



Dear Shareholders!

I am pleased to present to you the annual report of ROSSETI, outline our achievements in 2014, and share my vision of how the Company will develop.

The Russian electric grid sector has always been and should remain the flagship of the domestic electricity industry. Since grid companies secure a reliable power supply and ensure that the network infrastructure will meet the future needs of the economy, they are required to fulfill the fundamental objectives of improving people's living standards and creating the basic conditions for economic growth in Russia.

From this perspective, it can be seen how hard the Board of Directors and management of ROSSETI worked in 2014 to form a united national electric grid company, which, in my opinion, is the only option for accomplishing the objectives described above.

2014 was the first full year of ROSSETI's operation as the united electric grid company. During this period, the Board of Directors and management of the Company gave much attention to the decisions aimed at improving the quality of governance within the ROSSETI Group and implementing unified and synchronized approaches in all activities of the

Company's subsidiaries. The Board of Directors of ROSSETI made a number of decisions fundamental to pursuing the development strategy of the Company: Investment Policy; Policy on Society, Customer, and Government Relations; Innovative Development, Energy Conservation, and Energy Efficiency Policy; Economic Policy, etc.

In addition, as instructed by the Board of Directors, ROSSETI cooperates with federal executive authorities in improving the regulatory framework that governs the ROSSETI Group's investment and network connection activities, which I consider to be one of the most important issues on the current agenda.

I would particularly like to draw attention to ROSSETI's Long-Term Development Program approved by the Board of Directors. The Program was formulated on the instructions of the Russian President and received approval from the Government. The Program contains the action plan to ensure the achievement of the strategic goals set by the Government for ROSSETI for 2015–2019 with due consideration to the current socioeconomic conditions affecting the industry and its long-term development trends.

The year 2014 was full of events and challenges faced by ROSSETI. In these circumstances, the Company was able to achieve positive results in the key areas of activities:

- securing a safe, reliable, and uninterrupted power supply,
- improving customer service quality,
- increasing the accessibility of infrastructure,
- enhancing the operating efficiency of electric grids.

I would like to note that the ROSSETI Group's staff did an excellent job, enabling electricity networks in the Sochi power district to function properly during the Sochi Olympics and Paralympics. The Company's efforts in preparations for the Games were praised by Russia's leadership and IOC experts.

All employees of ROSSETI subsidiaries worked responsibly and effectively, which allowed the 2013/14 heat deficit period to end in success despite difficult weather conditions and natural disasters and also decreased the number of process failures in electric grids by 13% last year and by 25% in the heat deficit period.

Comprehensive measures to increase the accessibility of power supply infrastructure enabled ROSSETI SDCs to provide customers with more than 346,000 electricity connections, or 32% more than in 2013.

In order to improve its economic performance, ROSSETI made several decisions in 2014 to cut general and administrative expenses and make the Company's activities more efficient and transparent. In 2014, the Company strengthened the interaction with customers and the expert community with respect to preparing the ROSSETI Group's capex programs and conducting the public technological and price audit of its major investment projects.

These decisions resulted in a fivefold decrease in ROSSETI's net loss in accordance with Russian Accounting Standards in 2014 compared with 2013 year, from 250.6 billion to 52.3 billion rubles. It is noteworthy that the net loss generated in 2014 is entirely due to the negative revaluation of financial investments of the Company (the value of shares in ROSSETI subsidiaries), which totaled 61 billion rubles.

In addition, there is a heavy agenda for ROSSETI in today's difficult economic conditions. The Company should ensure the stable and uninterrupted operation of the Russian electric grid sector and prevent its financial and economic performance from deteriorating. For this purpose, the Board of Directors of ROSSETI will continue to constantly monitor the situation in the ROSSETI Group, raising the responsibility of subsidiaries' executives and the Company's management.

The Board of Directors of ROSSETI will also focus its efforts on active participation in improving the regulatory framework for the electric grid sector, which is necessary for its stable functioning and development as needed by the Russian economy. To resolve this issue, along with enhancing the operating efficiency, is essential for the achievement of the Company's fundamental goal of renewing its capital assets. This will open the way for the Russian electric grid sector to function properly and reliably in the future.

The Board of Directors of ROSSETI will additionally continue to pay attention to the implementation of decisions on import substitution, cost reduction, efficiency enhancement, energy conservation, innovation, and human resource management. Particular emphasis will be placed on measures to organize a comprehensive dialog with Russian higher education institutions about personnel training for the areas where the electric grid sector is suffering from a shortage of professionals and qualitatively improve advanced training establishments for the ROSSETI Group's employees.

With the aim of improving corporate governance, the provisions of the Corporate Governance Code approved by the Bank of Russia will be systematically introduced into ROSSETI's activities in 2015. In March 2015, the Board of Directors of ROSSETI approved the action plan to this end.

I am confident that, when ROSSETI accomplishes the goal of creating the long-term conditions for renewing capital assets, along with ensuring that the network infrastructure will meet the future needs of the economy and providing the electric grid sector with highly qualified personnel, the Company will be able to secure an uninterrupted power supply and the accessibility of electricity networks.

Sincerely,  
Sergey Shmatko  
Chairman of the Board of Directors