

All of ROSSETI's grid subsidiaries are members of the All-Russia Trade Association of Employers in the Power Industry (RaEl Association), covered by the Sectoral Wage Rate Agreement in the Electric Power Industry of the Russian Federation for 2013–2015 (SWRA) at the federal level of social partnership. The collective bargaining agreements of electric utilities are at the local level of social partnership and are subject to the provisions of the SWRA. Over 80% of the ROSSETI Group's employees are members of labor unions.

In December 2014, the RaEl Association and the All-Russian Electrounion (AREU) signed an agreement to extend the term of the SWRA for 2016–2018. Under the agreement, the benefits, guarantees, and compensation provided by the SWRA for the electricity industry's workers will continue into 2016–2018.

The labor compensation system of the Company's subsidiaries is based on the provisions of existing collective bargaining agreements and is specified in the compensation regulations and other local acts governing the procedure for providing employees with social benefits and guarantees.

Under the Sectoral Wage Rate Agreement in the Electric Power Industry of the Russian Federation for 2013–2015, the growth rate of the minimum monthly wage rate for a first-category worker (MMWR) at most SDCs in 2014 exceeded the growth rate of consumer prices in Russia. This factor made workers' wages more competitive.

The labor compensation system of SDCs includes the constant and variable components of salaries, composed of the following types of pay:

- pay at wage rates (official salaries) subject to indexation in accordance with the collective bargaining agreements of SDCs and local regulatory documents;
- additional incentive pay and benefits for a working environment other than normal conditions and for special working conditions (roving work, multishift work, night work, etc.);
- regular bonuses for attaining key performance indicators and for individual results;
- longevity pay (compensation for the length of continuous service in the electricity industry);
- bonuses for the performance of certain types of work according to the effect on their performance (reduction of electricity network losses, optimization of operating expenses, etc.);
- one-off bonuses for the fulfillment of important tasks, in connection with receiving governmental, sectoral, and corporate awards.

Under the terms of the collective bargaining agreements, SDCs' employees received additional pay in 2014 on top of base salaries, including:

- vacation pay;
- one-off bonuses in connection with jubilees and holidays;
- one-off benefit payments in connection with marriage registration, child birth (adoption), death of close relatives;
- partial compensation for expenses associated with health improvement camps for employees' children and with sanatorium-resort therapy for employees;
- parental leave pay for employees caring for children aged 1.5–3;
- payments under the support programs for the improvement of living conditions.

The motivation system at all management levels links executives' remuneration to the attainment of key performance indicators that are established according to the targets specified in the Strategy for Development of the Electric Grid Sector of the Russian Federation and the Long-Term Development Program of ROSSETI.

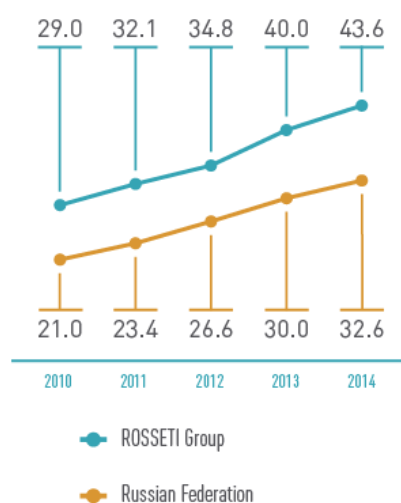
In 2014, the bonus system used the list of indicators aimed at achieving corporate financial results, implementing capex programs, securing a reliable and high-quality electricity supply, and increasing workforce productivity.

During the XXII Olympic Winter Games and the XI Paralympic Winter Games in 2014, personnel engaged in the operation of electric grid equipment in the Sochi power district were entitled to additional incentive pay, taking into account the raised level of responsibility for their work.

Based on the successful implementation of all planned measures to secure a reliable electricity supply for Olympic Games power facilities, the employees of the Company's subsidiaries who participated in these activities received one-off bonuses.

The average wages and salaries in the electric grid sector in 2014 were 1.3 times the average amount of labor compensation in the Russian Federation.

Average Monthly Pay in the Electric Grid Sector vs. the Russian Federation, thousand rubles



At each of ROSSETI's SDCs, workers' average wages are substantially higher than the minimum wages in the corresponding regions of SDCs' operations.

The ROSSETI Group's financial incentive system:

- makes wages and salaries competitive,
- facilitates electric grid companies' workforce productivity growth,
- provides employees with a high level of social security.

SDCs carry out the programs of social protection and corporate support for employees, aiming to provide employees with guarantees of security in case of certain circumstances and minimize potential risks of the employer.

The social security system is based on the principles of economic viability, differentiation by group of employees, parity, and transparency.

The principle of social partnership in electric grid companies, along with cooperation with labor unions, involves a direct dialog between management and employees (regular meetings), and the monitoring of personnel satisfaction with the conditions and content of labor, income, benefits, and compensation.

Life and Health Insurance Programs

Work at any industrial facilities objectively exposes employees to the risk of occupational diseases and the potential disablement. ROSSETI cares about the health of its employees and seeks to provide them with confidence in the future. To this end, in addition to comprehensive occupational health and safety efforts, the ROSSETI Group provides life and health insurance for employees.

In accordance with the social policy, the ROSSETI Group operates a corporate system of voluntary health insurance for employees, which guarantees the timely and high-quality provision of additional medical and other services in the amount and on the terms on top of the program of compulsory health insurance.

100% of the ROSSETI Group's employees are subject to insurance. Voluntary health insurance programs are tailored to regional particularities, contain an expanded list of medical services, including high-tech medical services, a wide range of medical specialists, and offer services of the best state, departmental, and commercial medical institutions of the Russian Federation. The ROSSETI Group's employees are also provided with an opportunity to take out insurance for their family members under corporate voluntary health insurance programs on favorable terms.

The corporate system of voluntary accident and health insurance for personnel guarantees insurance indemnity payable to employees (their relatives) in the event of death, illness, injury, disability, or emergency hospitalization. The ROSSETI Group provides accident and health insurance for 100% of its staff. In 2014, insurance coverage was expanded in relation to all risks for all categories of employees, including those exposed to high risks. Insurance protection for all employees insured is valid 24 hours a day, 7 days a week, around the world.

Sanatorium-Resort Therapy, Recreation, and Health Promotion

Important measures to improve the efficiency of personnel are health promotion and recreation for the electric grid sector's employees and their children.

In 2014, employees needing sanatorium-resort therapy were provided with trips to resorts with partial or full payment at the expense of SDCs. SDCs also partially compensated for recreation expenses.

Children of SDCs' employees were provided with trips to children's health improvement and sports camps. These expenses were compensated for by SDCs and by local governments.

In addition, during the 2014 vacation season, 1,473 employees of the ROSSETI Group and their families vacationed and improve their health in the Republic of Crimea.