



**ROSSETI**  
NORTH-WEST



Annual report 2019  
**SUSTAINABLE DEVELOPMENT**

# INTEGRATED ANNUAL REPORT 2019 OF PJSC IDGC OF THE NORTH-WEST

## OVERVIEW OF THE REPORT

The present 2019 Annual Report of PJSC IDGC of the North-West (hereinafter – the Annual Report, the Report) was compiled on the basis of the information available to the Company as of the moment of its preparation.

The Report reflects the performance of PJSC IDGC of the North-West, its branches, subsidiaries and affiliates.

Within this Report, PJSC IDGC of the North-West is also referred to by the terms “ROSSETI North-West” (due to the transition to the unified brand architecture from June 2019), “we”, “the Company” and “the Issuer”.

The Report discloses production and financial performance results and contains an overview of corporate and social responsibility activities in 2019. Unless otherwise stated, the financial indicators in the Annual Report are provided and calculated on the basis of the IFRS consolidated financial statements. The performance data shown in this document represent consolidated data of the IDGC of the North-West Group.

The Report was prepared in line with international and Russian standards and regulatory requirements, as well as PJSC ROSSETI requirements to the reporting of its subsidiaries.



Moreover, the Report also tackles activities aimed at reaching the UN sustainable development goals.

Details of the Report, the process of its development and materiality definition, as well as responsibility for the information disclosed in the Report, see the section “About the Report”.

## KEY FOCUS

The key focus of the Report is “Responsible Development”. We aim to present ROSSETI North-West as a socially responsible advanced company with convenient services, reliable power supply, meeting highest possible standards of sustainable development, implementing innovative projects, including those of “Digital Transformation 2030”.

## SOME DEFINITIONS AND FORWARD-LOOKING STATEMENTS

Some of the statements herein may include assumptions or forecasts regarding future events in the IDGC of the North-West Group. Such statements are marked by the expressions “plans”, “will be”, “is expected”, “will occur”, “estimates”, “will total”, “will happen” etc., as well as expressions including negation and other similar phrases. These are merely forward-looking statements; the real developments or results may significantly differ from those specified. Numerous factors may cause considerable deviations of the actual performance of the IDGC of the North-West Group from the assumptions or forecasts. The Company is not in any way liable for the damages of individuals or legal entities which they may suffer from their own actions based on the forward-looking statements. Except in cases stipulated by the law, the Company does not take on any commitment to review or verify the expectations and estimates, nor to publish updates or modifications of the forward-looking statements contained herein subject to further events or new information received.

The information about the Company’s management is provided according to Federal Law No. 152-FZ “On personal data” dated 27.07.2006.

Some values in the tables, graphs and diagrams herein may differ from the sum of their components due to rounding.

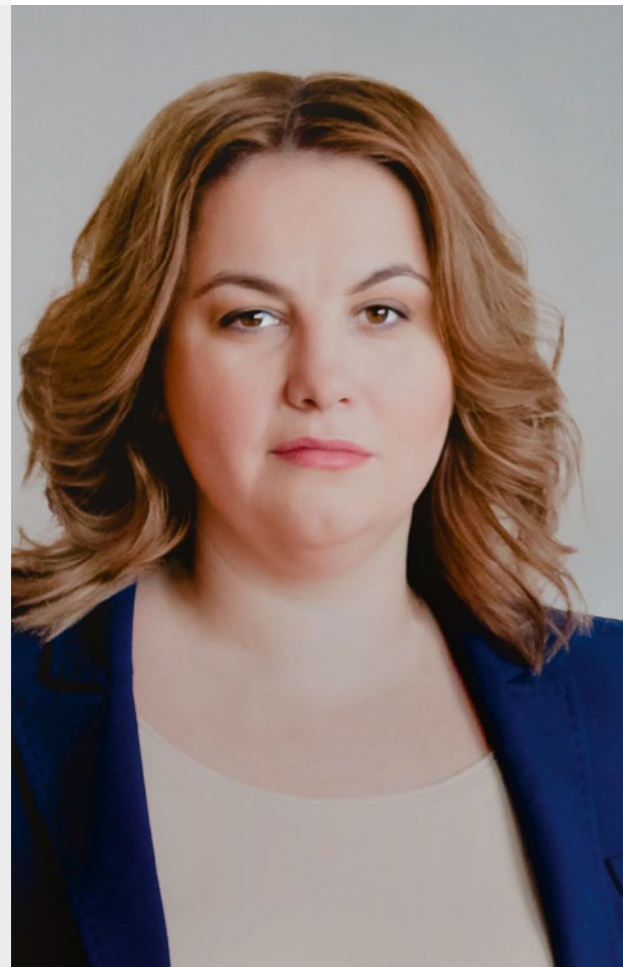
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# ADDRESS

## BY THE CHAIRPERSON OF THE BOARD OF DIRECTORS



### Activities of the Company's Board of Directors

Following the path of dynamic development, the Board of Directors ensured the fulfilment of its key functions: approving plans of activities and monitoring their implementation, defining the risk management principles and principles of the internal control and audit, motivating and assessing the performance of the executive bodies, ensuring implementation and protection of the shareholders' rights.

In order to increase operational efficiency and to conduct spending cuts the Company approved a plan of actions of PJSC IDGC of the North-West aimed at ensure break-even power transmission services rendering operations, as well as compliance of the operating expenses with the level stipulated in the tariff and balance decisions, by each branch of the Company, starting 2019. The activity plan developed by order of the Board of Directors provides a number of measures in various areas of the Company's activities for the period up to 2023.

### Transition of ROSSETI Group to a single brand architecture

PJSC IDGC of the North-West is a part of the ROSSETI Group operating in seven constituent entities of the Russian Federation's North-Western Federal District. A unified federal brand – ROSSETI – is a guarantee of high quality and sustainability for all interest groups, while the reputation capital gained gives managerial and economic preferences, and contributes to creation of added value.

To ensure visual unity with the parent company, promotion of the brand ROSSETI in the regions of the Russian Federation, interrelation of the consumers, representatives of the regional authorities, potential investors and other stakeholders, the Board of Directors made a decision to join the unified corporate brand of PJSC ROSSETI approved by the Board of Directors of PJSC ROSSETI.

## Dear shareholders, partners and colleagues!

**Reviewing the past 2019 reporting year I wish to point out that despite the external and internal adversities, the Company finished the year with a positive financial result: its net profit under IFRS comprises RUB 1,080.7 mln. For the first time in the Company's history, interim dividends were paid for nine months of the reporting year in the amount of RUB 191.6 mln. This decision was based on the Company's acquired stable financial situation.**

### Financial sustainability

Bringing the Company's debt position in line with the target limits as of 31.12.2018 by order of the Board of Directors, including the Company in the solvency group 'A', and compliance with the requirements of the credit policy regulations in 2019 led Analytical Credit Rating Agency (JSC ACRA) to confirm the credit rating 'AA+ (RU)' according to the national rating scale, with the outlook "Stable".

### Corporate Governance

The Company keeps working on improving its corporate governance. According to the assessment of an independent consultant, the performance of the Board of Directors is consistent with the strategic principles of the Company and key recommendations of the Corporate Governance Code. The Company's corporate governance system also complies with the current legislation of the Russian Federation, PJSC Moscow Exchange listing rules and generally corresponds to the best practices of corporate management of the leading Russian companies. For further assessment (self-assessment), a methodology for assessment of the Board of Directors and Committees of the Board of PJSC IDGC of the North-West was approved.

The Company continues the practice of face-to-face meetings of the Board of Directors Committees, and engagement of independent directors in the work of the Board. Thus, three independent directors have worked in the present membership of the Board of Directors.

### The programme of Digital transformation

The priority of the Company for the upcoming period is to implement the programme of digital transformation of PJSC IDGC of the North-West approved by the Board of Directors for the period up to 2030.

Digital transformation, as an engine for development of all sectors, including the energy industry, will ensure growth of the Company's efficiency, improvement of power supply reliability for consumers, increase in accessibility of grid infrastructure, and high-quality fulfilment of the Company's social functions.

I am confident that the efforts of the Board of Directors aimed at improvement of the Company's work quality will ensure further development of the Company and attainment of its objectives.

Sincerely,

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

**O.A. Sergeeva**

## AA+(RU)

The Company's credit rating,  
outlook "Stable"

## RUB 191.6 mln

Interim dividends for  
9 months of 2019

## 3 independent directors

in the present membership of  
the Board of Directors



# ADDRESS BY THE GENERAL DIRECTOR



## Reliable power supply, production results

In terms of climate, the year 2019 was really challenging for the power industry employees. At once several cyclones bringing about abnormal weather conditions hit the territory of ROSSETI North-West branches. The Company's professionals worked day and night in extreme conditions mitigating the consequences of the disasters. I'd like to note that, despite the difficulties, the Company performed its objectives of ensuring reliable power supply to consumers.

In 2019, owing to implementation of operational programmes, the Company reduced the fault rate in 35+ kV grids by 3% against 2018. Overhaul was completed at over 10.5 thousand km of power lines, 15.8 thousand hectares of overhead power lines routes were cleared.

## Investment projects

In 2019, the Company implemented several large investment projects. In the Murmansk Region, power grid infrastructure was completed for power supply to the centre for construction of large-capacity marine facilities. ROSSETI North-West built two 150 kV OL with the length of 56.45 km for this major Russian gas infrastructure facility. A large project was implemented on construction of a digital substation – 110/35/10 kV SS Yuzhnaya with the total capacity of 80 MVA and access lines of 10,35 and 110 kV OL with the total length of 11.55 km in Cherepovets. The commissioning provided the capacity for new residential areas, enterprises and social facilities. Renovation was completed at SS No.283 of 110/10 kV Zavelichye – a crucial power source of Pskov. It ensures power supply to 50 thousand residents of the regional centre and over 20 adjacent communities.

The upgrade of the current facilities and new capacity commissioning are essential for the development of the regions and the growth in the country's economy as a whole. It is important to be proactive in this respect. This should be taken into account in the development of a balanced long-term tariff policy to protect the interests of all stakeholders and align our plans with the regional development programmes.

## Dear shareholders!

**ROSSETI North-West is a key element in the infrastructure of Northwest Russia. The Company's activities underpin reliable and uninterrupted power supply to consumers, daily life of the operations area, economic and social stability.**

## Financial performance

The development of the power grid facilities and arrangement of reliable and seamless power supply to consumers and industrial capacities is impossible without financial stability. The Company ROSSETI North-West made net profit in 2019 again. This indicator under IFRS amounted to RUB 1.08 bln. The total 2019 revenue comprised RUB 49.1 bln. The EBITDA was RUB 7.1 bln.

## Innovations

The Company kept implementing projects on digitalisation of the power grid facilities and the country's economy in general. In 2019, at the Russian Investment Forum and the St.Petersburg International Economic Forum, we signed eight agreements with the regions of operations on strategic partnership within the framework of the concept "Digital Transformation 2030". Thus we laid the foundations for an entirely new level of reliability, efficiency, accessibility, manageability and client focus.

## Plans, objectives, projections for the next year

The Company's performance in 2019 demonstrates that we had mapped out the right way for the development strategy. In the future, we are going to face more demanding, but also more exciting tasks requiring the best possible mobilisation of our internal resources and improvement of our own efficiency. ROSSETI North-West management aims to retain and enhance the economic stability of the Company, as well as the status of a socially responsible business for the benefit of the shareholders and consumers.

Sincerely,

General Director  
PJSC IDGC of the North-West

A.Yu.Pidnik

RUB **1.08** bln

Net profit under IFRS in 2019

RUB **49.1** bln

Total revenue

RUB **7.1** bln

EBITDA

# MODERN SINGLE BRAND ARCHITECTURE

GRI 102-2



“

*ROSSETI consolidates 70% of distribution and 90% of transmission power grids, implementing a unified approach to the management and development of the country's power grid infrastructure, constantly improves the quality of its services, and expands their range.*

*Working under a common brand strengthens the ties among the enterprises of the ROSSETI Group, makes the brand more recognizable in the country and in the industry. It becomes easier and clearer for a consumer to interact with us. Transition to a uniform name is part of a systemic process of a large-scale transformation of all businesses in the holding.*

”

## Pavel Livinsky

General Director of PJSC ROSSETI

### Transition of the ROSSETI Group to a uniform brand architecture

**In June 2019, the St. Petersburg International Economic Forum first saw the uniform branding standard of PJSC ROSSETI and the enterprises within its group. This single corporate identity was approved by the Board of Directors of PJSC ROSSETI on 29 April, 2019.**

Since then all the subsidiaries and affiliates of the transmission and distribution power grid facilities have switched to the single brand architecture in corporate and marketing communications, and have started using new names. These new titles contain the trade mark ROSSETI and a regional or a functional reference.



**The activities related to transition to the single brand architecture were divided into two major stages:**

**Stage I** After the Board of Directors of PJSC ROSSETI approves the unified brand standard, all the subsidiaries and affiliates of the transmission and distribution power grid facilities implemented relevant corporate procedures. Further replacement of brand elements will be conducted at the end of the depreciation periods without any increase in the existing budget and within the scope of the company's approved business plans.

**Stage II** Replacement of the legal names of the subsidiaries and affiliates.

**From the late December 2019, subsidiaries and affiliates of the distribution grids included in the ROSSETI Group launched the change of their legal names in accordance with the new brand architecture.**

### Opportunities of the new brand

#### BEFORE

In early 2019, the Russian power grids did not have a unified identification name that would be easily recognizable and clear for the general public. The trust towards ROSSETI was scattered among the entities of direct subordination; each of them gained reputation in their own sector among consumers, shareholders and contractors. However, the simultaneous existence of 15 brands led to confusion and low awareness amongst people who are not directly connected to the power grid industry. At the beginning of 2019, the brand ROSSETI was considerably undervalued. In fact, this directly affected the quotations of the company at the public capital markets, and did not contribute to the increase in the shareholder income. Highlighting the company identity opened up new opportunities for the future growth of the holding's investment appeal.

#### AFTER

Implementation of the new ideological platform for all the subsidiaries and affiliates and the resulting increase in the recognition of the ROSSETI Group will serve to focus the attention of the stakeholders and the general public all over the world on the activities of the energy holding under the umbrella of a single authoritative brand. Large-scale rebranding will facilitate new opportunities for the growth of the Company's investment appeal in general, its capitalisation and loyalty. Outcomes of the transformations will bring the company closer to the shareholders, and a common brand will symbolise unified standards of performance quality at the ROSSETI Group throughout Russia.

Renaming subsidiaries and affiliates will not lead to any changes in the company's structure and personnel. Moreover, meaningful communication building under the unified brand, along with ROSSETI's initiatives aimed at promotion of the energy industry, will allow to enhance the reputation of the power sector professions and to attract talent. Upon transition to uniform brand architecture, each employee of the Company, regardless of their location, will be able to feel part of a big 220-thousand team, and will be engaged in solving tasks common to the whole energy holding. A unified team of power industry employees joined together by a common goal will be able to achieve even better results.



# 1

# STRATEGIC REPORT

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COMPANY OVERVIEW



EU4

**PRIMARY ACTIVITIES**

The Company ROSSETI of the North-West is the main operator rendering services of power supply and connection to power grids in the

- 📍 Arkhangelsk region
- 📍 Vologda region
- 📍 Murmansk region
- 📍 Novgorod region
- 📍 Pskov region
- 📍 Republic of Karelia
- 📍 Republic of Komi

**FIXED ASSETS**

**177.1 THOUSAND KM.**

the total length of the power transmission lines

**1,180 PCS.**

the number of 35+ kV voltage substations

**19.52 THOUSAND MVA**

the capacity of main substations

➔ For SWOT-analysis of IDGC of the North-West, see page 44

**HISTORY OF THE COMPANY**

The Company was founded in 2004 within the reform of the Russian power industry. PJSC IDGC of the North-West became one of the 14 interregional grid companies. A feature of the Company's operations is strong consumer demand in the regions of its footprint. **The major shareholder is PJSC ROSSETI (55.38%).** More detailed information on the Company's history can be found on the official website: <http://www.mrsksevzap.ru/en/abouthistory>

**GEOGRAPHICAL SCOPE OF THE ACTIVITIES**

ROSSETI of the North-West provides services in

**7 CONSTITUENT ENTITIES**

with a total area of

**1,409,726 SQ. KM.**

(8.23% of the whole territory of Russia)

**5.7 MILLION PEOPLE**

(4% of the whole population)

**NATURAL MONOPOLY**

The Company is a natural monopoly regulated and controlled by the government. The Federal Antimonopoly Service and regional energy commissions separately **set tariffs and quality standards of the services in the constituent states of the Federation, protecting consumer interests.**

COMPANY OVERVIEW



**EQUITY STRUCTURE**

Charter capital  
**9,579**  
RUB MLN

**55.38%**  
PJSC ROSSETI

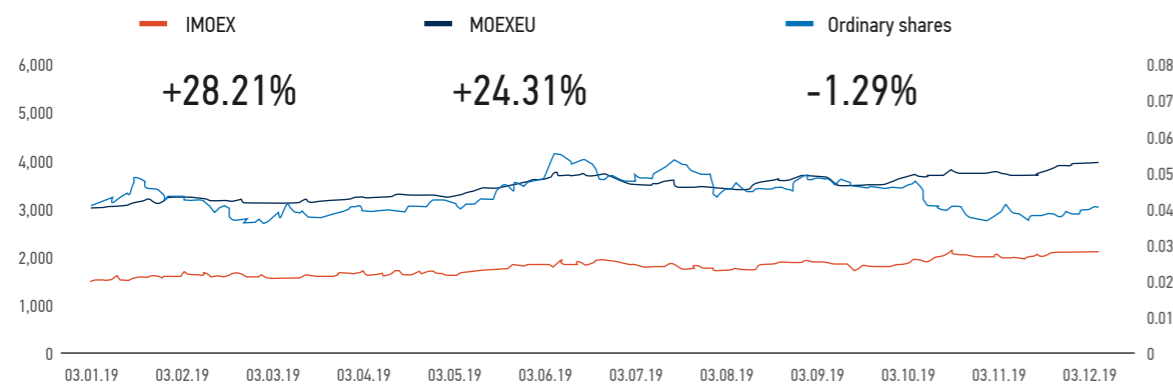


**14.43%**  
ENRGYO SOLUTIONS  
RUSSIA (CYPRUS) LIMITED

**30.19%**  
Other

**SECURITIES MARKET REVIEW**

Trends in the PJSC IDGC of the North-West share prices against the indices of IMOEX and MOEXEU in 2019



**COMPETITIVE ADVANTAGE**

**HIGH LEVEL** of power supply reliability, **LOW LEVEL** of power losses, **INCREASE** in capacity connected, Productivity **IMPROVEMENT**, **STABLE FINANCIAL GROWTH**

**KEY FACTORS**

Market share  
**74%**  
Market share in power supply services in the operations

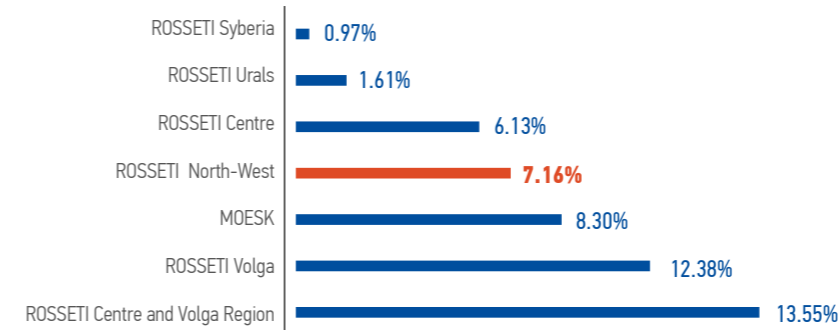
Free-float is  
**30.19%**

**ACRA**  
**AA+(RU)**

OUTLOOK "STABLE"

On 08 August, 2019 Analytical Credit Rating Agency (ACRA) confirmed the Company's credit rating as AA+ (RU), with the outlook "stable".

**DIVIDEND YIELD\***



\* <https://www.moex.com/ru/listing/dividend-yield.aspx>

Capitalisation as of

**5,115**  
RUB MLN

as of 31/12/2019



COMPANY OVERVIEW



CONSUMER INTERACTION

ROSSETI of the North-West offers its consumers a wide range of opportunities for convenient interaction with the Company. **A priority area of relationships with consumers is development of remote services which allow to provide services as quickly as possible.**

EVALUATION OF CUSTOMER LOYALTY AND SATISFACTION

- 4.8** regarding the quality of information provided in the offices
- 4.8** regarding professionalism
- 4.8** regarding friendliness of staff

\* on a five-point scale

PLANS FOR 2020

- **INTRODUCTION AND PROMOTION** of the Portal **ТП.РФ**. (technological connection) mobile application.
- **ORGANISATION** of a unified application channel through a Personal account in the **Portal ТП.РФ**.
- **TRANSITION** of the telephone services to a common number of ROSSETI companies group **8-800-220-0-220**.
- **DEVELOPMENT** of the system for providing additional services.

The official website of ROSSETI of the North-West ([www.mrsksevzap.ru](http://www.mrsksevzap.ru)) is an efficient remote service for consumers that offers the following interactive tools:

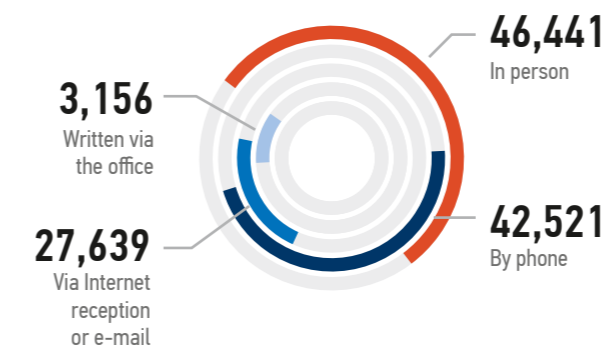
A PERSONAL ACCOUNT OF A CONSUMER

Allows a customer to follow the stages of application processing on technical connection of their power receiving devices from the moment of the application submission till the actual connection and signing of the act on technical connection.

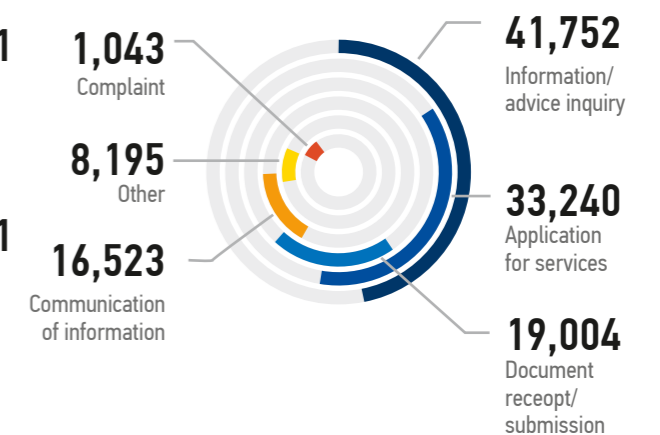
INTERNET-RECEPTION

Allows to send applications and letters of intent on technical connection, to apply for additional services, to send appeals, to fill out consumer questionnaires; and has answers to the frequently asked questions

Distribution of applications by type



Distribution of applications by categories



**119,757**

IN 2019 THE COMPANY RECEIVED CONSUMER APPLICATIONS

COMPANY OVERVIEW



# ENERGY OF THE MODERN BUSINESS

## MAJOR BUSINESS CHOOSES ROSSETI OF THE NORTH-WEST FOR THE IMPLEMENTATION OF ITS PROJECTS



“Energy is the engine of economy, and the need to upgrade regional energy systems by using digital technologies responds to contemporary challenges. This is particularly important when forming a deliberate long-term tariff policy in order to respect the interests of all the parties.”

**Artyom Pidnik**  
General Director of PJSC IDGC of the North-West

Source: <http://www.mrsksevpap.ru/news/?feed=1384336981117&news=1384351954439>

Connected capacity (for Petrozavodsk Airport)

**2.251 MW**

Connected capacity (for Kola Dockyard)

**56.4 MW**

### ENERGY FOR FLIGHT

#### Technical connection of the state institution of the Karelia republic Petrozavodsk Airport

Construction of two PL of 10 kV with the length of 18.01 km with the installation of dual-transformer TS (transformer substations) of 10\6 kV 5 MVA and two CL (cable lines) of 6 kV with the length of 8.7 km in Petrozavodsk city and Prionezhsk region.

The cost of the project is

**RUB 72 mln net of VAT**

- ✓ The facility was put into operation in the 3rd quarter of 2019 for the development of air service of the Karelia Republic in response to the requests of the Government of the Russian Federation of 20/07/2018.

### ENERGY FOR DEVELOPMENT

#### Technological connection of LLC Kola Yard

Construction of OL of 150 kV from L-160 and from L-219 to the electrical substation of 150 kV Belokamenka.

The cost of the project is

**RUB 772 mln net of VAT**

- ✓ The object was put into operation in the 4th quarter of 2019 to provide with electric power a large project of Novatek Company to build a centre for construction of large-capacity marine facilities (CCLCMF – Kola Dockyard) in Belokamenka village on the western coast of the Kola Bay.

COMPANY OVERVIEW



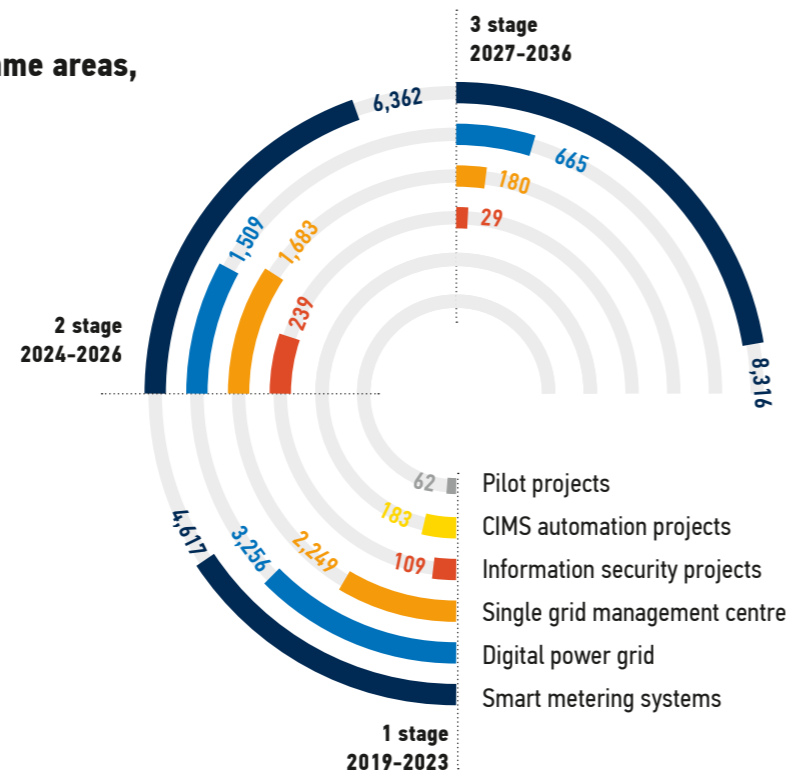
**ROSSETI of the North-West within the Concept 'Digital transformation 2030' implements the 'Programme on Digital Transformation of PJSC IDGC of the North-West 2020-2030'.**

**Digital transformation programme areas, RUB mln incl. VAT**



**THE OBJECTIVE OF THE DIGITAL TRANSFORMATION**

The objective of the digital transformation is a change in the logic of the processes and transition of the Company towards risk-oriented management on the basis of digital technologies implementation and big data analysis.



**EFFECTS AND COSTS OF THE PROGRAMME**

Projected total investment costs till 2030 comprise

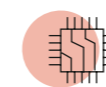
**29,471**  
RUB mln

Expenditures on infrastructure and pilot projects

**8,033**  
RUB mln

Payback period is

**16**  
years



**DIGITAL TRANSFORMATION OF ROSSETI OF THE NORTH-WEST**

In 2019 implementation of the first stage projected for 2019-2020, and implementation of the second stage projected for 2019-2021, **within a pilot project on digital transformation 'Digital overhead power transmission line 110 kV'** has started. The following systems of remote monitoring and fault location of overhead lines have been installed and introduced:



**Monitoring of wire tension and lightning protection cables**



**Determination of the existence of icy conditions and sticking of sleet**



**Temperature measurement of the wire and ambient air**



**Smart indicators of short circuit**




COMPANY OVERVIEW



The main activity of the Company (transmission and distribution of electric power through power grids) affects our environment insignificantly. **Nevertheless we aim to organise our work in a way to minimise any adverse environmental impacts.**

 **Certification ISO 14001:2015**  
The Company achieved certification of the ecological management ISO 14001:2015

 **20.21 RUB mln**  
is the amount of environmental protection costs and investments

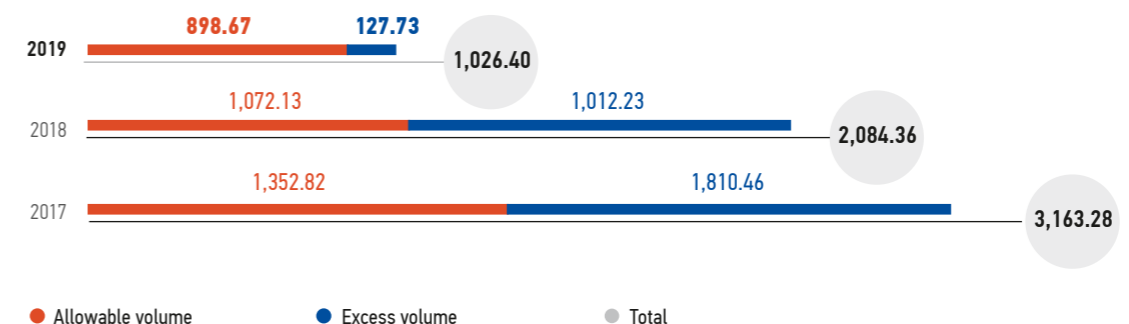
 **560.267 tonnes**  
is the amount of total air pollutant emissions in 2019

 **1,298 items**  
of bird protection devices (in total the Company has installed 4,862 items since 2015)

 **PRACTICES IN THE AREA OF ENVIRONMENTAL PROTECTION**

- ✓ **DECOMMISSIONING** of the equipment containing polychlorinated biphenyls
- ✓ **EQUIPPED** waste storages
- ✓ **SUBSTITUTION** of oil circuit breakers by vacuum and sulfur hexafluoride circuit breakers, which has allowed to decrease environmental pollution by transformer oil
- ✓ **ANALYTICAL CONTROL** of pollutant air emissions from stationary sources, conduction of instrumental measurements
- ✓ **RESTORATION** of oil receivers, oil lines, and devices for backup oil collectors
- ✓ **EQUIPMENT** of overhead lines of 35 kV and higher with bird protection device
- ✓ **TRANSMISSION OF WASTE** of I-IV danger classes to specialised organisations
- ✓ **CONSTRUCTION AND RECONSTRUCTION** of OPL 0.4-10 kV with the substitution of bare wire by self-supporting insulated wire

The pattern of payments for negative impact on the environment, thousand rubles



COMPANY OVERVIEW



ROSSETI of the North-West understands and accepts that its activities can have an impact in the regions of the Company's operation, and therefore states that the Company's **major priority is taking care of its colleagues and residents of the regions. Besides, the Company aims at organisation of its activities in a way to minimise any kinds of injuries among its employees, contractor personnel, and residents of these regions.**

 **COMMITMENT TO THE UN SUSTAINABLE DEVELOPMENT GOALS**



The company operates according to the UN sustainable development goals (SDGs).

**Reliable power supply makes a significant contribution for the achievement of the following SDGs.**

 **ISO CERTIFICATION**

In 2019 the Company successfully passed an inspection of the current quality management system of the Company conducted by certifying authorities for compliance with the requirements of ISO 9001:2015 (GOST ISO 9001-2015). Following the inspection it was concluded that QMS of the Company is being preserved and developed in accordance with the principle of continuous improvement.

The Company has planned transition to international standards of the development of health protection and staff security management systems ISO 45001. The top management of the Company completed trainings on the good practices regarding safety management on the basis of this standard.

 **COLLECTIVE AGREEMENT**

The Company acts in line with the Collective Agreement worked out to optimise the system of remuneration, financial incentives, benefits, compensations and guarantees for the employees of "Rosseti North-West".

According to experts the Collective agreement of ROSSETI of the North-West allows to maintain stability in the Company, and guaranties social security of the employees.

“  
The document signed today proves our status of a socially responsible company. I am confident that this agreement will become an efficient tool for supporting employees.”  
”

**Artem Pidnik**  
General Director of PJSC IDGC of the North-West

Source: <http://www.mrsksevpap.ru/news?feed=1384336981117&news=1384353643156>

 **GENDER DISTRIBUTION OF STAFF**

	THE BOARD OF DIRECTORS	THE MANAGEMENT	STAFF
MEN	<b>73%</b> (8)	<b>63%</b> (5)	<b>78.5%</b> (11,447)
WOMEN	<b>27%</b> (3)	<b>38%</b> (3)	<b>21.5%</b> (3,132)

**100%** is percentage of the personnel covered by the agreement

**5.13%** is active turnover of the company



KEY PERFORMANCE INDICATORS

# KEY INDICATORS OF THE YEAR

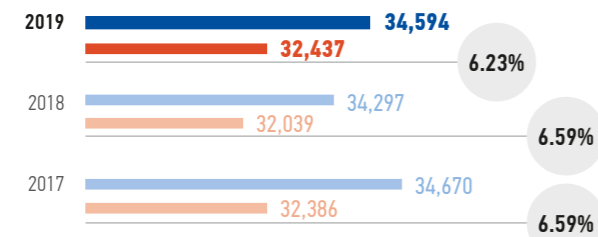
In 2019, ROSSETI of the North-West again proved its financial stability, net profit of the Company according to international financial reporting standards was RUB 1.08 bln.

While successfully overcoming various challenges, including abnormal weather conditions, the Company managed to fulfil all the entrusted obligations regarding power supply to its consumers.

During the reporting period ROSSETI of the North-West implemented a number of large investment projects and continued to carry out projects in the field of digitalisation, and thereby increased its level of reliability and effectiveness.

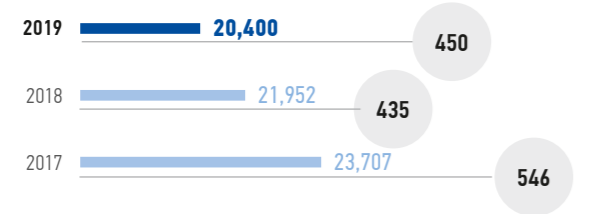
## OPERATIONAL INDICATORS

### Power supply and losses



- Output to grid, kWh mln
- Output from grid to consumers and LGOs, kWh mln
- Power grid losses, %

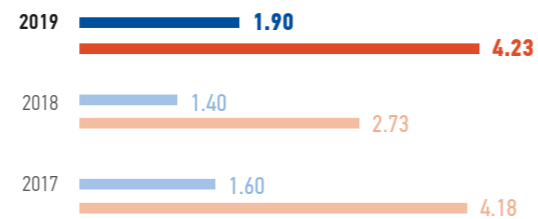
### Technological connection



- Number of contracts completed, items
- Installed capacity, MW

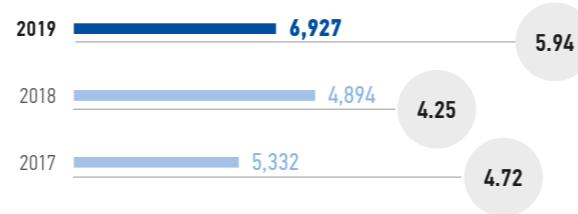
## INDICATORS OF RELIABILITY

### SAIFI and SAIDI

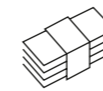


- SAIFI, items
- SAIDI, units

### Rates of accidents at sites, pcs.

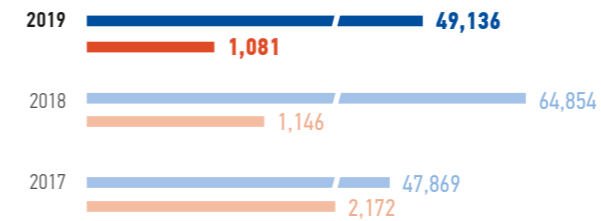


- Number of accidents at the facilities, items
- Unit fault rate at the facilities (accidents per 1,000 conventional units)



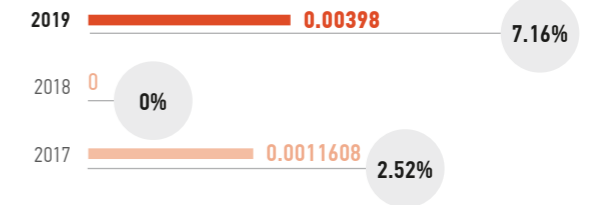
## FINANCIAL INDICATORS

### Revenue, net profit



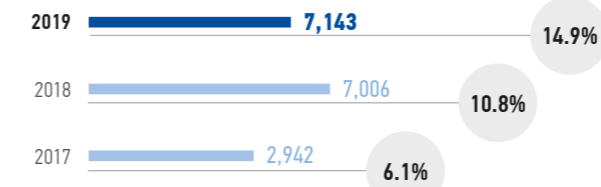
- Revenue, RUB mln
- Net profit, RUB mln

### Dividends



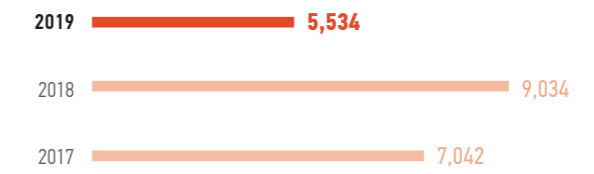
- Dividend per share, RUB
- Dividend yield, %

### EBITDA, profitability of EBITDA



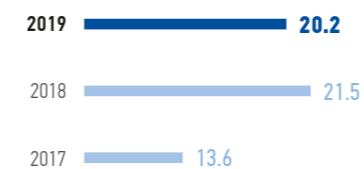
- EBITDA, RUB mln
- EBITDA profitability, %

### Capital investment, RUB mln incl. VAT

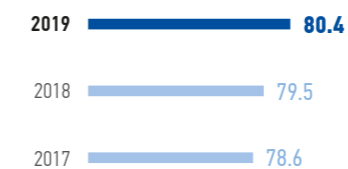


## INDICATORS OF SUSTAINABLE DEVELOPMENT

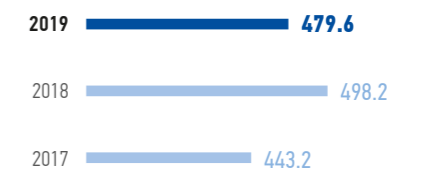
### Expenditures and investments in environmental protection, RUB mln



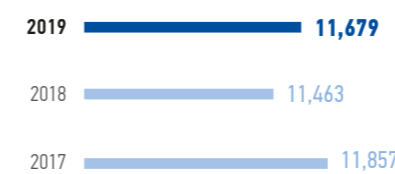
### Labour productivity, conventional units per person



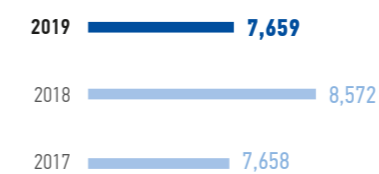
### Expenditures on labour protection, RUB mln



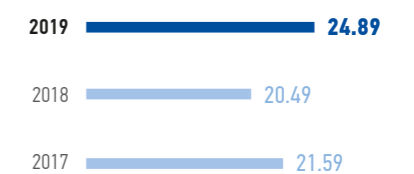
### Greenhouse gas emissions, tonnes



### Taxes and insurance contributions to the budget, RUB mln



### SO<sub>2</sub> emissions, tonnes



KEY PERFORMANCE INDICATORS

# HIGHLIGHTS OF THE YEAR

## INVESTMENT PROJECTS

### Commercial investment projects

ROSSETI of the North-West connected to its power grids LLC Kola Yard and Petrozavodsk International Airport in the Republic of Karelia.



### Large socially significant projects

ROSSETI of the North-West completed the last (fourth) stage of the implementation of its investment project on the construction of the substation 110/35/10 kV Yujnaya with OPG 110/35/10 kV in Zashchekninsk region in the city of Cherepovets in order to ensure development of the city while increasing reliability of the power supply of the current socially significant objects, and of those to be built within the general plan of the city development.



## AGREEMENTS WITH REGIONS

In 2019 within major business forums ROSSETI of the North-West signed eight agreements with the regions on strategic partnership within the Concept 'Digital transformation 2030':

- At the Russian investment forum an agreement on partnership with the Administration of Pskov region was signed;
- At the St. Petersburg international economic forum seven agreements with the heads of the regions of the Company's operation were signed.



## DIVIDENDS OF 2018

Based on the results of 2018 the Company decided to pay dividends in the amount of

**381.7 RUB mln**

(AGM Protocol of 14/06/2019 No. 14).

## DIVIDENDS OF 9M 2019

Based on the results of 9 months of 2019 the Company decided to pay dividends in the amount of

**191.6 RUB mln**

(AGM Protocol of 31/12/2019 No. 15).

## UNIFIED BRAND ARCHITECTURE

In June 2019 the Company started to use for all internal and external communications, and also for all corporate identity carriers the ROSSETI umbrella trademark with a regional reference ROSSETI of the North-West.



## CORPORATE MANAGEMENT

Analytical Credit Rating Agency (ACRA) confirmed the Company's credit rating at AA+ GQ.

**A++ GQ**

The highest level of management quality.



## ANNUAL REPORTS CONTESTS FOR 2018

The annual report of PJSC IDGC of North-West for 2018 was awarded by the Moscow Stock Exchange, Galaxy Awards, MarCom Awards, and LACP.





GEOGRAPHICAL FOOTPRINT

# STRUCTURE AND GEOGRAPHICAL FOOTPRINT

The Company ROSSETI of the North-West operates throughout seven federate entities in the north-west region: the Republic of Karelia, the Republic of Komi, Arkhangelsk, Vologda, Murmansk, Novgorod, and Pskov regions.

**Core business:**

- Power transmission and distribution
- Technological connection

## OVERHEAD POWER GRID 150 KV (58.4 KM)

In 2019 the construction of an overhead power grid 150 kV with the length of 58.4 km was completed in Murmansk region within the agreement on technical connection of LLC NOVATEK-MURMANSK aimed at power supply of the production facilities of the Centre for construction of large-capacity marine facilities (CCLCMF) of LLC NOCATEK-MURMANSK (with a maximum power consumption of 56.4 MW). Governor of Murmansk region Andrei Chibis, Chairperson of the board of PJSC NOVATEK Leonid Mikhelson, General Director of PJSC IDGC of the North-West Artem Pidnik participated in the grand opening ceremony. Construction of energy grid facilities in the region of the western coast of Kola bay contributes to the development of arctic region and energy industry in the arctic zone of Russia.



## SUBSIDIARIES

JSC PSKOVENERGOAGENT	JSC PSKOVENERGOSBYT	JSC ENERGOSERVICE OF THE NORTH-WEST	OJSC LESNAYA SKAZKA
Pskov Region	Pskov Region	Leningrad Region	Republic of Karelia
Share of participation 100%	Share of participation 100%	Share of participation 100%	Share of participation 97.96%
<b>Core business</b> Agent's services for power sales	<b>Core business</b> Power sales	<b>Core business</b> Power facilities servicing	<b>Core business</b> Renting property for health and recreation services

## BRANCHES

Executive bodies	Arkhangelsk Region	Murmansk Region	Republic of Karelia	Pskov Region	Novgorod Region	Vologda Region	Republic of Komi
<b>352 persons</b>	<b>ARKHANGELSK BRANCH</b>	<b>MURMANSK BRANCH</b>	<b>KARELIA BRANCH</b>	<b>PSKOV BRANCH</b>	<b>NOVGOROD BRANCH</b>	<b>VOLOGDA BRANCH</b>	<b>KOMI BRANCH</b>
PL length	<b>26.5</b> thous. km	<b>6.3</b> thous. km	<b>12.0</b> thous. km	<b>45.8</b> thous. km	<b>23.8</b> thous. km	<b>39.3</b> thous. km	<b>22.6</b> thous. km
Substation capacity	<b>3,508</b> MVA	<b>5,521</b> MVA	<b>2,262</b> MVA	<b>3,812</b> MVA	<b>2,699</b> MVA	<b>3,854</b> MVA	<b>4,854</b> MVA
Average headcount	<b>2,788</b> persons	<b>1,182</b> persons	<b>1,391</b> persons	<b>2,269</b> persons	<b>1,550</b> persons	<b>3,206</b> persons	<b>2,899</b> persons

\* More detailed information on involvement of PJSC IDGC of the North-West in the subsidiary business enterprises and other organisations can be found in the Annex 1 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

\*\* Information on the main productive assets can be found in the Annex 2 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

BUSINESS MODEL

# HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

## OUR RESOURCES

	2017	2018	2019
<b>PRODUCTIVE CAPITAL</b>			
Length of the PL, thousand km.	176.1	176.4	177.1
Transformer capacity, MVA	26,741	26,509	26,823
Substations (>35 kV), pieces	1,172	1,176	1,180
<b>INTELLECTUAL CAPITAL</b>			
Intangible assets, RUB mln	28.3	31.6	17.4
Investments to R&D, RUB mln excluding VAT	39.34	12.47	9.61
<b>FINANCIAL CAPITAL</b>			
Equity capital, RUB mln	18,237	19,345	19,811
Borrowed capital, RUB mln	14,334	15,544	15,295
<b>HUMAN CAPITAL</b>			
Average number of employees, persons	14,661	15,627	14,595
Including those with professional education	85.60%	86.50%	87.60%
<b>NATURAL CAPITAL</b>			
Water use, thousand m <sup>3</sup>	149.29	147.19	142.34
<b>SOCIAL AND REPUTATIONAL CAPITAL</b>			
Credit rating of ACRA	-	AA+(RU), out-come stable	AA+(RU), out-come stable
Customer satisfaction level (on a five-point scale)	4.8	4.8	4.8

## OUR VALUES

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

### SHAREHOLDERS' INTERESTS

- Reduction of budget deficit of operational costs
- Development of non-tariff services and increase of the revenue form their implementation
- Productivity growth

### INCREASE OF COMPETITIVENESS

- Streamlining of the logistics system LS and centralization of procurement
- Reduction of energy loss

### DEVELOPMENT INTERESTS

- Achievement of the required tariff level, ensuring the Company's development
- Digital transformation of the activities
- Standardisation of business processes and improvement of the organisational and functional structure
- Efficiency gain of the investment activities

### SUSTAINABLE DEVELOPMENT

- Ensuring of reliable, qualitative and safe power supply of the consumers
- Prevention of growth of injured in the accidents

## STRATEGIC PRIORITIES

## VALUE ENSUREMENT FOR THE STAKEHOLDERS

### SHAREHOLDERS

**1,081 RUB mln** net gain on IFRS  
**6.23%** level of power loss  
**80.4 c.u. per person.** Labour productivity (↑ 8.3%)

### CONSUMERS

**1.316 thousand km.** of PL put into service (↑ 13%)  
**32,437.3 million kWh** is the amount of productive power supply form the grid  
**20.4 thousand pieces** of implemented treaties with **450 MW** connection capacity (↑ 3.5%)

### FINANCIAL ORGANISATIONS

**1,177 RUB mln** payments of interest on the borrowed capital

### SUPPLIERS AND CONTRACTORS

**1,449** is the amount of procurement  
**17,711.1 RUB mln** is the total amount of procurement\*\*

### EMPLOYEES

**9,881.33 RUB mln** costs of salaries  
**218.6 RUB mln** costs on the social field

### STATE BODIES AND LOCAL COMMUNITIES

**7,659 RUB mln** is the amount of taxes and insurance premiums transferred to the budget;  
**164 RUB mln** of investments to the social infrastructure;  
**1.9 RUB mln** of costs on the ecological projects

## CONTRIBUTION TO THE UN GOALS OF SUSTAINABLE DEVELOPMENT



**WE ENSURE POWER SUPPLY** through interregional lines and provide services on technological connection to energy grids\*.

Our major consumers are population, industrial companies, government and social facilities.

**1,298** ▶ **TECHNOLOGICAL CONNECTION**  
 RUB mln

Proceeds from the technical connection services are hard to anticipate due to the changes in the consumers' plans.

**42,931** ▶ **POWER SUPPLY**  
 RUB mln

The greatest part of our revenue is financed by the energy supply tariffs.

## HOW WE MANAGE OUR ACTIVITIES

### Corporate management

We aim to stick to high standards of corporate management and follow best international practice. See details on p. 142

### Corporate values

Our corporate values motivate the employees to achieve best results without prejudice to safety, ecology, and without violation of ethical principles. See details on p. 131

### Risk management

We continually monitor the risks connected to our activities. See details on p. 194.

### Interaction with stakeholders

For compliance with mutual interests there is a continual interaction with the stakeholders. See details on p. 98.

### Labour protection

Reduction of the level of staff injuries at the each stage of production process is the Company's priority. See details on p.119

### Environmental protection

We undertake all possible measures to minimise negative impact on the environment. See details on p. 123.

### Staff development

We promote the staff's professional development in order to increase operational efficiency and motivation. See details on p. 108.

\* Beside major activities the Company also provides other services on power supply.

\*\* Excluding purchases, services regulated by the legislation of the RF (on prices (tariffs), energy supply (transit), energy acquisition to compensate the loss in the grids) and other inevitable purchase form the only supplier (lease of land, heat/water/gas-supply, emergency work).

SUPPLY CHAIN

# SUPPLIERS AND SUPPLY CHAINS



We work with experienced, qualified product suppliers, contractors, work and service providers that have positive business reputation, and we are ready to work with any eligible supplier with positive business reputation who offers shipment of the required products on the best terms.

## SUPPLIERS

In 2019 the Company conducted **1,449 procurement processes** for a total amount of **17.7 bln rubles**.\*

Procurement budget share used for purchase from local suppliers\*\* in the regions of the Company's operation\*\*\* comprises 2.15 bln rubles including VAT (or 12.16% of the actual level (41.75% on the quantity).

### PROCUREMENT VOLUME

New construction and expansion of power grid facilities	251 unit	2,814,362.01 thous. rubles	15.89% % from procurement costs
Reconstruction and technical re-equipment of power grid objects	323 unit	2,327,750.99 thous. rubles	13.14% % from procurement costs
Power repair (repair) production, maintenance	423 unit	2,039,001.51 thous. rubles	11.51% % from procurement costs
IT procurement	129 unit	750,467.12 thous. rubles	4.24% % from procurement costs
R&D	1 unit	17,046.59 thous. rubles	0.10% % from procurement costs
Other procurement (including consulting services)	322 unit	9,762,500.14 thous. rubles	55.12% % from procurement costs

\* Excluding purchases, services regulated by the legislation of the RF (on prices (tariffs), energy supply (transit), energy acquisition to compensate the loss in the grids) and other inevitable purchase from the only supplier (lease of land, heat/water/gas-supply, emergency work).

\*\* Local suppliers in the region of the Company's operation.

\*\*\* Actual cost of the completed purchases from local suppliers in the region of the Company's operation for 2019.

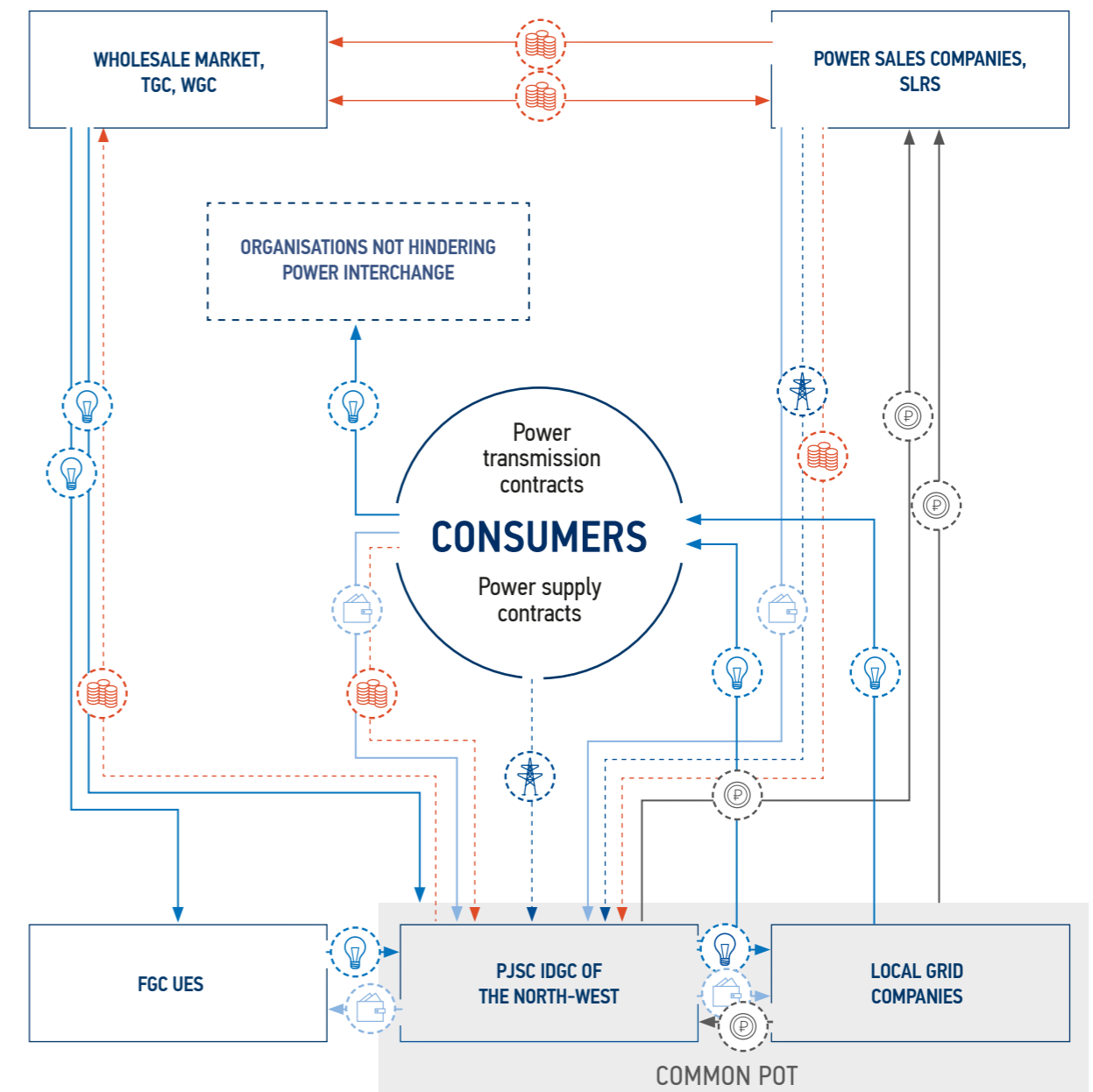
## PLANS FOR 2020

According to the Procurements plan for 2020 it is expected to use

**5,937,769.18**  
thousand rubles including VAT

(according to UIS on 06/03/2020).

## ACTIVITIES OF THE COMPANY AND CONSUMERS





# STRATEGIC DEVELOPMENT GUIDELINES



Our industry is one of the main strategically important integral parts of the country's economy. Sustainable operation of industrial enterprises, social facilities, and growth of the regions' investment appeal depend on the work of energy workers.

Today we are working in the times of digitalisation of the economy on the whole, including the electric power industry. Not only does this pose new challenges to us, but also opens up great opportunities. I am convinced that the great traditions of the industry, the expertise gained and the human capital will help us overcome the greatest challenges.

## A.Yu.Pidnik

General Director of PJSC IDGC of the North-West



## MARKET OVERVIEW

### Macroeconomic performance in 2019 and projections up to 2024

In 2019, the GDP growth rate amounted to 1.3%, which was slightly lower than the level of 2018 (2.5% in 2018).

In the industry breakdown, the most significant year-on-year decrease in the positive dynamics was shown by non-core industries.

The GDP growth rate is projected to remain on the level of 1.7% in 2020. In 2021-2024, increase in the GDP growth rate is forecasted to the level of approximately 3% year on year, based on faster growth of investment in fixed assets, higher competitiveness of the Russian economy and development of the external economic potential.

Industrial output grew in 2019 by 2.4% (after 2.9% in 2018). The extraction and processing industries made a comparatively equal contribution to the industrial production dynamics (1.1 p.p. and 1.2 p.p., respectively).

In the period of 2020-2024, the baseline scenario of the Russian economy development suggests annual industrial output growth rates of 2.8% on average.

In 2019, inflation was on the level of 3.0%, which is below the target set by the Bank of Russia as 4%.

According to the projections of the Ministry of Economic Development of Russia, in the first half of 2020, inflation will fall below 3.0%, amounting to 3.0% at the year end. Further reaction to the implemented monetary policy and credit portfolio rebalancing from consumer loans to mortgage and corporate credit is to return the inflation to the target level of 4% in 2021-2024.

### Baseline scenario of the Russian Federation social and economic development forecast up to 2024

Year on year	2020	2021	2022	2023	2024
Consumer price index as of the year end, % to December	3.0	4.0	4.0	4.0	4.0
Industry, %	2.4	2.6	2.9	3.0	3.1
Gross domestic product, %	1.7	3.1	3.2	3.3	3.3

Source: The Russian Federation social and economic development forecast up to 2024 (the RF Ministry of Economic Development)

## Electric power consumption in the industry and forecasted demand for power

Power consumption volume within the Unified Energy System of Russia amounted to 1,059.4 bln kWh in 2019, which is 0.36% higher than in 2018. The integrated energy system of the North-West showed a slight power consumption reduction in 2019, by 0.1% (95 bln kWh) against 2018.

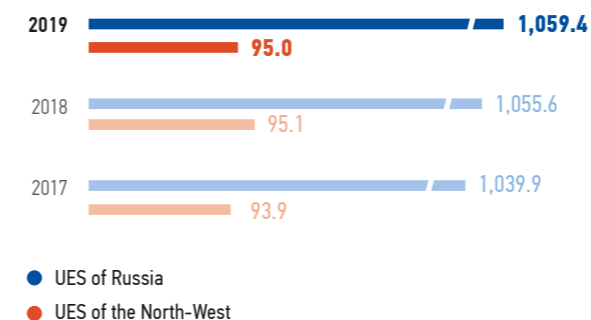
The demand for electric power in the Unified Energy System of Russia by 2024 is estimated as 1,138.949 bln kWh, which is more than the power consumption volume of 2018 by 87.495 bln kWh.

The forecast projects comparatively higher growth rates in demand for power in the Unified Energy System of Russia in 2020.

A considerable driver of power consumption growth in 2020-2024 is a boost in the power consumption volume in the integrated energy system of East due to connection of the Western and Central energy districts of the Sakha Republic (Yakutia).

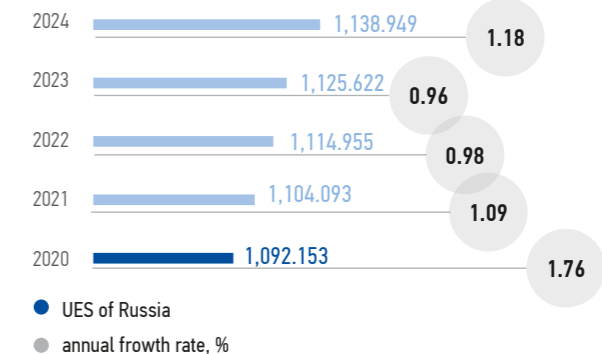
The projected power demand in the Unified Energy System of Russia without consideration of the connected Western and Central energy districts of the Sakha Republic (Yakutia) to the East integrated energy system, is 1,126.252 bln kWh by the end of 2024, given the average annual growth rates of 1.15%.

### Power consumption trends, bln kWh



Source: JSC System Operator

### Power demand projection in the UES of Russia up to 2024, bln kWh



Source: Development scheme and programme of the Unified Energy System of Russia for 2019-2025 (approved by Order of the RF Ministry of Energy of 28.02.2019 No. 174)

## Tariff indexation up to 2024

The annual increase in regulated tariffs of grid companies for consumers other than individuals will amount to no more than 3.0% on average in the country in 2020-2024, which is consistent with the previous assumptions. To reduce the

amount of cross-subsidisation in the power grid system, tariffs of grid companies for individuals are to be annually indexed, on average, at 5% in Russia. The regulated power tariffs for individuals will grow at the same rates.

### Power tariff indexation of the power grid companies

Indicator	2020	2021	2022	2023	2024
Grid companies tariff indexation for all consumers other than individuals	July 3.0%	July 3.0%	July 3.0%	July 3.0%	July 3.0%
Tariff indexation for individuals	July 5.0%	July 5.0%	July 5.0%	July 5.0%	July 5.0%

Source: The Russian Federation social and economic development forecast up to 2024 (the RF Ministry of Economic Development)

## MARKET POSITION OF THE COMPANY

The Company's core business is electric power transmission. In accordance with the FTS of Russia decision (Order of 03.06.2008 No.191-E), PJSC IDGC of the North-West was included under No.47.1.116 in the register of natural power transmission monopolies.

The Company's share in the power transmission market within its footprint totals approximately 74%, including the power partially transferred through the grids of the local grid operators (LGOs – payees).

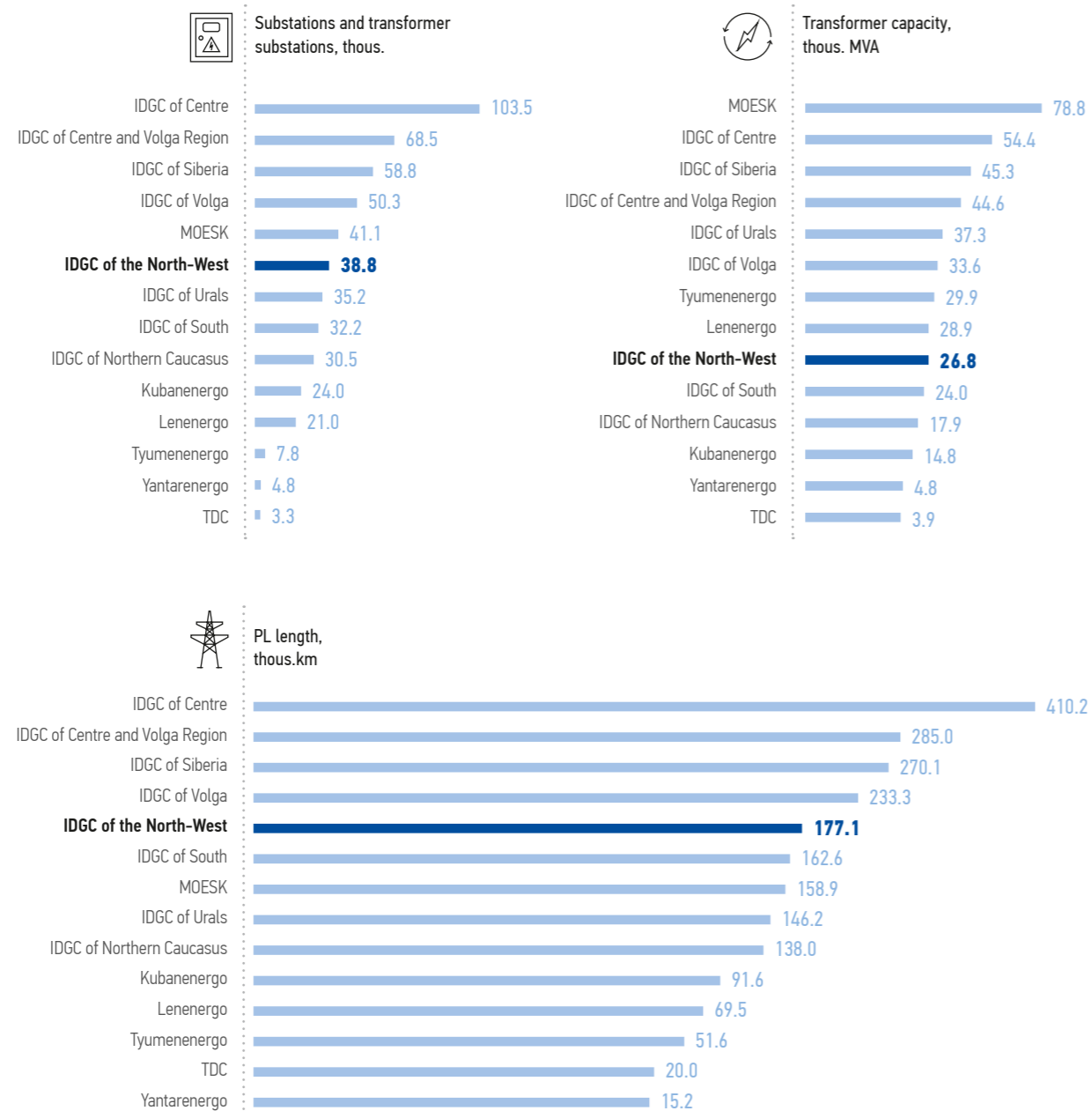
## COMPETITIVE ENVIRONMENT

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

In terms of its assets and volume of services provided, PJSC IDGC of the North-West has average values among the subsidiaries of PJSC ROSSETI, which makes it a sectoral "benchmark" among other IDGCs regarding the positive and negative effects of the given regulatory system. At the same time, the Company is among the best IDGCs in the industry by the amount of power losses, which is due to upgrade of the electric power metering system, introduction of a single customer base, provision of data communication devices to electricians and a number of other measures.

### Comparison with the Russian power grid companies in the reporting year

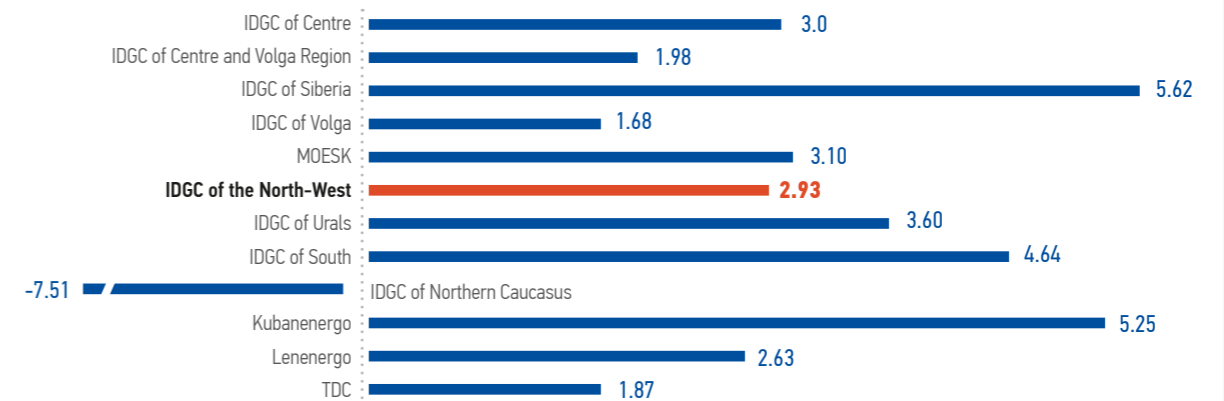
#### Production assets for the reporting year



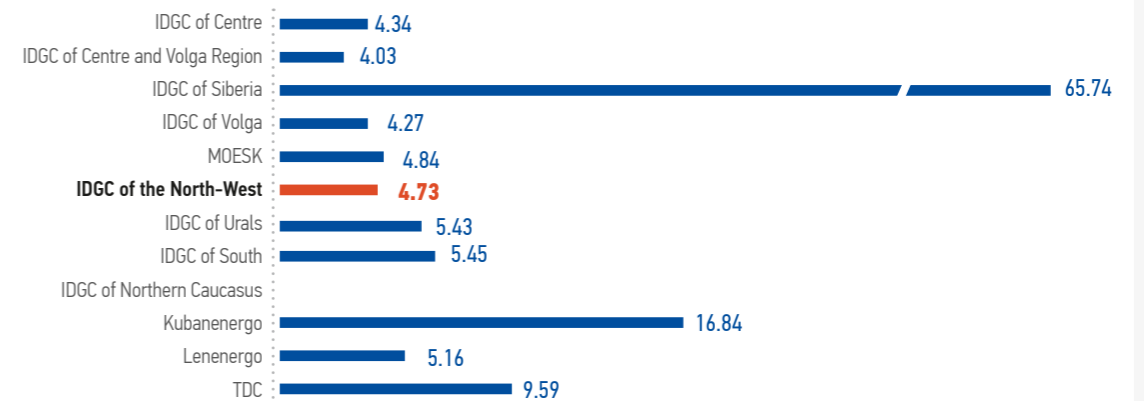
Source: the Company

### Financial and investment indicators<sup>1</sup> for the reporting year

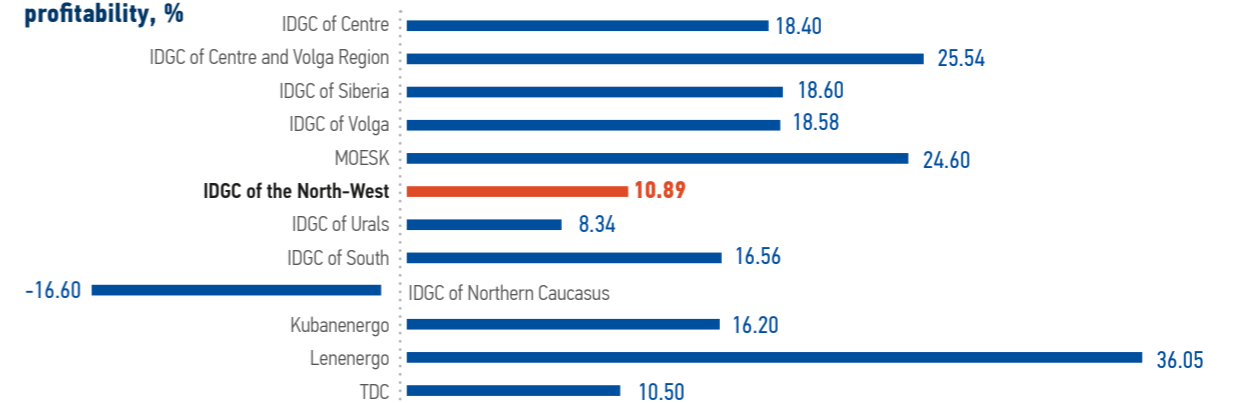
#### EV / EBITDA



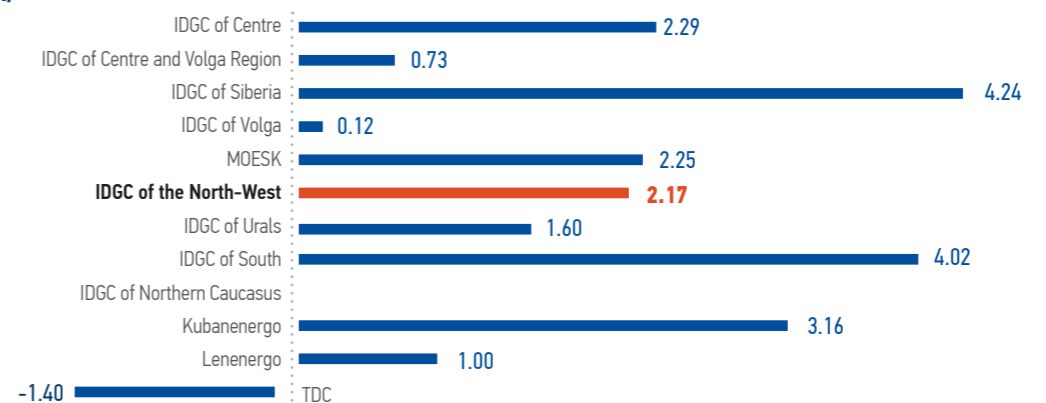
#### P / E



#### EBITDA profitability, %



#### Net debt / EBITDA



Source: Bloomberg

<sup>1</sup> EV / EBITDA is the coefficient comparing the value of the company with its earnings before interest, tax, depreciation and amortisation.

P / E is the coefficient showing how undervalued or overvalued the company's shares are for an investor.

EBITDA margin is the indicator of the company's profitability as percentage of its gross revenue.

Net debt / EBITDA is the coefficient showing how much of the company's yearly earnings before interest, tax, depreciation and amortisation is required to cover the net debt.

# STRATEGIC PRIORITIES AND DEVELOPMENT PROSPECTS

## THE MISSION

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

### NEW DEVELOPMENT STRATEGY OF THE ROSSETI GROUP FOR THE PERIOD UP TO 2030



#### IN DECEMBER 2019, A NEW STRATEGY

of the ROSSETI Group was approved. It identifies the aims and development areas up to 2030.



The essential change in the operations of the ROSSETI Group is

#### THE TRANSITION TO THE BUSINESS MODEL OF THE MODERN INNOVATIVE INFRASTRUCTURE.

The key strategic priorities are: to ensure further efficiency improvement in day-to-day operations aimed at the industry development, to ensure reliability, quality and access to infrastructure in the new digital environment. Particular attention is paid to maintaining the balance of interest of all the parties, including the government, consumers, shareholders, investors, as well as development of new business areas.



#### THESE AIMS ARE TO BE ACHIEVED BY IMPLEMENTING THE KEY STRATEGY AREAS:

- technological and innovative development
- improvement of operational and investment efficiency
- development of international communications and talent,
- digital transformation
- endorsement of legislative proposals
- as well as others.
- business diversification

### Strategic priorities

In accordance with the Regulation on target setting (approved by Order of the Company of 10.12.2019 No.800r), strategic priorities are at the top of the target-setting hierarchy of the Company. By Order of 24.10.2019 No.632r, the Company approved the following strategic priorities:

<p><b>ENSURING</b> reliable, high-quality and safe power supply to consumers</p>	<p><b>OPERATING EXPENDITURE</b> deficit reduction</p>	<p>Arriving at <b>THE REQUIRED LEVEL</b> of tariffs to ensure the Company's development.</p>
<p><b>DIGITAL BUSINESS TRANSFORMATION</b></p>	<p><b>NON-TARIFF SERVICES DEVELOPMENT</b> and increase in revenue from their sales</p>	<p><b>BUSINESS PROCESS STANDARDISATION</b> and improvement of functional organisation</p>
<p><b>IMPROVING THE EFFICIENCY</b> of investment activities</p>	<p><b>STREAMLINING THE INVENTORY AND LOGISTICS MANAGEMENT</b> system and centralisation of procurement activities</p>	<p><b>POWER LOSSES REDUCTION</b></p>
<p><b>INCREASE IN LABOUR EFFICIENCY</b></p>	<p><b>PREVENTION OF AN INCREASE IN THE NUMBER</b> of accident victims</p>	<p>The strategic priorities of the Company are based on the requirements of the industry systemic and corporate regulatory documents, such as the Energy Strategy of Russia (approved by Order of the RF Government of 13.11.2009 No. 1715-r), the Development Strategy of the Russian Power Grid System (approved by order of the RF Government of 03.04.2013 No.511-r), the quality policy of PJSC IDGC of the North-West, the environmental policy of the power grids etc.</p>

Strategic priority distribution

	Strategic priorities	Key performance indicators	Risks
 <p><b>Shareholders' interests</b></p>	<ul style="list-style-type: none"> <li>Operating expenditure deficit reduction</li> <li>Non-tariff services development and increase in revenue from their sales</li> <li>Increase in labour efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated operating profit (EBITDA)</li> <li>Consolidated net debt/ EBITDA</li> <li>Consolidated net cash flow</li> </ul>	<ul style="list-style-type: none"> <li>Financial risks</li> <li>Reputational risk</li> </ul>
 <p><b>Competitive-growth</b></p>	<ul style="list-style-type: none"> <li>Streamlining the inventory and logistics management system and centralisation of procurement activities.</li> <li>Power losses reduction</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in unit operating expenses (costs)</li> <li>Increase in the power grid equipment capacity utilisation</li> <li>Labour efficiency improvement</li> </ul>	<ul style="list-style-type: none"> <li>Industry risks</li> <li>Compliance risks</li> </ul>
 <p><b>Development interests</b></p>	<ul style="list-style-type: none"> <li>Arriving at the required level of tariffs to ensure the Company's development</li> <li>Digital business transformation</li> <li>Business process standardisation and improvement of functional organisation</li> <li>Improving the efficiency of investment activities</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with the commissioning schedule</li> <li>Innovation activities efficiency</li> <li>Power losses level</li> <li>Reduction in unit investment costs</li> <li>Implementation of the plan to reduce the Company's accounts receivable</li> </ul>	<ul style="list-style-type: none"> <li>Country-specific and region-specific risks</li> <li>Strategic risks</li> </ul>
 <p><b>Sustainable development</b></p>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Prevention of an increase in the number of accident victims</li> </ul>	<ul style="list-style-type: none"> <li>Reaching the reliability level of the services rendered</li> <li>Meeting the technological connection deadlines</li> <li>No growth in the number of major accidents</li> <li>No growth in the number of accident victims</li> </ul>	<ul style="list-style-type: none"> <li>Company-specific risks</li> </ul>

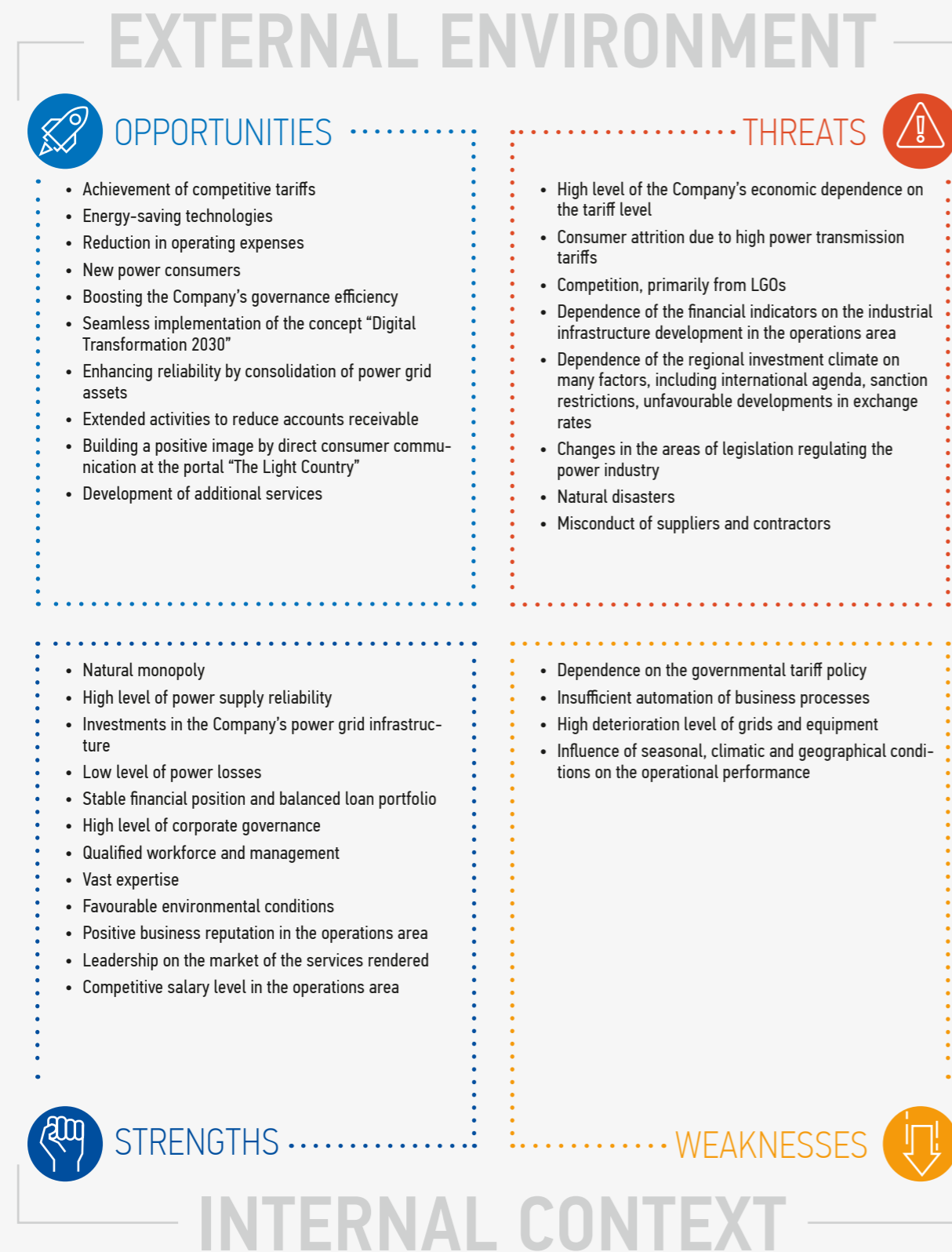
Strategic priorities achievement

Strategic priority for 2019	Performance results in 2019
<ul style="list-style-type: none"> <li>Operating expenditure deficit reduction</li> <li>Non-tariff services development and increase in revenue from their sales</li> <li>Increase in labour efficiency</li> </ul>	<ul style="list-style-type: none"> <li>An activity plan was developed to ensure break-even power transmission services rendering operations; compliance of the operating expenses with the level stipulated in the tariff and balance decisions was verified; a roadmap was approved. All the activities scheduled for 2019 were performed in due time.</li> <li>Within the framework of non-tariff services development, a number of systemic regulatory documents were drafted. The number of incoming applications for additional chargeable services (ACS) increased by 6% year on year. The revenue from ACS in 2019 amounted to RUB 901,647 thous.</li> </ul>
<ul style="list-style-type: none"> <li>Streamlining the inventory and logistics management system and centralisation of procurement activities.</li> <li>Power losses reduction</li> </ul>	<ul style="list-style-type: none"> <li>The implementation of the Power losses reduction programme for 2019-2023 by the Company resulted in reaching the target indicator of power losses.</li> </ul>
<ul style="list-style-type: none"> <li>Arriving at the required level of tariffs to ensure the Company's development</li> <li>Digital business transformation</li> <li>Business process standardisation and improvement of functional organisation</li> <li>Improving the efficiency of investment activities</li> </ul>	<ul style="list-style-type: none"> <li>On 27.01.2020 (Minutes of No.347/24), the Company Board of Directors approved a Programme of digital transformation of PJSC IDGC of the North-West for 2020-2030</li> <li>In the reporting period, the Company reduced the time of accounts receivable turnover from 79 to 70 days.</li> <li>Starting 2019, the Company has been implementing the project of business unification in PU and PDZ, balanced personnel allocation within functions.</li> <li>At the end of 2019, under Decision of PJSC IDGC of the North-West Board of Directors dated 18.12.2019 (Minutes No.340/17) the organisational structure of the Company executive bodies was approved.</li> </ul>
<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Prevention of an increase in the number of accident victims</li> </ul>	<ul style="list-style-type: none"> <li>The average consumer power supply interruption duration in case of large-scale disturbances at power grid facilities caused by unfavourable (dangerous) natural phenomena reduced to 2.83 h.</li> <li>Reduction in the level of occupational injuries.</li> <li>No group accidents or work-related diseases.</li> </ul>



## SWOT ANALYSIS

SWOT analysis is a method of strategic planning consisting in identification of internal and external factors and grouping them into four categories: strengths, weaknesses, opportunities, and threats. The Company's SWOT analysis can be presented as follows:



## Company development prospects\*

The Company's development strategy is primarily implemented through the investment programme worked out in accordance with the requirements of the RF Government Order of 01.12.2009 No.977 "On investment programmes of the power industry entities".

The current investment programme of the Company was approved by Order of the Russian Ministry of Energy of 20.12.2019 No.27@ and published, in line with the due procedures, of the website of the Russian Ministry of Energy.

The approved investment programme of the Company stipulates capital investment financing in the amount sufficient to ensure seamless power supply to consumers and maintain the operating capacity of the fixed assets.

\* The data on the investment programme: [http://www.mrsksevzap.ru/id\\_20kapitalplans#tab1](http://www.mrsksevzap.ru/id_20kapitalplans#tab1) (The final draft of the investment programme of PJSC IDGC of the North-West adjustment of 05.12.2019 (publication date: 06.12.2019) Part 1: <https://minenergo.gov.ru/system/download/4193/108107>).

## Consolidation of the power grid assets

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

As of today, cooperation agreements on consolidation of the power grid system have been signed with the executive bodies of all seven Russian regions where the Company operates. Under the above agreements, projects are jointly implemented, involving consolidation of the regional and municipal power grid assets by the Company, as well as abandoned power grid facilities to ensure the required reliability and quality of power supply to consumers in the operations area.

The spending of PJSC IDGC of the North-West on power grid assets consolidation measures in 2019 amounted to RUB 83 mln including VAT, where power grid assets purchase accounted for RUB 55 mln, rent – RUB 28 mln.

For consolidation of the power grid assets see the full version of the Annual Report on the Company's website <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.



# FUTURE DEVELOPMENT

IN 2020 – 2025

**12** Priority investment projects are to be implemented in three regions of the operations

**8.2** The total value of **RUB bln** including VAT



## 8 PROJECTS

renovation and technical re-equipment for substations

## CONSTRUCTION

of new 32 MVA substation

## RENOVATION

of a 110 kV OL with the length of 63.793 km

## CONSTRUCTION

of overhead power lines of 110 kV and 150 kV over 190 km long

Overall, the long-term investment programme of the Company for 2020–2025 stipulates commissioning

The financing of the investment programme is to comprise

**34** RUB BLN WITH VAT

Power lines

**7,340** KM

Substation capacity

**> 1,214** MVA

## DEVELOPMENT PROJECTS

**CONSTRUCTION OF 110 KV OL NO.103 VORKUTINSKAYA CHPP NO.2 – 110/10 KV SS OLKHOVEY**

**LOCATION**  
Intinsky District, the Republic of Komi

**TIMELINE**  
2015–2021

**COMMISSIONING**  
2021

The largest project, the total project value is over RUB 2 bln incl. VAT. Implemented under the technological connection contract with PJSC Gazprom of CS-5 Usinskaya, CU-2 within the framework of building the gas pipeline system Bovanenkovo-Ukhta.

**TECHNICAL RE-EQUIPMENT OF SS 110/10/6KV BAZOVAYA**

**LOCATION**  
Veliky Novgorod, the Novgorod Region

**TIMELINE**  
2016–2023

**COMMISSIONING**  
Q3 2023

The total project value is RUB 0.81 bln incl. VAT. It is implemented under the scheme and programme of long-term development of the Novgorod Region power industry in 2019–2023 in Veliky Novgorod.

**RENOVATION AND CAPACITY INCREASE OF OL SHEKSNINSKAYA 1,2 WITH THE TOTAL LENGTH OF 63.793 KM**

**LOCATION**  
Sheksninsky District, the Vologda Region

**TIMELINE**  
2011–2025

**COMMISSIONING**  
Q3 2024

The total project value is RUB 0.71 bln incl. VAT. It is implemented in line with the system operator's requirements, and under the scheme and programme of long-term development of the Vologda Region in 2020–2024.

# POWER LOSS REDUCTION



## 1 IMPLEMENTATION OF PROJECTS TO CREATE AUTOMATED SMART SYSTEMS OF POWER METERING, INCLUDING:

### By attracting private investment

In 2019, the Company allocated **RUB 3.098 mln** of investment to equip grid sites of branches with high losses level with power metering systems. Upon implementation of the energy service agreements **the current losses level in the distribution grid is to be reduced by 1.76 mln kWh in 5 years.**

### Within the Company's investment activities

The approved investment programme of the Company for 2020–2025 stipulates financing sources for installation of **26,201 smart power metering devices in the total amount of RUB 0.709 mln net of VAT.**

To meet the requirements of the Federal Law of 27.12.2018 No.522-FZ "On amending some laws of the Russian Federation sue to the development of the power (capacity) metering systems in the Russian Federation", in 2020 the project is to include adjustments to the Company's investment programme for 2020–2025 for additional amounts, therefore, the number of meters planned is **to increase to 202,792 items for the amount of RUB 5.131 mln net of VAT.**

## 2 IT INFRASTRUCTURE UPGRADE AND DEVELOPMENT OF TECHNOLOGICAL AUTOMATED INFORMATION AND ANALYSIS SYSTEMS OF BUILDING THE VOLUME OF POWER TRANSMISSION AND ANALYSING POWER BALANCES (THE SYSTEMS OF AIS POWER TRANSPORT AND TOP-LEVEL INFORMATION COMPUTING SYSTEM ON THE PLATFORM "PIRAMIDA CETI"), INCLUDING:

Introduction of the technologies for planning, quality control and result processing to service power metering systems using the mobile version of AIS Power Transport (WS Operator, WS Controller).

Integration with the consumer account for metering values receipt from consumers or applications for verification, installation and certification of meters.

Integration with external systems (asset management system, technological connection system) for prompt update of the consumer databases and grid layout.

## 3 VOCATIONAL TRAINING AND RETRAINING OF PERSONNEL IN LINE WITH THE CURRENT REQUIREMENTS AND CHALLENGES

Introduction of mobile tablet devices in working with power losses, as well as new power metering devices to control the correctness of connection and accuracy of meters, as well as new models of smart meters and data collection and transfer devices requires ongoing improvement in theoretical knowledge and applied skills of using advanced technical devices and software applications.

The company is constantly increasing the competence level of its operational power metering personnel. It has worked out and developed staff training programmes, holds regular contests in professional skills of power metering personnel.

As the smart power metering technologies are developing, so are the techniques of power theft used by unprincipled consumers. The Company carried out ongoing monitoring, analysis and implementation of advanced methods of fighting "loaded meters".

\* "Loaded" meters are the power meters with deliberate changes in the construction (scheme) not provided by the manufacturer made to distort the reported volume of power consumed.

## KEY PERFORMANCE INDICATORS

Achievement of the Company's priority development goals is assessed using the key performance indicators (KPI) system<sup>2</sup>. The system of key performance indicators correlates to the variable part of the management remuneration – each of the indicators has a specific weight in the amount of incentives paid, quarterly and annual bonuses are paid on condition of the respective KPI achievement.

### THE SYSTEM OF THE GENERAL DIRECTOR'S KEY PERFORMANCE INDICATORS IS BASED ON:



THE COMPANY CHARTER  
(Item 50, Paragraph 15.1  
of Article 15);



DECISION OF THE COMPANY'S BOARD OF DIRECTORS dated 31.03.2017 (Minutes No. 235/26) on Item 7 "On approval of the methodology for estimation and assessment of the key performance indicators achievement by the Company's General Director" (in the version of Minutes of 05.06.2018 No.286/41, of 31.12.2019 No.344/21).

Under the above Decision of the Company Board of Directors, in 2019, the following set and the following target values of the key performance indicators were identified:

#### Quarterly indicators

Indicators	Results achieved in 2018	Target value for 2019	Results achieved in 2019
Consolidated operating profit (EBITDA)	The KPI was achieved in all quarters	for Q1, 6 months and 9 months of the reporting year $\geq 0$ ; for the year $\geq 3.0\%$	The KPI was achieved in all quarters, except Q3
Consolidated net debt/EBITDA	The KPI was achieved in all quarters	Q1, Q2, Q3, Q4 $\leq 3.0$	The KPI was achieved in all quarters
Implementation of the plan to reduce the Company's accounts receivable	The KPI was achieved in all quarters	$\geq 100.0\%$	The KPI was achieved in all quarters
No growth in the number of major accidents	The KPI was achieved in all quarters	No growth The target in digital measurement: $\leq 1$	The KPI was achieved in all quarters
No growth in the number of accident victims	The KPI was achieved in all quarters, except Q2 and Q3	No growth The target in digital measurement: any condition met: 1) $\leq 0.0611$ 2) no more than two persons injured with mild or serious consequences from the beginning of the year	The KPI was achieved in all quarters, except Q3 and Q4
Compliance with the commissioning schedule	x	$\geq 90\%$	The KPI was achieved in Q3, and not achieved in Q4

<sup>2</sup> KPI is a set of interrelated indicators to measure the Company's performance; it includes the list of KPIs and their specific weight in the bonus system, calculation methods and KPI achievement assessment procedures.

#### Annual indicators

Indicators	Results achieved in 2018	Target value for 2019	Results achieved in 2019
Consolidated net cash flow	RUB -1,183.6 mln	$\geq$ RUB -509.1 mln	KPI achieved by 144%
Decrease in unit operating expenses (costs)	9.8%	$\geq 2.0\%$	KPI achieved by 275%
Increase in the power grid equipment capacity utilisation	achieved	achieved	KPI achieved by 100%
Power losses level	6.59%	$\leq 6.32\%$	KPI achieved by 100% (101%)
Reduction in unit investment costs	0.96	$\leq 1.00$	KPI achieved by 114%
Labour efficiency improvement	6.15%	$\geq 2.00\%$	KPI achieved by 190%
Innovation activities efficiency	90%	$\geq 90\%$	KPI achieved by 100%
Meeting the technological connection deadlines	1.0	$\leq 1.1$	KPI achieved by 100%
Reaching the reliability level of the services rendered	achieved	Simultaneously: 1. KPI $\leq 1.00$ Ki $< 1.00$	KPI achieved by 100%

The actual values of the key performance indicators in Quarters 3 and 4 of 2019 and the year 2019 have not been calculated or approved by the Company Board of Directors as of the Annual Report date, considering the deadlines and procedures of drafting the reports which supply information for their estimation. To enhance the performance efficiency of the S&A of PJSC ROSSETI, as well as to upgrade the methods of KPI calculation at the S&A of PJSC ROSSETI, Decision of the Board of Directors of PJSC ROSSETI dated 18.04.2019 (Minutes of 22.04.2019 No.349) introduced amendments to the key performance indicators system, approved by Decision of the Board of Directors of 31.12.2019 (Minutes of 31.12.2019 No.344/21) in 2019, including the following:

- As the statistical minimum was reached for the quarterly accident levels, the methodology of calculating the quarterly indicator "No growth in the number of major accidents" was amended to shift from the general statistics to index-based assessment of the indicator achievement depending on the volume of equipment served;

- Due to the transition of the Company branches to SAIDI/SAIFI indicators use in the tariff regulation and considering the provisions of the Russian Ministry of Energy Order of 29.11.2016 No.1256, annual KPI "Reaching the reliability level of the services rendered" was amended to enable alignment of the actual SAIDI/SAIFI values at the branches with the target indicators set by the regulator for them;

- The annual KPI "Compliance with the commissioning schedule" was moved from the annual to the quarterly ones starting 01.07.2019;

- Sources of information were specified for "Power losses level" indicator;

- The methodology of KPI "Meeting the technological connection deadlines" included the indicator, recording the objective of reducing the volumes of contracts where the technological connection deadlines were violated due to untimely performance of obligations, including those of the applicant.

Comparison of the 2019 values with those of 2018 is shown in the tables.

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

# INVESTMENT ACTIVITIES

GRI 103-2



Company annually builds new and renovates existing power grid infrastructure facilities. Particular focus is given to upgrade and improved reliability of the power grid infrastructure operation for uninterrupted consumer power supply to consumers.

## PARAMETERS OF INVESTMENT ACTIVITIES

The investment programme of PJSC IDGC of the North-West for 2019 was developed taking into account the aims and objectives of the Unified Technical Policy in the Power Grid System and approved by Order of the Russian Ministry of Energy of 20.12.2019 No.27@.

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

**5,534 RUB mln incl. VAT**

Financing of investment activities in 2019

**179 MVA**

Capacity put into operation

**1,316 km**

Power lines

GRI 103-3

Cost and physical parameters of investment activities in 2019

Spending

**4,832**  
RUB mln net of VAT

Launch of new fixed assets

**4,862**  
RUB mln net of VAT

Financing

**5,534**  
RUB mln incl. VAT

Capacity put into operation

**179** MVA    **1,316** km

## Capital investments financing breakdown for 3 years, RUB mln incl. VAT

Indicator	2017	2018	2019
Technological connection	3,560	5,368	2,631
Renovation, modernisation, technical re-equipment	2,448	2,080	1,729
Investment projects conditioned by the power industry long-term development schemes and programmes	49	306	204
Other new construction of power grid facilities	59	39	18
Purchase of land plots for the purposes of investment projects implementation	0.2	-	-
Other investment projects	927	1,242	952
<b>Total</b>	<b>7,042</b>	<b>9,034</b>	<b>5,534</b>

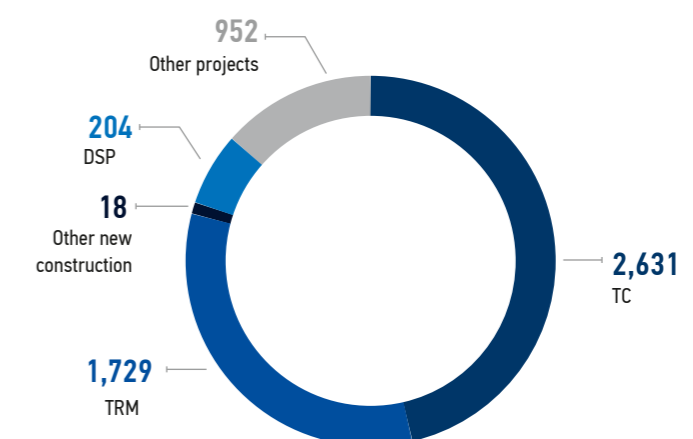
In 2017-2019, the investment programme of the Company was largely financed from the entity's own funds (the share of borrowed funds amounted to 3.6% in 2018 and 2.9% in 2019).

## Sources of the Company's investment programme financing for 3 years, RUB mln

Indicator	2017	2018	2019
Sources of the investment programme financing, total including:	7,042	9,034	5,534
Own funds total, including:	7,042	8,706	5,374
Profits allocated to investments	1,672	3,336	849
Fixed assets depreciation	4,367	4,074	3,793
VAT refund	919	1,114	549
Other own funds	84	182	184
Borrowed funds	0	328	160

Overall, the total financing of PJSC IDGC of the North-West reduced in 2019 by 39% against 2018. The decline was due to performance under the technological connection contracts with GC Rosavtodor, LLC Magistral Dvukh Stolits, JSC Vorkutaugol, LLC Gazprom Invest, LLC Kola Dockyard in 2018.

## Capital investment financing structure in 2019, RUB mln with VAT





In the total financing, 48% accounted for technological connection projects, 31% – for technical re-equipment and renovation, 17% – other IP projects, 4% – investment projects whose implementation is conditioned by long-term development schemes and programmes for the power industry and 0.3% – other new power grid facilities construction.

The total amount of the Company financing having decreased in 2019 by 39%, the share of financing allocated to technological connection projects also reduced: from 59% to 48%. In absolute terms, the amount of financing allocated to technological connection projects declined by 51% year on year, which is due to the implementation of technological connection contracts with GC Rosavtodor, LLC Magistral Dvukh Stolits, JSC Vorkutaugol, LLC Gazprom Invest, LLC Kola Dockyard in 2018. At the same time, the share of fi-

nancing allocated to technical re-equipment and renovation projects (hereinafter – TR&R) in 2019 increased year on year from 23% to 31% in order to decrease depreciation of the fixed assets. There was also a year-on-year increase in the share of other IP projects financing in 2019, from 14% to 17%, driven by a need of vehicle fleet renewal and purchase of emergency recovery equipment and machinery. The share of financing of the investment projects whose implementation is conditioned by long-term development schemes and programmes for the power industry (hereinafter – IP DS&P) remained at approximately the same level as in the previous year (increasing from 3% to 4%).

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

## RESULTS OF THE INVESTMENT PROGRAMME IMPLEMENTATION IN 2019

Information on the results achieved in 2019 due to implementation of the projects included in the investment programme, under Order of the Russian Ministry of Energy of 14.03.2017 No.177:

Transformer substation capacity load

9.31

Estimate of the changes in the share of productive power supply formed by power metering units within the system of data collection and transfer

0.804

Estimate of the changes in the average duration of the consumer power supply interruption

-5.387693

Estimate of the changes in the average frequency of the consumer power supply interruption

-1.185503

Total number of technological connection obligations fulfilled under the investment programme of the grid company

8,005

Maximum capacity of the connected electric power consumers, power generating facilities, power grid facilities owned by other grid companies or other persons

331.69

## LONG-TERM INVESTMENT PROGRAMME

The investment programme of PJSC IDGC of the North-West for the period of 2016-2025 takes into account the aims and objectives of the Unified Technical Policy in the Power Grid System and is approved by Order of the Ministry of Energy of the Russian Federation dated 30.11.2015 No.906 (in the versions of the Russian Ministry of Energy Orders of 16.12.2016 No.1333, of 21.12.2018 No.26@, of 20.12.2019 No.27@) (hereinafter – the approved IP)<sup>3</sup>. In 2020, the following large investment projects are to be implemented: construction of the 110 kV substation Prionezhskaya in the Prionezhsky District with installation of transformers of 2\*16 MVA, cutting in L-173 and re-laying L-58P, L-56P, OL of 10 kV from 35 kV SS 9P Vilga; renovation of 110/10 kV SS No.209 Dvinskoy Bereznik in N.Chazhestrovo of the Arkhangelsk Region with the system of reactive power compensation in the 110 kV grid; technical re-equipment of 35/10 kV SS Molochnoye of the Vologodsky District regarding the systems of RPA, AERD, DCS and ACS, buildings of SCB, MCSM of 35 kV, MCSM of 10 kV, installation of ASC of 10 kV; and construction of 110 kV OL

No.103 Vorkutinskaya CHPP No.2 – 110/10 kV SS Olkhovey for technological connection of CS-5 Usinskaya, CU-2 within the framework of building the gas pipeline system Bovanenkovo–Ukhta (contract of 26.01.2015 No. 56-01885V/14 with PJSC Gazprom – 1 item).

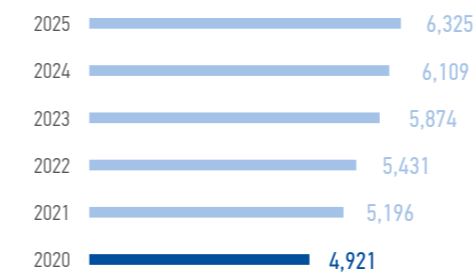
Gradual increase in financing sources in 2021-2025 is conditioned by including new large projects in the investment programme with the aim of renovation and technical re-equipment of lines and substations.

PJSC IDGC of the North-West investment programme for 2021-2025 takes into account plans of territorial development, technical condition of the power grids, significance of the power supply facilities and the current trends in the economic development of Russia.

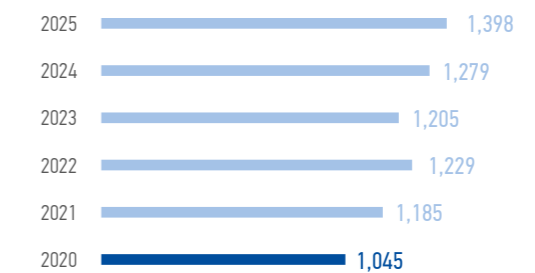
The decisions made in working out the investment programme meet the aims and objectives of the Unified Technical Policy in the Power Grid System and the effective legislation.

### Long-term investment programme

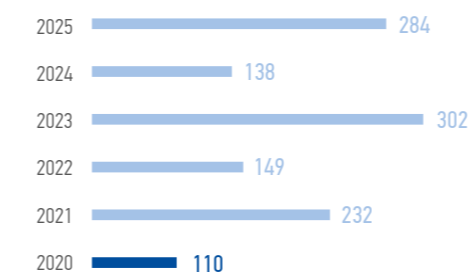
Financing volume trends in 2020-2025, RUB mln with VAT



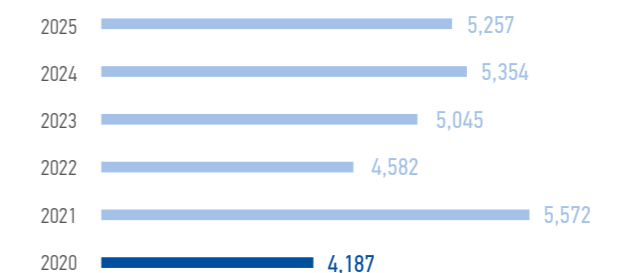
Power lines commissioning volume trends in 2020-2025, km



Capacity commissioning trends in 2020-2025, MVA



Commissioning volumetrends in 2020-2025, RUB mln net of VAT



<sup>3</sup> For more details on the key projects of PJSC IDGC of the North-West see Annex 3 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

In the years 2022, 2024–2025, the following investment projects are to be commissioned in accordance with the approved investment development programme: renovation of 110 kV OL Sheksninskaya 1,2 with branch lines to 110/10 kV SS Iskra, 110/10 kV SS Zayagorba, 110/10 kV SS Nifantovo and Sheksninskaya HPP (64 km of PL); technical re-equipment of 10 kV OL L-31P-4 Krivtsy-Karbozero of the Pudozhsky District with replacement of poles and wires (with SSIW) (54 km of PL); and renovation of 10 kV OL L-12 at SS Valday, the Valday District of the Novgorod Region with wire replacement with SSIW (47 km of PL). The increase in the length of power lines to be commissioned in 2022 and 2024–2025 is due to implementation of other investment projects involving wire replacement with SSIW.

**Considerable increase in the transformer capacity for commissioning in 2023 is conditioned by launch of the following investment projects:**

- Renovation of 150/110/35/6 kV SS No.53 (125 MVA);
- Renovation of 110/35/10 kV SS Lugovaya (80 MVA);
- Renovation of 110/10 kV SS Vokhtoga (20 MVA);
- Renovation of 110/35/10 kV SS Suda (20 MVA);
- Technical re-equipment of 110/35/6 kV SS N.Odes (10 MVA).

**Increase in the capacity volume for commissioning in 2025 is conditioned by launch of the following investment projects:**

- Technical re-equipment of 150/10 kV SS No.11A (63 MVA);
- Renovation of 110/35/10 kV SS Ustyuzhna (32 MVA);
- Technical re-equipment of 110/10 kV SS Chikshino (20 MVA).

**INCREASED ENTRY INTO OPERATION IN 2021 IS ATTRIBUTABLE TO LARGE INVESTMENT PROJECTS:**

Implemented to perform obligations under the TC contracts signed, specifically:

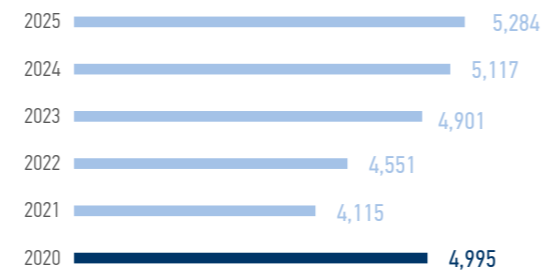
Construction of 110/10 kV SS Olkhovey and 10 kV OL for technological connection of CS-5 Usinskaya, CU-2 within the framework of building the gas pipeline system Bovanenkovo–Ukhta (contract of 26.01.2015 No. 56–01885V/14 with PJSC Gazprom – 1 item) (110/10 kV SS – 1x10 MVA; 10 kV OL – 6 km; metering point – 1);

Construction of 110 kV OL No.103 Vorkutinskaya CHPP No.2 – 110/10 kV SS Olkhovey for technological connection of CS-5 Usinskaya, CU-2 within the framework of building the gas pipeline system Bovanenkovo–Ukhta (contract of 26.01.2015 No. 56–01885V/14 with PJSC Gazprom – 1 item) (110 kV OL – 163 km).

- Implemented for substations renovation with replacement of power transformers and circuit breakers.
- implemented for technical re-equipment and renovation of overhead power lines.

The dynamics of financed projects implementation for the period of 2020–2025 correlates with the above changes in financing volumes.

Spending volume trends in 2020–2025, RUB mln net of VAT



For detailed information on investment projects by the Company's branches, see the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

**PRIORITY INVESTMENT PROJECTS COMPLETED IN 2019<sup>4</sup>**

Implementing Order of the Russian Government of 21.06.2010 No. 468 “On the procedure of construction compliance monitoring in building, renovation and overhaul of capital construction facilities”, to certify that the works performed during building, renovation and overhaul of capital construction facilities comply with the requirements of the design documentation, technical regulations, site develop-

ment plans, engineering survey findings, construction compliance monitoring is carried out.

The coverage of the capital construction facilities under the investment programme of the Company by independent construction compliance monitoring was 92% in 2019.

**CONSTRUCTION**

of two 10 kV PL with the length of 18.01 km and installation of two-transformer TSS on 10/6 kV 5 MVA and two 6 kV CL with the length of 8.7 km

in Petrozavodsk and the Prionezhsky District to ensure technological connection of Petrozavodsk Airport

**13.76 KM PL**

**CONSTRUCTION**

of 150 kV OL from L-160 and from L-219 to 150 kV SS Belokamenka for technological connection of LLC Kola Dockyard (TC contract No.43-000141/16 of 20.02.2017 with LLC Kola Dockyard) projected line length – 56.45 km

**58.41 KM PL**

**CONSTRUCTION**

of 110/35/10 kV SS Yuzhnaya 2x40 MVA, 110 kV OSG (8 cells), 35 kV CSG (8 cells), 10 kV CSG (26 cells) and the OL of 110/35/10 kV with the total length of 11.55 km in the Zasheksninsky District of Cherevovets

**5.14 KM PL**



A number of these key investment projects have high public significance. To implement Orders of the RF Government of 20.07.2018, for the technological connection of Petrozavodsk Airport, a state-financed entity of the Republic of Karelia, the Company swiftly built two 10 kV OL with the length of 13.76 km and ensured external power supply of the airport. Petrozavodsk International Airport is part of the national backbone airfield and airport network of the Russian Federation. It provides almost 100% of the services rendered to air passengers in the Republic of Karelia. To integrate the Republic of Karelia into the system of international and domestic air transportation, comprehensive renovation of the airport facilities is carried out. The airport has the status of a federal international airport.

KV-127-UP/2016 with LLC Kola Dockyard (LLC Novatek-Murmansk) and included in the scheme and programme of the power industry development in the Murmansk Region, approved by Order of the acting Governor of the Murmansk Region A.V.Chibis of 26.04.2019 No.73-RG. As a result of the investment project implementation, a large new consumer – centre for construction of large-capacity marine facilities (the contracted capacity is 56.4 MW) – was connected to the Murmansk Region power grids. The largest dry docks in Russia will perform construction and equipment of natural gas liquefaction and transshipping plant, as well as construction of nuclear-powered icebreakers.

The investment project on construction of 150 kV OL from L-160 and from L-219 to 150 kV SS Belokamenka was implemented in 2019 under the performance of technological connection contract of 20.02.2017 No. 43-000141/16/

The enterprise will occupy over 150 hectares and create 15 thousand new jobs.

<sup>4</sup> Report on the capital construction quality control is presented in Annex 4 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

# PRODUCTION RESULTS

## POWER TRANSMISSION AND LOSSES<sup>5</sup>



Output to grid, mln kWh

**34,593.7**

Output from grid, mln kWh

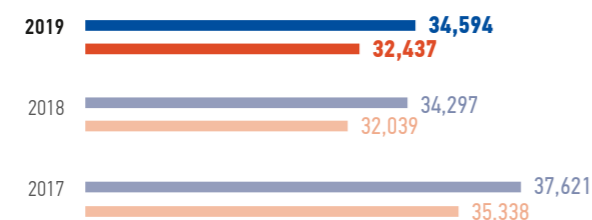
**32,437.3**

Indicator	Planned 2019	Actual 2019	Planned 2020
Output from grid, mln kWh	32,590.7	32,437.3	32,010.9

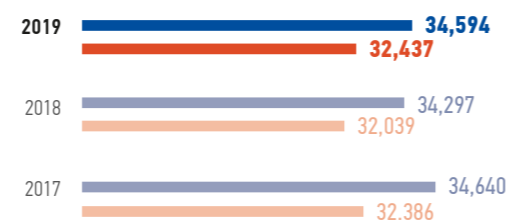
### Power transmission services volume<sup>6</sup>

In 2019, the volume of power output from grid to consumers and related LGOs within the balance and operational responsibility totalled 32,437.3 mln kWh, which is 398.4 mln kWh (or 1.24%) higher year on year (32,038.9 mln kWh).

Actual power transmission sales



Power transmission sales in adjusted conditions



● Output to grid, mln kWh  
● Output from grid, mln kWh

● Output to grid, mln kWh  
● Output from grid, mln kWh

<sup>5</sup> In 2017, the indicators are presented in the conditions comparable with 2018-2019 (estimated net of the volumes of the last mile facilities in the first half of 2017).

The main reasons for these trends include increasing power consumption volume by some major consumers. The table below shows power consumption volumes influencing this dynamics.

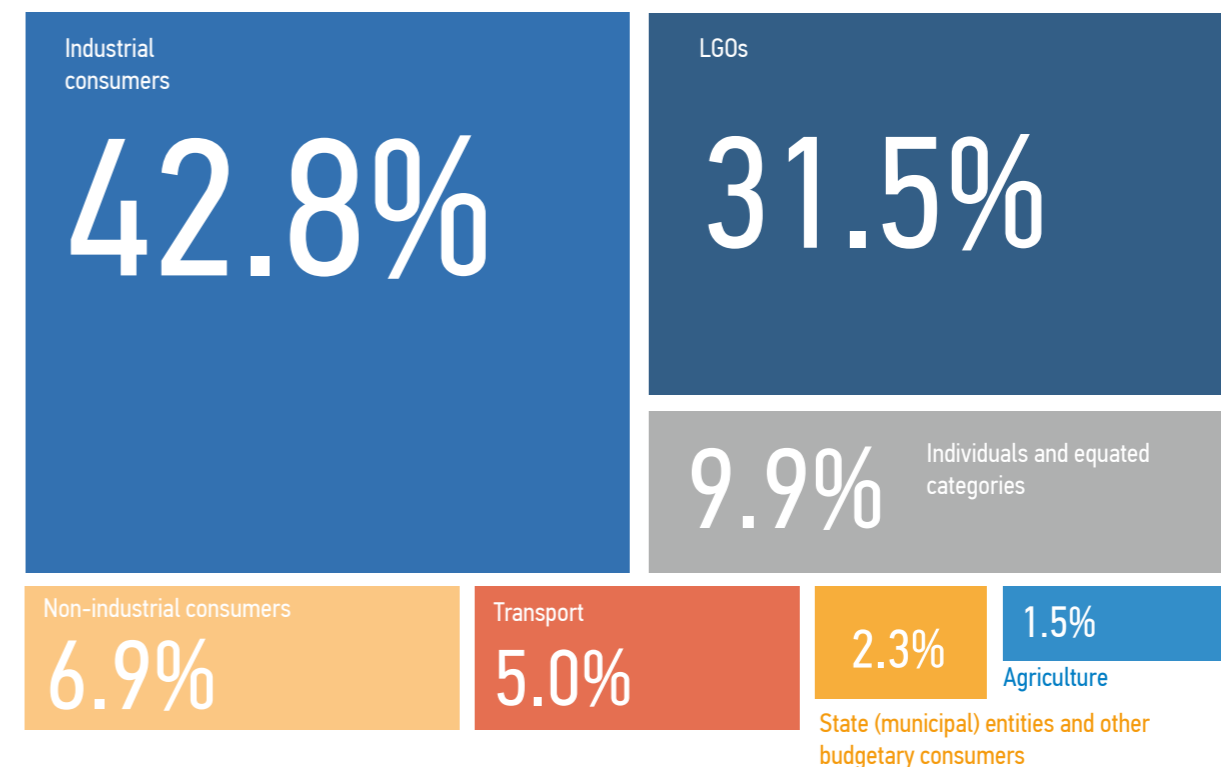
For more information about the Automated system for forecasting future changes in loads and power consumption, see the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

<sup>5</sup> Production results broken down by branch are shown in Annex 5 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

<sup>6</sup> The regulatory base for power transmission services is presented at the Company's website: <https://clients.mrsksevzap.ru/regulations>.

Services consumers	2018 mln kWh	2019 mln kWh	2019-2018 mln kWh	2019/2018 %
<b>KARELIA BRANCH OF PJSC IDGC OF THE NORTH-WEST</b>				
OJSC RZD	600.800	669.600	68.80	11.4
JSC TNS Energo Karelia	602.700	674.700	72.00	11.9
OJSC Prionezhskaya Setevaya Companiya	704.700	712.900	8.20	1.2
<b>MURMANSK BRANCH OF PJSC IDGC OF THE NORTH-WEST</b>				
LLC EvroKhimEnergo	796.030	821.030	25.00	3.2
OJSC Olenegorsky GOK	369.587	386.600	17.00	4.7
<b>NOVGOROD BRANCH OF PJSC IDGC OF THE NORTH-WEST</b>				
LLC Acron	986.400	1,047.875	61.48	6.23
LLC UPM-Kymmene Chudovo	33.100	39.680	6.58	19.88
LLC Transneft Baltic	147.900	218.073	70.17	47.45
<b>PSKOV BRANCH OF PJSC IDGC OF THE NORTH-WEST</b>				
OJSC Velikoluksky Meat Processor	52.060	59.770	7.70	14.80
LLC VSGC	12.203	15.283	3.08	25.24

## POWER OUTPUT BREAKDOWN





## Largest consumers and LGOs

### Largest industrial consumers and transport

Item	2017 mln kWh	2018 mln kWh	2019 mln kWh
LLC Rusenergosbyt	2,128	2,141	2,080
LLC Khibinskaya Energosbytovaya Kompaniya	1,796	1,751	1,749
JSC SUAL	1,252	1,249	1,254
PJSC Acron	1,016	986	1,048
LLC EvroKhimEnergo	806	796	821
OJSC Kondopoga	681	436	498
LLC Rusenergoresurs	791	833	453

### Largest LGOs

Item	2017 mln kWh	2018 mln kWh	2019 mln kWh
JSC KKT <sup>7</sup>	1,444	1,297	1,228
JSC Murmanskaya Oblastnaya Elektrosetevaya Kompania	1,091	1,055	1,087
JSC Novgorodoblektro	1,075	1,037	1,008
JSC Vologdaoblenergo <sup>8</sup>	926	1,019	1,052
MUE Elektroset	340	294	334

## Power losses

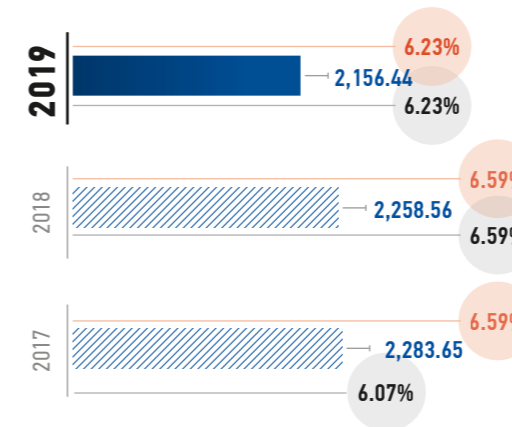


The power losses  
**6.23%**

Indicator	Planned 2019	Actual 2019	Planned 2020
Power losses, mln kWh	2,200.3	2,156.4	2,124.3

<sup>7</sup> Before 01.03.2016, LLC Respublikanskaya Setevaya Kompania and LLC Energotreid.  
<sup>8</sup> Before 25.03.2016, JSC Vologodskaya Oblastnaya Energeticheskaya Kompania.

## Power losses trends



The power losses decreased in 2019 against 2018 and amounted to 6.23%.

- Power losses, mln kWh
- Power losses (adjusted conditions)\*, %
- Power losses, %

\* % of losses is calculated in relation to the output to the Company grid, net of the volumes of the last mile facilities in the first half of 2017.

## Power losses reduction activities

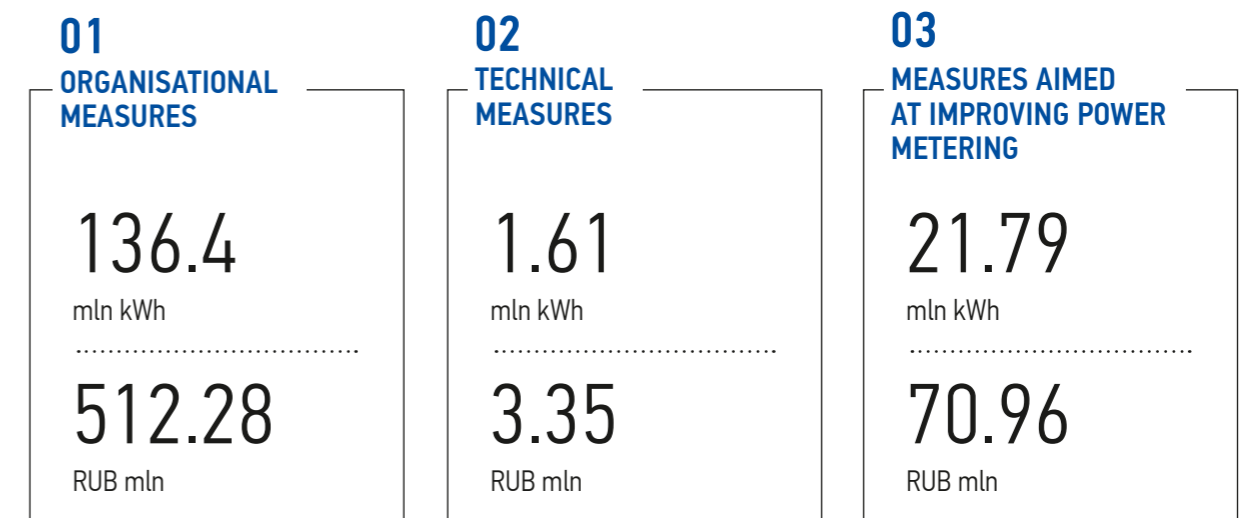
**586.59 RUB mln**      **159.8 mln kWh**

### Volume of savings due to the implementation of the power losses reduction programme

As a priority, PJSC IDGC of the North-West carried out a programme of measures aimed to reduce the level of losses in its grid facilities for 2019-2023.

The implementation of the power losses reduction programme in 2019 resulted in saving 159.8 mln kWh, or 575.28 TJ (RUB 586.59 mln in value terms) due to:

### EFFECT OF THE LOSS REDUCTION PROGRAMME IN 2019:



## TECHNOLOGICAL CONNECTION<sup>9</sup>



Executed contracts, pcs.

**20,400**

Connected power, MW

**450**

The average period of TC activities for SMB in 2019, days

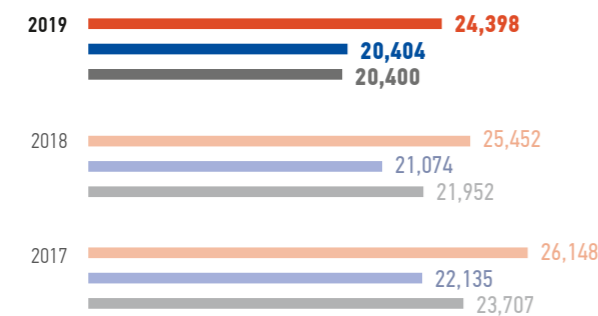
**61**

Indicator	Planned 2019	Actual 2019	Planned 2020
Capacity connected, MW	485	450	299

The Company provides comprehensive services for connection of consumers' power receivers, power production facilities and power grid facilities to PJSC IDGC of the North-West power grids<sup>10</sup>. The service includes: receiving an applica-

tion for technological connection, development of technical specifications, contract signing, receiving permission from the federal state energy supervision authorities for operation of the applicant's facilities, issue of connection certificate<sup>11</sup>.

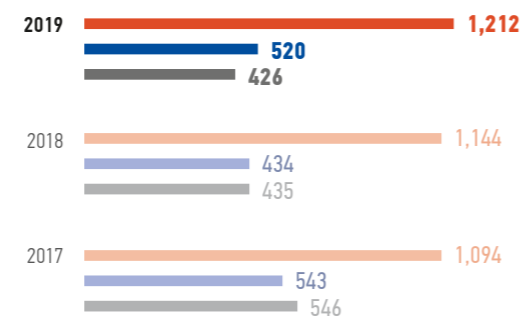
### Trends in TC contract completion\*



- Number of applications, items
- Number of contracts concluded, items
- Number of contracts completed, items

\* Net of power generating facilities.

### TC applications performed



- Contracted capacity, MW
- Maximum capacity for contracts concluded, MW
- Capacity connected, MW

Overall, the total number of technological connection applications received and contracts concluded in 2019 remained at the same level against 2018. The number of technological connection contracts performed in 2019 was 7% lower than in 2018.

By year-end 2019, the ratio of contracts performed to contracts concluded was 1, which implies no growth in accrued liabilities.

### This trend was due to the following:

- HIGH SHARE OF TECHNOLOGICAL CONNECTION CONTRACTS** fulfilled using in-house resources
- PERFORMANCE OF DESIGN AND SURVEY WORKS** using in-house resources for the construction, reconstruction or upgrade of 0.4-10 kV distribution grids
- STREAMLINING TRADING** and procurement processes
- APPLICANT RELATIONS** through a feedback mechanism

<sup>9</sup> The methodology of tariff regulation regarding the technological connection services is shown on the Company web site: [https://clients.mrsksevzap.ru/gc\\_commoninfo](https://clients.mrsksevzap.ru/gc_commoninfo).

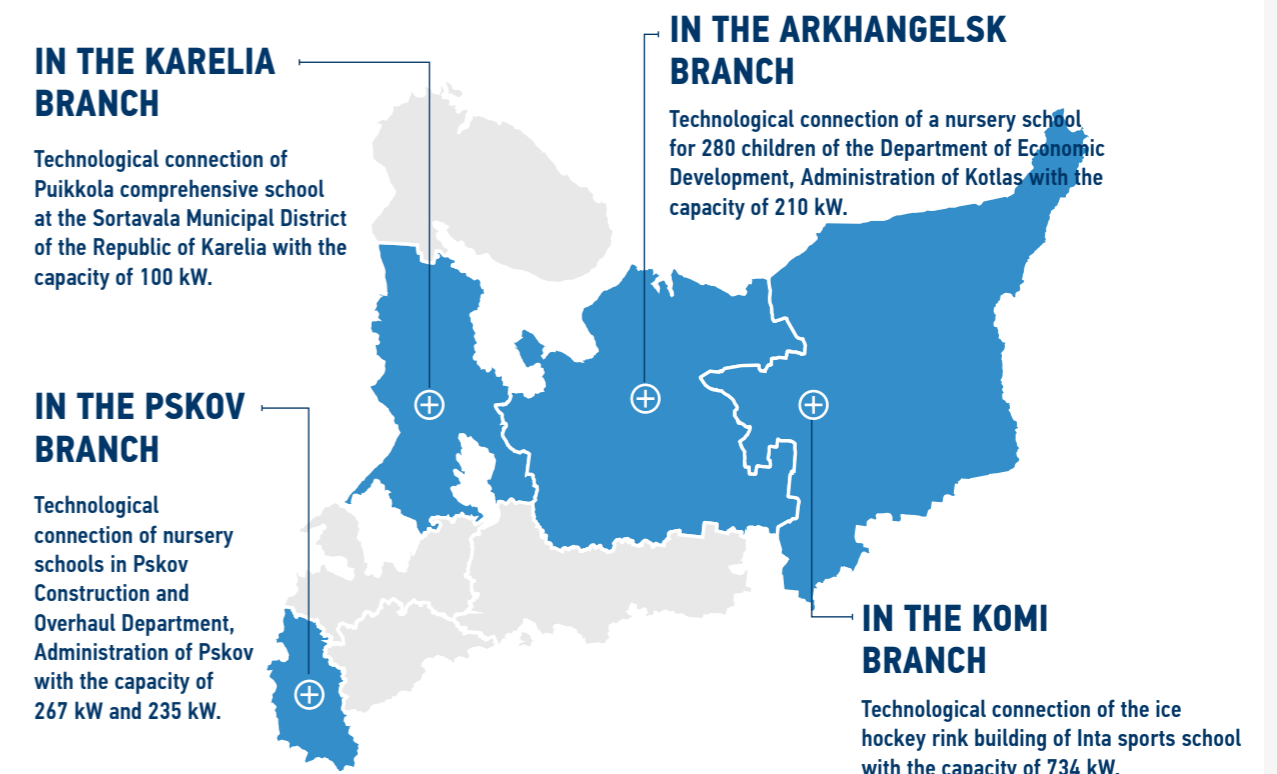
<sup>10</sup> The regulatory base of technological connection is shown on the Company web site: [https://clients.mrsksevzap.ru/gc\\_regulations](https://clients.mrsksevzap.ru/gc_regulations).

<sup>11</sup> A description of the technological connection process is available in Annex 6 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationshareholdersmeetings>.

To implement the target model of simplified business procedures and enhanced investment attractiveness of the Russian Federation regions "Technological connection to power grids" approved by Order of the Russian Federation Government of 31.01.2017 No.147-r, in 2019 the Company:

- held "entrepreneurs' days", participated in public infrastructure activities, developed client services, including electronic Internet services, as well as cooperated with the mass media to ensure information support of the improved TC conditions;
- arranged automated workplaces for consumers in customer offices with open access to the Company's interactive services;
- offers the applicants to perform the technological connection operations attributed to the applicant's competence using the grid organisation's resources.

### THE LARGEST SOCIALLY SIGNIFICANT FACILITIES CONNECTED IN 2019:



### THE LARGEST APPLICANTS OF THE COMPANY IN 2019:

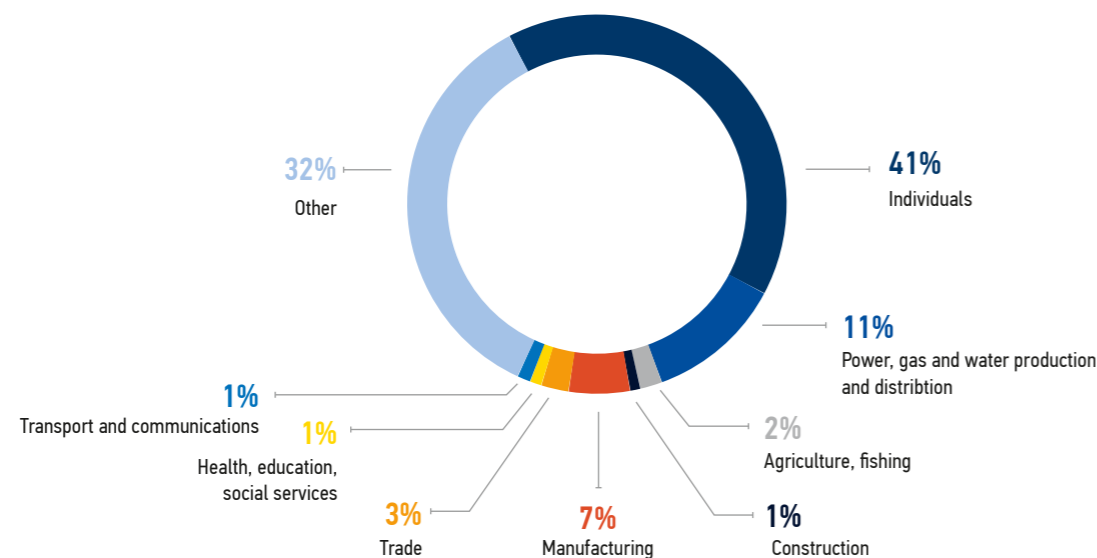
Company Name	Contract Date	Contract No.	Amount
LLC NOVATEK-MURMANSK	20.02.2017	No. 43-000141/16	RUB 679 mln net of VAT
PJSC GAZPROM	27.09.2017	No.VOL5TP/393/17 (No.26-00244Ch/17)	RUB 219 mln
JSC TANDER	25.04.2017	No.15-03860A/16	RUB 99 mln

to perform technological connection of 150 kV SS Belokamenka to ensure power supply of the centre for construction of large-capacity marine facilities

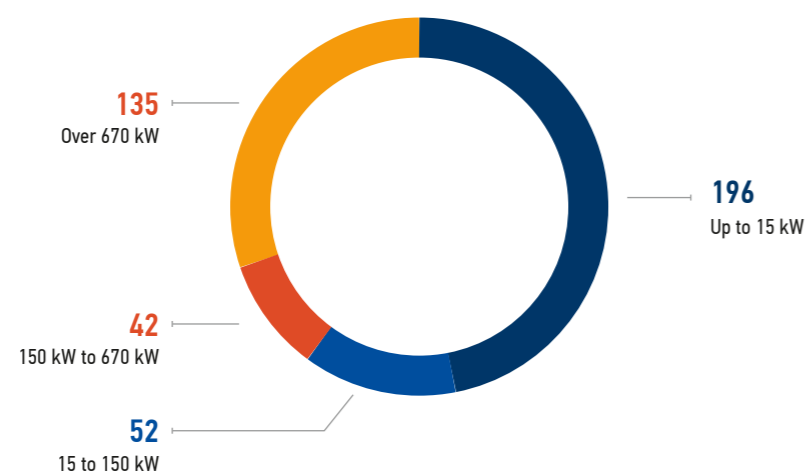
on technological connection of compressor station Sheksninskaya, part of the Nord Stream 2 gas pipeline under construction

on technological connection of power supply facilities for the regional distribution centre of foodstuffs and commodity goods storage

Capacity connected by industry



Connected capacity breakdown by types of applicant, MW



Applications breakdown in 2017-2019 (including power generating facilities)<sup>12</sup>

Item	2017		2018		2019	
	total capacity, MW	items	total capacity, MW	items	total capacity, MW	items
Individuals	243	21,719	220	20,873	197	18,617
Legal entities	921	4,435	978	4,583	1,050	5,783
<b>Total</b>	<b>1,164</b>	<b>26,154</b>	<b>1,198</b>	<b>25,456</b>	<b>1,248</b>	<b>24,400</b>

The total number of applications received in 2019 reduced by 4% against 2018.

<sup>12</sup>TC demand volumes and its satisfaction are shown in Annex 7 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationshareholdersmeetings>.

POWER GRID SYSTEM DEVELOPMENT IN THE RF REGIONS WITHIN THE COMPANY'S GEOGRAPHICAL FOOTPRINT

In order to systemise and aggregate proposals on power grid infrastructure development for sustainable socio-economic growth of the RF regions, to enhance accessibility of the energy infrastructure, boost competition on the power (capacity) market and align the development of backbone and distribution power grids, the Company annually works out (updates) comprehensive programmes of 35+ kV power grids development on the territory of the Russian Federation regions for the period of five years (hereinafter – CDP) engaging specialised engineering companies.

The resulting CDPs are used as supporting materials in drafting investment programmes of the Company branches, working out long-term development schemes and programmes of the RF regions (DS&P)<sup>13</sup> and the programme of technical re-equipment of power grid facilities.

The power industry development schemes and programmes of the Russian constituent entities are prepared by Russian regional executive authorities for a five-year period taking into account the Development scheme and programme of

the Unified Energy System of Russia. They cooperate with JSC SO UES, ROSSETI North-West and LGOs. Representatives of ROSSETI North-West are engaged in working groups on DS&P development, contribute to investment activities committees under regional administrations of the operations area.

The approved investment programmes of ROSSETI North-West branches take into account the activities reflected in DS&P.

Approved power industry development schemes and programmes of the Russian constituent entities

RF region	Development year	Projected DS&P implementation period	Details of the document adopting the DS&P of the RF region
Arkhangelsk Region	2019	2019-2023	Decree of the Arkhangelsk Region Governor of 29.04.2019 No.29-u
Vologda Region	2019	2020-2024	Order of the Vologda Region Governor of 26.04.2019 No.78
Republic of Karelia	2019	2019-2023	Instruction of the Head of the Republic of Karelia of 30.04.2019 No.220-r
Murmansk Region	2019	2020-2024	Instruction of the Murmansk Region Governor of 26.04.2019 No.73-RG
Republic of Komi	2019	2019-2023	Instruction of the Head of the Republic of Komi of 30.04.2019 No.86-r
Novgorod Region	2019	2019-2023	Decree of the Novgorod Region Governor of 22.04.2019 No.152
Pskov Region	2019	2019-2023	Decree of the Pskov Region Governor of 26.04.2019 No.36-UG

<sup>13</sup> In line with Order of the Russian Federation Government of 17.10.2009 No. 823 "On the power industry development schemes and programmes".



## COMPREHENSIVE SERVICING OF CONSUMERS

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

Employees of the client relations department conduct on-site customer communication in 20 offices of customer service. All customers can receive expert advice about technological connection, quality and supply of power; lodge a complaint, apply for technological connection, apply for concluding a contract for power transmission or for additional chargeable services.

To promote interactive services, consumer workplaces were arranged at branch customer offices in 2019, where clients enjoy open Internet access and documents scanning options.

In order to improve the efficiency of interaction with consumers, all branches approved schedules for regular office hours when individual customers can visit heads of the branches, production divisions and PDZs.

Remote consumer servicing arrangements by telephone involve receiving and processing incoming phone calls by client relations unit employees, as well as making outgoing calls to notify consumers and provide information.

Throughout the reporting period the Company has had a 24/7 single hotline number 8-800-333-02-52; the calls are toll-free across Russia. The telephone line receives all client feedback on the Company's activities, including communications on power blackouts, malfunction of the grid facilities operation, unlawful or inappropriate power consumption.

Starting 31.12.2019, the PJSC IDGC of the North-West hotline services were transferred to the single hotline of the ROSSETI Group: 8-800-220-0-220.

The hotline phone number is displayed at client offices, the Company website, all regional reference books, as well as in the Reference Book on Hotlines and Service Desks in the RF constituent entities.

Remote interactive services are provided to consumers via the official website of PJSC IDGC of the North-West

<http://www.mrsksevizap.ru>

in accordance with the requirements of the Unified standards of customer service quality at the grid companies, approved by Order of the Ministry of Energy of 15.04.2014 No.186.

The website of PJSC IDGC of the North-West offers the following interactive tools to consumers:

-   
**CONSUMER'S PERSONAL ACCOUNT**
-   
**INTERNET RECEPTION OFFICE**
-   
**INTERACTIVE MAP OF POWER SUPPLY CENTRES**

The Internet reception office enables clients to submit applications for technological connection and applications for additional services, to file requests, fill in consumer questionnaires; find answers to frequently asked questions.

The interactive service of the consumer's personal account enables clients to track all stages of their technological con-

nection application from the date of submission through actual connection and signing of the technological connection act.

Starting 01.10.2019, the Company has established a single interactive channel of submitting technological connection applications via a personal account at the single portal of power grid services PJSC ROSSETI (<http://портал-тп.рф>).

### In 2019, the following measures were taken to enhance the consumer service quality:

- The official website of PJSC IDGC of the North-West, section "Information on power cuts", regularly shows data on scheduled power cuts for the current month <https://clients.mrsksevizap.ru/poweroutage>.
- To enhance quality monitoring for the services rendered, ensure prompt response to consumer notifications on power system disturbances, receive feedback from consumers in case of large-scale emergency power outages, PJSC IDGC of the North-West uses the consumer feedback portal of PJSC ROSSETI "The Light Country" in its operations area.
- To ensure accessibility of the interactive services, all consumer offices are equipped with automated client workspaces with open Internet access and documents scanning options.

- Starting 01.01.2020, the PJSC IDGC of the North-West hotline services were transferred to the single hotline of the ROSSETI Group: 8-800-220-0-220.
- The employees responsible for consumer relations took part in the workshop "Client-oriented service and effective sales of additional (non-tariff) services".
- The client offices of the Novgorod branch were refurbished, new information stands were installed, signs and boards were replaced.

In 2020, PJSC IDGC of the North-West intends to work further on improvement of the client-oriented approach, development of comfortable environment for consumers, enhancement in the services quality.

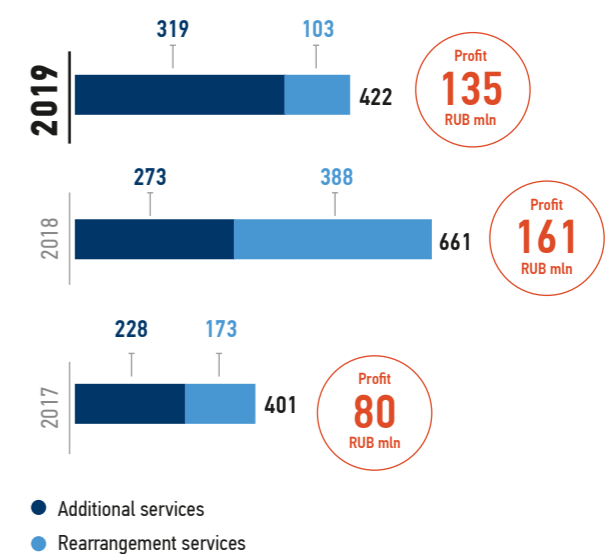
## OTHER ACTIVITIES

Apart from the core business subject to state regulation (power transmission services and technological connection to power grids), the Company renders additional chargeable services at the customer offices and upon applications received via interactive services.

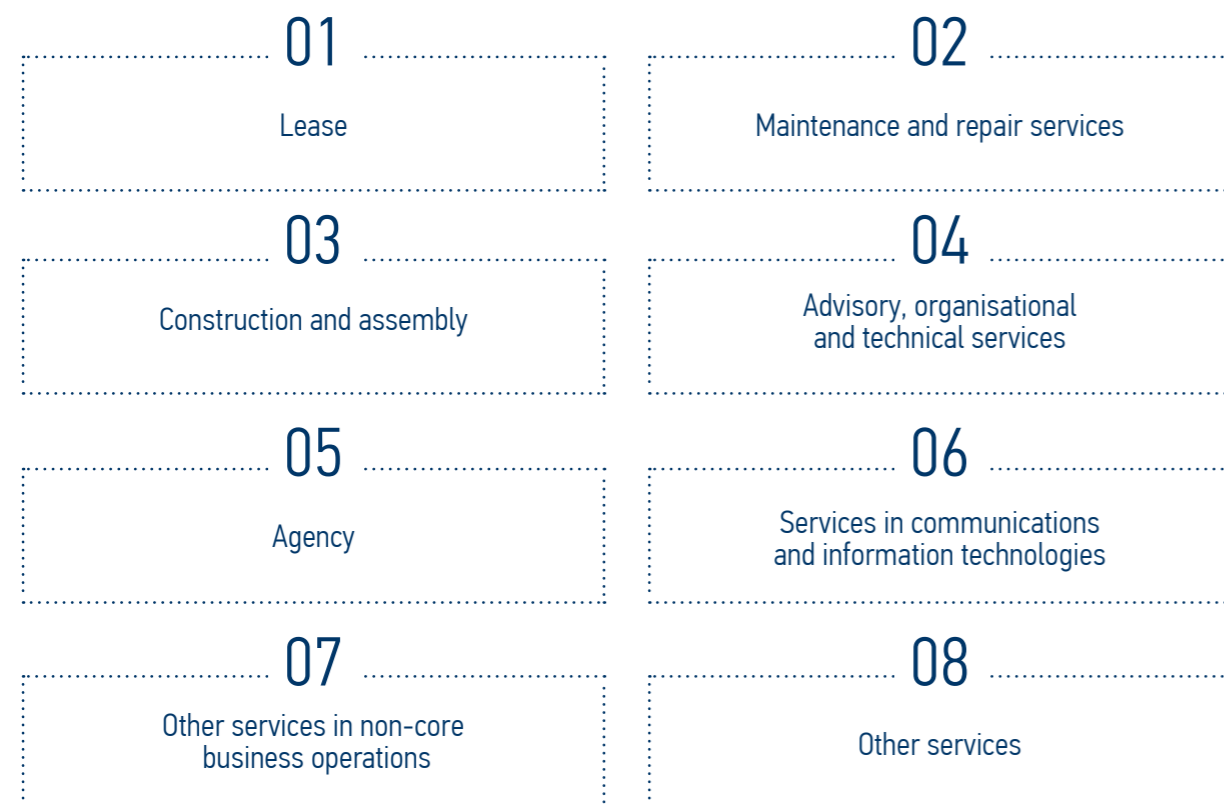
The additional services are rendered on a paid basis to meet the needs of the clients (legal entities and (or) individuals), applying to the Company. Additional chargeable works/services are not subject to state regulation of prices (tariffs) in accordance with the RF legislation. The information on additional services rendered, as well as relevant calculations, are shown at the information stands of consumer service offices and at the Company website.

The development of additional (non-tariff) services of PJSC IDGC of the North-West is a priority area of the Company in the context of moderate growth in productive power supply and permanent demand for the technological connection services in the recent 5 years.

Additional (non-tariff) services of the Company, RUB mln



To define a single approach to rendering additional (non-tariff) services, the ROSSETI Group approved a Unified consolidated list of additional non-tariff services for consumers:



Proceeding from this list, the Company carried out a preliminary market analysis (defined the market segment, market capacity, competitive environment assessment) by each type of the additional (non-tariff) services .

The findings of the analysis enabled it to draw up a list of highly demanded additional services in the power grid business and adjacent areas: lease of buildings, rooms, constructions, land; services of telecommunications equipment housing; maintenance and repair services; organisation

of power metering; performance of the technological connection operations attributed to the applicant's competence during technological connection ("TC on turnkey basis"), and other services in other business operations.

The market analysis served as the basis for the Company to draft a Roadmap on the above additional services development, defined the target indicators and the measures for their achievement.

The timeframe for the Roadmap activities completion is 2024.

Target indicators of the Roadmap on additional (non-tariff) services development at the Company

Indicator	Target values (plan)					
	2019	2020	2021	2022	2023	2024
A	1	2	3	4	5	6
Non-tariff revenue, RUB mln	866,521	967,210	1,007,996	1,050,820	1,095,783	1,142,993
Net profit, RUB mln	372,268	294,401	373,130	244,003	262,211	283,575
Profitability, %	78.99%	57.28%	75.17%	35.46%	35.79%	37.90%

The target indicators of the roadmap take into account:

- the scenario conditions of the business plan development;
- the actual values of the indicators achieved by sales of additional services in the previous periods;
- the applications received and the active income-generating contracts with the amount over RUB 1 mln;
- preliminary analysis of the marker and the prospects of additional (non-tariff) services development;
- the approved minimum profitability level for the additional services (the profitability for each additional service not less than the value defined as the highest indicator of 10% and the actual profitability of the service in the previous period).

The Roadmap activities aim at increasing the market share in additional (non-tariff) services of the Company, raising non-tariff revenue from sales of additional services, improving accessibility of the additional services of the Company, as well as commercialisation of the consumer interaction processes.



## IMPROVING POWER SUPPLY EFFICIENCY, RELIABILITY AND QUALITY



Key technical areas of enhancing reliability and efficiency of the Company's power grid facilities are stipulated by the Unified Technical Policy in the Power Grid System<sup>14</sup> approved by the Board of Directors of PJSC ROSSETI (Minutes of 22.02.2017 No. 252).

### GRIDS OF 6+ KV

Across PJSC IDGC of the North-West, year on year:

- the number of accidents increased by 42% (from 4,894 in 2018 to 6,927 in 2019);
- specific accident rate increased by 40% (from 4.25 in 2018 to 5.94 in 2019);
- power undersupply to consumers caused by technological disturbances increased by 22% (from 1,936,100 kWh in 2018 to 2,371,500 kWh in 2019);
- financial damage from technological disturbances increased by 21% (from RUB 75,167,700 in 2018 to RUB 90,832,700 in 2019).

### GRIDS OF 6-20 KV

Analysis of statistics for the period from January to December 2019 indicates growth in the number of power system disturbances by 53% year on year (in 2018 – 3,858, in 2019 – 5,897).

### GRIDS OF 35+ KV

The number of power system disturbances was reduced year on year by 3% (in 2018 – 1,036, in 2019 – 1,030).

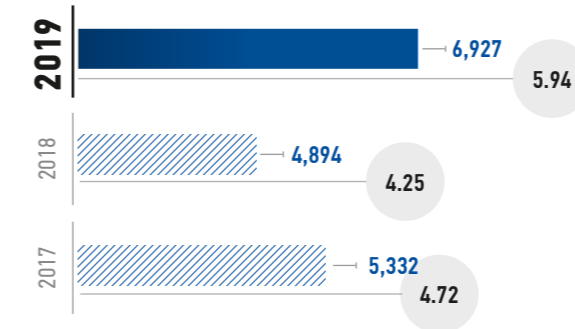
According to the research conducted after the accidents, their main reasons are as follows:

- inconsistency of the adopted corridor (clearing) widths of 6-110 kV OL with the modern operation requirements, fall of trees from outside the security territory with the height significantly exceeding the clearing widths, long period of operation for the majority of OL (58.2% OL have been in operation over 35 years) are the main reasons for technological disturbances at 35, 110 kV OL and in the 6-10 kV distribution grids. The number of power cuts caused by fall of trees due to weather conditions is 37% (2,532 cases) of the total number of disturbances in 2019;
- high physical depreciation of the equipment, where the operation period exceeds the standard technical lifetime (requires: renovation of the power equipment at 35-110 kV substations, distributing SS, transformer SS);
- significant number of 6+ kV OL disturbances was due to wear and tear. The number of disturbances with the signs of events described in 3.4.7.5 "Unsatisfactory technical condition of the equipment (insulation ageing, loss in mechanical strength of wires, changes in properties of materials etc.)" accounts for 17% (1,184 power cuts) of the total disturbances in 2019;
- disturbances connected with thunderstorms (362 disturbances) in the period from May to September account for 5% of the total number of disturbances in 2019.

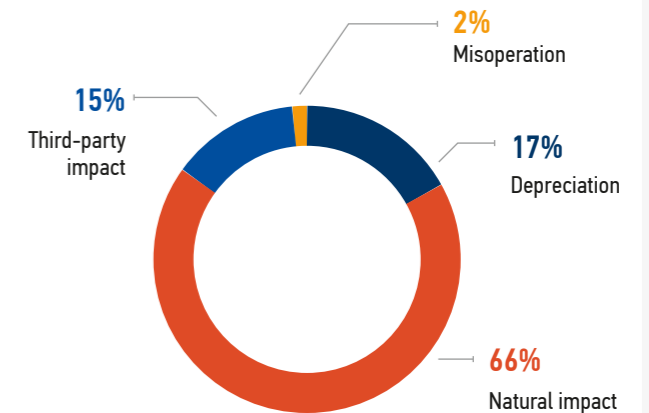
<sup>14</sup> The regulation on the Unified Technical Policy in the Power Grid System is presented at the web site <http://www.mrsksevzap.ru> under About the Company / Charter and internal documents / Policies.

## TRENDS IN TECHNOLOGICAL POWER SYSTEM DISTURBANCES

The dynamics of the number of accidents at facilities, pcs.



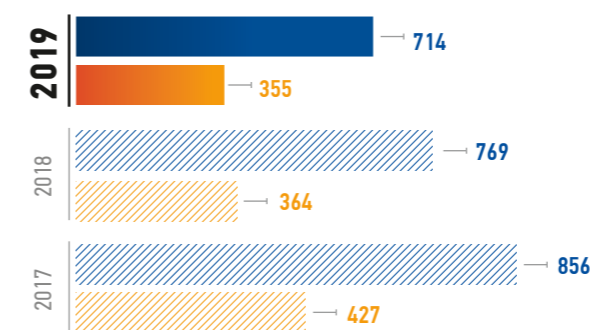
Major causes of faults



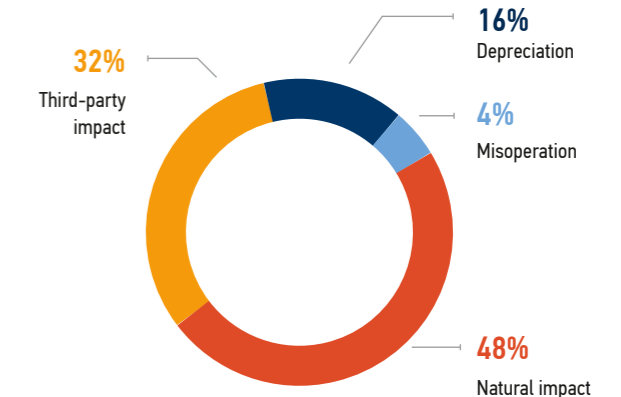
- Number of facility accidents, items
- Unit fault rate at the facilities (accidents per 1,000 conventional units)

## TRENDS IN TECHNOLOGICAL POWER SYSTEM DISTURBANCES IN 110+ KV GRIDS

Number of accidents at 110+ kV facilities, items



Major causes of accidents at 110+ kV facilities



- Number of accidents at 110+ kV facilities, items
- including accidents at 110+ kV facilities with successful ACR, items

To reduce the number of emergency power outages caused by breakdown of the equipment with expired service life, the Company updated a programme for upgrade (renovation) of its power grid facilities for the period of 2020-2026 (approved by the Board of Directors of PJSC IDGC of the North-West, Minutes of 25.12.2018 No. 303/16).

A programme aimed at bringing forest corridors to normative condition by widening clearings of 35+ kV OL was developed to increase efficiency, reliability and safety of power generation and reduce the number of disturbances caused by falling trees (approved by Regulation of PJSC IDGC of the North-West No. 357r dated 11.09.2017). The widening of clearings is implemented within the investment programme.

To decrease the number of emergency power outages of 0.4-20 kV OL due to overlapping wires, fall of foreign objects on wires, fall of trees and recurrent natural disasters, a programme aimed at renovation of power lines of 0.4-20 kV with replacement of uninsulated wire with SSIW is implemented at PJSC IDGC of the North-West branches. Replacement of uninsulated wires with SSIW helps to reduce the number of technological disturbances and the costs of maintenance.



## READINESS FOR POSSIBLE POWER SYSTEM DISTURBANCES RESPONSE

Regardless of the season and weather conditions, PJSC IDGC of the North-West employees are prepared for mitigation of possible technological accidents: 217 employees of the company in the form of 37 mobile crews supported by 101 units of machinery are ready for swift mitigation of large-scale shutdowns, and may be sent to assist colleagues from other branches, or subsidiaries and associates of PJSC ROSSETI if necessary. Additionally 71 agreements were signed with contractors on interaction during emergency recovery, which allows involving 1,228 persons in 160 crews and 476 units of machinery in restoring power supply.

PJSC IDGC of the North-West has 290 reserve sources of electric power supply with the total capacity of 45.8 MW.

Subject to Order of PJSC ROSSETI dated 01.06.2018 No. 89, PJSC IDGC of the North-West worked out a multiannual (up to 2022) programme for purchasing reserve power supply sources (RPSS) in the volumes endorsed by PJSC ROSSETI.

The RPSS purchasing plan for 2019 was fully completed by PJSC IDGC of the North-West: 18 RPSS were purchased with the capacity of 5.2 MW.

In accordance with the communicated principles of building the required RPSS capacity, 58 RPSS are to be bought in 2019–2022.

In 2019, PJSC IDGC of the North-West sent assistance to restore power supply to consumers of PJSC Lenenergo: 135 employees within 30 crews and 31 units of machinery, including crew vehicles. Mitigation of large-scale power system disturbances at power grids of PJSC Lenenergo involved employees from six branches of the Company.

## INDICATORS OF SERVICES RELIABILITY SYSTEM AVERAGE INTERRUPTION DURATION INDEX PER POINT OF DELIVERY (PSAIDI) AND SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX PER POINT OF DELIVERY (PSAIFI)

Analysis of the actual indicators of reliability levels of the Company branches in 2019 shows that in the Karelia branch the indicator of services reliability System Average Interruption Duration Index per point of delivery (Psaidi) was achieved with a major improvement, and in the Arkhangelsk, Vologda, Murmansk, Novgorod, Pskov and Komi branches the indicator of services reliability System Average Interruption Duration Index per point of delivery (Psaifi) was achieved with acceptable variation.

Analysis of the actual indicators of reliability levels of the Company branches in 2019 shows that in the Arkhangelsk, Vologda, Karelia, Murmansk, Novgorod, Pskov and Komi branches the indicator of services reliability System Average Interruption Frequency Index per point of delivery (Psaifi) was achieved with acceptable variation.

### Average interruption frequency and duration

Indicator	2017	2018	2019
System Average Interruption Frequency Index per point of delivery (Psaifi), items	1.60	1.40	1.90
System Average Interruption Duration Index per point of delivery (Psaidi), hours	4.18	2.73	4.23

Data shows that in the period from 2017 to 2018, PJSC IDGC of the North-West presents positive trends in the power supply reliability indicators. In 2019 a reduction in reliability indicators was observed in 6 branches and the Company on the whole. The reliability indicators reduction was brought

about by a 16% increase in the number of consumer power supply interruptions in 2019 against 2018, which is due to extremely unfavourable natural impact as Atlantic cyclones hit the territory of the PJSC IDGC of the North-West branches in January–March and November–December of 2019.

## REACHING THE RELIABILITY LEVEL OF THE SERVICES RENDERED

In 2019, the indicators of services reliability and quality levels set by executive authorities of the Russian Federation regions in the area of state tariff regulation subject to regulatory documents were achieved by all branches of PJSC IDGC of the North-West.

Branch	Average interruption duration per point of delivery		Average interruption frequency per point of delivery		TC quality level	
	Planned	Actual	Planned	Actual	Planned	Actual
ARKHANGELSK BRANCH	3.4535	2.4763	1.2879	1.4920	1.0000	1.0154
VOLOGDA BRANCH	5.0404	3.6241	2.2989	1.8629	1.0093	1.0894
KARELIA BRANCH	8.5180	4.7608	2.1270	2.4432	1.0000	1.2410
MURMANSK BRANCH	0,3455	0,3095	0,1523	0,1707	1,0002	1,0531
KOMI BRANCH	4.0805	4.1812	2.0233	2.3303	1.0000	1.0736
NOVGOROD BRANCH	7.0991	5.3658	1.7622	1.8195	1.0420	1.0507
PSKOV BRANCH	5.0229	5.3409	1.5239	1.9631	1.0240	1.0071

## REPAIR AND MAINTENANCE PROGRAMME

The Company performs power facilities maintenance and repair to keep up substations and high-voltage lines equipment in good working order.

In 2019, IDGC of the North-West fully completed the scheduled maintenance and repair activities.

Works	2017	2018	2019
Overhaul of OL, km	10,166	10,410	10,450
OL routes clearing, ha	16,563	19,824	15,841
Switching units repair, items	2,798	2,566	2,566
Actual M&R, RUB mln	3,800.76	4,839.49	4,495.25

All measures needed for maintaining the power grid system equipment in good technical condition, successful passing of autumn and winter period and reliable power supply to consumers are implemented at PJSC IDGC of the North-West within the technical repairs and maintenance plan for 2019.

Implementation of the technical repairs and maintenance plan accounted for RUB 4,495.25 mln (with RUB 4,091.39 mln planned), or 110%.

## POWER SUPPLY SAFETY

In accordance with the regulations on implementing the uniform communications policy of PJSC IDGC of the North-West (the latest version approved by Decision of the Company's Board of Directors dated 28.12.2017 (Minutes No. 263/18)), the Company performs information exchange with related electric power entities and divisions

of the EMERCOM of Russia. The Company's representatives participate in interagency working groups, consumer councils, regional headquarters for ensuring safe power supply under executive authorities of the constituent entities of the Russian Federation.

## SPECIAL OPERATION PERIODS

PJSC IDGC of the North-West implemented organisational and technical measures to prepare the power grid system for operation during special periods. Regulatory administrative documents were developed, commissions were created, and inspections were carried out to control proper implementation of main and additional measures for ensuring operational readiness of the power grid system for special operation periods. Subject to the results of the commissions' work, acts were obtained regarding operational readiness

for the 2019 high-water period, the fire protection period of 2019, the 2019-2020 autumn and winter period. By decision of the RF Ministry of Energy (Order of 15.11.2019 No.1225), the Company received a Certificate of operational readiness for the heating season. Full completion of the organisational and technical measures enabled it to ensure reliable power supply to consumers in the context of special operation modes.



## TECHNICAL POLICY<sup>15</sup>



The technical solutions implemented in the projects of new construction and renovation included in the investment programme of PJSC IDGC of the North-West for 2019 correspond to the requirements of the Unified Technical Policy (approved by Decision of the Board of Directors of PJSC IDGC of the North-West dated 05.04.2017 No.237/28).

Specialised professionals of PJSC IDGC of the North-West contributed to adjustment of the Unified Technical Policy. The Regulation of PJSC ROSSETI "On the Unified Technical Policy in the Power Grid System" approved by Decision of the Board of Directors of PJSC IDGC of the North-West (Minutes of 24.12.2019 No.342/19) and enacted by Order of the Company of 07.02.2020 No.61 "On implementation of the Regulation of PJSC ROSSETI "On the Unified Technical Policy in the Power Grid System".

In 2019, the target operational programmes of PJSC IDGC of the North-West (the target programme for disposal of injury-

risk equipment, the target programme for increased reliability of the distribution grid operations, the target programme for replacement of oil-filled bushing with solid insulation, the target programme for replacement of porcelain (polymeric) insulation at 35+ OL, the target programme for replacement of post insulators, the target programme for upgrade of RPA devices and units) stipulated gradual replacement of oil circuit breakers with vacuum ones of 6 (10) kV, construction of 0.4-10 kV PL using SSIW, introduction of up-to-date technologically compatible smart microprocessor units compliant with the requirements of IEC Standard 61850.

### Key, special or crucial projects of PJSC IDGC of the North-West using innovative, advanced, forward-looking technical solutions, technologies, materials and equipment in line with PJSC ROSSETI Regulation "On the Unified Technical Policy in the Power Grid System" in the reporting period:

#### ARKHANGELSK BRANCH

**RENOVATION OF 10KV OL F.TP42-1** in Verkola of the Pinezhsky District, Arkhangelsk Region with installation of an automated voltage regulation unit (MUE Karpogorskaya Kommunalnaya Elektroset, 15-01791A/17 of 04.08.17)

#### MURMANSK BRANCH

**CONSTRUCTION OF 150 KV OL** from L-160 and from L-219 to 150 kV SS Belokamenka for the technological connection of LLC Kola Dockyard

#### KARELIA BRANCH

**OVERHAUL OF 110 KV OL L-133** at intersection with the motorway Saint Petersburg – Petrozavodsk, via Priozersk, Sortavala, Lakhdenpokhsky District. Installation of segmented (compound) reinforced concrete poles SK-22

The implementation of the above and other projects served to enhance reliability and improve the quality of power supply to socially significant and other major facilities.

### Research and Development Board

In order to enhance its technical activities and implement the Unified Technical Policy in development, engineering, construction, renovation and operation of the power grid facilities, PJSC IDGC of the North-West created the Research and Development Board (hereinafter – the RDB). Its meetings are devoted to issues of research and development activities,

experimental operation of equipment and materials, use of equipment, finding solutions to the theoretical and technical issues of the Company's power grids and other subjects.

In 2019, there was 1 meeting of the RDB, where 11 issues were tackled<sup>16</sup>.

<sup>15</sup> Information on the technical guidance documents in the field of technical regulation is shown in Annex 8 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationshareholdersmeetings>.

<sup>16</sup> More details of the Report of the Research and Development Board for 2019 are shown in Annex 9 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationshareholdersmeetings>.



## INNOVATIVE DEVELOPMENT



The 2016-2020 innovative development programme with the outlook until 2025 taking into account the top-priority areas outlined in the policy of innovative development of PJSC ROSSETI approved by Decision of the Company's Board of Directors of 31.03.2017 (Minutes No. 235/26).

The programme aims to achieve the strategic goals of the Company through transition to a power grid of a new technological paradigm with entirely new indicators of reliability, efficiency, accessibility, manageability and client focus at the power grid facilities of the Company taking into account the aims and objectives of PJSC ROSSETI "Digital Transformation 2030" concept and the digital transformation programme of PJSC IDGC of the North-West for 2019-2030.

**552.89** RUB mln

Costs of implementing the innovative development programme in 2019

### THE FOLLOWING TOP-PRIORITY AREAS OF THE COMPANY'S INNOVATIVE DEVELOPMENT FOR THE PERIOD OF D&S IMPLEMENTATION UP TO 2025 WERE OUTLINED:

01

Transition to and large-scale deployment of digital substations of the voltage class 35-110(220) kV.

02

Transition to digital smart active adaptive grids with the distributed intelligent system of automation and management.

03

Transition to comprehensive efficiency of business processes and automation of management systems.

04

Usage of new technologies and materials in the power industry.

## MAIN COMPREHENSIVE INNOVATIVE PROJECTS IMPLEMENTED IN 2019

### 01 Transition to digital substations of the voltage class 35-110 (220) kV

The essence of the area is to create an architecture of automated process management systems based on digital process and facility buses with data and measurement flow and control actions transfer over IEC-61850 protocol and ensuring compliance of the Company's built and renovated substations of 35-110 kV to the standard OS 34.01-21-004-2019 "Digital feeding centre. Requirements to the technological design of digital substations with the voltage of 110-220 kV and digital tie-substations with the voltage of 35 kV".

#### Implementation of the measures covered by this area involves key business processes:

- operational and process management by automation of collection, processing and decision-making on facilities management;
- repair and maintenance by monitoring the technical condition and the residual life of the equipment;
- rendering power transmission services by automation of remote data collection from power meters.

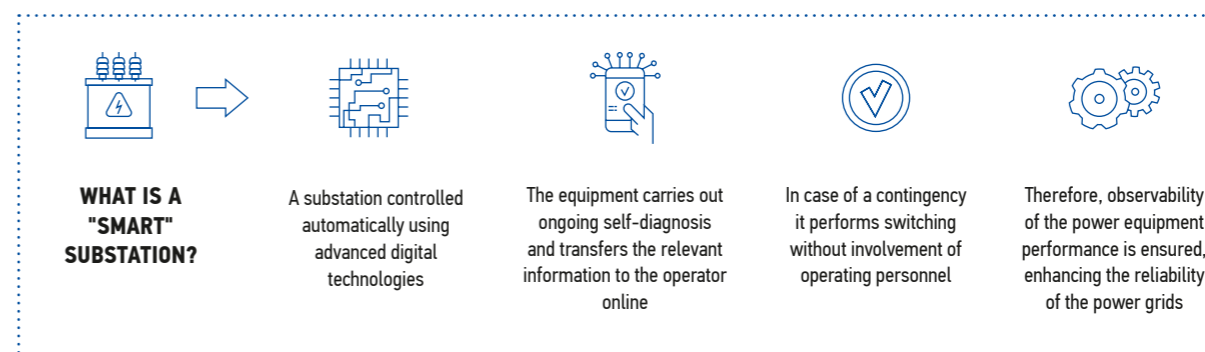
Additional positive influence on supporting business processes of the Company is expected due to reduction in the overall duration of power supply interruptions brought about by streamlining the information flows within a facility between metering and equipment protection devices and prevention of spurious openings.

Due to substantial increase in the volume of data received for further processing and visualisation, the time for drafting, making and implementation of management decisions on the current and future developments can be considerably reduced, further leading to optimisation of the above management business process and improved allocation of operating staff.

#### The major innovative development projects for PJSC IDGC of the North-West in 2019 were as follows:

- Implementation of the digital substation architecture within the framework of renovation of 110/35/10 kV SS Vostochnaya in Vologda.
- Implementation of the digital substation architecture within the framework of construction of 35/10 kV SS Balaton in the Vologodsky District of the Vologda Region.
- Implementation of the digital substation architecture within the framework of construction of 35/10 kV SS Potok in the Vologodsky District of the Vologda Region.

Due to the upgrade, the above substations are to move to a high level of operational process management automation, they are to be equipped with advanced information technology and controlling systems and devices enabling all the processes of information exchange among the SS components (as well as interaction with the external systems) and the SS process management on the whole to be performed digitally on the basis of the IEC 61850 protocol. Digital substation components form a field bus with the topology of "process bus" and "station bus".





## Transition to digital smart active adaptive grids with the distributed intelligent system of automation and management

Active adaptive grids independently track the operations of all participants in the process of power generation, transmission and consumption in real time. Receiving online feedback from an extensive system of sensors, a smart grid is envisioned to respond automatically to all changes in the grid, making optimised decisions to prevent faults and ensure power supply with the best possible reliability and economic efficiency.

Development of an active adaptive grid including introduction of distributed automation at overhead distribution grids based on the principles of automated grid reconfiguration to minimise the frequency and duration of interruptions, as well as introduction of a situational information unit at the PDZ level to ensure observability of the distribution grid facilities was deployed in 2 PDZs of the Novgorod branch of PJSC IDGC of the North-West – Valday and Borovichi. The project aims at achieving the following target indicators: reduction in the average power supply interruption duration, improving the power quality and accessibility of the power infrastructure, reduction in operating expenses, as well as working out technical and administrative solutions to optimise the business process of operational, process and contingency control.

In 2019, the Valday PDZ fully completed the planned activities on design, installation and setup of the installed automation systems, the development, engineering and setup of the situational information unit; the Borovichi PDZ carried out design and survey, as well as construction and assembly for part of the equipment.

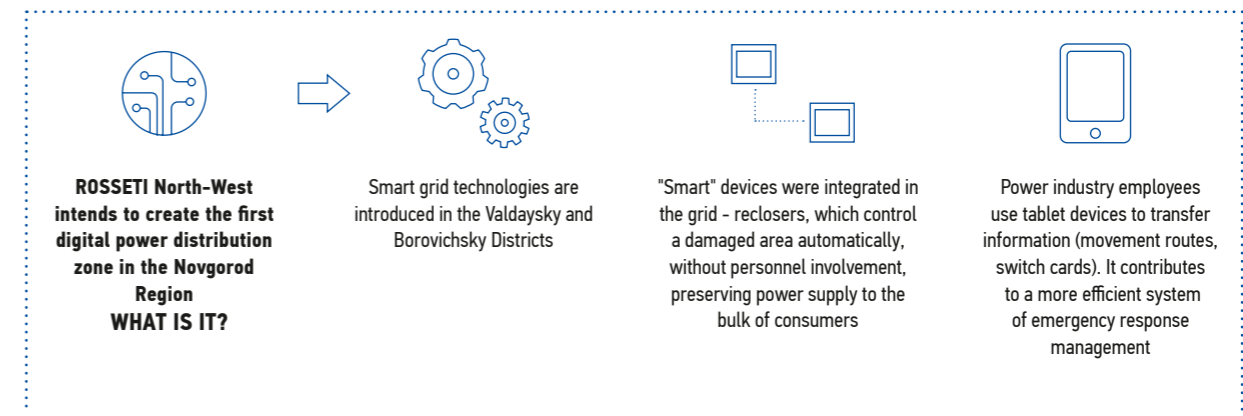
**A major result of the year 2019 is the implementation of a single situational information unit deployed on the level of the branch GCC, ODS of the PU and ODG of the PDZ (a comprehensive system of decision-making support) as a unified information system of operational, process and contingency control, including:**

- a CIM model of all power grid facilities of 35-110 kV, power grid facilities of Valday and Borovichi PU, Valday and Borovichi PDZ of 6-10 kV;
- a SCADA system with an instrument of topological analysis in the SCADA environment, the function of grid tracing (to main substations, connectivity among the grid elements etc.), the function of geodata processing on the data display forms, a web client to view the live data;
- a DMS system with the functions of analysing the steady states, evaluation of the grid condition, calculation of the short circuit currents, power consumption projection;
- an OMS system with the functions of identification of a damaged site, switching and separation of the damaged grid part by automated devices, developing switch cards for the service crews, automated drawing-up of an application for an emergency crew with a report on the location, scope, nature of the emergency, reflection of the data on mobile crews location, support of the tablet software (mobile application) for the emergency crew, automated power cuts data uploading, calculation of the number of consumers disconnected, of the volume of power undersupply, independent estimate of the SAIDI/SAIFI indicators, as well as a system of event notification in accordance with the circulation list;
- an ELA system with the functions of power balance calculation in 6(10) kV grids, identification of power losses locations, actual load of UTS 6(10)/0.4 kV monitoring.

**The key technical solutions achieved by implementation of the “Digital PDZ” project:**

- development of the active adaptive grid;
- creation of a smart system for distribution grid management on the basis of SIU with the functionality of DMS and OMS;
- introduction of the system power monitoring system.

Implementation of the project facilitates reduction in the power supply recovery time, enhances reliability of power supply to consumers and enables evaluation of innovation technologies in the Novgorod Region.



Implementation of the project “Development of an automated information system of technological management in the distribution power grid system” in 2019 involved continued efforts to create a unified environment for data exchange among the existing manifold automated information systems of data collection.

Within the framework of the transition to the smart system of automation and control of the development and operation of the power metering system with remote data collection, the Company continues carrying out a project to introduce a single target top-level software system Piramida-Seti (Order of PJSC ROSSETI of 21.09.2018 No. 163, Order of PJSC IDGC of the North-West of 10.10.2018 No. 679).

**It involves the following measures carried out by the Company in 2019:**

- deployment of the server-side of Piramida-Seti software, organisation of access to the server side from automated workstations;
- establishment of a hierarchy of metering facilities, approval of the polling mode, development of report forms, agreement of the procedures for information exchange with related information systems;
- personnel training at the service centre;
- development and alignment of the programme and methodology for testing, programme of acceptance inspection;
- data loading.

To implement the concept “Digital Transformation 2030” approved by the Board of Directors of PJSC ROSSETI (Minutes of 24.12.2018 No.336), as well as the measures stipulated by the programme on digital transformation of PJSC IDGC of the North-West in 2020-2030 approved by Decision of the PJSC IDGC of the North-West Board of Directors (Minutes of 27.01.2020 No.347/24), to build a hybrid data transfer network, the Company continued upgrading the radio network with the transition to the Digital Mobile Radio (hereinafter – DMR) standard. Its introduction is to ensure unified and centralised control of mobile crews and control room personnel and, if necessary, from the single grid control centre of the executive bodies of PJSC IDGC of the North-West regardless of the location of the mobile crews and personnel. In the future, the geoinformational system at the control operator’s workstation will show data on emergency crews and line crews location to accelerate the process of contingency control and estimate the best route of crew movement. It also plans to create a replacement pool of individual radio devices to provide for crew control even in the periods of mobile operators overload and disconnection.

**The equipment purchased in 2019 (radio repeaters, portable and automobile radio stations) is deployed in the pilot zones of several Company branches:**

- the Pskov branch (Pskov) deployed a digital VHF radio network of the DMR standard based on Radius IP equipment;
- the Komi branch (Vorkuta, Inta, Ukhta) deployed a digital VHF radio network of the DMR standard based on Motorola, Ermak equipment;
- the Murmansk branch is to deploy a digital VHF radio network of the DMR standard based on MIGKOM MGK-5002r equipment.

In accordance with the investment programme of the Company, the deployment of DMR networks in the branches is to be continued in 2020-2024.

### 03 Transition to comprehensive efficiency of business processes and automation of management systems

Within the innovation development area of “Transition to comprehensive efficiency of business processes and automation of management systems”, the Company started introducing the system of mobile solutions functionality automation OAMS in 2019 with a view to:

- increase the volume and reliability of the data in 1C: ERP – AOAMS regarding the technical features and geographical location of the power grid facilities;
- verify the data on the technical condition of the power grid facilities by using inspection templates;
- enhance control over safe work performance and encourage reduction in the number of process violations in performing the works due to the opportunity to control the quality of instruction before personnel access;
- reduce the labour input in drawing up documentation, analyse the nature and significance of the faults found, increase the M&R programme planning quality;
- communicate the required technical information to the personnel on site in due time (schemes, regulations, methodologies, instructions etc.).

Under this project, in 2019, the Company produced a conceptual design, including development of a unified scheduled plan of the project activities, development and approval of the design project.

Implementation of the corporate information system 1C: ERP – AOAMS on the platform 1C:Enterprise 8.3 in the configuration ERP Enterprise Management 2, transition from scheduled maintenance to condition-based maintenance will serve to reduce operating costs – the Company’s spending on day-to-day operation of the equipment.

#### PILOT PROJECT “DIGITAL ELECTRICIAN”

Part of the scheduled activities under the pilot project “Digital electrician” was completed:

- The design concept and the scheduled plan of activities were drawn up.
- The prototype of mobile solutions functionality of OAMS was developed in accordance with the design concept, installed as set up at the pilot site. The Company also fully completed preparations for integration of the OAMS mobile solution with digital personal safety equipment and launch of its experimental operation in the pilot area of the Vologda branch of PJSC IDGC of the North-West. The technical concept and specifications of the digital gear were developed, and a pool of project contributors with the relevant expertise were selected.

### 04 Usage of new technologies and materials

In 2019, the Murmansk branch of PJSC IDGC of the North-West continued implementation of the projects involving installation of innovative wire SENILEK (AT3/S, consisting of the zinc-coated steel wire core and layers of aluminium-alloy round wires of the AT3 type with the operational temperature of 210 °C). Its advantages are:

- power lines reliability increase due to high rupture strength, reduced icing and wind pressure of wires with compact design and smooth surface;
- growth in power lines transmission capacity 1.5-2 times due to increased operational temperature and current carrying capacity;
- reduction in power lines construction and especially renovation costs due to lighter weight of the wires with the same carrying capacity.

#### PILOT PROJECT “DIGITAL OVERHEAD POWER LINE OF 110 KV”

Under the first and the second stage of the pilot project “Digital overhead power line of 110 kV”, Karelia and Murmansk branches installed and launched experimental operation of the following equipment:

- system of OL short circuit detection;
- system of rime ice monitoring;
- system of wire temperature monitoring;
- system of poles/crossarms tilt measurement.

The above systems are the basis for creating the system of remote overhead lines condition monitoring, and lay the foundations of introducing the industrial Internet of things technology.

The systems have shown their performance capacity, and in 2020 their experimental operation is to continue and a decision is to be made on their transfer into permanent full-scale operation.

Additionally, a bid was organised at the second stage for rendering services and connection to information facilities in order to:

- probe the soil using laser, thermal and optical scanning;
- gain access to the system of weather conditions and OL disconnection monitoring;
- gain access to the system of thunderstorm finding;
- probe the soil (of OL) using satellites
- scan the OL wire and route by robotic units.

Such projects include:

- construction of 150 kV OL from L-160 and from L-219 to 150 kV SS Belokamenka for the technological connection of LLC Kola Dockyard (contract of 20.02.2017 TP No.43-000141/16 with LLC Kola Dockyard) (the projected line length is 56.45 km);
- construction of two 150 kV OL from 150 kV SS No.53 to 330 kV SS Murmanskaya and construction of access lines of 150 kV OL No.No.L-172, L-179 to 330 kV SS Murmanskaya (project completed). In 2019, the Company completed the project of technical re-equipment of 110-150 kV OL, L-163/164, L-171/172, L-141 with installation of rime ice control points (the system of PL ice load telemetrics MIG) (5 items).

These measures enable remote speed control and vehicle tracking. Their implementation enhanced the efficiency of vehicle operation by reducing its misuse and the number of traffic penalties for speed infringement.

The findings of the pilot launch of the monitoring system in 2019 showed decrease in petrol consumption by 11% year on year. Thus, savings were achieved in fuel costs in the amount of RUB 4.85 mln net of VAT.

For more information about the system of PL ice load telemetrics MIG, see page 74 in the full version of the Annual Report on the Company’s website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.



**IMPLEMENTATION OF THE ABOVE INNOVATIVE PROJECTS WILL CONTRIBUTE TO ACHIEVEMENT OF THE FOLLOWING STRATEGIC PRIORITIES:**

- Ensuring reliable, high-quality and safe power supply to consumers
- Operating expenditure deficit reduction
- Digital business transformation
- Business process standardisation and improvement of functional organisation
- Improving the efficiency of investment activities

The costs of implementing the 2016–2020 innovative development programme with an outlook up to 2025 amounted to RUB 552.89 mln in 2019.

*Planned and actual costs by key areas of innovative development*

Key areas, RUB mln (net of VAT)	2019 planned	2019 actual	Deviation		Deviation reasons
			absolute	%	
Innovations, including key areas:	494.56	552.89	58.33	11.8	
Transition to digital substations of varying voltage class 35–110 (220) kV	43.62	138.86	95.24	218.3	Additional measures were taken not included during the plan development
Transition to digital active adaptive grids with the distributed smart system of automation and management	274.85	268.06	-6.79	-2.5	Savings from trade and procurement procedures
Transition to comprehensive efficiency of business processes and automation of management systems	17.62	3.04	-14.58	-82.7	Termination of the contract for services of information systems integration within the framework of adjusting 1C: ERP-AOAMS
Usage of new technologies and materials in the power industry	121.35	125.51	4.16	3.4	Adjustment of value indicators

The efficiency of implementing the innovative development programme of PJSC IDGC of the North-West is assessed and monitored by specific gauges – programme efficiency indicators.

For more details on the implementation of the Innovative Development Programme, see the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

**R&D**

A key priority within the innovative development of the power grid system is carrying out R&D, aimed at developing breakthrough technologies designed to create revolutionary solutions and methods.

The following R&D projects were performed by the Company within the mid-term plan for implementation of the innovative development programme in 2019:

Research project "A study of the information field at PJSC IDGC of the North-West and creation of a CIM basic profile in line with the standards IEC 61968 and IEC 61970". The results of the first stage will serve to build a comprehensive list of the PJSC ROSSETI data items to be included in the profile of the CIM model of PJSC ROSSETI.

Research project "a study of the increment speed of the main types of forest-forming tree species depending on climatic zones and the condition of the soil in the route areas of the

current OL, creation of regional maps for the frequency of OL route clearing and issuing recommendations on the working technique".

The economic effect of the study consists in reducing damage from technological faults brought about by OL outage due to obstruction of the clearance between the wires and the TSV, as well as reduction in costs of OL maintenance by optimising the schedule of bringing OL routes to standards.

For more information on R&D, see the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.





## INFORMATION TECHNOLOGIES



### RESULTS OF THE CMIS DEVELOPMENT IN 2019

In 2019, introduction of the ERP-system on the 1C platform was carried out as follows:

- automation of the electronic register of faults at PJSC IDGC of the North-West; automation of the fixed assets breakdown probability projection model; automation of the methodology for projecting changes in reliability of power supply to consumers and the technical condition of assets depending on the resources available;
- integration of the centralised software of OAMS, GIS system and applied software with systems of business analytics and the GIS system of PJSC IDGC of the North-West;
- ensuring centralised maintenance of the reference data display;
- automation of the functionality of mobile solutions at PJSC IDGC of the North-West; automation of the standard forms of test/measurement records by test objects, groups and equipment types; creation of an automated system for technical re-equipment and renovation management; automation of the occupational safety and operational supervision functionality.

Implementation of these programmes is to boost the level of observability of the control facilities and arrange remote control of switching units, comprehensively increasing the quality of operational dispatch management.

The remote control devices upgrade was performed in 2019 as follows.

Branch	Number of SS facilities	110+ kV grid	35 kV grid
Arkhangelsk	5	5	-
Vologda	6	5	1
Karelia	12	4	8
Komi	13	6	7
Novgorod	8	3	5
Pskov	1	1	-

Construction of SS 35 kV Potok in the Vologda branch involved commissioning of an automated technological process control system compliant with the standards of digital substation.

### RESULTS OF THE APMS DEVELOPMENT IN 2019

In 2019, the Company performed the APMS development activities planned within the following approved programmes:

- A programme for upgrade and extension of the systems of data collection and transfer from control units of the Company branches in the operations area of JSC SO UES of IDO North-West and IDO Centre.
- Programmes of APMS development at branches of the Company.
- Programmes of digital transformation.

**79 pcs.**

The number of SS fully controlled remotely in 2019

The number of SS fully controlled remotely is 79 items in 2019.

The number of SS where circuit breakers are fully controlled remotely is 368 items.

The projects of upgrading distribution grids of 10/6/0.4 kV of Valday PDZ, Novgorod branch, was completed with introduction of SIU compliant with the requirements to digital PDZ.

## Results of the communications system and IT-infrastructure development in 2019

The Company kept developing communications channels with the facilities using both its own resources and those of communications providers. Renovation of communications channels and construction of new ones is based only on the advanced digital solutions providing greater capacity and quality than analogous ones.

At the Vologda branch, the Company deployed its information computer hardware and software system AMIS EPFM Piramida-Seti.

The corporate data transfer network was optimised, increasing bandwidth capability between the branches and the ex-

ecutive bodies 5 times, with the transition to fully-connected topology with high redundancy level. Further performance improvement is planned for the corporate information systems by setting up data processing centres (DPC) and arranging direct channels from PDZ and site units to the DPC.

A system of centralised communications and remote control equipment monitoring was launched at the Company. The Company worked with communications providers to reduce the costs of communication services, the annual savings are to amount to about RUB 2.5 RUB mln.

### Information security of the CIIO

In 2019, the Company classified its critical information infrastructure objects (hereinafter – CIIO).

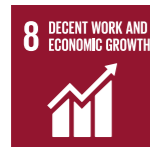
Under the programme “Digital transformation of PJSC IDGC of the North-West in 2020-2030” (approved by PJSC IDGC of

the North-West Board of Directors on 27.01.2020, Minutes No.347/24), measures are stipulated to provide for information security of the CIIOs.

For more details on Information technologies, see the Full Annual Report on the Company’s website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.



# FINANCIAL PERFORMANCE ANALYSIS



## Key financial and economic indicators of the Company under RAS<sup>17</sup>

Indicator	2017	2018	2019
Revenues from sales of products (services), including:	44,307	61,123	45,131
from power transmission	42,710	40,427*	42,931
from technological connection	810	2,423	1,298
from power sales	0	17,541	0
from other activities	787	732	902
Cost of goods (services) sold	39,925	54,358	40,545
Gross profit	4,383	6,765	4,586
Administrative expenses	1,231	1,247	1,274
Selling expenses	45	1,091	108
Sales profit (loss)	3,106	4,427	3,203
Interest receivable	40	45	43
Interest payable	1,408	1,105	1,087
Profit from participation in other organisations	5	11	76
Other profit	2,107	1,480	1,326
Other losses	6,684	3,793	2,758
Profit (loss) before tax	-2,833	1,067	804
Profit tax and other payments	-391	467	250
Net profit (loss)	-2,441	599	554
EBITDA**	3,003	6,782	6,585

\* The indicator is presented in accordance with accounting statements, net of internal business volume stemming from the function of the supplier of last resort

\*\* EBITDA should be calculated as follows: Profit before taxation + Interest payable + Depreciation = line 2300 form 2 – line 2330 form 2 + line 6514 form 2.1 + line 6554 form 2.1 + line 6564 form 2.1

<sup>17</sup> The breakdown of PJSC IDGC of the North-West revenue and expenses under RAS is shown in Annex 10 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

# 45,131 RUB mln

Revenues from sales of products (services) in 2019

In comparable conditions (including the value of the power transmission services as part of power supply contracts for performing the function of power supplier of last resort), the revenue growth amounted to RUB 697 mln, or 2%, which is due to growth in the volume of services rendered by 453 mln kWh and in the average tariff by 3 RUB/thous. kWh.

Revenues from sales of products (services) in 2019 amounted to RUB 45,131 mln, which is RUB 15,992 mln, or 26%, lower than in 2018. The substantial year-on-year revenue decrease was primarily connected to the receipt of revenue in 2018 from power sales services in the amount of RUB 17,541 as the Company performed the function of power supplier of last resort in the Arkhangelsk branch from 01.01.2018 to 31.09.2018 and Vologda branch from 01.03.2018 to 31.12.2018. The total revenue from power transmission services in 2019 amounted to RUB 42,931 mln, which is RUB 2,504 mln, or 6%, higher than the level of 2018 (net of the power transmission services as part of power supply contracts for performing the function of power supplier of last resort in the Arkhangelsk Region from January to September 2018 and Vologda Region from April to September 2018). In comparable conditions (including the value of the power transmission services as part of power supply contracts for performing the function of power supplier of last resort), the revenue growth amounted to RUB 697 mln, or 2%, which is due to growth in the volume of services rendered by 453 mln kWh and in the average tariff by 3 RUB/thous. kWh. The revenue from technological connection in 2019 amounted to RUB 1,298 mln, which is RUB 1,125 mln, or 46%, lower year on year, due to reduced volume of contracts in 2019.

## Revenue from other activities

Apart from the core business subject to state regulation (power transmission services and technological connection to power grids), the Company performs other activities: heat and power generation, property rent, relocation of power grid facilities etc. The share of other services accounts for 2% of the total revenue.

Revenue from other activities amounted to RUB 902 mln in 2019, according to the accounting statements, which is RUB 22 mln, or 2%, lower against 2018. This revenue amount includes the internal business volume in the amount of RUB 191 mln, stemming from power generation at Mezenskaya diesel power plant (DPP) aimed to perform the function of the supplier of last resort in the Arkhangelsk Region.

### The largest share of revenues from other activities is attributable to:

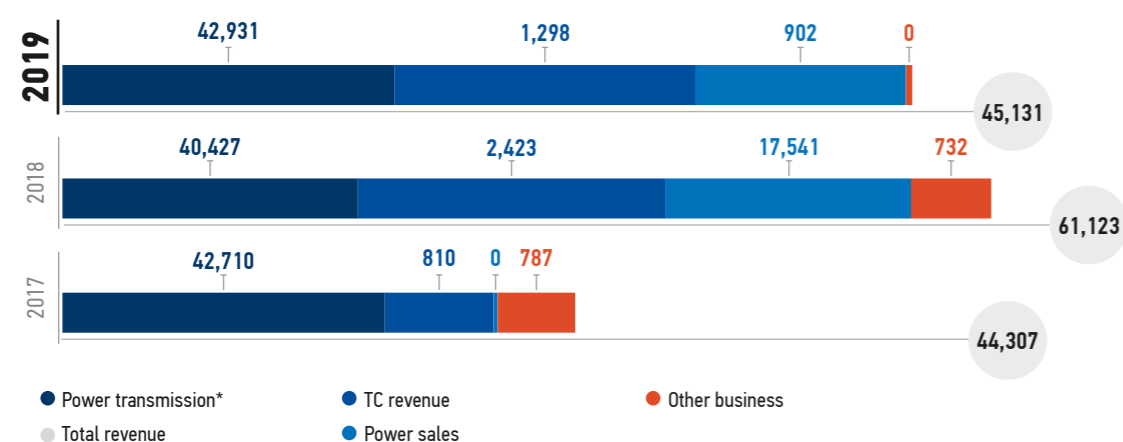
- power generation services at Mezenskaya diesel power plant (DPP) in the amount of RUB 313 mln (35% of the revenue from other activities), which is RUB 46 mln, or 17%, higher year on year due to productive power supply growth by 307 MWh;
- property rent – RUB 256 mln (28% of the revenue from other activities); the largest income was generated by Karelia branch renting out property to OJSC Nadvoitsy

Aluminium Smelter – a company of the RUSAL Group. The revenue from property rent in 2019 exceeds the level of 2018 by RUB 20 mln, or 8%, the growth being conditioned by increased volume of the vehicle and other property rent by Vologda branch to LLC Severnaya Sbytovaya Kompania, to which the functions of power supplier of last resort were transferred;

- relocation of power grid facilities – RUB 87 mln (10% of the revenue from other activities), which is 84 RUB mln, or 49%, lower year on year. In 2019, the principal revenue share was attributable to JSC Oboronenergo – RUB 46 mln. The largest contract of 2018 was concluded in the Novgorod Region due to construction of Moscow – St. Petersburg high-speed motorway at the segment 58-684 km;
- repair and maintenance services in the amount of RUB 89 mln (10% of the revenue from other activities), which is higher than the level of 2018 by RUB 5 mln, or 6%. This items mainly records the revenues received from municipal authorities for line maintenance of outdoor lighting grids;
- construction and assembly in the amount of RUB 37 mln (4% of the revenue from other activities), which is RUB 36 mln higher than the level of 2018 under the contract with IDGC of Northern Caucasus.



Revenue from sales, RUB mln



Sales revenue trends in 2017-2019

Indicator, RUB mln	2017	2018	2019
Power transmission*	42,710	40,427	42,931
TC revenue	810	2,423	1,298
Other activities*	787	732	0
Power sales *	0	17,541	902
Total revenue	44,307	61,123	45,131

The indicators of revenue are presented in accordance with accounting statements, net of internal business volume.

Actual cost of services sold (taking into account selling and administrative expenses) in 2019 amounted to RUB 41,928 mln, which is RUB 14,768 mln and 26% lower against 2018. The year-on-year decrease in the costs is due to performing the function of supplier of last resort in the Arkhangelsk and Vologda Regions in 2018. In comparable conditions (net of the marketing costs), in 2019, the cost of services sold (including selling and administrative expenses) grew year on year by RUB 217 mln. The largest increase was in non-influenceable costs (services of PJSC FGC UES, LGOs, costs of power losses compensation) and property rights registration costs.

In 2019, the sales profit amounted to RUB 3,203 mln, which is RUB 1,224 mln, or 28%, lower than in 2018. In 2019,

the Company received net profit in the amount of RUB 554 mln, which is lower year on year by RUB 45 mln, or 8%. The actual EBITDA in 2019 was RUB 6,585 mln, which is lower than planned by RUB 197 mln and mainly conditioned by lack of large technological connection contracts.

**554 RUB mln**

Net profit in 2019

## OPERATIONAL PERFORMANCE IMPROVEMENT AND COST REDUCTION PROGRAMME

THE OPERATIONAL PERFORMANCE AND COST REDUCTION PROGRAMME INVOLVED THE FOLLOWING ACTIVITIES PERFORMED BY THE COMPANY:

- 01 IMPROVED EFFICIENCY OF REPAIRS AND MAINTENANCE MANAGEMENT REGARDING THE FACILITIES, BUILDINGS AND CONSTRUCTIONS** by revision of operating and maintenance rules and other regulatory RTDs, optimisation of the number of employees responsible for maintenance and repairs, ensuring a 93% share of the maintenance carried out using in-house resources and the share of maintenance in the maintenance and repairs programme of 45%, optimisation of expenses on vehicles and machinery.
- 02 IMPROVED EFFICIENCY OF WORKING CAPITAL MANAGEMENT** by loan portfolio optimisation, including opening lending limits at credit institutions in order to minimise financial risks, meet the limits of debt indicated in the Company's credit policy regulation (approved by the Board of Directors of OJSC IDGC of the North-West on 30.09.2013, Minutes No. 135/6), settling the previous loans in due time, refinancing the credits with the highest interest rates.
- 03 IMPROVED EFFICIENCY OF THE FIXED ASSETS MANAGEMENT** by organising independent construction surveillance optimising depreciation, reduction in costs on upkeep and management of non-core assets, improving the efficiency of supply chain management, introduction of the system of monitoring purchase prices for materials and equipment, unification of the relay protection devices and emergency protection automatics used at the facilities.
- 04 IMPROVED EFFICIENCY OF THE SYSTEM OF MANAGING PROCUREMENT AND SUPPLY CHAINS** due to implementation of measures to reduce the share of procurement purchasing "from the sole supplier", retaining the share of purchases made at electronic trading facilities, minimisation of the use of imported equipment in the total equipment purchasing, carrying out reversed auctions.
- 05 OPTIMISATION OF THE SYSTEM OF INCENTIVES AND PERSONNEL REMUNERATION** by improving the performance of the administrative and management employees, improvement of the system of financial and non-financial personnel motivation.
- 06 IMPROVEMENT OF FUNCTIONAL ORGANISATION, PERSONNEL HEADCOUNT OPTIMISATION** by business process standardisation, elimination of redundant management levels and overlapping functions (PU merging, PDZ enlargement, optimisation of the structure of site working units, upgrade of the internal standards, including process sheets).
- 07 IMPROVED ENERGY EFFICIENCY (MANAGEMENT OF THE POWER SAVING AND POWER LOSSES REDUCTION SYSTEM)** by implementation of the measures to reduce power losses and use fuel and energy and natural resources rationally.

Implementing the above set of measures facilitates full compliance with the indicators of the approved business plan and target programmes of the branch.



Operational performance and cost reduction programme of PJSC IDGC of the North-West was approved by the Company Board of Directors (Minutes of 05.04.2019 No.314/27). The activities stipulated by the programme are taken into account in the business plan, investment programme, power saving and energy efficiency programme, innovative development programme and other target programmes worked out by the Company.

The reduction in the operating expenses in line with Directive of the Russian Federation Government of 16.04.2015 No. 2303p-P13 amounted to 7.46% in 2019 against 2018, which complies with the target indicator.

Performance indicators of the Programme are based on target values set by the Directive of the Russian Federation Government of 16.04.2015 No. 2303p-P13.

**7.46%**

The reduction in the operating expenses in 2019 against 2018

### Income from sales of non-core assets<sup>18</sup>

Subject to Decree of the Russian Federation President of 07.05.2012 No. 596 "On long-term state policy", Directives of the Russian Government of 07.07.2016 No. 4863p-P13, Order of the Russian Government of 10.05.2017 No. 894-r, the Company Board of Directors Decision of 26.02.2018 (Minutes No. 269/24) adopted the programme for non-core assets disposal of PJSC IDGC of the North-West (hereinafter – the Programme).

Decision of the Board of Directors of PJSC IDGC of the North-West of 26.02.2020 (Minutes of 28.02.2020 No.351/28) approved the register of non-core assets of PJSC IDGC of the North-West (hereinafter – the Register) as of 31.12.2019 under the requirements of the programme. The Register includes 39 non-core assets, 15 of which fall under the strategy of "sales", 24 – "preservation". A brief version of the current Register is available at the Company's web site: <http://www.mrsksevzap.ru/property>.

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

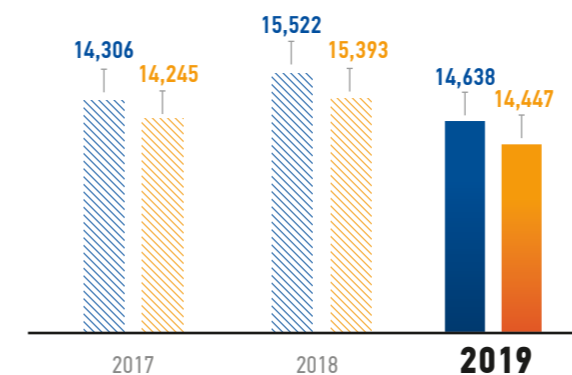
**20.55 RUB mln**

Amount of revenues from non-core assets in 2019

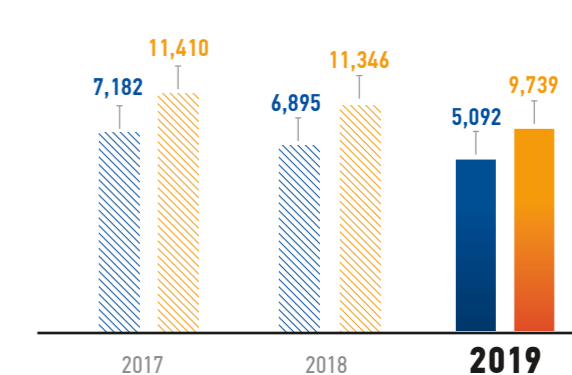
## DEBT LIABILITIES

In 2019, the growth rates of accounts receivable and accounts payable were lower than one, which shows their reduction against 2018.

Debt and net debt trends, RUB mln



AR and AP correlation, RUB mln

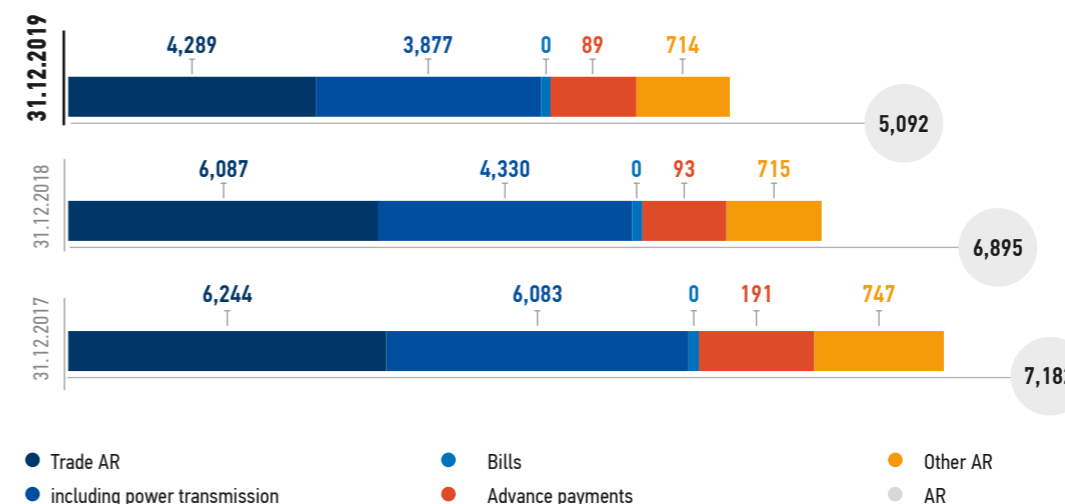


● Debt  
● Net debt

● Accounts receivable  
● Accountts payable

### Accounts receivable

Changes in accounts receivable\*, RUB mln



\* The indicators are shown in accordance with the Company's accounting statements for 2019

The amount of accounts receivable of PJSC IDGC of the North-West at the beginning of the reporting period was RUB 6,895 mln, as of 31.12.2019 – RUB 5,092 mln. The reduction was due to a decrease in the receivables from power transmission services by RUB 453 mln (from RUB 4,330 mln to RUB 3,877 mln).

Advanced paid as of the end of 2019 decreased by RUB 4 mln.

The changes in other accounts receivable are insignificant. In 2019, the reduction amounted to RUB 1 mln.

Trade accounts receivable as of 31.12.2019 amounted to RUB 4,289 mln, which is RUB 1,798 mln lower than those of 31.12.2018.

The bulk (76.1%) of the Company's accounts receivable was in the settlements for power transmission services rendered.

<sup>18</sup> The data on sales of non-core assets in 2019 are available in Annex 11 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationshareholdersmeetings>.

## MEASURES TO RECOVER ACCOUNTS RECEIVABLE

The Company works with the overdue accounts receivable from the power transmission services in accordance with the Regulation on managing accounts receivable from the power transmission services recorded by PJSC IDGC of the North-West, approved by Order of 05.06.2019 No.337 (hereinafter – the Regulation).

### In line with the schedules set by the Regulation, in 2019:

- ✓ the Company sent **753 lawsuits**
- ✓ for the total amount of **RUB 5,257 mln**
- ✓ and conducted **negotiations with debtors**

### In 2018

upon consideration of the Company's claims to recover overdue accounts receivable for the power transmission services, the court sustained **684 lawsuits** in the total claimed amount of **RUB 7,659 mln** (including the penalties of RUB 654 mln), dismissed the claims for **52 lawsuits** in the total amount of **RUB 53 mln** (including the penalties of RUB 38 mln).

In 2018, warrants of execution were issued in the amount of **RUB 4,401.4 mln**, **RUB 1,623.1 mln**, or **37%**, were settled.

### In 2019

As a result of the Company's claims activities to recover overdue accounts receivable for the power transmission services in 2019, the court sustained **634 lawsuits** in the total claimed amount of **RUB 1,419 mln** (including the penalties of RUB 203 mln), dismissed the claims for **54 lawsuits** in the total amount of **RUB 133 mln** (including the penalties of RUB 41 mln).

Under the enacted court decisions, in 2019, warrants of execution were issued in the amount of **RUB 1,048 mln**, and **RUB 614 mln**, or **59%**, were settled.

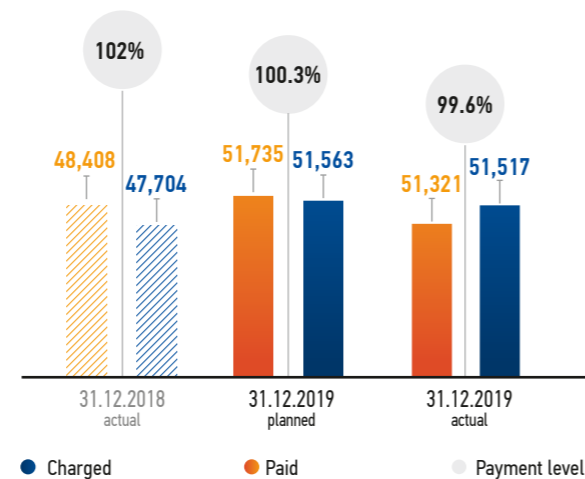
The target indicators of overdue accounts payable settlement are performed by 129%: given the plan of RUB 1,745 mln, the Company settled RUB 2,258 mln.

**The coverage of the overdue accounts payable with activities aimed at its reduction has been consistently high, amounting to 99.9% as of 31.12.2019.**

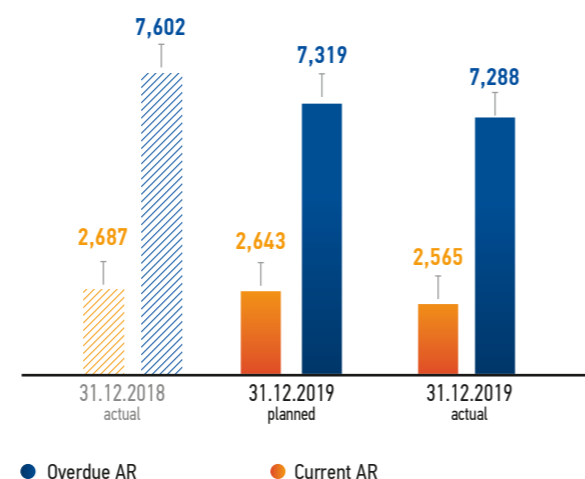
 **93%**

The share of Company's lawsuit requirements sustained amounted

Payment for the power transmission services, RUB mln incl. VAT

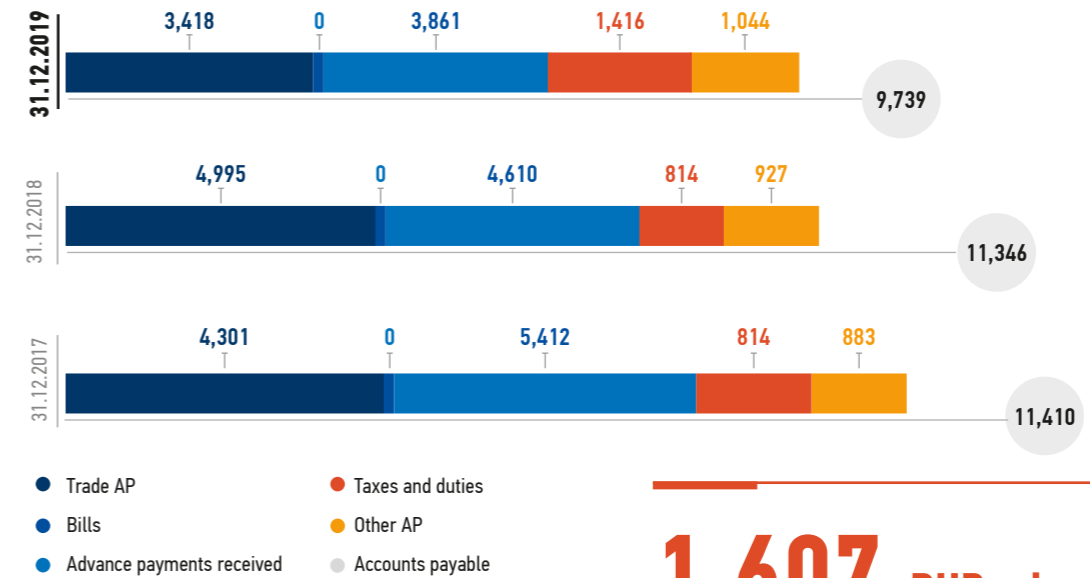


Accounts receivable from power transmission services, RUB mln



## Accounts payable

Analysis of changes in accounts payable\*, RUB mln



**1,607 RUB mln**

The accounts payable reduction in 2019

\* The indicators are shown in accordance with the Company's accounting statements for 2019, including the sum of balance sheet line codes "Other liabilities" 1450 and "Accounts payable" 1520.

The accounts payable reduced in 2019 by RUB 1,607 mln against 2018, amounting as of 31.12.2019 to RUB 9,739 mln.

### THE FOLLOWING CHANGES WERE NOTED:

Trade accounts payable decreased by RUB 1,577 mln, including:

- Payables to materials suppliers increased by RUB 24 mln;
- Payables to repair contractors decreased by RUB 68 mln;
- Payables for power purchased decreased by RUB 942 mln;
- Payables to local grid operators (LGOs) decreased by RUB 324 mln;
- Payables for investment activities decreased by RUB 362 mln.

Advances received amounted to RUB 3,861 mln, which is RUB 748 mln (16%) lower than those at the beginning of 2019. The bulk of advances come from technological connection services prepayment. The decrease is conditioned by settlement of advances received from:

- LLC NOVATEK-Murmansk (under the contract concluded in 2017 for technological connection of power receivers to ensure power supply to the centre for construction of large-capacity marine facilities);
- PJSC Gazprom (technological connection of power receivers for power supply of CS Sheksninskaya within the project on gas transportation capacity development for the unified gas supply system of the North-Western region, Gryazovets – CS Slavyanskaya site);
- North-Western branch of OJSC Oboronenergo (technological connection of power receivers for power supply of the capital construction project – machinery storage facilities at the military station 10k Kislovo).



## Bonds

## Data on unplaced issues of exchange bonds

Bond issue, bonds of B0-02 series (ID of the issue and date of its assignment: 4B02-02-03347-D of 12.03.2014)	
Type of securities	exchange-traded bonds
Number of securities issued, items	4,000,000
Face value, RUB	1,000
Volume of securities issued at face value, RUB	4,000,000,000
Status of the issued securities	placement has not started
Maturity date for the issued securities	3640 <sup>th</sup> day from the beginning of placement

Bond issue, bonds of B0-03 series (ID of the issue and date of its assignment: 4B02-03-03347-D of 12.03.2014)	
Type of securities	exchange-traded bonds
Number of securities issued, items	3,000,000
Face value, RUB	1,000
Volume of securities issued at face value, RUB	3,000,000,000
Status of the issued securities	placement has not started
Maturity date for the issued securities	3640 <sup>th</sup> day from the beginning of placement

Bond issue, bonds of B0-04 series (ID of the issue and date of its assignment: 4B02-04-03347-D of 12.03.2014)	
Type of securities	exchange-traded bonds
Number of securities issued, items	3,000,000
Face value, RUB	1,000
Volume of securities issued at face value, RUB	3,000,000,000
Status of the issued securities	placement has not started
Maturity date for the issued securities	3640 <sup>th</sup> day from the beginning of placement

In 2016, the exchange bonds programme was registered in the total amount of RUB 25,000 mln (Decision of the Company Board of Directors of 30.09.2016, Minutes No. 220/11).

Exchange bonds programme of 001R series (ID of the programme and the date of its assignment: 4-03347-D-001P-02E of 11.11.2016)	
Maximum amount of the face values of exchange bonds to be placed within the exchange bonds programme, RUB mln	25,000
Maximum maturity of the exchange bonds to be placed within the exchange bonds programme, (days)	10,920
Issue form of the exchange bonds to be placed within the exchange bonds programme	certified, payable to bearer
The period of the exchange bonds programme (from the date of ID assignment to the exchange bonds programme)	unlimited

## Credit rating

On 08 August 2019, Analytical Credit Rating Agency (ACRA) confirmed the credit rating of PJSC IDGC of the North-West as "AA+ (RU)" with the outlook "Stable".

Stable outlook means that there is the highest likelihood of the rating remaining unalterable for 12–18 months.

## Positive rating action can be brought about by:

- reduction in regulatory and sales risks by implementing long-term transparent principles of tariff regulation;
- reduction of leverage in 2019-2021 to 1.5x FFO before net interest payments.

**AA+** **ACRA**

Credit rating with the outlook "stable"





## KEY FINANCIAL AND ECONOMIC INDICATORS OF THE GROUP UNDER IFRS

Key performance results of the Group in 2019, RUB mln

Indicator	2017	2018	2019
Return	47,869	64,854	49,136
Operating expenses, including:	50,368	62,811	47,089
Variable costs	22,771	35,075	21,526
Fixed costs*	23,489	23,430	20,976
Depreciation and amortisation	4,109	4,306	4,587
State subsidies	6	0	0
Net other income	1,333	717	494
Operating profit	-1,167	2,760	2,541
Profit before tax	-2,612	1,573	1,399
Profit over period	-2,172	1,146	1,081
EBITDA**	2,932	7,007	7,143
EBITDA margin	6.13	10.8	14.5
Net debt	14,249	15,371	14,406
Return on total assets (ROA)	-5.4	3.07	2.84
Return on capital	10.9	11.4	7.71

### Revenue

The main part of the Group revenue is received from power transmission services. The change in this type of revenue volume depends mainly on the changes in tariffs set by the FAS of Russia and the volumes of power transmitted in the period. The Group also receives revenue from sales of power, technological connection to power grids, as well as other services.

The decrease in revenue against 2018 in the amount of RUB 15,718 mln, or 24%, took place, as there was no revenue in 2019 coming from sales.

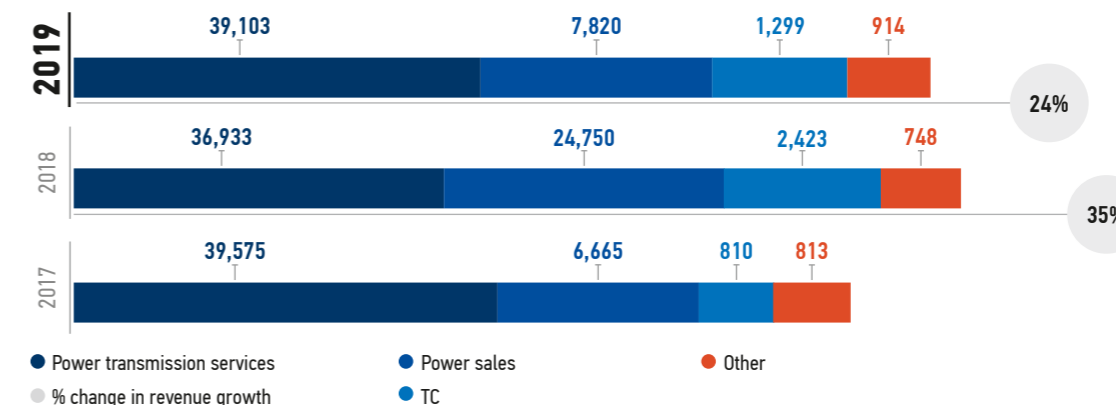
Revenue from power sales reduced in 2019 by RUB 16,930 mln, or 68%. In 2018, PJSC IDGC of the North-West performed the function of power supplier of last resort (hereinafter – SLR) from 01.01.2018 to 01.10.2018 in the Arkhangelsk Region (Order of the RF Ministry of Energy of 22.12.2017 No. 1202) and from 01.04.2018 to 01.01.2019 in the Vologda Region (Order of the RF Ministry of Energy of 23.03.2018 No. 178).

The growth in revenue from power transmission services year on year amounted to RUB 2,170 mln, or 6% (net of the value of power transmission services under contracts of power supply as part of SLR functions). In comparable conditions (taking into account power transmission services under contracts of power supply as part of SLR functions), the revenue growth amounted to RUB 697 mln, or 1.7%, due to increase in the volume of services rendered by 453 mln kWh, or 1.4%, and average tariff growth by RUB 3 /thous. kWh, or 0.2%.

The revenue from technological connection activities in 2019 amounted to RUB 1,298 mln, which is RUB 1,125 mln, or twice lower year on year, due to completion of several large TC contracts in 2018: with State Company Avtodor (in the amount of RUB 1,154 mln) and LLC Magistral Dvukh Stolits (in the amount of RUB 213 mln).

\* Net of depreciation.  
\*\* EBITDA = profit before tax + depreciation + % payable.

Revenue breakdown, RUB mln



### State subsidies

The Group has no state subsidies to compensate for low power tariffs.

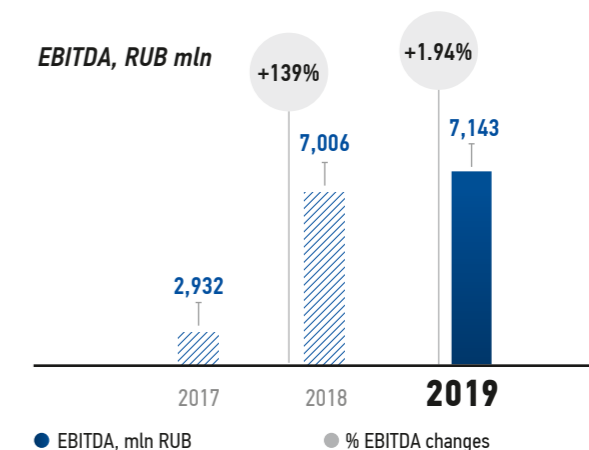
### Net other income

Net other income includes proceeds from uncontracted power consumption, incomes from fines, penalties and forfeits under operational contracts, accounts payable relief, insurance proceeds. The amount of net other income was RUB 525 mln, which is RUB 315 mln, or 37% lower year on year. The difference is mainly due to the 2019 reduction in income from fines, penalties and forfeits under operational contracts against 2018 by RUB 237 mln, or 37%. Other expenses in 2019 amounted to RUB 30 mln, which is RUB 92 mln lower year on year due to lack of fixed asset retirement losses in 2019. Therefore, net income amounts to RUB 494 mln in 2019, which is lower year on year by RUB 192 mln.

### EBITDA

EBITDA indicator amounted to RUB 7,143 mln, having increased by RUB 136 mln, or 1.9%, year on year.

The main reason for the 1.9% EBITDA growth was the increase in depreciation by RUB 282 mln, or 6.5%, and interest paid for liabilities (including rent) by RUB 29 mln, or 2.6%, which offset the reduction in the Group's earnings before tax for 2019 year on year by RUB 174 mln, or 11%. The earnings reduction was due to a decrease in revenue from technological connection by RUB 1,125 mln, or 46%.

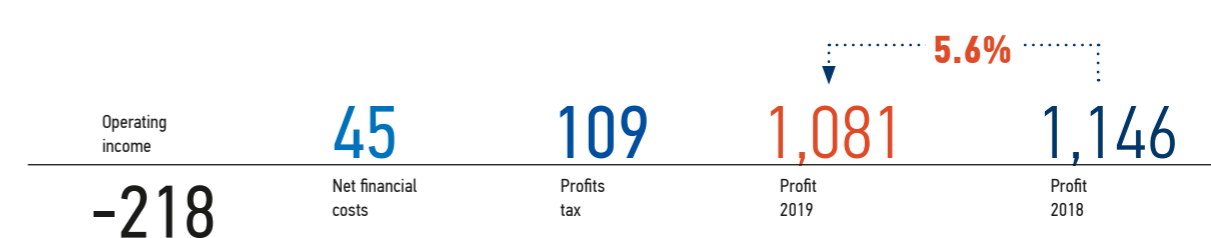


### Profit before tax

The Group recorded profit before tax in the amount of RUB 1,399 mln in the year ended on 31 December 2019 and in the amount of RUB 1,573 mln in the year ended on 31 December, 2018.

### Financial performance over the period

As a result of the above factors, the Group recorded the profit of RUB 1,081 mln and RUB 1,146 mln for the years ended 31 December 2019 and 31 December 2018, respectively.



## TARIFF REGULATION<sup>19</sup>

Methodology of the calculation of tariffs for power transmission services and technological connection is approved by the federal executive authority in the area of tariffs regulation; the functions of such are given to the Federal Antimonopoly Service (FAS of Russia)<sup>20</sup>. Maximum rates of power transmission tariffs are set by the FAS of Russia.

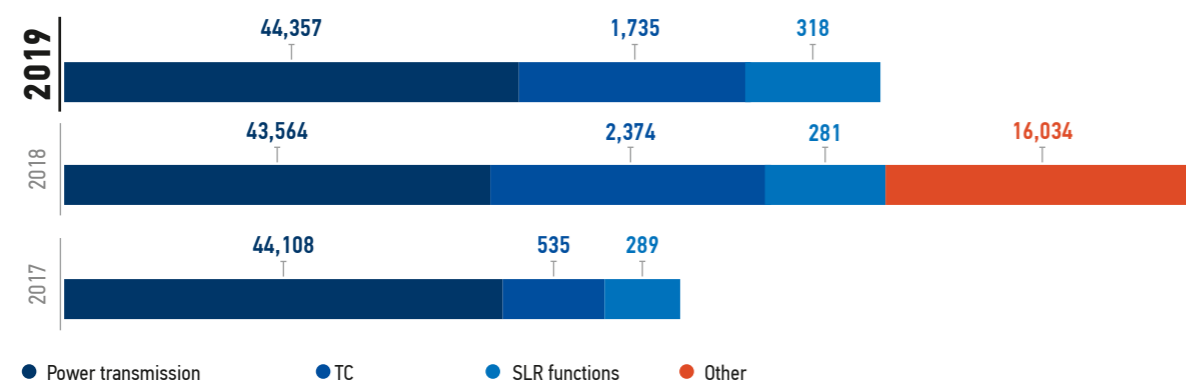
Distribution grid power transmission services activity of PJSC IDGC of the North-West is regulated at the regional level by executive bodies of the constituent entities of the Russian Federation<sup>21</sup>.

### Power transmission tariffs

In 2019, the established tariffs enabled the Company to receive revenue of RUB 46.4 bln for its services, which is 25% lower year on year, while the power transmission revenue

grew by 2%. The revenue decline was due to termination of the functions of supplier of last resort in Arkhangelsk and Vologda Regions in 2018.

PJSC IDGC of the North-West revenue in 2017-2019, RUB mln



Power transmission services tariffs across the branches of PJSC IDGC of the North-West were based in 2019 on the long-term parameters. The Company branches are regulated as follows:

Method of GRR long-term indexation

- Arkhangelsk branch of PJSC IDGC of the North-West 2019-2023
- Vologda branch of PJSC IDGC of the North-West 2018-2022
- Karelia branch of PJSC IDGC of the North-West 2018-2022
- Murmansk branch of PJSC IDGC of the North-West 2019-2023
- Komi branch of PJSC IDGC of the North-West 2019-2023
- Novgorod branch of PJSC IDGC of the North-West 2018-2022
- Pskov branch of PJSC IDGC of the North-West 2018-2022

In 2019, a new long-term period started for the Arkhangelsk, Murmansk and Komi branches of PJSC IDGC of the North-West. Before 2019, these branches were regulated under the method of long-term GRR indexation. New long-term parameters were set for these branches. The Company performed

annual mandatory adjustment of all its branches' gross revenue requirement (GRR) stipulated by the effective legislation in the area of state tariff regulation.

The total resulting change in the GRR amounted to RUB (-0.15) bln.

<sup>19</sup> Key regulatory documents stipulating the power transmission tariff setting for the Company are shown in Annex 12 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

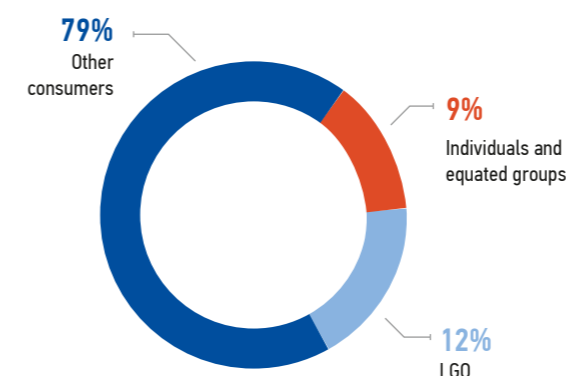
<sup>20</sup> Decree of the Russian Federation President of 21.07.2015 No. 373 "On some issues of state regulation and control in antimonopoly and tariff regulation".

<sup>21</sup> The report on regulated activities broken down by Company branches is shown in Annex 13 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

Over 2019 the Company also revised the gross revenue requirement approved for 2019 due to the following factors:

- Subject to FAS of Russia Orders of 12 and 18 December 2018 No.SP/101972/18 and No.SP/103928/18 due to revision of the GRR for the Karelia branch of PJSC IDGC of the North-West and PJSC Prionezhskaya Setevaya Company.

Company power transmission revenue breakdown by consumer groups, 2019



- On the basis of Order of FAS of Russia of 13 December 2018 No.1764/18 which approved the minimum and maximum tariff levels for the power transmission services rendered to individuals and similar categories of consumers upon revision of the set tariffs for individuals, revision of sales premiums of PJSC TGK-2 Energosbyt and reduction in the GRR of the Arkhangelsk branch of PJSC IDGC of the North-West.

The group "Other consumers" accounts for the largest share of revenue from power transmission (79%) in PJSC IDGC of the North-West. This group includes regional power retail companies and large industrial consumers, the largest of which are PJSC Acron (33% in revenue of the Novgorod branch of PJSC IDGC of the North-West), JSC Kondopoga (13% in the revenue of the Karelia branch of PJSC IDGC of the North-West), OJSC SUAL (7% in the revenue of the Murmansk branch of PJSC IDGC of the North-West), JSC Vorkutaugol (13% in the revenue of the Komi branch of PJSC IDGC of the North-West); PJSC Severstal (5% in the revenue of the Vologda branch of PJSC IDGC of the North-West), JSC Sevmarsh (11% in the revenue of the Arkhangelsk branch of PJSC IDGC of the North-West).

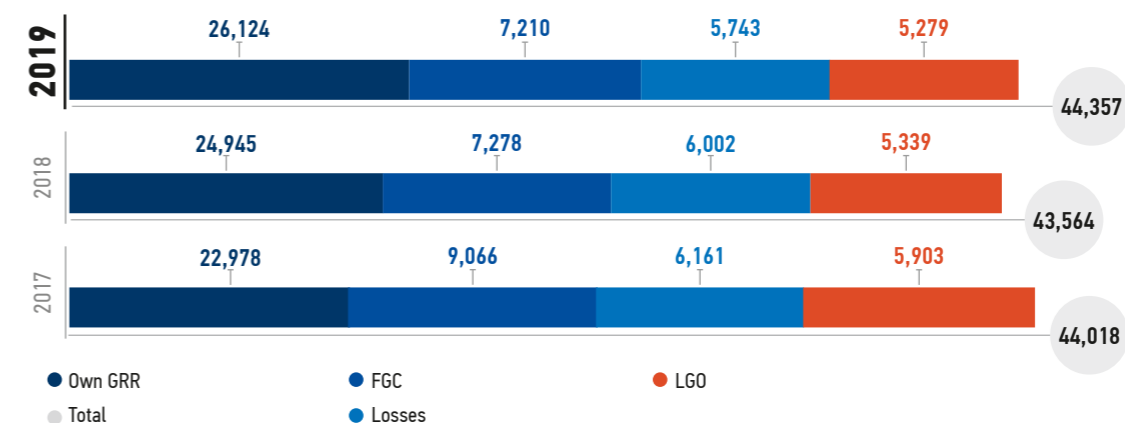
The major share of group "Individuals and similar consumer groups" is attributable to the Pskov branch of PJSC IDGC of the North-West (24%), the Karelia branch of PJSC IDGC of the North-West (13%), the Komi branch of PJSC IDGC of the North-West (7%).

### Gross revenue requirement structure

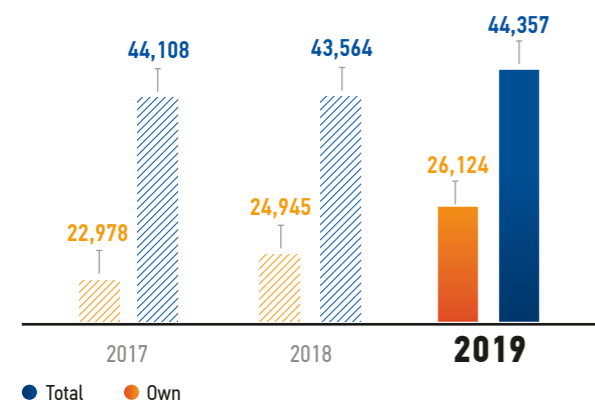
In the reporting year, own gross revenue requirement (GRR) grew by 5% due to growing indices in accordance with Resolution of the RF Government of 29.12.2011 No. 1178 "On pricing in the area of regulated prices (tariffs) in the electric power industry", as well as transition of three branches of the Company to the new long-term period and a 1% decrease in payment for the services of PJSC FGC UES, due to the decline in the capacity paid for, subject to the schedule of gradual decrease in the contracted capacity of PJSC ROSSETI S&A used

in paying for the services of PJSC FGC UES to the level of the actual capacity in 2018-2027. The 1% reduction in expenses for local grid operators' services in 2019 was mostly brought about by changes in the schemes and amounts of settlements between LGOs within the regional pot. Loss-related expenses decreased by 4%, which was caused by a reduction in the total volume of losses and lower price for power purchase to compensate for losses at Arkhangelsk and Karelia branches.

GRR structure trends for power transmission services of the Company, RUB mln



**Dynamics of GRR for electric power transmission services by branches, mln RUB**



The total gross revenue requirement of the Company grew by 2%, own GRR increased by 5%. The difference in the growth of total GRR from the growth of own GRR was due to reduction in expenses on losses payment amounting to 4%, reduction in expenses on paying for the services of local grid operators being 1% reduction in expenses on paying for the services of PJSC FGC UES – 1%. This results from a decline in the paid capacity and complies with the schedule of gradual decrease in the contracted capacity of PJSC ROSSETI S&A used in paying for the services of PJSC FGC UES to the level of the actual capacity in 2018-2027. The largest growth in the expenses on payment for the services of LGOs is attributable to the Vologda and the Komi branches, due to changes in the GRR of LGOs by including additional reasonable expenses.

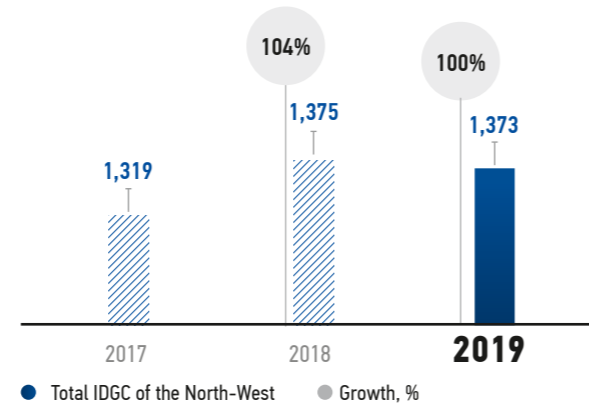
TPower transmission services tariffs in 2019 considerably differed by regions within the responsibility area of PJSC IDGC of the North-West. The strong divergence is due to varying breakdowns of consumers by voltage levels. The branches where low-voltage grids prevail, such as Arkhangelsk branch of PJSC IDGC of the North-West, Karelia branch of PJSC IDGC of the North-West and Pskov branch of PJSC IDGC of the North-West, feature high tariffs, which is due to higher costs of maintenance for such grids as compared to the branches where high-voltage grids prevail, such as: Vologda branch of PJSC IDGC of the North-West, Mur-

**Technological connection payments<sup>22, 23</sup>**

Information on the technological connection service fees is shown on the Company's official web site under "Standards of information disclosure by participants of the wholesale and retail power market. Grid company".

The amount of shortfall in income included in the power transmission tariff for applicants of no more than 150 kW, is RUB 204 mln in 2019, which is 91% higher year on year.

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



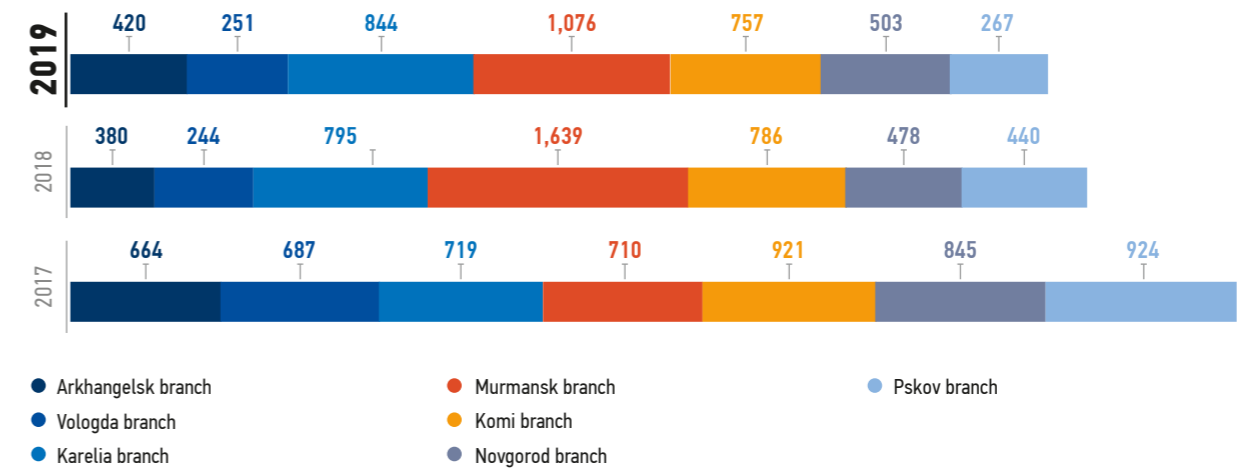
mansk branch of PJSC IDGC of the North-West, Novgorod branch of PJSC IDGC of the North-West. The highest growth in the average tariff (3%) in 2019 was shown by the Novgorod branch, which is due to reduction in the productive power supply. In the Pskov and Komi branches, the average tariff growth amounted to 1% each due to increase in own GRR of the branches, expenses on LGO services and low growth in the productive power supply. In the Murmansk branch, the average tariff growth amounted to under 1%, reduction of the average tariff at the Arkhangelsk and Karelia branches amounted to 2% each, in the Vologda branch – 5%. This was due to inclusion of the adjustments stipulated in the tariff regulation for the previous years in the GRR. In 2019, the GRR of Karelia, Novgorod and Pskov branches included recovery of the results of flattening-out accrued over the period of RAB regulation for the branches in the amount of RUB 1.7 bln, as stipulated by the agreements with the heads of the respective regions.

Information on the GRR dynamics and changes in the average tariff for electric power transmission services by branches is provided in the full version of the Annual Report on the Company's website: <http://www.mrsksevizap.ru/shareholdersmeetinginfo>.

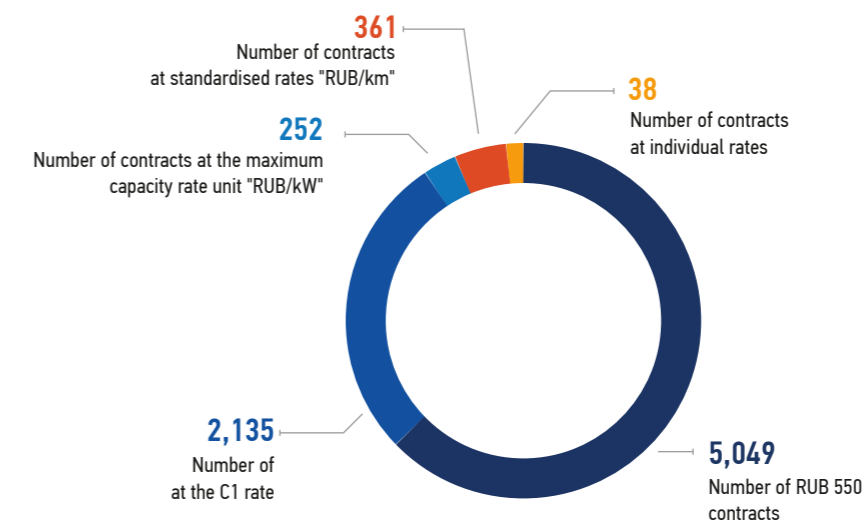
The highest growth of the average tariff - 3% in 2019 occurred at the Novgorod branch, which is associated with a decrease in useful supply of electricity.

The data on the legislative changes regarding technological connection of the applicants up to 15 kW, the number of applications made and contracts signed, increase in availability of technological connection for applicants, and issues faced by PJSC IDGC of the North-West in signing the above contracts are shown in the section "Technological connection".

**Average C1 rate trends (RUB/kW) by Company branch, 2017-2019**



**Number of the technological connection contracts in effect as of 31.12.2019, items**



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

Information on setting tariffs for technological connection can be found in the full version of the Annual Report on the Company's website: <http://www.mrsksevizap.ru/shareholdersmeetinginfo>.

Availability of the approved standardised technological connection fees enabled the Company to reduce the number of contracts based on individual fees. The number of 2019 applications where contracts were based on individual rates amounted to 38 across the Company. The total num-

ber of effective technological connection contracts is 7,835. The largest share of the contracts signed represents subsidised technological connection up to 15 kW with the fee of RUB 550.

The amount of technological connection fees for the current technological connection contracts up to 15 kW was RUB 27.6 mln net of VAT in 2019. The capital investment of 2019 into technological connection of the power units belonging to applicants of up to 15 kW was RUB 807.6 mln.

Monitoring of existing contracts for technological connection under privileged contracts can be found in the full version of the Annual Report on the Company's website: <http://www.mrsksevizap.ru/shareholdersmeetinginfo>.

<sup>22</sup> TC fees for 2017-2019 are shown in Annex 14 to the full version of the Annual Report on the Company's website: <http://www.mrsksevizap.ru/en/informationshareholdersmeetings>.

<sup>23</sup> Cash flow monitoring for the TC contracts is presented in Annex 15 to the full version of the Annual Report on the Company's website: <http://www.mrsksevizap.ru/en/informationshareholdersmeetings>.



# 2 SUSTAINABLE DEVELOPMENT REPORT

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# SUSTAINABLE DEVELOPMENT MANAGEMENT

## THE COMPANY'S UNDERSTANDING OF SUSTAINABLE DEVELOPMENT

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

In its activities, PJSC IDGC of the North-West sticks to the precautionary principle formulated in the UN Declaration on Environment and Development. This principle permeates

the Company's activities of environmental management on all stages of its projects.

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

## IDGC OF THE NORTH-WEST ACTIVITIES AND THE UN SUSTAINABLE DEVELOPMENT GOALS



### HUMAN RESOURCES AND SOCIAL POLICY

- Ensuring occupational safety – 98.2% of the employees are provided with personal safety equipment
- Raising awareness of occupational safety among contractors – strict requirements to the work process arrangements and availability of personal safety equipment
- The Occupational Safety Day held monthly by all units
- Development of the system of financial aid to employees



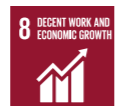
### HUMAN RESOURCES AND SOCIAL POLICY

- Ongoing vocational training for the employees (74.4% of the average staff headcount received various types of off-the-job training)
- Fostering the development of the secondary and tertiary education system by cooperating with relevant higher education institutions and vocational education institutions – participation in university-based career fairs, provision of on-site training / internship opportunities
- Establishment of a Training Centre for Energised Facilities Operation



### PRODUCTION RESULTS

- Registration of 24,400 applications, 20,405 contracts signed, 20,400 technological connection contracts completed
- Reduction in the weighted average period of applicant's power receivers connection: from 153 days to 110 days
- Participation in the RES development in the operations area



### HUMAN RESOURCES AND SOCIAL POLICY

- Observance of the employee rights – availability of a collective agreement
- Creation of new jobs for the community
- Cooperation with higher education institutions on employment of students and graduates



### INNOVATIVE DEVELOPMENT

- Support of innovation designs – RUB 552.89 mln allocated
- Development of active-adaptive grids with the intelligent system of automation and management



### PRODUCTION RESULTS

- Actual capital investment into technological connection of socially important facilities in the amount of RUB 157 mln
- Timely prevention of emergency, preparation for the AWP, emergency response and mitigation



### ENVIRONMENTAL RESPONSIBILITY

- Lean operation programme development
- Participation in promoting resource and energy saving issues – the festival #BrighterTogether
- Reporting in line with the GRI SRS standards



### ENVIRONMENTAL RESPONSIBILITY

- Protection of biodiversity – bird protection from electric shock, the cost of equipment (bird protection devices installation) amounting to RUB 2,188 thousand net of VAT (1,298 bird protection devices at 35+ kV OL). Since 2015, the Company has installed 4,862 bird protection devices

On 25 September 2015, global leaders, including head of states and governments, gathered in the United Nations headquarters in New York to endorse the sustainable development agenda under the title "Transforming our World: the 2030 Agenda for Sustainable Development" for the period after 2015. The agenda includes 17 goals and 169 objectives.

The Company is guided by the UN sustainable development goals in its operations.

## QUALITY MANAGEMENT SYSTEM <sup>24</sup>



Since 2009, the Company has been using a quality management system (QMS), which complies with the requirements of the international standard ISO 9001 "Quality Management Systems. Requirements".

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

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

Achievement of this priority is ensured by the efficient quality management system based on a process approach and complying with the principles and requirements of the international standard ISO 9001 (GOST ISO 9001).

In 2019, the Company successfully passed scheduled QMS certification audit carried out by a certification authority to assess compliance with the requirements of the standard ISO 9001:2015 (GOST ISO 9001-2015). The findings of the audit showed that the Company quality management system is maintained and developed in accordance with the ongoing improvement principle. The compliance certificates issued in 2018 and valid through 05.09.2021 were confirmed.

Overall, the functioning of the quality management system was successful in the reporting year<sup>25</sup>.

Read more about the Quality Management System in the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

## ENVIRONMENTAL MANAGEMENT SYSTEM

Starting 2019, the Company has been implementing an environmental management system (EMS) in line with the requirements of International standard ISO 14001:2015 – Environmental management systems. Requirements with guidance for use.

In 2019, the Company issued key EMS documents (Regulation on the EMS, internal audit programme for 2019, environmental aspects register, Regulation on EMS audits etc.). It performed a set of internal EMS audits, prepared a report on environmental management system analysis by the Company management in 2019, successfully passed certification audit of the EMS performed by an independent auditor under

the standard ISO 14001:2015 (GOST R ISO 14001-2016). The certificates are valid through 30.12.2022.

Read more about the Environmental Management System in the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

<sup>24</sup> The quality management policy is available at the Company's web site: <http://www.mrsksevzap.ru/policyquality>.

<sup>25</sup> The dynamics of business process efficiency indicators in 2017–2019 are shown in Annex 16 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

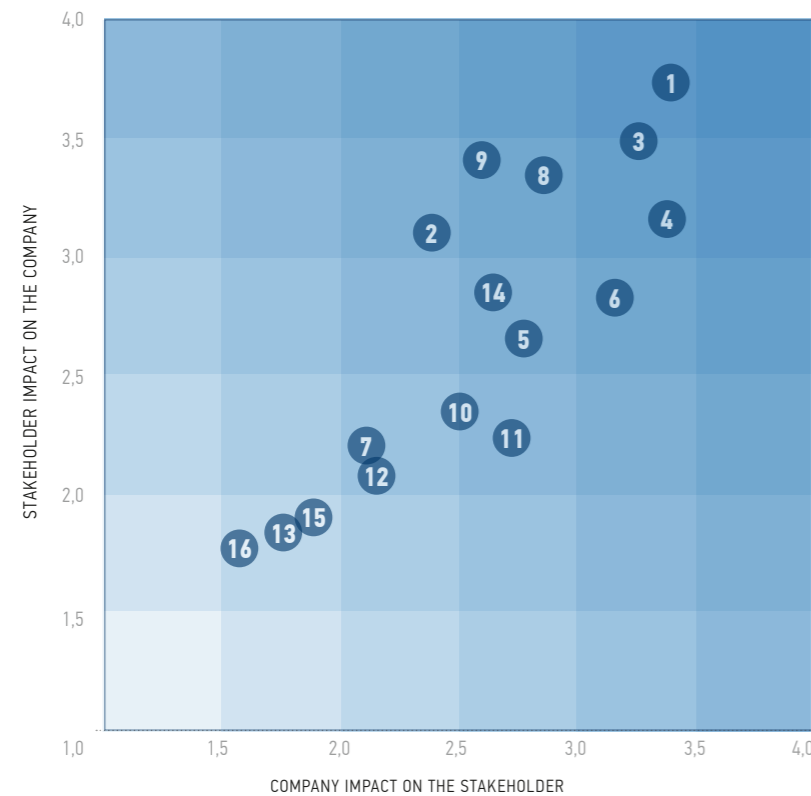
# STAKEHOLDER INTERACTION

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

In drafting this Report, the Company carried out polling of the Company employees to upgrade the stakeholder map and identify a list of key stakeholder groups.

GRI 102-42

## STAKEHOLDER MAP



1. Shareholders
2. Investors
3. Customers and consumers
4. Top management
5. Employees and trade unions
6. Suppliers and contractors
7. Professional and industry associations
8. Government authorities
9. State regulatory bodies
10. Local authorities
11. Local communities and residents of the operations area
12. Social and charity organisations
13. Public and environmental organisations
14. Mass media
15. Educational institution
16. Academic community

GRI 102-43

The Company aims to build fruitful, trust-based and mutually beneficial long-term partner relations with stakeholders – shareholders and investors, customers and consumers, top management, employees and trade unions, suppliers and contractors, professional and industry associations, government authorities, state regulatory bodies, local authorities, local communities and residents of the operations area, social

and charity organisations, public and environmental organisations, the mass media, educational institutions and the academic community.

A balanced system of efficient communication based on the principles of openness, mutual respect, responsible attitude encourages further development of the Company's business.

### RRN CORPORATE TRANSPARENCY RATING<sup>24</sup>

PJSC IDGC of the North-West is among the Russian leaders in transparency. The Company ranked 28th in the RRN rating "Corporate transparency of the largest Russian companies 2019", which corresponds to Level II in transparency. The Company reporting was assigned 47.55 points out of 100 (in 2018 — 40.25 points).

## The Company's stakeholders

GRI 102-40  
GRI 102-44

Topics of interest	Interaction instruments	Interaction in 2019
<b>SHAREHOLDERS</b>		
Increase in shareholder value Transparency of the management activities	Press releases within the framework of obligatory information disclosure Information disclosure in accordance with the Company's information policy Interaction within the Board of Directors Individual meetings with shareholders General Shareholders' Meetings Statutory reporting of the Company	The Annual and Extraordinary General Shareholders' Meetings were held. For details see section "Information on the General Shareholders' Meetings in 2019". Events held for shareholders in the reporting year are described in section "Shareholder and investor relations".
<b>INVESTORS</b>		
Growth in the Company's investment attractiveness Information on the development prospects Information on credit ratings	Assignment and maintenance of the credit rating and national corporate governance rating Meetings with representatives of banks, the investment community High-quality information disclosure, IFRS reporting	Loan interest paid amounts to RUB 1,177 mln. Events held for investors in the reporting year are described in section "Shareholder and investor relations".
<b>CUSTOMERS AND CONSUMERS</b>		
Reliable and seamless power supply Innovative development to improve power supply quality Timely and affordable technological connection Open and flexible interaction with customers / consumers	Upgrade of power grid facilities Installation of smart metering devices Contracts on technological connection to power grids A system of on-site (at service centres) and off-site consumer service (application by phone or Internet services) Consumer polls on the degree of satisfaction with the service quality	20,400 contracts on technological connection were performed. The contact centre received 119,757 consumer applications. 20 consumer service offices are in operation. Details are available in section "Comprehensive servicing of consumers".

<sup>24</sup> Corporate transparency of Russian companies survey: <http://corptransparency.ru/rate>.



Topics of interest	Interaction instruments	Interaction in 2019
<b>TOP MANAGEMENT</b>		
Conditions for professional growth Achievement of strategic goals and KPIs	Interaction within the framework of the Company's operations	Training in accordance with the employee professional development plans for 2019.
<b>EMPLOYEES AND TRADE UNIONS</b>		
Fulfilment of employers' obligations towards the Company employees Social and medical coverage Professional growth opportunities Providing employment and decent rate of remuneration Social benefits and guarantees	Negotiations with the trade union Meetings with the personnel Collective agreement Compliance with the requirements of the sectoral tariff agreement Social benefits and guarantees of employee voluntary medical and accident insurance (subject to the sectoral tariff agreement)	Meetings with employee representatives were held. Annual meetings of the management with employees of all branches were held on the Collective agreement fulfilment in 2019. Collective agreement results in 2019 were identified. Contracts on voluntary medical and accident insurance were signed for a new period.
<b>SUPPLIERS AND CONTRACTORS</b>		
Transparent competitive environment Use of the market pricing mechanism Compliance with the standards of business ethics in interaction Anti-corruption measures	Competitive procurement procedures Signing agreements with Russian and foreign manufacturers SMB support	In 2019, the Company held 1,449 procurement procedures with the total value of RUB 17.7 bln.
<b>PROFESSIONAL AND INDUSTRY ASSOCIATIONS</b>		
Information on the Company's development prospects Cooperation	Regular meetings Information disclosure on the corporate web site Interaction within business communities of the operations area Participation in joint meetings, forums, shows, conferences	Meetings within the framework of congress and exhibition activities, forums, workshops (including regional energy investment fairs, corporate presentation days of PJSC IDGC of the North-West).
<b>GOVERNMENT AUTHORITIES</b>		
Reliable and seamless power supply Support of domestic power machinery construction and import substitution Contribution to preparations for large international projects Contribution to implementation of governmental projects	Fulfilment of investment policy obligations Signing a number of cooperation agreements Contribution to preparations for national and international projects	The Company signed 10 agreements with heads of the operations area regions and largest entities. The actual capital investment into technological connection of socially significant facilities – schools, nursery schools, sports and social facilities – amounted to RUB 157 mln. The share of procurement attributable to local suppliers in the operations area was 12.16% of the actual volume.
<b>STATE REGULATORY BODIES</b>		
Compliance with the requirements of the Russian legislation	Regular inspections passing Regular meetings and cooperation Provision of statutory reporting	Information disclosure in accordance with the requirements of the regulatory bodies.

Topics of interest	Interaction instruments	Interaction in 2019
<b>LOCAL AUTHORITIES</b>		
Infrastructure development Contribution to social programmes and charity Tax payment Creation of jobs Information on the Company's development prospects	Agreements on cooperation Social and charity programmes Public reporting Injury prevention events for the safety of residents	The actual capital investment into technological connection of socially significant facilities – schools, nursery schools, sports and social facilities – amounted to RUB 157 mln. The share of procurement attributable to local suppliers in the operations area was 12.16% of the actual volume.
<b>LOCAL COMMUNITIES AND RESIDENTS OF THE OPERATIONS AREA</b>		
Social infrastructure development Creation of jobs Implementation of social programmes and charity Mitigation of negative environmental and population impact	Media publications on technological connection, work of power employees, important changes in the effective legislation on power industry	Over 500 press releases were communicated. Regional and federal media published 14,341 item of the Company.
<b>SOCIAL AND CHARITY ORGANISATIONS</b>		
Social responsibility Efficiency of the Company's performance and development prospects Contribution to charity projects	Interaction in carrying out social projects Information disclosure on the corporate web site Signing cooperation agreements	Investment in the social infrastructure amounted to RUB 164 mln.
<b>PUBLIC AND ENVIRONMENTAL ORGANISATIONS</b>		
Compliance with the environmental legislation requirements Compliance with the established environmental impact standards Reduction in man-made impact on the environment	Consultations, explanations Public hearings	In 2017, the Company joined implementation of the Environmental policy of power grid facilities of PJSC ROSSETI. The environmental protection costs in 2019 amounted to RUB 20.21 mln.
<b>MASS MEDIA</b>		
Transparency of business processes Prompt access to information on the Company's activities	Press events Prompt communication of information Processing media inquiries and requests	Publication of over 500 press releases, 14,341 publication in the regional and federal media.
<b>EDUCATIONAL INSTITUTIONS</b>		
Contribution to industry-related education development Training high potential staff and ensuring job continuity	Signing agreements with higher education institutions Organisation of student work teams Programmes of young talent training Talent pool creation Provision of opportunities for hands-on training and internship Personnel education and training Open days and career fairs	74.7% of the average staff headcount took place in off-the-job training in 2019. Participation in 32 open days, career fairs at educational institutions. Held 266 open lessons on electric power safety at schools.
<b>ACADEMIC COMMUNITY</b>		
Contribution to industry-related research development Use of innovative technologies	Interaction with academic institutions and R&D order placement Participation in forums, exhibitions Signing agreements	Signed 2 contracts with a research organisation for R&D with the total amount of RUB 11.531 mln incl. VAT.

## PUBLIC, GOVERNMENT AND MEDIA RELATIONS

The Company develops stakeholder interaction on the basis of common values, promptly responding to reputational risks in the public space and building a positive image of not only the Company, but the whole industry.

More than 500 press releases were published on the official website [www.mrsksevzap.ru](http://www.mrsksevzap.ru), and 14,341 publications were made in the regional and federal media.

The communication policy of the Company ROSSETI North-West is based on the principles of openness, reliability, promptness and accessibility within implementation of a unified communications policy of the ROSSETI Group.

In 2019, the Public Relations Department launched a project on the development of the Company's accounts in the social media VKontakte and Instagram, and on systemic target audience relations.

Important news, useful information and various kinds of digital content are provided on the corporate platforms. Besides, direct contact with subscribers has been established by means of discussions, personal communication, surveys and other interactive options.

In 2019, the exposure of ROSSETI North-West account in VKontakte increased by 120% to reach 70 thousand views per month. Each post by ROSSETI North-West is viewed by an average of 5 thousand persons.

In 2019, the exposure of the Company's account in Instagram increased by 74% and exceeds 15 thousand views per month on average.

The growth of these indicators is stimulated by well-considered work with target audiences, use of tools for SMM promotion (reposts in popular communities, hashtags, and comments), generation of unique content, and implementation of regional projects.

99% the Company's audience has active accounts. The subscribers of the accounts include representatives of authorities and regional opinion leaders.

A key business communication form of ROSSETI North-West is participation in exhibitions and conventions. In 2019, representatives of the Company took part in major congress and exhibition events, including scientific and practical conferences, industry exhibitions of the fuel and energy sector, economic and investment forums.

**500** press releases

On the official website

**15 000** views

On the Company's account in Instagram per month

### THE COMPANY SIGNED 10 AGREEMENTS WITH THE REGIONAL LEADERS IN THE OPERATIONS AREA AND THE LARGEST ENTERPRISES:

#### ON 14 FEBRUARY 2019

▶ at the Russian Investment Forum in Sochi the General Director of ROSSETI North-West Artem Pidnik and the Governor of the Pskov Region Mikhail Vedernikov signed an agreement on collaboration on the development of electric power in the Pskov Region. The

document provides for implementation of digital grids within the concept "Digital Transformation 2030" and long-term planning of the development of power grid infrastructure.

#### ON 07 JUNE 2019

- ▶ At the St. Petersburg International Economic Forum the General Director of ROSSETI North-West Artem Pidnik and the Governor of the Novgorod Region Andrey Nikitin signed an agreement on cooperation in digitalisation of the power grid facilities of the region. The document provides for strategic partnership within the concept "Digital Transformation 2030".
- ▶ Within the business programme of the St. Petersburg International Economic Forum the General Director of ROSSETI North-West Artem Pidnik and the Governor of the Vologda Region Oleg Kuvshinnikov signed an agreement on intent to collaborate in the area of development of the region's electric power facilities.
- ▶ Within the St. Petersburg International Economic Forum the Head of the Komi Republic Sergey Gaplikov and the General Director of ROSSETI North-West Artem Pidnik signed an agreement on development of the power grid facilities of the region. The document provides for strategic partnership within the concept "Digital Transformation 2030".
- ▶ Within the business programme of the St. Petersburg International Economic Forum the General Director of ROSSETI North-West Artem Pidnik and the Head of the Murmansk Region Andrey Chibis signed an agreement on collaboration in the area of development of the regional power grid facilities. The parties agreed on strategic partnership within implementation of the concept "Digital Transformation 2030".

#### ON 04 OCTOBER 2019

- ▶ At the Russian Energy Week forum the General Director of ROSSETI North-West Artem Pidnik and the General Director of JSC United Rocket and Space Corporation (JSC URSC) Andrey Zheregelya in the presence of the Minister of Industry and Trade of the Russian Federation Denis Manturov, Deputy Minister of the RF Ministry of Energy Andrey Cherezov and the General Director of ROSSETI Pavel Livinsky signed an agreement on satellite-based monitoring of the overhead lines protective zones.

An important area of the Public Relations Department activities is prevention of electric injuries. In 2019, the Company held a number of lessons on this topic in its operations area, including interactive tasks. Promotion materials and guidebooks on prevention of electric injuries were distributed among the following target groups: children, drivers, fishermen, and air sport lovers.

- ▶ At the St. Petersburg International Economic Forum the General Director of ROSSETI North-West Artem Pidnik and the Governor of the Arkhangelsk Region Igor Orlov signed an agreement on collaboration on digitalisation of power grid facilities in the region. The document provides for strategic partnership within the concept "Digital Transformation 2030".
- ▶ Within the business programme of the St. Petersburg International Economic Forum the General Director of ROSSETI North-West Artem Pidnik and the Governor of the Pskov Region Mikhail Vedernikov signed an agreement on collaboration in the area of development of the region's power grid facilities. The parties agreed on strategic partnership within implementation of the concept "Digital Transformation 2030".
- ▶ On the fringes of the St. Petersburg International Economic Forum the General Director of ROSSETI North-West Artem Pidnik and the Head of Karelia Arthur Parfenchikov signed an agreement on collaboration in digitalisation of the power grid facilities of the region. The parties agreed on strategic partnership within implementation of the concept "Digital Transformation 2030".

# HUMAN RESOURCES AND SOCIAL POLICY



THE KEY GOALS OF THE COMPANY'S HR AND SOCIAL POLICY (HEREINAFTER – THE POLICY) AIMED TO ENSURE ACHIEVEMENT OF THE TARGET INDICATORS SET BY THE DEVELOPMENT STRATEGY OF THE POWER GRID SYSTEM ARE

**TIMELY MEETING**  
the Company's needs for personnel of required qualification

**PLANNING THE STAFFING REQUIREMENTS** – ensuring availability of reliable information on the current and projected number and qualities of employees required as necessary and sufficient to fulfil the tasks assigned to the Company

**ENSURING EFFICIENCY** of personnel activities, labour efficiency improvement

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



## PERSONNEL HEADCOUNT AND BREAKDOWN

### Staff structure by gender

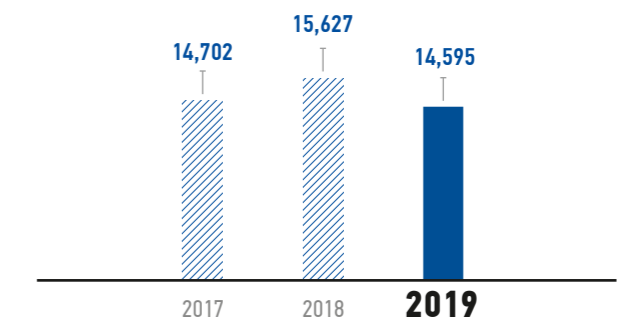
Men	Women	Active staff turnover in 2019
<b>11,447 (78.5%)</b>	<b>3,132 (21.5%)</b>	<b>5.13%</b>

The average staffing number of PJSC IDGC of the North-West in 2019 amounted to 14,595 persons, which is 6.6% lower year on year. The decrease in the average staffing number of PJSC IDGC of the North-West was due to termination of the status of supplier of last resort in the Arkhangelsk Region by Order of the Russian Ministry of Energy of 22.12.2018 No. 1202 (the functions have been transferred since 01.10.2018 to the limited liability company TGK-2 Energosbyt) and in the Vologda Region by Order of the Russian Ministry of Energy of 29.11.2018 No. 110 (the functions have been transferred since 01.01.2019 to the limited liability company Severnaya Sbytovaya Kompania).

PJSC IDGC of the North-West employees possess considerably high qualification – 87.6% of them have received professional education. This indicator has increased by 3.1% in the recent three years.

The gender breakdown of the personnel has been stable over all the years and corresponds to the operations of the Company: 11,447 male employees (78.5%); 3,132 female employees (21.5%).

Average personnel headcount in 2017-2019

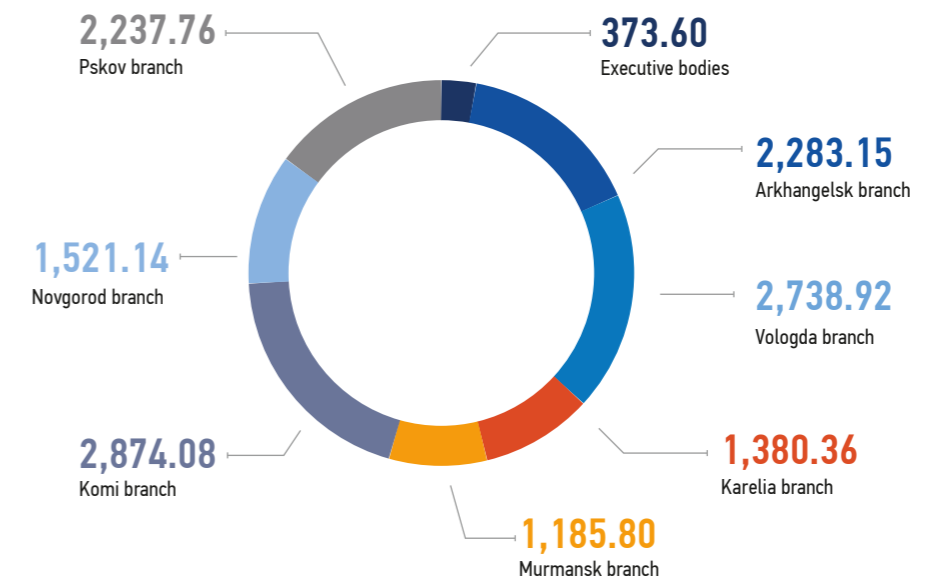


The staffing levels of PJSC IDGC of the North-West reduced in 2019 by 2.7% to reach 94.8% against 2018.

The average age of the Company's employees in 2019 remained on the level of 2018 as 42 years, active staff turnover amounted to 5.13% in 2019.

In the recent three years, the share of employees working after retirement has been decreasing (-2.11 p.p.) as the share of the employees aged from 25 to 50 increased (+2.63 p.p.).

Average personnel headcount in 2019, persons





## PERSONNEL TRAINING AND DEVELOPMENT, TALENT POOL



The share of employees who took part in full-time training events

**74.7%**

Actual costs of personnel training in 2019

**64.77 RUB mln**

GRI 103-2  
GRI 103-3

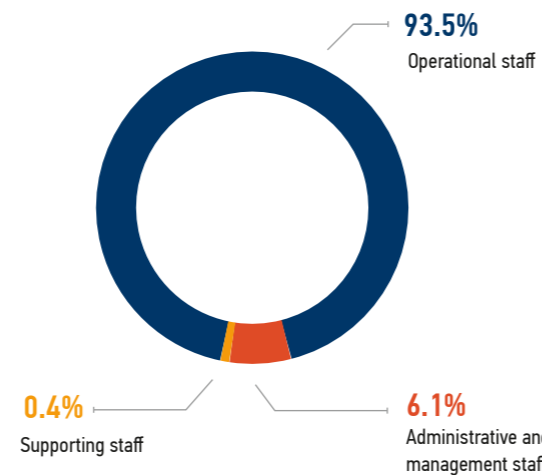
Training is a priority area of HR and social policy at PJSC IDGC of the North-West. It is regulated by the Rules of HR management in power industry companies of the Russian Federation, the Regulation on continuous professional development of staff, the Procedures of HR management.

The share of employees who took part in full-time training events in the total headcount is 74.7% (10,903 persons) in the reporting year, which exceeds the key indicator of the HR and social policy of PJSC IDGC of the North-West (30%), having reduced by 8.53 p.p. (2,107 persons) against 2018 (in 2018 – 13,010 persons, or 83.23% of the average staff headcount).

The largest share of the employees trained is attributable to operational personnel – 93.5% (10,194 persons). This indicator amounted to 92% (11,970 persons) in 2018.

The staff who took part in training events broken down into office and management personnel, operational personnel and supporting personnel is shown below:

### Personnel trained off-site in 2019



**10,903 persons**

Average number of staff

GRI 404-2

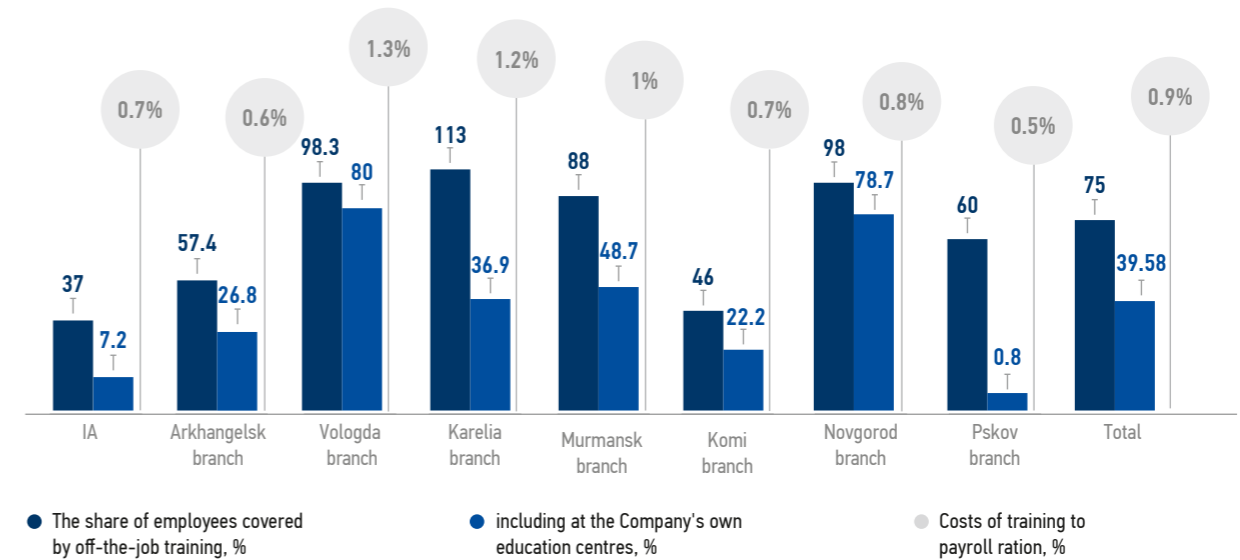
Continuity of the employee training is ensured by the corporate training and development system including PEI CPE Energetik in Vologda with standalone divisions in Arkhangelsk, Veliky Novgorod, Petrozavodsk and training and educational centre for the employees of the Murmansk branch of PJSC IDGC of the North-West in Murmashi of the Murmansk Region.

Corporate training centres provided professional training, retraining and advanced training to 5,777 persons in 2019, which is 52.99% of the total number of employees who received training. This number is by 0.03 p.p. higher than that in 2018 (in 2018, corporate training centres provided education for 6,890 persons, which accounts for 52.96%

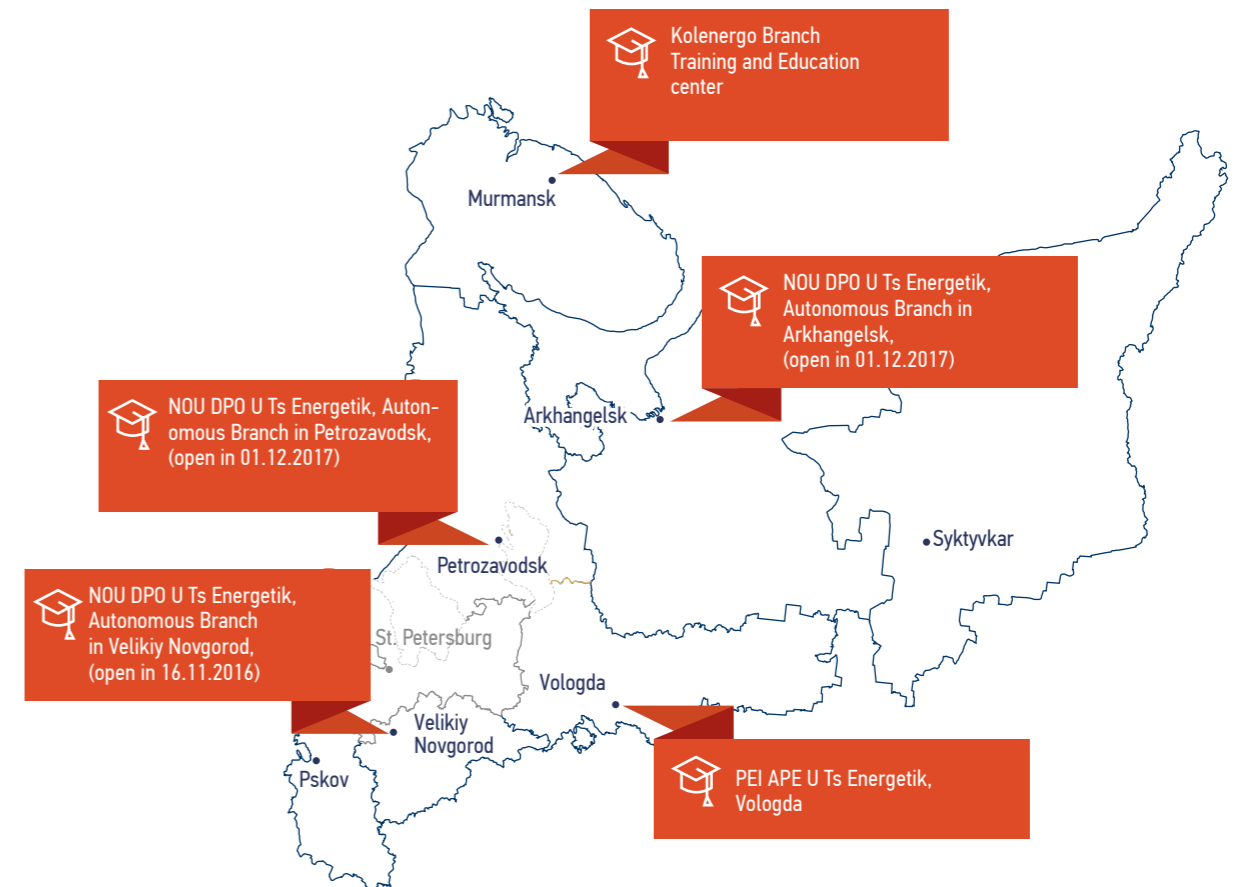
of the total number of trainees). The largest portion of the corporate training centre students were also operational employees – 97.21% (5,616 persons), and in 2018 – 94.34% (6,500 persons).

Actual costs of personnel training (regardless of their sources) amounted to RUB 64.77 mln, RUB 25.58 mln of which (39.5%) was allocated to training at corporate training centres. In 2018, staff training expenses amounted to RUB 68.9 mln, corporate training centres expenses accounting for RUB 25 mln, or 36.3% of the total training expenses.

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



### TRAINING CENTRES OF PJSC IDGC OF THE NORTH-WEST



### Participation of the Company in the corporate and national WorldSkills championships

In 2019, PJSC IDGC of the North-West employees took part in the PJSC ROSSETI open corporate championship of vocational skills under the WorldSkills methodology in the following skill areas: "Smart systems of power metering",

"Maintenance and repair of relay protection and automation equipment", "Operation of cable power lines". Experts included 4 employees of the Company, and contestants – 4 employees of the Company.

Information on cooperation with support organizations of higher education and professional education can be found in the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

### Talent pool management of the Company

In order to develop the HR potential and cover the Company requirements of trained personnel for appointment to vacated and new positions, in 2019, PJSC IDGC of the North-West continued its management of talent pool for administrative staff, youth, and key positions.

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

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

For more details on working with the personnel reserve, see the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

### Youth interaction

The Company implements key projects of youth interaction, including those under the Concept of "ROSSETI Group Companies Interaction with Educational Organisations": interaction with schoolchildren, students of educational institutions, young employees of the Company.

In 2019, the Company held 310 such events in the operations area of its branches, the total coverage of the target audience was over 9 thousand persons.

Work with students of educational organizations includes student practice, student groups, targeted admission, career guidance (open days and job fairs).



The full section on work with schoolchildren, students and young specialists can be found in the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

### Social policy towards the Company employees<sup>27</sup>

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

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

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

PJSC IDGC of the North-West developed a comprehensive Human resources and social policy of the Company approved by Decision of the Company's Board of Directors of 10.02.2015 (Minutes No. 67).

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

### Building a positive social environment

The Company strives for the human resources policy and social guarantees to ensure most comfortable labour and recreation conditions for the employees, without which efficient work is impossible.

**THE RANGE OF THE COMPANY'S SOCIAL POLICY AREAS IS QUITE BROAD, INCLUDING THE ISSUES OF:**



Non-state pension provision



Ensuring employees health and recreation



Voluntary medical insurance



Support of the retired veterans of the power company and young professionals



Voluntary accident and illness insurance



Measures to build and develop corporate culture

<sup>27</sup> Report on the results of ensuring the human performance reliability and special assessment of the working conditions in shown in Annex 17 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

**KEY PRINCIPLES OF THE SOCIAL POLICY ARE:****TARGETING**

A primary focus on the groups of employees who are most important for efficient performance of operational tasks and achievement of the goals of the grid system of the North-West, and on the most vulnerable groups of employees

**RELEVANCE**

Adequacy of the benefits granted to the essential needs of particular groups of employees, an individual approach

**OPENNESS**

Open discussion of the developed social regulations and availability of information on existing benefits and guarantees

**AWARENESS**

Provision of social support in various areas of life

**EFFECTIVENESS**

Continuous monitoring and evaluation of the incentives' efficiency

**The 2019 social policy of PJSC IDGC of the North-West aimed at:**

- maintaining social stability and development of social partnership;
- providing social security guarantees to the personnel, members of their families and power industry veterans;
- development of the corporate culture in order to motivate personnel to implement the Company's mission and fulfil current tasks;
- building a sustainable favourable social and psychological climate among employees;
- ensuring a positive public image of the Company.

The 2019 social policy of the Company developed systematically to keep up the social package, i.e. the package of benefits, compensations and privileges for the Company's personnel, their family members and power industry veterans, an important driver of highly qualified personnel recruitment and retention, and labour turnover reduction. The benefits system was developed within the framework of the collective agreement of PJSC IDGC of the North-West for 2019 in the following target areas:

- non-state pension provision;
- support of maternity and childcare;
- sports and health activities;
- corporate culture development.

**Preventive healthcare and health improvement for employees and their children**

Priorities of the Company's social policy include provision of up-to-date high-quality medical service to employees, organisation of health resort treatment and disease prevention.

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

In 2019, employees of the Company enjoyed over 300 sports events with the participation of over 7 thous. persons.

In line with the plan for the corporate sports events of the ROSSETI Group in 2019 (Order of PJSC ROSSETI of 27.12.2018 No.579r), employees of the Company took part in competitions in skiing, indoor football, basketball, hockey.

The Company's team ranked third in the skiing race among the teams, in the category of men over 40 it was second, men under 40 – second, team relay over 40 – second; PJSC IDGC of the North-West team took the fifth place in the basketball tournament, the sixth in hockey, and the eighth in indoor football.

A representative of the PJSC IDGC of the North-West team, Slednikov A.N. won the team relay skiing race in the category over 40 at the FES competitions.

By Order of PJSC IDGC of the North-West "On passing GTO Standards tests" of 14.04.2017 No. 261, all branches held GTO tests.

**> 300** sport events

Conducted in 2019 for the Company's employees

**Cultural and educational events**

In 2019, approximately 1,000 events were held to promote the Company's corporate culture with the participation of approximately 38 thousand persons.

During the reporting year, the Company held 235 themed entertainment events and 35 excursions for the employees engaging over 16 thousand people, as well as 32 exhibitions of creative works by power industry employees and their children.

The Company organised over 130 events aimed at attracting and retaining young qualified workers and professionals at the power grid facilities, with participation of over 3 thousand students of the region and young employees of the Company. These included outreach meetings of heads of the power energy companies with school and professional education institutions graduates, and open days.

In 2019, student construction teams were created in all seven branches of PJSC IDGC of the North-West. The total headcount amounted to 110 persons.

Over 100 events with the participation of over 3 thousand people were held for members of the Veteran Councils of the executive bodies and Company branches comprising around 6 thousand persons.

The Company organised 117 thematic events dedicated to major dates of the Russian history. The audience was approximately 7 thousand people. Thus, thousands of the Company's employees in seven regions of operation of PJSC IDGC of the North-West took part in the celebration of the main national holiday – the Day of Victory in the Great Patriotic War. The Company's Youth Council is actively engaged – it held me-

**> 7,000** persons

Participated in sport events

memorial events in honour of the important dates in the Russian history, rendered charitable assistance to retired employees living alone – power industry veterans, carried out maintenance works at the monuments to defenders of the country.

**Commemorative events and celebrations in honour of the veterans were held in large regional centres as well as remote settlements where power industry employees work, including the following:**

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

PJSC IDGC of the North-West employees volunteer at regional search movements.

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

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



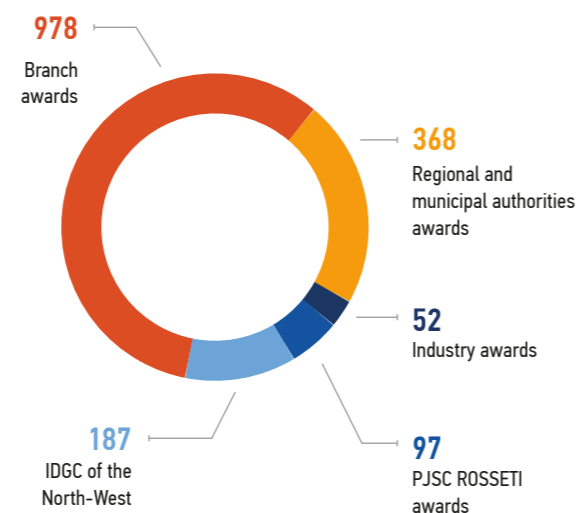
**The awards policy pursued by the Company to boost social motivation of its employees is based on the following principles:**

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

Over 2019, employees of the Company with the best record of contribution to the power industry development received 1,682 awards.

The data on awards distribution in the Company in 2019 are shown in the chart below.

*Awards distribution in the Company in 2019, items*



**Remuneration at the Company's branches**

The Company's system of labour remuneration is based on the uniform principles of social partnership stipulated by the collective agreement of PJSC IDGC of the North-West, as well as the Regulation on remuneration of employees of OJSC IDGC of the North-West effective from 01.05.2009 (as subsequently amended). The labour organisation and remuneration system currently in force in the Company generally complies with the Recommendations for the uniform procedure of labour remuneration at base wage rates (official salaries) of power industry employees approved by the Russian Association of Electric Energy Employers and the All-Russian Electric Trade Union.

Overall, the average salaries of the PJSC IDGC of the North-West employees in 2019 grew by 2.7% against 2018.

The efficiency of the HR and social policy is closely linked to timely payments and indexation of salaries to ensure their competitiveness in the regional labour markets, and there-

fore the salaries of employees of all the Company's branches have been traditionally higher than average salaries in the respective regions

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

**2.7%**

**Growth of the average salaries in 2019**

**Protection of employees' interests and rights**

Throughout the reporting year, the Company built efficient relations with primary trade union organisations (PTUOs) and the Council of PTUO Representatives, in particular by fulfilling common tasks of communication to the staff, organisation of cultural, educational and sports events, implemen-

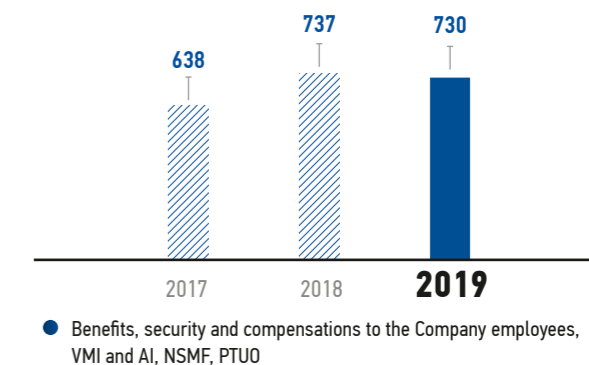
tation of the uniform collective agreement and the uniform Regulation on remuneration of employees of the Company. No violation of the terms of the collective agreement took place in the reporting year.

Members of primary trade union organisations account for 57.79% employees of the Company (8,388 persons).

The costs of the social policy implementation in 2019 remained virtually the same year on year.

In accordance with the standards of the Sectoral tariff agreement in the electric power industry of the Russian Federation and the effective collective agreement, in the reporting year the Company transferred RUB 35,731 mln to the accounts of primary trade union organizations of the branches and the Company's executive bodies for the purpose of organising cultural and sports events.

*Growth in the Employer's expenses on social policy, RUB mln*



**Implementation of the non-state pension programme**

The non-state pension programme for employees of PJSC IDGC of the North-West (hereinafter – the NSP programme) was approved by the Company's Board of Directors for 2019 (Minutes of 15.08.2019 No.329/6). The main goal of the programme is to ensure a decent standard of living for the Company's employees at the retirement age, as well as to create conditions for efficient solution of various personnel issues, such as optimisation of the number of administrative and management personnel, reducing the staff turnover and retaining employees in the power system. During 2019, the Company cooperated with JSC Non-State Pension Fund Otkrytie (hereinafter – NSPF Otkrytie) towards the implementation of the non-state pension provision programmes for employees in three areas:

- the corporate plan (financed by the Company), including the "Supporting" programme;
- the parity plan (financed by the employee and the Company);
- the co-financing programme (financed by the employee, the Company and the State).

Under the approved NSP programme for 2019, the Company carried out the co-financing programme in line with the Federal Law of 30.04.2008 No.56-FZ "On additional insurance contributions to the cumulative component of employment pensions and state support for accumulation of pension savings".

Over 2019, retired employees received non-state pensions. The size of non-state pensions primarily depended on the employee's salary, the length of his/her work in the electric power industry, and on whether he/she has state, industry or corporate awards. Understanding the social significance of financial support of the employees after their retirement, the Company's management annually finds opportunities to finance non-state pension programmes, although the regional tariff regulation bodies excluded those costs from the tariff structure.

**Targeted social benefits, bonuses and compensations to the Company's employees**

In accordance with the Collective Agreement, this component of the social package of the Company's personnel comprises a range of targeted payments and compensations to employees, the largest of which are:

- non-recurring recreational leave allowance;
- compensation for expenses to travel to the place of the recreational leave and back within the Russian Federation payable to employees and their dependents if the employees work in Far North districts and equated localities;

- 50% discount for household use of electric power;
- payments in cases of childbirth, registration of marriage, death of relatives;
- non-recurring bonus to employees resigning after the retirement age.

## OCCUPATIONAL HEALTH AND SAFETY<sup>28</sup>

GRI 103-2



In accordance with the Occupational Safety Policy of the ROSSETI Group<sup>29</sup>, the Company defines its occupational safety priorities as protection of its employees' life and health in the course of their operational activities, as well as those of visitors and contractors' employees at the Company's facilities and manifests life and health of each employee to be the key value.



“

*All the facilities of the power company are high-risk locations. Therefore, we prioritise not the strict delivery of the plan “whatever it takes”, but organisation of safe working processes. Promotion of occupational safety culture involves the so-called risk-oriented approach to operations. It means that before any moves the employees think about what they are going to do. They do not tolerate risky behaviours – their own or colleague's.*

”

### Denis Yagodka

First Deputy General Director – Chief Engineer of PJSC IDGC of the North-West

#### Major goals in the area of occupational safety include:

- development of healthy and safe working conditions;
- consistent and ongoing decrease of the occupational injury rate and professional diseases;
- ensuring high level of the corporate safety culture.

In its development strategy and the context of the current Policy, the Company management is committed to the principles of Vision Zero concept.

Any initiatives of the Company employees and other stakeholders aimed to ensure and improve the working conditions and occupational safety will be studied, encouraged and duly appreciated.

<sup>28</sup> The Labour Safety Report is available in Annex 18 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationshareholdersmeetings>.

<sup>29</sup> Approved by Order of PJSC ROSSETI of 30.08.2018 No. 143 “On approving the occupational safety documents of PJSC ROSSETI”, accepted for implementation by Order of PJSC IDGC of the North-West dated 19.09.2018 No. 628 “On improvement of the occupational safety management system”.

GRI 103-3

The Company management guarantees allocation of the necessary resources, as well as creating conditions to perform the commitments made in this Policy.

The Company management, being aware of the primary values, key goals and commitments, takes on the responsibility for implementation of this Policy.

To identify and eliminate the causes of occupational injury related to misoperation of the Company employees, starting the fourth quarter of 2018, the Company has implemented the project of “Safety awareness culture” aimed to improve qualifications and involvement of the employees in the process of occupational safety and protection.

### Occupational injuries in the Company

The Company's operations involve high risks stemming from the impact of hazardous and adverse operational factors, emergencies and human errors. This aspect is of great importance for the Company, its employees and other stakeholders. Unfortunately, in 2019, there were 5 accidents in the Company, including 2 fatal accidents (one of them as a result of a road traffic accident at the fault of a third-party driver). The year-on-year number of accidents decreased by one. There is a growth in fatal injury rate: from 1 persons

in 2018 to 2 in 2019 (one as a result of a road traffic accident at the fault of a third-party driver). No group accidents took place. No work-related diseases were recorded.

#### Major occupational injury causes are as follows:

- inadequate organisation of works;
- other causes (health deterioration, personal negligence).

#### Occupational accidents in the Company

Indicator	2017	2018	2019
Total number of people injured in accidents, persons	3	6	5
Total number of fatalities, persons	2	1	2
Total occupational injury frequency rate (per 1,000 employees)	0.20	0.40	0.34
Fatality frequency rate (per 1,000 employees)	0.14	0.07	0.14

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

### Occupational injuries in the S&A

In 2019, there were 2 occupational injuries. Two employees of JSC Pskovenergoagent were injured, with light damage to health.

#### Occupational injuries in the S&A:

- sonal negligence;
- violation of the workplace safety guidelines by the injured.

GRI 103-3



Occupational accidents in the S&A

Indicator	2017	2018	2019
Total number of people injured in accidents, persons	0	3	2
Total number of fatalities, persons	0	0	0
Total occupational injury frequency rate (per 1,000 employees)	0	5.69	3.79
Fatality frequency rate (per 1,000 employees)	0	0	0

Occupational injury rate among contractors' employees

Contractors work at the Company's power facilities in operation, under construction, technical re-equipment or renovation in accordance with Rules of personnel management at power industry companies of the Russian Federation, construction rules and regulations 12-03-2001 "Labour safety in construction. Part 1. General requirements", the Rules of occupational safety in operating power facilities.

In 2019, there were no accidents involving contractors' employees during operation at the power grid facilities of the Company.

To mitigate possible risk of occupational electric injuries to the staff of contractors and detached personnel involved in operations, as well as the Company personnel involved in joint activities with or working near the above third parties, the Company implements Organisational standard OS 01.011-2017 "Organisation of safe work performance by the staff of contractors and detached personnel". Standard forms of contractor agreements signed by PJSC IDGC of the North-West include sections "Compliance with the requirements of occupational safety", "Penalties for occupational safety requirements violation".



Occupational safety spending

The costs of occupational safety amounted to RUB 479,647.453 thousand in 2019, which accounts for 1.18% of the total expenses (cost of goods sold) of the Company and confirms compliance with the requirement of Article 226 of the RF Labour Code, under which financing of the conditions and occupational safety improvement shall account for no less than 0.2% of the cost of goods (works, services) sold.

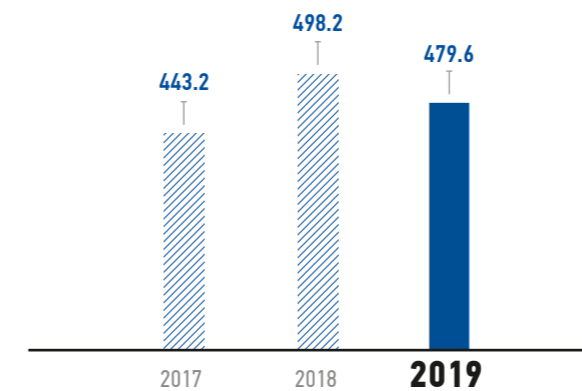
**479.6 RUB mln**

Occupational safety spending in 2019

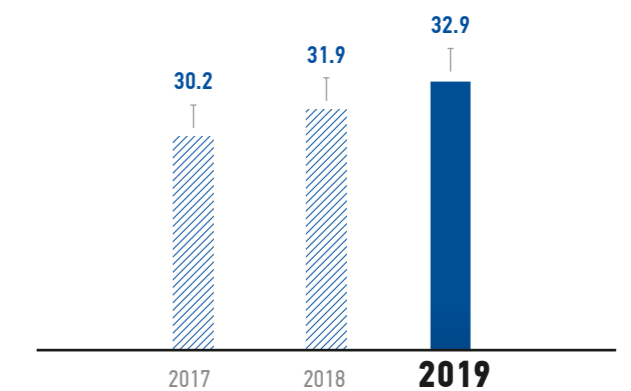
RUB mln

	2017	2018	2019
Measures to prevent accidents	23.5	33.3	26.2
Sanitary and hygienic activities to prevent work-related diseases	96.2	97.6	92.5
General improvement of the labour conditions	9.8	8.5	8.8
Provision of employees with personal protection equipment	313.7	358.8	352.1
Total costs of occupational safety activities	443.2	498.2	479.6

Labour safety costs, RUB mln



Unit labour safety costs per employee, RUB thous.



Unit costs of occupational safety per employee in 2019 were RUB 32.9 thousand, which exceeds the previous-year indicator by 3%.

Unit costs of personal protection equipment per employee amounted to RUB 24.12 thousand in 2019, which is also more year on year by 4.9%.

The occupational safety costs are scheduled. The 3.7% reduction in 2019 was due to the following factors:

- considerable works carried out in 2018 to bring lighting conditions on the premises of operations in line with the sanitary requirements;
- delivery with time violations, products failure to meet the requirements.



# ENVIRONMENTAL RESPONSIBILITY

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

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

## ENVIRONMENTAL POLICY



Ensuring the reduction of negative impact on the environment and evaluation of environmental activities with a view to their improvement are the Company's priority goals in the field of environmental protection.

In 2017, the Board of Directors of PJSC IDGC of the North-West (26.12.2017 Minutes No. 260/15) made a decision to join the implementation of the environmental policy for the power grid facilities approved by Decision of the Board of Directors of PJSC ROSSETI of 01.03.2017 (Minutes of 03.03.2017 No. 254) (hereinafter – the environmental policy).

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

The main directions of the Environmental Policy implementation can be found in the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

The Company is committed to implement the environmental policy and undertakes to comply with the requirements of environmental legislation of the Russian Federation in full.

Priority goals of the Company in environmental protection under the action plan for implementation of the environmental policy of PJSC IDGC of the North-West for 2017-2019 approved by Decision of the Company Board of Directors dated 26.12.2017 (Minutes No. 260/15) are to reduce the adverse effects on the environment and to assess environmental activities in order to improve them.

## Use of advanced technologies and solutions in the area of environmental protection

### TO INCREASE THE LEVEL OF ENVIRONMENTAL SAFETY, THE COMPANY IMPLEMENTED THE FOLLOWING MEASURES IN 2019:

- replacement of oil break switches with vacuum and sulfur-hexafluoride circuit breakers, reducing the risk of environment pollution with circuit-breaker oil;
- renovation of oil receivers, oil piping, emergency oil collectors;
- arrangement of places for temporary waste accumulation at branches of the Company;
- transfer of hazard class 1-4 waste to specialised organisations for subsequent disposal;
- analytical monitoring of air pollutant emissions from stationary sources with instrumental gauging;
- equipment of overhead power lines of 35+ kV with 1,298 bird protection devices (overall, since 2015 the Company has installed 4,862 items).

### Use of new technologies for environmental protection

Indicator	Unit	2017	2018	2019
35 kV vacuum circuit breakers	items	342	345	359
3-20 kV vacuum circuit breakers	items	6,821	7,157	7,239
SSIW for OL of 0.4 kV	km	7,703	8,323	9,039
SSIW for OL of 6-20 kV	km	6,464	7,254	7,530

## Management and control of environmental protection activities

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

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

compliance with the requirements of the environmental legislation is monitored for the contractors working at the power grid facilities.

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

## Environmental protection expenses and investments

The Company finances activities aimed at environmental protection. The current environmental spending in 2019 amounted to RUB 20.2 mln.

Sufficiency in the financing of the environmental programmes ensures compliance of the Company's facilities with the requirements of the Russian legislation, standards and regulations in the field of environmental protection.

**20.21 RUB mln**

**Environmental protection expenses in 2019**

### Environmental protection expenses and investments

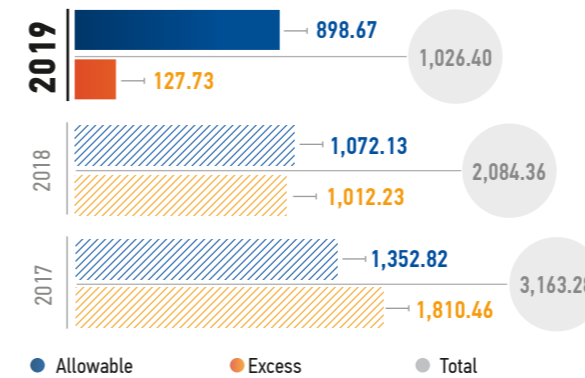
Indicator	2017	2018	2019
Total environmental expenses by type of costs, RUB mln:	13.57	21.49	20.21
current costs, RUB mln, including:	13.57	21.49	20.21
protection of water resources	4.36	4.97	6.68
protection of atmospheric air	0.99	2.48	2.14
protection of environment from waste	8.22	10.74	10.24
remediation of disturbed lands	-	-	-
introduction of the environmental management system	-	3.30	1.16

## Fines and non-financial penalties imposed on the Company for non-compliance with the requirements of environmental legislation

Financial and non-financial penalties imposed on the Company in 2019 were due to exceeding the established standards of pollutants discharge to water bodies and exceeding the established standards of air pollution.

Indicator	2017	2018	2019
Number of non-financial penalties imposed, items	25	3	1
Total amount of fines, RUB thous.	100	10	10

## Environmental impact payments trends, RUB thous.



Payments for the adverse impact on the environment tend to decrease as the Company has environment-related permits in accordance with the requirements of the environmental legislation and transfers solid municipal waste (SMW) to SMW placement operators, who pay for the negative environmental impact from waste placement themselves.

## Energy saving and energy efficiency<sup>30</sup>

Energy saving and energy efficiency improvement activities were organised by PJSC IDGC of the North-West in 2019 in line with Federal Law No.261-FZ "On energy saving and energy efficiency and on amendments to some legislative acts of the Russian Federation", Orders of the Russian Ministry of Energy, Regulation on the development of the energy saving and energy efficiency programmes of subsidiaries and affili-

ates of PJSC ROSSETI (approved by the Board of Directors of OJSC ROSSETI, Minutes of 29.04.2014 No.156), as well as in accordance with the Programme for energy saving and energy efficiency improvement of PJSC IDGC of the North-West in the period 2016-2020 approved by Decision of the PJSC IDGC of the North-West Board of Directors of 21 November, 2016 (Minutes No.223/14).

### THE PROGRAMME FOR ENERGY SAVING AND ENERGY EFFICIENCY IMPROVEMENT OF PJSC IDGC OF THE NORTH-WEST (HEREINAFTER – THE PROGRAMME) STIPULATES THE FOLLOWING TARGET INDICATORS:



Power losses level in transmission and grid distribution



Own consumption of energy resources



Equipment with up-to-date power metering devices in retail in accordance with the smart power metering development programme



Number of LED-equipped lighting facilities

The target values of the programme are set for the period of 2016-2020.

<sup>30</sup> The regulatory base on energy saving and energy efficiency organisation is shown on the Company web site: <https://clients.mrsksevzap.ru/energysaving>.

## Planned and actual target values of the programme for 2019

No.	Indicator	Measurement units	2019	
			Planned	Actual
1.	Power losses	mln kWh	2,200.25	2,156.44
		RUB mln net of VAT	5,366.34	5,348.14
		% of output to grid	6.32	6.23
2.	Consumption by substations for in-house needs	mln kWh	88.57	73.38
		% of power losses	3.63	3.40
3.	Energy consumption for in-house needs of administrative and production facilities, total, including:	RUB mln net of VAT	345.81	319.52
		thous. TOE	16.56	17.51
3.1.	electric power	mln kWh	75.37	77.89
		thous. TOE	9.04	9.35
		RUB mln net of VAT	240.82	223.79
3.2.	heat (building heating systems)	mln kWh/m2		
		Gcal	48,198.09	52,760.17
		thous. TOE	6.89	7.54
		RUB mln net of VAT	101.26	92.93
3.3.	natural gas (including liquefied gas)	Gcal/m3		
		thous. m3	542.68	544.35
		thous. TOE	0.63	0.63
3.4.	Other fuels and energy resources (coal, fuel oil, diesel fuel, kerosene etc.)	RUB mln net of VAT	3.73	2.80
		thous. m3	-	-
		thous. l	-	-
		thous. t	-	-
4.	Natural resource consumption for in-house needs of administrative and production facilities, total, including:	thous. TOE	-	-
		RUB mln net of VAT	7.47	4.45
4.1.	hot water supply	thous. m3	177.71	104.61
		RUB mln net of VAT	45.46	11.87
4.2.	cold water supply	RUB mln net of VAT	1.41	0.83
		thous. m3	132.25	92.74
4.3.	other types of natural resources	RUB mln net of VAT	6.07	3.62
		thous. m3	-	-
		thous. l	-	-
		thous. t	503.12	-
5.	Motor fuel consumption by vehicles and special machinery, total, including:	RUB mln net of VAT	-	-
		thous. l	11,124.88	12,669.94
		thous. TOE	13.04	15.10
		RUB mln net of VAT	459.93	490.44
		thous. l	6,730.64	6,586.05
5.1.	petrol, including:	thous. TOE	7.62	7.46
		RUB mln net of VAT	276.75	236.74
		thous. l/100 km	-	-
		thous. l	5,366.72	5,740.36
5.1.1.	motor vehicles	thous. TOE	6.08	6.50
		RUB mln net of VAT	215.71	201.06
		thous. l/100 km		

No.	Indicator	Measurement units	2019	
			Planned	Actual
5.1.2.	special machinery	thous. l	1,363.92	845.69
		thous. TOE	1.54	0.96
		RUB mln net of VAT	61.04	36.69
5.2.	diesel fuel, including:	thous. l/100 km	-	-
		thous. l/m. per hour	-	-
		thous. l	4,394.24	6,083.88
5.2.1.	motor vehicles	thous. TOE	5.42	7.64
		RUB mln net of VAT	183.17	254.28
		thous. l/100 km	-	-
5.2.2.	special machinery	thous. l	2,208.21	3,356.72
		thous. TOE	2.72	4.14
		RUB mln net of VAT	87.97	141.18
5.3.	other fuels for vehicles and special machinery, total, including:	thous. l/100 km	-	-
		thous. l/m. per hour	-	-
		thous. TOE	2,186.03	2,840.62
5.3.1.	natural gas (including liquefied gas)	thous. TOE	2.69	3.50
		RUB mln net of VAT	95.20	118.11
		thous. l/100 km	-	-
5.3.2.	electric power	thous. l/m. per hour	-	-
		thous. TOE	-	-
		RUB mln net of VAT	14.19	-
6.	Availability of energy-efficient LED lighting devices	thous. l	-	-
		thous. TOE	-	-
6.1.	number of lighting devices used, including:	RUB mln net of VAT	14.19	-
		mln kWh	-	-
6.1.1.	energy-efficient lighting devices (except LED)	thous. TOE	-	-
		RUB mln net of VAT	53	36
6.1.2.	LED	thous. TOE	109,996	109,996
		items	51,438	70,760
		items	58,558	39,236

The actual consumption and cost indicators of fuel and energy resources for administrative and production consumption by branches of the Company reduced by RUB 29 mln to 17.51 thous. TOE, or RUB 324 mln.

For more information on energy saving and increasing energy efficiency see the full Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.



## Atmospheric emissions of pollutants

in 2019, gross emissions of air pollutants grew year on year by 82.572 tonnes.

### Atmospheric emissions of pollutants

Name	2017	2018	2019
Gross emissions of air pollutants, total tonnes, including	477.401	477.695	560.267
solid	52.074	54.507	53.246
gas and liquid	425.327	423.188	507.021
including:			
sulphur dioxide (SO <sub>2</sub> )	21.590	20.488	24.893
carbon oxide (CO)	168.731	169.745	186.711
nitrogen oxides (equivalent to NO <sub>2</sub> )	138.624	134.633	188.892
hydrocarbons (excluding volatile organic compounds)	3.702	2.766	2.785
volatile organic compounds	85.179	95.556	103.740
benzopyrene	0.000001	0.000001	0.000001

## Waste generation and land conservation

In line with Federal Law No.89-FZ "On production and consumption waste", the Company implements a comprehensive set of activities to reduce the amounts of production and consumption waste generated and accumulated.

In 2019, the Company generated 3.9 thous. tonnes of production and consumption waste classified under hazard classes 1-5, which is by 0.42 thous. tonnes less year on year.

### Waste generation

Item	2017	2018	2019
Waste generated, total tonnes, including:	5,352.094	4,326.939	3,903.959
hazard class 1	11.865	29.375	3.729
hazard class 2	12.482	11.714	9.458
hazard class 3	384.611	89.270	102.229
hazard class 4	2,831.532	2,840.281	2,897.259
hazard class 5	2,111.604	1,356.299	891.2451
Waste transferred to third parties, total	5,324.405	4,140.329	3,965.802
including for waste placement	3,408.596	3,362.385	3,122.826

## Waste disposal

Item	2017	2018	2019
Waste transferred to third parties for:	5,324.405	4,140.329	3,965.802
use	1,569.924	376.999	577.658
treatment	345.885	400.945	256.282
storage	-	-	-
landfilling	3,408.596	3,362.385	3,122.862

## Biodiversity conservation



According to expert research, most power lines operated are unsafe for birds and inflict severe damage on the ornithological fauna. Therefore, the Company plans and develops measures for bird protection, enabling it to prevent or minimise possible consequences.

Moreover, power experts of the Company pay considerable attention to protection of birds in the areas of their seasonal migration. The overhead lines going through large birds habitats are equipped with bird shields, strips of metallic wire preventing birds from resting on cross-arms. It serves to protect the birds' lives.

In 2019, technical bird protection measures were taken: installation of 1,298 bird protection devices at 35+ kV power lines. Overall, since 2015 the Company has installed 4,862 bird protection items.

Information on power lines in protected areas can be found in the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

# 1,298

Installation of bird protection devices  
at 35+ kV power lines in 2019

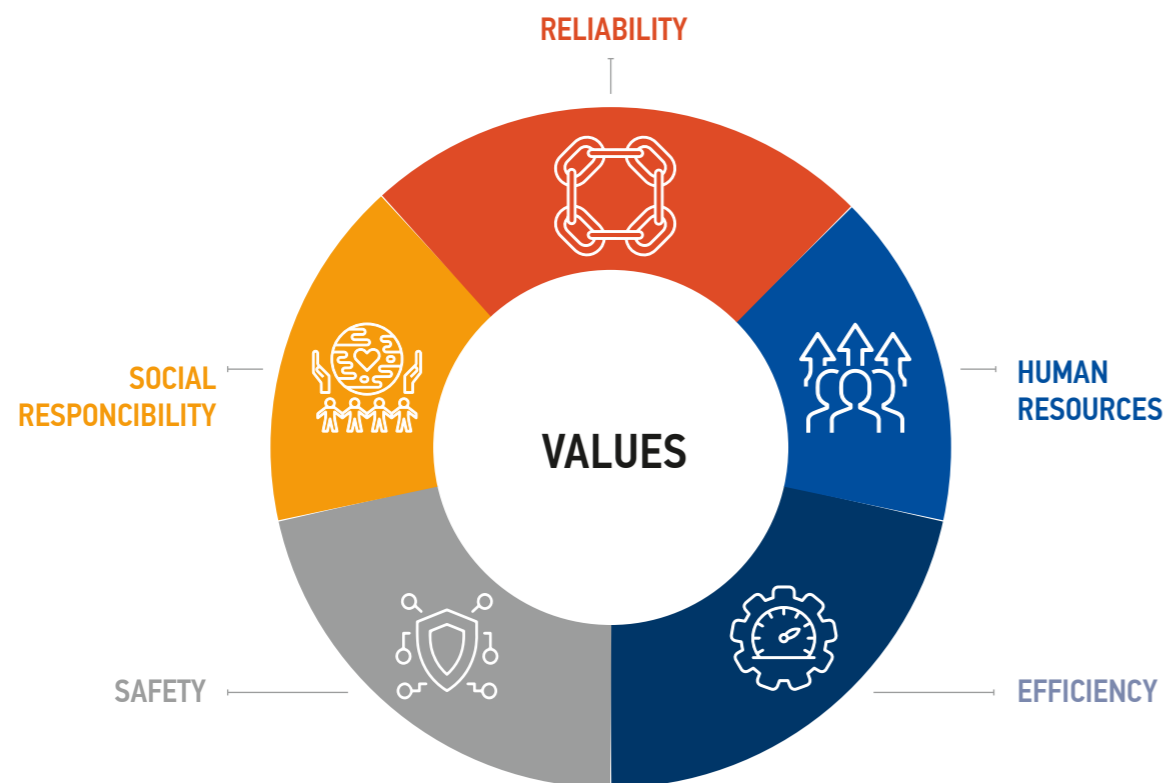
# RESPONSIBLE BUSINESS

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

## CODE OF CORPORATE ETHICS<sup>31</sup>

The key document outlining the general principles, standards and rules of professional ethics and corporate behaviour of PJSC IDGC of the North-West is the Code of Corporate Ethics and Executive Conduct for Employees (hereinafter – the Ethics Code), approved by the Board of Directors of PJSC IDGC of the North-West on 03.05.2017 (Minutes No. 240/31).

The Ethics Code is an internal document of the Company defining essential standards and rules of individual and collection behaviour for each and all employees, members of management and control bodies. It is a body of principles, standards and rules of corporate behaviour, social responsibility and other business ethics issues for the employees and members of management and control bodies of the Company.



<sup>31</sup> The document is available on the Company's website: <http://www.mrsksevizap.ru/codex>.

Under Article 13.3 of the Federal Law of 25.12.2008 No.273-FZ "On anti-corruption measures", adoption of the Code of Corporate Ethics and Executive Conduct for Employees is a separate anti-corruption measure classified as a corruption prevention activity.

In accordance with methodological recommendations on development and adoption of anti-corruption measures by companies, approved by the RF Ministry of Labour and Social Protection on 08.11.2013, anti-corruption policy and other organisational documents regulating corruption prevention and counteraction are to be adopted as company regulations to ensure mandatory compliance with them by all employees of the organisation.

The national plan of anti-corruption measures approved by Decree of the Russian Federation President sets the objective of development of a set of organisational, advisory and other measures for the employees to comply with the bans, restrictions and requirements facilitating anti-corruption measures, unification of anti-corruption standards for employees of the Company and its S&A.

Order of the Federal Agency for State Property Management of 02.03.2016 No.80 approved methodological recommendations on risk management and internal control organisation in the area of anti-corruption measures at joint-stock companies with the ownership of the Russian Federation (hereinafter – the methodological recommendations).

**Under p. p. 2.2, 2.10, 2.21-2.24 of the methodological recommendations, the Code of Corporate Ethics is to:**

- comply with FZ No.273;
- include information on the procedures of the employee action in case they reveal violations with signs of corruption and the procedures of receiving additional advice on the issues of anti-corruption legislation.

Considering the above, to implement anti-corruption behavioural patterns of employees in the corporate culture of the Company, it drafted the Code of Corporate Ethics and Executive Conduct for Employees.

**The Code tackles such issues as:**

- conflict of interest prevention and settlement;
- corruption prevention;
- corporate values;
- executive conduct rules;
- confidentiality and data protection, insider information;
- corporate image;
- compliance with the environmental legislation;
- compliance with the regulations on occupational safety and health protection;
- compliance with the Ethics Code and responsibility.

The Ethics Code defines such core terms as "conflict of interest", "corruption", "corporate ethics", "labour dynasty", "business gifts", "direct and immediate subordination", "persons in close relation or connection with the Company employee" etc.

## PROCUREMENT ACTIVITIES

GRI 103-2



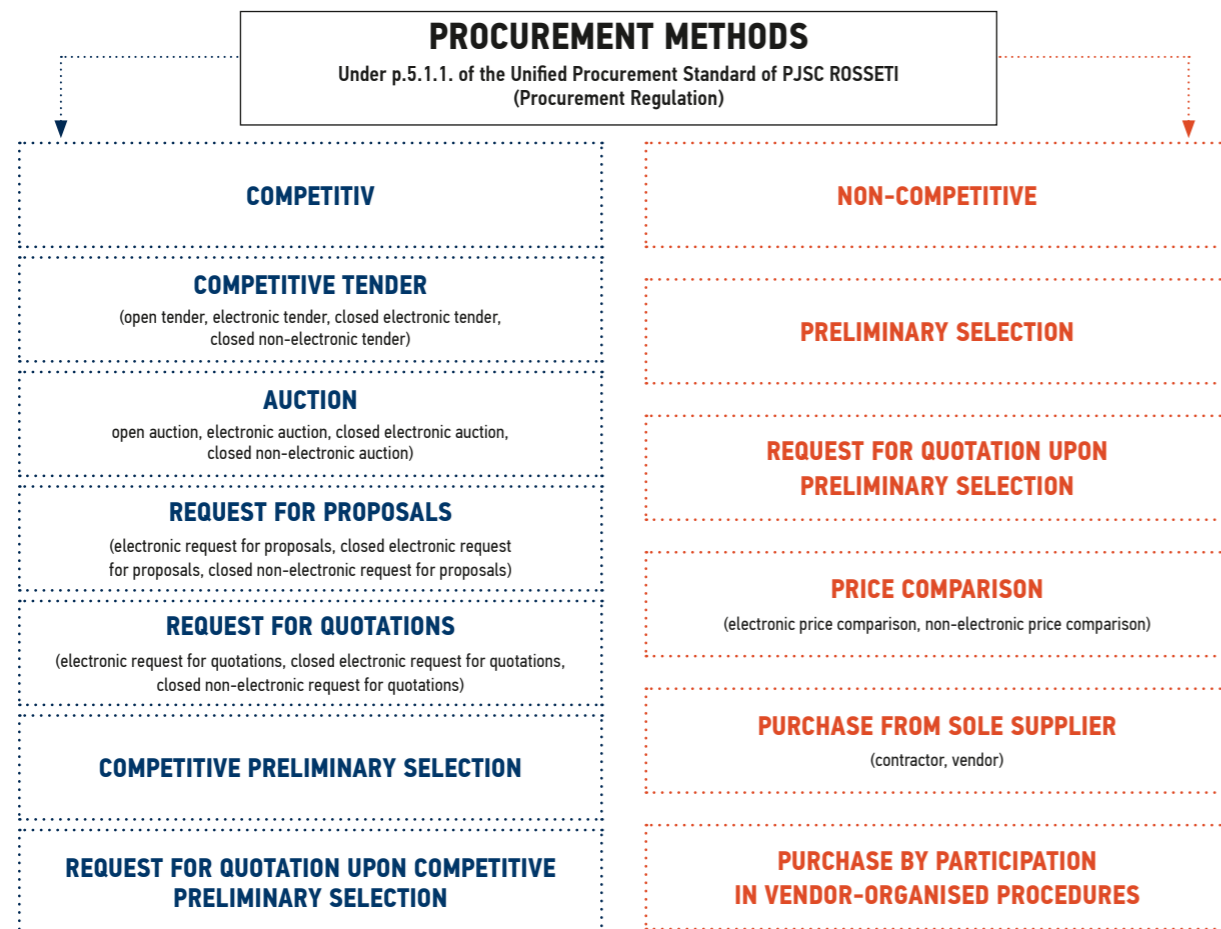
The Company procurement was carried out in 2019 in line with the Unified Procurement Standard of PJSC ROSSETI (Procurement regulation), endorsed by Decision of the Board of Directors of PJSC ROSSETI of 17.12.2018 (Minutes No.334), which the Company joined under Decision of the PJSC IDGC of the North-West Board of Directors of 25.12.2018 (Minutes No.304/17).

### Procurement activities of PJSC IDGC of the North-West are based on the following principles<sup>32</sup>:

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

### Methods of holding procurement procedures

Procurement activity is implemented in the Company in line with the following methods stipulated by the Unified Procurement Standard of PJSC ROSSETI (Procurement Regulation).



<sup>32</sup> For details on regulation and principles of procurement Annex 19 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

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

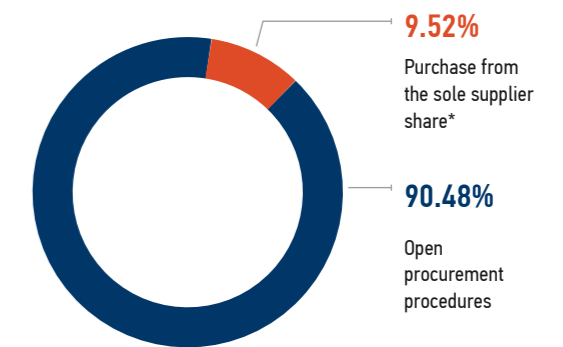


### Procurement breakdown

In 2019, the Company held 1,449<sup>33</sup> procurement procedures for the total amount of RUB 17.7 bln. The cost efficiency achieved by these procedures was RUB 1.7 bln including VAT, or 9.91% of the planned declared value of competitive purchases.

Purchasing via e-commerce facilities (electronic trading platforms) accounted for 1,255 cases for the amount of RUB 16 bln including VAT (99.84% of the total procurement number, 99.94% of the total procurement volume<sup>34</sup> in monetary terms).

#### Open procurement

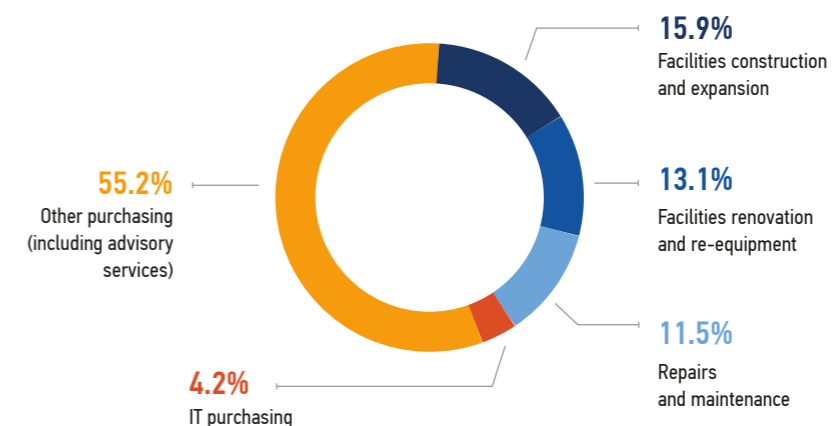


\* Net of purchasing services regulated by the RF legislation (pricing (tariffs), power transmission (transit) services, purchase of power to offset losses in grids) and other inevitable purchases from the sole supplier (rent of land, heat/water/gas supply, emergency response).

# 1.7 RUB bln

The cost efficiency incl. VAT

#### Procurement allocation by type

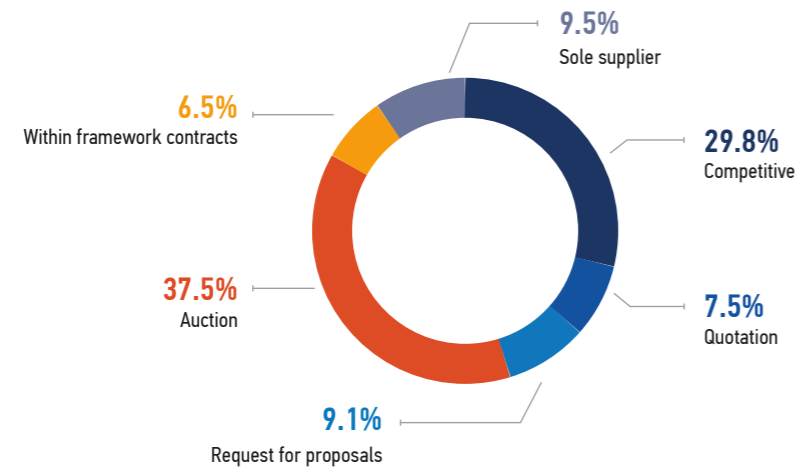


<sup>33</sup> Net of purchasing power transmission services, purchase of power to offset losses and other inevitable purchases from the sole supplier (rent of land, heat/water/power/gas supply, emergency response).

<sup>34</sup> Net of purchasing from the sole supplier.



Procurement type breakdown



Purchasing from small and medium businesses

Purchasing from small and medium businesses accounted for RUB 7.96 bln including VAT (1,211 purchases), or 80.26% of all the purchasing (87.50% in number)<sup>35</sup>.

The volume of competitive tenders where only small and medium businesses took part in accordance with the requirements of the tender/procurement documents, amount-

ed to RUB 3.07 bln including VAT (785 purchases), or 30.93% of the actual volume (56.72% in number).

In 2019, there were 7 purchases which match the criteria for classifying goods, works and services as innovative and (or) high-tech products for the actual amount of RUB 99.5 mln including VAT.



<sup>35</sup>The data are compiled subject to the requirements of the RF Government Order of 11.12.2014 No. 1352.

ANTI-CORRUPTION POLICY<sup>36</sup>

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

Since 25.05.2015, the Company has been a member of the Anti-Corruption Charter of the Russian Business. Members of the Charter declare zero tolerance of any form of corruption in their business and intentions to promote the principles of zero tolerance of and countering corruption in building their relations with the governmental authorities, contractors, and corporate relations. Participants in the Charter are to confirm their compliance with its requirements on a regular basis (biannually). In case this condition is not met, the membership is suspended and the entity is further excluded from the Consolidated Register of the An-

ti-Corruption Charter of the Russian Business. In May 2019, the Company sent its Declaration of compliance with the provisions of the Anti-Corruption Charter to the RF Chamber of Commerce and Industry (outgoing Letter of 23.05.2019 No.MR2/40-07-07/4072), informing about the conformity of the Declaration to the guidelines on the methodology of anti-corruption measures assessment for declaration and public confirmation of the company implementation of the Anti-Corruption Charter of the Russian Business. Thus, the Company confirmed compliance with the requirements of the Charter by self-declaration.

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

In 2019, the Company updated and approved internal regulatory documents stipulating prevention of and fight against corruption, as well as settlement of the conflict of interest:

- Anti-corruption activities plan of PJSC IDGC of the North-West for 2019 was approved by Order of the Company of 12.02.2019 No.78;
- Due to personnel changes in PJSC IDGC of the North-West, to prevent and identify conflict of interest and other malpractice stemming from the positions held in the ROSSETI Group companies, the Company approved Order of 29.03.2019 No.190 "On organisation of activities to disclose information on the contractors' chain of ownership";
- Order of the Company of 16.04.2019 No.231 created a task force for supervisory control at the executive bodies;
- Regulation on insider information of PJSC IDGC of the North-West in the new version was approved by the BoD of the Company on 31.07.2019 (Minutes No.328/5);
- In order to enhance the performance of counterparty inspection measures in the course of procurement, Order of 17.07.2019 No.412r approved the counterparty inspection methodology;
- Due to change in the phone number of the hotline on alleged corruption, Order of the Company of 30.09.2019 No.630 introduced amendments into Order of 22.11.2017 No.809 "Approval of the procedures for receiving, studying and resolving communication from informers (employees, contractors and other individuals and legal entities) on allegations of corruption in the new version";
- The new composition of the PJSC IDGC of the North-West commission on compliance with the standards of corporate ethics and settlement of the conflict of interest was approved by Order of the Company of 19.12.2019 No.770.

<sup>36</sup> The legal and methodological foundations of the anti-corruption policy are shown at the Company's web site: <http://www.mrsksevzap.ru/aboutcorruptionpolicy#tab1>.

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

- The section on anti-corruption policy was created and updated on the official web site of PJSC IDGC of the North-West;
- Information on anti-corruption legislation requirements, general principles of anti-corruption policy, number of the hotline and confidential hotlines, information on other available methods of reporting corruption is placed at the information stands "Non-corruption territory" in offices of the executive bodies of the Company and its subsidiaries, branch executive offices, operational units and district power grids, as well as client service centres;
- Qualification requirements are imposed on candidates for vacancies, with due verification of the data they provide.

In 2019, the Company carried out 1,252 candidate inspections, 59 of which received adverse opinions. Candidate check, including use of the "Declaration" module of the automated system of beneficiaries data collection and analysis serves to reveal affiliation of the candidates with counterparties and employees of not only PJSC IDGC of the North-West, but other S&A of PJSC ROSSETI. The share of negative conclusions on candidates in 2019 increased by 1.5% against 2018

In assessing the level of integrity of the Company's partners and contractors, the degree of their non-acceptance of corruption in business practice is taken into account, including availability and implementation of anti-corruption programmes.

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

In 2019, the Company received 14 communications from informers via hotline and confidential hotline, none of which contained allegations of corruption. All the requests were

Compliance with anti-corruption principles is deemed to be an important factor in establishing contractual relations, including the reservation stipulating possible termination of contract relations in due order in case of violation of the anti-corruption principles.

In 2019, there were 6,812 inspections of procurement procedures participants, 68 of which received adverse opinions. The main reasons for declines are contractors' failures to provide full data on owners, including ultimate beneficiaries, consent to personal data processing and other data stipulated by the requirements of procurement documentation (67% of the total number of rejections), as well as cases of affiliation of the procurement participants – 17%, in some cases – effective court verdicts on breach of contract – 12%, lack of financial and business operations, or other adverse information on the counterparty – 4%.

The Company has a commission on compliance with the corporate ethics and settlement of the conflict of interest. In the reporting year, 1 meeting of the commission was held to review matters of settlement of the conflict of interest.

**1,252 inspections**

Carried out in 2019

considered: 6 of them forwarded for consideration into relevant units of the Company (technological connection, power transmission), 8 – studied in cooperation with the relevant units, where in 5 cases the facts of violations were confirmed, property damage was prevented in the amount of RUB 205 thous.

In 2019, the Anti-Corruption Compliance Procedures Unit of the Security Department of PJSC IDGC of the North-West received 15 notifications from employees of the Company on receiving presents in connection with their position. In accordance with the requirements of the regulatory admin-

istrative documents of the Company, all presents were submitted by them to the logistical and administrative unit of the Company Administration for valuation, and later returned to their receivers, as their value did not exceed RUB 3 thous.

**AS PART OF THE IMPLEMENTATION OF MEASURES TO DETECT, DETER, UNCOVER AND INVESTIGATE CORRUPTION-RELATED OFFENCES**

The Company uses the Procedure for receiving, considering and resolving reports from applicants (employees, contractors and other individuals and legal entities) about possible facts of corruption (hereinafter referred to as Reports). The given mechanism on reception of Reports is realized by means of "hot line" which works round-the-clock and assumes the following variants:



Filling in a feedback form at the official web site of the Company in the section "Anti-corruption policy"



Sending an e-mail to an employee of the Security Department of the Company



A hotline phone call



Sending a written request to the Security Department of the Company.

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

1. By filling in a feedback form, selecting "Report a violation – Report corruption"
2. By making a hotline phone call at **8 (812) 305-10-69**.
3. By sending an e-mail to **geb@mrsksevzap.ru**.
4. By sending a written request to the Anti-Corruption Compliance Procedures Unit at: **3A Konstitutsii Sq., Saint Petersburg, 196247**

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



# SOCIAL RESPONSIBILITY



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

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

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

## SUPPORT OF RETIRED EMPLOYEES

The Company's social responsibility stipulated by the collective agreement also provides for financial support of the former employees of PJSC IDGC of the North-West. In the reporting year, they received non-regular financial aid pay-

ments to mark the Victory Day, International Day of Older Persons, personal anniversaries, and in cases of emergency need; relatives of retired veterans received compensations for funeral services.

## CHARITY PROJECTS AND VOLUNTEERING PROGRAMMES

### PJSC IDGC OF THE NORTH-WEST SUPPORTS REGIONAL AND FEDERAL CHARITABLE PROJECTS IN THE FOLLOWING AREAS:

- conservation of cultural and historical heritage;
- support of educational initiatives, sports and healthy lifestyle promotion;
- social engagement of people with special needs;
- targeted social support of individuals, including veterans.

Moreover, employees of PJSC IDGC of the North-West regularly take part in donor initiatives and environmental volunteering.

The Company's employees annually take part in volunteer programmes and social solidarity projects in NWFD. Within the framework of the Year of Volunteers in Russia, PJSC IDGC of the North-West held a contest of volunteering initiatives for student construction teams "Light of the acts of kindness" with participation of students from six regions of the North-West. The contest gave the students of leading technical education institutions an opportunity to design and implement their own ideas. The project covered a variety of social initiatives: support for a widow of a Second World War veteran, donorship, volunteering at a horse club and an animal shelter, educational quests for children on electric safety, safety events for fishermen, site improvements, environmental clean-up days, creation of art objects, street art, publishing electric safety handbooks.

Long-term traditions of PJSC IDGC of the North-West include charity events for children at orphanages and foster homes: the employees conduct campaigns to collect presents and stationery, arrange celebrations for the supported children's social institutions. For example, the Company has been a patron of Kildinskoye boarding school for children with special needs (in the Murmansk Region) for over ten years.

A vital component of the charitable activities are joint educational events – the power industry professionals regularly hold edutainment classes, workshops and fun sports races. The professionals taught children without parental care to use power devices safely and to remember precautionary measures near power facilities. They also gave the children presents from the Youth Council of the branch – sports equipment. PJSC IDGC of the North-West supported a preventive event on safe behaviour held on the Children's Day for the boarders of SOS village Pskov (the Pskov Region) – a special form of family upbringing to support orphans and children without parental care. Similar events are held at boarding schools and orphanages across the operations area.

PJSC IDGC of the North-West implements target support programmes for low-income pensioners, veterans of the Great Patriotic War, former juvenile prisoners and war workers. The Company initiates purchase of memorial gifts, medicines and renders financial assistance at the expense of the PTUO, jointly with the veteran and youth councils of the Company branches. PJSC IDGC of the North-West employees participate in maintenance of military burials, visit historic and memorial places, maintain the war obelisks.

Employees of PJSC IDGC of the North-West are volunteers of regional search parties. In 2019, "Luch" team of the Komi branch kept the "Memory Watch" in the Novgorod Region. In cooperation with the search team "Dolina", the employees took part in looking for the bodies of soldiers who had fought near Maloe Zamoshye village of the Novgorod District during the Second World War. The team managed to recover bodies of Soviet soldiers.

Moreover, employees of PJSC IDGC of the North-West regularly take part in donor initiatives and environmental volunteering.



# 3 CORPORATE GOVERNANCE REPORT

7.16%

dividend yield for 2018

96%

share of recommendations of the Corporate Governance Code of the Russian Federation fully or partially observed by the Company



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# LETTER BY THE DEPUTY CHAIRPERSON OF THE BOARD OF DIRECTORS



*The Company's corporate governance system complies with the current legislation of the Russian Federation and PJSC Moscow Exchange listing rules, as well as generally complies with the best practices of corporate governance in leading Russian companies.*



## I.D. Alyushenko

Deputy Chairperson of the Board of Directors

### Dear shareholders!

The activities of the PJSC IDGC of the North-West Board of Directors and its Committees are well-organised and comply with the strategic guidelines of the Company and the key recommendations of the Corporate Governance Code. Throughout 2019, the Board of Directors made decisions on strategic and day-to-day operations of the Company. The Board of Directors approved the management's proposals on the programme "Digital transformation 2020-2030", business plan of the Company for 2020 and projections for 2021-2024, scheduled plans of measures to reduce overdue accounts receivable for power transmission services and dispute settlement, the organisational structure of executive office.

Under the decision of the Annual General Shareholders' Meeting of 14.06.2019, upon recommendation of the Board of Directors, the Charter and internal documents of the Company were complemented as follows: the Head of the Internal Audit is authorised to require convenion of a Board of Directors meeting, any member of the Board of Directors is authorised to propose alternative wordings of the draft decisions on the agenda items, a list of priority issues in the competence of the Board of Directors requiring meetings held by personal attendance was identified. Under the decision of the Board of Directors, the Strategy and Development Committee was renamed into the Strategy Committee, a new Regulation was approved on the Strategy Committee, stipulating, inter alia, specification of the Committee's objectives and scope of responsibilities.

## MEMORANDUM OF THE CONTROLLING SHAREHOLDER PJSC ROSSETI ON THE CONTROLLED POWER GRID COMPANIES

PJSC ROSSETI is a public holding company with the state share in the authorised capital of 88.04%. It was established in accordance with Decree of the Russian Federation President of 22.11.2012 No.1567 in **order to enhance the performance and develop the power grid facilities of the Russian Federation**, as well as coordinate the management of these facilities via subsidiaries and affiliates.

PJSC ROSSETI owns controlling stakes in 14 distribution grid companies<sup>37</sup>:

- PJSC Kubanenergo
- PJSC Lenenergo
- PJSC MOESK
- PJSC IDGC of Volga
- PJSC IDGC of the North-West
- PJSC IDGC of Northern Caucasus
- PJSC IDGC of Siberia
- OJSC IDGC of Urals
- PJSC IDGC of Centre
- PJSC IDGC of Centre and Volga Region
- PJSC IDGC of South
- PJSC TDC
- JSC ROSSETI Tyumen
- JSC Yantarenergo

and 1 transmission system operator (PJSC FGC UES). No disposal of the above assets is under consideration.

### PJSC ROSSETI DEFINED STRATEGIC DEVELOPMENT PRIORITIES FOR THE GROUP'S COMPANIES:



to ensure reliable, high-quality and affordable power supply in the new digital environment;



to ensure further efficiency improvement in the core business of power transmission;



to endorse legislative proposals aimed at the industry development;



to maintain the balance of interests of all stakeholders: government / consumers / shareholders / investors;



to develop new business areas (non-tariff and consumer services) through digital transformation to ensure the company's resilience to changes in the industry.

PJSC ROSSETI carries out management of the Group's companies in accordance with the single corporate standards aimed to ensure the efficiency of business processes, control their quality, minimise all kinds of corporate risks, as well as maintain information disclosure and transparency of their activities.

<sup>37</sup> PJSC Kubanenergo renders its services under the brand ROSSETI Kuban, PJSC Lenenergo renders its services under the brand ROSSETI Lenenergo, PJSC MOESK renders its services under the brand ROSSETI Moscow Region, PJSC IDGC of Volga renders its services under the brand ROSSETI Volga, PJSC IDGC of the North-West renders its services under the brand ROSSETI North-West, PJSC IDGC of Northern Caucasus renders its services under the brand ROSSETI Northern Caucasus, PJSC IDGC of Siberia renders its services under the brand ROSSETI Siberia, OJSC IDGC of Urals renders its services under the brand ROSSETI Urals, PJSC IDGC of Centre renders its services under the brand ROSSETI Centre, PJSC IDGC of Centre and Volga Region renders its services under the brand ROSSETI Centre and Volga Region, PJSC IDGC of South renders its services under the brand ROSSETI South, PJSC TDC renders its services under the brand ROSSETI Tomsk, JSC Yantarenergo renders its services under the brand ROSSETI Yantar, PJSC FGC UES renders its services under the brand ROSSETI FGC UES.

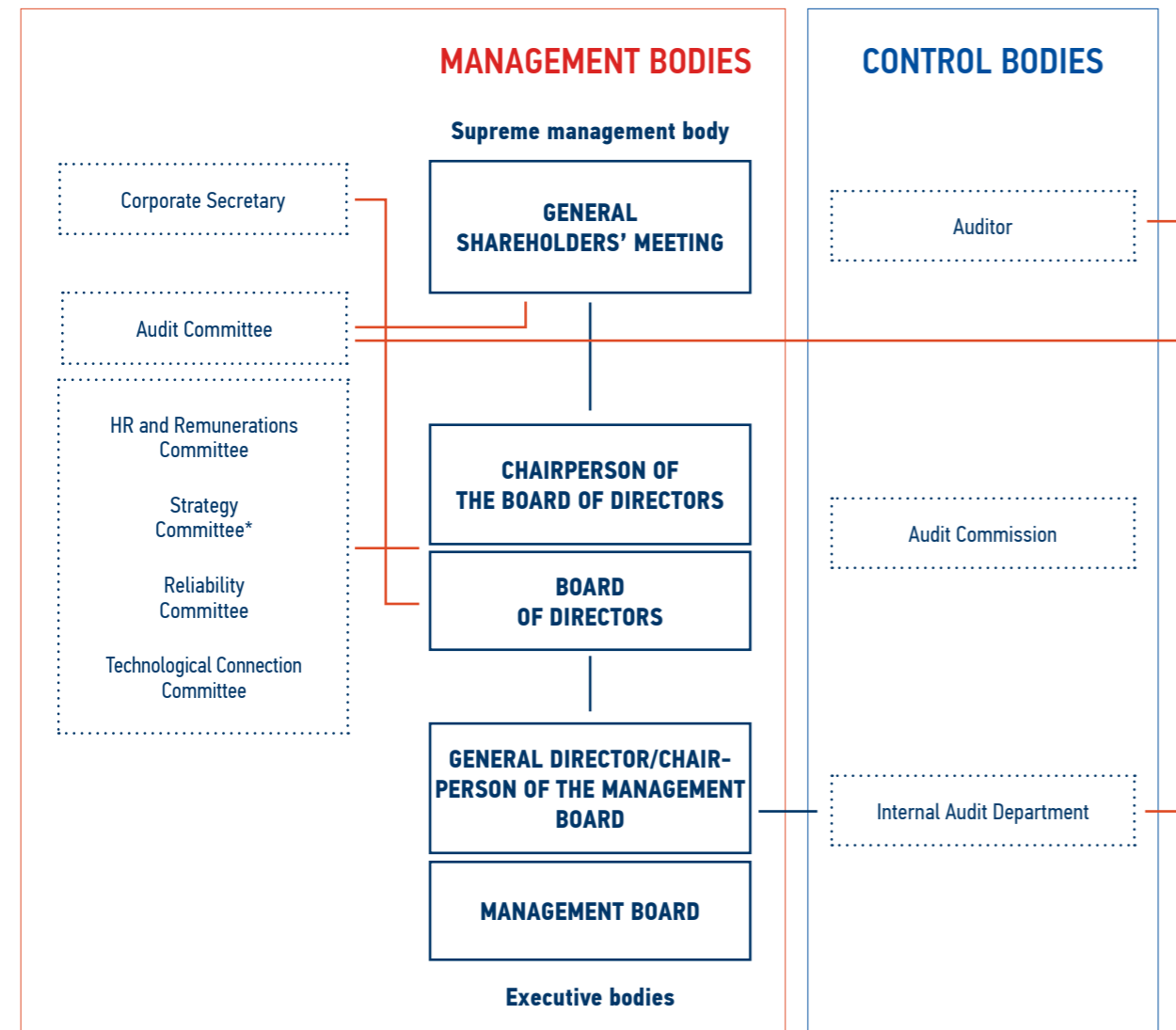
# OVERVIEW OF THE COMPANY'S CORPORATE GOVERNANCE

GRI 102-16

The governance system of the Company complies with the current legislation of the Federation, the Company Charter, as well as the Corporate Governance Code<sup>38</sup>.

GRI 102-18

## CORPORATE GOVERNANCE SYSTEM STRUCTURE



Dotted lines stand for the functional connections, solid lines stand for administrative subordination.

\* Before 15.08.2019 - Strategy and development committee.

Internal documents regulating the principles, practice and specific procedures of the corporate governance are available at the Company's web site (<http://www.mrsksevizap.ru/charterinternaldocuments>).

<sup>38</sup> Recommended by the Bank of Russia Letter of 10.04.2014 No.06-52/2463.

### GENERAL SHAREHOLDERS' MEETING

the supreme management body of PJSC IDGC of the North-West.

### BOARD OF DIRECTORS

the management body responsible for working out the development strategy, monitoring the activities of the executive bodies, and objectively assessing the financial performance of the Company.

### MANAGEMENT BOARD

the collective executive body set up to resolve the most complicated issues of the current operations of the Company.

### GENERAL DIRECTOR

the sole executive body of the Company managing current operations of the Company and responsible for the implementation of its strategy developed by the Board of Directors.

### AUDIT COMMISSION

the body monitoring the financial and business-related activities of the Company on a regular basis.

### AUDITOR

the entity that carries out independent audit of the accounting (financial) statements of the entity under audit in order to express a judgement on the accuracy of such statements, a member of a self-regulatory auditor organisation.

### CORPORATE SECRETARY

the Company's administrative official whose functions include organisational support of the work of the Company Board of Directors, participation in the preparation and holding General Shareholders' Meetings of the Company etc.

### COMMITTEES OF THE BOARD OF DIRECTORS

the advisory bodies of the Company set up to consider the issues within the Board of Directors frame of reference (or examined by the Board of Directors to control the activities of the Company's executive body), and to work out the required recommendations for the Board of Directors and the Company's executive bodies.

### INTERNAL AUDIT DEPARTMENT

the structural unit of the Company supporting the Board of Directors and the executive bodies of the Company in improving the Company's management efficiency.

For the functions and performance of the Audit Committee see p.168

For the functions and performance of the HR and Remunerations Committee see p.170

For the functions and performance of the Strategy Committee see p.171

For the functions and performance of the Reliability Committee see p.173

For the functions and performance of the Technological Connection Committee see p.175



## SELF-ASSESSMENT OF THE CORPORATE GOVERNANCE EFFICIENCY

The Company has been carrying out internal corporate governance efficiency assessment for three years. Currently, this assessment follows the methodology developed on the basis of the Corporate Governance Code guidelines and the requirements of the PJSC Moscow Exchange listing rules, approved by Order of the Company of 07.02.2019 No.63 (hereinafter – the Methodology). Under this Methodology in the new version, the corporate governance assessment is carried out at least once a year at the end of the corporate year.

The main goal of the assessment is to provide the Company Board of Directors, the Audit Committee of the Company Board of Directors, the sole executive body and the Management Board of the Company with unbiased and independent information on the state of the Company's corporate governance and its efficiency, as well as work out recommendations to improve the corporate governance of the Company.

The Company's corporate governance efficiency assessment components included "Shareholder rights", "Board of Directors", "Executive bodies", "Transparency and information disclosure", "Risk management, internal control and internal audit", "Corporate social responsibility, business ethics, compliance".

**Under the assessment, in 2018-2019 corporate year, the Company scored 465 points out of 553 (87%), which enabled the Internal Audit Department to conclude that the corporate governance of the Company is "advanced practice".**

**465 points (87%)**

Self-assessment of the corporate governance efficiency in 2019

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

## REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

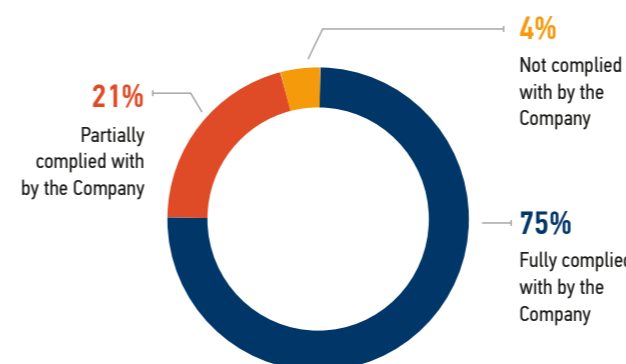
PJSC IDGC of the North-West report on compliance with the principles and recommendations of the Corporate Governance Code was preliminarily considered by the Company Board of Directors<sup>39</sup> under the issue "On preliminary approval of the 2019 Annual Report of the Company". It is presented in Annex 20 (<http://www.mrsksevzap.ru/shareholdersmeetinginfo>).

The Board of Directors confirms that the report data contain complete and reliable information on the Company's compliance with the principles and recommendations of the Corporate Governance Code in 2019.

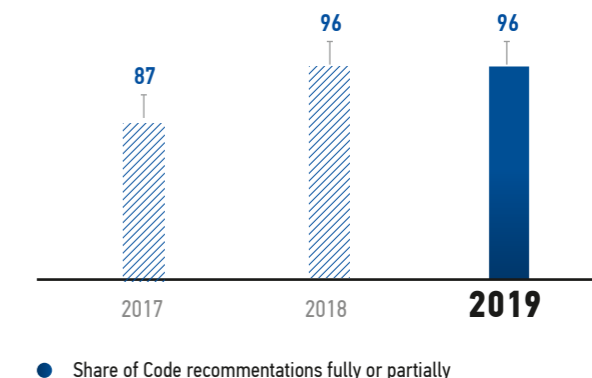
### Statistics of compliance with the corporate governance principles

Section	Principles recommended by the Code	Principles that the Company fully complies with	Principles that the Company partially complies with	Principles that the Company does not comply with
Rights of shareholders and equitable treatment of shareholders in exercising their rights	13	12	-	1
Company Board of Directors	36	25	10	1
Corporate Secretary of the Company	2	2	-	-
Remuneration of the members of the Board of Directors, executive bodies and other key management of the Company	10	6	4	-
Risk management and internal control system	6	6	-	-
Company information disclosure, information policy of the Company	7	7	-	-
Major corporate actions	5	1	3	1
Total	79	59	17	3

Corporate governance principles compliance



Share of Code recommendations fully or partially performed by the Company, 3-year trends, %



<sup>39</sup> The assessment of the compliance with the corporate governance principles was based on the methodology stipulated by the Bank of Russia recommendations on compiling the report on compliance with the principles and recommendations of the Corporate Governance Code (Bank of Russia's Letter of 17.02.2016 No. IN-06-52/8).

## CORPORATE GOVERNANCE IMPROVEMENT IN 2019

Key measures aimed at improvement of the corporate governance practice in 2019 include:

### I. APPROVAL BY THE ANNUAL GENERAL SHAREHOLDERS' MEETING OF:

#### 01 The Charter of PJSC IDGC of the North-West in the new version<sup>40</sup> with the following amendments and additions:

##### Modifications aimed to align the Charter with the changes in the Law "On joint-stock companies", including:

- Board of Directors is authorised to include in the General Shareholders' Meeting agenda issues and (or) candidates to the voting list for elections to the respective Company body at its own discretion, irrespective of whether such proposals were made by the shareholders;
- the Head of the Internal Audit is authorised to require convention of the Board of Directors meeting.

##### Changes aimed to optimise the scope of reference of the Board of Directors, including:

- exclusion of the issue of personal composition approval, including Chairperson of the Central Procurement Body of the Company;
- exclusion of the need to approve transactions of the Company involving receipt of bank guarantees in the amount of over RUB 1 bln, in respect of the bank guarantees presented to courts as counter security for the Company's lawsuits;
- exclusion of the requirement to define the Company's position on certain issues of S&A boards of directors, where the revenue is under 5% of the Company's revenue;
- inclusion of the following issues into the competence of the Company Board of Directors:
  - approval of the information policy of the Company and review of the reports on its implementation;
  - preliminary approval of the contract on unremunerated contributions to the Company's property by its shareholders.

#### 02 The Regulation on the General Shareholders' Meeting of PJSC IDGC of the North-West in the new version<sup>40</sup> with the following amendments and additions:

- mandatory inclusion of the location address of the Company's registrar in the list of the addresses to which completed voting papers can be sent in the course of the General Shareholders' Meeting;
- inclusion of the following data into the list of information (materials) to be provided to the persons entitled to participate in the General Shareholders' Meeting:
  - the findings of the Internal Audit carried out in the Company in accordance with Article 87.1 of the Law "On joint-stock companies";
  - data on the shareholders proposing candidates to the Board of Directors and the Audit Commission of the Company, as well as justifications and explanatory notes on the proposed draft decisions of the General Shareholders' Meeting.
- requirement for the Registrar representative to announce, prior to the discussion of the issue on election of the Company Board of Directors members at the General Shareholders' Meeting, the number of cumulative votes for each of the candidate included in the voting list in the ballots received or electronically submitted via the Internet site no later than two days before the General Meeting.

#### 03 The Regulation on the Board of Directors of PJSC IDGC of the North-West in the new version<sup>40</sup> with the following amendments and additions:

- modifications aimed to align the Regulation with the changes in the current legislation of the Russian Federation (including authorisation of the Head of Internal Audit to require convention of the Board of Directors meeting);

- definition of the priority issues in the competence of the Board of Directors requiring Board of Directors meetings that can be held by personal attendance (the format of the meeting of the Board of Directors is defined by the Chairperson of the Company Board of Directors);
- inclusion in the Regulation on the Company Board of Directors of a standard entitling any member of the Board of Directors to propose alternative wordings of the draft decisions on the agenda items to be included in questionnaires sent to the Board of Directors members with the indication of the need to vote on both draft decisions and to make the decision on the issue in the wording supported by the majority of votes.

#### 04 The Regulation of the Management Board of PJSC IDGC of the North-West in the new version<sup>40</sup> with the following amendments and additions:

##### Alignment of the Regulation with the changes in the Law "On joint-stock companies":

- introduction of the amendment under which Minutes of the Company Management Board meetings should be provided at request, apart from members of the Board of Directors, the Audit Commission, the Auditor of the Company, shareholders in accordance with the requirements of the Federal Law "On joint-stock companies", to the Head of the Internal Audit of the Company.

##### Changes aimed to optimise the scope of reference of the Management Board of the Company:

- the Regulation amendments to exclude from the competence of the Company's Management Board mandatory preliminary consideration of the issues within the scope of the Board of Directors of the Company listed in the previous version of the Regulation.

Thus, the need for preliminary Management Board consideration of the issues within the competence of the Company Board of Directors is defined by the General Director of the Company.

## PLANS FOR 2020

In 2020, the Company is to continue improving its corporate governance based on ongoing interaction of all participants to the system of corporate relations in order to achieve the strategic development priorities and top-level goals of the Company, to uphold the interests of shareholders in the short-term, mid-term and long-term.

The General Shareholders' Meeting is scheduled to approve the Regulation on the Board of Directors of the Company in the new version, the Board of Directors is to approve the new version of the Regulation on the HR and Remunerations Committee, as well as transition of the Company to the single brand architecture under decision of the Board of Directors of the Company on joining the unified corporate identity standard of PJSC ROSSETI and ROSSETI Group companies.

#### 05 Regulation on remuneration and compensation payments to members of the PJSC IDGC of the North-West Board of Directors in the new version<sup>40</sup> with the following amendments and additions:

- Regulation alignment with the guidelines of the Corporate Governance Code and the best practices of the leading Russian joint-stock companies;
- exclusion of the provisions on payment of additional remuneration from the net profit in case the market capitalisation of the Company is increased in the period of operation of the Board of Directors, as the CGC does not recommend any forms of short-term motivation;
- provision that the remuneration payment is made at the expense of the profit from unregulated operations.

### II. APPROVAL BY THE BOARD OF DIRECTORS OF:

#### 06 Regulation on the Strategy Committee of PJSC IDGC of the North-West Board of Directors<sup>41</sup>.

- The key amendments and additions concerned requirements to the composition of the Strategy Committee and the procedures of its staffing, and the meeting procedures. The extension of its scope of reference concerning preliminary consideration, analysis and working out recommendations.

<sup>40</sup> Approved on 14.06.2019 by the Annual General Shareholders' Meeting of PJSC IDGC of the North-West (Minutes No.14).

<sup>41</sup> Approved on 15.08.2019 by the Board of Directors of PJSC IDGC of the North-West (Minutes No.329/6).

# GENERAL SHAREHOLDERS' MEETING

The General Shareholders' Meeting is the top management body of PJSC IDGC of the North-West authorised to make decisions on the most important issues of the Company's business.

The frame of reference, timeframe, procedures for preparing and holding the General Shareholders' Meeting are stipulated by the Federal Law "On joint-stock companies"; the Charter of PJSC IDGC of the North-West; the Regulation on the General Shareholders' Meeting of PJSC IDGC of the North-West.

The Board of Directors, the Management Board, the General Director and the Audit Commission report to the General Shareholders' Meeting.

The procedure of holding the General Shareholders' Meeting ensures equal opportunities for all shareholders of the Company to participate effectively in the General Shareholders' Meeting.

The procedures for preparing, convening, holding and formulating the results of the General Shareholders' Meeting of PJSC IDGC of the North-West are stipulated by the Regulation on the General Shareholders' Meeting of PJSC IDGC of the North-West<sup>42</sup>.

## INFORMATION ON THE GENERAL SHAREHOLDERS' MEETINGS IN 2019

### ANNUAL GENERAL SHAREHOLDERS' MEETING OF PJSC IDGC OF THE NORTH-WEST

14.06.2019

By personal attendance (Minutes No. 14)

#### The following issues were considered:

- Approval of the Annual Report of the Company, annual accounting (financial) reporting of the Company for 2018;
- Allocation of profit (including payment (declaration) of dividends) and loss at the end of 2018;
- Election of the Company Board of Directors members;
- Election of the Company Audit Commission members;
- Approval of the Company Auditor;
- Amendments and additions to the Company Charter;
- Amendments and additions to the Regulation on PJSC IDGC of the North-West Board of Directors;
- Approval of the Regulation on remuneration and compensation to members of PJSC IDGC of the North-West Board of Directors in the new version;
- Approval of the Regulation on the General Shareholders' Meeting of the Company in the new version;
- Approval of the Regulation on the Management Board of the Company in the new version.

### EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING OF PJSC IDGC OF THE NORTH-WEST

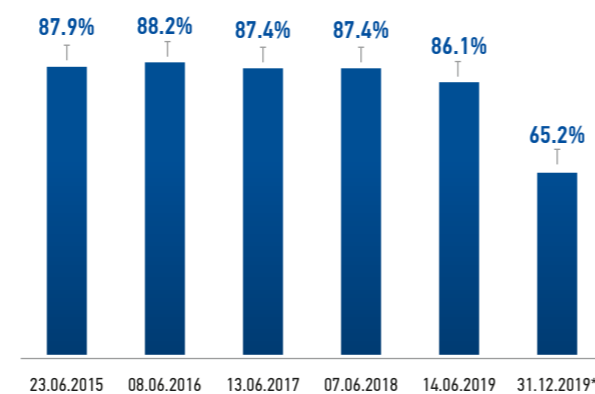
31.12.2019

Absentee voting (Minutes No. 15)

#### The following issue was considered:

- The amount of dividends, schedules and forms of their payment for 9 months of 2019 and setting the date as of which the persons entitled to dividends are identified.

#### General Shareholders' Meetings quorum



\* extraordinary General Shareholders' Meeting

<sup>42</sup> Approved on 14.06.2019 by the Annual General Shareholders' Meeting of PJSC IDGC of the North-West (Minutes No.14).



**THE POSITIVE INFLUENCE ON THE RATING ASSESSMENT WAS EXERCISED BY EXCELLENT BUSINESS REPUTATION, AS WELL AS AN ELABORATE DEVELOPMENT STRATEGY** defining the key operational and financial target indicators in the context of the current power market environment.



**THE QUALITY OF BOARD OF DIRECTORS ORGANISATION AND OPERATIONS** keeps having a positive influence on the rating level. The Board of Directors includes 11 persons representing various groups of shareholders. However, only 3 of the directors are independent, which is a restraining factor.

In 2019, 39 meetings of the Board of Directors were held. The agency positively estimates availability of 5 Board of Directors Committees, namely the Audit, HR and Remunerations, Reliability, Strategy and Technological Connection Committees.



**THE PERFORMANCE OF THE EXECUTIVE BODY AND ITS REGULATION ARE HIGHLY ESTIMATED BY THE AGENCY.**

The Company has a Management Board responsible for decision-making on the most complicated issues of the current operations of the Company. The frames of reference of the members of the Management Board are beyond any doubt, and at the same time there are no evident signs of excessive concentration of the operating activities at the key top managers (low risk of an "irreplaceable person"). Apart from the Management Board, the Company has a separate internal control, risk management and quality management unit responsible for the operation and improvement of the risk management system. Quarterly reports are made across the risk map and submitted to the Management Board for consideration. The estimate of the level of internal documents elaboration, efficiency of the risk management system, as well as availability of the quality management certificate ISO 9001 is high, which is a positive contribution to the rating assessment level.



**THE INFORMATION TRANSPARENCY INDICATORS ARE ESTIMATED BY THE AGENCY AS TOP-LEVEL.**

The Company's web site, including its English version, contains exhaustive information. The Company uploads its RAS and IFRS financial reporting, auditor reports thereon, as well as material facts, documents regulating the Company's business within the disclosure timeframe set by the single information policy.

The rights of owners and other stakeholders are well-protected under the current corporate governance system. The analysis of shareholder structure showed a large share of free float (30.19%).

The agency appreciates the Company's dividend policy with the specified dividend payment schedule. The activities of the General Shareholders' Meeting are strictly regulated.

The Company also has the Audit Commission and the Internal Audit function, which, according to the agency, reduces the risk of conflict of interest from possible interference of individuals with the internal process of decision-making by circumventing the existing management facilities.

The agency additionally highlighted the availability of the position of the Corporate Secretary who ensures interaction among the shareholder groups. The activities of the Secretary are regulated by the respective regulation.

Source: <https://raexpert.ru/releases/2020/feb26>



# COMPANY BOARD OF DIRECTORS

A vital component of the efficient corporate governance in the Company is availability of a professional Board of Directors. The activities of the Company Board of Directors are stipulated by the Regulation on the Board of Directors of PJSC IDGC of the North-West.<sup>43</sup>

**The key functions of the Company Board of Directors<sup>44</sup> are:**

- resolving the issues of the general strategic management of the Company
- defining development priorities for the Company
- monitoring the activities of the executive bodies in the interests of the Company and its shareholders
- objectively assessing the financial position of the Company.

## BOARD OF DIRECTORS REPORT

In 2019, the Company Board of Directors held 39 meetings, 5 of them required personal attendance<sup>45</sup>.

**183 issue**

Considered at the Board meetings in 2019

**Participation of the Board of Directors members in meetings<sup>46</sup>**

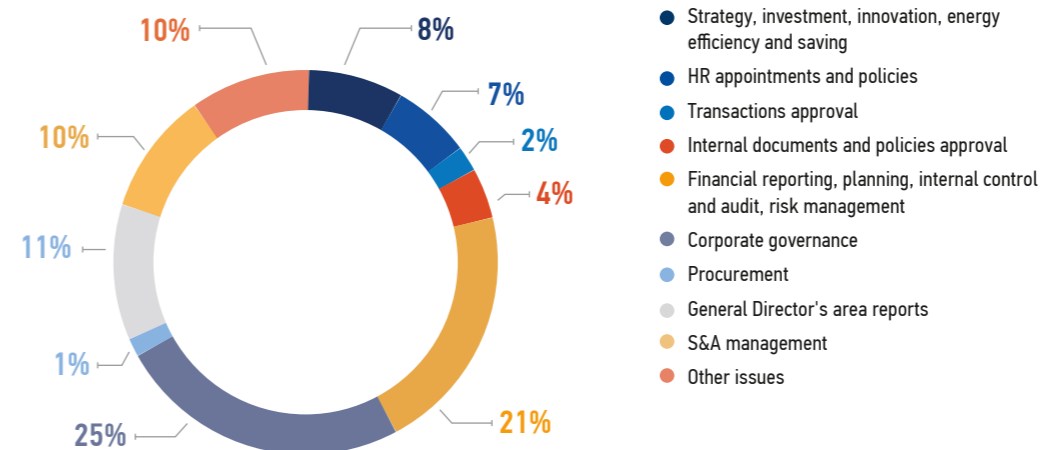
Full name	Number of meetings attended by the BoD member, in person/in absentia	% of participation
<b>FROM 01.01.2019 TO 14.06.2019 (TOTAL NUMBER OF MEETINGS HELD – 18)</b>		
Sergeeva Olga Andreevna	2 + 1* / 15	100
Akimov Leonid Yurievich	2 + 1* / 15	100
Akopyan Dmitry Borisovich	2 + 1* / 15	100
Zharikov Aleksey Nikolaevich	2 + 1* / 15	100
Pelymsky Vladimir Leonidovich	1 + 1* / 14	88.88
Stepanova Maria Dmitrievna	3 / 15	100
Fedorov Oleg Romanovich	2 + 1* / 15	100
Filkin Roman Alekseevich	2 + 1* / 15	100
Shagina Irina Aleksandrovna	2 + 1* / 15	100
Shvankova Maria Mikhaylovna	3 / 15	100
Shevchuk Aleksandr Viktorovich	2 + 1* / 15	100

<sup>43</sup> Notifications of the material facts disclosed in 2019 are published on the Company's web site: <http://www.mrsksezap.ru/statementsmaterialfacts#tab1>.  
<sup>44</sup> The frame of reference for the Board of Directors of PJSC IDGC of the North-West is stipulated by the Company Charter <http://www.mrsksezap.ru/charterinternaldocuments>.  
<sup>45</sup> The list of in-person meetings of the Board of Directors of PJSC IDGC of the North-West includes those held as joint presence and on-site and off-site presence.  
<sup>46</sup> More details on participation of the members of the PJSC IDGC of the North-West Board of Directors in meetings held in 2019 are shown in Annex 21 to the full version of the Annual Report on the Company's website: <http://www.mrsksezap.ru/en/informationonshareholdersmeetings>.

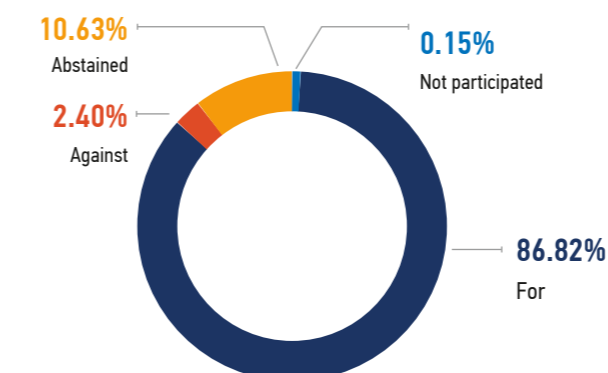
Full name	Number of meetings attended by the BoD member, in person/in absentia	% of participation
<b>FROM 14.06.2019 TO 31.12.2019 (TOTAL NUMBER OF MEETINGS HELD – 21)</b>		
Sergeeva Olga Andreevna	2 / 19	100
Alyushenko Igor Dmitrievich	1 + 1* / 19	100
Bychko Mikhail Aleksandrovich	2 / 19	100
Golovtsov Aleksandr Viktorovich	2 / 19	100
Zharikov Aleksey Nikolaevich	1 + 1* / 19	100
Korneev Aleksandr Yurievich	2 / 19	100
Morozov Andrey Vladimirovich	2 / 19	100
Pidnik Artem Yurievich	2 / 19	100
Stepanova Maria Dmitrievna	2 / 19	100
Fedorov Oleg Romanovich	1 + 1* / 19	100
Shagina Irina Aleksandrovna	2 / 19	100

\* The member of the Board of Directors presented opinions in the written form (as a questionnaire) on the items of the agenda when the Board of Directors meeting was held in the mixed in person and in absentia form.

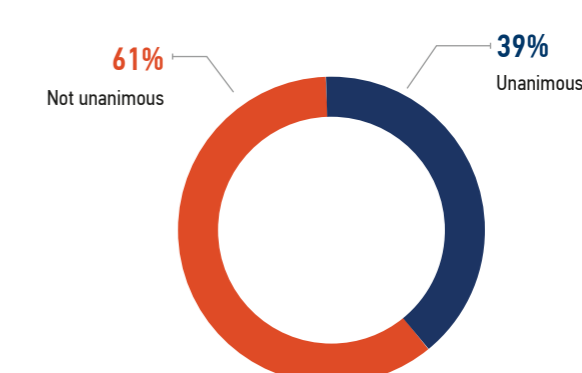
**Breakdown of issues tackled by the BoD in 2019**



**Votes breakdown at the BoD meetings in 2019**



**Voting at the BoD meetings in 2019**



Number of issues tackled by the BoD in 3 years: 2017 – 194 items, 2018 – 172 items, 2019 – 183 items.

## REPORT OF THE BOARD OF DIRECTORS ON PRIORITY AREAS OF ACTIVITY

The Company Board of Directors is a collective management body controlling the activities of the sole executive body of the Company and carrying out the general management of the Company's business.

The primary task of the Company Board of Directors is to identify priority areas of the Company, including approval of the Company's development strategy, Company's innovative development programme and reports on their implementation.

**The aim of the Company is to earn profit. At the same time, the Company is responsible for fulfilling the following obligations:**

- ensuring efficient and reliable functioning of the power grid facilities;
- ensuring sustainable development of the power grid facilities;
- ensuring reliable and high-quality power supply to consumers (power delivery and transmission).

To achieve the goals, the Board of Directors entrusted the Company with continuing the work on enhancing operational performance and cost reduction.

Thus, while considering the approval of the Company business plan for 2019 and the report on implementation of the business plan in 2018, the Board of Directors ordered the General Director to organise working out the activity plan aimed to ensure break-even power transmission services rendering operations, as well as compliance of the operating expenses with the level stipulated in the tariff and balance decisions, for each branch of the Company, starting 2019.

However, it is impossible to fulfil the obligations of the Company on reliable and high-quality power supply to consumers and achieve profitability in the current conditions without transferring the business model to an entirely new level and launching the business process transformation based on information technologies.

The future changes rely on data processing, commonly referred to as digitalisation. To get to a new level of efficiency, the Company needs improved mechanisms of governance and control that can be built on the basis of digitalisation and data analysis.

Under the decision of the Board of Directors, the Company joined the concept "Digital transformation 2030", approved by Decision of the Board of Directors of PJSC ROSSETI on 21.12.2018 (Minutes of 21.12.2018 No.336). To develop the concept of PJSC ROSSETI "Digital transformation 2030", the Board of Directors charged the General Director of the Company with the task of ensuring development of the digital transformation programme of PJSC IDGC of the North-West up to 2030, which was considered at a meeting with personal attendance and approved by the Board of Directors of the Company on 27.01.2020 (Minutes No.347/24).

The register on decisions of PJSC IDGC of the North-West Board of Directors on defining the priority areas of the Company is shown in Annex 22 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>. In 2019, no decisions on defining priority areas of the Company were made by the Board of Directors.

Below is the information on the issues considered by the Company Board of Directors within the framework of implementation of the Company's priority areas in 2019.



### PROFITABILITY

#### Decrease in the accounts receivable



Quarterly scheduled plans were approved for PJSC IDGC of the North-West activities aimed at reduction of the overdue accounts receivable for the power transmission services and dispute settlement (hereinafter – the scheduled plans), as of 01.01.2019 (Decision of 29.03.2019, Minutes No.312/25); as of 01.04.2019 (Decision of 10.06.2019, Minutes No.322/35); as of 01.07.2019 (Decision of 30.09.2019, Minutes No.334/11); as of 01.10.2019 (Decision of 18.12.2019, Minutes No.340/17).

While discussing the issues of approving the quarterly scheduled plans, the Board of Directors reviewed reports on fulfilling the scheduled plans previously approved by the Company Board of Directors, as well as information on the work performed on the new overdue receivables, and on the accounts receivable turnover.



It issued an instruction to ensure settlement of RUB 1,745 mln overdue accounts receivable from the amount as of 01.01.2019, in 2019 with quarterly reporting on the progress made (Decision of 29.03.2019, Minutes No.312/25).

#### Decrease in the technological consumption (losses) of power



A programme of measures to reduce power losses in the grids of PJSC IDGC of the North-West for the period of 2019-2023 was approved (Decision of 31.07.2019, Minutes No.328/5). An order was made to introduce amendments, if necessary, to the programme subject to approval of the programme for smart power metering development at PJSC IDGC of the North-West for 2019-2030.



Within the framework of the report on implementation of the Company business plan in 2018, reports were reviewed on implementation of the programme of long-term development of the power metering systems at the power retail market and the programme of power saving and improving energy efficiency of the Company for 2018 (Decision of 23.04.2019, Minutes No.316/29).



### COMPETITIVENESS

#### Ensuring the reliability and quality of services rendered



Information was considered on the actual figures of the reliability level and the quality of services by Company branches in 2018: the planned indicators set by the executive authorities of the Russian Federation constituent entities in the area of the state tariff regulation were achieved by all branches of the Company (Decision of 27.05.2019, Minutes No.319/32).

#### Key performance indicators system for the General Director and top management



Reports were approved on target values achievement for the KPIs of the General Director of the Company: in Q3 2018 (Decision of 31.07.2019, Minutes No.328/5), in Q4 2018 (Decision of 25.09.2019, Minutes No.332/9); the current KPI values were not fully achieved: one of 5 quarterly indicators was not reached: "No growth in the number of accident victims".

- ⊕ Amendments to the Methodology of calculating and estimating achievement of the key performance indicators (KPI) of the General Director of PJSC IDGC of the North-West were approved taking into account the achieved minimum of the quarterly fault levels, transition of the Company branches to SAIDI/SAIFI indicators in tariff regulation, the objective of reducing the volumes of contracts with violations of the technological connection deadlines. Changes were also made in calculation of the KPI "Power losses level", and the KPI "Compliance with the commissioning schedule" was transferred from annual to quarterly KPIs (Decision of 31.12.2019, Minutes No.344/21).
- ⊕ Target KPI values of the General Director of PJSC IDGC of the North-West were approved for 2019 (Decision of 31.12.2019, Minutes No.344/21).

**Ensuring availability of power infrastructure and the quality of technological connection**

- ⊕ Under the quarterly report on the Company business plan implementation, the BoD considered information on technological connection of the applicants' power receivers with the capacity up to 15 kW (including this value) and from 15 to 150 kW (including this value) on an accrual basis against the similar reporting period.
- ⊕ Reports on the compliance with the schedule for completion of overdue technological connection (TC) contracts of PJSC IDGC of the North-West were reviewed for 9 months of 2018 (Decision of 28.02.2019, Minutes No.309/22) and 2018 (Decision of 01.04.2019, Minutes No.313/26). The schedule for completion of overdue TC contracts stipulates reduction of the overdue obligations for the technological connection contracts. In 2018, the schedule was met, 2,155 overdue TC contracts were completed.



**DEVELOPMENT**

**Consolidation of power grid assets**

- ⊕ Within the framework of the investment programme implementation report, reports were considered on purchase of the power grid facilities where approval is not required from the Board of Directors, for Q3 2018 (Decision of 27.03.2019, Minutes No.311/24); Q4 2018 (Decision of 28.05.2019, Minutes No.320/33); Q1 2019 (Decision of 28.05.2019, Minutes No. 329/6); Q2 2019 (Decision of 12.11.2019, Minutes No.336/13).
- ⊕ All purchase transactions of the power grid facilities were made by the Company in line with the decision-making criteria on the projects of power grid assets consolidation specified by the decision of the Board of Directors.

**Operation assets management system**

- ⊕ An adjusted plan of the operation assets management system development of the Company up to 2019 (Decision of 27.03.2019, Minutes No.311/24).
- ⊕ Report of the General Director on implementation of the operational assets management system development plan of PJSC IDGC of the North-West for 2016-2019 in 2018 was reviewed (Decision of 31.07.2019, Minutes No.328/5).

**Improvement of the internal control and risk management system**

- ⊕ Report of the sole executive body of PJSC IDGC of the North-West on managing key operational risks in 2018 was reviewed (Decision of 27.05.2019, Minutes No.319/32).
- ⊕ Reports on organisation and functioning of the internal control system were considered, as well as organisation, functioning and efficiency of the risk management system in 2018 (Decision of 27.05.2019, Minutes No.319/32).
- ⊕ Report of the Company's Internal Audit on assessment of the efficiency of the internal control, risk management systems of the Company was considered for 2018 (Decision of 27.05.2019, Minutes No.319/32).
- ⊕ Results of the external independent assessment of the efficiency of the internal control system of PJSC IDGC of the North-West were considered (Decision of 11.06.2019, Minutes No.323/36).
- ⊕ Results of the external independent assessment of the efficiency of the risk management system of PJSC IDGC of the North-West were considered (Decision of 16.09.2019, Minutes No.331/8 ).



**SAFETY, INCLUDING ENVIRONMENTAL SAFETY, OF THE POWER GRID FACILITIES**

**Programme of the Company's Environmental Policy implementation**

- ⊕ Report on implementing the activity plan to pursue the Environmental Policy of PJSC IDGC of the North-West for 2017-2019 was considered for 2018 (Decision of 15.08.2019, Minutes No.329/6).
- ⊕ In 2018, the following major environmental protection measures were taken: 437 equipment units containing polychlorinated biphenyls were transferred for treatment; 59 waste accumulation sites were set up; 339 oil break switches were replaced with vacuum and sulfur-hexafluoride circuit breakers; overhead power lines and open switchgear of substations were equipped with 804 bird protection devices.

**The key issues of the Company's activities were considered at the Board of Directors meetings in presentia/absentia. Overall, 5 such meetings were organised and held in 2019, where the following key issues were discussed:**

- |  |   |
|--|---|
| <p><b>01</b> Approval of the business plan of the Company for 2019 and projections for 2020-2023;</p> <p><b>02</b> Report of the General Director on implementation of the Company's business plan for 2018;</p> <p><b>03</b> Report of the General Director on implementation of the investment programme of the Company in 2018;</p> <p><b>04</b> Approval of the scheduled plan of measures of PJSC IDGC of the North-West to reduce overdue accounts receivable for power transmission services and settlement of disputes as of 01.10.2019;</p> | <p><b>05</b> Approval of the business plan of the Company for 2020 and projections for 2021-2024;</p> <p><b>06</b> Approval of the activity plan aimed to ensure break-even power transmission services rendering operations, as well as compliance of the operating expenses with the level stipulated in the tariff and balance decisions, for each branch of the Company, starting 2019;</p> <p><b>07</b> Approval of the organisational structure of executive bodies of PJSC IDGC of the North-West.</p> |
|--|---|



## COMPOSITION OF THE BOARD OF DIRECTORS

GRI 102-22

The number of the Company Board of Directors members is stipulated by the Charter as 11 persons.

In 2019, there were two compositions of the Company Board of Directors<sup>47</sup>:

### FROM 01.01.2019 TO 14.06.2019

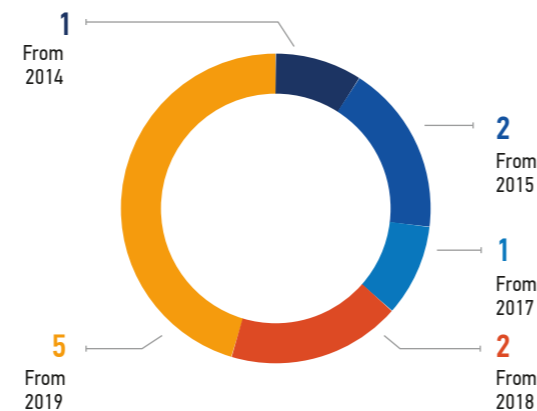
1. <b>Sergeeva O.A.</b> Chairperson	4. Zharikov A.N.	8. Filkin R.A.
2. Akimov L.Yu.	5. Pelymsky V.L.	9. Shagina I.A.
3. Akopyan D.B.	6. Stepanova M.D.	10. Shvankova M.M.
	7. Fedorov O.R.	11. Shevchuk A.V.

### FROM 14.06.2019 TO PRESENT

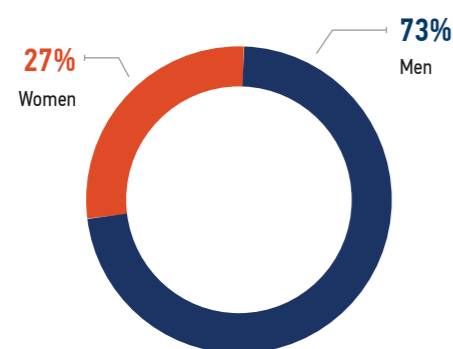
1. <b>Sergeeva O.A.</b> Chairperson	4. Golovtsov A.V.	8. Pidnik A.Yu.
2. Alyushenko I.D.	5. Zharikov A.N.	9. Stepanova M.D.
3. Bychko M.A.	6. Korneev A.Yu.	10. Fedorov O.R.
	7. Morozov A.V.	11. Shagina I.A.

Members of the Company Board of Directors have outstanding management and industry experience, are authorities in the power sector, enormously contribute to the Board of Directors and its committees.

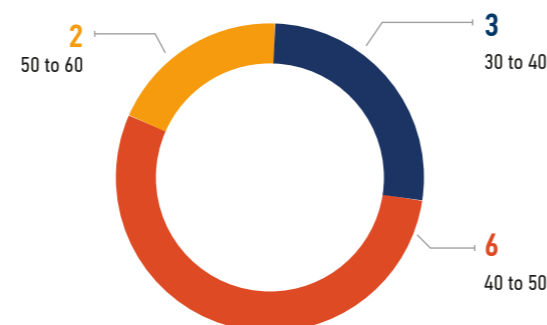
BoD breakdown by the period of working in the Bod, persons



BoD members by gender



BoD members by age, persons



<sup>47</sup> Agreement of the BoD members for the disclosure of personal information presented in the 2019 Annual Report of PJSC IDGC of the North-West was obtained.

## Independent directors

In accordance with the recommendations of the CGC, the Board of Directors should be an efficient and professional management body of the Company capable of making unbiased independent judgements and decisions promoting the interests of the Company and its shareholders.

Involvement of independent directors is a vital principle of the corporate governance development and encourages the development of such institute in the activities of the Company's management bodies.

The Company highly appreciates the contribution of independent directors to enhancing the effectiveness of the Board of Directors.

The Company management interacts with shareholder representatives on a regular basis in order to increase the number of independent directors nominated for election and supported by voting within the Company Board of Directors. The Board of Directors via its HR and Remunerations Committee annually considers compliance of the candidates to the Board of Directors with the independence criteria.

As of 31.12.2019, three members of the Company Board of Directors had the status of independent directors – Fedorov O.R., Golovtsov A.V. and Morozov A.V.

Upon assessment of independence of the Board of Directors members under the criteria set by PJSC Moscow Exchange listing rules and the CGC provisions, the Board of Directors made Decision of 17.07.2019 (Minutes No.327/4) on recognising Golovtsov A.V. and Morozov A.V. as independent directors, despite the formal criterion of cohesion.

Active participation in the Company Board of Directors and its committees shows their ability to take an independent stand, proving the autonomy of judgement aimed to enhance the efficiency of the Company's performance, gaining competitive edge in line with the interests of the Company and its shareholders.

## Independent assessment of the Board of Directors performance

In order to improve its corporate governance, the Company continues introducing the procedure of the Board of Directors performance assessment.

In 2019, an independent appraisal of the Board of Directors of PJSC IDGC of the North-West was performed for the 2017–2018 corporate year by the independent external advisor JSC VTB Registrar (hereinafter – the Independent Assessment). The assessment included: polling (questioning) members of the Board of Directors and its committees, managers and the Corporate Secretary, selective interviewing and general analysis of the Company's internal documents.

Upon independent assessment, the external advisor concluded that the system of corporate governance at the Company is well-organised and meets the strategic principles of the Company, the Corporate Governance Code and corporate governance practices, complies with the effective RF legislation and the listing rules of PJSC Moscow Exchange, generally complies with the Corporate Governance Code of the Bank of Russia and the best practices of corporate governance implemented by leading Russian companies.

The external advisor developed recommendations for the Board of Directors, Chairperson of the Board of Directors and the committees.

On 07.06.2019 (Minutes No.321/34), the Board of Directors of PJSC IDGC of the North-West considered the report on the Independent Assessment of the Company Board of Directors performance, and decided to carry out the procedure of self-assessment of the Board of Directors and the Committees of the PJSC IDGC of the North-West Board of Directors for the next corporate year. To implement the decision, the Company is performing self-assessment of the performance of the Board of Directors of the Company and its Committees.

GRI 102-28

## Biographies of the Board of Directors members


**Sergeeva  
Olga Andreevna**

**CHAIRPERSON OF THE BOARD OF DIRECTORS  
NON-EXECUTIVE DIRECTOR**

First elected to the Board  
of Directors on 07.06.2018

Born in 1984.

Graduated from Plekhanov Russian University of Economics in 2006, majoring in Economics and Company Management, Construction, with the qualification of Engineer-Economist.

**Positions held in the recent five years:**

- 2012 – 2015 – Head of the Administrative Unit of the Fuel and Energy Department of Moscow (on 29.05.2013, received the civil service grade of Moscow State Councillor, Grade 3).
- 2015 – 2016 – Head of the Procedural and Legal Unit of the Fuel and Energy Department of Moscow (on 01.07.2015, received the civil service grade of Moscow State Councillor, Grade 2).
- 2016 – 2017 – Deputy Head of the Fuel and Energy Department of Moscow.
- 2017 – Deputy Head of the Department of Housing, Utilities and Amenities of Moscow.
- 2017 – 2019 – Deputy General Director – Head of the Administration of PJSC ROSSETI.
- 2017 – present – Member of the Management Board of PJSC ROSSETI.
- 2019 – present – Chief Advisor of PJSC ROSSETI.

**Participation in the management bodies of other organisations:** Chairperson of the Board of Directors of PJSC IDGC of South, Chairperson of the Supervisory Council of Association ERA of Energy, member of the Board of Directors of PJSC MOESK, PJSC Lenenergo, PJSC IDGC of the North Caucasus, PJSC Kubanenergo, PJSC FGC UES and JSC NSPF Otkrytie.

**Participation in the Company Board of Directors committees:** member of HR and Remunerations Committee


**Pidnik  
Artem Yurievich**

**GENERAL DIRECTOR, CHAIRPERSON OF  
THE MANAGEMENT BOARD EXECUTIVE  
DIRECTOR**

First elected to the Board  
of Directors on 14.06.2019

Born in 1983.

In 2005, graduated from St. Petersburg State University in Law with the qualification of Lawyer.

In 2017, received a diploma of St. Petersburg State University in the retraining programme Executive MBA.

**Positions held in the recent five years:**

- 2014 – 2018 – First Deputy General Director, General Director of LLC Sevkael Group.
- 2018 – 2018 – Advisor of the Administrative Department, acting Deputy General Director for Economy and Finance of PJSC IDGC of the North-West.
- 2018 – present – General Director, Chairperson of the Management Board of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations:** none.


**Alyushenko  
Igor Dmitrievich**

**DEPUTY CHAIRPERSON OF THE BOARD  
OF DIRECTORS  
NON-EXECUTIVE DIRECTOR**

First elected to the Board  
of Directors on 14.06.2019

Born in 1967.

Graduated in 1991 from Novocherkassk Polytechnic Institute majoring in Power Grids and Systems with the qualification of Electric Engineer.

**Positions held in the recent five years:**

- 2009 – 2018 – Director for Mode Control – chief controller of OJSC SO UES branch IDO of Centre.
- 2018 – 2019 – Deputy Head of the Technical Audit Function of JSC SO UES branch IDO of Centre.
- 2019 – present – Director of the Situation Analysis Centre – Deputy Chief Engineer of PJSC ROSSETI.

**Participation in the management bodies of other organisations:** member of the Board of Directors of PJSC FTC, PJSC IDGC of Siberia.

**Participation in the Company Board of Directors committees:** Chairperson HR and Remunerations Committee.


**Morozov  
Andrey Vladimirovich**

**INDEPENDENT DIRECTOR**

First elected to the Board  
of Directors on 14.06.2019

Born in 1978.

Graduated in 2000 from the Russian Law Academy of the Ministry of Justice of the Russian Federation in Law with the qualification of Lawyer. In 2016, graduated from Harvard Law School, with a master's degree in Finance and Corporate Governance.

**Positions held in the recent five years:**

- 2003 – 2015 – Head of the Legal Department at the Moscow Representative Office of NCH Advisors, Inc. (USA).
- 2017 – present – Legal Director of the Association of Professional Investors.

**Participation in the management bodies of other organisations:** member of the Board of Directors of PJSC IDGC of Centre and Volga Region and PJSC IDGC of South.

**Participation in the Company Board of Directors committees:** member of the Audit Committee, Strategy Committee and Technological Connection Committee.


**Korneev  
Aleksandr Yurievich**

**NON-EXECUTIVE DIRECTOR**

First elected to the Board  
of Directors on 14.06.2019

Born in 1980.

Graduated in 2003 from Moscow Power Engineering Institute in In-Plant Electrical Equipment, with the qualification of Engineer.

**Positions held in the recent five years:**

- 2013 – 2017 – Head of the Administration for Regulation of Technological Connection of PJSC ROSSETI.
- 2017 – 2018 – Director of the Department for Long-Term Development of the Grids and Technological Connection of PJSC ROSSETI.
- 2018 – 2019 – Deputy Director of the Service Implementation Department of PJSC ROSSETI.
- 2019 – present – Director of the Technological Connection and Infrastructure Development Department of PJSC ROSSETI.

**Participation in the management bodies of other organisations:** member of the Board of Directors of PJSC Tyumenenergo.

**Participation in the Company Board of Directors committees:** Chairperson of the Technological Connection Committee and member of the Audit Committee.





### Stepanova Maria Dmitrievna

#### NON-EXECUTIVE DIRECTOR

First elected to the Board of Directors on 23.06.2015

Born in 1982.

Graduated in 2004 from Lomonosov Moscow State University majoring in Government Administration in Economics.

#### Positions held in the recent five years:

- 2008 – 2016 – Head of the Division for Shareholder and Investor Relations at PJSC ROSSETI.
- 2017 – 2018 – Deputy Head of the Management Board and Board of Directors Procedures, Shareholder and Investor Relations Division of PJSC ROSSETI;
- 2018 – present – Head of the Shareholder and Investor Relations and Informational and Analytical Division of PJSC ROSSETI.

**Participation in the management bodies of other organisations:** member of the Board of Directors of JSC Tyvaenergobyt.

**Participation in the Company Board of Directors committees:** member of the Strategy Committee.



### Fedorov Oleg Romanovich

#### INDEPENDENT DIRECTOR

First elected to the Board of Directors on 13.06.2017

Born in 1968.

In 1992, graduated from Lomonosov Moscow State University with the qualification of Mathematician.

#### Positions held in the recent five years:

- 2013 – present – Member of the Supervisory Board of PJSC ALROSA.

**Participation in the Company Board of Directors committees:** member of the Reliability Committee and Technological Connection Committee.



### Shagina Irina Aleksandrovna

#### NON-EXECUTIVE DIRECTOR

First elected to the Board of Directors on 07.06.2018

Born in 1979.

In 2001, graduated from the All-Russian State Distance-Learning Institute of Finance and Economics in Accounting and Audit with the qualification of Economist; in 2013, graduated from Vladimir Institute of Law of the Russian Federal Penitentiary Service, majoring in Law with the qualification of Lawyer.

#### Positions held in the recent five years:

- 2011 – 2015 – Deputy Head of the Power Industry Regulation Department at the Federal Tariff Service of Russia.
- 2015 – present – Head of the Tariff Setting Division of the Tariff Policy Department, Director of the Tariff Policy Department at PJSC ROSSETI.

**Participation in the management bodies of other organisations:** member of the Board of Directors of PJSC Kubanenergo and PJSC TDC.

**Participation in the Company Board of Directors committees:** member of the Audit Committee.

Biographies of the Company Board of Directors members acting from 07.06.2018 to 14.06.2019 are shown in Annex 23 to the full version of the Annual Report on the Company's website: <http://www.mrsksevizap.ru/en/informationonshareholdersmeetings>.

The list of affiliated persons of PJSC IDGC of the North-West as of 31.12.2019 is available at the Company web site: [http://www.mrsksevizap.ru/id\\_affilalist#tab1](http://www.mrsksevizap.ru/id_affilalist#tab1).



### Zharikov Aleksey Nikolaevich

#### NON-EXECUTIVE DIRECTOR

First elected to the Board of Directors on 12.03.2014

Born in 1970.

In 1993, graduated from S.Ordzhonikidze Moscow State Academy of Management majoring in Economy and Management in Fuel and Energy Industries.

#### Positions held in the recent five years:

- 2010 – present – Director for Corporate Policy and Shareholder Relations of JSC Elektrosentraladka.

#### Participation in the management bodies of other organisations:

member of the Board of Directors of PJSC Saratov Airlines and PJSC IDGC of Volga.

**Participation in the Company Board of Directors committees:** member of the HR and Remunerations Committee and Technological Connection Committee.



### Golovtsov Aleksandr Viktorovich

#### INDEPENDENT DIRECTOR

First elected to the Board of Directors on 14.06.2019

Born in 1973.

In 1996 graduated from D.F.Ustinov Baltic State Technical University in Management and Information Science in Engineering Systems, with the qualification of Electrical Engineer.

#### Positions held in the recent five years:

- 2005 – 2019 – Head of the Analytical Research Department of JSC URALSIB Management Company.

#### Participation in the management bodies of other organisations:

member of the Board of Directors of the Association of Professional Investors, PJSC IDGC of Volga and PJSC IDGC of Centre.

**Participation in the Company Board of Directors committees:** Chairperson of the Audit Committee, member of the Reliability Committee and Strategy Committee.

**The share of stock owned:** 0.00066%.



### Bychko Mikhail Aleksandrovich

#### NON-EXECUTIVE DIRECTOR

First elected to the Board of Directors on 23.06.2015

Born in 1971.

Graduated in 1994 from Moscow Power Engineering Institute specialising in Power Plants with the qualification of Electrical Engineer. In 2004, graduated from the Russian Government Academy of National Economy.

#### Positions held in the recent five years:

- 2015 – 2016 – Advisor at PJSC Lenergo.
- 2013 – present – Director of the Capital Construction Department of PJSC ROSSETI.

**Participation in the management bodies of other organisations:** member of the Board of Directors JSC Yantarenergo.

**Participation in the Company Board of Directors committees:** member of the Audit Committee.

No transactions with the PJSC IDGC of the North-West shares were made by the members of the Board of Directors in 2019.

Over 2019, members of the Board of Directors did not receive any loans (credits) from the Company, as well as any legal entity from the group that the Company is part of.

Members of the Board of Directors did not own any shares of PJSC IDGC of the North-West in 2019, except A.V.Golovtsov.



# COMMITTEES OF THE COMPANY BOARD OF DIRECTORS

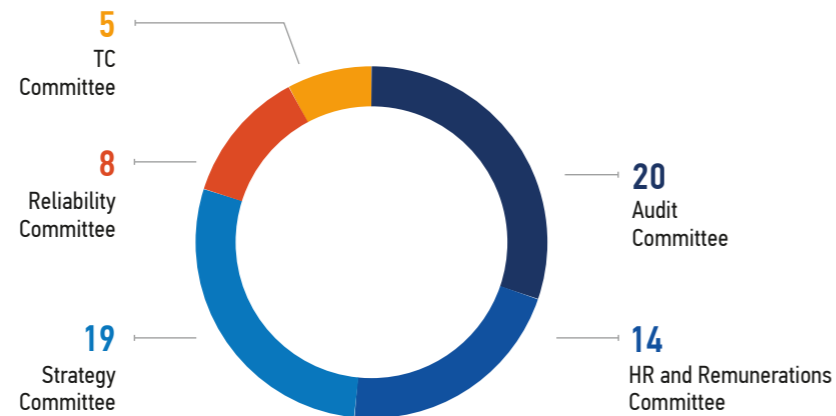
In order to implement the principles stipulated by the Corporate Governance Code, advisory and consultative bodies were set up by the Company Board of Directors – Committees of the Board of Directors – for preliminary research into the most important aspects of the Company activity:

- Audit Committee;
- HR and Remunerations Committee;
- Strategy Committee<sup>48</sup>;
- Reliability Committee;
- Technological Connection Committee

The Committees are actively engaged in the process of decision-making by the Company Board of Directors, enhancing its efficiency. They carry out preliminary surveys and provide the Board of Directors with recommendations on the key issues within the frame of reference of the Board of Directors. The decisions of the Committees serve as guidelines for the Company Board of Directors.

The activities of the Committees are stipulated by the Regulations on the Committees, covering their frame of reference, procedures for building their composition and functioning, rights and obligations of the Committee members.

Number of BoD Committees meetings in 2019, items



The number of members and appointments for each Committee are determined by decision of the Company Board of Directors. The Committees operate in line with the Committee action plans annually approved at the Committee meetings.

In 2019, each Committee of the Board of Directors included several sets of persons.

The Board of Directors Committee compositions as of 31.12.2019<sup>49</sup> were elected by Decisions of the Company Board of Directors on: 17.07.2019 (Minutes No.327/4) –

the Audit Committee; 31.07.2019 (Minutes No.328/5) – the HR and Remunerations Committee; 15.08.2019 (Minutes No.329/6) – the Reliability Committee and the Technological Connection Committee; 15.08.2019 (Minutes No.329/6) with amendments of 12.11.2019 (Minutes No.336/13) – the Strategy Committee.

<sup>48</sup> Previously, before 15.08.2019, the name of the Committee was Strategy and Development Committee of the PJSC IDGC of the North-West Board of Directors.

<sup>49</sup> Compositions of the Board of Directors Committees of PJSC IDGC of the North-West and participation of the former Committee members are shown in Annex 24 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

## Members of the Board of Directors actively contribute to the Committees of the Company Board of Directors

Full name	Shareholder group nominating the respective director	Status at the Board of Directors	Audit Committee	HR and Remunerations Committee	Reliability Committee	Strategy Committee	Technological Connection Committee
Sergeeva O.A.	PJSC ROSSETI	Independent director		Member of the BoD, Committee			
Alyushenko I.D.	PJSC ROSSETI	Non-executive director		Chairperson of the BoD, Committee			
Bychko M.A.	PJSC ROSSETI	Non-executive director	Member of the BoD, Committee				
Golovtsov A.V.	The Prosperity Quest Fund	Independent director	Chairperson of the BoD, Committee		Member of the BoD, Committee	Member of the BoD, Committee	
Zharikov A.N.	Energosouz Holdings Limited	Non-executive director		Member of the BoD, Committee			Member of the BoD, Committee
Korneev A.Yu.	PJSC ROSSETI	Non-executive director	Member of the BoD, Committee				Member of the BoD, Committee
Morozov A.V.	ENERGYO SOLUTIONS RUSSIA (CYPRUS) LIMITED	Independent director	Member of the BoD, Committee			Member of the BoD, Committee	Member of the BoD, Committee
Pidnik A.Yu.	PJSC ROSSETI	Executive director					
Stepanova M.D.	PJSC ROSSETI	Non-executive director				Member of the BoD, Committee	
Fedorov O.R.	ENERGYO SOLUTIONS RUSSIA (CYPRUS) LIMITED	Independent director			Member of the BoD, Committee		Member of the BoD, Committee
Shagina I.A.	PJSC ROSSETI	Non-executive director	Member of the BoD, Committee				

- Chairperson of the BoD, Committee
- Member of the BoD, Committee
- Executive director
- Independent director
- Non-executive director

## AUDIT COMMITTEE

The Committee aims at contributing to efficient performance of the Company Board of Directors by preliminary consideration of issues related to control of the financial and business operations of the Company.

In the reporting period, the Audit Committee based its activities on the Regulation on the Audit Committee of the Board of Directors of PJSC IDGC of the North-West, approved by Decision of the Company Board of Directors of 29.02.2016 (Minutes No.197/12), taking into account the amendments introduced by the Company Board of Directors on 28.10.2016 (Minutes No.222/13).

### The key objectives of the Committee are:

- Review of the Company's accounting (financial) statements and supervision of their preparation;
- Monitoring the reliability and efficiency of the internal control system, risk management system and corporate governance practice;
- Control of the external audit procedures and the choice of the External Auditor;
- Ensuring independent and unbiased internal audit function;
- Supervising the efficiency of the system for countering unfair actions of the Company's employees and third parties.

Under Decision of the Board of Directors of 17.07.2019 (Minutes No.327/4), the headcount of the Audit Committee was defined as 5 persons, the same decision appointed the persons to work at the Committee.

The position of the Committee Chairperson was taken by the independent director Golovtsov Aleksandr Viktorovich, who has the experience and knowledge in preparing, analysing, assessing and auditing accounting (financial) statements. Members of the Audit Committee Bychko M.A., Korneev A.Yu., Morozov A.V. and Shagina I.A. have a degree in finance, economics, law, management, power economy and power facilities operation .

All members of the Audit Committee have the experience and qualification required for the Committee to work efficiently.

### Personal data and contribution of the acting members of the Audit Committee of the Board of Directors

Full name	Position	Participation <sup>50</sup>	% of participation
(INCLUDES ONLY MEMBERS OF THE BOARD OF DIRECTORS)			
<b>Golovtsov Aleksandr Viktorovich</b> Chairperson	Member of PJSC IDGC of the North-West Board of Directors	10 of 10	100
Bychko Mikhail Aleksandrovich	Director of the Capital Construction Department of PJSC ROSSETI	10 of 10	100
Korneev Aleksandr Yurievich	Director of the Technological Connection and Infrastructure Development Department of PJSC ROSSETI	10 of 10	100
Morozov Andrey Vladimirovich	Legal Director of the Association of Professional Investors	10 of 10	100
Shagina Irina Aleksandrovna	Director of the Tariff Policy Department at PJSC ROSSETI	10 of 10	100

<sup>50</sup> Information on participation in the Audit Committee is shown for the members of the acting Committee for the period from the election date – 17.07.2019 – to 31.12.2019.

In 2019, the Audit Committee of the Company Board of Directors held

**20 meetings**

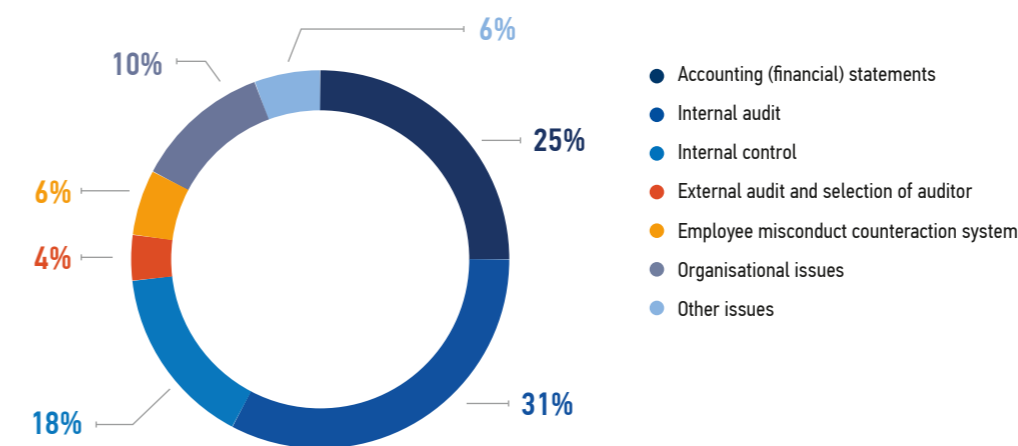
including by personal attendance

**7 meetings**

discussed

**51 issue**

### Subjects of issues tackled in 2019\*



\* The list of the issues considered by the Audit Committee of the Company Board of Directors in 2019 is shown in Annex 25 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

## RESULTS OF OPERATIONS IN 2019

### Upon recommendations of the Audit Committee, the Company Board of Directors on 27.05.2019 (Minutes No.319/32):

- considered the reports of the sole executive body and the Management Board of PJSC IDGC of the North-West on organisation and functioning of the internal control system, as well as organisation, functioning and efficiency of the risk management system in 2018;
- considered the report of the Company's Internal Audit on assessment of the efficiency of the internal control, risk management systems of the Company for 2018;
- considered the findings of the external independent assessment of the efficiency of internal control and risk management systems of PJSC IDGC of the North-West. Information on the assessment of the efficiency of internal control system of the Company in the reporting year is shown in section "Internal Control System" of this Report;
- preliminarily considered the Internal Audit Policy of PJSC IDGC of the North-West in the new version;

The Audit Committee considered the issue of preliminary review of the Internal Audit report on compliance with the work plan and the results of the Internal Audit activities, including the self-assessment results of the Internal Audit performance in 2019, as well as compliance with the plan of

activities to develop and improve the Internal Audit performance at the Company on 09.02.2020 (Minutes No.12).

Upon the internal assessment (self-assessment) of the performance of the Company's Internal Audit based on the programme for internal audit quality assurance and improvement of PJSC IDGC of the North-West (approved by Decision of the Company Board of Directors of 22.12.2016, Minutes No. 225/16, enacted by Order of the Company of 30.12.2016 No. 857), sustainability of the internal audit function of the Company was registered. The Internal Audit of the Company was deemed "generally compliant" with the Internal Audit Policy of the Company in 2019.

The issue of assessing the efficiency of the external audit of the accounting (financial) statements of the Company for 2019 was studied at the Audit Committee meeting on 20.04.2020 (Minutes No.15). The data is to be provided after the meeting.

The performance results of the Audit Committee of PJSC IDGC of the North-West Board of Directors in 2018-2019 corporate year were reviewed by the Board of Directors of the Company on 05.09.2019 (Minutes No.330/7).

## HR AND REMUNERATIONS COMMITTEE

The main purpose of the HR and Remunerations Committee, according to the Regulation on the HR and Remunerations Committee of the Board of Directors of PJSC IDGC of the North-West approved by Decision of the Board of Directors of 22.08.2014 (Minutes No.163/5), is to ensure efficient operations of the Company Board of Directors regarding the issues within its frame of reference, and to develop the necessary recommendations for the Board of Directors and executive bodies of the Company.

**The main goal of the Committee is to work out and present recommendations (findings) in the following areas:**

- development of recommendations on the amount of remuneration to the Company Board of Directors members;
- development of the principles and criteria for determining the amount of remuneration for the Board of Directors members, members of the collective executive body and the person performing the functions of the Company's sole executive body;
- working out proposals for determining the material terms of contracts with the Board of Directors members, members of the collective executive body and the person exercising the functions of the Company's sole executive body;
- defining criteria for nominating members of the Board of Directors, members of the collective executive body and to the position of the Company's sole executive body, as well as preliminary assessment of these nominees;

- regular assessment of the activities of the person performing the functions of the Company's sole executive body, members of the collective executive body and preparing proposals for the Board of Directors on the possibility of their re-appointment.

Under Decision of the Board of Directors of 31.07.2019 (Minutes No.328/5), the headcount of the HR and Remunerations Committee was defined as three persons. The same decision appointed members of the Committee, including only members of the Board of Directors.

The members of the HR and Remunerations Committee have the professional experience and knowledge of the Company's business required to perform their functions.

**Personal data and contribution of the acting members of HR and Remunerations Committee of the Board of Directors**

Full name	Position	Participation <sup>51</sup>	% of participation
HR AND REMUNERATIONS COMMITTEE (INCLUDES ONLY MEMBERS OF THE BOARD OF DIRECTORS)			
<b>Alyushenko Igor Dmitrievich</b> Chairperson	Director of the Situation Analysis Centre – Deputy Chief Engineer of PJSC ROSSETI	6 of 6	100
Zharikov Aleksey Nikolaevich	Director for Corporate Policy and Shareholder Relations of JSC Elektrosentronaladka	6 of 6	100
Sergeeva Olga Andreevna	Member of the Management Board, Chief Advisor of PJSC ROSSETI	6 of 6	100

<sup>50</sup> Information on participation in the HR and Remunerations Committee is shown for the members of the acting Committee for the period from the election date – 31.07.2019 to 31.12.2019.

In 2019, the HR and Remunerations Committee of the Company Board of Directors held

**14 meetings**

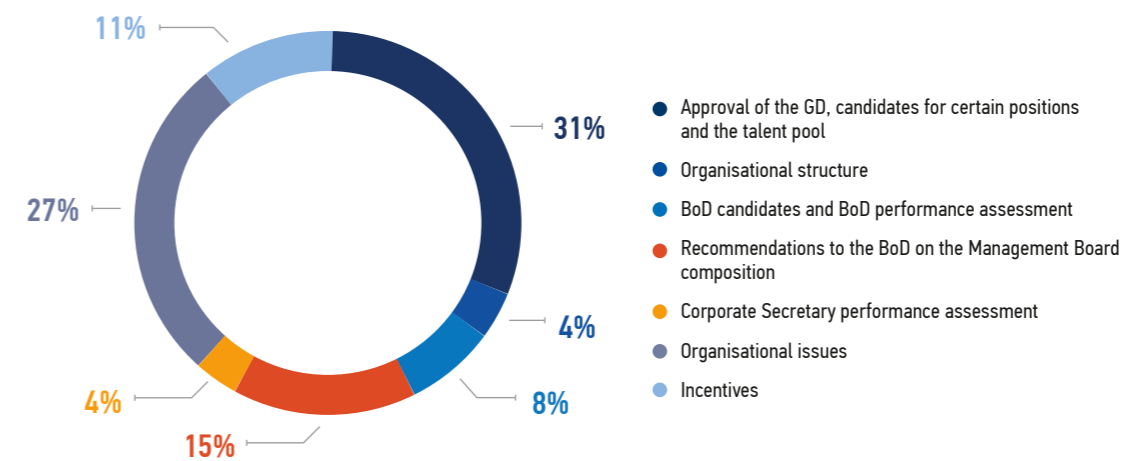
including by personal attendance

**2 meetings**

discussed

**26 issue**

**Subjects of issues tackled in 2019\***



\* The list of the issues considered by the HR and Remunerations Committee of the Company Board of Directors in 2019 is shown in Annex 25 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

## STRATEGY COMMITTEE

The key purpose of the Strategy Committee is to ensure efficient operations of the Company Board of Directors regarding the issues within its frame of reference, and to enhance the long-term performance of the Company on the whole.

In 2019, under Decision of the Company Board of Directors of 15.08.2019 (Minutes No.329/6), the Strategy and Development Committee of the Board of Directors was renamed into the Strategy Committee of the Board of Directors of the Company. The same decision of the Board of Directors of the Company approved the Regulation on the Strategy Committee of PJSC IDGC of the North-West Board of Directors, while the Regulation on the Strategy and Development Committee of PJSC IDGC of the North-West Board of Directors became void.

In accordance with the Regulation on the Strategy Committee of PJSC IDGC of the North-West Board of Directors, the Committee aims at working out and presenting recommendations (findings) to the Board of Directors of the Company on

the activities of the Board of Directors within the competence of the Committee, including: strategic development and priority areas, innovative development, business process organisation, business planning, dividend policy, risk management, assessment of the performance of the Company and its subsidiaries, as well as other objectives and areas defined by the Corporate Governance Code recommended by the Bank of Russia Letter dated 10.04.2014 No.06-52/2463 "On the Corporate Governance Code".

The acting Strategy Committee was elected by Decisions of the Board of Directors of 15.08.2019 (Minutes No.329/6) with amendments of 12.11.2019 (Minutes No.336/13) as 11 persons.



Personal data and contribution of the acting members of Strategy Committee of the Board of Directors

Full name	Position	Participation <sup>52</sup>	% of participation
<b>Pavlov Aleksey Igorevich</b> Chairperson	Director of the Strategy Department of PJSC ROSSETI	5/5 <sup>53</sup>	100
Golovtsov Aleksandr Viktorovich	Member of the PJSC IDGC of the North-West Board of Directors	10/10	100
Obrezkova Yulia Gennadievna	Deputy Director of the Strategy Department of PJSC ROSSETI	5/5 <sup>53</sup>	100
Dronova Tatiana Petrovna	Deputy General Director for Strategy and Development of JSC Investment Holding Energetichesky Soyuz	10/10	100
Kormakov Anton Arkadievich	Head of the Tariff Setting and State Regulation System Development Division of the Tariff Policy Department at PJSC ROSSETI	10/10	100
Krupenina Anastasia Igorevna	Director for Strategy and Investment LLC Pyat Plus	10/10	100
Morozov Andrey Vladimirovich	Legal Director of the Association of Professional Investors	10/10	100
Rudakov Dmitry Stanislavovich	Member of the Management Board, Deputy General Director for Corporate Governance of PJSC IDGC of the North-West	10/10	100
Stepanova Maria Dmitrievna	Head of the Shareholder and Investor Relations and Informational and Analytical Unit, Corporate Governance Department of PJSC ROSSETI	10/10	100
Tikhomirova Olga Vladimirovna	Director of the Treasury Department of PJSC ROSSETI	10/10	100
Parfentiev Nikolay Aleksandrovich	Advisor at PJSC ROSSETI	4/5 <sup>53</sup>	80

Members of the Strategy Committee have the knowledge of the Company's business required for them to perform their functions.

Over 2019, the Strategy Committee

**19** meetings

including by personal attendance

**2** meetings

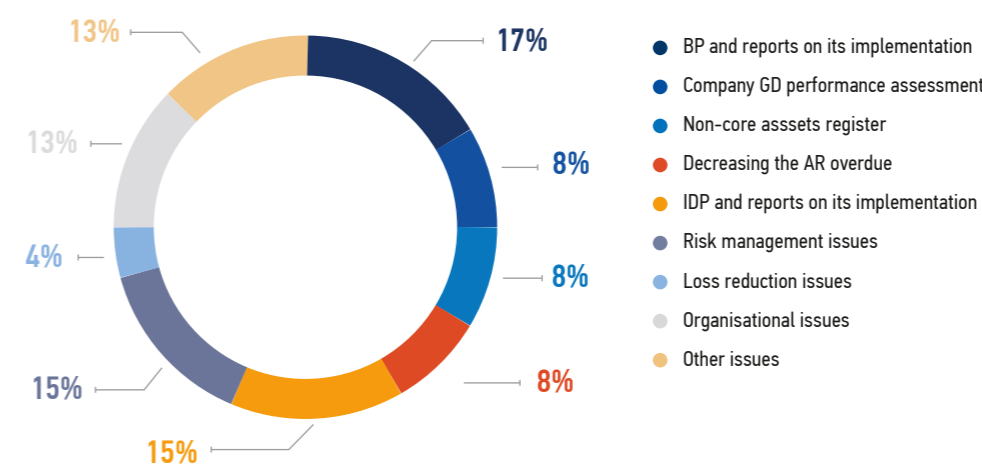
discussed

**48** issue

<sup>52</sup> Information on participation in the Strategy Committee is shown for the members of the acting Committee for the period from the Committee establishment date – 15.08.2019 – to 31.12.2019.

<sup>53</sup> The Committee member was elected to the Strategy Committee by decision of the Board of Directors on 12.11.2019.

Subjects of issues tackled in 2019\*



\* The list of the issues considered by the Strategy Committee of the Company Board of Directors in 2019 is shown in Annex 25 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

RELIABILITY COMMITTEE

In the reporting period, the Reliability Committee proceeded in its activities from the Regulation on the Reliability Committee of the Board of Directors of PJSC IDGC of the North-West, approved by Decision of the Company Board of Directors of 31.07.2017 (Minutes No.249/4).

The key objectives of the Committee are:

- expert review of the operational programmes, plans for technical re-equipment, renovation, new construction and repair of electric grid facilities, analysis of their development and implementation in terms of ensuring the requirements for reliability of operation and technical condition of the power grids are met;
- assessment of the completeness and adequacy of measures based on the accident investigation results in accordance with the rules of accident cause investigation in electric power industry approved by the Decree of the RF Government, as well as monitoring their implementation;
- expert review of the quality of investigation into the causes of technological power system disturbances (accidents);
- expert review of the Company's activity in the field of emergency response (ensuring readiness, organisation and carrying out emergency recovery operations at electric grid facilities);
- expert review of programmes for prevention and reduction of risks of injuries to the Company's personnel and third parties at the Company's power facilities, as well as control over their implementation;
- monitoring and assessment of the Company's technical services performance to ensure reliable operation of power grids and occupational safety;
- expert review of the Company's internal technical control system;
- expert review of the Company's occupational safety and health management system;
- expert review of the environmental policy implementation programme;
- expert review of the fire and industrial safety system.

The acting Reliability Committee was elected by the Board of Directors Decision of 15.08.2019 (Minutes No. 329/6) as 6 persons.

Personal data and contribution of the acting members of Reliability Committee of the Board of Directors

Full name	Position	Participation <sup>54</sup>	% of participation
<b>Romankov Andrey Olegovich</b> Chairperson	Deputy Chief Engineer of PJSC ROSSETI (before 24.10.2019)	1 of 3	33
Bogomolov Eduard Valerievich	First Deputy Director of the branch of PJSC ROSSETI – Centre for Technical Supervision	3 of 3	100
Golovtsov Aleksandr Viktorovich	Member of the PJSC IDGC of the North-West Board of Directors	3 of 3	100
Saveliev Maksim Ilyich	General Director of LLC Soyuz Invest	3 of 3	100
Fedorov Oleg Romanovich	Member of the PJSC IDGC of the North-West Board of Directors, member of the Supervisory Board of PJSC ALROSA	3 of 3	100
Yagodka Denis Vladimirovich	First Deputy General Director – Chief Engineer of PJSC IDGC of the North-West	3 of 3	100

In 2019, the Reliability Committee held

**8 meetings**

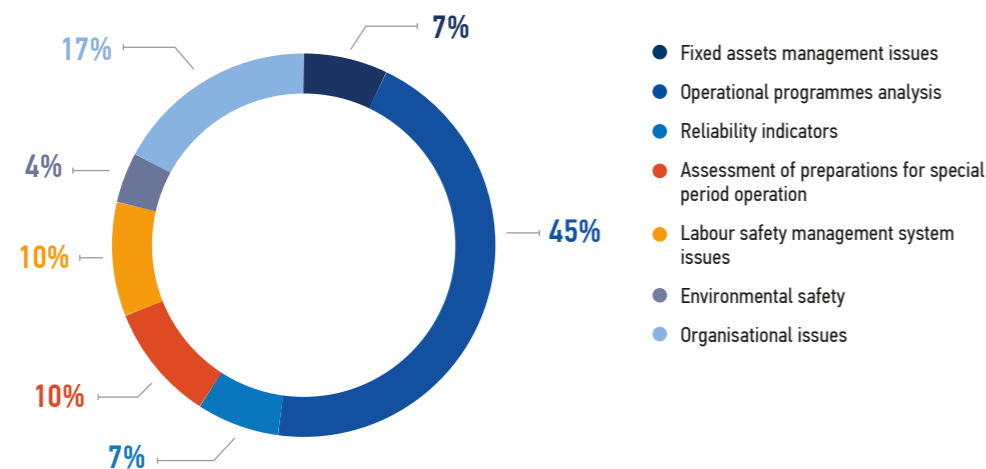
including by personal attendance

**1 meetings**

discussed

**29 issue**

Subjects of issues tackled in 2019\*



\* The list of the issues considered by the Reliability Committee of the Company Board of Directors in 2019 is shown in Annex 25 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

<sup>54</sup> Information on participation in the Reliability Committee is shown for the members of the acting Committee for the period from the election date – 15.08.2019 – to 31.12.2019.

TECHNOLOGICAL CONNECTION COMMITTEE

The key purpose of the Technological Connection Committee is to ensure transparency and non-discriminatory access to the services of consumer technological connection to the Company's power grids.

In the reporting period, the Technological Connection Committee of the Board of Directors was guided by the Regulation on the Committee approved by Decision of the Company Board of Directors of 31.07.2017 (Minutes No.249/4).

The effective composition of the Technological Connection Committee was elected by the Board of Directors Decision of 15.08.2019 (Minutes No.329/6) as 7 persons.

Personal data and contribution of the acting members of Technological Connection Committee of the Board of Directors

Full name	Position	Participation <sup>55</sup>	% of participation
<b>Korneev Aleksandr Yurievich</b> Chairperson	Director of the Technological Connection and Infrastructure Development Department of PJSC ROSSETI	3 of 3	100
Derevenchuk Yury Sergeevich	Grid Development Director at the branch of PJSC FGC UES – MES of North-West	3 of 3	100
Zharikov Aleksey Nikolaevich	Director for Corporate Policy and Shareholder Relations of JSC Elektrosentraladka	3 of 3	100
Morozov Andrey Vladimirovich	Legal Director of the Association of Professional Investors	3 of 3	100
Savin Nikolay Olegovich	Deputy General Director for Investment Activities of PJSC IDGC of the North-West	3 of 3	100
Fedorov Oleg Romanovich	Member of the Supervisory Board of PJSC ALROSA	3 of 3	100
Filatova Svetlana Valerievna	Deputy General Director for Development and Marketing of Services of PJSC IDGC of the North-West	3 of 3	100

Members of the Technological Connection Committee have the knowledge of the Company's business required for them to perform their functions.

<sup>55</sup> Information on participation in the Technological Connection Committee is shown for the members of the acting Committee for the period from the election date – 15.08.2019 – to 31.12.2019.



In 2019, the Technological Connection Committee held

**5** meetings

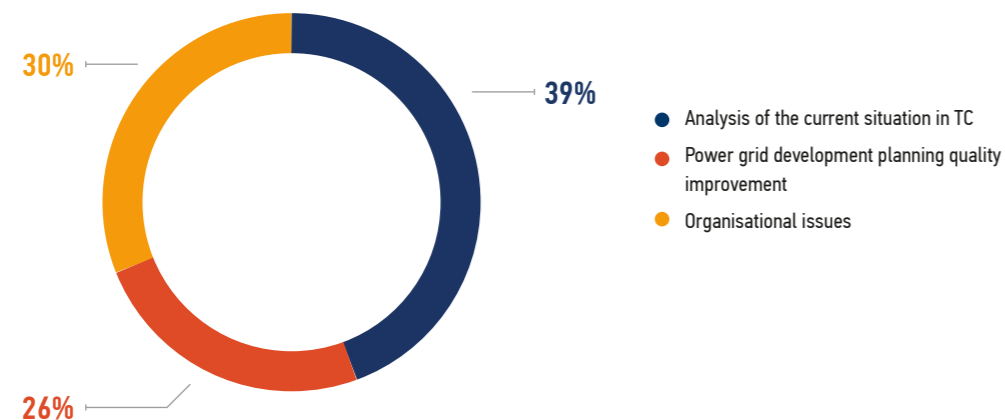
including by personal attendance

**3** meetings

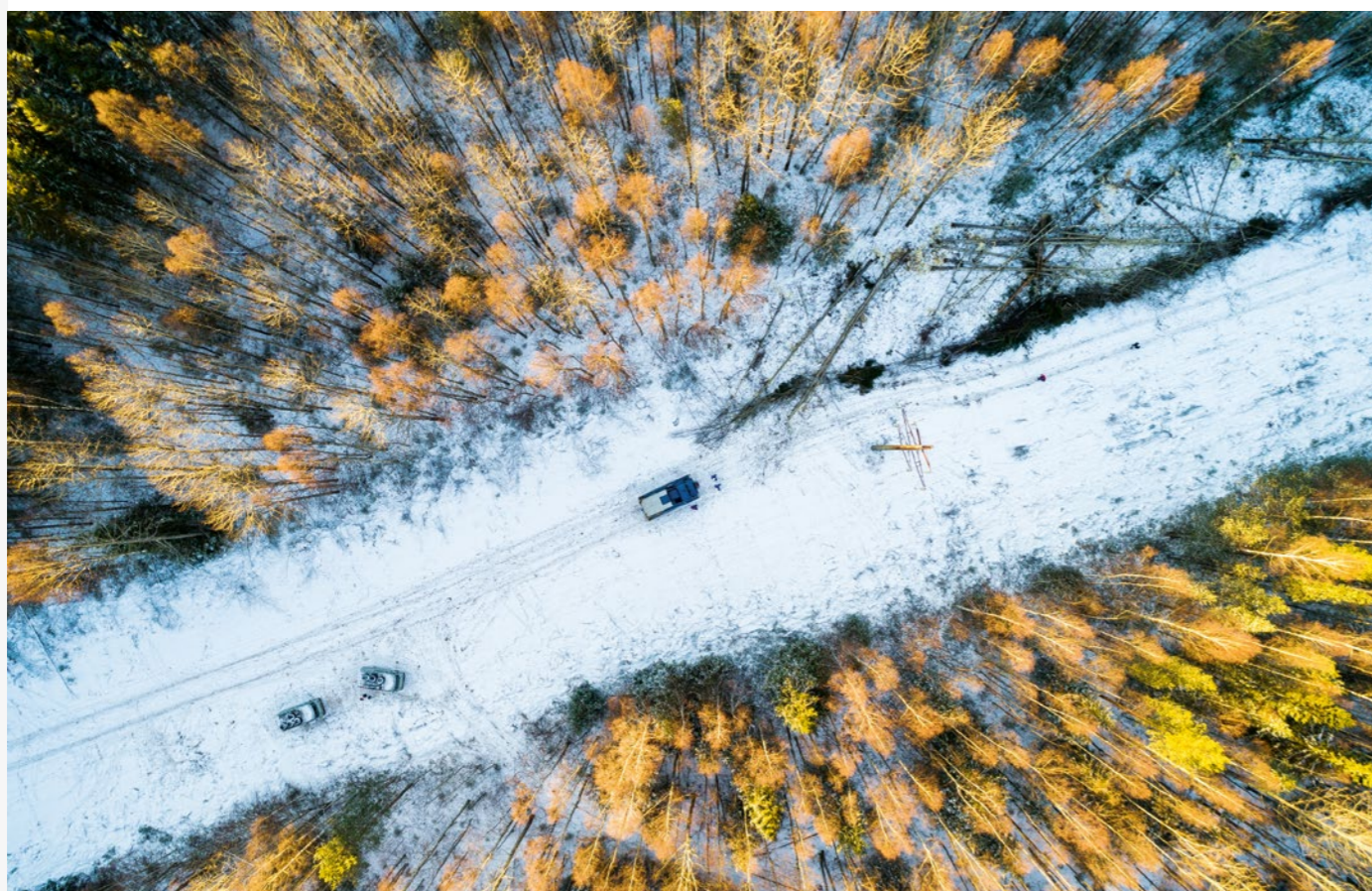
discussed

**22** issue

Subjects of issues tackled in 2019\*



\* The list of the issues considered by the Technological Connection Committee of the Company Board of Directors in 2019 is shown in Annex 2 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.



# CORPORATE SECRETARY

The Corporate Secretary of the Company ensures due procedures of preparation and holding the General Shareholders' Meeting at the Company, coordinates the efforts to protect the rights and interests of shareholders, contributes to efficient performance of the Company Board of Directors and the operations of the Board of Directors Committees<sup>56</sup>.



**NAZARENKO LYUDMILA YURIEVNA**  
CORPORATE SECRETARY OF PJSC IDGC OF THE NORTH-WEST

Born in 1971.

In 1993 graduated from Odessa Technological Institute of the Food Industry; in 2001-2002 studied the course of Financial Management at Saint Petersburg State University of Economics, Intersectoral Institute of Advanced Training and Retraining for Managers; in 2011 received a diploma of higher education in Law upon graduation from St. Petersburg State University of Engineering and Economics.

**Positions held in the recent five years:**

2006 – present – Head of the Corporate Governance Unit at the Department for Corporate Governance and Shareholder Relations of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations:** before 23.05.2019 – member of the Board of Directors of OJSC Lesnaya Skazka.

**Participation in the authorised capital of PJSC IDGC of the North-West – 0.0026%.**

The activities of the Corporate Secretary are stipulated by the Regulation on the Corporate Secretary of PJSC IDGC of the North-West<sup>57</sup>, approved by Decision of the Company Board of Directors of 30.09.2016 (Minutes No.220/11).

To ensure independence of the Corporate Secretary of the Company, he/she is elected by the Board of Directors at the suggestion of the General Director of the Company and/or Chairperson of the Board of Directors. The Company Corporate Secretary is accountable to the Board of Directors. Administrative subordination of the Corporate Secretary is defined by the organisational structure approved by the Company.

The Corporate Secretary is not a secretary of the Management Board.

From 27.06.2008, the functions of the Company Corporate Secretary have been performed by Nazarenko Lyudmila Yurievna.

The Corporate Secretary has sufficient knowledge, experience and qualification to perform her duties, as well as impeccable professional reputation. She upgrades her qualification on a regular basis.

The Corporate Secretary did not make any transactions with the Company's securities in 2019. In 2019, the Corporate Secretary did not receive any loans (credits) from the Company, as well as any legal entity from the group that the Company is part of.

<sup>56</sup> The Corporate Secretary data are disclosed at the Company's web site, as well as the Annual Report in the same scope as the scope of information to be disclosed on members of the Company Board of Directors and its executive bodies.

<sup>57</sup> The Regulation on the Corporate Secretary of PJSC IDGC of the North-West is available at the Company's web site: <http://www.mrsksevzap.ru/otherinternaldocuments>.



# EXECUTIVE MANAGEMENT BODIES OF THE COMPANY

## GENERAL DIRECTOR

The sole executive body – General Director of PJSC IDGC of the North-West – carries out day-to-day management of the Company and functions as the Chairperson of the Management Board.

The General Director's frame of reference includes all issues related to the current operations of the Company, with the exception of the issues attributed to the General Shareholders' Meeting, Board of Directors and Management Board of the Company. The Company Charter authorises the General Director to use the Company's property, enter into transactions on behalf of the Company, issue orders, approve guidelines and internal documents on the subjects within his frame of reference and gives other rights.



**GENERAL DIRECTOR OF  
PJSC IDGC OF THE NORTH-WEST**

## PIDNIK ARTEM YURIEVICH

He was born in 1983 in Gatchina, the Leningrad Region. Graduated from Saint Petersburg State University. Starting 2002, he worked in the field of legal consulting.

From 2011 – Commercial Director – Deputy General Director, since 2012 – First Deputy General Director – Director for Economy and Finance of Baltic Shipyard LLC.

2013 – 2014 – Deputy Director for Development of the CJSC Building and Construction Department No.10 of Metrostroy.

From 2014 – First Deputy General Director, 2015 – 2018 – General Director of LLC Sevkabel Group.

On 03 July 2018, he was appointed Advisor of the Administrative Department of PJSC IDGC of the North-West.

From 16 July 2018 – acting Deputy General Director for Economy and Finance of PJSC IDGC of the North-West.

From 11 October 2018 he was elected General Director of PJSC IDGC of the North-West (Decision of the Board of Directors of 10.10.2018, Minutes No. 298/11).

## MANAGEMENT BOARD

The Management Board is a collective executive body of PJSC IDGC of the North-West.

The Management Board's activities<sup>58</sup> are regulated by the Federal Law "On joint-stock companies", the Company Charter and the Regulation on the Management Board.

In accordance with the Charter, members of the Management Board are appointed by the Company Board of Directors in the number set by the Decision of the Board of Directors upon proposal of the General Director.

As of 31.12.2019, the Management Board of the Company comprised 8 persons.

No transactions with the PJSC IDGC of the North-West shares were made by the General Director or the members of the Management Board of the Company in 2019. Over 2019, the General Director or the members of the Management Board did not receive any loans (credits) from the Company, as well as any legal entity from the group that the Company is part of. The General Director and the members of the Management Board did not own any shares of PJSC IDGC of the North-West in 2019.

## Biographies of the General Director and members of the Management Board

### PIDNIK ARTEM YURIEVICH

#### GENERAL DIRECTOR, CHAIRPERSON OF THE MANAGEMENT BOARD

Biography is on page 178.

**Participation in the management bodies of other organisations:** none.



#### MEMBER OF THE MANAGEMENT BOARD, DEPUTY GENERAL DIRECTOR FOR SECURITY (BEFORE 21.08.2019)

Date of election to the Management Board – 21.04.2015

### GUSEV VLADIMIR SERGEEVICH

Born in 1950.

In 1973, graduated from the Leningrad Technological Institute majoring in Chemistry and Technology of Sorbents.

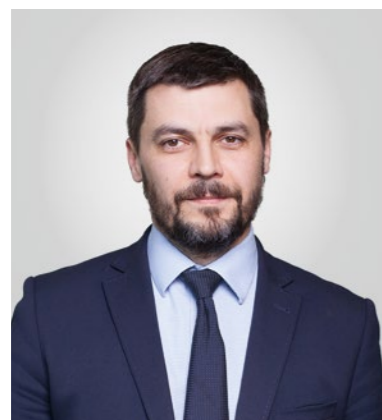
Was awarded the PhD degree in Economics by Saint Petersburg State Institute of Technology in 2000.

#### Positions held in the recent five years:

- 1998 – 2016 – professor of Peter the Great St. Petersburg Polytechnic University (on a part-time basis).
- 2005 – 2015 – Vice President, Advisor, Member of the Management Board of OJSC International Bank of St.Petersburg.
- 2005 – present – Advisor to the General Director of OJSC Radar MMS (on a part-time basis).
- 2014-2017 – Senior Secretary of the Federal Security Service Directorate in Saint Petersburg and the Leningrad Region (on a part-time basis).
- 2015 – 2019 – Deputy General Director for Security at PJSC IDGC of the North-West.
- 2019 – 2020 – Advisor at the Administrative Department of PJSC IDGC of the North-West.
- 2015 – April 2020 – member of the Management Board of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations none.**

<sup>58</sup> The frame of reference of the Management Board of PJSC IDGC of the North-West is stipulated by the Company Charter <http://www.mrsksevpap.ru/charterinternaldocuments>.



## RUDAKOV DMITRY STANISLAVOVICH

Born in 1975.

In 2002, graduated from Moscow State Law University majoring in Law, with the qualification of Lawyer.

### Positions held in the recent five years:

- 2014 – 2015 – acting Director of the Priority Development Projects Department of Sevastopol; Director of the Department for Property and Land of Sevastopol; Head of the Legitimacy Unit of the Department for Law, Property and Land of Sevastopol Government.
- 2015 – 2016 – Auditor of the Audit and Accounting Chamber of Sevastopol.
- 2016 – 2019 – First Deputy Head of Administration; Deputy Head of Administration on Urban Development, Administration of Municipality of Rybinsk.
- 2019 – 2019 – acting Deputy General Director for Corporate Governance at PJSC IDGC of the North-West.
- 2019 – present – Deputy General Director for Corporate Governance of PJSC IDGC of the North-West, Member of the Management Board of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations:** Chairperson of the Board of Directors of JSC Energoservis Severo-Zapada; member of the Board of Directors of JSC Tavrichesky Bank.

**MEMBER OF THE MANAGEMENT BOARD, DEPUTY GENERAL DIRECTOR FOR CORPORATE GOVERNANCE**

Date of election to the Management Board – 07.06.2019



## SAVIN NIKOLAY OLEGOVICH

Born in 1965.

In 1987, graduated from Kuybyshev Moscow Institute of Civil Engineering in Industrial and Civil Construction with the qualification of Civil Engineer.

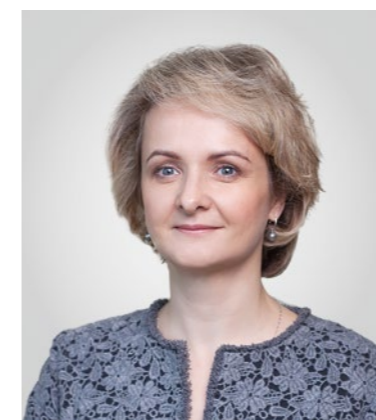
### Positions held in the recent five years:

- 2012 – 2017 – Deputy Vice President of PJSC Transneft.
- 2017 – 2018 – General Director of LLC Evolution Managing Company.
- 2018 – 2018 – Director of the Infrastructure Projects Department of JSC SKAD Tech.
- 2018 – 2020 – Advisor of the Administrative Department; acting Deputy General Director for Investment Activities of PJSC IDGC of the North-West; Deputy General Director for Investment Activities; Deputy General Director for Capital Construction and Investment Activities of PJSC IDGC of the North-West.
- 2018 – April 2020 – member of the Management Board of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations** none.

**MEMBER OF THE MANAGEMENT BOARD, DEPUTY GENERAL DIRECTOR FOR INVESTMENT ACTIVITIES (BEFORE 31.01.2020)**

Date of election to the Management Board – 20.12.2018



## TROFIKOVA MARINA MIKHAYLOVNA

Born in 1972.

In 1994, graduated from Saint Petersburg State University in Economics and Research and Development Management with the qualification of Economist.

### Positions held in the recent five years:

- 2014 – 2016 – HR Director of JSC Kronstadt Group.
- 2017 – 2017 – Director of the Personnel Directorate of PJSC Bank Saint Petersburg.
- 2019 – 2019 – Advisor of the Administrative Department of PJSC IDGC of the North-West, acting Deputy General Director – Head of Administration.
- 2019 – present – Deputy General Director – Head of Administration, member of the Management Board of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations** none.

**MEMBER OF THE MANAGEMENT BOARD, DEPUTY GENERAL DIRECTOR – HEAD OF ADMINISTRATION**

Date of election to the Management Board – 07.06.2019



## FILATOVA SVETLANA VALERIEVNA

Born in 1980.

In 2003, graduated from North-West State Technical University majoring in Power Supply with the qualification of Engineer.

### Positions held in the recent five years:

- 2005 – 2017 – Director for Technological Connection, other positions at PJSC Lenenergo.
- 2017 – 2018 – Deputy Director for Development and Marketing of Services of PJSC Lenenergo branch Gatchina Power Grids.
- 2018 – 2018 – Deputy General Director for Development and Marketing of Services of LLC Renaissance Engineering.
- 2018 – 2019 – Advisor of the Administrative Department, acting Deputy General Director for Development and Marketing of Services of PJSC IDGC of the North-West.
- 2019 – present – Deputy General Director for Development and Marketing of Services of PJSC IDGC of the North-West, member of the Management Board of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations:** Chairperson of the Board of Directors of JSC Pskovenergosbyt.

**MEMBER OF THE MANAGEMENT BOARD, DEPUTY GENERAL DIRECTOR FOR DEVELOPMENT AND MARKETING OF SERVICES**

Date of election to the Management Board – 30.09.2019



## SHADRINA LYUDMILA VLADIMIROVNA

Born in 1973.

In 1999, graduated from Smolensk University of the Humanities in Finance and Credit with the qualification of Economist.

### Positions held in the recent five years:

- 2014 – 2018 – Advisor of the acting Director for Finance, Deputy Director for Economy and Finance, Director for Finance at OJSC Klimov.
- 2018 – 2018 – Advisor of the Administrative Department (on a part-time basis), acting Deputy General Director for Economy and Finance of PJSC IDGC of the North-West.
- 2018 – 2019 – Deputy Chief Accountant of OJSC Klimov (on a part-time basis).
- 2018 – present – Deputy General Director for Economy and Finance of PJSC IDGC of the North-West, member of the Management Board of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations:** member of the Board of Directors of JSC Pskovenergosbyt.

### MEMBER OF THE MANAGEMENT BOARD, DEPUTY GENERAL DIRECTOR FOR ECONOMY AND FINANCE

Date of election to the Management Board – 20.12.2018



## YAGODKA DENIS VLADIMIROVICH

Born in 1979.

In 2001, graduated from Ivanovo State Power University in Power Supply (Industrial) with the qualification of Electric Engineer.

### Positions held in the recent five years:

- 2014 – 2015 – acting Deputy Chief Engineer for Operation – Head of the Maintenance and Repairs Department of OJSC IDGC of the North-West.
- 2015 – 2016 – Deputy Chief Engineer for Operation – Head of the Maintenance and Repairs Department of PJSC IDGC of the North-West.
- 2017 – 2017 – Leading Expert of the Occupational Health and Safety and Environmental Protection Department of the Environmental Operation Monitoring Unit at OP 7810-SGK-St. Petersburg of LLC Stroygazkonsalting.
- 2017 – 2017 – Deputy Chief Engineer for Technological Development and Innovation – Head of the Department for Technological Development and Innovation, acting First Deputy General Director – Chief Engineer of PJSC IDGC of the North-West.
- 2017 – present – First Deputy General Director – Chief Engineer of PJSC IDGC of the North-West.
- 2018 – present – member of the Management Board of PJSC IDGC of the North-West.

**Participation in the management bodies of other organisations:** Chairperson of the Board of Directors of JSC Energoservis Severo-Zapada before 28.06.2019.

### MEMBER OF THE MANAGEMENT BOARD, FIRST DEPUTY GENERAL DIRECTOR – CHIEF ENGINEER

Date of election to the Management Board – 20.12.2018

## Changes in the Management Board composition

In 2019, personnel-related decisions were made, resulting in the following changes in the Management Board of the Company:

- Management Board members Orlov Denis Aleksandrovich (Decision of the Board of Directors of 21.01.2019), Fedorov Vadim Nikolaevich (Decision of the Board of Directors of 29.03.2019) were removed from office;
- the following members were elected to the Management Board: Rudakov Dmitry Stanislavovich and Trofimova Marina Mikhaylovna (Decision of the Board of Directors of 07.06.2019), Filatova Svetlana Valerievna (Decision of the Board of Directors of 20.11.2019).

Biographies of the Management Board members acting in 2019, whose office was terminated, are shown in Annex 26 to the Annual Report (<http://www.mrsksevzap.ru/shareholdersmeetinginfo>).

### Participation of the Management Board members in the meetings held in 2019

Full name	Total number of meetings	Number of meetings with the attendance of the Management Board member, items	Share in the total number of meetings, %
Pidnik A.Yu.	26	26	100
Gusev V.S.	26	23	88
Rudakov D.S.	14	13	93
Savin N.O.	26	24	92
Trofimova M.M.	14	13	93
Fedorov V.N.*	7	3	43
Filatova S.V.	7	5	71
Shadrina L.V.	26	26	100
Yagodka D.V.	26	24	92

\*removed from office.

Carrying out day-to-day management of the Company in accordance with the scope of authority specified by the Charter and the Regulation on the Management Board of PJSC IDGC of the North-West:

The Management Board of the Company held

**26 meetings**

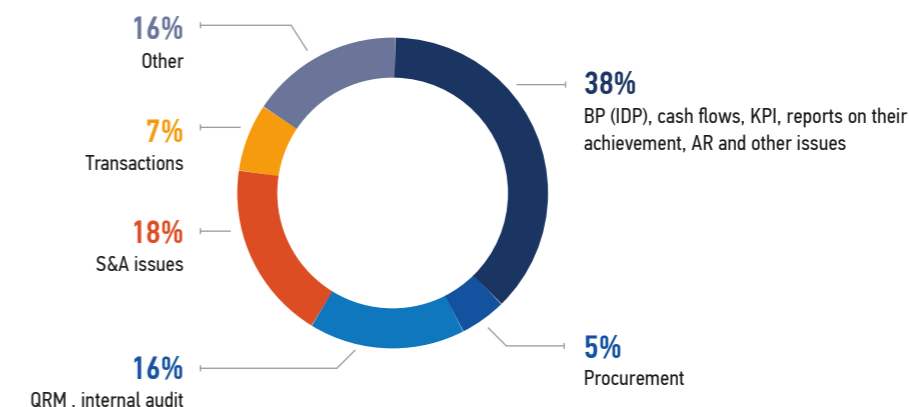
including by personal attendance

**3 meetings**

discussed

**135 issue**

### Subjects of major issues considered by area in 2019





# THE COMPANY REMUNERATION SYSTEM

## REMUNERATION SYSTEM FOR MEMBERS OF THE BOARD OF DIRECTORS

Remuneration and compensation types, amounts and procedures of payment to members of the Company Board of Directors in 2018 were stipulated by the Regulation on Remunerations and Compensations to Members of the Board of Directors of PJSC IDGC of the North-West (hereinafter – the Regulation), approved by Decision of the

Annual General Shareholders' Meeting of the Company of 23.06.2015 (Minutes No.10). At present, the version of the Regulation approved by Decision of the Annual General Shareholders' Meeting of the Company of 14.06.2019 (Minutes No.14) is in effect<sup>59</sup>.

### THE REGULATION IN FORCE UNTIL 14.06.2019 PROVIDED FOR PAYMENTS:

#### 1. REMUNERATION FOR PARTICIPATION IN THE BOARD OF DIRECTORS

The payment is made subject to the results of the activities in the period from the candidate's election to the Board of Directors till the Company Board of Directors is elected in the new composition.

The remuneration amount for each member of the Board of Directors depends on the number of meetings of the Board of Directors (irrespective of their form) attended by the member of the Board of Directors in the period be-

tween the Annual General Shareholders' Meetings, and the size of the fixed amount of remuneration. The fixed amount of remuneration is defined on the basis of the Company's revenue estimated under the RAS in the previous financial year. For PJSC IDGC of the North-West, the fixed amount of remuneration (in accordance with the Regulation version in effect when the remuneration for 2018 was defined) is RUB 900 thousand.

**900 RUB thous.** THE TOTAL AMOUNT OF REMUNERATION PER MEMBER OF THE BOARD OF DIRECTORS INCLUDING ADDITIONAL PAYMENTS

IN ADDITION TO REMUNERATION FOR PARTICIPATION IN THE COMPANY BOARD OF DIRECTORS, THE FOLLOWING ADDITIONAL PAYMENTS ARE STIPULATED:

FIXED PART

+ 30% + 20% + 10%

to the Chairperson of the Company Board of Directors

to the Chairperson of a specialised committee of the Company Board of Directors

for membership in a specialised committee of the Company Board of Directors

The total amount of remuneration per member of the Board of Directors including additional payments cannot exceed the fixed part of remuneration (RUB 900 thousand).

#### REMUNERATION IS NOT PAID TO:

The sole executive body (General Director) of the Company

Persons who are restricted or forbidden by law to receive payments from commercial organisations

Members of the Board of Directors who participated in less than 50% of the meetings held

<sup>59</sup> The full text of the Regulation on Remunerations and Compensations to Members of the Board of Directors of PJSC IDGC of the North-West is available at the web site of PJSC IDGC of the North-West at <http://www.mrsksevzap.ru/remunerationcompensationregulation>.

## 2. ADDITIONAL REMUNERATION FROM THE NET PROFIT PAID IN CASE THE MARKET CAPITALISATION OF THE COMPANY IS INCREASED IN THE PERIOD OF OPERATION OF THE BOARD OF DIRECTORS

**0.0175%**

The amount of additional remuneration of each member of the Board of Directors is 0.0175% of the market value growth of the Company calculated in the period from the candidate's election to the Board of Directors till the Company Board of Directors is elected in the new composition.

Additional remuneration for the growth in the Company's market value is paid only if the average monthly volume of transactions with the Company's ordinary shares in the period of the rewarded Board of Directors' activity is no less than RUB 1.5 mln at the stock exchange (MICEX).

The total amount of additional remuneration for members of the Board of Directors cannot exceed 5% of the net profit under the RAS in the financial year.

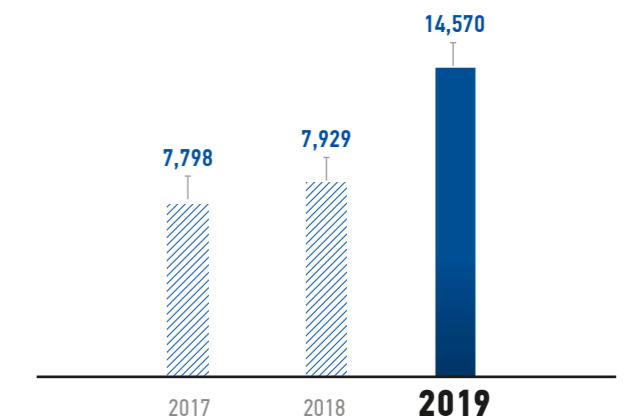
Remuneration is paid to members of the Board of Directors on a lump sum basis at the end of the corporate year. The Regulation defines the corporate year as the period from the moment of election of the persons to the Board of Directors at the Annual General Shareholders' Meeting of the Company till the next Annual General Shareholders' Meeting of the Company.

## 3. COMPENSATION FOR THE MEMBERS OF THE BOARD OF DIRECTORS

Members of the Board of Directors are entitled to compensation of the expenses related to participation in meetings of the Board of Directors in line with the standards of reimbursement of travel expenses effective in the Company as of the date of the meeting.

Remunerations and compensations are not paid to members of the Board of Directors who are the sole executive body of the Company, members of the Management Board of the Company, government officials

Remuneration paid to the BoD members in 2017-2019



● Remuneration paid to the BoD members in 2017-2019, RUB thous.

### IN THE EFFECTIVE FROM 14.06.2019 REGULATION ON PAYMENT OF REMUNERATION:

- provisions providing for payment of additional remuneration from net profit in case of increase in market capitalization have been excluded, as CGC does not recommend any forms of short-term motivation;
- it has been determined that the remuneration is paid out of profit from unregulated activities.

Remuneration paid to members of the Company Board of Directors in 2017-2019, RUB <sup>60</sup>

Full name	Position	For participation in the meetings of the Board of Directors	Additional payments for chairpersonship at the Board of Directors, chairpersonship/ membership in Committees of the Board of Directors	For increase in the Company's market capitalisation	Total
Paid in 2017		6,211,541	1,586,535	-	7,798,076
Paid in 2018		6,890,110	1,038,462	-	7,928,571
<b>Paid in 2019, incl.:</b>		<b>14,193,955</b>	<b>375,804</b>	<b>14,569,759</b>	
Paid in 2019 to the Board of Directors elected by the AGSM on 07.06.2018, including:		8,594,231	Additional payment as share of the annual remuneration of the BoD member, but no more than the fixed remuneration	375,804	8,970,035
Sergeeva Olga Andreevna	Member of the Management Board, Chief Advisor of PJSC ROSSETI	900,000	30%	34,164	934,164
Akimov Leonid Yurievich	Director of the Legal Protection Department of PJSC ROSSETI	900,000	30%	34,164	934,164
Akopyan Dmitry Borisovich	Director of the Investment Activities Department of PJSC ROSSETI	692,308	-	34,164	726,472
Zharikov Aleksey Nikolaevich	Director for Corporate Policy and Shareholder Relations of JSC Elektrosentronaladka	761,538	10%	34,164	795,702
Pelymsky Vladimir Leonidovich	Deputy Chief Engineer of PJSC ROSSETI	653,846	-	34,164	688,010
Stepanova Maria Dmitrievna	Head of the Shareholder and Investor Relations and Informational and Analytical Unit of PJSC ROSSETI	900,000	30%	34,164	934,164
Fedorov Oleg Romanovich	Member of the Supervisory Board of PJSC ALROSA	740,385	10%	34,164	774,549
Filkin Roman Alekseevich	Director of the Representative Office of Prosperity Capital Management (Russia) Ltd. (power industry, mechanical engineering).	761,538	10%	34,164	795,702
Shagina Irina Aleksandrovna	Head the Tariff Setting Unit of the Tariff Policy Department of PJSC ROSSETI	692,308	-	34,164	726,472
Shvankova Maria Mikhaylovna	Head of the Treasury Unit of the Treasury Department at PJSC ROSSETI	692,308	-	34,164	726,472
Shevchuk Aleksandr Viktorovich	Executive Director at the Association of Institutional Investors	900,000	30%	34,164	934,164
Paid in 2019 to the Board of Directors elected by AGSM on 14.06.2019		5,599,724	Additional payment as share of the quarterly remuneration of the BoD member, but no more than the fixed remuneration	Not provided by the Regulation on remuneration	5,599,724
Sergeeva Olga Andreevna	Member of the Management Board, Chief Advisor of PJSC ROSSETI	667,857	40%	-	667,857
Alyushenko Igor Dmitrievich	Director of the Situation Analysis Centre – Deputy Chief Engineer of PJSC ROSSETI	507,692	20%	-	507,692
Bychko Mikhail Aleksandrovich	Director of the Capital Construction Department of PJSC ROSSETI	465,385	10%	-	465,385

<sup>60</sup> Hereinafter in the Annual Report, the amounts of remuneration paid to management and control bodies are shown without deduction of the personal income tax.

Full name	Position	For participation in the meetings of the Board of Directors	Additional payments for chairpersonship at the Board of Directors, chairpersonship/ membership in Committees of the Board of Directors	For increase in the Company's market capitalisation	Total
Golovtsov Aleksandr Viktorovich	Unemployed at present	550,000	40%	-	550,000
Zharikov Aleksey Nikolaevich	Director for Corporate Policy and Shareholder Relations of JSC Elektrosentronaladka	598,351	20%	-	598,351
Korneev Aleksandr Yurievich	Deputy Director of Services Marketing Department at PJSC ROSSETI	550,000	30%	-	550,000
Morozov Andrey Vladimirovich	Legal Director of the Association of Professional Investors	550,000	30%	-	550,000
Pidnik Artem Yurievich	General Director of PJSC IDGC of the North-West	The Regulation does not include members of the Company Board of Directors who simultaneously perform the functions of the General Director of the Company			
Stepanova Maria Dmitrievna	Head of the Shareholder and Investor Relations and Informational and Analytical Unit of PJSC ROSSETI	556,044	10%	-	556,044
Fedorov Oleg Romanovich	Member of the Supervisory Board of PJSC ALROSA	598,351	20%	-	598,351
Shagina Irina Aleksandrovna	Director of the Tariff Policy Department at PJSC ROSSETI	556,044	10%	-	556,044

In accordance with the effective Regulation, members of the Company Board of Directors in the composition elected by the Annual General Shareholders' Meeting on 14.06.2019, are to receive their remunerations in 2020, after the Annual General Shareholders' Meeting.

The Regulation does not provide for a system of long-term motivation of members of the Board of Directors, nor dismissal payments upon termination of their service.

## Compensations of the expenses paid to members of the Company Board of Directors in 2017-2019, RUB

Item	2017	2018	2019
Compensation of expenses related to performing the functions of members of the Board of Directors	236,777	157,552	430,465

## REMUNERATION SYSTEM FOR MEMBERS OF THE BOARD OF DIRECTORS COMMITTEES

Remuneration and compensation types, amounts and procedures of payment to members of the Company's Board of Directors Committees are stipulated by Regulations on remunerations and compensations to members of the Board of Directors Committees of the Company approved by Decision of the Company Board of Directors of 25.08.2009<sup>61</sup> (hereinafter – the Regulations).

Decision of the Company Board of Directors of 29.12.2015 introduced amendments to the Regulations on remunera-

tions and compensations to members of the Board of Directors Committees of the Company.

Under the Regulations, in case the Chairperson or member of a Board of Directors Committee are simultaneously members of the Company Board of Directors, their remuneration payments are determined by the Regulation on remunerations and compensations to members of the Board of Directors of PJSC IDGC of the North-West.

<sup>61</sup> Full texts of the Regulations on remunerations and compensations to members of the Board of Directors Committees of PJSC IDGC of the North-West are available at the Company web site: <http://www.mrsksevzap.ru/remunerationcompensationregulation>.

The Regulations provide for remuneration for each meeting attended by the member of the BoD Committee:

FOR PARTICIPATION IN THE MEETING OF THE BOARD OF DIRECTORS COMMITTEE HELD IN ABSENTIA

remuneration is paid in the amount equivalent to one minimum monthly wage rate of a first-category worker (hereinafter – MMWR) set by the Sectoral Tariff Agreement for the Russian Federation Power Industry (hereinafter – the Agreement) as of the date of the meeting of the Board of Directors Committee, taking into account the indexation stipulated by the Agreement.

FOR PARTICIPATION IN THE MEETING OF THE BOARD OF DIRECTORS COMMITTEE HELD IN THE FORM OF JOINT ATTENDANCE

remuneration is paid in the amount equivalent to two MMWRs set by the Agreement as of the date of the meeting of the Board of Directors Committee, taking into account the indexation stipulated by the Agreement.

The amount of remuneration paid to the Chairperson of the Committee (Deputy Chairperson) for each meeting where the functions of the Chairperson were performed increases by 50%.

Moreover, in line with the Regulations, members of Board of Directors Committees are entitled to compensation of the actual expenses related to performing the functions of the member of a Committee of the Board of Directors.

Remunerations and compensations are not paid to Committee members who are:

- the sole executive body (General Director) of the Company;
- persons who are restricted or forbidden by law to receive payments from commercial organisations.

Remunerations paid to members of the Board of Directors Committees in 2017-2019 <sup>62, 63</sup>

Audit Committee			
	2017	2018	2019
	-	-	-

HR and Remunerations Committee			
	2017	2018	2019
	22,296	-	-

Strategy and Development Committee			
	2017	2018	2019
	1,527,646	925,038	482,545

Reliability Committee			
	2017	2018	2019
	423,228	379,631	182,475

Technological Connection Committee			
	2017	2018	2019
	287,163	239,817	161,238

Total remuneration paid for participation in meetings of the Board of Directors Committees			
	2017	2018	2019
	2,260,333	1,544,487	826,258

<sup>62</sup> The data do not include additional payments to remuneration of the members of the Company Board of Directors who are simultaneously members of the Company Board of Directors Committees.

<sup>63</sup> In 2019, the following MMWRs were used to calculate the remunerations for participation in the meetings of the Company Board of Directors Committees: from 01.01.2019 – RUB 8,110; from 01.07.2019 – RUB 8,313.

REMUNERATION SYSTEM FOR THE GENERAL DIRECTOR AND MEMBERS OF THE MANAGEMENT BOARD

The system of motivation for the Company General Director is stipulated by the labour contract and the Regulation on remunerative incentives for the General Director of PJSC IDGC of the North-West approved by the Company Board of Directors on 15.06.2011 (Minutes No. 79/19), taking into account the amendments made by the Board of Directors Decisions of 13.03.2015 (Minutes No. 176/18) and 14.07.2017 (Minutes No. 248/3).

Members of the Management Board of the Company are classified as the Company top management. The incentive system for the top management of the Company is stipulated by their labour contracts and the Regulation on remunerative

incentives and employment benefits for the top management of PJSC IDGC of the North-West approved by the Company Board of Directors on 15.06.2011 (Minutes No. 79/19).

THE SYSTEM OF REMUNERATIVE INCENTIVES FOR THE GENERAL DIRECTOR AND MEMBERS OF THE MANAGEMENT BOARD (TOP MANAGEMENT) INCLUDES THE FOLLOWING TYPES OF REMUNERATION:



SALARY

The key principle of defining the amount of salaries for the General Director and the top management is to establish a fair competitive level of remuneration (position-related salary). The level of the salaries is consistent with the market conditions, which ensures stability of the Management Board composition.



REMUNERATION FOR PERFORMING THE FUNCTIONS OF THE MANAGEMENT BOARD MEMBER

Regulation on remunerative incentives and employment benefits for the top management of the Company stipulates that the top managers receive additional personal payments for performing the functions of members of the Management Board in the amount up to 15% of their position-related salary (in proportion to the working hours).



ADDITIONAL PAYMENTS FOR OPERATING DATA CLASSIFIED AS STATE SECRET'

The amount of this additional payment is established as a percentage of the position-related salary in line with the Rules of paying monthly rated increase in addition to the salary (wage rate) of the citizens approved for access to state secret on a permanent basis, and employees of the structural units for protection of state secret, as approved by the RF Government Order of 18.09.2006 No. 573.



BONUS PAYMENTS

The Regulations on remunerative incentives provide for the following types of bonus payments:

- bonus for achieving the quarterly KPI;
- bonus for achieving the annual KPI;
- additional incentives for achieving the targets (strategic priorities) at the year-end defined by the Company Board of Directors;
- special bonuses for achieving outstanding results in the KPIs defined by the Company Board of Directors as priorities;
- bonus for performing tasks (activities) of special importance.

Bonus payments are aimed to increase the motivation of the General Director and members of the Management Board to pursue priority tasks of the Company by achieving key performance indicators (KPI)<sup>64</sup>.

The KPIs used to assess the performance of the General Director and the specific weight of each KPI in the quarterly

and the annual bonuses of the General Director are established by the Company Board of Directors. The KPIs for the top management are set by the General Director on the basis of the KPIs approved by the Company Board of Directors considering the degree to which a top manager can influence the achievement of the target KPI and the KPI of personal responsibility in the top manager's area.

<sup>64</sup> The system of key performance indicators is described in the Section "Key performance indicators (KPI)" of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.



### THE KPIS SET FOR THE PURPOSES OF MOTIVATION (DEFINING THE AMOUNT OF REMUNERATION) OF THE GENERAL DIRECTOR AND MEMBERS OF THE MANAGEMENT BOARD IN 2019

#### Quarterly KPIS set by the Company Board of Directors on 31.03.2017 (Minutes No. 235/26) with amendments of 05.06.2018 (Minutes No.286/41), of 31.12.2019 (Minutes No.344/21)

- |   |  |
|---|--|
| 1. Consolidated operating profit (EBITDA)                                 | 4. No growth in the number of major accidents  |
| 2. Consolidated net debt/EBITDA   | 5. No growth in the number of accident victims |
| 3. Implementation of the plan to reduce the Company's accounts receivable | 6. Compliance with the commissioning schedule  |

#### Quarterly KPIS set by the General Director of the Company (Order of 15.06.2017 No.411 with amendments introduced by Orders of 12.09.2017 No.643, of 26.09.2018 No.646, of 27.05.2019 No.315, of 29.08.2019 No.549, of 02.09.2019 No.561)

- |  |  |
|--|--|
| 1. Efficiency of investment activities: Compliance with the quarterly schedules of project implementation and commissioning of fixed assets under the Investment Programme | 9. Zero failures to take measures in cases when the Company suffers from large or especially large-scale financial damage or damage to its business standing |
| 2. Compliance with the plan of maintenance and repairs   | 10. Zero penalties for failure to submit reporting to tax authorities in due time or violation of the procedure for statistics presentation                  |
| 3. Limit of operating costs  | 11. Ensuring performance of the obligations to pay for the services of power transmission in the grids of a branch   |
| 4. Power losses level in grids of all voltage levels   | 12. Reaching the target reliability level of the services rendered   |
| 5. Power losses level in grids of 0.4-20 kV  |  |
| 6. Compliance with the deadlines of technological connection   |  |
| 7. Zero violations of the current RF legislation, the Charter and internal documents of the Company in the corporate events organisation and conducting                    |  |
| 8. Quality of control over the progress of performing the instructions inherent in orders and regulations of the superior organisations                                    |  |

#### Annual KPIS set by the Board of Directors of the Company on 31.03.2017 (Minutes No.235/26) with amendments of 05.06.2018 (Minutes No.286/41), of 31.12.2019 (Minutes No.344/21)

- |  |  |
|--|--|
| 1. Consolidated net cash flow                                | 6. Labour efficiency improvement                           |
| 2. Decrease in unit operating expenses (costs)               | 7. Innovation activities efficiency                        |
| 3. Increase in the power grid equipment capacity utilisation | 8. Meeting the technological connection deadlines          |
| 4. Power losses level  | 9. Reaching the reliability level of the services rendered |
| 5. Reduction in unit investment costs                        |  |

#### Annual KPIS set by the General Director of the Company (Order of 15.06.2017 No.411 with amendments introduced by Orders of 12.09.2017 No.643, of 26.09.2018 No.646, of 27.05.2019 No.315, of 29.08.2019 No.549, of 02.09.2019 No.561)

- |   |  |
|---|--|
| 1. Compliance with the schedule of capacity launch and the plan to implement the Investment Programme | 4. Ensuring performance of the obligations to pay for the services of power transmission in the grids of the Company |
| 2. Increase in the efficiency of power grids servicing  | 5. Ensuring reliability of accounting and timely presentation of accounting, tax, IFRS and statistical statements    |
| 3. Implementation of the personnel training plans   | 6. Sales of non-core assets  |

Bonuses are paid upon achievement of the key performance indicators and depend on the degree to which the KPIS were achieved in the reporting periods (quarters and year). Results of the KPI achievement by the General Director in the reporting period are considered by the Strategy and Development Committee of the Board of Directors and approved by Decision of the Company Board of Directors. Results of the KPI achievement by the top management in the reporting period are approved by Order of the General Director.

General Director and top managers can receive bonuses for implementation of particularly important tasks approved by the management bodies of the Company. Particularly important tasks (activities) include those with special requirements regarding their timeframe and quality, responsibility and significance for the industry and the state.

• **One-off recreational leave payments.** The amount is paid to the Company's top management and equals one position-based salary.

• **Severance package.** The conditions of the labour contracts with the General Director and members of the Management Board do not stipulate the possibility of any guaranteed payments in case of early termination of their office ("golden parachutes"), with the exception of the guarantees provided by the labour legislation.

#### Data on the amount of remunerations paid to members of the Management Board of the Company, including the person holding the position of the sole executive body, RUB<sup>45</sup>

Remuneration	2017	2018	2019
Salary	36,053,658	34,890,308	25,084,404
Remuneration for performing the functions of the Management Board member	2,780,884	2,336,280	3,140,042
Bonuses	49,969,437	49,566,278	4,573,320
including annual incentives	25,611,739	24,381,359	-
Other payments	2,534,794	3,659,420	9,949,431
Severance package	1,348,827	8,551,678	64,495
Total remuneration	92,687,600	99,003,964	42,811,692

The introduction and implementation of the Company's remunerations policy is controlled by the HR and Remunerations Committee of the Board of Directors.

<sup>45</sup> The table includes data on the aggregate annual remuneration for all members of executive bodies, including those who are key managers of the Company subject to the Company remunerations policy, broken down by types of remuneration.

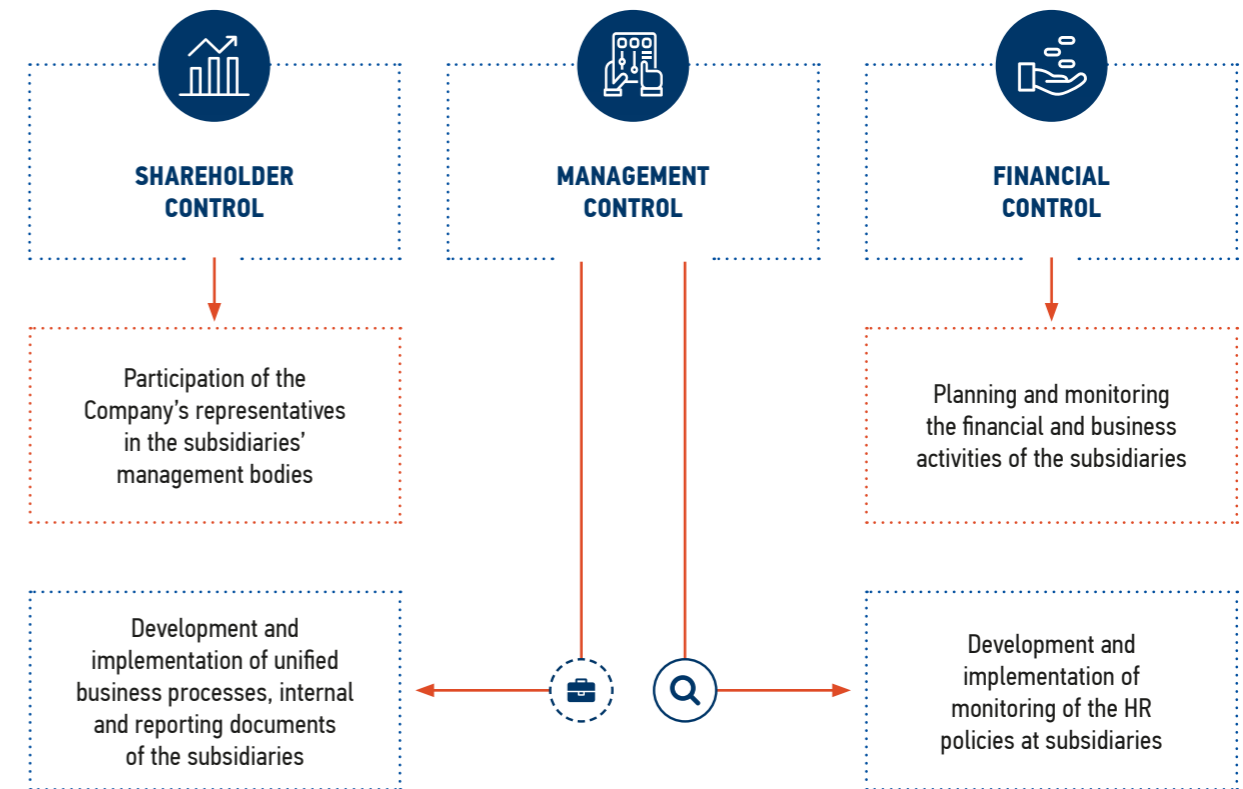


# SUBSIDIARIES MANAGEMENT SYSTEM

PJSC IDGC of the North-West, being a shareholder of its subsidiary entities (hereinafter – SE), interacts with the latter using corporate governance methods subject to requirements of the Russian Federation legislation, the Charter, the procedure for PJSC IDGC of the North-West interaction with the organisations where it participates, and other internal documents of the Company, charters and internal documents of the SE stipulating the procedures for management and control bodies (regulations on their boards of directors, audit commissions etc.).

**The corporate governance of PJSC IDGC of the North-West subsidiaries is carried out via a system of management and control bodies in line with the Company's interests:**

- Board of Directors of PJSC IDGC of the North-West;
- Management Board of PJSC IDGC of the North-West;
- SE Board of Directors;
- SE Audit Commission.



Information on management and control bodies of the PJSC IDGC of the North-West subsidiaries is presented in Annex 27 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.





# SUPERVISORY BODIES AND RISK MANAGEMENT

## RISK MANAGEMENT SYSTEM

The Company has a Risk Management System in place (hereinafter – RMS), which is designed to ensure sustainable seamless operation and development of the Company by timely identification, assessment and efficient management of the risks threatening efficient business activities and reputation of the Company, employee health, environment, as well as property interests of shareholders and investors.

**The Company has an internal control and risk management unit, which under the Risk Management Policy and the Regulation on the unit performs the following functions:**

- to inform the management bodies on the state of the internal control and risk management system, key trends and changes in operations, to put forward proposals on improving the performance;
- to set up the single internal control and risk management system in the Company;
- to organise improvement and development of the risk-oriented internal control system in the Company, including training on internal control and risk management systems;
- to arrange and coordinate the activities of the executive bodies and branches of the Company aimed at risk identification, assessment and management;
- to ensure interaction with state regulatory bodies in their performance of control activities, preparing analytical, informational, reference and other data regarding the organisation and functioning of the internal control and risk management system;
- to interact with the Company's external auditor on assessment of the efficiency of the internal control and risk management system, including provision of information on the state of the internal control and risk management system at the Company.

**In order to develop the RMS, Decision of the Board of Directors of 31.03.2016 (Minutes No.200/15) approved the Risk Management Policy of PJSC IDGC of the North-West. It defines the aims, operational guidelines and elements of the Company RMS, key functions and responsibilities of the RMS participants, the procedures of RMS efficiency assessment. Moreover, the Company implements the following regulatory documents in the area of risk management:**

- Regulation on the implementation of the requirements of the Risk Management Policy in PJSC IDGC of the North-West (Order of 07.08.2018 No.517);
- Guidelines on planning and implementation of risk management activities (Order of 16.08.2016 No.515);
- Guidelines on using and filling in the operational risk datasheet (Order of 18.08.2015 No.464);
- Methodology of operational risk assessment (Order of 18.08.2015 No.464);
- Methodological instructions on functional risks assessment (Order of 31.01.2019 No.39r);
- Methodological recommendations on application of the Methodology of operational risk assessment, Form No. UR-1 Operational Risk Datasheet and Boundaries of the scale ranges for probability, consequence and materiality of risks (Order of 18.08.2015 No.464);
- Guidelines on the procedures of defining the risk appetite for PJSC IDGC of the North-West for 2019 (Order of 31.01.2019 No.39r).

### The Company's risk management goals include:

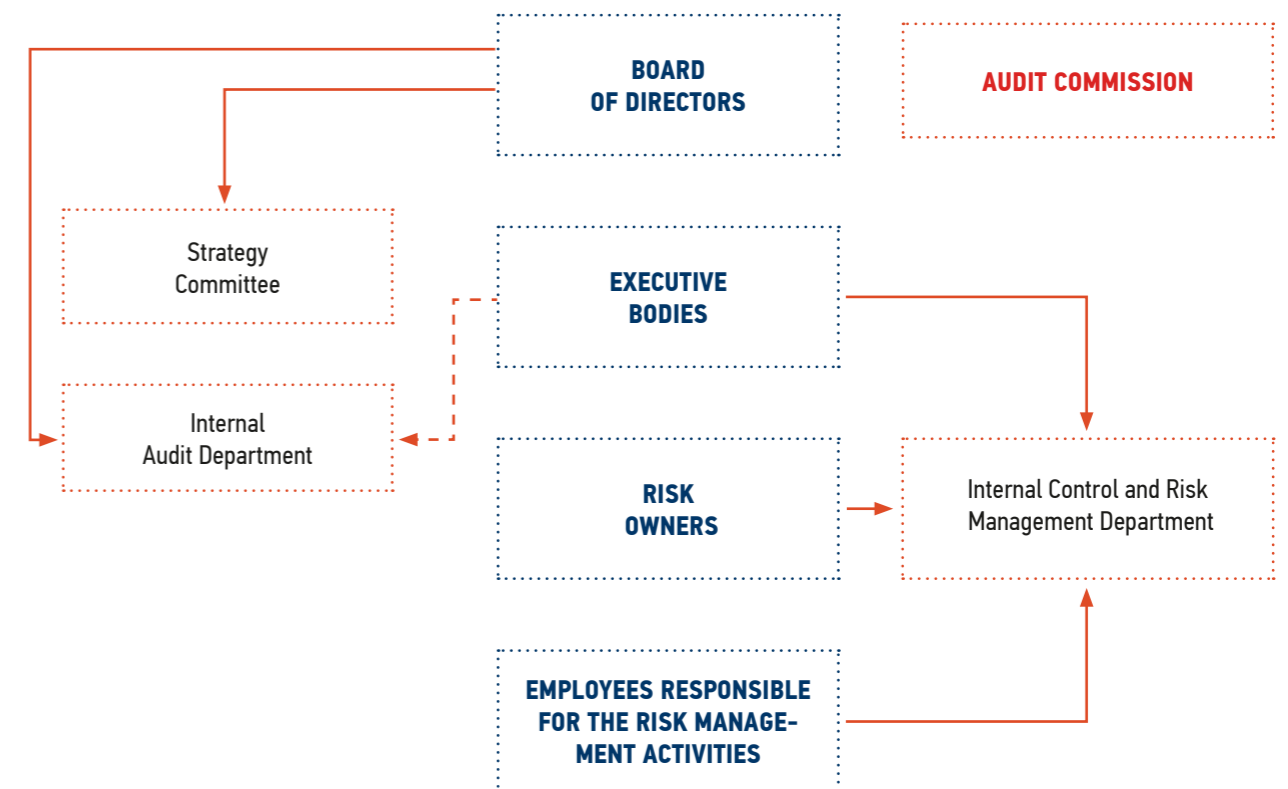
- Reduction in the probability and/or consequences of the events with adverse impact on achieving the Company's goals;
- Setting priorities of the Company's business on the basis of the current risks identification, including financial ones;
- Protection of assets and efficient use of the available resources;
- Achievement of the planned performance indicators;
- Ongoing improvement of the performance efficiency in all areas by analysing and evaluating the current risks;

- Ensuring reliable technological operation of the power grid facilities in the Russian Federation;
- Achievement of the best possible efficiency of the risk management system for the Company and the S&A;
- Timely and complete informational and analytical support of the processes of management decision-making and planning the activities of the Company and the S&A.

### RMS participants

Key participants in the risk management process and their main functions related to risk management are shown in the table below, as well as the chart.

### KEY PARTICIPANTS IN THE RISK MANAGEMENT PROCESS





*Key participants in the risk management process and their main risk management functions***BOARD OF DIRECTORS****MAIN RMS FUNCTIONS:**

- Approves the Risk Management Policy and internal documents of the Company defining the organisation and functioning of the Company RMS.
- Annually reviews the reports of the Company executive bodies on the organisation, functioning and efficiency of the RMS; assesses the functioning of the above system and works out recommendations for its improvement, reviews the Internal Audit reports on the efficiency of the RMS and findings of the external independent assessment of the RMS efficiency.

**AUTHORISED COMMITTEE OF THE BOARD OF DIRECTORS****MAIN RMS FUNCTIONS:**

- Supervises the efficiency of the risk management procedures, assesses the efficiency of risk management and the RMS improvement measures, as well as analyses proposals on RMS improvement, including the issues of risk identification and risk parameters adjustment.
- Carries out preliminary studies of the executive bodies' reports on the RMS organisation and functioning, internal documents of the Company stipulating the RMS organisation and functioning, Risk Management Policy of the Company and further amendments thereto, drafting official judgements regarding the text of the Company's Annual Report section on RMS before submitting the above documents to the Company Board of Directors.

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS****MAIN RMS FUNCTIONS:**

- Carries out preliminary study of the results of RMS efficiency assessment and compliance with the provisions of the Policy according to the findings of the Internal Auditor report on these issues before their presentation to the Company Board of Directors.

**AUDIT COMMISSION****MAIN RMS FUNCTIONS:**

- Drafts proposals /recommendations on the RMS improvement on the basis of the Audit Commission survey.

**EXECUTIVE BODIES****(MANAGEMENT BOARD, GENERAL DIRECTOR)****MAIN RMS FUNCTIONS:**

- Establish requirements to the format and completeness of the information on the Company's risks, specify the RMS development and improvement areas and plans, as well as analyse the risk portfolio and work out measures for the strategy of response and reallocation of resources to manage the respective risks.
- Compile an annual report on the organisation, functioning and efficiency of the Company's RMS and put forward proposals for the RMS development and improvement to be considered by the Company Board of Directors.
- At least once in six months, review the report of the unit responsible for the risk management activities regarding risk management performance and assessment of RMS efficiency.
- Review the results of the internal assessment of the RMS efficiency, work out measures to develop and improve the RMS and ensure efficient risk management at the Company on a day-to-day basis.
- Approve the regulatory and methodological documents of the Company on the RMS organisation and functioning with the exception of the documents to be approved by the Company Board of Directors.

**RISK OWNERS****MAIN RMS FUNCTIONS:**

- Are responsible for timely identification and assessment of risks, selection of the method of risk response, timely development and implementation of the measures aimed at risk management and regular monitoring.
- Ensure timely provision of information to the Company's executive bodies on the results of risk management activities and efficient interaction with the Risk Management Unit concerning the documents and reports prepared within the risk management activities.

**EMPLOYEES RESPONSIBLE FOR THE RISK MANAGEMENT ACTIVITIES****MAIN RMS FUNCTIONS:**

- Ensure timely identification and/or mitigation of risks in line with the job instructions and the active regulatory documents, as well as risk management activities in due time and to the full extent.

**INTERNAL AUDIT UNIT****MAIN RMS FUNCTIONS:**

- Carries out internal independent assessment of the RMS efficiency and issues recommendations to the unit responsible for the risk management activities, aiming to enhance the efficiency and productivity of the RMS, as well as inform the executive bodies and the Board of Directors (the authorised Committee of the Board of Directors) on the RMS state.

External independent assessment of the RMS was carried out by the independent expert LLC RSM RUS. The external independent assessment report on the RMS of PJSC IDGC of the North-West was studied at the Board of Directors meeting (Minutes of 16.09.2019 No.331/8) upon preliminary discussion of the issue by the Strategy Committee of the Board of Directors (Minutes of 23.05.2019 No.12). The overall assessment of the RMS efficiency is "moderately efficient".

Reports of the sole executive body and the Management Board of PJSC IDGC of the North-West on the risk management system organisation and functioning, including data on the activities towards improvement of the internal control, risk management and corporate governance systems in 2019 will be studied and taken into account at the meeting of the Board of Directors.

To ensure that the RMS is efficient and consistent with the objective evolution of requirements and conditions, the Internal Auditor of the Company assesses the RMS efficiency.

**RISK MANAGEMENT UNIT****MAIN RMS FUNCTIONS:**

- Ensures general coordination of the risk management procedures, including interaction of all the RMS participants, introduction of the Company methodological documents in the area of risk management and RMS functioning, as well as organisation of the Company employees training on the RMS.
- Performs the functions aimed at timely aggregation of the data on the risks identified and preparation of proposals for updating the Registers of Risks and monitoring the risk management process in the Company.
- Drafts a report at least once in six months and informs the Company executive bodies on the risk management performance and assessment of the RMS efficiency, as well as compiles an annual report on organisation, functioning and efficiency of the Company RMS and other issues stipulated by the current Risk Management Policy of the Company.

The internal independent assessment of the RMS efficiency is carried out by the Internal Auditor of the Company. The RMS efficiency in 2019 was reviewed at the Board of Directors meeting (Minutes of 24.24.2020 No.14) upon preliminary discussion of the issue by the Audit Committee of the Board of Directors (Minutes of 30.03.2020 No.14). The above decisions estimated the RMS maturity level as intermediate between "Moderate" and "Optimal" (assessed as 4.4 points). In 2019 the overall efficiency of the RMS was deemed "Moderately efficient".

In 2018 the Internal Auditor of the Company estimated the RMS maturity level as 4.4 points, which is intermediate between "Optimal" and "Moderate", thus, the RMS level in 2019 remained similar to 2018.

To improve the RMS maturity level, the Company management developed and the Board of Directors approved on 31.12.2019 (Minutes No.344/21) a Plan for development and improvement of the risk management system of the Company for 2020-2023, which was enacted by Order of the Company of 17.01.2020 No.15r.

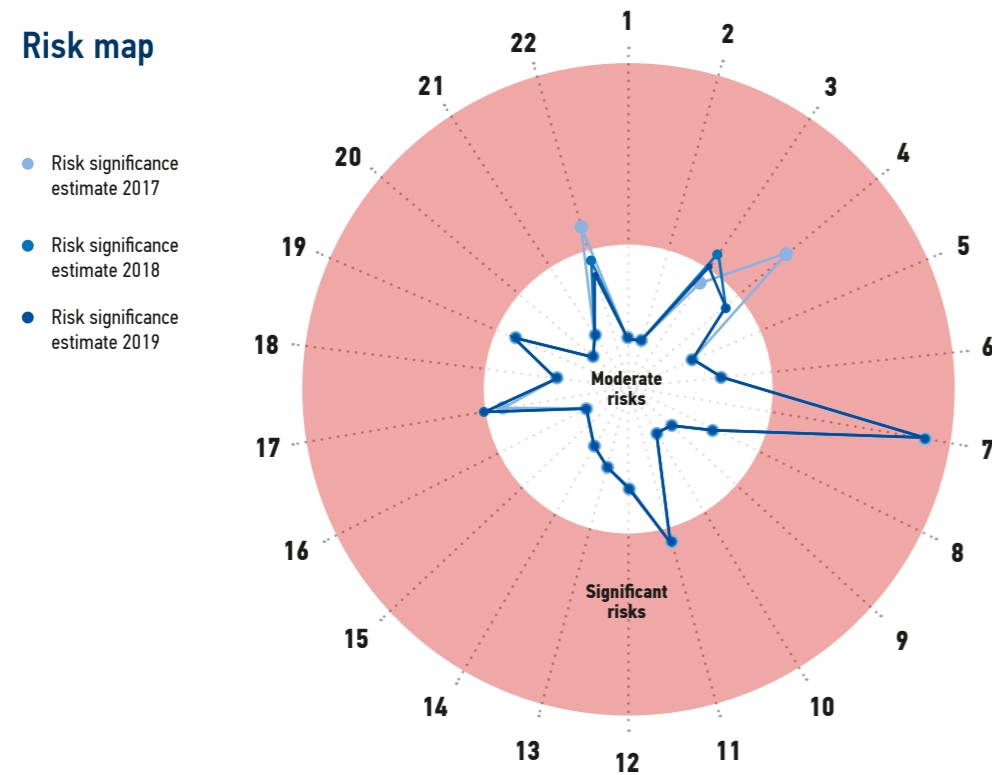
**In the reporting year, the Company implemented the following key measures aimed at the RMS improvement:**

- ✓ Working out the Regulation on the procedures for updating the expenditure of the Company executive bodies in the target period;
- ✓ Assessment of risks within the framework of the project activities of the Company's strategic projects;
- ✓ Implementation of the targeted software package Piramida-Seti for remote collection and transfer of the power meters data to the benefit of PJSC IDGC of the North-West.

**The main areas covered by the Plan for development and improvement of the RMS for 2020-2023 include:**

1. Highlighting the risk management significance, development of the culture of risk awareness.
2. Identification of the key risk indicators.
3. Embracing the new methodology of risk identification, assessment, registration and management.
4. Introduction of regulatory documents on self-assessment of the risk management system efficiency at the Company.
5. Improvement of the format and requirements to the content of the management reports to the Company management bodies on the functioning and maturity of the risk management system, as well as critical risk management of the Company.

**Risk map**



**Key factors and risk significance assessment**

To identify and manage risks, a systemic approach is used. Activities aimed to prevent and mitigate the risks are developed and updated each quarter.

The significance of a risk implies a combination of the risk occurrence probability and the severity of consequences for the Company in monetary or other terms. Risk significance and the respective developments are assessed by taking into account the existing risk datasheets or by expert judgement in accordance with the following scales:

Significance		Trend indicator		
● Critical	● Significant	⬆ Risk increased	⬇ Risk decreased	⊙ Risk unchanged against the previous period
● Moderate				
Risk		2017	2018	2019
<b>INDUSTRY RISKS</b>				
1	Increase in overdue accounts receivable for power transmission services	⊙	⬇	⊙
2	Decrease in the volume of power transmission services	⊙	⬇	⊙
3	The risk that the regional authorities may not fully recognize the Company's expenses to be included in the tariff for power transmission services	⊙	●	⬇
4	Non-compliance with the schedule for regulated procurement procedures in the reporting period of the current year	⬆	⬇	⊙
5	Exceeding the procurement cost established in the Procurement Plan	⊙	⊙	⊙
6	Lower procurement transparency	⊙	⊙	⊙
7	Risk of lack of the activities related to power grid renovation (development) in the Investment Programme of the Company	⬆	●	●
<b>COUNTRY-SPECIFIC AND REGION-SPECIFIC RISKS</b>				
8	Risks inherent in the political and economic situation in the country and in the region	⊙	⊙	⊙
9	Risks related to possible military conflicts, declaration of a state of emergency and strikes in the country (countries) and regions	⊙	⊙	⊙
10	Risks related to geographic features and climate of the country and the region	⊙	⊙	⊙
<b>FINANCIAL RISKS</b>				
11	Interest rate risks	⬆	⬇	●
12	Foreign exchange risks	⊙	⊙	⊙
<b>COMPLIANCE RISKS</b>				
13	Changes in the tax legislation	⊙	⊙	⊙
14	Appeal against major and interested-party transactions by the Company's shareholders	⊙	⊙	⊙
15	Changes in licensing requirements	⊙	⊙	⊙
16	Changes in the court practice	⊙	⊙	⊙
<b>REPUTATIONAL RISKS</b>				
17	Reputational risks	⊙	⬆	●
<b>STRATEGIC RISKS</b>				
18	Strategic risks	⊙	⊙	⊙
<b>COMPANY-SPECIFIC RISKS</b>				
19	Possible legal proceedings as a result of third parties' default on their obligations to the Company in its core business (power transmission services, technological connection services)	⬇	⊙	⊙
20	Fines in the area of the antimonopoly legislation of the Russian Federation related to technological connection of consumer receivers	⬇	⊙	⊙
21	Emergencies at power facilities	⊙	⊙	⊙
22	Increased expenses for power purchase to compensate for losses	⬆	⬇	⊙

## Key risk factors and their significance estimate in 2019, as well as year-on-year changes

### INDUSTRY RISKS

#### INCREASE IN OVERDUE ACCOUNTS RECEIVABLE FOR POWER TRANSMISSION SERVICES

##### Possible implications

The risk is related to non-payment for the rendered power transmission services (disputed and non-disputed overdue accounts receivable) by power transmission consumers. The main defaulters are suppliers of last resort, power sales companies and local grid operators. The risk is caused by low efficiency of the new mechanisms for payment discipline improvement both on the retail power market and the market of transmission services, lack of motivation for service consumers to make timely payments.

The imperfect mechanisms of the retail power market cause disagreements between power grid companies and electricity sales companies regarding the power and capacity consumption volumes. This entails disputed and overdue receivables for power transmission services, which reduces the Company's liquidity and financial stability. The Company carries out activities to prevent and mitigate the causes of conflicts with consumers, reduce the litigated overdue accounts receivable from power transmission, build the court practice and positive legal precedents. Impact on the level of payment for the power transmission services was made, inter alia, by the change in the power transmission services payment procedure since January 2017, established by Order of the RF Government of 21.12.2016 No.1419, whereby the schedule of payment for the power transmission services by consumers depends on the category of end users of such services. The Company transferred the power transmission consumers to new terms of contract payments regarding the deadlines of payment settlement.

Accounts receivable from power transmission tend to decrease. The key defaulters and debtors are: PJSC Arkhenergosbyt (under bankruptcy procedures), LLC TNS energo Veliky Novgorod, JSC TNS energo Karelia, LLC SK Tesla (under bankruptcy procedures), PJSC Vologdaenergosbyt (under bankruptcy procedures), JSC Intaugol (under bankruptcy procedures), LLC Vodokanal (Vorkuta) (under bankruptcy procedures), JSC Murmansk Regional Grid Company, LLC Energotranzit Alfa.

##### Measures taken

To cover the most significant risk factors, the Company carries out the following activities:

- Improvement of the interaction with the Bailiff Service at the stage of enforcement procedures and signing cooperation agreements.
- Putting forward the issues of inadequate payment discipline for discussion at the meetings of regional interagency commissions for monitoring the situation with settlements for electric power and power transmission services.
- Implementation of a set of measures towards the debtors in the state of bankruptcy, including arrangement of the sale of bankrupt entities' receivables.
- Full or partial the power consumption restriction mode for direct consumers.
- Claims and lawsuits against the consumers violating contractual and legal provisions of payment.
- Provision of counter security for immediate execution of the original jurisdiction decisions to reduce the time span for receiving writs of execution.

##### Strategic priorities connection

- Operating expenditure deficit reduction
- Business process standardisation and improvement of functional organisation
- Increase in labour efficiency

##### Risk changes

The risk is not materialised.

Accounts receivable (AR) were reduced below the planned indicators of the Company business plan.

- The planned AR overdue (net of bad debt provision) as of 31.12.2019 recorded in the approved business plan is RUB 1,601 mln.
- The actual AR overdue (net of bad debt provision) as of 31.12.2019 was RUB 1,332 mln, which is below the planned level by RUB 269 mln (or 16%). Federal Bailiffs Service of Russia – "Internet office".

To minimise the risk of non-payment, monitor the Company's activities on overdue AR reduction, as well as their efficiency, to improve the procedures of handling AR of the Company, Order of 05.06.2019 No.337 approved and enacted the new Regulations of working with accounts receivable from the services of power transmission on the balance sheet of the Company.

#### DECREASE IN THE VOLUME OF POWER TRANSMISSION SERVICES

##### Possible implications

General decrease in the power demand.

The Company's area of operations is located in the North-Western Federal District. The largest contribution to the regional GRP after Saint Petersburg and the Leningrad Region is made by the Arkhangelsk Region and the Komi Republic. The lowest GRP is in the Pskov Region.

Manufacturing entities prevail in the NWFD industry. The most developed sectors of NWFD include: engineering, metallurgy, chemistry and wood processing. The largest share of manufacturing entities (over 30% of the GRP) is concentrated in the Vologda and the Novgorod Regions. In the Vologda Region, metallurgy and chemistry are developed the most, in the Novgorod Region – chemistry (PJSC Acron). The highest share of mineral extraction in the GRP structure is attributable to the Arkhangelsk Region, as well as the Republic of Komi (coal and oil).

In 2018, the power consumption from the Company's grids reduced by 9.3% year on year, while in the comparable conditions it reduced by 1% net of last mile facilities. In Q4 of 2019, the volume of power consumption from the Company's grid increased year on year by 1.48%. In 12 months of 2019, the power consumption from the Company's grid grew against the same period in 2018 by 1.3%.

Optimisation of the schemes of external power supply by customers, reduction of power consumption from the unified energy system of Russia, development of their own generating facilities.

In order to reduce production costs, large power-intensive industrial enterprises strive to optimise the schemes of external power supply by joining UNPG and build their own power generating facilities. In some cases newly designed industrial facilities rely on their own generation as the main power source. In oil and gas recovery areas, consumers develop the technologies of using associated gas to generate power for their production use.

##### Measures taken

To minimise the risk, the Company, based on the macroeconomic statistics and behaviour of large consumers, acts to improve the reliability of forecasting the volume of electric power transmission services for pricing and business planning.

##### Strategic priorities connection

- Operating expenditure deficit reduction
- Ensuring reliable, high-quality and safe power supply to consumers
- Business process standardisation and improvement of functional organisation

##### Risk changes

The planned volume of power transmission services in 12 months of 2019 amounted to 32,371.4 mln kWh. The actual volume of power transmission services in 12 months of 2019 was 32,326.6 mln kWh, which is 45 mln kWh lower than planned (-0.1%).

In 12 months of 2019, the risk of deviation of the power transmission services volume from the business plan target value was materialised on the "Moderate" significance level.

#### THE RISK THAT THE REGIONAL AUTHORITIES MAY NOT FULLY RECOGNIZE THE COMPANY'S EXPENSES TO BE INCLUDED IN THE TARIFF FOR POWER TRANSMISSION SERVICES

##### Possible implications

The risk can be caused by restriction of growth in maximum power tariffs set by the federal authorities. This risk implies impossibility of full compensation for the economically feasible expenses of the Company and limited investment of its own funds into the power grid facilities development.

##### Measures taken

- Interaction with the regional tariff authorities for the establishment of economically justified tariffs that would compensate for all costs of the Company and ensure required implementation of the Investment Programme.
- Implementation of a balanced costing policy.

##### Strategic priorities connection

- Ensuring reliable, high-quality and safe power supply to consumers
- Operating expenditure deficit reduction
- Arriving at the required level of tariffs to ensure the Company's development

##### Risk changes


The risk of deviation of the average tariff for power transmission services from the value used in the business plan.

During 2019, there was no revision of the tariffs set and used in business plan calculations, therefore, the reduction of the average tariff for power transmission services was fully conditioned by the changes in the balance structure by voltage levels and consumer groups.


On the annual basis, this risk was not materialised, i.e. the actual value of the average tariff exceeds the planned average tariff by 0.05%.




**NON-COMPLIANCE WITH THE SCHEDULE FOR REGULATED PROCUREMENT PROCEDURES IN THE REPORTING PERIOD OF THE CURRENT YEAR**

Possible implications	Measures taken	Strategic priorities connection
This risk stems from late provision of technical specifications and draft contracts for the procurement procedures by their initiators, lengthy period for coordination of the draft Procurement Plan and its amendments, and lengthy coordination of unscheduled purchases.	<ul style="list-style-type: none"> <li>Control of the deadlines for submitting technical specifications and draft contracts in order to generate the draft Procurement Plan in a timely manner (including research of the market value of the required goods).</li> <li>Development of draft technical specifications for design and survey, construction and installation, maintenance and repair based on standard technical specifications.</li> <li>Control of compliance with the deadlines for preparation of procurement documents set by the regulatory documents.</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> <li>Digital business transformation</li> <li>Business process standardisation and improvement of functional organisation</li> <li>Improving the efficiency of investment activities</li> <li>Streamlining the inventory and logistics management system and centralisation of procurement activities</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes.</p>		


**EXCEEDING THE PROCUREMENT COST ESTABLISHED IN THE PROCUREMENT PLAN**

Possible implications	Measures taken	Strategic priorities connection
The reasons include incorrect calculation of the maximum (initial) procurement cost when developing the Procurement Plan, compiling and adjusting the Procurement Plan without a business plan approved by the Board of Directors (in the scenario conditions for the current and the planned year).	<ul style="list-style-type: none"> <li>Strict compliance with the administrative and regulatory documents regarding the calculation of the maximum (initial) procurement costs by the procurement procedure initiator.</li> <li>Rebidding within procurement procedures in accordance with the Single Procurement Standard of PJSC ROSSETI (Regulation on Procurement).</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> <li>Business process standardisation and improvement of functional organisation</li> <li>Improving the efficiency of investment activities</li> <li>Streamlining the inventory and logistics management system and centralisation of procurement activities</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes.</p>		

**LOWER PROCUREMENT TRANSPARENCY**


Possible implications	Measures taken	Strategic priorities connection
The risk is caused by changes in the ratio of the number and methods of procurement compared to the approved Procurement Plan (open tender, open request for proposals, purchase from the sole supplier (contractor, vendor) etc.).	<ul style="list-style-type: none"> <li>Control of strict compliance with the Single Procurement Standard of PJSC ROSSETI (Regulation on Procurement).</li> <li>Control of the feasibility of purchasing from a sole supplier (contractor, vendor).</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> <li>Business process standardisation and improvement of functional organisation</li> <li>Improving the efficiency of investment activities</li> <li>Streamlining the inventory and logistics management system and centralisation of procurement activities</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes.</p>		

**RISK OF LACK OF THE ACTIVITIES RELATED TO POWER GRID RENOVATION (DEVELOPMENT) IN THE INVESTMENT PROGRAMME OF THE COMPANY**


Possible implications	Measures taken	Strategic priorities connection
Absence of measures for renovation (development) of power grid facilities in the Investment Programme leads to a decrease in the reliability of power supply to consumers, as well as to delayed performance of technological connection contracts.	<ul style="list-style-type: none"> <li>Interaction with the regional authorities to approve the balanced investment programmes required both to connect new applicants and to maintain the power grids reliability.</li> <li>Interaction with the authorised executive power tariff regulation bodies with a view to include the costs not compensated through the technological connection fees in the power transmission tariff.</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Arriving at the required level of tariffs to ensure the Company's development</li> <li>Digital business transformation</li> <li>Business process standardisation and improvement of functional organisation</li> <li>Improving the efficiency of investment activities</li> </ul>
<p><b>Risk changes</b> </p> <p>The risk is materialised in deviation of the indicator of fixed assets launch from the approved business plan by 22% (RUB 1,399.204 mln); and the implementation of capital investment was performed by 16% (RUB 893.174 mln) of the approved business plan.</p>		

**COUNTRY-SPECIFIC AND REGION-SPECIFIC RISKS**

**RISKS INHERENT IN THE POLITICAL AND ECONOMIC SITUATION IN THE COUNTRY AND IN THE REGION**

Possible implications	Measures taken	Strategic priorities connection
The Company's country-specific and region-specific risks are primarily caused by macroeconomic factors operating at the global level, across the Russian Federation and in certain regions. The crisis in the world economy impacts the volumes of industrial production and power consumption, which leads to a reduction in the Company's revenues.	The influence of macroeconomic risks on the Company's volume of power transmission services and measures to mitigate their consequences are detailed under "Industry Risks".	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes.</p>		

**RISKS RELATED TO POSSIBLE MILITARY CONFLICTS, DECLARATION OF A STATE OF EMERGENCY AND STRIKES IN THE COUNTRY (COUNTRIES) AND REGIONS**

Possible implications	Measures taken	Strategic priorities connection
The NWFD includes regions that have approximately the same level of social and economic development, but some of those regions border on other countries, including NATO member states, and therefore it is impossible to rule out the probability of internal conflicts, including those involving military force. Besides, it is impossible to completely exclude risks of possible declaration of a state of emergency in the regions where the Company's facilities are located.	<ul style="list-style-type: none"> <li>Implementation of measures aimed to control the anti-terrorist protection of the Company's power facilities.</li> <li>Organisation of training sessions and briefings on physical protection of the facilities and property of the Company for the employees who work at the power facilities and the security companies.</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Prevention of an increase in the number of accident victims</li> <li>Increase in labour efficiency</li> </ul>
<p>However, the probability of military conflicts and declaration of a state of emergency in the Company's operations area is insignificant. In case of possible military conflicts or terrorist acts, the Company bears the risks of its fixed assets being disabled.</p>		
<p><b>Risk changes</b> </p> <p>No changes.</p>		

RISKS RELATED TO GEOGRAPHIC FEATURES AND CLIMATE OF THE COUNTRY AND THE REGION

Possible implications	Measures taken	Strategic priorities connection
<p>The Company operates in a vast territory with two climate zones (subarctic and temperate zones). There is a possibility of natural disasters (hurricanes, torrential rains, floods, icy rains, etc.), which may entail disruptions of power supply and transport connection.</p> <p>The Company assesses the risks related to increased hazard of natural disasters as minimal.</p>	<p>Detailed information on operational and technical risk management and measures aimed at timely mitigation of the consequences of natural disasters is provided under "Company-specific risks".</p>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Prevention of an increase in the number of accident victims</li> </ul> <p><b>Risk changes</b> </p> <p>No changes.</p>

FINANCIAL RISKS

INTEREST RATE RISKS

Possible implications	Measures taken	Strategic priorities connection
<p>Growth in interest rates may have a significant impact on the Company's financial and economic performance, as the Company uses borrowed funds in its operations.</p> <p>Due to multiple decreases in the Bank of Russia's key rate in 2019, interest rates for the newly attracted loans and loan indebtedness decreased.</p> <p>The weighted average credit portfolio rate as of 31.12.2019 decreased against the beginning of the year by 0.31 annual percentage points to 7.35%.</p>	<p>In case the interest rates grow, the Company is to diversify its credit portfolio by credit product, bank and credit period.</p>	<ul style="list-style-type: none"> <li>Digital business transformation</li> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> </ul> <p><b>Risk changes</b> </p> <p>No changes.</p>

FOREIGN EXCHANGE RISKS

Possible implications	Measures taken	Strategic priorities connection
<p>Increase in the exchange rate of major world currencies does not produce any considerable impact on the financial state of the Company. In its both income- and expenses-related operations, PJSC IDGC of the North-West performs settlements with its contractors only in the national currency. The Company has no direct contracts involving settlements in foreign currencies. However, implementation of some projects within the Repair and Investment Programmes involves the use of foreign-made equipment.</p> <p>Increase in the exchange rate of major world currencies results in a rise in the price for such equipment and the project on the whole.</p>	<p>In order to reduce the risk of influence of higher exchange rates of the world currencies, the Company is considering the possibility of replacing foreign-made equipment used in these projects for its analogues produced in Russia.</p>	<ul style="list-style-type: none"> <li>Digital business transformation</li> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> </ul> <p><b>Risk changes</b> </p> <p>No changes.</p>

COMPLIANCE RISKS

CHANGES IN THE TAX LEGISLATION

Possible implications	Measures taken	Strategic priorities connection
<p>The practice of the tax legislation enforcement is often unclear and contradictory, which creates significant tax risks.</p> <p>Changes in the tax legislation in terms of increase of the tax burden (changes in tax rates, procedures and timeframe for tax calculation and payment, introduction of new types of taxes) may lead to a decrease in the Company's net profit, which, in its turn, will result in a decrease in dividend paid.</p>	<p>In case of reduction in the tax rates by the Government of the Russian Federation and cancellation of certain taxes and fees, this will positively influence the Company's performance.</p> <p>In case of changes in the tax legislation, the Company intends to plan its financial and economic activities on the basis of such changes.</p>	<ul style="list-style-type: none"> <li>Digital business transformation</li> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> </ul> <p><b>Risk changes</b> </p> <p>No changes.</p>

APPEAL AGAINST MAJOR AND INTERESTED-PARTY TRANSACTIONS BY THE COMPANY'S SHAREHOLDERS

Possible implications	Measures taken	Strategic priorities connection
<p>Such risks involve cases when major and interested-party transactions are appealed against by the Company shareholders (when they are concluded without the approval by the Company's Board of Directors or the General Shareholders' Meeting in accordance with the procedure stipulated by the effective legislation or approved with violations of the due procedures).</p>	<ul style="list-style-type: none"> <li>The contract procedures involve mandatory preliminary legal analysis of potential transactions to identify the existence of grounds for conducting appropriate corporate procedures required by the legislation of the Russian Federation and/or the Company Charter.</li> </ul>	<ul style="list-style-type: none"> <li>Operating expenditure deficit reduction</li> </ul> <p><b>Risk changes</b> </p> <p>No changes.</p>

CHANGES IN LICENSING REQUIREMENTS

Possible implications	Measures taken	Strategic priorities connection
<p>Currently there are no risks related to changes in the requirements for licensing the Company's core activities, or rights of use of the facilities that are limited in circulation (including natural resources), except for cases if the Company is not able to meet the requirements set for renewal of a license or activity subject to licensing.</p>	<p>In case the requirements for licensing are changed, the Company will take all necessary measures to obtain appropriate licenses and permits. In the reporting period, as of 31.12.2019, the Company was not under the risk of inability to renew its license for a certain activity or rights of use of the facilities that are limited in circulation in terms of the environmental legislation compliance.</p>	<ul style="list-style-type: none"> <li>Digital business transformation</li> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> </ul> <p><b>Risk changes</b> </p> <p>No changes.</p>

CHANGES IN THE COURT PRACTICE

Possible implications	Measures taken	Strategic priorities connection
<p>In the Russian Federation, precedents established by relevant judicial acts are not qualified as sources of law, and therefore the judicial practice in certain categories of cases cannot materially influence the Company's performance. Changes in the judicial practice are predominantly related to changes in the legislation. It is impossible to assess the risks inherent in legislation changes.</p>	<p>In case of significant changes in the judicial practice in the area of the Company's operations, the Company intends to plan its financial and business operations taking into account such changes.</p>	<ul style="list-style-type: none"> <li>Digital business transformation</li> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> </ul> <p><b>Risk changes</b> </p> <p>No changes.</p>

REPUTATIONAL RISKS

Possible implications	Measures taken	Strategic priorities connection
<p>The Company carries out its activities so as to completely fulfil its obligations to customers and contractors. It is permanently working to maintain the reliability and seamless power supply to its consumers, improve the quality of services rendered and enhance its client focus – to achieve the goals set by the Power Grid Facilities Development Strategy.</p>	<p>The Company is a natural monopoly, and therefore a significant outflow of customers and contractors, as well as a decrease in the volume of rendered services due to an impact of negative reputational factors are unlikely.</p>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> <li>Arriving at the required level of tariffs to ensure the Company's development</li> <li>Digital business transformation.</li> <li>Non-tariff services development and increase in revenue from their sales</li> <li>Improving the efficiency of investment activities</li> </ul> <p><b>Risk changes</b> </p> <p>No changes.</p>

**STRATEGIC RISKS**

Possible implications	Measures taken	Strategic priorities connection
Prospective areas for long-term development of the power industry in general as a key industry are determined by the state. The Power Grid Facilities Development Strategy of the Russian Federation was approved subject to Order of the Government of the Russian Federation of 03 April 2013 No.511r. The Strategy of PJSC ROSSETI is reflected in the Long-Term Development Programme (approved by Decision of the Board of Directors of PJSC ROSSETI dated 19.12.2014 – Minutes of 22.12.2014 No.174).	<ul style="list-style-type: none"> <li>Control over compliance with decisions and orders of external bodies / superior organisations / management of the Company.</li> <li>Increasing the efficiency of the Company's management by complying with the requirements of PJSC ROSSETI at all levels, including compliance with the terms and scenario conditions while generating the Company's business plans, continuous control and monitoring of their implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> <li>Arriving at the required level of tariffs to ensure the Company's development</li> <li>Digital business transformation.</li> <li>Non-tariff services development and increase in revenue from their sales</li> <li>Improving the efficiency of investment activities</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes.</p>		

**COMPANY-SPECIFIC RISKS**

**POSSIBLE LEGAL PROCEEDINGS AS A RESULT OF THIRD PARTIES' DEFAULT ON THEIR OBLIGATIONS TO THE COMPANY IN ITS CORE BUSINESS (POWER TRANSMISSION SERVICES, TECHNOLOGICAL CONNECTION SERVICES)**

Possible implications	Measures taken	Strategic priorities connection
There can be risks related to legal proceedings as a result of third parties' default on their contractual obligations to the Company in its core activities (power transmission services, technological connection services), including those resulting from the current economic situation.	<p>The legal position on significant lawsuits is developed for the Company as a whole and is subject to due approval. In the course of the approval procedure, the Company defines, among others, the issues related to the required evidence base. When developing its legal position, the Company takes into account the current judicial practice on controversial issues.</p> <p>The Company makes necessary efforts (pre-trial settlement of disputes, appropriate negotiations) to minimise the above risks and possible property damage for the Company.</p>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Operating expenditure deficit reduction</li> <li>Business process standardisation and improvement of functional organisation</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes.</p>		

**FINES IN THE AREA OF THE ANTIMONOPOLY LEGISLATION OF THE RUSSIAN FEDERATION RELATED TO TECHNOLOGICAL CONNECTION OF CONSUMER RECEIVERS**

Possible implications	Measures taken	Strategic priorities connection
A fine does not exempt the Company from fulfilling its obligations on technological connection of applicants. Fulfilment of the Company's obligations is possible through reduction of the Investment Programme aimed at improved reliability as a result of reallocation of the funds for technological connection or through increase of borrowed funds to perform technological connection for the applicants.	<ul style="list-style-type: none"> <li>Monitoring troubled contracts and consumer complaints with subsequent pre-trial settlement of the issues.</li> <li>Control of compliance with the effective legislation regulating technological connection activities, namely: a) preparation and submission of contracts to applicants; b) control of fulfilment of the obligations undertaken by the Company in respect of the technological connection.</li> <li>Monitoring the current legislation of the Russian Federation and the judicial practice.</li> <li>Submission of proposals on amendments to the effective legislation of the Russian Federation regulating technological connection activities.</li> </ul>	<ul style="list-style-type: none"> <li>Operating expenditure deficit reduction</li> <li>Business process standardisation and improvement of functional organisation</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes.</p>		

**EMERGENCIES AT POWER FACILITIES**

Possible implications	Measures taken	Strategic priorities connection
Risk of power facilities emergencies caused by adverse natural phenomena (hurricane wind, heavy snow, ice, low air temperatures) due to geographic and climatic characteristics of the North-Western region of the country.	<ul style="list-style-type: none"> <li>Engineering power facilities with account of the nature of the regional climate and geography.</li> <li>Implementation of the programme of insurance of the power distribution facilities against natural disasters.</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring reliable, high-quality and safe power supply to consumers</li> <li>Business process standardisation and improvement of functional organisation</li> <li>Prevention of an increase in the number of accident victims</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes.</p>		

**INCREASED EXPENSES FOR POWER PURCHASE TO COMPENSATE FOR LOSSES**

Possible implications	Measures taken	Strategic priorities connection
Power losses can be classified into "technological losses" and "commercial losses". The definition of "technological power losses" is set by Order of the RF Ministry of Energy of 30.12.2008 No.326 "On organisation in the Russian Federation Ministry of Energy of works on approving the standards for technological power losses in transmission via power grids". The collective term "commercial power losses" is not currently stipulated by the legislation, but it is found in regulatory and technical documents in the industry. The commercial losses are conventionally defined as the difference between the reported and technical losses, where the "technical power losses" are considered as all "technological power consumption for its transport via power grids determined by calculation". The technical power losses can be calculated on the basis of electric engineering laws, the tolerable deviations of metering devices – on the basis of their metrological characteristics, and the own consumption of substations – by meter readings.	<p>To minimise the risk of losses growth, the Company carries out diagnostics of electric power balances and identifies the factors which can cause increase in losses.</p> <p><b>Such factors include:</b></p> <ul style="list-style-type: none"> <li>Increase in the number of undocumented consumption cases;</li> <li>Misrepresentation of the metering and payment data by power retail companies;</li> <li>Lack of communal meters;</li> <li>Purchase of grid assets.</li> </ul> <p><b>To minimise the risk of growth in the power losses and power purchase to compensate for losses, the following measures are planned and implemented:</b></p> <ul style="list-style-type: none"> <li>Implementation of the programmes on power saving and energy efficiency, including the programmes of measures to reduce power losses and long-term development of power metering systems;</li> <li>Carrying out patrol inspections to identify unrecorded power consumption;</li> <li>Restriction of power consumption by the consumers violating their obligations;</li> <li>Control of the data on the losses volumes and power prices applied by power suppliers of last resort in calculation of the power losses costs;</li> <li>Implementation of a single automated information system of power transport in PJSC IDGC of the North-West (contract No.283/548/16 of 12.08.2016).</li> </ul>	<ul style="list-style-type: none"> <li>Operating expenditure deficit reduction</li> <li>Business process standardisation and improvement of functional organisation</li> <li>Improving the efficiency of investment activities</li> </ul>
<p><b>Risk changes</b> </p> <p>No changes (not materialised).</p> <p>The risk of increase in expenses for power purchase to compensate for losses depends on two factors: the growth in the volume of losses and the rise in the price for power purchase. The Company is unable to influence the risk of growth in price for purchasing power needed to compensate for losses.</p>		
Commercial losses are impossible to measure instrumentally or calculate using specific formulae. They are estimated mathematically as the difference between the actual and the technological power losses and are not to be included in the power losses standards. The costs related to them are not set off by the tariff regulation. Power losses attributed to the commercial category largely consist in power consumption which is undocumented for various reasons. Therefore, it is not recorded as output from grid and no consumers are charged for it.		
In accordance with the current legislation, grid operators are obliged to pay for the actual losses of power arising in their grid facilities, including, therefore, the commercial losses. Commercial power losses, unlike the technological ones, constitute direct financial loss for the grid companies. Being, on the one hand, a cause of cash expenditure for the grid company, they are also its loss of expected profit due to unpaid power transmission. Therefore, the Company, more than any other players of the power market, is interested in the most accurate power metering and estimation of its volumes at the points of delivery on the boundaries of its inventory responsibility.		
The imperfection of the legal framework, lack of direct power supply contracts with the customers, insufficient financing and impossibility to significantly increase the headcount of power consumption inspectors reduce the Company's ability to identify and eliminate the causes of commercial power losses.		



## INTERNAL CONTROL SYSTEM

The Internal Control System of the Company (hereinafter – the ICS) is an element of the Company’s overall governance system designed to ensure reasonable guarantees of goal achievement in the following areas:

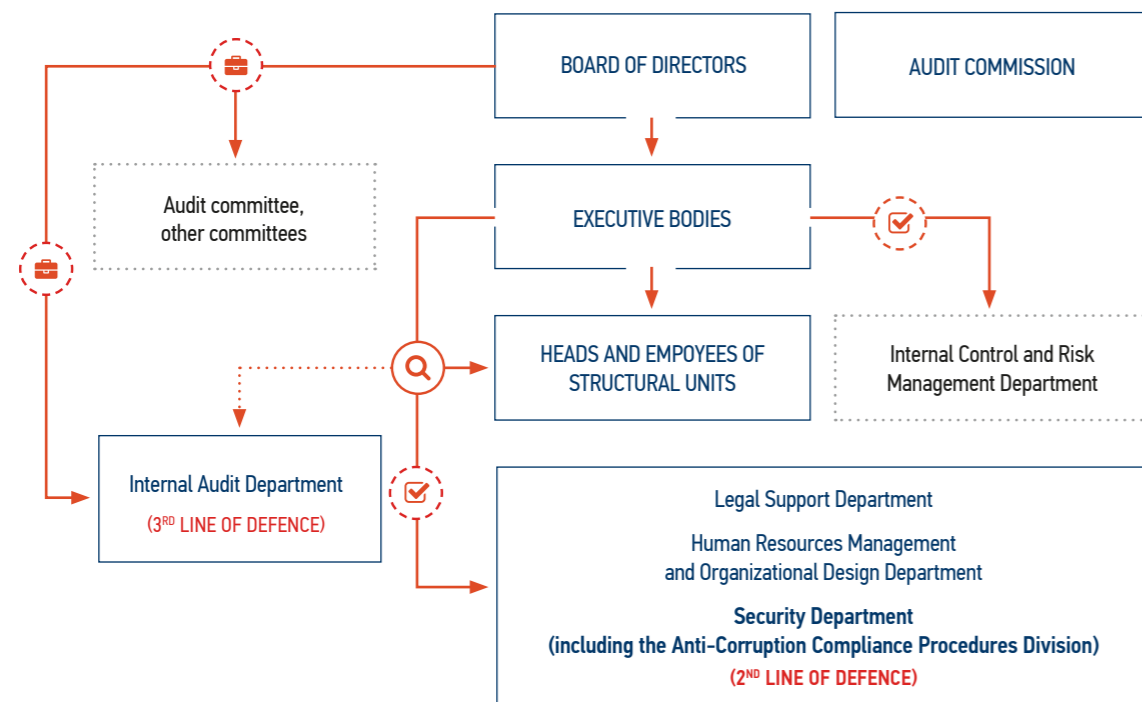
- efficiency and high performance of the Company, including achievement of the financial and operational indicators, as well as safety of the Company assets;
- compliance with the applicable legislation and Company regulations, particularly in the course of economic operations and accounting;
- ensuring reliable and timely accounting (financial) and other reporting.

The ICS covers all the aspects of the Company’s business, control procedures are performed on an ongoing basis across all the Company’s processes (areas of activities) on all the management levels.

To implement the Development and Improvement Strategy of the ICS of PJSC ROSSETI and its S&A approved by the Board of Directors of PJSC ROSSETI on 10.02.2014 (Minutes No.143), the Company, under Decision of the Board of Directors of 29.02.2016 (Minutes No.197/12), approved the Internal Control Policy of PJSC IDGC of the North-West (the new version). The Internal Control Policy stipulates the aims, principles of functioning and elements of the Company ICS, key functions and responsibilities of the ICS participants, as well as procedures for assessment of the ICS efficiency.

The Company implements the Procedures for Internal Control Policy requirements implementation outlining the pragmatic aspects of applying the rules of the Internal Control Policy.

Participants<sup>66</sup> of the internal control process, in accordance with the Internal Control Policy approved by PJSC IDGC of the North-West Board of Directors on 29.02.2016 (Minutes No.197/12) include:



The roles of the internal control contributors are allocated depending on their participation in the respective internal control process stages.

The ICS improvement and performance of control procedures are based on efficient and aligned interaction of all

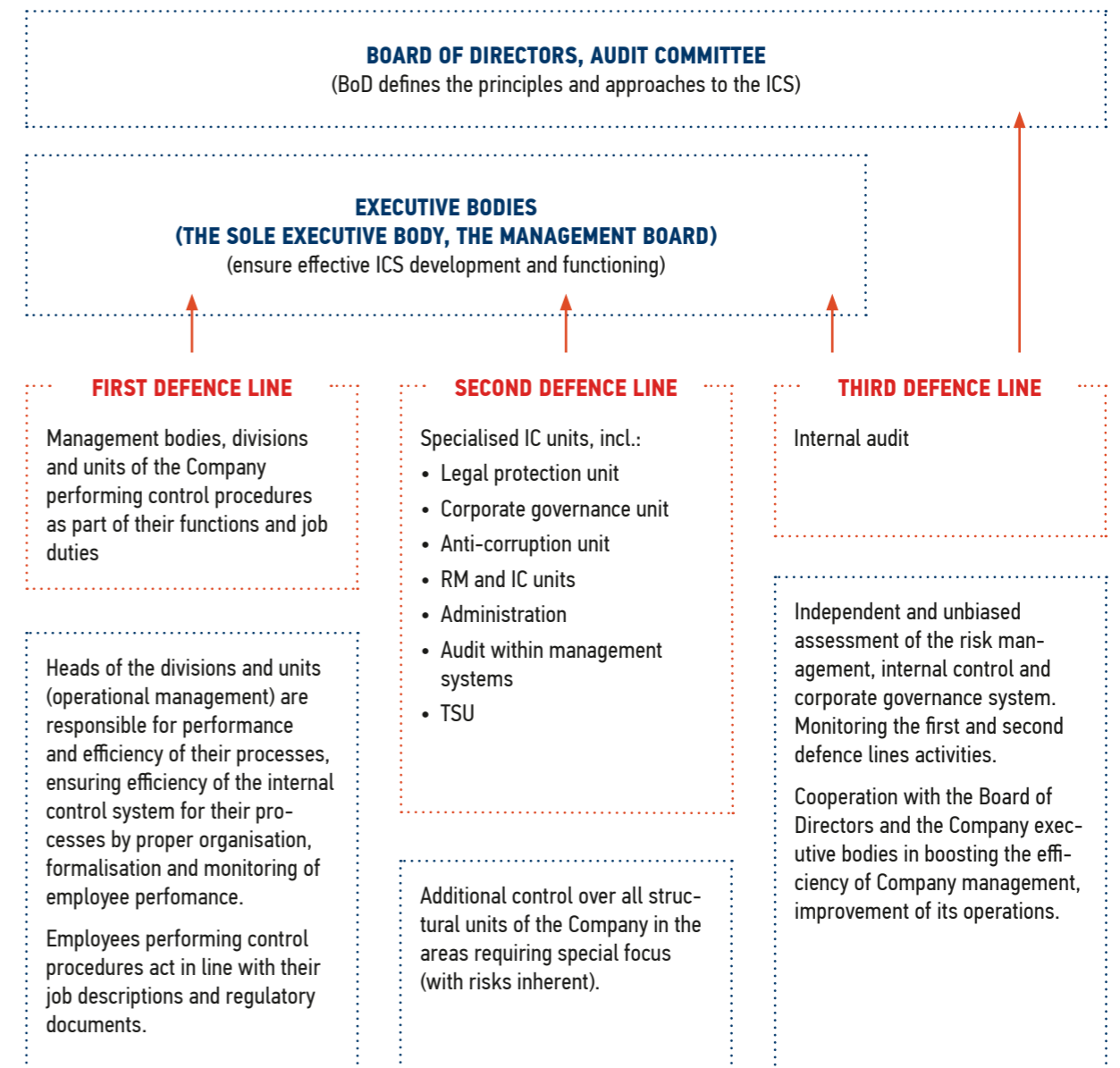
contributors to the internal control process on all management levels.

The responsibilities in this case should be divided, each control function should be assigned to one participant of the internal control process.

<sup>66</sup> Description of the internal control contributors is shown in Annex 28 to the full version of the Annual Report on the Company’s website: <http://www.mrsksevzap.ru/en/informationonshareholdersmeetings>.

## KEY FUNCTIONS OF THE THREE DEFENCE LINES AND INTERACTION WITH THE MANAGEMENT BODIES OF THE COMPANY

The Internal Control System of the Company functions in line with the “three defence lines” model. The model stipulates internal control implementation at the Company on three levels:



Control procedures regarding the core, managing and supporting processes and sub-processes of the Company are documented in matrices of control and risk by areas of activity.

In line with the Company Board of Directors Decision of 25.09.2019 (Minutes No. 332/9), the Company issued Order of 19.11.2019 No.717r “On approval of an activi-

ty plan to maintain and develop the ICS of PJSC IDGC of the North-West”, under which the plan to maintain and develop the Internal Control System of PJSC IDGC of the North-West was approved and implemented regarding the activities with the deadline before the end of 2019.

## Assessment of ICS performance

To ensure that the ICS is efficient and complies with the changing objective requirements and conditions, the external and internal auditors of the Company carry out assessment of the ICS efficiency, its conformity to the target state and maturity level.

External independent assessment of the internal control system as of 31.03.2019 was carried out by a Joint Participant: the leader of the Joint Participant – LLC Ernst & Young Valuation and Advisory Services and a member of the Joint Participant – LLC RSM RUS.

### Assessment of the efficiency of the Company's internal control system

Assessment criteria	Overall efficiency assessment			
	1	2	3	4
Control environment				
Risk assessment				
Control activities				
Information and communication				
Monitoring				

### 1. "INEFFICIENT"

The ICS component (element) does not meet some of the requirements to the "moderately efficient" score.

### 2. "MODERATELY EFFICIENT"

The criteria are:

- The element is implemented and functioning;
- The element is aligned with other ICS elements;

While complying with these criteria, the ICS element has significant drawbacks and limitations or is not sufficiently integrated with other ICS elements.

### 3. "EFFICIENT"

The criteria are: the element meets all the criteria to the "moderately efficient" score and, moreover, the following ones:

- Fully implemented and functioning as designed;
- The efficiency of the element is assessed and enhanced;
- It is automated to a certain extent, requires reasonable labour intensity.

While complying with these criteria, the ICS element can have some drawbacks.

### 4. "BEST PRACTICE"

The criteria are: the element meets all the criteria to the "efficient" score and, moreover, the following ones:

- Complies with the best practices, no drawbacks are found;
- Is automated, based on minimum labour intensity.

According to the above external assessment, the overall performance of the Company internal control is estimated as "Efficient".

The merits of the ICS, according to the analysis, included high level of control environment organisation (internal control regulatory and methodological guidelines are introduced, the Company management pays considerable attention to control issues, personnel is trained in risk management and internal control, regular monitoring is carried out, as well as internal control efficiency assessment). The ICS meets the regulatory requirements on internal control, the requirements of the trading facilities, directives and methodological instructions of the federal authorities.

The drawbacks include low automation of the control and risk management procedures, incomplete KPIs regarding the business project targets, as well as lack of integration of fraud and corruption risk management in the Company's business processes.

Proceeding from recommendations of the external independent assessment, the Company developed and approved an activity plan to maintain and develop the efficiency of the internal control system of the Company for 2019-2022.

### Under the activity plan to maintain and develop the efficiency of the internal control system of PJSC IDGC of the North-West, in 2019 the following measures were taken:

1. To adjust to the current situation and the best practices of the Company's mission, values and aims, in accordance PJSC ROSSETI standards, p. 1 of the set of measures, under Order of 19.11.2019 No.714r, on 23.11.2019 a strategic meeting was held with the top management of the Company; under Order of 13.12.2019 No.815r, from 19.12.2019 to 21.12.2019, the top management, Internal Audit Department, Department for Internal Control, Risk Management and Quality Management of the Company took part in the training session held by LLC Ernst & Young Valuation and Advisory Services "Efficient communication of internal audit and internal control in the context of growing expectations of stakeholders", including the workshop "Defining areas of growth for risk management, internal control and internal audit of PJSC IDGC of the North-West on the basis of best practices of power grid companies".
2. To implement p. 1.3.1 of the plan on adjustment and upgrade (if necessary) the internal regulatory documents of the Company on the governance system (including the management model used, requirements to process regulation and description etc.), under the requirements of PJSC ROSSETI standards, Order 718r of 19.11.2019 approved a model of the Company's business processes and management systems of the Company.
3. To implement p. 2.1.1 of the plan of activities for the Strategy Committee of the Company Board of Directors to work out and put forward proposals on improvement of the risk management system for the consideration of the Board of Directors of 04.12.2019, Minutes No.8, a plan of activities for improvement of the risk management system of the Company was approved by the Board of Directors of the Company on 31.12.2019 No.344/21.

All the items of the activity plan were implemented within the due deadlines.

Internal independent assessment of the ICS efficiency was carried out by the internal auditor of the Company. ICS efficiency in 2019 was considered by the Board of Directors meeting (Minutes of 24.04.2020 №360/37) upon preliminary discussion of the issue by the Audit Committee of the Board

of Directors (Minutes of 30.03.2020 No.14). According to the above decisions, the ICS maturity level was estimated as "Optimal", in 2018 it was deemed to be "Optimal", in 2017 between "Moderate" and "Optimal", and in 2016 the ICS maturity was assessed as "Moderate".

### ICS maturity level

	2016	2017	2018	2019
High				
Optimal				
Moderate				
Satisfactory				
Basic				
Zero				

**In the reporting year, the Company carried out the following key measures to improve the ICS:**

1. It defined the need for development and implementation of measures to improve control procedures and business process matrices subject to self-assessment of the business process performance, which resulted in an upgrade and approval of control and risk matrices in 11 areas of the Company's activities.
2. It approved an activity plan to maintain the efficiency and develop the internal control system of PJSC IDGC of the North-West for 2019-2022.
3. To implement the activity plan to maintain the efficiency of the risk management and internal control systems in the ROSSETI Group, working groups were set up. Under Order of PJSC ROSSETI of 28.10.2019 No.431r, working groups in the business areas "Development of a standard for business process modelling and building a system of process indicators (metrics)", "Development of proposals for communication improvement", "Development of standard requirements to automation of business process control procedures" included representatives of the Department for Internal Control, Risk Management and Quality Management of the Company.
4. The working group activities on development of standard requirements to automation of business process control procedures resulted in draft standard requirements to automation of business process control procedures.
5. In 19.12.2019–21.12.2019, the top management, Internal Audit Department, Department for Internal Control, Risk Management and Quality Management of the Company took part in the training session held by LLC Ernst & Young Valuation and Advisory Services "Efficient communication of internal audit and internal control in the context of growing expectations of stakeholders", including the workshop "Defining areas of growth for risk management, internal control and internal audit of PJSC IDGC of the North-West on the basis of best practices of power grid companies". On 23.11.2019, a strategic meeting was held with the top management of the Company aimed to develop the managerial competencies in the area of strategic programmes implementation of PJSC IDGC of the North-West and the risk management function of the Company in order to achieve a better compliance with the efficiency criteria for the risk management and internal control system.
6. Subject to decision of the Quality Council of the Company, a model of business processes and management systems was approved.
7. To minimise the risk of growth in operating expenses and failure to receive net profit, the Company approved a roadmap – an activity plan of the Company to ensure break-even power transmission services rendering operations, as well as compliance of the operating expenses with the level stipulated in the tariff and balance decisions, by each branch of the Company, starting 2019. The number of unfulfilled activities due in the reporting period = 0.
8. To streamline the process of defining business goals taking into account strategic priorities by the Company management, as well as goal management aimed at enhancing the quality of their setting and implementation, a regulation on goal-setting was worked out and introduced.
9. The Board of Directors approved an Operational Efficiency Improvement and Cost Reduction Programme for 2019.
10. Guidelines on the procedures of defining the risk appetite for the Company were approved and enacted.

**INTERNAL AUDIT**

The unit responsible for the internal audit implementation at the Company is the Internal Audit Department.

Internal Audit is functionally subordinate to the Company Board of Directors, which means that the Board of Directors controls and organises the activities of the Internal Audit unit, including approval of the Internal Audit action plan, report on the implementation of the Internal Audit action plan and the budget of the Internal Audit unit, endorsement of the decisions on appointment, dismissal, as well as remuneration of the head of the Internal Audit Department.

The purpose of the Internal Audit Department is to assist the Board of Directors and executive bodies of the Company in enhancing the efficiency of the Company management, improvement of its financial and business activities, imple-

menting systemic and consistent approach to analysis and assessment of the systems of risk management, internal control and corporate governance as instruments to guarantee reasonable assurance that the Company will achieve its goals.

Aims and objectives, key principles of organisation and functioning of the internal audit, functions and authorities of the Internal Audit Department are stipulated by the Internal Audit Policy of PJSC IDGC of the North-West (new version), approved by the Board of Directors on 02.12.2019, Minutes of the meeting of the Board of Directors of PJSC IDGC of the North-West No.339/16.

**The Company approved the standards of the internal audit activities and practical applications developed on the basis of the International Standards for the Professional Practice of Internal Auditing, including:**

- 01 the Internal Audit Policy of the Company and the Code of Ethics for Internal Auditors, approved by Decision of the Board of Directors of 02.12.2019 (Minutes No. 339/16);
- 02 the Regulation on the Internal Audit Department of PJSC IDGC of the North-West, approved by Decision of the Company Board of Directors of 21.11.2016 (Minutes No. 223/14);
- 03 the Programme for Internal Audit Quality Assurance and Improvement, approved by Decision of the Company Board of Directors of 22.12.2016 (Minutes No. 225/16); etc.

Feedback is received from the Audit Committee by the Head of the Internal Audit in a variety of forms in the course of interaction with the Audit Committee, including analysis of the decisions/recommendations of the Audit Committee on issues within the competence of the Internal Audit, as well as polling members of the Audit Committee.

The satisfaction of the Audit Committee of the Company Board of Directors with the performance of the Internal Audit in 2019 is assessed as 1.1 points ("complies with reservations"). The quality assessment was conducted in line with the Programme of Internal Audit Quality Assurance and Improvement of the Company approved by the Company Board of Directors on 22.12.2016 (Minutes No. 225/16).

In 2019, an external independent assessment of the Internal Audit activities of the Company was carried out. In accordance with the Conclusion on compliance with the internal audit standards, JSC KPMG believes that as of November 2019, the organisation and performance of the Internal Audit

of the Company generally complies with the Internal Audit Standards and the Code of Ethics developed by the Institute of Internal Auditors, as well as Internal Audit Policy of the Company. At the same time, JSC KPMG issued recommendations on improvement of the internal audit performance of the Company.

The results of the assessment were considered by the Audit Committee of the Company Board of Directors on 19.12.2019 (Minutes No.10) and the Board of Directors of the Company on 04.02.2020 (Minutes No.349/26).

The action plan to develop and improve the internal audit activities of the Company for the period from 2017 to 2019 developed on the basis of the recommendations provided by the Audit Committee of the Board of Directors was fully completed.

In 2019, the headcount of the Internal Audit function was 7 persons.



## COMPLIANCE SERVICE

The Company's anti-corruption activities are improved and designed to boost the efficiency of anti-corruption measures stipulated by the law.

Under the provisions of p.1 Part 2 Article 13.3 of the law on anti-corruption measures, the Company created a structural unit responsible for prevention of corruption and other violations. According to the organisational structure approved by Decision of the Board of Directors of 19.07.2016 (Min-

utes No.214/5), such unit is the Anti-Corruption Compliance Procedures Unit of the Security Department (hereinafter – ACCP).

In 2019, the headcount of the Anti-Corruption Compliance Procedures Unit did not change (3 persons).

### The ACCP functions include:

- drafting organisational and administrative documents aimed at implementation of corruption prevention measures and their submission to the Company's General Director for approval;
- organisation of implementing control activities to identify corruption-related offenses committed by the Company's employees;
- receipt and review of messages on inducing employees to corruption offences in the interests or on behalf of a third-party entity, as well as on corruption offenses committed by the Company's employees, contractors or other parties;
- arranging for the Company's employees to fill in declarations on conflict of interests, property, income and property-related obligations, and studying them;
- organising individual consultations for the Company's employees on corruption prevention and counteraction issues;
- assisting authorised representatives of control and supervision bodies and law enforcement authorities during their audits of the Company's activities related to corruption control and prevention;
- assisting authorised representatives of law enforcement authorities during implementation of measures aimed to prevent and investigate corruption offenses;
- assessment of the results of anti-corruption measures and preparing relevant reports for the Company's management.

## AUDIT COMMISSION

The Audit Commission of the Company controls the Company's financial and business activities. The Audit Commission is elected by the General Shareholders' Meeting for the period until the next Annual General Shareholders' Meeting.

The headcount of the Audit Commission of the Company is stipulated by the Charter as five persons.

In 2019, there were two compositions of the Audit Commission, 5 meetings were held.

In the period from 07.06.2018 to 14.06.2019, the Audit Commission of the Company comprised the following persons: M.A.Lelekova, S.A.Kim, A.N.Kirillov, E.S.Erandina, E.A.Kabizskina.

## THE COMPOSITION OF THE AUDIT COMMISSION ELECTED AT THE ANNUAL GENERAL SHAREHOLDERS' MEETING OF 14.06.2019, IS AS FOLLOWS:

### LELEKOVA MARINA ALEXEEVNA

#### CHAIRPERSON OF THE AUDIT COMMISSION

First elected to the Audit Commission of the Company: 21.06.2013

Born in 1961.

Graduated from the Far-Eastern Institute of Soviet Trade with the qualification of Economist.

#### Professional experience:

- 2008-2009 – Head of the Financial Control and Internal Audit Directorate of PJSC FGC UES.
- 2009-2013 – Head of the Control and Audit Department of PJSC FGC UES.
- 2013-2015 – Head of the Internal Audit and Control Department of PJSC ROSSETI.
- 2015-2019 – Director of the Department for Control Activities / Department for Control and Auditing Activities of PJSC ROSSETI.
- 2019 – present – Director of the Department for Internal Control and Risk Management of PJSC ROSSETI.

Owned no shares of PJSC IDGC of the North-West in 2019. Did not enter into any transactions with the Company's securities in 2019.

### KIM SVETLANA ANATOLIEVNA

First elected to the Audit Commission of the Company: 13.07.2017

Born in 1981.

Graduated from Moscow State University of Railway Engineering in 2004 with the qualification of Expert in Commerce.

#### Professional experience:

- 2010-2013 – Head of the Investment Control at the Department for Control and Audit of PJSC FGC UES.
- 2013-2019 – Head of the Audit Division of the Department for Control and Auditing Activities of PJSC ROSSETI.
- 2019 – present – Head of the Supervisory Division of the Department for Internal Control and Risk Management of PJSC ROSSETI.

Owned no shares of PJSC IDGC of the North-West in 2019. Did not enter into any transactions with the Company's securities in 2019.

### KABIZSKINA ELENA ALEKSANDROVNA

First elected to the Audit Commission of the Company: 23.06.2015

Born in 1964.

In 2004, graduated from the Far Eastern State Technical Fisheries University with the qualification of Engineer-Economist.

In 2006, graduated from the State University of Management with the qualification of Economist.

#### Professional experience:

- 2013-2014 – Head of the Methodological Support Division of the Internal Audit Department of OJSC MOESK.
- 2014-2019 – Deputy Head of the Audit Division of the Department for Control and Auditing Activities of PJSC ROSSETI.
- 2019 – present – Head Expert of the Supervisory Division of the Department for Internal Control and Risk Management of PJSC ROSSETI.

Owned no shares of PJSC IDGC of the North-West in 2019. Did not enter into any transactions with the Company's securities in 2019.

### KIRILLOV ARTEM NIKOLAEVICH

First elected to the Audit Commission of the Company: 12.03.2014

Born in 1984.

Graduated from Moscow Power Engineering Institute with the qualification of Engineer in 2008.

#### Professional experience:

- 2013-2015 – Head of the Investment Audit Function, Audit Activities and Internal Audit Unit, Internal Audit and Control Department of PJSC ROSSETI.
- 2015-2019 – Deputy Head of the Audit Activities Unit, Department for Control Activities / Department for Control and Auditing Activities of PJSC ROSSETI.
- 2019 – present – Deputy Head of the Supervisory Division of the Department for Internal Control and Risk Management of PJSC ROSSETI.

Owned no shares of PJSC IDGC of the North-West in 2019. Did not enter into any transactions with the Company's securities in 2019.

## BARMINA EKATERINA ALEKSANDROVNA

First elected to the Audit Commission of the Company: not elected

Born in 1984.  
Education: higher.  
Astrakhan State Technical University (graduated in 2004) with the qualification of IT systems engineer in economy.  
Astrakhan State Technical University (graduated in 2006) with the qualification of PhD in Technical Sciences, management in social and economic systems.  
Astrakhan State University of Architecture and Civil Engineering (graduated in 2019) with the master's degree in heat power and thermal engineering .

**Professional experience:**

- 2014-2015 – Head of the Internal Audit and Control Sector of JSC REC IDGC / JSC TCC.
- 2015 – Head Expert of the Control and Expert Division of the Department for Control and Auditing Activities of PJSC ROSSETI.
- 2016-2018 – Head Expert of the Methodology and Internal Audit and Control Division of PJSC MOESK
- 2018-2019 – Head Expert of the Control and Expert Division of the Department for Control and Auditing Activities of PJSC ROSSETI.
- 2019 – present – Head Expert of the Department for Internal Control and Risk Management of PJSC ROSSETI.

Owned no shares of PJSC IDGC of the North-West in 2019. Did not enter into any transactions with the Company's securities in 2019.

## Performance results in the reporting year

### INFORMATION ON THE KEY DECISIONS MADE AT THE MEETINGS OF THE AUDIT COMMISSION IN 2019:

**06.03.2019 (MINUTES NO.2)** – approve the Programme of the financial and operations audit of the Company for 2018.

**06.03.2019 (MINUTES NO.2)** – invite professionals (experts) to contribute to the financial and operations audit in the areas relevant to the respective objects of audit, including specialised entities.

**06.03.2019 (MINUTES NO.2)** – assign responsibilities to members of the Audit Commission and the invited experts for the items subject to the financial and operations audit of the Company for 2018.

**20.04.2019 (MINUTES NO.3)** – review and approve the Findings of the Audit Commission of PJSC IDGC of the North-West.

**28.05.2019 (MINUTES NO.4)** – review and respond to the letters from the Deputy General Director for Corporate Governance of PJSC IDGC of the North-West of 27.05.2019.

**13.06.2019 (MINUTES NO.5)** – review and approve the Certificate of the Audit Commission presenting the findings of the financial and operations audit of PJSC IDGC of the North-West for 2018.

**21.06.2019 (MINUTES NO.1)** – elect Lelekova Marina Alexeevna, Director of the Department for Control and Auditing Activities of PJSC ROSSETI, as Chairperson of the Audit Commission of the Company.

**21.06.2019 (MINUTES NO.1)** – elect Kim Svetlana Anatolievna, Head of the Audit Unit of the Department for Control and Auditing Activities of PJSC ROSSETI, as the Secretary of the Audit Commission of the Company.

**21.06.2019 (MINUTES NO.1)** – approve the action plan for the Audit Commission of PJSC IDGC of the North-West for 2019-2020.

## Remuneration paid to the Audit Commission

According to the Regulation on the remuneration and compensation payment to members of the Audit Commission of the Company<sup>67</sup> (hereinafter – the Regulation), remuneration to members of the Audit Commission of the Company depends on their participation in the Audit Commission activities in the previous corporate year and the fixed amount of remuneration. The fixed amount of remuneration is defined on the basis of the Company's revenue estimated under the RAS in the last financial year. The rate of participation of an Audit Commission member in its activities depends on the number of calendar days in the corporate year when the duties of the Audit Commission member were performed and the personal participation rate.

The personal participation rate is identified by the Chairperson of the Audit Commission for each member of the Audit Commission and reflects their contribution to the meetings of the Audit Commission, as well as performance of additional responsibilities as the Chairperson or the Secretary of the Audit Commission.

Remuneration is paid at the end of the corporate year. Under the Regulation, the corporate year is the period from the election of the persons to the Audit Commission at the General Shareholders' Meeting of the Company till the next General Shareholders' Meeting of the Company.

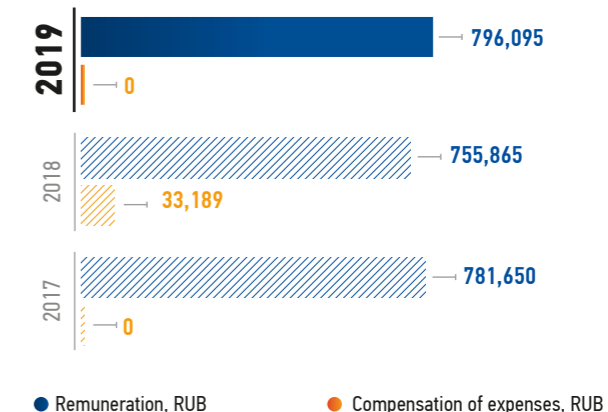
Members of the Audit Commission who failed to participate in over half of the meetings held in the period of their membership in the Audit Commission are not entitled to remuneration.

In case a member of the Audit Commission actively contributed in the corporate year to additional audits held by the Audit Commission or control activities on certain issues organised by decisions of the General Shareholders' Meeting, the Company Board of Directors or upon request of a shareholder (shareholders) of the Company owning at least 10 percent of the Company's voting shares, the Chairperson of the Audit Commission is entitled to apply to the General Shareholders' Meeting for increase in the actual amount of remuneration.

Moreover, according to the Regulation, Audit Commission members receive compensation for the actual documented expenses incurred in the course of visiting the Company's facilities, participation in meetings of the Audit Commission held at the Company's location, and performing other activities of the Audit Commission.

Remuneration and compensations are not paid to members of the Audit Commission who are government officials.

### Remuneration and compensation to members of the Audit Commission in 2017-2019, RUB



<sup>67</sup> Approved by the Annual General Shareholders' Meeting on 07.06.2018 (Minutes No.13).

External audit

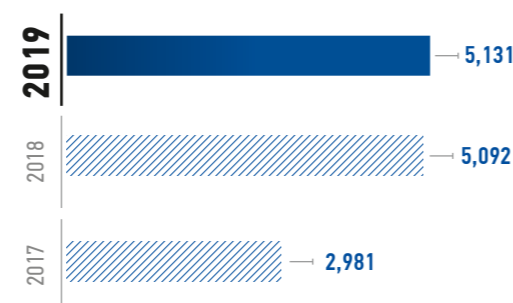
To ensure independent and unbiased activities of the Auditor, the External Auditor of the Company was selected by an open single-stage tender without preliminary qualification-based selection. In 2018, the External Auditor was selected to carry out the audit of the accounting (financial) statements of PJSC IDGC of the North-West compiled in line with the Russian Accounting Standards and the audit of the consolidated financial reporting of PJSC IDGC of the North-West compiled under the International Financial Reporting Standards for 2018-2020. The results of the tender were announced on 16.04.2018. The tender was held by PJSC ROSSETI on the basis of Order of 30.10.2017 No.595r. The official method of holding the open tender was the official web site of the Russian Federation for placing tender information [www.zakupki.gov.ru](http://www.zakupki.gov.ru) (No. 31806037793), at the electronic trading facility of PJSC ROSSETI (<http://www.etp.rosseti.ru>). According to the decision of the Tender Commission (Minutes of 16.04.2018 No.14/595r), LLC Ernst & Young was selected as the winner of the bid. Assessment of candidates was based on the criteria previously identified and disclosed in the tender conditions.

Under pp. 11 p. 10.2 Article 10 of the Company Charter, the General Shareholders' Meeting has the authority to approve the Auditor of the Company. Subject to the tender procedures, as well as recommendations of the Audit Committee, the Board of Directors proposes and the General Shareholders' Meeting of PJSC IDGC of the North-West approves of the independent Auditor. Under the decision of the Annual General Shareholders' Meeting of PJSC IDGC of the North-West dated 14.06.2019, the independent External Auditor of the Company for 2019 became LLC Ernst & Young.

Identification of the amount of the Auditor service fee is within the competence of the Company Board of Directors. According to the contract for audit of the RAS accounting statements and the IFRS consolidated financial statements for 2019, the amount of remuneration to the Auditor was RUB 5,131 thousand, including VAT. No non-audit services were rendered by LLC Ernst & Young to the Company.

AUDITOR	
	
Full name:	Ernst & Young Limited Liability Company
Short name:	LLC Ernst & Young
Location, Mailing address:	77 bldg 1 Sadovnicheskaya Emb., Moscow, 115035 Russia
Phones:	+7 495 755 97-00, +7 495 755 97-01
Internet address:	<a href="http://ey.com/ru/ru">ey.com/ru/ru</a>
E-mail :	<a href="mailto:moscow@ru.ey.com">moscow@ru.ey.com</a>
Full name of the branch:	Saint Petersburg branch of Ernst & Young Limited Liability Company
Location, Mailing address:	23 Malaya Morskaya St., Saint Petersburg, 190000 Russia

Auditor's fees over 3 years, RUB thous.



● Auditor's fees over 3 years, RUB thous.

THE SYSTEM FOR CONFLICT OF INTEREST PREVENTION AND INSIDER INFORMATION

To limit the influence of employees' personal interests on their business decisions, the Company undertakes measures for identifying, preventing and settling conflicts of interests.

To prevent occurrence or probability of a conflict of interest, the Company implements continuous declaration of conflicts of interests by the Company's current and potential employees and verification of the conflict of interest declarations on a permanent basis. To settle the emerging pre-conflict situations in the structural units, as well as to ensure full compliance with the requirements of Article 13.3 of the Federal Law "On anti-corruption measures", the Company established the Commission on Compliance with the Corporate Ethics and Settlement of the Conflict of Interest (hereinafter – the Commission).

In 2019, the Company verified 2,733 conflict of interest declarations submitted by the Company's employees. 102 employees (3.6%) did not submit the declarations for valid reasons (maternity leaves, protracted illness, dismissal in Q1 of 2019). In 2018, this indicator amounted to 5.5% (1.9% more than in 2019), which was due to the deployment of electronic declaration process in the Company branches and S&A and technical causes of failure to submit the electronic declarations by a number of the Company's employees. In 2019, the electronic declaration process was seamless. The risks of emerging conflicts of interests were assessed with account of, among others, simultaneous employment of close relatives who could become a reason for conflict of interests, and submission by employees of false or incomplete data, etc. All the identified risks of the conflict of interests underwent activities for their elimination.

The activities for ensuring compliance with the requirements of control over insider information in the Company are based on:

- Federal Law of 27.07.2010 No. 224-FZ "On counteracting illegal use of insider information and market manipulation and on introducing amendments to certain legislative acts of the Russian Federation";
- Order of the Federal Service for Financial Markets of Russia of 18.06.2013 No. 13 51/pz-n;
- Regulation on Insider Information of PJSC IDGC of the North-West approved by the Company Board of Directors on 31.07.2019 (Minutes No.328/5).

In 2019, the Company prepared and submitted the list of its insiders to trading organiser PJSC Moscow Exchange. 6 lists of insiders were compiled and submitted to the trading organiser within the due period, 52 persons were included in the list of insiders and 65 excluded from it. No notifications were received from the insiders on their transactions with securities of PJSC IDGC of the North-West in the reporting period.

The Company discloses insider information on its corporate website, in the news feed of the Company's authorised AK&M Information Agency and on the Company's webpage provided by the authorised AK&M Information Agency. No failures to comply with the due dates for disclosing insider information were revealed as a result of analysis of the disclosed information.



# INFORMATION FOR INVESTORS AND SHAREHOLDERS

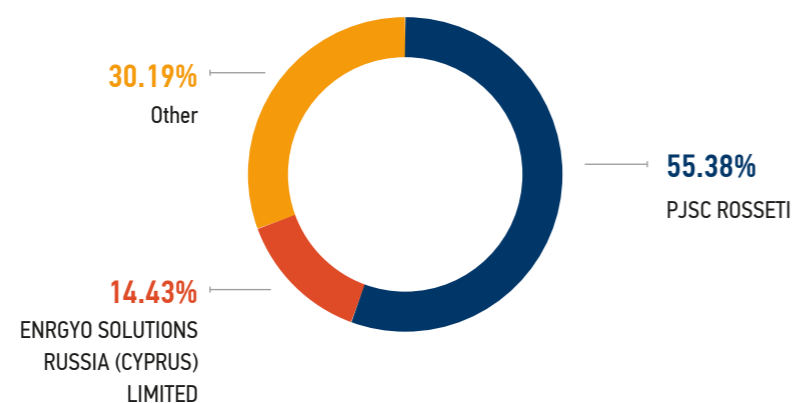
As of 31.12.2019, the authorised capital of the Company amounts to 9,578,592,313 (nine billion five hundred and seventy eight million five hundred and ninety two thousand three hundred and thirteen roubles) 80 kopecks. Ordinary shares make up 100% of the Company's authorised capital.

## Data on each category (type) of shares

Type and category of shares	Registered ordinary shares
Form of issue	uncertified
Number of ordinary shares, items	95,785,923,138
Nominal value of 1 (one) security, RUB	0.10
Data on the state registration of the securities issue	No.1-01-03347-D

According to the Company Charter, the number of the Company's authorised shares in addition to the placed shares is 1,076,862 (one million seventy six thousand eight hundred and sixty two) registered ordinary shares with the nominal value of 10 (ten) kopecks each for a total amount of RUB 107,686 (one hundred and seven thousand six hundred and eighty six roubles) twenty kopecks at the nominal value.

## PJSC IDGC of the North-West shareholder capital as of 31.12.2019



PJSC ROSSETI is the largest shareholder, owning the share of 55.38% in the authorised capital. The Russian Federation represented by Federal Agency for State Property Management has 88.89% ordinary shares of PJSC ROSSETI (see Table "Statistics of the share capital structure". The table shows the shares of federal and municipal ownership).

There is not special right of the Company control "golden share" by the Russian Federation.

## The number of state-owned PJSC ROSSETI shares as of 31 December 2019\*

Share ownership	% ordinary shares	% of the authorised capital
Federal Agency for State Property Management	88.89	88.04

\* The information is shown on the basis of the PJSC ROSSETI quarterly report for Q4 2019.

PJSC IDGC of the North-West does not have any information on ownership stocks exceeding 5%, apart from the disclosed ones.

As of 31.12.2019, PJSC IDGC of the North-West shares were not owned by the Company's subsidiaries and affiliates.

## Free float

# 30.19%

The free-float shares of PJSC IDGC of the North-West account<sup>68</sup>

## Statistics of the share capital structure

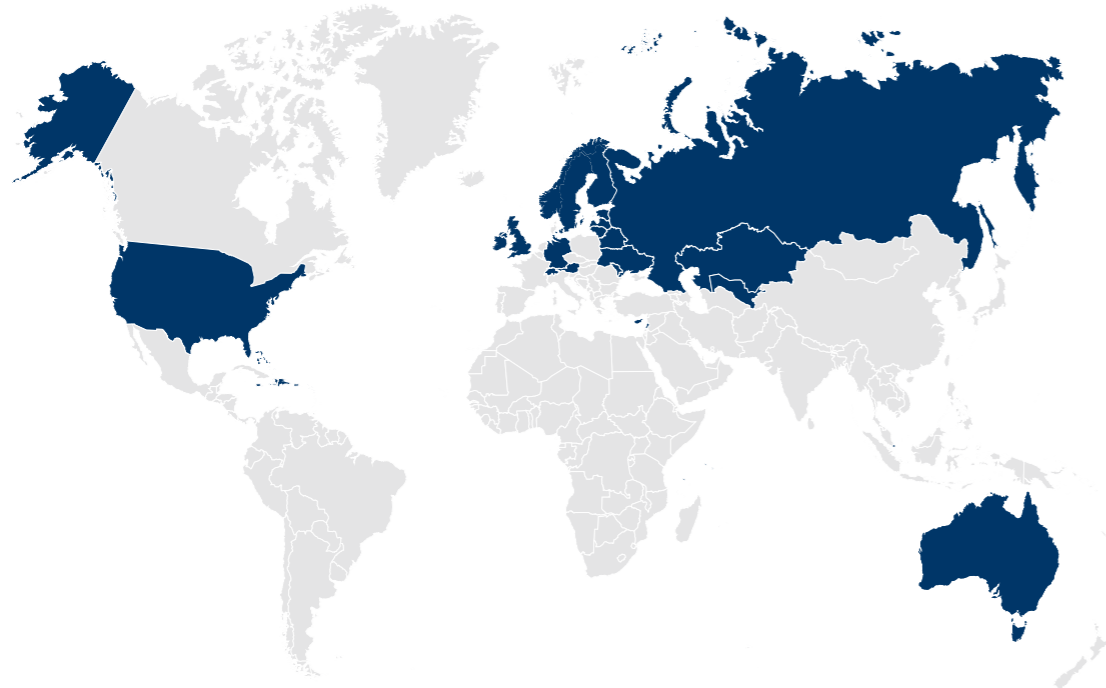
Shareholder type	31.12.2018		31.12.2019	
	Number of shareholders	% of AC	Number of shareholders	% of AC
Owners – individuals	13,745	12.5886	15,439	13.9537
Owners – legal entities	188	87.2166	190	85.7423
Federal property (RF, RF regions)	3	0.0035	3	0.0035
Municipal property	3	0.0104	3	0.0104
Nominee shareholders	9	0.0160	9	0.0111
Trustees	10	0.1568	10	0.2834
Foreign custodian	1	0.0018	2	0.0039
Unidentified persons	2	0.0063	2	0.0056
<b>TOTAL</b>	<b>13,961</b>	<b>100.0000</b>	<b>15,652</b>	<b>100.0000</b>

## Number of shareholders, including individuals

Shareholder type	31.12.2018		31.12.2019	
	Number of shareholders	% of AC	Number of shareholders	% of AC
RF residents	13,843	72.2909	15,536	74.3100
RF non-residents	116	27.7028	114	25.6844
Unidentified persons	2	0.0063	2	0.0056
<b>TOTAL</b>	<b>13,961</b>	<b>100.0000</b>	<b>15,652</b>	<b>100.0000</b>

<sup>68</sup> Under the calculation methodology approved by the Moscow Exchange, the free-float ratio is calculated as the proportion of the number of free-float shares to the total number of the issuer's shares. For more details, as well as the regulatory base and the methodology of calculating the free-float ratio, see the official web site of the Exchange at: <https://www.moex.com/ru/listing/free-float.aspx>

**GEOGRAPHY OF THE COMPANY'S SHAREHOLDERS AS OF 31.12.2019**



Country	Number of shares	% of the AC	Country	Number of shares	% of the AC
Australia	1,180,964	0.0012	Moldova	917,598	0.0010
Austria	2,630,000	0.0027	Norway	886,886,897	0.9259
Belarus	5,137,234	0.0054	The Cayman Islands	8,300,143,711	8.6653
The British Virgin Islands	148,049,878	0.1546	The Seychelles	4,258,949	0.0044
The United Kingdom	9,195,278	0.0096	Singapore	470,000	0.0005
Germany	3,098,883	0.0032	The Bahamas	6,767,807	0.0071
Israel	1,063,105	0.0011	The USA	1,458,603	0.0015
Ireland	3,443	0.0000	Uzbekistan	110,000	0.0001
Kazakhstan	1,112,782	0.0012	Ukraine	4,816,302	0.0050
Cyprus	15,051,841,253	15.7140	Finland	1,643,200	0.0017
Latvia	868,490	0.0009	Switzerland	141,078,537	0.1473
Lithuania	2,157,394	0.0023	Sweden	21,385,698	0.0223
			Estonia	5,733,723	0.0060

Shares of PJSC IDGC of the North-West have been listed on the established securities market since 2008. At present, the Company's shares are traded on the Russian stock market PJSC Moscow Exchange MICEX-RTS in the Level 2 Quotation List.

Platform	Ticker	Start of trading without the listing procedure	Start of trading in Quotation List B	Start of trading in Quotation List A, Level 2	Date of inclusion into the Level 1 Quotation List based on the listing reform results	Date of inclusion into the Level 2 Quotation List based on the listing reform results
MICEX	MRKZ	—	29.05.2008	24.05.2011	09.06.2014	31.01.2017

Shares of PJSC IDGC of the North-West were included into the Level 2 Quotation List on 31 January, 2017 subject to the decision of PJSC Moscow Exchange within the listing reform.

The Company's shares are included in the calculation bases by Moscow Exchange:

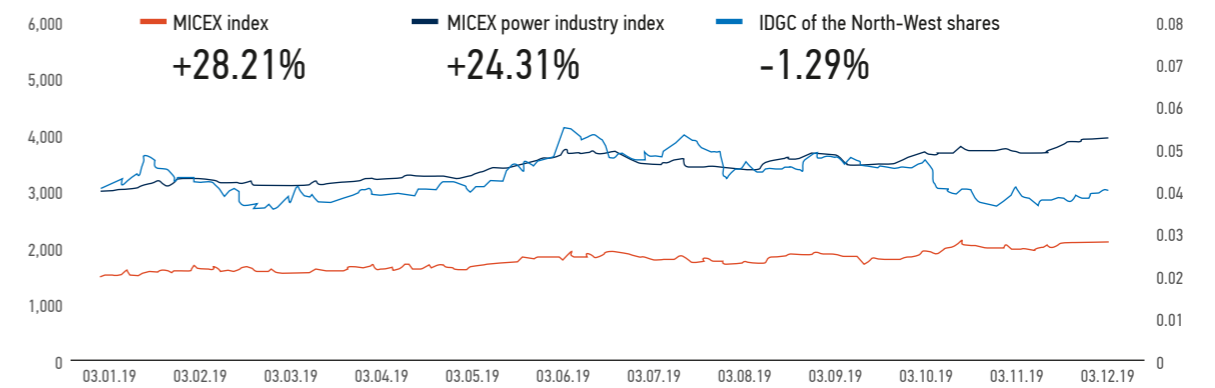
	Weight of the shares in the index calculation base as of 31.12.2019
MOEXBMI (broad market index)	0.01%
MOEXEU (power industry index)	0.6%
MOEX RegCo Index (regulated companies index)	0.55%

**Market features**

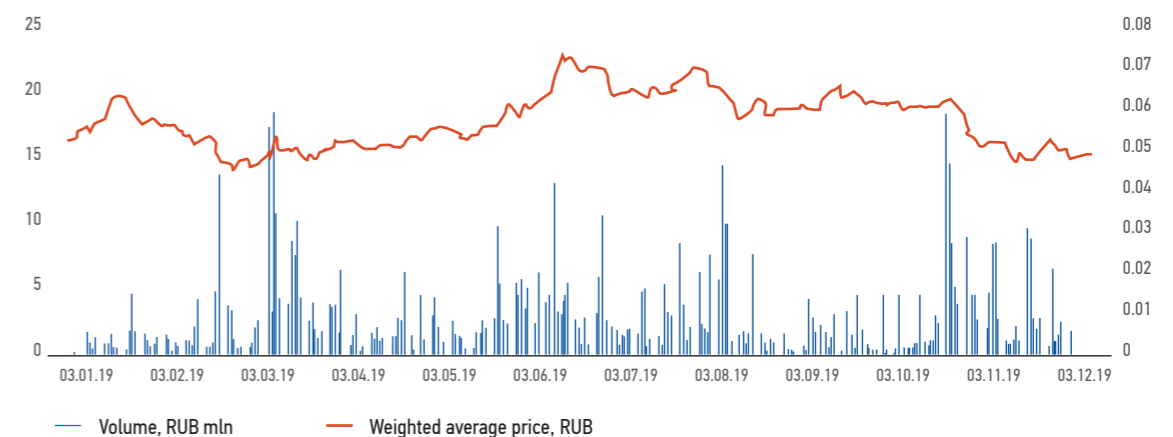
Indicator	Unit	29.12.2017	29.12.2018	31.12.2019	Change, %
Weighted average price	RUB	0.0515	0.0549	0.0534	-1.29
Capitalisation*	RUB mln	4,933.0	5,258.6	5,114.97	-2.73
Trading volume (one year before the indicated date)	RUB mln	297.35	437.32	772.48	+76.64
	mln items	5,549.45	7,445.52	13,504.15	+81.37

\* Calculated as the weighted average price per share as of the end of the reporting period multiplied by the total number of the Company's shares.

**Trends in the PJSC IDGC of the North-West share prices against the indices of IMOEX and MOEXEU in 2019**



**Trends of prices and trading volumes of IDGC of the North-West at Moscow Exchange in 2019**



## INVESTOR AND SHAREHOLDER RELATIONS

Transparency is one of the principles underlying the Company's corporate governance, which implies timely disclosure of reliable information on all material facts related to the Company's operations, as well as free access to such information for all stakeholders.

The Company discloses information with the primary aim to achieve the highest level of trust toward the Company on the part of its shareholders, potential investors, contractors and other stakeholders by providing them with the information required for making carefully considered and justified decisions regarding the Company and its securities.

A key project of the Company in the area of stakeholder interaction was the launch of and free access to the system "Shareholder's Personal Account" based on the Company registrar's web site. Shareholders can use it to receive the required information online, as well as exercise their rights (<http://www.mrsksevizap.ru/shareholdersprivateoffice>).

### INFORMATION DISCLOSURE BY PJSC IDGC OF THE NORTH-WEST IS PRIMARILY SUBJECT TO THE FOLLOWING REQUIREMENTS:

- Federal law "On joint-stock companies";
- Federal law "On securities market";
- Regulation on Information Disclosure by Issuers of Equity Securities (approved by the Bank of Russia on 30.12.2014 No.454-P);
- Corporate Governance Code approved by the Company Board of Directors;
- Company Order of 13.10.2017 No.715 "On the procedure of information disclosure by the issuer of equity securities PJSC IDGC of the North-West".

In line with the principles of open and transparent governance, the Company aims to provide access to information on its business and securities to all stakeholders simultaneously and promptly.

PJSC IDGC of the North-West informs its stakeholders via the official web site ([www.mrsksevizap.ru](http://www.mrsksevizap.ru)).

Besides, in line with the legislation of the Russian Federation, information to be disclosed in accordance with the requirements set by the Bank of Russia is published on the webpage provided by the authorised information agency (AK&M Information Agency) at [www.disclosure.ru/issuer/7802312751](http://www.disclosure.ru/issuer/7802312751).

In addition to the information subject to mandatory disclosure under the RF regulatory documents, the Company provides other information to ensure a high degree of transparency of the Company and contribute to achievement of the targets of

its Information Disclosure Policy. Thus, it quarterly publishes its RAS accounting (financial) statements, IFRS consolidated financial statements and other information about the Company and its business on the corporate website.

The Company discloses insider information; its concept, scope and disclosure procedure are stipulated by the Company's Regulation on Insider Information, the revised version of which was approved by the Board of Directors of PJSC IDGC of the North-West on 31.07.2019 (Minutes No.328/5). The text of the Regulation is available at the Company web site <http://www.mrsksevizap.ru/otherinternaldocuments>.

To ensure equal access to information of all stakeholders, specifically, to secure informational rights and interests of foreign shareholders and investors, the Company maintains the English version of the corporate website.



The 2018 Annual Report of IDGC of the North-West also received a platinum award for "Annual report (Design)", a silver award in the "Power supply and electric energy" sector at the international contest LACP Vision Awards, as well as bronze in the category "Annual Reports – Online" of the international annual reports contest Galaxy Awards in the nomination "PDF".

## REPORT ON THE EVENTS HELD IN 2019

To ensure access of the investment community to material information, the Company carries out regular spoken and written bilateral communication with its shareholders and investors, as well as other professional securities market participants.

On 27 August 2019, the Company held a conference call for representatives of the investment community on the performance of PJSC IDGC of the North-West under IFRS for 6 months of 2019. Leading banks and investment companies took part in it (Renaissance Capital, JSC Gazprombank, Ural-sib, ATON, Sova Capital, BCS Managing Company, Prosperity Capital Management). The investment community highly appreciated the Company management's readiness for the dialogue, saying that overall the Company is increasing its transparency and the quality of information disclosure.

Besides, PJSC IDGC of the North-West maintains regular communication with the investment community in other formats.

For the convenience of shareholders and all stakeholders, the Shareholders Q&A section of the Company's corporate site shows answers to frequently asked questions. Analytical presentation materials on IFRS reporting are shown at the Company's web site on a quarterly basis ([http://www.mrsksevizap.ru/ir\\_presentations](http://www.mrsksevizap.ru/ir_presentations)).

### CALENDAR OF INVESTOR ACTIVITIES FOR 2020

#### APRIL-MAY 2020

Meetings with minority shareholders before the Annual General Shareholders' Meeting.

#### AUGUST 2020

A conference call on the publication of the IFRS consolidated interim condensed financial statements for the 3 and 6 months ending 30 June 2020 (unaudited).

Detailed scheduled plan of activities on interaction with the investment community in 2020 is available at the Company web site: [http://www.mrsksevizap.ru/ir\\_investorscalendar](http://www.mrsksevizap.ru/ir_investorscalendar)

Starting 2019, the Company has arranged a hotline for prompt shareholder communication with the Company (<http://www.mrsksevizap.ru/shareholdersmeetinginfo>) and a shareholder forum (<https://forum.mrsksevizap.ru>) during preparing and holding General Shareholders' Meetings.

To maintain a high level of transparency and develop its positive image, the Company participates in the Russian contests of issuers' annual reports held every year by PJSC Moscow Exchange in cooperation with RCB media group, Expert RA rating agency, as well as foreign ones (Galaxy Awards, LACP, MarCom Awards).

In 2019, ROSSETI North-West (a brand of IDGC of the North-West) won the 22nd Annual Moscow Exchange Contest of Annual Reports in the main nomination "Best annual report of the company with the capitalisation up to RUB 40 bln" and was second in the additional nomination "Best representation of the company's strategy and investment attractiveness in its annual report".



## DIVIDEND POLICY

The net profits allocation policy of PJSC IDGC of the North-West is based on the balance of the Company's interests and those of its shareholders, improving the Company's investment attractiveness and its capitalisation, consistent acknowledgement of the rights of shareholders stipulated by the current RF legislation, the Company Charter and its internal documents.

Dividend policy of the Company, developed in accordance with Order of the RF Government of 29.05.2017 No.1094-r, is defined by the Regulation on the Dividend Policy approved by Decision of the Company Board of Directors of 02.02.2018 (Minutes No.265/20).

### Key principles of the Dividend Policy of the Company are as follows:

- dividend calculation based on profit allocation without account of the impact of re-evaluation of financial investments;
- the need to maintain a proper financial and technical condition of the Company (implementation of the Investment Programme), ensuring the Company's development prospects;
- compliance of the Company's dividend calculation and payment practice with the legislation of the Russian Federation and best corporate behaviour standards;
- balance of the interests of the Company and its shareholders;
- the need to enhance the Company's investment attractiveness and capitalisation;
- ensuring transparency (clarity) of the dividend calculation and payment mechanism;
- dividends on ordinary shares are only paid out after full payment of dividends on preferred shares according to the Company Charter (if any preferred shares are issued by the Company).

The Company aspires, along with achieving capitalisation growth, to increase the amount of dividend paid to shareholders, subject to the amount of net profit gained in the reporting financial period and the development needs of the Company's operational and investment activities.

The recommended dividend amount is defined by the Board of Directors on the basis of the Company's financial performance, the Board of Directors aiming to ensure positive year-on-year dynamics of the dividend payments to shareholders.

### History of dividend payments

**191,570** RUB thous.

Interim dividends for 9 months of 2019 are accrued

**7.16%**

Dividend yield for 2018

	2017 (for 2016)	2018 (for 2017)	2019 (for 2018)	2019 (for 9 months of 2019)
Dividends per one ordinary share, RUB	0.011608	–	0.003985	0.00199999807
Amount of dividend accrued, RUB thous.	111,188		381,707	191,570
Share of net profit allocated to dividends, %	24.3		63.7	–
Amount of dividends paid, RUB thous.	109,608		376,260	The dividend payment started in 2020
Dividend yield*, %	2.52		7.16	3.51

\* The dividend yield of shares is calculated as of the date of making the decision on the amount of annual dividends as the correlation of annual dividends per share and the median value of market prices for this share in the reporting year.

The share of dividend paid in the total amount of declared dividend for 2015 was 98.85%, for 2016 – 98.54%, for 2018 – 98.57%. In 9 months of 2019, the Company accrued interim dividends in the amount of RUB 191,570 thous. Div-

idends were paid to all the persons included in the dividend register, with the exception of those who had not submitted full and accurate details required for dividend payment.

### Profit allocation

	2017 (for 2016)	2018 (for 2017)	2019 (for 2018)
Net profit (loss) in the reporting period, thous. RUB	456,889	-2,441,462	599,356
Undistributed profit (loss) in the reporting period, thous. RUB, including:			
Provisions	22,844	0	29,968
Profit for development	322,857	0	0
Dividends	111,188	0	381,707
Coverage of losses from previous years	0	0	187,681

In line with the Company Charter, the decision on 2019 profit allocation is to be made by the Annual General Shareholders' Meeting (AGSM).

Minutes of the General Shareholders' Meetings are available at the Company's website: <http://www.mrsksevzap.ru/shareholdersmeetinginfo>.

## INFORMATION ON MAJOR AND INTERESTED-PARTY TRANSACTIONS

In 2019, there were no major transactions with any state companies or the Company shareholders owning at least 5% of the Company's voting shares, as well as transactions classified as major by the Federal Law "On joint-stock companies".

Information on the list of transactions made by the Company in the reporting year, which under Chapter 11 of the Federal Law "On joint-stock companies" are classified as interested-party transactions is shown in Annex 29 to the full version of the Annual Report on the Company's website: <http://www.mrsksevzap.ru/en/informationonshareholders-meetings>. Data on the interested-party transactions made

by PJSC IDGC of the North-West in 2019. The report was signed by the General Director of the Company. The meeting of the Audit Commission of 15.04.2020 (Minutes No.3) included assessment of the accuracy of the report on the interested-party transactions made by the Company in the reporting year. Decision of the Company Board of Directors of 24.04.2020 (Minutes No.360/37) approved the report on the interested-party transactions in 2019.

Information on interested-party transactions is also available at the Company's website: [http://www.mrsksevzap.ru/id\\_dealings](http://www.mrsksevzap.ru/id_dealings).

## MAJOR COURT PROCEEDINGS IN 2019

Subject to decision of the Supervisory Board of Association NCP Market Council of 21.12.2017, PJSC Arkhenergosbyt was deprived of the status of wholesale electric power and capacity supplier and excluded from the registry of wholesale market participants. By Order of the Russian Ministry of Energy of 22.12.2017 No. 1202, the status of power supplier of last resort within the area previously covered by PJSC Arkhenergosbyt, was given to PJSC IDGC of the North-West from 01 January 2018 (from 01.10.2018, by Order of the RF Ministry of Energy dated 14.09.2018 No. 763, the SLR functions in the area of PJSC IDGC of the North-West have been transferred to LLC TGK-2 Energosbyt).

The Arbitration Court of Karachay-Cherkessia on 29.12.2017 initiated insolvency (bankruptcy) proceedings upon the lawsuit of LLC METEK against PJSC Arkhenergosbyt (No.A25-2825/2017).

**On 20.12.2018**, PJSC Arkhenergosbyt was deemed bankrupt, and a bankruptcy procedure was initiated against it – bankruptcy administration with V.A.Iosipchuk appointed as insolvency administrator. The court hearing of the report on bankruptcy administration results is scheduled for 30.05.2019.

**In 2018**, the Company file four applications on including into the creditor's claims register of PJSC Arkhenergosbyt requirements for the total amount of RUB 3.5 bln, RUB 3.059 bln of which is the principal amount, and RUB 0.5 bln is penalties and interest. Upon their consideration, the requirements of the Company were fully sustained by the court.

**In February 2019**, the Company filed another applications on including into the creditor's claims register of PJSC Arkhenergosbyt requirements for the total amount of RUB 20.8 mln, where RUB 20.5 mln accounts for the principal amount, RUB 0.3 mln – the penalties. The claim was to be considered by the court on 18.04.2019. Upon its consideration, the requirements of the Company were fully sustained by the court.

**Court decision of 31.05.2019** extended the bankruptcy administration period of PJSC Arkhenergosbyt by six months. The court hearing of the report on bankruptcy administration results is scheduled for 21.11.2019.

**Court decision of 21.11.2019** extended the bankruptcy administration period of PJSC Arkhenergosbyt by six months. The court hearing of the report on bankruptcy administration results is scheduled for 21.05.2020.

**Subject to decision of the Supervisory Board of Association NCP Market Council of 23.03.2018**, PJSC Vologdaenergosbyt was deprived of the status of power supplier of last resort in the Vologda Region. By Order of the Russian Ministry of Energy of 23.03.2018 No.178, the status of power supplier of last resort within the area previously covered by PJSC Vologdaenergosbyt, was given to PJSC IDGC of the North-West from 01.04.2018.

**On 16.04.2018**, the Company lodged a legal application to declare PJSC Vologdaenergosbyt bankrupt (insolvent) and include the claims of RUB 7.3 mln in the creditor's register. RUB 6.1 mln of this amount accounts for the principal debt. The application was taken up by the court, and an action of insolvency (bankruptcy) was brought against PJSC Vologdaenergosbyt (case No.A25-846/2018).

**On 15.10.2018**, the Company's claims in the amount of RUB 7.3 mln were dismissed by the court due to the settlement of the debt by a third party – JSC Finenergoinvest.

**The court ruled on 28.12.2018** that PJSC Vologdaenergosbyt should be subject to a bankruptcy procedure – 5-month monitoring, the interim administrator is I.A.Yakovenko. The court hearings on the interim administrator report are scheduled for 16.05.2019. Court decision of 20.08.2019 postponed the consideration of the monitoring results to 12.11.2019.

**As of 30.09.2019**, the Company submitted 8 applications for intervention into the case of PJSC Vologdaenergosbyt bankruptcy (without the application submitted by the Company on 16.04.2018 to declare PJSC Vologdaenergosbyt bankrupt and include the claims in the creditor's register for the total amount of RUB 457 mln, where RUB 406 mln is the principal amount, and RUB 51 mln is the penalty. The Arbitration Court of Karachay-Cherkessia considered 8 applications of the Company and included them in PJSC Vologdaenergosbyt creditor's register. The Company also filed the ninth claim in the amount of RUB 0.08 mln, which was satisfied upon consideration within the framework of the bankruptcy administration on 30.01.2020.

**On 19.11.2019**, PJSC Vologdaenergosbyt was deemed bankrupt, and a bankruptcy procedure was initiated against it – bankruptcy administration with A.S.Solomonov appointed as insolvency administrator. The court hearing of the report on bankruptcy administration results is scheduled for 29.04.2020.

# FINANCIAL REPORT

## MAIN FORMS OF IFRS CONSOLIDATED FINANCIAL REPORTING FOR 2019<sup>69</sup>

### INDEPENDENT AUDITOR'S REPORT

To Shareholders and Board of Directors of Public joint stock company "Interregional Distribution Grid Company of North-West"

#### Opinion

We have audited the consolidated financial statements of Public joint stock company "Interregional Distribution Grid Company of North-West" and its subsidiaries (the Group), which comprise the consolidated statement of profit or loss and other comprehensive income for 2019, consolidated statement of financial position as at 31 December 2019, and the consolidated statement of changes in equity and consolidated statement of cash flows for 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for 2019 in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### Key audit matter

#### How our audit addressed the matter

##### Recognition and measurement of revenue from electricity transmission services

Recognition and measurement of revenue from electricity transmission services was one of the most significant matters for our audit due to certain specifics of the electricity market mechanisms that give rise to the existence of disagreements among electricity supply, utilities, and other companies in relation to the volume and cost of the transmitted electricity. The amount of revenue challenged by counterparties is material to the Group's financial statements. Management's assessment of the probability of settling disputes in the Group's favor is highly subjective. Revenue is recognized when disagreements are to be resolved in favor of the Group with regard to assumptions.

Information on revenue from electricity transmission services is disclosed in Note 7 to the consolidated financial statements.

We considered the applied accounting policy with regard to the recognition of revenue from electricity transmission services; examined internal controls over the recognition of this revenue; checked the correctness of the corresponding revenue amounts based on the existing electricity transmission contracts; received, on a selective basis, confirmations of balances of receivables from counterparties; analyzed the results of litigations concerning disputable amounts of services provided, if any; and examined existing procedures to confirm the volume of electricity transmitted with counterparties.

##### Allowance for expected credit losses on trade receivables

The matter of creating allowance for expected credit losses on trade receivables is one of the most significant matters for our audit due to the material balances of trade receivables as of 31 December 2019, as well as due to the fact that management's assessment of the possible recoverability of these receivables is based on assumptions, in particular, on the projected solvency of the Group's customers.

Information on allowance for expected credit losses on trade receivables is disclosed in Notes 20 and 32 to the consolidated financial statements.

We analyzed the adequacy of the Group's accounting policy on the trade receivables with respect to the creation of allowance for expected credit losses on trade receivables, as well as Group's management estimation procedures, including the analysis of repayment of trade receivables, the analysis of maturity and delayed performance of obligations, and the analysis of customers' solvency.

We performed audit procedures in respect of the information used by the Group to determine the allowance for expected credit losses on trade receivables, the structure of receivables by age and maturity, and tested the correctness of the charged allowance amounts calculation.

##### Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims from counterparties (including territorial electric grid and utilities companies) were among the most significant matters for our audit as they require significant judgments of management with respect to material amounts of balances of settlements with counterparties that are challenged in litigations or under the pretrial settlement.

Information on provisions and contingent liabilities is disclosed in Note 31 to the consolidated financial statements.

Audit procedures among others involved analyzing decisions made by courts of different instances; considering the adequacy of management's judgments with regard to assessment of the possibility of an outflow of economic resources due to the dispute settlement; examining the compliance of the prepared documentation with provisions of existing contracts and legislation; and reviewing disclosures on provisions and contingent liabilities in notes to the consolidated financial statements.

<sup>69</sup> The full version of the consolidated financial statements can be found on the Company's website: <http://www.mrsksevzap.ru/en/ifrsfinancialstatements>.



Key audit matter	How our audit addressed the matter
<p><b>Impairment of non-current assets</b></p> <p>Due to the existence of the impairment indicators of non-current assets as of 31 December 2019, the Group performed impairment testing. The value-in-use of fixed assets, forming a significant share of the Group's non-current assets, as of 31 December 2019, was determined by the projected cash flow method.</p> <p>The matter of impairment testing of fixed assets was one of the most significant matters for our audit because the fixed assets balance forms a significant part of the Group's assets at the reporting date, and because management's assessment of the value-in-use is complex and largely subjective and is based on assumptions, in particular, on the projected electricity transmission volumes, transmission fees, as well as operating and capital expenditures that depend on the expected future market or economic conditions in the Russian Federation.</p> <p>Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 14 to the consolidated financial statements</p>	<p>As part of our audit procedures, we also assessed the assumptions and methodologies applied by the Group, in particular, those relating to projected total revenue from the electricity transmission, fee solutions, operating and capital expenditures, long-term rates of fee growth and discount rates. We tested the incoming data applied in the model and the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test of fixed assets. We engaged valuation specialists to analyze the model used to determine the recoverable amount in the impairment test of fixed assets. We also analyzed the sensitivity of the model to changes in the main indicators of assessment and the Group's disclosures of assumptions on which the results of impairment testing largely depend.</p>

#### Other information included in the annual report

Other information consists of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

#### Responsibilities of management and Audit Committee of the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit committee of the Board of Directors are responsible for overseeing the Group's financial reporting process.

#### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

**As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:**

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is A.Y. Grebeniuk.

**A.Y. Grebeniuk**

Partner Ernst & Young LLC  
10 March 2020

#### Details of the audited entity

Name: Public joint stock company "Interregional Distribution Grid Company of North-West"

Record made in the State Register of Legal Entities on 23 December 2004, State Reg

#### Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Self-regulated organization of auditors Association "Sodruzhestvo".

Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Consolidated Statement of Profit or Loss and Other Comprehensive Income (in thousand of Russian rubles, unless otherwise stated)	Notes.	Year ended 31 December	
		2019	2018
Revenue	7	49,135,508	64,853,952
Operating expenses	10	(45,803,015)	(61,574,011)
Expected credit losses		(857,999)	(1,237,102)
Impairment of property, plant and equipment and right-of-use assets	14	(428,28)	–
Other income	8	524,585	839,088
Other expenses	9	(30,139)	(122,404)
<b>Results from operating activities</b>		<b>2,540,660</b>	<b>2,759,523</b>
Finance income	12	113,286	82,194
Finance costs	12	(1,255,277)	(1,269,130)
<b>Total finance costs</b>		<b>(1,141,991)</b>	<b>(1,186,936)</b>
<b>Profit before tax</b>		<b>1,398,669</b>	<b>1,572,587</b>
Income tax expense	13	(317,95)	(426,684)
<b>Profit for the period</b>		<b>1,080,719</b>	<b>1,145,903</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Change in the fair value of equity investments measured at fair value through other comprehensive income		5,386	(4,497)
Remeasurement of the defined benefit liability	27	(63,682)	(44,186)
Income tax		11,66	9,736
<b>Total items that will not be reclassified subsequently to profit or loss</b>		<b>(46,636)</b>	<b>(38,947)</b>
<b>Other comprehensive loss for the period, net of income tax</b>		<b>(46,636)</b>	<b>(38,947)</b>
<b>Total comprehensive income for the period</b>		<b>1,034,083</b>	<b>1,106,956</b>
<b>Profit attributable to:</b>			
Owners of the Company		1,080,736	1,145,972
Non-controlling interest		(17)	(69)
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		1,034,100	1,107,025
Non-controlling interest		(17)	(69)
<b>Earnings per share</b>			
Basic earnings per share (in RUB)	24	0.0113	0.0120

These consolidated financial statements were approved by management on 10 March 2020 and were signed on its behalf by:



General Director  
A.Y. Pidnik



Deputy General Director  
for Economy and Finance  
L.V. Shadrina



Chief Accountant - Head of Department of  
accounting and tax accounting and reporting  
I.G. Zhdanova

Consolidated Statement of Financial Position (in thousand of Russian rubles, unless otherwise stated)	Notes.	31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	40,037,317	40,447,544
Intangible assets	15	266,945	268,4
Right-of-use assets	16	613,705	–
Trade and other receivables	20	140,121	10,268
Assets related to employee benefits plans	27	314,159	370,051
Other non-current financial assets	17	551,544	505,219
Deferred tax assets	18	18,533	29,127
Advances issued and other non-current assets	21	71,54	150,123
<b>Total non-current assets</b>		<b>42,013,864</b>	<b>41,780,732</b>
<b>Current assets</b>			
Inventories	19	965,749	858,074
Income tax prepayment		44,438	233,636
Trade and other receivables	20	5,360,864	7,190,078
Cash and cash equivalents	22	232,088	151,123
Advances issued and other current assets	21	706,81	949,887
<b>Total current assets</b>		<b>7,309,949</b>	<b>9,382,798</b>
<b>Total assets</b>		<b>49,323,813</b>	<b>51,163,530</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>23</b>		
Share capital		9,578,592	9,578,592
Reserve related to business combination		10,457,284	10,457,284
Other reserves		(91,822)	(45,186)
Accumulated loss		(132,938)	(645,455)
<b>Total equity attributable to owners of the Company</b>		<b>19,811,116</b>	<b>19,345,235</b>
Non-controlling interest		236	253
<b>Total equity</b>		<b>19,811,352</b>	<b>19,345,488</b>
<b>Non-current liabilities</b>			
Loans and borrowings	25	12,803,516	8,517,335
Trade and other payables	28	91,552	246,687
Advances received	30	350,546	894,93
Employee benefit liabilities	27	983,386	1,912,467
Deferred tax liabilities	18	730,285	949,701
<b>Total non-current liabilities</b>		<b>15,159,285</b>	<b>12,521,120</b>
<b>Current liabilities</b>			
Loans and borrowings and short-term portion of long-term loans and borrowings	25	2,491,915	7,026,929
Trade and other payables	28	5,546,021	6,699,518
Taxes, other than income tax	29	1,344,441	1,066,733
Advances received	30	3,610,619	3,805,283
Provisions	31	998,058	698,268
Current income tax liability		362,122	191
<b>Total current liabilities</b>		<b>14,353,176</b>	<b>19,296,922</b>
<b>Total liabilities</b>		<b>29,512,461</b>	<b>31,818,042</b>
<b>Total equity and liabilities</b>		<b>49,323,813</b>	<b>51,163,530</b>

Consolidated Statement of Cash Flows (in thousand of Russian rubles, unless otherwise stated)	Notes.	31 December 2019	31 December 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the period		1,080,719	1,145,903
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	10	4,587,332	4,305,535
Impairment of property, plant and equipment and right-of-use assets		428,28	–
Finance costs	12	1,255,277	1,269,130
Finance income	12	(113,286)	(82,194)
(Gain)/loss on disposal of property, plant and equipment		(1,079)	116,83
Expected credit losses		857,999	1,237,102
Accounts receivable write-off		33,084	17,246
Accounts payable write-off		(6,251)	(28,224)
Change in provisions		538,474	713,667
Other non-cash transactions		(23,29)	(4,856)
Income tax expense	13	317,95	426,684
<b>Total effect of adjustments</b>		<b>8,955,209</b>	<b>9,116,823</b>
Change in assets related to employee benefit plans		55,892	44,193
Change in employee benefit liabilities		(1,059,413)	(387,181)
Change in long-term trade and other receivables		(129,853)	3,232
Change in long-term advances issued and other non-current assets		78,583	(17,454)
Change in long-term trade and other payables		44,865	(13,845)
Change in long-term advances received		(544,384)	106,38
<b>Cash flows from operating activities before changes in working capital and provisions</b>		<b>7 400 899</b>	<b>8 852 148</b>
<i>Changes in working capital</i>			
Change in trade and other receivables		949,408	(650,488)
Change in advances issued and other assets		243,077	273,341

Consolidated Statement of Cash Flows (in thousand of Russian rubles, unless otherwise stated)	Notes.	31 December 2019	31 December 2018
Change in inventories		(111,686)	(73,415)
Change in trade and other payables		(957,093)	750,608
Change in advances received		(194,664)	(907,1)
Other		(3,391)	3,854
<b>Cash flows from operating activities before income tax and interest paid</b>		<b>7,326,550</b>	<b>8,248,948</b>
Income tax reimbursement/ (paid)		36,151	(723,863)
Interest paid under lease agreements		(46,163)	–
Interest paid		(1,190,144)	(1,234,934)
<b>Net cash from operating activities</b>		<b>6,126,398</b>	<b>6,290,151</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment and intangible assets		(4,746,580)	(7,516,350)
Proceeds from the sale of property, plant and equipment and intangible assets		22,206	1,095
Interest received		40,494	42,602
Dividends received		750	574
<b>Net cash used in investing activities</b>		<b>(4,683,130)</b>	<b>(7,472,079)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans and borrowings		24,095,963	39,095,697
Repayment of loans and borrowings		(24,974,887)	(37,842,144)
Dividends paid	23	(376,261)	–
Repayment of lease liabilities		(107,118)	(4,973)
<b>Net cash (used in)/from financing activities</b>		<b>(1,362,303)</b>	<b>1,248,580</b>
<b>Net increase in cash and cash equivalents</b>		<b>80,965</b>	<b>66,652</b>
Cash and cash equivalents at the year beginning	22	151,123	84,471
<b>Cash and cash equivalents at the year end</b>	<b>22</b>	<b>232,088</b>	<b>151,123</b>



# ABOUT THE REPORT

GRI 101

## ABOUT THE REPORT AND MATERIALITY

### Report overview

**Reporting cycle** Annual, for the period from 01.01.2019 to 31.12.2019

**Report format** Integrated annual report of PJSC IDGC of the North-West

### International reporting standards



Sustainable development reporting standards GRI Sustainability Reporting Standards (Core option, the compliance chart is shown in the section "Standards compliance charts").



Sector supplement GRI G4 for the power industry, The Electric Utilities Sector Disclosures.



International integrated reporting standard The International <IR> Framework (the compliance chart is shown in the section "Standards compliance charts").



Standard for interaction with stakeholders AA1000 Stakeholder Engagement Standard (2015).

### Russian reporting standards and regulatory requirements

Regulation on Information Disclosure by Issuers of Equity Securities approved by the Bank of Russia on 30.12.2014 No.454-P).

Corporate Governance Code recommended by the Bank of Russia (letter dated 10.04.2014 No.06-52/2463).

### PJSC Rosseti requirements to its subsidiaries' reporting

Annual Report 2019 guidelines for S&A of PJSC Rosseti.

**Date of the previous report** June 2019.

### Scope of the Report

The Report shows the performance of PJSC IDGC of the North-West, its branches, subsidiaries and affiliates.

The Report discloses operational and financial results, as well as presents an overview of the corporate and social responsibility activities in 2019. Unless otherwise stated, the financial indicators of

the Annual Report are provided and calculated on the basis of the IFRS consolidated financial reporting. The information on performance results in this document comprises consolidated data of the IDGC of the North-West Group.

There were no restatements of the indicators against the previous year.

### Reported information verification

The reported information was verified by:

- Independent auditor LLC Ernst & Young, which validates the accounting (financial) reporting under RAS and the IFRS consolidated financial reporting.
- Independent auditor FBK Grant Thornton, which confirms the compliance of the Report with the core option of GRI SRS Standards (the audit report of the independent auditor is provided in section "About the Report").

## MATERIALITY DEFINITION

GRI 102-46

The Company shares and uses the key principles of international reporting on sustainable development shown in the scheme "Report content definition principles".

### Report content definition principles

- Materiality
- Stakeholder coverage
- Sustainable development context
- Completeness
- Balance
- Consistency
- Accuracy
- Timeliness
- Clarity
- Reliability

GRI 102-50

GRI 102-52

GRI 102-54

GRI 102-48

GRI 102-51

GRI 102-56

GRI 102-43  
GRI 102-44

In preparing this Report, the Company defined material topics for disclosure in the Report in cooperation with representatives of the major stakeholder groups. The representatives of the major stakeholder groups were surveyed by polling (11 external stakeholders and 18 internal stakeholders).

### The respondents assessed the material topic by two parameters:

- the impact of the topic on stakeholders' evaluations and decision-making;
- the Company's impact on the economy, social context and the environment.

The findings of the survey served to build a materiality matrix. On the basis of the aggregated assessments the topics were divided into three groups by the degree of materiality:

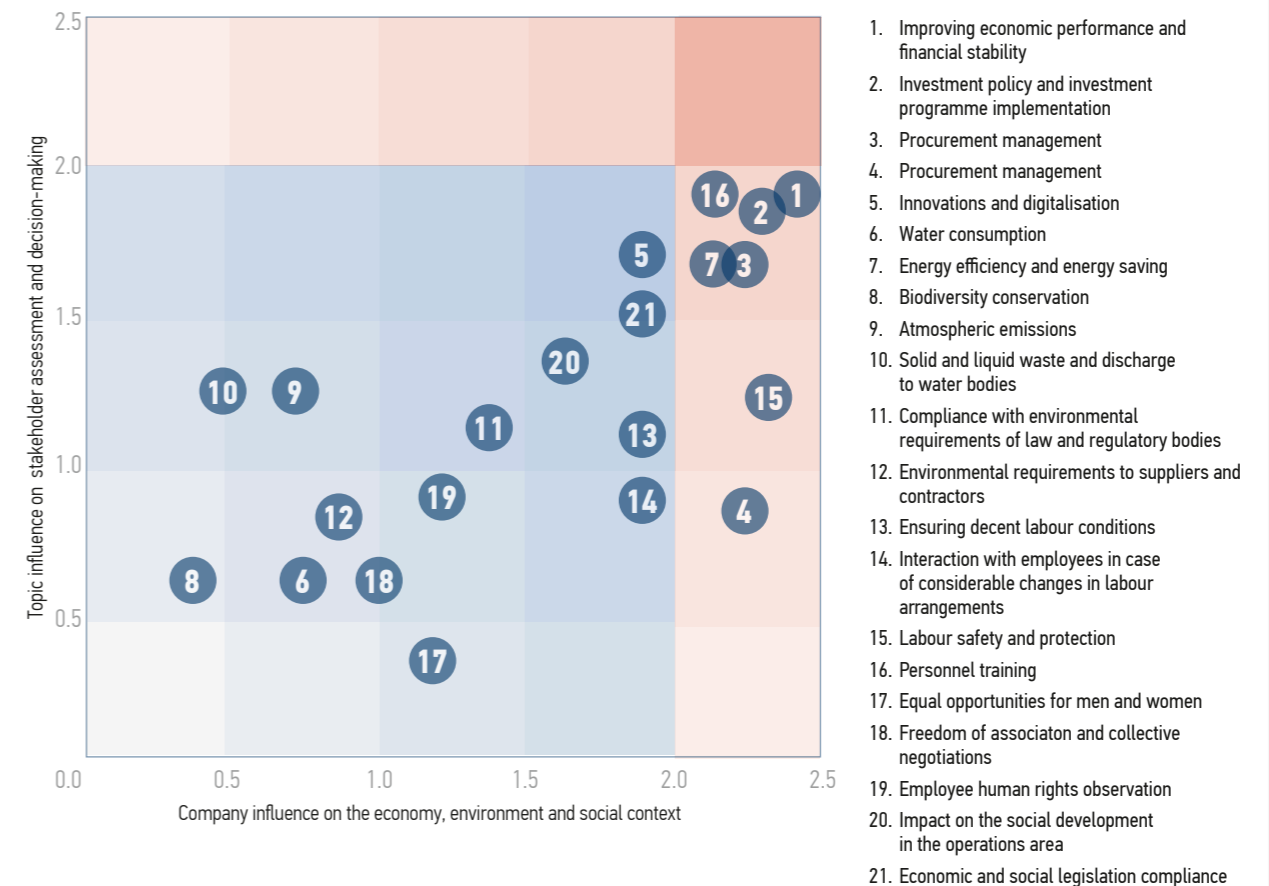
- Group I – material topics, scoring over 2.5 points by at least one parameter;
- Group II – less material topics, scoring from 2.0 to 2.5 points by at least one parameter;
- Group III – immaterial topics, scoring under 2.0 points by both parameters.

The boundaries of the topics are PJSC IDGC of the North-West, including all branches and S&A. There are no material changes regarding the scope and boundaries against the previous reports

GRI 103-1  
GRI 102-49

GRI 102-47

## MATERIALITY MATRIX



## RESPONSIBILITY FOR THE REPORT

The Report is approved by decisions of the Board of Directors (preliminarily) and Annual General Shareholders' Meeting of PJSC IDGC of the North-West.

GRI 102-32

## AUDIT REPORT ON NON-FINANCIAL REPORTING



### INDEPENDENT PRACTITIONER'S CONCLUSION ON THE LIMITED ASSURANCE ENGAGEMENT

*Attn: the management of the Public Joint-Stock Company Interregional Distribution Grid Company of the North-West*

We carried out a limited assurance engagement regarding the appended 2019 Annual Report of the PJSC IDGC of the North-West<sup>71</sup> (hereinafter – the Report) for compliance with the requirements of the sustainable development reporting standards of the Global Reporting Initiative<sup>72</sup> (hereinafter – the Standards) for the core option.

#### The responsibility of the Public Joint-Stock Company IDGC of the North-West<sup>71</sup>

The Public Joint-Stock Company Interregional Distribution Grid Company of the North-West (hereinafter – PJSC IDGC of the North-West) is responsible for the preparation of the above Report in accordance with the requirements of the Standards to the core option. This responsibility includes development, introduction and maintenance of an internal control system applicable to preparation of the Report without any material misstatements due to fraud or error.

#### Our independence and quality control

We declare that we have complied with the independence requirement and other ethical requirements under the Rules on the Independence of Auditors and Auditing Organisations and the Code of Professional Ethics for Auditors, in line with the International Code of Ethics for Professional Accountants (including International Independence Standards) developed by the International Ethics Standards Board for Accountants, based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, and we have performed other duties in accordance with the requirements of professional ethics.

The auditing organisation follows International Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and, therefore, implements systemic quality control, including documented policy and procedures for compliance with ethical requirements, professional standards and applicable legislative and regulatory requirements.

#### Our responsibility

Our responsibility is to provide a conclusion on the limited assurance engagement regarding the Report for compliance with the requirements of the Standards for the core option on the basis of the procedures performed and evidence obtained. We have performed our limited assurance engagement in accordance with International Standard on Assurance Engagements (revised) 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. According to this standard, the engagement was planned and performed so as to obtain limited assurance that the Report is free from material misstatement.

A limited assurance engagement performed in accordance with this standard involves an assessment of the Report compliance with the requirements of the Standards to the core option.

A limited assurance engagement involves a considerably lower scope of work than a reasonable assurance engagement, regarding both the procedures of risk assessment, including internal control system analysis, and the procedures in response to the assessed risks.

The procedures we have performed were based on our professional judgement and included requests, document inspection, analytical procedures, assessment of the adequate quality of measurement methods and reporting policy, as well as agreement or reconciliation with the relevant data.

#### Considering the conditions of the engagement, to perform the above procedures we:

- interviewed and received documentary evidence from the management and employees of PJSC IDGC of the North-West;
- studied the data available on the website of PJSC IDGC of the North-West regarding the sustainable development related activities;
- studied the official third-party statements on the economic, environmental, social aspects of the PJSC IDGC of the North-West business to verify the validity of the claims in Report;

- analysed non-financial reporting of companies in a comparable market segment for the purposes of benchmarking;
- selectively studied documents and data on the effectiveness of the PJSC IDGC of the North-West systems used to manage economic, environmental and social aspects of sustainable development;
- studied the current processes of collection, processing, documentation, verification, analysis and selection of the data to be included in the Report;
- analysed the Report information for compliance with the requirements of the Standards to the core option.

#### The procedures were performed solely regarding the data for 2019.

The reliability assessment for the Report information on effectiveness applied to compliance with the requirements to the core option of the Report in accordance with the Standards and the information referred to in the Report section “GRI Index”. Concerning this information we assessed the correspondence of the disclosed data to the external and internal reporting documents provided to us.

The procedures did not cover forward-looking statements; opinions, convictions or intentions of PJSC IDGC of the North-West to perform certain future actions; as well as the disclosures where the Report cites professional judgement as sources.

The procedures were performed for the Russian-language version of the Report containing information subject to publication both in print and in the electronic form on the website of PJSC IDGC of the North-West.

We did not have an opportunity to verify the preliminary approval of the Report by the Board of Directors, approval of the Report by the Annual General Shareholders’ Meeting, Report upload to the PJSC IDGC of the North-West website, as well as notification of the Global Reporting Initiative of the Standards use in the Report preparation, as the date of signing this conclusion preceded the scheduled dates for these procedures.

The procedures performed within the limited assurance engagement are different in nature and have a lower scope than those involved in a reasonable assurance engagement. Therefore, the level of certainty achieved in the limited assurance engagement is much lower than that which would be possible in a reasonable assurance engagement. Therefore, we do not express an opinion of reasonable assurance for the Report in all material aspects in accordance with the requirements of the Standards to the core option.

#### Grounds for the qualified conclusion on the findings of the limited assurance engagement

Reporting item 102-8 of the Standards is presented in the Report without breaking down the number of employees by the employment contract (including by gender and region) and by employment type (including by gender).

#### Qualified conclusion on the findings of the limited assurance engagement

On the basis of the procedures performed and the evidence obtained, with the exception of the circumstances described in the section “Grounds for the qualified conclusion on the findings of the limited assurance engagement” of the current conclusion, no facts have come to our attention that would lead us to believe that the Report was not in all material respects prepared in accordance with the requirements of the Standards to the core option.

Limited liability company  
“Financial and Accounting Consultants”  
Practitioner  
Partner

subject to power  
of attorney No. 76/18  
of 17 December 2018

Moscow, Russian Federation,  
14 April 2020



V. Yu. Skobarev

<sup>71</sup> The Report includes information on the activities of PJSC IDGC of the North-West, its branches, subsidiaries and affiliates.

<sup>72</sup> GRI Sustainability Reporting Standards.

## STANDARDS COMPLIANCE CHARTS

### GRI index

GRI 102-55

GRI indicator	Information disclosure in the Report	Report section / number of Annex to the Report	Excluded information / comments
GRI 101	Foundation 2016	Report overview, p.238	
<b>GRI 102 GENERAL DISCLOSURES 2016</b>			
<b>1. ORGANISATION PROFILE</b>			
GRI 102-1	Name of the company	Addresses and contacts, p.259	
GRI 102-2	Activities, brands, products, and/or services	Key performance indicators, p.29; Modern single brand architecture, p.8	Core businesses include power transmission and technological connection of consumers to grids, as well as sales of electric power to end users in the north-western region of Russia.
GRI 102-3	Location of headquarters	Addresses and contacts, p.250	3A Konstitutsii Sq., Saint Petersburg, 196247, Russia, office 16H
GRI 102-4	Geographical footprint	The Company's geographical footprint, p.30	
GRI 102-5	Ownership and legal form	Addresses and contacts, p.250	
GRI 102-6	Markets served	Geographical footprint, p.30 Production results, p.56, 60	
GRI 102-7	Scale of the organisation	Key performance indicators, p.27; Geographical footprint, p.30; Production results, p.56; Financial performance analysis, p.84, Personnel headcount and breakdown, p.111. Capital structure is shown on p.11 of the IFRS consolidated financial reporting for 2019	
GRI 102-8	The Company's staff and employees	Human resources and social policy, p.111	
GRI 102-9	Supply chain	Supply chain, p.34	
GRI 102-10	Significant changes to the scope of the organisation and its supply chain		Since 01 January 2019, the Company has stopped performing the functions of power supplier of last resort in the Vologda Region (Order of the Russian Ministry of Energy of 29.11.2018 No. 110). There were no other material changes in the Company structure (incl. share capital structure). There were no material changes in the supply chain in the reporting period.
GRI 102-11	Precautionary principle or approach		In accordance with the precautionary principle, PJSC IDGC of the North-West aims to avoid any anticipated environmental damage, even in the absence of any scientifically proven data that a certain activity causes such damage. The stage of design documentation development for construction / renovation of power grid facilities involves assessment of the environmental impact of their operation; and design arrangements are made to prevent or mitigate any possible negative impact.
GRI 102-12	Charters, principles or other initiatives which the organisation has joined or supported		<ul style="list-style-type: none"> <li>International standard ISO 9001-2015 (GOST ISO 9001-2015) – Quality Management Systems. Requirements</li> <li>International standard ISO 14001:2015 – Environmental management systems. Requirements with guidance for use</li> <li>Global Reporting Initiative recommendations (GRI Standards)</li> <li>International Integrated Reporting (IR) Standard recommendations</li> <li>Anti-Corruption Charter of the Russian Business</li> </ul>

GRI indicator	Information disclosure in the Report	Report section / number of Annex to the Report	Excluded information / comments
GRI 102-13	Membership of the organisation in associations, industry and / or national and international organisations for protection of interests		<ul style="list-style-type: none"> <li>ANO Strategic Partnership of the North-West</li> <li>Association Non-Commercial Partnership of Territorial Power Grid Organisations</li> <li>Association Non-Commercial Partnership – Market Council for Organising Efficient System for Wholesale and Retail Trade in Electric Energy and Capacity</li> <li>Non-Commercial Partnership – Research and Development Council of the Unified Power System</li> <li>Non-Commercial Partnership – Union of Power Industry Auditors and Energy Service Companies</li> <li>Union Energostroy Self-Regulated Organisation – Interregional Industry Union of Employers, Association of Organisations Involved in Construction, Renovation and Overhauls of Power Facilities, Grids and Substations</li> <li>Non-Commercial Partnership EnergoProekt – Association of Organisations Preparing Design Documents for Power Facilities, Grids and Substations</li> <li>Self-Regulated Organisation Association – Non-Commercial Partnership EnergoProfAudit</li> <li>Self-Regulated Organisation Association – Saint Petersburg Builders Union</li> <li>Interregional Industrial Association of Employers of the Power Sector of Russia (RaEl)</li> </ul>
<b>2. STRATEGY</b>			
GRI 102-14	Statement from senior decision-maker in the organisation	Address by the General Director, p.6	
<b>3. ETHICS AND GOOD BUSINESS PRACTICE</b>			
GRI 102-16	Values, principles, standards, and norms of behaviour	Responsible business, p.132; Overview of the Company's corporate governance, p.146	
GRI 102-17	Mechanisms for advice and concerns about ethics		Under p. 13.3 of the Code of Corporate Ethics and Executive Conduct for Employees, approved by the BoD of the Company on 03.05.2017 (Minutes No.240/31), if an employee is uncertain of further actions in a complicated situation described therein, or faces a situation involving a breach of the rules stipulated by the Code, he or she can seek consultation, advice or assistance from: <ul style="list-style-type: none"> <li>the immediate superior;</li> <li>the unit performing the functions of preventing corruption and other violations.</li> </ul>
<b>4. CORPORATE GOVERNANCE</b>			
GRI 102-18	Corporate governance structure	Overview of the Company's corporate governance, p.146	
GRI 102-22	Composition of the highest governance body and its committees	Composition of the Board of Directors, p.160 Committees of the Board of Directors, p.168, 170, 172, 174, 175	
GRI 102-23	Chair of the highest governance body	Composition of the Board of Directors, p.162	
GRI 102-25	Conflicts of interest	The system for conflict of interest prevention and insider information, p.219	
GRI 102-26	Role of highest governance body in setting purpose, values, and strategy	Board of Directors, p.154 Strategy Committee, p.171	
GRI 102-28	Evaluating the highest governance body's performance	Independent assessment of the Board of Directors performance, p.161	
GRI 102-30	Effectiveness of risk management processes	Risk management system, p.194	
GRI 102-32	Highest governance body's role in sustainability reporting	Responsibility for the Report, p.239	
GRI 102-35	Remuneration policies	The Company remuneration system, p.184	



GRI indicator	Information disclosure in the Report	Report section / number of Annex to the Report	Excluded information / comments
GRI 102-36	Process for determining remuneration	Remuneration system for members of the Board of Directors, p.184; Remuneration system for members of the Board of Directors Committees, p.187; Remuneration system for the General Director and members of the Management Board, p.189	
<b>5. STAKEHOLDER INTERACTION</b>			
GRI 102-40	List of stakeholders	Stakeholder interaction, p.105	
GRI 102-41	Collective agreements	Current standards of sustainable development, p.25	The collective agreement is valid for all employees of IDGC of the North-West.
GRI 102-42	Identifying and selecting stakeholders for interaction	Stakeholder interaction, p.104	
GRI 102-43	Approach of the organisation to stakeholder engagement	Stakeholder interaction, p.105 Materiality definition, p.239	
GRI 102-44	Key topics and concerns raised by each group of stakeholders	Stakeholder interaction, p.105 Materiality definition, p.239	
<b>6. REPORT OVERVIEW</b>			
GRI 102-45	List of legal entities whose reporting was included in the consolidated financial reporting		The consolidated financial reporting includes performance indicators of PJSC IDGC of the North-West, including all branches, JSC Pskovenergoagent, JSC Pskovenergosbyt, JSC Energoservis Severo-Zapada and OJSC Lesnaya Skazka. The material topics of these companies are also covered by the Sustainable Development Report.
GRI 102-46	Methodology of defining the report contents	Materiality definition, p.238	
GRI 102-47	List of material topics	Materiality definition, p.239	
GRI 102-48	Restatements of information	Report overview, p.238	
GRI 102-49	Changes regarding the scope, boundaries or measurement methods used in the report	Materiality definition, p.243	
GRI 102-50	Reporting period	Report overview, p.238	
GRI 102-51	Date of the previous report	Report overview, p.238	
GRI 102-52	Reporting cycle	Report overview, p.238	
GRI 102-53	Contact point for questions regarding the report	Addresses and contacts, p.251	
GRI 102-54	Claims of reporting in accordance with the GRI Standards	Report overview, p.238	
GRI 102-55	GRI content index	GRI index, p.242	
GRI 102-56	External assurance	Report overview, p.238	The choice of independent non-financial auditor is made under an open procurement procedure, in accordance with the Procurement Plan approved by the Board of Directors of the Company. The Annual Report is compiled following the order of the General Director "On preparation of the Annual Report 2019 of PJSC IDGC of the North-West". No external public verification was carried out.
<b>GRI 103. MANAGEMENT APPROACH 2016</b>			
GRI 103-1	Explanation of the material topic and its boundaries	Materiality definition, p.239	
GRI 103-2	The management approach and its components	Specified individually for each material topic	
GRI 103-3	Evaluation of the management approach	Specified individually for each material topic	

GRI indicator	Information disclosure in the Report	Report section / number of Annex to the Report	Excluded information / comments
<b>MATERIAL TOPICS (GROUP I AT THE MATERIALITY MATRIX)</b>			
<b>IMPROVEMENT IN ECONOMIC EFFICIENCY AND FINANCIAL STABILITY. GRI 201. Economic performance 2016</b>			
GRI 103-2	The management approach and its components	Strategic priorities and development prospects, p.41	
GRI 103-3	Evaluation of the management approach	Strategic priorities and development prospects, p.43	
GRI 201-3	Defined benefit plan obligations and other retirement plans		The information of the IDGC of the North-West Group's defined-benefit retirement programme obligations is provided in Note 27 to the IFRS consolidated financial reporting for 2019 at <a href="http://www.mrsksevzap.ru/id_1yearfinreport#tab2">http://www.mrsksevzap.ru/id_1yearfinreport#tab2</a> .
GRI 201-4	Financial assistance received from government	Financial performance analysis, p.95 Capital structure, p.220	In the reporting year, the Company also received and fully repaid public budgetary funds financing preventive measures to reduce occupational injury rate and professional diseases in the amount of RUB 11,007 thous. Subsidiaries of the Company did not receive material public subsidies.
<b>LESS MATERIAL TOPICS (GROUP II AT THE MATERIALITY MATRIX)</b>			
<b>INVESTMENT POLICY AND INVESTMENT PROGRAMME IMPLEMENTATION. GRI 203. Indirect economic impacts 2016</b>			
GRI 103-2	The management approach and its components	Investment activities, p.50	
GRI 103-3	Evaluation of the management approach	Investment activities, p.50, 52	
GRI 203-1	Infrastructure investments and services supported	Priority investment projects completed in 2019, p.55	
<b>PROCUREMENT MANAGEMENT. GRI 204. Procurement practices 2016</b>			
GRI 103-2	The management approach and its components	Procurement activities, p.134	
GRI 103-3	Evaluation of the management approach	Procurement activities, p.135	
GRI 204-1	Proportion of procurement spending on local suppliers	Supply chain, p.34	
<b>ANTI-CORRUPTION MANAGEMENT. GRI 205. Anti-corruption 2016</b>			
GRI 103-2	The management approach and its components	Anti-corruption policy, p.137	
GRI 103-3	Evaluation of the management approach	Anti-corruption policy, p.138	
GRI 205-1	Operations assessed for risks related to corruption		No identification and assessment of corruption risks was carried out regarding operational units in 2019. The Company is to continue implementation of the requirements outlined in PJSC Rosseti Order of 19.01.2018 No.11r "On approval on the standard corruption risk methodology at PJSC ROSSETI in 2020".
<b>ENERGY EFFICIENCY AND ENERGY SAVING. GRI 302. Energy 2016</b>			
GRI 103-2	The management approach and its components	Power transmission and losses, p.59	
GRI 103-3	Evaluation of the management approach	Power transmission and losses, p.59 Annex 30. Data on the amount of energy resources used in 2019 to the full version of the Annual Report on the Company's website: <a href="http://www.mrsksevzap.ru/en/informationonshareholdersmeetings">http://www.mrsksevzap.ru/en/informationonshareholdersmeetings</a>	
GRI 302-1	Energy consumption within the organization	Annex 30. Data on the amount of energy resources used in 2019 to the full version of the Annual Report on the Company's website: <a href="http://www.mrsksevzap.ru/en/informationonshareholdersmeetings">http://www.mrsksevzap.ru/en/informationonshareholdersmeetings</a>	
GRI 302-4	Reduction of energy consumption	Power transmission and losses, p.59	2018 – base year.
<b>OCCUPATIONAL HEALTH AND SAFETY. GRI 403. Occupational health and safety 2016</b>			

GRI indicator	Information disclosure in the Report	Report section / number of Annex to the Report	Excluded information / comments
GRI 103-2	The management approach and its components	Occupational health and safety, p.120	
GRI 103-3	Evaluation of the management approach	Occupational health and safety, p.121-123	
GRI 403-4	Coverage of the health and safety issues in official agreements with trade unions	Annex 18. Labour safety report to the full version of the Annual Report on the Company's website: <a href="http://www.mrsksevizap.ru/en/informationonshareholdersmeetings">http://www.mrsksevizap.ru/en/informationonshareholdersmeetings</a>	The Company's obligations regarding personnel health are additionally stipulated by the collective agreement of PJSC IDGC of the North-West. The collective agreement of PJSC IDGC of the North-West contains an article on labour safety. The S&A conducting operations with the average staffing number of over 10 persons (JSC Pskovenergosbyt, JSC Pskovenergoagent) have their own collective agreements, including labour safety articles.
<b>PERSONNEL DEVELOPMENT. GRI 404. Training and education 2016</b>			
GRI 103-2	The management approach and its components	Personnel training and development, talent pool, p.112	
GRI 103-3	Evaluation of the management approach	Personnel training and development, talent pool, p.112	
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	Personnel training and development, talent pool, p.112	
<b>IMMATERIAL TOPICS (GROUP III AT THE MATERIALITY MATRIX)</b>			
<b>BIODIVERSITY CONSERVATION. GRI 304. Biodiversity 2016</b>			
GRI 304-2	Significant impacts of activities, products, and services	Environmental policy, p.131	
<b>INTERACTION WITH EMPLOYEES UNDER CONSIDERABLE CHANGES IN LABOUR MANAGEMENT RELATIONS. GRI 402. Labour-management relations 2016</b>			
GRI 402-1	Minimum notice periods regarding operational changes, its specification in the collective agreement		Under Article 74 of the RF Labour Code (RF LC) regarding changes of labour conditions and Article 75 of the RF LC regarding change in the organisation's property owner, the minimum length of advance notice of the employees and their elected representatives of the implementation of the material operational changes which can considerably impact them is 2 months. Section 4 "Employment" of the collective agreement stipulates that in case the Company is reorganised, the Employer is obliged to notify PTUO representatives of the future reorganisation and provide them with information on the reorganisation decision made by the Shareholders' Meeting, within 20 days from the date of the decision.
<b>IMPACT ON THE SOCIAL DEVELOPMENT IN THE OPERATIONS AREA. GRI 413. Local communities 2016</b>			
GRI 413-1	Operations with local community engagement, impact assessments, and development programs	Highlights of the year, p.29 Public, government and media relations, p.108	
GRI 413-2	Operations with significant actual and potential negative impacts on local communities		In 2019, there were no operations with significant actual and potential negative impacts on local communities.
<b>SOCIOECONOMIC COMPLIANCE. GRI 419. Socioeconomic compliance 2016</b>			
GRI 419-1	Non-compliance with laws and regulations in the social and economic area		In the reporting period no material fines or non-financial penalties were imposed for failure to comply with the social or economic legislation requirements. RF Federal Taxation Service Interdistrict Tax Inspectorate Decision No.4 on major taxpayers, upon on-site tax audit for 2013-2015, in 2018, additional property tax was charged in the amount of RUB 66,179 thous. The Company accrued and paid the amount; currently it is disputing the decision of the tax authority in court.

Standard elements of the sector supplement

GRI indicator	Information disclosure in the Report	Report section / number of Annex to the Report	Excluded information / comments																							
EU4	Length of transmission and distribution lines by type	Company overview, p.12 Annex 2. Data on the key production assets in 2017-2019 to the full version of the Annual Report on the Company's website: <a href="http://www.mrsksevizap.ru/en/informationonshareholdersmeetings">http://www.mrsksevizap.ru/en/informationonshareholdersmeetings</a>																								
G4-DMA (previously EU8)	Research and development conducted for the increase of power supply reliability and sustainable development of the company	Innovative development, p.81																								
EU12	Power losses during power transmission and distribution as percentage of total volume of the power transmitted	Key performance indicators, p.26 Power transmission and losses, p.58	<table border="1"> <thead> <tr> <th rowspan="2">Indicator</th> <th colspan="3">Indicator value</th> </tr> <tr> <th>total</th> <th colspan="2">by voltage level</th> </tr> <tr> <td></td> <td></td> <th>HV and MV1</th> <th>distributing grids (MV2 and LV)</th> </tr> </thead> <tbody> <tr> <td>Power output to grid (generating losses), mln kWh</td> <td>34,594</td> <td>25,082</td> <td>9,511</td> </tr> <tr> <td>Actual (reported) line power losses, mln kWh</td> <td>2,156</td> <td>978</td> <td>1,179</td> </tr> <tr> <td>Actual (reported) power losses as percentage of the power output to grid, %</td> <td>6.23%</td> <td>3.90%</td> <td>12.39%</td> </tr> </tbody> </table>	Indicator	Indicator value			total	by voltage level				HV and MV1	distributing grids (MV2 and LV)	Power output to grid (generating losses), mln kWh	34,594	25,082	9,511	Actual (reported) line power losses, mln kWh	2,156	978	1,179	Actual (reported) power losses as percentage of the power output to grid, %	6.23%	3.90%	12.39%
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EU28	Power outage frequency	Improving power supply efficiency, reliability and quality, p.70																								
EU29	Average power outage duration	Improving power supply efficiency, reliability and quality, p.70																								

INTERNATIONAL INTEGRATED REPORTING (IR) STANDARD COMPLIANCE CHART

REFLECTION OF THE FUNDAMENTAL CONCEPTS OF THE IR STANDARD IN THE REPORT

Fundamental concepts	Used / not used
Value creation for the organisation and its stakeholders	Used
Capitals	Used
Value creation process	Used

COMPLIANCE OF THE REPORT WITH THE GUIDING PRINCIPLES OF THE IR STANDARD

Guiding principles	Complies / does not comply
Strategic focus and future orientation	Complies
Connectivity of information	Complies
Stakeholder responsiveness	Complies
Materiality	Complies
Conciseness	Partially complies*
Reliability and completeness	Complies
Consistency and comparability	Partially complies**

\* The presentation version of the Report complies with the principle. \*\* In 2018, the Company started using the GRI Standards, in 2019 – the Integrated Reporting Standard.

AVAILABILITY OF THE IR CONTENT ELEMENTS IN THE REPORT

Content elements	Report section	Page number
Company overview and operating context	Company overview, Market overview	12-15, 36-39
Governance	Corporate governance	142-193
Business model	Business model	32-33
Risks and opportunities	Risk management system	194-207
Strategy and resource allocation	Strategic development guidelines, Key performance indicators	40-43, 48-49
Performance	Key performance indicators, Business model	26-29, 32-33
Future outlook	Strategic development guidelines, Company development prospects, Investment activities, Production results	40-43, 45, 53-55, 56, 58, 60

## TERMS AND ABBREVIATIONS

Abbreviation, term		Abbreviation, term	
JSC	joint-stock company	SS	substation
ANO	autonomous non-profit organisation	RAS	Russian accounting standard
OL	overhead (power) line	RTS	Russian Trading System
HEI	higher education institution	RF	Russian Federation
AGSM	Annual General Shareholders' Meeting	PDZ	power distribution zone
HPP	hydroelectric power plant	ICS	internal control system
S&A	subsidiaries and affiliates	RMS	risk management system
UNPG	unified national power grid	BoD	Board of Directors
IP	investment programme	NWFD	North-Western Federal District
IT	information technologies	SSIW	self-supporting insulated wire
CDP	comprehensive programmes of power grids development	DS&P	power industry development schemes and programmes of the Russian constituent entities
KPI	key performance indicators	media	the mass media
PL	power line	OAMS	operation assets management system
MICEX	Public Joint-Stock Company Moscow Exchange MICEX-RTS	LGC/TGK	local generating company
IDGC	interregional distribution grid company	TR&R	technical re-equipment and renovation
SMB	small and medium businesses	M&R	maintenance and repairs
IFRS	International Financial Reporting Standards	LGO	local grid operator
MUE	municipal unitary enterprise	FES	fuel and energy sector
EMERCOM	RF Ministry for Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters	FTS of Russia	Federal Tariff Service
FAS of Russia	Federal Antimonopoly Service	EBITDA	earnings before interest, taxes, depreciation, and amortization
VAT	value-added tax	IR	investor relations
R&D	research and development	CU	conventional unit
NSPF	non-state pension fund	OS	organisational standard
RDB	Research and Development Board	PU	production unit
AWP	autumn and winter period	PEI CPE	private educational institution of continuing professional education
PJSC	public joint-stock company	QMS	quality management system
D&S	design and survey	TC	technological connection
PTUO	primary trade union organisation	IP	investment project
		CL	underground cable line

Abbreviation, term		Measurement units	
ACRA	Analytical Credit Rating Agency	A	ampere. Electric current measurement unit
AR	accounts receivable	ha	hectare. Area measurement unit
CR	company regulation	Gcal	gigacalorie. Heat energy measurement unit
LLC	limited liability company	kV	kilovolt. Electric voltage measurement unit
RAD	regulatory administrative document	MVA	megavolt-ampere. Measurement unit of apparent power
PJSC	public joint-stock company	kWh	kilowatt hour. Electric power measurement unit
RF CC	Criminal Code of the Russian Federation	kW, MW	kilowatt, megawatt. Active power measurement units
RAB	regulatory asset base	km	kilometre. Length measurement unit
GRR	gross revenue requirement	RUB mln	million roubles
CG	corporate governance	RUB bln	billion roubles
SLR	power supplier of last resort		
RTD	research and technology documentation		
CMIS	corporate management information system		
APMS	automated process management systems		
RPA	relay protection and automation		
CJSC	closely-held joint-stock company		
CCLCMF	centre for construction of large-capacity marine facilities		
Cont.	contract		
SG	switchgear		
DCTS	data collection and transfer system		
AMIS EPFM	automated measuring and information system for electric power fiscal metering		
UAV	unmanned aerial vehicles		
SIU	situational information unit		
FL	fault locators		
AERD	automated emergency response devices		
DCTD	data collection and transfer device		
DPC	data processing centre		
GCC	grid control centre		



## ADDRESSES AND CONTACTS

## 1. Company details:

Full name:	Public Joint-Stock Company Interregional Distribution Grid Company of the North-West
Short name:	PJSC IDGC of the North-West
Ownership and legal form	Joint private and foreign property, public joint-stock company
Address (location) of the Company:	3A Konstitutsii Sq., Saint Petersburg, 196247, Russia, office 16H
Phones, fax:	phone +7 (812) 305-10-00, fax +7 (812) 305-10-98
E-mail:	post@mrsksevzap.ru
Internet address:	www.mrsksevzap.ru
Bank details:	Tax ID 7802312751, KPP code 781001001, OGRN code 1047855175785 OKPO code 74824610 Current account 40702810855000000024 at the North-Western Bank of PJSC Sberbank Saint Petersburg Correspondent account 30101810500000000653 BIC 044030653

## 2. Registrar of PJSC IDGC of the North-West:

Full name:	Joint Stock Company R.O.S.T. Registrar
Short name:	JSC R.O.S.T. REGISTRAR
Location:	18 bldg 13, Stromynka St., 107996, Moscow
Mailing address:	PO box 9, 18 Stromynka St., 107996, Moscow
Phones:	+7 (495) 771-73-38, 771-73-39
Internet address:	http://www.rrost.ru/
Bank details:	Bank: JSC Alfa-Bank, Moscow, current account: 40701810399929300006, BIC: 044525593, correspondent account: 30101810200000000593 Tax ID: 7726030449

## 3. JSC R.O.S.T. Registrar standalone branch in Saint Petersburg:

Full name:	North-Western Branch of Joint-Stock Company R.O.S.T. Registrar
Location:	6 Belovodsky Lane, 194044, Saint Petersburg
Mailing address:	6 Belovodsky Lane, 194044, Saint Petersburg
Phones:	+7 (812) 401-63-13, 401-63-14
Internet address:	http://www.rrost.ru/
E-mail:	rrost-spb@rrost.ru

## 4. Auditor of PJSC IDGC of the North-West:

Full name:	Ernst & Young Limited Liability Company
Short name:	LLC Ernst & Young
Location:	77 bldg 1 Sadovnicheskaya Emb., Moscow, 115035 Russia
Mailing address:	77 bldg 1 Sadovnicheskaya Emb., Moscow, 115035 Russia
Phones:	+7 495 755 97-00, +7 495 755 97-01
Internet address:	ey.com/ru/ru
E-mail:	moscow@ru.ey.com

## 4.1. Saint Petersburg branch of Ernst &amp; Young Limited Liability Company

Location:	23 Malaya Morskaya St., Saint Petersburg, 190000 Russia
Mailing address:	23 Malaya Morskaya St., Saint Petersburg, 190000 Russia

## 5. Hotlines on power supply issues

Branch/IDGC	Hotline number
Arkhangelsk branch of PJSC IDGC of the North-West	8-800-333-02-52
Vologda branch of PJSC IDGC of the North-West	8-800-333-02-52 and 8 (8172) 76-85-00
Karelia branch of PJSC IDGC of the North-West	8-800-333-02-52 and 8 (8142) 78-32-28
Murmansk branch of PJSC IDGC of the North-West	8-800-333-02-52 and 8 (81553) 68-353
Komi branch of PJSC IDGC of the North-West	8-800-333-02-52 and 8-800-250-17-00
Novgorod branch of PJSC IDGC of the North-West	8-800-333-02-52 and 8 (8162) 700-230
Pskov branch of PJSC IDGC of the North-West	8-800-333-02-52 and 8 (8112) 59-79-99
Universal for the responsibility area	8-800-333-02-52 and 8-800-220-0-220

## 6. Shareholder and Investor Relations Department contacts

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Bogatyreva Ellina Fayruzovna	Principal specialist	+7 (812) 305-1010 ext. 437 bogatyrevaef@mrsksevzap.ru



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