

REPORT OF THE BOARD OF DIRECTORS ON DEVELOPMENT OF THE COMPANY IN PRIORITY AREAS OF OPERATION

A number of activities of the Company the Board of Directors has identified as preferable. In order to achieve strategic goals, the Company sets itself specific targets and implements measures aimed at developing the Company in the following priority areas:

SEQ NO.	ORDER OF PRIORITY	FOUNDATION	BASIC BASES FOR SETTING TARGET VALUES FOR 2018	INFORMATION TO DEVELOP IN THE DIRECTION IN 2018
1.	Ensuring the newly established level of reliability and quality of services provided in accordance with the regulatory legal acts	The decision of the Board of Directors on the issue "Concerning the priority areas of the Company's activities: about the promotion of the established level of reliability and quality of the services provided by the Company" (Minutes No. 121/2011, dated November 21, 2011)	Order of the Regional Energy Commission – Department of Prices and Rates of Krasnodar Region (REC-DPR KR) dated October 12, 2012, No. 59/2012-e	<p>In accordance with the Guidelines for calculating the level of reliability and quality of goods supplied and services rendered to the organization managing the unified national (All-Russian) electric power grid and local grid companies, approved by Order of the Russian Ministry dated 29.11.2016, No.1256, one of the essential components of the evaluation of the Company is a comprehensive indicator of the quality of services, provided by the grid operator, which value is used in making price (rates) adjustments, planned for a long-term regulatory period. The quality indicator of the services provided by the grid operator is determined by the quality level of technological connection to the network. Also, this order sets up the procedure for calculating the indicator of the reliability level of the services provided.</p> <p>By the Order of REC-DPR KR dated December 27, 2017, No. 62/2017-e "Concerning setting the rates for the companies, providing services for the transmission of electric energy", the long-term regulation characteristics were set for 2018–2022. The following values were set for 2018:</p> <ul style="list-style-type: none"> • indicator of the quality level of the technological connection to the network (an indicator of technological connection – ITC), which is equal to 1.009; • indicator of average duration of stopping the electricity transmission to the point of delivery, which is equal to 4.5832 hours; - indicator of the average frequency of electricity transmission to the point of delivery, which is equal to 1.0570 pcs. <p>According to the Kubanenergo PJSC performance in 2018, the average value of indicator was as follows:</p> <ul style="list-style-type: none"> • by the indicator of the quality level of technological connection to the network (ITC) – 1.0369, the planned value of the indicator is considered to be reached by Kubanenergo PJSC with account for allowable variation factor of 35%; • by the of average duration of stopping the electricity transmission at the point of delivery – 1.1138 h; • by the indicator of the average frequency of electricity transmission to the point of delivery – 0.5012 pcs.

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2.	Ensuring the availability of energy infrastructure and the quality of technological connection to the Company's power grids	The decision of the Board of Directors on the issue "Concerning the priority direction of the Company's activities: concerning the availability of energy infrastructure and the quality of technological connection to the Company's power grids" (Minutes No. 196/2014 dated September 12, 2014)	Decision of the Board of Directors (Minutes No. 196/2014 of September 12, 2014) and Order of the Company No. 131 of February 18, 2014 "On Improving Technological Connection"	<p>Currently, the technological connection procedure takes three steps:</p> <ul style="list-style-type: none"> • filing an application, • the conclusion of the contract • execution of the contract. <p>To increase the availability and reduce the cost of technological connection for small and medium-sized businesses, from 01.10.2017, the cost of technological connection of power receiving devices with a maximum power of up to 150 kW does not include the costs associated with the construction of transmission facilities – from the existing transmission facilities to the connected power receiving devices and (or) electricity generation facilities (in accordance with the Federal Law of March 26, 2003, No. 35-ФЗ "On Electric Power Industry").</p> <p>Determining the technical solutions for interconnection, an approach is used which consists in the optimality from the point of view of reducing the volume of reconstruction (construction) of electric grid infrastructure facilities on the part of the Company.</p> <p>The possibility of a preliminary calculation of the cost of technological connection according to the specified parameters is already available on the website of the Company.</p> <p>The possibility of a preliminary calculation of the cost of technological connection according to specified parameters also functions on the Company's website.</p> <p>Information about the total capacity is published for each section of the electrical network, the current power reserve for connecting consumers.</p> <p>In accordance with the order of PJSC Rosseti dated December 02, 2016 No. 148 "Concerning the creation of favorable conditions for conducting small and medium business", the average time for execution of technological connection contracts for this category of applicants was 100 days, while the average time for consideration of the application and the direction of the contract offer decreased from 8 to 6 days compared with 2017.</p> <p>Further reduction in the technological connection terms for privileged categories of applicants was scheduled for 2019.</p>
3.	Planning the development of the distribution grid complex of Kubanenergo PJSC	The decision of the Board of Directors on the issue "Concerning the priority direction of the Company's activities: about planning the development of the distribution power grid of OJSC Kubanenergo (Minutes No. 116/2011 dated 07.09.2011)	The Operating Procedure for the РП00104604-ИСМ-003-2016 process "Management of the distribution power grid development"	<p>The Company took a hands-on approach to the development of the Scheme and Program for the future development of the electric power industry in the Krasnodar Territory for the period 2019-20236 and the Schemes and Programs for the Development of the Power Industry of the Republic of Adygea for 2018-2022.</p> <p>In the reporting year, the Integrated Program for the Development of Electric Networks 35 kV and higher in the Krasnodar Territory and the Republic of Adygea for 2019-2023 was developed by request of JSC "Institute ENERGOSETPROEKT" of Kubanenergo PJSC This program is the basis for the annual formation of proposals for the inclusion of activities in the Schemes and Programs for the future development of the power industry of Krasnodar Territory and the Republic of Adygea for a five-year period.</p>

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4.	Certification of equipment, materials, and systems at the Company's facilities	The decision of the Board of Directors regarding "The definition of priority activities: on certification of equipment, materials and systems at the Company's facilities (Minutes No. 190/2014 dated 06.06.2014)	The absence of facts regarding the equipment, materials, and acquisition of systems, not certified in PJSC Rosseti or not approved for use at the Company's facilities by the decision of the Company's commission for the approval of equipment, materials, and systems	<p>As a part of the implementation of the priority direction, as well as pursuant to the order of PJSC Rosseti of 02.09.2013, No. 546 (as amended), pursuant to the decision of the Board of PJSC Rosseti (Minutes No. 225np dated 31.03.2014), in order to prevent deliveries of products that do not meet the requirements of industry regulatory and technical documentation (hereinafter referred to as NTD) to the Company's facilities, as well as internal standards and NTD of the Company, Order of Kubanenergo PJSC dated 30.05.2014, No. 476 "Concerning certification of equipment, materials and systems" entered into force as the Company's internal documents:</p> <ul style="list-style-type: none"> • Methods of certification of equipment, materials and systems in the integrated power grid; • The procedure for certification of equipment, materials, and systems in the integrated power grid; • there was appointed the Company's Commission for approval of equipment, materials and systems (hereinafter – Company CAE) and was approved the operating procedure for the Company CAE (R 054-2014) (hereinafter – the Operating Procedure). <p>Kubanenergo PJSC strictly complies with the requirements of the Regulations of PJSC Rosseti "On Unified Technical Policy in the Integrated Power Grid" approved by the Board of Directors of Kubanenergo PJSC (minutes No. 267/2017 of 31.03.2017) and enforced by order of the Company dated 31.03.2017, No. 859.</p> <p>At the same time, Kubanenergo PJSC in its production activities uses a list of equipment, materials and systems that have passed the certification procedure and have a valid conclusion of the attestation commission and recommended for use at the grid facilities of the subsidiaries and dependent companies of PJSC Rosseti, posted on the official website of PJSC Rosseti www.rosseti.ru in the section "Investments and Innovations".</p> <p>The requirement for the availability of certification by PJSC Rosseti for the equipment, materials, and systems proposed for procurement is specified in the procurement documentation.</p> <p>The technical expert appointed by the order for regulated procedures, within the framework of the selection stage of the procurement procedure, checks the availability of equipment, materials, and systems proposed by the participants in the above list and at the identification of machinery, materials, and systems not certified by PJSC Rosseti, brings this issue for the consideration of the Head of Department for the arrangement of bidding procedures and to the meeting the Company CAE.</p> <p>Thus, all activities of Kubanenergo PJSC in this direction are carried out based on the relevant decisions and documents of PJSC Rosseti, which excludes the possibility of using the equipment, materials, and systems not certified in the prescribed manner at Kubanenergo PJSC facilities.</p>

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5.	Increasing the level of anti-terrorism and anti-sabotage security of the Company's electric grid facilities	<p>Decisions of the Board of Directors on the following matters:</p> <ul style="list-style-type: none"> • "Concerning the definition of priority activities: on measures to increase the level of anti-terrorism and anti-sabotage security of the Company's facilities" (Minutes No. 94/2010, dated 06.08.2010) • "Concerning the approval of the internal document – Policy for ensuring the integrated security of Kubanenergo OJSC (minutes No. 202/2015 dated 30.01.2015) 	<p>The policy of ensuring the integrated security of Kubanenergo PJSC, approved by a decision of the Board of Directors (minutes No. 202/2015 dated 30.01.2015)</p>	<p>In its efforts to improve the level of anti-terrorism protection of the facilities of Kubanenergo PJSC, it is guided by the regulatory legal acts of the Russian Federation and the Krasnodar Territory, as well as decisions of the Company's management bodies.</p> <p>In order to ensure the safety of the Company's facilities, in 2018 the following measures were implemented:</p> <ul style="list-style-type: none"> • local Regulations of the Company to enhance anti-terrorist protection of facilities and personnel actions upon detection of suspicious objects or signs of a terrorist nature were published and executed in a timely manner; • the state of engineering security equipment at the Company's facilities was regularly examined; • inspections of the state of protection of objects were carried out together with representatives of law enforcement agencies; • there were performed the unscheduled inspections of the service performed by employees of private security organizations engaged in the protection of the Company's facilities; • instruction of the duty operators and operational staff in outreach activities in cases of detection of signs of a terrorist nature at the Company's facilities were carried out on a weekly basis; • in all branches of the Company, training was conducted on personnel actions when foreign objects and persons were found at energy facilities; • the plans for joint actions of the Company with the law enforcement bodies of the Krasnodar Territory and the Republic of Adygea were developed in the event of an emergency, same there were developed and agreed upon the relevant interaction schemes; • measures to improve the level of anti-terrorism protection of facilities were included in the Company's long-term investment program for the period 2019–2023; • measures to prepare the integrated security system of the Company's facilities for the 2018 World Cup. <p>In close cooperation with the territorial bodies of the Federal Security Service of Russia, the Ministry of Internal Affairs of Russia, the Russian Guard, the security of the Company's power facilities involved in the energy supply of the infrastructure facilities of the FIFA World Cup 2018;</p> <ul style="list-style-type: none"> • measures were taken to ensure the safety of the Company's energy facilities involved in holding social and political events (Russian Investment Forum in Sochi, Congress of the Syrian National Dialogue in Sochi, the election of the President of Russia, etc.)
6.	Improving the system of in-process monitoring and risk management, the development of the internal audit function	<p>The decision of the Board of Directors on the issue "Concerning the priority direction of the Company's activities: improving the system of internal control and risk management, the development of the internal audit function" (minutes No. 196/2014 dated 12.09.2014)</p>	<p>Strategy for the development and improvement of the internal control system of PJSC Rosseti and subsidiaries and affiliates PJSC Rosseti (minutes of the meeting of the Board of Directors of Rosseti OJSC dated 13.02.2014, No. 143), Company's order dated 12.01.2016, No. 6 "On implementation of the Efficiency Assessment Method in the internal control and risk management systems of the Rosseti Group of Companies, decision of the Audit Committee of the Company's Board of Directors (minutes No. 36/2016, dated 17.03.2016)</p>	<p>Measures implemented in the reporting year aimed at improving the internal control system, see the section "Internal Control System"</p>

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7.	Comprehensive programs of Kubanenergo PJSC to reduce the risk of injuries to the personnel of Kubanenergo PJSC and third parties at the facilities of the electric grid complex of Kubanenergo PJSC for the period 2018-2022.	<ul style="list-style-type: none"> Order of PJSC Rosseti dated 29.03.2018, No. 55 "On approval of programs to reduce injury risks at the facilities of the integrated electric grid"; the decision of the operational meeting under the leadership of the General Director of PJSC Rosseti (Minutes No. 108, dated 24.10.2017); Order of PJSC Rosseti dated 14.12.2017, No. 156 "On approval of the Program for improving the quality of production control of PJSC Rosseti" 	Order of PJSC Rosseti dated 29.03.2018, No. 55	The Company progress report in 2018 for implementation of integrated programs to reduce the risks of injuries to the personnel of Kubanenergo PJSC and third parties at the facilities of the Company's integrated electric grid for the period 2018-2022 was noted at a meeting of the Reliability Committee of the Board of Directors of Kubanenergo PJSC (extract from the minutes, dated 20.02.2019, No. 57/2019)
8.	Reduction of specific investment expenses by 30% compared to 2012	The Order of the Company dated 08.10.2013 No. 1226 "Concerning the Approval of the planning Procedure for Reducing Investment Costs by 30% Relative to the Level of 2012 when Forming the Investment Program of Kubanenergo OJSC" (as amended by the Order dated 20.03.2016, No. 209)	Order of the Company dated 20.03.2016, No. 209 "Concerning the Amendments to the Order of OJSC Kubanenergo, No. 1026 dated 08.10.2013"	In connection with the end of the first stage of performing the Strategy for the Development of the Electric Grid Complex of the Russian Federation, approved by Decree of the RF Government dated 03.04.2013, No. 511-p, adopted to achieve in 2017 a target for reducing specific investment costs by 30% compared to 2012, as well as the cancellation of the order of PJSC Rosseti dated 10.03.2016, No. 99p, which approved the method of planning to reduce investment costs by 30% relative to the 2012 level at elaboration of investment programs of subsidiaries and affiliates of PJSC Rosseti (order of PJSC Rosseti No. 474p dated 26.10.2018), the event has been replaced with "Not exceeding the actual unit costs over the planned unit costs (for facilities that were fully put into work in the reporting period)." By the end of 2018, this measure was totally completed
9.	Reduction of operating expenses (costs) by at least 2-3% annually	Decisions of the Board of Directors on the following matters: <ul style="list-style-type: none"> "Reducing the operating expenses (costs) by minimum 2-3% annually" (minutes dated 11.06.2015, No. 214/2015); "Approval of the Company internal document – the Operating Procedure for Increase in Operating Efficiency and Reduce of Costs of Kubanenergo PJSC (minutes No. 228/2015, dated 30.12.2015); "Approval of the business plan of Kubanenergo PJSC for 2018 and the forecast indicators for 2019-2022, including, among other things, the Program for improving operating efficiency and reducing the Company's expenses for the period 2018-2022" (minutes dated 28.12.2017, No. 294/2017) 	The decision of the Board of Directors of the Company (minutes dated 28.12.2017, No. 294/2017), minutes of the meeting with deputy general directors for economics and finance of the subsidiaries and dependent companies of PJSC Rosseti dated 29.03.2018, No. 3	According to the results of 2018, the target percentage of reduction in specific operating expenses (expenses) of at least 2% was taken into account (minutes with Deputy General Directors for economics and finance of subsidiaries and dependent companies of PJSC Rosseti dated 29.03.2018, No. 3). Obtained in 2018, the effect of reducing operating costs is at least 2%, which corresponds to the target value
10.	Measures to centralize and automate the treasury function	Decisions of the Board of Directors on the following matters: <ul style="list-style-type: none"> "Determining the priority directions of the Company's activities: implementation of measures to centralize and automate the treasury function by the Company" (Minutes of the Board of Directors dated 16.03.2015, No. 205/2015); "implementation of the scheduled plan of the Company for integration into the unified IT system of the Single Treasury of PJSC Rosseti (minutes No. 212/2015 dated 25.05.2015) 	Integration and transfer of treasury and financial functions into an automated system of centralization and automation of treasury and business services of PJSC Rosseti on the 1C: Enterprise platform	The Company carried out in full within the established period the measures for integration into the unified IT system of the Single Treasury of PJSC Rosseti in accordance with the regulatory documents of Kubanenergo PJSC and PJSC Rosseti, planned for 2018