



2014 will be remembered by ROSSETI as a year when the Company completed a whole range of strategic projects. In the difficult macroeconomic situation, despite limited funding and the frozen electricity distribution tariff, we were able to achieve positive results in securing a reliable and high-quality electricity supply and creating the favorable conditions for economic development in the regions of our operations.

The Group's revenue in accordance with IFRS rose by 0.5% to 759,608 million rubles in 2014, while electricity delivery from networks reached 715 billion kWh, or 0.1% more than in the previous year.

In spite of adverse external environment, the electric grid sector continued to develop. Last year, the financing of capital investment totaled 240 billion rubles. The value of commissioned capital assets was 305.9 billion rubles, which is equal to 19,430 MVA of transformer capacity and 32,819 kilometers of power lines. The year 2014 witnessed the opening of 188 main distribution grid substations, whereas the number of network connection requests was up by 2% on 2013, despite the general slowdown in the economy. A total of 488,324 requests were submitted for total capacity of 52,022 MW. This clearly demonstrates the stable level of customer confidence.

The major facilities that obtained electricity connections in the reporting period include an excavator plant in the Tver Region (6.3 MW), which the first Russian industrial company of Japan's largest corporation Hitachi, Ltd., and a new facility for the production of oil and gas pipes in the Kostroma Region (9.5 MW). Additionally, 110/10-kV Titan Substation was put into operation in the Middle Urals. The new substation will secure a reliable electricity supply for industrial facilities in the Titanium Valley special economic zone.

The Company completed infrastructure projects in 2014 to improve electricity supply reliability and raise the investment potential of the regions. These include: power supply for the Vankor Field (213.5 kilometers of power lines); delivery of Nyagan TPP capacity (149 kilometers of power lines) and Beloyarsk NPP capacity (285.5 kilometers of power lines); improvement of electricity supply reliability for customers in Moscow and the Moscow Region (223 MVA of transformer capacity) and in Krasnoyarsk (801 MVA of transformer capacity and 23.7 kilometers of power lines).

ROSSETI continued in 2014 to increase the accessibility of distribution grid services to customers. The electricity connection cost of 1 kW of maximum capacity fell by 11% in the reporting period. In the case of network connection requests for facilities rated 150 kW or below, the time of preparing contracts and obtaining an electricity connection was reduced by 9 and 104 days respectively.

In 2014, ROSSETI stepped up its efforts in relation to participating in the formation of five-year long-term development schemes and programs for the electric power industry in Russian regions. They are developed in accordance with the Resolution of the Russian Government "On Long-Term Development Schemes and Programs for the Electric Power Industry." In the reporting year, such schemes were developed in 57 of the 68 Russian regions where the ROSSETI Group's distribution companies have a presence.

Due to the timely and high-quality implementation of capital investment and repair programs, comprehensive modernization, and the introduction of advanced process solutions, the Company achieved substantial success in increasing the reliability of the electric grid sector. For instance, the number of process failures was reduced by almost 13% in 2014, while electricity losses went down to 9.52%. The specific accident rate was decreased by the ROSSETI Group by 16% compared with 2013 and by 28% in the heat deficit period.

One of the most important areas of the Company's activities is to enhance the efficiency of using its own resources. ROSSETI developed and implemented new standards and techniques intended to unify and synchronize subsidiaries' approaches in all areas of work. In 2014, the Company completed the project to build the common corporate data processing center designed to improve the performance and reliability of corporate systems.

Work is underway on setting up the Group's common treasury for the entire group, which will streamline operating activities, considerably reduce costs, and make payments more transparent. The Company approved the innovative development policy, the uniform technical, economic, and personnel policies, and standards of society, customer, and government relations. The ultimate goal of all documents is to secure a long-term reliable, high-quality, and affordable power supply.

In order to improve the effectiveness of its operations, ROSSETI approved the Strategy for Developing and Improving the Internal Control System of the Company and its subsidiaries. The Strategy is aimed at ensuring the transparency of financial and economic activities and specifies the integration of the basic elements and principles of the internal control system into a single management system.

ROSSETI also formulated and approved the procurement policy, providing for the implementation of unified approaches to electric grid companies' procurement procedures and for the introduction of a common information space supporting this process. The implementation of uniform procurement standards helps raise the level of procurement management, ensure the transparency of procurement procedures, and bring down costs. At the end of 2014, the ROSSETI Group's economic effect was 30.6 billion rubles (exclusive of VAT), or 8.8%. The share of sole source purchases decreased to 3.7% of actual purchases. Therefore, almost all procurement procedures were on a competitive basis, with competitive purchases accounting for 96%.

ROSSETI pays great attention to preventing and combating corruption. The Company adheres unconditionally to the electric grid sector's anti-corruption standards, successfully fulfilling the tasks assigned by the Russian Government. In 2014, as part of complying with the Government's policy on the development of public-private partnership, ROSSETI acceded to the Anti-Corruption Charter of the Russian Business. The Company actively participates in the interdepartmental working group under the General Prosecutor's Office, dealing with legal issues related to ensuring the transparency of financial and economic activities and removing administrative barriers to the development of the electric grid sector. ROSSETI also represented in the expert group under the Federal Service for Financial Monitoring on combating illegal financial transactions. In addition, the Company cooperates with the Chamber of Commerce and Industry of the Russian Federation, the All-Russia People's Front, and many other nongovernmental associations.

The Group's unified approach to this work and compliance with Article 13.3 of Federal Law No 273 "On Combating Corruption" is specified in the Anti-Corruption Policy of the Company. ROSSETI also approved the List of Anti-Corruption Measures, providing for comprehensive measures and procedures and setting out the procedure for their implementation.

ROSSETI takes a responsible approach to cooperation with representatives of the key economic sectors. Specifically, the Company in 2014 signed several agreements with the administrations of the regions where it has operations to support agricultural companies. The measures include optimizing the network connection procedure for agricultural producers and allowing them to pay connection fees in installments. In addition, the Company stepped up its efforts to align grid infrastructure development with territorial development plans of the regions, especially with respect to meeting food producers' demand for electricity.

The Company systematically works to provide small and medium-sized businesses with expanded access to the Group's procurement. Currently, 15 SDCs conduct public procurement audits. These measures have already produced the first positive results, substantially increasing the proportion of small and medium-sized businesses involved in the total volume of purchases. In the reporting year, contracts awarded to small and medium-sized businesses after procurement procedures amounted to 24.1% (the previous figure was 19%).

The Company formulated the uniform competitive rules for doing business in the area of electricity distribution services. Under the Strategy for Development of the Electric Grid Sector, we addressed the issues related to reducing the fragmentation of territorial grid organizations and increasing control over them by establishing the criteria that a grid organization should meet to qualify as a territorial grid organization.

ROSSETI supports the Government's policy toward energy efficiency enhancement and the introduction of innovative technologies into the electric power industry. I am proud to say that ROSSETI is the country's leader in introducing innovative technologies into transmission and distribution grids. In 2014, we launched a project in the pilot regions to install an intelligent metering system that will help resolve the important issues of reducing electricity network losses and increasing transmission capacity.

We also began setting up the Federal Testing Center, which will conduct a full range of tests on new equipment and prototypes in accordance with international standards. This is a major step forward in the development of the Russian electric grid sector, which will considerably reduce the design-to-operation time for advanced domestic technology.

An important project in 2014 was ROSSETI's involvement in the national program to develop the charging station infrastructure for electric vehicles. The project is implemented in Moscow, Saint Petersburg, and Yaroslavl and has the great economic potential for the energy industry, having a positive impact on the environment.

In order to encourage young researchers and professionals to take part in creating a new generation of the electric power industry in Russian, the Company organizes the annual "Energy Breakthrough" Contest of Innovative Projects. The Contest Commission received 138 projects from all over Russia in 2014, and the best of them have already been put into test operation at the Company's power facilities.

In 2014, ROSSETI approved the Long-Term Development Program. The successful implementation of the Program will enable us to ensure the sustained growth of production and financial performance and increase shareholder value.

My sincere thanks to many thousands of ROSSETI employees who have made it possible in a short time to set up a significant reserve for the future, which allows us to be ready for any challenges of the market and feel confident about tomorrow. The Company will continue in 2015 to pursue its policy toward modernization, the reliable operation of power supply infrastructure, and the fulfillment of network connection requests on preferential terms. I am sure that, with extensive professional experience and actively introduced innovations, the Company's staff will be able to cope with all tasks, whether current or future.

Sincerely,  
Oleg Budargin  
Director General of ROSSETI