



# Annual Report 2016

PJSC MOESK

Center  
of Attraction



# Concept of the Annual Report

The Moscow area is the center of attraction.

The capital attracts human resources and opportunities, concentrating in its mainstreams intellectual and financial power.

PJSC MOESK reliably stands for development of the region. Due to the Company's careful and continuous efforts, the city and the whole region never stop even for a while, thus promoting the Moscow area as the world's center of attraction.

The Annual Report with its facts and figures gives an account of the mechanisms applied by such center of attraction.

## About the Company

PJSC Moscow United Electric Grid Company (MOESK) is one of the largest electric grid distribution company in the Russian market, carrying out services on electric power transmission and technological connection of consumers to electric grids of the Company in Moscow and Moscow region.

The Company structure includes 8 branch offices with the total personnel headcount over 15 thous. people and 4 subsidiaries.

MOESK forms a part of PJSC "Rosseti" assets portfolio and holds the leading position in terms of electric power supply reliability and quality, as well as in terms of technological connections to power grids arranged for the consumers.

The Company maintains 611 HV power supply centers with the combined transformation power of over 49 thous. MVA, 37.5 thous. distribution grid stations with the power rating of approximately

26 thous. MVA, over 72 thous. km of overhead power lines and 78.8 thous. km of cable grids.

In 2016, the revenue of MOESK was 139.9 bln rubles, EBITDA was 37.2 bln rubles. The Company shares are traded on the Moscow Stock Exchange.

## About the Report

The annual report 2016 is the second integrated report of the Company. The report includes financial, operating, and non-financial indicators, which provide a complex overview of the Company activities, including in the field of sustainable development.

The report presents the main activities of PJSC MOESK in the Moscow area in 2016, plans for 2017 and mid-term perspectives. The focus is also made on the environmental and social aspects which form an integral part of the Company activities.

The integrated report was prepared in compliance with the Russian law on reports of public joint stock companies.

The financial information is based on the financial accounting data prepared according to the RAS and Consolidated Reports based on the IFRS for 2016. The full versions of RAS and IFRS reports are available at PJSC MOESK web site ([www.moesk.ru](http://www.moesk.ru)).

This report was prepared following the principles and methods of the Sustainability Reporting Standards by Global Reporting Initiative (further referred to as the GRI Standards) with inclusion of additional industry specific indicators of non-financial reporting as recommended for electric power sector companies. The disclosure level is Core. The report scope is limited to the executive

bodies and 8 branch offices of PJSC MOESK without subsidiaries and dependent companies. The table with the complete list of aspects covered by the report and the pages presenting the corresponding indicators are included into Annex 5.1. GRI Content Index. The previous report on the activities in the field of sustainable development was issued in 2016 to present the results achieved by the Company in 2015.

Thus, this integrated report is a balanced and justified presentation of the significant economic, social, and environmental aspects of activities, which determine the sustainable development indicators of PJSC MOESK.

# Annual Report 2016

of Public Joint Stock Company  
**Moscow United  
Electric Grid Company**

Director General  
of PJSC MOESK

Head of Accounting – Director,  
Division of Financial and Fiscal  
Accounting and Reports,  
PJSC MOESK



P.A. Sinyutin

V.V. Vitinsky

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# Key Reporting Indicators

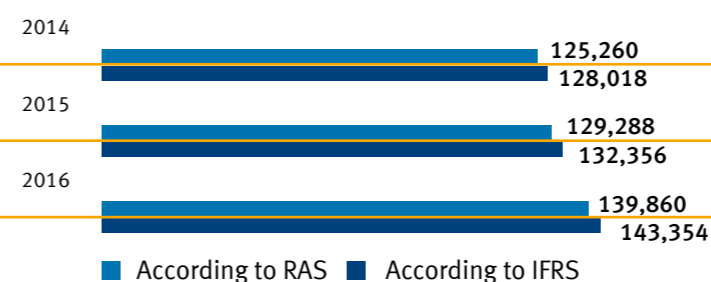
Distribution grid stations, ea



Output to the grid, mln kW·h



Revenue, RUB mln



Investment program financing, RUB mln



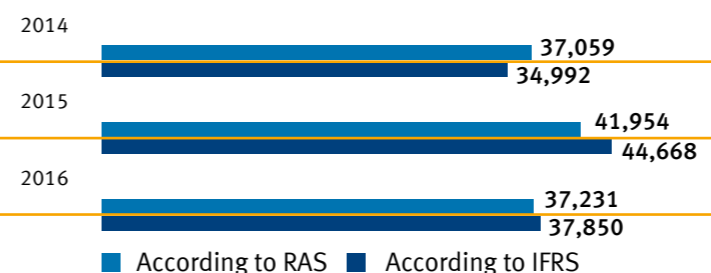
HV power supply centers, ea



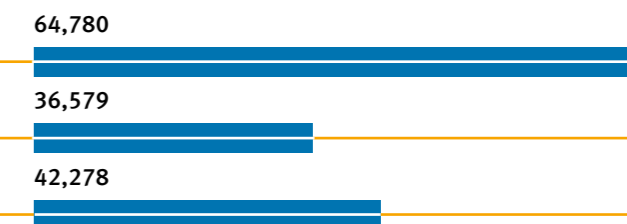
Losses, % from output to the grid



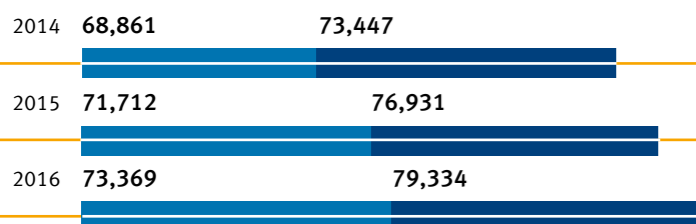
EBITDA, RUB mln



Market capitalization, RUB mln



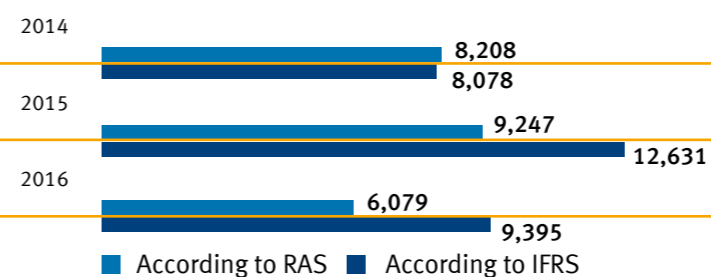
Length of power transmission lines, km



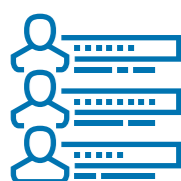
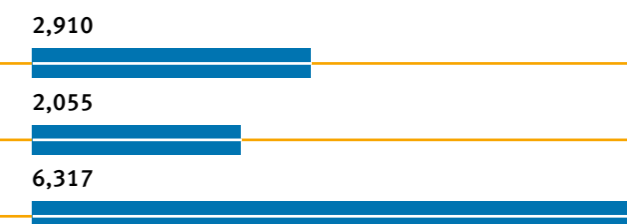
Volume of connected capacities, MW



Net profit, RUB mln



Dividends accrued, RUB mln



**14,823**

persons

Average number of PJSC MOESK staff



**82.1**

RUB mln

Training costs



**109.4**

RUB mln

Environmental costs



**1,555.3**

RUB mln

Social activities costs

# Address from the Chairman of the Board of Directors

**Oleg Mikhailovich Budargin**



**PJSC MOESK managed to achieve the objectives set for 2016, ensuring reliability and continuity of electric power supply to consumers in Moscow and Moscow region.**

The year 2016 for PJSC MOESK was marked by the improved openness of the Company. The Board of Directors approved the program to improve transparency on the key areas of activity. A special effort was made to fulfil the activities associated with accessibility of information and quality of services provided to customers. The emphasis was placed on such important areas as implementation of investment and repair programs, procurement activities, improvement of technological connection process and efficiency of interaction with external users of financial information.

In order to comply with the “Road Map” indicators of the Improvement of Energy Infrastructure Availability, required for inclusion of Russian Federation into TOP 20 of the World Bank Doing Business rating by 2018, the Company approved and successfully implemented a series of respective activities. A great attention was paid to popularization of interactive client services for connection to electric grids of the Company. An indicative result of the Company successful performance was the number of on-line applications for technological connection: almost every second applicant chose the electronic form of contacting the Company for technological connection. According to the end year results, this number was 45,000 customers.

In 2016, the Company started implementation of the Program of Energy-Saving and Efficiency Improvement Activities for 2016–2020. The innovative program projects are also successfully implemented. Within these projects the Company was awarded among the subsidiaries of

PJSC “Rosseti” for contribution to the innovative development.

Fulfillment of the main part of the business plan indicators approved by the Board of Directors speaks for the competent planning and well-defined prioritization of the projects implemented by the Company.

To ensure financial stability of the Company in 2016 the Board of Directors approved the activity plan to improve the efficiency and financial and economic performance of PJSC MOESK.

The Company Management Board carried out a series of activities for the Company’s liquidity management, while optimizing the credit portfolio and achieving a decrease in the average weighted rate by almost one percentage point. This had a positive effect both on financial stability of the Company and on its rating position in the leading rating agencies. The Company’s strong business profile is supported by its predominant position among the electric power distribution operators in Moscow and Moscow region. It is worth noting also the successful management of influenceable costs which demonstrates the positive dynamics of the Company’s financial profile maintenance.

In 2016, PJSC MOESK carried out large-scale works to improve the corporate governance: recognition of two members of the Board of Directors as independent, approval of changes in the Audit Committee composition, establishment of the Corporate Secretary institution, the

new structural subdivision – Internal Audit Department, the Regulations on the Audit Committee and the Internal Audit Policy.

Compliance with the principles of the Corporate Governance Code by PJSC MOESK ensures observance of shareholder rights and provision of necessary balance of interests. In confirmation of this, the rating agency Expert RA (RAEX) assigned the highest level of management quality to PJSC MOESK in 2016. Due to the activities completed in the sphere of corporate governance, the shares of PJSC MOESK were included into the second level of listing.

It should be mentioned also that in 2016 the Board of Directors of PJSC MOESK coordinated further increase of dividends size up to 50% of profit according to IFRS for 2015. PJSC MOESK fully and timely paid dividends to the Company’s shareholders in the total amount of 6.3 bln rubles or 68.3% of the net profit according to RAS based on the work results in the previous period.

To improve the efficiency of management processes the Company implemented a series of internal structural transformations, including in the Company’s Moscow branches and in its executive body.

The Company’s shareholders, members of the Board of Directors and the Management Board of the Company played an active part in taking important decisions to improve the Company’s performance. In total, over the reporting period, the Board of Directors of PJSC MOESK considered 283 matters

associated with the Company operation and held 32 meetings, including 6 physical meetings.

I am confident that in 2017 PJSC MOESK will continue the activities focused on improvement of transparency of the Company’s operations in conformity the best international practices, including improvement of approaches in preparation and disclosure of information for the investment community, shareholders, suppliers and consumers of the Moscow area.

**O.M. Budargin**

# Interview of the Director General

**Petr Alekseevich  
Sinyutin**



**In the preceeding year, two large stations “Belorusskaya” and “Kozhevnickeskaya” were commissioned within the territory of Moscow. “Kozhevnickeskaya” station was opened in presence of Moscow Mayor Sergey S. Sobyanin on December 22, 2016.**

**– Petr Alekseevich, what are the main achievements and results of the Company operation in the reporting year?**

– Ensuring reliable electric power supply to consumers of the Moscow area is the main achievement of PJSC MOESK. The accident rate in the Company is traditionally low. In 2016, the number of technological violations in 6–220 kV electric grids decreased by 1.7% as compared to 2015. I believe this result is satisfactory taking into account numerous deenergized lines due to freezing rains in November. Speaking about natural disasters experience, we highly appreciated assistance from PJSC “Rosseti” staff. We enjoyed the support of our friend partners. Their professionalism and help were priceless in that hard period for us. We are much obliged to the Government of Moscow region and, especially, to the Government of Moscow which helped in time of need, providing with 90 mobile power plants. We managed to energize villages suffering from electric power loss over one night. This fact demonstrated that the Governments of Moscow and Moscow region recognize MOESK, first of all, as a partner company.

According to the results of 2016, the Company fulfilled its repair and investment programs. Among other works, the Company replaced over 300 km of noninsulated wires in 6–10 kV overhead power lines passing through forests with self-supporting insulated conductors, which significantly improved the reliability. Within

the framework of the investment program implementation, PJSC MOESK commissioned over 1,280 MVA of transformer capacities and 4,830 km of transmission power lines of all voltage ratings.

127 units of motor vehicles and special machines were added to the Company’s vehicle assets.

These figures stand up for the huge and well-coordinated work of the whole personnel. The totality of these activities was a guarantee of high quality and reliable energy supply to consumers.

The most important events of the last year included provision of electric power supply to the facilities of landmark nature such as “Military Patriotic Park of Culture and Recreation of the Russian Armed Forces “Patriot”. We ensured reliable power supply to all facilities participating in such significant events for the country as the Ice Hockey World Championship and the Elections to the State Duma and Moscow City Duma held in 2016.

**– How would you describe the sustainable development prospects of the Company for the current year and the following years?**

– In terms of the cornerstone strategic targets in the Company development, we make a special emphasis on maintaining the high level of economic efficiency and capitalization relative to the average industry level, achievement of reliability level indicators as required

by the regulatory authorities, provision of high quality service in the field of technological connections.

High quality power supply is the basis for development of the economy of the country and business. Therefore, the main task for the current year is to ensure high reliability of energy supply to consumers.

In the preceeding year, two large stations “Belorusskaya” and “Kozhevnickeskaya” were commissioned within the territory of Moscow. “Kozhevnickeskaya” station was opened in presence of Moscow Mayor Sergey S. Sobyanin on December 22, 2016 (on the Power Engineers’ Day which is especially valuable for us). The Company plans to continue construction of modern powerful feed centers.

Among the most important facilities is “Khovanskaya” station in New Moscow. This station is very important in terms of connection of new capacities, and in terms of ensuring system reliability for the Moscow area grids. At the moment, together with the Ministry of Energy of the Russian Federation, we consider the possibility of including this facility in the investment program of MOESK.

As part of the FIFA World Cup 2018, the Company carried out and will continue to improve its network infrastructure. The FIFA World Cup 2018 facilities will need 123 MW of additional capacity.

In 2016, the Company established the basis for implementation of the program for stable decrease of power losses. Significant volume of works will be done within the current year under the new Standard “Power Losses Control in PJSC MOESK” approved by the Board of Directors of the Company.

I am sure that the highly professional team of MOESK will successfully cope with all its goals and objectives.

**– We would like to discuss the priority tasks in more detail. One of the key areas of the Company activity is its systematic work on prevention of electric power losses and the goal to rank Moscow as the most energy-efficient city in Russia. What else remains to be done and what problems must be solved?**

– Reduction of electric power losses was always one of the top priority areas for MOESK. Within the period 2013 to 2016 we managed to reach the reduction of power losses in Moscow electric grids from 9.02% to 8.33% of output to the grid. In this regard the Company’s objective for 2017 is to reduce electric power losses up to 7.7% of output to the grid. Watching this downward curve gives you a feeling of satisfaction with the work fulfilled. However, there is still much work to be done and achieved. The Company has got significant reserves. Further reduction of power losses requires changes in the relations with PJSC “Mosenergosbyt” i.e. we need a common data base of consumption. In case of common data base all

issues related to unaccountable and non-contractual consumption will be reflected equally, and this will lead to increased number of kilowatt-hours and cash receipts by the Company.

**– Equally large-scale works are done by MOESK in terms of making easier the process of consumers technological connection to electric grids.**

– MOESK is the first Russian electric grid company having introduced and applied the on-line connection to electric grids algorithm. Every second applicant chooses electronic form of application to the Company (50% of on-line TC applications submitted). All connection stages are accessed through Personal Account on MOESK website or TC portal [tp.moesk.ru](http://tp.moesk.ru).

## MOESK is the first Russian electric grid company having introduced and applied the on-line connection to electric grids algorithm.

Average number of connections to electric grids performed by MOESK specialists is over 200 daily.

The Company pays special attention to eligible consumers with the power rating requirements up to 150 kW, as well as to small and medium businesses.

The World Bank Doing Business – 2017 rating recognized the reform of PJSC MOESK in the category “Getting Electricity” on the reduced financial load to entrepreneurs, while in the categories “Electric Power Supply Reliability Index” and “Transparency of Tariffs” Moscow proved its last year’s maximum 8 out of 8 points. This allowed

Moscow to improve its last year’s result and strengthen its 25<sup>th</sup> position in the rating.

The Effectiveness of Electric Power Connection Procedures Indicator was given the highest category AAA in Moscow and Moscow region. Thus, Moscow took the leading position in the National Rating and Moscow region was the second.

Despite the legally established period of 180 days for technological connections up to 150 kW, MOESK managed to reduce this period of technological connection from 90 days up to 80 days with the view of creating comfortable conditions for development of small and medium businesses in this region.

PJSC MOESK constantly improves the forms of interaction with customers and expands its range of services. Suffice to say that we started with the program for TC applications processing “3 Steps in 2 Visits”, and then reached the “Zero Visits” program, where all documents are processed remotely through electronic signature, and the client receives two contracts simultaneously: technological connection contract and energy supply agreement. This is a huge advance.

At the same time, the Company has reserves for improving the procedure of technological connection in terms of construction speed-up,

simplification of documents coordination, especially in Moscow. In this area we work in close cooperation with the Government of Moscow.

**– MOESK pays great attention to consolidation of the electric grids in the Moscow area. At what stage is this work and do you plan to continue the consolidation?**

– The Company is now focused on consolidation of the abandoned grids of small owners, gardeners’ non-commercial partnerships, housing cooperatives. It is important to understand that the balance sheet attribution boundary is rather conventional. Disappointing state of “not our” power lines automatically leads to increased accidents rate, including in MOESK. In 2016, within the frames of uncompensated consolidation, the Company included in the assets list 4,540 conventional units (according to the scope of electric equipment it is almost one power grids region), including grids of 242 summerhouse communities and other non-commercial associations of residents.

As for the Company’s tasks for 2017, the Board of Directors will consider the three-year program of electric grid assets consolidation, which must be focused, according to PJSC “Rosseti” methods, on annual consolidation of at least 15% of uncontrollable gross revenue requirement in each region of operation. Consolidation with the grids owned by Moscow and Moscow region is a strategic issue for MOESK. This solution will result in further reduction of accidents rate. Therefore, the objectives set by the Company I would call challenging enough.

## The use of modern equipment and advanced technology contributes to a significant reduction in future operating costs.

**– Much has been done for development of the electric grid complex in the territory of New Moscow. Will the year 2017 be equally active in this area?**

– The New Moscow branch works in close cooperation with the Department for Development of New Territories under the Moscow Government. The scope of works in progress is impressive. Undoubtedly, development of the New Moscow electric grid complex will be continued. As part of the branch investment program implementation, the Company will carry out systematic reconstruction and updating of distribution grid, including replacement of non-insulated wire with self-supporting insulated wire and outdated equipment of transformer substations and distribution points with modern ones.

Moreover, the branch implements the pilot project of Smart Grids technology allowing to monitor and automatically control the grids parameters.

To improve the reliability of power supply and ensure the possibility of technological connection of new consumers, the branch carries out reconstructing of the existing feed centers and building of new high-voltage substations.

**– Considering the existing economic situation, Russian companies, including not only electric grid companies, are committed to the principle of investment costs optimization. What lies behind this for MOESK?**

– A more careful approach to prioritization of ongoing projects, redistribution of financing for projects having significant impact on reliability and quality of electric power supply to consumers; removal from the investment program of the facilities intended for a more distant future. In other words, the construction needs to be done where capacities will be in demand.

An important aspect is technical solutions optimization through release of a line of standard projects which provide economically viable solutions. Cost of construction is optimized in the framework of development and application by the Company of methods for reducing investment costs, introduction of independent construction control, passing an independent state expertise for all power grid facilities rated for 35 kV and above.

In terms of the investment programs accomplishment, MOESK is committed to the optimization principle related to the use of all types of resources. On the one hand, import substitution

programs lead to substantial saving in the cost of equipment while not affecting the construction quality and having a negative impact on reliability indicators. On the other hand, the use of modern equipment and advanced technology contributes to a significant reduction in future operating costs. In each specific case, we need to take well-balanced decisions and avoid formal approaches.

The investment program for 2017 approved by the Moscow Government, the Government of Moscow region, the Board of Directors in the amount of 34.9 bln rubles can provide high reliability indicators of the Company both in the short term and in the distant future.

P.A. Sinyutin

# Key events in 2016

## January

01

Establishment of Moscow High Voltage Grids branch in MOESK.

12

MOESK launched a new service: sms notification about scheduled electric power shutdowns.

14

RAEX Rating Agency assigned the “Exceptionally high level of governance quality” to MOESK.

21

MOESK completed large-scale reconstruction of 220 kV station “Tsentralnaya”, having increased its installed power rating by 30%.



## February

17

MOESK increased by one third the capacity of 100 kV “Fryazino” station up to 160 MVA to provide electric power supply to more than 50 thous. consumers.



## March

21

Within the framework of the innovative development program, MOESK obtained 4 invention patents in the sphere of energy.



23

Launching of the joint project of the Russian Ministry of Energy and MOESK: “On-Line Connection” webinars.

28

MOESK Contact Center was among the winners of the premium annual international award “Crystal Headset”. An electric grid company became one of the prize-winners for the first time.

31

MOESK commissioned double-circuit cable line of 110 kV “Butyrki-Samarskaya A, B” in the center of Moscow.



## April

20

MOESK became the winner of the All-Russian Contest “Creating the Future”.

21

To improve reliability of electric power supply to consumers in the South-East Administrative District of Moscow, the capacity of “Lyublino” station was increased by 60%.

## May

04

The Board of Directors of PJSC MOESK approved the increase of dividend rate up to 50% of the profit according to IFRS.

17

MOESK completed one of the most complicated projects on revamp of overhead transmission power lines in Moscow with installation of the up-to-date supports in the territory of the Food City agricultural cluster.

20

Revamp of “Chistaya” station was completed, with the capacity increased more than two times up to 130 MVA.



## June

06

MOESK held the Annual General Meeting of Shareholders.

06

The Head of PJSC “Rosseti”, Oleg Budargin, became the President of the Board of Directors again.

15

MOESK constructed a training polygon for College of Modern Technology named after Hero of the Soviet Union M.F. Panov.

## July

28

MOESK installed unique aesthetic supports at Kaluzhskoe shosse.



## August

17

Southern branch of MOESK launched the operation of Zhukovski power grids region.

31

The Governor of Moscow region, Andrei Vorobiev, visited MOESK Customer Service Center in Solnechnogorsk.



## September

05

MOESK completed a series of works to provide the required capacity to “Patriot” Park.

06

Within the shortest time MOESK carried out connection of 19 transport interchange hubs of the Moscow Central Circle.

29

“Presnya” station underwent the next stage of revamp to ensure reliable power supply of the FIFA World Cup 2018.

## October

21

MOESK was given the Passport of readiness for fall/winter period 2016–2017

24

PJSC MOESK was awarded by PJSC “Rosseti” for contribution in innovative development

28

Fitch Ratings confirmed the MOESK rating at the level BB+, with stable outlook.

## November

02

MOESK-EV Project reached a new level: filling stations in Moscow region launched MOESK electric charging.



11

MOESK held public hearings on the investment program for 2016–2021 in the Moscow Region State Duma.

25

MOESK completed revamp stage of 110/10/6 kV “Dedovo” station in Istrinsky district: its power rating was increased 1.5 times up to 80 MVA.



25

MOESK announced about the 10-fold decreased dependence on imported materials and equipment at the ENES-16 Forum.

28

The Governor of the Moscow area expressed gratitude to “Rosseti” for efficient works on restoration of electricity supply after the freezing rains.



## December

01

The Annual Report of PJSC MOESK for 2015 was rewarded with the highest rating by Expert RA.

12

MOESK conducted the first Annual Procurement Forum.



# 1. About the Company



**70.12%**

share of PJSC MOESK  
net supply in the Moscow area

**15,117**

persons  
number of the Company's personnel  
as of December 31, 2016

**46.9**

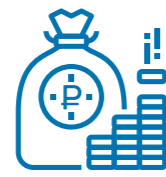
thous. km<sup>2</sup>  
serviced territory

**8 and 4**

branches and subsidiaries

# 1.1. General Information

As of December 31, 2016, the structure of PJSC MOESK included 8 branches, the Company group included 4 subsidiaries.



The total amount of Company capital (as of December 31, 2016)

# 341,609,603

thous. rubles

Public Joint-Stock Company Moscow United Electric Grid Company (hereinafter referred to as PJSC MOESK or the Company) was established as a result of restructuring through spin-off from OJSC “Mosenergo” on April 1, 2005. The head office of the Company is located in Moscow.

The Company’s shares are admitted to the securities market and traded on the Moscow Stock Exchange (for more details see the section “Information for Shareholders and Investors”).

The main types of Company activities are transmission and distribution of electric power, technological connections of consumers to power grids within the Moscow area which comprises two constituent entities of the RF – the city of Moscow and Moscow region. Electric power output from the grid to consumers and associated LGOs by PJSC MOESK within the limits of balance and operation responsibility in 2016 was 90,637 mln kW-h.

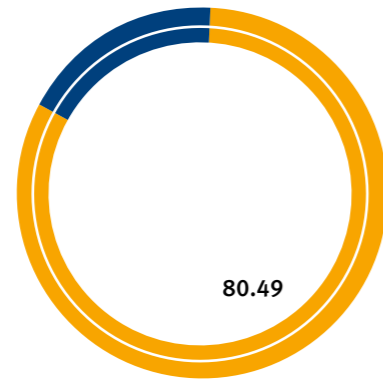
As of December 31, 2016, the Company had 25 client service offices:

The number of the Company’s personnel accounted 15,117 persons as of December 31, 2016. The Company’s revenue in 2016 made the amount 139,860 mln rubles according to the RAS.

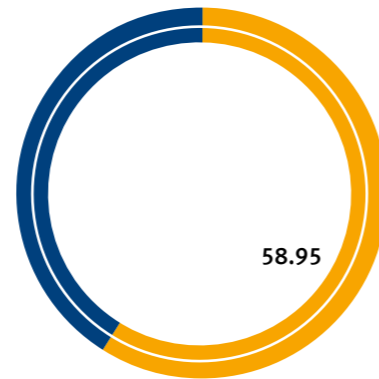
The total amount of Company capital as of December 31, 2016 was 341,609,603 thous. rubles with 55.8% being represented by the equity capital (190,764,896 thous. rubles) and 44.2% being represented by borrowed capital (150,844,707 thous. rubles).

As of December 31, 2016, PJSC MOESK was the member of national and international industry-specific self-

Share of PJSC MOESK in the Power Transmission Services Market (net power supply) in 2016, %



Moscow, PJSC MOESK



Moscow region, PJSC MOESK

regulating organizations and non-commercial partnerships specialized in power energy, and took part in the meetings for the members of these organizations, namely:

- All-Russian Industrial Association of Electric Power Industry Employers (RaEL Association),
- Self-Regulating Organization “ENERGOPROJEKT Association”,
- Non-Commercial Partnership “EnergoProfAudit”,
- Non-Commercial Partnership “The Scientific and Technical Council of the Unified Energy System”,
- Association “Non-Commercial Partnership of Local Grid Operators”,

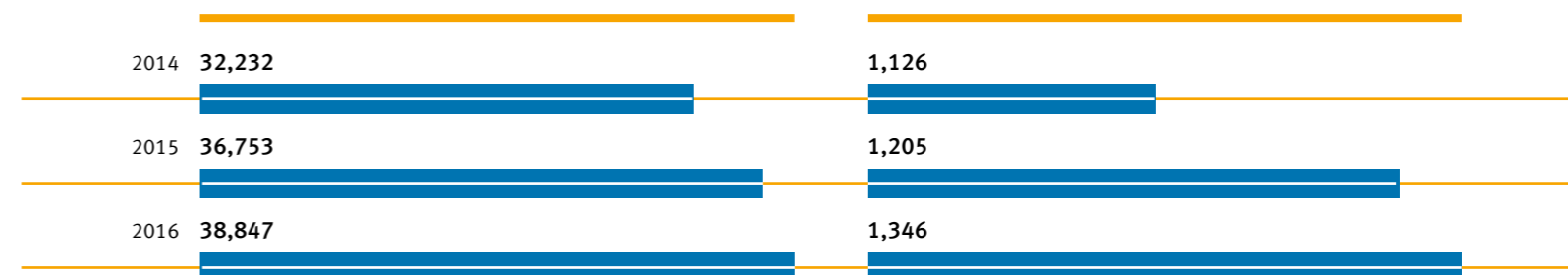
- Non-Commercial Partnership “National Committee SIREN. Electric Distribution Grids”,
- Self-Regulating Organization UNION “ENERGOSTROY”.

### Mission

Providing the electric power for the capital region of the Russian Federation, PJSC MOESK intends to ensure the maximum level of reliability and availability of distribution grid infrastructure due to the use of energy efficient technologies and innovations, and due to strict compliance with the global quality standards of service delivery and observance of the best corporate governance practices.

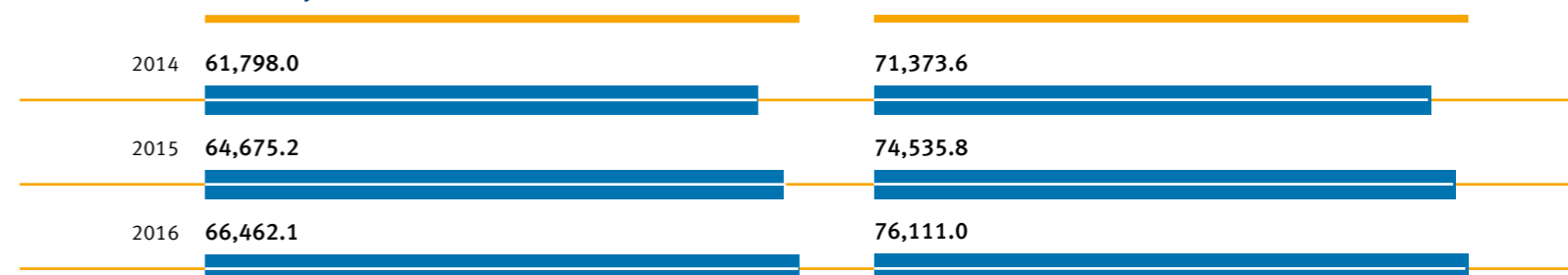
# 1.2. Structure of Electric Grids Assets

Stations Rates for 6–220 kV, ea.



Distribution Points Rates for 6–20 kV, ea.

Length of 0.4–220 kV Overhead Power Lines by Route, km

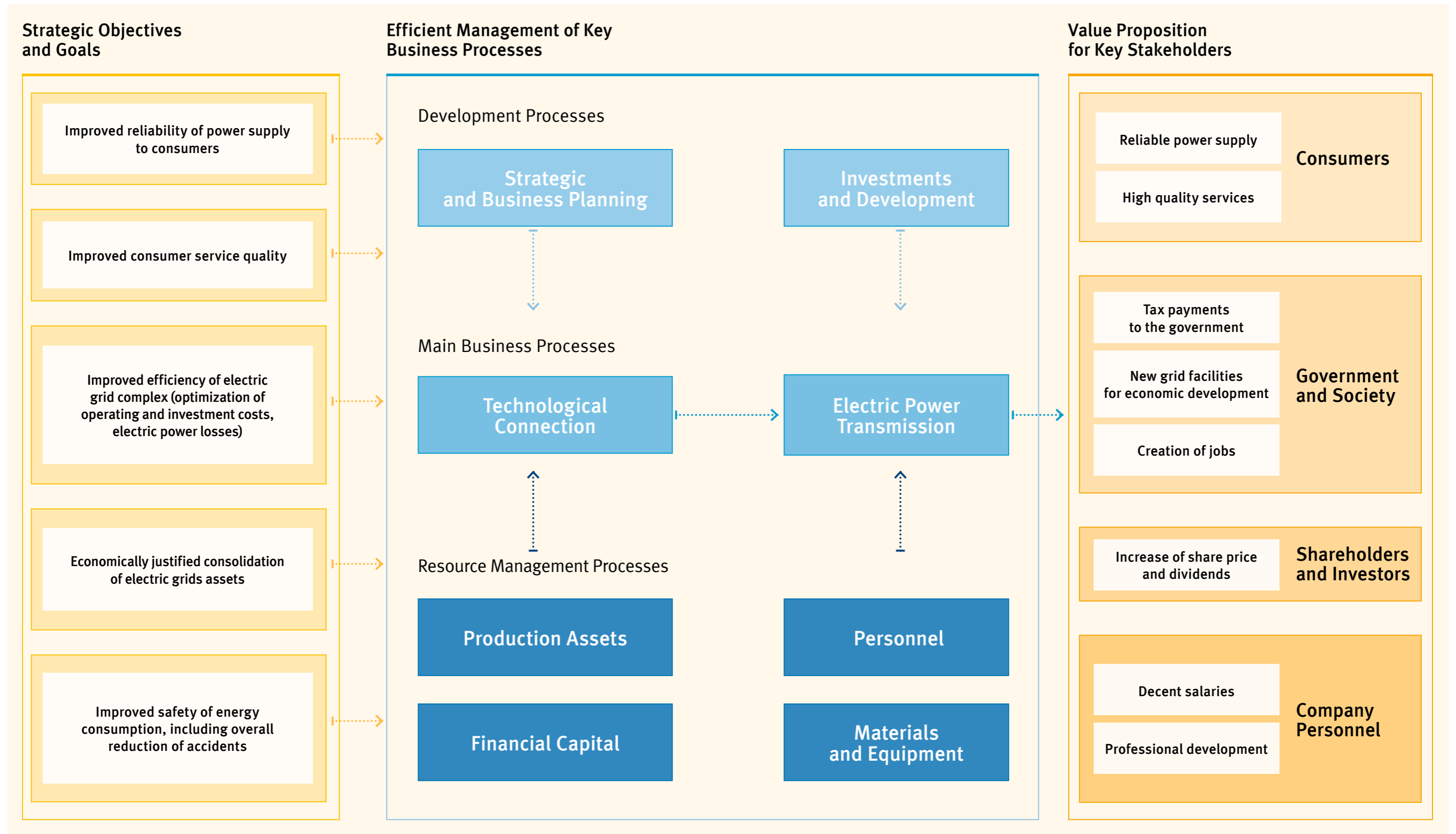


Installed Power, MVA

Length of 0.4–500 kV Cable Lines, km



# 1.3. Business Model



## Electric Power Transmission and Distribution Process

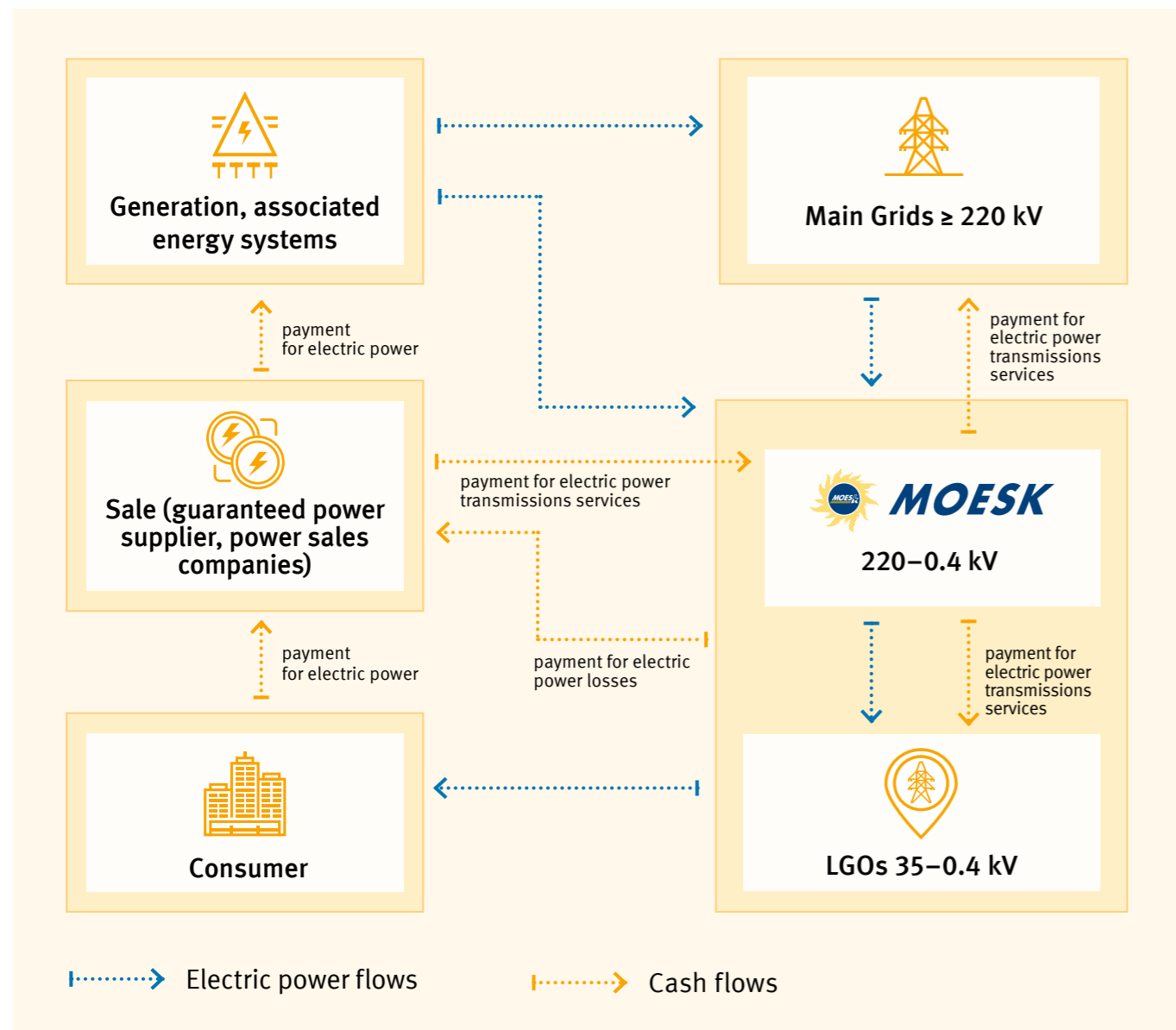
PJSC MOESK provides electric power transmission services to guaranteed power suppliers, utility companies and direct consumers — members of wholesale and retail electric power market under the contracts on electric power transmission services. The contract subject is performance of a complex of organizational and technical activities as required to supply electric power to end users of PJSC MOESK, which have their electrical installations connected directly to PJSC MOESK grids and to local grid operators (LGOs).

PJSC MOESK receives the electric power from the power generating companies

(power plants, block stations), associated energy systems located in the nearby constituent entities of the Russian Federation, main electric grids – grids rated for 220 kV and above (PJSC Federal Grid Company of Unified Energy System or PJSC FGC of UES) and transmits this electric power to the terminal points of end users or LGOs.

For electric power transmission services, PJSC MOESK performs mutual settlements with the power supply companies (guaranteed power suppliers, direct consumers) and grid companies (LGOs, PJSC FGC of UES) according to the electric power transmission tariffs established by the Regional Energy Committee of Moscow and the Pricing and Tariffing Committee of Moscow Region.

In the course of electric power transmission certain power losses occur in electric grids due to a normal electric power transmission process. The volume of losses is measured as the difference between the volume of energy received by the Company's own grid and the volume of energy delivered to the consumers connected to the Company grids and the volume of energy transmitted from the Company's own grids to the grids owned by LGOs. The electric power losses in the Company's own grids are purchased by PJSC MOESK from the guaranteed power supplier under the electric power sale agreement in order to compensate for such losses.



## 1.4. Strategy

### 1.4.1. Market Position and Development Prospects



According to Mosoblstat (Moscow City Statistics) the industrial production index for Moscow in January – December 2016 compared with the same period in 2015 was 102.0%, the index on production and distribution of electric power, gas and water – 103.0%.

According to Mosoblstat (Moscow Region Statistics) the industrial production index for Moscow region in January – December 2016 was 113.8% compared with the same period in the previous year.

The Moscow area is considered as the area of sustainable and advanced development.

The basis of the production sector development in the Moscow area will be formed by a series of industrial parks and technology parks locating new industrial enterprises and industrial and logistics facilities.

The priority areas of housing construction development and services are reclamation of former industrial zones in Moscow: areas with great potential for purposes of construction of residential and commercial facilities, social infrastructure (industrial zone “ZIL”, territory of Tushinsky aerofield, territory of “Serp i Molot” plant, territory of Shelepikhinsky quay).

Over the period 2012–2016, the electric power consumption tended to grow in the Russian Federation and the Moscow area, which is caused by the Russian economic redevelopment.

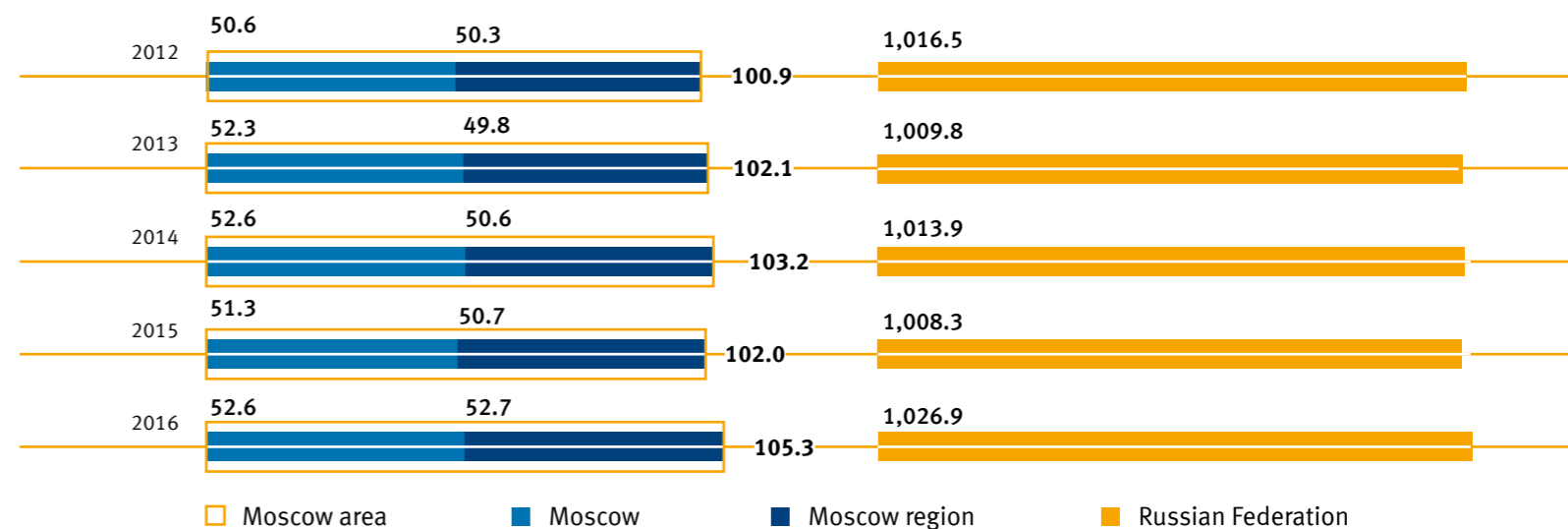
The electric power demand is projected to rise throughout the years 2017–2021 in the Russian Federation and the Moscow area.

Power consumption is permanently growing in the Moscow area due to additional population inflow from

other regions, including in framework of implementation of the following basic investment projects:

- Moscow: Administrative and Business Center in Kommunarka settlement, The Skolkovo Innovation Center, Financial Center in the Rublevo-Arkhangelskoe territory, technology parks of Moscow, comprehensive development of the city territories (including the territory of ZIL Plant), development of special economic zones, increased power consumption of Moscow International Business Center “Moscow City”, development of railway transport, underground railway, etc.;
- Moscow region: comprehensive development of Moscow adjacent areas (MEGAGOROD, etc.), Industrial parks of Moscow region, “Patriot” Park, Moscow – Kazan High-Speed Railway, etc.

Dynamics of Electric Power Demand in the Moscow Energy System, bln kWh

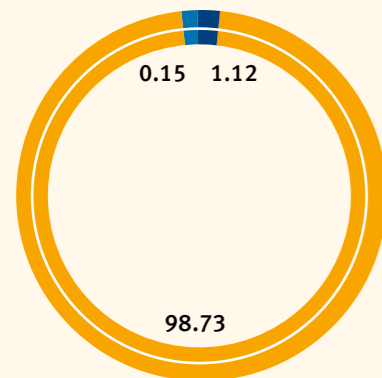


Dynamics of Electric Power Demand in the Russian Federation, bln kWh

## Main Consumers of Services

### Electric Power Transmission

#### Main Consumers of the Company Services, %



- Guaranteed power suppliers
- Electric power supply companies
- Direct consumers

### Technological Connection

In 2016, technological connection was implemented in the following facilities:



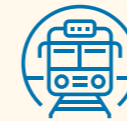
#### Social facilities

- 2 hotel and office complexes with apartments and parking lots of OJSC “Inteko”, Moscow (Total maximum power rating – 11.4 MW)
- Hotel and Business Complex with Underground Parking LLC “Information and Consulting Group INFINTRAST”, Moscow (4.5 MW)
- Hotel and Office Complex “Pekin”, Moscow (4.4 MW)
- Complex of buildings and facilities of Federal State Budgetary Educational Institution of Higher Education “A.I. Evdokimov Moscow State University of Medicine and Dentistry” of the Ministry of Healthcare of the Russian Federation, Moscow (5.7 MW)
- 2 maternity hospitals in Moscow region, city of Sergiev Posad and city of Ramenskoe (total maximum power rating 3.9 MW)
- 11 Temples (1 MW)
- 10 schools and kindergartens (3 MW)



#### Retail outlets

- Shopping Center “Kurskiy”, Moscow (3.2 MW)



#### Road and transport infrastructure

- Transport interchange hubs of the Moscow Central Circle – 19 units
- Other facilities (roads, traffic lights, cross walks) – 92 units (10 MW)
- Commissioning of 3 underground stations “Butyrskaya”, “Fonvizinskaya”, “Petrovsko-Razumovskaya”



#### Administrative buildings

- Multi-service complex OJSC Avtokombinat No.11, Moscow (9.7 MW)
- Complex of facilities OJSC Bolshevik, Moscow (5.1 MW)
- Building of Shcherbinsky court and the township OMON



#### Electric grid facilities

- 110 kV station “Bersenevskaya” (partial technological connection), Moscow (7.9 MW)



#### Housing development

- Electric power supply to large-scale housing development (Dmitrovskoe sh., 167; Beskudnikovo, mkrn 5)
- Technological connection of complex development of LLC “Samolet Development” (maximum power rating 23 MW);
- 16 residential houses (6 MW)



#### Facilities of the FIFA World Cup 2018

- PFC CSKA (15 MW)
- Reconstruction of the Great Sports Arena “Luzhniki” (24 MW), connection of a series of facilities in the territory of the Olympic Complex “Luzhniki”
- Implemented activities ensuring the technological connection of the facilities for reconstruction and development of Sheremetyevo International Airport (maximum power rating 6.46 MW)

## Competitors

**PJSC MOESK is one of the largest interregional distribution companies in the Russian Federation and the largest distribution company in the Moscow area.**

### In Electric Power Transmission

Among the largest companies providing similar services in the territory of Moscow are JSC United Energy Company (JSC UEC) and JSC "Energokompleks", in Moscow region – JSC Moscow Region Power Grid Company (JSC "Mosoblenergo"), JSC "Oboronenergo", JSC "Bogorodskaya Elektroset", Municipal Unitary Enterprise "Sergievo-Posadskaya Elektroset", Municipal Unitary Enterprise "Podolskaya Elektroset", Municipal Enterprise of Schelkovsky district "Schelkovskie Elektroseti".

### In Technological Connection

Among the largest companies performing similar activities in Moscow are JSC United Energy Company (JSC UEC) and JSC "Energokompleks", in Moscow region – JSC Moscow Region Power Grid Company (JSC "Mosoblenergo"), OJSC "Odintsovskaya Elektroset", OJSC "Oboronenergo", CJSC "Elektrosetekspluatatsia".

## Competitive Advantages of PJSC MOESK

### Strengths

- Well-developed grid infrastructure with 0.4–220 kV power rating in the Russian Federation region with the highest growth dynamics
- Dominant position in electric power transmission market
- Possibility to arrange electric power supply with any level of reliability
- Developed structure of operative and technological grid management
- Developed network of customer service centers for provision of technological connections

### Opportunities

- Increase of market share due to fast development of grid infrastructure and acquisition of territorial grid companies of the second level
- Improvement of reliability and economic efficiency of grids due to implementation of smart grid technologies
- Reduction of losses due to implementation of complex approaches to energy efficiency
- Generation of additional revenues from non-regulated activities
- Improvement of operating efficiency due to implementation of cost-cutting potential and increased labor output

## Comparison of PJSC MOESK with Russian Peer Companies Based on the Result of the Reporting Year

Company	Revenue according to RAS in 2016	Installed power rating	Power net supply
	RUB mln	MVA	mln kW-h
MOESK	139,860	75,785	81,761
IDGC of Centre	86,110	53,681	57,100
IDGC of Centre and Volga Region	78,480	41,000	49,121
IDGC of Ural	65,452	30,500	64,652
"Lenenergo"	61,260	24,977	29,007
IDGC of Volga	53,211	35,316	N/A
IDGC of Siberia	47,506	30,600	62,700
IDGC of North-West	45,433	25,358	N/A
IDGC of South	31,414	24,000	25,489
IDGC of North Caucasus	15,701	16,013	10,158
TDC (Tomsk Distribution Company)	6,220	3,860	5,243



## 1.4.2. Priority Fields of Activities and Development Prospects of the Company

### Interview of the Director for Automation of Business Processes A. A. Areshkin

#### – What are the plans for the following period in the context of the Company's strategy?

– The main areas of the Company's development for the mid-term perspectives are defined by the Strategy for Development of the Electric Grid Complex of the Russian Federation. Based on the provisions of this Strategy, the Company identifies the following strategic priorities:

- improvement of reliability and quality of electric power supply in the Moscow area;

- improvement of consumer service quality;
- improvement of efficiency of the electric grid complex operation in the Moscow area;
- economically justified consolidation of electric grid assets in the territory of the Company operation;
- improvement of electric power supply safety, including safety at work.

In order to improve the reliability of electric power supply to consumers, the Company will continue to carry out retrofitting of its main electric grids assets.

100% of overhead circuit breakers at 110–220 kV stations will be replaced for more reliable modern solutions. The Company will continue to replace uninsulated wires of distribution grids overhead power lines with self-supporting insulated conductors.

Along with technical measures, the Company planned and now implements a series of measures of an organizational nature aimed at improved reliability of power supply to consumers. Specifically, the Company plans to update the power supply restoration system in emergency situations, including those caused by dangerous natural phenomena. Such measures also include the optimization of structure and functions of Safety Assurance Units for Electric Power Supply at all levels of control, establishment in the Company of the Situation and Analytical Center, systematic testing of personnel actions in emergency situations in the form of training.

Improvement of consumer service quality remains one the top priority objectives for the Company. The Company managed to achieve considerable progress in this sphere, however, PJSC MOESK will continue its activities to improve the service quality in the mid-term perspectives. Implementation of modern procedures for cooperation with customers, interactive and remote services,

reduction of terms for service rendering will be the issues of the Company's attention. The Company's plans include increasing the possibilities of applied IT solutions, which were already appreciated by customers. About 50% of applications for technological connection are submitted in electronic format. The short term plans include commissioning of modern CRM-system, implementation of the possibility of submitting electronic applications through the Portal of public services ([pgu.mos.ru](http://pgu.mos.ru)). Furthermore, the Company seeks to continuously expand the list and quality of additional services offered to customers.

While improving the reliability level of power supply, the Company has to reduce the costs to ensure this level. In the context of tariff growth limitations, the Company will continue its activities to reduce operating costs, improve the operating efficiency, expand the volume of services in non-regulated areas. Due to tariff limitations, the criteria for selecting the investment projects will become more strict and, as a whole, the transparency of the investment program will be improved.

We should separately mention the Company's attempts to reduce transmission electric power losses. The Company prepared and plans to implement the comprehensive

Program for Loss Reduction. PJSC MOESK will be focused on target activities intended to directly improve the energy efficiency. Implementing this Program, the Company plans to reach the electric power losses level in the grids 7.64% by the year 2021.

Consolidation of electric grid assets of other owners has a direct impact on both improvement of electric power supply reliability, and on the indicators of the Company's operating efficiency. The works will be continued in this area.

In order to improve power supply safety and reduce the total number of accidents, the Company will continue to implement the current programs to reduce the injuries rate at the electric grids facilities.

To assess the accomplishment of the above targets, we plan to develop a system of long-term planning indicators. Continues monitoring of the indicators fulfilment is envisaged. The key objectives are integrated with the system of key performance indicators of the Company's managers.

#### – In what way will the negative economic situation, in your opinion, affect the Company's development plans?

– Macroeconomic conditions of the reporting year, definitely, had certain restraining influence on the general industrial results in the electric power sector. Such factors as increase in the cost of borrowed resources, price rises

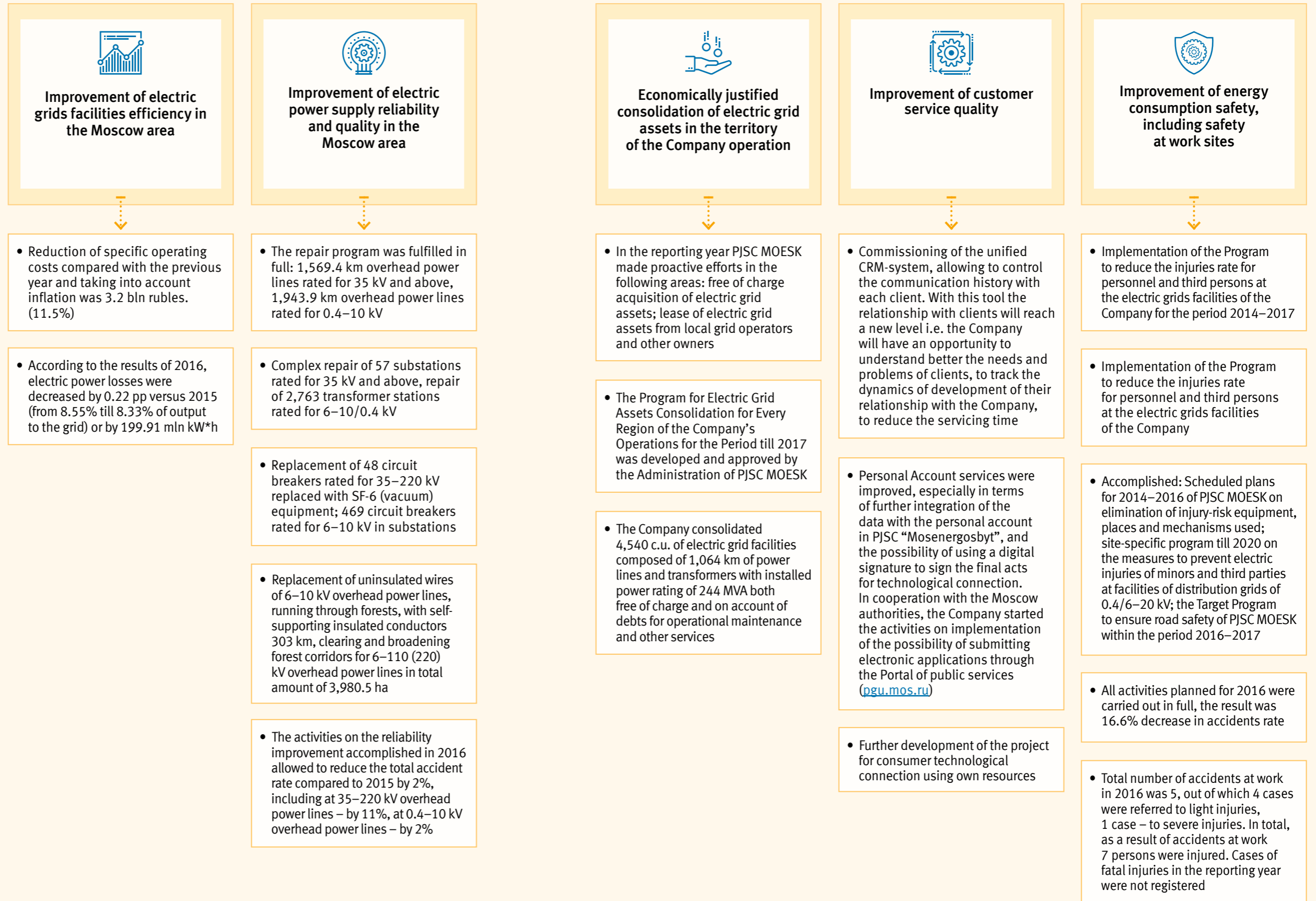
for imported investment goods, general economic uncertainty can lead to delays and cancellation of investment projects for electric power consumers. Related to the power industry as a whole, these tendencies may result in decreased growth rates of electric power consumption for the industrial sector in the medium term.

In the meantime, the current economic situation is not negative exactly, at least in the regions of PJSC MOESK operation (Moscow, Moscow region). After decline in economic activity in 2015, we observe certain stabilization of macroeconomic indicators, and in some sectors, specifically in industrial sector, a significant growth (113.8% growth of industrial production in Moscow region). The growth of the Company's electric power transmission services (net power supply) was 3.5% in 2016.

In order to prevent possible negative impact of macroeconomic factors, the Company took the internal costs optimization under its control. The Company tends to apply for domestic manufacturers of electric grids, including high technology equipment and software. We seek to use the existing capabilities and resources to the maximum, as well as to optimize business processes. We believe that the Company's response to the existing economic challenges in the form of increasing the efficiency of internal business processes will allow us to achieve the goals that we set for ourselves.



## Activities on the Priority Areas of the Company's Operation in 2016 and Other Results





## 1.5. Key Performance Indicators

The system of key performance indicators of the Company (KPI) was approved by the decision of the Board of Directors of the Company dated April 29, 2016 (the minutes No. 287 dated April 30, 2016).

The structure and methods of KPI 2016 calculation were adjusted in accordance with the decision of the Board of Directors of the Company dated December 30, 2016 (minutes No. 306 dated December 31, 2016) pursuant to the RF Government Directives of March 3, 2016 No. 1472p-P13 and of July 4, 2016 No. 4750p-P13 with regard to the KPI “Innovative Activity Efficiency” and “Reduction of Specific Operating Costs (Expenses)”.

In conformity with the decisions of the Board of Directors of the Company, the following structure and target values of key performance indicators were established for 2016.

The actual values of indicators taking into account the timing and order of the reporting execution, which is the source of information for their calculation, were not summarized and approved by the Board of Directors of the Company at the time of formation of the annual report.

The system of key performance indicators applied by the Company is interrelated with the size of the variable part of management remuneration – each of the indicators is assigned the specific weight in the form of paid bonuses, quarterly and annual bonus payment is effected subject to compliance with the corresponding KPI.

### Quarter-based indicators

Scope of indicators	Target values for 2016
Absence of major emergency occurrence rate growth	absence of growth
Prevention of growth in the number of injured persons in case of accidents	absence of growth
Financial stability indicator – leverage ratio	Equity Capital / Borrowed Capital $\geq$ 0.67 Modified current liquidity ratio $\geq$ 1

### Year-based indicators

Scope of indicators	Target values for 2016
TSR (total shareholder return)	> index adjustment MOEX RCI (Regulated Companies Index) for the reporting period + 0.01 percentage points
Return On Invested Capital (ROIC)	$\geq$ the planned value calculated in accordance with the Company's forecast indicators, established pursuant to the business plan formed taking into account the principles of the consolidated financial statements (IFRS)
Reduction of specific operating costs (expenses)	$\geq$ 10%
Level of power losses	$\leq$ the approved value in the business plan
Achievement of required reliability level of delivered services	$\leq$ 1
Reduction of specific investment costs	$\leq$ 1
Compliance with the commissioning schedule	$\geq$ 95%
Compliance with the due dates for technological connection	$\leq$ 1.1
Labor efficiency indicator	$\geq$ 2,181 rubles / man-hours
Share of procurement from small and medium businesses	$\geq$ 10% for share of procurement in which only small and medium businesses participate  $\geq$ 18% share of procurement from small and medium businesses (including contracts to the execution of which subcontractors / co-executors from small and medium businesses are involved)
Innovative Activity Efficiency	$\geq$ 90%

## 1.6. Quality Management System

The Company implemented and maintains the Quality Management System (QMS).

The main QMS participants include:

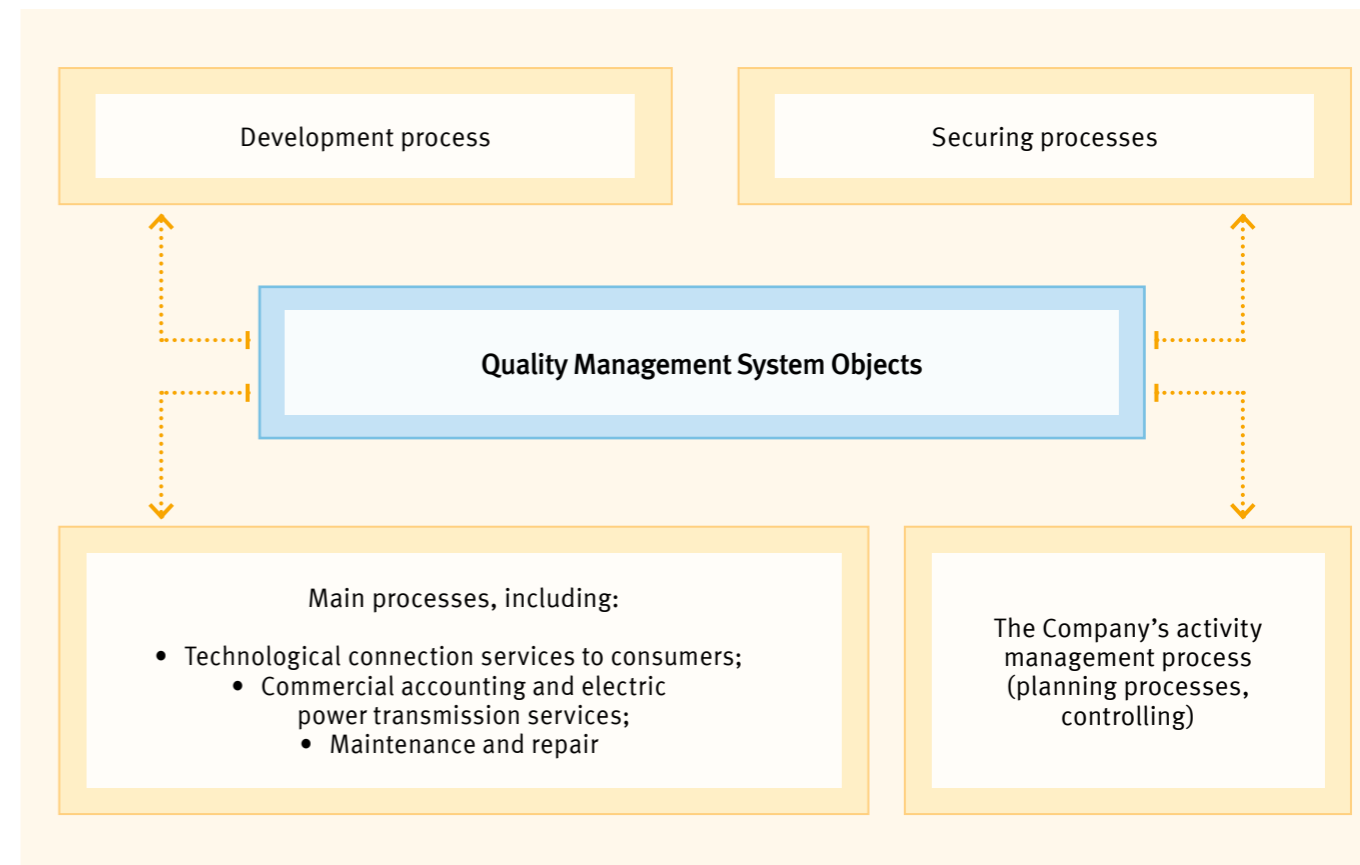
- the executive bodies of the Company: the Director General and the Administration;
- representative of the Company's quality management;
- the Business Process Standardization Department;
- all structural subdivisions of the executive body and branches of the Company.

Scope of application / certification of QMS in PJSC MOESK are as follows: “Provision of electric power transmission and distribution services and connection to electrical grids of PJSC MOESK”.

Compliance of the Company's QMS with the requirements of ISO 9001:2008 was confirmed by successful certification audits (in 2008 and 2015), supervisory audits (in 2009, 2010, 2012, 2013, 2016) and recertification audit (2011), held by the auditors of BUREAU VERITAS Certification.

In 2017, the Company plans to perform the following activities aimed at development of its quality management system:

1. The first quarter 2017 – completion of the second supervisory audit for compliance of the quality management system with the requirements of ISO 9001:2008.
2. Preparation of the quality management system of the Company for transition to the new version of ISO 9001:2015 for the purpose of confirming the compliance of the quality management system with the requirements ISO 9001:2015 in 2018 on the following scope of application: “Provision of electric power transmission and distribution services and connection to electrical grids of PJSC MOESK”.



# 2. Results of Company Activities



**2,523**

MW

Actual connected power capacities



**139,860**

RUB mln

Revenue according to RAS

Output to the grid, mln kWh

2014 88,765

2015 87,618

2016 90,637

Number of technological violations (accidents) in the grid rated for 6 kV and above, ea

2014 7,799

2015 6,516

2016 6,402

## 2.1. Operating Results

### 2.1.1. Transmission and Distribution of Electric Power

#### Interview of the Deputy Director General for Transport and Electric Power Metering S.V. Saltykov

##### – How would you describe the situation with electric power consumption in the Moscow area?

– Growth of electric power consumption is observed annually.

The overall output to the grid over the period of 5 years from 2012 to 2016 in the Company increased by 4.3% or 3.7 bln kW-h, while the average growth of the output to the grid made 1.1%.

The year 2016 was non-typical for the Moscow area and according to the year results the overall output to the grid in the Company was more than 90.6 bln kW-h, which is 3.5% higher than in the previous year.

Increase in electric power consumption in 2016 was due to the following reasons: an extra day of the leap year; stabilization of the economic situation that affected Moscow to a greater extent in 2015; unusual for this area weather conditions which had the greatest impact. In January 2016, the Moscow area suffered from severe frosts, while in June, on the contrary, the whole month was characterized by a stable high temperature. In the fall early frosts returned, and starting from October a very low temperature was observed, winter weather with its frosts established in November. The average annual ambient air temperature in 2016 was 1.03° lower than in 2015.

##### – How will the demand for electric power change over the next few years?

– The trend towards stabilization of the economy in this country contributes to the growth of demand for electric power both in the industrial sector, and in the sector of small business, social facilities and population.

The Company's Business Plan provides that the annual energy consumption will moderately grow in 2017–2021 at the level of 0.7%. The losses are expected to decrease from 7.70% in 2017 to 7.64% in 2021.

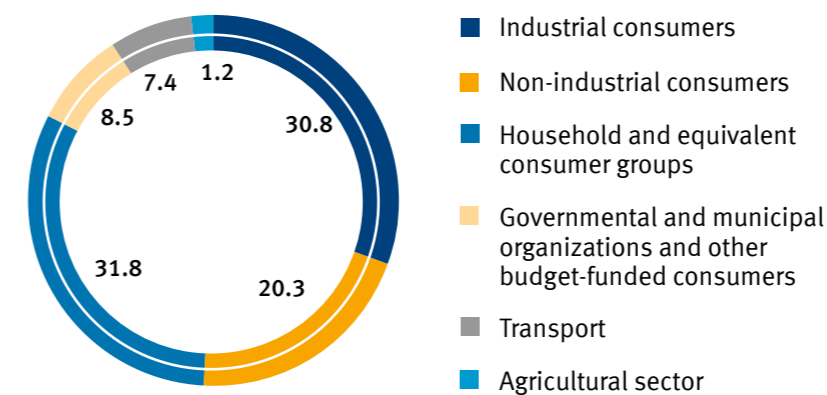


#### Electric Power Balance Indicators

Category	2014	2015	2016	2016/2015
Electric power output to the grid, mln kW-h	88,765	87,618	90,637	3.4%
Electric power output from the grid to consumers and associated LGOs within the limits of balance and operation responsibility, mln kW-h	80,980	80,127	83,088	3.7%
Losses, % of output to the grid	8.77	8.55	8.33	–0.22 pp
Losses, mln kW-h	7,785	7,491	7,550	0.8%
For reference:				
Volume of electric power transmission to consumers ("joint" power supply), mln kW-h	71,884	70,533	73,037	3.6%

Similar data with breakdown to Moscow and Moscow region are presented in Annex 6.3 to the Annual Report.

#### Structure of Electric Power Transmission Service Volumes in 2016 with Breakdown to End Consumer Groups, %



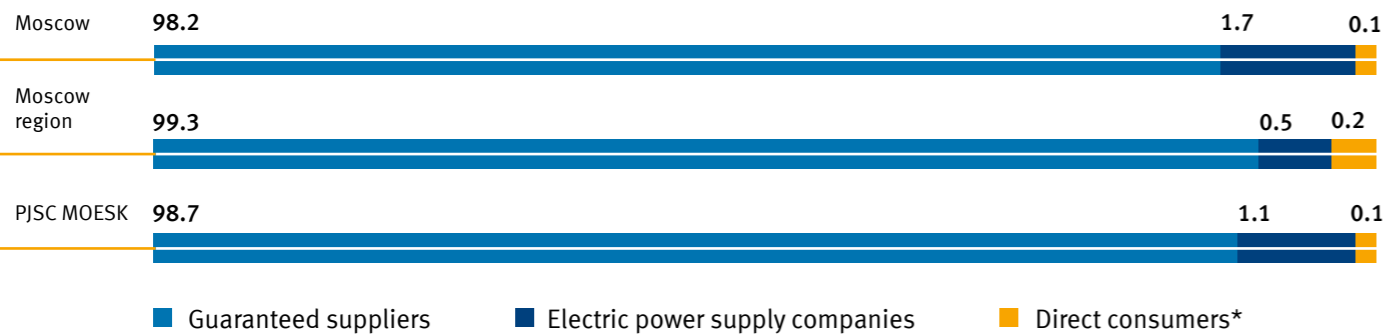
Similar data with breakdown to Moscow and Moscow region are presented in Annex 6.3 to the Annual Report.

The growth of power output to the grid and net power supply in Moscow, Moscow region and the Company was caused generally by the following:

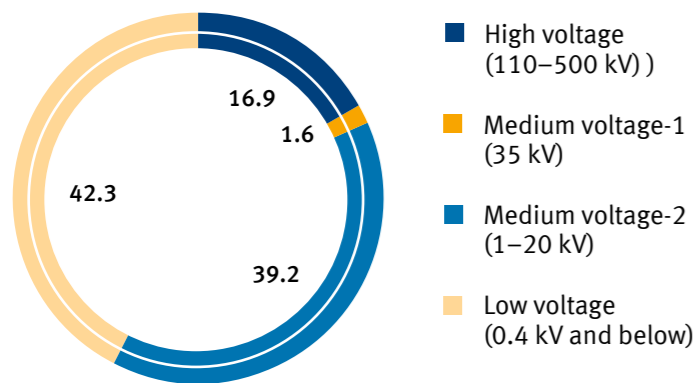
- Cold weather conditions during the first and the fourth quarters 2016 and abnormal hot summer (June-August),
- An extra day of the leap year led to increased power consumption by 247 mln kW-h.

Compared with the same period in the previous year, actual losses of electric power in the Company for 12 months of 2016 are lower by 0.22 pp due to the implementation of certain activities under the Program for reduction of electric power losses.

### Structure of PJSC MOESK Revenue from Electric Power Transmission Services in 2016 with Breakdown to Consumer Groups, %



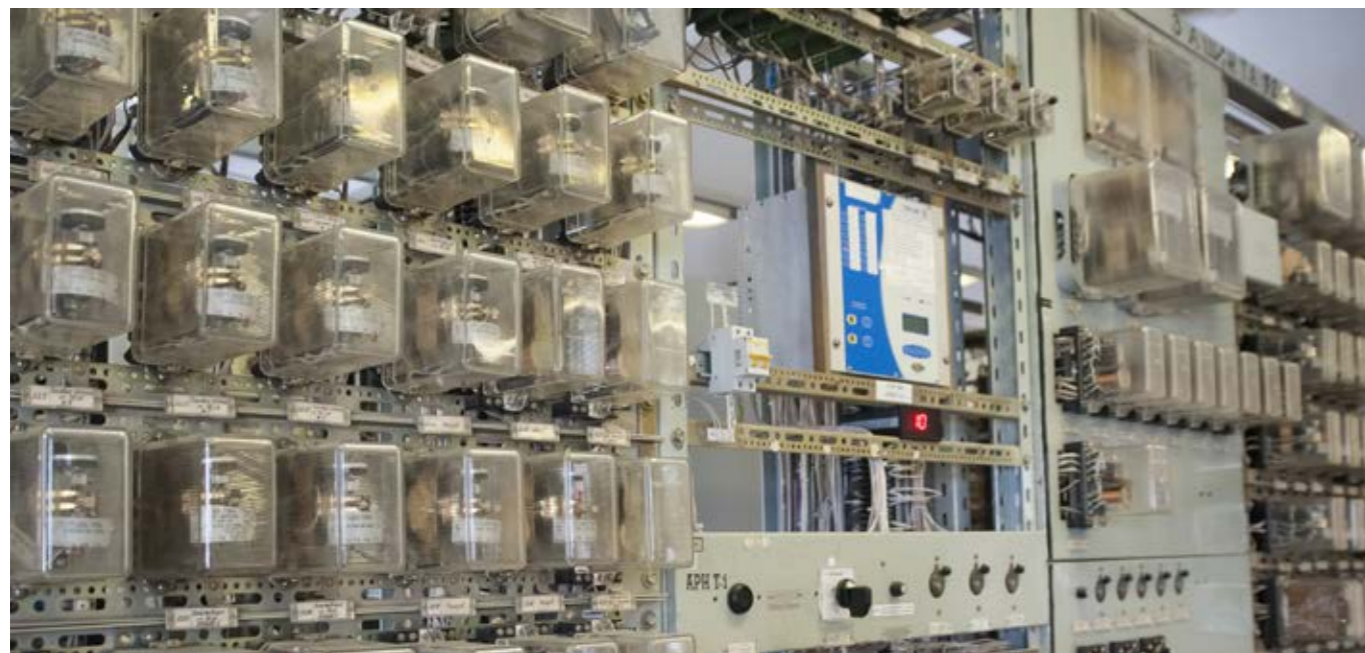
### Structure of Electric Power Transmission Service Volumes in 2016 with Breakdown to Voltage Levels, %



The most part of the Company's revenues from electric power transmission services is formed by revenues of the guaranteed power suppliers (GPS) – 98.7%, with the share of the largest GPS within the Moscow area, PJSC “Mosenergosbyt”, equal to 90% of all GPS revenues.

**90%**  
of all GPS revenues is the share of PJSC “Mosenergosbyt”, the largest GPS within the Moscow area,

Data with breakdown to Moscow and Moscow region are presented in Annex 6.3 to the Annual Report.



\* Direct consumers mean consumers having direct contracts on electric power transmission services with the grid company.

## 2.1.2. Technological Connection

### Commentary-interview of the Deputy Director General for Technological Connections and Service Development A.M. Pyatigor

– Launching of such programs as “3 Steps in 2 Visits” and “Zero Visits” contributed to simplification of the technological connection procedure. Due to the Zero Visits program applicants need no longer to physically visit the offices of the Company in order to implement the TC. Clients of PJSC MOESK may sign contracts related to technological connection with the digital signature and make payments under the contracts with their bankcards.

Today our main task is to transfer all application forms to an electronic format for the convenience of our clients. Within the framework of electronic document management, our specialists carry out the integration with the data bases of the largest retail energy sales companies of the region when issuing contracts on technological connection, which will further facilitate and accelerate the TC procedure for our clients. In order to improve the quality of customer service, the Company signed the Regulations with PJSC “Mosenergosbyt” in 2016 which provides for electronic interaction between the companies.

In 2016, the Company reached the new level of working with clients: all client offices of PJSC MOESK were

modernized, working hours were also changed (more than a half of client offices of PJSC MOESK are open during days off); pilot cooperation with the multi-service centre of Pushkinsky district was organized.

Further establishment of cooperation with multi-service centres for public services in Moscow region is expected during 2017. This will allow to extend the network of offices accepting the applications from customers up to 92 offices throughout Moscow region with the operating principle 7 days a week and to make services of PJSC MOESK available for all residents of Moscow region, including of remote areas where establishing a separate office is inexpedient due to an insufficient number of applicants.

According to the results of 2016, we observe a reduction in number of direct visits by 6% as compared to 2015, which is due to the active implementation and popularization of interactive services. During the period 2017–2018 the client offices network will be optimized, which will allow reducing clients services costs by 10–12 mln rubles per year.

In 2017, the Zero Visits program will be further implemented, providing an opportunity to sign with the digital signature all documents obtained by applicants in the course of technological connection application processing. The regulatory documents will be further developed and improved and the use of a simple digital signature will be introduced for clients with the power rating requirements up to 150 kW, the number of electronic applications will increase, the development of mobile applications for the Portal related to technological connection will continue.



## Results of Technological Connection Activities, MW

Description	2014	2015	2016
Actual connected power capacities	2,523	3,107	2,382
Total power rating for executed contracts on technological connection	3,729	2,903	2,607
Total power rating for submitted applications for technological connection	7,836	8,801	8,166

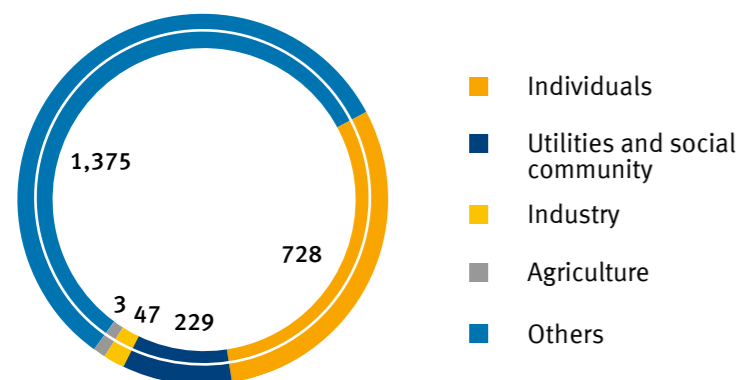
## Results of Technological Connection Activities, ea.

Description	2014	2015	2016
Total number of submitted applications for technological connection	92,735	102,031	102,137
Actual connections	57,499	77,355	70,518
Total number of executed contracts on technological connection	67,479	68,695	66,260



Data with breakdown to Moscow and Moscow region are presented in Annex 6.3 to the Annual Report.

## Distribution of Actual Connected Capacities with Breakdown to Branches of Economic Activity, MW



In 2016, as well as in 2015, in the structure of actual connected capacities subject to branches of economic activity, the major part is represented by the number of technological connections for individuals, however this indicator is lower by 14% versus 2015.

Decrease in the dynamics of the indicators 2016 compared to 2015 for tariff contracts (individual projects, standardized tariffs) is caused by the general economic situation in this country, which had negative impact on solvency of maximum power consumers.

The amendments to the RF Government Ordinance No. 861 of December 27, 2004 also contributed to this decrease, specifically:

- possibility of one and the same person to carry out technological connection of the power-receiving equipment owned by such person on the right of ownership or on other legal grounds, for a connection fee not exceeding 550 rubles and only once in 3 years;
- possibility for individuals to conclude infrastructure facilities use contracts, in case of technological connection of the power-receiving equipment owned by such individuals for private gardening purpose in the territory of gardeners' non-commercial partnerships, with the use of infrastructure facilities and other common use property.

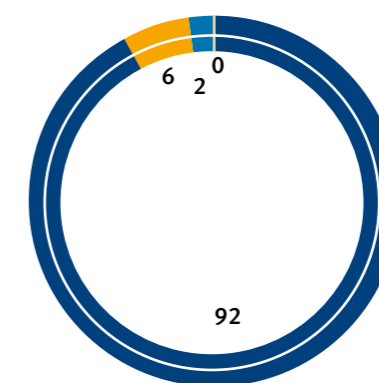
Since 2015, in order to ensure control over the volumes of income decrease due to provision of technological connection services at the reduced price for the eligible consumers in Moscow and Moscow region, the Company started to use the procedure for calculation of average costs for connection of eligible consumers at the reduced rate and established the limit of average technological connection costs.

In 2016, the limit was reduced up to 45 thous. rubles without VAT per each eligible connection. The actual indicator of average cost remained at the level of 33,851 rubles starting from commencement of the Order and till December 31, 2016, the target indicator was achieved by 133%, the reduction relative the actual limit of 2015 – 24%. As a result, due to improved efficiency of construction

in 2016, the volume of income decrease was reduced by 4,821 mln rubles by the year 2014 and 1,555 mln rubles by the year 2015.

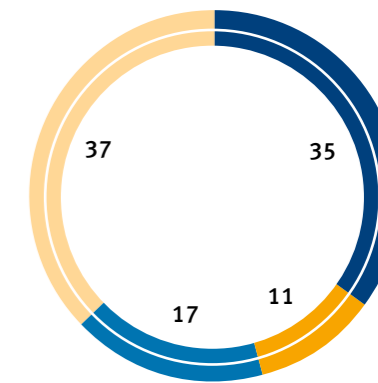
In 2017, with the purpose of further reduction of financial cost loading, the cost of technological connection service at reduced price for the eligible consumer is limited to 33 thous. rubles without VAT.

### Actual Connections (total number), %



- Up to 15 kW, total
- Above 15 kW and up to 150 kW

### Actual Connections (connected power capacities), %



- Above 150 kW and under 670 kW
- At least 670 kW

## Number of Contracts with Breakdown to Technological Connection Price Calculation Methods

Category	2014	2015	2016	2016/2015
Total number of contracts, ea., including	67,479	68,695	66,260	-3.5%
individual project	31	23	5	-78.3%
standard tariff rates	942	857	761	-11.2%
rate per unit of power	13,044	15,521	17,519	12.9%
reduced rate (550 rubles)	53,462	52,294	47,975	-8.3%

### 2.1.3. Non-Tariff Activities

#### Commentary-interview of the Deputy Director General for Technological Connections and Service Development A.M. Pyatigor

– In addition to its main activities, i.e. technological connections to the grids and transmission of electric power, the Company actively develops additional types of services – starting from technical maintenance of electric grids owned by consumers up to leasing the Company’s facilities.

Today along with the Turnkey Technological Connection service, the most demanded are the “Energy Assistance” service (operation and maintenance of grid

facilities used by the consumers); Organization and Technical Services and others.

New package services are introduced which can be ordered by the Company’s clients, specifically: “Open kilowatt” – preliminary data on possible points of connection to the grid, “Electrical project of apartment (summer house)” – design of household electrical installations, “Project and installation of RECD” – installation of reactive energy compensation devices.

In 2016, net profit was selected as the main indicator defining the efficiency of the Company within the framework of additional services. The net profit of the Company increased by 55.5 mln roubles in 2016 compared to 2015.

The priorities in terms of additional services delivery in 2017 include the activities on technical maintenance of electric grids owned by consumers, as well as the Company’s facilities rent.

In fact, today the Company is ready to provide the entire spectrum of services, which may be requested by the client in the course of connection and operation of electrical grid equipment. This will generate an additional source of income for the Company, while the customers will be able to enjoy the high quality services with the guarantee from the big grid company.

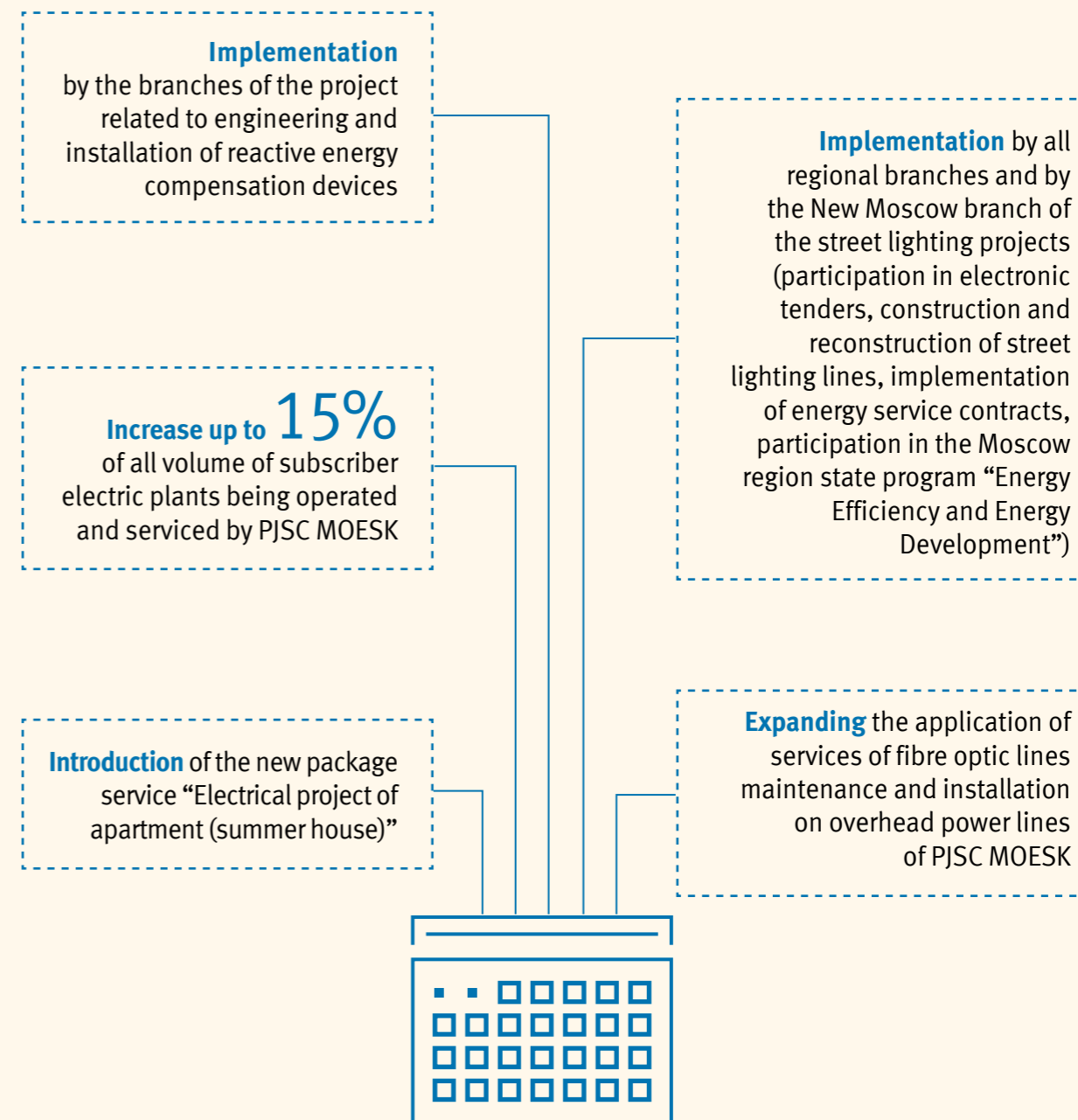
The Company provides a broad spectrum of additional services: turnkey technological connection, operation and technical management and maintenance of TC facilities, construction and installation and commissioning works, organization of electricity metering, renting, transport

services and others. Revenue decrease by 7.5% versus 2015 is mainly due to the reduction of construction and installation works on relocation of electrical grid facilities of PJSC MOESK.

Revenue from Non-Tariff Services: Results and Forecast, RUB mln

Category	2014	2015	2016	2016/2015	Plan, 2017
<b>Additional services (total), including:</b>	<b>921</b>	<b>1,304</b>	<b>1,206</b>	<b>-7.5%</b>	<b>2,377</b>
Technical maintenance and repair of electric grids owned by consumers (“Energy Assistance”)	275	315	413	31.3%	841
Installation activities, including relocation of grids (“Grids Outside Boundaries”)	274	456	149	-67.3%	543
Organization and technical services	103	75	131	75.1%	152
Turnkey technological connection	80	195	202	3.9%	303
Rent	101	115	151	32.1%	206
Equipment tests and diagnosis	18	20	21	3.5%	24
Others	71	128	138	7.6%	308

### Activities Planned for 2017



## 2.2. Financial Results

### Interview of the First Deputy Director General for Financial & Economic Activities and Corporate Governance A.V. Inozemtsev

#### – What are the main achievements and results delivered by the Department under your supervision?

– While working in tough conditions of limitations on the growth of tariff and non-influenceable costs, lower

payment discipline of consumers, the Company continued to systematically implement the priority tasks to optimize costs and reduce electric power losses.

As in previous periods, the specific operation costs were proactively reduced by 11.5% against the level of 2015 in compliance with RF Government Decree No. 2303p-P13 dated April 16, 2015, which requires the annual reduction of the target indicator at least 3%.

The scope of losses in 2016 was 8.33%, while the losses over the same period last year were 8.55%.

The Company managed not only to provide reliable and high-quality power supply, but also to fulfil the Company's Business Plan in terms of net profit. The net profit of PJSC MOESK according to the RAS was 6.1 bln rubles in 2016, which is 4.5% higher than the approved target indicator.

In 2016, the Company paid the record-setting dividends according to the results of 2015, that is 50% of the net profit subject to the IFRS. Thus, the total amount of payments was 6.3 bln rubles which is three times more than in the previous period.

#### – What are the plans and forecasts for 2017?

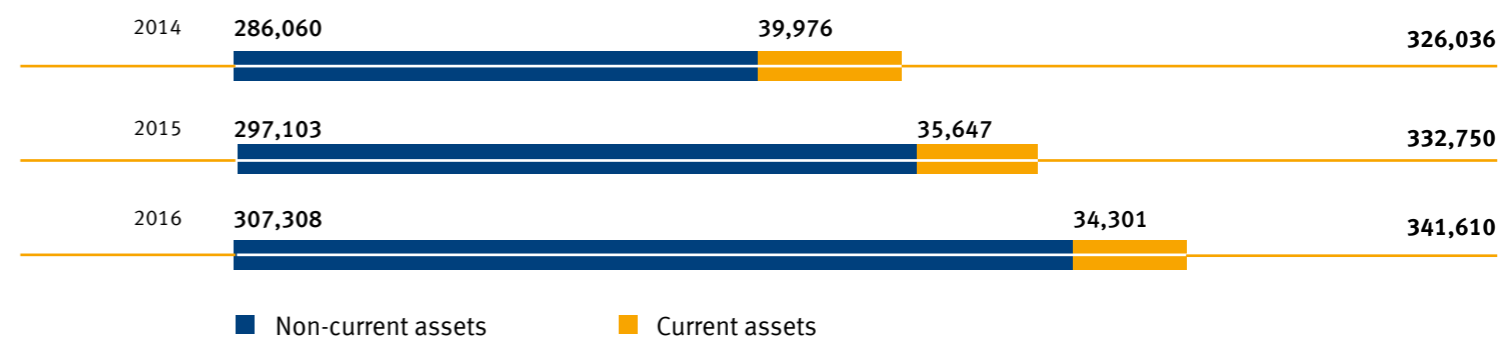
– The Company plans to continue the activities on optimization of operations and investment costs in 2017 in order to preserve the current level of financial stability. In this connection such issues are still important as replacement of imported products, increase in the share of repair activities and technological connections performed using the Company's resources only.

Considering that the economic situation remains difficult, special attention will be paid to reduction of overdue accounts payable and increase of funds collectability for technological connection, revenue increase through development of additional services with the view of stabilization and further reduction of the Company's credit portfolio, while maintaining the standards of electric power supply reliability and implementing the priority projects in the region.

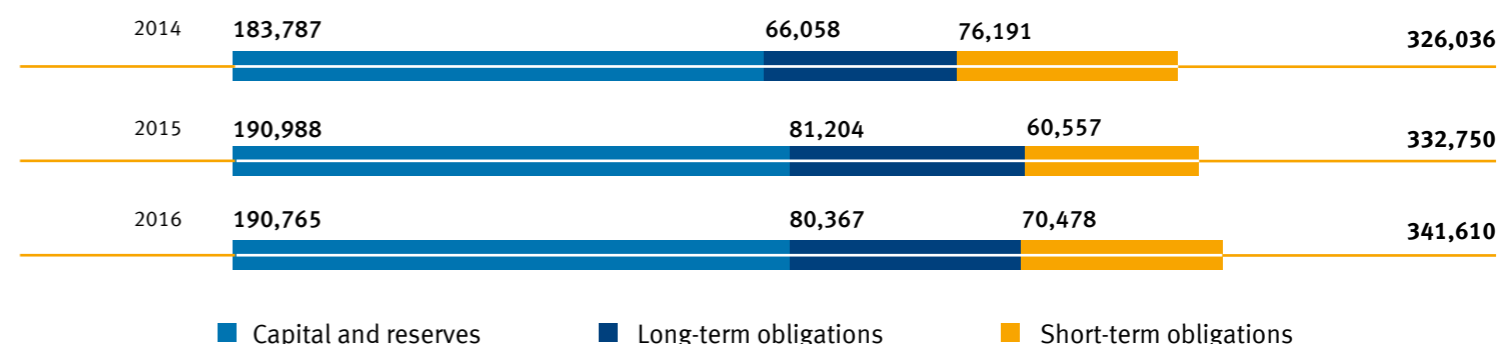


### 2.2.1. Financial Results according to the RAS

#### Assets, RUB mln



#### Liabilities, RUB mln



The total amount of PJSC MOESK accounts receivable as of the start of the reporting year was 27,219 mln rubles; 25,702 mln rubles – as of December 31, 2016. The 5.6% decrease occurred due to the reduction of indebtedness in the “Customers and clients” category by 12.4% and increase of the “advances paid” by 1.6% and “other receivables” by 7.3%.

The main share (48%) of the Company's accounts receivable was formed in settlements for rendered services on electric power transmission.

Increase of overdue receivables for electric power transmission in 2016 by 3,113 mln rubles was caused by disagreements on the volume of services with the GS PJSC “Mosenergosbyt” and non-payments of JSC “Oboronenergosbyt”.

Following the results of claims-related work performed by the Company to recover overdue accounts receivable for electric power transmission services rendered in 2016, the Company obtained positive judicial decisions within the framework of 57 legal actions for the total amount of claims 1,401 mln rubles, there were no refusals in collection. The share of claims satisfied in favour of the Company was 100%, the same as in the last year.

#### Accounts Receivable and Payable, RUB mln

Category	2014	2015	2016	2016/2015
Accounts receivable	26,673	27,219	25,702	–5.6%
Accounts payable	59,610	59,599	57,467	–3.6%
Balance of receivables and payables	–32,937	–32,380	–31,765	–1.9%

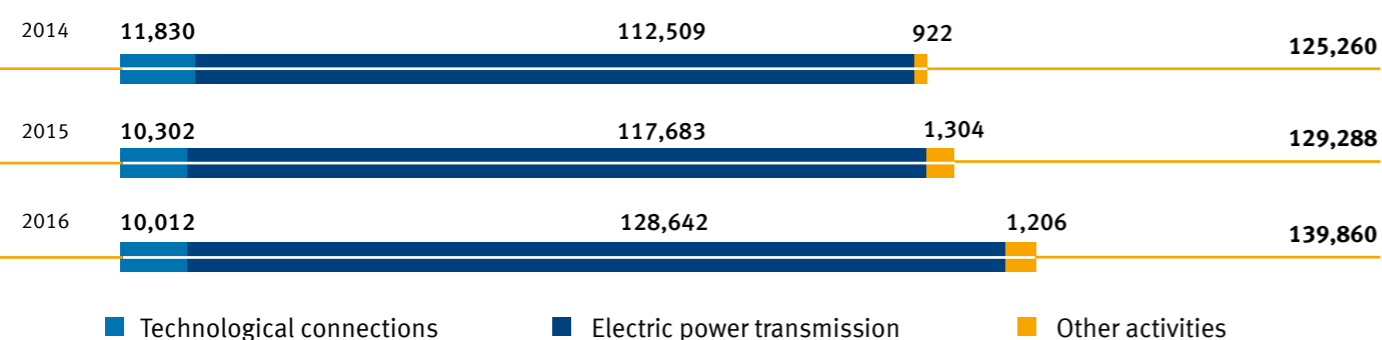
### Structure of Accounts Receivable for Electric Power Transmission Services (registered according to contract terms), RUB mln

Indicator	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2016/ December 31, 2015
Accounts receivable for electric power transmission, RUB mln, including:	10,514	13,436	12,861	-4.3%
Current	9,405	11,872	8,184	-31.1%
Overdue	1,109	1,564	4,677	199.0%
For reference: disputed accounts receivable for electric power transmission	388	435	2,051	371.5%

### Structure of Accounts Payable, RUB mln

Indicator	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2016/ December 31, 2015
Accounts payable, RUB mln, including:	59,610	59,599	57,467	-3.6%
1. Current/overdue	6.46	2.82	2.16	-23.6%
Current	51,615	44,016	39,277	-10.8%
Overdue	7,994	15,583	18,190	16.7%
For reference: ratio of overdue accounts payable to total revenues, %	5	14	11	-22.5%
2. Long-term / Short-term	0.16	0.18	0.13	-30.0%
Long-term	8,227	9,284	6,577	-29.2%
Short-term	51,383	50,315	50,890	1.1%

### Structure of Revenues from the Sale of Products (Services), RUB mln



### Key Financial and Economic Indicators, RUB mln

Indicator	2014	2015	2016	2016/2015
Revenues from the sale of products (services)	125,260	129,288	139,860	-8.2%
Cost of products (services)	108,711	113,217	124,000	-9.5%
Gross profit	16,549	16,071	15,861	-1.3%
Administrative costs	—	431	414	-4.0%
Sales profit	16,549	15,640	15,447	-1.2%
Interests receivable	550	933	329	-64.8%
Interests payable	3,457	4,787	5,708	19.2%
Shareholding income	3	2	0	-100.0%
Other income	9,403	7,258	7,202	-0.8%
Other costs	11,148	5,686	10,051	76.8%
Pre-tax profit	11,899	13,361	7,218	-46.0%
Profit tax and other payments	3,691	4,114	1,139	-72.3%
Net profit	8,208	9,247	6,079	-34.3%
EBITDA*	37,059	41,954	37,231	-11.3%

Data with breakdown to Moscow and Moscow region are presented in Annex 6.3 to the Annual Report.

The accounts payable in 2016 were lower than those in 2015 by 2,132 mln rubles; as of December 31, 2016, the amount of accounts payable was 57,467 mln rubles.

The amount of revenues from the sale of products (services) according to the year-end results in 2016 was 139,860 mln rubles, which is 8.2% higher than in 2015, with the amount of revenues from electric power transmission – 128,642 mln rubles. (9.3% higher than in 2015). The growth was observed due to the increase in the amount of boiler net power supply and “joint” tariffs.

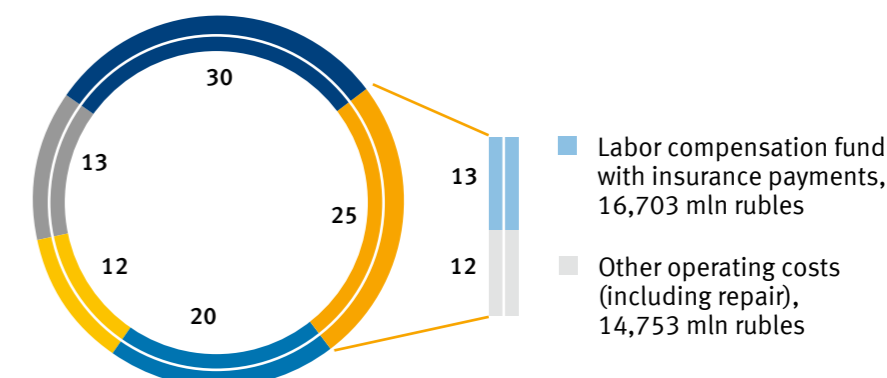
The amount of costs, administrative and selling costs was 124,414 rubles which is 9.5% higher than in 2015. Higher costs are explained mostly by increased conditionally uncontrollable expenses: expenses on compensation of losses (16.2%), cost of services provided by PJSC FGC of UES (10.9%), services of distribution grid companies (local grid operators) (22.7%), as well as depreciation (2.1%). At the same time, the decrease in other controlled expenses of the Company amounted to 0.9%. This fact is due to the successful implementation by the Company of the cost management program.

Reduction of the controlled operating costs in 2016 against the level of 2012, with the view of implementation of the Strategy for the Development of the Electric Grid Complex of the Russian Federation approved by the RF Government Resolution of April 03, 2013 No. 511-r, was 37.5% at the target level 15%.

According to the year-end results, the net profit of the Company in 2016 was 6,079 mln rubles.

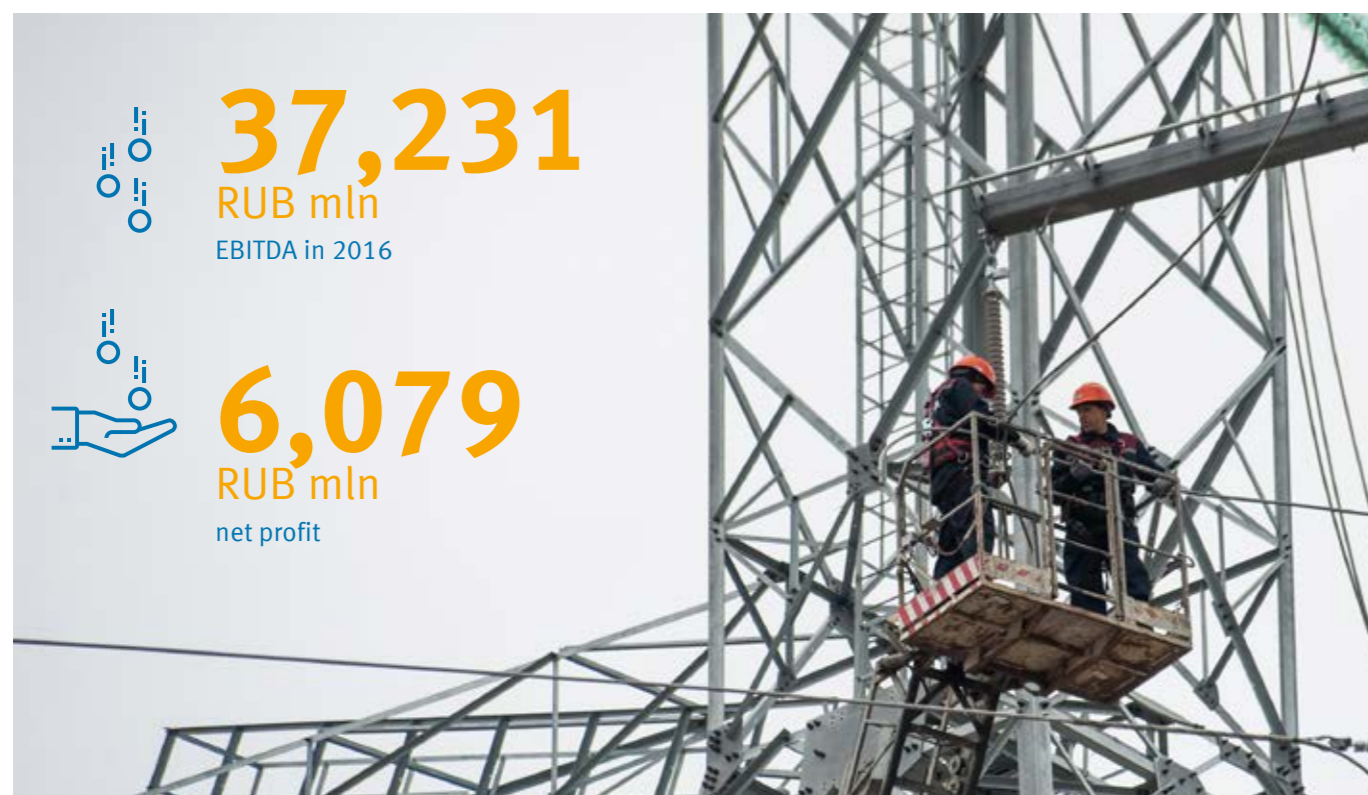
### Structure of Costs in 2016 (with administrative and selling costs), %

- Services of local grid operators, 36,907 mln rubles
- Operating costs (including Labour compensation fund, repair), 31,456 mln rubles
- Depreciation, 24,305 mln rubles
- Purchased electric power for loss compensation, 15,301 mln rubles
- Services of FGC of UES, 16,445 mln rubles



\* EBITDA = Pre-tax profit – Interests payable + Depreciation = Line 2300 F.2 – Line 2330 F.2 + Line 6514 F.2.1 + Line 6554 F.2.1 + Line 6564 F.2.1.





In 2016, EBITDA decreased by 11.3% to 37,231 mln rubles. Factors which influenced the reduction of EBITDA and the net profit compared with the similar period in 2015 were the following:

- faster growth of costs on the associated LGOs' services (increase by 22.7%), services of FGC of UES (increase by 10.9%), purchased electric power for loss compensation (increase by 16.2%) compared with the growth rate for own gross revenue from electric power transmission services (increase by 9.3%);
- growth of other costs of the Company, specifically: accrual of the reserve for doubtful debts and estimated liabilities of the Company, other non-cash expenses.

### Indicators of Financial Performance and Operation Results

#### Liquidity and Current Solvency Indicators

PJSC MOESK is a company operating in the capital-intensive sector. The

structure of Company liabilities is characterized by a large volume of borrowed funds while the structure of assets mainly includes non-current assets.

In most cases, payments for connection services to the grids of PJSC MOESK are advances received from the applicants for contracts on technological connections. Actually, such payments are related to the Company's implementation of the long-term investment program and, thus, may be included in the long-term source of funds due to their. The specified obligations are not obligatorily secured by current assets because such obligations form the Company's non-current assets and are discharged upon technological connection services rendering.

#### Ratios of Turnover and Efficiency

The growth of the accounts payable turnover rate, decrease of the share of accounts receivable in the revenues are attributable to the activities performed by PJSC MOESK to control the accounts receivable and accounts payable, which characterizes the efficiency of assets utilization in 2016.

#### Financial Stability Indicators

Stability of the company's financial situation depends on the structure of the capital sources (equity to debt ratio) and the structure of the company's assets.

Since the equity forms the basis for the company's independence, the significant share of equity in the Company's balance sheet demonstrates its sufficient financial independence.

The equity to total assets ratio in 2016 was 0.56, which means that 56% of the Company assets are financed on account of the equity funds.

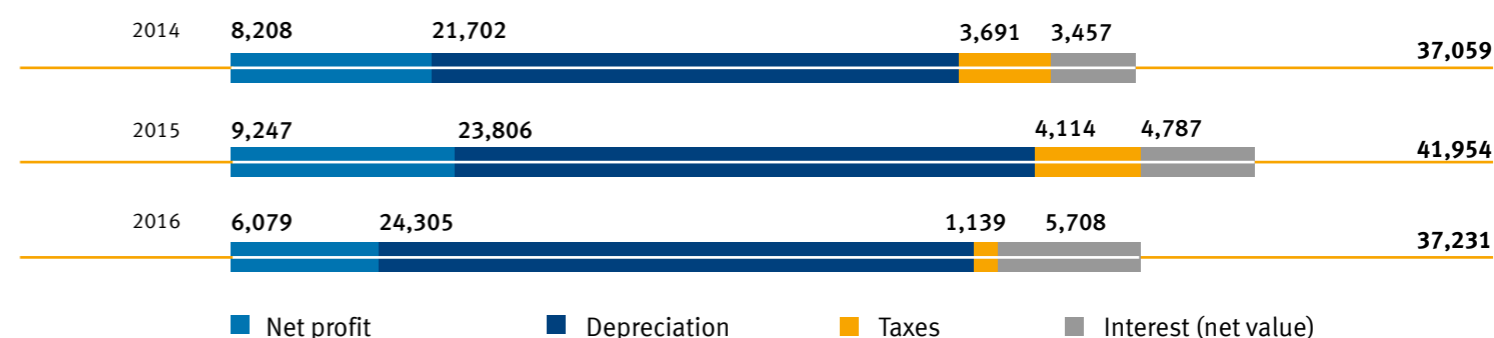
The ratio of total debt to EBITDA in 2016 was within the regulated values.

The indicator values show financial stability of the Company.

#### Business Performance Indicators

Compared with the similar period of last year, the reduction of the profitability indicators was observed. Reduction of the profitability indicators was caused by the decrease of net profit according to the results of 2016.

#### EBITDA, RUB mln



#### Key Financial and Economic Indicators

Indicator	2014	2015	2016	2016/2015	
<b>Liquidity and Current Solvency Indicators</b>					
Absolute liquidity ratio	0.06	0.003	0.008	0.005 pp	
Acid test ratio	0.41	0.48	0.39	-0.09 pp	
Current liquidity ratio	0.44	0.52	0.43	-0.09 pp	
<b>Ratios of Turnover and Efficiency</b>					
Turnover rate of accounts payable	1.89	1.91	2.13	0.22 pp	
Ratio of accounts receivable and accounts payable growth rates	Accounts receivable growth rate	1.07	1.02	0.94	-0.08 pp
	Accounts payable growth rate	1.07	1.00	0.96	-0.04 pp
	Accounts receivable growth rate/Accounts payable growth rate	0.99	1.02	0.98	-0.04 pp
Ratio of total accounts receivable and accounts payable	0.45	0.46	0.45	-0.01 pp	
Share of accounts receivable in revenues	0.18	0.18	0.16	-0.02 pp	
<b>Financial Stability Indicators</b>					
Equity to total assets	0.56	0.57	0.56	-0.02 pp	
The ratio of total debt to EBITDA	1.98	1.75	2.23	0.48 pp	
EBITDA/%	7.22	5.80	4.81	-0.99 pp	
<b>Business Performance Indicators</b>					
Return On Equity (ROE)	4.53	4.93	3.19	-1.75 pp	
Return on Total Assets (ROTA) on Earnings Before Taxes	3.80	4.06	2.14	-1.92 pp	
EBITDA margin	29.59	32.45	26.62	-5.83 pp	

## 2.2.2. Financial Results according to the IFRS

### Key Financial and Economic Indicators according to the IFRS

Indicator	2014	2015	2016	2016/2015
<b>Consolidated statement on total income, RUB mln</b>				
Revenues from sale of products (services), including:	128,019	132,356	143,354	8.3%
Electric power transmission	112,509	117,683	128,642	9.3%
Technological connections	11,893	10,521	10,044	-4.5%
Other activities	3,617	4,152	4,668	12.4%
Cost of products (services)	119,827	111,486	131,567	18.0%
Conditionally non-influenceable costs	77,745	78,859	90,216	14.4%
Purchased electric power for loss compensation	11,575	13,171	15,301	16.2%
Services of FGC of UES	14,611	14,834	16,445	10.9%
Services of distribution grid companies	30,966	30,085	36,907	22.7%
Depreciation	20,593	20,770	21,563	3.8%
Influenceable costs	42,082	32,627	41,350	26.7%
Personnel costs (remuneration, security fund contributions, contributions to non-governmental pension funds)	16,362	17,888	18,514	3.5%
Raw and other materials	1,846	2,254	2,659	18.0%
Taxes and levies	1,799	2,142	2,529	18.1%
Other costs	22,075	10,343	17,648	70.6%
EBITDA, RUB mln*	34,992	44,668	37,850	-15.3%
Net profit/loss	8,078	12,631	9,395	-25.6%
<b>Consolidated statement of financial position, RUB mln</b>				
Assets/Liabilities	310,583	325,618	338,516	4.0 %
<b>Financial ratios, %</b>				
Net debt/EBITDA	2.00	1.65	2.2	0.55 pp
Net debt/Equity	44.0	43.50	48.35	4.85 pp
Equity/Total assets	51.20	51.97	50.98	-0.99 pp

\* EBITDA = Net profit Minus Depreciation Minus Interest Minus Income Tax.

The consolidated statements of PJSC MOESK Group include the following subsidiaries: OJSC "Moskabelsetmontazh" (MKSM), OJSC "Moskabelenergomont" (MKER), OJSC Electrotechnical Equipment Repair Plant (RETO), OJSC "Energotsentr".

Compared with the same period in 2015, the revenue from transmission services increased by 9.3%, due to the increase in the amount of power electric consumption and "joint" power supply.

The assets of the Group increased by 4.0% due to the growth of the balance cost of fixed assets.

### Generated and Distributed Economic Value, RUB mln

Component	2014	2015	2016	2016/2015
<b>Direct economic value generated</b>				
Revenues	134,793	136,359	148,042	8.6%
<b>Economic value distributed</b>				
Operating costs	101,225	91,341	110,236	20.7%
Employee wages, other payments and benefits	16,362	17,888	18,514	3.5%
Payments to capital providers	6,470	7,288	12,522	71.8%
Payments to government (by countries)	5,214	3,259	3,002	-7.9%
Investments in local communities	442	114	288	151.9%
<b>Economic value retained</b>				
Economic value retained	5,080	16,468	3,480	-78.9%



## 2.3. Credit Policy

The focus of the credit policy for 2016 was mainly on fulfilment of obligations in relation to the counterparties without exceeding the credit portfolio limit approved by the Business Plan.

In 2016, the Company raised 97,028,348 thous. rubles:

- under credit facilities in the amount of 79,028,348 thous. rubles, including

— for debt refinancing 69,618,010 thous. rubles;

— for financing of investment activities 9,410,338 thous. rubles;

- under bonded loan in the amount of 18,000,000 thous. rubles for debt refinancing.

Over the year 2016, credits and loans obligations in the amount of 87,481,944 thous. rubles were repaid.

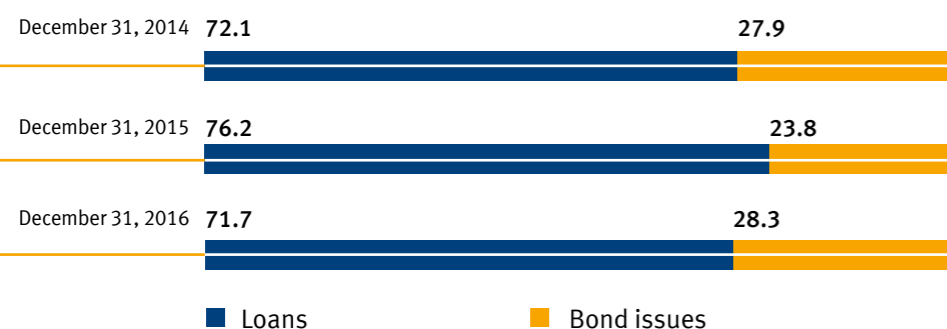
The Company's borrowings mostly consist of long-term loans debts.

Increase of short-term loan debts is due to the transition from long-term obligations to short-term ones up to 1 year in accordance with the repayment schedules of the corresponding loan agreements. Increase of long-term debts on securities in 2016 was attributable to placement of bonded loans BO-08, BO-05, BO-06 for refinancing purpose.

### Borrowings, RUB mln

Source of debt	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2016/ December 31, 2015
Borrowed funds (total), including	73,407	73,414	83,041	13.1%
Loans (total), including	52,895	55,958	59,503	6.3%
long-term	42,121	53,368	48,314	-9.5%
short-term	10,774	2,590	11,189	332.0%
Bond issues (total), including	20,512	17,456	23,538	34.8%
long-term	10,000	12,000	18,000	50.0%
short-term	10,512	5,456	5,538	1.5%
Finance lease liabilities	72	49	29	-40.2%

### Structure of Borrowings, %



**87,481,944**

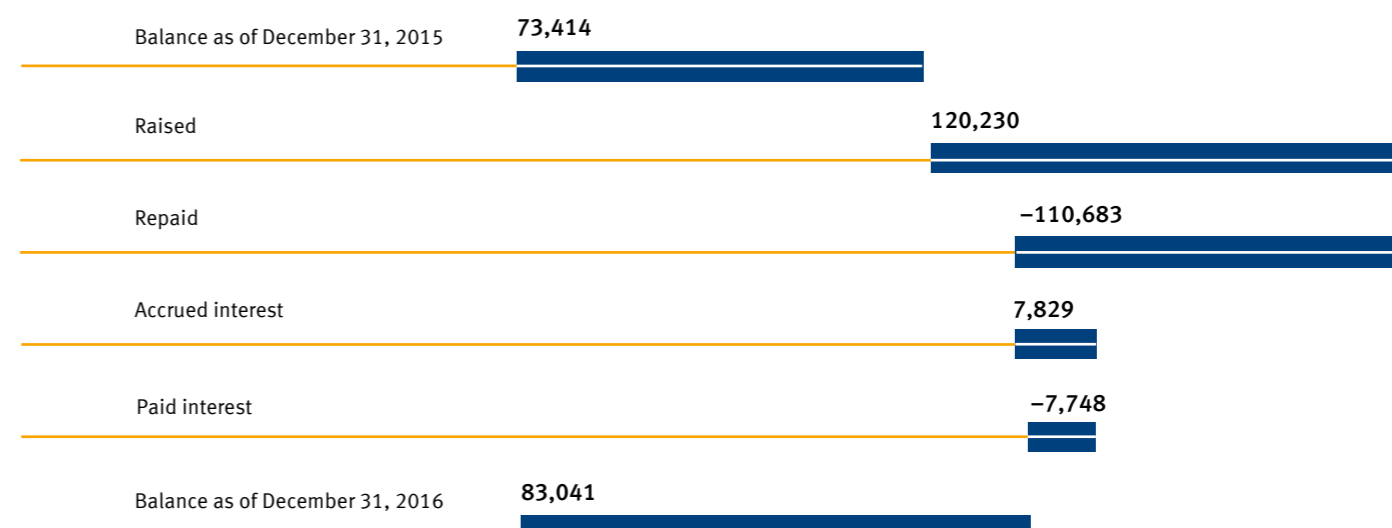
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credits and loans obligations repaid in 2016

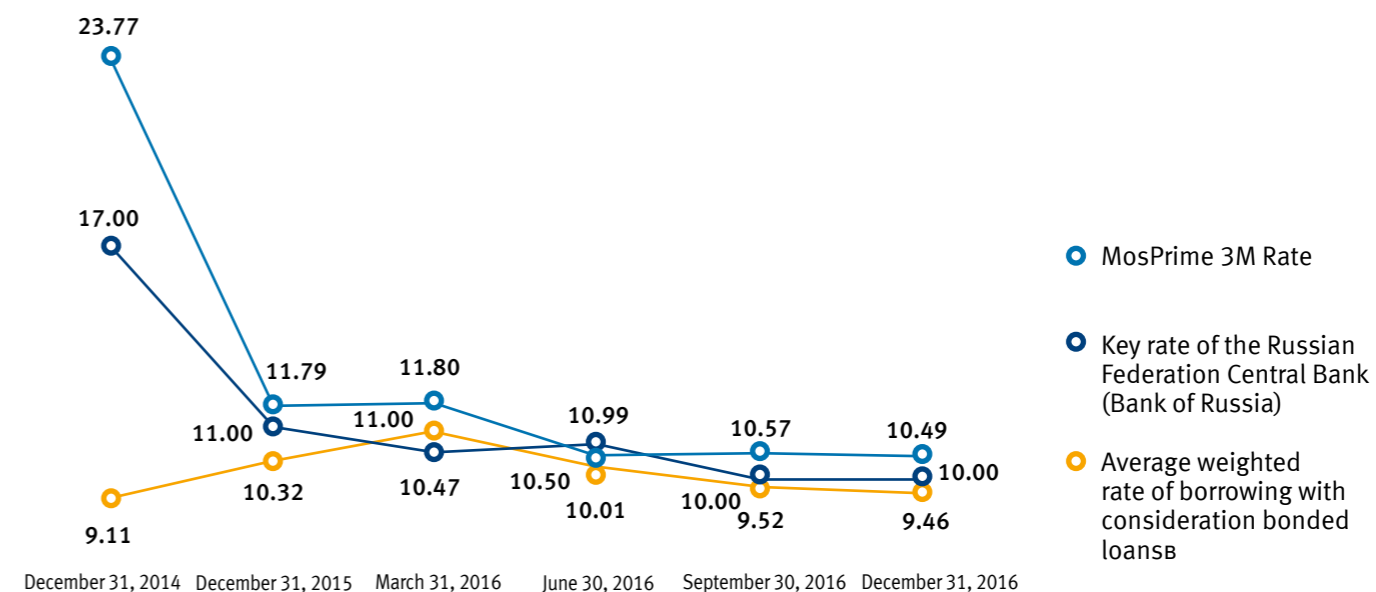
### Structure of Credit Portfolio

Type of loan	As of December 31, 2015			As of December 31, 2016		
	Average weighted rate*	Average weighted validity period*	Amount of raised funds	Average weighted rate*	Average weighted validity period*	Amount of raised funds
	%	years	RUB mln	%	years	RUB mln
Loans	10.06	2.1	55,868	9.16	1.7	59,414
Bonded loans	11.17	1.5	17,000	10.25	2.3	23,000

### Dynamics of Borrowed Funds in 2016, RUB mln



### Average Weighted Rate for Borrowed Funds Servicing, %



\* Weighted according to liability amount.

## Bonded loans

### Information on Issued Bonds

Category	2016					
	BO-03	BO-04	BO-07	BO-08	BO-05	BO-06
Series						
Type of securities	Certified, interest-bearing, non-convertible, exchange-traded bearer bonds					
Registration number	4B02-03-65116-D	4B02-04-65116-D	4B02-07-65116-D	4B02-08-65116-D	4B02-05-65116-D	4B02-06-65116-D
Scope of issue, RUB thous.	5,000,000	5,000,000	7,000,000	8,000,000	5,000,000	5,000,000
Par value, RUB	1,000	1,000	1,000	1,000	1,000	1,000
Maturity, years	3	10	10	10	10	10
Coupon rate, %	8.5	11	13.2	10.3	10	9.65
Date of state registration of issue	03.07.2012	09.07.2013	09.07.2013	09.07.2013	09.07.2013	09.07.2013
Placement date	14.02.2013	25.09.2014	06.05.2015	28.04.2016	07.06.2016	28.07.2016
Maturity / offer date	10.02.2016	12.09.2024	04.05.2016	16.04.2026	26.05.2026	16.07.2026
Coupon yield per 1 bond	42.38	54.85	65.82	51.36	49.86	48.12
Stock exchange	MOEX (PJSC Moscow Exchange)					
Quotation list	First level		Third level			

In the reporting year, in order to optimize its credit portfolio, the Company placed exchange-traded bonds with ten-years maturity period on MOEX Exchange:

- On April 28, 2016 the Company placed a series of BO-08 bonded loans with three-years maturity period with the total par value of 8,000 mln rubles and at the rate of 10.3% per annum;
- On June 7, 2016 the Company placed BO-05 bonded loans with three-years maturity period with the total par value of 5,000 mln rubles and at the rate of 10.0% per annum;
- On June 28, 2016 the Company placed BO-06 bonded loans with four-years maturity period with the total par value of 5,000 mln rubles and at the rate of 9.65% per annum.

On February 18, 2016 and May 4, 2016, the Company successfully paid up its bonded loans BO-03 and BO-07, which were placed at the rate of 8.5% and 13.2% respectively, with the total par value of 12,000 mln rubles and paid up the remaining coupons, i.e., the Company duly fulfilled its obligations in relation to the holders of securities.

The Company has also exchange traded bonds of BO-09 and BO-10 series for the total par value of 20,000 mln rubles, which are ready for placement. The maturity term of each borrowing is 10 years after the placement start date.

Furthermore, on December 30, 2016, the Board of Directors of the Company approved the Program and Prospect of Exchange-Traded Bonds – certified,

interest-bearing, non-convertible exchange-traded bearer bonds – subject to the obligatory centralized storage, with par value of all issues placed within the Program under series 001P up to 80,000 mln rubles, including the maturity period expiry on the date which occurs not later than in 10,920 days as of the start of exchange-traded bonds issue placement under the Program of Exchange-Traded Bonds.

On February 8, 2017 PJSC Moscow Exchange decided to assign the identification number 4-65116-D-001P-02E to the Program of Exchange-Traded Bonds of 001P series. The Company plans to sell the securities through open subscription in the favorable market conditions.

## Credit Ratings

### Information of Assigned Credit Ratings

Agency	Rating according to international scale		Date of assignment/update
	value	forecast	
Moody's	Ba2	Stable	27.04.2016
Standard & Poor's	BB–	Stable	22.07.2016
Fitch	BB+	Stable	27.10.2016

Currently, PJSC MOESK has ratings assigned by the leading global rating agencies: Fitch Ratings (BB+), Moody's (Ba2), Standard and Poor's (BB–).

According to the international scale, all ratings of the Company remained at the same level.

According to the rating agencies, the dominant position of MOESK in the market due to its role of

the main distribution grid company in Moscow and Moscow region, as well as the stability of cash flows from the regulated power distribution business and favorable, mostly long-term, nature of borrowings have positive influence on the ratings.

The total amount of the Company debt in the reporting period was 83,041 mln rubles. Its debt to EBITDA ratio (2.2) is maintained

at a traditionally low level for both the power industry and for the grids sector. Usually, when calculating the debt load, banks and credit agencies consider the 3–4 value of this ratio as acceptable.

**2.2**  
Debt/EBITDA ratio

### Key Indicators and Ratios

Category	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2016/December 31, 2015
Debt, RUB mln	73,407	73,414	83,041	13.1%
Debt / Equity, x	0.4	0.4	0.4	8.8%
Debt/EBITDA, x	2.0	1.7	2.2	31.2%
Net debt, RUB mln	69,226	73,214	82,452	12.6%
Net debt / EBITDA, x	1.9	1.7	2.2	30.3%
Interests payable, RUB mln	3,457	4,787	5,708	19.2%
EBITDA / Interests payable, x	10.6	8.8	6.5	–25.9%

## 2.4. Tariff Regulation

Tariff regulation is applicable to the following types of activities: electric power transmission services and technological connection of consumers to power grids. Governmental regulation of tariffs in the regions of presence is performed by the Department for Economic Policy and Development of Moscow (DEP&D of Moscow), Pricing and Tariffing Committee of Moscow Region (“Mosoblkomtsen”).

The approved payment rates per unit of maximum power and standardized tariff rates for connection of electric power equipment operated by the power consumers, electric grid facilities owned by grid companies and other entities with the voltage level below 35 kV and maximum power rating below 8,900 kW to the electric grids of PJSC MOESK are specified in Annex 6.10 to the Annual Report.

### Tariffs on Electric Power Transmission

The electric power transmission tariffs for PJSC MOESK are determined using the return on investment method since 2011.

The main causes of variation of “joint” tariffs for electric power transmission services in Moscow and Moscow region in 2016:

- growth of tariffs for the services provided by PJSC FGC of UES (the tariffs for PJSC FGC of UES are set by Federal Antimonopoly Service of Russia);

- growth of necessary gross revenues for the local grid operators (the tariffs for LGOs are set by the regulatory authorities of the RF regions);
- increased costs of electric power loss compensation.

# 135,248

RUB mln

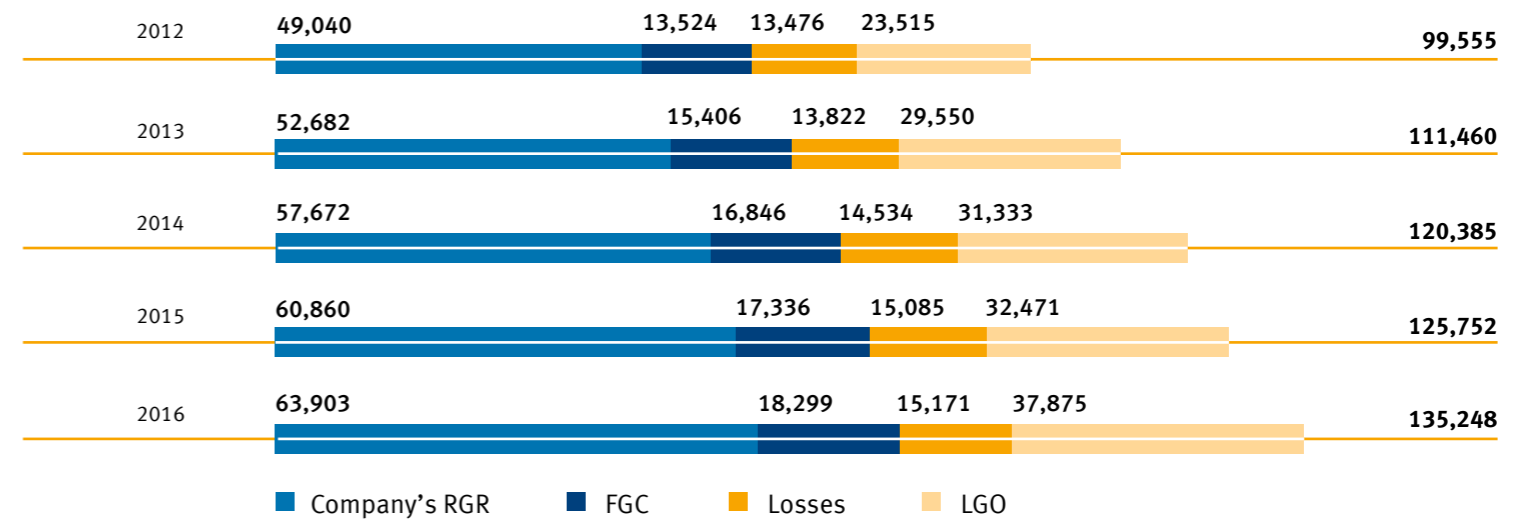
Required Gross Revenue for electric power transmission services by PJSC MOESK in 2016

### Analysis of PJSC MOESK Average “Joint” Tariff Variation for Electric Power Transmission Services, with Breakdown to Operation Regions, kopecks/kW·h

Branch	2012	2013	2014	2015	2016
Moscow	154.54	163.77	172.47	182.40	194.75
Moscow region	146.32	156.58	156.95	163.38	172.34
<b>Total for PJSC MOESK</b>	<b>150.12</b>	<b>160.08</b>	<b>164.53</b>	<b>172.60</b>	<b>183.28</b>
Increase, %	0.63%	6.63%	2.78%	4.90%	6.21%



### Structure Dynamics of RGR for Electric Power Transmission Services by PJSC MOESK, RUB mln



### Payment for Technological Connection

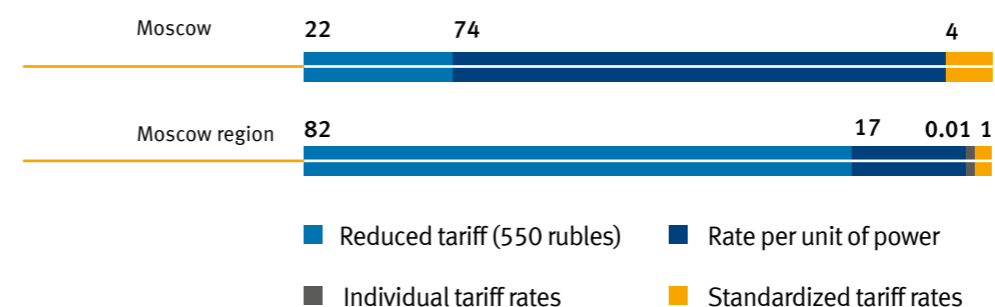
The regulating authorities of Moscow and Moscow region has approved common payment rates per unit of maximum power and standardized tariff rates for technological connection of electric power

equipment operated by the power consumers, electric grid facilities owned by grid companies and other entities with the voltage level below 35 kV and maximum power rating below 8,900 kW.

### Average Price of 1 MW, RUB mln, without VAT

Category	2014	2015	2016	2016/2015
Average cost of 1 MW	5.8	3.3	4.2	27.2%
up to 15 kW (total), including	0.1	0.1	0.1	0.0%
individuals up to 15 kW	0.0005	0.0005	0.0005	0.0%
above 15 kW up to 150 kW	3.8	3.3	3.0	-9.0%
above 150 kW under 670 kW	5.8	5.3	5.1	-3.7%
at least 670 kW	11.3	4.7	8.0	70.2%

### Analysis of Utilization Frequency (Selected by Applicants) for Various Methods of Payment for Technological Connection in 2016, %



The average cost of technological connection per 1 MW in 2016 decreased by 27.2% to 4.2 mln rubles (without VAT).

In 2016, the contracts on technological connections at the reduced rate (550 rubles /connection) formed a major share in the structure of PJSC MOESK contracts. In terms of service regions, the largest share of contracts with reduced payment rate is observed in Moscow region (82% of the total number of executed contracts); in Moscow, the largest share of contracts (74%) is executed based on the rate per unit of maximum power rating.

## 2.5. Improvement of Reliability

### Interview of the First Deputy Director General — Engineering Director V.E. Ivanov

#### – Did the Company manage to achieve its main objectives in terms of reliability improvement in 2016?

– We can say with full confidence that the Technical Department managed to successfully accomplish the tasks associated with achievement of the stated reliability indicators. We managed not only to reduce the number of technological violations

in 6–220 kV grid (1.7% decrease against 2015), but also the frequency of power outages despite the consequences of emergency shutting down caused by freezing rain on November 11, 2016.

#### – What activities were carried out to achieve these indicators?

– Surely, such achievements became possible due to 100% fulfilment of the repair program taking into account that 50% were fulfilled with own resources, the program for replacement of conventional wires with self-supporting insulated conductors, the targeted tree-cutting program in the locations where the trees create risks for the line integrity.

#### – What was the impact of the current situation on the progress of reliability improvement programs?

– In the current economic situation, the Company has to be even more focused on efficient application of its financial resources, cut its expenses on procurement of services, materials and spare parts through competitive procedures. On the one hand, it creates certain limitations for the companies operating in the electric grids sector, but on the other hand, it is an opportunity to optimize our internal business processes to achieve maximum efficiency of operations.

#### – What are the main goals for 2017 in terms of reliability improvement?

– The main goals in this sphere are 100% completion of the repair program, the program for replacement of conventional wires with self-supporting insulated conductors and the program of forest strips clearing.

According to the results of investigating the technological violation at Kraskovo substation the Company decided to replace 110–220 kV circuit breakers. The target program with the period of 1 year was developed and approved. Upon completion of this program all facilities of PJSC MOESK will have all 110–220 kV air circuit breakers replaced with the advanced SF-6 equipment. This objective is considered the priority in 2017 in terms of reliability improvement.

The Company's top objectives also include preparation of the electric grids sector in the Moscow area for the FIFA World Cup 2018.

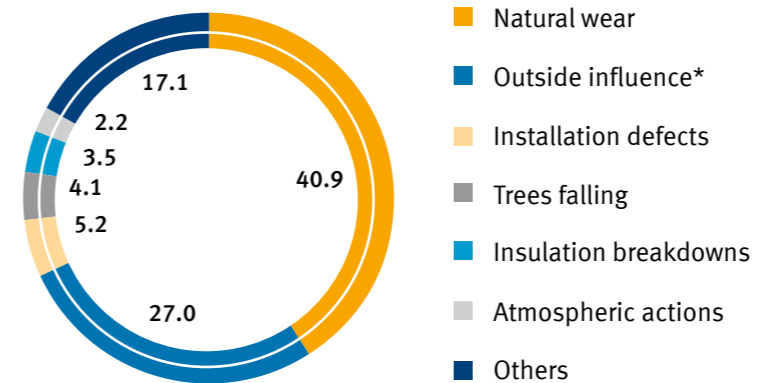


## Reliability

### Dynamics of Reliability Indicators

Category	2014	2015	2016	2016/2015
Number of technological violations (incidents) in the grids rated for 6 kV and above, ea.	7,799	6,516	6,402	–1.7%
Power outage frequency (SAIFI), ea.	0.0065/0.4308	0.0064/0.2264	0.0033/0.2243	–48.4%/–0.9%
Average power outage duration in Moscow / Moscow region [SAIDI], h	0.0067/0.5369	0.0065/0.3967	0.0038/0.5838	–41.5%/47.2%
Average duration of technological violations (incidents) in the grids rated for 6 kV and above, h	1.18	1.41	1.68	19%
Number of technological violations (incidents) in the grids rated for 6–220 kV/ 1000 c.u., ea.	5.47	4.41	4.12	–6.4%
Volume of non-supplied electric power in the grids rated for 6–220 kV, mln kW·h	1.40	0.96	4.391	357.4%
Total economic damages in the grids rated for 6–220 kV, RUB mln	423.7	329.5	644.3	95.5%

### Main Reasons for Accidents in 2016, %



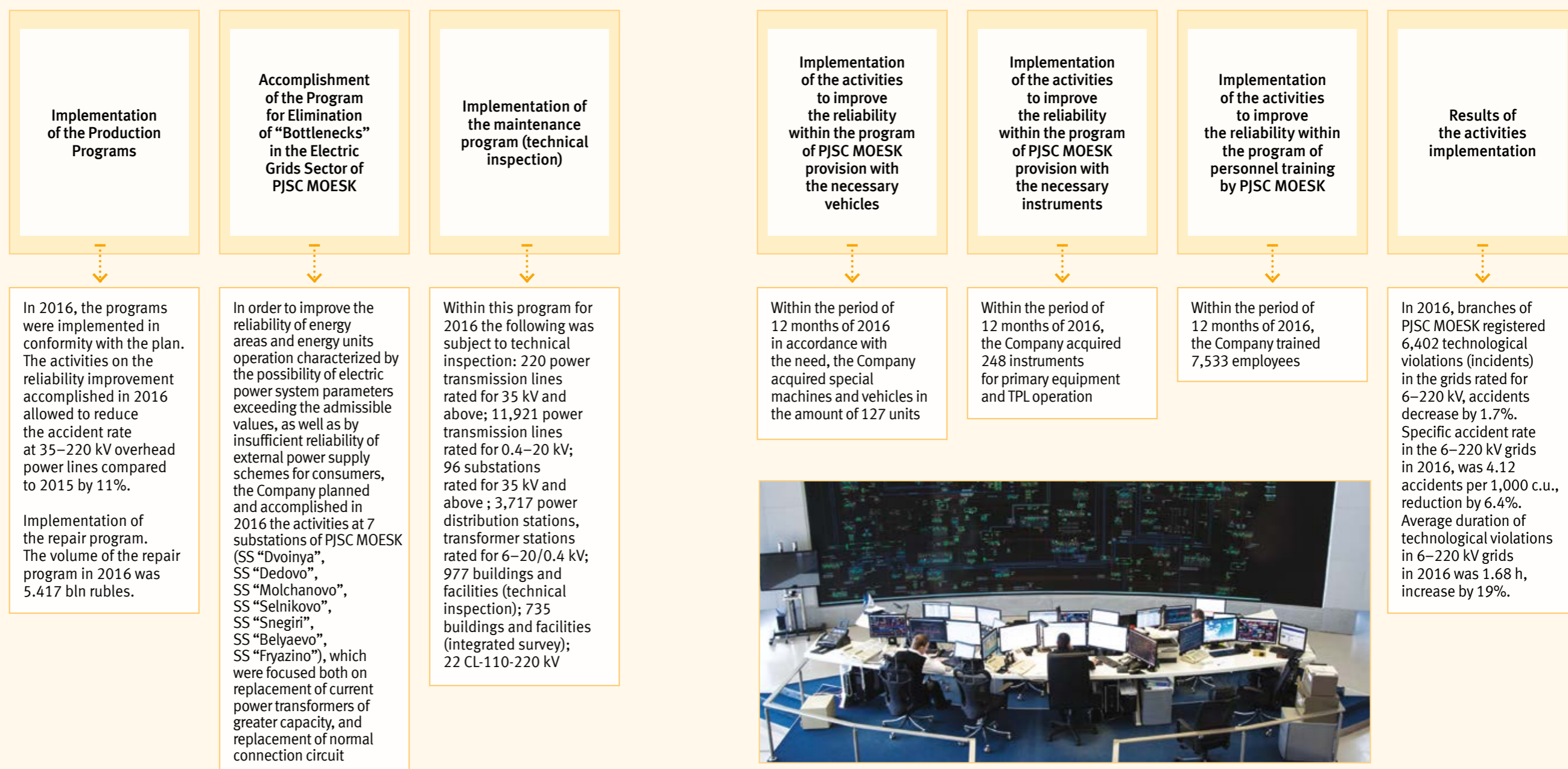
The growth of average duration of technological violations, volume of non-supplied electric power and economic damages was caused by the equipment shutdowns due to unfavorable weather conditions in November 2016

by **11%** reduction of accident rate at 35–220 kV OPL in 2016 compared to 2015

\* Outside influence includes the following: mechanical damages to CL and cables cutting by construction machinery during unauthorized works in exclusion zones near the power lines, intentional (vandal) and / or unintentional damage of power units (insulators shooting, collision with supports by external motor vehicles, surges on overhead power line wires).

## Information on the Main Reliability Improvement Programs Implemented in 2016

In 2016, PJSC MOESK performed systemic activities to improve the reliability of the electric power grid complex and ensure high-quality electric power supply to consumers in the Company's area of responsibility in the following aspects.



In 2016, the programs were implemented in conformity with the plan. The activities on the reliability improvement accomplished in 2016 allowed to reduce the accident rate at 35–220 kV overhead power lines compared to 2015 by 11%.

Implementation of the repair program. The volume of the repair program in 2016 was 5.417 bln rubles.

In order to improve the reliability of energy areas and energy units operation characterized by the possibility of electric power system parameters exceeding the admissible values, as well as by insufficient reliability of external power supply schemes for consumers, the Company planned and accomplished in 2016 the activities at 7 substations of PJSC MOESK (SS "Dvoynya", SS "Dedovo", SS "Molchanovo", SS "Selnikovo", SS "Snegiri", SS "Belyaev", SS "Fryazino"), which were focused both on replacement of current power transformers of greater capacity, and replacement of normal connection circuit

Within this program for 2016 the following was subject to technical inspection: 220 power transmission lines rated for 35 kV and above; 11,921 power transmission lines rated for 0.4–20 kV; 96 substations rated for 35 kV and above ; 3,717 power distribution stations, transformer stations rated for 6–20/0.4 kV; 977 buildings and facilities (technical inspection); 735 buildings and facilities (integrated survey); 22 CL-110-220 kV

Within the period of 12 months of 2016 in accordance with the need, the Company acquired special machines and vehicles in the amount of 127 units

Within the period of 12 months of 2016, the Company acquired 248 instruments for primary equipment and TPL operation

Within the period of 12 months of 2016, the Company trained 7,533 employees

In 2016, branches of PJSC MOESK registered 6,402 technological violations (incidents) in the grids rated for 6–220 kV, accidents decrease by 1.7%. Specific accident rate in the 6–220 kV grids in 2016, was 4.12 accidents per 1,000 c.u., reduction by 6.4%. Average duration of technological violations in 6–220 kV grids in 2016 was 1.68 h, increase by 19%.



### Repair Program

Repair services include only costs for repair works without technical maintenance.

All main scopes of repair program for the equipment of SS, OPL, CL and transformer stations (closed transformer stations, packaged

transformer stations, power distribution stations) were fulfilled with increased target indicators for 2016, both in terms of nomenclature, and types of works.

The repair program of PJSC MOESK in 2017 was formed with due account of fully completed repair works (in physical volumes) of the basic

electric grid equipment until October 1, 2017 for the total amount of 5,711.4 mln rubles.

The production program included the activities to improve reliability of electric power supply in order to hold the FIFA World Cup 2018 at 28 facilities.

Works	2014	2015	2016
Capital repair of overhead power lines, km	3,855	3,180	3,832
Clearing the overhead power line routes from forest, ha	3,161	3,828	3,758
Capital repair of transformers and auto-type transformers, ea.	282	368	261
Capital repair of switching devices, ea.	4,716	5,165	5,671
Repair services, RUB mln	5,325	4,970	5,417

## 2.6. Investment Activities

### Interview of the Deputy Director General for Capital Construction Projects O.V. Ivanov

#### – What are the main achievements and results delivered by the Department under your supervision?

In 2016, the Investment Program was completed in the following volumes:

- The actual spending was 32,287 mln rubles.

- The actual commissioning of fixed production assets was 29,756 mln rubles.
- The scope of financing was 36,725 mln rubles, including VAT.

In terms of physical values, the commissioning of transformer capacities reached 1,282 MVA. Moreover, the Company commissioned more than 4,828 km of power transmission lines, thus, increasing the fixed assets.

Speaking about power facilities commissioned in 2016, we

could mention completion of construction, electric installation works and commissioning of 220/110 kV station “Belorusskaya”; reconstruction of 110/10 kV station “Dvoinya” and others.

In addition to feed centers, the Company also commissioned several HV cable lines: two 110 kV circuits “City-Mayakovskaya” (10.4 km), 220 kV circuit “City-2-Belorusskaya” (10.2 km), 110 kV circuit “f.GES-1-TETs-12” (7.49 km), 110 kV circuit “Butyrki-Smarskaya” (5.76 km). Overhead transmission line was revamped: 220 kV “N.Sofrino-Trubino” (8.35 km), the second circuit of aerial cable line 110 kV “Kosino-Vykhino” (2.81 km).

The second turn of electric power supply to the Military Patriotic Park of Culture and Recreation of the Russian Armed Forces “Patriot” (19.4 km) was commissioned.

In the framework of preparation for the FIFA World Cup 2018, PJSC MOESK

- completed the activities on power supply for the Great Sports Arena “Luzhniki”;
- completed the activities on power supply for CSKA football field;
- The development of “Luzhniki” sports field territory is carried out in accordance with the approved schedules.



It is also important to mention the completion of works on electric power supply to the following churches and temple complexes:

- The Church of Righteous John the Russian in Kuntsevo;
- The Temple of the Triumph of Orthodoxy in Altufevo;
- The Temple of the Icon of the Mother of God “The Burning Bush” in Otradnoye;
- The Temple of the Holy Righteous John of Kronstadt;
- The Church of New Martyrs and Confessors of Russia in Strogino (small);
- The Church of the Life-Giving Trinity in Borisov.

Concerning the Moscow Ring Railway power supply, the Company completed the works on 19 transport interchange hubs with issuance of the acts for technological connection.

#### – What is your personal opinion concerning these results, including on a scale of the whole Company activities?

– I believe these results are satisfactory. In 2016, apart from the facilities reconstruction and new construction works, the Company actively participated in the works related to execution of preliminary permissions for capital construction. With the direct

participation of PJSC MOESK, in 2016 the Government of Moscow issued the Resolution No. 108-PP dated March 22, 2016 “On the list of cases for which building permits are not required”, which greatly simplifies the procedure for registration and speeds up the process of implementing the objects included in the Investment Program.

The Doing Business projects implementation required the work with the Department for Fuel and Energy Economy of Moscow Government, as related to regulation of the design documentation coordination and reduction of the time required to obtain preliminary permissions.

Furthermore, PJSC MOESK actively cooperated with the Ministry of Energy of the Russian Federation on the implementation of the draft law on public easements.

#### – What are the Company plans and forecasts for 2017?

– On the one hand, the tariff conditions and the economic situation impose certain limitations on the power industry in terms of volumes of the investment program. On the other hand, it is an opportunity to optimize the internal business processes to achieve maximum efficiency of operations. In 2017, the focus will be made on significant facilities, which are required to ensure reliable power supply in the Moscow area and to the activities associated with connection of consumers.

The amount of capital investments in the framework of the Investment Program for 2017 will be around 30 bln rubles. The Company will

commission over 900 MVA of transformation capacities and over 4,400 km of transmission power lines.

The priority projects for 2017 include construction of cable approach lines for 110 kV station “Medvedevskaya” and construction of 110/20 kV station “Medvedevskaya”, construction of 10–20 kV collector in station “Novobratsevo”; the second start-up facility for reconstruction of 220 kV station “Presnya”. The Company intends to complete and commission facilities of the Olympic Complex “Luzhniki”.

Additionally, the Company plans to actively participate in improvement of legal aspects: introduction of amendments and supplements to the Land Code, Urban Development Code, Forestry Code of the Russian Federation specifically pertaining to reduction of time frame and simplification of procedures for execution of legal documents on the land lots owned by the government or municipal authorities and approval of design documentation for construction/revamp of power facilities’ infrastructure in Moscow.



## Parameters of Investment Activities

The Investment Program of PJSC MOESK was approved by the Order of Russian Ministry of Energy No. 735 dated October 16, 2014.

In total, the Investment Program for 2016 covered more than 27 thous. facilities.

Within the Investment Program accomplishment, the scope of construction in progress of PJSC MOESK increased by 15% up to 32,432 mln rubles within 2016. Increase in the volume of construction in progress was equal to 4,152 mln rubles.

The main reasons for the growth of capital investments in progress were the following:

- Implementation of capital investment were carried out at a higher rate than commissioning of fixed assets relative to the plan.
- Equipment procurement for the projects started in 2016 and contracted with the works beginning in 2017.
- Capitalization of interest: interest increase as part of the construction in progress value in 2016 was 16% or 423 mln rubles.

The planned scope of the approved investment program in accordance with the order No. 735 dated October 16, 2014 of the RF Ministry of Energy does not take into account the actual state of affairs at the sites: actual state in 2014–2015, changes in the Electric Power Development Scheme and Program, including exclusion of the objects; sequestering of the investment program.

Moreover, the reasons for deviations from the corrected planned indicators on capital investments implementation and financing:

- refusals to issue a building permit;

Changes in completion dates was impersonal and attributable, as a rule, to the influence of external factors:

- problems in regulation of land and legal issues (long-term coordination and approval of land-use planning and land survey projects);
- adjustment of technical parameters of titles of the investment program in accordance with the Electric Power Development Scheme and Program;
- absence of outages in the distribution grid;
- difficulties in agreeing the route;
- long-term coordination with owners, establishment of private easements through the courts;
- unprepared electrical installations of applicants for the connection.
- Changes in legislative acts as related to execution of preliminary permissions;
- High degree of influence on the implementation of the object by third-party organizations: applicants' unreadiness to the connection; refusal of land owners to agree the routes of the facilities; long-term coordination of projects, delays in issuance of technical conditions by third-party organizations; requirements of regulatory bodies, etc.);
- The need to adjust the project due to unforeseen circumstances: detection of the communications not included into geological studies.

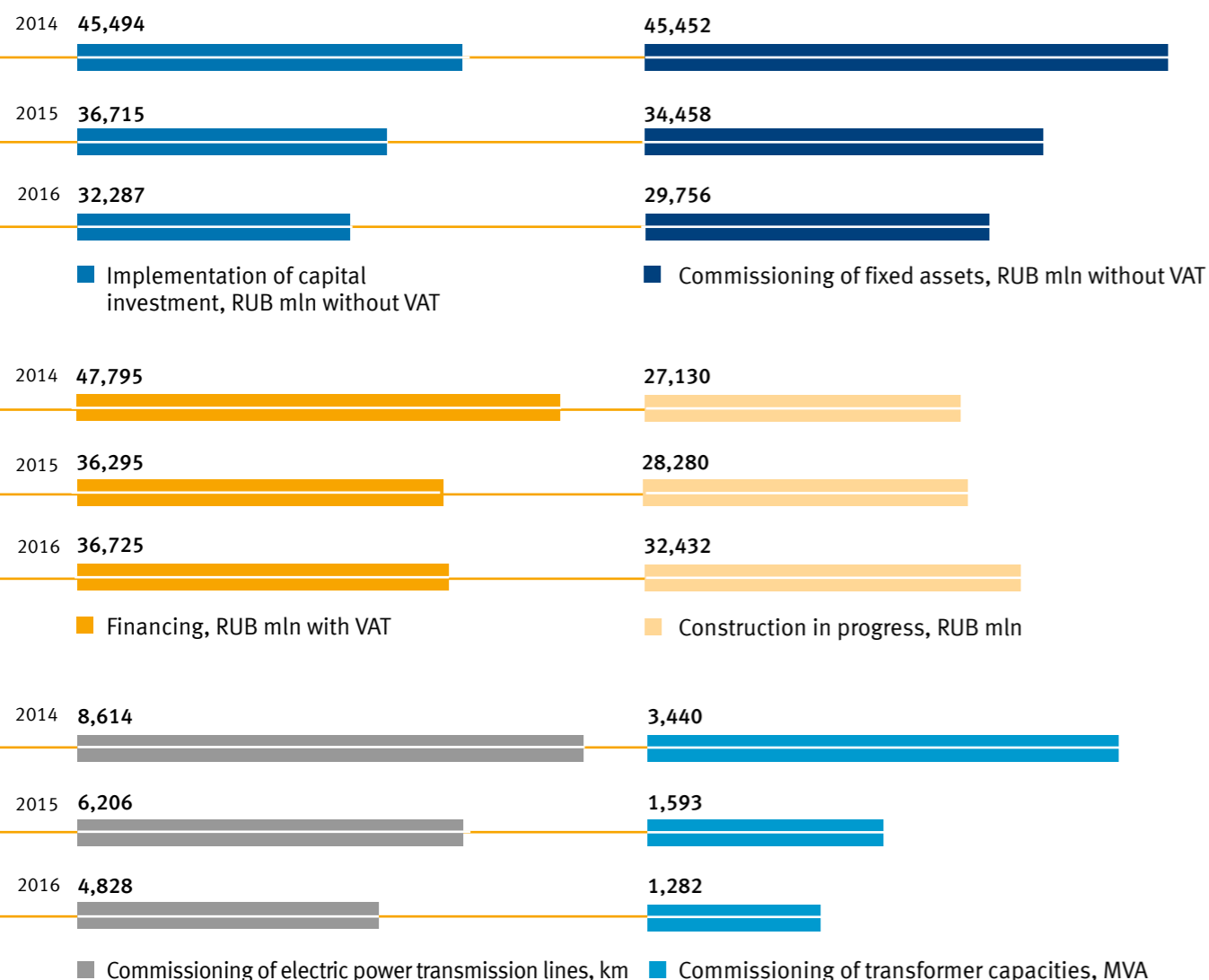
## Areas and Structure of Capital Investments

The priority area of investments in accordance with the approved investment program was:

- new construction (NC). In 2016, the actual scope of financing for NC was 20,262 mln rubles with VAT (55% of the total financing scope). The main purpose was connection of new consumers;
- technology upgrade and revamp of facilities. In 2016, the actual scope of financing the technology upgrade and revamp was 14,320 mln rubles with VAT (39% of the total financing scope), aimed at improving the reliability of electric power supply.

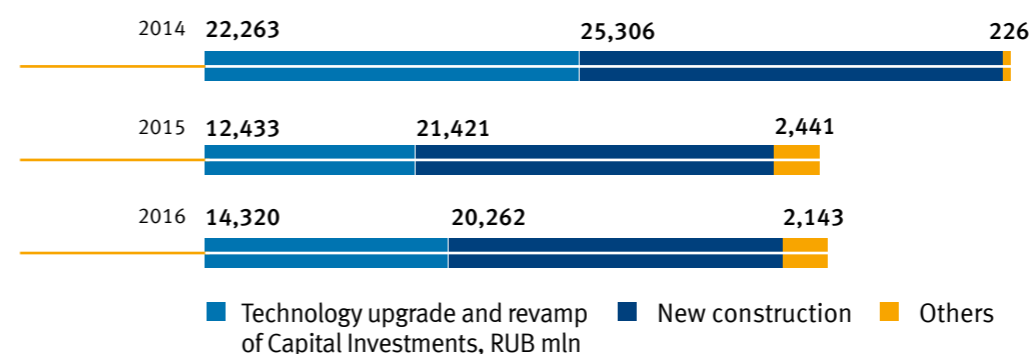
In general, the scope of financing in 2016 remained at the level of 2015.

### Key Parameters of Investment Program



Data with breakdown to Moscow and Moscow region are presented in Annex 6.3 to the Annual Report.

### Structure of Capital Investments, RUB mln



# 20,262

## RUB mln

actual scope of new construction financing in 2016

### Long-Term Investment Program

The long-term investment program of PJSC MOESK for 2015–2019 was prepared in compliance with the Electric Power Sector Development Strategy for Moscow for the Period 2014–2019\*, Prospective Development Scheme and Program for Electric Power Sector in Moscow Region for the Period 2015–2019.\*\*

The long-term investment program for 2015–2019 was approved by Order of Russian Ministry of Energy No. 735 dated October 16, 2014.

The key objectives of PJSC MOESK investment program are as follow:

- modernization of equipment as required for sufficient, reliable, uninterrupted power supply to consumers;
- commissioning of new capacities to cover the deficit of loads and increase the volume of reserve capacity in feed centers;
- implementation of program for elimination of limitations on technological connections to overloaded feed centers;
- ensuring power output from the newly commissioned power generating plants of PJSC "Mosenergo";
- implementation of development plans for Troitsky and Novomoskovsky administrative districts due to construction of new feed centers (220 kV station "Khovanskaya", 700 MVA);
- ensuring the full scope of technological connections.

Out of the total scope of capital investments in accordance with the approved investment program for 2017–2019 for the total amount of 139,487 mln rubles with VAT, retrofit and revamp of the existing electric power facilities will take 86,979 mln rubles, (or 62.3%), new construction and expansion will take 49,988 mln rubles (or 35.8%), others (payment of interest on borrowed funds) will take 2,520 mln rubles (or 1.9%).

\* Approved by Resolution of the Department for Fuel and Energy Economy of Moscow No. 01-01-14-13/14 dated April 29, 2014.

\*\* Approved by Resolution of the Department of Energy of Moscow region No. 24-r dated April 29, 2014.

The total volume of the Company's equity funds used to for the investments (taking into consideration the advances for technological connections) is 139,487 mln rubles or 96.1%

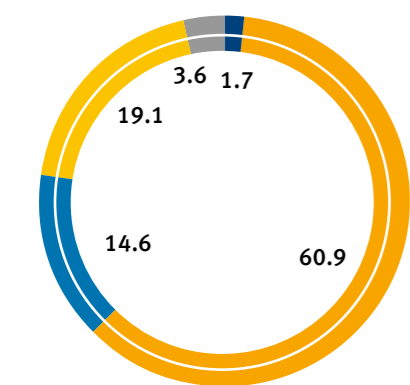
At the moment the draft investment program of PJSC MOESK for 2015–2022 was approved by the Board of Directors, available on the Russian Ministry of Energy website ([minenergo.gov.ru](http://minenergo.gov.ru)) and on PJSC MOESK website ([www.moesk.ru](http://www.moesk.ru)).

The reduction of the Investment Program for 2017 is 8,963.61 mln rubles with VAT.

### Parameters of Long-Term Investment Activities

Efficiency indicator	2017	2018	2019
Capital investments (implementation), RUB mln without VAT	38,869	40,751	40,101
Commissioning of fixed assets, RUB mln without VAT	41,041	43,050	46,774
Financing, RUB bln with VAT	43,910	47,481	48,096
Construction in progress, RUB mln without VAT	20,220	18,278	11,224
Commissioning of transmission lines, km	2,453	2,963	3,783
Commissioning of transformation capacity, MVA	3,109	3,100	2,529

### Sources of Financing for Long-Term Investment Program (2017–2019), %



- Depreciation
- VAT refund
- Payment for technological connection
- Raised funds
- Revenues used for investment

Data with breakdown to Moscow and Moscow region are presented in Annex 6.3 to the Annual Report.



## 2.7. Technologies and Innovations

### Commentary-interview of the Director for Automation of Business Processes A.A. Areshkin

– The main areas of IT system development in 2016 are related with automation of business processes.

First of all, I would mention here the development of IT projects on implementation of new client services. Specifically, in the reporting period the following projects were accomplished:

- The unified customer relationship management (CRM) system (CRM system) has been developed and now is at the stage of implementation. Within the CRM system implementation, the Company organized the centralized storage of information about customers and relationship with them and, thus, provided an opportunity for prompt receiving the full information about the customers from a single source.
- Since 2016 we use the modern information technologies to notify our consumers about scheduled and emergency power supply outages. For example, our consumers have an opportunity to subscribe to SMS and e-mail messages notifying about dates and duration of scheduled outages, as well as about the expected duration of restoration works in case of emergency outages.

- Personal Account services were improved, especially in terms of further integration of the data with the personal account in PJSC “Mosenergosbyt”, and the possibility of using a digital signature to sign the final acts for technological connection.
- The Company started the activities providing an opportunity to obtain technological connection contracts directly from the Moscow municipal service portal ([pgu.mos.ru](http://pgu.mos.ru)).

In 2016, within the framework of the main areas for innovative development defined by the Innovative Development Program, PJSC MOESK implemented the following key innovation protects:

- transition to digital stations rated for 35–110 (220) kV (construction of “Khovanskaya” station using digital power-system protection devices, measuring current transformers and voltage transformers);
- transition to digital smart grids with distributed intelligent system for automation and control (implementation of intelligent distribution grids (Smart Grid) within the territory serviced by branch of PJSC MOESK – New Moscow);
- transition to complex efficiency of business processes and management system automation (implementation and development of productive assets management system, increase of the efficiency of technological connection to electric grids of PJSC MOESK);

- use of new technologies and materials in the electric power industry (use of reclosers in 6–10 kV overhead power lines with the possibility of remote control and integration to SCADA system; installation of polygon supports for 110–220 kV grids, including aesthetic ones; use of composite material supports; remote monitoring of OPL with compact unmanned aerial vehicles (air drones)).

In 2016, PJSC MOESK completed research, development and experimental design activities focused on, first of all, the improvement of reliability in the Company's electric grid equipment operation.

The charging stations network of PJSC MOESK was further extended in Moscow and Moscow region in 2016, with location of stations in municipal parking lots, shopping malls, business centers, hypermarkets and filling stations.

The Company obtained 2 patents on the results of its R&D activities in the reporting period.

The Company had 10 patents in total as of December 31, 2016. The results of R&D activities carried out by PJSC MOESK facilities, as well as by other subsidiaries of PJSC “Rosseti” will be replicated, subject to the conclusion of license agreements.

## Information Technology and Telecommunication

Implementation of the new projects, development of the existing and maintenance of the already accomplished projects in the area of information technology are referred to continuous activities of the Company in accordance with the Strategy for Information Technologies and

Telecommunications (further referred to as the ITT Strategy). This Strategy defines the objectives for development of information technologies of the Company, strategic initiatives and activities to achieve them, approved by the Board of Directors of PJSC MOESK on June 21, 2012.

### In 2016 the following key results of business process automation were achieved:

Centralized storage of the information about customers relationship management (CRM) improved the efficiency of customer relationship management within the framework of business processes of PJSC MOESK.

Centralized storage of information about customers and relationship with them.

Unification of the procedure for consumer applications processing in terms of consumer services of PJSC MOESK.

Ensuring prompt receiving the full information about customers and relationship with them from a single source. This resulted in improved operational efficiency and quality of work of operators, effective control over the activities of contact centers, as well as the fact that customers of PJSC MOESK were provided with the new efficient tools for interaction.

Significant improvement of the system of customer notification in case of scheduled and emergency outages. For example, consumers have an opportunity to subscribe to SMS and e-mail messages notification about dates and duration of scheduled outages, as well as about the expected duration of restoration works in case of emergency outages.

Applicant can submit their applications for technological connection and obtain contracts in multi-functional centers of Moscow region without the need to physically visit client offices of PJSC MOESK.

The Company started the activities providing an opportunity to obtain technological connection contracts and technical specifications directly from the Moscow municipal service portal ([mos.ru](http://mos.ru)).

Server hardware updating and optimization were started in 2016. More than 20 systems were replaced with the new equipment using own resources without additional financing, with the new system for its status monitoring.

Complex development of ITT within the unified Strategy allowed to considerably reduce the Company's expenses for ITT operation in 2016. Reduction of costs was equal to 23%.

The main areas of business process automation in PJSC MOESK for 2017 are represented by the following projects:

- Creation of the automatic system for monitoring and controlling the investment program execution;
- Creation of the single electronic corporate documents depository;
- Creation of the integrated information security system.

### Innovative Development

The activity of PJSC MOESK in the sphere of research and technology development is carried out within the frameworks of its Innovative Development Program (further referred to as the Program).

The purpose of the Program is transition to the electric power grids of the new technology quality with the new characteristics of reliability, efficiency, availability, controllability and client-oriented approach in the electric grid facilities owned by PJSC MOESK.

The Program includes the following areas of the Company's innovative development:

- transition to digital control stations of various voltage rates 35–110(220) kV;
- transition to digital smart grids with distributed intelligent system for automation and control;
- transition to integrated business processes efficiency and automation of control systems;
- use of new technologies and materials in the electric power industry.

### R&D in 2016

Description of R&D	Executive period	R&D result implementation site	R&D result implementation effect
System for monitoring and prediction of electric grid damages, including assessment of necessary resource mobilization under the impact of hazardous natural phenomena	2014–2017	Electric grid branches of the Company installed 25 automatic weather stations, completed mounting and set-up of weather monitoring system components	Advance identification of time and place of occurrence of emergency situations, especially to ensure availability of necessary number of repair teams and necessary machines and backup equipment at the site of emergency situations
Development and implementation of intelligent distribution grid technologies for needs of PJSC MOESK	2014–2017	The project includes application of the developed solutions in implementation of intelligent distribution grids (Smart Grids) in the territory serviced by the branch of PJSC MOESK – New Moscow	Improved controllability of distribution grids rated for 6–20/0.4 kV, prevention of the equipment overloads, reduction of power outage duration, reduction of electric power losses in the electric grids of PJSC MOESK
Development of typical digital station rated for 10, 20, 35 kV	2014–2016	Substations rated for 10, 20, 35 kV	Decreased time and costs of design and survey activities and construction and installation activities for revamp of the facilities rated for 35 kV, closed distribution units, power distribution stations and distribution transformer substations rated for 6–10, 20 kV.  Possibility to perform revamp projects at sites with limited space.  Improved performance reliability of stations, lower emergency occurrence rate.

Description of R&D	Executive period	R&D result implementation site	R&D result implementation effect
Automatic reclosing with transmission line condition monitoring (ARTLCM)	2014—2016	Experimental and performance tests were performed on automatic reclosing device prototypes with line condition monitoring function on 110 kV overhead cable lines Kostino-Gorenki, with branch line in Balashikha station; pilot operation is planned	Reduced equipment repair costs. Lower volumes of equipment damage.
Reactive power compensation in distribution grid	2015—2016	63 reactive power compensation devices were developed, installed and connected to the grid at the sites of PJSC MOESK branch – “Eastern Electric Grids”	Reduction of technical power losses in electric energy transmission. Reductions of costs for revamp and new construction of electric grid facilities. Decreased load on the power equipment due to the lower value of reactive current. Improved possibilities for technological connection of consumers to PJSC MOESK stations. Improved quality of electric energy
Development of guidelines on selection of neutral earthing mode in 6–35 kV grids, including description of aspects in connection with the transfer of Moscow Cable Grids rated for 6(10) kV to resistive earthing neutral operation mode	2016—2017	Electric grids rated for 6–35 kV	Reduced costs for operation and maintenance of distribution grids
Development of guidelines on application of diagnosis tools for 6–220 kV equipment under operating voltage by partial discharge method	2016	Equipment of stations owned by PJSC MOESK	Reduced costs of emergency repairs of the equipment; improved the reliability of electric power supply due to elimination of outages
Development of technical solutions and recommendations for transfer of existing 6–10 kV grid to 20 kV grid in rural areas	2016—2017	Distribution grids rated for 6–10 kV	Improved throughput capacity of electric grids. Reduced technical losses in medium voltage systems. Improved quality of electric power supply in terms of reduced voltage deviations for the most remote consumers. Reduced average power outage duration. Reduced cost of ownership for electric grids.

### List of Patents/Certificates Obtained in 2016 in Connection with R&D Results

In 2016, PJSC MOESK obtained 2 title protection documents (patents) on the results of its R&D activities:

- invention patent “System for Automatic Automatic Undervoltage Protection”;
- invention patent “Automatic Recloser for Overhead Electric Cable Transmission Line”.

Additionally, the Company submitted to Rospatent (Russian Agency for Patents and Trademarks) applications for the following invention patents:

- “Voltage Regulation System in Distribution Grids”;
- “Automated System for Monitoring, Protection and Control of Station Electrical Equipment”.

### Funds Allocated for R&D, RUB mln

Effectiveness indicators	2014	2015	2016	2016/2015
Revenues from electric power transmission*	33,656.4	35,787.8	35,687.1	–0.3%
Funds allocated for R&D	197.8	67.4	143.6	113.1%



\* The revenues do not include the costs for purchased electric power to compensate losses, services provided by PJSC FGC of UES and other distribution grid companies, as well as depreciation.

## 2.8. Procurement Activities

### Interview of the Deputy Director General for Logistics and Procurement M.L. Budyko

#### – What are the main achievements and results delivered by the Department under your supervision?

– PJSC MOESK performs its procurement activities in compliance with Federal Law No. 223-FZ dated July 18, 2011 “On Procurement of Goods, Works, Services by Certain Types of Legal Entities” (further referred to as Law 223-FZ).

The volume of procurement from small and medium businesses for 2016 established by the Government Resolution No. 1352 dated December 11, 2014 “On the Peculiarities of Participation of Small and Medium Businesses in Procurement of Goods, Works,

Services by Certain Types of Legal Entities” was successfully reached (73.6% of the total procurement volume in 2016 against the required level equal to 18%).

According to the results of 2016, the procurement plan for innovative, high-tech products was also successfully accomplished.

The Logistics and Procurement Department carried out systematic works aimed at producers involvement in procurement, reduction of the share of purchased import equipment. PJSC MOESK developed and implements the programs to increase the share of procurement directly from manufacturers, Direct Line and One Step From Manufacturer. As a result of these programs implementation, the share of procurement from the manufacturers and their official representatives increased to 87% in 2016. In order to minimize the

Company’s dependence on imported equipment, the Logistics and Procurement Department coordinates the activities of the specially established committee specialized in reducing the imported materials and equipment. Thus, following the Committee’s work results, the share of imported equipment purchased by PJSC MOESK in 2016 was 2.3%, on package contractor’s agreements – 7.53%.

To improve accessibility of the Company’s procurement processes for the small and medium businesses, PJSC MOESK established in 2014 the Advisory body with advisory and consultative functions and whose objective was to develop measures and activities to increase the efficiency of the Company’s procurement activities, as well as to analyse the implementation of such measures and activities, based on interaction with non-profit and public organizations, representatives of industry research and educational institutions and organizations.

JSC “Corporation “SME” will be responsible for assessment and monitoring of the Company’s procurement plan compliance with the requirements of the Russian laws, providing the SMEs getting involved in procurement process for the needs of the Company. The Company actively cooperates with JSC “Corporation “SME” on this issue.

The Company approved the Partnership Program between PJSC MOESK and Small and Medium Companies, in conformity with which the Register of Small and Medium Companies joining the Program will be maintained. 11 Small and Medium Companies joined the Partnership Program in 2016.

Procurement transparency is regulated by the Russian laws which PJSC MOESK respects, publishes in open sources annual procurement plans.

The Company holds the procurement procedures through the electronic trading platforms [www.b2b-energo.ru](http://www.b2b-energo.ru) and ETP Rosseti ([www.etp.rosseti.ru](http://www.etp.rosseti.ru)) which enable involvement of a large number of contractors and service suppliers and therefore contribute to a competitive environment and higher efficiency of procurement activities.

Special attention is paid to general availability of information on the procurement procedures, which is fully supported by mandatory publication of information on the requested goods, works, and services in the uniform information system of the Russian Federation on the Internet ([www.zakupki.gov.ru](http://www.zakupki.gov.ru)).

In the reporting year, 3,253 procurement activities were held for the total amount of 67,932 mln rubles, VAT excluded, including through open procurements (competition, auction, requests for proposals, competitive negotiations, quotation requests) – 2,970 procurement activities for 64,630 mln rubles, VAT excluded (95% of the total procurement volume in value terms).

In 2016, the volume of open competitive procurement procedures organized

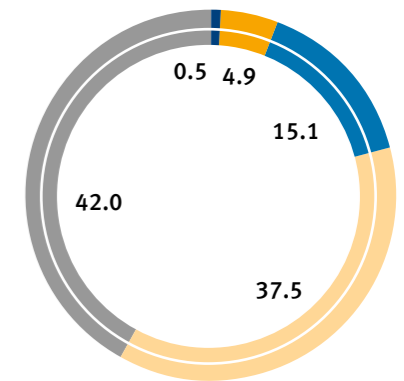
through electronic commerce tools was 91% of the total number of procurements (or 95% of the total procurement volume in value terms).

Based on the results of procurement procedures held in 2016, the economic effect was 2,964 mln rubles without VAT (or 4.2% of the planned and declared procurement costs).

The procurement volume in 2016, in which small and medium-sized companies took the leading role, was 22,344 mln rubles without VAT or 73.6%.

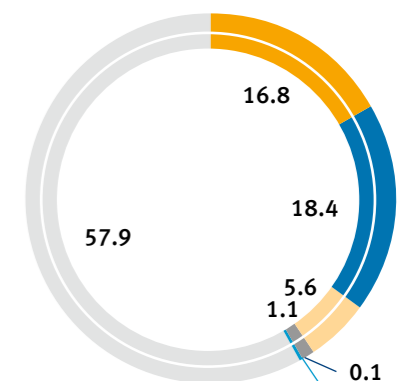
With the purpose of developing the competitive environment and all participants having equal access to competitive procedures, by the decision of Central Controlling Committee the changes were made to the applicable procurement / tender documentation in terms of excluding the obligation of a participant to submit the original documents in paper form simultaneously with the electronic document. The Company’s transition to the electronic form of conducting all trade and procurement procedures (TPP) is aimed at expanding the range of potential participants and increasing transparency in TPP by ensuring openness of information to participants.

### Structure of the Company's Procurement in 2016 with Breakdown to Procurement Procedures, %



- Procurement from the single supplier\*
- Request for price quotation
- Open bidding process/auction
- Open request for proposals
- Open competitive negotiations

### Structure of the Company's Procurement in 2016 with Breakdown to Types of Activity, %



- New construction
- Technology upgrade and revamp
- Repair of power equipment (repair and maintenance)
- IT procurement
- R&D
- Consulting
- Other procured items

#### – What are the Company’s plans and forecasts for 2017?

– In order to enable successful fulfilment of the Company’s maintenance and repair program for 2017 and reliability improvement of electric power supply to consumers, the Procurement Department must ensure fulfilment of the procurement plan for repair activities for 100%.

To increase the interest of potential participants in the procurement of the Company by holding forums, open days, competitions.

In procurement activity PJSC MOESK seeks to follow the current trends in development and improvement of the procurement system. The Company complies with the requirements established by regulatory legal acts, carries out systematic work to increase openness and transparency in procurement, contributes to the appearance of maximal

competitive environment, and ensures maximum economic efficiency of the Company’s procurement activities.

PJSC MOESK implements the import substitution program in order to minimize the Company’s dependence on imported equipment. Thus, according to the Department’s plans, the share of purchased imported equipment shall not exceed 5% of the corresponding equipment which currently has Russian analogues.

In order to eliminate involvement of intermediary organizations in the supply chain and to reduce the costs of goods and materials, the Logistics and Procurement Department must ensure that manufacturers and their direct representatives deliver at least 75% of goods and materials.

Thus, with full confidence it can be asserted that in the field of procurement activities PJSC MOESK keeps pace with the times.

\* Since 2016 the total procurement from the single supplier includes semi-constant purchases (utilities, rent, services with RF laws regulated tariffs / prices). Previously, these purchases were reported in a separate line.



## 2.9. Consolidation of Electric Grid Assets

### Commentary-interview of the Deputy Director General for Corporate Governance and Property A.S. Starostin

– In accordance with the Strategy for Development of the Electric Grid Complex of the Russian Federation approved by RF Government resolution of April 03, 2013 No. 511-r, the most important objective for the electric grid complex in Russia is to improve the coordination of various local grids operators and strengthen the control over their operation.

In 2016, within this objective accomplishment PJSC MOESK consolidated the grids of three LGOs in the territory of Moscow region, as well as completed consolidation of one LGO in the territory of the New Moscow branch. The Company concluded long-term lease contracts in all these cases with a repayment option allowing to compensate the Company's costs on account of tariff source means. This method of consolidation is considered as the priority one in the conditions of reduction of grid companies' investment programs.

The Company also achieved certain success in consolidation of electric grid facilities owned by persons other than LGOs. The activities in this area have been carried out for several years. Introduction of the electronic application processing system reduces significantly the time spent by applicants and minimizes the necessity to visit the Company's client service centers. Individuals and non-commercial organizations transfer the grids to PJSC MOESK free of charge, commercial organizations – on account of their debts under contracts of operational maintenance (without diversions of the Company's funds).

In compliance with the Russian Federation President Order No. 1567 dated November 22, 2012 "On Open Joint Stock Company "Rosseti" on ensuring LGOs step consolidation, implementation of the objectives and targets of the Strategy for Development of the Electric Grid Complex of the Russian Federation approved by RF Government resolution of April 03, 2013 No. 511-r, PJSC MOESK developed the Program for Electric Grid Assets Consolidation for every region of the Company's operations for the period till 2017.

### Preferred methods of consolidation:

1. For LGOs' electric grids – long-term lease contracts with a repayment option allowing to compensate the Company's costs on account of tariff source means.

2. For other owners' electric grids:

A) Non-commercial organizations and individuals – compensation-free transfer contracts (donation agreements). The Company intends to standardize and simplify the

entire process of an applicant's grid assets transfer at no cost. Application and documents can be submitted in electronic format via Personal Account on the website. The Company adjusted the procedure for applications processing and deciding on the appropriateness of the proposed grid assets consolidation. The main criteria of appropriateness are the following: good technical condition, availability of individual metering devices, connection to the Company's electric grids, availability of title certification documents;

B) Commercial organization (developers, industrial plants, etc.) – on account of repayment of owner's debts to the Company (for operational maintenance and other services).

### Consolidation of LGOs

1. CJSC "Oktyabrskaya Elektroset" (Moscow region). On January 1, 2016 the Company signed the long-term lease agreement with the local grid operator CJSC "Oktyabrskaya Elektroset". The grid provides power supply to urban settlement Oktyabrsk, housing and commercial

facilities in Ramensky district and in settlement Malakhovka of Moscow region. Assets: 7 distribution transformer substations and 28 transformer stations with installed power rating of 68.5 MVA; 10–0.4 kV overhead power lines with 183 km length. As a result of this transaction "Oktyabrskaya Elektroset" loses its status of local grid operator.

2. CJSC "Zhukovskaya-Elektroset" (Moscow region). On May 11, 2016 the Company signed the long-term lease agreement for the electric grid facilities on the following terms: PJSC MOESK has the right to use the last rental payment as purchase payment. Assets: 157 distribution transformer substations and transformer stations with installed power rating of 156 MVA; 10–0.4 kV overhead power lines with 428 km length. As a result of this transaction CJSC "Zhukovskaya-Elektroset" loses its status of local grid operator.

3. LLC Naro-Fominsk Electric Grid Company (Moscow, Troitsky and Novomoskovsky administrative districts). On October 4, 2016 the Company signed the long-term lease agreement for the electric

grid facilities with the repurchase right upon the last rental payment. Composition of electric grid assets: 122 transformer stations / closed transformer stations / outdoor packaged transformer substations with power rating of 35.3 MVA; 6/10/0.4 kV transmission power lines of 213 km. Following the transaction completion, LLC Naro-Fominsk Electric Grid Company was removed from the list of grid operators of Moscow.

### Consolidation of LGOs not complying with the Criteria

Since introduction of the Criteria for attributing the electric grid facilities owners to LGOs (the RF Government Resolution dated February 28, 2015 No. 184, as amended by the RF Government Resolutions dated September 4, 2015 No. 941, dated September 30, 2016 No. 989, dated October 17, 2016 No. 1056),

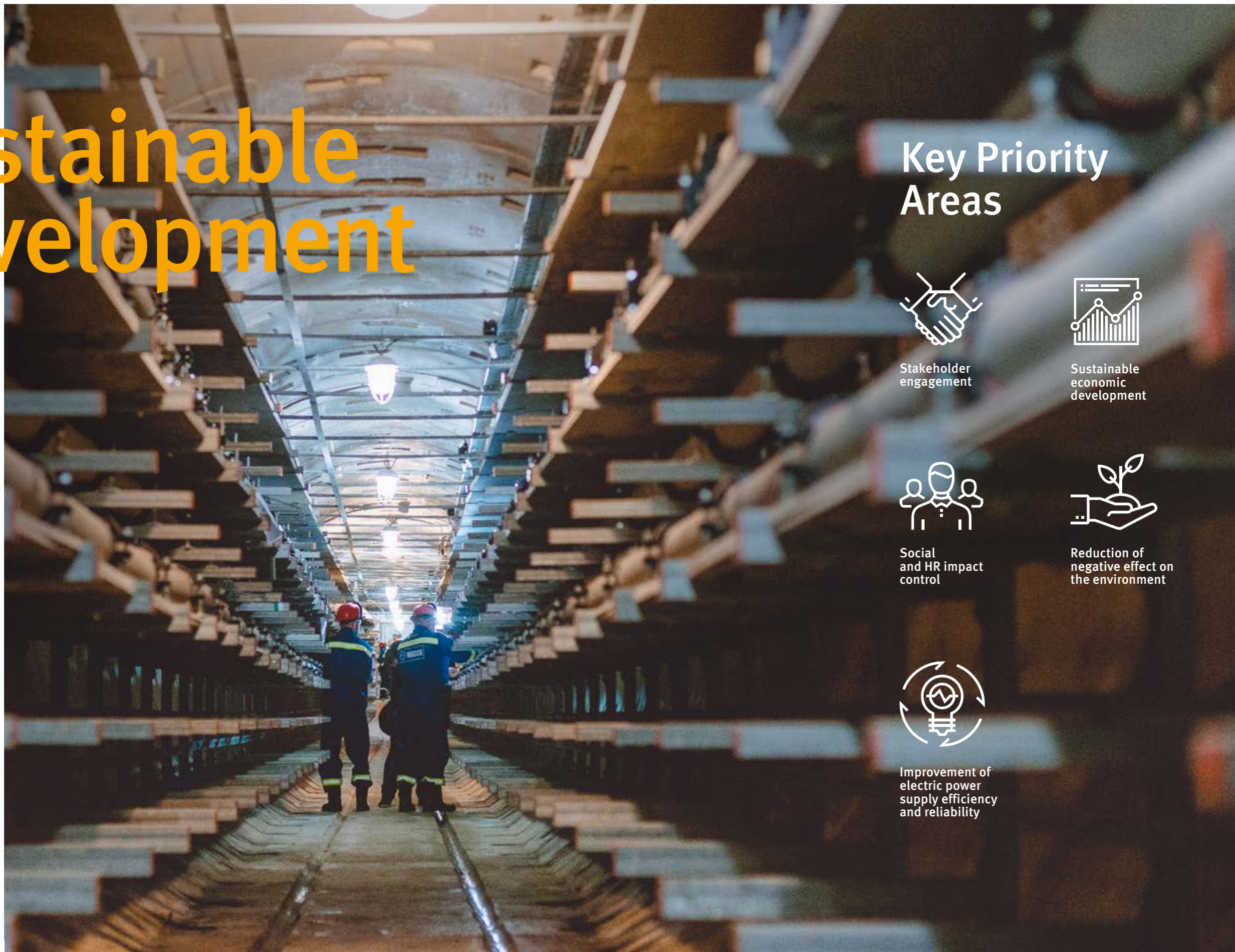
PJSC MOESK actively cooperates with the companies losing their LGO status. Nevertheless, their intention to transfer / alienate the rights to electric grid facilities is not strong. In 2016, the Company concluded the transaction to consolidate the electric grids of LLC "Estate Agency "Nash Dom-M" (Moscow region). LGO lost its status of LGO in January 2016, as of the date of signing the long-term lease agreement with the right of repurchase: February 29, 2016.



### Summary Indicators for Electric Grid Assets Consolidation

	2014			2015			2016		
	MVA	km	c.u.	MVA	km	c.u.	MVA	km	c.u.
<b>TOTAL</b>	<b>773</b>	<b>1,413</b>	<b>6,082</b>	<b>861</b>	<b>1,192</b>	<b>7,667</b>	<b>620</b>	<b>2,035</b>	<b>14,672</b>
Purchase of electric grid facilities	72	48	882	232	28	1,387	0	0	0
Lease of electric grid facilities	45	49	691	146	357	2,570	376	972	10,132
Other (permanent ownership and use rights)	656	1,316	4,509	483	807	3,710	244	1,064	4,540

# 3. Sustainable Development



## Key Priority Areas



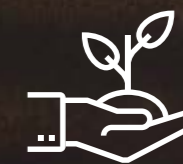
Stakeholder engagement



Sustainable economic development



Social and HR impact control













Reduction of negative effect on the environment



Improvement of electric power supply efficiency and reliability

# 3.1. Stakeholder Engagement

 <b>Personnel</b>	 <b>Consumers</b>	 <b>Suppliers, contractors</b>	 <b>Shareholders, investors</b>	 <b>Authorities</b>	 <b>Mass media</b>	 <b>Non-commercial organizations and local communities</b>	 <b>Educational institutions</b>
<ul style="list-style-type: none"> <li>• Steady jobs</li> <li>• Salary and social benefits</li> <li>• Opportunities for professional and career growth</li> <li>• Creation of learning and development opportunities</li> <li>• Occupational health</li> </ul>	<ul style="list-style-type: none"> <li>• Product price</li> <li>• Safety and reliability</li> <li>• Operational efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement budget</li> <li>• Procurement from local suppliers</li> <li>• Compliance with procurement standards in the framework of all procurement procedures</li> <li>• Contract performance</li> </ul>	<ul style="list-style-type: none"> <li>• Operational efficiency</li> <li>• Cost control</li> <li>• Development prospects</li> <li>• Compliance with the law</li> <li>• Situation in the power market</li> <li>• Corporate governance</li> <li>• Strategy and KPIs</li> <li>• Capitalization increase</li> </ul>	<ul style="list-style-type: none"> <li>• Tax payments in due time and in full scope</li> <li>• Energy support for implementation of plans for social and economic development of territories</li> <li>• Participation in significant social projects</li> <li>• Support of partner relations</li> </ul>	<ul style="list-style-type: none"> <li>• Reliable power supply</li> <li>• Investment program implementation</li> <li>• Operational efficiency</li> <li>• Innovative solutions implementation</li> <li>• Client-friendly approach</li> <li>• Development prospects</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental safety</li> <li>• Minimization of negative consequences in case of production accidents</li> <li>• Compliance with the law</li> <li>• Social programs</li> <li>• Development and modernization of social infrastructure</li> <li>• Support of cultural events</li> </ul>	<ul style="list-style-type: none"> <li>• Refresher training and qualification improvement for personnel</li> <li>• Internship and employment opportunities for graduates</li> <li>• Support of industry-specific educational institutions and scientific research activities</li> </ul>
<ul style="list-style-type: none"> <li>• HR policy and social policy</li> <li>• Personnel satisfaction surveys and questionnaires</li> <li>• Intranet portal</li> <li>• Personnel meetings with Deputy Director General for HR Management and Administration</li> <li>• Internal meetings</li> <li>• Organization of cultural and sports events</li> <li>• Activities of labor dispute committee</li> <li>• Meetings organized by representatives of Young Specialists' Council</li> <li>• Meetings with trade union representatives</li> <li>• Occupational health policy</li> </ul>	<ul style="list-style-type: none"> <li>• Questionnaires</li> <li>• Interaction via front office</li> <li>• Internet reception office of Director General</li> <li>• Execution of monthly reports based on the readings of electric power meters</li> <li>• Execution of reports on electric power consumption without metering and contracts</li> <li>• Instrumentation checks for electric power meters</li> <li>• Organization of open lessons and seminars dedicated to Electrical Safety</li> <li>• Interaction via Personal Account service</li> <li>• Interaction via Forum for Technological Connection and Electric Power Supply to Clients</li> </ul>	<ul style="list-style-type: none"> <li>• Programs for involvement of small and medium enterprises in procurement</li> <li>• Organization of procurement procedures using electronic trading platforms</li> <li>• Contractual relations</li> <li>• Meetings with manufacturers of electrical and other equipment</li> <li>• Participation of PJSC MOESK in annual specialized forums</li> <li>• Agreement on information exchange</li> <li>• Organization of webinars on connection to electric grids for small and medium business applicants, as well as summerhouse and countryside house owners' non-commercial partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of reports as required by the law</li> <li>• Presentations and conference calls for the investment community</li> <li>• Press releases on material subjects and key corporate events</li> <li>• General meetings of shareholders</li> <li>• Meetings of PJSC MOESK executives with representatives of shareholders, investment communities</li> <li>• "Hotline for Shareholders" operational communication line</li> </ul>	<ul style="list-style-type: none"> <li>• Disclosure of information and reports as required by the law</li> <li>• Use of personal communication</li> <li>• Participation in joint work groups</li> <li>• Meetings of PJSC MOESK executives with the representatives of authorities</li> <li>• Organization of joint public events</li> </ul>	<ul style="list-style-type: none"> <li>• Press events: press tours, briefings, press conferences</li> <li>• Press releases on the most significant subjects and key events</li> <li>• Interviews with the Company executives</li> <li>• Video and radio spots, publications in mass media</li> <li>• Answers to mass media requests</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership in non-commercial organizations</li> <li>• Participation in work groups</li> <li>• Economic, environmental and social initiatives</li> <li>• Publications in local mass media</li> <li>• Organization of cultural and sports events</li> </ul>	<ul style="list-style-type: none"> <li>• Doors Open Days</li> <li>• Cooperation with educational institutions in connection with relevant education subjects</li> </ul>

 Interests of the stakeholders  
 Forms of engagement



### 3.1.1. Interaction with Investors

#### One of the main tasks of the Investors Relations Division is coverage of the Company activities results and forecast indicators in due time and in full scope.

Up-to-date information is available on the corporate web-site of the Company ([www.moesk.ru](http://www.moesk.ru)) in the section "Shareholders and Investors", where the clients can find reports, presentations and other materials. Over the reporting period the Company also published IR-releases containing financial performance in compliance with the RAS and IFRS, operating results, main parameters of the business plan and forecast indicators.

In addition to publication of information on the website, in 2016 the Company organized 3 conference calls following the publication of reports in compliance with the RAS and the IFRS.

An important stakeholder engagement channel is the annual report, therefore, the Company pays special attention to preparation of this document. RAEX Rating Agency (JSC Expert RA) assigned "5 stars" (the highest quality of annual report) to the Annual Report of PJSC MOESK for 2015. The annual report of the Company was involved in "Corporate Transparency of the Largest Russian Companies – 2016" research held by the Russian Regional Network for Integrated Reporting. PJSC MOESK ranked second among private companies.

One of the most significant events in terms of interaction with the

shareholders is organization of general shareholder meetings. The Annual General Meeting of PJSC MOESK Shareholders dedicated to the results of the year 2015 was held on June 6, 2016 and attended by the holders of over 95% voting shares in the Company. The complete information on the resolutions of the General Meetings of Shareholders is available on the website of PJSC MOESK in the section "General Meetings of Shareholders".

The Company understands the importance of direct dialogue between the Company and the investment community; therefore, "Hotline for Shareholders" operational communication line was developed, which allows shareholders to request reference information and get consultation by filling in "Ask a Question" form on the website of the Company.



### 3.1.2. Interaction with Authorities and Public Organizations

#### Partner relations of the Company with authorities and public organizations in 2016 moved to a new quality level, both communication channels and formats were greatly extended.

A series of public events were organized for holding public hearings of the Company's investment program: with invitation of all heads of municipal administrations in Moscow region and representatives of prefectures and public organizations in Moscow. Public hearing of investment plans of the Company made it possible to obtain feedback from representatives of both executive and legislative authorities. In total 10 hearings were held.

Besides, in 2016 the key investment projects of the Company received

for the first time an expert appraisal on Open Government platform.

For demonstration of scales and objectives facing the Company in 2016, visiting conferences to the Company facilities were initiated during the year with the participation of employees of industry-specific committees and agencies of Moscow and Moscow region. So, employees of the Department of Economic Policy and Development of the city of Moscow got acquainted with Sokolniki, one of the oldest stations of the capital. In the framework of supervising PJSC MOESK

investment program implementation a working meeting was organized on "Avtozavodskaya" station.

Milestones for the Company in 2016 were active development of interactive services in the field of technological connections, opening of client service centers, as well as construction of high-voltage substations essential to the region.

Significance of the Company's investment programs under implementation in the territory of the region was supported by personal visits of regional managers to PJSC MOESK facilities. In particular, the Governor of Moscow region, A.Yu. Vorobiev, attended reconstructed Client Service Center in Solnechnogorsk. The Moscow Mayor S.S. Sobyanin participated in ceremonial opening of "Kozhevnickeskaya" station, which symbolically took place on December 22, the Power Engineers' Day.



#### Commentary of the Director of Public Relations L.V. Dusheina

– In 2017, the Company's efforts will still focus on improvement of information availability regarding the Company activities for authorities and public organizations, as well as on increase in transparency and availability of information they are interested in. Special attention will be paid to delivery of information on the investment program implemented in the region, current procurements, and the Company's services, including interactive ones.

### 3.1.3. Public Relations

The Company performs its Public Relations activities in line with the provisions of the Uniform Information Policy of PJSC “Rosseti”. In 2016, special attention in the area of Public Relations was paid to the activities to increase openness and transparency of the Company business, and as a result, loyalty of the target audience.

#### Social Communications

##### Procurements

In 2016, PJSC MOESK initiated the first Procurement Forum together with the Logistics and Procurement Department. Chief executives of the Russian Federation Chamber of Commerce and Industry, “OPORY ROSSII”, Small and Medium Enterprise Corporation and PJSC “Rosseti” were invited to this event as speakers.

Over 200 people took part in this event. At the same time more than 350 viewers watched the on-line broadcasting of the event. Currently the record of the forum is available on the website of the Company in the section “Procurements”.

##### Technological Connection

The key objective of PR-support of the subject was delivery of information on the Company reforms and new interactive services on the Technological Connections Portal to the target audience.

#### Commentary of the Director of Public Relations L.V. Dusheina

– In 2017, communication activity efforts of the Company, the same was as a year earlier, will be focused on promotion of new options and services implemented in the area of technological connection, increase in transparency of operation and procurement activity. Moreover, an additional emphasis will be

In total 42 events on technological connection were organized during the year, and the Company specialists took part in 30 events as experts. 159 press releases were issued, which is 55% greater than in the previous year. There were over 3,100 publications in mass media (10% greater than in 2015), including 58 video spots (36 video spots in 2015).

A new form of client interaction – webinars were first implemented on the initiative of PJSC MOESK. A joint project was delivered together with the Ministry of Energy of the Russian Federation. The project was named “On-Line Connection”.

##### “Legal Kilowatt”

In 2016, PJSC MOESK continued the “Legal Kilowatt” project, focused on systematic identification of cases of electric power consumption without metering and punishment of breakers of electric networks connection rules.

In the framework of this project, MOESK performed inspections to identify cases of electric power consumption without

placed on PR-events dedicated to electrical injury prevention, including development of revised visual promotion and polygraphic materials.

In relation to social communications the Company will continue the work on ensuring operational and quality feedback from the Company clients and involvement of all available resources in this process – from the website to accounts in social networks.

contract and metering, raise awareness of the population, which contributed to achievement of the strategic Company objective – reduction of electric power losses during transmission.

“Legal Kilowatt” traditionally attracts interest of representatives of mass media of Moscow and Moscow region. There was a total of 11 TV spots and over 250 publications in printed and electronic media.

##### MOESK-EV Project

Over the year mass media representatives were invited to press tours dedicated to opening of new charging stations of MOESK-EV network: installation of Terra fast charging station produced by ABB, commissioning of the next scheduled charging station on Moscow municipal parking lot at 14 B.Bronnaya.

In addition, it should be noted that due to the achieved status of PJSC MOESK as an expert platform for development of charging infrastructure for electric transport, the Company was included in the list of facilities which were attended by the participants of the “80EDAYS-2016” International Electric Vehicle Racing.

Communication support of the project was recognized with the award of MediaTEK All-Russian Contest. MOESK-EV project took a silver medal in nomination “For Successful Implementation of the Regional Environmental Project “Fuel and Energy Complex for Society”.

##### “Kind Electricity to Children”

In 2016, power engineers of PJSC MOESK arranged over 200 open lessons dedicated to electric safety in general educational institutions of the Moscow area in the framework of the campaign “Good Electricity to Children”. A total of over 5 thous. children attended the lessons focused on prevention of child electrical injury.

Besides, in 2016, power engineers of MOESK successfully implemented a new form of work in the field of prevention of child electrical injury: the Company’s education and entertainment venue functioned in Moscow during large events for children.

On MOESK venue the characters of the popular cartoon Fiksiki together with power engineers spoke with children about electric safety rules, asked

riddles about electric power and drew attention to necessity of seeing special warning signs. All those who wished had the opportunity to try on a gear of the real power engineer and have their pictures taken with popular characters. Coloring books, bookmarks, stickers and timetables containing rules were distributed among all visitors as souvenirs.

##### Internet Communication

The year of 2016 is characterized by increase in interest of the audience to the website of the Company: from 10.5 thous. daily visits in 2015 to 13.7 thous. in 2016, which is explained by an active development of services offered on the website and by a new interactive approach to information formatting for more available presentation on the website. In particular, in 2016, an updated section with a visible map of the major investment projects of the Company was developed.

Client Forum dedicated to technological connections and electric power supply ([forum.moesk.ru](http://forum.moesk.ru)) is a resource where the users can ask questions on-line on any subjects of their interest, from application processing status and electric power quality to the current amendment of law. The Company experts in various fields respond to these questions in the forum, with the maximum response time being 3 days.

In 2016, the Company implemented additional modern tools for interaction with the client based on the Technological Connections Portal ([utp.moesk.ru](http://utp.moesk.ru)), specifically: subscription to notifications about scheduled power outage; possibility to pay for technological connection services, re-assignment (re-issue) of documents on technological connection, payment for various additional services.

Personal Account is one of the most popular internet-channels. Using this tool the client can send an electronic application for technological connection. In 2016, about 50% of the total number of applications were received electronically.

##### Social Networks

In 2016, social networks remained as one of the channels for informal communication with the target audience.

Together with the corporate accounts of the Company on Facebook and Twitter,

the page of PJSC MOESK was created on Instagram.

By the end of 2016, 2,199 users were subscribed to the corporate page on Facebook, 2,491 – on Twitter, 430 – on Instagram.

##### Corporate Publications

For purposes of the Company personnel informing of goals, objectives and principles of operating of the Company, improvement of loyalty to the management, employees non-financial motivation, increase in level of corporate culture and the image of the Company by means of secondary communication channels, the Company continued issuing the corporate publication – “Vesti MOESK” newspaper.

Issue of customer magazine “Energiya dlya biznesa” (Power for Business), pilot publications of which started in 2014 and 2015, continued in 2016. The magazine is issued on a half-year basis and oriented to business-applicants with the power rating requirements from 150 kW and to the authorities. A unique direct mailing base with over 900 addresses in the Moscow area was developed for addressed distribution of the magazine. Due to increase in demand for this publication it is planned to register it officially as a mass media and increase its circulation by 1.5–2 times in 2017.

##### Congresses and Exhibitions

In June 2016, a delegation from PJSC MOESK attended St. Petersburg International Economic Forum, where cooperation agreements were concluded between PJSC MOESK and PJSC Sberbank and PIK Group.

# 15,783

publications

on PJSC MOESK activities in the mass media in 2016

In June PJSC MOESK also presented its achievements in the form of joint information stand of the Moscow Government in Moscow Urban Forum.

In October within the framework of the joint information stand of subsidiaries and associates of PJSC “Rosseti”, PJSC MOESK was awarded in “Rugrids-Electro” International Electric Power Forum for contribution to innovative development of power grids complex of PJSC “Rosseti”.

In November PJSC MOESK demonstrated its capabilities and prospects for development in the form of joint information stand of the Department of Energy of Moscow region and the joint information stand of the Moscow Government in ENES 2016 International Forum on Energy Efficiency and Energy Sector Development.

#### Communication with Mass Media

To improve the transparency of business processes and deliver maximum volume of information to the target audience about the entire spectrum of its activities, PJSC MOESK actively cooperates with the mass media companies at all levels and in various formats: from regular distribution of press releases to organization of press events.



### 3.1.4. Interaction with Service Consumers

#### Interview of the Deputy Director General for Technological Connections and Service Development A.M. Pyatigor

##### – Did the Company manage to achieve its main objectives in terms of quality indicators improvement in 2016?

– The Department of Technological Connection made major efforts to optimize internal business processes of the Company. As a result, the time frame required for preparation of offers on technological connection contracts was reduced, which contributed to improvement of the quality of technological connection application fulfilment.

Also in 2016, due to improvement of technological connection process, as well as implementation of “Road Map” Improvement of Energy Infrastructure Availability, the indicators of TC fulfilment duration was improved. In 2016, the general indicator of technological connection quality exceeded by 1.35% in comparison with the previous year and was 1.008.

The Company carries out studies for assessment of consumer satisfaction with quality of services using standard methods and forms in accordance with Order No. 107 dated February 17, 2012 for Assessment of Client Satisfaction with Quality of Services. The studies conducted showed that consumer satisfaction was 72.5%.

According to the Minutes of meeting with the head of Electric Power Sector Development Department of the Russian Ministry of Energy P.N. Snikars No. 09-1670pr dated November 10, 2014 “On consideration of results of international World Bank rating in 2015”, PJSC MOESK needs to carry out studies, send results of implementation of new services for examination. For example, the studies conducted in the 4<sup>th</sup> quarter of 2016 showed that 59% of applicants used one interactive service or another, and 37% of respondents filed applications via Client’s Personal Account.

##### – What are plans for the coming 2017 in terms of improvement of consumer service quality?

– In 2017, the Zero Visits program will be further implemented, providing an opportunity to sign with the digital signature all

documents obtained by applicants in the course of technological connection application processing.

PJSC MOESK also plans a number of activities such as expansion of interaction with the Moscow region multifunctional centers (expansion of documents accepting and issuing centers up to 92 units in Moscow region) which will make it possible to cover all neighbourhood including remote areas; transfer to an electronic workflow with applicants (from filing an application to signing connection acceptance reports using digital signature); improvement of regulatory acts of the Company and implementation of process for using a simple digital signature for the applicants with maximum power rating up to 150 kW; development of mobile applications for Technological Connections Portal; creation of a system for notification of consumers about emergency and scheduled power supply outages.

All mentioned activities will enable the Company not only to increase the share of electronic applications up to 60%, but also to optimize the customer offices network of PJSC MOESK, simplifying the technological connection procedure for applicants.

Interaction with consumers of PJSC MOESK is built on the principles approved by Quality Standard of Consumer Services of PJSC MOESK.

Basic forms of consumer services include:

- In-person services – by means of customer offices rendering services to consumers on ex-territorial basis.
- Interactive services – interactive servicing of consumers via Technological Connections Portal [utp.moesk.ru](http://utp.moesk.ru).
- Remote services via telephone communication – consumer

servicing via toll free number 8-800-700-40-70.

In 2016, in-person services were provided to consumers of PJSC MOESK in 25 dedicated customer offices. 2 customer care offices were established – Central Customer Office located in the Company’s own building at 7B Vavilova Street, Moscow, and consumer service point in Zhukovsky town.

The “Western Electric Grids” implemented a pilot project to locate its customer service office branch in the multi-functional governmental services center in Naro-Fominsk town on indemnity basis (premise rental).

On November 1, 2016 the Company entered into agency contract with Municipal Public Institution “Pushkinsky Multi-Functional Center” for organization of documents acceptance and issue for consumers with maximum power rating up to 150 kW. For 2017 the Company plans to expand its interaction with multi-functional governmental services centers with increase in the number of client service points up to 92.

It should be noted that 2016 became the year of active development of interactive services of PJSC MOESK.



#### Simplification of Technological Connection Procedure

The Russian Federation Government developed and approved the action plan (“Road Map”) Improvement of Energy Infrastructure Availability by Ordinance No. 1144-r dated June 30, 2012.

The Doing Business rating prepared by the World Bank on the annual basis was selected as a target value. The rating provides assessment for 189 countries based on 10 indicators of business regulation.

In 2016, the Russian Federation was included into Top 30 in the category “Getting Electricity” of Doing Business 2017 rating and ranked 30<sup>th</sup>. Just four years ago, our country’s ranking in the same category was as low as the last but one place, i.e. rank 184 (according to the methods valid in the period).

**30<sup>th</sup> Place**  
Russian Federation took in “Getting Electricity” category of Doing Business 2017 rating

#### Commentary of the Deputy Director General for Technological Connections and Service Development A.M. Pyatigor

– Actions taken by the Company in 2016 in the field of simplification of technological connections procedure showed good results which can be observed in the annual reports of the World Bank experts. The Company is not ready to stop there and it plans to improve results in 2017.

In accordance with the list of activities of PJSC MOESK in the field of technological connection focused on improvement of energy infrastructure availability, in 2016–2017 the priority areas of work are the following:

1. Transfer of all technological connection related documents issued to electronic format.
2. Creation of an opportunity for the Client to conclude two contracts (for technological connection and power supply) signed with digital signature in the My account profile of PJSC MOESK.

In order to eliminate problems and improve the Russia’s position in Doing Business rating prepared by the World Bank on the annual basis, in the category “Getting Electricity”, the Action Plan was developed for 2017 in order to achieve target values of “Road Map” Improvement of Energy Infrastructure Availability necessary for the Russian Federation ranking in Top 20 by 2018 and it was forwarded to the Board of Directors for consideration.

## 3.2. Environmental Policy

### Interview of the First Deputy Director General – Engineering Director V. E. Ivanov

#### – What are the main results of the Department under your supervision over the reporting year?

– In compliance with the approved environmental policy (PJSC MOESK Order No. 1039 dated September 12, 2014), the Company fulfils the assumed obligations even with consideration of annually increasing demands of environmental laws. In particular, the Company performed the following activities in this regard:

- check of the RF environmental law compliance by the Company’s branches;
- development and extension of validity period of environmental certification and permits;
- environmental monitoring;

- ensuring compliance with wildlife protection requirements.

In 2016, PJSC MOESK adopted the Production Environmental Control Program which will make it possible to control waste generation, atmospheric emissions; to monitor noise level, electromagnetic fields and atmospheric pollution at the boundary of buffer zones.

It should also be noted that following the results of 2016 the gross emission of pollutants into the atmosphere decreased by 3.56 tons relative to the year 2015.

#### – Could you tell about measures taken for preservation of biodiversity?

– In 2016, the Company entered into agreement for cooperation with the Russian National Public Organization Russian “Birds Conservation Union” which provides development of effective cooperation in order to ensure ornithological safety of PJSC MOESK facilities.

During 2016, PJSC MOESK organized installation of protection devices on 10 kV overhead power lines in order to ensure wildlife protection against electric-shock hazard in the territory of the Special Protection Natural Area “Crane Land”. The goal was installation of 1,099 bird protection devices on overhead power lines.

#### – What are the main plans for the next year?

- Instrumental monitoring over the emissions of pollutants by fixed sources of atmospheric pollution, monitoring of noise level and electromagnetic fields.
- Environmental control over compliance with the RF environmental laws in the course of operation.
- Obtaining the regulatory documentation and permits.
- Bird protection activities along the power lines.
- Improvement of personnel qualification in the field of environmental protection.

The Environmental Policy of PJSC MOESK\* determines the following strategic goals in the field of environmental protection, the achievement of which prevents environmental deterioration:

- bring the level of negative environmental effect of PJSC MOESK business and other activities below the acceptable environmental impact level defined by the current regulations;
- prioritize implementation of new technologies which contribute to reduced level of soil

contamination with oil products, modern waste handling methods and procedures;

- ensure rational use of natural resources; protect the flora and fauna affected by business and other activities of PJSC MOESK;
- Achievement of these goals is ensured by solution of the following tasks:
- improvement of environmental activity control system, personnel involvement in activity for improvement of environmental impact indicators

and ensuring environmental management;

- mandatory assessment of environmental impact of the projected activity when making decision on construction, revamp, capital repair and retrofit of the Company production facilities;
- ensuring environmental safety and environmental management using the best environmental practices and the best available technologies.

### Impact of the Company Activities on Environment

#### Water

The Company’s operations result in formation of domestic waste water and surface effluents. The water is supplied to the Company facilities from the communal water supply system and by delivery of bottled water. Water resources are utilized to meet the daily living needs of the Company employees and for operation purposes, such as feeding the circulating water system used for vehicle washing, sprinkling and washing the Company’s premises.

PJSC MOESK does not discharge sewage to water bodies.

The following activities were performed in 2016 to improve the quality of waste water and increase the efficiency of treatment plants:

- periodic control over the pollutant substances in the surface effluents delivered to the municipal lines of Moscow (for Moscow branches). Over ten parameters which determine the waste water quality are controlled annually (including suspended particles, oil products, chlorides, sulphates, total ferrum, copper, etc.);

- inspection of treatment plants used at vehicle water wash stations and rain water sewers;
- maintaining efficient operation of treatment facilities at vehicle wash stations (replacement of components, handover of waste generated during operation to specialized company, maintenance and repair of equipment and units);
- removal of garbage and snow from the Company premises;
- recording the volumes of pollutants in the disposed rain water effluents.

#### Air

The main environmental impact in terms of atmospheric air is created by emissions of pollutants by motor vehicles — special-purpose vehicles (cranes, towers, mobile laboratories, etc.) used for operation and repair activities, external party vehicles (garbage trucks, etc.), personal cars used by the Company employees.

The Company develops and extends the validity periods of permits regulating emissions of pollutants into atmosphere on annual base.

Change in volume of pollutant emissions is caused by:

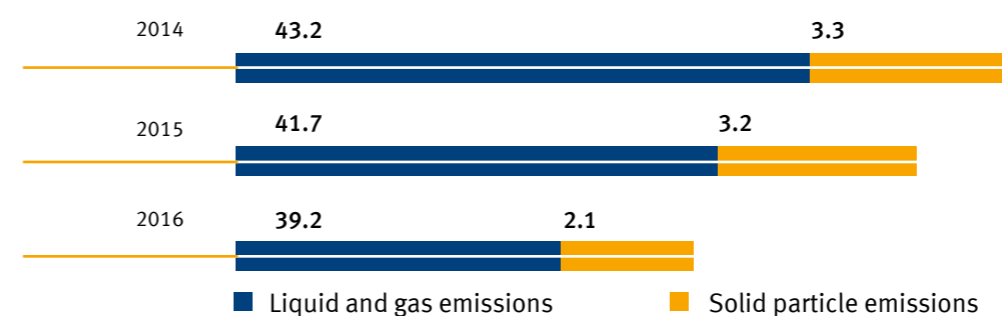
- developing the inventory of sources of pollutant generation and emissions, including development of documentation on maximum allowable emissions (MAE);
- increasing the share of new special vehicles and removal of outdated vehicles, which contributes to lower emissions of harmful substances, including heavy metals.

The Company widely uses SF-6 equipment (current transformers, voltage transformers, dead-tank circuit breakers, live-tank circuit breakers, packaged SF-6 switch gears, etc.). Application of this equipment in the distribution

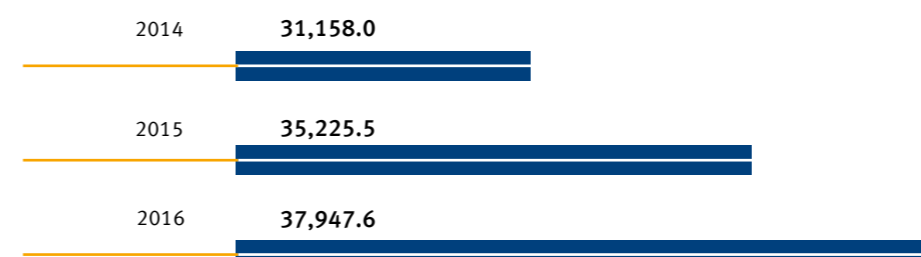
#### Water Consumption, thous. m<sup>3</sup>



#### Emissions of Pollutants, t



#### SF-6 Gas Emission, t



\* Approved by PJSC MOESK Order No.1039 dated September 12, 2014

grids improves the reliability of power supply, personnel safety and reduces the operation costs. In the course of SF-6 equipment operation, SF-6 gas leaks may occur. The volume of gas in CO<sub>2</sub> equivalent is estimated by calculations.

There are no emissions of ozone-depleting substances.

**Land**

The main environmental impact in terms of land is created by:

- operation of oil-filled equipment (oil leaks are possible during operation of oil-filled transformers, circuit breakers, etc. due to insufficient tightness);

- handling of operation and consumption waste generated during utilization of utility networks and operation activities on the Company premises.

The biggest operation and consumption waste generators are construction, reconstruction, repairs, as well as operation of communal utilities at the Company's premises (activities in the framework of repair and investment programs).

The Company performed the following activities in 2016 in order to ensure protection and rational use of land resources:

- repair of oil headers, oil collectors, cable lines;

- gradual decommissioning of oil-filled equipment (oil circuit breakers) and its replacement with vacuum equipment;
- replacement of porcelain insulator stacks with polymeric insulator stacks which have a longer service life, smaller weight (approximately 10 times lighter), low content of transformer oil and which can be recycled rather than disposed;
- replacement of open-type batteries with low-maintenance models;
- organization of temporary operation and consumption waste storage at operation sites, procurement of special containers for temporary accumulation of fluorescent bulbs and covers for such containers;
- execution of contracts with specialized licensed organizations for removal or dumping (depending on the hazard class) of operation and consumption waste with hazard class I – IV.

**Operation and Consumption Waste, t**



**Waste Volumes with Breakdown to Handling Method, t**

Waste hazard class	Waste transfer to other companies		
	for utilization	for neutralization	for landfilling
hazard class I	—	5.60	—
hazard class II	27.10	20.45	—
hazard class III	24.90	145.85	—
hazard class IV	74.94	565.80	4,043.88
hazard class V	4,140.42	—	9,318.10

**Biodiversity**

PJSC MOESK branches operate within environmentally sensitive areas (ESA) of Moscow and Moscow region. The ESAs are used for installation of HV transmission lines rated for 10–220 kV and transformer stations with various power ratings.

Subject to the Orders for Environmental Engineering, the Branches assigned responsible persons for compliance with environmental laws in the course of electrical facilities operation, including in the territories of ESAs.

The power grid facilities are operated within 7 ESAs of Moscow (natural

historic parks Bitsevsky Forest, “Kosinsky”, “Izmailovsky”, “Tsaritsino”, “Kuzminki-Lyublino”, Natural Reserve “Setun River Valley”, National Park “Elk Island”).

The Company performed the following activities for protection of flora and fauna in 2016:

- bird protection along power transmission lines;
- preservation of environmentally sensitive areas;
- reforestation.



**Environment Protection Costs, RUB mln without VAT**

Category	2014	2015	2016	2016/2015
Environment protection costs (total), including:	101.5	113.3	109.4	–3.5%
cost of protection and rational utilization of water resources	31.9	36.5	31.4	–14.1%
cost of air resources protection	12.7	16.3	14.9	–8.4%
cost of land resources protection from operation and consumption waste	51.3	53.0	57.3	8.1%
pollution charges	5.7	7.5	5.8	–22.7%

**Environmental Education**

Improvement of executives' and specialists' qualification in terms of environment protection is an important condition for efficient implementation of environmental activities. In 2016, the Company employees received training in accordance with the following programs:

- Environmental Protection Measures to be Implemented

by Managers and Specialists of Environmental Services and Environmental Control Systems – 1 person;

- Environmental Protection Measures to be Implemented by Managers and Specialists of General Administrative Control Systems – 1 person;

- Environment Protection – 2 persons;

- Environmental Protection Measures to be Implemented in the Field of Hazardous Waste Handling – 62 people;

- Rational Utilization and Protection of Water Resources – 1 person.

In 2016, no penalty sanctions were imposed by the supervisory authorities in connection with environmental law compliance by PJSC MOESK.

## 3.3. Energy Efficiency and Power Consumption

### Activities for Reduction of Electric Power Losses

In the framework of its priority task, PJSC MOESK implemented the activities aimed at optimization (reduction) of electric power losses.

Due to implementation of these activities for optimization of losses in 2016, the power saving volume was 451.6 mln kW·h, economic effect was 1,275.4 mln rubles.

# 1,275.4

RUB mln

economic effect from the activities on loss optimization

### Commentary of the Deputy Director General for Transport and Electric Power Metering S. V. Saltykov

– Reduction of power losses in the Company's Grids continues to be relevant. Reduction of losses results in both reduction of the Company costs due to reduction of power loss compensation costs, and in revenues growth due to increase in volume of services provided in the course implementing the activities intended to reduce losses (e.g. identification of cases of unauthorized consumption of electric power, etc.) and finally improves energy efficiency.

Reduction of losses in the Company's grids has been and remains to be a key objective and one of the priority activities of the Company.

In 2017, a five-year period of RAB-regulation will finish for PJSC MOESK, after which planned indicators for power losses must be set at the level not exceeding the regulatory indicators approved by the Russian Ministry of Energy Order No. 674 dated September 30, 2014 following the results of benchmarking.

The Company developed and approved comprehensive Program for Reduction of Power Losses for 2017–2021, including both organizational and technical

activities. Implementation of the most efficient technical activities (modernization of electric power metering system, retrofit and revamp of electric grid facilities) is planned in the framework of the investment program of the Company. The most efficient organizational activity – identification and prevention of electric power consumption without fiscal metering – is expected to be implemented by joint efforts of the personnel of “Energouchet” branch and the electric grid branches of the Company with the assistance of a contractor.

Implementation of the Program will result in reduction of losses by the year 2017 to 7.70% of the output to the grid, by 2021 – to 7.64%.

### Energy-Saving and Energy Efficiency Improvement Activities

In the framework of implementation of PJSC “Rosseti” Plan for gradual development and implementation of the vertically-integrated energy management system in SCCs of PJSC “Rosseti”, in the reporting period PJSC MOESK carried out activities for development (improvement) of energy management system at the following management levels: Executive Bodies – Branches – PGR/HVPGD.

The program consists of sections, target subprograms (activities) and associated activities divided, in their turn, into activities for reduction of electric power losses during transmission and distribution by electric grids and activities for reduction of energy resources consumption for production and operation support needs subdivided into organizational and technical activities.

The target activities include those the implementation of which ensures reduction of consumption of energy resources (including electric power) and (or) water by at least 15% of the annual consumption of the corresponding

resource, with 80% return on investment for 5 years – for consumption of energy resources and (or) water for production and operation support needs and return on investment not more than 10 years – for events ensuring reduction of losses during electric power transmission and distribution.

The associated activities for optimization of consumption for production and operation support needs and activities for power losses reduction include the activities with positive energy efficiency and those which do not meet the criteria for being qualified as target ones.



### Indicators of PJSC MOESK Energy-Saving Program in 2014–2016

Indicator	Units of Measurement	2014	2015	2016
Electric power losses	mln kW·h	7,784.61	7,491.20	7,549.57
	RUB mln without VAT	11,575	13,171	15,301
	% of supply to the grid	8.77	8.55	8.33
Consumption by station auxiliaries	mln kW·h	244.02	224.19	144.17
Consumption of energy resources for operation support needs of administration and production buildings	RUB mln without VAT	263.37	264.38	307.58
	thous. tons of ref. fuel	14.46	13.98	14.73
Consumption of natural resources (water) for operation support needs of administration and production buildings	RUB mln without VAT	13.53	11.68	11.11
	thous. m <sup>3</sup>	332.89	281.94	260.63
Consumption of motor fuel by motor vehicles and special-purpose vehicles	thous. liters	11,057.22	10,417.17	11,788.53
	thous. tons of ref. fuel	12.99	12.26	13.97
	RUB mln without VAT	279.80	276.13	323.91

### Target and Associated Activities for Reduction of Power Losses in 2016

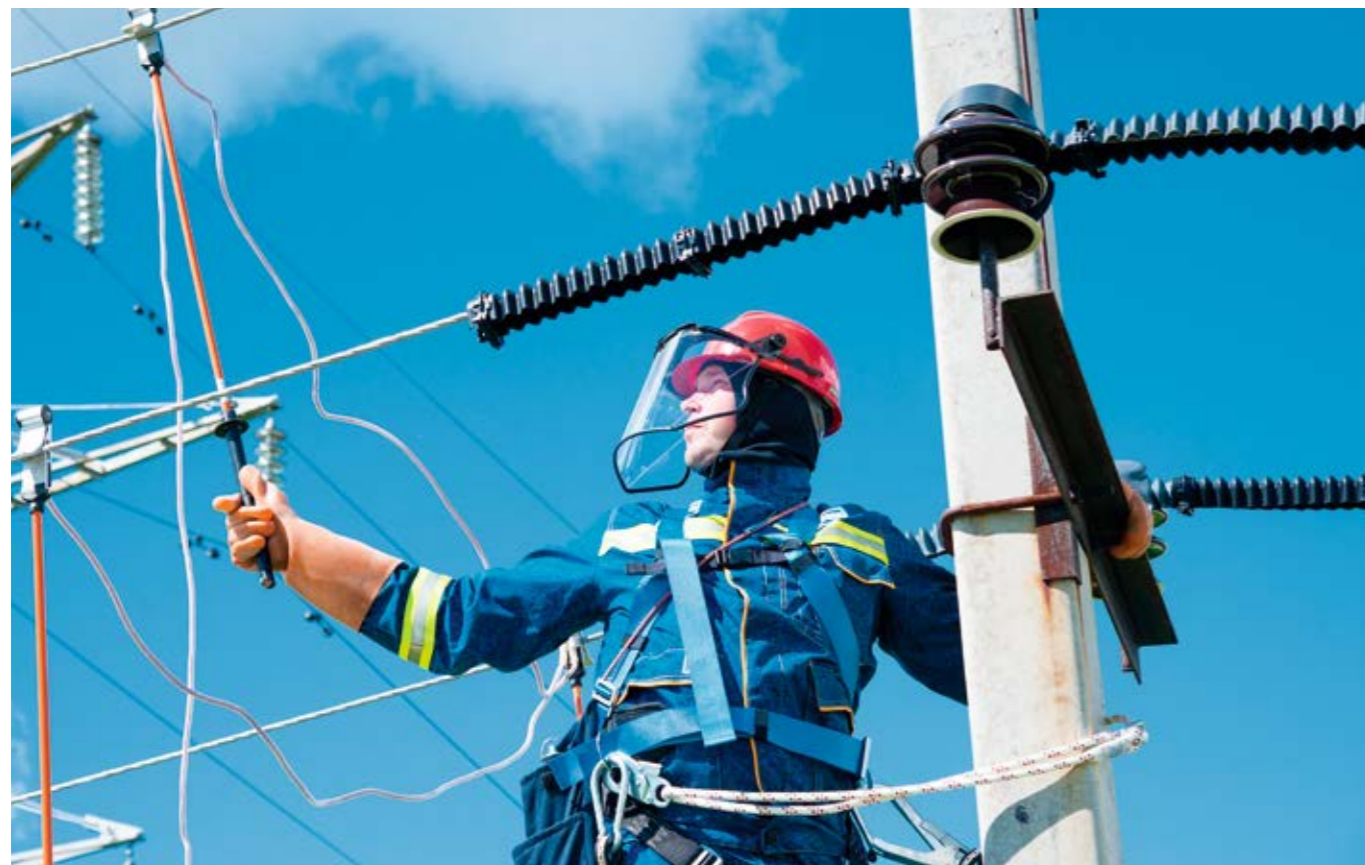
Name	Effect in physical terms, mln kW·h	Economic effect, RUB mln	Cost of activities, RUB mln
Target activities	301.70	947.16	22.46
Associated activities	149.86	328.24	—
<b>TOTAL</b>	<b>451.6</b>	<b>1,275.4</b>	<b>22.46</b>

#### Commentary of the Director for Automation of Business Processes A.A. Areshkin

– In 2016, the effect of technical activities aimed at reduction of electric power consumption for operation support was 825 thous. kW·h. The effect of activities aimed at reduction

of water consumption for operation support needs was 7.95 thous. m<sup>3</sup>. The plan was fulfilled for 100%. In total, the level of consumption for operation support needs for all types of resources was 28,693 tons of ref. fuel, with respect to specific indicators of ton of ref. fuel per m<sup>2</sup> of the premises area, the actual value was 0.029 compared with the planned value 0.03.

In 2017, the Company plans to revise the energy-saving program, to conduct energy inspection of PJSC MOESK facilities, following the results of which additional activities will be determined for reduction of consumption for operation support needs in the framework of the energy-saving program implementation in subsequent periods.



## 3.4. Occupational Health and Safety

#### Commentary of the First Deputy Director General – Engineering Director V. E. Ivanov

– In 2016, PJSC MOESK performed a complex of activities to prevent work-related injuries, to protect personnel’s health and working ability, to improve operational and labour discipline, labour safety activities. No fatalities were identified in the preceding year. The Company managed to achieve such results thanks to comprehensive work with the personnel, including skills practising at the training sites, regular checks of workplaces. The key aspect of the work done was implementation of the Program for Reduction of Injury Occurrence of PJSC MOESK Personnel and Third Parties at the Company’s Electric Grid Facilities for 2014–2017 (approved by the Board of Directors of PJSC MOESK on June 24, 2014).

The Director General of the Company set occupational safety plans and goals for 2017:

The goal is to avoid fatalities by their prevention. Life and health of the employees is the core value of the Company.

The priority activities for implementation of this goal of PJSC MOESK are the following:

- accident-preventive actions;
- development and implementation of management and production decisions based on professional risk assessment;
- systematic improvement of employees’ knowledge and responsibility in the field of labor safety;

- creation of conditions and allocation of necessary resources for implementation of occupational safety activities;

- provision of quality personal protection equipment to personnel;

- internal audits and monitoring of labor safety;

- involvement of all the personnel of the Company in labor safety activities.

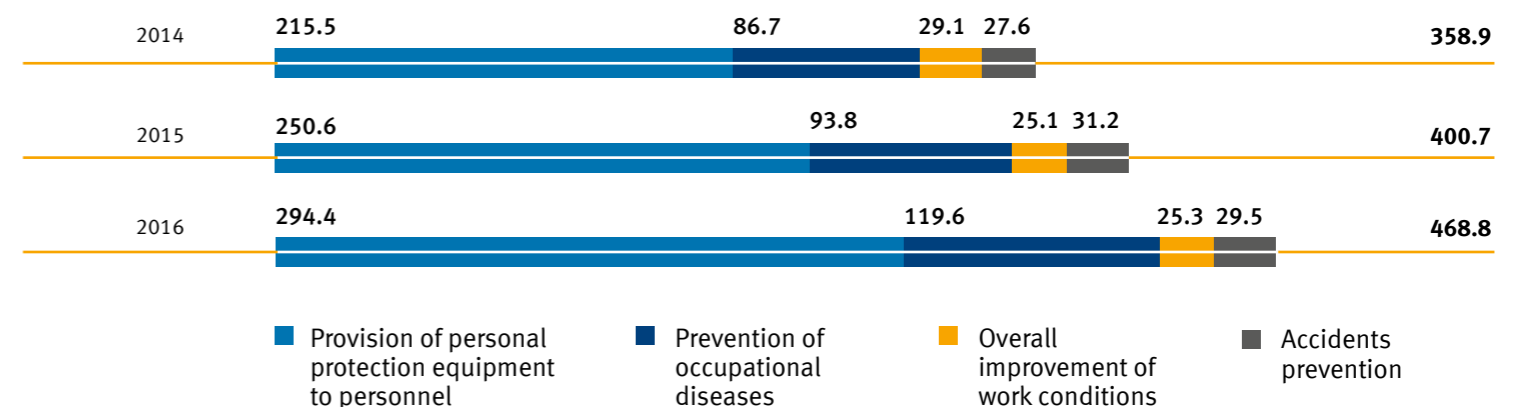
The Company’s goal is to ensure the priority of an employee’s life and health over performance results. Main obligations of the Company management are defined by occupational health and safety policy. PJSC MOESK gives due attention to labor safety and meets the requirements of labor safety law.

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are defined by occupational health and safety policy. PJSC MOESK gives due attention to labor safety and meets the requirements of labor safety law.

**468.8**  
RUB mln  
cost of labor safety activities

#### Dynamics of Labor Safety Costs, RUB mln without VAT



## Work-Related Injuries

Category	2014	2015	2016	2016/2015
Accident, ea. (total), including by types of accidents:	3	6	5	-16.7%
road accident	1	1	1	0.0%
electrical injury	0	1	1	0.0%
high-temperature medium impact	0	0	1	—
falling from height, on surfaces	0	2	1	-50.0%
object falling	1	0	0	0.0%
others	1	2	1	-50.0%
Number of work hours lost due to work-related injuries (LTIFR)*, r.u.	1.23	0.47	4.21	3.74 r.u.

Data with breakdown to Moscow and Moscow region are presented in Annex 6.3 to the Annual Report.

## Rate of General Injuries and Fatalities

Category	2014	2015	2016	2016/2015
General injuries frequency rate	0.26	0.39	0.47	20.5%
Fatalities frequency rate	0	0	0	0.0%

5 occupational accidents were registered in 2016, out of which:

- 4 accidents were referred to minor injuries – in “Moscow Cable Grids” branch of PJSC MOESK, the New Moscow branch, “Northern Electric Grids” and “Eastern Electric Grids” branches;
- 1 accident was referred to severe injury – in “Moscow Cable Grids” branch of PJSC MOESK.

In total, as a result of accidents at work 7 persons were injured. No fatalities were registered.

No occupational diseases of PJSC MOESK employees were identified.

In 2016, 14 people were injured at the Company facilities. The major reason of injuries of contractors and third parties (persons not being employees of the Company) is uncoordinated operation of lifting machinery in exclusion zones of power lines, as well as approach to conductive parts of equipment to an inadmissible distance.

### Occupational Safety Plans for 2017:

- Special assessment of work conditions in compliance with the Federal Law No. 426-FZ dated December 28, 2013 On Special Assessment of Work Conditions.
- Implementation of target programs for reduction of injury occurrence rate among the Company employees and third parties.
- Personnel training as a part of internal and external occupational safety training.

\* LTIFR (Lost Time Injury Frequency Rate) is calculated as (the number of work hours lost due to injuries\*200,000) / total work time fund of all Company employees; measured in relative units – r.u.

## Activities for Prevention of Injuries of Third Parties

### Prevention of child electrical injury

- The Company arranged over 200 open lessons dedicated to electric safety which were attended by over 5 thous. children and teachers of Moscow region in the framework of the charitable campaign “Good Electricity to Children”.
- Souvenirs with the characters of the popular cartoon Fiksiki reminding of importance of observing electric safety rules were produced and distributed (during lessons) in schools and kindergartens.
- With the support of the Moscow Department of Fuel and Energy and the Moscow Department of Culture, on the Children’s Day the Company took part in 2 municipal events: at “Multimir” Festival and at the event for children in Tsvetnoy Bulvar.
- The Company organized children’s drawing contest “Fiksiki welcome the New Year in the country of good electricity” (including among children of PJSC MOESK employees).
- An education video on exclusion zones was prepared in cooperation with EMERCOM. The video was broadcast once every hour on a regular basis: 115 addresses in Moscow, including all airports, train stations, 20 addresses in Moscow region.
- In the framework of the New Year performances “Fiksiki in Wonderland”, the Electric Safety Corner was arranged, where contests were conducted and electric safety visual promotion materials were distributed among children. Attendance was near 500 thous. people.
- The employees distributed 1,500 posters with electric safety rules in educational institutions of Moscow region;
- An educational video on electric safety, safety promotion visuals, lesson structure, handout materials for printing were posted on the website of PJSC MOESK in the section “Good Electricity to Children”.

### Prevention of third party injuries

- 40 press releases, 3 audio materials, 19 television spots, a social video material to warn about the danger of fishing and performance of unauthorized activities near the power lines were prepared and issued. In the reporting period 158 publications dedicated to electric safety were issued.
- In 2016, anti-weather plates of 6 types (for fishermen, special-purpose machinery drivers, holidaymakers) were produced for installation at PJSC MOESK facilities (power transmission line supports, transformer stations, etc.).
- 1,150 posters warning about the danger of fishing near electric power facilities and in exclusion zones of power lines, violation with the boating rules near power lines were prepared and distributed. The posters were hung on the information stands of summer house communities, in inspection departments and offices, boat stations, recreation camps.
- A series of posters and leaflets to inform about exclusion zones of power lines were produced. The materials were hung on the supports and stations (stickers), on the information stands of summer house communities, garages (posters).
- PJSC MOESK organized visual promotion material distribution in the framework of public service advertising. Social video was broadcast on the TV channels “360”, TVC, “Moscow 24” every day, on “Marshrut TV” from June to August 2016. The audio was broadcast in the Moscow subway from June to August on a daily basis. 20 outdoor advertising boards were installed in Moscow suburbs, and 16 boards – in Moscow. A video was broadcast on the TV channel “Okhota i rybalka” during two weeks in July. Two 20-minute programs of “Safety” cycle were shot and demonstrated on the TV channel “Moscow 24” concerning electric safety at electric power facilities and in everyday life.
- 2 press tours were organized with demonstration of consequences of electric safety rules violation, following which a film was shot and 5 video spots were broadcast on municipal and regional TV channels.
- Scheduled and non-scheduled walk-downs and inspections were performed for 0.4–10 kV overhead power lines and 6–10/0.4 kV transformer stations, earthing devices and electrical installations of PJSC MOESK were checked.

### Prevention of third party access to the electrical facilities

- Perimeter fencing around branch facilities were revamped in accordance with the approved plans.
- The facilities of the Company’s branches were equipped with video surveillance and alarm systems.

### Prevention of contractor’s personnel injuries

- The Company ensured compliance with the “Regulations on Access of Organizations’ Personnel for Performance of Work at PJSC MOESK Facilities”.
- Photographic materials on injuries at PJSC MOESK were included into induction briefing program for contractor employees.



# 3.5. HR and Social Policy

## 3.5.1. HR Policy

### Main Areas, Objectives, and Tasks of the Company's HR Policy

The HR and social policy of PJSC MOESK approved by the Company's Board of Directors (Minutes No. 249 dated December 31, 2014) shall establish a HR management system which contributes to improvement of work efficiency and sharpening of the Company's competitive edge.

The key objectives of the Company's HR Policy implemented to achieve the target benchmarks according to the Strategy for Electric Grids Complex Development in Russia are as follows:

- planning HR requirements;
- timely fulfilment of the Company's HR requirements with consideration of necessary qualification level;
- ensuring efficiency of personnel work, improvement of workforce productivity in the Company.

### Personnel Headcount and Structure

Average personnel headcount of PJSC MOESK in 2016 was 14,823 people, by 1.6% less than in 2015.

The decrease in the average personnel headcount is attributable to optimization of administrative and management human resources.

The Company personnel staffing for the last three years is stable and is at a rather high level, not lower than 96%.

In 2016, the average age of employees was at the level of 2015 and was 42 years.

A major part of PJSC MOESK employees is formed by the employees at the age from 25 to 50 (65%).

81% of employees have a professional education.

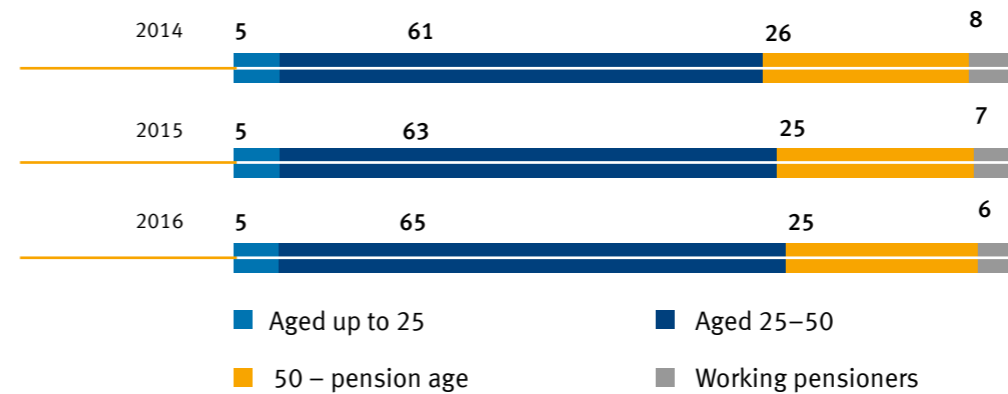
### Dynamics of Average Personnel Headcount in PJSC MOESK in 2014–2016, persons



### Distribution of Average Company Personnel in 2016, %



### Dynamics of Personnel Structure with Breakdown by Age for 2014–2016, %



**81%**  
employees with professional education

### Total Personnel Headcount with Breakdown by Employment Type and Contract, %

Category	2016
Average headcount (full employment)	96.76
Personnel headcount with regard to fixed term employment contracts	3.19
Headcount of external part-timers	0.05

### Personnel Education and Development

Education is one of the priority areas of the Company HR policy and it is governed by the HR management rules in electric power companies, the requirements of the Federal Service for Environmental, Technological, and Nuclear Supervision and Regulations on PJSC MOESK employees education.

The rate of employees who took part in full-time training in the reporting period to the average personnel headcount is 69% (10,221 people), which is by 2.9 pp (301 people) less than in 2015. The major part of trained staff is formed by operational personnel – 82% (8,418 people).

In the reporting year, 4,291 people were trained, retrained and improved their skills at the Training Center of PJSC MOESK which is 42% of the total number of the trained.

Actual costs of personnel training (irrespective of resources) were 82,103.74 thous. rubles.

**69%**  
the rate of employees who took part in full-time training to the average personnel headcount



### Priority Areas of Interaction with Higher Education and Secondary Specialized Education Institutions

Primary sources of personnel attraction to the Company are higher and secondary professional education institutions located basically in Moscow and Moscow region and training in in-demand fields, specialties and professions in electric power sector – flagship education institutions.

In the framework of partner contracts implementation, PJSC MOESK actively cooperates with the Federal State Budgetary Educational Institution of Higher Professional Education “Moscow Power Engineering Institute”.

In the framework of target personnel training, PJSC MOESK entered into cooperation agreements with 6 secondary specialized education institutions of Moscow and Moscow region.

# 615

students

took training courses under primary vocational education programs at secondary specialized education institutions supervised by the Company

In the reporting period, 615 people took training courses under primary vocational education programs at secondary specialized education institutions supervised by the Company, among them 65 students got supportive scholarship (employer-sponsored education contracts).

48 students of secondary specialized education institutions received work experience at the premises of the Company branches.

### Relationship with Candidates' Pool of the Company

As of December 31, 2016 the management candidates' pool of the Company included 714 employees of the executive body and branches.

In order to develop professional and management competences of members of candidates' pool a tutor was assigned to each of them, as well as individual development plans including training, rotation, self-tuition of candidates and other development events were elaborated and implemented. Training at PJSC MOESK Training center under “School of candidates' pool” program is carried out on a regular basis.

# 344

persons

was headcount of young candidates in the Company by the end of the reporting period

In 2016, with the purpose of professional development of candidates they were rotated both to target positions and other positions in branches and the executive body of the Company.

Young candidates are chosen at the level of branches and the Company in whole among young specialists aged up to 35, with high potential to development, who are motivated to professional development and career growth in the Company.

### Remuneration System

The Company's remuneration system is based on the uniform principles applied in companies of electric power sector with due account for regional specific features, and ensuring the competitive remuneration level in the Company. Basic provisions of remuneration system are fixed by the Electric Power

Sector Remuneration Tariff Agreement and collective bargaining agreements. The remuneration system provides for a constant part (salary/remuneration rate, premiums and increments) and a variable remuneration (bonuses).

All employees of the Company are motivated in accordance with the approved KPI system depending on achievement of approved target values of the key performance indicators (KPI), which are fixed taking into account the functional area of activity. Moreover, special bonus systems were developed, which motivate the Company employees to achieve overplan results of projects/tasks implementation.

The basic principle of KPI chart application to hierarchy levels is the cascading principle.

### Key Plans in HR Management for 2017:

- improve organizational and functional structure of the Company in compliance with the typical structure approved by PJSC “Rosseti”;
- gradually reduce the number of administrative and management employees due to optimization of the management system, improvement of organizational structures and business processes of the Company;
- prevent reduction of operational personnel headcount;
- ensure increase in operations and production staff's income by 4.5% compared with 2016;
- adjust according to an index remuneration of the Company employees' wages taking into account recommendations contained in the Electric Power Sector Remuneration Tariff Agreement about minimum monthly remuneration rate;
- develop personnel incentives scheme oriented to achievement of fixed power loss level.

### 3.5.2. Social Policy

#### Interview of the Deputy Director General for HR and Administrative Matters O.P. Chau

##### – What were the most significant events of the year? Did you manage to fulfil all the tasks set for 2016?

– All the objectives for 2016 in terms of social policy were achieved.

The Collective Agreement developed and approved in 2014 for three years (2015–2017) is in force now in the Company. The terms of this agreement correspond to the Electric Power Sector Remuneration Tariff Agreement (EPSRTA) and in terms of many indicators these terms even exceed the requirements of EPSRTA. The achievements of PJSC MOESK were recognized with multiple awards at the annual Russian National Contest “Russian Company with High Social Efficiency” in the categories “For Development of Social Partnership in Production Sector Companies”, “For Creation and Development of Jobs in Production Companies”, “Best Company for Working Mothers”.

In 2016, the Company fulfilled a key strategic task: PJSC MOESK organized and held events dedicated to the

75<sup>th</sup> anniversary of commencement of the Great Patriotic War and the Battle for Moscow. On June 22, the Day of Remembrance and Mourning, the Company organized and held meetings at 20 memorials under its supervision.

PJSC MOESK carried out repair and updated exhibits in museums and rooms of labour and battle honour (there are 6 museums and 4 rooms of labour and battle honour in the Company). On December 3, the Company carried out large-scale reconstruction of battles which had taken place near Nefedyevo village of Krasnogorsky district in 1941. The “Moscow Defence Line” memorial complex is located now there, which also includes the monument to Mosenergo Workers and Military Engineers – Electric Fences Constructors, erected in 2013 on the initiative and at the expense of PJSC MOESK.

In order to create and maintain favorable conditions for self-education, self-development and adaptation of employees in the modern information society, PJSC MOESK implemented the project “Personal Area of Employee”. All employees take part in this project via personal computer. Moreover, for employees who do not have computers at their work places, 64 general access work stations were organized in branch

offices for access to “Personal Account of Employee”.

##### – What are your plans for 2017?

– Our key objective is to ensure social stability of the Company personnel, prevent social tension and social or labor disputes in the Company.

We will continue strengthening our social partnership and cooperation with Moscow Region Committee of “Elektroprofsoyuz” and Moscow City Committee of “Elektroprofsoyuz” to make sure the year 2017 is also marked by stability.

We will use our best efforts to fulfil the Company obligations under the Collective Bargaining Agreement, including Regulations on Non-Governmental Pension Fund, Regulations on Corporate Assistance and Corporate Support for Improvement of Living Conditions, Social Security Program (private health insurance, accident and disease insurance), organization of health-improving vacations for children, health resort treatment for employees and disadvantaged groups, medical services for non-working pensioners. We will also continue work on support of young employees and veterans.

In 2017, the Company plans to develop and approve the new Collective Bargaining Agreement for 2018–2020.

We will gear our forces towards increase in the number of employees practising fitness and sports on a regular basis. The Company focuses on improvement of sports skills of employees, successful performance of the Company's sports teams in power sector competitions of the Russian Federation Ministry of Energy and PJSC “Rosseti”, on organization of the Russia-Wide Volleyball and Table Tennis Contests among teams of PJSC “Rosseti” group.

In the framework of charitable activity, PJSC MOESK provides long-term support for a number of important social initiatives such as support of specialized schools, orphanages, implements cultural, sports and healthy projects in the regions of the Company presence (Moscow and Moscow region), and in Sevastopol.



PJSC MOESK is a Company with a very high level of social responsibility, implementing special programs to increase the level of social security for its employees, creating favourable conditions for well-balanced development and corporate solidarity of employees.

The system of social programs is intended to boost loyalty in the Company and social security of the personnel.



Social program	Description
Collective Agreement	<p>The Collective Agreement of PJSC MOESK for 2015–2017 is the main document which defines the social and labor relations between PJSC MOESK and the employees. The agreement is applicable to all Company employees.</p> <p>The Company’s social partners are Moscow Region Committee of “Elektroprofsoyuz” and Moscow City Committee of “Elektroprofsoyuz”.</p> <p>In compliance with the Collective Agreement, financial aid is provided to the Company employees in the following cases:</p> <ul style="list-style-type: none"> <li>• birth of child;</li> <li>• registration of marriage;</li> <li>• enrollment into the army;</li> <li>• for single parents – on September 1 (per each schoolchild);</li> <li>• in case of employee’s death at the workplace;</li> <li>• in case of employee disability due to the injury through the fault of the employer or due to occupational disease;</li> <li>• in connection with funeral of the Company employees or their relatives.</li> </ul>
Social insurance programs	<p>Private medical insurance for the personnel in 2016 was arranged under the contract with JSC “SOGAZ”. Due to the private medical insurance programs, all the insured Company employees are entitled to timely and quality medical, health-improving and disease-preventing help.</p> <p>All the Company employees are insured against injuries and diseases.</p>
Health resort treatment for employees, disadvantaged group, and health-improving vacations for children.	<p>In 2016, the health resort treatment for employees, social group, and health-improving vacations for children were organized by the Company in compliance with the Instructions on the Procedure for Procurement and Distribution of Vouchers for Health-Improving of the Employees’ Children, Employees, Disadvantaged Groups of PJSC MOESK approved by Order No. 1148 dated September 11, 2015.</p> <p>Free vouchers were granted to:</p> <ul style="list-style-type: none"> <li>• employees – in accordance with the results of the mandatory periodic medical examination;</li> <li>• non-working pensioners of PJSC MOESK – once every two years maximum;</li> <li>• schoolchildren – for the period of summer break but no longer than 2 sessions in health-improving camps for children; for children with 1 parent only or disabled children – for the entire period of summer break.</li> </ul>

Social program	Description
Sports, fitness and health improvement events	<p>Over 200 fitness and sports events were organized in 2016, including Olympics within the Company branches, sports events for families, health days, etc. The events were attended by over 2,000 employees.</p> <p>Every year, the Company organizes corporate Olympics between the teams of Company branches, subsidiaries and executive bodies. The participating teams compete in the following sports: skiing, volleyball, track and field sports, mini football, chess.</p>
Cultural events	<p>In accordance with the Program of Cultural Events, in 2016 PJSC MOESK held approximately 170 events attended by over 10,000 Company employees. The key cultural events of 2016: a complex of events dedicated to the 71st anniversary of Victory in the Great Patriotic War 1941–1945, the 75th anniversary of start of the Great Patriotic War and Battle for Moscow, the 11th anniversary of the Company, the Youth Day, V Games of Humor Contest Club of PJSC MOESK employees, drawing contest for children “In the World of Beauty”, VII PJSC MOESK Youth Forum.</p> <p>Children of Company employees – winners of the children drawing contest organized by PJSC MOESK – participated in the contest “Rosseti: Drawings by Children”.</p>
Youth programs	<p>The program of social support for young employees – graduates with major in electric power disciplines has been in force in the Company since 2013. The program includes a signing bonus, relocation compensation, personal allowance, corporate support for improvement of living conditions.</p> <p>Youth Councils actively work in the Company branches, in 2012 the Joint Youth Council of PJSC MOESK was formed. Members of the Youth Councils are directly involved in all social events of the Company.</p>



Social program	Description
Improvement of living conditions	From 2012, the Company has been guided by the Regulations on Improvement of Employees' Living Conditions. The corporate support provides for compensation of apartment rent costs, the corporate assistance provides for low-interest mortgage loans granted by the partner banks or up to 10% discount from the apartment price offered by construction development company JSC SU-155.
Pension support	<p>From 2005, the Company has been guided by the Regulations on Non-Governmental Pension Schemes (NGPS) to attract and retain employees, boost their loyalty and social security. The regulations were approved by the Board of Directors.</p> <p>The Non-Governmental Pension Scheme was introduced to ensure decent level of life for PJSC MOESK employees after retirement, create conditions for efficient resolution of HR issues associated with attraction, retention and motivation of personnel for effective work.</p> <p>The Regulations on the NGPS provides for two main pension schemes: Corporate (financing on account of the Company) and Parity (joint financing with the Company employee).</p>
Support of veterans	<p>The employee database of PJSC MOESK includes records on 5,271 pensioners, including 4,742 non-working pensioners, of whom: participants in the Great Patriotic War – 22, participants in the labor front force during the GPW – 122, underage prisoners of Nazi concentration camps – 9, residents of Leningrad during Blockade – 2.</p> <p>The Company adopted Regulations on compensations and other social payments to the Company veterans, participants in the GPW, labor front force, underage prisoners, participants in combat operations. Medical care and health resort treatment for the pensioners is organized.</p> <p>Veterans of PJSC MOESK have an extensive work experience and knowledge in the power sector and make their important contribution to raising and teaching young specialists, organization of mentorship, participate in events in cooperation with the Youth Councils.</p>

Social program	Description
Charitable and social programs	<p>PJSC MOESK provides a long-term support for a number of important social initiatives.</p> <p>In 2016, the Company implemented long-term and priority projects. Immediately before the Children's Day, the Company acted as co-organizer of "Adults and children" Concert of "Neposedy" where adoptive families, custodian families with children, foster children of Moscow educational institutions for orphaned children and children without parental care.</p> <p>The Company also provides assistance in the field of education: support to technical schools, Moscow Power Engineering Institute.</p> <p>In the framework of project "Luchik sveta" assistance was provided to "National Social Fund" Charitable Fund for State Budget-Funded Residential Social Service Institution of Moscow Region "Filimonkovsky Residential Care Home for Mentally Retarded Orphaned Children and Children Without Parental Care" "Solnyshko" for equipment of carpenter's workshop, etc.</p> <p>In the framework of the Agreement with the governmental institution in Sevastopol "Family Support Center", the Company provided support to Sevastopol orphanage for procurement of furniture and office machines and equipment for computer classroom.</p> <p>In the context of cultural education of the younger generation (under the project "Cultural and Historical Heritage") charitable assistance was rendered to "Vozrozhdenie" searching group for procurement of vehicles, equipment for searching works. Works on detection, exhumation and reburial of remains of the Red Army soldiers fallen during the Great Patriotic War when defending our native land are carried out.</p> <p>Under the project "Warm Heart" 2 volunteer events dedicated to the World Blood Donor Day were organized and held: Blood Donor Day Action was held for financing of treatment for a "High Voltage Cable Grids" branch employee's child (Babina Kristina).</p>



Moreover, following the results of 2016, 2,123 employees were awarded, among them: 37 employees – with government awards, 69 employees – with departmental awards, 25 employees – with sectoral awards and 1,992 employees – with corporate awards.

**The key objectives for 2017 in terms of social policy are as follows:**

1. To ensure social stability in the Company personnel, prevent social tension and social or labor disputes.

2. To perform the obligations under the Collective Agreement of the Company, develop the new Collective Agreement for 2018–2020.
3. To increase the number of employees practising fitness and sports on a regular basis.
4. To provide support to the Patriotic Regional Non-Governmental Organization "Vozrozhdenie" Searching Group.

**2,123**  
employees  
were awarded following the end year results



# 4. Corporate Governance



Paid dividends, RUB mln

2014	2,910
2015	2,055
2016	6,317

**54**

meetings of Committess assigned to the Board of Directors

**64**

Management Board meetings

**32**

Board of Directors meetings

**283**

issues considered by the Board of Directors

# 4.1. Corporate Governance System

## Interview of the Deputy Director General for Corporate Governance and Property Management A.S. Starostin

– What are the main achievements and results delivered by the Department under your supervision in the reporting period?

– In the reporting year the Company continued to improve

the corporate governance system, taking into account best standards of global practices in the field of corporate governance and focused on the provision of transparency and information openness, which is the basis for corporate relations in the Company.

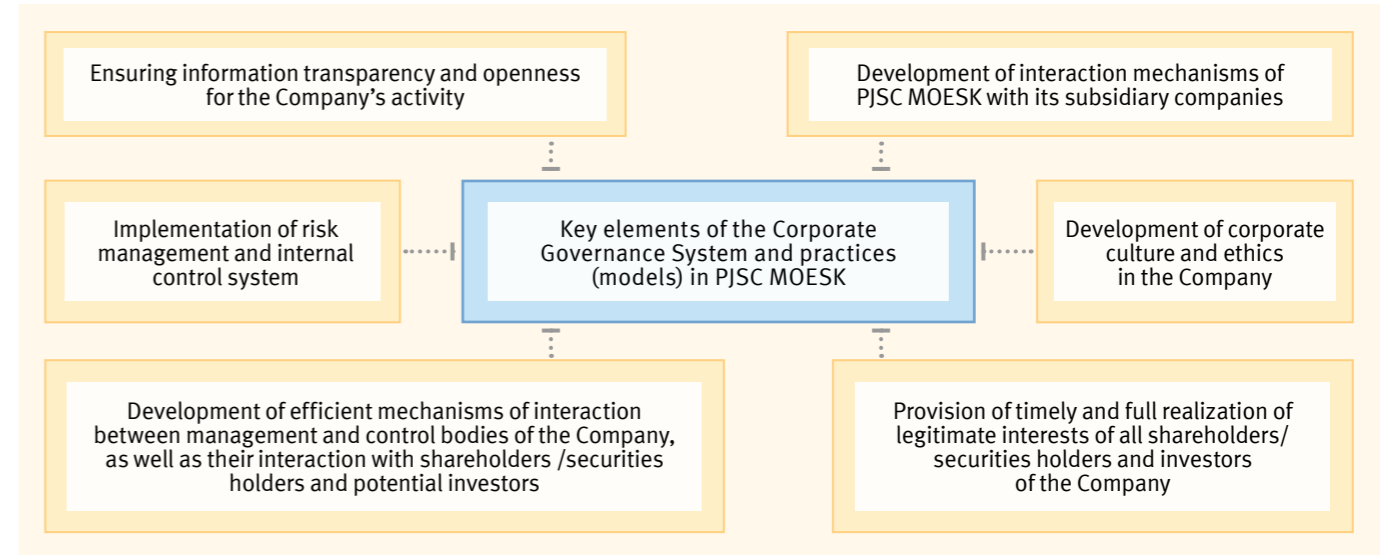
The most important task of corporate governance in the Company is serving the interests of all participants of corporate relationships in the context of ensuring reliable and accessible power supply in the Moscow area.

The main platform for communication of participants of corporate relationships in 2016 was the Board of Directors and the Committees reporting to the Board of Directors. The Company continued the practice of physical meetings of the Board of Directors at least once in a quarter on the territory of different facilities of the Company.

In 2016, the Company continued its work on provision of compliance of corporate governance system of PJSC MOESK with requirements of the new Corporate Governance Code recommended for application by the Bank of Russia and the new Listing Rules approved by PJSC Moscow Exchange, which allowed to provide inclusion of ordinary stocks of the Company into the list of securities of the second level, admitted to stock trading of PJSC Moscow Exchange.

One of key priority areas of the Company's activity is the increase of investment attractiveness. For this purpose the Company practices interaction with the investment community in the form of direct dialogue. Last year a number of meetings between representatives of investors and top-level executives of the Company were organized, conference calls were executed.

The Company maintains a high level of corporate governance, confirmed by the A++ level "Exceptionally high level of governance quality" assigned by independent rating agency JSC Expert RA.



In compliance with the Corporate Governance Code\* the corporate governance in the Company is based on the following principles:

Principle	Essence of the principle
Accountability	The corporate governance system is based on direct accountability of the Company's Board of Directors to the shareholders in compliance with the effective law of the Russian Federation. Accountability is used as the key principle by the Board of Directors in the course of strategy development and control over the activities of the Company's executive bodies.
Fairness	The Company undertakes to protect shareholders' rights and ensure equal treatment of all shareholders. The Board of Directors agree to make sure that all shareholders have the opportunity of efficient protection if their rights are breached.
Transparency	The Company undertakes to ensure timely disclosure of accurate information about all significant facts regarding its operation, including its financial position, social and environmental indicators, operation results, structure of the Company ownership and control as well as provide free access to this information to all interested parties.
Responsibility	The Company acknowledges its responsibility to the Company shareholders. The Board of Directors, Management Board and Director General shall bear responsibility to the Company for losses caused by their actions (omissions).

### Statement of the Board of Directors on Compliance with Principles of Corporate Governance

In the reporting period, the Company continued bringing the standards and models of the corporate governance which are applicable in PJSC MOESK in conformity with provisions

of the new Russian Corporate Governance Code and requirements of the Listing Rules.

According to the results of this work, the current regulations were updated, especially the provisions regulating the activity of the Company's subdivision responsible for internal auditing; changes were made in the organizational structure;

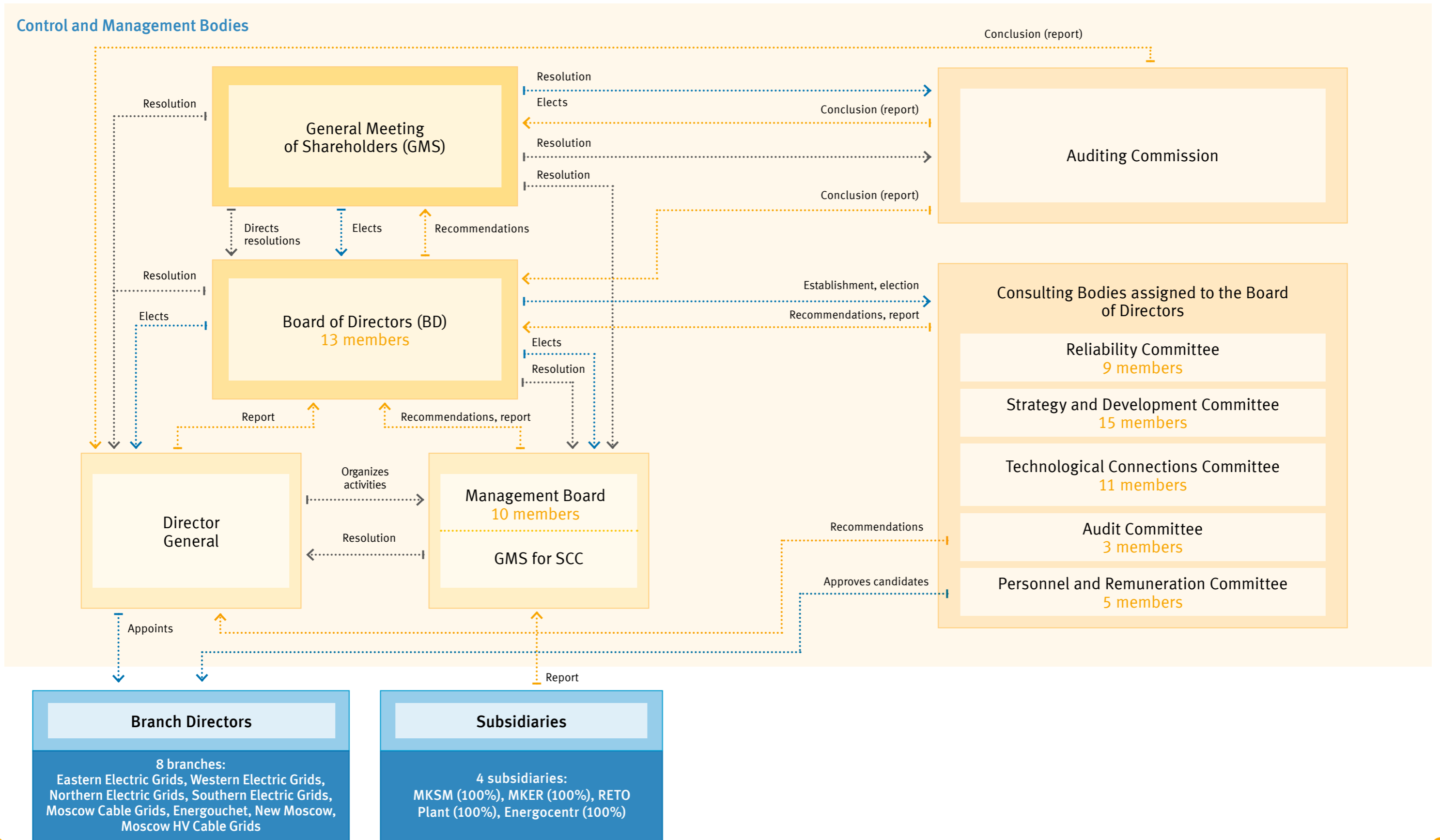
the Regulations on the Corporate Secretary of the Company were approved; free-float was increased; two members of the Board of Directors were acknowledged independent etc.

In 2016, the Company implemented the policy of transparency improvement, resulted in the approval by the Board of Directors of the Program of Transparency Improvement in PJSC MOESK.

More detailed information is given in the Report on compliance with the principles and recommendations of the Corporate Governance Code in Annex 6.7. to the Annual Report.

\* The new revision is approved by the resolution of the Board of Directors dated March 14, 2013 (minutes No. 194 dated March 15, 2013).

# Structure of Corporate Management



## 4.2. Management Bodies

### 4.2.1. General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Company.

In 2016, one General Meeting of Shareholders was held – the regular annual meeting.

The General Meeting of Shareholders of the Company was held in the form of joint attendance on June 6, 2016.

The following resolutions were taken by the shareholders in accordance with the voting results:

- approval of the Annual Report, annual financial reports, as well as distribution of profit (including dividend payment) according to the results of the accounting year 2015;
- electing new members to the Board of Directors and Auditing Commission;
- approval of the auditor;

- approval of the Regulations on the Board of Directors;
- approval of transactions of interest.

The information on the resolutions made by the General Meeting of Shareholders is disclosed on the corporate web site of the Company in the section “Shareholders and Investors”/“Corporate Governance”/“General Shareholders Meeting”/“Solutions”.

### 4.2.2. Board of Directors

Board of Directors of the Company is a governing board, controlling the activity of the Sole Executive Body of the Company and executing other functions, vested on it by law or the Articles of Association of the Company. The Board of Directors of the Company executes general management of the activity of the Company, except for the issues, related by the Federal law “On Joint Stock Companies” and the Articles of Association of the Company to the competence of the General Meetings of Shareholders.

#### Composition of the Board of Directors

According to clause 16.1 of the Articles of Association the Board of Directors consist of 13 members elected by the General Meeting of Shareholders. In 2016, there were two compositions of the Board of Directors.

In the period up to June 6, 2016 the Board of Directors was represented in the following composition:

- Budargin, Oleg Mikhailovich (Chairman of the Board of Directors)

- Gavrilenko, Anatoliy Anatolievich
- Grischenko, Sergey Valentinovich
- Demin, Andrey Alexandrovich
- Kokin, Andrey Anatolievich
- Kravchenko, Vyacheslav Mikhailovich
- Lebedev, Sergey Yurievich
- Livinsky, Pavel Anatolievich
- Malkov, Denis Alexandrovich
- Mangarov, Yuriy Nikolaevich
- Nikitin, Sergey Alexandrovich
- Nuzhdov, Aleksey Victorovich
- Sinyutin, Petr Alekseevich

#### Composition of the Board of Directors Acting from June 6, 2016



**Title as of nomination date**  
Chairman of the Management Board of PJSC “Rosseti”, Director General of PJSC “Rosseti”

**Status**  
Non-independent director, non-executive director

**Information on education**  
Norilsk Industrial Institute, specialization: Industrial and Civil Construction

**Date of first election to the BD**  
27.08.2012

**Number of times the nominee was elected to the BD**  
6

**Presence in Committee assigned to the BD**  
—

**Number of shares in Company/ Subsidiaries**  
0/0

**Budargin  
Oleg Mikhailovich**

Chairman of the Board of Directors

Birth year: 1960



**Title as of nomination date**  
Director General of Closed Joint Stock Company “Leader” (Pension Fund Assets Management Company)

**Status**  
Non-independent director, non-executive director

**Information on education**  
Lomonosov Moscow State University, specialization: Economical Cybernetics;  
Lomonosov Moscow State University, specialization: Jurisprudence

**Date of first election to the BD**  
28.02.2005

**Number of times the nominee was elected to the BD**  
15

**Presence in Committee assigned to the BD**  
Personnel and Remuneration Committee

**Number of shares in Company/ Subsidiaries**  
0/0

**Gavrilenko  
Anatoliy Anatolievich**

Birth year: 1972



**Title as of nomination date**  
Deputy Head of Division of Direct Investments at GPB (PJSC)

**Status**  
Non-independent director, non-executive director

**Information on education**  
Moscow State Institute of International Relations under the MFA of Russia, specialization: Jurisprudence

**Date of first election to the BD**  
05.06.2008

**Number of times the nominee was elected to the BD**  
7

**Presence in Committee assigned to the BD**  
Strategy and Development Committee, Audit Committee, Personnel and Remuneration Committee

**Number of shares in Company/ Subsidiaries**  
0/0

**Grischenko  
Sergey Valentinovich**

Birth year: 1972



**Title as of nomination date**  
First Deputy of the Director General for Economics and Finances of PJSC “Rosseti”

**Status**  
Non-independent director, non-executive director

**Information on education**  
Zaporizhzhya National University, specialization: Applied Mathematics;  
Zaporizhzhya Institute of Economics and Information Technologies, specializaton: Finances

**Date of first election to the BD**  
13.03.2014

**Number of times the nominee was elected to the BD**  
6

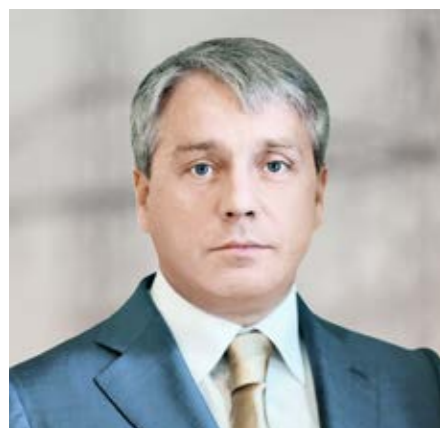
**Presence in Committee assigned to the BD**  
Strategy and Development Committee, Audit Committee, Personnel and Remuneration Committee

**Number of shares in Company/ Subsidiaries**  
0/0

**Demin  
Andrey Alexandrovich**

Birth year: 1974





**Isaev  
Oleg Yurievich**

Birth year: 1969

**Title as of nomination date**  
Director General of PJSC “IDGC of Center”

**Status**  
Non-independent director,  
non-executive director

**Information on education**  
Military Institute Holding the Order of the Red Banner, specialization: Jurisprudence; Russian Academy of State Service under the President of the Russian Federation, specialization: State and Municipal Management; occupational retraining in the direction “Management in Electrical Energy Industry”, Doctor of law

**Date of first election to the BD**  
06.06.2016

**Number of times the nominee was elected to the BD**  
1

**Presence in Committee assigned to the BD**  
Technological Connections Committee

**Number of shares in Company/ Subsidiaries**  
0/0



**Livinsky  
Pavel Anatolievich**

Birth year: 1980

**Title as of nomination date**  
Head of Moscow Department of Fuel and Energy Economy

**Status**  
Non-independent director,  
non-executive director

**Information on education**  
Lomonosov Moscow State University, specialization: Economics

**Date of first election to the BD**  
26.06.2013

**Number of times the nominee was elected to the BD**  
5

**Presence in Committee assigned to the BD**  
—

**Number of shares in Company/ Subsidiaries**  
0/0



**Kravchenko  
Vyacheslav Mikhailovich**

Birth year: 1967

**Title as of nomination date**  
Deputy Minister of Energy of the Russian Federation

**Status**  
Non-independent director,  
non-executive director

**Information on education**  
Lomonosov Moscow State University, specialization: Jurisprudence

**Date of first election to the BD**  
13.03.2014

**Number of times the nominee was elected to the BD**  
4

**Presence in Committee assigned to the BD**  
—

**Number of shares in Company/ Subsidiaries**  
0/0



**Logovinsky  
Evgeniy Ilich**

Birth year: 1972

**Title as of nomination date**  
First Deputy of the Director General of CJSC “Leader” (Pension Fund Assets Management Company)

**Status**  
Independent director, non-executive director

**Information on education**  
S. Ordzhonikidze State Academy of Management Economist, specialization: Operations Research in Economics. Candidate of economic sciences; Manchester Business School (Great Britain) MBA degree in speciality “Banking Business and Finances”.

**Date of first election to the BD**  
06.06.2016

**Number of times the nominee was elected to the BD**  
1

**Presence in Committee assigned to the BD**  
Audit Committee

**Number of shares in Company/ Subsidiaries**  
0/0



**Lebedev  
Sergey Yurievich**

Birth year: 1967

**Title as of nomination date**  
Director of the Division of Strategic Projects in PJSC “Rosseti”

**Status**  
Non-independent director,  
non-executive director

**Information on education**  
Lomonosov Moscow State University, specialization: Finances and Credit

**Date of first election to the BD**  
13.03.2014

**Number of times the nominee was elected to the BD**  
4

**Presence in Committee assigned to the BD**  
Strategy and Development Committee, Audit Committee (till 30.12.2016), Personnel and Remuneration Committee

**Number of shares in Company/ Subsidiaries**  
0/0



**Nikitin  
Sergey Alexandrovich**

Birth year: 1968

**Title as of nomination date**  
Deputy Director General – Head of Corporate Control Division in Closed Joint Stock Company “Leader” (Pension Fund Assets Management Company)

**Status**  
Independent director, non-executive director

**Information on education**  
Bauman Moscow State Technical University, specialization: Design and Production of Radio Electronic Equipment;

State University – Higher School of Economics, specialization: Finances and Credit

**Date of first election to the BD**  
26.06.2013

**Number of times the nominee was elected to the BD**  
5

**Presence in Committee assigned to the BD**  
Strategy and Development Committee, Audit Committee

**Number of shares in Company/ Subsidiaries**  
0/0



**Nuzhdov  
Aleksey Victorovich**

Birth year: 1968

**Title as of nomination date**  
Deputy Director General for Investments and Relations with Public Authorities at Closed Joint Stock Company "Leader" (Pension Fund Assets Management Company)

**Status**  
Non-independent director, non-executive director

**Information on education**  
Saratov Military Academy affiliated to Internal Troops of the Ministry for Internal Affairs named after F. I. Dzerzhinskiy

**Date of first election to the BD**  
30.06.2010

**Number of times the nominee was elected to the BD**  
10

**Presence in Committee assigned to the BD**  
Strategy and Development Committee, Audit Committee (till 30.12.2016)

**Number of shares in Company/ Subsidiaries**  
0/0



**Rakov  
Aleksey Viktorovich**

Birth year: 1975

**Title as of nomination date**  
Director of the Department of Electric Power Metering and Interaction with Market Subjects and Electric Power of PJSC "Rosseti"

**Status**  
Non-independent director, non-executive director

**Information on education**  
Penza State Technical University, specialization: Electric Power Systems and Networks, specialization: Software for Computing Machines and Automated Systems; Financial Academy under the Russian Federation Government Economist, specialization: Finances and Credit

**Date of first election to the BD**  
06.06.2016

**Number of times the nominee was elected to the BD**  
1

**Presence in Committee assigned to the BD**  
Audit Committee, Personnel and Remuneration Committee

**Number of shares in Company/ Subsidiaries**  
0/0



**Sinyutin,  
Petr Alekseevich**

Birth year: 1962

**Title as of nomination date**  
Director General of PJSC MOESK

**Status**  
Non-independent director, executive director

**Information on education**  
Chelyabinsk Polytechnic Institute, specialization: Electric Engineer; Russian Presidential Academy of Administration, specialization: Public and Municipal Administration; Candidate of Technical Sciences, Doctor of Economics

**Date of first election to the BD**  
26.06.2013

**Number of times the nominee was elected to the BD**  
5

**Presence in Committee assigned to the BD**  
Personnel and Remuneration Committee

**Number of shares in Company/ Subsidiaries**  
0/0

## Information about Attendance of Members of the Board of Directors in Work of the Board of Directors and Committees Reporting to the Board of Directors in 2016

Full name	Board of Directors	Reliability Committee	Technological Connections Committee	Strategy and Development Committee	Audit Committee	Personnel and Remuneration Committee
Budargin O.M., Chairman	32/32	—	—	—	—	—
Gavrilenko A.A.	31/32	—	—	—	0/0	3/7
Grischenko S.V.	25/32	—	—	4/15	4/15	5/7
Demin A.A.	31/32	—	—	14/15	3/15	2/2
Kokin A.A.	12/17	—	—	—	2/5	—
Kravchenko V.M.	25/32	—	—	—	—	—
Lebedev S.Yu.	32/32	—	—	15/15	13/15	7/7
Livinsky P.A.	28/32	—	—	—	—	—
Malkov D.A.	17/17	—	—	—	4/5	5/5
Mangarov Yu.N.	17/17	—	—	—	3/5	5/5
Nikitin S.A.	32/32	—	—	14/15	15/15	—
Nuzhdov A.V.	30/32	—	—	10/15	15/15	—
Sinyutin P.A.	32/32	—	—	12/15	—	—
Isaev O.Y.	15/15	—	6/6	—	—	—
Logovinsky E.I.	15/15	—	—	—	10/10	—
Rakov A.V.	15/15	—	—	—	10/10	2/2

The information on the resolutions made by the Board of Directors adopted in the reporting year is disclosed on the corporate web site of the Company in the section "Shareholders and Investors" / "Corporate Governance" / "Board of Directors" / "Solutions".

### Approval of Transactions of Interest and Large Transactions

In 2016, the Company did not execute large transactions, which require prior approval of the Board of Directors.



List of transactions recognized in accordance with the Federal Law "On Joint Stock Companies" as transactions of interest is disclosed in Annex 6.8. to the Annual Report.



## Average Rate of Attendance of the Board of Directors Meetings by the Members of the Board of Directors

Category	2014	2015	2016
Total number of the Meetings of the Board of Directors, ea. (total), including:	32	25	32
physical	2	4	6
Average attendance rate, %	94.8	92	93.5



Detailed information about attendance of the Board of Directors Meetings by the Members of the Board of Directors is disclosed in Annex 6.5. to the Annual Report.

## Classification of Issues Considered by the Board of Directors in 2016

Issue categories (approximate categories)	Quantity, ea.
Total considered issues, including:	283
working out of the Company long-term development strategy, adoption of resolutions about participation in other organizations, placement of bonds, attraction of foreign loans	2
Approval / correction of business plans, investment programs, complex procurement programs, key performance indicators, etc.	35
corporate management (including: approval / change of internal documents of the Company; preparation and conduction of general meetings of shareholders, meetings of the Board of Directors; examination of issues related to control execution over activities of business entities; rendering of financial assistance to employees and charitable (sponsor) assistance etc.)	130
control over the management activity, including hearing of reports about accomplishment of business plans, investment programs, target values of key performance indicators, credit policy, production and economic activities, provision of insurance protection	53
approval of transactions, including preliminary approval of transactions of interest, large transactions, securities transaction and other transactions, the control over execution of which is vested on the Board of Directors	61

## Remuneration Paid to the Members of the Board of Directors

Remuneration to the members of the Board of Directors shall be paid in compliance with the Regulations on Remuneration and Compensations for the Members of PJSC MOESK Board of Directors\*.

In accordance with the Regulations, remuneration to the member of the Board of Directors is executed according to the results for the period

from the election to the Board of directors in new composition. Amount of remuneration of every member of the Board of Directors is calculated taking into account the basic part established from the revenues of the Company and calculated according to RAS for the financial year, the number of meetings of the Board of Directors, in which the member of the Board of Directors took part, overall quantity of meetings of the Board of Directors, extra payments for the chairmanship in the Board of Directors, chairmanship and membership in the committee reporting to the Board of Directors.

In 2016, the amount paid to the members of the Board of Directors was 6,984,617 rubles without Personal Income Tax, which is 69.3% lower than the remuneration amount paid in 2015. The decrease in the amount of remuneration is attributable to approval of the new Regulations on Payments for the Members of PJSC MOESK Board of Directors on June 24, 2015, as well as with the absence in 2016 of additional remuneration payment for net profit indicators (not provided by new order of payments).

\* Approved by the Resolution of the General Meeting of Shareholders dated June 24, 2015 (Minutes No. 17 dated 29.06.2015).

## Remuneration Paid to the Members of the Board of Directors, rub. without personal income tax

Category	2014	2015	2016
Remuneration (total), including:	39,457,285	22,731,347	6,984,617
for attendance of meetings	15,288,336	7,868,022	6,984,617
additional remuneration (total), including:	24,168,949	14,863,325	0
for net profit indicator	24,168,949	14,863,325	0
for increase in the volume of market capitalization	0	0	0

## Education of Members of the Board of Directors

Education of members of the Board of Directors at the cost of the Company in the reporting year was not conducted.

## Corporate Secretary

In 2016, the Company established an institute of Corporate Secretary with the aim of compliance of the corporate governance system of PJSC MOESK with Listing Rules of PJSC Moscow Exchange.

Corporate Secretary of the Company is Aleksey Nikolaevich Svirin (on the basis of the Resolution of the Board of Directors dated December 30, 2016, minutes No. 306 dated December 31, 2016)

Svirin A.N. graduated from Lomonosov Moscow State University in specialization: Jurisprudence. Aleksey Svirin works for the Company since 2008.

Corporate Secretary ensures coordinated and prompt work

of the members of the Board of Directors with the Company shareholders and their representatives, with the executive body of the Company, managers and employees of the Company divisions in order to ensure efficient operation of the Board of Directors.

The information on the Corporate Secretary is disclosed on the corporate web site of the Company in the section "Shareholders and Investors" / "Corporate Governance" / "Corporate Secretary".



The Board of Directors defines the following priority areas of activity:

Priority areas	Resolution of the Board of Directors about definition of activity as priority
Cutting of trees which were falling or might fall on the 6–220 kV overhead power lines in Moscow and Moscow region	dated February 28, 2011, minutes No. 128 dated February 28, 2011
Ensuring compliance of the Company with required level of reliability and quality for the delivered services as established by the executive authorities of the Russian Federation in charge of governmental tariff regulation in accordance with the regulatory legal acts	dated September 23, 2011, minutes No. 147 dated September 26, 2011
Implementation of construction management system for priority investment projects	dated November 23, 2011, minutes No. 152 dated November 25, 2011
Implementation of Computer-Aided Design (CAD) system for design of overhead power lines rated 35 kV and above in OJSC Moscow United Electric Grid Company	dated May 30, 2012, minutes No. 170 dated June 1, 2012
Participation in creation of charging infrastructure for electric vehicles in Moscow and Moscow region	dated June 22, 2012, minutes No. 174 dated June 25, 2012
Settlement of accounts receivable with members of the “Single Window” system	dated August 24, 2012, minutes No. 180 dated August 27, 2012
Implementation of production assets management system in the Company	dated November 8, 2012, minutes No. 185 dated November 9, 2012
Verification of equipment, materials and systems at the Company’s facilities	dated September 12, 2014, minutes No. 241 dated September 15, 2014
Improvement of internal control and risk management system, development of internal audit function	dated October 6, 2014, minutes No. 242 dated October 9, 2014
Ensuring reliability of OJSC MOESK on the territory of New Moscow	dated November 19, 2014, minutes No. 245 dated November 21, 2014
Consolidation of electric grid facilities located in Moscow and Moscow region	dated November 19, 2014, minutes No. 245 dated November 21, 2014
Ensuring availability of power infrastructure and quality of connection to the electric grids of OJSC MOESK	dated February 24, 2015, minutes No. 251 dated February 27, 2015
Implementation of activities for centralization and automation of PJSC MOESK treasury department functions	dated March 23, 2015, minutes No. 253 dated March 26, 2015
Reduction of electric power losses in order to ensure achievement of regulated indicators by the Company in compliance with the Russian Federation Ministry of Energy Order No. 674 dated September 30, 2014 in the first year of subsequent period in the framework of the long-term regulation	dated September 10, 2015, minutes No. 267 dated September 11, 2015



Report of the Board of Directors on priority areas of activity is disclosed in Annex 6.6 to the Annual Report.

### 4.2.3. The Board Committees

#### Audit Committee

The Audit Committee was established by the Company with the purpose to provide assistance to ensure efficient performance of its functions by the Company’s Board of Directors in terms of preliminary review of the matters associated with control over the Company’s financial and economic activities.

The Regulations on the Audit Committee of the Board of Directors of PJSC MOESK were approved by the resolution of the Board of Directors of PJSC Moscow United Electric Grid Company dated April 29, 2016 (minutes No. 287 dated April 30, 2016). The Regulations were amended by the resolution of the Board of Directors of PJSC Moscow United Electric Grid Company dated December 29, 2016 (minutes No. 305 dated December 30, 2016).

At the present time the composition of the Audit Committee of the Company is as follows:

Nikitin, Sergey Alexandrovich (Chairman)	Deputy Director General – Head of Corporate Control Division at Closed Joint Stock Company Leader (Pension Fund Assets Management Company) Independent director
Logovinsky, Evgeniy Ilich	Vice President – Financial director of Non-Governmental Pension Fund Gazfond Independent director
Rakov, Aleksey Viktorovich	Director of the Department of Electric Power Metering and Interaction with Market Subjects and Electric Power of PJSC “Rosseti”

At the meetings of the Audit Committee of the Board of Directors of the Company in 2016 the following substantial issues were reviewed:

- an assessment of external audit efficiency was given, including an assessment of the external auditor conclusion;
- periodic review of accounting (financial) reports of the Company prepared in accordance with the RAS, and consolidated financial statements prepared

in accordance with the IFRS, as well as written information provided by the external auditor concerning the main issues of accounting (financial) reports of the Company;

- coordination of the regulations on internal audit subdivision, structure and number of internal audit subdivision, candidate for the position of internal audit subdivision head and his/her remuneration;

- periodic review of reports on accomplishment of a plan and results of internal audit activity;
- review of the report on internal audit system efficiency and the Company’s risk management system for 2015.

The information on the resolutions of the Committee is disclosed on the corporate web site of the Company in the section “Shareholders and Investors”/“Audit Committee”/“Solutions”.

#### Strategy and Development Committee

The Company established the Strategy and Development Committee to ensure efficient work of the Company’s Board of Directors within the scope of its competence.

The Regulations on the Strategy and Development Committee of the Board of Directors of PJSC MOESK were approved by the resolution of the Board of Directors of OJSC MOESK dated December 25, 2007 (minutes No. 54 dated December 28, 2007) The Regulations were amended

by the resolution of the Board of Directors of PJSC Moscow United Electric Grid Company dated April 22, 2016 (minutes No. 285 dated April 25, 2016).

At the present time the composition of the Strategy and Development Committee of the Company is as follows:

Demin, Andrey Alexandrovich (Chairman)	Member of the Board of Directors of PJSC "Rosseti"
Ardreev, Andrey Vladimirovich	Head of Corporate Governance Department of CJSC "Leader" (Pension Fund Assets Management Company)
Balaeva, Svetlana Alexandrovna	Deputy Director General for Investments of PJSC "Rosseti"
Bobrov, Vitaliy Pavlovich	Branch Director of PJSC "Rosseti" – Center of Technical Supervision
Grischenko, Sergey Valentinovich	Deputy Head of Division of Direct Investments at GPB Bank (JSC)
Egorov, Nikolay Alexeevich	Deputy Director General for Information Systems Operation of JSC "Management VOLS-VL"
Inozemtsev, Alexandr Valerievich	First Deputy Director General for Financial & Economic Activities and Corporate Governance of PJSC MOESK
Lebedev, Sergey Yurievich	Director of the Division of Strategic Development of PJSC "Rosseti"
Makin, Roman Vladimirovich	Deputy Head of Tariff Setting Division in Tariff Policy Department of PJSC "Rosseti"
Neganov Leonid Valerievich	Minister of Energy of Moscow region
Nikitin, Sergey Alexandrovich	Deputy Director General — Head of Corporate Control Division at Closed Joint Stock Company Leader (Pension Fund Assets Management Company) Independent director
Nuzhdov, Aleksey Victorovich	Deputy Director General for Investments and Relations with Public Authorities at Closed Joint Stock Company "Leader" (Pension Fund Assets Management Company)
Sinyutin, Petr Alekseevich	Director General at PJSC MOESK
Snikkars, Pavel Nikolaevich	Director of Electric Power Development Department of Russian Ministry of Energy
Chevkin, Dmitry Alexandrovich	Director of HR Policy and Organization Development Department of PJSC "Rosseti"

At the meetings of the Strategy and Development Committee of the Board of Directors of the Company in 2016 the following substantial issues were reviewed:

- Recommendations to the Board of Directors of the Company were formulated on a regular basis as related to approval of report on Business Plan implementation (including investment program) of the Company;

- Recommendations to the Board of Directors of the Company were formulated on a regular basis as related to review of the report of the Director General of the Company on implementation of the measures to improve the efficiency and financial and economic status of PJSC Moscow United Electric Grid Company;
- Recommendations were given to the Board of Directors of the Company on approval of the long-term investment

program of the Company for the period from 2016;

- Recommendations were given to the Board of Directors of the Company on approval of the business plan of the Company including the investment program and information on key operation risks for 2017 and forecast indicators for 2018–2021;
- Recommendations were given to the Board of Directors

of the Company on approval of the program of operational efficiency and costs reduction of PJSC Moscow United Electric Grid Company for 2016–2020;

- Recommendations were given to the Board of Directors of the Company on approval of the measures for improvement

of efficiency and financial and economic status of PJSC Moscow United Electric Grid Company;

- Recommendations were given to the Board of Directors of the Company on review of the report of the Director General of PJSC Moscow United Electric Grid Company on key

operation risks management in PJSC Moscow United Electric Grid Company for 2015.

The information on the resolutions of the Committee is disclosed on the corporate web site of the Company in the section "Shareholders and Investors"/"Strategy and Development Committee"/"Solutions".

### Reliability Committee

The Company established the Reliability Committee to ensure efficient work of the Board of Directors in solution of

the issues referred to the scope of its competence.

The Regulations on the Reliability Committee of the Board of Directors

of PJSC Moscow United Electric Grid Company were approved by the resolution of the Board of Directors of PJSC Moscow United Electric Grid Company dated September 30, 2015 (minutes No. 268 dated October 2, 2015).

At the present time the composition of the Reliability Committee of the Company is as follows:

Gvozdev, Dmitry Borisovich (Chairman)	Director of Situation Analytics Center of PJSC "Rosseti"
Ardreev, Andrey Vladimirovich	Head of Corporate Governance Department of CJSC "Leader" (Pension Fund Assets Management Company)
Balabanov, Mikhail Ivanovich	First Deputy of the Head of Moscow Department of Fuel and Energy Economy
Ivanov, Vsevolod Evgenievich	First Deputy Director General – Director of Engineering Services in PJSC MOESK
Inozemtsev, Alexandr Valerievich	First Deputy Director General for Financial & Economic Activities and Corporate Governance of PJSC MOESK
Mikheev, Dmitry Dmitrievich	Deputy Department Director – Head of Prospective Development of Electric Power of Electric Power Development Department of Russian Ministry of Energy
Neganov, Leonid Valerievich	Minister of Energy of Moscow region
Pyatigor, Alexander Mikhailovich	Deputy Director General for Technological Connections and Service Development of PJSC MOESK
Suchkov, Vladimir Petrovich	Head of the Department of Energetic Supervision and Energy Efficiency of the branch of PJSC "Rosseti" – Center of Technical Supervision

At the meetings of the Reliability Committee of the Board of Directors of the Company in 2016 the following substantial issues were reviewed:

- Regular review of repair program implementation;
- Review of the report on implementation of the reliability improvement program on the Company facilities in 2015;

- Review of accidents analysis in the Company for 2015;
- Review of the report on the activity of technical services of PJSC Moscow United Electric Grid Company, focused on provision of reliable functioning of power grid facilities of the Company;

- Review of the report on preparation to FWP for 2016/2017.

The information on the resolutions of the Committee is disclosed on the corporate web site of the Company in the section "Shareholders and Investors"/"Reliability Committee"/"Solutions".

## Personnel and Remuneration Committee

Main purpose of the Personnel and Remuneration Committee of PJSC Moscow United Electric Grid Company

is to ensure efficient work of the Board of Directors of the Company in solution of issues referred to the scope of its competence and development of necessary recommendations for the Board of Directors and executive bodies of the Company.

The Regulations on the Personnel and Remuneration Committee of the Board of Directors of OJSC Moscow United Electric Grid Company were approved by the resolution of the Board of Directors of OJSC MOESK dated August 22, 2014 (minutes No. 238 dated August 25, 2014).

At the present time the composition of the Personnel and Remuneration Committee of the Company is as follows:

Grischenko, Sergey Valentinovich (Chairman)	Deputy Head of Division of Direct Investments at GPB Bank (JSC)
Gavrilenko, Anatoliy Anatolievich	Director General at Closed Joint Stock Company "Leader" (Pension Fund Assets Management Company)
Demin, Andrey Alexandrovich	Member of the Board of Directors of PJSC "Rosseti"
Lebedev, Sergey Yurievich	Director of the Division of Strategic Development of PJSC "Rosseti"
Rakov, Aleksey Victorovich	Director of the Department of Electric Power Metering and Interaction with Market Subjects and Electric Power of PJSC "Rosseti"

At the meetings of the Personnel and Remuneration Committee of PJSC MOESK the following substantial issues were reviewed:

- recommendations to the Board of Directors on approval of Calculation methods and assessment of key efficiency

indicators fulfillment of the Director General of PJSC Moscow United Electric Grid;

- recommendations to the Board of Directors on approval of the organizational structure of executive bodies of PJSC Moscow United Electric Grid Company.

The information on the resolutions of the Committee is disclosed on the corporate web site of the Company in the section "Shareholders and Investors"/"Corporate governance"/"Personnel and Remuneration Committee"/"Solutions".

## Technological Connections Committee

Main purpose of the Technological Connections Committee reporting to the Public Joint-Stock Company Moscow United Electric Grid Company

is to ensure openness of activity and non-discriminatory accessibility of technological connection to the Company electric grids for the consumers.

The Regulations on the Technological Connections Committee of the Board

of Directors of Open Joint-Stock Company Moscow United Electric Grid Company were approved by the resolution of the Board of Directors of OJSC MOESK dated August 30, 2013 (minutes No. 206 dated September 2, 2013)

At the present time the composition of the Technological Connections Committee of the Company is as follows:

Isaev, Oleg Yurievich (Chairman)	Director General of PJSC "IDGC of Center"
Andreev, Andrey Vladimirovich	Head of Corporate Governance Department of CJSC "Leader"
Ivanov, Oleg Vladimirovich	Deputy Director General for Capital Construction of PJSC MOESK

Korolev, Vitaliy Gennadievich	Head of Administration of Electric Power Control of FAS of Russia
Korolev, Yuriy Andreevich	Senior Analyst of Electric Power and Infrastructure Projects Administration of the Division of Direct Investments at GPB Bank (JSC)
Korneev, Alexander Yurievich	Head of TC Regulation Administration under the Department of Prospective Development of Grid and Technical Connections of PJSC "Rosseti"
Markov, Andrey Rudolfovich	Leading Analyst of Corporate Governance Department of CJSC "Leader"
Masaleva, Irina Borisovna	Director of Department of Prospective Development of Grid and Technical Connections of PJSC "Rosseti"
Mikheev, Dmitry Dmitrievich	Head of Prospective Development of Electric Power of Electric Power of Russian Ministry of Energy
Pleshitsev, Vsevolod Georgievich	First Deputy of the Head of Moscow Department of Fuel and Energy Economy
Pyatigor, Alexander Mikhailovich	Deputy Director General for Technological Connections and Service Development of PJSC MOESK
Yushin, Leonid Yurievich	Director for Price Control and Investments of PJSC MOESK

At the meetings of the Technological Connections Committee of the Board of Directors of Public Joint-Stock Company MOESK the following substantial issues were reviewed:

- Review of the methods and regulations of TC process:
  1. Current organization of TC business process (internal regulatory acts on TC, distribution of applications between branches and IA of the Company, process route on TC);

- recommendations to the Board of Directors on taking into account the results of the national rating "The investment climate in constituent entities of the Russian Federation", prepared on an annual basis by the Autonomous Non-Commercial Organization "Agency for Strategic Initiatives";

- recommendations to the Board of Directors on taking into account the results of the international rating "Doing Business 2017", prepared on an annual basis by the World Bank;

- recommendations to the Board of Directors on taking into account the information about the main issues and risks in the activity of technical connection of PJSC Moscow United Electric Grid Company.

The information on the resolutions of the Committee is disclosed on the corporate web site of the Company in the section "Shareholders and Investors"/"Corporate governance"/"Committee on technological connections to electric networks"/"Solutions".

## Information on Committees Reporting to the Board of Directors

Category	Reliability Committee	Technological Connections Committee	Strategy and Development Committee	Audit committee	Personnel and Remuneration Committee
Number of Committee meetings in the reporting year, ea. (total), including:	10	7	15	15	7
physical	2	2	6	5	0
Amount of remuneration paid to the Committee members in the reporting year, RUB (without PIT)	303,174	139,290	497,342	39,098*	0

Information on the members of the Committees reporting to the Board of Directors, that functioned during the reporting year are disclosed in Annex 6.4. to the Annual Report.

Information on participation of members of Committees in meetings is disclosed in Annex 6.5. to the Annual Report.

\* Less the amount of remuneration paid to the Committee experts.

### Remunerations of the Members of Committees

Policy of the Company with regard to remuneration and compensation of costs in 2016 was defined by the Regulations on Remuneration and Compensations for the Members of

#### 4.2.4. Management Board

The Management Board is a collective management body of the Company. The Management Board acts by virtue of the Articles of Association and the Regulations on the Management Board approved by the General

Committees of the Board of Directors of the Company approved by the resolution of the Board of Directors dated June 11, 2014 (minutes No. 232 dated June 12, 2014) as amended by the resolution of the Board of Directors dated February 24, 2016 (minutes No. 276 dated February 26, 2016).

Meeting Shareholders of the Company (minutes No. 17 dated June 29, 2015), which establishes the time frame and procedure for convocation and holding of its meetings as well as the resolution-making procedure.

Total amount of remuneration for participation in the Committees reporting to the Board of Directors in 2016 was 1,372.6 thous. rub. without PIT (taking into account remuneration of experts of the Committee).

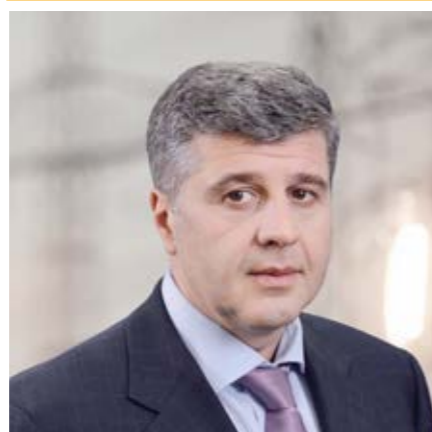
Information on members of the Management Board of the Company and terms of their powers is disclosed in Annex 6.4. to the Annual Report.

#### Acting Composition of the Management Board in the Reporting Year (from September 1, 2016)



**Sinyutin,  
Petr Alekseevich**

Chairman of the Management Board  
Director General



**Budyko,  
Mark Leonidovich**

Deputy Director General for Logistics  
and Procurement



**Vologin,  
Andrey Viktorovich**

Director of "Eastern Electric Grids"  
branch



**Voinov,  
Roman Vladimirovich**

Director of "Moscow Cable Grids"  
branch



**Ivanov,  
Vsevolod Evgenievich**

First Deputy Director General –  
Engineering Director



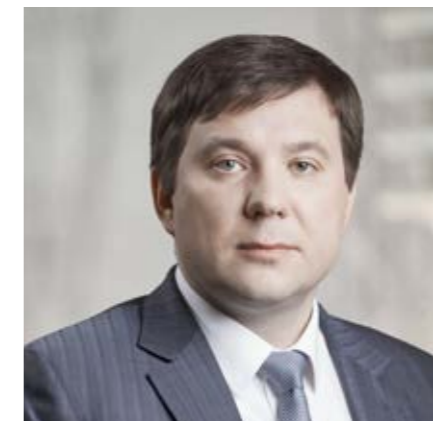
**Inozemtsev,  
Alexandr Valerievich**

First Deputy Director General for  
Financial & Economic Activities and  
Corporate Governance



**Pyatigor,  
Alexander Mikhailovich**

Deputy Director General for  
Technological Connections and  
Service Development



**Saltykov,  
Sergey Vladimirovich**

Deputy Director General for Transport  
and Electric Power Metering



**Starostin,  
Aleksey Sergeevich**

Deputy Director General for  
Corporate Governance and Property



**Filin,  
Alexander Valentinovich**

First Deputy Director General  
for Corporate Protection and  
Anti-Corruption

### Remuneration Paid to the Members of the Management Board

Financial incentives for the members of the Management Board in 2016 were determined in compliance with the Regulations on the Financial Incentives and Social Package for the Top Managers and the Regulations on the Labor Remuneration System for Executive Body Employees.

In 2016, the remuneration paid to the members of the Board of Management was 315.2 mln. rub. (taking into account PIT).

Information on participation of members of Management Board in meetings is disclosed in Annex 6.5. to the Annual Report.

#### Average Rate of Attendance of the Management Board Meetings by the Members of the Management Board

Category	2014	2015	2016	2016/2015
Total number of Management Board meetings, ea., including:	48	60	64	7.0%
physical	21	40	45	12.5%
Average attendance rate, %	62.5	76.54	79	2.46 pp

\* The Regulations on Financial Incentives and Social Package for the Top Managers was approved by the resolution of the Board of Directors dated December 30, 2013 (minutes No. 217 dated December 31, 2013) as amended on April 10, 2015 (minutes No. 256 dated April 13, 2015).

\*\* The Regulations on Financial Incentives for the Director General was approved by the resolution of the Board of Directors (minutes No. 248 dated December 19, 2014), as amended by the resolution of the Board of Directors dated April 10, 2015 (minutes No. 256 dated April 13, 2015), dated August 21, 2015 (minutes No. 266 dated August 24, 2015), dated December 25, 2015 (minutes No. 273 dated December 28, 2015).

### 4.2.5. Director General

The Director General performs daily management of the Company in compliance with the resolutions of the General Meeting of Shareholders, the Board of Directors and the Management Board adopted within the scope of their competence.

The scope of the Director General competence includes all the matters associated with the daily management of the Company, excluding the matters within the scope of competence of the General Meeting of Shareholders, the Board of Directors and the Management Board.

In accordance with the resolution of the Board of Directors dated February 5, 2013, Sinyutin Petr Alekseevich was elected to the position of the Company's Director General for 3 years (from July 4, 2012, July 11, 2012 to February 5, 2013 Sinyutin P. A. was the acting Director General of the Company).

In accordance with the resolution of the Board of Directors dated March 3, 2016 Sinyutin Petr Alekseevich was re-elected to the position of the Company's Director General for the period from February 5, 2016 to February 4, 2019.

#### Sinyutin, Petr Alekseevich

Birth year: 1962

Education: higher, graduated from Chelyabinsk Polytechnic Institute, specialization: Electric Engineer; Russian Presidential Academy of Administration, specialization: Public and Municipal Administration. Candidate of Technical Sciences, Doctor of Economics



Period		Company	Position
from	to		
2010	2012	OJSC "Mosenergosbyt"	Managing Director – First Deputy Director General
2012	2013	OJSC Moscow United Electric Grid Company	Acting Director General, Chairman of the Management Board
2013	present date	PJSC Moscow United Electric Grid Company	Director General, Chairman of the Management Board, member of the Board of Directors

P.A. Sinyutin has no interest in the issuer's authorized capital/ordinary shares.

His consent for disclosure of this information in the Annual Report was obtained.

Information on the Director General is disclosed in Annex 6.4. to the Annual Report.

#### Financial Incentives for Director General

Financial incentives for the Director General of the Company are organized in accordance with the Regulations on Financial Incentives of PJSC MOESK Director General approved by the Resolution of OJSC MOESK Board of Directors dated December 17, 2014 (minutes No. 248 dated

December 19, 2014) with all amendments and additions.

Bonus payments to the Director General depend on fulfillment results of key performance indicators (hereinafter KPI) approved by the Board of Directors of the Company for reporting periods (quarter and year).

Within the frames of the Regulations on Financial Incentives for the Director General of PJSC MOESK,

additional and special bonuses for the Director General are provided subject to implementation of the terms (strategic priorities) defined by the Board of Directors of the Company.

Remuneration of the Sole Executive Body is part of the information on remuneration of the Managing Board.

Within the reporting year, the Director General passed no advanced training at the cost of the Company.

## 4.3. External, Internal Audit and Control

### 4.3.1. Internal Control System

#### Commentary of the Audit Director A.A. Ulyanov

– In 2016, the Audit Department of the Company took active part in the methodological activities of PJSC "Rosseti" in terms of improvement of Internal Control System (ICS), including development of typical schemes and matrices of control procedures of business-processes for "Rosseti" group of companies.

Control and Risk Unit in cooperation with specialized

divisions of the Company developed typical control matrices for such fields as maintenance and repairs (including planning and control of the Company's repair program implementation), equipment diagnostics, HR management, key performance indicators (KPI) fulfilment control, systematized offers for typing control environment of other business processes.

Moreover, the Company adopted the Company structural divisions' internal assessment of efficiency of ICS of business processes

supervised by them. The results of the internal assessment formed the basis of activities intended to improve control environment of business processes. This project is a pilot one, it is implemented in PJSC "Rosseti" Group for the first time and the key objective of its implementation is active involvement of the personnel in the process of efficient monitoring of internal control system and its optimization.

Also, with meaningful participation of Control and Risk Unit the works on development by PJSC "Rosseti" of the methodological documents on the internal audit procedure were completed, and the project for internal audit automation is implemented which will be translated to other companies of PJSC "Rosseti" Group in future.

The following activities are scheduled for 2017:

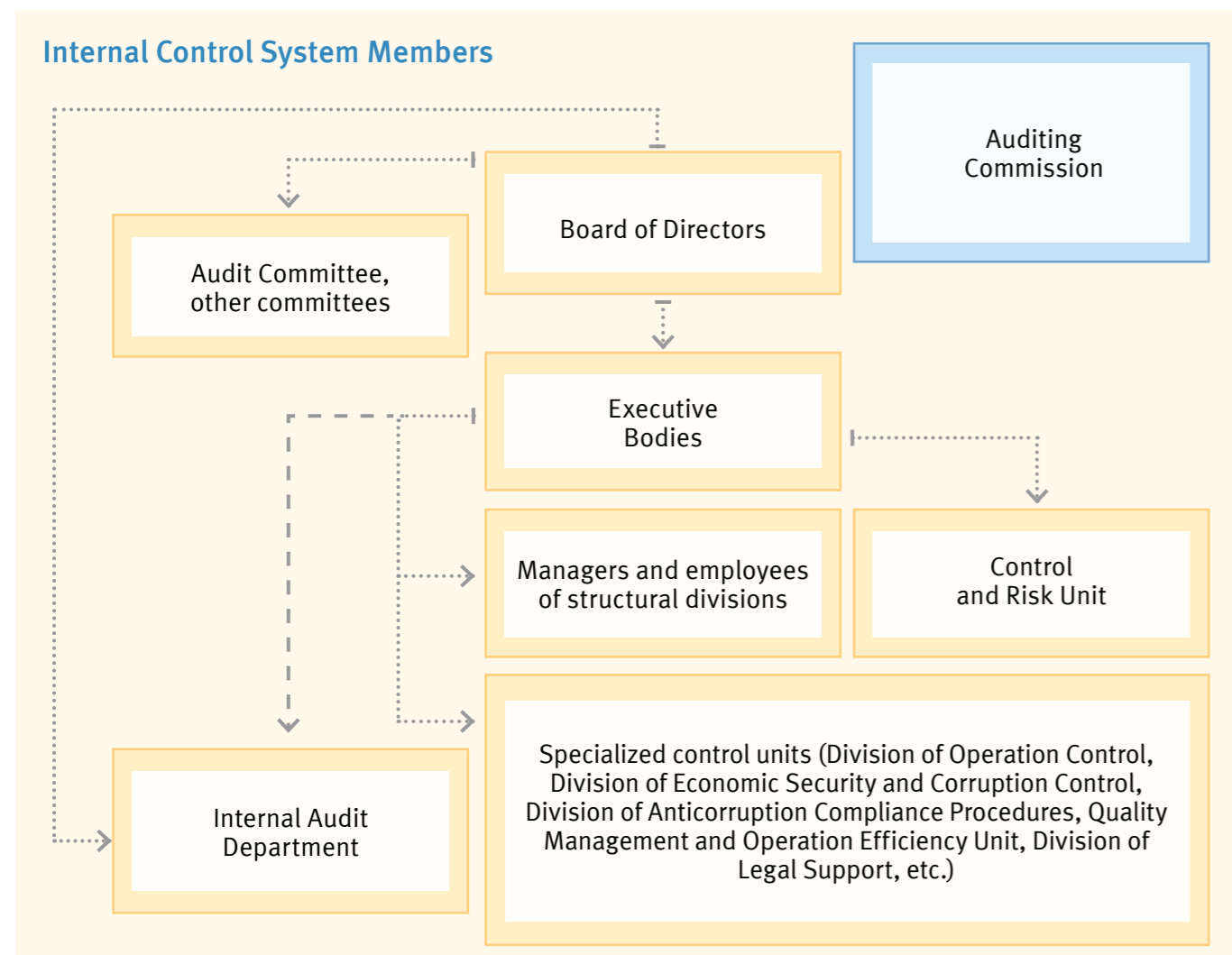
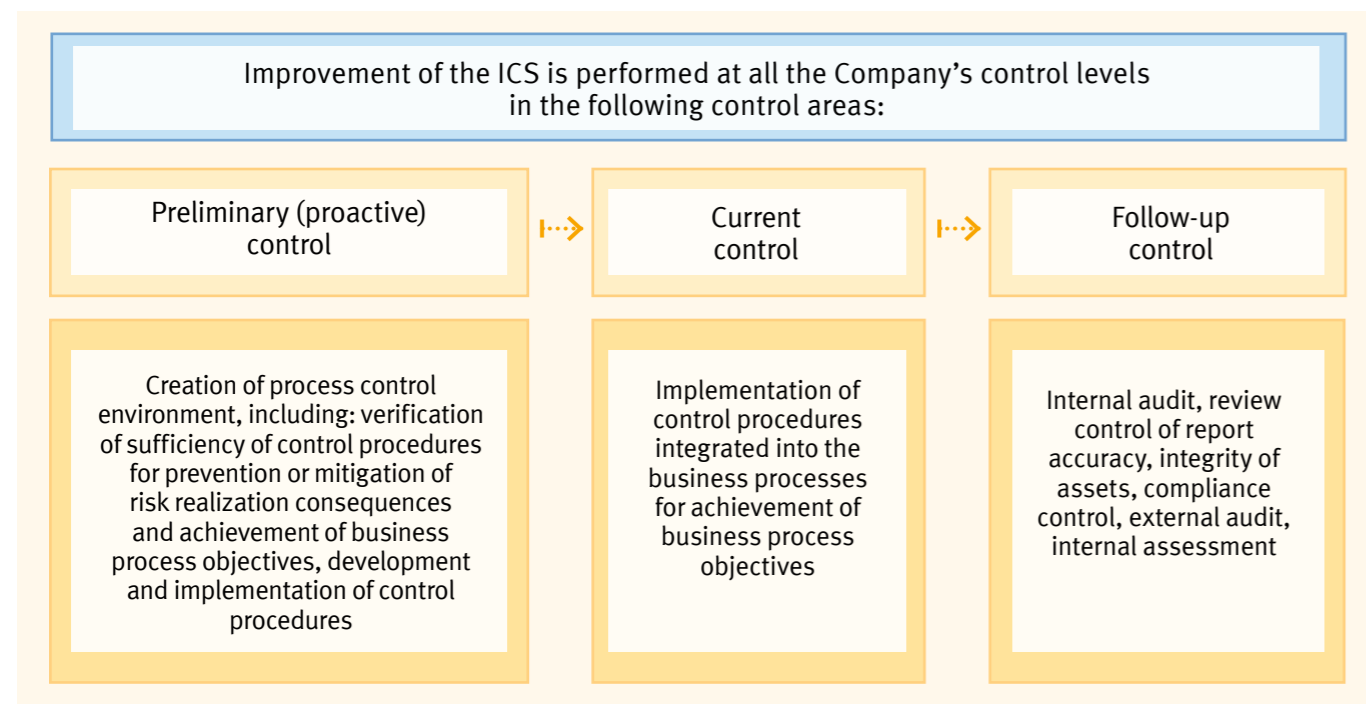
- adaptation of typical business process control matrices approved by PJSC "Rosseti" with gradual integration into the general system of local regulatory acts of the Company regulating processes;
- expansion of ICS efficiency internal assessment, including implementation of the project for the technical unit's independent check of operation personnel's preparedness for technological violations (incidents) elimination at facilities of the Company.





## Internal Control System

The Internal Control System of the Company (further referred to as the ICS) is an element of the general management system of the Company.



## Functions of Internal Control System Members

Member name	Main functions in ICS
<b>Auditing Commission</b>	<ul style="list-style-type: none"> <li>controls the Company's business activities; based on the control results, the Committee prepares proposals/recommendations for ICS improvement;</li> <li>independent assessment of the accuracy of the Company's annual report and the Company's annual financial reports</li> </ul>
<b>Board of Directors</b>	<ul style="list-style-type: none"> <li>determines principles and approaches to the Company's internal control system organization, as well as approves the internal documents of the Company, which define the organization and the strategy for development and improvement of the ICS, approves the Internal Control Policy of the Company;</li> <li>controls the activities of the Company's executive bodies in the main (priority) areas;</li> <li>reviews the report of the Management Board on organization and operation of the internal control system of the Company;</li> <li>reviews annually the internal auditor's report on the internal control system efficiency;</li> <li>reviews the results of external independent assessment of internal control system efficiency</li> </ul>
<b>Audit Committee assigned to the Board of Directors</b>	<ul style="list-style-type: none"> <li>carries out preliminary review of the Company internal documents which define the organization and the strategy for development and improvement of the Company's ICS prior to approval of such documents by the Board of Directors;</li> <li>carries out preliminary review of ICS efficiency assessment results based on the data in the internal auditor's report on the ICS efficiency and reports on the results of external independent ICS assessment prior to their review by the Board of Directors, prepares proposals / recommendations on ICS improvement;</li> <li>implements supervision over ICS in terms of review of the matters associated with the supervision over the accuracy of the Company's accounting (financial) reports, selection of external auditor and performance of external audit, ensuring compliance with regulatory legal requirements, in terms of review of the report of the Management Board on organization and operation of the internal control system and in terms of review of the matters associated with analysis and assessment of Internal Control Policy implementation</li> </ul>
<b>Other Committees assigned to the Board of Directors</b>	<ul style="list-style-type: none"> <li>implements supervision over fulfillment of the established financial and operational indicators, supervision over compliance with the applicable law, rules and procedures implemented in compliance with the local regulatory acts and over the accuracy and timely preparation of Company reports</li> </ul>
<b>Executive Bodies of the Company (Management Board, Sole Executive Body)</b>	<ul style="list-style-type: none"> <li>ensure establishment and efficient functioning of the Company's ICS;</li> <li>responsible for implementation of decisions of the Board of Directors with respect to ICS organization</li> </ul>

Member name	Main functions in ICS
<b>Management Board of the Company</b>	<ul style="list-style-type: none"> <li>forms trends and plans for development and improvement of ICS;</li> <li>prepares reports on the Company's business activities, on organization and functioning of the Company's ICS;</li> <li>reviews the results of external independent ICS assessment, develops measures for development and improvement of the ICS</li> </ul>
<b>Director General of the Company</b>	<ul style="list-style-type: none"> <li>approves regulatory and methodological documents of the Company on ICS organization and functioning, except for the documents the approval of which is included into the scope of competence of the Board of Directors of the Company;</li> <li>ensures fulfilment of the Company's business plans necessary for solution of its tasks;</li> <li>organizes financial and management accounting, preparation of financial and other reports;</li> <li>submits reports on the Company's business activities, on organization and functioning of the Company's ICS to the Board of Directors of the Company for review</li> </ul>
<b>Collective working bodies established by the executive bodies of the Company to perform certain functions (committees, working groups, etc.)</b>	<ul style="list-style-type: none"> <li>performs control procedures and/or develop recommendations for improvement of control procedures, certain components (elements) of internal control and ICS</li> </ul>
<b>Heads of Departments and Structural Divisions of the Company</b>	<ul style="list-style-type: none"> <li>exercise functions connected with elaboration, documenting, implementation, monitoring and development of ICS in functional areas of the Company activities, the responsibility for organization and coordination of which is placed on them by normative documents of the Company/regulations on structural divisions, including: <ul style="list-style-type: none"> <li>ensure implementation of internal control principles;</li> <li>organize establishment of efficient processes (areas of operation), including development and implementation of new control procedures and alteration of the existing ones with consideration of identified risks;</li> <li>ensure regulation of the supervised processes (areas of operation);</li> <li>organize performance of control procedures;</li> <li>perform assessment (monitoring) of control procedures performance;</li> <li>perform assessment of the supervised processes (areas of operation) with respect to necessity of their optimization for efficiency increase and compliance with a changeable external and internal environment, organize development of proposals on control procedures improvement;</li> <li>ensure elimination of the identified deficiencies of control procedures and processes (areas of operation)</li> </ul> </li> </ul>
<b>Employees of the Company's structural divisions who perform control procedures in compliance with their professional duties</b>	<ul style="list-style-type: none"> <li>perform control procedures;</li> <li>ensure timely notification of their direct supervisors about cases when performance of control procedures for some reason became impossible and/or the control procedure design needs to be changed in connection with changes in internal and/or external conditions of the Company functioning;</li> <li>submit proposals on implementation of control procedures in the corresponding operation areas to the direct executives for review</li> </ul>

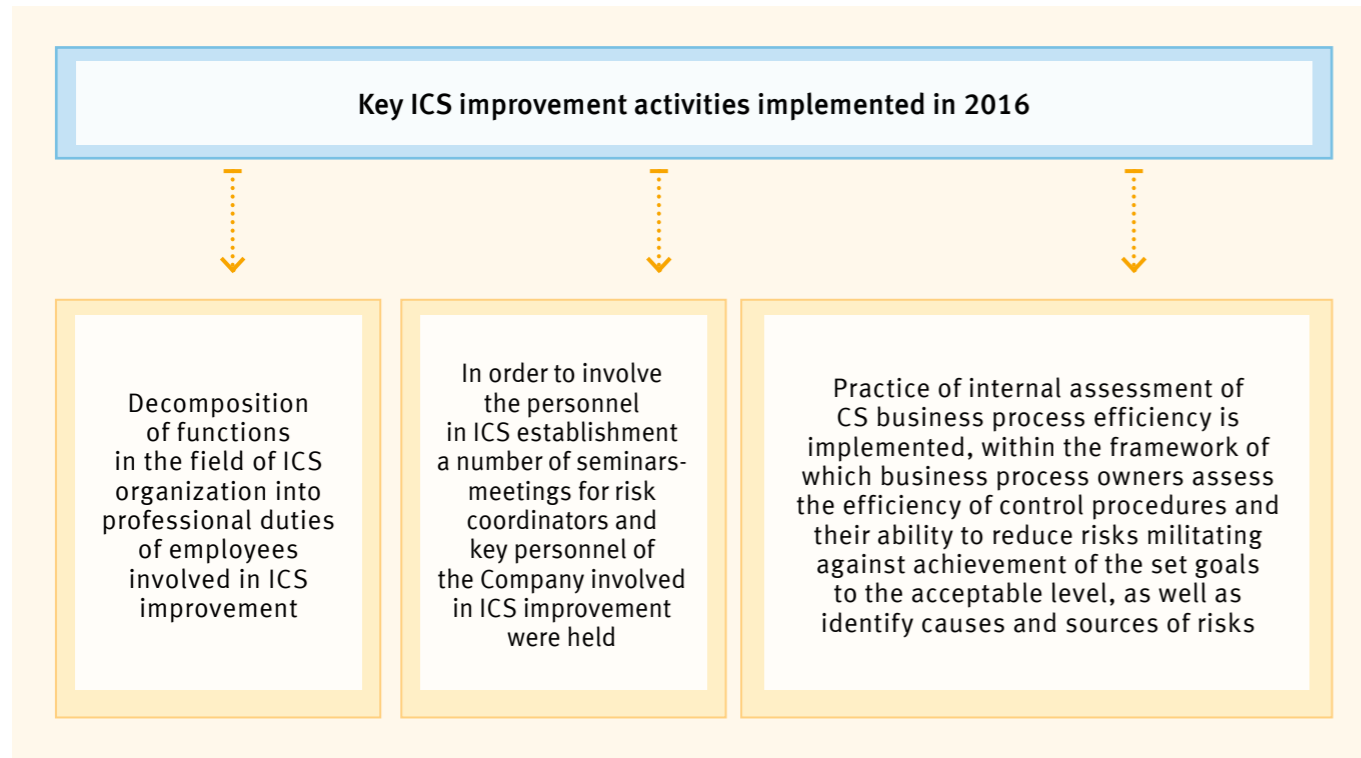
Member name	Main functions in ICS
<b>Specialized control bodies</b> Division of Operation Control, Division of Economic Security and Corruption Control, Division of Anticorruption Compliance Procedures, Quality Management and Operation Efficiency Department, Division of Legal Support, etc.	<ul style="list-style-type: none"> <li>perform internal control activities and internal investigation in the field of technical control, anticorruption control of business processes, monitoring over the current condition of compliance procedures, legality of Company operations and prevention of violation with the effective RF law in the field of the main Company activities;</li> <li>perform audit of the Company's quality management system;</li> <li>prepare recommendations on improvement of control procedures based on the results of internal control activities</li> </ul>
<b>Control and Risk Unit</b>	<ul style="list-style-type: none"> <li>develops and ensures implementation of the main and methodological documents on ICS establishment and improvement;</li> <li>assists the management in establishment of control environment, prepares recommendations on description and implementation of control procedures in processes (areas of operation) and assigns responsibility to officers;</li> <li>coordinates activities on support and monitoring of the ICS target status;</li> <li>prepares information on the status of ICS for stakeholders;</li> <li>interacts with state regulatory and supervisory authorities in the matter of internal control</li> </ul>
<b>Internal Audit Department</b>	<ul style="list-style-type: none"> <li>prepares recommendations on improvement of control procedures, certain components (elements) of internal control and ICS based on the results of internal audit activities;</li> <li>performs independent internal assessment of ICS efficiency and issues recommendations on improvement of ICS efficiency and effectiveness</li> </ul>

The Company performs assessment of ICS efficiency: its compliance with the target status and maturity level.

Internal control system development and improvement strategy of the PJSC "Rosseti" and SCC approved

by the Board of Directors of PJSC "Rosseti" on February 10, 2014 (Minutes No. 143) (further referred to as the ICS Development Strategy) defines 6 maturity levels of internal control system (from 1 "zero" to 6 "high").

Maturity level of the Company's ICS corresponds to the 4<sup>th</sup> "moderate" maturity level on a scale from one to six. The internal independent assessment of ICS efficiency was performed by the internal auditor of the Company. External independent assessment was not performed.



### 4.3.2. Internal Audit

The division responsible for implementation of internal audit functions in the Company is the Internal Audit Department. Internal audit is functionally accountable to the Board of Directors of the Company.

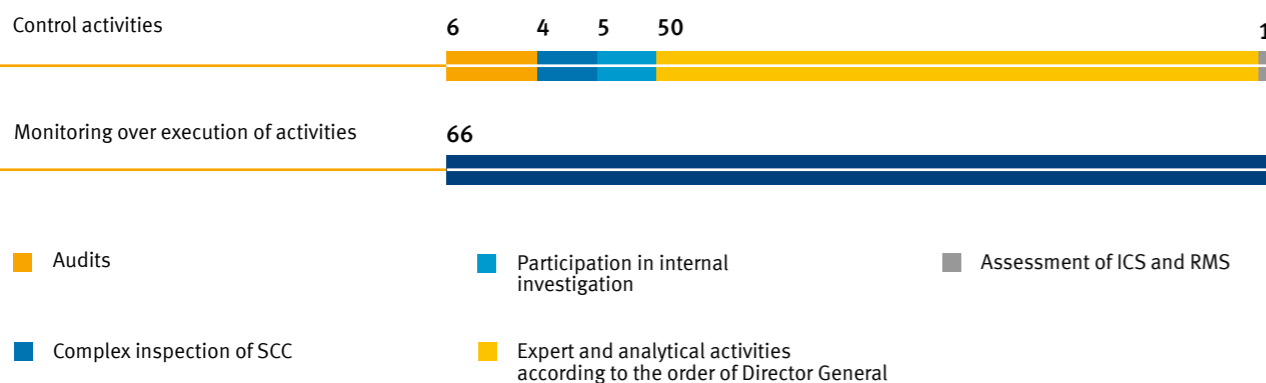
Objectives and tasks, basic principles of organization and functioning of the internal audit, functions and powers of the Internal Audit Department are defined in the Internal Audit Policy of PJSC MOESK (updated version), approved

by the resolution of the Board of Directors (Minutes No.287 dated April 30, 2016).

The Company approved the following documents regulating internal audit functions:

- Regulations on the Internal Audit Department (approved by the resolution of the Board of Directors (Minutes No. 302 dated December 5, 2016));
- Guidelines on Performance of Internal Audit (approved by PJSC MOESK Order No. 56 dated January 27, 2016);
- Regulations on the Internal Audit Department's Interaction with PJSC MOESK Structural and Independent Divisions when Audit Performing and Monitoring over Execution of Corrective Actions Plan (approved by PJSC MOESK Order No.370 dated March 28, 2016), etc.

### Results of Control Activities Performed by Internal Audit Department in 2016, ea.



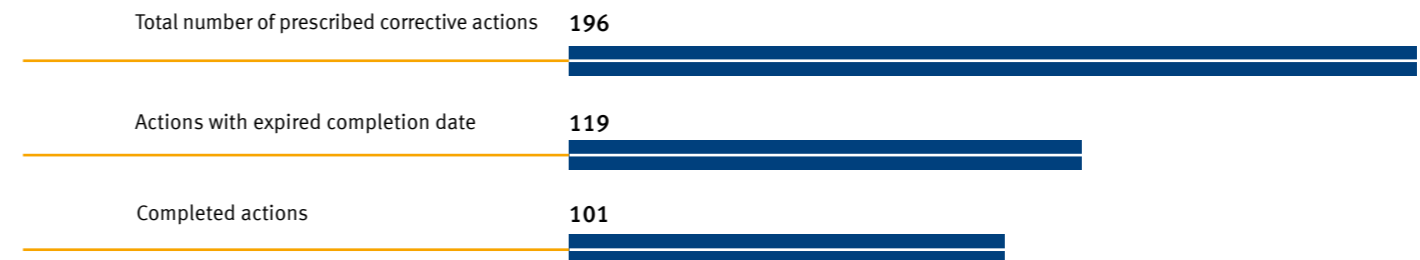
In 2016, the Internal Audit Department performed 66 auditing activities.

Following the results of control activities performed by the Internal Audit Department in 2016, 196 corrective actions were prescribed for compliance, intended to elimination and prevention in the future of violations identified by internal audit.

Performance of corrective actions is controlled by the Audit Committee assigned to the Board of Directors by hearing periodic reports of the Company Management on performance of corrective actions plan for elimination of violations identified by Auditing Commission, Company's internal auditor, external control bodies.



### Corrective Actions Prescribed in 2016, ea.



### 4.3.3. Risk Management System

The Company implemented the RMS to ensure sustainable and uninterrupted operation and development of the Company due to timely identification, assessment and efficient management of risks which threaten the efficient performance of the Company's business activities and reputation, the employees' health, environment, and property interests of the shareholders and investors.

In order to develop the RMS in the Company, the Board of Directors approved the Risk Management Policy (updated version) (Minutes No. 287 dated April 30, 2016).

#### Commentary of the Audit Director A.A. Ulyanov

– The Risk Management System (RMS) established in the Company covers all significant business processes and it is integrated into the Company's Planning System. Control and Risk Unit renders assistance to structural divisions of the Company in assessment of risks based on the unified methodology developed by PJSC "Rosseti" and elaboration of actions for their minimizing, moreover it holds regularly seminars-meetings for risk coordinators and key personnel of the Company.

In 2016, the Risk Management System methods were supplemented with system approaches to planning and

assessment of risk management activities efficiency. In cooperation with the specialized divisions of PJSC "Rosseti" and PJSC MOESK, the range of basic activities was defined for management of key operational risks, as well as the criteria of their performance efficiency were determined.

In the course of further improvement of RMS the following activities are scheduled for 2017:

- strengthening the responsibility of risk owners for organization of efficient risk management activities performance;
- ensuring regular immediate information of the management on occurrence of or significant alteration of the Company risks.

## RMS Members

The main members in the risk management process are:

- Board of Directors;
- Executive bodies (Management Board, Director General);
- Risk Management Department;
- Strategy and Development Committee reporting to the Board of Directors;
- Risk owners;
- Persons in charge of risk management action performance.

## Main Risks in the Company Operation

### Key Risk Factors

- Critical
- Significant
- Moderate
- Insignificant

Risk name / Level of risk significance and dynamics	Risk description	Risk mitigation activities
Country risk ●	Decrease in the Company possibilities to attract credits for ensuring investment program financing and decrease in the demand for the Company services due to the negative impact of global financial market instability on the Russian economy	<ul style="list-style-type: none"> <li>• Cost management in compliance with income levels;</li> <li>• Optimization of investment program;</li> <li>• Reasonable credit policy.</li> </ul>
Regional risks ●	Risks associated with economic and political situation in the region	<ul style="list-style-type: none"> <li>• Mitigation of possible consequences of risk realization by cost management in compliance with income levels, including;                             <ul style="list-style-type: none"> <li>– optimization of borrowed funds share;</li> <li>– activities for limitation of the conditions of increase in the rate of interest by creditor on newly concluded loan agreements;</li> <li>– decrease in operational cost</li> </ul> </li> </ul>
Regulatory risk ●	Risk associated with the resolutions of the authorities in the field of tariff regulation: the established gross revenue requirement does not cover economically feasible costs, revision of established tariffs over the regulation period	<ul style="list-style-type: none"> <li>• Provision of supporting materials which justify the level of costs to regulatory authorities;</li> <li>• Planning of the Company's business activities with consideration of tariff and balance resolutions;</li> <li>• Submission of information to regulatory authorities and the RF Ministry of Energy in connection with approval of the Company's long-term investment program.</li> </ul>

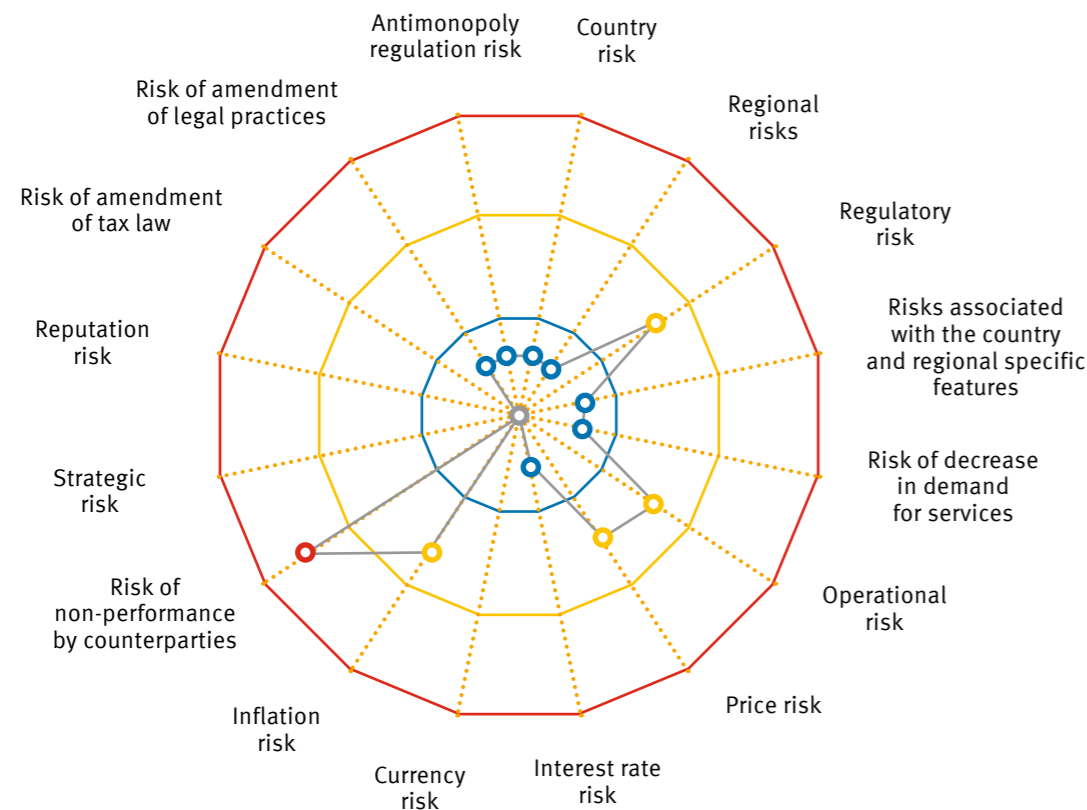
Risk name / Level of risk significance and dynamics	Risk description	Risk mitigation activities
Risks associated with the country and regional specific features ●	Risks associated with the country and regional specific features	<ul style="list-style-type: none"> <li>• Design of power lines with consideration of regional classification in terms of ice formation;</li> <li>• Expansion and timely clearing of territory along the power line route from trees;</li> <li>• Replacement of non-insulated 0.4–10 kV overhead line wires with self-supporting insulated conductors;</li> <li>• Implementation of modern equipment for diagnosis of overhead lines condition and location of damage points;</li> <li>• Creation of weather monitoring system, preparation of weather forecasts and warning about natural hazards;</li> <li>• Selective implementation of anti-icing and ice melting system;</li> <li>• Property insurance</li> </ul>
Risk of decrease in demand for services ● ↓	Risk associated with decrease in the volume of electric power transmission services due to general decrease in the volumes of power consumption and technological connections	<ul style="list-style-type: none"> <li>• Monitoring and prediction of electric power consumption with breakdown to voltage level and revision of sales plans with consideration of the current demand for electric power;</li> <li>• Submitting the information to regulatory authorities to account for lost revenues in the electric power transmission tariff in the following year;</li> <li>• Fulfilment of the Company's Program for Energy-Saving and Energy Efficiency Improvement;</li> <li>• Consumer informing about locations of not overloaded feed centers</li> </ul>
Operational risk ● ↑	Risk associated with technological violation (including grid breakdown)	<ul style="list-style-type: none"> <li>• Creation of weather monitoring system, preparation of weather forecasts and warning about natural hazards;</li> <li>• Remote control functionality for 110–220 kV stations;</li> <li>• Implementation of the target program on replacement of 0.4–10 kV overhead line wires with self-supporting insulated conductors;</li> <li>• Expansion and timely clearing of territory along the power line route from trees;</li> <li>• Transformation of quick-action teams and repair &amp; operation teams into mobile work teams;</li> <li>• Repair activities based on the results of assessment of the current state of equipment;</li> <li>• Supervision over the activities performance based on the results of technological violation (grid breakdown) investigation;</li> <li>• Insurance of electric grid facilities.</li> </ul>

Risk name / Level of risk significance and dynamics	Risk description	Risk mitigation activities
Price risk ●	Risk associated with possible variation of prices for raw materials, services, equipment and other material and technical resources used by the Company in the course of operation.	<ul style="list-style-type: none"> <li>• Fulfilment of the Company's Program for Energy-Saving and Energy Efficiency Improvement;</li> <li>• Implementation of Program of Activities for Reduction of Electric Power Losses;</li> <li>• Information provision to the regulatory authorities in connection with incorporation of justified costs of power loss compensation into the Company's NGR, including submission of documents which confirm the actual costs in the previous reporting periods;</li> <li>• Information provision to regulatory authorities in connection with establishment of balance indicators (net supply and power rating) for the Company and LGO for adoption of tariff and balance resolutions;</li> <li>• Optimization and improvement of procurement procedures efficiency;</li> <li>• Minimizing application of imported equipment and materials in project decisions when developing technical specifications;</li> <li>• Increase in the share of repair and operation activities performed using the Company's own resources</li> </ul>
Interest rate risk ● ↓	Risk associated with increase in the rate of interest on borrowed funds due to financial market instability	<ul style="list-style-type: none"> <li>• Business planning with consideration of possible interest rate growth;</li> <li>• Raising (if necessary) of borrowed funds under overdraft loan agreements;</li> <li>• Selection of financial organizations for service delivery through open bidding procedures to ensure borrowing on the most beneficial terms for the Company;</li> <li>• Inclusion of price terms, which fix the floating interest rate in accordance with the key interest rate of the RF Central Bank into the new contracts</li> </ul>
Currency risk ●	Risk of increase in the Company costs due to currency exchange rate fluctuations	<ul style="list-style-type: none"> <li>• Minimization of transactions in foreign currencies</li> </ul>
Inflation risk ● ↓	Risk of increase in the Company costs due to higher inflation rate	<ul style="list-style-type: none"> <li>• Planning with consideration of annual price growth;</li> <li>• Cost management in compliance with income levels</li> </ul>

Risk name / Level of risk significance and dynamics	Risk description	Risk mitigation activities
Risk of non-performance by counterparties ●	<p>Risk associated with non-performance by counterparties, including:</p> <ul style="list-style-type: none"> <li>– non-payment by consumers (guaranteed suppliers and retail power companies) for power transmission services;</li> <li>– identification of electric power consumption without contract or fiscal metering;</li> <li>– non-repayment of amounts transferred to the members of the "Single Window" system for technological connections in Moscow in the form of advance payments during the period from 2006 to 2010</li> </ul>	<ul style="list-style-type: none"> <li>• Installation of meters at the boundaries of power attribution with management companies in multi-apartment buildings. Transfer of installed metering devices to fiscal metering;</li> <li>• Performance of activities to identify power consumption without metering;</li> <li>• Implementation of activities for collection of overdue receivables for power transmission services and settlement of disputes;</li> <li>• Initiation of claims against the participants of tariff regulation with consideration of the established judicial practice for recovery of payments from the Company by consumers due to termination of contract on technological connections which were executed earlier in the framework of the "Single Window" system;</li> <li>• Negotiations with participation of representatives of the Moscow Government, controlling shareholder and members of the "Single Window" system in order to settle amicably</li> </ul>
Strategic risk ●	Risk of losses incurred by the Company due to the errors (omissions) made when taking resolutions which determine the Company's operation and development strategy (strategic management)	<ul style="list-style-type: none"> <li>• Adoption of management resolutions with consideration of the approved Business Plan, additional cost-cutting activities and with consideration of the documents which define the long-term plans for certain areas (Investment Program, Energy-Saving and Energy Efficiency Improvement Program)</li> </ul>
Reputation risk ●	Risk of losses, which may be incurred by the Company due to decrease in the number of clients (counterparties) due to formation of negative image of the Company's financial stability, financial position, quality of its products (work, services) or nature of its activities	<ul style="list-style-type: none"> <li>• Information support in connection with the main Company operation areas (issue of press releases, publications in mass media, press tours, video spots);</li> <li>• Preparation and presentation of comments for mass media;</li> <li>• Organization of public events which contribute to promotion of the strategic Company activities with participation of authorities and public organizations (forums, round tables, etc.);</li> <li>• Participation in professional and themed events to inform the target audience about the Company activities (congresses and exhibitions);</li> <li>• Preparation and issue of polygraphic and advertising materials on the main Company activities (booklets, leaflets, client journal, etc.);</li> <li>• Support of permanent positive information field and informing consumers about company services in the social networks;</li> <li>• Regular information provision and updating on the web site of the Company</li> </ul>

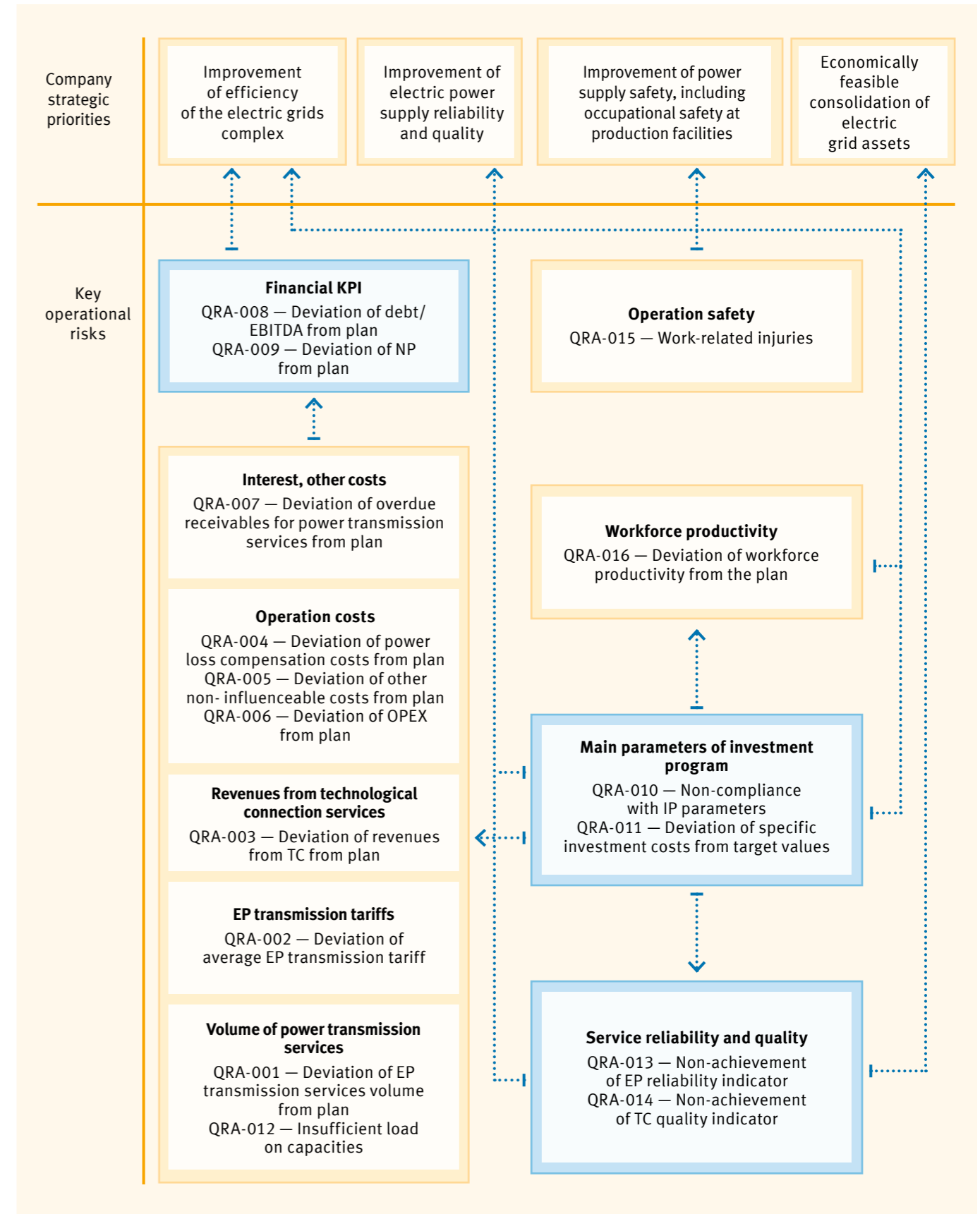
Risk name / Level of risk significance and dynamics	Risk description	Risk mitigation activities
● Risk of amendment of tax law	Risk associated with amendment of tax system, tax rates, tax payment procedure	<ul style="list-style-type: none"> <li>Performance of on-going work on improvement of tax base calculation in strict compliance with the effective law of the Russian Federation;</li> <li>Planning of business activities with consideration of the effective tax law</li> </ul>
● Risk of amendment of legal practices	Risk of amendment of legal practice in the aspects associated with the Company activities	<ul style="list-style-type: none"> <li>Performance of on-going work on improvement of tax base calculation in strict compliance with the effective law of the Russian Federation;</li> <li>Planning of business activities with consideration of the effective tax law</li> </ul>
● Antimonopoly regulation risk	Risk of fines imposed by antimonopoly authorities in connection with violation with the timeframe for preparation of offers on technological connection and contract performance timeframe as required by the law	<ul style="list-style-type: none"> <li>Reduction of internal time period required for connection of consumers;</li> <li>Development of CRM system in compliance with the approved regulations on technological connections;</li> <li>Work on decrease in turnover-based fines imposed by antimonopoly authorities to minimum</li> </ul>

### Level of Risk Significance



### Relationship between Strategic Priorities, Risks and KPI

The figure below shows the relationship between the key operation risks and strategic priorities of the Company.



The table below presents information on assessment and actual values of key operation risks in 2016:

Risk number	Assessment parameter	Unit of measurement	Risk value	Actual value	Deviation
QRA-001	Volume of electric power transmission services	mIn kW-h	71,315.3	73,036.6	2.41%
QRA-002	Average electric power transmission tariff	RUB/thous. kW-h	1,761.6	1,761.3	-0.02%
QRA-003	Number of performed contracts on TC	ea.	64,185	70,518	9.9%
	Volume of connected capacity	mIn kW	2,011.1	2,382.0	18.44%
	Revenues from TC services	RUB mln	10,000.0	10,011.7	0.12%
QRA-004	Purchased electric power for power loss compensation	RUB mln	13,627.2	15,300.9	12.28%
QRA-005	Non-influenceable costs minus costs of power loss compensation	RUB mln	86,001.6	83,574.9	-2.82%
QRA-006	Operation costs	RUB mln	26,790.2	25,537.7	-4.68%
QRA-007	Volume of overdue receivables for electric power transmission services	RUB mln	1,417.0	4,676.9	230.06%
QRA-008	Debt / EBITDA	-	2.03	2.23	9.86%
QRA-009	Net profit	RUB mln	5,819.5	6,079.5	4.47%
QRA-010	Investment utilization (without VAT)	RUB mln	29,792	32,287	8.37%
	Commissioning of fixed assets (without VAT)	RUB mln	31,910	29,756	-6.75%
	Financing of investment development program (with VAT)	RUB mln	39,020	36,725	-5.88%
QRA-011	Rate of decrease of specific investment costs	%	22	22	0%
QRA-012	Capacity load indicator	%	25	31	24%
QRA-013	Reliability indicator of electric power transmission service (KPI)	-	1	1	0%
QRA-014	Quality indicator for TC service	-	1.10	1.01	-8.2%
QRA-015	Number of work-related injuries	cases	-	5	-
QRA-016	Workforce efficiency	RUB thous. / persons h	4.78	4.85	1.46%

#### 4.3.4. Auditing Commission

The Auditing Commission controls the Company's business activities through regular inspections of the activities performed by the Company, its independent divisions, officers of management bodies and structural

divisions of the Company's executive body to verify compliance with the Russian Federation law, the Company's Articles of Association and internal documents of the Company.

Composition of Auditing Commission from June 6, 2016

Full name	Job title by the time of electing as a member of Auditing Commission
Kim, Svetlana Anatolievna (Chairperson)	Head of Review Department within Control and Review Division of PJSC "Rosseti"
Shmakov, Igor Vladimirovich	Head of Internal Audit Department of PJSC "Rosseti"
Kirillov, Artem Nikolaevich	Head of Investment Audit Department
Erandina, Elena Stanislavovna	Lead Expert, Review Department within Control and Review Division of PJSC "Rosseti"
Kabizskina, Elena Aleksandrovna	Deputy Head of Review Department within Control and Review Division



Information on members of the Auditing Commission are given in Annex 6.4. to the Annual report.

#### Remuneration Paid to the Auditing Commission Members, RUB without PIT

Category	2014	2015	2016	2016/2015
Remuneration	2,407,725	623,659	562,486	-9.8%

Information on resolutions adopted by the Company's Auditing Commission are disclosed at the Company's website in the section "Corporate Governance" / "Auditing Commission" / "Solutions".

Payment of remuneration to the members of the Auditing Commission is performed in compliance with the Regulations on Remuneration and Compensation Payments to the Members of PJSC MOESK Auditing

Commission approved by the resolution of the annual General Meeting of Company Shareholders dated June 24, 2015 (Minutes No. 17 dated June 29, 2015).

### 4.3.5. Auditor

In order to ensure independence and objectivity of external audit process the Company's external auditor is elected by open single-stage contest without preliminary qualifications-based selection. In 2015, an auditor was selected for auditing of PJSC MOESK accounting (financial) reports prepared according to the Russian Accounting Standards, reviewing intermediate

consolidated financial reports and auditing PJSC MOESK consolidated financial reports prepared according to the International Financial Reporting Standards for 2015–2017. The results of the contest were summarized on April 8, 2015. The contest was organized by PJSC "Rosseti" based on Ordinance No. 552r dated December 12, 2014.

In accordance with resolution of the Contest Committee (Minutes No. 5/552r dated April 14, 2015) LLC RSM RUS was recognized the winner of the contest.

The candidacy of auditor LLC RSM RUS was approved by the Annual General Meeting of Shareholders of PJSC MOESK on June 6, 2016 (Minutes of AGMS of PJSC MOESK No. 18 dated June 9, 2016).

#### Base Information on the Company's Auditor (RAS/IFRS)

Category	Reporting year
Full company name	Limited Liability Company RSM RUS
Abbreviated company name	LLC RSM RUS
Address	4 Pudovkin St, Moscow, 119285, Russian Federation
Phone / Fax	+ (495) 363-28-48 / + (495) 981-41-21
Website	<a href="http://www.rsmrus.ru">www.rsmrus.ru</a>
E-mail:	<a href="mailto:mail@rsmrus.ru">mail@rsmrus.ru</a>
Membership in self-regulatory organization of auditors	Non-commercial partnership "SODRUZHESTVO AUDIT ASSOCIATION" (PRN 11306030308)
Information on the auditor's membership in panels, associations or other professional unions (organizations)	ACG "RSM RUS" is an incorporator and full member of the Institute of Professional Auditors of Russia, member of the Audit Chamber of Russia

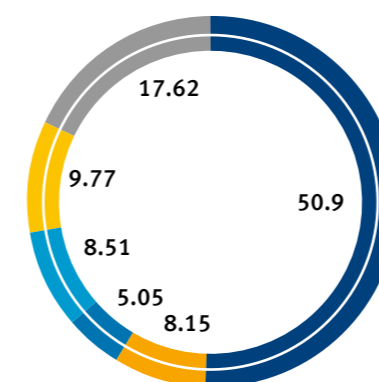
## 4.4. Information for Shareholders and Investors

### Company Equity Structure

The Company's authorized capital is equal to 24,353,545,787 rubles and is divided into 48,707,091,574 ordinary shares with 0.5 ruble par value each. In 2008, additional emission of ordinary shares was performed in connection with OJSC MOESK restructuring through

consolidation of OJSC Moscow City Power Grid Company. In accordance with the Company's Articles of Association, the Company may issue 3,718,126 additional ordinary shares with 0.5 ruble par value each for the total amount of 1,859,063 rubles.

### Company Equity Structure (5% and more) as of April 19, 2016, %



- Public Joint-Stock Company "Rosseti"
- Other shareholders
- Open Joint-Stock Company OEK-Finans
- (T)\* Limited Liability Company "Management Company "AGANA"
- Gazprombank (Joint-Stock Company)
- (T)\* Closed Joint-Stock Company "Leader"

On December 16, 2016 a notice was received about decrease of stake of the Limited Liability Company "Management Company "AGANA" in the authorized capital of PJSC MOESK from 8.51% to 6.51%.

Consequently, according to the information available to the Company, free float of PJSC MOESK is 10.15% of the total quantity of the issued ordinary shares.

As of December 31, 2016 the government has no interest in the authorized capital of PJSC MOESK. At the same time 50.9% of shares in the authorized capital of PJSC MOESK belongs to PJSC "Rosseti" whose controlling shareholder is the government represented by the RF Federal Agency for State Property Management which holds 87.9% in the authorized capital of PJSC "Rosseti".

### Information on Shares:

Share category and type	Ordinary registered
Issue form	Uncertificated
Issue volume, ea.	48,707,091,574
Par value of 1 (one) security (in rubles)	0.5
Information on state registration of issue	1-01-65116-D; May 31, 2005

\* Note: (T) – trustee.



## Trading Monitoring for 2016.

### Trading Monitoring for 2016

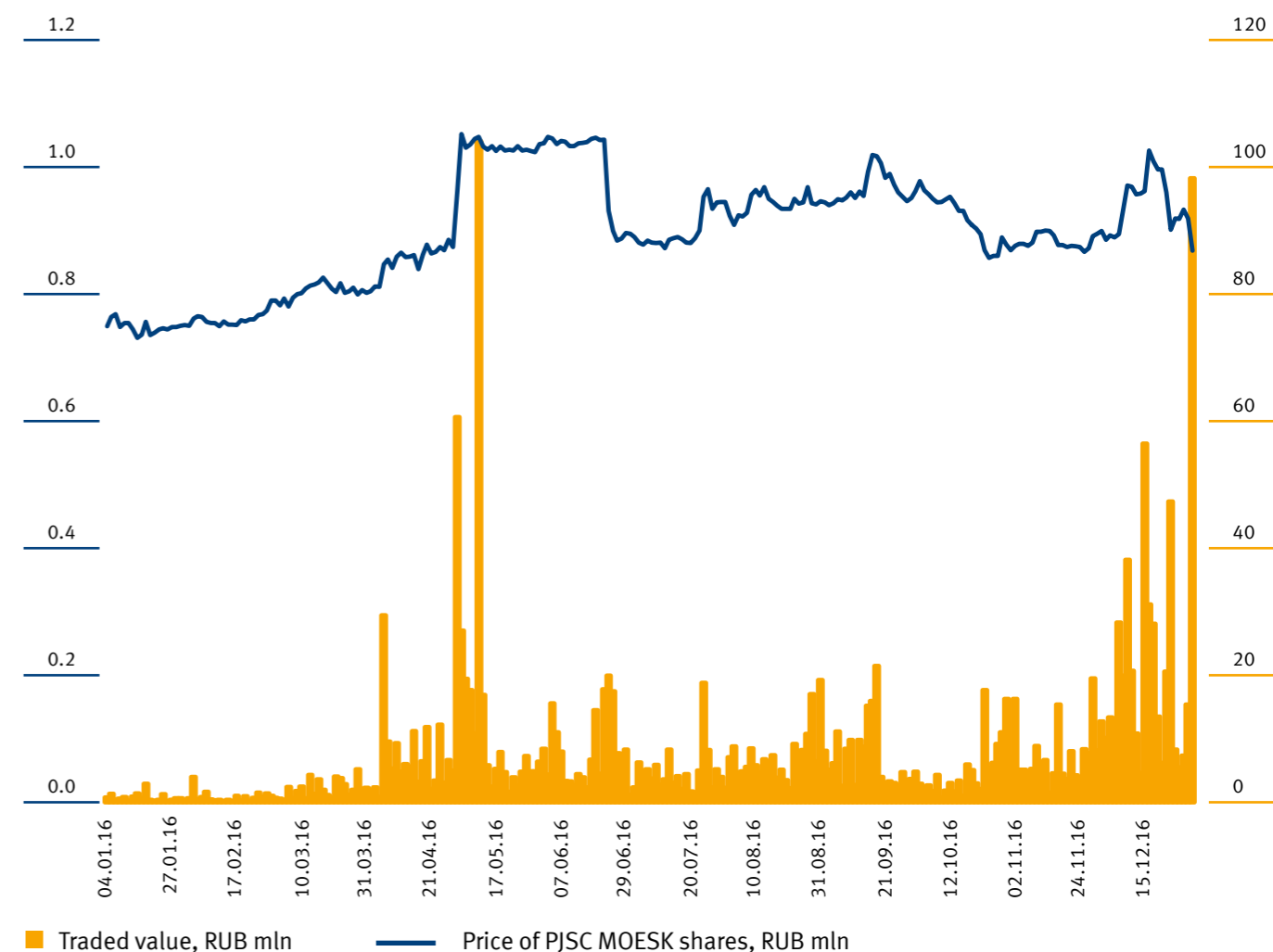
Category	Reporting years
Stock exchange	MOEX (PJSC Moscow Exchange)
Trading start date	February 9, 2006
Quotation list	A1 from February 19, 2009 First level from 09.06.2014 Second level from 31.01.2017
ISIN	RU000A0ET7Y7
Ticker	MSRS
Bloomberg code	MSRS RX Equity, MSRS RU Equity, MSRS RM Equity



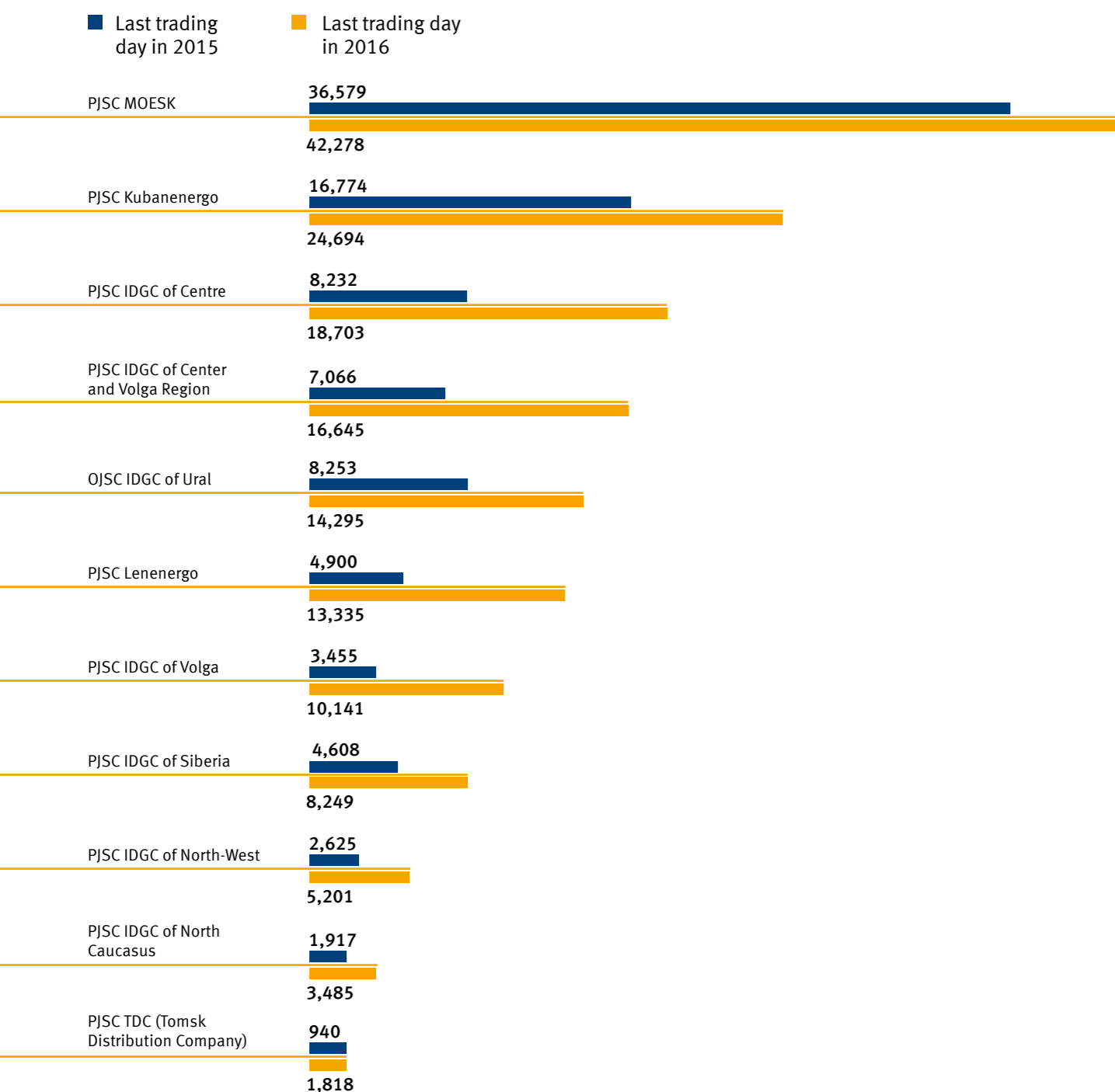
### MICEX Trading Results

Category	2014	2015	2016	2016/2015
Minimum share price per year, RUB	0.865	0.743	0.731	-1.6%
Maximum share price per year, RUB	1.4548	1.225	1.052	-14.1%
Closing prices on the last trading day of the year, RUB	1.25	0.75	0.898	19.7%
Average-weighted price as of the last trading day of the year, RUB	1.33	0.751	0.868	15.6%
Number of transactions per year, ea.	42,772	19,991	78,603	293.2%
Traded value per year:				
RUB mln	8,793	250	1,895	658.0%
mln ea.	6,580	297	2,025	581.8%

### Dynamics of Prices and Traded Value for PJSC MOESK Stock



### Dynamics of Market Capitalization\*, RUB mln



### Reform of Listing of PJSC Moscow Exchange

The Moscow Exchange where shares of PJSC MOESK are traded performed the listing reform, by simplifying the system of quotation lists and its maximum approximation to international standards and strengthening requirements to issuing companies.

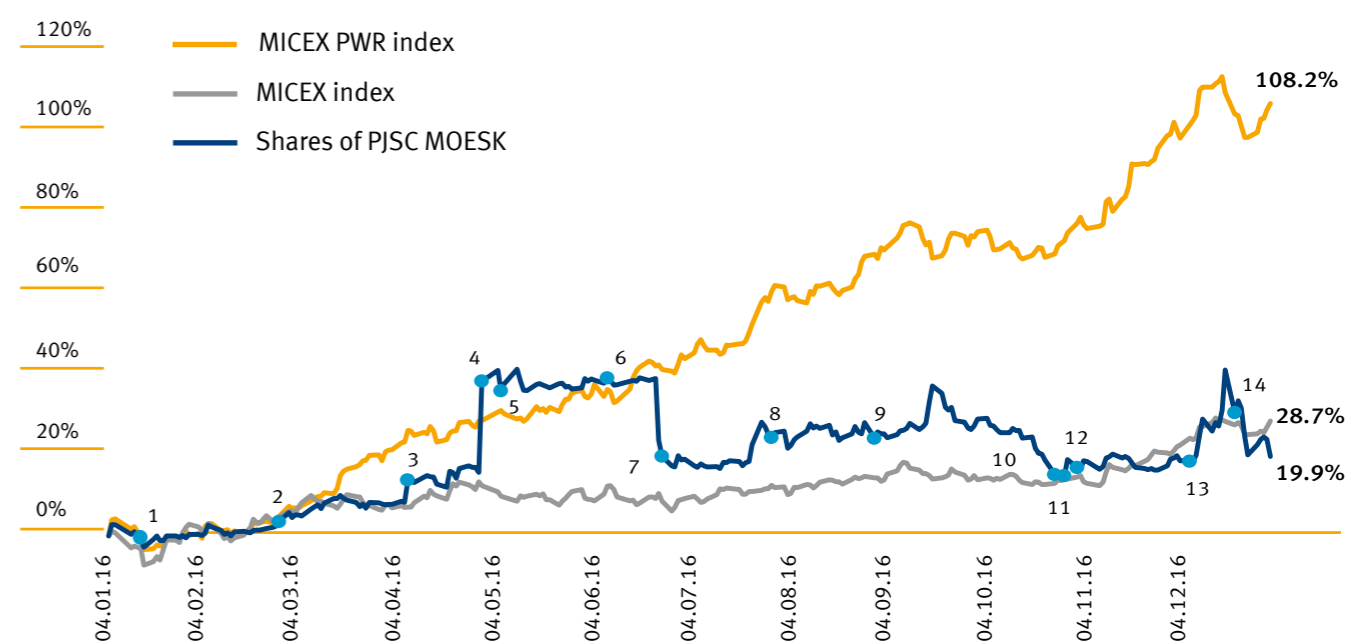
PJSC MOESK performed a large-scale work to meet all requirements necessary for the Second level of listing. In particular, in order to comply with the Listing Rules 2 members of the Board of Directors were recognized independent, composition of the Audit Committee was changed, the Corporate Secretary was elected, the internal auditing function was separated into an independent division directly

responsible to the Director General – the Internal Audit Division.

As a result of performed activities, from January 31, 2017 shares of PJSC MOESK were included in the Second level of List of Securities accepted for trading on PJSC Moscow Exchange, which proved the Company’s high level of corporate management.

\* at average-weighted price on the last trading day of the year

### Dynamics of PJSC MOESK Stock Market value and Stock Indexes



### Key Events Having Influenced Movement of Price for Shares of PJSC MOESK

1. January 14, 2016 – The rating agency Expert RA (RAEX) confirmed the management quality ranking of PJSC MOESK at the A++ level (Exceptionally high level of governance quality).
2. February 26, 2016 – Accounting report according to the RAS. The net profit of PJSC MOESK for 2015 according to the RAS was 9.2 bln rubles. EBITDA of MOESK for 2015 according to the RAS grew by 13%, to 41.9 bln rubles.
3. April 6, 2016 – Accounting report according to the IFRS. The Group’s profit in 2015 was 12.6 bln rubles, which is almost 1.6 times greater than in 2014.
4. April 29, 2016 – The Board of Directors of PJSC MOESK recommended to the annual General Meeting of Shareholders to pay dividends on the ordinary shares in the amount of 0.1297 ruble per share, which corresponds to 68% of the Company’s net profit for 2015 according to the RAS.
5. May 5, 2016 – Accounting report according to the RAS. The net profit of PJSC MOESK for Q1 2016 according to the RAS was 0.7 bln rubles.
6. June 7, 2016 – Based on the results of voting, shareholders of PJSC MOESK also supported recommendations of the Board of Directors of the Company to pay record-setting dividends following the results of 2015 – 50% of the net profit according to the IFRS. Therefore, total amount of payments will be 6.3 bln rubles or 12.97 kopecks per one ordinary share of the Company.
7. June 26, 2016 – date of making the list of persons entitled to dividends.
8. July 28, 2016 – Accounting report according to the RAS. The net profit of PJSC MOESK for H1 2016 was 0.7 bln rubles.
9. August 29, 2016 – Accounting report according to the IFRS. The profit of PJSC MOESK according to the IFRS for H1 2016 was 1.8 bln rubles.
10. October 24, 2016 – The RF Ministry of Energy offered to exclude a number of state electric grid companies from the 50% dividend payment from the net profit according to the results of 2016.
11. October 27, 2016 – Fitch confirmed the ratings of MOESK at the level BB+ with stable outlook.
12. October 31, 2016 – Accounting report according to the RAS. The profit of PJSC MOESK for 9 months of 2016 according to the RAS grew by 8.1%.
13. December 5, 2016 – Accounting report according to the IFRS. The profit of PJSC MOESK for 9 months of 2016 was 2.63 bln rubles.
14. December 19, 2016. – Free-float of PJSC MOESK grew up to 10.15%.

## Dividend Policy

The Company's dividend policy shall ensure the financial interest of the shareholders, enhance the investment attractiveness of the Company and increase its market capitalization. The policy is based on the balance of Company interests and shareholder interests.

The Company's dividend policy is governed by the Regulations on the Dividend Policy approved by the resolution of the Company's Board of Directors dated September 2, 2010 (Minutes No. 114 dated September 3, 2010).

According to the Company's Articles of Association the resolution on distribution of profit in 2016

will be made in accordance with the resolution of the annual General Meeting of Shareholders (AGMS).

The Company paid in full dividends based on the results of 2015 to nominee shareholders and trustees being professional members of securities market on July 8, 2016, to other registered shareholders – on July 29, 2016.

## Information on Dividends (Information on profit distribution in accordance with the resolutions of annual general meetings of shareholders (AGMS))

Category	AGMS 2014 (June 24, 2014)	AGMS 2015 (June 24, 2015)	AGMS 2016 (June 6, 2016)
	based on results of 2013	based on results of 2014	based on results of 2015
Amount of declared (accrued) dividends (total), including:	2,910	2,055	6,317
amount of paid dividends, RUB mln	2,910	2,055	6,317
share of paid dividends, %	100	100	100
Share of dividend payments in net profit, %	25	25	68
Dividend per share, RUB	0.05975	0.0422	0.1297
Dividend yield*, %	4.11	3.17	17.27
For reference:			
Net profit	11,641	8,208	9,246
Market value**	1.4530	1.330	0.751

**6,137**  
RUB mln

declared (accrued) dividends according to the results 2015

**17.27** %  
Dividend yield

**68** %  
Share of dividend payments in net profit according to the results 2015

\* The dividend yield is calculated as ratio of dividend per share to market value of shares.

\*\* Average-weighted market value as of the last trading session of the year according to [moex.com](http://moex.com)

## 4.5. Anticorruption Policy and Corporate Ethics

### Interview of the First Deputy Director General for Corporate Protection and Corruption Control A.V. Filin

#### – What are main achievements and results delivered by your Department in 2016?

– The issues of economic security, corruption control and prevention, as well as identification, prevention and reduction of economic risks of PJSC MOESK are referred to the direct competence of the structural divisions of the Security Department of PJSC MOESK on corruption control.

In 2016, the Security Department of PJSC MOESK implemented a set

of measures and preventative activities focused on prevention of damages, corruption risks, protection of finances and assets of PJSC MOESK.

In the reporting year, the economic security divisions of PJSC MOESK prevented damages in the amount of 457,704.5 thous. rubles (in 2015 – 508,085.1 thous. rubles); recovered damages in the amount of 434,342.5 thous. rubles (in 2015 – 245,317.0 thous. rubles). 227 claims were submitted to the law enforcement agencies (in 2015 – 192 claims). Following the investigation, law enforcement agencies initiated 35 criminal cases, convicted 4 persons; disciplinary sanctions were applied to 207 employees of PJSC MOESK, 15 employment agreements were terminated. As of the end

of reporting period, procedural investigations on 108 claims were conducted, including in connection with appeal and cancellation of unjustifiably adopted decision on refusal to initiate criminal proceedings.

#### – What is your opinion on the year results within the context of the Company activity?

– From my point of view, in 2016 PJSC MOESK successfully fulfilled all the requirements of the Anticorruption Policy of PJSC MOESK, performed necessary activities to prevent, identify and recover the economic losses of PJSC MOESK. Special attention in 2016 was paid to identification of unauthorized consumption of electric power, procurement activities, and connection of consumers to the electric grids of PJSC MOESK.

Joining in 2015 to the Anticorruption Charter of Russian Business (certificate dated May 25, 2015 No. 2087) proves the ambition of PJSC MOESK to comply with the requirements of the international laws, Russian legislation in the area of prevention and control of corruption, high ethical standards of open and honest business. Results of the year 2016 confirm progressive advance in this direction.

#### – What are plans and forecasts for 2017?

– The main goal for 2017 is further improvement of economic efficiency of security divisions and corruption control.



## Principles of PJSC MOESK Anticorruption Policy

- Compliance with the Anticorruption Policy, active legislation and generally accepted rules
- Compliance with legitimate rights and interests, protection of goodwill of employees, partners, counterparties and other persons, compliance with the regime of trade secret when exercising anticorruption activities
- Personal example on the part of the management board in forming the intolerance towards corruption and creating the internal system of prevention (prophylactics) and control of corruption
- Involvement and awareness of employees of an organization about principles of anti-corruption law, their active participation in formation and implementation of anticorruption standards and procedures
- Responsibility and inevitability of punishment of PJSC MOESK employees without distinction of the held position, work experience and other conditions in case of his/her commitment of corruptive delinquencies in connection with execution of employment duties
- Openness of business: information sharing with partners, counterparties and community about anticorruption standards of business adopted in PJSC MOESK

## Objectives of PJSC MOESK Anticorruption Policy

- Compliance with the requirements of article 13.3 of the Federal Law “Concerning Corruption Control”
- Execution of compliance control, including anticorruption compliance control
- Creation of efficient legal mechanisms on corruption prevention and control
- Prevention of corruptive and other delinquencies, provision of responsibility for corruptive and other delinquencies
- Minimization of involvement risk of PJSC MOESK into corruptive activity
- Formation of anticorruption corporate consciousness and behavior

## Anticorruption Activities in 2016 and their Results

### Key areas of focus for the Security Department in 2016:

- Support of the expensive investment projects in accordance with the PJSC MOESK capital construction and repair program
- Identification, prevention and recover of financial damages of PJSC MOESK in connection with its procurement activities and technological connections of consumers
- Implementation of algorithm for identification of unauthorized power consumption and recovery of the costs of electric power utilized by unfair consumers without concluded contracts
- Organization of interaction with the law enforcement authorities in connection with identification, exposure and prevention of financial crimes
- Increase of interaction level with PJSC “Mosenergosbyt” and OJSC “Energoaudit” within the frames of work on identification and collection of cost of energy consumption without contract
- Usage of possibilities of mass media for prophylactics of corruptive delinquencies and increase of the level of legal awareness of PJSC MOESK employees

In 2016, PJSC MOESK ensured steady functioning of Anticorruption Hot Line: 8(499)951-06-49. Information on this communication channel is posted on the web site of PJSC MOESK in the section “We are Against Corruption”. The Anticorruption Hot Line operates 24/7. Information on corruption cases can also be submitted via the web site of PJSC MOESK in the section “We are against corruption” / “Ask a question”. A number of activities were performed in 2016 to improve work with applications received by the “Anticorruption Hot Line” of PJSC MOESK.

### Main results of activity in the part of Anticorruption Compliance Procedures:

1) Analysis of anticorruption indicators is conducted on a regular basis using the Automated Information System for Technological ConnectionControl (AIS TCC) to identify corruption risks of the business process “Technological connections to the electric grids of PJSC MOESK”. Investigations were carried out in respect to 846 claims being in high-risk zone.

Monitoring of corruption risks of PJSC MOESK was carried out in relation to all business processes of the Company and, accordingly, in relation to all divisions and partners included into these processes.

### In 2016, PJSC MOESK ensured steady functioning of Anticorruption Hot Line: 8(499)951-06-49

2) In the part of anticorruption control of interactions with counterparties in the reporting period, the Company carried out checks of the information about owners in relation to 3,145 counterparties on 18,738 consumption agreements. The results of checks were submitted on a monthly basis to PJSC “Rosseti” and were downloaded into “Automated System of Analysis and Collection of the Information on Beneficiaries” (AS ACIB) of PJSC “Rosseti”.

3) Department of Anticorruption Compliance Procedures carried out agency checks / investigations, including on citizens’ claims. In the reporting period, 11 investigations on the instruction of PJSC “Rosseti” were executed, 4 investigations by order of the Director General of PJSC MOESK and 42 investigations by order of the First Deputy of the Director General for Corporate Protection and Corruption Control of PJSC MOESK.

4) PJSC MOESK organized and carried out the declaration campaign related to the conflict of interest of employees for 2015 (declaration campaign is

carried out for the previous period). In the reporting year, 4,773 employees of PJSC MOESK were declared, in relation to whom the Company conducted checks on reliability of the submitted information.

The Department of Anticorruption Compliance Procedures organizes and ensures the activity of PJSC MOESK Committee on compliance with the standards of corporate ethics and conflict of interest management (2 meetings were held, 4 recommendations from the Committee were implemented under its control).

Information checks are executed on a regular basis, stated in declarations of conflict of interests of candidates upon employment to PJSC MOESK

for the positions of heads and administrative and managerial staff in the presence of signs of a preconflict situation and/or conflict of interests. In the reporting period, the Department of Anticorruption Compliance Procedures checked 57 candidates.

The Company carried out regular training of all newly hired employees on the program “Corruption Prevention and Control in PJSC MOESK”.

5) Within the frames of participation in procurement, the Department of Anticorruption Compliance Procedures implemented compliance expertises of applications from procurement participants on a regular basis.

During the reporting period 4,097 checks of applications from participants were carried out. As a result, 788 facts of non-compliance with requirements of organizational and administrative documents of PJSC MOESK were detected, as well as 7 facts of participants affiliation, as well as 1 fact of the conflict of interests.

6) In the area of prevention of unauthorized use of insider information and market manipulation, the Company ensured organization the insider information handling in compliance with the requirements of the Federal Law dated July 27, 2010 No. 224-FZ "On Prevention of Unauthorized Use of Insider Information and Market Manipulation and on Amendment of Certain Legal Acts of the Russian Federation".

on September 21, 2012 by the RF Chamber of Commerce and Industry, Russian Union of Industrialists and Entrepreneurs, Russian Public Organization "Business Russia" and Russian Public Organization "OPORA Rossii";

- participation of representatives of PJSC MOESK as experts in the course of anticorruption activities organized by the RF Chamber of Commerce and Industry and Moscow Chamber of Commerce and Industry.

In order to ensure compliance with the anticorruption law of the Russian Federation, improve the anticorruption activities of PJSC MOESK and fulfil the Ordinance of PJSC "Rosseti" No. 308r dated July 27, 2016 On Amendment of

# 4,773

employees  
declared absences of the conflict of interest

the Ordinance of PJSC "Rosseti" No. 413r dated August 21, 2015, the Company approved the Anticorruption Clause (order No. 990 dated August 17, 2016) which shall be included into all new contracts.

In 2016, no confirmed cases, as well as possible facts of corruption and other corruptive abuse was detected. PJSC MOESK employees were not brought to criminal, administrative or disciplinary responsibility for violations connected with corruption.

7) The following activities were performed in the field of common initiatives for corruption control and prevention:

- interaction with representatives of Russian business community in connection with implementation of the Anticorruption Charter of Russian Business, approved

### Main tasks of PJSC MOESK for 2017 in detection and prevention of corruption are the following:

Implementation of common measures in cooperation with law enforcement agencies and special services, aimed at decriminalization of power grid complex of the Moscow area.

Execution of organization and technical measures to ensure safety of electric grid facilities of the Company during the period of preparation and holding of FIFA Confederations Cup in 2017 and FIFA World Football Cup in 2018.

Organization of cash inflow to the account of PJSC MOESK for unauthorized consumption of electric power in total amount at least 380 mln rub.

Exclusion of interference acts into the activity of key feed centers, providing power supply of strategically important and socially significant facilities in Moscow in case of unauthorized entry to the facility.

Increase of the recovery level of the economic losses inflicted on the Company up to the level of 0.44 (44%) and the level of prevention of economic losses by the Company up to the level of 0.35 (35%).

Achievement of the level of overdue accounts receivable (OAR) for electric power transmission services as of December 31, 2017 not higher than 3,175.6 mln rub., taking into account OAR, formed in 2017, including decrease of OAR for electric power transmission services, formed up to December 31, 2016 to 1,394 mln rub.

Approval of the corrected Investment Program of PJSC MOESK taking into account Target programs of the Company in the direction "Realization of the facilities in the framework of preparation for the FIFA World Cup 2018".

# 5. Annexes

## 5.1. GRI Content Index

Code	Description	Disclosure level	Reference to the section of the Report
<b>Organization Profile</b>			
102-1	Name of organisation	Full	1.1. General Information
102-2	Description of activities, major products and/or services and related brands	Full	1.1. General Information
102-3	Location of organization's headquarters	Full	1.1. General Information
102-4	Number of countries where the organization operates	Full	1.2. Region of Presence (in full version of Annual Report 2016)
102-5	Nature of ownership and legal form	Full	1.1. General Information
102-6	Markets served	Full	1.2. Region of presence (in full version of Annual Report 2016)
102-7	Scale of the reporting organization	Full	1.1. General Information
102-8	Information about employees and workers	Full	3.5.1. HR Policy
102-9	Organization's supply chain	Full	1.3. Business Model
102-10	Significant changes in the reporting organization and its supply chain	Full	1.1. General Information
102-11	Addressing of precautionary approach	Full	3.2. Environmental Policy
102-12	External initiatives	Full	3.5.2. Social Policy 4.5. Anticorruption Policy and Corporate Ethics
102-13	Participation in associations	Full	1.1. General Information
<b>Strategy and Analysis</b>			
102-14	Statement of the most senior person making decisions in the organization	Full	Address from the Chairman of the Board of Directors Interview of the Director General
102-15	Description of key impacts, risks and possibilities	Full	4.3.3. Risk Management System

Code	Description	Disclosure level	Reference to the section of the Report
<b>Ethics and Integrity</b>			
102-16	The organization's values, principles, standards and norms of behaviour	Full	1.1. General Information
<b>Corporate Governance</b>			
102-18	Structure of Corporate Governance System	Full	4.1. Corporate Governance System
<b>Stakeholder Engagement</b>			
102-40	List of stakeholders	Full	3.1. Stakeholder Engagement
102-41	Collective Agreements	Full	3.5.2. Social Policy
102-42	Basis for identification and selection of stakeholders	Full	3.1. Stakeholder Engagement
102-43	Organization's approach to stakeholder engagement	Full	3.1. Stakeholder Engagement
102-44	Key topics and concerns that have been raised through stakeholder engagement	Full	3.1. Stakeholder Engagement
<b>Identified Material Aspects and Boundaries</b>			
102-45	List all entities included in the organization's consolidated financial statements	Full	2.2.2. Financial Results according to the IFRS
102-46	Process for defining the report content and the aspect boundaries	Full	3. Sustainable Development
102-47	List all the material aspects	Full	3. Sustainable Development
102-48	Restatements of information	Full	No restatements of information were made
102-49	Significant changes in reports	Full	No changed were made in the scope and aspect boundaries
<b>Information about the Report</b>			
102-50	Reporting period	Full	About the Report
102-51	Date of most recent previous report	Full	About the Report
102-52	Reporting cycle	Full	About the Report
102-53	Contact person for questions regarding the report	Full	Contact Information

Code	Description	Disclosure level	Reference to the section of the Report
102-54	Information of execution of the report in accordance with the GRI standards	Full	About the Report
102-55	GRI Content Index	Full	5.1. GRI Content Index
102-56	External assurance	Full	The report was not directed for external assurance
<b>Management approach</b>			
103-1	Description of material aspects and their management	Full	About the Report
103-3	Evaluation of approaches in the field of management	Full	1.5. Key Performance Indicators 4.2.5. Director General
<b>Category "Economic"</b>			
<b>Economic Performance</b>			
103-2	Management approach	Full	2.2.2. Financial Results according to the IFRS
201-1	Direct Economic Value Generated and Distributed	Full	2.2.2. Financial Results according to the IFRS
201-3	Organization's obligations associated with pension plans, established payments and benefits	Full	3.5.2. Social Policy
<b>Indirect Economic Impact</b>			
103-2	Management approach	Full	2.6. Investment Activities
203-1	Investment into infrastructure and gratuitous services	Full	2.6. Investment Activities
<b>Anticorruption</b>			
103-2	Management approach	Full	4.5. Anticorruption Policy and Corporate Ethics
205-1	Divisions assessed for risks related to corruption	Partial	4.5. Anticorruption Policy and Corporate Ethics
205-2	Communication and training on anti-corruption policies and procedures	Full	4.5. Anticorruption Policy and Corporate Ethics
205-3	Confirmed incidents of corruption and actions taken	Full	4.5. Anticorruption Policy and Corporate Ethics

Code	Description	Disclosure level	Reference to the section of the Report
<b>Category "Ecological"</b>			
<b>Energy</b>			
103-2	Management approach	Full	3.2. Environmental Policy
302-1	Energy consumption within the organization	Full	3.3. Energy Efficiency and Power Consumption
302-4	Reduction of energy consumption	Full	3.3. Energy Efficiency and Power Consumption
302-5	Reductions in energy requirements of products and services	Full	3.3. Energy Efficiency and Power Consumption
<b>Water</b>			
103-2	Management approach	Full	3.2. Environmental Policy
303-1	Water withdrawal by source	Full	3.2. Environmental Policy
303-2	Water sources significantly affected by withdrawal of water	Full	3.2. Environmental Policy
303-3	Percentage and total volume of water recycled and reused	Full	3.2. Environmental Policy
<b>Biodiversity</b>			
103-2	Management approach	Full	3.2. Environmental Policy
304-1	Operational sites owned, leased, managed in, or adjacent to protected areas and areas of high biodiversity value outside protected areas	Full	3.2. Environmental Policy
304-2	Description of significant impacts of activities, products, and services on biodiversity	Full	3.2. Environmental Policy
304-3	Habitats protected or restored	Full	3.2. Environmental Policy
304-4	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Full	No data
<b>Emissions</b>			
103-2	Management approach	Full	3.2. Environmental Policy

Code	Description	Disclosure level	Reference to the section of the Report
305-1	Direct greenhouse gas emissions	Full	3.2. Environmental Policy
305-2	Energy indirect greenhouse gas emissions	Full	Accounting of energy indirect greenhouse gas emissions is not performed
305-3	Other indirect greenhouse gas emissions	Full	Accounting of other indirect greenhouse gas emissions (motor vehicle emissions) is not performed
305-4	Greenhouse gas emissions intensity	Full	Greenhouse gas emissions intensity is not calculated
305-5	Reduction of greenhouse gas emissions	Partial	3.2. Environmental Policy
305-6	Emissions of ozone-depleting substances	Full	No emissions of ozone-depleting substances
305-7	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions	Full	3.2. Environmental Policy
<b>Effluents and Waste</b>			
103-2	Management approach	Full	3.2. Environmental Policy
306-1	Total water discharge by quality and destination	Full	3.2. Environmental Policy
306-2	Total weight of waste by type and disposal method	Full	3.2. Environmental Policy
306-3	Significant spills	Full	No significant spills at PJSC MOESK facilities were recorded in 2016
306-4	Transportation of hazardous waste	Full	PJSC MOESK does not perform international shipments, including import, export, or waste treatment
306-5	Water bodies significantly influenced by water discharges and runoff from the organization territory	Full	PJSC MOESK does not discharge waste water-to-water bodies
<b>Compliance</b>			
103-2	Management approach	Full	3.2. Environmental Policy
307-1	Non-compliance with environmental laws and regulations	Full	3.2. Environmental Policy

Code	Description	Disclosure level	Reference to the section of the Report
<b>Category “Social” – Labor Practices and Decent Work</b>			
<b>Employment</b>			
103-2	Management approach	Full	3.5.1. HR Policy
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Full	3.5.2. Social Policy
<b>Labor/Management Relations</b>			
103-2	Management approach	Full	3.5.1. HR Policy
<b>Occupational Health and Safety</b>			
103-2	Management approach	Full	3.4. Occupational Health and Safety
403-2	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work related fatalities, as well as total number of work-related accidents	Partial	3.4. Occupational Health and Safety
403-3	Workers with high incidence or high risk of diseases related to their occupation	Full	3.4. Occupational Health and Safety
403-4	Health and safety topics covered in formal agreements with trade unions	Full	3.4. Occupational Health and Safety
<b>Training and Education</b>			
103-2	Management approach	Full	3.5.1. HR Policy (in full version of Annual Report 2016) 3.5.2. Social Policy
404-2	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Full	3.5.1. HR Policy
404-3	Percentage of employees receiving regular performance and career development reviews	Partial	3.5.1. HR Policy

Code	Description	Disclosure level	Reference to the section of the Report
<b>Category “Social” – Society</b>			
<b>Public Policy</b>			
415-1	Political contributions	Full	No financial contributions or in-kind contributions were made for political purposes
<b>Standard disclosures for the electricity sector</b>			
<b>Category “Economic”</b>			
G4-EU4	Length of above and underground transmission and distribution lines by regulatory regime	Full	1.2. Structure of Electric Grids Assets
G4- DMA (earlier EU8)	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development	Full	2.7. Technologies and Innovations
G4-EU12	Transmission and distribution losses as a percentage of total energy	Full	3.4. Energy Efficiency and Power Consumption
<b>Category “Social” – Society</b>			
G4- DMA (earlier EU21)	Contingency planning measures, disaster/emergency management plan and training programs, and recovery/restoration plans	Full	3.4. Occupational Health and Safety in full version of Annual report
G4-EU25	Number of injuries and fatalities to the public involving the Company assets including legal judgments, settlements and pending legal cases of diseases	Full	3.4. Occupational Health and Safety
G4-EU28	Power outage frequency (SAIFI)	Full	2.5. Improvement of Reliability
G4-EU29	Average power outage duration (SAIDI)	Full	2.5. Improvement of Reliability



## 5.2. Glossary of Main Terms and Abbreviations

### List of Main Abbreviations and Acronyms Used in the Annual Report

RAB (Regulatory Asset Base)	– method of tariff regulation based on return on invested capital	Russian Ministry of Energy	– Russian Federation Ministry of Energy
Smart Grid	– smart grid technology	MICEX	– Moscow Interbank Currency Exchange
AIIS KUE	– automated measuring and information system for electric power fiscal metering	IDGC	– Interregional Distribution Grid Company
OPL	– overhead power line	IFRS	– International Financial Reporting Standards
FOL	– fiber optic lines	VAT	– Value Added Tax
AGMS	– annual General Meeting of Shareholders	RDED	– Research, development and experimental design activities
SCC	– subsidiary and controlled companies	R&D	– Research and development activities
Uniform (“joint”) tariff	– price (tariff) for electric power transmission services used for settlements with service consumers (excluding grid companies) located in the corresponding constituent entity of the RF and belonging to a group (category) which is subject to differentiation of tariffs for electric energy (power) in accordance with the RF law, regardless of the electric grid company to which they are connected, unless otherwise stipulated by the RF Government resolution	WGC	– Wholesale generating company
Stakeholder	– In the broad sense: a group of individuals or legal entities capable of impacting the company activities or depending on the company activities. In the narrow sense: public authorities and local self-governing authorities, commercial companies, social and non-commercial organizations and units (including informal) position of which in relation to the Company activities is publicly expressed and aimed at protection of socially significant and group interests.	FWP	– fall/winter period
IT	– Information Technologies	pp	– percentage point
OCL	– overhead cable line	subp.	– subparagraph
CL	– cable line	SS	– station rated for 35 kV and above
KPI	– Key Performance Indicators	RAS	– Russian Accounting Standards
TPL	– transmission power line	Global Reporting Initiative, GRI	– Sustainability Reporting Standards by Global Reporting Initiative defining the principles which determine the report content and ensure reporting data quality; standard reporting elements which consist of effectiveness indicators in the field of economic, environmental, social impact of the organization, approaches to impact management and other characteristics as well as recommendations on specific report technicalities.
		PGR	– Power Grids Region
		CAD	– Computer-Aided Design
		SSIC	– self-supporting insulated conductors
		MM	– mass media
		M&R	– maintenance and repair
		TC	– technological connection

R&R	– retrofit and revamp
LGO	– Local Grid Operator
TS	– Technical Specifications
FEC	– Fuel and Energy Committee
CHP	– Combined heat and power plant
FAS of Russia	– Federal Antimonopoly Service of Russia
GFC of UES of Russia	– Federal Grid Company of Unified Energy System of Russia
FFMS	– Federal Financial Markets Service (liquidated on September 1, 2013, the functions were assigned to the Financial Markets Service within the Bank of Russia)

### Units of Measurement

ha	– hectare
kV	– kilovolt
MW	– megawatt
kVA	– kilovolt-amperes
MVA	– megavolt-ampere
kW·h	– kilowatt-hour
km	– kilometer
kop.	– kopeck
MW·h	– megawatt-hour
mln	– million
bln	– billion
RUB	– ruble
t	– ton
ref. fuel	– reference fuel
c.u.	– conventional unit
ea.	– pieces

## Disclaimer

The annual report of Public Joint-Stock Company Moscow United Electric Grid Company (hereinafter referred to as PJSC MOESK, the Company) for 2016 (hereinafter referred to as the Annual Report) is prepared based on the information available to the Company at the time of preparation hereof.

The Annual Report contains the information about the Company's performance in 2016 and forecasted data, statements of intentions, opinions or current expectations of the Company concerning its performance, financial position, liquidity, prospects of growth, strategy, and development of the industry in which the Company operates. Such forward-looking statements are inherently related to risks and uncertainty because they depend on events and circumstances that may or may not happen in the future.

Words "intends", "aims", "expects", "estimates", "plans", "considers", "assumes", "can", "shall", "will be", "will continue" also others similar

words and phrases are usually indicative of estimated nature of the statement and may assume the risk that the specified event will not happen due to various factors.

The Company informs the readers that the forward-looking statements are not a guarantee of future performance. The actual performance of the Company, its financial position and liquidity, as well as the development of the industry in which it operates may considerably differ from the forward-looking statements contained in the Annual Report. Moreover, even if the performance and events will match the forward-looking statements contained in the Annual Report, such performance and events shall not be considered as an indicator of similar results and events in the future.

In addition to the official information about the Company's performance, the Annual Report contains the information received from third parties. Such information is received from sources that are considered reliable by

the Company. However, the Company does not guarantee accuracy of the information received from third parties that may be summarized or incomplete.

The Company does not give any express or implied guarantees and does not assume any liability for any direct or indirect losses that may be incurred by physical persons or legal entities as a result of use of the forward looking statements contained in the Annual Report. Such persons and entities shall not fully rely on the forward-looking statements contained in the Annual Report as they do not represent the only possible case scenario.

Unless otherwise provided by the laws of the Russian Federation, the Company will not assume an obligation to review or confirm expectations and estimates or publish updates and amendments to the forward-looking statements contained in the Annual Report as a result of occurrence of certain events or obtaining of new information.

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