

CORE ACTIVITIES

In accordance with the strategic tasks assigned to ROSSETI by the Government, and given the current trends and challenges affecting the electric grid sector, the goals and objectives of the ROSSETI Group are in the following main areas:

1. Secure a reliable and uninterrupted power supply and ensure energy security
2. Improve service quality and increase customer satisfaction
3. Maintain the accessibility of infrastructure and create the conditions for economic growth
4. Enhance the operating efficiency of electric grids
5. Keep a balance between the interests of different key stakeholders

The Company's principal goals are to secure a reliable and uninterrupted electricity supply, modernize and improve network reliability, promote innovative development, optimize operational performance, and ensure effective investment.

ROLE AND BUSINESS POSITION OF THE COMPANY

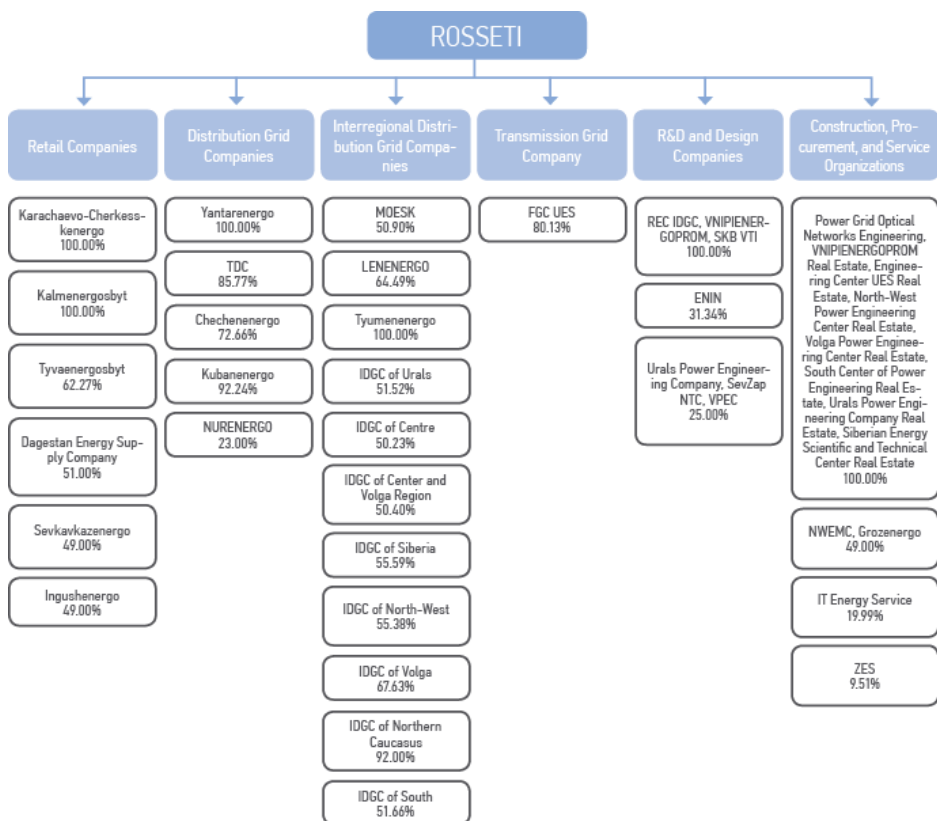
The ROSSETI Group is one of the most significant infrastructure companies in Russia and one of the world's largest electric grid companies in terms of the number of customers and the length of power lines. The Company is engaged in the operation of electric grid facilities in all Russian regions.

The Group holds Russia's main electric grid assets: 70% of distribution grids and 90% of transmission grids. The length of power lines is more than 2.3 million kilometers, the transformer capacity of 480,000 substations is over 751 GVA. In 2014, the ROSSETI Group's electricity transmission and distribution services generated 715 billion kWh.

ROSSETI SDCs operate in natural monopoly conditions and account for over 70% of all electricity transmission and distribution generated in the Russian Federation. For most electricity consumers in Russia, they provide services throughout the downstream process: from transmission from generation companies to distribution to customers' power-receiving equipment.

STAKES HELD BY ROSSETI IN SUBSIDIARIES AND DEPENDENT COMPANIES

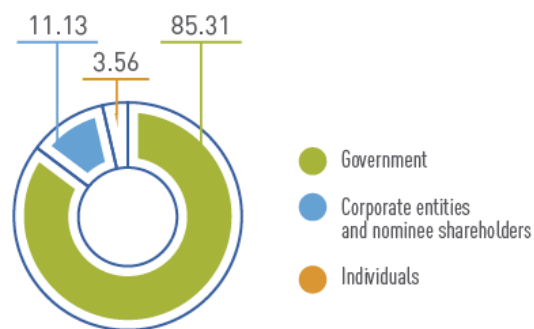
ROSSETI has shareholdings in 43 subsidiaries and dependent companies. As at the end of 2014, the ROSSETI Group held stakes in one transmission grid company, 11 interregional distribution grid companies, five distribution grid companies, seven regional retail companies, seven R&D and design companies, and 12 construction, procurement, and service organizations.



CAPITAL STRUCTURE

The share capital of ROSSETI is one hundred sixty-three billion, one hundred fifty-four million, two thousand, six hundred ninety-four (163,154,002,694) rubles and consists of one hundred sixty-three billion, one hundred fifty-four million, two thousand, six hundred ninety-four (163,154,002,694) shares, each with a par value of 1 ruble.

The largest shareholder is the Russian Federation represented by the Federal Agency for State Property Management (85.31%). Residents of the Russian Federation hold 95.7% of shares, while the remaining 4.3% of shares are distributed among corporate entities and individuals from 45 countries.



GOVERNANCE

Goals and Principles of Governance

ROSSETI's governance system is in accordance with the Russian applicable laws, the Articles of the Association, and internal regulatory documents. The Company also applies global best practices.

The principal goals and objectives of the Company's governance are as follows:

- protect the legitimate rights and interests of all shareholders of ROSSETI;
- constantly improve the mechanisms for relations between ROSSETI and shareholders, securities holders, and potential investors;
- enhance the transparency of governance bodies' decision-making, maximize the disclosure of information about the Company's activities, and improve the governance system.

The following principles underlie the Company's governance:

- accountability;
- fairness;
- transparency;
- responsibility.

On February 13, 2014, the Government of the Russian Federation approved the Corporate Governance Code as a recommendatory document. The Code was approved by the Board of Directors of the Bank of Russia on March 21, 2014, and recommended by the Bank of Russia (Letter No. 06-52 of April 10, 2014) for implementation by joint-stock companies whose shares are admitted to regulated trading.

In 2014, the Company compared its governance practices and the key provisions of the Corporate Governance Code. Based on the comparison, ROSSETI prepared a road map (the action plan to introduce the key provisions of the Code). The results of this work were submitted to the Ministry of Energy of the Russian Federation and the Federal Agency for State Property Management of the Russian Federation. In March 2015 (after the reporting date), the Board of Directors approved the action plan (road map) to introduce the Code into the Company's activities.

Governance Structure

The Company's highest governance body used by shareholders to exercise their right to participate in the Company's governance is the General Meeting of Shareholders. The procedure for convening and holding the General Meeting of Shareholders of ROSSETI is governed by the Regulations for the General Meeting of Shareholders approved by the Annual General Meeting of Shareholders on June 30, 2014.

Board of Directors

The Board of Directors is the collegial body in charge of the general management of ROSSETI's activities. The Board of Directors is responsible for defining the Company's strategy, supervises executive bodies, and protects the rights and legitimate interests of shareholders. The Board of Directors is composed of 15 members elected by the General Meeting of Shareholders at the suggestion of shareholders holding an aggregate of 2% of voting shares.

In 2014, the composition of the Board of Directors of ROSSETI was changed: the members elected by the General Meeting of Shareholders on June 28, 2013, served until June 30, 2014; the members elected on June 30, 2014, served after June 30, 2014.

MEMBERS OF THE BOARD OF DIRECTORS AFTER JUNE 30, 2014

Member of the Board of Directors	Term on the Board of Directors	Position as of the Time of Election
Sergey Ivanovich Shmatko Chairman of the Board of Directors	December 30, 2008 – June 22, 2011, June 23, 2013 – present	Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry
Boris Ilyich Ayuyev	June 23, 2013 – present	Chairman of the Management Board, SO UPS
Oleg Gennadyevich Barkin	June 30, 2014 – present	Member of the Board, NP Market Council
Oleg Mikhailovich Budargin	June 23, 2013 – present	Director General, ROSSETI
Anatoly Fyodorovich Dyakov	June 30, 2014 – present	President and Chairman of the Scientific and Technical Board, Scientific and Technical Council of Unified Energy System
Andrey Yurievich Ivanov	June 30, 2014 – present	Deputy Minister of Finance of the Russian Federation
Alexander Sergeevich Kalinin	June 30, 2014 – present	First Vice President for Energy and Infrastructure, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business
Vyacheslav Mikhailovich Kravchenko	July 1, 2008 – December 12, 2008; June 29, 2009 – present	Deputy Minister of Energy of the Russian Federation

Alexei Aleksandrovich Makarov	June 30, 2014 – present	Member of the Presidium, Russian Academy of Sciences
Sergei Nikolaevich Mironosetsky	June 30, 2014 – present	Member of the Board of Directors, Siberian Generation Company
Denis Stanislavovich Morozov	June 23, 2013 – present	Representative of the Russian Federation on the Board of Directors of the European Bank for Reconstruction and Development
Andrey Yevgenyevich Murov	June 23, 2013 – present	Chairman of the Management Board, FGC UES
Seppo Juha Remes	July 1, 2008 – present	Director General, Kiuru
Pavel Olegovich Shatsky	June 29, 2009 – June 22, 2011, June 30, 2012 – present	First Deputy Director General, Gazprom Energoholding
Andrey Nikolayevich Shishkin	June 23, 2013 – present	Vice President, Rosneft

INFORMATION ON THE INDEPENDENCE OF MEMBERS OF THE BOARD OF DIRECTORS

Member of the Board of Directors	In Accordance with the MICEX Stock Exchange Listing Rules	In Accordance with the Provisions of the Corporate Governance Code Recommended by the Bank of Russia ¹	Status of the Director as of the Time of Nomination for Election to the Board of Directors of the Company in 2014
Sergey Ivanovich Shmatko			representative of the Russian Federation
Boris Ilyich Ayuyev			representative of the Russian Federation
Oleg Gennadyevich Barkin			independent director
Oleg Mikhailovich Budargin			representative of the Russian Federation
Anatoly Fyodorovich Dyakov			independent director
Andrey Yurievich Ivanov			representative of the Russian Federation
Alexander Sergeevich Kalinin	independent director	independent director	independent director
Vyacheslav Mikhailovich Kravchenko			representative of the Russian Federation
Alexei Aleksandrovich Makarov	independent director	independent director	independent director
Sergei Nikolaevich Mironosetsky	independent director		independent director
Denis Stanislavovich Morozov			representative of the Russian Federation
Andrey Yevgenyevich Murov			representative of the Russian Federation
Seppo Juha Remes			representative of the Russian Federation
Pavel Olegovich Shatsky			independent director
Andrey Nikolayevich Shishkin			independent director

¹ In the Company's opinion.

Committees of the Board of Directors

In order to perform its functions in the most effective manner and preliminarily consider the most important issues falling within its competence, the Board of Directors set up six Committees. The members, competence, and working procedure of the Committees are determined by the Board of Directors and set forth in the Committee Regulations. Decisions made by the Committee are recommendatory.

COMMITTEES OF THE BOARD OF DIRECTORS

Committees	Functions
Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee Chairman: B. I. Ayuyev	The Committee's function is to formulate recommendations regarding the implementation of the investment and technical policies, reliability assurance, energy efficiency, and innovative development. The Committee monitors the implementation of: <ul style="list-style-type: none"> • the consolidated investment program; • the Annual Comprehensive Procurement Program of SDCs; • the Consolidated Innovative Development Program and the Consolidated Energy Conservation and Energy Efficiency Enhancement Program.
Society, Customer, and Government Relations and Information Policy Chairman: V. Ye. Mezhevich	The Committee is responsible for formulating recommendations with respect to improving relations with governmental agencies, local government authorities, and civil society organizations, improving the quality and reliability of customer service, and implementing the uniform information policy.
Valuation Committee Chairman: D. M. Belenky	The goal of the Committee is to provide assistance in developing and supervising asset and business valuation for the Company, its SDCs, and new companies.
Nomination and Remuneration Committee Chairperson from January 1, 2014, to September 10, 2014: M. V. Ochirova Chairman from September 10, 2014, to December 31, 2014: A. A. Makarov	The Committee preliminarily reviews and formulates proposals to: <ul style="list-style-type: none"> • define selection criteria for and preliminarily evaluate nominees for senior executives; • define material terms and conditions of contracts with senior executives; • develop principles and criteria of remuneration for the Company's management, regularly evaluate the activities of the Director General and members of the Management Board, and prepare proposals as to whether they can be reappointed; • formulate recommendations for the formation of the personnel reserve.
Strategy Committee Chairman: V. M. Kravchenko	The Committee prepares proposals for the Company's strategic development and for the preparation of standards for formulating development plans for SDCs and supervises the Company's development.
Audit Committee Chairman from January 1, 2014, to September 10, 2014: S. Remes Chairman from September 10, 2014, to December 31, 2014: A. S. Kalinin	The Committee ensures that the Board of Directors effectively supervises the Company's financial and economic activities by: <ul style="list-style-type: none"> • selecting the auditor; • assessing the reliability of financial statements; • assessing the external auditors' report; • assess the efficiency of the internal control and risk management system; • preventing conflicts of interest.

Management Board

The Management Board of ROSSETI is responsible for managing the Company's day-to-day activities, developing long-term plans, and submitting them and performance results for consideration by the Board of Directors.

MEMBERS OF THE MANAGEMENT BOARD OF ROSSETI

1. Oleg Mikhailovich Budargin	Chairman of the Management Board and Director General, ROSSETI
2. Dan Mikhailovich Belenky	Member of the Management Board and First Deputy Director General for Investment, ROSSETI
3. Roman Nikolaevich Berdnikov	Member of the Management Board and First Deputy Director General for Technical Policy, ROSSETI
4. Andrey Aleksandrovich Dyomin	Member of the Management Board and First Deputy Director General for Economic Affairs and Finance, ROSSETI
5. Valentin Yefimovich Mezhevich	Member of the Management Board and Deputy Director General for Strategic Communications, ROSSETI (as of the time of election)

AWARDS AND ACHIEVEMENTS IN THE REPORTING PERIOD

During the reporting year, ROSSETI's successful activities received several awards and prizes. In addition, the Company was granted awards in 2014 for its achievements in 2013.

- ROSSETI won in the category "Fuel and Energy Sector" of the Annual National Award "Company of the Year 2013."
- The Company received an award from the Russian Government in science and engineering for 2013 for developing and commercializing hydrogen and superconductor technology for the creation of the energy industry's crucially new MW capacity systems and for prototyping equipment for the generation, transportation, and accumulation of energy.
- In the 2013 National Procurement Transparency Rating of Contracting Public Entities, ROSSETI received the highest award.
- As a winner of the annual contest "Leader in Competitive Procurement 2013," the Company was recognized as "Company of the Year in Competitive Procurement."
- The Company won in the category "Procurement Transparency" of the annual contest "Leader in Competitive Procurement 2013."
- ROSSETI received the "High Procurement Management Quality" rating from Expert RA Rating Agency.
- As part of the 10th Annual Russian Big Business Forum "Expert 400," the ROSSETI Group won in the category "Investment Activity" for 2013.
- The Ministry of Education and Science of the Russian Federation granted two awards to ROSSETI's project to organize and hold the international youth forum of the electric power industry:
 - the winner's prize in the category "Russian World" for the best project of a Russian company promoting national values and cooperation principles abroad;
 - an award in the category "Technologies of the Future" for the development of strategic competencies of young specialists who will be leaders in the Russian electricity industry in the 2nd All-Russian Contest Among Employers' Best Practices "Creating the Future" for human resource development.
- In 2014, the media relations department of ROSSETI was recognized as the best in the electricity industry in the KonTEKst 2015 contest.
- The Company won a prize of the 17th annual nationwide contest of annual reports and corporate websites organized by the Moscow Exchange and RCB Media Group for the best disclosure.
- The ROSSETI Group received the "Guaranteed Transparency" rating (National Procurement Transparency Rating).

