In 2017, PJSC IDGC of the North-West particularly focused on **systemic interaction with target audiences via social media and blogs**: the Company's official accounts feature vivid presentation of news, educational and practical information, offering the opportunity of direct communication with the public by participating in discussions, personal communication, polling and using interactive tools.

The social media audience increased in the reporting year 35 times. On average, the audience per message of PJSC IDGC of the North-West exceeds 8 thous. persons, the **number of subscribers** of the Company's official accounts **is approximately 6 thous. persons.**



In 2017, the media project "Radiant people" and the Internet portal of PJSC IDGC of the North-West for power safety for children "Make friends with electricity" **received awards in the nomination "Social Energy" at the KonTEKst-2017** contest of fuel and energy companies for the best coverage of the social and labour relations in the Russian power industry. The nomination was set up by the partner of KonTEKst-2017 awards Interregional Industrial Association of Employers of the Power Sector.

The fairy tale book "The secret of the blue control" published by the Company **won an award of the Russian contest among the media**, press service units of the FES companies and regional administrations **MediaTEK-2017** nominated for creative approach to promotion the power industry career and power safety.

Implementing the unified communications policy of the Rosseti Group, the Public Relations Department of PJSC IDGC of the North-West arranges social communications using a host of media resources and communication channels, which enables the Company:

- ▶ to respond to the requests of the key target audiences;
- ▶ build the positive image of a socially responsible business;
- ▶ promptly react to information risks in the public space;
- ▶ develop stakeholder relations on the basis of common values;
- ▶ consolidate the professional reputation of the industry.

> 1.6 M PERS.

Web site traffic in 2017

~ 6.0 THOUS. PERS.

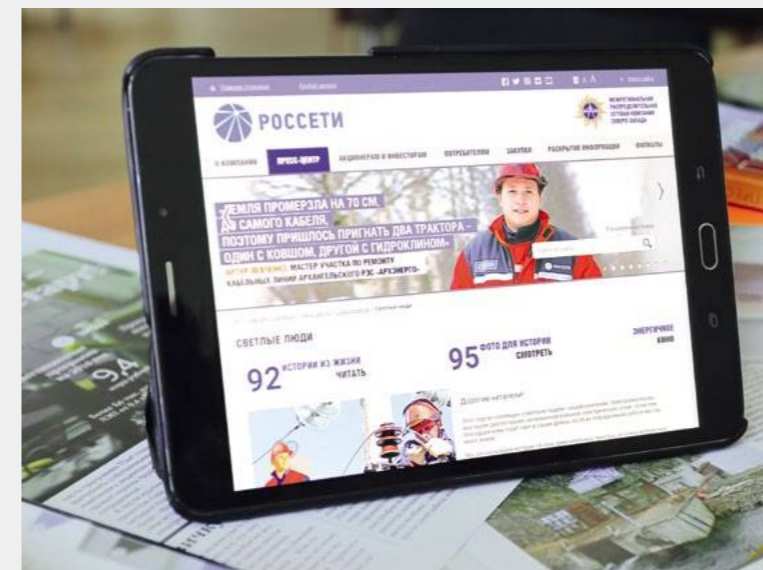
Number of subscribers of the Company's official accounts

> 1.0 THOUS. PCS.

Press releases were published in 2017



To build a positive image of employment in the power industry, in 2017 the Company **kept working on its communication project "Radiant people"**: pages of its portal (<http://www.mrsksevzap.ru/workpeople>) and Company pages in the social media feature essays, interviews and stories shaping the portrait of a person of productive labour, an ordinary representative of the electric power industry. **In the reporting period, the portal was visited by approximately 30 thous. persons.** The audience includes viewers from dozens of Russian regions, CIS states and Europe.



INTERREGIONAL COOPERATION, CONGRESS AND EXHIBITION ACTIVITIES OF THE COMPANY



RUSSIAN INVESTMENT FORUM

Investment agreement on technological connection to the power grids of four multi-functional zones of roadside service of the **highway M-11 Moscow – St. Petersburg** under construction was signed at the forum between **PJSC IDGC of the North-West** and **LLC Avtodor management company**.



INTERNATIONAL ARCTIC FORUM “THE ARCTIC: TERRITORY OF DIALOGUE”

Following the results of the **Agreement between PJSC Rosseti and the Government of the Arkhangelsk Region**, the foundation was laid for cooperation between PJSC IDGC of the North-West and the regional administration for implementation of **the investment project of the centralised power supply of Mezensky and Leshukonsky Districts** that belong to the Arctic territories of the Russian Federation. The Agreement aims at including the districts to the united power system of the Arkhangelsk Region and providing reliable power supply of the consumers.



ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

Agreement on the strategic cooperation between **PJSC IDGC of the North-West** and **PJSC Sberbank of North-West** was signed in the framework of SPIEF. The document establishes further collaboration between the parties on **funding construction projects and reconstruction of power grids** implemented by the Company in its responsibility areas.



FORUMS AND SEMINARS OF THE COMPANY

In 2017, PJSC IDGC of the North-West continued to develop a system of its own forums and seminars involving representatives of authorities and business representatives, partners, and equipment suppliers.

1. Together with the Autonomous Non-Commercial Organisation Strategic Partnership of the North-West, representatives of the authorities of the constituent entities of the Russian Federation, with the support of the Russian President's Representative in the North-Western Federal District, the Company held **six Regional Investment Energy conferences**. In July 2017, the event reached the federal level: the first interregional conference in St. Petersburg was attended by Russian companies planning to implement investment projects in the Northwest Federal District, heads of the largest power grid companies and representatives of the authorities.
2. The tradition of the **Corporate presentation day of PJSC IDGC of the North-West** is continued. For many years it has been a platform for dialogue with the leading manufacturers of electric equipment (<http://www.mrsksevzap.ru/corporatepresentationday>). In 2017, corporate presentation days of the Company brought together approximately 200 participants, and over 40 projects were presented at the forum.
3. In December 2017, PJSC IDGC of the North-West organised **“Digital Network” workshop** for representatives of the subsidiaries of PJSC Rosseti, fuel and energy companies, producers of equipment and software for power grid facilities. Among the key topics of the workshop were general issues:
 - ▶ of digitalisation in energy sector;
 - ▶ prospects of digital substations development;
 - ▶ experience in planning and implementation of digital power distribution zones in Russian regions.



COMPREHENSIVE SERVICING OF CONSUMERS AND MAINTAINING THE UNIFORM SERVICE AND INTERACTION STANDARDS

Client orientation is currently a core indicator of a company's effective managerial system. A client-oriented approach in the organisation of PJSC IDGC of the North-West activities means building business processes in such a way that the focus of achieving strategic objectives and sustainable profitability is to ensure satisfaction and loyalty of the Company's customers.

Since 2011, the Company has had its own 24-hour hotline 8-800-333-02-52 for prompt feedback from consumers in case of massive power blackouts caused by natural or man-made disasters, and also by unlawful actions leading to the malfunction of the grid facilities operation and emergency shutdowns. Calls to the hotline are toll-free within Russia, the telephone service operates on a 24-hour basis, and all conversations are recorded. The hotline phone numbers are included in all regional reference books, as well as in the Dictionary of Hotlines and Service Desks in the constituent entities of the Russian Federation.

In order to improve the efficiency of interaction with consumers all branches approved schedules for regular reception of individual customers by the heads of the branches, production divisions and power distribution zones. The schedule is available on the company's website <https://clients.mrsksevzap.ru/customer timetable>, and at all on-site customer service offices.

Details of the customer interaction are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

The website of PJSC IDGC of the North-West (www.mrsksevzap.ru) is an efficient remote service for consumers offering the following interactive tools:

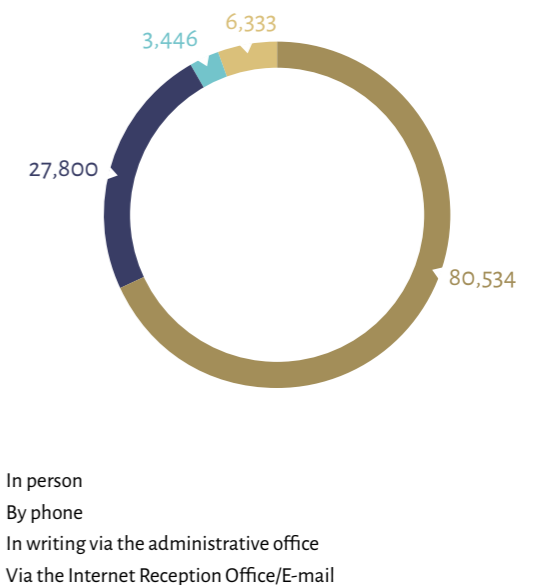
PERSONAL ACCOUNT OF A CONSUMER

Enables clients to track all stages of their technological connection application from the date of submission up to actual connection and signing of the technological connection act.

INTERNET RECEPTION OFFICE

Enables to submit applications/intents for technological connection, applications for additional services, file requests, fill in consumer questionnaires; find answers to the most frequently asked questions.

In 2017, the Company received 118,113 customer requests. The requests were received through the following communication channels:



OUT OF THE TOTAL NUMBER OF THE REQUESTS RECEIVED BY THE COMPANY:

41,596

REQUESTS



were the requests for information

26,860

APPLICATIONS



for technological connection

29,572

REQUESTS



to accept/issue documents

In 2017, the Company received 1,099 complaints, of which 677 (62%) were recognised as justified. Most complaints were related to issues of technological connection of applicants' equipment to the grids of PJSC IDGC of the North-West, and power transmission, including its quality (71%). Over 90% of complaints during the reporting period were filed directly by the consumers of the Company's services. Corrective measures were planned for all justified complaints; and regarding 578 complaints the relevant corrective measures were accomplished in the reporting period.

Improvement of client relations efficiency

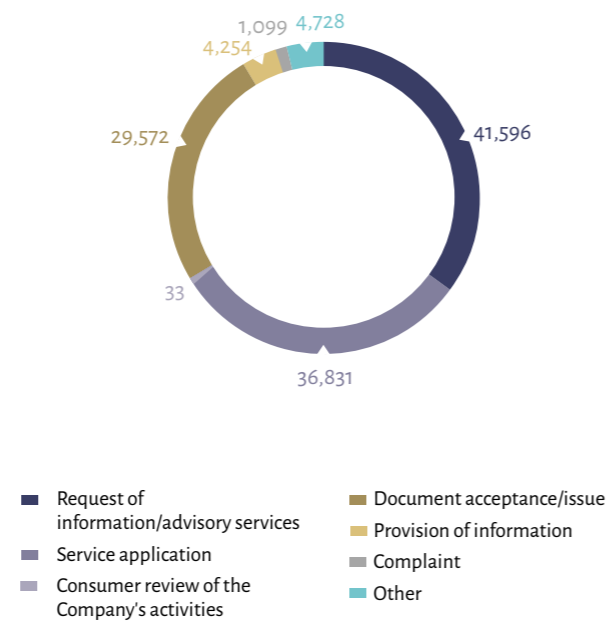
The Company's service quality is assessed by receiving feedback from consumers by the following channels:

- ▶ ongoing onsite polls of consumers at consumer service offices;
- ▶ customer service quality polling and filling in questionnaires on the Company's website.

Based on 2017 year-end results, the Company's clients seem to highly appreciate the completeness of information provided in the service offices, competence and amiability of the staff.

General results within the Company comprised **4.9, 4.9 and 4.8 points** (on a five-point scale) respectively.

Breakdown of applications by category in 2017



Rendering additional services

In accordance with the current organisational and regulatory documents of PJSC IDGC of the North-West, additional services are rendered on a commercial basis in order to meet the needs of clients (entities or/and individuals) who applied to the Company. Works and services included in the list of additional services are not within the activities in respect of which government price control is applied according to the Russian legislation. Additional services are rendered for a fee. The full list of services is accessible at the Company's on-site service offices and website (<http://www.mrsksevzap.ru>). Each branch has approved fee rates for the services rendered; the cost of the services is regulated by the market mechanisms.

As for the 2017 year-end, 9,491 applications for additional services were accepted; additional paid services were rendered for a total amount of RUB 306,311.57 thous.

Details of the service quality improvement are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Further efforts are scheduled for 2018 to improve interaction with consumers through remote communication channels by using Internet services of PJSC IDGC of the North-West. Measures are also planned to upgrade the "Consumer's personal account" on the Company's website. This service will enable exchanging documents on technological connection with the applicants by using electronic digital signature, and making payments for technological connection.

Investment energy conferences will continue to take place to increase consumer awareness of the services provided by the grid organisation, attract potential investors and further develop power infrastructure, while taking into account real needs of the economic and social actors.

To improve the quality of on-site service of consumers the contest "The best office of on-site service" is scheduled for 2018.

RESPONSIBILITY

MANAGEMENT APPROACH TO ENVIRONMENTAL ASPECTS OF BUSINESS

The Company's core business – power transmission and grid distribution – has an insignificant influence on the environment. At the same time, we strive to organise our activities so as to minimise any unfavourable environmental impact.

Being fully aware of the need to maintain the ecological balance as the basis of human life in the regions where PJSC IDGC of the North-West operates, the Company defines environmental protection and ensuring high level of environmental safety in the power grids operation and construction as its priority areas.

Environmental policy

In 2017, the Company Board of Directors decided on 26 December, 2017 (Minutes No.260/15) to join the implementation of the Environmental policy for the power grid facilities approved by Decision of the Board of Directors of PJSC Rosseti dated 01 March, 2017 (Minutes No.254 of 03 March, 2017) (hereinafter – the Environmental policy).

The Environmental policy for the power grid facilities aims at preserving favourable environment for the current and the future generations.

APPLICATION OF ADVANCED TECHNOLOGIES AND SOLUTIONS
IN THE AREA OF ENVIRONMENTAL PROTECTION

To increase the level of environmental safety, the Company implemented the following measures in 2017:

- ▶ replacement of oil break switches with vacuum and sulfur-hexafluoride circuit breakers, reducing the risk of environment pollution with circuit-breaker oil;
- ▶ renovation of oil receivers, oil piping, emergency oil collectors;
- ▶ arrangement of places for temporary waste accumulation at branches of the Company;
- ▶ transfer of hazard class 1-4 waste to specialised organisations for subsequent disposal;
- ▶ analytical monitoring of air pollutant emissions from stationary sources with instrumental gauging.
- ▶ equipment of OL 0.4+ kV with 833 bird protection devices.

Use of new technologies for environmental protection

Indicator	2015	2016	2017
35 kV vacuum circuit, items	270	314	342
3-20 kV vacuum circuit, items	6,188	6,474	6,821
SSIW for OL 0.4, km	6,257	6,833	7,703
SSIW for OL 6-20, km	5,388	6,098	6,464

Key areas of the Environmental policy implementation are described in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

PJSC IDGC of the North-West is committed to implement the Environmental policy and undertakes to comply with the requirements of environmental legislation of the Russian Federation in full.

Priority goals of the Company in environmental protection under the action plan for implementation of the Environmental policy of PJSC IDGC of the North-West for 2017–2019 approved by Decision of the Company Board of Directors dated 26 December, 2017 (Minutes No.260/15), are to reduce the adverse effects on the environment and to assess environmental activities in order to improve them.

Management and control of environmental protection activities

The Company employs eight environmental experts, certified for environmental audit activities and having the licences of environmental auditors (seven at the Company branches, one – at the executive administration).

Environmental audit is carried out at the Company's facilities in order to prevent violation of environmental requirements and ensure implementation of activities to reduce the negative impact of the operations on the environment. Moreover, compliance with the requirements of the environmental legislation is monitored at the contractors working at the power grid facilities.

Internal environmental audit is a key aspect of environmental safety. It provides the Company with a comprehensive picture of the environmental indicators in all its regions of operation and enables it to manage proactively the adverse implications of its operations.

In 2018, the Company plans to introduce an environmental management system and prepare it for certification in accordance with the requirements of ISO 14001:2015.

Environmental protection expenses and investments

PJSC IDGC of the North-West finances activities aimed at environmental protection. The current environmental spending in 2017 was RUB13.57 m.

Sufficiency in the financing of the environmental programmes ensures compliance of the facilities of PJSC IDGC of the North-West with the requirements of the Russian legislation, standards and regulations in the field of environmental protection.

Environmental protection expenses and investments

Indicator	2015	2016	2017
Total environmental expenses by type of costs, m RUB:	11.07	12.99	13.57
current costs, m RUB:	11.07	12.99	13.57
including protection of water resources	3.76	4.53	4.36
protection of atmospheric air	1.65	1.93	0.99
protection of environment from waste	5.69	6.53	8.22
remediation of disturbed lands	-	-	-

ENERGY SAVING AND ENERGY EFFICIENCY

The Company, being a key component of the North-Western United Energy Systems, defines ongoing improvement of energy saving and energy efficiency as a key priority.

Energy saving and energy efficiency policy of the IDGC of the North-West Group

Energy saving and energy efficiency improvement activities are organised by the Company in line with the Programme for energy saving and energy efficiency improvement of PJSC IDGC of the North-West in the period 2016-2020 (hereinafter – the Programme) approved by Decision of the PJSC IDGC of the North-West Board of Directors of 21 November, 2016 (Minutes No.223/14). The Programme includes target and supporting activities

Supporting activities include measures with the positive energy efficiency which do not meet the criteria for the target activities.

Organisation and implementation of surprise inspections to reveal uncontracted power consumption (theft), disconnection of transformers with seasonal and light load at substations with 2 transformers and more, balancing phase load in distribution grids of 0.38 kV, optimisation of operating voltage in grids with average phase voltage are carried out annually and classified as supporting activities to maintain the current level of power losses and do not influence the power balance indicators of the Company.

Target activities include those whose implementation ensures reduction in consumption of energy resources (including power) and/or water by at least 15% of the annual consumption of this resource:

- ▶ with the payback of 80% of the funds invested over 5 years for energy resources and (or) water consumption for operational and business needs;
- ▶ with the payback period of no more than 10 years for the measures to ensure reduction in transmission- and distribution-related power losses.

Energy saving and energy efficiency in 2017

the total effect amounted:

physical terms	15.528 thous. TOE	monetary terms	400.75 RUB m
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Financing sources of the energy saving programme:

the investment programme	the repairs programme
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213.07 RUB m	55.79 RUB m
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The effect of activities supporting (maintaining) the current loss level was:

9.25 m kWh	26.74 RUB m
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Energy saving and energy efficiency improvement activities

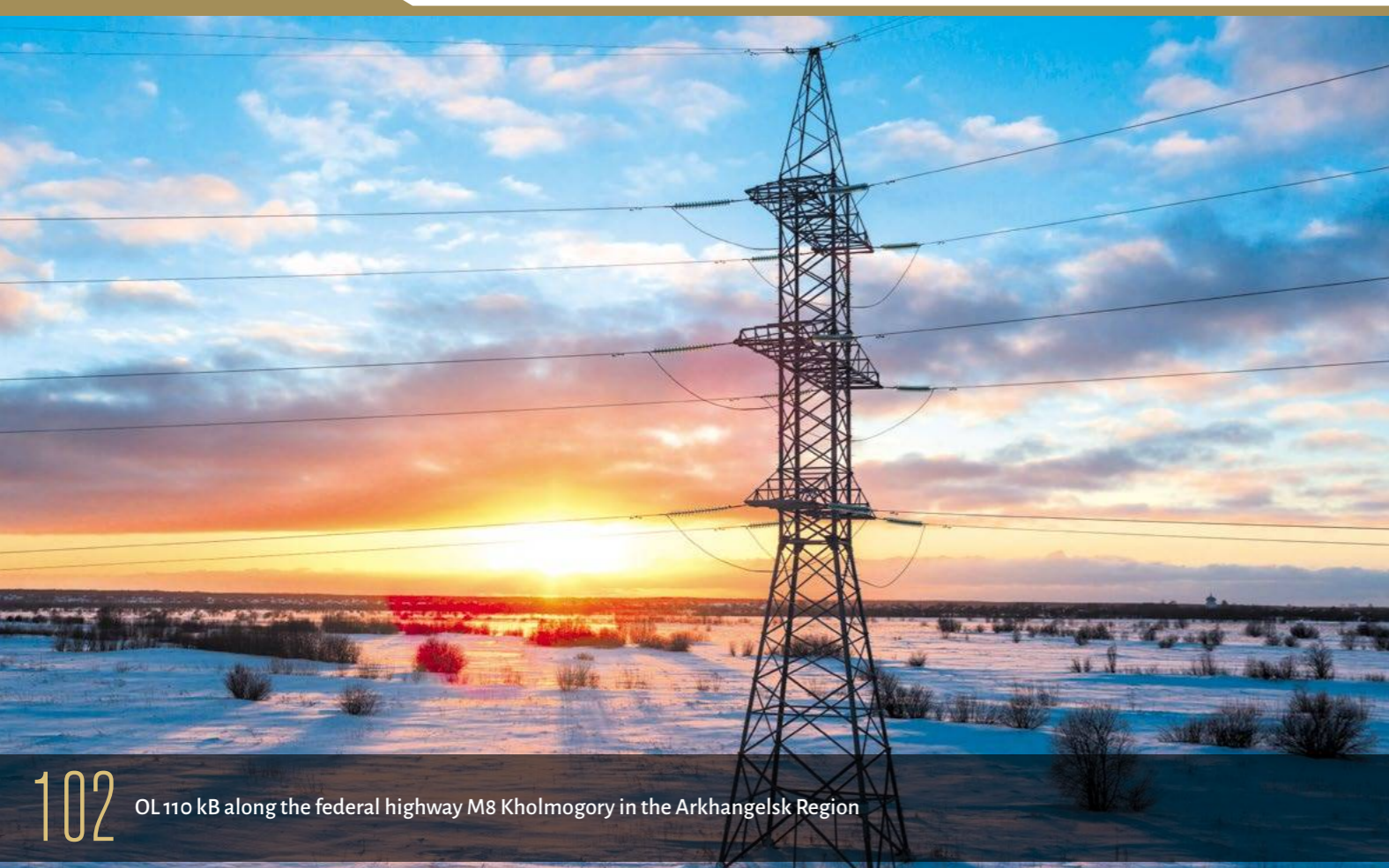
In 2017, the technological effect from power loss reduction activities in the Company amounted to 129.52 m kWh, the economic effect was RUB 400.75 m. Key measures of energy saving and energy efficiency improvement included:

- ▶ Organisation and implementation of surprise inspections to reveal uncontracted power consumption (theft);
- ▶ Installation of power meters with increased accuracy rating etc.

Other key target measures to ensure decreased consumption of resources for business operations are: modernisation of the lighting systems based on energy-efficient lighting devices, heating system modernisation, window replacement.

In 2017, the consumption of resources for business operations in PJSC IDGC of the North-West on the whole amounted to 18.01 thous. TOE (0.1 litre of cold water) for the amount of RUB 318.34 m, against the plan of 18.07 thous. TOE (0.14 litres of cold water) for the amount of RUB 345.45 m.

The reasons for failing to reach the planned indicators were weather conditions (the average annual temperature in 2017 was lower than expected), and the commissioning of new operational and administrative facilities.



Planned and actual energy efficiency target indicators in the reporting year

The main resource used by the Company, is power (renewable resource). Other resources include motor fuel (non-renewable resource), natural gas (non-renewable resource), water supply for buildings (renewable resource).

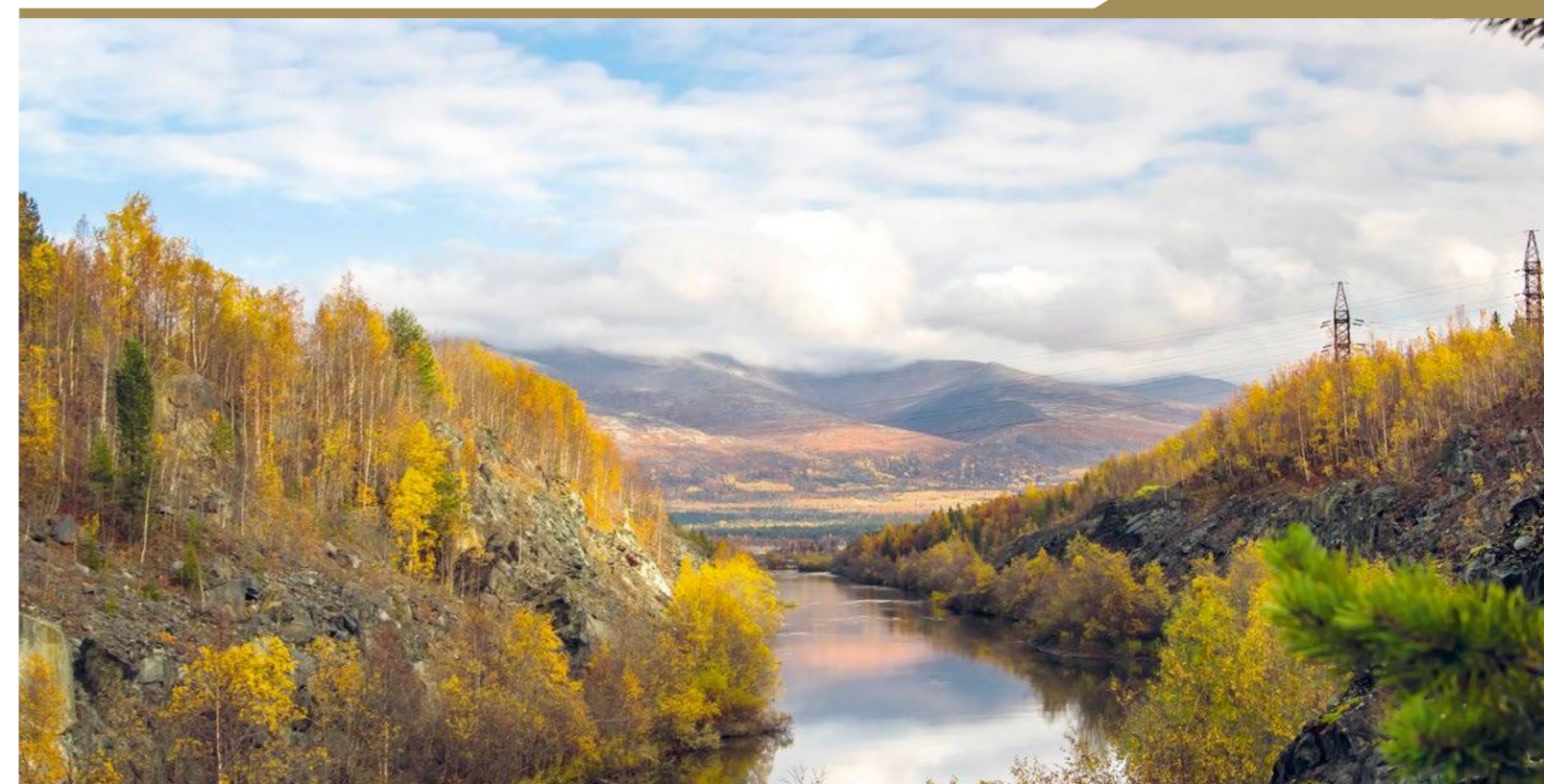
Indicator	Unit	2017 plan	2017 actual
1. Power losses	m kWh	2,573.51	2,283.65
	m RUB net of VAT	6,148.55	5,357.19
	% of output to grid	7.06	6.07
2. Consumption by substations for in-house needs	m kWh	85.76	71.31
	% of power losses	3.33	3.06
3. Energy consumption for in-house needs of administrative and production facilities, total, including:	m RUB net of VAT	339.09	313.83
	thous. TOE	18.07	18.01
3.1. Electric power	m kWh	81.64	81.39
	thous. TOE	9.80	9.76
	m RUB net of VAT	239.54	220.21
3.2. Heat (building heating systems)	Gcal	52,697.67	54,890.56
	thous. TOE	7.53	7.84
	m RUB net of VAT	95.98	90.71
3.3. Natural gas (including liquefied gas)	thous. cub.m	645.06	590.82
	thous. TOE	0.74	0.41
	m RUB net of VAT	3.58	2.91
4. Natural resource consumption for in-house needs of administrative and production facilities, total, including:	m RUB net of VAT	6.36	4.51
	thous. cub.m	49.87	62.09
4.1. Hot water supply	thous. cub.m	38.37	47.75
	m RUB net of VAT	0.96	0.52
4.2. Cold water supply	thous. cub.m	138.93	103.35
	m RUB net of VAT	5.40	3.99
5. Motor fuel consumption by vehicles and special machinery, total, including:	thous. l	12,585.44	13,396.07
	thous. TOE	14.76	15.76
	m RUB net of VAT	448.28	434.57
5.1. Petrol	thous. l	7,499.30	7,452.12
	thous. TOE	8.49	8.43
	m RUB net of VAT	278.39	240.39
5.2. Diesel fuel	thous. l	5,086.14	5,943.96
	thous. TOE	6.27	7.33
	m RUB net of VAT	169.89	194.18
6. Availability of energy-efficient LED lighting devices	%	10.00%	5.28%
Number of lighting devices used, including	items	80,291	103,102
energy-efficient lighting devices (except LED)	items	34,906	43,716
LED	items	5,943	5,448
7. Availability of advanced power metering devices in the retail market	%	12%	6.76%

ATMOSPHERIC EMISSIONS OF POLLUTANTS

In 2017, gross emissions of air pollutants reduced year on year by 0.4 tonnes due to energy saving activities.

Indicator	2015	2016	2017
Gross emissions of air pollutants, total, tonnes	371.770	477.810	477.401
including:			
solid	16.170	50.351	52.074
gas and liquid	355.600	427.228	425.327
including:			
sulphur dioxide	29.930	21.373	21.590
carbon oxide	122.650	166.433	168.731
nitrogen oxides (in equivalent to NO ₂)	151.460	145.924	138.624
hydrocarbons (excluding volatile organic compounds)	0.68	3.93	3.702
volatile organic compounds	50.860	82.299	85.179
benzapyrene	0.000002	0.000001	0.000001

No calculation was made for emissions of greenhouse gas and its equivalents, nor any analysis of emission intensity.



Golden valley. Photo by Aleksandrova Marina Yurievna, member of the documentation support group of Kolenergo branch, PJSC IDCC of the North-West. The photo was taken near Apatity, the Murmansk Region

GRI 303-3

WATER MANAGEMENT

Water is consumed by the Company via centralised water supply systems (67%), from artesian wells (26%) and surface water bodies (7%) for operational, drinking and everyday use.

The bulk of water consumed is attributable to drinking and everyday use – 70%, operational needs account for 30%. In 2017, the total water intake grew by 4.6 thous. cub.m, or by 3.2% year on year.

Water resources consumption

Indicator	2015	2016	2017
Total water intake, thous. cub.m, including	185.10	144.73	149.29
surface water bodies	19.91	13.2	10.24
third parties	122.62	97.88	100.56
subterranean water bodies	42.57	33.64	38.49
The amount of water reused, thous. cub.m	-	-	-

GRI 306-1

The Company fully complies with the conditions of the subsoil licence agreements, performs laboratory tests of water from the wells for quality and composition.

Water discharge

The amount of water discharge to surface water bodies reduced in 2017 by 17.4% against 2016 to reach 51.04 thous. cub.m.

	2015	2016	2017
Total water discharge, thous. cub.m, including:	73.14	61.80	51.04
treated to standard quality	47.22	40.06	39.58
insufficiently treated	25.92	21.74	11.46

Water is used in operations to fill firefighting reservoirs, test fire extinguisher systems and fire hydrants, infeed of the reusable water systems at carwashes.

The Company branches efficiently use the system of collecting and purifying surface rainfall and snowmelt from the territories of motor transport location, enabling them to eliminate major polluted surface flows and mitigate the negative environmental impact.

GRI 306-2

WASTE GENERATION AND LAND CONSERVATION

In line with Federal Law No.89-FZ “On production and consumption waste”, the Company implements a comprehensive set of activities to reduce the amounts of production and consumption waste generation and accumulation.

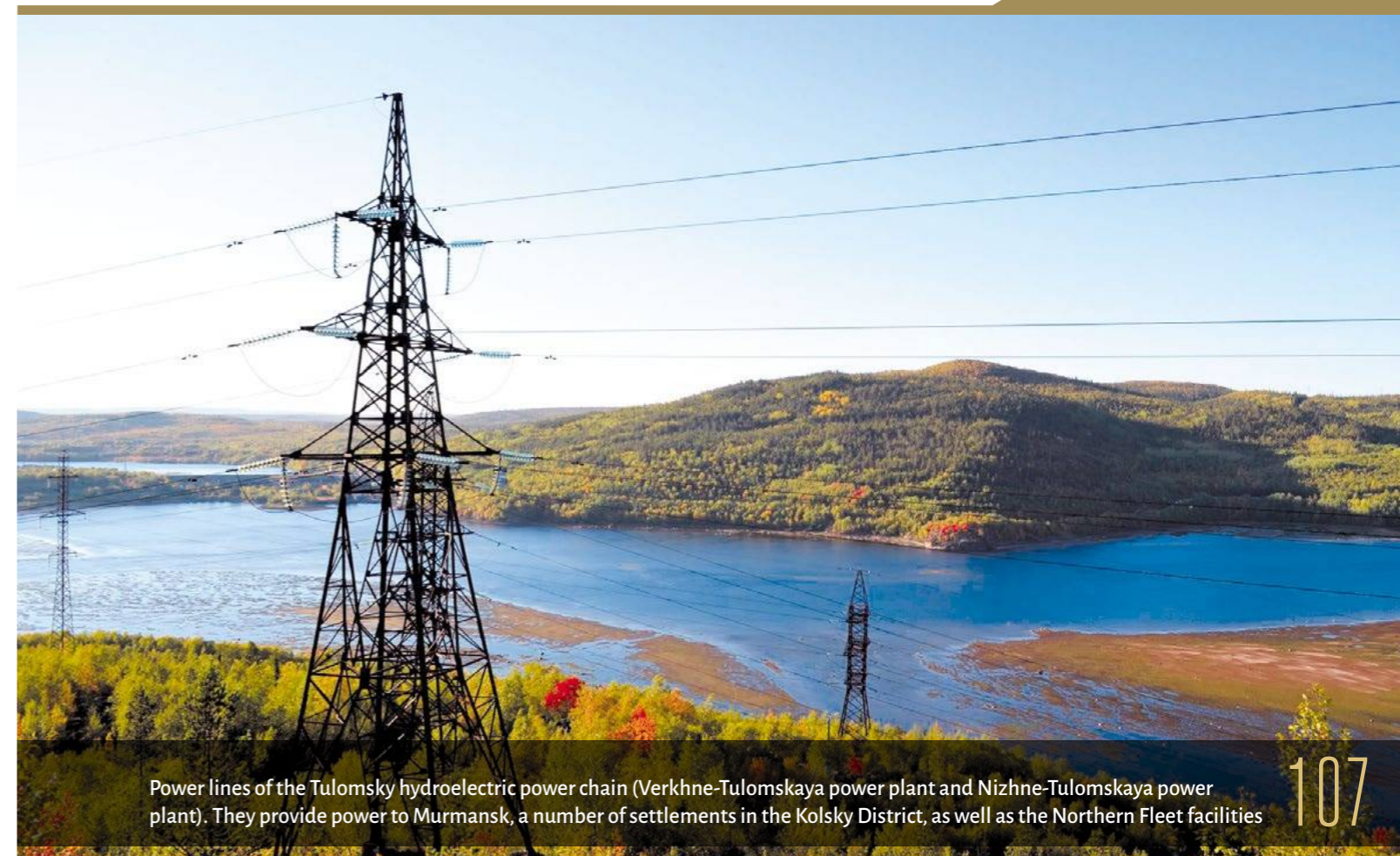
In 2017, the Company generated 5.35 thous. tonnes of production and consumption waste classified under hazard classes 1–5, which is by 0.59 thous. tonnes less year on year.

Waste generation, tonnes

Indicator	2015	2016	2017
Waste generated, total	7,754.635	5,938.216	5,352.094
Including			
hazard class 1	5.661	5.027	11.865
hazard class 2	12.198	11.254	12.482
hazard class 3	149.229	101.725	384.611
hazard class 4	4,427.508	4,309.951	2,831.532
hazard class 5	3,160.038	1,510.259	2,111.604
Waste transferred to third parties, total	7,769.465	5,840.897	5,324.405
including for waste placement	4,875.692	3,904.214	3,408.596

Waste disposal, tonnes

Indicator	2015	2016	2017
Waste transferred to third parties for:	7,769.465	5,840.897	5,324.405
Use	1,096.167	1,466.474	1,569.924
Treatment	1,797.606	470.209	345.885
Storage	-	-	-
Landfilling	4,875.692	3,904.214	3,408.596



Power lines of the Tulomsky hydroelectric power chain (Verkhne-Tulomskaya power plant and Nizhne-Tulomskaya power plant). They provide power to Murmansk, a number of settlements in the Kolsky District, as well as the Northern Fleet facilities

GRI 304-2
GRI 304-3

ECOSYSTEM AND BIODIVERSITY CONSERVATION

According to expert research, most power lines operated are unsafe for birds and inflict severe damage on the ornithological fauna. Growth in the length of dangerous power lines is one of the causes of bird mortality, including rare species. Therefore, the Company plans and develops measures for bird protection, enabling it to prevent or minimise possible consequences of power grid facilities impact.

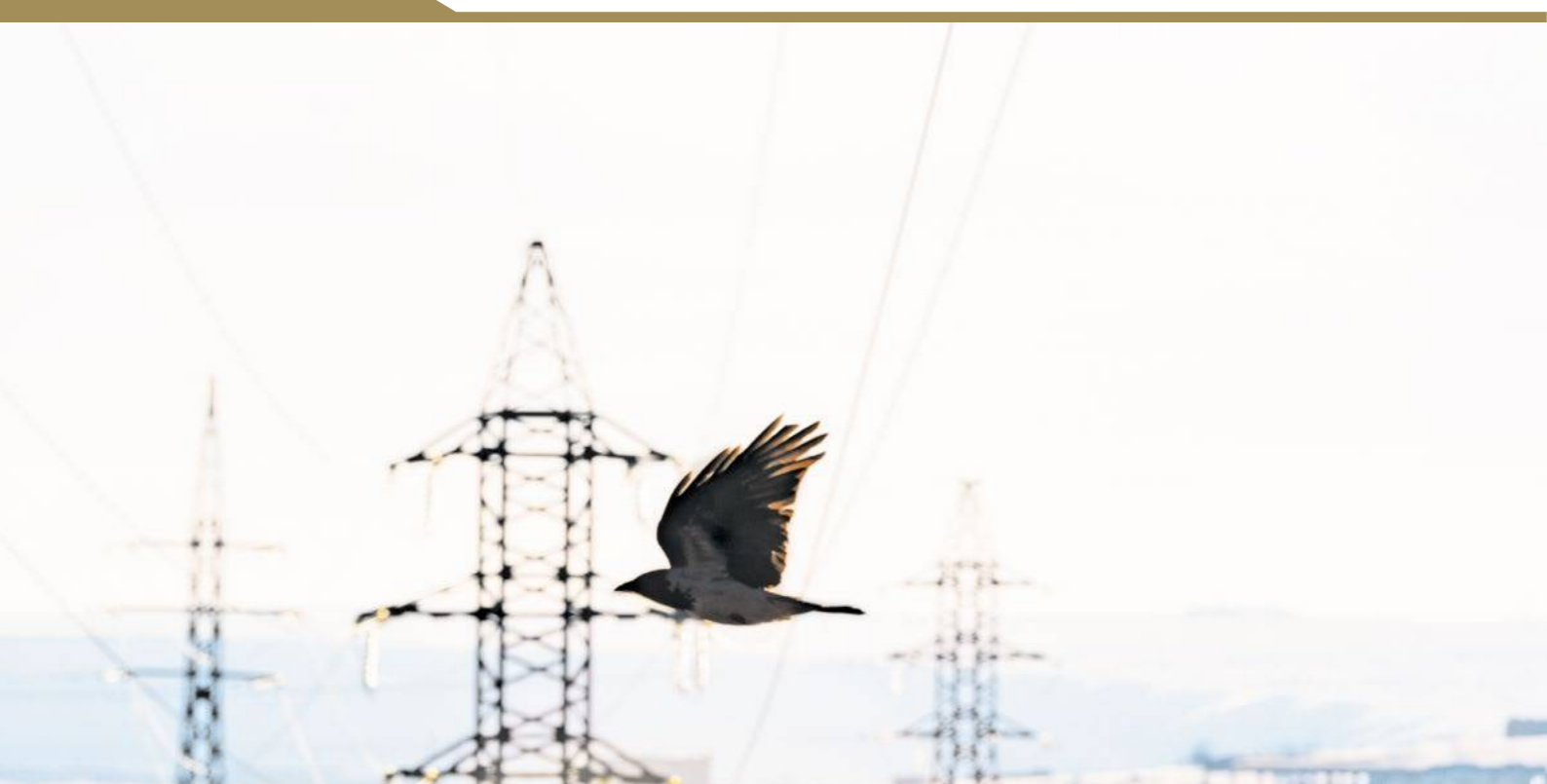
Moreover, power experts of PJSC IDGC of the North-West pay considerable attention to protection of birds in the areas of their seasonal migration. Bird activity, particularly during the nesting period, as well as spring and autumn migration, significantly influences the stability of power grids facilities operation. The overhead lines going through large birds habitats are equipped with bird shields – tin and plastic “screens”. Moreover, for OL protection, the poles are equipped with metallic wire constructions preventing birds from resting on cross-arms. It served to decrease the number of power grip emergencies and protect the birds’ lives.

In 2017, to prevent bird nesting and electrocution on overhead lines, 883 bird protection devices were installed.

Details of the power lines length within protected areas are available in the full version of the Annual Report at the Company’s web site: <http://www.mrsksevizap.ru/shareholdersmeetinginfo>.

GRI 304-1

Power lines of some branches of the Company go through the territory of the Russky Sever National Park (Kirillovsky District of the Vologda Region), and Darwin Nature Reserve (Cherepovetsky District of the Vologda Region). The land plots occupied by the power lines are rented. Bird shields are installed in the territory of the National Park.



GRI 307-1

FINES AND NON-FINANCIAL PENALTIES IMPOSED ON THE COMPANY FOR NON-COMPLIANCE WITH THE REQUIREMENTS OF ENVIRONMENTAL LEGISLATION

Fines and non-financial penalties imposed on the Company were due to violations of the environmental legislation requirements by exceeding the established standards of pollutants discharge to water bodies and exceeding the established standards of air pollution.

Number of non-financial penalties imposed, items

2015	2016	2017
9	29	25

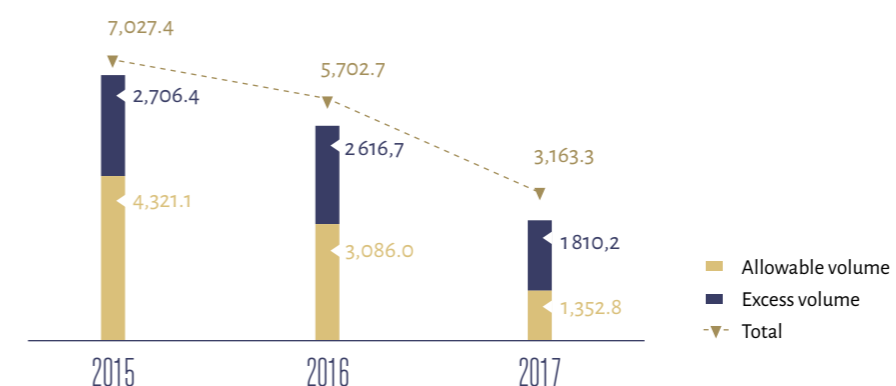
Total amount of fines, thous. RUB

2015	2016	2017
—	210	100

Trends in payments for adverse environmental impact, thous. RUB

Indicator	2015	2016	2017
Total, incl.	7,027.44	5,702.67	3,163.28
allowable volume	4,321.07	3,086.01	1,352.82
excess volume	2,706.37	2,616.66	1,810.46
Discharge to water bodies, including	165.52	256.59	5.92
allowable volume	162.91	142.59	0.005
excess volume	2.61	113.99	5.91
Air pollution, including	829.58	754.85	260.10
allowable volume	129.55	52.65	19.84
excess volume	700.03	702.20	240.26
Waste placement, including	6,032.34	4,691.23	2,897.26
allowable volume	4,028.60	2,890.77	1,332.97
excess volume	2,003.74	1,800.46	1,564.29

Trends in payments for adverse environmental impact, thous. RUB



HUMAN RESOURCES AND SOCIAL POLICY

The key goals of the Company's HR and social policy (hereinafter – the Policy) aimed to ensure achievement of the target indicators set by the Development Strategy of the Electric Grid System, are:

- ▶ planning the staffing requirements – ensuring availability of reliable information on the current and projected number and qualities of employees required as necessary and sufficient to fulfil the tasks assigned to the Company;
- ▶ timely meeting the Company's needs for personnel of required qualification;
- ▶ ensuring efficiency of personnel activities, labour efficiency improvement.

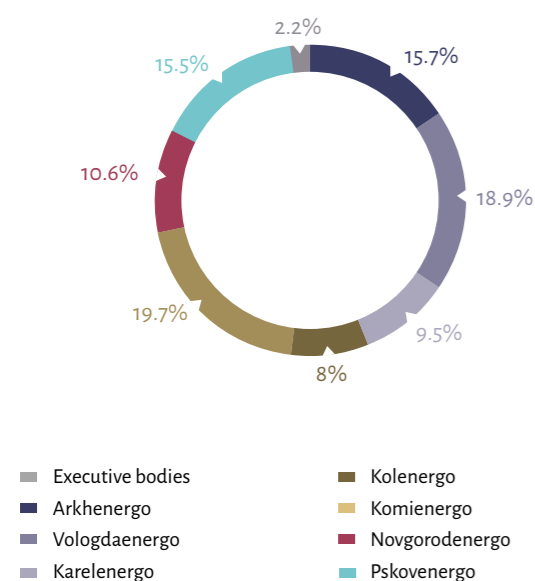
The above key goals of the HR and social policy are achieved by implementing a set of measures in a variety of business areas and by reaching the established targets:

- ▶ in organisational design;
- ▶ in staffing and personnel development;
- ▶ in managing the efficiency or personnel activities (personnel motivation);
- ▶ in social benefits and social security;
- ▶ in promoting safety of operations and work culture.

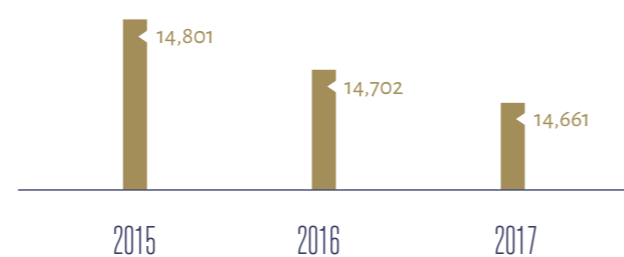
PERSONNEL HEADCOUNT AND COMPOSITION

The average headcount of the Company was 14,661 persons in 2017, which is 0.28% fewer than that in 2016. The 2017 reduction in the headcount was due to optimisation of the office and management personnel numbers.

Breakdown of the PJSC IDGC of the North-West headcount in 2017



The average personnel headcount of PJSC IDGC of the North-West over 2015-2017, persons



Operational staff accounts for 87.5% of the total number of PJSC IDGC of the North-West employees.

The staffing levels of PJSC IDGC of the North-West have been consistently growing over the recent three years to reach 97.6% in 2017 (+0.7 p.p. from 2015).

The reduction in the share of employees aged 50 and under the retirement age (-0.4 p.p.) and the share of employees working after retirement (-1.2 p.p.), along with gradual increase in the share of employees aged from 25 to 50 (+1.8 p.p.) over the last three years allows the Company to maintain the average employee age of 42 in the last three years.

PJSC IDGC of the North-West employees possess considerable high qualification – 85.6% of them have received professional education. This indicator increased by 1.6 p.p. in the last three years.

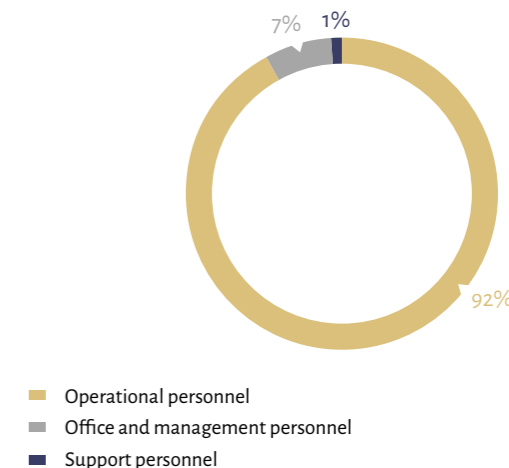
Personnel training and development

Training is a priority area of HR and social policy at PJSC IDGC of the North-West. It is regulated by the Rules of HR management in power industry companies of the Russian Federation, the Regulation on continuous professional development of staff, the Procedures of HR management.

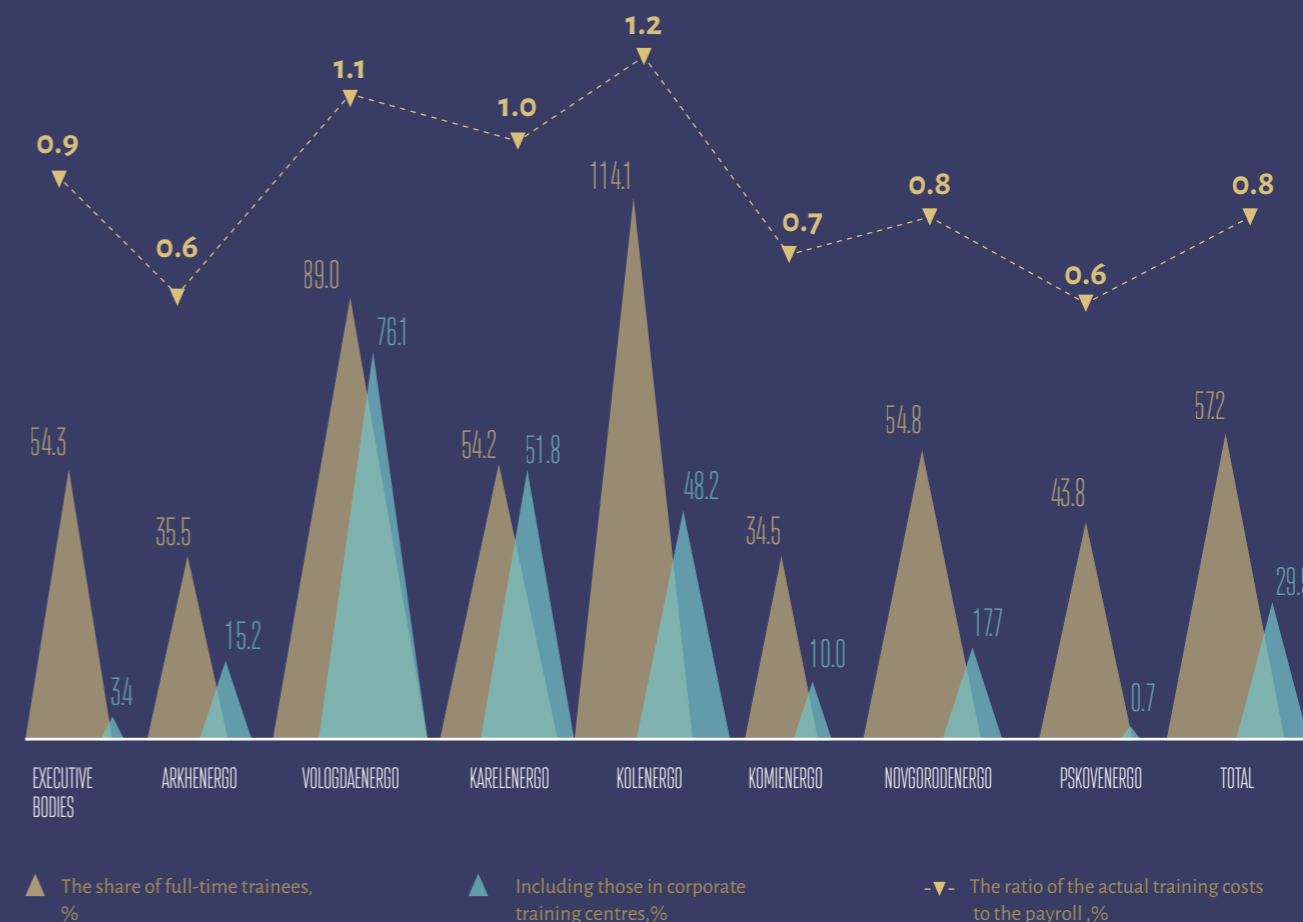
The share of employees who took part in full-time training events in the total headcount is 57.2% (8,379 persons) in the reporting year, which is by 6.3 p.p. (950 persons) lower year on year.

The largest share of the employees trained is attributable to operational personnel – 92% (7,699 persons). In 2016, this indicator was 91%.

The breakdown of the staff who took part in full-time training events by category, %



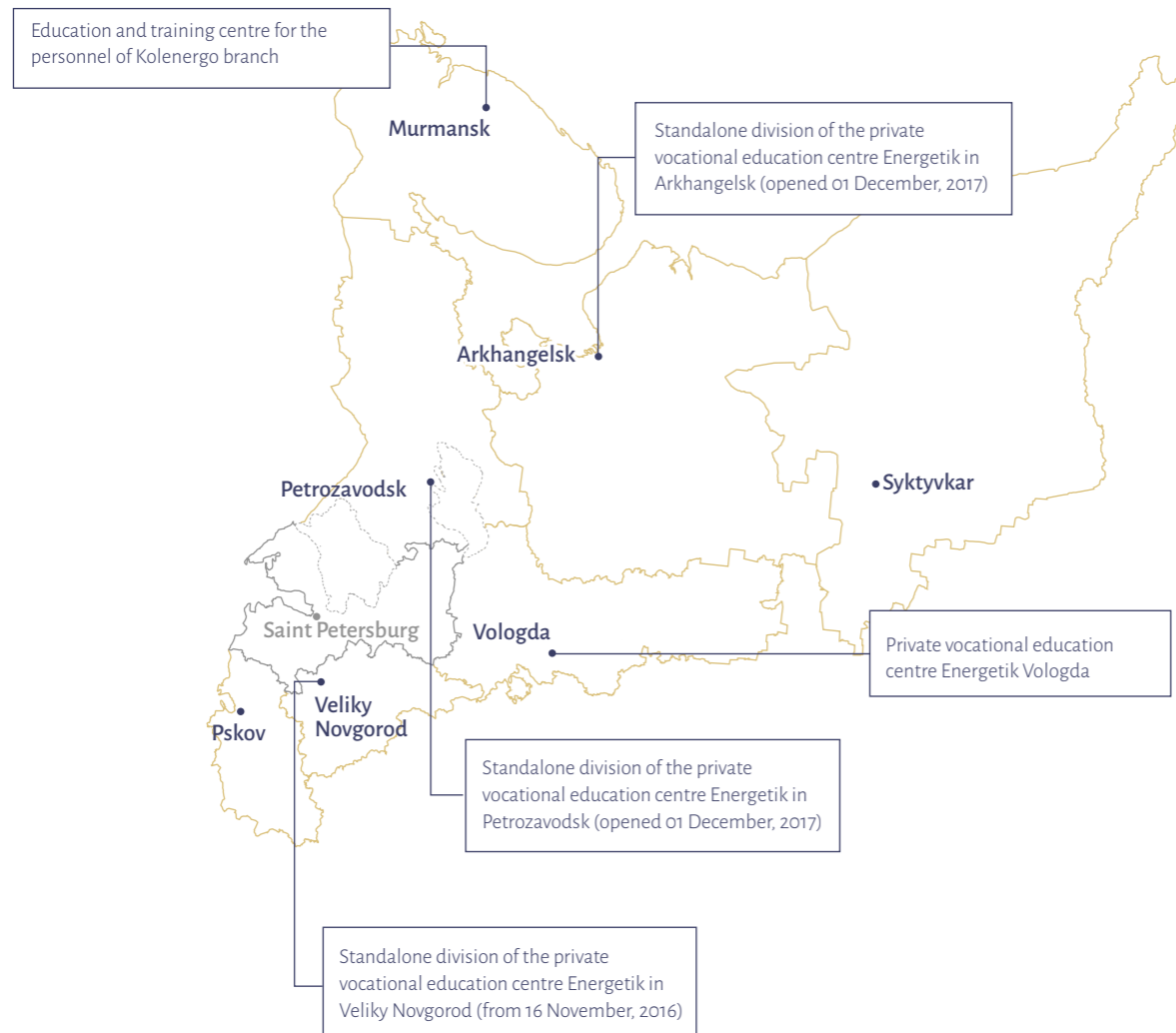
The share of employees trained full-time, and the ration of the training costs to the payroll in the reporting year, %



Continuity of the employee training is ensured by the corporate training and development system including private vocational education centre Energetik Vologda with standalone divisions in Arkhangelsk, Veliky Novgorod, Petrozavodsk and training and educational centre for the employees of Kolenergo branch in Murmash of the Murmansk Region.

Data on the actual spending on personnel training and interaction with the relevant higher and professional education institutions are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Data on training centres of PJSC IDGC of the North-West



Talent pool management of the Company

In order to develop the HR potential and cover the Company requirements of trained personnel for appointment to vacated and new positions, in 2017, PJSC IDGC of the North-West continued its management of talent pool for administrative staff and youth.

Administrative talent pool is formed by PJSC IDGC of the North-West to promptly and properly meet the Company's needs for employees prepared for work at leading positions and ensure the continuity of management experience.

Professional development of the employees included in the Company's talent pools was based on individual plans, considering the actual competence level of the employee and the requirements of the target positions.

At present, the administrative talent pool of the Company includes 735 employees, talent pool for the key positions – 66 employees, youth talent pool – 122 employees.

The number of talent pool members who participated in the events aimed at developing professional and management competencies was 455 persons in 2017.

Details of the talent pool management are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Labour efficiency improvement

A vital indicator of personnel quality improvement at the Company is stable growth in labour efficiency within core business areas. Thus, the labour efficiency improvement indicator is defined in 2017 under the Methodology for estimation and assessment of key performance indicators achievement by the Director General of PJSC IDGC of the North-West approved by the Company Board of Directors on 31 March, 2017 (Minutes No.235/26). The indicator of labour efficiency improvement is calculated as the ratio of the revenue from power transmission to the man-hours spent. The Company shows stable growth in labour efficiency.

Social policy towards the Company's employees

Implementation of efficient social policy is a focus of the HR management.

Aware of its responsibility towards the country, the society and employees, the Company management pays considerable attention to social aspects of its activities, which deeply influence the employees' performance, labour efficiency improvement, optimisation of operational processes, stability and sustainable development of the Company in the long-term, increase in the employees' standard of living and positive image of the Company.

THE MAIN PRINCIPLES OF IMPLEMENTING THE SOCIAL POLICY ARE:

- ▶ **Targeting** – a primary focus on the groups of employees who are most important for efficient performance of operational tasks and achievement of the goals of the grid system of the North-West, and on the most vulnerable groups of employees;
- ▶ **Relevance** – adequacy of the benefits granted to the essential needs of particular groups of employees, an individual approach;
- ▶ **Awareness** – provision of social support in various areas of life;
- ▶ **Openness** – open discussion of the developed social regulations and availability of information on existing benefits and guarantees;
- ▶ **Effectiveness** – continuous monitoring and evaluation of the incentives' efficiency.

The efficient social protection system implemented in the Company contributes to attracting qualified professionals, reduces labour turnover and is a foundation of successful operations.

Investing in personnel development and actively using indirect incentives, the Company stabilises the staff, increases the social security of working and retiring employees, builds a positive public image, ensures a reasonable balance of rotation and retaining highly qualified personnel.

PJSC IDGC of the North-West developed a comprehensive HR and Social Policy of the Company approved by Decision of the Company's Board of Directors of 10 February, 2015 (Minutes No.67).

The range of areas for implementing the Company's social policy is sufficiently broad and encompasses issues of non-state pension provision, voluntary medical insurance, voluntary insurance against accidents and illnesses, organisation of employees' recreation and health improvement, care for its pensioners – veterans of power industry enterprises and young specialists, as well as events for corporate culture building and development.

Preventive healthcare and health improvement for employees and their children

Important features of employee's health improvement, healthy lifestyle promotion and disease prevention are the opportunities provided to the Company's employees in terms of fitness and sports, holding competitions and sports events, participation in sports tournaments, friendly matches, festivals and contests.

In 2017, employees of the Company enjoyed over 225 sports events with the participation of 3,900 persons.

Details of the social policy implementation are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

Cultural and educational events

In 2017, the total of 849 events were conducted to develop further the Company's corporate culture with the participation of over 31 thousand people.

During the reporting year, the Company held 138 themed entertainment events and over 40 excursions for the employees engaging over 12 thousand people, as well as 26 exhibitions of creative works by power industry employees and their children.

The Company organised over 166 events aimed at attracting and retaining young qualified workers and professionals at the power grid facilities, with participation of over 4.5 thousand students of the region and young employees of the Company.

100 employees of the Company acted as volunteers at the Third International Festival of Orthodox Chants on Valaam.

In 2017, all seven branches of PJSC IDGC of the North-West organised student construction teams. Their total headcount amounted to 106 persons. The Kolenergo team began to work on 19 June (11 persons), other branches launched the works in July 2017. The student construction team of Komienergo took the 11th place across Rosseti affiliates.

Approximately 165 events were held for members of the Veteran Councils of the executive administration and Company branches, covering around 6 thous. persons, including veterans of war.

The Company organised 57 thematic events dedicated to the major dates of the Russian history. Thus, thousands of the Company's employees in seven regions of operation of PJSC IDGC of the North-West took part in the celebration of the main national holiday – the Day of Victory in the Great Patriotic War. Commemorative events and celebrations in honour of the veterans were held in large regional centres as well as remote settlements where power industry employees work:

- ▶ floral offerings at the memorial monuments;
- ▶ meetings with the veterans where employees of the branches presented their concert performances to the heroes;
- ▶ photo exhibitions "Immortal Regiment" with photo materials about the heroes from the power industry and members of the employees' families at the power distribution zones and operational departments;
- ▶ distribution of Saint George's ribbons.

At the initiative and with the active participation of the Company's Youth Council, electrical safety lessons were held in orphanages; members of the Youth Council held New Year events for the orphanage pupils.

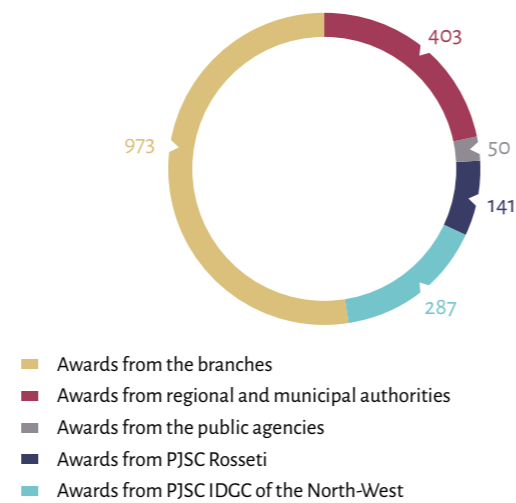
PJSC IDGC of the North-West implements the system of awarding employees who achieve the best operational indicators, carry out innovative projects, have been dedicated to their work for many years, show top professional skills, contribute to the development of the North-Western power industry.

The awards policy pursued by the Company to boost social motivation of employee is based on the following principles:

- ▶ uniform requirements to the employee awarding procedures;
- ▶ unbiased selection;
- ▶ adequacy of the award to the merits;
- ▶ awards differentiation;
- ▶ combination of financial and moral benefits.

Over 2017, employees of the Company with the best record of contribution to the power industry development received 1,860 awards.

Awards distribution in PJSC IDGC of the North-West in 2017



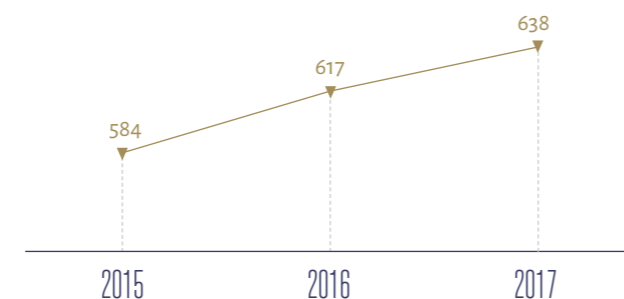
Protection of employees' interests and rights

During the reporting year, the Company built efficient relations with primary trade union organisations (PTUOs) and the Council of PTUO Representatives, in particular by fulfilling common tasks of communication to the staff, organisation of cultural, educational and sports events, implementation of the uniform Collective Agreement and the uniform Regulation on Remuneration of Employees of the Company. There were no cases of violation of the terms of the Collective Agreement in the reporting year.

PTUO members are 61% employees of the Company (9,232 persons).

In accordance with the standards of the Agreement on base wage rates in the electric power industry of the Russian Federation and the effective Collective Agreement, in the reporting year the Company transferred RUB 36.5 m to the accounts of primary trade union organizations of the branches and the Company's executive bodies for the purpose of organising cultural and sports events.

Growth in the employer's expenses on the social policy, RUB m



▼ Costs related to employee benefits, guarantees, and compensations, VHI and accident insurance, non-state pensions, PTUO payments

The year on year growth in social policy spending in 2017 was due to increase in the minimum monthly wage rate of first-category operational staff.

Remuneration at the Company's branches

The Company's system of labour remuneration paid to employees is based on the uniform principles of social partnership stipulated by the Collective Agreement of PJSC IDGC of the North-West, as well as the Regulation on remuneration of employees of OJSC IDGC of the North-West effective from 01 May, 2009 (as subsequently amended). The labour organisation and remuneration system currently in force in the Company generally complies with the Recommendations for the uniform procedure of labour remuneration at base wage rates (official salaries) of power industry employees approved by the Russian Association of Electric Energy Employers and the All-Russian Electric Trade Union.

In 2017, the average salaries of employees throughout the Company grew by 7.6% against 2016.

The efficiency of the HR and Social Policy is closely linked to timely payments and indexation of salaries to ensure their competitiveness in the regional labour markets, and therefore the salaries of employees of all the Company's branches have been traditionally higher than average salaries of employees in the respective regions

The Company's Regulation on remuneration of employees provides for incentives to employees in the form of increments that may be paid on a monthly basis (for particular performance achievements, for the length of service, for qualification), as well as bonuses payable based on monthly, quarterly and yearly basis subject to performance.

Implementation of the non-state pension programme

The non-state pension programme for employees of PJSC IDGC of the North-West (hereinafter – the NSP programme) was approved by the Company's Board of Directors broken down by six month periods of 2017. The NSP programme for the first half of the year was approved by Decision of the Company Board of Directors of 30 December, 2016 (Minutes No.227/18) The NSP programme for the second half was approved by Decision of the Board of Directors of PJSC IDGC of the North-West of 09 June, 2017 (Minutes No.245/36). The main goal of the programme is to ensure a decent standard of living for the Company's employees at the retirement age, as well as to create conditions for efficient solution of various personnel issues, such as optimisation of the number of administrative and management personnel, reducing the staff turnover and retaining employees in the power system. During 2017, the Company continued its cooperation with the Non-State Pension Fund of the Electric Power Industry (hereinafter – the NSPF of the Electric Power Industry) towards the implementation of the non-state pension provision programmes for employees.

Details of the non-state pension programme implementation are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.



PJSC Rosseti's CEO P.A. Livinsky awards Yu.M. Kalach, leading engineer of the occupational safety and operational control unit of the Western Karelian power grids, Karelenergo branch, with the badge "For professional skill"

LABOUR PROTECTION AND OCCUPATIONAL SAFETY

A major priority of PJSC IDGC of the North-West is protection of the employees' life and health, as well as securing safe labour environment.

Occupational safety management of the Company is stipulated by requirements of the RF legislation and the current regulatory documents in the field of industrial safety:

- the policy and the main areas of activities, legal, economic and social bases of safe operation of potentially hazardous facilities are stipulated by Federal Law No.116-FZ of 21 June, 1997 "On industrial safety at hazardous production facilities";
- the procedure of arranging implementing operational control over compliance with the industrial safety requirements is carried out in line with the Rules of operational control over compliance with the requirements of industrial safety at hazardous production facilities approved by Order No.263 of the Russian Federation Government of 10 March, 1999;
- occupational safety management is carried out in line with the legislation of the Russian Federation, the main document being the Labour Code (of 30 December, 2001 No.197-FZ), industry-specific and local regulatory documents.

Although the measures implemented by the Company in the field of industrial safety, occupational safety and health protection fully comply with the requirements of the current legislation, our commitments regarding these issues are additionally stipulated by the Collective Agreement. Thus, section "Labour Protection" of the collective agreements stipulates occupational safety standards aimed at protection of employees' life and health in the course of their operational activities.

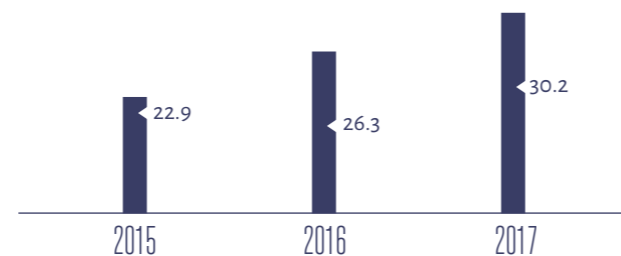
The Company acts in accordance with the occupational safety policy of Rosseti Group based on the following principles:

- the aspiration to completely exclude any fatal industrial accidents by means of pro-active prevention;- prohibition of any work in breach of the stipulated occupational safety requirements and compliance with the legislation of the Russian Federation, the constituent entities of the Russian Federation and other regulatory documents regulating occupational safety.
- prohibition of any work in breach of the stipulated occupational safety requirements and compliance with the legislation of the Russian Federation, the constituent entities of the Russian Federation and other regulatory documents regulating occupational safety.

Major activities of the Company aimed at improvement of occupational safety are as follows:

- Protection of technical process safety and equipment safety in accordance with the requirements of the current legislation and regulatory documents on occupational safety and health management.
- Measures to improve the conditions of occupational safety and reduce the levels of occupational risks.
- Prevention of occupational injuries.
- Training, retraining and advanced training of the personnel.
- Ensuring safety of employees during work.
- Creation of proper sanitary and hygienic labour conditions at workplaces.
- Special assessment of labour conditions; measures to eliminate (mitigate) the impact of hazardous and dangerous factors of the working environment and labour process on the employees.
- Timely supply of protective clothing, footwear and other personal protective equipment to the personnel, as well as communication tools, medical kits, medicines, milk and other equivalent food products, detergents and disinfectants.
- Control (audit) of the compliance with the occupational safety requirements during operations.
- Prevention of occupational injuries of contractor organisations' employees and third parties at power grid facilities.

Unit costs of occupational safety per employee



Occupational injuries

Occupational injuries in 2015-2017

Indicator	2015	2016	2017
Total number of people injured in accidents, persons	6	5	2
Total number of fatalities, persons	1	3	1
Total occupational injury frequency rate (per 1,000 employees)	0.40	0.34	0.14
Fatality frequency rate (per 1,000 employees)	0.07	0.20	0.07

As a result of the measures taken in 2017, the occupational injuries indicators reduced (the number of victims decreased by 40%), and there were no work-related diseases. However, despite the Company's activities, one fatal occupational injury took place in 2017. Following the occupational injuries, subject to results of internal investigations into the circumstances and causes of accidents, the Company worked out a set of measures to prevent further occupational injuries and issued organisational regulatory documents.

To increase the efficiency of the measures taken to prevent occupational injuries, the Board of Directors approved and implemented a Comprehensive programme of PJSC IDGC of the North-West for mitigation of the occupational injury risks among employees and third parties at the Company's power grid facilities in the period of 2014-2017.

To increase the responsibility of the Company management for accidents, the system of remuneration for the Director General and top management of the Company includes the quarterly indicator "No growth in the number of accident victims".

The Company works with its contractors in line with the Rules of personnel management at power industry companies of the Russian Federation, construction rules and regulations 12-03-2001 "Labour safety in construction. Part 1. General requirements", the Rules of occupational safety in operating power facilities.

In 2017, two accidents took place involving employees of contractors during their work at the Company's power grid facilities. Internal investigations were implemented, whereby the Company issued orders on measures to prevent violations and take corrective actions towards the persons responsible for failure to meet the requirements of regulatory, technical and organisational documents.

Moreover, to mitigate possible risk of occupational electric injuries to the staff of contractors and detached personnel involved in operations, as well as the Company personnel involved in joint activities with or working near the above third parties, the Company developed and implemented Organisational standard O1.O11-2017 "Organisation of safe work performance by the staff of contractors and detached personnel. Standard form of contractor agreements signed by PJSC IDGC of the North-West now include section "Compliance with the requirements of occupational safety".

Details of the occupational safety spending are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

RESPONSIBLE BUSINESS

MANAGEMENT APPROACH TO DEVELOPMENT OF THE ETHICAL AND TRANSPARENT ENVIRONMENT

The Company considers development of an ethical and transparent business environment to be a prerequisite for maintenance and improvement of mutually beneficial relations with its business partners on the basis of fair, open and ethical cooperation methods, commitment to contractual obligations and mutual respect. The core principles of the Company's business are integrity and responsibility for its policy and actions, respect for human dignity and interests of other business actors.

PROCUREMENT

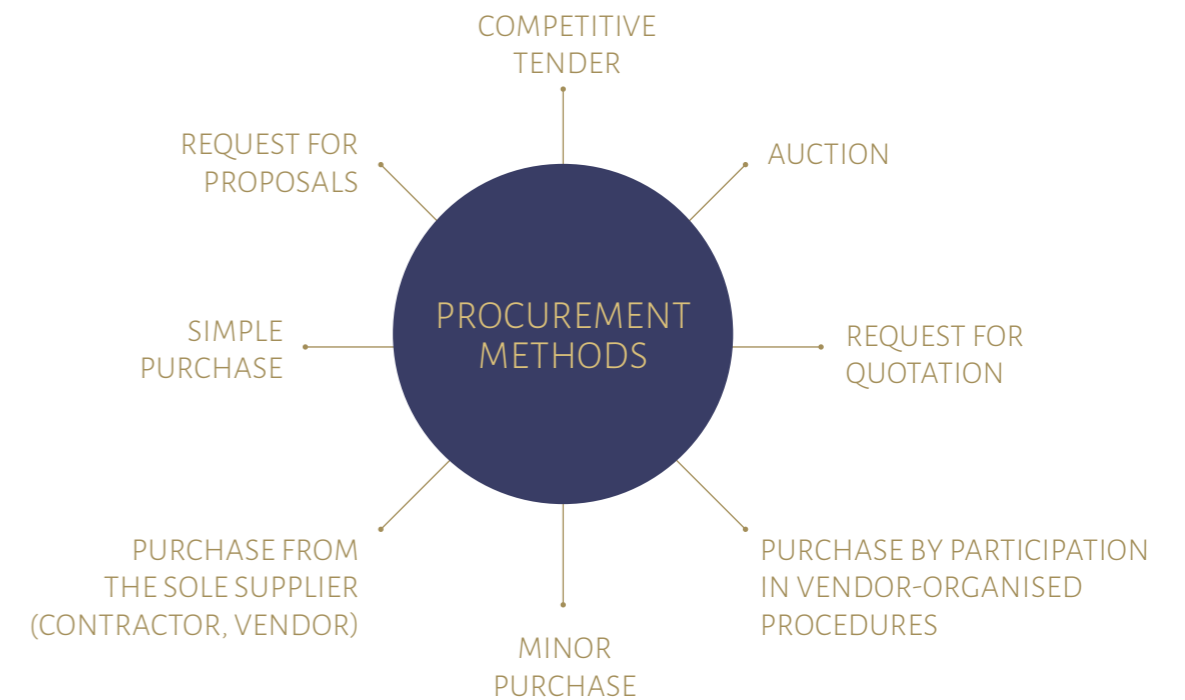
The Company procurement was carried out in 2017 in line with the Unified procurement standard of PJSC Rosseti (Procurement regulation), approved by Decision of the Company Board of Directors of 29 December, 2015 (Minutes No.195/10).

Procurement activity of PJSC IDGC of the North-West is based on the following principles²⁷:

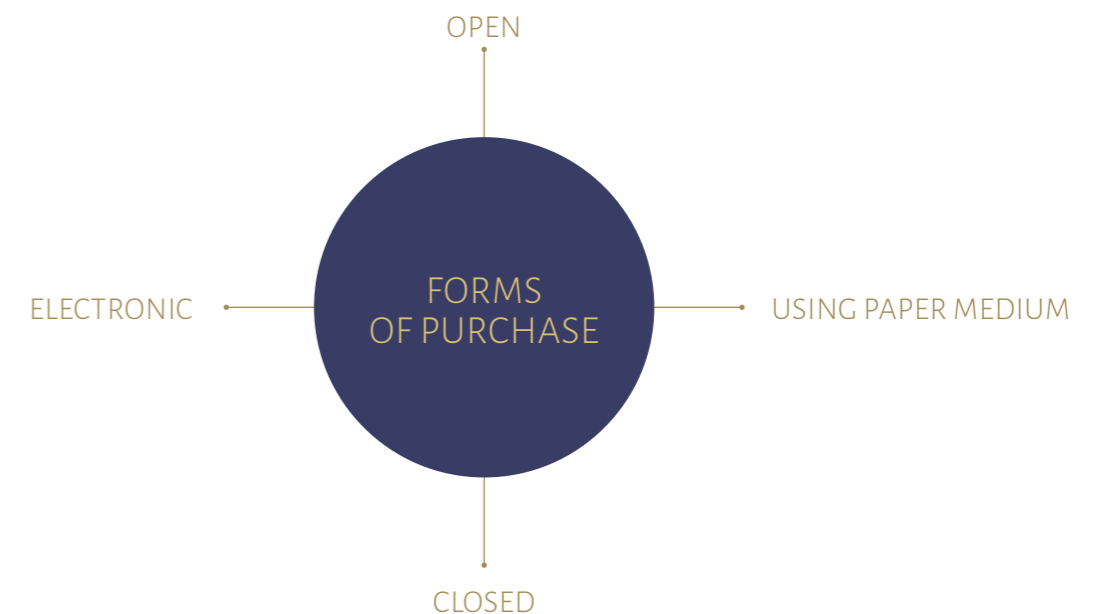
- ▶ information openness;
- ▶ equality, fairness, prevention of discrimination or unreasonable restrictions of competition towards the procurement parties;
- ▶ targeted and cost-effective expenditure to purchase goods, works, services and measures aimed at reducing costs;
- ▶ prevention of restricted access to participation in procurements by setting unmeasurable requirements to procurement parties;
- ▶ transparency and manageability of procurement activities;
- ▶ expertise and competence of employees participating in the procurement activities of PJSC IDGC of the North-West;
- ▶ compliance with the standards of the effective legislation regulating procurement procedures, as well as the anti-corruption legislation, including the Anti-corruption standard of procurement activities.

METHODS OF HOLDING PROCUREMENT PROCEDURES

Procurement activity is implemented in the Company in line with the following methods stipulated by the Unified procurement standard of PJSC Rosseti (Procurement regulation):



The Unified procurement standard of PJSC Rosseti (Procurement regulation) stipulates the following forms of purchase and special procedures:



THE MAIN CRITERIA OF SELECTING THE PROCUREMENT METHODS OTHER THAN AN OPEN COMPETITIVE TENDER ARE:

- ▶ the level of sophistication of the purchased products;
- ▶ nature of the markets of purchased products;
- ▶ cost of purchase;
- ▶ the need to ensure confidentiality required to protect the Company's interests;
- ▶ procurement schedules.

The list of mass media to publish official documents on procurement procedures for PJSC IDGC of the North-West is approved by decisions of the Board of Directors of 26 February, 2010 (Minutes No.54/9)

and of 28 December, 2011 (Minutes No.89/10). It is available at the web site of the Company.²⁸

PROCUREMENT STRUCTURE

In 2017, the Company held 1,863²⁹ procurement procedures for the total amount of RUB 18.8 bn. The cost-efficiency achieved by these procedures was RUB 1.5 bn net of VAT, or 7.7% of the planned declared value of competitive purchases.

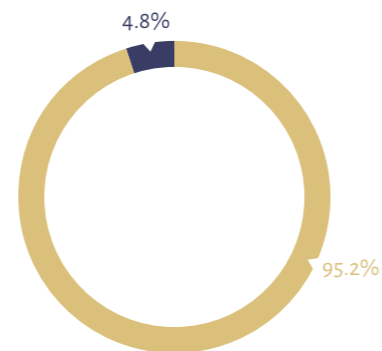
Purchasing via e-commerce facilities (electronic trading platform) accounted for 1,624 cases for the amount of RUB 17.8 bn net of VAT (99.4% of the total procurement number, 99.9% of the total procurement volume³⁰ in monetary terms).

Purchasing from small and medium businesses

Purchasing from small and medium businesses accounted for RUB 13.0 bn net of VAT (1,558 purchases), or 68.9% of the total procurement volume (83.6% in number).

The volume of competitive tenders where only small and medium businesses took part in accordance with the requirements of the tender/procurement documents, amounted to RUB 6.6 bn net of VAT (1,558 purchases), or 37.1% of the actual volume (54.5% in number).

Procurement openness



■ Open procurement procedures
■ Share of purchasing from the sole supplier³¹

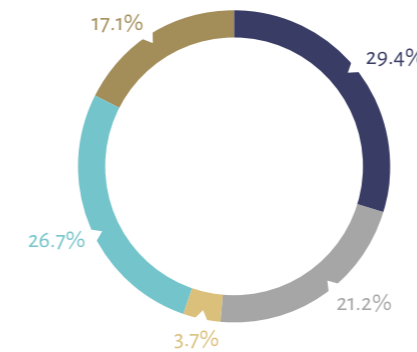
²⁸ The Company web site <http://www.mrsksevzap.ru>, Section "Procurement" provides information on procurement management, procurement announcement, data on current procedures, sales, procurement archive, data on the number and value of contracts, small and medium business relations.

²⁹ Net of purchasing power transmission services, purchase of power to offset losses and other inevitable purchases from the sole supplier (rent of land, heat/water/power/gas supply, emergency response).

³⁰ Net of purchasing from the sole supplier.

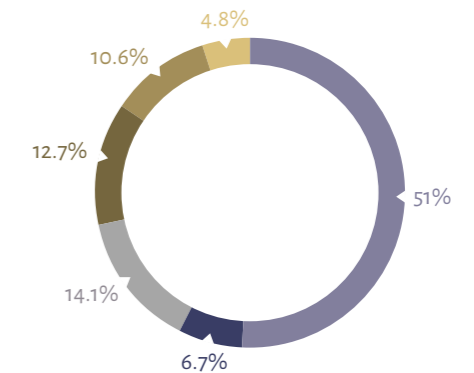
³¹ With the exception of purchases, services regulated by the RF legislation (regarding prices (tariffs), power transmission (transit), purchase of power to offset losses in grids) and other inevitable purchases from the sole supplier (rent of land, heat/water/power/gas supply, emergency response).

Procurement breakdown by activities



■ Power facilities construction and expansion
■ Renovation and technical re-equipment of power grid facilities
■ Repairs and maintenance
■ IT purchases
■ Other purchases (including R&D and advisory services)

Breakdown by procurement method



■ Open competitive tender
■ Open request for quotation
■ Open request for proposals
■ Open auction
■ Purchases under framework agreements
■ Sole supplier

Supply chain

The supply chain scheme of PJSC IDGC of the North-West shows the key groups of purchased goods, works and services the number of purchases, annual expenses on them and the share in the Company's procurement expenses in 2017.

Comprehensive works on drafting design and engineering documentation, construction and installation work	433 PURCHASES	RUB 6,031,284.35 thous.	32.07%
Equipment and materials	644 PURCHASES	RUB 5,055,910.63 thous.	26.89%
Design activities	45 PURCHASES	RUB 64,576.39 thous.	0.34%
Repairs and maintenance	310 PURCHASES	RUB 1,585,663.45 thous.	8.43%
Financial, legal, IT, communications and insurance services	132 PURCHASES	RUB 3,672,076.63 thous.	19.53%
Other purchases	299 PURCHASES	RUB 2,396,150.38 thous.	12.74%



Information on the volume of purchases which match the criteria for classifying goods, works and services as innovative and (or) high-tech products: 42 purchases were made in 2017 for the actual value of RUB 1,504.83 m net of VAT.

ANTI-CORRUPTION POLICY

PJSC IDGC of the North-West aims to build relations with its subsidiaries, partners and third parties according to the anti-corruption principles, notifies all stakeholders of the anti-corruption policy in place, and implements it in all its structural units and subsidiaries.

Since 25 May, 2015, the Company has been a member of the Anti-Corruption Charter of the Russian Business. Members of the Charter declare zero tolerance of any form of corruption in their business and intentions to promote the principles of zero tolerance of and countering corruption in building their relations with the governmental authorities, contractors, and corporate relations. Participants in the Charter are to confirm their compliance with its requirements on a regular basis (biannually). In case this condition is not met, the membership is suspended and the entity is further excluded from the Consolidated Register of the Anti-Corruption Charter of the Russian Business. In July 2017, the Company's compliance with the Charter requirements was confirmed at the Chamber of Commerce and Industry of the Russian Federation by self-declaration.

PJSC IDGC of the North-West aims to conduct fair and transparent business, as well as consolidate the trust of key stakeholders and improve its public image.

In 2017, the Company updated and approved internal regulatory documents stipulating prevention of and fight against corruption, as well as settlement of the conflict of interest:

- ▶ Anti-corruption policy of PJSC Rosseti and S&A of PJSC Rosseti in the new version was approved by the Company Board of Directors as an internal document of the Company on 31 January, 2017 (Minutes No.229/20);
- ▶ Anti-corruption activities programme 2017 of PJSC IDGC of the North-West was approved by Order of the Company of 01 March, 2017 No.140_1 "On compliance with the requirements of the Anti-corruption policy of PJSC Rosseti and S&A of PJSC Rosseti";
- ▶ Regulation on the PJSC IDGC of the North-West commission for compliance with the corporate ethics standards and settlement of the conflicts of interest in the new version was approved by Order of the Company No.206 of 24 March, 2017;
- ▶ Code of Corporate Ethics and Executive Conduct of the Company employees was approved by the Company Board of Directors on 03 May, 2017 (Minutes No.240/31);
- ▶ Regulation on settling conflicts of interest at PJSC IDGC of the North-West in the new version was approved by Order of the Company No.537 of 01 August, 2017;
- ▶ Procedures for receiving, studying and resolving communication from informers (employees, contractors and other individuals and legal entities) on allegations of corruption in the new version were approved by Order of the Company No.809 of 22 November, 2017.

Particular attention is paid to prevention of corruption-related offences. With that view, a number of measures were introduced to reveal and remove the causes of corruption:

- ▶ The section on anti-corruption policy was created and updated on the official web site of PJSC IDGC of the North-West;

- ▶ Information on anti-corruption policy implementation activities is published in the corporate periodical;
- ▶ Anti-corruption review of the regulatory and administrative documents and their drafts is carried out;
- ▶ Internal control was organised and implemented;
- ▶ Qualification requirements are imposed on candidates for vacancies, with due verification of the data they provide.

In assessing the level of integrity of the Company's partners and contractors, the degree of their non-acceptance of corruption in business practice is taken into account, including availability and implementation of anti-corruption programmes. Compliance with anti-corruption principles is deemed to be an important factor in establishing contractual relations, including the reservation stipulating possible termination of contract relations in due order in case of violation of the anti-corruption principles.

In 2017, 188 inspections of financial and business activities were arranged and held, which revealed 238 violations by employees of the Company units; 254 employees were held responsible: 22 persons were dismissed, 79 employees were subject to disciplinary action, 8 applications were submitted to law enforcement authorities, whereby 2 criminal cases were initiated. The financial damage reimbursed amounted to over RUB 23.439 m, the damage prevented was approximately RUB 32.901 m.

The Company has a commission on compliance with the standards of corporate ethics and settlement of the conflict of interest. In the reporting year, 4 meetings of the commission were held to review matters of settlement of the conflict of interest.

Under the activities aimed at identification, prevention, revealing and investigation of corruption, the Company implements the Procedures for receiving, studying and resolving communication from informers (employees, contractors and other individuals and legal entities) on allegations of corruption (hereinafter – the communication). The mechanism of receiving communication is based on the 24/7 hotline principle and includes the following options:

- ▶ filling in a feedback form at the official web site of the Company in the section "Anti-corruption policy";
- ▶ a hotline phone call;
- ▶ sending an e-mail to an employee of the Security Department of the Company;
- ▶ sending a written request to the Security Department of the Company.

Each item of communication is reviewed for the possibility of corruption, an investigation is carried out, due measures are worked out to prevent corruption-related offences.

In 2017, the Company received 6 communications from informers (employees, contractors and other individuals and legal entities) on allegations of corruption in PJSC IDGC of the North-West. All the requests were considered, no facts of corruption were revealed. Replies to the informers were sent in due time in the manner convenient for them (by e-mail/registered mail).

In 2017, in line with the National anti-corruption plan for 2016-2017 approved by Order of the President of the Russian Federation No.147 of 01 April, 2016, to increase the efficiency of anti-corruption measures, the Company arranged for two employees whose responsibilities include direct organisation of corruption prevention and fighting to participate in an off-site workshop – meeting "Current issues in corruption prevention and fighting in the power grid sector", which took place on 19-20 December, 2017 in Svetlogorsk of the Kaliningrad Region.

In 2017, the Company published Director General's message to employees, contractors, partners on zero tolerance of corruption and bribery in business relations. The message is available on its web site, section "Anti-corruption policy" at: <http://www.mrsksevzap.ru/aboutcorruptionpolicy>.

INFORMATION ON ALLEGED CORRUPTION IN PJSC IDGC OF THE NORTH-WEST CAN BE COMMUNICATED:

1. by filling in a feedback form at the official web site, selecting "Report a violation – Report corruption".
2. by making a hotline phone call at 8 (812) 305 10 10 ext. 222.
3. by sending an e-mail to geb@mrsksevzap.ru.
4. by sending a written request to the Anti-Corruption Compliance Procedures Unit at: 3A Konstitutsii Sq., Saint Petersburg, 196247.



Lighting the Milky Way. Photo by Chalanov Ivan Alexandrovich, category 3 electrician for distribution grids operation at Komienergo branch of PJSC IDGC of the North-West. The photo shows OL-110 kV from SS Ust-Kulom, Ust-Kulom, the Republic of Komi. Winner in the nomination "Nature" of the photo contest "In harmony with nature"

RESPONSIBILITY

MANAGEMENT APPROACH TO PROJECTS OF THE GROUP COMPANIES, INVOLVING THE INTERESTS OF THE PUBLIC AND LOCAL COMMUNITIES

The Group's activity plays a key role in the life of the regions where it operates. Therefore, high level of social responsibility to the public and the citizens has been the Company's traditional priority.

In construction and renovation of power grid facilities, the Company searches for and implements the optimal solutions of location and structural design, taking into account the interests of the land owners and obtaining the respective legal rights of land plot use required for construction, as well as the interests of local communities (including indigenous minorities) in their traditional places of inhabitancy.

Companies of the IDGC of the North-West Group sign agreements with constituent entities of the Russian Federation on cooperation and social partnership which stipulate payment of targeted charitable donations to the municipalities within these entities in order to develop the economy, improve investment climate, as well as solve the main social tasks of the regions.

Support and development of the NWFD agroindustrial sector

Under the current and new agreements between PJSC IDGC of the North-West and relevant ministries of the regional administrations, a number of activities are continued to support and develop the agroindustrial sector of NWFD, registers of entities receiving support were updated. The key measures were aimed at ensuring reliable and seamless power supply to agricultural enterprises, as well as maximum simplification of procedures and minimal fees for power grids connection, for instance, by optimising technical solutions, developing instalment payment plans and adoption of supporting tariff solutions.

Support of retired employees

The Company's social responsibility stipulated by the Collective Agreement also provides for financial support of the former employees of PJSC IDGC of the North-West. In the reporting year, they received non-regular financial aid payments to mark the Victory Day, International Day of Older Persons, personal anniversaries, and in cases of emergency need; relative of retired veterans received compensations for funeral services.



Creating conditions for introduction of off-grid public and private electric vehicles

In 2017, PJSC IDGC of the North-West continued to work under the Russian national programme of charging infrastructure development. In the Republics of Karelia and Komi, the Murmansk and Pskov Regions, there are agreements stipulating comprehensive efforts to introduce electric transport, including drafting technical standards and regulations, staff training and retraining, studying best practice of introducing charging infrastructure and electric transport. In 2017, at the initiative of Novgorodenergo, a workgroup was set up involving representatives of the Novgorod Region government and the regional business. Stakeholders interact on development of a chain of charging stations in the region. In November 2017, the Company set up four charging outlets for electric cars during the International Environmental Motor Rally Saint Petersburg – New York.

Social support of individuals, charity and volunteering

PJSC IDGC of the North-West supports regional and federal charitable projects in line with the Regulation on building and use of the donation and charity fund (approved by Decision of the Company Board of Directors of 31 May, 2016, Minutes No.208/23).

Major areas of charity and social programmes include:

- ▶ conservation of cultural and historical heritage;
- ▶ support of educational initiatives, sports and healthy lifestyle promotion;
- ▶ targeted social support of people, including veterans.

Important projects of 2017 included development of the environment for children's accelerated research and development skills acquisition at Kvantorium Technopark for Children in Veliky Novgorod.

The Company's employees annually take part in volunteer programmes and social solidarity projects in NWFD. Cultural and educational events included volunteering at "The Enlightener" Third International Festival of Orthodox Chants on the island of Valaam (the Republic of Karelia).

Long-term traditions of PJSC IDGC of the North-West include charity events for children at orphanages and foster homes: the employees conduct campaigns to collect presents and stationery, arrange celebrations for the supported children's social institutions. For example, the Company has been a patron of Kildinskoye boarding school for children with special needs (in the Murmansk Region) for over ten years. A vital component of the charitable activities are joint educational activities – the power industry professionals regularly hold edutainment classes, workshops and fun sports races. Thus, in 2017, PJSC IDGC of the North-West supported an event held on the Children's Day for the boarders of SOS village Pskov (the Pskov Region) – a special form of family upbringing to support orphans and children without parental care.

PJSC IDGC of the North-West is constantly engaged in blood donation events and environmental volunteering. It implements target support programmes for low-income pensioners, veterans of the Great Patriotic War, former juvenile prisoners and war workers in the regions of its operations. The Company initiates purchase of memorial gifts, medicines and renders financial assistance at the expense of the PTUO, jointly with the veteran and youth councils of the Company branches. PJSC IDGC of the North-West employees participate in military burials maintenance, visit historic and memorial places together with the Great Patriotic War veterans, maintain the war obelisks. Moreover, employees of the grid company are volunteers of regional search parties. In spring 2017, near Maloe Zamoshye village of the Novgorod Region, the employees took part in the search and recovery of the bodies of 6 soldiers of the 2nd Shock Army killed in the spring of 1942. Overall, during the search activities, over 30 bodies of soldiers were found and recovered.

Employees of the Company take part in regional charity events, helping residents of the Company's operational area in difficult circumstances. One of such events in the reporting year was participation in the Charity Fair to help a disabled child in Vorkuta (the Republic of Komi).



MANAGING ENERGY, WE CONTINUE TO PURSUE THE COMPANY'S DEVELOPMENT, IMPROVEMENT OF THE CORPORATE GOVERNANCE, MAINTAINING THE BALANCE OF THE COMPANY'S AND THE SHAREHOLDERS' INTERESTS

03

CORPORATE GOVERNANCE REPORT

87%

percentage of recommendations of the Corporate Governance Code fully or partially fulfilled by the Company

IN 2017

RAEX rating agency confirmed the rating of PJSC IDGC of the North-West as A++.GQ – “Top-level governance quality”

37

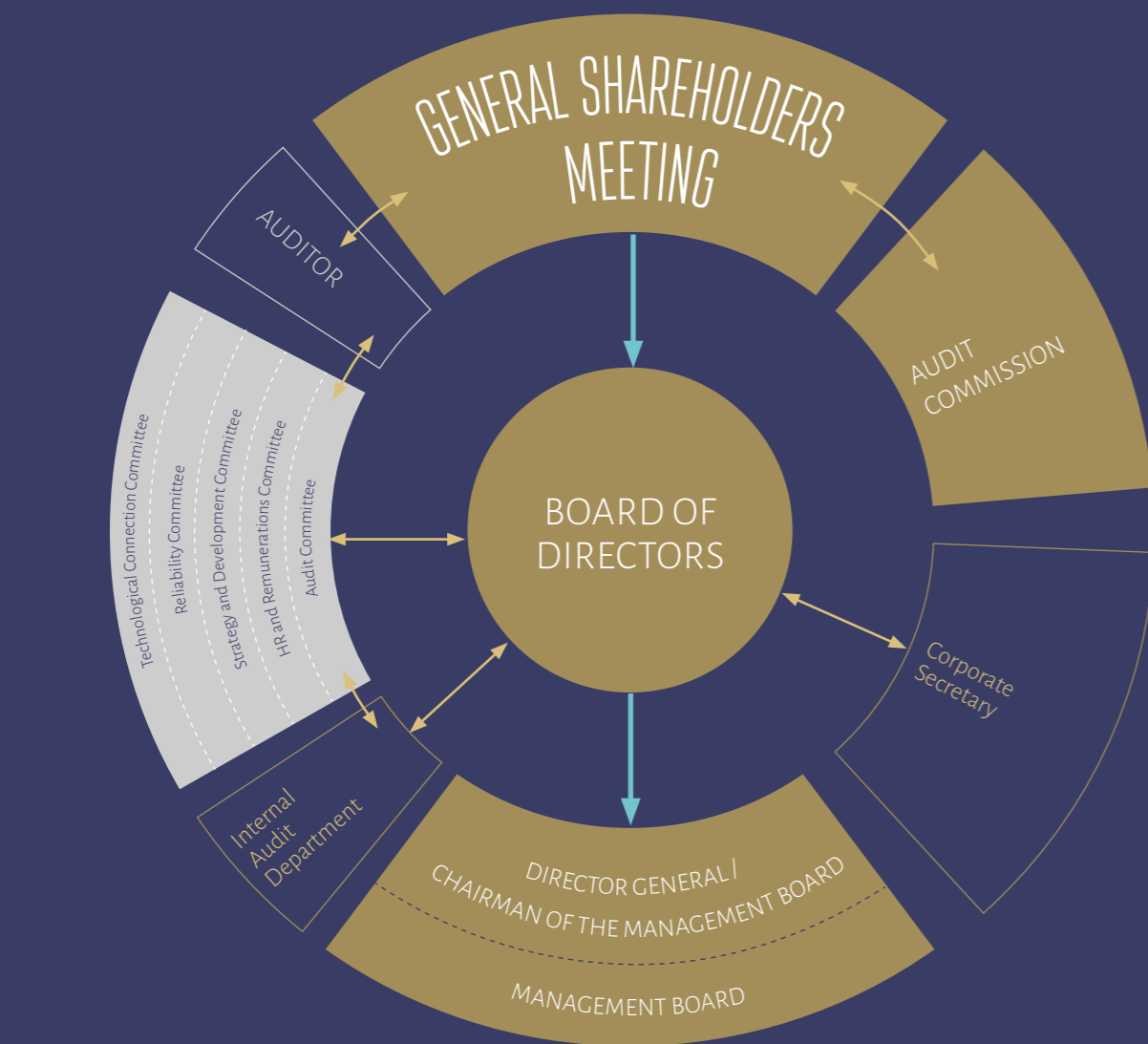
meetings of the Board of Directors held in 2017

82%

upon the internal assessment of the corporate governance efficiency in 2017, PJSC IDGC of the North-West received 451.5 points out of 551. The Company's corporate governance was estimated as efficient

OVERVIEW OF THE COMPANY'S CORPORATE GOVERNANCE

Corporate governance system structure



- Management and control bodies of the Company
- Committees of the Company's Board of Directors
- Executives and units reporting to the Company's Board of Directors
- Non-Company unit

- ▶ **General Shareholders Meeting** – the supreme management body of the Company.
- ▶ **Board of Directors** – the collective management body monitoring the activities of the Company's sole executive body and performing other functions stipulated by the legislation or the Company Charter. The Company Board of Directors exercises general management of the Company's activities except the issues attributed by the Federal Law "On joint-stock companies" and the Charter to the General Shareholders Meeting.
- ▶ **Management Board** – the collective executive body set up to resolve certain issues of the current operations of the Company.
- ▶ **Director General** – the sole executive body of the Company managing current operations of the Company in line with the decisions made by the General Shareholders Meeting, the Board of Directors and the Management Board of the Company within their frame of reference. The authority of the Company Director General covers all issues of the current business of the Company, with the exception of the issues within the authority of the General Shareholders Meeting, the Board of Directors and the Management Board of the Company.
- ▶ **Audit Commission** – the body monitoring the financial and business-related activities of the Company on a regular basis.
- ▶ **External Auditor** – the entity, a member of a self-regulatory auditor organisation, that carries out independent audit of the accounting (financial) statements of the entity under audit in order to express a judgement on the accuracy of such statements.
- ▶ **Corporate secretary** – the Company's administrative official whose functions include organisational support of the work of the Company Board of Directors, participation in the preparation and holding General Shareholders Meetings of the Company; contribution to implementation of the Company's policy on information disclosure, participation in improvement of the system and practice of the Company's corporate governance etc.
- ▶ **BoD Committees** – the advisory bodies of the Company set up to consider the issues within the Board of Directors frame of reference (or examined by the Board of Directors to control the activities of the Company's executive body), and to work out the required recommendations for the Board of Directors and the Company's executive bodies.
- ▶ **Internal Audit Department** – the structural unit of the Company supporting the Board of Directors and the executive bodies of the Company in improving the Company's management efficiency. Internal audit is instrumental in achievement of the goals set by the Company in the most efficient and feasible way, using systemic and consistent approach to the estimation and improvement of the efficiency of risk management, internal control and corporate governance systems.

Corporate calendar 2017

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTAL
GSM	-	-	-	-	-	1	-	-	-	-	-	-	1
BoD meetings (in person and in absentia)	2	3	4	3	4	4	2	2	4	1	1	7	37
Meetings of the BoD Committees (in person and in absentia), including	1	4	7	5	5	4	2	7	5	2	5	7	54
Audit Committee	1	1	1	2	1	1	1	1	-	1	1	2	13
HR and Remunerations Committee	-	-	1	-	2	2	1	2	1	-	2	-	11
Strategy and Development Committee	-	2	3	2	-	1	-	3	1	1	1	3	17
Reliability Committee	-	1	1	1	1	-	-	1	1	-	1	1	8
Technological Connection Committee	-	-	1	-	1	-	-	-	2	-	-	1	5

CORPORATE GOVERNANCE IMPROVEMENT

Corporate governance of PJSC IDGC of the North-West implies a host of processes ensuring management and control of the Company's business and including relations among shareholders, the Board of Directors and the executive bodies of the Company in the interests of the shareholders. The Company views corporate governance as a means to boost the Company performance, consolidate its reputation and reduce the costs of capital attraction.



We are striving to align the corporate governance environment with the principles suggested by Marshall Goldsmith – “courage, humility and discipline”, maintaining an innovative approach to implementation of best practices and instruments of interaction with shareholders, their representatives in the Board of Directors and the investment community, remaining open to dialogue and ensuring unconditional compliance with the law.

**Member of the Management Board,
Deputy Director General for Corporate Governance**

Denis Orlov

The system and practice of corporate governance at PJSC IDGC of the North-West ensures reliable methods of recording stock rights, guaranteeing shareholder rights to take part in the Company management, their rights for a portion of the Company's profit, as well as receiving material information on the Company.

The Company management regularly reviews the Charter and internal documents of the Company for compliance with the effective legislation of the RF, Corporate Governance Code recommended by the Bank of Russia Letter No.06-52/2463 of 10 April, 2014 (hereinafter – CGC, or the Corporate Governance Code), and MICEX listing rules requirements, initiating amendments in due time.

THE COMPANY'S CORPORATE GOVERNANCE
IS BASED ON THE PRINCIPLES OF:

ACCOUNTABILITY

FAIRNESS

TRANSPARENCY

RESPONSIBILITY

1

The principles and structure of corporate governance at the Company, description of the corporate governance practice applied at the Company and other aspects of the corporate governance are stipulated by the Corporate Governance Code of PJSC IDGC of the North-West.

The Company strives to comply with the regulations or the CGC and the listing rules of Moscow Exchange.

2

On 14 December, 2017, under the decision of the rating committee based on the analysis of the Company's governance quality (Minutes No. 12315 of 12 December, 2017), Expert RA rating agency confirmed the rating of PJSC IDGC of the North-West as A++.gq – “Top-level governance quality”. It highlighted that the system of governance quality is highly beneficial for the respect and protection of the stakeholder rights. The rating of A++.gq – “Top-level governance quality” was first assigned to PJSC IDGC of the North-West in 2014 under the decision of the rating committee (Minutes No. 5153 of 12 December, 2014).

Despite the sufficiently high rating results, the Company is going to move beyond what has been achieved and intends to keep improving corporate governance, taking into account the best practice of other companies and advanced standards in the field of corporate governance.

In the reporting period major steps were made towards improvement of the corporate governance. To enhance the corporate governance practice at the Company in the reporting period, the following measures were implemented, are presented on pages 132-133.

Measures aimed at improving the quality of corporate governance

► Under the decision of the annual General Shareholders Meeting of the Company of 13 June, 2017 (Minutes No.12):

The new version of the Company Charter was drafted considering the changes in the laws of the Russian Federation and CGC recommendations, and included other amendments and additions.

The Company Charter amendments included, inter alia:

- change of the Company location for the current address in Saint Petersburg;
- exclusion of the list of branches and representative offices from the annex to the Charter;
- bringing the provisions on major and interested-party transactions in line with the changes in the federal law "On joint-stock companies", which entered into force on 01 January, 2017;
- inclusion of the provisions stipulating additional opportunities to finance the Company business with shareholder funds without increasing the authorised capital of the Company;
- inclusion of provisions on legal relations connected with the access to information classified as a state secret;
- exclusion of the provisions stipulating the rights and responsibilities of the Corporate Secretary, due to approval by the Company Board of Directors of the Corporate Secretary Regulation;
- specification of the timeframe of convention, preparation and holding of the General Shareholders Meeting;

- separation of the issues of the Company business plan and investment programme, as well as reporting on its implementation in the Board of Directors frame of reference;
- alignment of the risk management and internal control system with Article 72 of the Corporate Governance Code.

Moreover, to provide shareholders with the best opportunities to get acquainted with the materials of the General Shareholders Meetings, as well as participate in voting on the GSM agenda issues remotely using electronic devices, the Charter Company was amended so as to provide for the following opportunities subject to the respective decision of the Board of Directors:

- additional notification of the General Shareholders Meeting in the electronic form for the Company shareholders who have informed the Company registrar of their e-mail addresses;
- filling in the electronic voting form on the Internet site, the address of which is indicated in the General Shareholders Meeting notification;
- use of the information and communication technologies providing for off-site participation in the General Shareholders Meeting, including decision-making on the issues to be voted on, without presence at the venue of the General Shareholders Meeting (when it is held "in presentio").

MEASURES IMPLEMENTED:

- The new version of the Charter was approved
- The new version of the Regulation on the General Shareholders Meeting was approved
- The new version of the Regulation on the Board of Directors was approved
- The new version of the Regulation on the Audit Commission was approved
- "Shareholder's personal account" was introduced
- The new version of the Code of Corporate Ethics and Executive Conduct of the Company was approved
- New versions of the Committee Regulations were approved
- The methodology of assessing the corporate governance efficiency was approved
- The Regulation on preparing materials for the Management Board/Committees of the Board of Directors was approved

A free service for the shareholders has been introduced - "Shareholder's Personal Account". It allows online acquaintance with the data on the General Shareholders Meeting and provides the opportunity of electronic registration and voting.

At present, amendments to the Charter of the Company have been drafted to reflect the changes in the RF legislation which entered into force in 2017. These changes to the Company Charter are to be presented at the annual General Shareholders Meeting in 2018

► The new version of Regulation on the General Shareholders Meeting of PJSC IDGC of the North-West was approved (Minutes of the Annual General Shareholders Meeting No.12 of 13 June, 2017)

Key amendments in the Regulation on the General Shareholders Meeting of the Company concerned the procedure of "e-voting" at the General Shareholders Meeting (voting by filling in the electronic form at the Internet site), the opportunity to send the filled in forms by e-mail (applicable if such an opportunity is provided by the decision of the Board of Directors), as well as the use of communication technologies to ensure the possibility of remote participation in the General Shareholders Meeting, agenda items discussion and decision-making regarding the issues put to the vote without being present at the venue of General Shareholders Meeting.

In addition, amendments were made regarding the provision of information to shareholders on the agenda of the meeting, and the scope of the data provided by the Company's shareholder when running for a position at the Company Board of Directors was expanded.

► The new version of Regulation on the Board of Directors of PJSC IDGC of the North-West was approved (Minutes of the Annual General Shareholders Meeting No.12 of 13 June, 2017).

Key changes in the Regulation on the Company Board of Directors included:

- the provision stipulating that the form of the Board of Directors meeting is set by the Chairperson of the Board of Directors subject to the recommendations of Article 168 of the Corporate Governance Code recommended by the Bank of Russia;
- the provision stipulating the responsibility of the Board of Directors members to notify the Company of interested party transactions (in line with Article 82 of the federal law "On joint-stock companies");
- the provisions in independent directors in the Company Board of Directors;
- the provisions regulating the procedure of presenting dissenting opinions by members of the Company Board of Directors on the items on the agenda of the Company Board of Directors meetings and their inclusion in the Minutes of the Company Board of Directors meeting.

► The new version of Regulation on the Audit Commission of PJSC IDGC of the North-West was approved (Minutes of the Annual General Shareholders Meeting No.12 of 13 June, 2017)

Key amendments to the Regulation on the Audit Commission of the Company were aimed at improving the efficiency of response to the violations and drawbacks found by the Audit Commission.

► Under the decisions of the Company Board of Directors: (Minutes of the BoD Meeting No.240/31 of 03 May, 2017).

- of 03 May, 2017 (Minutes No.240/31) – the new version of the Code of Corporate Ethics and Executive Conduct of the Company was approved.

The changes are aimed primarily at improving the provisions of the Code regulating corporate behaviour of employees, preventing and counteracting corruption, detection, prevention and settlement of conflicts of interest.

The new version of the Code expands on the core terms "conflict of interest", "corruption", "corporate ethics", "labour dynasty", "business presents", "direct and immediate subordination", "persons in close relationship or connection with the employee of the company" etc.

- of 31 July, 2017 (Minutes No.249/4) – the new versions of the Regulation on the Reliability Committee of the Board of Directors of PJSC IDGC of the North-West and Regulation on the Technological Connection Committee of the Board of Directors of PJSC IDGC of the North-West were approved.

► Under orders of the Company

- of 31 October, 2017 No.764 – the Methodology of assessing the corporate governance efficiency of PJSC IDGC of the North-West was approved. Its use is obligatory for the Internal Audit Department employees when carrying out such assessments.

The corporate governance efficiency of the Company was first assessed by the Internal Audit Department of the Company in March 2018, subject to Company Order of 08 February, 2018 No.81 "On assessing the efficiency of the internal control, risk management and corporate governance systems of PJSC IDGC of the North-West in 2017".

- of 04 July, 2017 No.472 – the new version of the Regulation on materials (information) processing for meetings of the Management Board / Board of Directors Committees / Board of Directors of PJSC IDGC of the North-West was approved. The amendments to the Regulation are primarily aimed at aligning the Regulation's provisions stipulating the procedures of materials preparation and approval with the amendments to the federal law "On joint-stock companies", in force since 01 January, 2017, for the meetings of the Board of Directors on agreement to major and interested-party transactions.

In 2018, the Company intends to continue its efforts aimed at improving the corporate governance of the Company on the basis of CGC recommendations and taking into account the practice of their implementation by major Russian companies, as well as best global practice.

The documents guiding the operation of the corporate governance system are available at the Company's web site: <http://www.mrsksevzap.ru/charterinternaldocuments>.

INTERNAL ASSESSMENT OF THE CORPORATE GOVERNANCE EFFICIENCY

Internal Audit Department of the Company carried out assessment of the corporate governance efficiency in 2017 in line with the methodology adopted by Company Order No.764 of 31 October, 2017 and developed on the basis of the Corporate Governance Code recommendations and requirements of the MICEX listing rules.

The key purpose of the assessment was to provide the Company Board of Directors, Audit Committee of the Company Board of Directors, the sole executive body and the Management Board of the Company with unbiased and independent information on the state of the corporate governance in the Company and its efficiency; as well as work out recommendations designed to boost the efficiency of corporate governance at the Company.

Components of the assessment of the corporate governance efficiency included "Shareholder rights", "Board of Directors", "Executive bodies", "Transparency and information disclosure", "Risk management, internal control and internal audit", "Corporate social responsibility, business ethics".

Under the assessment, the Company received 451.5 points out of 551 (82%), which enabled the Internal Audit Department to conclude that the corporate governance of the Company is "efficient, but improvements could be made on a minor number of issues".

Report on the assessment was preliminarily considered and taken into account by the Audit Committee on 23 March, 2018 (Minutes No.10) and further approved by the Company Board of Directors.

The Company strives to improve the quality of corporate governance, including activities based on the assessment findings analysis.

Future Company plans to improve the corporate governance

In 2018, the Company plans to implement the following measures to improve corporate governance:

- ▶ carry out self-assessment of the Board of Directors and its Committees by polling members of the Board of Directors and Board of Directors Committees;
- ▶ carry out external assessment of the Board of Directors by an independent consultant;
- ▶ improve the Board of Directors procedures:
- ▶ **Automated system of holding meetings of the Board of Directors, the Committees and the Management Board – "Personal Account"**

In 2017, the Company tested the automated system of holding meetings of the Board of Directors, the Committees and the Management Board – "Personal Account". In 2018, the system is to be used in the work of the above units, enabling its users to get remote access to the information on the agenda items of the management bodies meetings, present dissenting opinions, request additional information, take part in electronic voting with further vote counting and automated processing of the meeting minutes, including the possibility to use individual electronic devices via a protected channel. Implementation of the advanced technologies in the corporate governance procedures will enable the Company to reduce hard-copy document turnover, and members of the management bodies of the Company will gain access to the up-to-date schedule of the future meetings, quick search of the decisions made and archive of the meeting minutes.

- ▶ **Implementation of measures for induction of the first-time and/or newly elected members of the Board of Directors.**

In 2018, induction measures are scheduled for the first-time and/or newly elected members of the Board of Directors. They include presentation of the key internal documents, meetings with the management, visits to the Company's core facilities, acquaintance with its operations. It will positively influence the ability of the newly elected members of the Board of Directors to swing into action of the Board of Directors, help them to get an insight into the Company's business, create effective communication between the Board of Directors and the Company management.

- ▶ **Increase in the number of Board of Directors meetings held in person, reduction in the number of issues considered by the Board of Directors.**

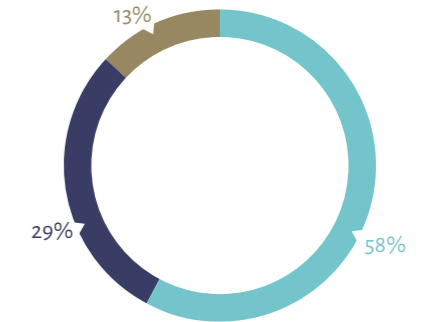
The Company aims to increase the number of Board of Directors meetings held in person to consider the main issues related to the Company's activities and to reduce the number of issues covered by the Company Board of Directors, excluding the issues that can be transferred to the competence of the Company's executive bodies.

Report on compliance with the principles and recommendations of the Corporate Governance Code

PJSC IDGC of the North-West report on compliance with the principles and recommendations of the Corporate Governance Code was preliminarily considered by the Company Board of Directors³² under the issue "On preliminary approval of the Company 2017 Annual Report". It is presented in Annex 15.

The Board of Directors confirms that the report data contain complete and reliable information in the Company's compliance with the principles and recommendations of the Corporate Governance Code in 2017.

Compliance with the corporate governance principles



- Principles that the Company fully complies with
- Principles that the Company partially complies with
- Principles that the Company does not comply with

Statistics of compliance with the corporate governance principles is shown in the table below³³

Section	A	B	C	D
Rights of shareholders and equitable treatment of shareholders in exercising their rights	13	11	1	1
Board of Directors of the Company	36	14	15	7
Corporate Secretary of the Company	2	2	-	-
Remuneration of the members of the Board of Directors, executive bodies and other key management of the Company	10	7	2	1
Risk management and internal control system	6	6	-	-
Company information disclosure, information policy of the Company	7	5	2	-
Major corporate actions	5	1	3	1

A – Principles recommended by the Code

B – Principles that the Company fully complies with

C – Principles that the Company partially complies with

D – Principles that the Company does not comply with

87 %

Principles recommended by the Code that the Company fully or partially complies

³² The assessment of the compliance with the corporate governance principles was based on the methodology in the Bank of Russia recommendations on compiling the report on compliance with the principles and recommendations of the Corporate Governance Code (Bank of Russia's Letter No. IN-06-52/8 dated 17 February, 2016).

³³ Full report on compliance with the principles and recommendations of the Corporate Governance Code is shown in Annex 15 to the Annual Report.

MANAGEMENT BODIES

The Company management system aims at efficient financial and business activities ensuring the balance in the interests of various stakeholder groups, including shareholders, management etc.

The corporate governance system is a system of management and control bodies acting in line with the Russian Federation laws, the Company Charter, as well as the Corporate Governance Code and including: General Shareholders Meeting, Company Board of Direc-

tors, Committees of the Company Board of Directors, Audit Commission of the Company, and executive bodies of the Company: Director General and Management Board.

General Shareholders Meeting³⁴

PJSC IDGC of the North-West strives for a meaningful dialogue with its shareholders, based on respect for their rights and lawful interests, while maintaining a high level of trust between the shareholders and the Company when it comes to the relationships arising in the process of managing the Company. Furthermore, the Company is committed to the principle of equal treatment of all shareholders, including those who own small blocks of securities.

The General Shareholders Meeting is the supreme management body of the Company. The procedure for the preparation and holding of the General Shareholders Meeting is carried out in accordance with the Regulations on the General Shareholders Meeting of PJSC IDGC of the North-West.

Shareholders' right to regularly and timely receive information concerning the Company's activity, to the extent that will prove sufficient for them to make balanced and informed decisions, is guaranteed by compliance with the information disclosure requirements under the laws of the Russian Federation

Thus, in order to inform the PJSC IDGC of the North-West shareholders about the 2017 General Shareholders Meeting in due time, the

Company posted the respective information on its Internet website no later than 30 days before the actual date of the Annual General Shareholders Meeting (AGSM). To ensure free and unhindered shareholders' access to the materials of the General Shareholders Meeting, the Company published all the documents concerning the General Shareholders Meeting agenda on its official website.

In order to secure the rights of the Company's shareholders for participation in the General Shareholders Meeting and valid voting results, JSC R.O.S.T. Registrar, a professional securities market participant and registrar of the Company is engaged to perform the functions of the Counting Board at the General Shareholders Meeting.

Data on the quorum of the General Shareholders Meetings in the recent five years

2013	Annual General Shareholders Meeting	21 June, 2013	88.0%
2014	Extraordinary General Shareholders Meeting	12 March, 2014	87.9%
	Annual General Shareholders Meeting	25 June, 2014	88.7%
2015	Annual General Shareholders Meeting	23 June, 2015	87.9%
2016	Annual General Shareholders Meeting	08 June, 2016	88.2%
2017	Annual General Shareholders Meeting	13 June, 2017	87.4%

³⁴ The frame of reference of the PJSC IDGC of the North-West General Shareholders Meeting is stipulated by the Company Charter <http://www.mrsksevzap.ru/en/articlesofassociationandinternaldocuments>.

In order to create the most favourable environment for the shareholders' participation in the General Shareholders Meeting of PJSC IDGC of the North-West, shareholders are provided with the opportunity to exercise their right to vote freely in the easiest and the most convenient way. Notification of the General Shareholders

Meeting posted on the Company's website, informs of the meeting venue and the list of addresses where filled-in voting ballots can be sent. Materials provided to the shareholders within the annual General Shareholders Meeting preparation, contain directions on how to get to the venue of the Meeting.

PJSC IDGC of the North-West invites members of the Board of Directors and the Audit Commission, candidates for the Board of Directors and the Audit Commission of the Company, and the External Auditor to contribute to the General Shareholders Meeting. The procedure of the General Shareholders Meeting established by the Company provides equal opportunities to all persons present to express their opinion and ask questions before the decision is made on the agenda items, which is recorded in the Minutes of the annual General Shareholders Meeting.

In 2017, one General Shareholders Meeting was held by the Company, on 13 June, 2017 (Minutes No.12). The annual General Shareholders Meeting

of PJSC IDGC of the North-West approved the following: Company Annual Report 2016, annual accounting (financial) statements of the Company for 2016, profits allocation for the 2016 reporting year, Company dividends payment for the 2016 reporting year, External Auditor of the Company; new versions of the internal documents of PJSC IDGC of the North-West: the Charter, Regulation on the General Shareholders Meeting, Regulation on the Board of Directors, Regu-

lation on the Audit Commission. The GSM elected: members of the Company Board of Directors, members of the Audit Commission of the Company. The Meeting approved the termination of the Company's participation in Soyuz Energostroy and the membership in the self-regulatory organisation Association Community of Builders of St. Petersburg.

Minutes of the meeting are available on the web site www.mrsksevzap.ru under Shareholders and investors/Information on Shareholders Meetings.

Company Board of Directors

A vital component of the efficient corporate governance in the Company is availability of a professional Board of Directors. The activities of the Company Board of Directors are stipulated by the Regulation on the Board of Directors of PJSC IDGC of the North-West.

The key functions of the Company Board of Directors³⁵ are: resolving the issues of the general strategic management of the Company, defining development priorities for the Company, monitoring the activities of the executive bodies in the interests of the Company and its shareholders, objectively assessing the financial position of the Company.

Efficient corporate governance calls for an open dialogue between the Board of Directors and the executive bodies of the Company. To this end the Director General of PJSC IDGC of the North-West presents quarterly progress reports about the Company's activities to the Board of Directors, including reports on implementation of the decisions made by the Board. The Board of Directors creates and maintains necessary instruments to control the actions of the Company's Management Board, including monitoring and assessment of its activity. The Board of Directors takes the necessary action to improve the system of corporate governance and introduce best practice and procedures of corporate governance in the Company.

Balanced functioning of the Board of Directors in terms of the protection of rights and respect for the interests of all shareholder groups is ensured by inclusion of independent directors in it.

The composition of the Company Board of Directors by age, gender, professional expertise, knowledge and experience of its members in core areas (power industry, construction, mathematics and cybernetics, economics and finance, corporate governance, strategy, law, personnel management, government) enables comprehensive consideration and discussion of the agenda issues. The decisions taken upon such discussion can accommodate the needs of stakeholders better and promote the long-term sustainable development of the Company.

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considered by the Board of Directors in 2017

³⁵ The frame of reference for the Board of Directors of PJSC IDGC of the North-West is stipulated by the Company Charter <http://www.mrsksevzap.ru/charterinternaldocuments>.

BOARD OF DIRECTORS REPORT ON PRIORITY AREAS

Major development plans of PJSC IDGC of the North-West are defined by the Development Strategy of the Power Grid System of the Russian Federation, approved by Order of the Russian Government No.511-r dated 3 April, 2013.

Under decisions of the Board of Directors, the most important activity areas of the Company, including those aimed at the Strategy implementation, are classified as priorities.

Priority areas can be divided into three major clusters: profitability, competitiveness and development. Power grid facilities safety – yet another area crucial for the Company development nowadays –

is also identified as a priority, which is a sign of the corporate responsibility.

Information on the issues considered by the Company Board of Directors for implementation of the Company's priority areas of activity in 2017 is shown below.



PROFITABILITY

1

► PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES

Decrease in the accounts receivable – 16 June, 2014 (Minutes No.157/28)

► KPI

Implementation of the plan to reduce the Company's accounts receivable

► KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE

1. Quarterly scheduled plans were approved for PJSC IDGC of the North-West activities aimed at reduction of the overdue accounts receivable for the power transmission services and dispute settlement (hereinafter – the scheduled plans) as of 01 January, 2017 (Decision of 21 February, 2017, Minutes No.231/22); as of 01 April, 2017 (Decision of 07 June, 2017, Minutes No.244/35); as of 01 July, 2017 (Decision of 05 September, 2017, Minutes No.252/7); as of 01 October, 2017 (Decision of 19 December, 2017, Minutes No.259/14).

While discussing the issues of approving the quarterly scheduled plans for the following periods, the Board of Directors reviewed reports on fulfilling the scheduled plans previously approved by the Compa-

ny Board of Directors regarding the decrease in the overdue accounts receivable for the power transmission and dispute settlement, worked out on the receivables accrued as of the previous quarter, information on the work performed on the new overdue receivables, information on the accounts receivable turnover.

2. Director General of the Company was instructed to ensure settlement in 2017 of RUB 4,865 m in overdue accounts receivable from the amount as of 01 January, 2017, with quarterly reporting on the progress made (Decision of 21 February, 2017, Minutes No.231/22 in the version of Decision of 28 December, 2017, Minutes No.263/18).

2

► PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES

Decrease in the technological consumption (losses) of power – 07 May, 2013 (Minutes No.127/25)

► KPI

- Power losses level

► KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE

1. Programme of additional measures to reduce power losses in the grids of PJSC IDGC of the North-West in the period of 2017-2018 was approved in order to achieve the incentive values of the power loss level (Decision of 14 July, 2017, Minutes No.248/3).
2. Amendments were made to the Regulation on the Company Director General incentives: additional conditions were introduced to achieve the strategic priority goal "Incentive value of power losses against output to grid" (Decision of 14 July, 2017, Minutes No.248/3).



COMPETITIVENESS

1

► PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES

Ensuring the reliability and quality of the services rendered – 16 September, 2011 (Minutes No.82/3)

► KPI

No growth in the number of major accidents; Reaching the reliability level of the services rendered

► KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE

1. Information was considered on the actual figures of the reliability level and the quality of services by Company branches in 2016: planned indicators of the reliability level and the quality of services set by the executive authorities of the Russian Federation constituent entities in the area of the state tariff regulation were achieved by branches of the Company (Decision of 23 March, 2017, Minutes No.234/25).
2. Due to the expiry of the long-term period of regulation, the Company's proposals were considered regarding planned indicators of the reliability level and the quality of services for branches of PJSC IDGC of the North-West – Vologdaenergo, Karelenergo, Pskovenergo – for the period of 2018-2022, instruction was made to submit the above proposals to executive authorities of the Russian regions in the area of the state tariff regulation (Decision of 31 March, 2017, Minutes No.235/26).
3. Report was considered on compliance with the production programme: maintenance and repairs programme and technical re-equipment and renovation programme for the 2nd quarter of 2017 and the 1st half of 2017 (Decision of 22 September, 2017, Minutes No.254/9); for the 3rd quarter of 2017 and 9 months of 2017 (Decision of 28 December, 2017, Minutes No.263/18).
4. Power grid facilities modernisation (renovation) programme of PJSC IDGC of the North-West was approved for the period of 2017-2026. Director General was instructed to update the programme annually, as well as include projects from the programme to the investment programme of the Company as it is developed (Decision of 17 October, 2017, Minutes No.256/11).
5. Report was considered on the Company preparation for the autumn and winter period operations in 2017-2018 (Decision of 26 December, 2017, Minutes No.260/15).

2

► **PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES**

Key performance indicators system for the Director General and top management – 30 October, 2012 (Minutes No.114/12)

► **KPI**

Labour efficiency improvement

► **KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE**

1. Methodology of calculating and estimating achievement of the key performance indicators (KPI) for the Company Director General was approved, target KPIs were set for 2017 (Decision of 31 March, 2017, Minutes No.235/26).
2. Reports on achieving target KPIs by the Director General of the Company were approved: in the 4th quarter of 2016 and in 2016 the actual KPIs were achieved (Decision of 07 June, 2017, Minutes No.244/35), in the 1st quarter of 2017: actual KPIs were achieved (Decision of 09 August, 2017, Minutes No.251/6);
3. in the 2nd quarter of 2017: actual KPIs were achieved (Decision of 22 September, 2017, Minutes No.254/9); in the 3rd quarter of 2017: actual KPIs were achieved (Decision of 28 December, 2017, Minutes No.263/18).
4. Report on the achievement of the KPI "Innovation activities efficiency" by the Director General of the Company in 2016 was approved: the target indicator for the reporting period was achieved (Decision of 28 December, 2017, Minutes No.263/18).

3

► **PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES**

Ensuring availability of power infrastructure and the quality of technological connection – 01 September, 2014 (Minutes No.164/6)

► **KPI**

Meeting the technological connection deadlines; Compliance with the commissioning schedule

► **KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE**

1. Under the quarterly report on the Company business plan implementation, the BoD considered information on technological connection of the applicants' power receivers with the maximum capacity up to 15 kW (including this value) and from 15 to 150 kW (including this value) on an accrual basis against the similar reporting period.
2. Under the quarterly report of the Director General on implementation of the Board of Directors decision, the BoD considered information on the Company's organisation of activities to inform potential applicants of free capacity availability in order to optimise the technological connection to the Company power grids.



DEVELOPMENT

1

► **PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES**

Improvement of the internal control and risk management system – 01 September, 2014 (Minutes No.164/6)

► **KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE**

1. Results of organisation of the risk management in 2016, as well as the current system maturity level according to the self-assessment were considered. Director General was instructed to identify the responsibility of risk owners in case the actual level of consequences of key operations risk events deviates from the planned one (Decision of 31 March, 2017, Minutes No.235/26).
2. Principles of the internal control system and results of the implementation of measures to improve the internal control and risk management systems in 2016 were considered (Decision of 31 March, 2017, Minutes No.235/26).
3. Report on assessment of the efficiency of internal control and risk management systems (ICS&RMS) in 2016. Director General was instructed to implement a series of measures to improve ICS&RMS, ensuring the maturity level of ICS&RMS increase in 2017 (Decision of 03 May, 2017, Minutes No.240/31).

2

► **PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES**

Innovative development programme – 22 February, 2011 (Minutes No.71/11)

► **KPI**

Innovation activities efficiency

► **KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE**

1. Innovative development programme of PJSC IDGC of the North-West for 2016-2020 with an outlook up to 2025 was approved (Decision of 31 March, 2017, Minutes No.235/26).
2. Regulation of PJSC Rosseti "On the Unified Technical Policy in the Electric Grid System" was adopted as an internal document of the Company (Decision of 05 April, 2017, Minutes No.237/28).
3. Report on implementation of the innovative development programme of PJSC IDGC of the North-West for 2016-2020 with an outlook up to 2025 was approved for 2016. The report included as estimate of the innovative activities performance indicators for 2016 (Decision of 07 June, 2017, Minutes No.244/35).
4. Report on the achievement of the KPI "Innovation activities efficiency" by the Director General of the Company in 2016 was approved: the target indicators in the reporting period were achieved (Decision of 28 December, 2017, Minutes No.263/18).

PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES

Operation assets management system – 23 August, 2012 (Minutes No.108/6)

KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE

1. Director General's report was considered regarding the implementation of the operational assets management system (OAMS) development plan of PJSC IDGC of the North-West for 2016-2018 in 2016 (Decision of 29 May, 2017, Minutes No.243/34).
2. Adjusted operational assets management system (OAMS) development plan of PJSC IDGC of the North-West for 2016-2018 was approved. Director General was instructed to adopt a resource plan to ensure implementation of the adjusted OAMS development plan (Decision of 29 May, 2017, Minutes No.243/34).
3. Upon consideration of the intermediary report, the adjusted OAMS development plan of PJSC IDGC of the North-West for 2016-2018 was approved (Decision of 17 October, 2017, Minutes No.256/11).



SAFETY OF THE POWER GRID FACILITIES, INCLUDING ENVIRONMENTAL

PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES

Injury prevention programme for RGC – 14 February, 2008 (Minutes No.27/7)

KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE

1. Report on the implementation of the Company's comprehensive programme to reduce the risk of personnel and third persons injury rate at the power grid facilities of the Company in 2014-2017 for 2016 was considered (Decision of 09 June, 2017, Minutes No.245/36).
2. Report on implementation of the scheduled plan for elimination of injury-causing equipment of the Company for the period of 2014-2016 for 2016 was considered (Decision of 14 July, 2017, Minutes No.248/3).

PRIORITY AREAS OF THE BOARD OF DIRECTORS ACTIVITIES

Programme of the Company's environmental policy implementation – 17 May, 2006 (Minutes No.1/11)

KEY ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017, AND DECISIONS MADE

1. Environmental policy of the power grid facilities of PJSC Rosseti was approved as an internal document of PJSC IDGC of the North-West (Decision of 26 December, 2017, Minutes No.260/15).
2. Action plan was approved to implement the environmental policy of PJSC IDGC of the North-West for 2017-2019 (Decision of 26 December, 2017, Minutes No.260/15).
3. Company plan was approved for disposal of the equipment containing polychlorinated biphenyls over 2018-2023 (Decision of 19 December, 2017, Minutes No.259/14).

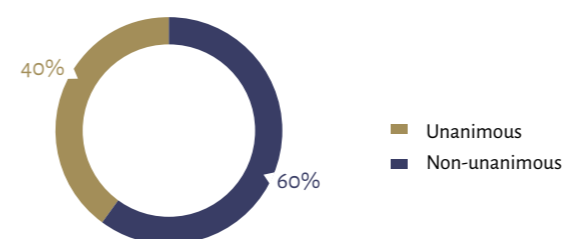
Board of Directors activity

In 2017, 37 meetings of the Company Board of Directors were held, five of which were conducted in the form of joint attendance.³⁶

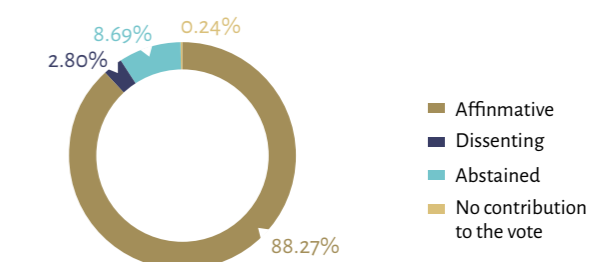
The key issues of the Company's activities were considered at the Board of Directors meetings in the mixed form – in person and in absentia. Overall, in 2017, 5 such meetings were organised and held, where 12 issues were discussed, including:

- ▶ Director General's report on implementation of the Company business plan, including investment programme and information on the key operations risks, implementation of the programme of increasing operating efficiency and reducing costs of the Company in the period of 2016-2020 for the 4th quarter of 2016 and 2016;
- ▶ On approval of the report on implementation of the RAS consolidated and IFRS consolidated business plan of the PJSC IDGC of the North-West Group in the 4th quarter of 2016 and 2016;
- ▶ Report on implementation of the action plan on improving performance and financial and economic position of the Company for 2016;
- ▶ Report of the Director General on implementation of the Company business plan and investment programme in the 1st half of 2017;
- ▶ On approval of the scheduled plan of the PJSC IDGC of the North-West activities to reduce the overdue accounts receivable for the power transmission services and dispute settlement, as of 01 January, 2017 and as of 01 July, 2017;
- ▶ On approval of the Company business plan for 2018 and projected indicators for 2019-2022, operating efficiency and cost reduction programme for the period of 2018-2022;
- ▶ On approving the Company Board of Directors plan of actions for the 2017–2018 corporate year;
- ▶ On defining the stand of the Company's representatives at the meeting of the OJSC Pskovenergosbyt Board of Directors on re-election of the Director General of OJSC Pskovenergosbyt.

Voting at the Board of Directors meetings in 2017



Breakdown of votes cast at meetings of the Board of Directors in 2017



Structure of issues, considered by the Board of directors in 2017

Issues	%
Corporate governance	19%
Director General's reports on activity areas	18%
Financial statements, planning, internal control and audit, risk management	16%
Strategy, investments, innovations, energy efficiency and energy saving	13%
S&A management, defining the Company representatives' position on the items on the agenda of GSMs and BoD meetings of S&A	8%
Approval of transactions	5%
Adoption of internal documents and policies	5%
HR appointments and policies	5%
Procurement	1%
Other issues in the BoD's frame of reference, incl. reports on the BoD decisions implementation	10%

³⁶ The list of the PJSC IDGC of the North-West BoD meetings held in person includes the meetings held in the form of joint attendance and in the mixed in-person and in-absentia form.

Participation of the Board of Directors members in meetings

In the period from 01 January, 2017 to 13 June, 2017 (total number of meetings held – 18)

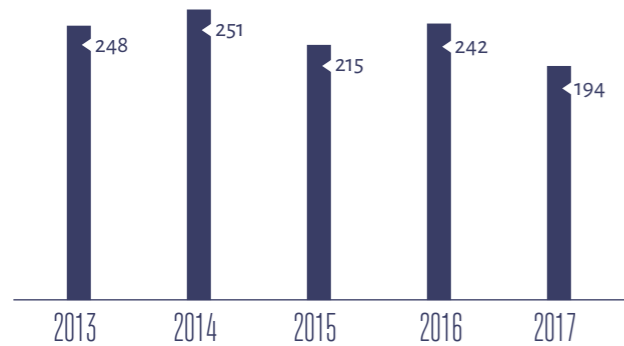
Full name	Number of meetings attended by the BoD member, in person/in absentia	% participation
Mangarov, Yu.N. (Chairman)	2/16	100
Akimov, L.Yu. (Deputy chairman)	1+1*/16	100
Zharikov, A.N.	2/16	100
Lavrova, M.A.	1+1*/16	100
Letyagin, A.V.	2/16	100
Pokrovsky, S.V.	2/16	100
Seleznev, V.Yu.	2/16	100
Stepanova, M.D.	2/16	100
Filkin, R.A.	1+1*/16	100
Shevchuk, A.V.	1+1*/16	100
Erdyniev, A.A.	0/8	44.44

In the period from 14 June, 2017 to 31 December, 2017 (total number of meetings held – 19)

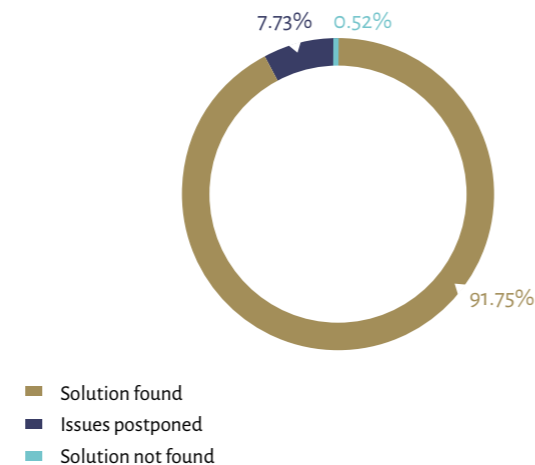
Full name	Number of meetings attended by the BoD member, in person/in absentia	% participation
Mangarov, Yu.N. (Chairman)	3/16	100
Akopyan, D.B. (Deputy chairman)	1+2*/16	100
Bogomolov, N.V.	3/16	100
Zharikov, A.N.	1+2*/16	100
Lavrova, M.A.	3/16	100
Letyagin, A.V.	3/16	100
Stepanova, M.D.	2+1*/16	100
Fedorov, O.R.	3/16	100
Filkin, R.A.	2+1*/16	100
Shvankova, M.M.	3/16	100
Shevchuk, A.V.	2+1*/16	100

* The member of the Board of Directors presented opinions in the written form (questionnaire) in the items of the agenda when the Board of Directors meeting was held in the mixed in person and in absentia form.

Number of issues discussed by the Board of Directors in five years



Breakdown of issues discussed by the Board of Directors in 2017 by the decisions made



Composition of the Board of Directors, changes in the Board of Directors over the year

The number of the Company Board of Directors members is stipulated by the Charter as 11 persons.

In 2017, there were two compositions of the Company Board of Directors³⁷:

FROM 09 JUNE, 2016 TO 13 JUNE, 2017

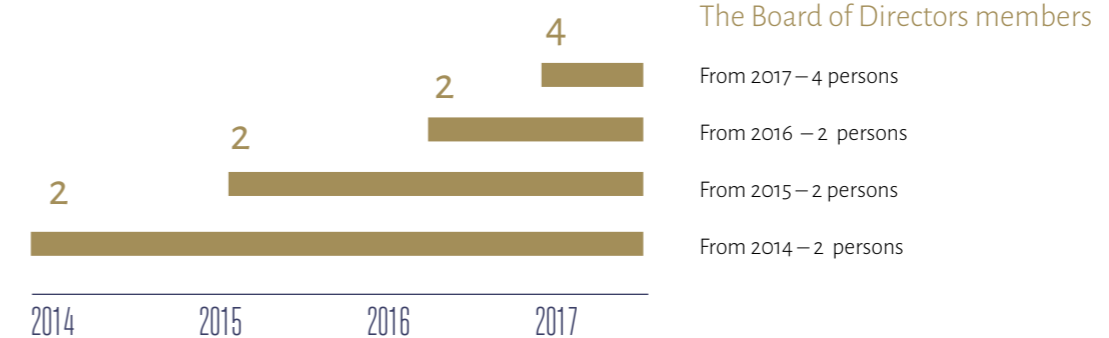
1. Mangarov, Yu.N. - Chairman
2. Akimov, L.Yu.
3. Zharikov, A.N.
4. Lavrova, M.A.
5. Letyagin, A.V.
6. Pokrovsky, S.V.
7. Seleznev, V.Yu.
8. Stepanova, M.D.
9. Filkin, R.A.
10. Shevchuk, A.V.
11. Erdyniev, A.A.

FROM 13 JUNE, 2017 UP TO NOW

1. Mangarov, Yu.N. - Chairman
2. Akopyan, D.B.
3. Bogomolov, N.V.
4. Zharikov, A.N.
5. Lavrova, M.A.
6. Letyagin, A.V.
7. Stepanova, M.D.
8. Fedorov, O.R.
9. Filkin, R.A.
10. Shvankova, M.M.
11. Shevchuk, A.V.

Members of the Company Board of Directors have outstanding management and industry experience, are authorities in the power sector, enormously contribute to the Board of Directors and its Committees.

Breakdown of the Board of Directors by the period of working at the Board of Directors, persons



³⁷ Agreement of the BoD members for the disclosure of personal information presented in the 2017 Annual Report of PJSC IDGC of the North-West was obtained.

INDEPENDENT DIRECTORS

In accordance with the recommendations of the Bank of Russia CGC, the Board of Directors should be an efficient and professional management body of the Company capable of making unbiased independent judgements and decisions promoting the interests of the Company and its shareholders.

The Company sees involvement of independent directors in the Board of Directors as a vital principle of the corporate governance development and intends to encourage the development of such institute in the activities of the Company's management bodies.

The Company management interacts with shareholder representatives on a regular basis in order to increase the number of inde-

pendent directors nominated for election and supported by voting within the Company Board of Directors.

Determining the director's independence, the Company proceeds from the criteria set by Recommendations 102-107 of the Bank of Russia CGC, as well as MICEX listing rules.

Role of the independent directors in the activities of the Board of Directors

Objectives and independent decisions of the Board of Directors are secured, inter alia, by including in it independent directors – members of the Board of Directors who are not related to or influenced by the Company's executive bodies, certain groups of shareholders (substantial shareholder), substantial contractors, competitors of the Company, the state or other stakeholders. At the same time, independent directors should have sufficient professional expertise and experience and autonomy to take their own viewpoint and to express unbiased and responsible judgements.

Inclusion of independent directors in the Company Board of Directors provides additional control of its activities in the interests of all shareholders, builds trust among investors and shareholders in the Company, as well as increases its investment attractiveness.

From 01 October, 2017, upon entry into force of the criteria for defining independence of members of the Board of Directors (Supervisory

Board) in the new version (Annex 4.1. to the MICEX listing rules approved by Decision of the MICEX Supervisory Board of 26 June, 2017 (Minutes No.3)), Fedorov Oleg Romanovich, member of the Board of Directors of PJSC IDGC of the North-West lost the status of an independent director.

On 26 December, 2017, Shevchuk Alexandr Viktorovich was acknowledged as an independent director by Decision of the Company Board of Directors (Minutes No.260/15). This decision was justified by the formal set of his dependence criteria, while his active contribution to the Board of Directors and the Committees of the Board of Directors of the Company attests to independence of his judgements, aimed primarily at the Company's performance improvement, building its competitive edge in the interests of the Company and its shareholders.

In the period from 01 January, 2017 to 13 June, 2017 (the date of the annual General Shareholders Meeting), the Company Board of Directors included two independent directors:

- 1. Shevchuk Alexandr Viktorovich** – Executive Director of the Association of Institutional Investors;
- 2. Pokrovsky Sergey Vadimovich** – Deputy Executive Director of the Association of Institutional Investors.

In the period from 13 June, 2017 to 01 October, 2017 the Company Board of Directors included two independent directors:

- 1. Shevchuk Alexandr Viktorovich** – Executive Director of the Association of Institutional Investors.
- 2. Fedorov Oleg Romanovich** – Member of the Supervisory Board of PJSC ALROSA.

Biographies of the Board of Directors members

Personal information on members of the management bodies of PJSC IDGC of the North-West is presented upon their consent.



MANGAROV
YURY NIKOLAEVICH

Chairman of the Board of Directors

Non-executive director

First elected to the Board of Directors on 08 June, 2016

Born in 1956. Graduated from Plekhanov Moscow Institute of the National Economy majoring in Economic Cybernetics, receiving the qualification of Mathematical Economist.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2012 – 2013 – Deputy Chairman of the Management Board – Chief of Staff of OJSC FGC UES.
- ▶ 2012 – present – Deputy Chief of Staff / Deputy Official Secretary of PJSC Rosseti. Previously held the positions of Deputy Executive Director – Chief of Staff, Advisor, Chief Advisor.
- ▶ 2015 – 2016 – Advisor to the Director General, Acting Head of the Administration Department (on a part-time basis) of PJSC Lenenergo.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Chairman of the Board of Directors of PJSC IDGC of the Centre, Chairman of the Board of Directors of PJSC IDGC of the Centre and Volga Region, Member of the Supervisory Board of NP CTSCENTER UES, Member of the Board of Trustees of NSPF for Power Energy.



LETYAGIN
ALEXANDER VYACHESLAVOVICH

Executive director

First elected to the Board of Directors on 23 June, 2015

Born in 1976. Graduated from Ivanovo Power Engineering Institute majoring in Electric Power Plants in 1998. In 2003, received a supplementary education diploma in Management from Moscow Power Engineering Institute under the management training programme for organisation of national economy of the Russian Federation. In 2015, received vocational training at St. Petersburg State University under Master of Business Administration programme.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2012 – 2014 – Advisor to the Director General, Director of OJSC Lenenergo branch – Vyborg Electric Grids.
- ▶ April 2014 – May 2014 – acting First Deputy Director General of PJSC IDGC of the North-West.
- ▶ July 2014 – present – Director General of PJSC IDGC of the North-West.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

none.



AKOPYAN DMITRY BORISOVICH

Deputy Chairman of the Board of Directors
Non-executive director
First elected to the Board of Directors
on 13 June, 2017

Born in 1967. Graduated in 1993 from Krasnodar Polytechnic Institute in Industrial and Civil Construction, with the qualification of Civil Engineer; in 2007 graduated from Kuban Institute of International Entrepreneurship and Management in Banking and Finance, with the qualification of Economist.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2013 – 2014 – First Deputy Director of LLC Sevkavenergostroy.
- ▶ 2014 – 2016 – Deputy Director – Chief Engineer of LLC Lider.
- ▶ 2016 – present – Director of the Investment Activities Department of PJSC Rosseti.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Member of the Board of Directors of PJSC IDGC of the North Caucasus.



BOGOMOLOV NIKOLAY VALERIEVICH

Non-executive director
First elected to the Board of Directors
on 13 June, 2017

Born in 1975. Graduated from the University of the Russian Academy of Education in 2014 with a major in Law.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2009 – 2013 – Deputy Chairman of the Management Board of CJSC Belrusneftegaz.
- ▶ 2013 – 2014 – Vice president of the Administrative Board of OJSC Regional Development Bank.
- ▶ 2015 – Deputy Director General for Attracting Investment of OJSC Corporation of Development.
- ▶ 2015 – 2017 – Deputy Head of the Volgograd Region representative office in Moscow.
- ▶ 2017 – present – First Deputy Director General of PJSC FTS.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Member of the Board of Directors of PJSC FTS.



ZHARIKOV ALEXEY NIKOLAEVICH

Non-executive director
First elected to the Board of Directors
on 12 March, 2014

Born in 1970. In 1993, received a diploma of higher education upon graduation from S. Ordzhonikidze Moscow State Academy of Management majoring in Economy and Management in Fuel and Energy Industries.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2010 – present – Director for Corporate Policy and Shareholder Relations of JSC Elektrotcentraladka.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Member of the Board of Directors of JSC Saratov Airlines.



LAVROVA MARINA ALEXANDROVNA

Non-executive director
First elected to the Board of Directors on 12 March, 2014

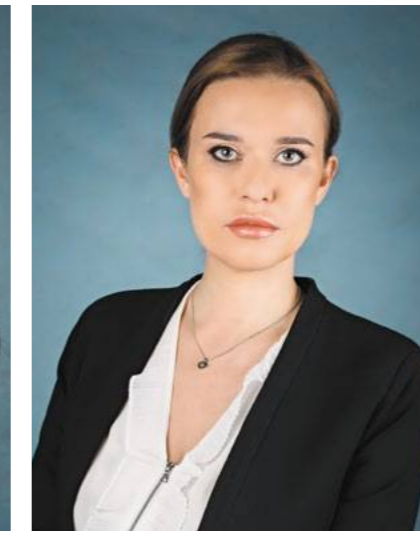
Born in 1982. Graduated in 2004 from the State University of Management majoring in Energy Sector Management, receiving the qualification of Manager. Received the second higher-education degree at the Finance Academy under the Government of the Russian Federation.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2008 – 2013 – Deputy Head of the Business Planning Department of OJSC IDGC Holding.
- ▶ 2013 – present – Head of the Department for Economics in Subsidiaries and Affiliates at the Department of Economic Planning and Budgeting of PJSC Rosseti.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Member of the Board of Directors of PJSC Dagestanskaya Energosbytova-ya Kompania, OJSC SCB VTI, JSC NITs UES, JSC Tyumenenergo.



STEPANOVA MARIA DMITRIEVNA

Non-executive director
First elected to the Board of Directors on 23 June, 2015

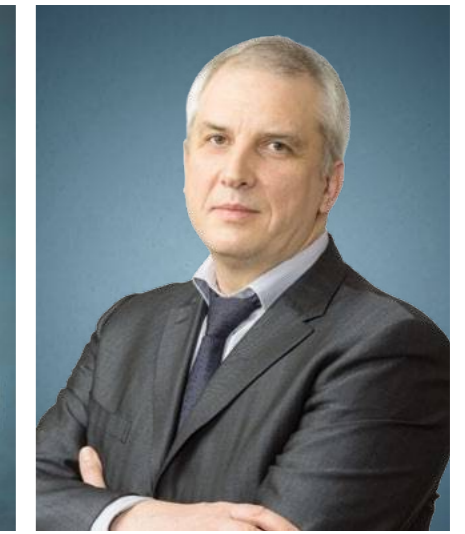
Born in 1982. Graduated in 2004 from Lomonosov Moscow State University majoring in Government Administration in Economics.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2008 – 2016 – Head of the Department for Shareholder and Investor Relations at PJSC Rosseti.
- ▶ 2017 – present – Deputy Head of the Management Board Procedures Department, Board of Directors and Shareholder and Investor Relations of PJSC Rosseti.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Member of the Board of Directors of JSC Tyvaenergosbyt.



FEDOROV OLEG ROMANOVICH

Non-executive director
First elected to the Board of Directors on 13 June, 2017

Born in 1968. In 1992, graduated from Lomonosov Moscow State University with the qualification of Mathematician.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2012 – 2014 – Advisor to the Head of the Federal Agency for State Property Management (Rosimushchestvo).
- ▶ 2013 – present – Member of the Supervisory Board of PJSC ALROSA.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Member of the Board of Directors of PJSC IDGC of the Centre and Volga Region.

No transactions with the PJSC IDGC of the North-West shares were made by the members of the Board of Directors in 2017.

Over 2017, members of the Board of Directors did not receive any loans (credits) from the Company, as well as any legal entity from the group that the Company is part of.

Members of the Board of Directors did not own any shares of PJSC IDGC of the North-West in 2017.



FILKIN
ROMAN ALEXEEVICH

Non-executive director

First elected to the Board of Directors
on 16 June, 2011

Born in 1983. In 2005, graduated from the Finance Academy under the Government of the Russian Federation majoring in Finance and Credit, receiving the qualification of Economist.

POSITIONS HELD IN THE RECENT
FIVE YEARS:

- ▶ 2009 – present – Director of the Representative Office of Prosperity Capital Management (Russia) Ltd. Company (power industry, mechanical engineering).

PARTICIPATION IN THE
MANAGEMENT BODIES
OF OTHER ORGANISATIONS:

Member of the Board of Directors of PJSC IDGC of the Centre, PJSC IDGC of the Centre and Volga Region, PJSC IDGC of the South, OJSC Smolenskaya Energoremontnaya Kompania, OJSC TGK-2.



SHVANKOVA
MARIA MIKHAYLOVNA

Non-executive director

First elected to the Board of Directors
on 13 June, 2017

Born in 1982. In 2004, graduated from Institute of Management, Business and Law in Rostov-on-Don with the qualification of Economist and a major in Public and Municipal Finance.

POSITIONS HELD IN THE RECENT
FIVE YEARS:

- ▶ 2010 – 2014 – Head of the Treasury of CJSC RUSAL Global Management B.V.
- ▶ 2014 – Deputy Head of the Treasury Department of PJSC FGC UES.
- ▶ 2014 – 2015 – Head of the Analytical Department of LLC Glavmosstroy Corporation.
- ▶ 2015 – 2016 – Deputy Head of the Power Sales Department of PJSC OGC-2.
- ▶ 2016 – present – Head of the Treasury Unit of the Treasury Department at PJSC Rosseti.

PARTICIPATION IN THE
MANAGEMENT BODIES
OF OTHER ORGANISATIONS:

none.



SHEVCHUK
ALEXANDER VIKTOROVICH

Independent director

First elected to the Board of Directors
on 08 June, 2016

Born in 1983. In 2005, graduated from the Finance Academy under the Government of the Russian Federation majoring in Finance and Credit, receiving the qualification of Economist.

POSITIONS HELD IN THE RECENT
FIVE YEARS:

- ▶ 2001 – 2014 – Deputy Executive Director, Expert at Association of Institutional Investors.
- ▶ 2014 – present – Executive Director at Non-Commercial Organisation Association of Institutional Investors.

PARTICIPATION IN THE
MANAGEMENT BODIES
OF OTHER ORGANISATIONS:

Member of the Board of Directors of OJSC IDGC of Urals, PJSC IDGC of the Centre, PJSC IDGC of the Centre and Volga Region, PJSC OGC-2, PJSC TGK-1.

CORPORATE SECRETARY

For the due preparation and holding procedures of the General Shareholders Meeting at the Company, and to support the activities of the Company Board of Directors, Company Board of Directors elects the Company Corporate Secretary³⁸

The activities of the Corporate Secretary are stipulated by the Regulation on the Corporate Secretary of PJSC IDGC of the North-West³⁹, approved by Decision of the Company Board of Directors of 30 September, 2016 (Minutes No.220/11).

The Company Corporate Secretary is accountable to the Board of Directors. Administrative subordination of the Corporate Secretary is defined by the organisational structure approved by the Company.

From 27 June, 2008, the functions of the Company Corporate Secretary have been performed by Nazarenko Lyudmila Yurievna.



NAZARENKO
LYUDMILA YURIEVNA

Corporate Secretary of PJSC IDGC of the North-West

Born in 1971. In 1993 graduated from Odessa Technological Institute of the Food Industry; in 2011 received a diploma of higher education in Law upon graduation from St. Petersburg State University of Engineering and Economics.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2006 – present – Head of the Corporate Governance Unit at the Department for Corporate Governance and Shareholder Relations of PJSC IDGC of the North-West.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Member of the Board of Directors of OJSC Pskovenergoagent.

PARTICIPATION IN THE AUTHORISED CAPITAL OF PJSC IDGC OF
THE NORTH-WEST

0.0026%.

The Corporate Secretary has not made any transactions with the Company's securities in 2017.

Over 2017, the Corporate Secretary did not receive any loans (credits) from the Company, as well as any legal entity from the group that the Company is part of.

³⁸ The Corporate Secretary data are disclosed at the Company's web site, as well as the Annual Report in the same scope as the scope of information to be disclosed on members of the Company Board of Directors and its executive bodies.

³⁹ The Regulation on the Corporate Secretary of PJSC IDGC of the North-West is available at the Company's web site: <http://www.mrsksevzap.ru/otherinternaldocuments>.

COMMITTEES OF THE COMPANY BOARD OF DIRECTORS

In order to implement the principles stipulated by the Corporate Governance Code, advisory and consultative bodies were set up by the Company Board of Directors – Committees of the Board of Directors – for preliminary research into the most important aspects of the Company activity:

- ▶ Audit Committee;
- ▶ HR and Remunerations Committee;
- ▶ Strategy and Development Committee;
- ▶ Reliability Committee;
- ▶ Technological Connection Committee (hereinafter – the Committees).

The Committees are actively engaged in the process of decision-making by the Company Board of Directors, enhancing its efficiency. They carry out preliminary surveys and provide the Board of Directors with recommendations on the key issues within the frame of reference of the Board of Directors. The decisions of the Committees serve as guidelines for the Company Board of Directors.

The activities of the Committees are stipulated by the Regulations on the Committees, covering their frame of reference, procedures for building their composition and functioning, rights and obligations of the Committee members.

Members of the Board of Directors actively contribute to the Committees of the Company Board of Directors*

Full name	Shareholder group nominating the respective director	Status at the Board of Directors	Audit Committee	HR and Remunerations Committee	Strategy and Development Committee	Technological Connection Committee
Mangarov, Yu.N.	PJSC Rosseti	Chairman of the BoD, non-executive director				
Akopyan, D.B.	PJSC Rosseti	Member of the BoD, non-executive director				
Bogomolov, N.V.	PJSC Rosseti	Member of the BoD, non-executive director				
Zharikov, A.N.	Energosouz Holdings Limited	Member of the BoD, non-executive director				
Lavrova, M.A.	PJSC Rosseti	Member of the BoD, non-executive director				
Letyagin, A.V.	PJSC Rosseti	Member of the BoD, executive director				
Stepanova, M.D.	PJSC Rosseti	Member of the BoD, non-executive director				
Fedorov, O.R.	ENERGYO SOLUTIONS RUSSIA (CYPRUS) LIMITED, Lancrenan Investments Limited	Member of the BoD, independent director**				
Filkin, R.A.	Lancrenan Investments Limited	Member of the BoD, non-executive director				
Shvankova, M.M.	PJSC Rosseti	Member of the BoD, non-executive director				
Shevchuk, A.V.	ENERGYO SOLUTIONS RUSSIA (CYPRUS) LIMITED, Lancrenan Investments Limited	Member of the BoD, independent director				

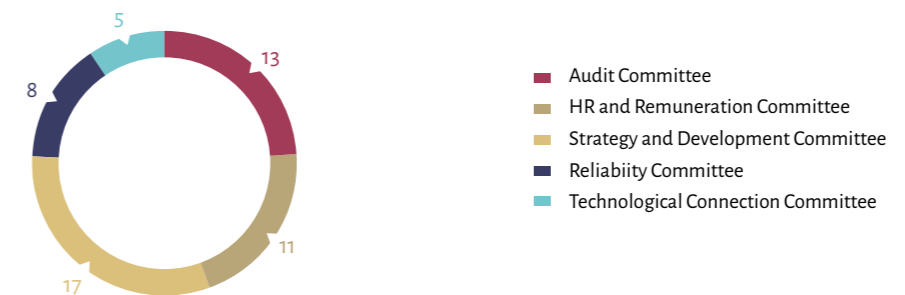
– Chairman of the Committee – Member of the Committee

The number of members and appointments for each Committee are determined by decision of the Company Board of Directors. The Committees operate in line with the Committee action plans annually approved at the Committee meetings.

In 2017, each Committee of the Board of Directors⁴⁰ included two sets of persons.

The acting compositions of the Audit and HR and Remunerations Committees of the Board of Directors were elected by the Company Board of Directors on 30 June, 2017 (Minutes No.247/2). The acting compositions of the Strategy and Development Committee, the Reliability Committee and the Technological Connection Committee were elected by the Board of Directors on 31 July, 2017 (Minutes No.249/4).

Number of meetings held by the Board of Directors Committees in 2017



Audit Committee



The Committee aims at contributing to efficient performance of the Company Board of Directors in the area of preliminary consideration of issues related to control of the financial and business operations of the Company.

In the reporting period, the Audit Committee based its activities on the Regulation on the Audit Committee of the Board of Directors of PJSC IDGC of the North-West, approved by Decision of the Company Board of Directors

of 29 February, 2016 (Minutes No.197/12), taking into account the amendments introduced by the Company Board of Directors on 28 October, 2016 (Minutes No.222/13).



The key objectives of the Committee are:

- ▶ Review of the Company's accounting (financial) statements and supervision of its preparation;
- ▶ Monitoring the reliability and efficiency of the internal control system, risk management system and corporate governance practice;
- ▶ Control of the external audit procedures and the choice of the External Auditor;
- ▶ Ensuring independent and unbiased internal audit function;
- ▶ Supervising the efficiency of the system for countering unfair actions of the Company's employees and third parties.

Under Decision of the Board of Directors of 30 June, 2017 (Minutes No.247/2), the headcount of the Audit Committee was defined as 5 persons, the same decision appointed the persons to work at the Committee. The position of the Committee Chairman was taken by the independent director A.V.Shevchuk, who has the experience and knowledge in preparing, analysing, assessing and auditing accounting (financial) statements. Members of the Audit Committee M.A.Lavrova, and M.M.Shvankova, have a degree in finance, economics and management.

All members of the Audit Committee have the experience and qualification required for the Committee to work efficiently.

* Participation of the Committee members whose office was terminated at the end of the 2016–2017 corporate year in the Board of Directors Committees is described in the full version of the Annual Report: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

** Deprived of the independent director status since 01 January, 2017, upon entry into force of the criteria for defining independence of members of the Board of Directors (Supervisory Board) in the new version (Annex 4.1. to the MICEX listing rules approved by Decision of the MICEX Supervisory Board of 26 June, 2017 (Minutes No.3)).

⁴⁰ Information is available in Annex 9: Composition of the Board of Directors Committees of PJSC IDGC of the North-West and involvement of the Committees members in the period from 01 January, 2017 to 13 June, 2017.



Personal data and contribution of the acting members of the Audit Committee of the Board of Directors

Full name	Position ⁴¹	Attendance	% of participation
Shevchuk Alexandr Viktorovich (Chairman) Independent director	Member of the Board of Directors of PJSC IDGC of the North-West, Executive Director of the Association of Institutional Investors	6	100
Lavrova Marina Alexandrovna	Member of the Board of Directors of PJSC IDGC of the North-West, Head of the Department for Economics in Subsidiaries and Affiliates, at the Department of Economic Planning and Budgeting of PJSC Rosseti	6	100
Stepanova Maria Dmitrievna	Member of the Board of Directors of PJSC IDGC of the North-West, Deputy Head of the Management Board Procedures Department, Board of Directors and Shareholder and Investor Relations of the Department of Corporate Governance and Shareholder and Investors Relation of PJSC Rosseti	6	100
Shvankova Maria Mikhaylovna	Member of the Board of Directors of PJSC IDGC of the North-West, Head of the Treasury Unit of the Treasury Department at PJSC Rosseti	6	100
Fedorov Oleg Romanovich	Member of the Board of Directors of PJSC IDGC of the North-West	6	100

Over 2017, the Audit Committee of the Company Board of Directors held 13 meetings, including 6 of them – in the form of joint attendance, where 40 issues were discussed.



Upon recommendations of the Audit Committee, the Company Board of Directors considered and took into account the following on 31 March, 2017 (Minutes No.235/26):

- report on organisation and functioning of the internal control system of PJSC IDGC of the North-West in 2016;
- report on implementation of a set of actions to improve the internal control and risk management systems (hereinafter – ICS and RMS) in 2016.

Information on the efficiency assessment of the Company's internal control system in the reporting year is shown in the section "Internal control system" of this Report.

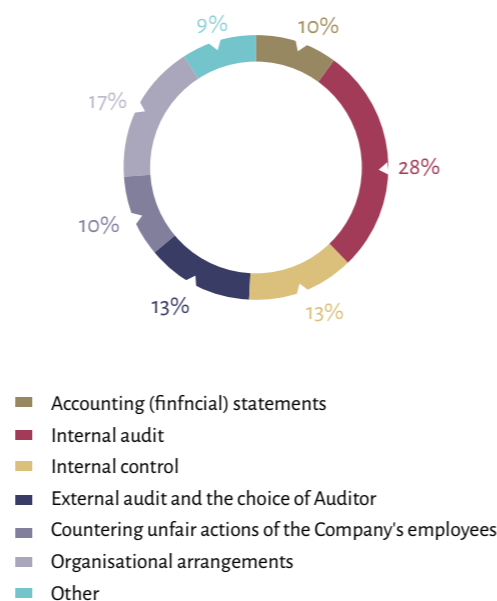
On 19 February, 2018, the Audit Committee studied the issue "On preliminary review of the report by the Internal Audit Department of PJSC IDGC of the North-West on implementation of the action plan, the performance of the internal audit and the budget of the Internal Audit Department for 2017, including the results of the performance self-assessment of the Internal Audit Department for 2017, as well as compliance with the action plan on the development and improvement of the internal audit of the Company in the period from 2017 to 2019" (Minutes No.8).

Subsequent to the internal assessment (self-assessment) of the internal audit performance of the Company, carried out under the Programme for ensuring and improving the internal audit quality of PJSC IDGC of the North-West (approved by Decision of the Company Board of Directors of 22 December, 2016, Minutes No.225/16, enacted by Order of the Company No.857 of 30 December, 2016), in 2017 the compliance of the Company's internal audit with the Internal Audit Policy of the Company was estimated as "generally complied".

The issue "On assessing the efficiency of the external audit of the Company's accounting (financial) statements for 2017" was considered at the Audit Committee meeting of 27 April, 2018 (Minutes No.12).

On 02 June, 2017, the Board of Directors discussed and took into account the report of the Audit Committee of the Board of Directors of PJSC IDGC of the North-West on its performance in the corporate year 2016–2017.

Subjects discussed in 2017 ⁴²



⁴¹ The positions are indicated as of the election of the Company BoD Committee members.

⁴² The list of issues studied by the Audit Committee of the Company Board of Directors in 2017 is shown in Annex 32 to the Annual Report.

HR and Remunerations Committee



The main purpose of the HR and Remunerations Committee, according to the Regulation on the HR and Remunerations Committee of the Board of Directors of PJSC IDGC of the North-West approved by Decision of the Board of Directors of 22 August, 2014 (Minutes No.163/5), is to ensure efficient operations of the Company Board of Directors regarding the issues within its frame of reference, and to develop the necessary recommendations for the Board of Directors and executive bodies of the Company.



The main goal of the Committee is to work out and present recommendations (findings) in the following areas:

- development of recommendations on the amount of remuneration to the Board of Directors members;
 - development of the principles and criteria for determining the amount of remuneration for the Board of Directors members, members of the collective executive body and the person performing the functions of the Company's sole executive body;
 - working out proposals for determining the material terms of contracts with the Board of Directors members, members of the collective executive body and the person exercising the functions of the Company's sole executive body;
 - defining criteria for nominating members of the Board of Directors, members of the collective executive body and to the position of the Company's sole executive body,
- as well as preliminary assessment of these nominees;
- regular assessment of the activities of the person performing the functions of the Company's sole executive body, members of the collective executive body and preparing proposals for the Board of Directors on the possibility of their re-appointment.
- Under Decision of the Board of Directors 30 June, 2017 (Minutes No.247/2), the headcount of the HR and Remunerations Committee was defined as three persons. The same decision appointed members of the Committee, including only members of the Board of Directors.
- The members of the HR and Remunerations Committee have the professional experience and knowledge of the Company's business required to perform their functions.

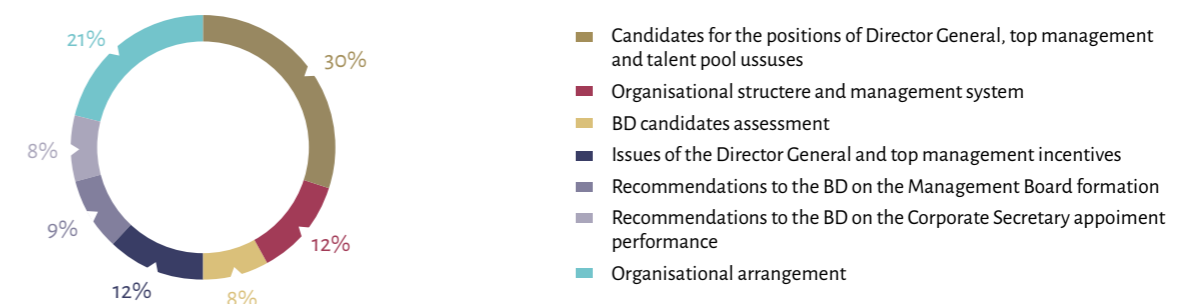


Personal data and contribution of the acting members of HR and Remunerations Committee of the Board of Directors

Full name	Position ⁴³	Attendance	% of participation
Lavrova Marina Alexandrovna (Chairman)	Member of the Board of Directors of PJSC IDGC of the North-West, Head of the Department for Economics in Subsidiaries and Affiliates at the Department of Economic Planning and Budgeting of PJSC Rosseti	3	100
Zharikov Alexey Nikolaevich	Member of the Board of Directors of PJSC IDGC of the North-West, Director for Corporate Policy and Shareholder Relations of JSC Elektrotcentronaladka	3	100
Mangarov Yuri Nikolaevich	Member of the Board of Directors of PJSC IDGC of the North-West, Deputy Official Secretary of PJSC Rosseti	3	100

Over 2017, HR and Remunerations Committee of the Company Board of Directors held 11 meetings, including 1 in the form of joint attendance, where 24 issues were considered.

Subjects discussed in 2017 ⁴⁴



⁴³ The positions are indicated as of the election of the Company BoD Committee members.

⁴⁴ The list of issues studied by the HR and Remunerations Committee of the Company Board of Directors in 2017 is shown in Annex 32 to the Annual Report.

Strategy and Development Committee



The key purpose of the Strategy and Development Committee is to ensure efficient operations of the Company Board of Directors regarding the issues within its frame of reference.

The Strategy and Development Committee's activities are stipulated by the Regulation on the Strategy and Development Committee of PJSC IDGC of the North-West, approved by Decision of the Company Board of Directors of 22 Au-

gust, 2008, with the amendments introduced by Decision of the Company Board of Directors (Minutes No.200/15 of 31 March, 2016).



The Committee aims at working out and submitting recommendations (findings) to the Company Board of Directors on the following areas of the Board of Directors:

- ▶ determination of the Company's priority areas, strategic goals and main strategic development principles;
- ▶ boosting the Company's investment attractiveness, improving investment activities and making informed investment decisions;
- ▶ adjustment of the existing Company development strategy;
- ▶ control over the progress in implementation of the previously adopted programmes and projects;
- ▶ financial planning, formulation of the Company's dividend policy;
- ▶ assessment of Company's performance;
- ▶ control over the organisation and functioning of the risk management system.

The acting Strategy and Development Committee was elected by Decision of the Board of Directors of 31 July, 2017 (Minutes No.249/4) and includes ten persons.



Personal data and contribution of the acting members of the Strategy and Development Committee of the Board of Directors

Full name	Position ⁴⁵	Attendance	% of participation
Sofyin Vladimir Vladimirovich (Chairman)	Director of the Technological Development and Innovations Department of PJSC Rosseti	9	100
Balaban Fedor Nikolaevich	Deputy Head of the Strategic Projects Unit at the Strategic Development Department of PJSC Rosseti	9	100
Gurenkova Irina Sergeevna	Head of the Tariff Dispute Settlement Unit of the Tariff Policy Department at PJSC Rosseti	9	100
Dronova Tatiana Petrovna	Deputy Director General for Strategy and Development of CJSC Investment Holding Energetichesky Soyuz	9	100
Lavrova Marina Alexandrovna	Member of the Board of Directors of PJSC IDGC of the North-West, Head of the Department for Economics in Subsidiaries and Affiliates at the Department of Economic Planning and Budgeting of PJSC Rosseti	9	100
Letyagin Alexandr Vyacheslavovich	Member of the Board of Directors, Director General of PJSC IDGC of the North-West	9	100
Moskavchuk Svetlana Nikolaevna	Leading Expert of the Consolidated Planning and Reporting Unit at the Investment Activities Department of PJSC Rosseti	9	100
Pokrovsky Sergey Vadimovich	Deputy Executive Director at the Association of Institutional Investors	9	100
Filkin Roman Alexeevich	Member of the Board of Directors of PJSC IDGC of the North-West; Director of the Representative Office of Prosperity Capital Management (Russia) Ltd. (power industry, mechanical engineering)	9	100
Shevchuk Alexandr Viktorovich Independent director	Member of the Board of Directors of PJSC IDGC of the North-West, Executive Director of the Association of Institutional Investors	9	100

⁴⁵ The positions are indicated as of the election of the Company BoD Committee members.

Members of the Strategy and Development Committee have the knowledge of the Company's business required for them to perform their functions.

Over 2017, the Strategy and Development Committee discussed 47 issues, held 17 meetings, including 5 meetings in the form of joint attendance.

Subjects discussed in 2017⁴⁶



Reliability Committee



In the reporting period, the Reliability Committee proceeded in its activities from the Regulation on the Reliability Committee of the Board of Directors of PJSC IDGC of the North-West, approved by Decision of the Company Board of Directors of 21 October, 2015 (Minutes No.191/6) with the amendments approved by Decision of the Company Board of Directors of 19 July, 2016 (Minutes 214/5), and the Regulation on the Reliability Committee of the Board of Directors of PJSC IDGC of the North-West, approved by Decision of the Board of Directors of 31 July, 2017 (Minutes No.249/4).



The key objectives of the Committee are:

- ▶ expert review of the operational programmes, plans for technical re-equipment, renovation, new construction and repair of electric grid facilities, analysis of their development and implementation in terms of ensuring the requirements for reliability of operation and technical condition of the power grids are met;
- ▶ assessment of the completeness and adequacy of measures based on the accident investigation results in accordance with the Rules of accident cause investigation in electric power industry approved by the Decree of the Government of the Russian Federation, as well as monitoring their implementation;
- ▶ expert review of the quality of investigation of the causes of technological failures (accidents);
- ▶ expert review of the Company's activity in the field of emergency response (ensuring readiness, organisation and carrying out emergency recovery operations at electric grid facilities);
- ▶ expert review of programmes for prevention and reduction of risks of injuries to the Company's personnel and third parties at the Company's power facilities, as well as control over their implementation;
- ▶ monitoring and assessment of the Company's technical services performance to ensure reliable operation of power grids and occupational safety;
- ▶ expert review of the Company's internal technical control system;
- ▶ expert review of the Company's occupational safety and health management system;
- ▶ expert review of the environmental policy implementation programme;
- ▶ expert review of the fire and industrial safety system.

In the first half of 2017, the headcount of the Reliability Committee of the Company Board of Directors was 9 persons.

In line with Decision of the Company Board of Directors of 31 July, 2017 (Minutes No.249/4), six persons were elected to the Reliability Committee.

⁴⁶ The list of issues studied by the Strategy and Development Committee of the Company Board of Directors in 2017 is shown in Annex 32 to the Annual Report.



Personal data and contribution of the acting members of the Reliability Committee of the Board of Directors

Full name	Position ⁴⁷	Attendance	% of participation
Rozhkov Vasily Vladimirovich (Chairman)	Head of the Operations Planning Unit at the Department for Operations and Technology Management of PJSC Rosseti	4	100
Bogomolov Eduard Valerievich	First Deputy Director of the branch of PJSC Rosseti – Centre for Technical Supervision	4	100
Yagodka Denis Vladimirovich ⁴⁸	First Deputy Director General – Chief Engineer of PJSC IDGC of the North-West	0	0
Motin Vladimir Sergeevich	Head of the Development Department of the Moscow branch of CJSC Bank Agroros	3	75
Pokrovsky Sergey Vadimovich	Deputy Executive Director of the Association of Institutional Investors	4	100
Shiryaev Pavel Vyacheslavovich	Deputy Director General for Economy and Finance of PJSC IDGC of the North-West	4	100



Decision of the Board of Directors of 26 December, 2017 (Minutes No.260/15) terminated the office of the Reliability Committee member Kuzmin Igor Anatolievich.

Yagodka Denis Vladimirovich – First Deputy Director General – Chief Engineer of PJSC IDGC of the North-West was elected member of the Reliability Committee.

The Reliability Committee held 8 meetings in 2017, including one in the form of joint attendance, where 36 issues were considered.

Subjects discussed in 2017⁴⁹



Technological Connection Committee



The key purpose of the Technological Connection Committee is to ensure transparency and non-discriminatory access to the services of consumer technological connection to the Company's power grids.

In the reporting period, the Technological Connection Committee of the Board of Directors was guided by the Regulation on the Committee approved by Decision of the Company Board of Directors of 10 February, 2009 (Minutes No.40/8) and Regulation on the Committee approved by Decision of the Company Board of Directors of 31 July, 2017 (Minutes No.249/4).

In the first half of 2017, the headcount of the Technological Connection Committee of the Board of Directors was 9 persons. In line with Decision of the Company Board of Directors of 31 July, 2017, the Technological Connection Committee was elected in the number of 7 persons.



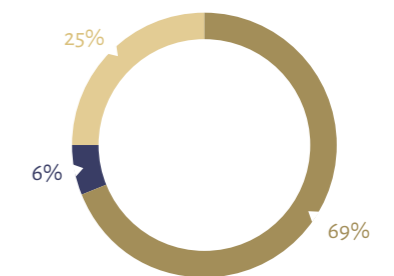
Personal data and contribution of the acting members of the Technological Connection Committee of the Board of Directors

Full name	Position ⁵⁰	Attendance	% of participation
Korneev Alexander Yurievich (Chairman)	Director of the Department for Long-Term Development of the Grids and Technological Connection of PJSC Rosseti	3	100
Polovnev Igor Georgievich	Financial Director of the Association of Institutional Investors	3	100
Saveliev Maxim Ilyich	Director General of LLC SoyuzInvest	3	100
Sokolov Denis Evgenievich	Chief Expert of the Department for Long-Term Development of the Grids and Technological Connection of PJSC Rosseti	3	100
Sokolova Natalia Ivanovna	Chief Expert of the Department for Long-Term Development of the Grids and Technological Connection of PJSC Rosseti	3	100
Fedorov Vadim Nikolaevich	Deputy Director General for Development and Services of PJSC IDGC of the North-West	3	100
Fedorov Oleg Romanovich	Member of the Board of Directors of PJSC IDGC of the North-West, Member of the Supervisory Board of PJSC ALROSA	3	100

Members of the Technological Connection Committee have the knowledge of the Company's business required for them to perform their functions.

In 2017, the Technological Connection Committee held five meetings, including one meeting in the form of joint attendance. It considered 16 issues.

Subjects discussed in 2017⁵¹



- Analysis of the current state of TC
- Improvement of the quality of power grids development planning
- Organisational arrangements

⁴⁷ The positions are indicated as of the election of the Company BoD Committee members.

⁴⁸ Elected by Decision of the Company Board of Directors of 26 December, 2017 (Minutes No.260/15).

⁴⁹ The list of issues studied by the Reliability Committee of the Company Board of Directors in 2017 is shown in Annex 32 to the Annual Report.

⁵⁰ The positions are indicated as of the election of the Company BoD Committee members.

⁵¹ The list of issues studied by the Technological Connection Committee of the Company Board of Directors in 2017 is shown in Annex 32 to the Annual Report.

EXECUTIVE MANAGEMENT BODIES OF THE COMPANY

Director General

The Sole executive body – Director General of PJSC IDGC of the North-West carries out day-to-day management of the Company and functions as the Chairman of the Management Board.

On 25 April, 2014, Letyagin Alexander Vyacheslavovich was appointed acting Director General, and since 29 July, 2014 he has been Director General of PJSC IDGC of the North-West.

In accordance with Decision of the Company Board of Directors of 21 June, 2017, Letyagin Alexander Vyacheslavovich was re-elected Director General of PJSC IDGC of the North-West from 29 July, 2017 through 28 July, 2022.

The Director General's frame of reference includes all issues related to the current operations of the Company, with the exception of the issues attributed to the General Shareholders Meeting, Board of Directors and Management Board of the Company. The Company Charter authorises the Director General to use the Company's property, enter into transactions on behalf of the Company, issue orders, approve guidelines and internal documents on the subjects within his frame of reference and gives other rights.

Management Board

The Management Board is a collective executive body of PJSC IDGC of the North-West.

The Management Board's activities⁵² are regulated by the Federal Law "On joint-stock companies", the Company Charter and the Regulation on the Management Board.

In line with the Charter, members of the Management Board are appointed by the Company Board of Directors in the number set by the Decision of the Board of Directors upon proposal of the Director General.

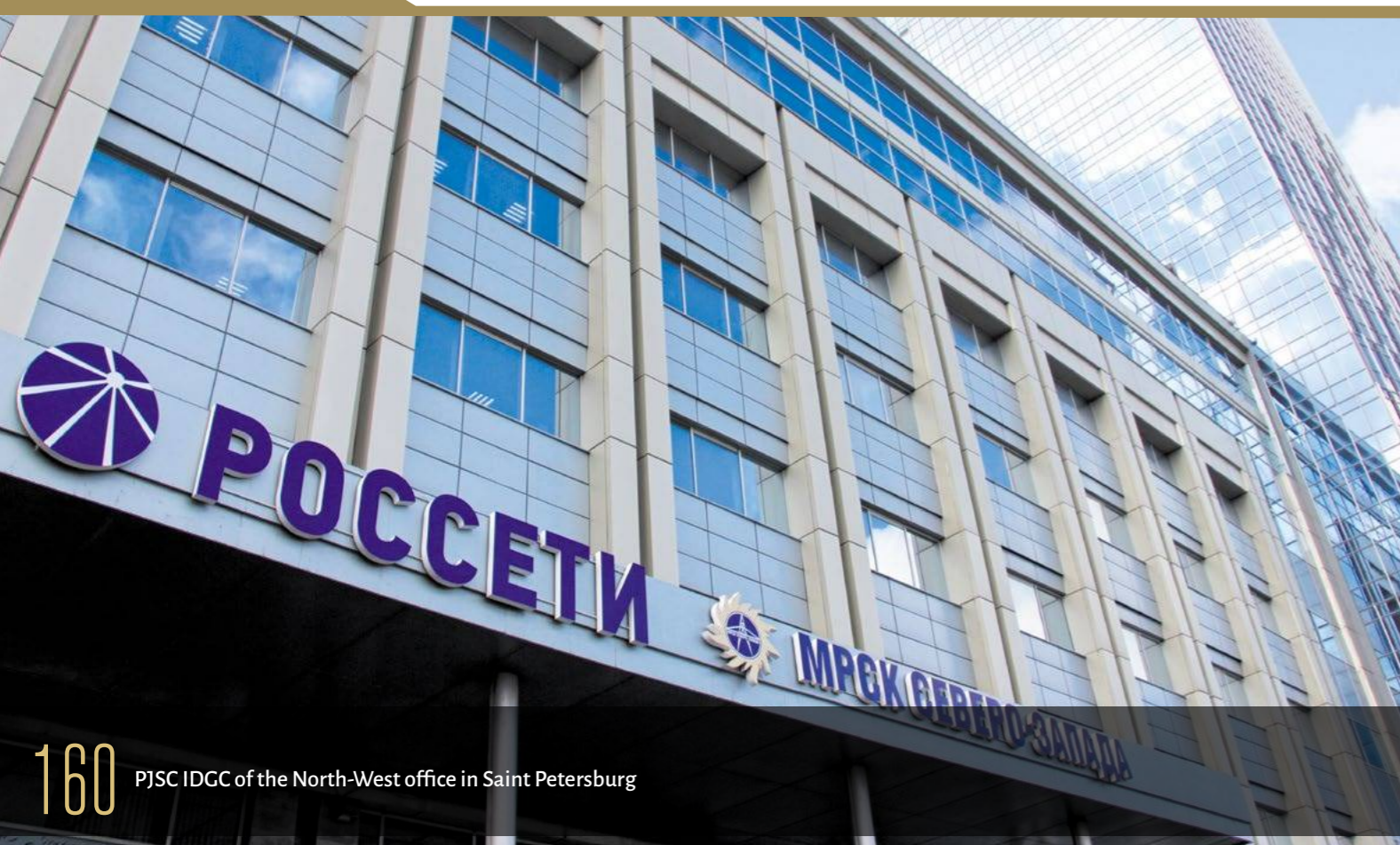
The initial composition of the Management Board in the number of 7 persons was elected by the Company Board of Directors on 10 April, 2008. Under Decision of the Board of Directors of 25 August, 2009, the headcount of the Management Board was increased from 7 to 10 persons.

During 2017, upon a number of personnel-related decisions, the following changes took place in the Management Board of the Company:

- ▶ under Decision of the Board of Directors of 09 August, 2017, Management Board member Pavlov Vadim Alexeevich was removed from office;
- ▶ under Decision of the Board of Directors of 22 September, 2017, Management Board member Kuzmin Igor Anatolievich was removed from office.

As of 31 December, 2017, there were six persons in the Management Board of the Company.

⁵² The frame of reference of the Management Board of PJSC IDGC of the North-West is stipulated by the Company Charter <http://www.mrsksevzap.ru/charterinternaldocuments>.



LETYAGIN
ALEXANDR VYACHESLAVOVICH

Director General
Chairman of the Management Board

Born in 1976. Graduated from Ivanovo Power Engineering Institute majoring in Electric Power Plants in 1998. In 2003, received a supplementary education diploma in Management from Moscow Power Engineering Institute under the management training programme for organisation of national economy of the Russian Federation. In 2015, received vocational training at St. Petersburg State University under Master of Business Administration programme.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2012 – 2014 – Advisor to the Director General, Director of OJSC Lenenergo branch – Vyborg Electric Grids.
- ▶ 2014 – 2014 – acting First Deputy Director General of PJSC IDGC of the North-West.
- ▶ July 2014 – present – Director General of PJSC IDGC of the North-West.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

none.



GUSEV
VLADIMIR SERGEEVICH

Member of the Management Board
Deputy Director General for Security

Date of election to the Management Board – 21 April, 2015

Born in 1950. In 1973, graduated from the Leningrad Technological Institute majoring in Chemistry and Technology of Sorbents.

Was awarded the PhD degree in Economics by Saint Petersburg State Institute of Technology in 2000.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 1996 – 2016 – professor of Peter the Great St. Petersburg Polytechnic University.
- ▶ 2005 – 2015 – Vice President, Advisor, Member of the Management Board of OJSC International Bank of St. Petersburg.
- ▶ 2005 – present – Advisor to the Director General of OJSC Radar MMS (on a part-time basis).
- ▶ 2014-2017 – Senior Secretary of Federal Security Service Directorate in Saint Petersburg and Leningrad Region (on a part-time basis).
- ▶ 2015 – present – Deputy Director General for Security at PJSC IDGC of the North-West.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

none.



NESTERENKO
VLADIMIR VALERIEVICH

Member of the Management Board, Deputy
Director General for Investment Activities

Date of election to the Management Board – 25 March, 2015

Born in 1972. In 1995 graduated from the Volgograd State Technical University majoring in Pulse Heat Machines.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2012 – 2014 – Deputy Head of the Department – Head of the Power Balance and Metering Unit at the Department of Customer and Market Relations of PJSC FGC UES.
- ▶ 2014 – 2015 – acting Deputy Director General for Investment Activities of PJSC IDGC of the North-West.
- ▶ 2015 – present – Deputy Director General for Investment Activities of PJSC IDGC of the North-West.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

member of the Board of Directors of OJSC Energoservis Severo-Zapada.



ORLOV
DENIS ALEXANDROVICH

Member of the Management Board, Deputy Director General for Corporate Governance
Date of election to the Management Board – 01 September, 2014

Born in 1975. In 1996, graduated from the Plekhanov Russian Academy of Economics majoring in Finance and Credit. Has a PhD degree in economics. Speaks English and German.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2012 – 2014 – Deputy Chairman of the Economic Development and Investment Committee of the Leningrad Region Government.
- ▶ 2014 - acting Deputy Director General for Corporate Governance of PJSC IDGC of the North-West.
- ▶ 2014 – present – Deputy Director General for Corporate Governance of PJSC IDGC of the North-West.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Chairman of the Board of Directors of OJSC Lesnaya Skazka;
Chairman of the Board of Directors of OJSC Pskovenergosbyt.



FEDOROV
VADIM NIKOLAEVICH

Member of the Management Board, Deputy Director General for Development and Services
Date of election to the Management Board – 11 December, 2015

Born in 1972. In 1994, graduated from the Novocherkassk Polytechnic Institute majoring in Automatic Control of Electric Power Systems, in 2004, graduated from the N.G.Chernyshevsky Saratov State University majoring in Organisation Management.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2011 – 2013 – Chairman of the Management Board of Non-Profit Partnership "Association of Entities Engaged in Energy Survey EnergoProfAudit".
- ▶ 2013 – 2014 – Head of the Department for Technical Development and Innovations, Head of the Unit of the Innovative, Technical and Energy Efficiency at the Technological Development Department of OJSC Rosseti.
- ▶ 2014 – 2015 – Advisor of the Administrative Department of PJSC IDGC of the North-West.
- ▶ 2015 - acting Deputy Director General for Development and Services.
- ▶ 2015 – present – Deputy Director General for Development and Services of PJSC IDGC of the North-West

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

Chairman of the Board of Directors of OJSC Energoservis Severo-Zapada,
Chairman of the Board of Directors of OJSC Pskovenergoagent.



SHIRYAEV
PAVEL VYACHESLAVOVICH

Member of the Management Board, Deputy Director General for Economy and Finance
Date of election to the Management Board – 11 December, 2015

Born in 1965. In 1988, graduated from the Moscow Institute of Steel and Alloys majoring in Physical and Chemical Studies of Metallurgical Processes, in 2005 – from the Moscow Power Engineering Institute majoring in Power Supply. Speaks English.

POSITIONS HELD IN THE RECENT FIVE YEARS:

- ▶ 2002 – 2015 – Deputy Director General of the PJSC FGC UES branch Backbone Power Grids of the Centre.
- ▶ 2015 – Advisor of the Administrative Department of PJSC IDGC of the North-West.
- ▶ 2015 – acting Deputy Director General for Economy and Finance.
- ▶ 2015 – present – Deputy Director General for Economy and Finance of the Company.

PARTICIPATION IN THE MANAGEMENT BODIES OF OTHER ORGANISATIONS:

none.

No transactions with the PJSC IDGC of the North-West shares were made by the Director General or the members of the Management Board of the Company in 2017.

Over 2017, the Director General or the members of the Management Board did not receive any loans (credits) from the Company, as well as any legal entity from the group that the Company is part of.

The Director General and the members of the Management Board did not own any shares of PJSC IDGC of the North-West in 2017.

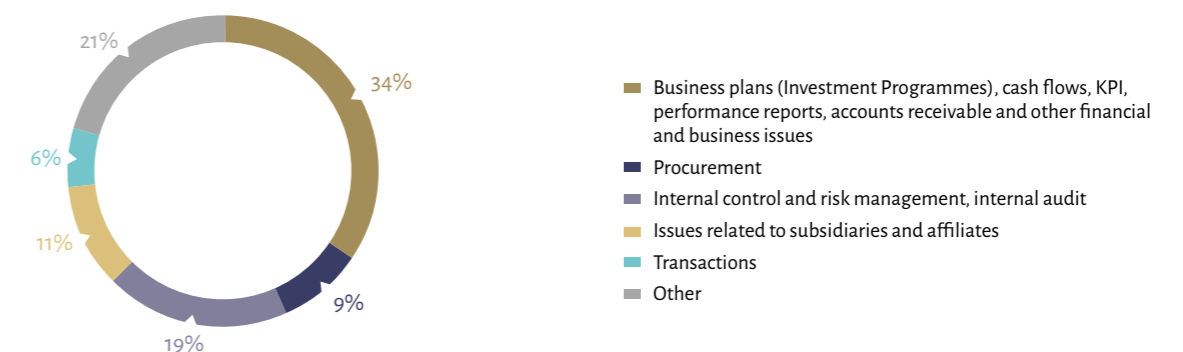
Participation of the members of the Management Board in meetings held in 2017

Full name	Total number of meetings	Number of meetings with the attendance of the Management Board member	Share of the total number of meetings, %
Letyagin, A.V.	39	39	100
Gusev, V.S.	39	31	79.48
Kuzmin, I.A.*	30	22	73.33
Nesterenko, V.V.	39	35	89.84
Orlov, D.A.	39	38	97.43
Pavlov, V.A.*	24	20	83.33
Fedorov, V.N.	39	39	100
Shiryaev, P.V.	39	39	100

* the office was terminated.

Carrying out day-to-day management of the Company in accordance with the scope of authority specified by the Charter and the Regulation on the Management Board of PJSC IDGC of the North-West, the Management Board of the Company held 39 meetings in 2017 (3 of which – in the form of joint attendance), where 202 issues were considered.

Subjects of the key issues considered by area in 2017



REMUNERATION SYSTEM OF THE COMPANY

REMUNERATION SYSTEM FOR MEMBERS OF THE BOARD OF DIRECTORS

Remuneration and compensation types, amounts and procedures of payment to members of the Company Board of Directors are stipulated by the Regulation on remunerations and compensations to members of the Board of Directors of PJSC IDGC of the North-West (hereinafter – the Regulation), approved by Decision of the annual General Shareholders Meeting of the Company of 23 June, 2015 (Minutes No.10).⁵³

The Regulation provides for the following payments:

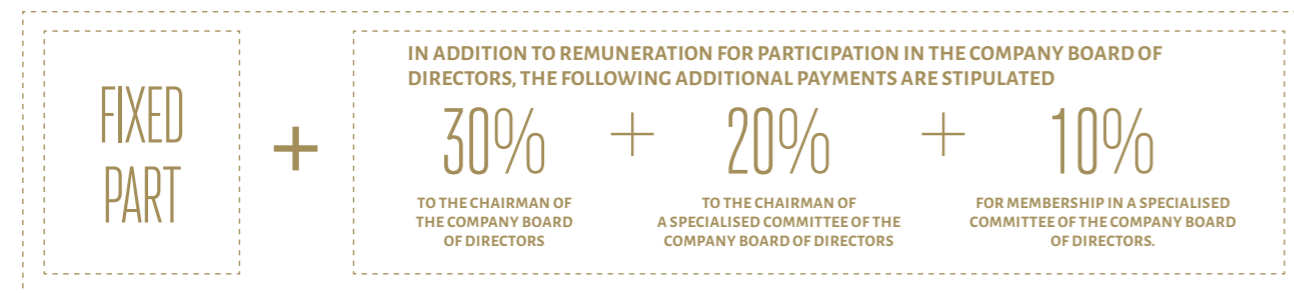
1. REMUNERATION FOR PARTICIPATION IN THE BOARD OF DIRECTORS

The payment is made subject to the results of the activities in the period from the candidate's election to the Board of Directors till the Company Board of Directors is elected in the new composition.

The remuneration amount for each member of the Board of Directors depends on the number of meetings of the Board of Directors (irrespective of their form) attended by the member of the Board of Directors in the period between the annual General Shareholders Meetings, and the size of the fixed amount of remuneration. The fixed amount of remuneration is defined on the basis of the Company's revenue estimated under the RAS in the last financial year. For PJSC IDGC of the North-West, the fixed amount of remuneration is RUB 900 thous.

RUB 900 THOUS.

THE TOTAL AMOUNT OF REMUNERATION PER MEMBER OF THE BOARD OF DIRECTORS INCLUDING ADDITIONAL PAYMENTS CANNOT EXCEED THE FIXED PART OF REMUNERATION



REMUNERATION IS NOT PAID TO



2. ADDITIONAL REMUNERATION FROM THE NET PROFIT IS PAID IN CASE THE COMPANY'S MARKET CAPITALISATION INCREASES IN THE PERIOD OF OPERATIONS OF THE BOARD OF DIRECTORS

The amount of additional remuneration of each member of the Board of Directors is 0.0175% from the market value growth of the Company, calculated in the period from the candidate's election to the Board of Directors till the Company Board of Directors is elected in the new composition.

Additional remuneration for the growth in the Company's market value is paid only if the average monthly volume of transactions with the Company's ordinary shares in the period of the rewarded Board of Directors' activity is no less than RUB 1.5 m at the stock exchange (MICEX).

The total amount of additional remuneration for members of the Board of Directors cannot exceed 5% of the net profit under the RAS in the financial year.

Remuneration is paid to members of the Board of Directors on a lump sum basis at the end of the corporate year. The corporate year is the period from the moment of election of the persons to the Board of Directors at the annual General Shareholders Meeting of the Company till the next annual General Shareholders Meeting of the Company.

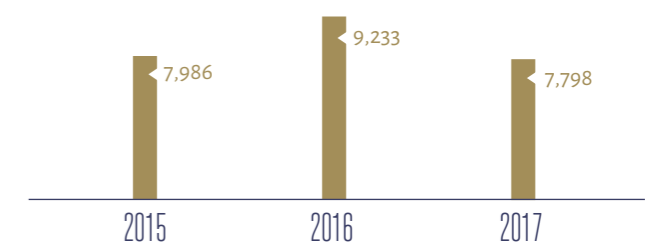
3. COMPENSATION FOR THE MEMBERS OF THE BOARD OF DIRECTORS

Members of the Board of Directors are entitled to compensation of the expenses related to participation in meetings of the Board of Directors in line with the standards of reimbursement of travel expenses effective in the Company as of the date of the meeting.

Remunerations and compensations are not paid to members of the Board of Directors who are the sole executive body of the Company, members of the Management Board of the Company, government officials.

The diagram below shows dynamics of the remuneration amounts paid to members of the Company Board of Directors in 2015-2017.

Dynamics of the remuneration amounts paid to members of the Company Board of Directors in 2015-2017, RUB thous.



In line with the effective Regulation, members of the Company Board of Directors in the composition elected by the annual General Shareholders Meeting on 13 June, 2017, are to receive their remunerations in 2018, after the annual General Shareholders Meeting.

The Regulation does not provide for a system of long-term motivation of members of the Board of Directors, nor dismissal payments upon termination of their service.

COMPENSATIONS OF THE EXPENSES PAID TO MEMBERS OF THE COMPANY BOARD OF DIRECTORS IN 2015-2017, RUB

Compensation of expenses related to performing the functions of members of the Board of Directors



⁵³ The full text of the Regulation on remunerations and compensations to members of the Board of Directors of PJSC IDGC of the North-West is available at the web site of PJSC IDGC of the North-West: <http://www.mrsksevzap.ru/remunerationcompensationregulation>.

Remuneration paid to members of the Company Board of Directors in 2015-2017, RUB ⁵⁴

Full name	Position	For participation in the meetings of the Board of Directors	Additional payments for chairmanship at the Board of Directors, chairmanship/membership in Committees of the Board of Directors	For increase in the Company's market capitalisation	Total
Paid in 2015		7,986,132	-	-	7,986,132
Paid in 2016		6,144,231	1,629,807	1,458,972	9,233,010
Paid in 2017, to the Board of Directors elected by the AGSM on 08 June, 2016, including:		6,211,541	1,586,535	-	7,798,076
Mangarov, Yu.N.	Chairman of the Board of Directors, member of the HR and Remunerations Committee	692,308	207,692	-	900,000
Akimov, L.Yu.	Member of the Board of Directors, member of the Audit Committee, member of the HR and Remunerations Committee	692,308	138,461	-	830,769
Zharikov, A.N.	Member of the Board of Directors, member of the Audit Committee, member of the HR and Remunerations Committee	692,308	138,461	-	830,769
Lavrova, M.A.	Member of the Board of Directors, member of the Audit Committee, Chairman of the HR and Remunerations Committee, member of the Strategy Committee	692,308	207,692	-	900,000
Letyagin, A.V.	Member of the Board of Directors, Director General of the Company, member of the Strategy Committee	-	-	-	-
Pokrovsky, S.V.	Member of the Board of Directors, Chairman of the Audit Committee, member of the HR and Remunerations Committee, member of the Strategy Committee, Chairman of the Technological Connection Committee	692,308	207,692	-	900,000
Seleznev, V.Yu.	Member of the Board of Directors, member of the Audit Committee, member of the HR and Remunerations Committee	692,308	138,461	-	830,769
Stepanova, M.D.	Member of the Board of Directors, member of the Audit Committee, member of the HR and Remunerations Committee	692,308	138,461	-	830,769
Filkin, R.A.	Member of the Board of Directors, member of the Audit Committee, member of the HR and Remunerations Committee, member of the Strategy Committee	673,077	201,923	-	875,000
Shevchuk, A.V.	Member of the Board of Directors, member of the Audit Committee, member of the HR and Remunerations Committee, member of the Strategy Committee	692,308	207,692	-	900,000
Erdyniev, A.A.	Member of the Board of Directors	-	-	-	-
Effective Board of Directors elected by the AGSM on 13 June, 2017		-	-	-	-

REMUNERATION SYSTEM FOR MEMBERS OF THE BOARD OF DIRECTORS COMMITTEES

Remuneration and compensation types, amounts and procedures of payment to members of the Company's Board of Directors Committees are stipulated by Regulations on remunerations and compensations to members of the Board of Directors Committees of the Company approved by Decision of the Company Board of Directors of 25 August, 2009⁵⁵ (hereinafter – the Regulations).

Decision of the Company Board of Directors of 29 December, 2015 introduced amendments to the Regulations on remunerations and compensations to members of the Board of Directors Committees of the Company.

Under the Regulation, in case the Chairman or member of a Board of Directors Committee are simultaneously members of the Company Board of Directors, their remuneration payments are determined by the Regulation on remunerations and compensations to members of the Board of Directors of PJSC IDGC of the North-West.

The amount of remuneration paid to the Chairman of the Committee (Deputy Chairman) for each meeting where the functions of the Chairman were performed increases by 50%.

Moreover, in line with the Regulations, members of Board of Directors Committees are entitled to compensation of the actual expenses related to performing the functions of the member of a Committee of the Board of Directors.

Remunerations and compensations are not paid to Committee members who are:

- ▶ the sole executive body (Director General) of the Company;
- ▶ persons who are restricted or forbidden by law to receive payments from commercial organisations.

The Regulations provide for remuneration for each meeting attended by the member of the BoD Committee:

For participation in the meeting of the Board of Directors Committee held in absentia:

Remuneration is paid in the amount equivalent to one minimum monthly wage rate of a first-category worker (hereinafter – MMWR) set by the Sectoral Tariff Agreement for the Russian Federation power industry (hereinafter – the Agreement) as of the date of the meeting of the Committee Board of Directors, taking into account the indexation stipulated by the Agreement.

For participation in the meeting of the Board of Directors Committee held in the form of joint attendance:

Remuneration is paid in the amount equivalent to two MMWRs set by the Agreement as of the date of the meeting of the Committee Board of Directors, taking into account the indexation stipulated by the Agreement.

Remunerations paid to members of the Board of Directors Committees in 2015-2017^{56,57}

AUDIT COMMITTEE			HR AND REMUNERATIONS COMMITTEE		
2015	2016	2017	2015	2016	2017
344,856	—	—	258,066	—	22,296
STRATEGY AND DEVELOPMENT COMMITTEE			RELIABILITY COMMITTEE		
2015	2016	2017	2015	2016	2017
437,484	1,953,910	1,527,646	181,602	406,319	423,228
TECHNOLOGICAL CONNECTION COMMITTEE			TOTAL REMUNERATION FOR PARTICIPATION IN MEETINGS OF THE BOARD OF DIRECTORS COMMITTEES		
2015	2016	2017	2015	2016	2017
82,836	298,193	287,163	1,304,844	2,658,422	2,260,333

⁵⁵ Full texts of the Regulations on remunerations and compensations to members of the Board of Directors Committees of PJSC IDGC of the North-West are available at the Company web site: <http://www.mrsksevzap.ru/remunerationcompensationregulation>.

⁵⁶ The data do not include additional payments to remuneration of the members of the Company Board of Directors who are simultaneously members of the Company Board of Directors Committees.

⁵⁷ In 2017, the following MMWRs were used to calculate the remunerations for participation in the meetings of the Company Board of Directors Committees: from 01 January, 2017 – RUB 7,432; from 01 July 2017 – RUB 7,581.

REMUNERATION SYSTEM FOR THE DIRECTOR GENERAL AND MEMBERS OF THE MANAGEMENT BOARD

The system of motivation for the Company Director General is stipulated by the labour contract and the Regulation on remunerative incentives for the Director General

of PJSC IDGC of the North-West, approved by the Company Board of Directors on 15 June, 2011 (Minutes No.79/19), taking into account the amendments made by the Board of Directors Decisions of 13 March, 2015 (Minutes No.176/18), and 31 March, 2017 (Minutes No.235/26).

Members of the Management Board of the Company are classified as the Company top management. The incentive system for the top management of the Company is stipulated by the labour contracts and the Regulation on remunerative incentives and employment benefits for the top management of PJSC IDGC of the North-West approved by the Company Board of Directors on 15 June, 2011 (Minutes No.79/19).

The system of remunerative incentives for the Director General and members of the Management Board (top management) includes the following types of remuneration:



Salary

The key principle of defining the amount of salaries for the Director General and top management is to establish a fair competitive level of remuneration (position-related salary). The level of the salaries is consistent with the market conditions, which ensures stability of the Management Board composition.



Remuneration for performing the functions of the Management Board member

The Regulation on remunerative incentives and employment benefits for the top management of the Company stipulates that the top managers receive additional personal payments for performing the functions of members of the Management Board in the amount up to 15% of their position-related salary (in proportion to the working hours).



Additional payments for operating data classified as state secret

The amount of this additional payment is established as a percentage of the position-related salary in line with the Rules of paying monthly rated increase in addition to the salary (wage rate) of the citizens approved for access to state secret on a permanent basis, and employees of the structural units for protection of state secret, as approved by the RF Government Order No.573of 18 September, 2006.



Bonus payments

The Regulations on remunerative incentives provide for the following types of bonus payments:

- bonus for achieving the quarterly KPI;
- bonus for achieving the annual KPI;
- additional incentives for achieving the targets (strategic priorities), defined by the Company Board of Directors at the year-end;
- special bonuses for achieving outstanding results in the KPIs defined by the Company Board of Directors as a priority;
- bonus for performing tasks (activities) of special importance.

Bonus payments are aimed to increase the motivation of the Director General and members of the Management Board to pursue priority tasks of the Company by achieving key performance indicators (KPI).⁵⁸

The KPIs used to assess the performance of the Director General and the specific weight of each KPI in the quarterly and the annual bonuses Director General are established by the Company Board of Directors. The KPIs for the top management are set by the Director General on the basis of the KPIs approved by the Company Board of Directors considering the degree to which a top manager can influence the achievement of the target KPI and the KPI of personal responsibility in the top manager's area.

Bonuses are paid upon achievement of the key performance indicators and depend on the degree to which the KPIs were achieved in the reporting periods (quarters and year). Results of the KPI achievement by the Director General in the reporting period are considered by the Strategy and Development Committee of the Board of Directors and approved by Decision of the Company Board of Directors. Results of the KPI achievement by the top management in the reporting period are approved by Order of the Director General.

Director General and top managers can receive bonuses for implementation of particularly important tasks approved by the management bodies of the Company. Particularly important tasks (activities) include those with special requirements regarding their timeframe and quality, responsibility and significance for the industry and the state.

- ▶ **One-off recreational leave payments.** Equal one position-related salary of the Company top managers.
- ▶ **Severance package.** The conditions of the labour contracts with the Director General and members of the Management Board do not stipulate the possibility of any guaranteed payments in case of early termination of their office ("golden parachutes"), with the exception of the guarantees provided by the labour legislation.

The KPIs set for the purposes of motivation (defining the amount of remuneration) of the Director General and members of the Management Board in 2017

SET



BY THE COMPANY BOARD OF DIRECTORS

(on 31 March, 2017 (Minutes No.235/26))

- ▶ Consolidated operating profit (EBITDA)
- ▶ Consolidated net debt/EBITDA
- ▶ Implementation of the plan to reduce the Company's accounts receivable
- ▶ No growth in the number of major accidents
- ▶ No growth in the number of accident victims



BY THE DIRECTOR GENERAL OF THE COMPANY

(Order No.411 of 15 June, 2017)

- ▶ Efficiency of investment activities: compliance with the quarterly schedules of project implementation and commissioning of fixed assets under the investment programme
- ▶ Compliance with the plan of capital equipment repairs
- ▶ Limit of operating costs
- ▶ Power losses level
- ▶ Compliance with the deadlines of technological connection
- ▶ Zero violations of the current RF legislation, the Charter and internal documents of the Company in the corporate events organisation and conducting
- ▶ Quality of control over the progress of performing the instructions of the orders and regulations of the superior organisations
- ▶ Zero failures to take measures in cases when the Company suffers from large or especially large-scale financial damage or damage to its business standing
- ▶ Zero penalties for failure to submit reporting to tax authorities in due time or violation of the procedure for statistics presentation
- ▶ Ensuring performance of the obligations to pay for the services of power transmission in the grids of a branch

QUARTERLY KPIs

(on 31 March, 2017 Minutes No.235/26)

- ▶ Consolidated net cash flow
- ▶ Decrease in unit operating expenses (costs)
- ▶ Increase in the power grid equipment capacity utilisation
- ▶ Power losses level
- ▶ Reduction in unit investment costs
- ▶ Labour efficiency improvement
- ▶ Innovation activities efficiency
- ▶ Compliance with the commissioning schedule
- ▶ Meeting the technological connection deadlines
- ▶ Reaching the reliability level of the services rendered

(Order No.411 of 15 June, 2017)

- ▶ Compliance with the schedule of capacity launch and the plan to implement the investment programme
- ▶ Increase in the efficiency of power grids servicing
- ▶ Rate of implementation of the personnel training plans
- ▶ Ensuring performance of the obligations to pay for the services of power transmission in the grids of the Company
- ▶ Implementation of the personnel training plans
- ▶ Ensuring reliability of accounting and timely presentation of accounting, tax, IFRS and statistical statements

ANNUAL KPIs

Data on the amount of remunerations paid to members of the Management Board of the Company, including the person holding the position of the sole executive body, RUB⁵⁹

Payment category	2015	2016	2017
Salary	32,878,748	34,736,143	36,053,658
Remuneration for performing the functions of the Management Board member	2,915,009	2,828,075	2,780,884
Bonuses	18,513,034	45,011,607	49,969,437
including annual incentives	0	24,188,791	25,611,739
Other payments	2,471,438	1,326,946	2,534,794
Severance package	2,455,209	3,406,481	1,348,827
Total remuneration	59,233,438	87,309,252	92,687,600

The HR and Remunerations Committee of the Board of Directors is the supervisory unit responsible for introduction and implementation of the Company remuneration policy. In 2017, the HR and Remunerations Committee considered and approved the following incentives-related documents:

- Methodology for estimation and assessment of key performance indicators achievement by the Director General of the Company for the use in the motivation system from 01 January, 2017 (meeting of the Committee of 30 March, 2017);

- Amendments to the Regulation on remunerative incentives for the Director General of the Company (meeting of the Committee of 13 July, 2017);
- Remuneration to the Director General of the Company for performing a particularly important task (meeting of the Committee of 04 August, 2017).

⁵⁹ The table includes data on the aggregate annual remuneration of all members of the executive bodies, including key managers of the Company subject to the Company remunerations policy, broken down by type of remuneration.

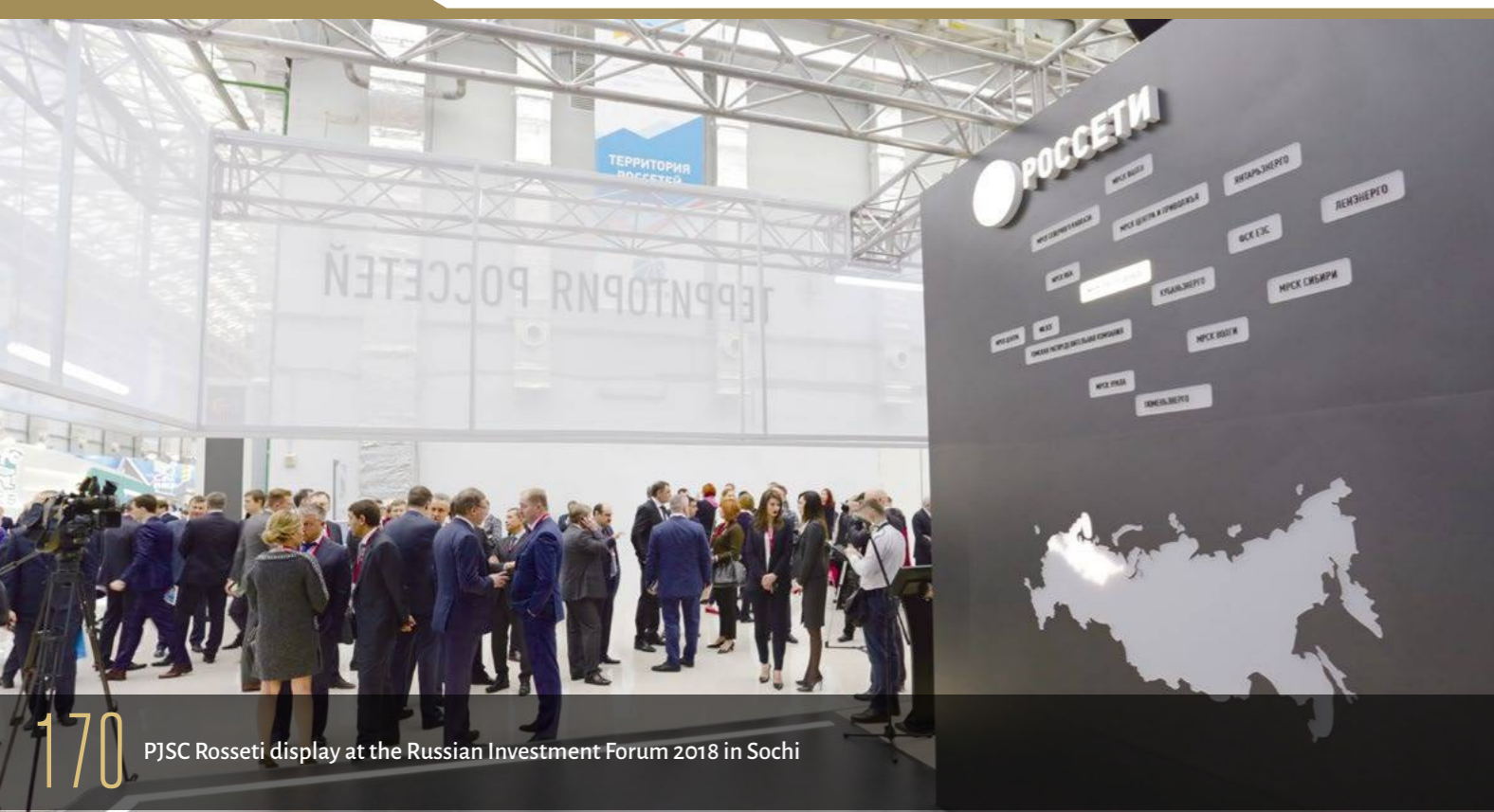
SUBSIDIARIES MANAGEMENT SYSTEM

Interaction of PJSC IDGC of the North-West with the organisations where it has dominant participation in the authorised capital (hereinafter – the subsidiaries), is based on the corporate governance methods in accordance with the legislation of the Russian Federation, the Company Charter, the Procedures for interaction of PJSC IDGC of the North-West with the organisations where it participates, and other internal documents of the Company, charters and internal documents of the subsidiaries, which define the operating procedures of the management and control bodies (Regulations on the Boards of Directors, Audit Commissions etc.).

Procedures for interaction of PJSC IDGC of the North-West with the organisations where it participates were approved by the Company Board of Directors in order to ensure consistent financial development of the subsidiaries, their profitability; ensuring compliance of the subsidiaries with the current legislation of the Russian Federation subsidiaries in their business; protection of the rights and lawful interests of the subsidiaries shareholders; harmonisation of the

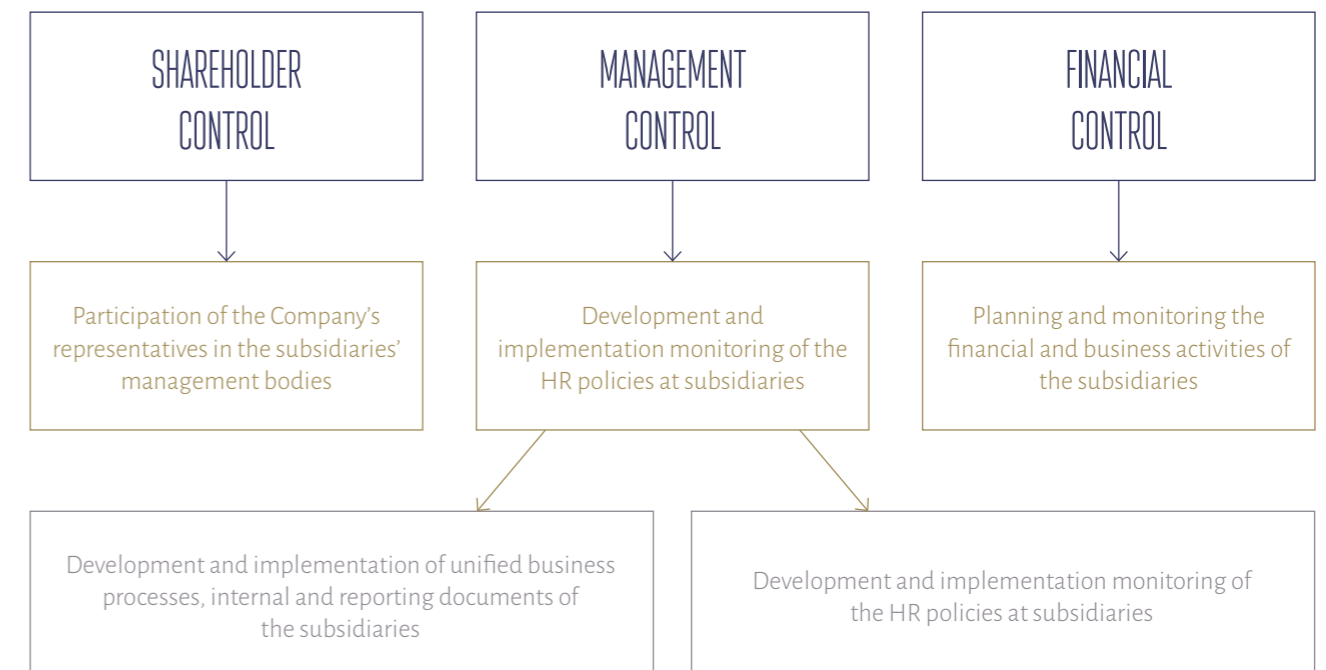
relations among the shareholders and executives of PJSC IDGC of the North-West and its subsidiaries, prevention of conflict; creating the conditions for balanced development of the relations between power industry organisations and other sectors; harmonisation of the relations of PJSC IDGC of the North-West and its subsidiaries with the federal, regional and municipal authorities.

Additional information is shown in Annex 16 to the Annual Report.



PJSC Rosseti display at the Russian Investment Forum 2018 in Sochi

Forms of the subsidiaries corporate governance



SUPERVISORY BODIES AND RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

The Company has a risk management system in place (hereinafter – RMS), which is designed to ensure sustainable seamless functioning and development of the Company by timely identification, assessment and efficient management of the risks threatening efficient business activities and reputation of the Company, employee health, environment, as well as property interests of shareholders and investors.

In order to develop the RMS, Decision of the Board of Directors of 31 March, 2016 (Minutes No.200/15) approved the Risk management policy of PJSC IDGC of the North-West.

RMS participants

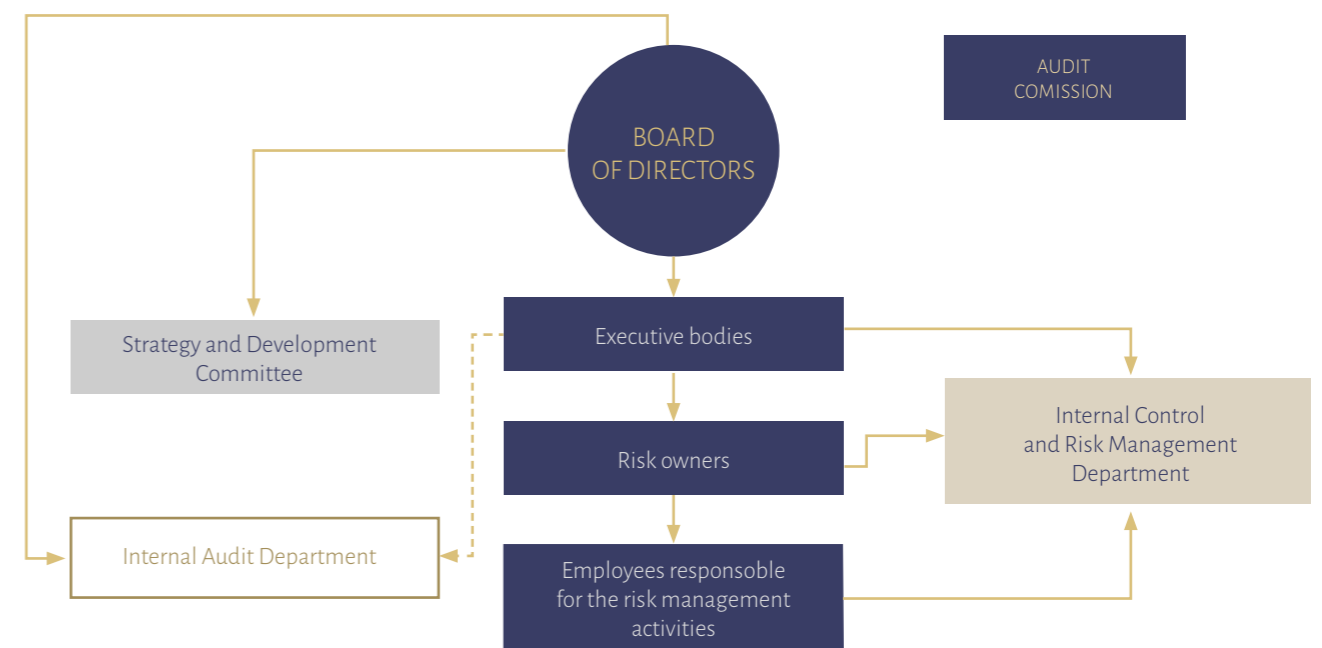
Key participants in the risk management process and their main functions related to risk management are shown in the table below, as well as the chart.

Key participants in the risk management process and their main functions related to risk management

Board of Directors	<ul style="list-style-type: none"> Approves the Risk management policy and internal documents of the Company defining the organisation and functioning of the Company RMS. Annually reviews the reports of the Company executive bodies on the organisation, functioning and efficiency of the RMS; assesses the functioning of the above system and works out recommendations for its improvement, reviews the Internal Audit reports on the efficiency of the RMS and findings of the external independent assessment of the RMS efficiency.
Authorised Committee of the Board of Directors	<ul style="list-style-type: none"> Supervises the efficiency of the risk management procedures, assesses the efficiency of risk management and the RMS improvement measures, as well as analyses proposals on RMS improvement, including the issues of risk identification and risk parameters adjustment. Carries out preliminary study of the executive bodies' reports on the RMS organisation and functioning, internal documents of the Company stipulating the RMS organisation and functioning, Risk management policy of the Company and further amendments thereto, drafting official judgements regarding the text of the Company's Annual Report section on RMS before submitting the above documents to the Company Board of Directors.
Audit Committee of the Board of Directors	<ul style="list-style-type: none"> Carries out preliminary study of the results of RMS efficiency assessment and compliance with the Regulations of the Policy according to the findings of the Internal Auditor report on these issues before their presentation to the Company Board of Directors.
Audit Commission	<ul style="list-style-type: none"> Drafts proposals /recommendations on the RMS improvement subject to the survey of the Audit Commission.
Internal Audit unit	<ul style="list-style-type: none"> Carries out internal independent assessment of the RMS efficiency and issues recommendations to the unit responsible for the risk management activities, aiming to enhance the efficiency and productivity of the RMS, as well as inform the executive bodies and the Board of Directors (the authorised Committee of the Board of Directors) on the RMS state.

Executive bodies (Management Board, Director General)	<ul style="list-style-type: none"> Establish requirements to the format and completeness of the information on the Company's risks, develop the RMS development and improvement areas and plans, as well as analyse the risk portfolio and work out measures for the strategy of response and reallocation of resources to manage the respective risks. Compile an annual report on the organisation, functioning and efficiency of the Company's RMS and put forward proposals for the RMS development and improvement to be considered by the Company Board of Directors. At least once in six months, review the report of the unit responsible for the risk management activities regarding risk management performance and assessment of RMS efficiency. Review the results of the internal assessment of the RMS efficiency, work out measures to develop and improve the RMS and ensure efficient risk management at the Company on a day-to-day basis. Approve the regulating and methodological documents of the Company on the RMS organisation and functioning with the exception of the document to be approved by the Company Board of Directors.
Risk owners	<ul style="list-style-type: none"> Are responsible for timely identification and assessment of risks, selection of the method of risk response, timely development and implementation of the measures aimed at risk management and regular monitoring. Ensure timely provision of information to the Company's executive bodies on the results of risk management activities and efficient interaction with the Risk Management Unit concerning the documents and reports prepared within the risk management activities.
Employees responsible for the risk management activities	<ul style="list-style-type: none"> Are responsible for timely identification and/or mitigation of risks in line with the job instructions and the active regulating documents, as well as for performing risk management activities in due time and to the full extent
Risk Management Unit	<ul style="list-style-type: none"> Ensures general coordination of the risk management procedures, including interaction of all the RMS participants, introduction of Company methodological documents in the area of risk management and RMS functioning, as well as organisation of the Company employees training on the RMS; Performs the functions aimed at timely aggregation of the data on the risks identified and preparation of proposals for updating the Registers of Risks and monitoring the risk management process in the Company. Drafts a report at least once in six months and informs the Company executive bodies on the risk management performance and assessment of the RMS efficiency, as well as compiles an annual report on organisation, functioning and efficiency of the Company RMS and other issues stipulated by the current Risk Management Policy of the Company.

Key participants in the risk management process



Key factors of risk significance assessment

To identify and manage risks, a systemic approach is used. Activities aimed to prevent and mitigate risks are developed and updated each quarter.

The significance of risk implies a combination of the risk occurrence probability and the severity of consequences for the Company in monetary or other terms. Risk significance and the respective dynamics are assessed by taking into account the existing risk certificates or by expert judgement in accordance with the following scale:

SIGNIFICANCE

- Critical
- Significant
- Moderate

TREND INDICATORS

- ▲ Risk increased
- ▼ Risk decreased
- ▶ Risk unchanged against the previous period

The key risk factors and significance assessment in 2017, as well as their trends against the previous year are shown in the table and the chart below:

No.	Risk	Risk description
INDUSTRY RISKS		
1.	Risk of increase in overdue accounts receivable for power transmission services	<p>The risk is related to non-payment for the rendered power transmission services. The main defaulters are suppliers of last resort, power supply companies and local grid operators. The risk is caused by low efficiency of the new mechanisms for payment discipline improvement both on the retail power market and the market of its transmission services, lack of motivation for service consumers to make timely payments.</p> <p>The nature of the retail power market may cause disagreements between power grid companies and electricity supply companies regarding the power and capacity consumption volumes. This entails disputed and overdue receivables for power transmission services, which reduces the Company's liquidity and financial stability. A considerable impact on the level of payment for the power transmission services was made by transition to the accounts receivable amounts recording under the provisions of the RF Government Regulation No.1419 of 21 December, 2016, whereby the schedule of payment for the power transmission services consumers depend on the category of end users of such services. Accounts receivable from power transmission tend to decrease. The key defaulters are: PJSC Arkhenergosbyt, LLC TNS energo Veliky Novgorod, JSC Intaugol Mine, OJSC Murmansk Regional Grid Company, JSC Novgorodoblektro, LLC Vodokanal (Vorkuta), LLC Energotranzit Alfa.</p>
2.	The risk of a decrease in the volume of power transmission services	The risk stems from general power and capacity demand decline from large consumers due to optimisation of the schemes of external power supply by customers, including development of their own generating facilities, as well as paying capacity decrease. To reduce the cost of production, large energy-intensive industrial facilities aim at optimising external power supply by technological connection to UNPG, and build their own power generating facilities. In 2017, the volume of power transmission reduced by 5.6% year on year in the Company's region of operations, as from 01 July, 2017 contracts for the "last mile" facilities rent were terminated. At the same time, the revenue from the power transmission services increased by 5.2% (due to the growth in tariffs and the decrease in the actual cost of load losses due to the changes in legislation (RF Government Order No.810 of 07 July, 2017)).
3.	The risk that the regional authorities won't recognize the full volume of the Company's expenses to be included in the tariff for power transmission services	The risk may be caused by growth restriction for the maximum rates of power tariffs set at the federal level. The risk implies that the Company may not receive full compensation for its economically justified costs and the amount of own investments in the development of the power grid facilities will be limited.

Risk management activities	Risk significance assessment and trends
The Company implements activities to prevent and mitigate the causes of conflicts with consumers, reduce the litigated overdue accounts receivable from power transmission, build the court practice and positive legal precedents. Improvement of the interaction and signing cooperation agreements with the Bailiff Service. Participation in regional interagency commissions for monitoring the situation with settlements for electric power and power transmission services. Implementation of a set of measures towards the debtors in the state of bankruptcy, including arrangement of the sale of bankrupt entities' receivables. Introduction of the power consumption limitation mode for direct consumers subject to the current legislation. Claims and lawsuits against the consumers violating contractual and legal provisions of payment. Provision of counter security to reduce the time span for receiving writs of execution. Transition to direct power transmission services contracts. The new Regulation on managing the accounts receivable from power transmission services was developed and approved.	● ▶
Improving the reliability of forecasting the volume of electric power transmission services for pricing and business planning.	● ▶
Preparation and submission to regional regulatory bodies of applications with supporting materials for the establishment of economically justified tariffs that would compensate for all costs of the Company and ensure complete implementation of the investment programme. The Company stocks to a balanced costing policy.	● ▶

No.	Risk	Risk description
4.	The risks of non-compliance with the deadlines for regulated procurement procedures (violation of the official deadlines for announcing the procurement procedures under the Procurement Plan and the decisions of the Central Procurement Unit of the Company (for unscheduled purchases); the deadlines for completing the procurement procedures established in the Company's regulatory and procurement documents)	Late provision of technical specifications and draft contracts for the procurement procedures, lengthy period for coordination of the draft Procurement Plan and its amendments, and lengthy coordination of unscheduled purchases.
5.	Risk of exceeding the planned procurement cost established in the Procurement Plan	The reasons include the nature of the calculation of the maximum (initial) procurement cost when developing the Procurement Plan.
6.	Risk of lower procurement transparency	The risk is caused by changes in the ratio of the number and methods of procurement compared to the approved Procurement Plan.
7.	Risk of lack of the activities related to power grid reconstruction (development) in the investment programme of the Company	Absence of measures for reconstruction (development) of power grid facilities in the investment programme leads to a decrease in the reliability of power supply to consumers, as well as to delayed performance of technological connection contracts.
COUNTRY AND REGIONAL RISKS		
8.	Risks inherent in the political and economic situation in the country and in the region	The risks are primarily caused by macroeconomic factors operating at the global level, across the Russian Federation and in certain regions. The crisis in the world economy impacts the volumes of industrial production and power consumption, which leads to a reduction in the Company's revenues and its shareholder value.
9.	Risks related to possible military conflicts, declaration of a state of emergency and strikes	The North-Western Federal District includes regions that have approximately the same level of social and economic development, but some of those regions border on other countries, including NATO member states, and therefore it is impossible to rule out the probability of internal conflicts, including those involving military force. Besides, it is impossible to completely exclude risks of possible declaration of a state of emergency in the regions where the Company's facilities are located. The probability of military conflicts and declaration of a state of emergency in the regions of the Company's operation is insignificant. In case of possible military conflicts or terrorist acts, the Company bears the risks of its fixed assets being disabled.
10.	Risks related to geographic features, including increased risk of natural disasters, possible termination of transport connections due to remoteness and/or hard-to-reach location etc.	The Company operates in a broad territory with two climate zones (subarctic and temperate zones). There is a possibility of natural disasters (hurricanes, torrential rains, floods, icy rains, etc.), which may entail disruptions of power supply and transport connection. The Company assesses the risks related to increased hazard of natural disasters as minimal.

Risk management activities

Risk significance assessment and trends

Control of the periods for submitting technical specifications, questionnaires and draft contracts in order to generate the draft Procurement Plan in a timely manner. Development of draft technical specifications for design and survey, construction and installation, maintenance and repair based on standard technical specifications. Control of compliance with the deadlines for preparation of procurement documents set by the Company's regulatory documents.



Strict compliance with the administrative and regulatory documents regarding the calculation of the maximum (initial) procurement costs. Rebidding within procurement procedures in accordance with the Regulation on Procurement of PJSC Rosseti.



Control of strict compliance with the Regulation on procurement of goods, works and services for the company's needs. Control of the feasibility of purchasing from a single source (contractor, vendor).



Inclusion of necessary activities to maintain the reliability of the system into the investment programmes, as well as renovation of the facilities for new applicants' connection. Providing information to the relevant executive authorities with a view to include the costs not compensated through the technological connection fees in the power transmission tariff.



Measures to mitigate the consequences of macroeconomic risks for power transmission services are listed under "Industry Risks".



Implementation of measures aimed to control the anti-terrorist protection of the Company's power facilities. Organisation of training sessions and briefings on physical protection of the facilities and property of the Company for the employees who work at the power facilities and for the security companies.



Activities aimed at timely mitigation of the consequences of natural disasters. Detailed information on operational and technical risk management is provided under "Company-specific risks".



No.	Risk	Risk description
FINANCIAL RISKS		
11.	Interest rate risks	Growth in interest rates may have a significant impact on the Company's financial and economic performance, as the Company uses borrowed funds in its operations. In the 4th quarter of 2017, with the financial market being stable, as well as due to repeated decrease in the Bank of Russia's key rate, interest rates on new credits and loans reduced.
12.	Foreign exchange risks	Fluctuations in the exchange rate of major world currencies do not produce any considerable impact on the financial state of the Company. In its operations, PJSC IDGC of the North-West performs settlements with its contractors only in the national currency. The Company has no direct contracts involving settlements in foreign currencies. However, implementation of some projects within the repair and investment programmes involves the use of foreign-made equipment. Increase in the exchange rate of major world currencies will result in rise in the price for such equipment and the project on the whole.
LEGAL RISKS		
13.	Risks associated with changes in the tax legislation	The practice of the tax legislation enforcement creates significant tax risks. Changes in the tax legislation in terms of increase of the tax burden (changes in tax rates, procedures and timeframe for tax calculation and payment, introduction of new types of taxes) may lead to a decrease in the Company's net profit. On the other hand, possible reduction of the tax rates by the Government of the Russian Federation and cancellation of certain taxes and fees will positively influence the Company's performance.
14.	The risk of appeal against major and interested-party transactions by the Company's shareholders	Currently the Company does not face the risks of appeal against large and interested-party transactions by the Company's shareholders, except for cases when such transactions are concluded without due approval by the Company's Board of Directors or the General Shareholders Meeting in accordance with the procedure stipulated by the effective legislation.
15.	Risks related to changes in the requirements for licensing the Company's core activities, or rights of use of facilities that are limited in circulation	Currently there are no risks related to changes in the requirements for licensing the Company's core activities, or rights of use of the facilities that are limited in circulation (including natural resources), except for cases when the Company is not able to meet the requirements set for renewal of a license or activity subject to licensing. In the reporting period the Company had no risk related to inability to extend the license for an activity or use of the facilities that are limited in circulation, for the purposes of compliance with the environmental legislation.
16.	Risks of changes in the court practice in the area of the Company's operations that may adversely affect the performance, as well as results of the court proceedings in which the Company participates	In the Russian Federation, precedents established by relevant judicial acts are not qualified as sources of law, and therefore the judicial practice in certain categories of cases cannot materially influence the Company's performance. Changes in the judicial practice are predominantly related to changes in the legislation.

Risk management activities

Risk significance assessment and trends

In case the interest rates grow, the Company is to diversify its credit portfolio by credit product, bank and credit period.



In order to reduce the risk of influence of higher exchange rates of the world currencies, the Company is considering the possibility of replacing foreign-made equipment used in these projects for its analogues produced in Russia.



In case of changes in the tax legislation, the Company intends to plan its financial and economic activities based on such changes. Preliminary legal analysis is obligatory for the transactions made regarding the grounds for the respective corporate procedures stipulated by the RF law and/or the Company Charter.



The contract procedures of the Company stipulate a mandatory requirement of preliminary legal analysis of potential transactions to identify the existence of grounds for conducting appropriate corporate procedures required by the legislation of the Russian Federation and/or the Company charter.



In case the requirements for licensing are changed, the Company will take all necessary measures to obtain appropriate licenses and permits.



In case of significant changes in the judicial practice in the area of the Company's operations, the Company intends to plan its financial and business operations taking into account such changes.



No.	Risk	Risk description
REPUTATIONAL RISK		
17.	Reputational risk	The Company carries out its activities so as to completely fulfil its obligations to customers and contractors. The risk is related to the possible failure to fulfil the obligations to customers and contractors fully. The Company is working to maintain reliable and seamless power supply to customers, improve the quality of its services and increase customer focus – to achieve the goals set by the Power Grid Facilities Development Strategy.
STRATEGIC RISK		
18.	Strategic risk	Promising areas for long-term development of the power industry in general as a key industry are determined by the state. The Power Grid Facilities Development Strategy of the Russian Federation was approved subject to Order of the Government of the Russian Federation No. 511-r of 03 April, 2013.
COMPANY-SPECIFIC RISKS		
19.	Risks related to possible legal proceedings as a result of third parties' default on their obligations to the Company in its core business	There can be risks related to legal proceedings as a result of third parties' default on their obligations to the Company in core activities (power transmission services, technological connection services), including those resulting from the current economic situation.
20.	Risk of fines in the area of the antimonopoly legislation of the Russian Federation related to technological connection of consumers to power grids	A fine does not exempt the Company from fulfilling its obligations on technological connection of applicants. Fulfilment of the Company's obligations in the absence of the approved financing sources is possible through reduction of the investment programme aimed at improved reliability as a result of reallocation of the funds for technological connection or through increase of borrowed funds to perform technological connection for subsidised applicants.
21.	Risk of emergencies at power facilities	The risk of emergencies at power facilities due to negative impact of natural phenomena (hurricane wind, heavy snow, ice, low air temperatures) is related to geographic and climatic characteristics of the North-Western region of the country.
22.	Risk of increased expenses for power purchase to compensate for losses	Power losses can be classified into technological and commercial ones. Technological losses can be estimated using the electric engineering research, acceptable errors of metering devices – by their metrological performance and the own consumption of substations – by metering data. Commercial losses cannot be measured by machinery or calculated using individual formulae. They are estimated by calculation of the difference between the actual and the technological power losses and are not subject to inclusion in the standard power losses. In line with the current legislation, grid companies are to pay for the actual losses of power in their grid facilities, including, therefore, commercial losses. The commercial power losses, unlike the technological ones, constitute direct financial loss for the grid companies. Therefore, the Company, more than any other players of the power market, is interested in the most accurate power metering and estimation of its volumes at the points of delivery on the boundaries of its inventory responsibility. The nature of the legal framework, lack of direct power supply contracts with the customers, insufficient financing and impossibility to increase the headcount of power consumption inspectors reduce the Company's ability to identify and eliminate the causes of commercial power losses. The risk of increase in expenses for power purchase to compensate for losses depends on the growth in the volume of losses and on the rise in the price for power purchase to compensate for losses. The Company is unable to influence the risk of growth in price for purchasing power needed to compensate for losses.

Risk management activities

Risk significance
assessment and trends

The Company is a natural monopoly, and therefore a significant outflow of customers and contractors, as well as a decrease in the volume of rendered services seem unlikely due to an impact of negative reputational factors.



Control over compliance with decisions and orders of external bodies / superior organisations / management of the Company. Increasing the efficiency of the Company's management at all levels, including compliance with the terms and scenario conditions while generating the Company's business plans, continuous control and monitoring of their implementation.



The legal position on significant lawsuits is developed for the Company as a whole and is subject to due approval. In the course of the approval procedure, the Company defines, among others, the issues related to the required evidence base. When developing its legal position, the Company takes into account the judicial practice on controversial issues. The Company makes necessary efforts (pre-trial settlement of disputes, appropriate negotiations) to minimise the above risks and possible property damage for the Company.



Monitoring troubled contracts and consumer complaints with subsequent pre-trial settlement of the issues. Control of compliance with the effective legislation regulating technological connection activities, namely: a) preparation and submission of draft contracts to applicants; b) control of fulfilment of the obligations undertaken by the Company in respect of the technological connection. Monitoring the current legislation of the Russian Federation and the judicial practice; submission of proposals on amendments to the effective legislation of the Russian Federation regulating technological connection activities.



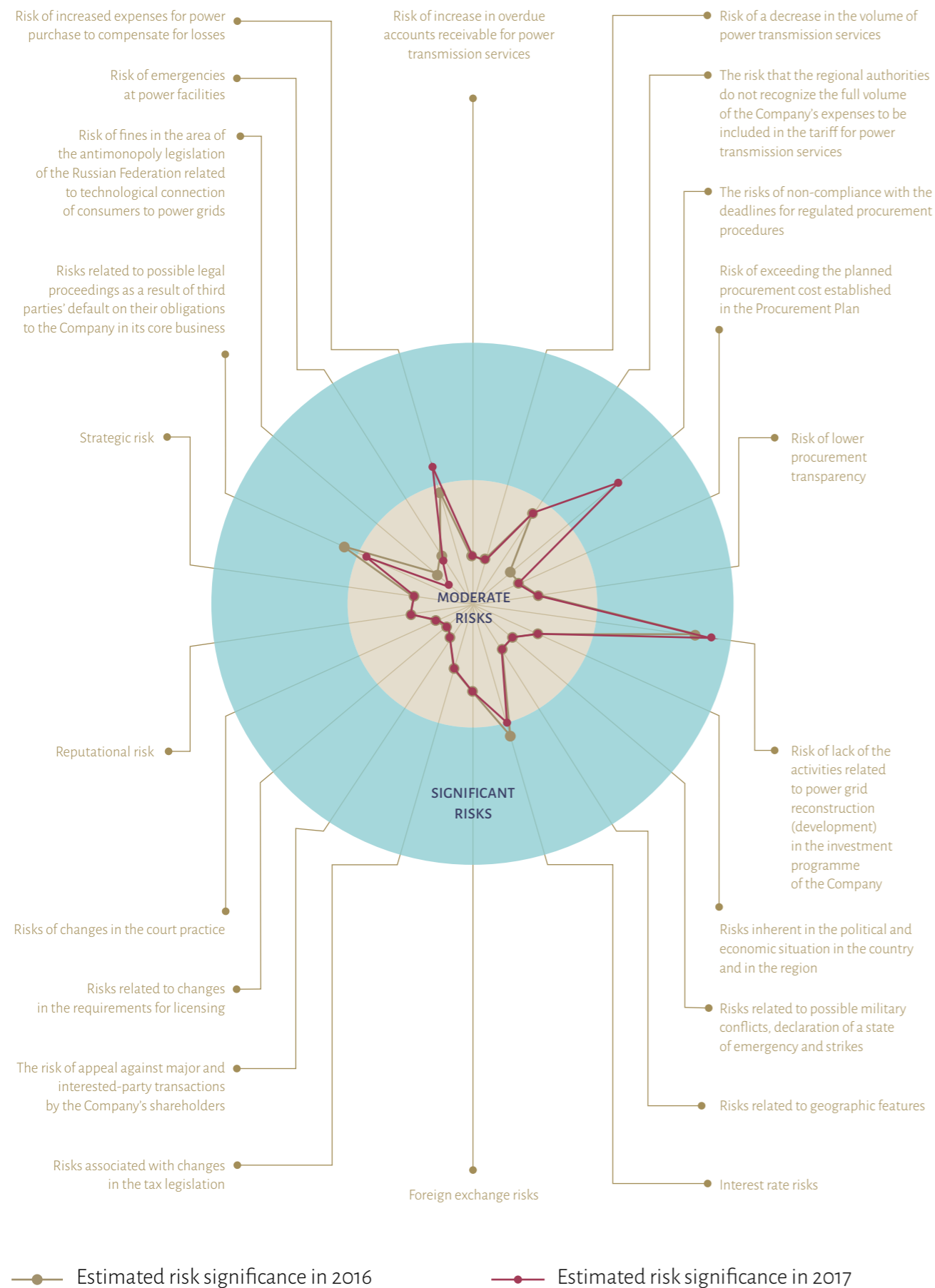
Engineering power facilities with account of the nature of the regional climate and geography. Implementation of the programme of insurance of the power distribution facilities against natural disasters.



To mitigate the risk of power losses growth, the Company diagnoses electric power balances and identifies a number of factors potentially causing this growth. To minimise the risk, the Company also adopted the Power Loss Reduction Programme for the period until 2020.



Trends in estimates of the risk significance against the previous periods



INTERNAL CONTROL SYSTEM

The Internal Control System of the Company (hereinafter – the ICS) covers all the aspects of the Company's business, control procedures are performed on an ongoing basis across all the Company's processes (areas of business) on all the management levels.

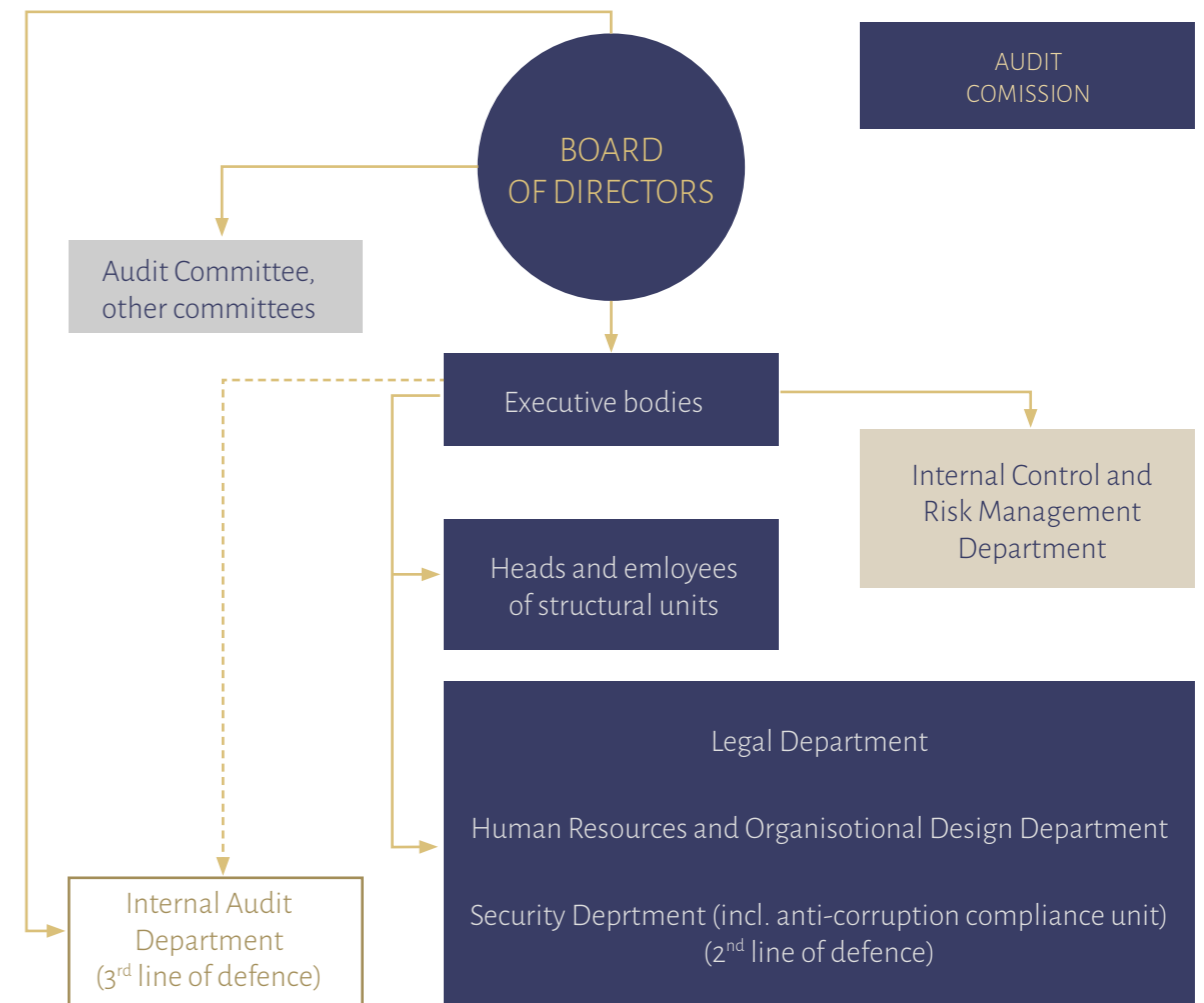
The Internal Control System of the Company (hereinafter – the ICS) is an element of the Company's overall governance system designed to ensure reasonable guarantees of goal achievement in the following areas:

- ▶ efficiency and high performance of the Company, including achievement of the financial and operational indicators, as well as safety of the Company assets;
- ▶ compliance with the applicable legislation and local regulatory acts of the Company, including in the course of economic operations and accounting;
- ▶ ensuring reliable and timely accounting (financial) and other reporting.

The Internal Control System of the Company functions in line with "three defence lines" model. The model stipulates internal control implementation at the Company on three levels:

- ▶ on the level of management bodies (the sole executive body and the collective executive bodies), divisions and units of the Company performing control procedures as part of their functions and job duties – the first defence line;
- ▶ on the level of the Company's control units – the second defence line;
- ▶ on the level of the Internal Audit Unit – the third defence line.

Key participants in the internal control process and their main functions related to internal control are shown in the chart, as well as the table below.



The functions of the ICS participants shown in the table are stipulated by the Internal Control Policy of the Company approved under Decision of the Board of Directors of 29 February, 2016 (Minutes No.197/12), as well as the Regulations on structural units.

Functions of ICS participants

1ST LINE OF DEFENCE

Participant	Key ICS functions
Audit Commission	<ul style="list-style-type: none"> Exercises control over financial and business activities of the Company and based on its findings prepares proposals/recommendations for improvement of the ICS; Carries out independent assessment of the accuracy of the data contained in the Annual Report and the annual accounting statements of the Company.
Board of Directors	<ul style="list-style-type: none"> Determines principles and approaches to organisation of the Company's Internal Control System, and in particular including approval of the Company's internal documents stipulating the ICS organisation and development and improvement strategy, approves the Company's Internal Control Policy; Exercises control over the activities of the Company's executive bodies in the key (priority) areas; Examines the report of the Management Board on the organisation and functioning of the Company's Internal Control System; Annually reviews the report of the internal auditor on the efficiency of the Internal Control System; Studies the findings of the external independent assessment of the efficiency of the Internal Control System.
Audit Committee of the Board of Directors	<ul style="list-style-type: none"> Carries out preliminary studies, prior to the approval by the Board of Directors, of the Company's internal documents stipulating the organisation and the development and improvement strategy of the Company's Internal Control System, of the Internal Control Policy and subsequent amendments thereto; Carries out preliminary review, prior to consideration by the Board of Directors, of the results of assessment of the ICS efficiency based on the report of the internal auditor on the ICS efficiency, as well as information on the findings of the external independent assessment of the ICS efficiency; prepares proposals / recommendations for improvement of the Company's ICS; Supervises the Internal Control System, concerning the issues related to control of the accuracy of the Company's accounting (financial) statements, selection of an external auditor and carrying out external audit, compliance with the regulatory requirements, considers the Management Board's report on organisation and functioning of the Internal Control System regarding the issues related to analysis and assessment of compliance with the Internal Control Policy.
Other Committees of the Board of Directors (Strategy and Development Committee, Reliability Committee, Technological Connection Committee)	<ul style="list-style-type: none"> Carry out preliminary review and draft recommendations for the Company Board of Directors, including the issues related to supervision of the implementation of the adopted programmes and projects, risk management procedures efficiency, achievement of the established financial and operational targets, compliance with the antimonopoly laws, as well as the rules and procedures stipulated by the local regulatory documents, the accuracy and schedules of the Company's reporting.

Participant	Key ICS functions
Executive bodies of the Company (Management Board, sole executive body)	<ul style="list-style-type: none"> Ensure creation and efficient functioning of the ICS; Are responsible for fulfilment of decisions of the Board of Directors related to the ICS organisation.
Management Board of the Company	<ul style="list-style-type: none"> Establishes the areas and plans for development and improvement of the ICS; Prepares reports on the Company's financial and business operations, organisation and functioning of the Company's Internal Control System; Examines the findings of the external independent assessment of the ICS efficiency, works out measures for development and improvement of the ICS.
Sole executive body of the Company	<ul style="list-style-type: none"> Approves the Company's regulatory and methodological documents on organisation and functioning of the ICS, except for the documents within the competence of the Board of Directors of the Company; Ensures implementation of the Company's action plans necessary for achieving its goals; Organises accounting and management reporting, preparation of accounting (financial) statements and other reports; Submits reports on the Company's financial and business performance and on the organisation and functioning of the Company's Internal Control System to the Board of Directors for consideration.
Heads of divisions and structural units of the Company (First Deputy Director General – Chief Engineer, Deputies Director General for business areas, Deputies Director General – branch directors, Heads of departments and functions)	<ul style="list-style-type: none"> Perform the functions of developing, documenting, implementing, monitoring and enhancing the Internal Control System in the functional areas of Company's activities, the organisation and coordination / implementation of which are within their responsibility subject to the Company's regulatory documents / regulations on the structural units, in particular: Ensure implementation of the internal control principles; Build efficient processes (activities), including development and implementation of new control procedures or changes in the existing control procedures taking into account identified risks; Ensure regulation of the supervised processes (activities); Organise implementation of the control procedures; Assess (monitor) implementation of the control procedures; Assess the supervised processes (activities) to identify the need to optimise them in order to increase efficiency and meet changing external and internal conditions, arrange the development of proposals for improvement of the control procedures; Ensure elimination of identified drawbacks in the control procedures and processes (activities).
Employees of the structural units of the Company and its branches performing control procedures as part of their job duties	<ul style="list-style-type: none"> Perform control procedures; Timely inform their immediate superiors when implementation of the control procedures becomes impossible for some reasons, and/or it is necessary to alter the design of the control procedures due to changes in internal and/or external conditions of the Company's operation; Submit proposals for introduction of control procedures in relevant areas of activities to their immediate superiors for consideration.

2ND LINE OF DEFENCE

Participant	Key ICS functions
Internal Control and Risk Management Unit	<ul style="list-style-type: none"> ▶ Develops and ensures implementation of primary and methodological documents on building and improving the Internal Control System; ▶ Assists the management in creation of the control environment, development of recommendations for description and implementation of control procedures in the processes (activities) and for assignment of responsibilities to executives; ▶ Coordinates the activity aimed at maintaining and monitoring the target status of the Internal Control System; ▶ Prepares information regarding the state of the Internal Control System for the stakeholders; ▶ Cooperates with the state control and supervisory bodies on the internal control issues.
Legal Department	<ul style="list-style-type: none"> ▶ Ensures legality, protection of the rights and interests of the Company; ▶ Strengthens the contractual discipline in the Company; ▶ Identifies and reduces judicial risks; ▶ Carries out preliminary review of the organisational and regulatory documents (hereinafter – ORD) of the Company for compliance with the effective legislation; ▶ Monitors the current changes in the legislation for timely adoption of measures to amend the Company's regulatory documents or deem them invalid;
Department of Human Resources and Organisational Design	<ul style="list-style-type: none"> ▶ Arranges and implements measures for development and improvement of the Company's management system; ▶ Develops ORD in order to introduce, update, improve and fulfil the control procedures by business processes/activities. ▶ Approves the targets for the Company's business processes for a calendar year; ▶ Adopts adequate measures to strengthen the labour discipline and suppress deviations from the approved corporate standards and procedures;
Security Department (including the Division for Anti-Corruption Compliance Procedures)	<ul style="list-style-type: none"> ▶ Ensures activities to protect the interests of the Company and its branches from harmful unlawful actions of legal entities and individuals; ▶ Identifies, prevents and counteracts corruption-related and other offenses; ▶ Controls the compliance with the laws and regulations in the area of financial market regulation; ▶ Carries out anti-corruption control of the Company's procurement activities; ▶ Controls information disclosure regarding the chain of ownership (beneficiaries) of the Company's counterparts; ▶ Controls the compliance with the Anti-Corruption Policy.

3RD LINE OF DEFENCE

Participant	Key ICS functions
Internal Audit Department	<ul style="list-style-type: none"> ▶ Develops recommendations for improving control procedures, certain components (elements) of internal control and the Internal Control System, based on the results of the internal audit; ▶ Carries out internal independent assessment of the efficiency of the Internal Control System and gives recommendations for improving the efficiency and performance of the Internal Control System.

For the purposes of implementation of the Development and Improvement Strategy of the Internal Control System of PJSC Rosseti and its S&A, approved by the Board of Directors of PJSC Rosseti on 10 February, 2014 (Minutes No.143), the Company, under Decision of the Board of Directors of 29 February, 2016 (Minutes No.197/12), approved the Internal Control Policy of PJSC IDGC of the North-West (new version). The Internal Control Policy stipulates the aims, principles of functioning and elements of the ICS of the Company, key functions and responsibilities of the ICS participants, as well as procedures for assessment of the ICS efficiency.

The Company works in line with the Procedure for implementation of the Internal Control Policy requirements, outlining the pragmat-

ic aspects of using the standards stipulated by the Internal Control Policy.

Control procedures regarding the processes and sub-processes of the core and supporting activities, as well as the Company management processes are documented in matrices of control and risk by areas of activity.

In line with the Company Board of Directors Decision of 03 May, 2017 (Minutes No.240/31), the Company issued Order No.317 of 17 May, 2017 "On approval of a set of actions to improve the ICS and RMS in 2017", under which the improvement plan for the Internal Control System in 2017 was approved and implemented.

Assessment of ICS performance

To ensure that the ICS is efficient and complies with the changing objective requirements and conditions, the internal auditor of the Company carries out assessment of the ICS efficiency: its conformity to the target state and maturity level.

Internal independent assessment of the ICS efficiency was carried out by the internal auditor of the Company, no external independent assessment was implemented.

The ICS efficiency in 2017 was studied at the Board of Directors meeting 18 May, 2018 (Minutes No.281/36) upon preliminary discussion by the Audit Committee of the Board of Directors on 23 March, 2018 (Minutes No.10 of 27 March, 2018). The above decisions estimate the ICS maturity level as intermediate between "Moderate" and "Optimal" (assessment of the ICS maturity level in the reporting year), in 2016 the ICS maturity level was estimated as "Moderate".

IN THE REPORTING YEAR, THE COMPANY IMPLEMENTED THE FOLLOWING KEY ACTIVITIES AIMED AT THE ICS IMPROVEMENT:

1. Control and risk matrices were approved for 26 areas of the Company's activity.
2. Employees were taught the basic principles of the Internal Control System, risk management and quality management to achieve efficiency of the processes implemented and introduce the practice of induction briefing on the systems of internal control, risk management and quality management for new employees.
3. The regulatory document stipulating unified principles of inspection activities by the Company's core units to enhance the efficiency of the internal inspections was developed.
4. The regulation on internal control of accounting and accounting (financial) reporting and the relevant disclosures was updated.
5. The Company developed information reports on the internal control of accounting processes in the corporate information system of tax and accounting statements.
6. Automated control of accounting of revenues from power transmission services and management of the power transmission services contracts was introduced.
7. Activities were implemented to improve the system of labour protection to prevent any accidents through a fault of the Company.
8. The interaction and responsibility areas were regulated for structural units of the Company in tackling the cases of the Company's debtors bankruptcy.
9. The General Shareholders Meeting of the Company approved the updated Charter of PJSC IDGC of the North-West, the Regulation on the General Shareholders Meeting of PJSC IDGC of the North-West, the Regulation on the Board of Directors of PJSC IDGC of the North-West and the Regulation on the Audit Commission of PJSC IDGC of the North-West.

INTERNAL AUDIT

The unit responsible for the internal audit implementation at the Company is the Internal Audit Department.

Internal audit is functionally subordinate to the Company Board of Directors, which means that the Board of Directors controls and organises the activities of the Internal Audit unit, including approval of the internal audit action plan, report on the implementation of the internal audit action plan and the budget of the internal audit unit, endorsement of the decisions on appointment, dismissal, as well as remuneration of the head of the internal audit unit.

The purpose of the internal audit unit is to assist the Board of Directors and executive bodies of the Company in enhancing the efficiency of the Company management, improvement of its financial and

business activities, implementing systemic and consistent approach to analysis and assessment of the systems of risk management, internal control and corporate governance as instruments to guarantee reasonable assurance that the Company will achieve its goals.

Aims and objectives, key principles of organisation and functioning of the internal audit, functions and authorities of the internal audit are stipulated by the Internal Audit Policy of PJSC IDGC of the North-West (new version), approved by the Board of Directors on 29 February, 2016 (Minutes of the meeting of the Board of Directors of PJSC IDGC of the North-West No.197/12).

The Company approved the standards of the internal audit activities and practical applications developed on the basis of the International Standards for the Professional Practice of Internal Auditing, including:

- ▶ the Internal Audit Policy of the Company and the Code of Ethics for Internal Auditors, approved by Decision of the Board of Directors of 29 February, 2016 (Minutes No.197/12);
- ▶ the Regulation on the Internal Audit Department of PJSC IDGC of the North-West, approved by Decision of the Company Board of Directors of 21 November, 2016 (Minutes No.223/14);
- ▶ the Programme for internal audit quality assurance and improvement, approved by Decision of the Company Board of Directors of 22 December, 2016 (Minutes No.225/16);
- ▶ the Guidelines on internal audits implementation and the Glossary of internal audit of PJSC IDGC of the North-West (Order No.25 of 20 January, 2016);
- ▶ the Guidelines on monitoring the implementation of the Corrective action plans to remove the violations and drawbacks found during internal audits (Order No.540 of 29 August, 2016);
- ▶ the Guidelines on planning the activities of the internal audit unit of PJSC IDGC of the North-West (Order No.855 of 30 December, 2016);
- ▶ the Standard guidelines on drafting reports on implementation of the action plan and the performance of the internal audit of PJSC IDGC of the North-West (Order No.546 of 03 August, 2017) etc.

Feedback is received from the Audit Committee by the Head of the Internal Audit Unit in a variety of forms in the course of interaction with the Audit Committee, including analysis of the decisions/recommendations of the Audit Committee on issues within the competence of the Internal Audit, as well as polling members of the Audit Committee.

The satisfaction of the Audit Committee of the Company Board of Directors with the performance of the Internal Audit in 2017 is assessed as "complies with reservations". The quality assessment was conducted in line with the Programme internal audit quality assurance

and improvement of the Company, approved by the Company Board of Directors on 22 December, 2016 (Minutes No.225/16).

The action plan to develop and improve the internal audit activities of the Company for the period from 2017 to 2019 was developed on the basis of the recommendations provided by the Audit Committee of the Board of Directors and was fully implemented in 2017.

In 2017, the headcount of the Internal Audit function was four persons on average.

COMPLIANCE SERVICE

The Company's anti-corruption activities are improved and designed to boost the efficiency of anti-corruption measures stipulated by the law.

Under the provisions of p.1 Part 2 Article 13.3 of the Anti-corruption law, the Company created a structural unit responsible for prevention of corruption and other violations. According to the organisational structure approved by Decision of the Board of Directors of 19 July, 2016 (Minutes No.214/5), such unit is the Anti-Corruption Compliance Procedures Unit of the Security Department (hereinafter – ACCP).

In 2017, the headcount of ACCP was increased by one (to 3 persons).

The ACCP functions include:

- ▶ drafting organisational and administrative documents aimed at implementation of corruption prevention measures and their submission to the Company's Director General for approval;
- ▶ organisation of implementing control activities to identify corruption-related offenses committed by the Company's employees;
- ▶ receipt and review of messages on inducing employees to corruption offences in the interests or on behalf of a third-party entity, as well as about corruption offenses committed by the Company's employees, contractors or other parties;
- ▶ arranging for the Company's employees to fill in declarations on conflict of interests, property, income and property-related obligations, and study them;
- ▶ control over the compliance with the legislation regulating financial markets;
- ▶ organising individual consultations for the Company's employees on corruption prevention and counteraction issues;
- ▶ assisting authorised representatives of control and supervision bodies and law enforcement authorities during their audits of the Company's activities related to corruption control and prevention;
- ▶ assisting authorised representatives of law enforcement authorities during implementation of measures aimed to prevent and investigate corruption offenses, including special investigation and search measures;
- ▶ assessment of the results of anti-corruption measures and preparing relevant reports for the Company's management.

AUDIT COMMISSION

The Audit Commission of the Company controls the Company's financial and business activities. The Audit Commission is elected by the General Shareholders Meeting for the period until the next annual General Shareholders Meeting.

The headcount of the Audit Commission of the Company is stipulated by the Charter as five persons.

In 2017, there were two compositions of the Audit Commission, 5 meetings were held.

In the period from 08 June, 2016 to 13 June, 2017, the Audit Commission of the Company comprised the following persons: Lelekova M.A., Kabizskina E.A., Kirillov A.N., Malyshev S.V., Medvedeva O.A.

The composition of the Audit Commission elected at the annual General Shareholders Meeting of 13 June, 2017 is as follows:

LELEKOVA
MARINA ALEXEEVNA

Born in 1961.

Graduated from the Far-Eastern Institute of Soviet Trade with the qualification of Economist.

PROFESSIONAL EXPERIENCE:

- ▶ 2008-2009 – Head of the Financial Control and Internal Audit Directorate of PJSC FGC UES.
- ▶ 2009-2013 – Head of the Control and Audit Department of PJSC FGC UES.
- ▶ 2013-2015 – Head of the Internal Audit and Control Department of PJSC Rosseti.
- ▶ Since 2015 – present – Director of the Department for Control Activities / Department for Control and Auditing Activities of PJSC Rosseti.

Chairman of the Audit Commission

First elected to the Audit Commission of the Company: 21 June, 2013

KIM
SVETLANA ANATOLIEVNA

Born in 1981.

Graduated from Moscow State University of Railway Engineering in 2004 with the qualification of Expert in Commerce.

PROFESSIONAL EXPERIENCE:

- ▶ 2010-2013 – Head of the Investment Control at the Department for Control and Audit of PJSC FGC UES.
- ▶ Since 2013 – present – Head of the Audit Unit of the Department for Control and Auditing Activities of PJSC Rosseti.

First elected to the Audit Commission of the Company: 13 June, 2017

KIRILLOV
ARTEM NIKOLAEVICH

Born in 1984.

Graduated from Moscow Power Engineering Institute with the qualification of Engineer.

PROFESSIONAL EXPERIENCE:

- ▶ 2013-2015 – Head of the Investment Audit Unit, Audit Activities and Internal Audit Directorate, Internal Audit and Control Department of PJSC Rosseti.
- ▶ Since 2015 – present – Deputy Head of the Audit Activities Directorate, Department for Control Activities / Department for Control and Auditing Activities of PJSC Rosseti.

First elected to the Audit Commission of the Company: 12 March, 2014

MALYSHEV
SERGEY VLADIMIROVICH

Born in 1965.

Graduated from the Yaroslavl Higher Military Finance School with the qualification of Economist and Financial Expert.

PROFESSIONAL EXPERIENCE:

First elected to the Audit Commission of the Company: 12 March, 2014

- ▶ 2013 – Head of the Investment Audit Unit, Internal Control and Risk Management Department at PJSC FGC UES.
- ▶ 2013-2015 – Leading Expert of the Investment Audit Division of the Directorate for Audit Activities and Internal Audit of the Internal Audit and Control Department at PJSC Rosseti.
- ▶ Since 2015 – present – Leading Expert at the Audit Activities Directorate, Department for Control Activities / Department for Control and Auditing Activities at PJSC Rosseti.

MEDVEDEVA
OKSANA ALEXEEVNA

Born in 1978.

Graduated from the Russian Academy of Entrepreneurship, majoring in Accounting, Auditing and Analysis

PROFESSIONAL EXPERIENCE:

First elected to the Audit Commission of the Company: 23 June, 2015

- ▶ 2010-2011 – Head of the Internal Audit Unit of Baikal Service TC LLC.
- ▶ 2011-2014 – Head of the Control and Audit Department of PJSC FGC UES.
- ▶ 2014-2015 – Chief Expert at the Investment Audit Division, Audit Activities and Internal Audit Directorate, Internal Audit and Control Department at PJSC Rosseti.
- ▶ Since 2015 – present – Chief Expert at the Audit Activities Directorate, Department for Control Activities / Department for Control and Auditing Activities, PJSC Rosseti.

The members of the Audit Commission did not own any shares of PJSC IDGC of the North-West in 2017. No transactions with the PJSC IDGC of the North-West shares were made by the members of the Audit Commission in 2017.

Performance in the reporting year

Information on the key decisions made at the meetings of the Audit Commission in 2017:

13 March, 2017 (Minutes No.3) – approve the Programme of the financial and operations audit of the Company for 2016.

13 March, 2017 (Minutes No.3) – assign responsibilities to members of the Audit Commission and the invited expert for the items subject to the financial and operations audit of the Company for 2016.

28 April, 2017 (Minutes No.4) – approve the Report of the Audit Commission of PJSC IDGC of the North-West.

28 April, 2017 (Minutes No.4) – have the Report of the Audit Commission of PJSC IDGC of the North-West signed by the members of the Audit Commission who voted for its approval.

26 May, 2017 (Minutes No.5) – approve the Certificate of the Audit Commission of PJSC IDGC of the North-West presenting the findings of the financial and operations audit of PJSC IDGC of the North-West for 2016.

26 May, 2017 (Minutes No.5) – have the Certificate of the Audit Commission of PJSC IDGC of the North-West presenting the findings of the financial and operations audit of PJSC IDGC of the North-West for 2016 signed by the members of the Audit Commission who voted for its approval.

14 June, 2017 (Minutes No.1) – elect Lelekova Marina Alexeevna, Director of the Department for Control and Auditing Activities of PJSC Rosseti, as Chairman of the Audit Commission of the Company.

14 June, 2017 (Minutes No.1) – elect Malyshev Sergey Vladimirovich, Leading Expert at the Audit Activities Directorate, Department for Control and Auditing Activities at PJSC Rosseti, as the Secretary of the Audit Commission.

14 July, 2017 (Minutes No.2) – approve the action plan for the Audit Commission of PJSC IDGC of the North-West for 2017-2018.

Remuneration paid to the Audit Commission

According to the Regulation, remuneration to members of the Audit Commission of the Company depends on their participation in the Audit Commission activities in the previous corporate year and the fixed amount of remuneration. The fixed amount of remuneration is defined on the basis of the Company's revenue estimated under the RAS in the last financial year. The rate of participation of an Audit Commission member in its activities depends on the number of calendar days in the corporate year when the duties of the Audit Commission member were performed and the personal participation rate.

The personal participation rate is identified by the Chairman of the Audit Commission for each member of the Audit Commission and reflects their contribution to the meetings of the Audit Commission, as well as performance of additional responsibilities as the Chairman or the Secretary of the Audit Commission.

Remuneration is paid at the end of the corporate year. Under the Regulation, the corporate year is the period from the election of the persons to the Audit Commission at the General Shareholders Meeting of the Company till the next annual General Shareholders Meeting of the Company.

Members of the Audit Commission who failed to participate in over half of the meetings held in the period of their membership in the Audit Commission are not entitled to remuneration.

In case a member of the Audit Commission actively contributed in the corporate year to additional audits held by the Audit Commission or control activities on certain issues organised by decisions of the General Shareholders Meeting, Company Board of Directors or

upon request of a shareholder (shareholders) of the Company owning at least 10 per cent of the Company's voting shares, the Chairman of the Audit Commission is entitled to apply to the General Shareholders Meeting for increase in the actual amount of remuneration.

Moreover, according to the Regulation, Audit Commission members receive compensation for the actual expenses incurred in the course of visiting the Company's facilities participation in meetings of the Audit Commission held at the Company's location, and performing other activities of the Audit Commission.

Remuneration and compensations are not paid to members of the Audit Commission who are government officials.

REMUNERATION PAID TO MEMBERS OF THE AUDIT COMMISSION IN 2017

In 2017, members of the Audit Commission of the Company received remuneration in the amount of RUB 781.65 thous.

No compensations were paid concerning any expenses related to performing the functions of the Audit Commission members.

EXTERNAL AUDIT

To ensure independent and unbiased nature of the External Auditor, the External Auditor of the Company was selected by an open single stage tender without preliminary qualification-based selection.

In 2015, the External Auditor was selected to carry out the audit of the accounting (financial) statements of PJSC IDGC of the North-West compiled in line with the Russian Accounting Standards and the audit of the consolidated financial reporting of PJSC IDGC of the North-West compiled under the International Financial Reporting Standards for 2015–2017. The results of the tender were announced on 08 April, 2015. The tender was held by PJSC Rosseti on the basis of Order No.552r of 12 December, 2014. The official method of holding the open tender was the official web site of the Russian Federation for placing tender information www.zakupki.gov.ru (No.31502075235), at the electronic trading facility B2B-energo (<http://www.b2b-mrsk.ru>). According to the decision of the Tender Commission (Minutes of 14 April, 2015 No.5/552r), LLC RSM RUS was selected as the winner of the bid. Assessment of candidates was based on the criteria previously identified and disclosed in the tender conditions.

Under pp. 11 p. 10.2 Article 10 of the Company Charter, the General Shareholders Meeting has the authority to approve the External Auditor of the Company. Subject to the tender procedures, as well as recommendations of the Audit Committee, the Board of Directors proposes and the General Shareholders Meeting of PJSC IDGC of the North-West approves of the independent External Auditor. Under the decision of the annual General Shareholders Meeting of

PJSC IDGC of the North-West dated 13 June, 2017, the independent External Auditor of the Company for 2017 became LLC RSM RUS.

Identification of the amount of the External Auditor service fee is within the competence of the Company Board of Directors. According to the contract for audit of the RAS accounting statements and the IFRS consolidated financial statements, in 2017 the amount of remuneration to the External Auditor was RUB 2,981 thous., including VAT of 18%. No related services were rendered by the External Auditor.

Full name: RSM RUS Limited Liability Company

Short name: LLC RSM RUS

Location: 4 Pudovkina St., 119285, Moscow

Mailing address: 4 Pudovkina St., 119285, Moscow

Phones: +7 (495) 705-90-90, +7 (495) 363-28-48

Internet address: <http://rsmrus.ru/>

E-mail: mail@rsmrus.ru

THE SYSTEM FOR CONFLICT OF INTEREST PREVENTION AND THE INSIDER INFORMATION

To limit the influence of employees' personal interests on their business decisions, the Company undertakes measures for identifying, preventing and settling conflicts of interests.

To prevent occurrence or probability of a conflict of interest, the Company implements continuous declaration of conflicts of interests by the Company's current and potential employees and verification of the conflict of interest declarations on a permanent basis. To settle the emerging pre-conflict situations in the structural units, as well as to ensure full compliance with the requirements of Article 13.3 of the federal law "On countering corruption", the Company established the Commission for Compliance with the Corporate Ethics and Settling Conflicts of Interests (hereinafter – the Commission).

In 2017, the Company verified 6,843 conflict of interest declarations submitted by the Company's current and potential employees. The risks of emerging conflicts of interests were assessed with account of, among others, simultaneous employment of close relatives who could become a reason for conflict of interests, and submission by employees of false or incomplete data, etc. Corrective measures were taken in relation to all identified risks of occurrence of conflicts of interests. All the identified risks of the conflict of interests underwent activities for their elimination.

In 2017, efforts were undertaken to prepare and submit the list of the Company's insiders to trading organiser PJSC Moscow Exchange (MICEX). 14 lists of insiders were compiled and submitted to the trading organiser within the due period. In 2017, 76 notifications were sent to the insiders on their inclusion in or exclusion from the list of the Company insiders.

Of all the Company's insiders, 10 persons hold 53,055,447,425 of the Company's shares, which total 55.39% of the insiders' share in the Company's shareholder capital, 55.38% of the Company's shares being held by PJSC Rosseti; other insiders are minority shareholders.

The Company discloses insider information on its corporate website, in the news feed of the Company's authorised AK&M Information Agency and on the Company's webpage provided by the authorised AK&M Information Agency. No failures to comply with the due dates for disclosing insider information were revealed as a result of analysis of the disclosed information.

The activities for ensuring compliance with the requirements of control over insider information in the Company are based on:

- ▶ Federal Law No. 224-FZ dated 27 July, 2010 "On countering illegal use of insider information and market manipulation and on introducing amendments to certain legislative acts of the Russian Federation";
- ▶ Order of the Federal Service for Financial Markets of Russia No. 13-51/pz-n dated 18 June, 2013;
- ▶ Regulation on Insider Information Control of PJSC IDGC of the North-West approved by the Board of Directors on 19 June, 2015 (Minutes No. 185/27).

INFORMATION FOR INVESTORS AND SHAREHOLDERS

CAPITAL STRUCTURE

As of 31 December, 2017, the authorised capital of the Company amounts to: RUB 9,578,592,313 (nine billion five hundred seventy eight million five hundred ninety two thousand three hundred and thirteen roubles) 80 kopecks.

Ordinary shares make up 100% of the Company's authorised capital.

The free float shares of PJSC IDGC of the North-West account for 30.21%.

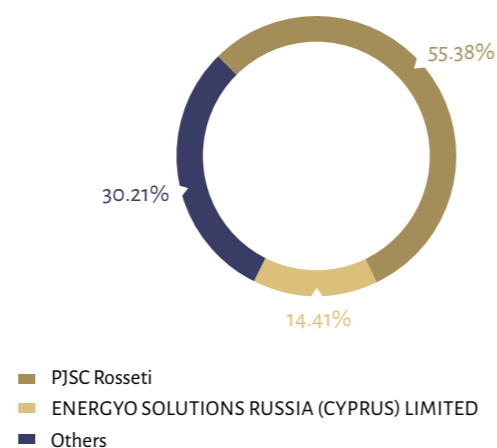
Data on each category (type) of shares

Type and category of shares	Registered ordinary shares
Form of issue	uncertified
Authorised capital, RUB	9,578,592,313.8
Nominal value of 1 (one) security, RUB	0.10
Data on the state registration of the securities issue	No.1-01-03347-D

According to the Company Charter, the number of the Company's authorised shares in addition to the placed shares is 1,076,862 (one million seventy six thousand eight hundred and sixty two) registered ordinary shares with the nominal value of 10 (ten) kopecks each for a total amount of RUB 107,686 (one hundred seven thousand six hundred and eighty six roubles) twenty kopecks at the nominal value.

PJSC IDGC of the North-West does not have any information on ownership stocks exceeding 5%, apart from the disclosed ones.

Equity capital structure of PJSC IDGC of the North-West as of 31 December, 2017



Statistics of the equity capital structure

Shareholder type	31 December, 2016		31 December, 2017	
	Number of shareholders	% of AC	Number of shareholders	% of AC
Owners – individuals	13,613	11.7655	13,599	11.8406
Owners – legal entities	208	87.7972	194	87.6733
Federal property (RF, RF regions)	4	0.0035	4	0.0035
Municipal property	2	0.0093	2	0.0093
Nominee shareholders	7	0.0096	8	0.0114
Trustees	19	0.3775	24	0.4236
Foreign custodian	1	0.0320	2	0.0320
Unidentified persons	2	0.0054	2	0.0063
TOTAL	13,856	100	13,835	100

Number of shareholders, including individuals

Type of shareholder	31 December, 2016		31 December, 2017	
	Number of shareholders	% of AC	Number of shareholders	% of AC
RF residents	13,728	70.0031	13,712	70.509
RF non-residents	128	29.9969	123	29.4910
Total	13,856	100	13,835	100

Shares of PJSC IDGC of the North-West have been listed on the established securities market since 2008. At present, the Company's shares are traded on the Moscow Exchange PJSC MICEX-RTS in the Level 2 Quotation List.

Shares of PJSC IDGC of the North-West were included into the Level 2 Quotation List on 31 January, 2017 subject to the decision of PJSC Moscow Exchange within the listing reform.

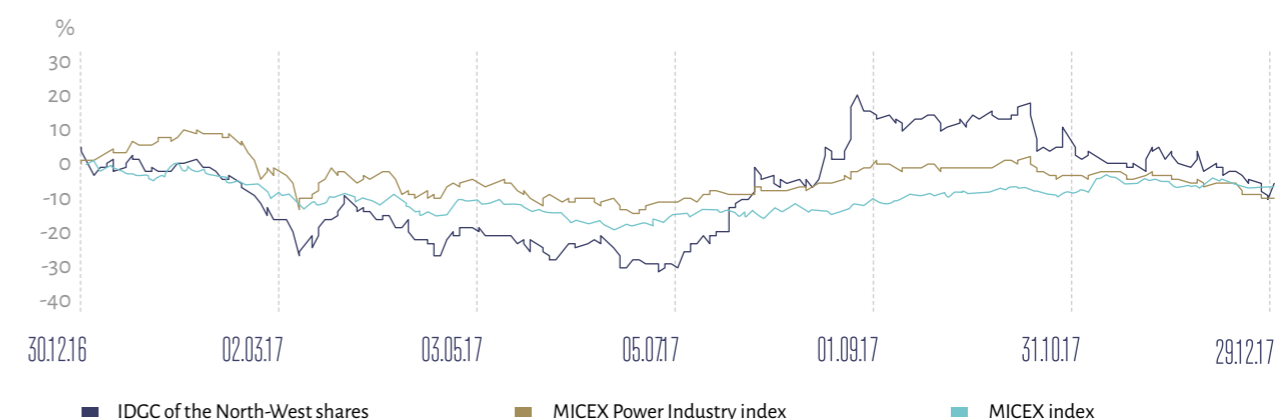
The Company's shares are included by MICEX in the following calculation bases:

- ▶ Index of the Moscow Exchange for shares of the regulated companies (MOEX RegCo Index);
- ▶ Power industry companies index (MICEX PWR);
- ▶ MICEX broad market index (MICEXBMI);
- ▶ MICEX Second-Tier Index in RUB (MICEXSC) (calculation suspended starting 22 December 2017).

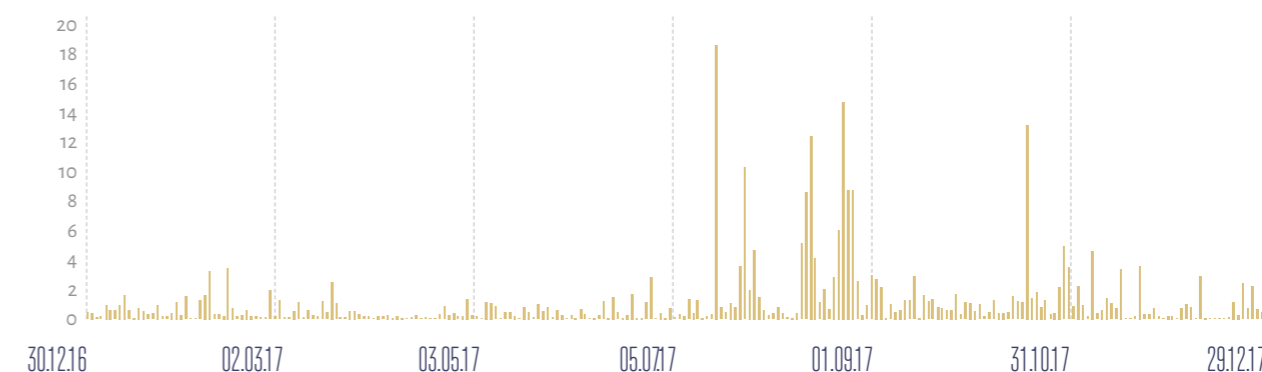
Shares of PJSC IDGC of the North-West

Platform	MICEX
Ticker	MRKZ
Start of trading without the listing procedure	—
Start of trading in Quotation List B	29 May, 2008
Start of trading in Quotation List A, Level 2	24 May, 2011
Date of inclusion into the Level 1 Quotation List based on the listing reform results	09 June, 2014
Date of inclusion into the Level 2 Quotation List based on the listing reform results	31 January, 2017

Trends in the share prices in 2017 against the indices of MICEX and MICEX Power Industry (at the weighted average price)

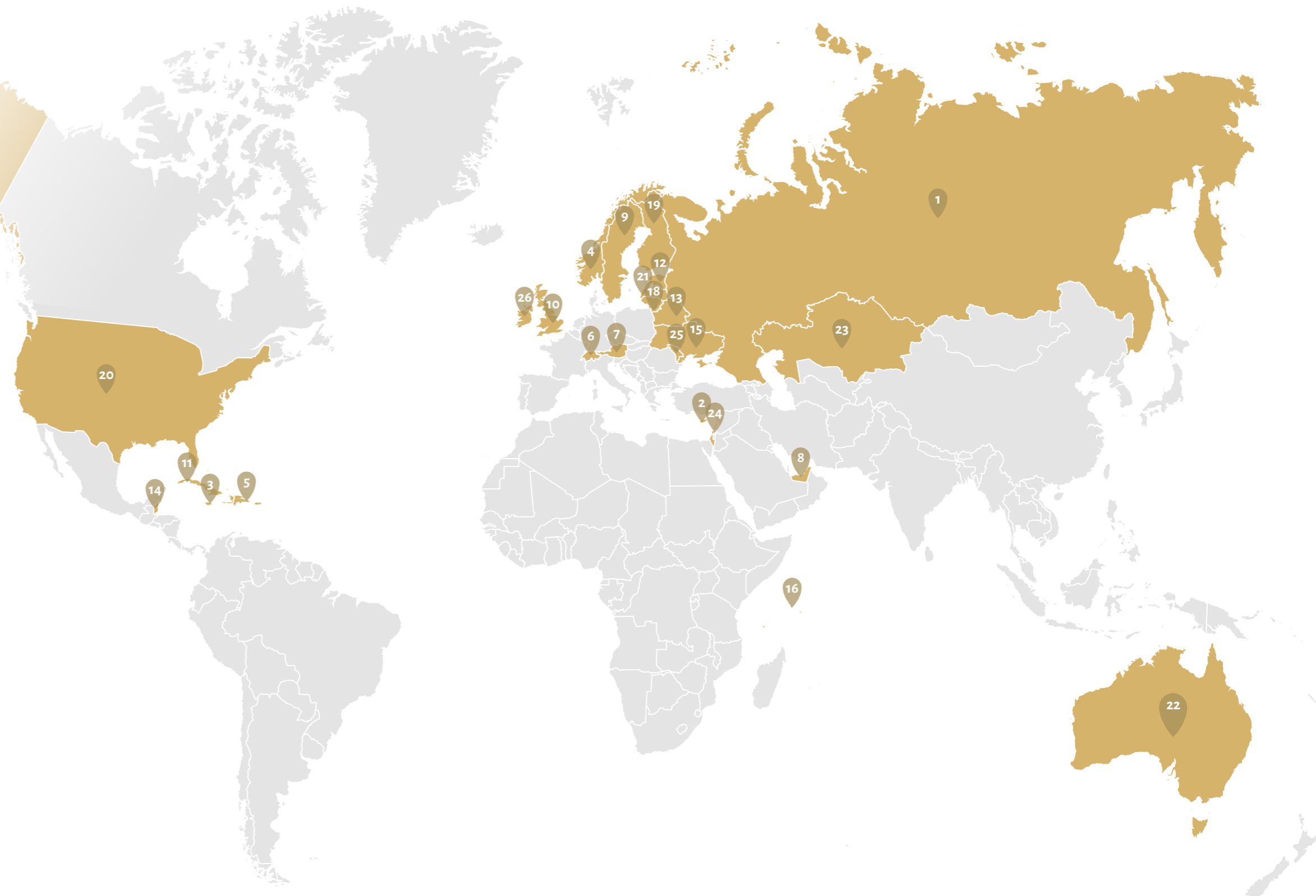


Trading volume trends in 2017



GEOGRAPHY OF THE COMPANY'S SHAREHOLDERS AS OF 31 DECEMBER, 2017

	Number of shares	% of the AC
1. Russia	67,537,727,769	70.5090%
2. Cyprus	25,447,666,816	26.5672%
3. Cayman Islands	1,414,845,869	1.4771%
4. Norway	886,886,897	0.9259%
5. British Virgin Islands	148,050,153	0.1546%
6. Switzerland	141,078,537	0.1473%
7. Austria	94,945,948	0.0991%
8. United Arab Emirates	38,540,000	0.0402%
9. Sweden	21,385,698	0.0223%
10. The United Kingdom	8,693,377	0.0091%
11. The Bahamas	6,767,807	0.0071%
12. Estonia	5,733,723	0.0060%
13. Belarus	5,227,673	0.0055%
14. Belize	5,178,500	0.0054%
15. Ukraine	5,052,797	0.0053%
16. The Seychelles	4,258,949	0.0044%
17. Germany	3,098,883	0.0032%
18. Lithuania	2,157,394	0.0023%
19. Finland	1,643,200	0.0017%
20. The USA	1,458,603	0.0015%
21. Latvia	1,256,653	0.0013%
22. Australia	1,180,964	0.0012%
23. Kazakhstan	1,102,782	0.0012%
24. Israel	1,063,105	0.0011%
25. Moldova	917,598	0.0010%
26. Ireland	3,443	0.0000%



Market features

Indicator	Unit	30 December, 2015	30 December, 2016	29 December, 2017	Change, %
Weighted average price	RUB	0.0274	0.0543	0.0515	-5.16
Capitalisation ⁶⁰	m RUB	2,624.5	5,201.2	4,933.0	-5.16
Trading volume (one year before the indicated date)	m RUB	88.55	375.15	297.35	-20.74
	m items	3,067.55	8,112.18	5,549.45	-31.59

The Russian stock market showed moderate dynamics in 2017, with the key market indicator – MICEX index finishing the year with a slight decline (-5.51%).

In the second half of 2017, the power industry underwent a number of major changes: in September, Pavel Livinsky became CEO of the parent company of the Rosseti holding. On 22 December, 2017 the Regulation on dividend policy was adopted stipulating the procedures for defining the amount of dividends in line with the provisions of Government Order "On long-term principles of defining the position of the Russian Federation as a shareholder of PJSC Rosseti and PJSC Rosseti subsidiaries on the dividends issue" adopted in May.

The decrease in MICEX Power Industry Index as of the end of the year amounted to 8.46%.

Capitalisation of PJSC IDGC of the North-West at the end of 2017 reduced by 5.16% having failed to show consistent positive dynamics, as in the previous year; the market value of the Company as of the end of the reporting year was RUB 4,933 m.

On 13 June, 2017, the annual General Shareholders Meeting made the decision to allocate the net profits for 2016 to dividend payments in the amount of RUB 0.0011608 per ordinary share of the Company in the monetary form. The amount of funds (declared dividends), to be paid to the Company shareholders was RUB 111.2 m (24% of the net profit under RAS).

INVESTOR AND SHAREHOLDER RELATIONS

Transparency is one of the principles underlying the Company's corporate governance, which implies timely disclosure of credible information on all material facts related to the Company's operations, as well as free access to such information for all stakeholders.

The Company discloses information with the primary aim to achieve the highest level of trust toward the Company on the part of its shareholders, potential investors, contractors and other stakeholders by providing them with the information required for making carefully considered and justified decisions regarding the Company and its securities.

Information disclosure by PJSC IDGC of the North-West is primarily subject to the following requirements:

- ▶ Federal law "On joint-stock companies";
- ▶ Federal law "On securities market";
- ▶ Regulation on information disclosure by issuers of equity securities (approved by the Bank of Russia on 30 December, 2014, No.454-P);
- ▶ Corporate Governance Code approved by the Company Board of Directors;
- ▶ Company Order No.715 of 13 October, 2017 "On the procedure of information disclosure by the issuer of equity securities PJSC IDGC of the North-West".

In line with the principles of open and transparent governance, the Company aims to provide access to information on its business and securities to all stakeholders simultaneously and as promptly as possible.

PJSC IDGC of the North-West informs its stakeholders via the official web site (www.mrsksevzap.ru).

Besides, in line with the legislation of the Russian Federation, information to be disclosed in accordance with the requirements set by the Bank of Russia is published on the webpage provided by the authorised agency (AK&M Information Agency) at www.disclosure.ru/issuer/7802312751.

In addition to the information subject to mandatory disclosure under the RF regulatory documents, the Company provides other information to ensure a high degree of transparency of the Company and contribute to achievement of the targets of its Information Disclosure Policy. Thus, it quarterly publishes its accounting (financial) statements prepared according to the RAS, consolidated financial statements prepared under the IFRS, and other information about the Company and its business on the corporate website.

The Company discloses insider information; its concept, scope and disclosure procedure are stipulated by the Company's Regulation on insider information, the revised version of which was approved by the Board of Directors of PJSC IDGC of the North-West on 19 June, 2015.

The Company maintains the English version of the corporate website in order to provide all stakeholders with equal access to the information and, in particular, to secure informational rights and interests of foreign shareholders and investors.

To maintain a high level of transparency and develop its positive image, the Company participates in the contests of issuers' annual reports held by PJSC Moscow Exchange, Expert RA rating agency and RCB media group every year.

In 2017, the Annual Report of IDGC of the North-West received golden awards in the international contest of annual reports MarCom Awards in two nominations: "Best Corporate Annual Report" and "Best Design of the Annual Report».

MarCom Awards contest is annually held by the Association of Marketing and Communication Professionals, AMCP. In 2017, over 6,000 companies from all over the world took part in it.

Report on the events held in 2017

To ensure access of the investment community to material information, the Company carries out regular spoken and written bilateral communication with its shareholders and investors, as well as other professional securities market participants.

On 24 August, 2017, a phone conference was held for the investment community on financial performance of PJSC IDGC of the North-West according to the IFRS for 6 months of 2017. Five leading banks and investment companies took part in it: VTB Capital, JSC Gazprombank, Sberbank-CIB, Russian Standard Bank, Uralsib Managing Company.

Analytical presentation materials on the IFRS statements for 9 months of 2017 are available to investors at the Company's web site (http://www.mrsksevzap.ru/ir_presentations).

Besides, PJSC IDGC of the North-West maintains regular communication with the investment community in a variety of other formats.

For the convenience of shareholders and all stakeholders, the Shareholders Q&A section of the Company's corporate site shows answers to frequently asked questions.

⁶⁰ Calculated as the weighted average price per share as of the end of the reporting period multiplied by the total number of the Company's shares.

Calendar of investor activities for 2018

March 2018: a conference call on the publication of the 2017 IFRS consolidated financial statements.

April-May 2018: meetings with minority shareholders before the annual General Shareholders Meeting.

August 2018: a conference call on the publication of the IFRS consolidated interim condensed financial statements for the 3 and 6 months ending 30 June 2018 (unaudited).

November 2018: a conference call on the publication of the IFRS consolidated interim condensed financial statements for the 3 and 9 months ending 30 September 2018 (unaudited).

November – December 2018: an IR meeting with the representatives of the shareholder/investment community.

Detailed scheduled plan of activities on interaction with the investment community in 2018 is available at the Company web site: http://www.mrsksevzap.ru/ir_investorscalendar

DIVIDEND POLICY

The net profits allocation policy of PJSC IDGC of the North-West is based on the balance of the Company's interests and those of its shareholders, improving the Company's investment attractiveness and its capitalisation, consistent acknowledgement of the rights of shareholders stipulated by the current RF legislation, the Company Charter and its internal documents.

Dividend policy of the Company is defined by the Regulation on the dividend policy approved by Decision of the Company Board of Directors on 02 February, 2018 (Minutes of the Board of Directors No.265/20 of 02 February, 2018).

Key principles of the dividend policy of the Company are as follows:

- ▶ dividend calculation based on profit allocation without account of the impact of re-evaluation of financial investments;
- ▶ the need to maintain a proper financial and technical condition of the Company (implementation of the investment program), ensuring the Company's development prospects;
- ▶ compliance of the Company's dividend calculation and payment practice with the legislation of the Russian Federation and best corporate behaviour standards;
- ▶ balance of the interests of the Company and its shareholders;

- ▶ the need to enhance the Company's investment attractiveness and capitalisation;
- ▶ ensuring transparency (clarity) of the dividend calculation and payment mechanism;
- ▶ dividends on ordinary shares are only paid out after full payment of dividends on preferred shares according to the Company Charter (if any preferred shares are issued by the Company).

The Company aspires, along with achieving capitalisation growth, to increase the amount of dividend paid to shareholders, subject to the amount of net profit gained in the reporting financial period and the development needs of the Company's operational and investment activities.

The recommended dividend amount is defined by the Board of Directors on the basis of the Company's financial performance, the Board of Directors aiming to ensure positive year-on-year dynamics of the dividend payments to shareholder.

History of dividend payments

Indicator	2012	2013	2014	2015	2016
Dividends per one ordinary share, RUB	0.0001614	0.0008		0.004254	0.0011608
Amount of dividend accrued, RUB thous.	15,460	76,629		407,473	111,188
Share of net profit allocated to dividends, %	25	25.5	-	63.2	24.3
Amount of dividends paid, RUB thous.	15,223	75,637		402,913	109,563
Dividend yield*	0.23	1.75		15.06	2.52

Dividend history is also available at the Company's official web site: <http://www.mrsksevzap.ru/investorsdividendpolicy>.

The share of dividend paid in the total amount of declared dividend in 2012 was 98.47%, in 2013 – 98.70%, in 2015 – 98.88%, in 2016 – 98.54%. Dividends were paid to all the persons included in the dividend register, with the exception of those who had not submitted full and accurate bank details required for dividend payment.

Profit allocation under decisions of the annual General Shareholders Meetings of PJSC IDGC of the North-West, RUB thous.

	For 2012	For 2013	For 2014	For 2015	For 2016
Net profit (loss) in the reporting period	61,831	300,338	-620,027	644,016	456,889
Undistributed profit (loss) in the reporting period, including:					
Provisions	3,092	15,017	0	32,201	22,844
Profit for development	43,279	208,692	0	204,342	322,857
Dividends	15,460	76,629	0	407,473	111,188
Coverage of losses from previous years	0	0	0	0	0

In line with the Company Charter, the decision on 2017 profit allocation is to be made by the annual General Shareholders Meeting (AGSM). Minutes of the General Shareholders Meetings are available at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

INFORMATION ON MAJOR AND INTERESTED-PARTY TRANSACTIONS

In 2017, there were no major transactions with any state companies or the Company shareholders owning at least 5% of the Company's voting shares, as well as transactions classified as major by the Federal Law "On joint-stock companies".

Information on the list of transactions made by the Company in the reporting year, which under Chapter 11 of the Federal law "On joint-stock companies" are classified as interested-party transactions and require approval of the authorised management body of the Company is shown in Annex No.19 "Report on the interested-party transactions made by PJSC IDGC of the North-West in 2017".* The report was signed by the Director General of the Company. The meeting of the Audit Commission of 23 April, 2018 (Minutes No.4) included

assessment of the accuracy of the report on the interested-party transactions made by the Company in the reporting year. Decision of the Company Board of Directors of 03 May, 2018 (Minutes No.279/34) approved the report on the interested-party transactions in 2017.

Information on major and interested-party transactions is available at the Company web site: http://www.mrsksevzap.ru/id_dealings.

* The dividend yield of shares is calculated as of the date of adoption of the decision on the amount of annual dividends as the correlation of annual dividends per share and the median value of market prices for this share in the reporting year.

* Details are available in the full version of the Annual Report at the Company's web site: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

OTHER INFORMATION

From 2016, PJSC IDGC of the North-West has been building a stock of legal precedents of immediate execution of the court decisions (before their entry into legal force) on collection of overdue accounts receivable from power transmission services in accordance with Article 182 of the APC RF.

Most debtors of the Company, including provider of last resort PJSC Arkhenergosbyt, pay for the power transmission services solely subject to enacted court decisions, significantly delaying their entry into force, sometimes abusing their procedural rights, which was repeatedly stated in a number of court rulings.

The grounds for immediate execution of the court decisions include particular circumstances due to which a delay in execution can inflict significant damage on the plaintiff or result in impossibility of future execution of the court decision and availability of counter security.

This measure was implemented towards the provider of last resort in the Arkhangelsk Region – PJSC Arkhangelskaya Sbytovaya Kompania, accounts receivable from which for power transmission as of 31 December, 2017 amounted to RUB 3,331 m. To ensure reversal of execution in case the court decision is revoked (counter security) the Company provided bank guarantees.

On compiling the report

The production of the Annual Report of PJSC IDGC of the North-West involved experts from 22 units of the Company's Executive Office. The Annual Report files include photos of the Company's employees, as well as power grid facilities in the regions covered by PJSC IDGC of the North-West (including power transmission lines, substation equipment etc.). The slogan of the Annual Report –

Considerable indebtedness to the Company and the length of the default on obligation combined with the dilatory abuse of the rights by the provider of last resort, were considered by three judicial authorities, including the Supreme Court of the Russian Federation, which deemed them as the particular circumstances, found the Company requirements to be justified and demanded immediate execution of the court decisions.

Building the stock of legal precedents of applying Article 182 of the Russian Arbitration Procedure Code enabled the Company to reduce significantly the period of recovery for power transmission accounts receivable. Thus, subject to lawsuits against PJSC Arkhenergosbyt, court orders of the first-instance court on cases No. A05-12018/2015, A05-2789/2016, A05-4339/2016, A05-9374/2016, A05-1615/2017, A05-3271/2017, A05-4886/2017, A05-6639/2017 and orders of the court of appeal (which called off the first-instance court decisions dismissing immediate execution) on cases No. A05-9964/2016, A05-13777/2016 demanded immediate execution of the court decisions in the amount of RUB 1.97 bn, RUB 1.1 bn of which was paid in 2017.

"Managing energy" – was selected as a result of a contest. The slogan's author is Natalia Karpovich, chief expert of the Shareholders and Investors Relations Unit at the Department for Corporate Governance and Shareholder Interaction of PJSC IDGC of the North-West.

TERMS AND KEY ABBREVIATIONS USED

JSC	joint-stock company
AIS	automated information systems
APC RF	Arbitration Procedural Code of the Russian Federation
AMS	automated management system
OL	overhead (power) line
HEI	higher education institution
GC	group of companies
ACPP	annual comprehensive procurement programme
AGSM	annual General Shareholders Meeting
HPP	hydroelectric power plant
S&A	subsidiaries and affiliates
VHI	voluntary health insurance
UNPG	Unified National Power Grid
HSU	housing services and utilities
IP	investment programme
CPI	consumer price index
IT	information technologies
ITI	information technologies infrastructure
CDP	comprehensive programmes of power grids development
KPI	key performance indicators
PL	power line
MICEX	Public Joint-Stock Company Moscow Exchange MICEX-RTS
IDGC	interregional distribution grid company
RF	small and medium businesses
IFRS	International Financial Reporting Standards
MUE	municipal unitary enterprise
EMERCOM	RF Ministry for Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters
FAS of Russia	Federal Antimonopoly Service
NGP	necessary gross proceeds
VAT	value-added tax
R&D	research and development
NSPF	non-state pension fund
RDB	research and development board
WGC	wholesale generating company
AWP	autumn and winter period
NLVS	non-linear voltage suppressor
PJSC	public joint-stock company
D&S	design and survey
SPIEF	St. Petersburg International Economic Forum
PTUO	primary trade union organisation

SS	substation
EMP	efficiency management programme
RAS	Russian accounting standards
RTS	Russian Trading System
RF	Russian Federation
PDZ	power distribution zone
ICS	internal control system
RMS	risk management system
BoD	Board of Directors
NWFD	North-Western Federal District
PPE	personal protection equipment
SSIW	self-supporting insulated wire
DS&P	power industry development schemes and programmes of the Russian constituent entities
media	mass media
OAMS	operation assets management system
LGC	local generating company
TR&R	technical re-equipment and renovation
M&R	maintenance and repairs
LGO	local grid operator
FES	fuel and energy sector
AC	authorised capital
FTS of Russia	Federal Tariff Service
DCC	digital communication channel
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
IR	Investor Relations

MEASUREMENT UNITS

A	ampere, electric current measurement unit
ha	hectare, area measurement unit
Gcal	gigacalorie, heat energy measurement unit
kV	kilovolt, electric voltage measurement unit
kVA, MBA	kilovolt-ampere, megavolt-ampere, measurement units of apparent power
kWh	kilowatt hour, electric power measurement unit
kW, MW	kilowatt, megawatt, active power measurement units
km	kilometre, length measurement unit
TOE	ton of oil equivalent



202 Meeting of the working group on selection of the Annual Report design layout

GENERAL STANDARD REPORTING ELEMENTS

Indicator	Section (or direct disclosure of information in the table)	
ORGANISATION PROFILE		
GRI 102-1	Name of the organisation	[yes] Company overview
GRI 102-2	Activities, brands, products, and/or services	[yes] Company overview
GRI 102-3	Location of headquarters	[yes] Addresses and contacts
GRI 102-4	The Company's geographical footprint	[yes] Geographical footprint
GRI 102-5	Ownership and legal form	[yes] Addresses and contacts
GRI 102-6	Markets served	[yes] Geographical footprint
GRI 102-7	Scale of the organisation	[yes] Company overview Key performance indicators
GRI 102-8	Total headcount of the Company's staff and employees	[yes] Personnel headcount and composition
GRI 102-9	Supply chain	[yes] Supply chain
GRI 102-10	Significant changes to the organisation in the reporting period: balance amounts, organisational structure, equity capital structure, supply chain (location of major suppliers and terms of contracts with suppliers)	[yes] Business structure History, 2017 highlights
GRI 102-11	Precautionary principle or approach	[yes] The Company's understanding of sustainable development
GRI 102-12	External economic, environmental and social charters, principles or other initiatives which the organisation has joined or supported	[yes] The Company's understanding of sustainable development
GRI 102-13	Membership of the organisation in associations, industry and / or national and international organisations for protection of interests	[yes] The Company's understanding of sustainable development
STRATEGY		
GRI 102-14	Statement from senior decision-maker in the organisation	[yes] Address by the Chairman of the Board of Directors
ETHICS AND GOOD BUSINESS PRACTICE		
GRI 102-16	Values, principles, standards, and norms of behaviour	[yes] Corporate values and sustainable development strategy
GOVERNANCE		
GRI 102-18	Governance structure	[yes] Overview of the Company's corporate governance
STAKEHOLDER INTERACTION		
GRI 102-40	List of stakeholders	[yes] Major groups of stakeholders and interaction with them
GRI 102-41	Collective agreements	[yes] Protection of the employee interests and rights
GRI 102-42	Identifying and selecting stakeholders for interaction	[yes] Major groups of stakeholders and interaction with them
GRI 102-43	Approach of the organisation to stakeholder engagement: frequency and procedure of interacting with each group stakeholders	[yes] Major groups of stakeholders and interaction with them
GRI 102-44	Key topics and concerns raised by each group of stakeholders	[yes] Major groups of stakeholders and interaction with them

Indicator	Section (or direct disclosure of information in the table)	
REPORTING PRACTICE		
GRI 102-45	List of legal entities whose reporting was included in the consolidated financial reporting	[yes] Information on the Report Business structure
GRI 102-46	Methodology of defining the report contents	[yes] Information on the Report
GRI 102-47	List of material topics	[yes] Information on the Report
GRI 102-48	Restatements of information	[yes] Information on the Report
GRI 102-49	Considerable changes against previous reporting periods regarding the scope, boundaries or measurement methods used in the report	[yes] Information on the Report
REPORT OVERVIEW		
GRI 102-50	Reporting period (financial/calendar year) covered by the given information	[yes] This Report covers the data for the reporting period from 01 January to 31 December 2017
GRI 102-51	Date of the previous sustainable development report	[yes] The Company did not issue a sustainable development report before
GRI 102-52	Reporting cycle	[yes] Annual reporting cycle
GRI 102-53	Contact point for questions regarding the report	[yes] Addresses and contacts
GRI 102-54	Claims of reporting in accordance with the GRI Standards	[yes] Report compilation was based on the principles and methodologies of the Global Reporting Initiative guidelines on sustainable development (GRI Standards), along with a number of specific industry indicators of non-financial reporting recommended for energy companies. In compiling the Report we focused on disclosing information according to the core disclosure level.
GRI 102-55	GRI content index	[yes] GRI index
MANAGEMENT APPROACHES		
GRI 103-1	Explanation of the material topic and its boundaries	[yes] Environmental responsibility
GRI 103-2	The management approach and its components	Human resources and social policy
GRI 103-3	Evaluation of the management approach	Responsible business Social responsibility
INDIRECT ECONOMIC INFLUENCE		
GRI 203-1	Investments in infrastructure and pro-bono services and other types of indirect influence	[yes] Priority investment projects completed in 2017
PROCUREMENT PRACTICES		
GRI 204-1	Proportion of procurement spending on local suppliers in the regions covered by the organisation	[yes] Procurement
ANTI-CORRUPTION		
GRI 205-2	Communication and training about anti-corruption policies and procedures	[yes] Anti-corruption policy
GRI 205-3	Confirmed incidents of corruption and actions taken	[yes] Anti-corruption policy

ENVIRONMENT

Indicator		Section (or direct disclosure of information in the table)
RAW AND OTHER MATERIALS		
GRI 301-1	Materials used by weight and/or volume	[yes] Energy saving and energy efficiency
ENERGY EFFICIENCY		
GRI 302-1	Total fuel consumption by the Company from renewable and non-renewable sources broken down by types of fuel. Total power consumption, power consumption for heating, power consumption for cooling. Sales of electric power, fuel/heat for heating and cooling	[yes] Energy saving and energy efficiency
WATER		
GRI 303-3	Water recycled and reused: amount and share	[yes] Water management
BIODIVERSITY		
GRI 304-1	The organisation's operational sites owned, leased, managed in, or adjacent to, protected natural areas and areas of high biodiversity value outside protected areas	[yes] Ecosystem and biodiversity conservation
GRI 304-2	The impact of the Company activities on biodiversity in protected natural areas	[yes] Ecosystem and biodiversity conservation
GRI 304-3	Habitats protected or restored	[yes] Ecosystem and biodiversity conservation
EMISSIONS		
GRI 305-1	Direct greenhouse gas emissions	[yes] Atmospheric emissions of pollutants
GRI 305-5	Reduction of greenhouse gas emissions	[yes] Atmospheric emissions of pollutants
EFFLUENTS AND PRODUCTION WASTE		
GRI 306-1	Water discharge by quality and destination	[yes] Water management
GRI 306-2	Total waste by type and disposal method	[yes] Waste generation and land conservation
STANDARD COMPLIANCE		
GRI 307-1	Non-compliance with environmental laws and regulations	[yes] Fines and non-financial penalties, imposed on PJSC IDCC of the North-West for non-compliance with the environmental legislation requirements

SOCIAL FIELD

Indicator		Section (or direct disclosure of information in the table)
EMPLOYMENT		
GRI 401-1	Personnel hired and labour turnover	[yes] Personnel headcount and composition
OCCUPATIONAL HEALTH AND SAFETY		
GRI 403-3	Employees with high injury and disease hazard due to the nature of their work Coverage of the health and safety issues in official agreements with trade unions	[yes] Labour protection and occupational safety
GRI 403-4	Coverage of the health and safety issues in official agreements with trade unions	[yes] Labour protection and occupational safety
DIVERSITY AND EQUAL OPPORTUNITY		
GRI 405-1	Management and overall personnel composition broken down by gender and age (up to 30 years, 30-50 years, over 50 years)	[yes] Personnel headcount and composition

INDUSTRY RECORD FOR POWER SECTOR

Indicator		Section (or direct disclosure of information in the table)
EU3	Number of accounts attributable to domestic, industrial, institutional and commercial power supply units of consumers	[yes] Key performance indicators
EU4	Length of transmission and distribution lines by type	[yes] Company overview
EU12	Power losses during power transmission and distribution as percentage of total volume of the power transmitted	[yes] Key performance indicators
EU25	Power transmission	[yes] Key performance indicators Occupational injuries
EU28	Number of injuries and fatalities to the public involving the Company assets in the reporting period	[yes] Key performance indicators
EU29	Occupational injury	[yes] Improving power supply efficiency, reliability and quality
G4-DMA (previously EU6)	Position of management in the area of power supply reliability and availability in the short term and long term periods	[yes] Improving power supply efficiency, reliability and quality
G4-DMA (previously EU8)	Research and development conducted for the increase of power supply reliability and sustainable development of the company	[yes] Research and development
G4-DMA (previously EU21)	Contingency planning measures, disaster/emergency management plan and training programs, and recovery/restoration plans	[yes] Improving power supply efficiency, reliability and quality

ADDRESSES AND CONTACTS:

1. INFORMATION ABOUT THE COMPANY:

FULL NAME:	Public Joint-Stock Company Interregional Distribution Grid Company of the North-West
SHORT NAME:	PJSC IDGC of the North-West
ADDRESS (LOCATION) OF THE COMPANY:	3A Konstitutsii Sq., Saint Petersburg, 196247, Russia, office 16H
PHONES, FAX:	phone +7 (812) 305-10-00, fax +7 (812) 305-10-98
E-MAIL:	post@mrsksevzap.ru
INTERNET ADDRESS:	www.mrsksevzap.ru
BANK DETAILS:	Tax ID 7802312751, KPP code 781001001, OGRN code 1047855175785 OKPO code 74824610 current account 40702810855000000024 at the North-Western Bank of PJSC Sberbank Saint Petersburg correspondent account 30101810500000000653 BIC 044030653

2. REGISTRAR OF PJSC IDGC OF THE NORTH-WEST:

FULL NAME:	Joint Stock Company R.O.S.T. Registrar
SHORT NAME:	JSC R.O.S.T. Registrar
LOCATION:	18 bldg 13, Stromynka St., 107996, Moscow
MAILING ADDRESS:	PO box 9, 18 Stromynka St., 107996, Moscow
PHONES:	+7 (495) 771-73-38, 771-73-39
INTERNET ADDRESS:	http://www.rrost.ru
BANK DETAILS:	Tax ID 7726030449, KPP code 771801001 ING BANK (EURASIA) CJSC, Moscow, current account 40702810400001002263, BIC: 044525222, correspondent account 30101810500000000222 with the Operations Department of the Moscow Main Territorial Department of the Bank of Russia

3. JSC R.O.S.T. REGISTRAR BRANCH IN SAINT PETERSBURG:

FULL NAME:	North-Western Branch of Joint-Stock Company R.O.S.T. Registrar
LOCATION:	6 Belovodsky Lane, 194044, Saint Petersburg
MAILING ADDRESS:	6 Belovodsky Lane, 194044, Saint Petersburg
PHONES:	+7 (812) 401-63-13, 401-63-14
INTERNET ADDRESS:	http://www.rrost.ru
E-MAIL:	rrost-spb@rrost.ru

4. AUTHORISED REPRESENTATIVES OF PJSC IDGC OF THE NORTH-WEST:

Full name	Position, unit	Phone, e-mail
SOPOLEVA ELENA VLADIMIROVNA	Head of the Legal and Property Management Department, Karelenenergo branch	(8142) 791-700 sopoleva@karelenenergo.ru
MIKOVA NATALIA EVGENIEVNA	Leading Specialist of the Property Management Department, Komienergo branch	+7 (8212) 283-322 mikova@komienergo.ru
KOROLEVA ELENA ALEKSANDROVNA	Fist-category economist in business activities accounting and analysis, Kolenergo branch	+7 (81553) 6-88-07 eakoroleva@kolenergo.ru
TEREKHOVA ALENA VYACHESLAVOVNA	Head of the Property Management Department	(8162) 984-312 tav@novgor.elektra.ru

5. AUDITOR OF PJSC IDGC OF THE NORTH-WEST:

FULL NAME:	RSM RUS Limited Liability Company
SHORT NAME:	LLC RSM RUS
LOCATION:	4 Pudovkina St., 119285, Moscow
MAILING ADDRESS:	4 Pudovkina St., 119285, Moscow
PHONES:	+7 (495) 705-90-90, +7 (495) 363-28-48
INTERNET ADDRESS:	http://rsmrus.ru/
E-MAIL:	mail@rsmrus.ru

5.1. SAINT PETERSBURG BRANCH OF LLC RSM RUS

LOCATION:	34B Shpalernaya St., Saint Petersburg, 191123 room 23N
MAILING ADDRESS:	34B Shpalernaya St., Saint Petersburg, 191123 room 23N

6. HOTLINES ON POWER SUPPLY ISSUES:

Branch/IDGC	Hotline number
ARKHENERGO	8-800-333-02-52
VOLOGDAENERGO	8 (8172) 76-85-00
KARELENERGO	8 (8142) 78-32-28
KOLENERGO	8 (81553) 68-353
KOMIENERGO	8-800-250-17-00
NOVGORODENERGO	8 (8162) 700-230
PSKOVENERGO	8 (8112) 59-79-99
UNIVERSAL FOR THE RESPONSIBILITY AREA	8-800-333-02-52

7. SHAREHOLDERS AND INVESTORS RELATIONS DEPARTMENT CONTACTS:

Full name	Position	Phone
VASINUYK LUDMILA VIKTOROVNA	Head of the department	+7 (812) 305-10-34
KARPOVICH NATALIA VLADIMIROVNA	Principal specialist	+7 (812) 305-10-10 (ext. 560)
LINKEVICH MARIA VALERIEVNA	Leading specialist	+7 (812) 305-10-10 (ext. 720)

SOME DEFINITIONS AND FORWARD-LOOKING STATEMENTS

This 2017 Annual Report of PJSC IDGC of the North-West (hereinafter referred to as the Annual Report) was compiled on the basis of the information available to the Company as of the moment of its preparation.

The terms "we", "IDGC of the North-West Group" and "the Group" in various forms refer in this Annual Report to PJSC IDGC of the North-West, its branches and subsidiaries. The terms "PJSC IDGC of the North-West", "the Company" and "the Issuer" refer to PJSC IDGC of the North-West.

Unless otherwise indicated, the financial indicators in the Annual Report are provided and calculated on the basis of the IFRS consolidated financial statements. The performance data shown in this document represent consolidated data of the IDGC of the North-West Group.

Some of the statements herein may include assumptions or forecasts regarding future events in the IDGC of the North-West Group. Such statements are marked by the expressions "plans", "will be", "is expected", "will occur", "estimates", "will total", "will happen" etc., as well

as expressions including negation and other similar phrases. These are merely forward-looking statements; the real developments or results may significantly differ from those specified in the Report. Numerous factors may considerably affect the actual performance of the IDGC of the North-West Group, leading to deviations from the assumptions or forecasts. The Company is not in any way liable for the damages of individuals or legal entities which they may suffer from their own actions based on the forward-looking statements. Except in cases stipulated by the law, the Company does not take on any commitment to review or verify the expectations and estimates, nor to publish updates or modifications of the forward-looking statements contained herein subject to further events or new information received.

The information about the Company's management is provided according to Federal Law No. 152-FZ "On personal data" dated July 27, 2006.

Some values in the tables, graphs and diagrams herein may differ from the sum of their components due to rounding.

FEEDBACK FORM

Thank you for your attention to the 2017 Annual Report of PJSC IDGC of the North-West, the Sustainable Development and Environmental Responsibility Report.

We aim for an open dialogue with the stakeholders, acknowledging feedback as an indispensable and imperative prerequisite for improving the quality of the Company's reports. It is important for us to know your opinion, and we will be grateful if you answer the questions below.

1. What information disclosed in the Report was the most interesting and important for you?

2. Does the Report answer your questions?

Yes No Not in full

3. Indicate the subjects you would like to be covered by the Report in the next year.

4. Your recommendations and suggestions for improving the quality of the Report.

5. Please indicate which group of stakeholders you represent:

- | | |
|--|---|
| <input type="checkbox"/> Shareholders | <input type="checkbox"/> Public and professional organisations
(indicate the area) |
| <input type="checkbox"/> Investors | |
| <input type="checkbox"/> Consumers/clients | <input type="checkbox"/> Residents of the regions of operation |
| <input type="checkbox"/> Suppliers /Contractors | <input type="checkbox"/> Company employees |
| <input type="checkbox"/> Government /local authorities | <input type="checkbox"/> Other (please specify) |
| <input type="checkbox"/> Educational institutions | |

Please send the filled-in forms by e-mail: ir@mrsksevzap.ru

Thank you!