The ROSSETI Group is the backbone power grid company of the country.
Report Approval Information

The Annual Report received prior approval from the Annual General Meeting of Shareholders of ROSSETI on June 1, 2020 (Minutes of the Meeting on June 1, 2020 № n/n).

The Annual Report received prior approval from the Board of Directors of ROSSETI on April 30, 2020 (Minutes of the Meeting on April 30, 2020 №410).

The reliability of information contained in this Report was confirmed by the Internal Audit Commission of the Company (Minutes of the Meeting on April 16, 2020 №3).

Brief Information on the Report

This Annual Report includes a review of the operating results and highlights of Public Joint-Stock Company ROSSETI and its subsidiaries (collectively, the ROSSETI Group) for 2019.

Subject to the President’s Decree “On the National Goals and Strategic Objectives of Development of the Russian Federation for the Period Until 2024” and under the Development Strategy 2030 approved by the Board of Directors of ROSSETI in late 2019, the Annual Report discloses the Company’s goals and priorities, operational performance in the reporting year in comparison with prior periods, corporate governance and risk management, and sustainable management approaches consistent with implementing digital transformation.

This Annual Report was Prepared in Accordance with:

→ Regulations for the Disclosure of Information by Issuers of Issue-Grade Securities (approved by the Bank of Russia on December 30, 2014, under No. 454-P);
→ Corporate Governance Code recommended by the Bank of Russia’s letter No. 06-52/2463 on April 10, 2014 for use by joint-stock companies whose securities are admitted to organized trading;
→ requirements of the majority shareholder;
→ global best practices related to disclosures.

Disclaimer

The Annual Report of PJSC ROSSETI for 2019 contains management’s forward-looking statements regarding business operations, plans, projections, and expected results. The Company makes no warranties with respect to the achievement of the results described in the forward-looking statements and warns that the actual results may differ from what is expressed, whether directly or indirectly, in the forward-looking statements and estimates.

The Company shall not be liable for any losses that may be incurred by any individuals or corporate entities relying upon forward-looking statements.

Except where otherwise specifically provided for in law, the Company shall not be obligated to publish any updates on or changes in forward-looking statements based on new information or subsequent events.

Scope of the Report

This Annual Report uses such terms as PJSC ROSSETI (ROSSETI, the Company) and the ROSSETI Group (ROSSETI and its subsidiaries and dependent companies).

This Report presents the strategic goals of development, the target model of operation, and growth prospects from the perspective of ROSSETI, the management company of the country’s electric grid sector.

The key operating, financial, and investment information and the indicators calculated on the basis thereof are presented as consolidated figures relating to ROSSETI’s subsidiaries engaged in electricity transmission and distribution and providing network connection services.

The preparation of the Report used:

→ IFRS consolidated financial statements of the ROSSETI Group for 2019;
→ RAS accounting statements of ROSSETI for 2019;
→ management reporting;
→ publicly available information.

1 From July 05, 2018 No. 204.
THE ROSSETI GROUP IS ONE OF THE WORLD LEADERS IN THE ELECTRIC POWER INDUSTRY

AT THE END OF 2019 THE ROSSETI GROUP HAS DEMONSTRATED POSITIVE FINANCIAL AND ECONOMIC RESULT IN CONDITIONS OF FULFILLMENT OF TASKS ON PROVISION OF RELIABILITY, AVAILABILITY OF ENERGY SUPPLY TO CONSUMERS AND LIMITATION OF TARIFFS’ GROWTH

ENSURING RELIABLE AND UNINTERRUPTED POWER SUPPLY TO CONSUMERS OF ONE OF THE LARGEST SYSTEM COMPANIES IN RUSSIA

PROVEN EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

SOLID FINANCIAL PERFORMANCE THROUGH A PREDICTABLE FINANCIAL POLICY

IMPROVING THE TRANSPARENCY OF THE CORPORATE GOVERNANCE SYSTEM, USING THE BEST RUSSIAN AND INTERNATIONAL PRACTICES

THE DEVELOPMENT STRATEGY UNTIL 2030

IMPLEMENTATION OF THE CONCEPT TO ENSURE THE DEVELOPMENT OF THE ROSSETI GROUP 2030

OF THE ELECTRICITY GENERATED IN RUSSIA WAS TRANSMITTED THROUGH THE ROSSETI GROUP’S GRIDS

78% OF THE ELECTRICITY GENERATED IN RUSSIA WAS TRANSMITTED THROUGH THE ROSSETI GROUP’S GRIDS

GOOD PRACTICES IN ENGAGING WITH ALL STAKEHOLDER GROUPS AND CONTRIBUTING TO THE ACHIEVEMENT OF 8 UN SUSTAINABLE DEVELOPMENT GOALS

79% CAPITALIZATION GROWTH FOR THE YEAR

OF THE ROSSETI GROUP WAS APPROVED, ENVISAGING TRANSITION TO THE BUSINESS MODEL OF MODERN TECHNOLOGICAL AND INNOVATION INFRASTRUCTURE 2030

THE DEVELOPMENT STRATEGY UNTIL 2030

OF THE ROSSETI GROUP WAS APPROVED, ENVISAGING TRANSITION TO THE BUSINESS MODEL OF MODERN TECHNOLOGICAL AND INNOVATION INFRASTRUCTURE

79% OF THE ELECTRICITY GENERATED IN RUSSIA WAS TRANSMITTED THROUGH THE ROSSETI GROUP’S GRIDS

WASHINGTON DC
ABOUT THE COMPANY

The ROSSETI Group is the backbone power grid company of the country
ROSSETI Today

ROSSETI’s mission is to secure a reliable, high-quality, and affordable power supply by building a maximally efficient infrastructure and introducing modern innovative and digital technology.

Our Company

→ Russia’s leading electric grid company and one of the world’s largest electric utilities.
→ Acts as the Government’s agent for the management of the Russian electric grid sector.
→ One of the most significant infrastructure companies in Russia.
→ Included on the list of strategic joint-stock companies.

Corporate Values

→ reliability
→ human resources
→ efficiency
→ safety
→ social responsibility

Activities

→ electricity transmission and distribution
→ network connection services

Assets of the Group

Since June 2019, all of the Group’s transmission and distribution companies began to switch over to using in their corporate and marketing communications and corporate identity elements new names containing ROSSETI’s brand and indicating their geographic presence or functional area. Introducing a uniform brand architecture involves the phased change of the companies’ corporate identity elements.

Strategy 2030

In December 2019, the Board of Directors of ROSSETI approved a new strategy containing the ROSSETI Group’s goals and areas of development for the period until 2030.

Indicators of the Strategy 2020–2030

<table>
<thead>
<tr>
<th>Targets for 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity losses, %</td>
</tr>
<tr>
<td>Grid observability, %</td>
</tr>
<tr>
<td>SAIFI, outages</td>
</tr>
<tr>
<td>R&amp;D expenses, % of revenue</td>
</tr>
<tr>
<td>The volume of non-tariff revenue from other activities, % of total revenue</td>
</tr>
<tr>
<td>Workforce productivity growth, %</td>
</tr>
</tbody>
</table>

For grids with voltages of 0.4–20 kV.

Compared with the end of 2018.
Uninterrupted Power Supply for All

The ROSSETI Group’s entities provide also a whole range of technological connection services for electricity consumers and producers.

**THE ROSSETI GROUP’S ENTITIES ACCOUNT FOR 78% TRANSMISSION AND DISTRIBUTION FOR ELECTRICITY GENERATED IN RUSSIA**

![Electricity Transmission and Distribution Services Indicators](chart)

**CAPACITY OF THE APPLICATIONS RECEIVED AND CONTRACTS CONCLUDED, GW**

- **2017**: 37
- **2018**: 49
- **2019**: 44

**Structure of Electricity Connections Provided in 2019, GW**

- **Electricity Generators**: 11.9
- **Electricity Consumers**: 3.1

In the World Bank’s Doing Business 2019 Rating

The Company has contributed to the country obtaining the highest score annually since the Russian Federation was included in the World Bank’s rankings in 2015.

**Indices of Reliable and Uninterrupted Power Supply**

- **SAIDI**: Decrease by 25%
- **SAIFI**: Decrease by 8%

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*www.rosseti.ru/eng/*
Stable Financial Results

The primary focus of the Company’s financial policy is on
→ improving operating efficiency;
→ maintaining an optimum level of liquidity and a low debt burden;
→ retaining high credit ratings from international rating agencies;
→ ensuring a high level of self-financing for capital expenditures.

1,029.7
BN RUBLES
Revenue in 2019

Key factors affecting the Group’s financial performance in 2019:
→ Revenue from electricity transmission and distribution increased due to tariff indexation.
→ The ROSSETI Group recognized losses on impairment of fixed assets.
→ The ROSSETI Group made major asset consolidation transactions.
→ IFRS 16 Leases was introduced into the ROSSETI Group’s accounting practices.
→ Increase in depreciation of fixed assets due to the commissioning of new facilities.

Key Results in 2019

(compare to 2018)

860.9
BN RUB
REVENUE FROM ELECTRICITY TRANSMISSION AND DISTRIBUTION

323.7
BN RUB
ADJUSTED EBITDA

256.4
BN RUB
NET CASH FLOWS FROM OPERATING ACTIVITIES

105.3
BN RUB
NET PROFIT

82.6%
SHARE OF LONG-TERM DEBT OBLIGATIONS IN THE DEBT PORTFOLIO

Revenue Structure

1 adjusted EBITDA is calculated as EBITDA (earnings before interest, tax, depreciation, and amortization) less impairment of fixed assets.

2 Data from the IFRS consolidated financial statements.
The controlling shareholder of ROSSETI is the Government represented by the Federal Agency for State Property Management of the Russian Federation and holding an 88.04% stake.

**Moody’s**

BAA3, STABLE OUTLOOK

**S&P Global**

BBB – STABLE OUTLOOK

**ACRA**

AAA RU, STABLE OUTLOOK

**National Corporate Governance Rating:** 7++

**Free Float:** 11.1% of ordinary shares

**Ownership Structure of Share Capital as of December 31, 2019**

State-owned: 2.60%

Corporate entities: 9.36%

Individuals: 88.04%

The number of ROSSETI’s shareholders: OVER 323,000

**Listed on:**

- **MOSCOW EXCHANGE**
  - Ticker: RSTI, RSTIP

- **London Stock Exchange**
  - Ticker: RSTI

** ROSSETI Shares Included in Indices**

**Russian Indices:**
- Broad Market Index
- Power Index
- SMID Index
- State-Owned Companies Index

**International Indices:**
- FTSE All-World
- FTSE Emerging

**Dividends, BN RUB**

<table>
<thead>
<tr>
<th>Year</th>
<th>1Q 2016</th>
<th>1Q 2017</th>
<th>1Q 2018</th>
<th>1Q 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.8</td>
<td>2.0</td>
<td>2.5</td>
<td>5.0</td>
</tr>
<tr>
<td>2016</td>
<td>75.7</td>
<td>76.9</td>
<td>156.2</td>
<td>279.8</td>
</tr>
<tr>
<td>2017</td>
<td>102.6</td>
<td>226.6</td>
<td>226.6</td>
<td>226.6</td>
</tr>
<tr>
<td>2018</td>
<td>156.2</td>
<td>156.2</td>
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</tr>
</tbody>
</table>

**ROSSETI Market Capitalization, BN RUB**

<table>
<thead>
<tr>
<th>Year</th>
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**Investor Appeal**

The controller of ROSSETI is the Government represented by the Federal Agency for State Property Management of the Russian Federation and holding an 88.04% stake.
Digital Transformation

What is Digital Transformation?
Changes in technological and business processes and the transition of the ROSSETI Group to a risk-based management approach based on the introduction of digital technology and big data analysis.

Results in 2019
The Company developed and approved:
→ Digital Electric Grid Standard;
→ Digital Substation Standard;
→ Uniform Technical Policy;
→ Technique for Calculating the Digital Transformation Index;
→ Phase 1 pilot projects of digital transformation

The Company developed formulated the Program for the ROSSETI Group’s Digital Transformation Until 2030.

What is the Aim of these Transformations?
To improve the quality and reliability of electricity supply as well as growth of operating and technological efficiency of managing the electric grid sector.

The ROSSETI Group Put into Operation 30 Digital Infrastructure Facilities:
→ 9 digital network control centers;
→ 2 digital electric grid districts;
→ 19 digital substations rated 35–220 kV.

The number of electricity meters used by the ROSSETI Group increased by an average of 3.3 pp.

FOR THE INVESTOR
CAPEX decreased by 15%
OPEX decreased by 30%
EBITDA increased by 30%
ROIC 15%

FOR THE CUSTOMER
Reduced cost and time of obtaining an electricity connection
Enhanced electricity supply quality and reliability
Curbed tariff growth rates
Possibility of controlling internal electricity consumption/managing electricity costs
Development of new customer-related services

FOR THE GOVERNMENT
Ensured energy independence and sufficient infrastructure for economic development
Integration of the Russian electric grid sector into the digital economy
Enhanced quality and accessibility of transmission, distribution, and connection services provided to individuals and organizations; development of competitive ancillary services markets
Curbed tariff growth

ASPECTS OF THE NEW BUSINESS MODEL
Artificial intelligence technology designed to support decision making
Wider use of electricity in industry and transportation
Energy efficiency
Distributed generation and storage
Development of smart grid technology
Higher importance of renewable energy
Decentralized markets, private investment, microgrid
Demand response

FOR THE STAKEHOLDERS UNTIL 2030
EFFECTS FOR STAKEHOLDERS UNTIL 2030
Ensured energy independence and sufficient infrastructure for economic development
Integration of the Russian electric grid sector into the digital economy
Enhanced quality and accessibility of transmission, distribution, and connection services provided to individuals and organizations; development of competitive ancillary services markets
Curbed tariff growth

For the Investor
CAPEX decreased by 15%
OPEX decreased by 30%
EBITDA increased by 30%
ROIC 15%

For the Customer
Reduced cost and time of obtaining an electricity connection
Enhanced electricity supply quality and reliability
Curbed tariff growth rates
Possibility of controlling internal electricity consumption/managing electricity costs
Development of new customer-related services

For the Government
Ensured energy independence and sufficient infrastructure for economic development
Integration of the Russian electric grid sector into the digital economy
Enhanced quality and accessibility of transmission, distribution, and connection services provided to individuals and organizations; development of competitive ancillary services markets
Curbed tariff growth

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Country-wide Capital Investment

KEY CAPEX PROJECTS FOR 2020

1  136 MVA
Improvement of electricity supply reliability for the Kaliningrad Region rehabilitation of SS 110 kV Ozerki, Polessk, Bagrationovsk, Ladushkin, Slavsk)

2  80 MVA
Network connection for Gazprom Dobytsa Nayalinsk (SS 110 kV SGN, OL 110 kV Severny–SGN 1, 2)

3  80 MVA
Improvement of electricity supply reliability for the Kaliningrad Region rehabilitation of SS 110 kV Ozerki, Polessk, Bagrationovsk, Ladushkin, Slavsk)

4  294.5 MVA
Improvement of electricity supply reliability for the Krasnodar Region and the Black Sea Maritime (construction of OL 220 kV Ust-Khakasskaya–Krasnodar)

5  63 MVA
Network connection for Abzhensky Rudnik (OL 220 kV Farallonskaya–Rudnik with SS 220kV Rudnik)

6  126 MVA
Network connection for Far East Development Corporation (construction of SS Primpark with OL 220 kV Vladivostok–Pimpark)

7  709 MVA
Improvement of electricity supply reliability for Moscow (2nd phase of high-voltage network reliability improvement in Moscow’s Troitsk and Novokonstantinovsky Administrative Districts, COL 110 kV Fil’–Khodyanka, OL 220kV Butyrki–Bolotnaya 1, 2)

8  80 MVA
Network connection for Rosneft (SS 110 kV Sorovskaya 2 with OL 110 kV)

9  20 MVA
Network connection for Gazprom (SS 110 kV Team with 110 kV branch lines)

10  126 MVA
Supply of capacity from Rostov Region Wind Park (SS 110 kV Zarya)

11  50 MVA
Improvement of electricity supply reliability for Krasnodar (SS 110 kV Angarskaya)

12  7.7 MVA
Network connection for Albynsky Rudnik (OL 220 kV Fevralskaya–Rudnaya with SS 220kV Rudnaya)

13  793 MVA
Strengthening of the PS South grid (construction of OL 500 kV Nevinnoemsk–Mozdok with expansion of SS 500 kV Nevinnoemsk and SS 330 Mozdok)

14  36.08 MVA
Electricity supply for Murmansk and suburban electricity networks, removal of constraints on new connections (SS 330 kV Murmanskaya with overhead branch lines)

15  30 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

16  25 MVA
Network connection for Gazprom (SS 110 kV Yasen with 110 kV branch lines)

17  104 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

18  133 MVA
Supply of capacity from Rostov Region Wind Park (SS 110 kV Zarya)

19  126 MVA
Network connection for Rosneft (SS 110 kV Sorovskaya 2 with OL 110 kV)

20  7.7 MVA
Network connection for Gazprom (SS 110 kV Team with 110 kV branch lines)

21  50 MVA
Improvement of electricity supply reliability for Krasnodar (SS 110 kV Angarskaya)

22  30 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

23  25 MVA
Network connection for Gazprom (SS 110 kV Yasen with 110 kV branch lines)

24  126 MVA
Supply of capacity from Rostov Region Wind Park (SS 110 kV Zarya)

25  50 MVA
Improvement of electricity supply reliability for Krasnodar (SS 110 kV Angarskaya)

26  30 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

27  25 MVA
Network connection for Gazprom (SS 110 kV Yasen with 110 kV branch lines)

28  50 MVA
Improvement of electricity supply reliability for Krasnodar (SS 110 kV Angarskaya)

29  30 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

30  25 MVA
Network connection for Gazprom (SS 110 kV Yasen with 110 kV branch lines)

31  50 MVA
Improvement of electricity supply reliability for Krasnodar (SS 110 kV Angarskaya)

32  30 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

33  25 MVA
Network connection for Gazprom (SS 110 kV Yasen with 110 kV branch lines)

34  50 MVA
Improvement of electricity supply reliability for Krasnodar (SS 110 kV Angarskaya)

35  30 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

36  25 MVA
Network connection for Gazprom (SS 110 kV Yasen with 110 kV branch lines)

37  50 MVA
Improvement of electricity supply reliability for Krasnodar (SS 110 kV Angarskaya)

38  30 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

39  25 MVA
Network connection for Gazprom (SS 110 kV Yasen with 110 kV branch lines)

40  50 MVA
Improvement of electricity supply reliability for Krasnodar (SS 110 kV Angarskaya)

41  30 MVA
Network connection for Gazprom Dobycha Noabrsk (SS 110 kV GDN, OL 110 kV Severny–GDN 1, 2)

42  25 MVA
Network connection for Gazprom (SS 110 kV Yasen with 110 kV branch lines)
Sustainable Development for Future Generations

217.5
THSD PEOPLE
Electric grid SDCs’ staff on the payroll

18,000
Personnel reserve

97%
Staffing level

4.8%
Personnel turnover

ROSSETI Group strives to act for the benefit of all stakeholder groups with due consideration to the impact on future generations through environmental management and the development of local communities.

THE COMPANY OPERATES

Occupational Safety Management System

Quality Management System

Environmental Management System

UN Sustainable Development Goals

GOOD HEALTH AND WELL-BEING
QUALITY EDUCATION
AFFORDABLE AND CLEAN ENERGY
DECENT WORK AND ECONOMIC GROWTH
INDUSTRY, INNOVATION, AND INFRASTRUCTURE
SUSTAINABLE CITIES AND COMMUNITIES
RESPONSIBLE CONSUMPTION AND PRODUCTION
LIFE ON LAND

Water protection and conservation expenses
Air protection expenses
Land protection expenses (including production and consumption waste management expenses)

Air Emissions in 2017–2019, t

2017 2018 2019
1,421 1,519 1,522

Bird Protection Equipment Installed in 2017–2019, thsd units

2017 2018 2019
98.8 110.7 159.4

Environmental Expenses of the ROSSETI Group, mn RUB

2017 2018 2019
244 318 335

3
4
11
12
15

ROSSETI is in the process of carrying out a comprehensive project to develop a corporate training system in order to meet the staffing goals under the Digital Transformation 2030 Concept.
In order to preserve the operational integrity of the Russian energy system and centralize the management of the electricity sector, RAO UES of Russia was established under a presidential decree in 1992. The key objectives were to secure and organize a reliable electricity supply.

The year 1998 saw the formulation of the “5+5” Strategy and the start of discussions about reforming the energy system and restructuring RAO UES of Russia to divide the energy system into natural monopolies and competitive operations and create the conditions for attracting private investment.

In order to ensure a unified approach to implementing the principles of management and establish uniform operational requirements and standards, transmission and distribution grids were merged in 2012.

The reform resulted in increasing and centralizing governmental control of the electric power industry’s infrastructure alongside the modernization of metering and monitoring systems for energy flows (as part of market development). This helped improve the manageability of the energy system and enhance power supply reliability. The newly formed market made grid infrastructure more attractive to investors, thus creating vast and more sophisticated geographies of electricity sales, including export-import operations.

Legislation was adopted in 2003 to reform the country’s electric power industry, and electricity was allowed to be sold freely in the Federal Wholesale Electricity (Capacity) Market (FOREM).

On completion of the first stage of RAO UES of Russia’s reorganization in 2007, OGK-5 and TGK-5 were spun off.

As a result, the industry began to adopt market-based mechanisms: it was divided into natural monopolies (transmission) and competitive operations (generation and retail). The sale of RAO UES of Russia’s assets started in 2006. Federal Grid Company (FGC UES) gained control of transmission grids rated 220 kV and above, Interregional Distribution Grid Companies Holding (MRSK Holding) took charge of distribution grids. Later, the two companies were merged into ROSSETI.

Completed in 2008, the second stage of the reorganization resulted in the spin-off of wholesale generation companies, territorial generation companies, FSC UES, InterRAO, interregional distribution grid companies, and other entities. RAO UES of Russia ceased to exist.

MRSK Holding was renamed ROSSETI in 2013, and the government conducted a 79.55% stake in FSC UES to the new company’s capital. This finished the formation of ROSSETI.

One of the largest nationwide programs of digital transformation—ROSSETI’s digital transformation—was launched in 2019. The Digital Transformation 2030 Concept is ambitious in terms of its value (1.3 trillion rubles) and its goals, which make it a 21st-century equivalent of the GOELRO Plan.

MPSK Holding was renamed ROSSETI in 2013, and the government conducted a 79.55% stake in FSC UES to the new company’s capital. This finished the formation of ROSSETI.

The Plan of the State Commission for Electrification of Russia (GOELRO Plan) transformed the country in the first ten years of its implementation. The plan was based on the substantiated importance of building high-capacity regional power plants using local fuel and hydropower resources and on the necessity of combining them to form large energy systems. The country built large facilities, creating 30 regional power plants with total capacity of 1.75 million kW and annual output of 8.8 billion kW. The Soviet Union caught up with leading economies in a very short period of time and emerged as an industrial power. The 100th anniversary of the GOELRO Plan is an important milestone not only for the energy industry but also for the Russian economy as a whole.
Highlights in the Reporting Year

**Finance**
- Moody’s Investors Service upgrades the long-term global scale credit rating of ROSSETI to investment grade (Baa3, stable outlook).
- The Analytical Credit Rating Agency (ACRA) reaffirms the national scale credit rating of ROSSETI (AAA(RU), stable outlook).
- The Company signs a memorandum of cooperation with Gazprombank to use digitalization for the treasury function.
- Shareholders approve the payment of more than 5 bn rubles as dividends for the first quarter of 2019.
- Approval is given to the Rules for Preparing and Implementing Pilot Projects Under the Digital Transformation 2030 Concept.
- A cooperation agreement is signed with the Government of Moscow to develop charging infrastructure for electric buses, cars, and bicycles.
- The Board of Directors approves the Uniform Corporate Identity Standard of the ROSSETI Group. ROSSETI presents the Group’s new, uniform brand architecture in June.
- With support from the ANO Russia – a Country of Opportunities platform, ROSSETI holds a contest, Energy Leaders, to select the most skilled and motivated industry executives for its personnel reserve.

**Digital transformation**
- Approval is given to a restated version of the Regulations for Insider Information in line with legislative changes.
- Major network connection reforms carried out by the ROSSETI Group help the Russian Federation rank 7th in the “Getting Electricity” ranking according to the World Bank’s Doing Business report.
- A cooperation agreement with the Government of Moscow to develop charging infrastructure for electric buses, cars, and bicycles.
- A restated version of the Environmental Policy of the Electric Grid Sector is approved.

**Corporate governance**
- The Russian Institute of Directors reaffirms ROSSETI’s corporate governance rating at 7++ “Developed practice of corporate governance.”
- Amendments to the Articles of Association of ROSSETI Tyumen are registered as related to the changed corporate name.
- Conclusion of a cooperation agreement with the foundation of strategic developers “North-West”, performing the functions of infrastructure centralized technological research on the basis of “Energy.”

**Sustainable development**
- Amendments to the Articles of Association of ROSSETI Tyumen are registered as related to the changed corporate name.
- With support from the ANO Russia – a Country of Opportunities platform, ROSSETI holds a contest, Energy Leaders, to select the most skilled and motivated industry executives for its personnel reserve.
- Major network connection reforms carried out by the ROSSETI Group help the Russian Federation rank 7th in the “Getting Electricity” ranking according to the World Bank’s Doing Business report.
- ROSSETI’s environmental management system is certified to comply with ISO 14001:2015 and its Russian equivalent GOST R ISO 14001-2016.
A 220 kV substation, Port, which is strategically important for regional investment potential, begins operation in the Krasnodar Territory.

A 220 kV substation, Prompark, providing an external electricity supply for an advanced development zone, is put into operation in the Far East.

The largest substation, Khovanskaya, with installed transformer capacity of 720 MVA begins operation in Moscow’s Troitsk and Novomoskovsky Administrative Districts.

A new 110 kV substation, Kuzemkin, is put into operation to provide an external electricity supply for Nord Stream 2 facilities located in the Leningrad Region.

Phase 1 of a 110 kV substation, Pliyev Novaya, is put into operation to ensure the creation of a grid of nine power lines in Ingushetia, North Ossetia, and Chechnya, which considerably improves the reliability of the North Caucasian energy system as a whole.

A memorandum was signed with French company EDF to implement joint projects on the territory of third countries and to cooperate in creating digital distribution networks in Russia as well as in developing intelligent metering systems.

The agreement on implementation of projects on the construction and upgrade of the power grid complex facilities on the territory of third countries was signed with Chinese company China Energy Engineering Corporation.

A memorandum was signed with Mozambican company Electricidade de Mocambique to cooperate in designing and constructing new facilities and upgrading the existing ones, part of the electric grid complex in the Republic of Mozambique, as well as in supplying electric energy equipment.

The Development Strategy of Public Joint Stock Company ROSSETI and its Subsidiaries and Dependent Companies (ROSSETI Group) Until 2030 receives approval. The key difference from the previous version is the transition to a business model of modern innovative infrastructure.

A memorandum was signed with union ELECTRICA of the Republic of Cuba in order to develop the power grid infrastructure of the Republic of Cuba, including the feasibility study of constructing new facilities and upgrading the existing ones of the main distribution electric grid complex in the Republic of Cuba.

A memorandum was signed with Union Electrica of the Republic of Cuba in order to develop the power grid infrastructure of the Republic of Cuba, including the feasibility study of constructing new facilities and upgrading the existing ones of the main distribution electric grid complex in the Republic of Cuba.

A memorandum was signed with Belgian organisation PRIME ALLIANCE AIBSL to cooperate in creating digital electric grids and introducing intelligent metering systems.

A memorandum was signed with Chinese company NARI Group Corporation to create digital electrical grids and localise the production of equipment necessary for the creation of digital grids.

A cooperation agreement was signed with Chinese company NARI Group Corporation to create digital electrical grids and localise the production of equipment necessary for the creation of digital grids.

The Company signs three-year memorandum with Mongolia’s largest state-owned enterprise Erdenes Mongol to develop the energy interconnection system covering Northeast Asia.

A 220 kV substation, Industrialnaya, is put into operation to supply smart energy to the biggest industrial park in the Kaliningrad Region.

A memorandum was signed with Mozambican company Electricidade de Mocambique to cooperate in designing and constructing new facilities and upgrading the existing ones, part of the electric grid complex in the Republic of Mozambique, as well as in supplying electric energy equipment.

A memorandum was signed with Chinese company NARI Group Corporation to create digital electrical grids and localise the production of equipment necessary for the creation of digital grids.

The agreement on implementation of projects on the construction and upgrade of the power grid complex facilities on the territory of third countries was signed with Chinese company China Energy Engineering Corporation.

A memorandum was signed with French company EDF to implement joint projects on the territory of third countries and to cooperate in creating digital distribution networks in Russia as well as in developing intelligent metering systems.

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The development of the new substations in the Krasnodar Territory and Ingushetia is an example of the company’s commitment to regional development and improving the reliability of the electric grid.

A memorandum was signed with French company EDF to implement joint projects on the territory of third countries and to cooperate in creating digital distribution networks in Russia as well as in developing intelligent metering systems.

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The Company signs three-year memorandum with Mongolia’s largest state-owned enterprise Erdenes Mongol to develop the energy interconnection system covering Northeast Asia.
Transition to the ROSSETI Group’s Uniform Brand Architecture

During the St. Petersburg International Economic Forum in June 2019, ROSSETI presented the Uniform Corporate Identity Standard of ROSSETI and the ROSSETI Group’s Entities approved by the Board of Directors of ROSSETI on April 29, 2019. All of the Group’s transmission and distribution companies have since used the uniform brand architecture in their corporate and marketing communications and corporate identity elements as well as new names containing ROSSETI’s brand and indicating their geographic presence or functional area.

In December 2019, the ROSSETI Group’s transmission and distribution companies began to change their corporate names in line with the new brand architecture.

“ROSSETI unites 70% of distribution and 90% of transmission grids, implements unified approaches to the management and development of the country’s electric grid infrastructure, and constantly improves the quality of its services, expanding their range. Work under a single brand strengthens corporate interrelationships within the ROSSETI Group, makes the brand more recognizable in the country and in the industry. The customer will find it easier and more comprehensible to interact with us. The transition to the single name is part of the systematic process of the large-scale transformation of all areas of the Company’s activities.”

Pavel Livinsky, Director General, ROSSETI

OPPORTUNITIES PROVIDED BY THE UNIFORM BRAND

In early 2019, the Russian electric grid sector did not have a uniform name recognizable and comprehensible within a wide audience. Confidence in ROSSETI was distributed among the entities directly subordinated to the Company, each of which deserved a good reputation in its segment among its own customers, shareholders, and counterparties. However, the situation where 15 parallel brands coexisted led to confusion and poor awareness among those who were not directly related to the electric grid industry. ROSSETI’s brand at the beginning of 2019 was greatly undervalued. This directly affected the Company’s position in the public capital markets and did not increase profitability for the Group’s shareholders. Strengthening the corporate identity opened up new opportunities for ROSSETI’s appeal for investors in the long term.

DEVELOPMENT

The uniform philosophy introduced into all subsidiaries and, as a result, the ROSSETI Group’s higher brand recognition will make it possible to focus the attention of stakeholders and the general public worldwide on the activities of the group of electric utilities operating under a single reputable brand. The large-scale rebranding will provide an opportunity for the long-term growth of investor attraction to the Company as a whole, its market capitalization, and customer loyalty. The transformations will result in making the Company much closer to stakeholders, and the integrated brand will symbolize the unified quality standards for the ROSSETI Group’s operations throughout Russia.

PERSPECTIVES

Changing the names of subsidiaries and dependent companies will not involve changing their organizational structure and staff. Moreover, the full-fledged building of communications on a single brand, alongside the ROSSETI Group’s initiatives to popularize the energy industry, will considerably improve the professional reputation of an energy worker and attract promising personnel. Due to the transition to the uniform brand architecture, each employee of the Company will be able to feel part of a big team of 220,000 wherever he or she works and will be involved in attaining company-wide goals. United by common goals, the close-knit team of energy workers can achieve even more significant results.
Message from the Chairman of the Board of Directors

Dear Readers!

The ROSSETI Group continued in the reporting year to work on accomplishing the country’s strategic task of securing a reliable, high-quality, and affordable power supply for all categories of customers in 80 Russian regions.

In organizing its production and investment activities, the Company put a strong focus on the efficiency of infrastructure and the introduction of innovative digital technology. We managed to maintain the trend of prior years: we improved electricity supply reliability and reduced electricity losses once again.

An important event in 2019 was the new development strategy approved by the Board of Directors of ROSSETI for the period until 2030. Hopefully, the strategy will help us consolidate the results and reach a new level. The strategy fully takes into account the priorities for development in the Russian electric grid sector, meets new challenges nationally and globally, including digitalization, decentralization, and the development of green and renewable energy. The ROSSETI Group’s plans include moving to the next technological level and increase workforce productivity, thus raising shareholder value.

The Company’s management always pays close attention to issues related to the replacement of fixed assets. Every year, an updated renewal program is submitted for approval by the Board of Directors of ROSSETI. Modern technological solutions are used not only under new projects, but also for the rehabilitation of old facilities. In 2019, the Board of Directors adopted a new version of the Regulations for the Uniform Technical Policy. Now the best pilot technology projects—including various architectures of digital substations, intelligent control systems for facilities and equipment, and much more—will be extended to all units of the ROSSETI Group.

Pursuant to the Presidential Decree of May 7, 2018, and under the Comprehensive Modernization and Expansion Plan for Trunk Infrastructure Until 2024, intelligent control systems are extensively introduced into the electric grid sector. Digital tools make it possible to determine the optimal grid structure, select the location and type of switching, and mitigate the consequences of any power supply restrictions affecting...
In parallel, work is underway to create a digital model of electrical grids. The segment of networks rated 35 kV and above was successfully covered in 2019. It is intended that the modeling of 6–10 kV networks and 0.4 kV supply points will be completed by 2021. The digital grid topology will become the basis for calculating the efficiency of operational process control at different levels of energy systems, and it will be used in advanced metering infrastructure.

The ROSSETI Group's experience will make it possible to appropriately adjust the regulatory framework, accurately formulate the basic principles of operational process control for electric grids using digital tools.

An important indicator of how efficiently electricity industries develop in different countries is the World Bank's annual Doing Business report. The Group's rank in the reporting year confirmed once again the correctness of the course chosen by ROSSETI.

In the “Getting Electricity” ranking, the Russian Federation climbed to 7th place. The international community appreciated the success and effectiveness of all declared reforms aimed at simplifying the network connection process. The ROSSETI Group managed to achieve an almost twofold reduction in the time of obtaining an electricity connection—from 73 to 41 days—by using its own resources for R&D and construction without engaging outside contractors.

Given the current level of ROSSETI's development and our high potential, we can say that the Company is highly attractive to investors. A low debt burden, good national scale credit ratings, and a predictable dividend policy in the reporting year were convincing arguments for investors: the Company's market capitalization increased by 79% in 2019.

The ROSSETI Group consists of about 90 entities. All of them use a common system of corporate governance and control. Its objective is to provide shareholders with confidence in the optimality, practicability, and good faith of decisions made at different levels. The continuous improvement of the system in accordance with the principles and recommendations of the Bank of Russia's Corporate Governance Code and international best practices enabled the Company to receive a rating of 7++ “Developed practice of corporate governance” in the national corporate governance rating.

The Group strives to make a valuable contribution to the achievement of Russia's goals of sustainable economic development and facilitates improvements in the social sphere and environmental standards. Respect for every employee's right to safe labor, decent remuneration, and personal advancement is the basis of the relationship between the Company and the staff of more than 200,000.

The ROSSETI Group will continue to pursue its chosen priorities. I believe that we have every opportunity to become a technological leader in the global energy market.

Message from the Director General

Dear Readers!

The year 2019 can definitely be regarded as successful for the ROSSETI Group as a whole. We took further steps to strengthen the Group’s position as a global technological leader in the electric power industry, ensuring the highest reliability, quality, and accessibility of electricity supply while maintaining stable financial and economic condition.

An important corporate event in the reporting year was that the Board of Directors of ROSSETI approved the ROSSETI Group’s new development strategy for the period until 2030, whose principal difference from the previous version is the transition to a business model of modern innovative infrastructure.

The ROSSETI Group's strategic priorities include continuing to improve operating and investment efficiency aimed at the industry’s development, along with ensuring reliability, quality, and access to infrastructure in a new digital environment. Particular attention is given to developing new business areas, including nontariff services, alongside keeping a balance between the interests of different...
Corporate Governance Report

In cooperation with the federal government, ministries, and agencies, ROSSETI continued in 2019 to improve the regulatory framework for the electric utility industry by submitting for consideration and subsequent approval its legislative initiatives to enhance the financial and economic condition of grid companies and increase their profitability. In this area in 2019, we put a strong focus on the possibility of obtaining legislative approval for long-term tariffs in the electricity sector to enable grid companies to formulate financial plans for 5–10 years in advance and retain their cost savings for additional investment in further modernization and business efficiency improvement. Federal Law No. 300-FZ to that effect was signed by Russian President Vladimir Putin on August 2, 2019.

The key instrument for accomplishing the tasks set for the next ten years is the DIGITAL TRANSFORMATION 2030 CONCEPT, implemented by the ROSSETI Group’s entities throughout 2019.

As specified in the document, the logic of business processes is to be changed by introducing advanced technologies and digital solutions into both equipment control and human resource management.

The reporting year saw nine pilot projects launched in different regions of the ROSSETI Group’s operations to test whether big data, predictive analytics, machine learning, virtual and augmented reality, blockchains, and the Internet of Things could be used by electric utility companies.

The findings prove that our preliminary calculations are correct, which means that the Digital Transformation 2030 Concept allows us to improve the reliability of supply indices (SAIDI and SAIFI), reduce specific capex by 15% while maintaining the amount of new construction, cut opex by 30%, decrease the ROSSETI Group’s electricity network losses to 7.34% by 2030, and increase the accessibility of grid infrastructure twofold.

Introducing digital technology not only brings about qualitative improvements to the ROSSETI Group’s operational and, consequently, financial performance, but also creates the necessary conditions for developing additional nontariff services. This opens up opportunities for making both ROSSETI and its subsidiaries more profitable for the benefit of their shareholders and external investors.

The improvement of existing and acquisition of new professional competencies is a priority of human resource development in the course of implementing the Digital Transformation 2030 Concept, which is why the ROSSETI Group’s employees were involved in various internal and external training events throughout 2019.

For the first time in the industry’s history, ROSSETI organized the All-Russian Congress of Energy Workers in 2019. More than 2,000 delegates from Russian territorial grid organizations discussed challenging ideas for the outstriping development of Russia’s electric grid infrastructure and how to ensure the country’s global superiority over its rivals in order to make it possible to sell know-how and offer consultancy, energy performance, and provider services worldwide.

On the sidelines of the congress, ROSSETI held the final of the Energy Leaders contest to select the top 100 line managers for the personnel reserve. They not only displayed profound knowledge of digital transformation in the electricity sector, but also proved in practice to be ready to pioneer changes in the industry.

The process of digital transformation and the ROSSETI Group’s contribution to sustainable development are described in more detail in the relevant sections of this Annual Report.

New management approaches for the electric grid sector enabled us in 2019 to meet all of the targets contained in the business plan, including electricity supply reliability and financial and economic performance. More detailed information can be found in the relevant sections of this Report.

The planned investment program was implemented in full. Our major projects included building the Peleduy energy ring in the Irkutsk Region, the Trans-Baikal Territory, the Republic of Sakha (Yakutia), and the Republic of Buryatia to enhance energy system reliability in three federal districts, as well as putting into operation the Port substation to supply power to Taman-based industrial facilities and the Crimean Bridge.

It is noteworthy that all of the ROSSETI Group’s grid construction projects completed in 2019 are strictly in accordance with the Digital Transformation 2030 Concept.

During the St. Petersburg International Economic Forum in 2019, the ROSSETI Group presented the Group’s new, uniform brand architecture.

Beginning in June 2019, all of the Group’s transmission and distribution companies use in their corporate and marketing communications and corporate identity elements new names containing ROSSETI’s brand and indicating their geographic presence or functional area.

In conclusion, I would like to note that the beginning of 2020 witnessed the outbreak of the COVID-19 pandemic, the ensuing damage to international trade and local economies, and the enforcement of different lockdowns. Nevertheless, since our activities are not dependent on foreign suppliers of equipment or services, the impact of the pandemic on ROSSETI’s activities is extremely limited. The ROSSETI Group, however, takes all necessary measures to protect the life and health of every staff member, secure a reliable electricity supply, and ensure the Group’s financial stability.

Despite economic turbulence in early 2020, the ROSSETI Group intends to continue to strengthen its position and carry out projects as part of the digital transformation of its business for the benefit of its customers, shareholders, and investors and the government.

Pavel Livinsky
Director General, ROSSETI
Questions and Answers

2019 results
What results were achieved by the ROSSETI Group in 2019, including financial ones?
We believe that this year was successful for our Company. Being one of the world leaders in electricity transmission and distribution sector, the ROSSETI Group continued to strengthen its position by implementing the best international practices and changing in accordance with our consumers’ needs. In twelve months, our revenue grew by 0.8% to 1,029.7 bn rubles, while the Group adjusted EBITDA totaled 323.7 bn rubles (+3.1%) (in accordance with IFRS). With regard to the technical indicators, the progress in power supply reliability was as follows: the number of process failures was decreased by 12%; the duration of process failures was reduced by 19%.

Digital transformation
In terms of digital transformation, what results did the Company show and what are the plans for 2020?
According to the Digital Transformation 2030 Concept, we obtained the following initial results of the pilot projects:
1) Blockchain-based metering system. This system helps to organize payment process in the retail electricity market, thus creating a common information environment for customers, grid companies, retailers, and financial institutions, enabling them to automatically exchange data about energy consumption and payment for energy resources. As a result, this system allows to optimize payment process and reduce transaction costs.
2) Digital Electrician. The project of Digital Electrician is designed to rationalize organizational and working processes of mobile crews. Testing of this technology on mobile crews has shown that it is possible to give work tasks electronically, to track the movements of vehicles and personnel, as well as replace all hard-copy documents by their electronic equivalents. We introduced digital signature technology. This made it possible to reduce the time of issuing electrical work permits by 15% and increase workforce productivity by 20% through reducing nonproductive costs.
3) Improvement of grid infrastructure accessibility project. We are in the process of creating a mobile app for customers to enable them to promptly contact us with any queries. This will help us to learn more about our customers and provide customer-focused services. The app affords customers to submit requests and obtain information on various topics, such as network connection, reliability, or electricity supply.
4) EV charging infrastructure. The sector of electric vehicles is a very prominent direction for the company which will allow it to generate non-tariff revenue. Charging stations for electric buses have already been installed in Moscow. We have also announced the 30/30 Program (30 cities and 30 highways) aimed at setting up 770 charging stations by 2024 to encourage the development of electric transportation technology in the country.

Plans for 2020:
- Ensure the approval of the ROSSETI Group’s Digital Transformation Program Until 2030 by the Board of Directors of ROSSETI and its implementation.
- Continue to carry out pilot projects of 2019, prepare and launch new digital transformation projects.

How important is digital transformation for the Russian economy?
We expect that the creation of an industry of manufacturers and suppliers of grid equipment will produce a multiplying effect. We have made a list of 200 units of digital equipment necessary for the Company’s activities. The project provides the basis for encouraging non-resource exports, creates the potential for new jobs, and increases tax payments from the developing industry. One of the most significant effects of digital transformation is creating the conditions for restricting the tariff growth rate.

How do users react to digital transformation? Do you have any feedback on the fact that numerous bureaucratic issues are resolved?
First of all, digital transformation means cost reduction, cost optimization, and customer focus. This is not an end in itself; this is an instrument for achieving our goals. Our goals are as follows: accessible, reliable infrastructure and economically sound, fair tariffs. To keep tariffs down, we use cost optimization. Overall, this brings about a substantial economic effect. The customer is provided with a reliable electricity supply and fair, affordable tariffs and is enabled to interact with a grid company in a transparent and comprehensible way.
Share price

What should be the price of ROSSETI shares?
It should be noted that, for the first time in the Company’s history, the new strategy approved by the Board of Directors of ROSSETI in December 2019 sets the goal of increasing shareholder value and profitability for existing shareholders.

If the fundamental value of ROSSETI is measured using multipliers for the Company’s comparison with Russian major companies, then we have the threefold potential for growth. In the case of our foreign peers, we have the ninefold potential for growth.

What profitability do you expect?
Our goal is to ensure market average profitability at the level maintained by the largest government-linked companies.

Dividend policy

How do you change your dividend policy?
We have drafted a new dividend policy and submitted it for approval by the relevant ministries. We have sufficiently stable financial position and are interested in maintaining the upward trend in dividend payouts. We strive to ensure that changes in the dividend policy will result in creating a transparent dividend calculation mechanism, which will be comprehensible and accessible to all investors.

How will you change the requirements for dividend payouts from subsidiaries?
First, legislative initiatives need to receive approval in relation to improving the mechanism for network connection on preferential terms, introducing the reserve capacity fee, and redistributing cross-subsidies among grid companies, and regulatory agreements should be prepared. This will allow the Company to retain the resulting savings and use them for dividend payouts, and we will be able to consider changing the dividend policies of subsidiaries.

Strategy

What plans of asset consolidation are included in the ROSSETI Group’s strategy?
The strategy is focused on digital transformation and higher investor appeal with the required level of power supply reliability. Speaking of asset consolidation, we are a natural monopoly and can work most efficiently only when we achieve economies of scale. A large number of grid companies additionally increase their tariffs, create unjustifiably overlapping technological functions for their expenses related to minimum regulated revenue, emergency personnel, and other resources—all of which are paid by the customer. Our strategy is aimed at reducing the fragmentation of grid organizations.
Despite numerous positive changes, the industry remains unbalanced now, which is largely due to regulatory gaps. What work is underway? How does the Company help governmental authorities create the regulatory framework?

In cooperation with the Ministry of Energy of Russian Federation, we have prepared a package of legislative measures. These are amendments to Federal Law No. 35 “On the Electric Power Industry” and certain government resolutions, which will make the industry fairer and introduce economic incentives.

First, this concerns the introduction of the reserve capacity fee. Huge capacity has been created in recent years, but the utilization rate of facilities built in the past 8–10 years is only 8%. In the case of the country’s energy system as a whole, the utilization rate is 30%. But we should operate the entire huge infrastructure that we had. When submitting a request for capacity, customers must be responsible for requesting only as much as necessary to meet their domestic and technological needs. The grid company must understand: if it builds facilities, then their capacity will be in demand. This is how the economically sound principles of planning are applied. This will also affect our ability to optimize capex programs. If the customer no longer needs any capacity, it is possible to stop using it. If the customer needs capacity, then its process engineers should optimize consumption. These are the fair rules of a market economy, and we should follow them too.

The second initiative is the fair distribution of cross-subsidies. The rapid implementation of this initiative will make it possible to fairly distribute cross-subsidies among all customers, including those directly connected to the Unified National (All-Russian) Electric Grid. If there are cross-subsidies, they should apply to all, but not selectively. Otherwise, small and medium-sized businesses are overloaded. This initiative resolves the issue of how to make tariffs fairer and bring them down for small and medium-sized businesses.

The third initiative is the improvement of network connection on preferential terms. We propose that such preferential terms continue to apply but be transferred to regional level. If any region intends to reduce the connection fee, it has the right to offer preferential terms at its own expense. But in general, network connection is a fee-based service; we incur considerable expenses to create infrastructure for these customer groups and should receive at least the funds sufficient to cover these expenses.

These three initiatives, along with the introduction of the long-term regulation mechanism provided for in a law passed in the summer of 2019, will allow us to set a tariff for 10 years so that the industry can work within the time frame for all of our activities, including digital transformation. Taken together, these measures will stabilize the condition of the grid sector without an excessive increase in ultimate tariffs above the level contained in the socioeconomic forecast. It is necessary to create economic incentives within these mechanisms to reduce costs and ensure returnable investment. This will enable us to pay dividends to our shareholders and make the necessary investments to stop the growing physical deterioration of fixed assets.
Areas of Presence of the Grid Companies of the ROSSETI Group

FEDERAL DISTRICTS OF THE RUSSIAN FEDERATION WHERE THE GRID COMPANIES ARE REPRESENTED

- Northwestern Federal District
- Volga Federal District
- Ural Federal District
- Central Federal District
- South Federal District
- North Caucasian Federal District
- Siberian Federal District
- No presence

**Urals Federal District**
ROSSETI Tyumen, ROSSETI Urals, Urals MES, Western Siberia MES

<table>
<thead>
<tr>
<th>Region Code</th>
<th>Territory/Region</th>
<th>Administrative Center</th>
<th>Regional Grid Company</th>
<th>FSC UES Branch</th>
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<tbody>
<tr>
<td>65</td>
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**Southern Federal District**
South MES, Center MES, Mobile GTPP

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<td>Kuba-Kubanskoye PMES (South MES)</td>
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<td>Rossovskoye PMES (South MES)</td>
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**Siberian Federal District**
ROSSETI Siberia, ROSSETI Tomsk, Siberia MES

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### Northwestern Federal District

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<td>Nizhnegorodskoye PMES (North-West MES)</td>
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### Volga Federal District

<table>
<thead>
<tr>
<th>Region Code</th>
<th>Territory/Region</th>
<th>Administrative Center</th>
<th>Regional Grid Company</th>
<th>FSCC UES Branch</th>
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<tr>
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<td>Permenergo PMES (Urals MES)</td>
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### Central Federal District

<table>
<thead>
<tr>
<th>Region Code</th>
<th>Territory/Region</th>
<th>Administrative Center</th>
<th>Regional Grid Company</th>
<th>FSCC UES Branch</th>
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<td>Moscow (ROSSETI Moscow Region)</td>
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<td>Moscow</td>
<td>Moscow (ROSSETI Moscow Region)</td>
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<td>Yaroslavlenergo PMES (Volga MES)</td>
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<td>Voronezhenergo PMES (Center MES)</td>
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<td>Lipetskenergo PMES (Center MES)</td>
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<td>Tambovenergo (ROSSETI Centre)</td>
<td>Tambovenergo PMES (Center MES)</td>
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<tr>
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<td>Rostov Region</td>
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<td>Rostovenergo (ROSSETI Centre)</td>
<td>Rostovenergo PMES (Center MES)</td>
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<td>Belgorod</td>
<td>Belgorodenergo (ROSSETI Centre)</td>
<td>Belgorodenergo PMES (Center MES)</td>
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<td>Kursk Region</td>
<td>Kursk</td>
<td>Kurskenergo (ROSSETI Centre)</td>
<td>Kurskenergo PMES (Center MES)</td>
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<td>Voronezh</td>
<td>Voronezhenergo (ROSSETI Centre)</td>
<td>Voronezhenergo PMES (Center MES)</td>
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<td>Ivanovo</td>
<td>Ivanovenergo (ROSSETI Centre and Volga Region)</td>
<td>Ivanovenergo PMES (Center MES)</td>
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<td>Ryazan Region</td>
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<td>Ryazanenergo (ROSSETI Centre and Volga Region)</td>
<td>Ryazanenergo PMES (Center MES)</td>
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<td>Smolensk Region</td>
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<td>Smolenskenergo (ROSSETI Centre)</td>
<td>Smolenskenergo PMES (North-West MES)</td>
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### Far Eastern District

<table>
<thead>
<tr>
<th>Region Code</th>
<th>Territory/Region</th>
<th>Administrative Center</th>
<th>Regional Grid Company</th>
<th>FSCC UES Branch</th>
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<tr>
<td>03</td>
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<td>Ulan-Ude</td>
<td>Buryatenergo (ROSSETI Siberia)</td>
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<td>Chitaenergo PMES (Siberia MES)</td>
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<tr>
<td>14</td>
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<td>Yakutsk</td>
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<td>Yakutenergo PMES (East MES)</td>
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<td>Khabarovskoye PMES (East MES)</td>
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<td>87</td>
<td>Chukotka Autonomous District</td>
<td>Anadyr</td>
<td>no presence</td>
<td>no presence</td>
</tr>
</tbody>
</table>
ROSSETI Group Structure as of March 31, 2020

29 GRIDS

- FGC UES 80.13%
- Tomsk Backbone Grids 100%
- Kuban Backbone Grids 100%
- MOESK 50.90%
- ROSSETI South 70.65%
- VGES 100%
- Kubanenergo 93.44%
- IDGC of Centre 50.23%
- Yaroslavl Electric Grid Company 51%
- TGES 69.99%
- VGES 00%
- IDGC of Centre and Volga Region 50.40%
- Svet 100%
- LENENERGO 47.48%
- Saint Petersburg Power Grid 100%
- Transkuyto Selo Energy Company 96.95%
- Kurortenergo 98.13%
- ENCE 91.04%

9 Retail Companies

- ROSSETI Northern Caucasus 98.61%
- Chechenenergo 73.65%
- Dagestan Grid Company 100%
- IDGC of Siberia 57.84%
- Tyvaenergo 98.76%
- TDC 85.77%
- IDGC of Volga 67.97%
- ROSSETI Tyumen 100%
- Yantarenergo 100%
- TDC 51.52%
- IDGC of North-West 55.38%
- IDGC of Urals 51.52%

- Karachaev-Cherkesskenergo 100%
- Kalmenergosbyt 100%
- Kabbalkenergo 65.27%
- Sevkavkazenerg 49%
- Dagestan Energy Supply Company 51%
- Tyvaenergosbyt 100%
- Tantarenergosbyt 99.99%
- Pskovenergosbyt 100%
- Yakutsk Oil & Gas Company 91.04%

- ROSSETI R&D AND TESTING
- MAINTENANCE, AND REPAIR
- CONSTRUCTION AND PROCUREMENT

ROSSETI Group’s Position in the Electric Power Industry

GENERATION

- Thermal power plants
- Nuclear power plants
- Renewable energy sources

TRANSMISSION AND DISTRIBUTION

- Federal Grid Company
- Interregional distribution grid companies
- Regional distribution grids
- Private grid and distribution companies

RETAILING

- Independent electricity retailers
- Suppliers of last resort

CONSUMPTION

- Industrial companies
- Infrastructure facilities
- Households

Payment for electricity
Payment for electricity losses
Payment for electricity
**Business Model**

**STRATEGIC PRIORITIES:**

- Increasing core business efficiency
- Ensuring the required electricity supply reliability and quality
- Digital transformation
- Business diversification
- Keeping a balance between the interests of different stakeholders: government / customers / shareholders / investors

**RESOURCES**

- Electric grid SDCs' staff on the payroll, thousand people: 217.3 → 217.5
- Environmental expenses, million RUB: 539 → 555
- Equity, billion RUB: 1,495 → 1,584
- Liabilities, billion RUB: 1,024 → 1,065
- R&D expenses as a percentage of revenue: 0.2 → 0.29
- S&P Global: BBB → BBB-
- AKP: AAA (ru) → AAA (ru)
- Moody's: Ba1 → Baa3
- Length of power lines, million km: 2.35 → 2.37
- Number of substations, thousand units: 507 → 517
- Transformer capacity of substations, GVA: 792 → 802

**GRID COMPANIES**

**ROSETTI GROUP'S ENTITIES:**

- Federal Grid Company
- Interregional distribution grid companies
- Regional distribution grid companies

**RESULTS**

- Percentage of employees trained in the year: 67%
- Practical training in the ROSETTI Group, students: >12,000
- Water consumption reduction: 5%
- Electricity loss reduction: 0.3 pp
- Waste generation reduction: 15%
- Adjusted EBITDA, billion RUB: 323.7
- Net profit, billion RUB: 105.3
- Patents and certificates received in 2019: 20
- Position in the “Getting Electricity” ranking of World Bank’s Doing Business: 7
- Electricity delivery to networks, billion kWh: 834.9
- Connected capacity, GW: 15
- SAIDI: 1.8
- SAIFI: 1.2

**CONTRIBUTION TO THE ECONOMIC AND ENERGY SECURITY OF REGIONS AND THE COUNTRY AS A WHOLE**

- 4.8 billion RUB paid as dividends to the federal budget (for 1Q2019)
- Market capitalization increased to 279.8 billion RUB
- 50.8 billion RUB paid as taxes to budgets of all levels
- Paid as contributions to private pension funds and other pension plans: 1.3 billion RUB
- 37,000 procurement procedures totaling 559 billion RUB
- 30 digital infrastructure facilities put into operation

**CONTRIBUTION TOWARD THE SUSTAINABLE DEVELOPMENT GOALS**

- 3
- 4
- 7
- 9
- 11
- 12
- 15

**STRATEGIC MANAGEMENT** see Strategic Report

**CORPORATE GOVERNANCE** see Corporate Governance Report

**RISK MANAGEMENT** see Corporate Governance Report
STRATEGIC REPORT

Further improvement of operational efficiency and ensuring sustainability to global changes in the electricity market.
Industry Review, Trends, and Forecasts

Macroeconomic Review

Situation in the World

According to the International Monetary Fund, global GDP grew by 2.9% in 2019, which is considerably lower than the average in recent years (the average for 2010–2018 is 3.8%). The growth of international trade is one of the key factors in supporting the growth of global GDP, but the growth of international trade slowed down to 1% in 2019, which is the lowest level from 2009 (the average for 2010–2018 is 3.8%).

The growth of global GDP, but the growth of international trade

The growth of international trade is one of the key factors in supporting the growth of global GDP, but the growth of international trade slowed down to 1% in 2019, which is the lowest level from 2009 (the average for 2010–2018 is 3.8%).

Situation in Russia

The rate of economic growth came up to market expectations.

According to the Federal Service for State Statistics, Russia’s GDP grew by 1.3% in 2019 (2.5% in 2018). The result matched market expectations and the official forecast of the Ministry of Economic Development. Economic performance was mainly affected by the annual growth of household consumption (2.3% against 3.3% in 2018) and investment (1.4% against 0.1% in 2018). Exports in real terms decreased by 2.1%, while imports rose by 2.2%.

Production-related GDP in 2019 was supported by growth in industrial production (+1.8%) and the financial sector (+9.7%), along with increased turnover in wholesale and retail trade (+1.7%). However, some sectors showed a slower growth rate, including the energy sector (+0.2%).

Real GDP Growth Rate in 2018–2019, by Sector, % YoY

Russia is a net exporter of electricity and capacity. In 2019, power generation exceeded consumption by 21.2 bn kWh. The main importers of Russian electricity were Finland (34% of electricity exports in physical terms), Ukraine (19.4%), China (13.8%), Lithuania (11.7%), and Kazakhstan (5.8%).

The electricity industry has a key role in ensuring the operation of the Russian economy.

The electric power industry is among the ten industries with the largest contribution to Russia’s GDP. According to the Federal Service for State Statistics, the electricity sector accounted for 2.8% of Russia’s GDP in 2018. The country saw an increase in electricity consumption for several years. In 2019, electricity consumption increased by 0.4% to 1,059.3 bn kWh.

The total installed capacity of power plants in Russia’s United Power System increased by 1.3% to 256.3 GW. Russia is the world’s fourth largest energy market in terms of electricity generation and consumption after China, the United States, and India. Power plants in Russia’s United Power System Electricity, including power plants of industrial producers, generated 1,080.6 bn kWh in 2019 (0.9% more than in 2018).

The Ministry of Economic Development¹ and the Ministry of Energy² predict the further growth of electricity generation and demand in the near term.

Most events that had a substantial impact on the development of the electric power industry in 2019 were related to the replacement of generation equipment and the implementation of the grid digitalization program. Both processes lead to the industry’s higher efficiency, resilience, and appeal for investors in the medium and long term.

The Russian energy sector has the same trends as the global industry.

¹ Forecast of the Long-Term Socioeconomic Development of the Russian Federation. Unit 2024.
² Development Scheme and Program for Russia’s United Power System for 2018–2024.
Global Trends in the Industry:

→ digital transformation (transition from analog, centralized, and standardized technologies to digital, distributed, and personalized technologies);

→ decentralization (development of distributed generation, distributed storage, demand response, energy conservation);

→ changing consumption model (gradual transition to a more universal, convenient, and efficient energy carrier);

→ transformation of consumers from passive to active service users that would like to use advanced technology to manage energy consumption in real time;

→ new entrants to the electricity sector from other industries (development of EV charging infrastructure, storage technology, energy consulting, etc.);

→ active development of large companies in the segments of new, digital services in the electric power industry and related segments (implementation of regional smart city projects, development of EV charging infrastructure, and other projects for energy conservation, energy efficiency, and customer-related services through mobile apps).

There are, however, several factors that weaken global trends:

→ natural conditions that prevent the fast deployment of renewable energy sources;

→ long distances between production clusters and large cities;

→ low natural gas prices;

→ low level of distribution grid automation, digitalization, and observability.


The draft of the Energy Strategy of the Russian Federation Until 2035 specifies major growth factors for the electricity industry in the coming years:

→ increased electricity demand in transportation and public utility services;

→ development of energy-intensive industrial production in eastern Russia and in border areas of neighboring countries, primarily the EAEU member states, China, and other Asia-Pacific countries;

→ the characteristics of electricity consumption requested at the time of network connection are different from the subsequent actual consumption values;

→ customers fail to properly pay for electricity in the wholesale and retail markets;

→ the current model of relationships and pricing in the area of power supply is immature;

→ cross-subsidies impairing the effectiveness of the centralized power supply system remain in use;

→ production processes are insufficiently automated, and facilities become more vulnerable due to the increasing sophistication of their control systems and algorithms.

The electric power industry’s key goal of regional development is to increase the efficiency of electric grids. This can be achieved by:

→ improving the quality of forecasting electricity and capacity demand based on information about the implementation of capex projects in Russian regions;

→ increasing the efficiency of electricity transmission and distribution technologies;

→ improving the operational process control system of territorial grid organizations;

→ switching over to the risk-oriented digitalized management of production assets in the electric grid sector;

→ creating advanced metering infrastructure.

Market Share of the ROSSETI Group’s Entities

Asset Consolidation in the Industry

A key area of ROSSETI’s activities is asset consolidation in the Russian electric grid sector. The consolidation of electric grid assets encompasses measures to enable the ROSSETI Group to take control of a grid asset (an electric grid facility, a group of electric grid facilities, or a shareholding in an organization that provides electricity distribution services using electric grid facilities) that is not part of and/or not under the control of the ROSSETI Group.

The consolidation contributes to:

→ creating a single center of responsibility for a reliable, high-quality, and affordable electricity supply;

→ increasing ROSSETI subsidiaries’ share in pool-based revenues from distribution services provided for regional electricity consumers;

→ improving the efficiency of each Russian region;

→ constructing an optimal electric grid infrastructure and introducing elements of a digital grid.

13 Based on grid organizations’ MRR (less paid electricity losses) used for the approved uniform pool tariffs in the regions of ROSSETI SDCs’ operations (distribution grids).
Under the Development Strategy of the ROSSETI Group until 2030, it is intended that a single operator of Russian electric grids will be formed using the ROSSETI Group’s resources. The following major projects to consolidate electric grid assets were completed in 2019:

- acquisition of a 100% stake in VysMy (Rostov Region, ROSSETI South);
- acquisition of a 100% stake in VMES (Volgograd Region, ROSSETI South);
- acquisition of the electric grid facilities owned by Votkinsk City Electricity Networks (Udmurtian Republic, IDGC of Center and Ugra Region);
- acquisition of the electric grid facilities owned by Izhevsky Electricity Networks (Udmurtian Republic, IDGC of Center and Ugra Region);
- acquisition of a 69.99% stake in Tula City Electricity Networks (Tula Region, IDGC of Center and Volga Region);
- acquisition of SS 110 kV Severnaya, ST-Energy (Oryol Region, IDGC of Center);
- acquisition of electric grid facilities in the Zaigrayevo District (Republic of Buryatia, IDGC of Siberia);
- acquisition of a 100% stake in YGES (Voronezh Region, IDGC of Centre).

Comparison with Foreign Peers by Financial and Investment Indicator

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Mcap, bn RUB</th>
<th>EBITDA, bn RUB</th>
<th>EBITDA Margin, %</th>
<th>Dividend Yield, %</th>
<th>P/E</th>
<th>ROIC, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ROSSETI Group</td>
<td>279.8*</td>
<td>323.7*</td>
<td>11.1</td>
<td>2.1</td>
<td>2.3</td>
<td>2.7</td>
</tr>
<tr>
<td>2. red Eléctrica del Espacio, Spain</td>
<td>671.1</td>
<td>111.2</td>
<td>79.7</td>
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<td>9.9</td>
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<tr>
<td>3. Terra, Italy</td>
<td>820.9</td>
<td>120.9</td>
<td>75.9</td>
<td>4.2</td>
<td>11.7</td>
<td>15.6</td>
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<tr>
<td>4. Bia, Belgium</td>
<td>377.2</td>
<td>44.4</td>
<td>40.1</td>
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</tr>
<tr>
<td>5. AuroraNet, Australia</td>
<td>272.7</td>
<td>53.9</td>
<td>62.1</td>
<td>5.5</td>
<td>12.1</td>
<td>23.1</td>
</tr>
<tr>
<td>6. Eversource Energy, USA</td>
<td>1,737.4</td>
<td>180.2</td>
<td>34.1</td>
<td>3.2</td>
<td>15.6</td>
<td>25.7</td>
</tr>
<tr>
<td>7. Fingrid OYJ, Finland</td>
<td>-</td>
<td>15.1</td>
<td>27.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8. Electricité de France SA, France</td>
<td>2,158.6</td>
<td>1,121.5</td>
<td>22.7</td>
<td>2.1</td>
<td>5.4</td>
<td>4.0</td>
</tr>
</tbody>
</table>

No foreign company is comparable with the ROSSETI Group in terms of the scale of operation, the type of service, the organizational structure, and the particularities of management, taken together.

Strategic Priority

- Infrastructure accessibility
  - the number of procedures to obtain an electricity connection was reduced to 2 procedures in accordance with the World Bank’s methodology.

- Efficiency
  - electricity losses reduced by 1.31 pp compared with 2012 (from 9.88% to 8.57%)

- Accomplishment of federal-level task
  - the number of territorial grid organizations was decreased from 3,000 in 2013 to 1,400 in 2019. This made it possible to increase the efficiency of using uniform operating standards and improve reliability and customer satisfaction.

Overall, all quantitative target values specified in the Strategy for Development of the Electric Grid Sector of the Russian Federation for the period until 2019 were attained.
Mechanisms for Strategy Implementation

In order to ensure the implementation of the Strategy for Development of the Electric Grid Sector of the Russian Federation, the Company approved and carried out the Long-Term Development Program for 2015–2019 (LTDP 2015–2019).

THE DOCUMENT DEFINES THE PRINCIPAL TARGETS AND OBJECTIVES AIMED AT INCREASING THE ROSSETI GROUP’S INNOVATIVE AND ECONOMIC EFFICIENCY:

- Ensuring a reliable and uninterrupted power supply and energy security
- Keeping a balance between the interests of different key stakeholders
- Improving customer service quality
- Improving the operating efficiency of electric grid facilities
- Ensuring infrastructure accessibility

LTDP Implementation Report for 2019

Targets set by the Strategy for Development of the Electric Grid Sector of the Russian Federation

<table>
<thead>
<tr>
<th>Targets</th>
<th>Actually attained target values and the attainment level of planned values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving service quality</td>
<td>The ROSSETI Group’s average number of electricity connection procedures was 3.</td>
</tr>
<tr>
<td>Reducing the duration of power outages</td>
<td>The average duration of power outages was decreased from 1.97 hours to 1.59 hours.</td>
</tr>
<tr>
<td>Improving power supply reliability, reducing the total number of accidents (including unrecorded accidents)</td>
<td>Compared with the base values prescribed in the LTDP in 2014, the number of accidents decreased by 45% in 2019.</td>
</tr>
<tr>
<td>Reducing specific investing expenses compared with 2012 (in rubles per physical unit: kilometers, MVA)</td>
<td>Specific investing expenses associated with the construction of power lines and substations were actually decreased by 53.85% and 30.77% respectively.</td>
</tr>
<tr>
<td>Reducing operating expenses</td>
<td>Specific operating expenses were decreased by over 2%</td>
</tr>
<tr>
<td>Reducing electricity losses</td>
<td>Electricity losses were reduced by 0.38 pp as compared with the actual value of the previous year.</td>
</tr>
</tbody>
</table>

\(\text{I}\) The program was formulated pursuant to Instructions of the President on the Russian Federation No. Pr-3304 of December 27, 2013, and the Recommended Guidelines for Developing the Long-Term Development Program of Strategic Open Joint-Stock Companies and Federal State Unitary Enterprises, and Open Joint-Stock Companies at Which the Russian Federation Holds an Aggregate of More than Fifty Percent of Shares developed and recommended by the Ministry of Economic Development of the Russian Federation. The program was approved by the Board of Directors of ROSSETI on December 19, 2014 (Minutes of the Meeting on December 19, 2014 No. 174).

\(\text{II}\) Information about the implementation of the Consolidated Investment Program and the Innovative Development Program incorporated into the LTDP and about the attained key performance indicators is included in the corresponding sections of the Company’s Annual Report for 2019.

LTDP Implementation Audit

The implementation of the Long-Term Development Program (LTDP) was audited in May 2019. In the auditor’s opinion (Nexia Pacioli)\(\text{II}\), the LTDP implementation report for 2018, including evidence of the target values actually attained by ROSSETI, presents fairly, in all material respects, information pursuant to the Long-Term Development Program of ROSSETI for 2015–2019 and in accordance with the Audit Standard. The principal targets are achieved as scheduled in the LTDP.

\(\text{I}\) Approved by the Board of Directors on December 30, 2016 (Minutes of the Meeting on December 30, 2016 No. 250).

\(\text{II}\) Approved by the Board of Directors on February 12, 2018 (Minutes of the Meeting on February 15, 2018 No. 293).

\(\text{II}\) Audit report of December 25, 2019.
The Company’s Strategic Priorities:

→ increasing core business efficiency (electricity transmission and distribution);
→ promoting legislative initiatives to develop the industry;
→ ensuring electricity supply reliability and quality and non-discriminatory access to energy infrastructure in a new digital environment;
→ keeping a balance between the interests of all different stakeholders: government / customers / shareholders / investors;
→ developing new business areas (nontariff services) through digital transformation to meet the changing demand.

"While working on the draft of the new development strategy for the period until 2030, we fully understood our responsibility to the government and our customers, shareholders, and potential investors; therefore, we tried to take into account the unique operations of ROSSETI as a public joint-stock company on the one hand and as an infrastructure company on the other. We are determined to continue our efforts to improve the efficiency of our core business and make it more resilient to global changes in the electricity market."

Director General, ROSSETI
Pavel Livinsky

"PROCESS BUS" for the development of new customer-related services

61
60
Sustainability Priorities:

- support human resource and society development, ensure decent and safe conditions of employment;
- create high-quality and affordable services for customers;
- improve operations and generate value.

ROSSETI identifies the priority areas of sustainability, taking into account the particularities of its activities and taking into account the views and interests of stakeholders.

The Company constantly monitors changes in legislative regulation and trends in relation to the aspects of sustainable development.

The ratio between the Group’s priority areas and the UN SDGs allows the Company to track its contribution toward the global goals in the economic, social, and environmental aspects.

### Support Human Resource and Society Development, Ensure Decent and Safe Conditions of Employment

<table>
<thead>
<tr>
<th>UN SDGs</th>
<th>Objectives</th>
<th>Areas of Activities</th>
<th>Actual Progress in 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>PROVIDE EMPLOYEES WITH COMPETITIVE EMPLOYMENT BENEFITS</td>
<td>→ Life and health insurance for employees.</td>
<td>→ Insurance plans cover 100% of the ROSSETI Group’s employees.</td>
</tr>
<tr>
<td>4</td>
<td>DEVELOP CULTURE AND SCIENCE IN THE REGIONS OF THE COMPANY’S OPERATIONS</td>
<td>→ Support for projects in education, science, culture, the arts, and instruction.</td>
<td>→ More than 12,000 students received practical training in the ROSSETI Group. Additionally, 2,300 people worked in student labor brigades at the ROSSETI Group’s electric grid facilities.</td>
</tr>
<tr>
<td>8</td>
<td>ENSURE DECENT CONDITIONS OF EMPLOYMENT</td>
<td>→ Reduction of industrial injury risks.</td>
<td>→ The industrial injury rate did not increase in 2019 on 2018.</td>
</tr>
<tr>
<td></td>
<td>IMPROVE OCCUPATIONAL SAFETY AND INDUSTRIAL SUPERVISION</td>
<td>→ Collective bargaining.</td>
<td>→ Occupational safety expenses totaled 5.7 bn rubles.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>→ Compensatory payments, social benefits, and guarantees for employees.</td>
<td>→ The average monthly pay in the ROSSETI Group was higher than the average pay in the Russian Federation.</td>
</tr>
</tbody>
</table>
**Capital Investment Program for 2020–2024:**

- **Financing for the capex program**
- **Commissioning of fixed assets**
- **Commissioning of transformer capacity**
- **Commissioning of power lines**

**Expenses under the ROSSETI Group’s Capex Program**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020 (plan)</th>
<th>2021 (plan)</th>
<th>2022 (plan)</th>
<th>2023 (plan)</th>
<th>2024 (plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td>262.3</td>
<td>278.0</td>
<td>289.8</td>
<td>293.0</td>
<td>297.9</td>
<td>294.0</td>
<td>289.2</td>
<td>289.2</td>
</tr>
<tr>
<td>Sources</td>
<td>Financing (bn RUB, inclusive of VAT)</td>
<td>1,114</td>
<td>1,127</td>
<td>62.3 GVA</td>
<td>90,200 KM</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Commissioning in the ROSSETI Group**

- **Commissioning of transformer capacity, MVA**
- **Commissioning of power lines, km**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020 (plan)</th>
<th>2021 (plan)</th>
<th>2022 (plan)</th>
<th>2023 (plan)</th>
<th>2024 (plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity</td>
<td>12,335</td>
<td>12,076</td>
<td>12,401</td>
<td>12,300</td>
<td>12,270</td>
<td>12,230</td>
<td>12,390</td>
<td>12,463</td>
</tr>
<tr>
<td>Lines</td>
<td>32,541</td>
<td>31,122</td>
<td>30,884</td>
<td>30,840</td>
<td>30,810</td>
<td>30,780</td>
<td>30,750</td>
<td>30,720</td>
</tr>
</tbody>
</table>

**Sources of Financing for the Capex Program for 2019–2024, bn RUB**

- **Internal funds**
- **Borrowed funds**
- **Connection fee**
- **Other**

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020 (plan)</th>
<th>2021 (plan)</th>
<th>2022 (plan)</th>
<th>2023 (plan)</th>
<th>2024 (plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources</td>
<td>180.9</td>
<td>176.6</td>
<td>170.3</td>
<td>170.4</td>
<td>170.3</td>
<td>170.4</td>
</tr>
</tbody>
</table>

**Areas of Activities**

1. **Creating high-quality and affordable services for customers**

- Objectives:
  - Ensure affordable electricity supply
  - Ensure long-term, transparent tariff regulation
  - Minimize the number of electricity connection procedures

2. **Improving operations and generating value**

- Objectives:
  - Change of the ROSSETI Group’s business model; use of digital solutions for creating a common information environment for the ROSSETI Group’s administration
  - Creation of new business models and services based on new digital technology
  - Development of EU infrastructure and platform solutions

3. **Sustainable power supply**

- Objectives:
  - Safety, availability, and reliability of power supply
  - Improvement of power supply quality
  - Disaster/emergency planning and response

4. **Optimize procurement, support conservation of natural resources**

- Objectives:
  - Responsible selection of suppliers, contractors, and service providers
  - Reduction of energy consumption for the business needs of office and production buildings

5. **Ensure environmental sustainability for present and future generations**

- Objectives:
  - Industrial environmental supervision and monitoring
  - Decommissioning of equipment containing polychlorinated biphenyls
  - Bird protection of electric grid facilities
  - Development, introduction, and certification of the environmental management system in accordance with ISO 14001-2015 (GOST R ISO 14001-2016)
Overview of the implementation of the consolidated capex program of the ROSSETI Group in 2019

SDCs | Financing, mln RUB (inclusive of VAT) | Commissioning, mln RUB (exclusive of VAT) | Commissioning, MVA | Commissioning, km |
---|---|---|---|---|
Distribution grids | | | | |
ROSSETI subsidiary SDCs | | | | |
Tverenergo | 561 | 730 | 38 | 196 |
tsrkovskoe Selo Energy Company | 66 | 55 | 6 | 5 |
Kursenergo | 345 | 308 | 13 | 44 |
Svet | 11 | 9 | 6 | 7 |
Katetovo Electric Company | 110 | 121 | 3 | 16 |
Saint Petersburg Power Grid | 40 | 235 | 3 | 18 |
Total for ROSSETI with subsidiary SDCs | 1,976,330 | 2,301,231 | 12,461 | 32,541 |

KEY CAPEX PROJECTS COMPLETED IN 2019

- **29.2 km**
  Improvement of electricity supply reliability for Moscow and the Moscow Region (OL 220 kV Pochti with double-circuit PL 110 kV)

- **500 MVA**
  Improvement of 500 kV Moscow Energy Ring operating reliability (SS 500 kV Pakhoms)

- **31.3 kV**
  Electricity supply facilities of Power of Siberia pipeline (OL 220 kV Mzhny Kurariskii–NPKS, SS No. 1 with branch line to SS MPS-1a to 170 kV switchgear, 220 kV Amga converter substation; construction of branch lines of OL 220 kV Amga converter substation)

- **56.45 km**
  Network connection for Kola Shipyard (construction of OL 150 kV from L-140 and L-219 to SS 150 kV Belokamenka)

- **501 MVA**
  Network connection for Orenburg (550 kV Preobrashchenskaya with branch lines OL 500 kV Krasnoarmeyskaya–Gazovaya and OL 220 kV Baskulskaya–Sonchinskaya)

- **918 MVA**
  Electricity supply for Baikal–Amur Mainline (500 kV Komsomolskaya–Selikhino–Yarino, SS 220 kV Stolbchaty Loop)

- **289 MVA**
  Development and improvement of electricity supply reliability for the Krasnoarmeysky Region (SS 110 kV)

- **50.32 km**
  Network connection for Far East Nonferrous Metals Company (OL 110 kV Vorkuta-Noviy Dvina–Naberezhnye)

- **185 MVA**
  Improvement of electricity supply reliability for the Krasnoarmeysky Region (SS 110 kV, branch lines CIL 110 kV SS 220 kV Vostochnaya Promzona, CL 110 kV Stolbchaty Promzona–Yamally)

- **211 MVA**
  Improvement of electricity supply reliability for the Volga Federal District (rehabilitation of 11 SS 110 kV)
Risks

Recognizing that its activities are subject to uncertain events and/or conditions, ROSSETI takes measures to provide sufficient guarantees for the achievement of the goals set by management bodies for ROSSETI.

The ROSSETI Group uses a target risk tree model with a risk hierarchy that optimizes the risk management system and extends it to all key areas of the ROSSETI Group at the level controlled by ROSSETI, namely:

- strategic risks,
- functional risks,
- business process risks.

Such an integrated risk management system allows to take into account variable risk factors and develop preventive risk response measures.

In order to determine the level of the impact of risks on the activities of the ROSSETI Group, the level of risk materiality is identified through the expert assessment of risk probability and risk consequences, as well as through the quantitative assessment using mathematical methods to calculate risk probability and risk consequences.

RISKS ARE DIVIDED INTO THREE MATERIALITY LEVELS:

MODERATE, risks do not have a material negative impact on financial and economic performance, but they require continuous monitoring for the timely identification of a possible increase in risk materiality;

SIGNIFICANT, risk occurrence may lead to significant deviations of key performance indicators, the short suspension of activities, lower independent ratings, negative coverage of activities;

CRITICAL, risk occurrence may lead to failure to achieve the goals set by management bodies, the prolonged interruption of activities, negative media coverage of activities, lower market prices of shares.

Key Risks and Risk Response Measures

RISK REDUCTION  RISK INCREASE  UNCHANGED

INDUSTRY MARKETS

1. THE RISK ASSOCIATED WITH NON-PAYMENT FOR ELECTRICITY TRANSMISSION SERVICES RENDERED

RISK DESCRIPTION

The risk is based on peculiarities of the retail electricity market operations, as well as the insufficiency of existing mechanisms in stimulating consumers to pay on time for electricity transmission services, and the impact of macroeconomic factors (lower consumer solvency).

In 2019, the volume of outstanding account receivables for electricity transmission services decreased by RUB 10.3 bn (or 8.9%).

Total account receivables for electricity transmission services were down by RUB 5.3 bn, and the turnover period shortened by 5 days.

The positive trend was observed mainly due to a reduction in outstanding amount of debt to regional grid organisations by RUB 10.8 bn, including RUB 0.7 bn in the intra-group settlements with PJSC FGC UES.

The overdue debt of guaranteeing suppliers grew by RUB 0.3 bn in 2019. This was mainly due to non-payments of TNS Energo Group’s guaranteeing suppliers (RUB 0.9 bn), Astrakhanenergo (RUB 1.1 bn), Chitaenergo (RUB 0.8 billion), and Volgogradenergo (RUB 0.8 bn). In terms of guaranteeing suppliers, outstanding receivables fell by RUB 3.3 bn, including RUB 1.6 bn due to writing off the debt of Energostrim Group.

Given the possible cancellation of energy sales licensing introduction, the risk of overdue debt growth remains significant and pressing.

RISK MINIMISATION MEASURES

- In the ROSSETI Group, measures are carried out to eliminate the causes of conflicts with consumers, to reduce disputed overdue account receivables for services rendered, including through the implementation in distribution networks of approved programmes related to the perspective development of electricity metering systems in the retail electricity market.
- The work is under way regarding the cooperation with federal authorities on improving the rules of the retail market functioning.
- The law enforcement practice is being shaped, as well as positive precedents are monitored.
- The S&A initiates the consideration of non-payments at meetings of regional collegial working bodies chaired by executive authorities of the constituent entity of the Russian Federation.
- A possible restructuring of overdue debts with subsequent control of the execution of signed agreements on debt payment is being reviewed.
- A possible repayment of overdue debts by debtors in the framework of transactions on the acquisition or lease of regional grid organisations’ networks is being reviewed.
- Measures aimed at recovering overdue debts within the framework of claims review are carried out.
- The ROSSETI Group interacts with the Federal Bailiff Service of the Russian Federation at the enforcement proceeding stage, signs cooperation agreements with the Federal Bailiff Service of the Russian Federation, and controls the debt repayment in the framework of the enforcement proceedings based on court judgements on recovery of overdue debts.
In 2019, the implementation of the Programme of Measures to Reduce Electricity Losses in Electricity Networks continued. Suggestions on technological consumption of electricity/capacity are formed and submitted to state tariff regulation bodies, taking into account the current and potential demand for electricity in the regional power markets. The subsidiaries and affiliates implement approved programmes for the prospective development of electricity metering systems on the retail electricity market. Automation of the preparation of technical conditions takes place: introduction of geoinformation systems and digitisation of power grid facilities make it possible to reduce the number of stages and speed up the connection process. To ensure the provision of high-quality services by the grid organisations to their consumers, current and potential applicants can apply for technological connection services. Currently, the analysis of approved arrangements and programmes for the development of the regional electric power industry is conducted to determine the general volume of executed technological connection contracts (98%) falls on applicants on benefits, with power generation facilities entering the market in large numbers, and the amount of accumulated debt, which was reduced by 9%.

The risks associated with the possible shortage of funds for the implementation of contracts on the provision of energy transmission services are managed by the implementation of a comprehensive corporate risk management system at ROSSETI Group and its subsidiaries, which includes the monitoring and analysis of operational and financial risks. The overall risk level is considered low but remains significant and pressing for the Group.

The risks associated with the partial consideration of costs of power grid companies incurred in the course of necessary technical connection activities, as well as on the provision of energy transmission services, are managed by the implementation of a comprehensive corporate risk management system at ROSSETI Group and its subsidiaries, which includes the monitoring and analysis of operational and financial risks. The overall risk level is considered low but remains significant and pressing for the Group.

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1. RISKS ASSOCIATED WITH THE IMPACT OF INFLATION

RISK DESCRIPTION
Growth of the consumer price index has an impact on the level of costs and profitability and, as a result, on the Group’s financial condition and ability to meet its obligations.

Unit operating costs in 2019 were reduced by more than 2% year-over-year.

RISK MINIMISATION MEASURES
→ In order to minimise inflationary risks, the 2019—2023 Operational Efficiency Improvement and Cost-Cutting Programme is being implemented by the ROSSETI Group.

2. RISKS ASSOCIATED WITH CHANGES IN INTEREST RATES

RISK DESCRIPTION
The risk is due to the impact of market interest rates on the possible growth of the Group’s borrowing costs for debt refinancing, investment programme financing and operational activities.

The main factors influencing interest rates are the macroeconomic situation and the policy pursued by the Central Bank of the Russian Federation.

Despite the consistency of the risk materiality assessment, the level of significance of risk consequences was lower due to the drop in the Bank of Russia’s key rate in the reporting period.

RISK MINIMISATION MEASURES
→ The ROSSETI Group provides a set of measures aimed at optimising the structure of borrowings in the total capital structure, attracting long-term borrowings at fixed interest rates, and increasing the efficiency of operating and investment costs.
→ The Company’s planning of its business activities depends on risks associated with changes in interest rates.
→ A balanced credit policy, intended to streamline the loan portfolio structure and reduce to the lowest costs of debt servicing, is being delivered.

3. THE RISK OF DEVIATION OF THE DEBT/EBITDA INDICATOR FROM THE VALUE SET IN THE BUSINESS PLAN

RISK MINIMISATION MEASURES
→ Cost management that depends on the expected level of income (with mandatory reliability and security requirements taken into account), in order to reach the EBITDA level set in the business plan.
→ Ratifying of operating expenses, control of their limits, and achievement of the target indicators set for the reduction of unit operating expenses are carried out.
→ The compliance with approved limits of financing of the investment programme as well as the implementation of investment projects following the agreed costs and deadlines are being monitored.

RISKS ASSOCIATED WITH THE COMPANY’S ACTIVITIES

1. FAILURE TO MEET THE RELIABILITY OF ELECTRICITY TRANSMISSION SERVICES

RISK DESCRIPTION
Risks associated with climatic factors, physical wear, violation of operating conditions and critical changes in the parameters of operation of power grid equipment, which can lead to a failure (accidents) of electrical equipment and decline in the reliability of power supply.

In 2019, the limit values of indicators of the service reliability level, set by tariff regulation authorities, were not exceeded across the ROSSETI Group, except for JSC Chechenenergo: the failure to achieve this indicator was connected with the improvement of the accounting system of power supply interruptions in the 0.4—10 kV distribution network.

In total, ROSSETI’s subsidiaries and affiliates recorded and investigated 9.6 million process violations (accidents) in the network of 110 kV and above in 2019 (a decrease of 12% compared to 2018).

In 2019, as a result of effective production activities of subsidiaries and affiliates of ROSSETI, the number of technological violations related to adverse weather events was down by 29%, and due to the post maintenance of equipment — decreased by 13%.

Based on the strategic importance of the ‘reliability of electricity transmission services’ indicator, this risk remains significant for the ROSSETI Group.

RISK MINIMISATION MEASURES
→ Over the reporting year, measures were taken to raise the level of monitoring and controllability of the electric grid complex as well as to reduce the time of emergency response.
→ To minimise the risk and accidents at the facilities, long-standing targeted programmes are being implemented by the SSA, aimed at:
  - the disposal of equipment that may cause injuries;
  - the standardisation of OL pasages (clearing the territories near power lines of forests);
  - the improvement of reliability of the distribution network;
  - the improvement of lightning surge proofness;
  - the replacement of switches, OD, and SC whose service life has expired;
  - the replacement of oil-filled bushings with solid insulation ones;
  - the replacement of porcelain and polymer combined insulators with OL;
  - the replacement of support and rod insulators and the upgrade of relay protection and automation devices and gear of the electric grid complex.
→ Scheduled ordinary and advanced trainings along with the control of production personnel’s performance are carried out every year.

2. OCCUPATIONAL RISKS

RISK DESCRIPTION
The risks are caused by unintentional neglect of labour protection requirements on the part of workers in the production process.

The risk is critical, as the ROSSETI Group has zero tolerance for accidents that are dangerous for its employees.

RISK MINIMISATION MEASURES
→ The ROSSETI Group analyses and introduces the best practices to promote the culture of employee safety, as well as automates production processes regarding the safety to avoid occupational injuries as much as possible.
→ Steps are being taken to comply with the requirements of existing regulatory laws of the Russian Federation in the field of labour protection.
→ In order to create a personnel safety culture, employees are trained and corresponding measures are taken to prevent occupational injuries, as well as the legal framework of labour protection, labour protection rules in the operation of electrical installations, first aid and victims are being studied. The Company’s employees were trained on the safe performance (aimed at appropriate safe behaviour and accident prevention at work).
→ Technologies that ensure safe performance and safe working environment are being introduced and applied.
→ Examination of workplaces in structural division, production structural divisions, including with the inspection of territory (industrial premises), workplaces passes and evacuation routes is conducted, sources of hazards and/or dangerous situations (initiating events) related to the work performed by an employee or type of work are identified.
→ Periodic maintenance (diagnosis, inspection, repair, testing, etc.) of production equipment and tools which are a source of potential danger to employees is carried out.
→ Automatic control devices for harmful substances, process safety parameters and other signalling devices are used.

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Corporate Governance Report

Every year, the evolution and experience of innovative technology introduction abroad is studied. The Anti-corruption policy has been adopted. Every year, a set of measures aimed at preventing corruption are developed and followed.

Legislative changes are monitored every month.

The automated system of formation and monitoring of implementation and efficiency assessment of the innovative development programme’s activities and -

To reduce risks of cyber threats, the transition to the use of mainly domestic software is in progress.

Updating of the list of priority technologies in the areas of innovative development, taking into account the best world experience, is taking place.

In 2019, the updating of local regulations was actively carried out.

To minimize the risk, the ROSSETI Group performs certain activities to comply with the terms of procurement procedures and conclusion of contracts in accordance with the time periods of implementation of investment projects of approved investment programmes.

The quality of capital construction is controlled, and on-site checks of actual availability of resources and/or quality of products of contractors are carried out.

The system of control over the implementation of priority investment projects, introduced by ROSSETI, allows for the timely identification of risks of failure to implement projects and promptly respond to slippages.

In order to minimize the risk, the ROSSETI Group performs certain activities to comply with the terms of procurement procedures and conclusion of contracts in accordance with the time periods of implementation of investment projects of approved investment programmes.

The quality of capital construction is controlled, and on-site checks of actual availability of resources and/or quality of products of contractors are carried out.

The ROSSETI Group strives to ward off the violation of general prohibitions and restrictions of the competition legislation, taking steps to prevent the abuse of dominant position and discrimination and limiting competition by means of:

• training of employees in order to fully achieve detailed understanding of the competition legislation;

• implementation of measures in respect of the openness and accessibility of procurement;

• standardisation and unification (based on Russian legislation) of processes exposed to the antitrust risk;

• introduction of online services that provide complete, transparent and reliable information about services and the order of their provision;

• coordination and unification (based on Russian legislation) of processes exposed to the antitrust risk;

• introduction of online services that provide complete, transparent and reliable information about services and the order of their provision;

• implementation of measures in respect of the openness and accessibility of procurement;

• training of employees in order to fully achieve detailed understanding of the competition legislation;

The ROSSETI Group, in accordance with the requirements of Russian legislation, performs work on the counteracting the misuse of insider information and market manipulation; the procedure of access to insider information has been established; lists of insiders have been formed; and rules of internal control for compliance with the legislative requirements in this area have been prepared.

31 The Company has no investments, whose estimated level of income exceeds 10% per year.
KPI System Performance Evaluation

The attainment of ROSSETI’s goals of development is evaluated through a system of key performance indicators (KPIs).

The KPI System and target values specified in decisions adopted by the Company’s Board of Directors (as amended) are in accordance with the goals of the Long-Term Development Program of ROSSETI and are conditional on achieving the targets of the Strategy 2020–2030.

KPI System in 2019

The existing KPI system was approved by the Board of Directors of ROSSETI in March 2017. The target values for 2019 were approved by the Board of Directors of the Company.

Decision of the Company’s Board of Directors on April 18, 2019 (Minutes of the Meeting on April 22, 2019), transferred the KPI “Compliance with Commissioning Schedules” from annual KPIs to quarterly KPIs, with its bonus reduction weight remaining at -10% and its target value remaining at ≥ 90%. Additionally, the technique for calculating and evaluating the KPI “Achieved reliability of services” was changed, with the Duration of Power Outages Index replaced by the System Average Interruption Duration Index (SAIDI), the System Average Interruption Frequency Index (SAIFI), and the Energy Not Supplied (ENS) Index in its evaluation criteria.
### KPI Structure and Target Values for 2018 and 2019

#### LTDP Targets

<table>
<thead>
<tr>
<th>KPI Description</th>
<th>Weight in the Bonus System, %</th>
<th>Results Achieved in 2018</th>
<th>Target Value in 2019</th>
<th>Results Achieved in 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENHANCING THE OPERATING EFFICIENCY OF ELECTRIC GRID</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated profit from operating activities (EBITDA)</td>
<td>50</td>
<td>attained</td>
<td>attained</td>
<td>Level of attainment: 100%(^a) (subsidiaries did not exceed the permissible number of unachieved indicators)</td>
</tr>
<tr>
<td>Consolidated net debt/EBITDA</td>
<td>25</td>
<td>attained</td>
<td>attained</td>
<td>Level of attainment: 100%(^a) (subsidiaries did not exceed the permissible number of unachieved indicators)</td>
</tr>
<tr>
<td>Implementation of the action plan to reduce subsidiaries’ and dependent companies’ receivables</td>
<td>25</td>
<td>attained</td>
<td>attained</td>
<td>Level of attainment: 100%(^a) (subsidiaries did not exceed the permissible number of unachieved indicators)</td>
</tr>
<tr>
<td>Compliance with commissioning schedules</td>
<td>-10</td>
<td>-</td>
<td>≥ 90%</td>
<td>Level of attainment: 100%(^b) (commissioning schedules were complied with)</td>
</tr>
<tr>
<td><strong>SECURING A RELIABLE AND UNINTERRUPTED POWER SUPPLY AND ENSURING ENERGY SECURITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No growth of large accidents</td>
<td>-25</td>
<td>no-growth</td>
<td>attained</td>
<td>Level of attainment: 100%(^a) (the number of large accidents was decreased by all SDCs)</td>
</tr>
<tr>
<td>No growth of casualties</td>
<td>-25</td>
<td>no-growth</td>
<td>no growth</td>
<td>Level of attainment: 100%(^a) (the occupational injury rate was reduced as compared with 2018, the number of casualties from among SDCs’ personnel was decreased)</td>
</tr>
<tr>
<td><strong>KEEPING A BALANCE BETWEEN THE INTERESTS OF DIFFERENT KEY STAKEHOLDERS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated net cash flow</td>
<td>20</td>
<td>25.0 bn RUB</td>
<td>≥ -29.0 bn RUB</td>
<td>Level of attainment: 217% (the consolidated net cash flow exceeded the target value)</td>
</tr>
<tr>
<td>Reduction of specific operating expenses (costs)</td>
<td>15</td>
<td>≤ 2% (not attained by three companies)</td>
<td>≤ 2% (not attained by at most three companies)</td>
<td>Level of attainment: 100% (companies did not exceed the permissible number of unachieved indicators)</td>
</tr>
<tr>
<td>Electricity losses</td>
<td>10</td>
<td>8.95%</td>
<td>≤ 8.87%</td>
<td>Level of attainment: 105% (electricity losses were kept at the planned level)</td>
</tr>
<tr>
<td>Reduction of specific investment costs</td>
<td>15</td>
<td>0.95</td>
<td>≤ 1</td>
<td>Level of attainment: 112% (specific investment costs were reduced as required under the consolidated investment program of ROSSETI SDCs for 2019)</td>
</tr>
<tr>
<td>Improvement of workforce productivity</td>
<td>10</td>
<td>3.63%</td>
<td>≥ 2.0%</td>
<td>Level of attainment: 139% (workforce productivity was improved as required)</td>
</tr>
<tr>
<td>Innovation effectiveness</td>
<td>20</td>
<td>11.3%</td>
<td>≥ 10%</td>
<td>Level of attainment: 126% (evaluated by the Interdepartmental Working Group on the Attainment of Innovative Development Priorities of the President of the Presidential Council on the Economic Modernization and Innovative Development of the Russian Federation within the prescribed period)</td>
</tr>
<tr>
<td><strong>SECURING A RELIABLE AND UNINTERRUPTED POWER SUPPLY AND ENSURING ENERGY SECURITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased capacity utilization rate of electric grid equipment</td>
<td>10</td>
<td>attained</td>
<td>attained</td>
<td>Level of attainment: 100% (persons involved in planning the development of electricity distribution grid facilities and requesting new network connections were provided with more information on the current capacity utilization rate)</td>
</tr>
<tr>
<td>Achieved reliability of services</td>
<td>-10</td>
<td>0.32 (attained by all subsidiaries)</td>
<td>SAIDI, SAIFI, ENS simultaneously ≤ 1.00</td>
<td>Level of attainment: 100%(^c) (the target level of service reliability was achieved in all regions of ROSSETI’s operations)</td>
</tr>
<tr>
<td><strong>MAINTAINING THE ACCESSIBILITY OF INFRASTRUCTURAL IMPROVING CUSTOMER SERVICE QUALITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance with network connection deadlines</td>
<td>-10</td>
<td>1.0</td>
<td>≤ 1.1</td>
<td>Level of attainment: 100% (ROSSETI Group’s measures to ensure grid infrastructure accessibility resulted in a 13% decrease in the time required to obtain an electricity connection, from contract to certificate, for network connection requests for facilities rated below 100 kW as compared with 2018)</td>
</tr>
</tbody>
</table>

\(^{a}\) For the 4th quarter of 2019 and 2018, the expected level of attained KPIs is shown, taking into account the time and procedure for preparing the reports that provide the basis for calculating the KPIs. The final actual values are subject to approval by the Board of Directors of ROSSETI. A comparison of the expected values for 2019 with the values for 2018 is contained in this table. The indicator is deemed to be attained if the actual value for the 1st quarter, the 1st half, and the 9 months of the reporting year is ≥ 2% and, for the year, is ≥ of the average annual growth rate of tariffs of grid organizations in accordance with the Forecast of the Socioeconomic Development of the Russian Federation.

\(^{b}\) The indicator is deemed to be attained by ROSSETI if it is not achieved by at most three SDCs. In the case of each of the SDCs, the indicator is deemed to be attained if the actual value does not exceed the planned value calculated according to accounting statements.

\(^{c}\) The indicator is deemed to be attained by ROSSETI if it is achieved by all SDCs. In the case of each of the SDCs, the indicator is deemed to be attained if there is no growth of large accidents in the current quarter as compared with the average quarterly number of accidents for the corresponding quarters of the past three years.

\(^{d}\) The indicator is deemed to be attained if there is no growth of occupational injuries in the current quarter as compared with the average quarterly number of occupational injuries for the past three years.

\(^{e}\) The indicator is deemed to be attained if there is no growth of operational failures in the current quarter as compared with the average quarterly number of operational failures for the past three years.

\(^{f}\) The indicator is deemed to be attained by ROSSETI if in 2019 the target value is not exceeded as compared with the System Average Interruption Duration Index (SAIDI), the System Average Interruption Frequency Index (SAIFI), and the Energy Not Supplied (ENS) Index.

\(^{g}\) The indicator is deemed to be attained if there is no growth of large accidents in the current quarter as compared with the average quarterly number of accidents for the corresponding quarters of the past three years.
OPERATIONAL PERFORMANCE

Reliable, quality and affordable energy supply in 80 regions of the country
Review of Operating Results

Electricity Transmission and Distribution

The ROSETI Group core business is electricity transmission services. In 2019, the volume of electricity transmitted via the network of ROSETI Group decreased by 0.17% compared to 2018, amounting to 834,939.0 mln kWh.

78% OF THE ELECTRICITY GENERATED IN RUSSIA IS TRANSMITTED VIA ROSETI SDCS NETWORKS

The company once more decreased a level in the factor of electricity losses – down to 8.57% (by 0.38 percentage points compared to the 2018 annual results) for the reporting year. The steady reduction in network electric losses of the Group over the course of several years is the result of comprehensive efforts including implementation of energy saving and energy efficiency projects by means of digital technologies, including the implementation of measures to reduce electricity losses.

Electric Energy Supply of Events of Critical Importance

In 2019 according to instructions of the Executive Office of the President of the Russian Federation and the Government of the Russian Federation the Group ensured reliable and uninterrupted power supply of the following state events and events of critical importance:

- Russian Investment Forum
- Eastern Economic Forum
- International Arctic Forum
- Russian Energy Week
- XIX World Winter Universiade
- St. Petersburg International Economic Forum
- Summit “Russia – Africa”
- Global Summit on Production and Industrialization

All above mentioned events experienced no interruptions in energy supply.

Electric Energy Supplied to the Network, Volume of Electricity Losses, and Level of Electricity Losses

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow</td>
<td>90,223.4</td>
<td>91,081.1</td>
<td>92,234.0</td>
<td>91,740.8</td>
<td>92,742.2</td>
<td>92,137.1</td>
<td>92,315.6</td>
<td>93,086.5</td>
<td>93,125.4</td>
<td>91,831.6</td>
</tr>
<tr>
<td>Southern Russia</td>
<td>59,920.7</td>
<td>62,023.1</td>
<td>62,417.2</td>
<td>61,653.2</td>
<td>61,440.9</td>
<td>61,977.0</td>
<td>64,040.2</td>
<td>59,065.3</td>
<td>67,179.2</td>
<td>70,768.3</td>
</tr>
<tr>
<td>FGC UES</td>
<td>50,922.0</td>
<td>57,858.3</td>
<td>58,102.1</td>
<td>56,897.6</td>
<td>56,683.2</td>
<td>1,780.9</td>
<td>1,686.2</td>
<td>1,065.8</td>
<td>1,547.0</td>
<td>1,523.1</td>
</tr>
<tr>
<td>Siberia</td>
<td>54,979.5</td>
<td>54,086.5</td>
<td>54,679.9</td>
<td>53,617.6</td>
<td>53,082.3</td>
<td>6,375.3</td>
<td>6,236.7</td>
<td>4,075.2</td>
<td>4,257.8</td>
<td>3,842.9</td>
</tr>
<tr>
<td>Central and Volga Region</td>
<td>53,051.2</td>
<td>53,691.2</td>
<td>53,063.4</td>
<td>51,332.2</td>
<td>53,510.3</td>
<td>3,444.6</td>
<td>3,356.4</td>
<td>3,206.4</td>
<td>3,145.8</td>
<td>6.60</td>
</tr>
<tr>
<td>Lenenergo</td>
<td>38,171.7</td>
<td>38,263.8</td>
<td>38,355.5</td>
<td>37,914.8</td>
<td>4,349.6</td>
<td>4,377.5</td>
<td>4,300.1</td>
<td>4,381.4</td>
<td>4,123.5</td>
<td>11.67</td>
</tr>
<tr>
<td>North-West</td>
<td>37,471.4</td>
<td>34,291.7</td>
<td>34,971.9</td>
<td>36,939.7</td>
<td>36,135.2</td>
<td>2,283.6</td>
<td>2,298.8</td>
<td>2,200.3</td>
<td>2,156.4</td>
<td>2,126.7</td>
</tr>
<tr>
<td>ROSETI South</td>
<td>27,795.5</td>
<td>27,026.8</td>
<td>27,084.5</td>
<td>27,976.2</td>
<td>27,872.7</td>
<td>1,277.5</td>
<td>1,286.2</td>
<td>1,228.3</td>
<td>1,277.5</td>
<td>9.68</td>
</tr>
<tr>
<td>Kubanenergoservice</td>
<td>26,633.2</td>
<td>23,032.5</td>
<td>23,297.6</td>
<td>23,885.4</td>
<td>23,638.8</td>
<td>2,435.2</td>
<td>2,440.3</td>
<td>2,456.9</td>
<td>2,506.3</td>
<td>12.56</td>
</tr>
<tr>
<td>North Caucasus</td>
<td>18,477.2</td>
<td>18,531.8</td>
<td>18,903.2</td>
<td>18,720.7</td>
<td>19,005.5</td>
<td>4,024.8</td>
<td>3,703.2</td>
<td>3,087.3</td>
<td>4,266.8</td>
<td>3,406.5</td>
</tr>
<tr>
<td>TIK</td>
<td>5,142.7</td>
<td>5,288.1</td>
<td>5,343.8</td>
<td>5,378.5</td>
<td>5,378.5</td>
<td>650.0</td>
<td>675.8</td>
<td>676.6</td>
<td>666.4</td>
<td>657.4</td>
</tr>
<tr>
<td>Yamenergoservice</td>
<td>4,178.6</td>
<td>4,132.3</td>
<td>4,165.4</td>
<td>4,160.3</td>
<td>4,186.5</td>
<td>446.4</td>
<td>446.4</td>
<td>446.4</td>
<td>446.4</td>
<td>446.4</td>
</tr>
<tr>
<td>Cherechesenergo</td>
<td>2,848.3</td>
<td>2,716.0</td>
<td>2,802.1</td>
<td>2,903.8</td>
<td>2,862.9</td>
<td>1,720.7</td>
<td>1,881.3</td>
<td>1,804.3</td>
<td>1,569.9</td>
<td>806.4</td>
</tr>
<tr>
<td>Total for Distribution Grids</td>
<td>4,194,881.7</td>
<td>4,002,318.4</td>
<td>4,032,907.6</td>
<td>4,032,907.5</td>
<td>4,032,907.3</td>
<td>15,784.1</td>
<td>15,784.1</td>
<td>15,784.1</td>
<td>15,784.1</td>
<td>15,784.1</td>
</tr>
<tr>
<td>Total for ROSSETI SDCs</td>
<td>826,180.0</td>
<td>836,393.1</td>
<td>838,997.1</td>
<td>834,939.0</td>
<td>831,892.6</td>
<td>78,021.6</td>
<td>74,899.2</td>
<td>74,056.8</td>
<td>71,560.5</td>
<td>71,242.2</td>
</tr>
</tbody>
</table>

* Prior to 17.02.2020 – IDGC of South.
* Prior to 24.02.2020 – IDGC of North Caucasus.
The expected level of losses in ROSSETI Group’s grids in 2020 will not exceed 8.56% due to implementation of digital technologies for the network operation. Digital transformation contributes to increase in the economic and energy efficiency of electric networks, reduction in non-technical losses, and increase of payment discipline. The transition to intelligent metering systems allows you to automatically collect data for the timely detection of non-contractual and unaccounted consumption, and to take timely measures to eliminate thereof.

Implementation of Smart Metering Systems within the ROSSETI SDCs in 2019

<table>
<thead>
<tr>
<th>LEVEL OF IMPLEMENTATION WITH MODERN SMART METERING SYSTEMS WITHIN THE GROUP COMPANIES HAS INCREASED UP TO</th>
<th>REMOTE DATA COLLECTION HAS BEEN INTRODUCED WITHIN</th>
<th>CORRESPONDING COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.1%</td>
<td>687 THSD METERING POINTS</td>
<td>17.1 BN RUBLES</td>
</tr>
<tr>
<td>601 THSD METERING POINTS</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Current Process of Locating Electricity Losses

Target Model for the Process of Locating Electricity Losses

Technological Connection

The companies of the ROSSETI group provide comprehensive services for the technological connection of consumers and producers of electricity to electric networks. Technological connection is the actual connection of power receiving devices of consumers, electric energy production facilities and electric grid facilities to electric networks.

In 2019, the volumes of technological connection of consumers and electric power generation facilities decreased by 9% compared to 2018 in the number of fulfilled contracts and by 21% in connected capacity. The bulk of the fulfilled contracts for technological connection (98%) are the applicants of the preferential category with power receivers with a capacity of up to 150 kW inclusive.

IN 2020, IT IS PLANNED TO FULFILL 312 THSD CONTRACTS

ADDIMG A TOTAL CAPACITY OF 15.1 GW

Number of Applications Received and Contracts Concluded, thsd spc.

Capacity of the Applications Received and Contracts Concluded, GW

Technological Connection Cost, RUB/kW
Doing Business 2019 Rating

The Russian Federation rose to the 7th place according to the World Bank's ease of doing business annual report "Doing Business 2020" in the category "Getting Electricity". This is once again the convincing evidence for success and effectiveness of all announced reforms aimed at simplifying the process of technological connection to electric networks.

The Russian Federation received high praise from the World Bank experts due to the reform aimed at shortening the connection period. The overall duration of the procedure was reduced to 41 days (MOESK - 38 days, Lenenergo - 47 days).

In 2019, the Russian Federation rose from the 31st place to the 28th in the overall ranking. The World Bank Group of Experts recognized the effectiveness of the set of reforms to improve the availability of energy infrastructure in the Russian Federation as the best practice that will be described and disseminated among other countries to scale the positive experience.

ROSSETI Achievements in Doing Business Rankings in 2019

Position in the rating by the indicator "Getting Electricity" (growth from 12th place)

Connection duration, days (decreased from 73 days)

Connection cost,% GNI per capita (decrease from 5.7%)

The number of steps required for connection, pcs.

Ensuring Reliable and Uninterrupted Power Supply

In 2019, ROSSETI companies significantly improved reliability and quality of electricity supply. This was facilitated by the work on repair, reconstruction and technical re-equipment of existing power facilities, construction of new facilities of electric grid infrastructure, active work with personnel – regular training and certification of employees, introduction of digital monitoring and management technologies, and a number of other measures.

To control the quality of power supply and ensure its compliance with the requirements of consumers, the Company has implemented a quality management system that meets the requirements of ISO 9001:2015 and the national standard GOST R ISO 9001-2015.

Indices of Reliable and Uninterrupted Power Supply

Recorded Disturbances

SADFI

SAIFI

Number of disturbances with successful ARC, pcs.

Number of recorded disturbances, inc. number of disturbances with successful ARC, pcs.
In 2019, ROSSETI SDGs recorded and investigated 9,400 cases of disturbances in the network of 110 kV and higher, which is by 12% lower than the value of 2018.

Causes of Operation Failures in Electric Grids in 2019

<table>
<thead>
<tr>
<th>Causes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adverse weather conditions</td>
<td>34%</td>
</tr>
<tr>
<td>External factors</td>
<td>21%</td>
</tr>
<tr>
<td>Physical deterioration</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>36%</td>
</tr>
</tbody>
</table>

During the reporting period, the Group companies experienced several cases of massive blackouts of grid facilities in the regions of operation. All of them were caused by adverse weather conditions (wet snow, breezy winds, glaze-ice and sleet depositions on wires and thunderstorms, etc.). The most significant are as follows:

- Blackouts in 6-110 kV networks in the territory of St. Petersburg and Leningrad Region in January 2019 (five thousand people were disconnected/de-energized as a maximum);
- 38 blackouts of 110 kV HV lines in the north of Rostov Region on February 2-4, 2019;
- Mass blackouts of power grid facilities in the territories of North-West, Central, Volga, Ural and Siberian Federal districts in October 2019.

In each of these cases, ROSSETI specialists immediately began restoring the interrupted power supply. In order to restore electricity supply to consumers shortly there was performed an operational redeployment of mobile teams from other branches of the Group companies, focusing effort and resources in the most affected areas, as well as 24-hour work. Due to preventive measures, including early mobilization of repair teams in the event of storm warnings, it was possible to minimize the scope and duration of power supply interruptions.

In the World Bank rating “Doing Business - 2019”, the Russian Federation retained the maximum score in the indicator “Electricity Reliability Index (SAIDI, SAIFI)” - 8 out of 8 points. The highest score has been awarded to the Russian Federation annually since the beginning of its assessment by the World Bank in 2015.

Additional Services for Clients

In addition to the core activities - services on power supply and technological connection to electricity grids - the ROSSETI Group companies develop additional services, which are commercial in nature and are not subject to mandatory state regulation. Traditional non-tariff services in all regions of the Group companies operation include:

- Placement of telecommunication networks, outdoor lighting and other structures at the power grid facilities;
- Maintenance and repair of electrical networks of consumers, including maintenance of outdoor lighting networks, testing and diagnostics of electrical equipment;
- Construction and installation work, including the service “technological turnkey connection,” organization of outdoor lighting, organization of electric energy accounting;
- Conducting energy surveys (energy audit), development and implementation of measures to save energy and increase energy efficiency;
- Reconfiguration of grid facilities for the benefit of third parties;
- Examination and approval of design documentation.

The following activities were the main growth drivers of revenue in non-tariff services:

- Construction and installation works (reconstruction of electrical grid facilities, technological turnkey connection);
- Maintenance and repair of power grids;
- Installation of telecommunication networks at power grid facilities.

Digital transformation of the industry establishes fundamentally different requirements to the interaction of market participants. Under the conditions of moderate growth of useful electricity supply and constant demand for technological connection services over the last five years, the ROSSETI Group develops new directions of activity and creates digital services. ROSSETI developed and standardized the procedure for provision of new (non-traditional) non-tariff services for consumers in all regions of operation. The new priorities of the ROSSETI Group include:

- Development of energy storage systems;
- Engineering services;
- Participation in outdoor lighting projects, improvement of outdoor lighting energy efficiency;
- Data processing/analysis and energy consulting for consumers;
- Development of distributed generation up to 25 MW;
- Distribution of consumer electricity to the retail market;
- Establishment of a network of charging stations for public and personal electric transport in the regions of ROSSETI operation;
- Management of consumer energy efficiency based on intelligent accounting systems.

IN 2019 ROSSETI GROUP’S REVENUE FROM SALE OF NON-TARIFF SERVICES INCREASED BY 9.4% AS COMPARED TO 2018
Online Services for Interaction with Clients

In 2019, ROSSFETI Group paid special attention to the development of interactive online services for clients, which additionally facilitate the process of technological connection to electricity grids.

In order to ensure online security and simplify the authorization and identification of users, the Portal was integrated with the Federal State System “ESIA”.

Portal audience reach: the Portal currently provides e-service to ROSSFETI SDGs consumers. Portal services cover 68 local grid operators from 26 constituent entities of the Russian Federation.

In 2019, the Concept of Creating a Single Portal of Electric Grid Services of the ROSSFETI Group was approved. The document determines the vector of Internet resources development for interaction with clients at ROSSFETI Group.

Online Services for Interaction with Clients

In 2019, ROSSFETI Group paid special attention to the development of interactive online services for clients, which additionally facilitate the process of technological connection to electricity grids.

The following services are available on the Portal:
- technological connection cost calculators;
- calculator of required capacity when applying for technological connection;
- single interactive map with information on loading of power centers of 35 kV and higher;
- personal client accounts with implementation of electronic signature technology;
- feedback service;
- disclosure of information on constituent entities of the Russian Federation in accordance with the Standards of information disclosure by participants of wholesale and retail markets.  

In 2019, the Concept of Creating a Single Portal of Electric Grid Services of the ROSSFETI Group was approved. The document determines the vector of Internet resources development for interaction with clients at ROSSFETI Group.

Svetlaya Strana Portal

Svetlaya Strana Portal is the Internet portal launched by ROSSFETI for feedback from electric power consumers. The main purpose of its creation is to provide the population with the opportunity to communicate with the supplier of electric energy online. All messages are processed centrally in a single ROSSFETI Moderation Service.

The reply period is 8 working days from the moment of the message publication – the problem is solved or a specific period of its resolution is provided.

Double quality control of violation elimination:
- consumer side (author of the message) — it is possible to refute the information received in the response, if the problem is not fully solved or the work is not carried out qualitatively;
- ROSSFETI side - additional check on the most problematic messages.

The Portal helps to solve the following problems:
- blackout;
- fluctuations of voltage;
- low voltage;
- defects of electric equipment.

In the future, ROSSFETI will expand the list
In the future, ROSSFETI will expand the list of problems on the Portal.

Introduction of New Technologies

2030 Digital Transformation

At the end of 2018, ROSSETI adopted the concept "Digital Transformation 2030". Its purpose is to change processes and shift the company to risk-oriented management using digital technologies and big data analysis. The concept is implemented in accordance with the specially developed Target Model of digital transformation of the electric grid complex ROSSETI until 2030.

The ROSSETI Group Digital Transformation and Effects for Company Stakeholders

- Economic and energy security of regions and countries as a whole;
- Competitiveness of domestic products of power engineering and information systems;
- New jobs in various sectors of economy;
- Advanced modernization of the basic infrastructure company;
- Radical improvement of quality and availability of services on transmission and technological connection; development of competitive markets of related services;
- Control of tariffs;
- Ensuring energy independence and infrastructure security of the economy.

For Consumers

- High quality standards of power supply and energy services;
- Ability to participate in self-consumption/energy cost management;
- Reduced cost and time of technological connection to the electrical network;
- Controlling tariff growth;
- Improving the quality and reliability of power supply.

For Ecology

Improving the ecology by reducing energy losses and using new energy-saving technologies.

For the Company

- Minimization of equipment supply logistics;
- Gaining savings in implementing the investment programs;
- Opportunity to advance network infrastructure while increasing the Company business profitability;
- Infrastructure readiness for new challenges;
- Improving the quality and reliability of power supply to consumers;
- Increasing the speed and quality of decision-making at all levels of the Company management;
- Increasing the level of personnel competence;
- Reducing losses through timely detection of non-contract and non-recorded consumption;
- Operational costs reduction - transition from scheduled to condition-based repair.
Unified Technical Policy

In 2019, in support of implementation of the Concept “2030 Digital Transformation”, a new technical policy of ROSSETI was approved.1 It guides the Company in making technical decisions during operation of electric grid facilities, implementation of new construction programs, complex technical re-equipment and reconstruction of facilities, as well as in innovative and promising development.

Key solutions of the new process policy:

→ application of information control systems;
→ determination of digital substation architecture;
→ transition to IEC 61850 digital data exchange protocol;
→ transition to risk-oriented management based on digital technologies introduction and big data analysis;
→ intelligent monitoring and predictive analytics systems;
→ introduction of new cyber security technologies;
→ implementation of solutions based on the phenomenon of superconductivity;
→ implementation of energy storage facilities.

More detailed information about technical supporting and rehabilitation can be found in the section “Capital Investment Program”.

In 2019, ROSSETI developed an automated system for managing technical re-equipment and reconstruction of the facilities of the SDCs electrical grid complex. This system will allow it to form a prioritized list of technical re-equipment and reconstruction measures for inclusion in the SDCs investment program.

Information Technology

Introduction of modern information systems into the Company activities allows it to reduce management costs, increase the speed of decision-making, achieve more flexibility of management. It also integrates internal control procedures directly into business processes to prevent errors and abuses.

Development of information technologies in ROSSETI takes place in accordance with ROSSETI policy in the field of information technologies, automation and telecommunications. Several important information technology projects were implemented in 2019.

Ensuring Information Security

In order to counter cyber attacks ROSSETI implements a consistent policy on system development and means of information protection of the electric grid complex. ROSSETI has the Center of Competence on Information Security, which goal is to increase efficiency of planning and development of measures used to ensure security of information infrastructure facilities, to ensure security of confidential information when using information and communication technologies.

Together with the National Coordination Center for Computer Incidents of the FSS of Russia, in 2019 exercises were successfully held to repel cyber attacks on the critical information infrastructure of the electric grid complex of ROSSETI.
Innovative Development Program

ROSSETI implements Innovative Development Program for 2016-2020 with vision up to 2025\(^{1}\)

Key areas:

→ transition and large-scale implementation of digital substations of 35-110 (220) kV voltage class;
→ transition to digital active-adaptive networks with distributed intelligent automation and control system;
→ transition to comprehensive business process efficiency and management automation;
→ application of new technologies and materials in the electric power industry.

In 2019, R&D projects were implemented on more than 100 topics in 15 ROSSETI SDCs. The actual funding for the R&D Program in 2019 was 1.4 bn rubles.

Most significant R&D projects

<table>
<thead>
<tr>
<th>SDCs</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDGC of Siberia</td>
<td>Development of a unified information systems integration platform.</td>
</tr>
<tr>
<td>LENENERGO</td>
<td>Research on the use of flexible AC (FACTS) technologies for creating 110 active adaptive electrical networks.</td>
</tr>
</tbody>
</table>
| IDGC of Urals        | → studies and testing for resistance to glaze-ice and rime depositions of different types of wires;  
|                      | → development of technology of magnetic scanning of lightning protection cable condition and steel core of steel-aluminum wire on 35-220 kV HV line using mobile platform. |
| MOESK                | Theoretical and experimental research and development of electric shock demonstration stands at the training site. |
| Kubanenergo          | → creation of hardware and software complex for fault detection for 35-750 kV lines with optical communication channels;  
|                      | → development of LPLab program for calculation of protection of HVTTL and AR against lightning overvoltage. |
| Tartanenergo         | Development of pulse overvoltage protection devices for low-voltage circuits of digital substations. |
| IDGC of Center and Volga Region | Development of intelligent system of electric equipment defect recognition based on results of thermal imaging monitoring and results of transformer oil analysis using neural networks. |
| FGC UES              | Development and manufacture of thyristor valve units with independent cooling system for PS 400 kV Vyborgskaya. |

14 results of research and development were put into pilot operation.  
18 results of research and development were introduced at ROSSETI facilities.

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1\(^{1}\) Approved by the Board of Directors on December 30, 2016 (Minutes of the Meeting on December 30, 2016 №250).
Review of Financial Results

The ROSSETI Group has shown solid performance and steady growth over the past three years. Improving operating efficiency, reducing costs through the use of digital technology, and enhancing transparency for our shareholders remain high priority for the ROSSETI Group’s growth.

Pavel Livinsky
Director General, ROSSETI

The primary focus of the Company’s financial policy is to improve operating efficiency, maintain an optimum level of liquidity and a low debt burden, retain high credit ratings from international rating agencies, and ensure a high level of self-financing for capital expenditures. This allows the Company to maintain operational profitability and ensure shareholder return in the form of dividend payout.

The key factors affecting the ROSSETI Group’s financial performance in 2019 were:
→ higher revenue from electric energy transmission due to the tariff indexation regarding electric energy transmission services;
→ recognition of loss from the depreciation of property, plant and equipment of the ROSSETI Group;
→ increase in depreciation expenses for property, plant and equipment due to the introduction of new capacities;
→ conclusion of asset consolidation major transactions by the ROSSETI Group;
→ application of the new IFRS 16 Leases standard in the ROSSETI Group’s accounting.

The ROSSETI Group has shown solid performance and steady growth over the past three years. Improving operating efficiency, reducing costs through the use of digital technology, and enhancing transparency for our shareholders remain high priority for the ROSSETI Group’s growth.

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→ conclusion of asset consolidation major transactions by the ROSSETI Group;
→ application of the new IFRS 16 Leases standard in the ROSSETI Group’s accounting.

Effective cost management and increased revenue: adjusted EBITDA rose by 3.1% (or 9.8 bn rubles) to 323.7 bn rubles.

Management of working capital and short-term debt: the current ratio went down to 0.77.

Maintained comfortable level of debt: Net Debt/Adjusted EBITDA decreased to 1.31.

Use of long borrowings: as with the 2018 results, long-term debt obligations dominated the loan portfolio, accounting for 82.6%.

Adjusted EBITDA is calculated as EBITDA (earnings before interest, tax, depreciation, and amortization) less impairment of fixed assets.

RESULTS IN 2019:

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Adjusted EBITDA is calculated as EBITDA (earnings before interest, tax, depreciation, and amortization) less impairment of fixed assets.
Revenue

Its socially significant and geographically diversified activities enable the ROSSETI Group to have a solid base of ultimate electricity consumers. In combination with a stable tariff policy, this ensures predictable operating revenue.

<table>
<thead>
<tr>
<th>Indicator (bn RUB unless otherwise stated)</th>
<th>2017 (restated)</th>
<th>2018</th>
<th>2019</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, including:</td>
<td>948.3</td>
<td>1,021.6</td>
<td>1,029.7</td>
<td>0.8%</td>
</tr>
<tr>
<td>Electricity transmission and distribution</td>
<td>784.2</td>
<td>826.2</td>
<td>860.9</td>
<td>4.2%</td>
</tr>
<tr>
<td>Network connection services</td>
<td>52.4</td>
<td>53.4</td>
<td>48.7</td>
<td>(7.4)</td>
</tr>
<tr>
<td>Electricity and capacity sales</td>
<td>75.7</td>
<td>119.9</td>
<td>100.3</td>
<td>(16.3)</td>
</tr>
<tr>
<td>Other revenue</td>
<td>36.6</td>
<td>22.9</td>
<td>19.8</td>
<td>(13.5)</td>
</tr>
</tbody>
</table>

Factors Contributing to Changes in Revenue in 2019, bn RUB

Factors Contributing to Changes in Operating Expenses in 2019, bn RUB

Operating Expenses

The ROSSETI Group’s priorities include improving operating efficiency and reducing expenses without detriment to the reliability, quality, and accessibility of services.

Structure of Operating Expenses, bn RUB

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>181.5</td>
<td>107.3</td>
<td>129.4</td>
<td>11.5</td>
</tr>
<tr>
<td>248.1</td>
<td>31.8</td>
<td>27.1</td>
<td>(14.8)</td>
</tr>
<tr>
<td>22.9</td>
<td>150.7</td>
<td>150.3</td>
<td>1.8</td>
</tr>
<tr>
<td>127.0</td>
<td>127.2</td>
<td>116.6</td>
<td>(9.3)</td>
</tr>
<tr>
<td>127.2</td>
<td>127.2</td>
<td>116.4</td>
<td>(8.3)</td>
</tr>
<tr>
<td>129.4</td>
<td>129.4</td>
<td>129.4</td>
<td>0.0</td>
</tr>
<tr>
<td>119.9</td>
<td>119.9</td>
<td>119.9</td>
<td>0.0</td>
</tr>
<tr>
<td>826.2</td>
<td>826.2</td>
<td>826.2</td>
<td>0.0</td>
</tr>
<tr>
<td>784.2</td>
<td>784.2</td>
<td>784.2</td>
<td>0.0</td>
</tr>
</tbody>
</table>

The Company’s revenue increased by 0.8% (or 8.1 bn rubles) in 2019 versus 2018 to 1,029.7 bn rubles. The key factors contributing to changes in revenue are as follows:

→ revenue from electricity transmission and distribution increased by 4.2% (or 34.7 bn rubles) due to tariff indexation;
→ revenue from electricity and capacity sales decreased by 16.3% (or 19.6 bn rubles) because of the supplier of last resort functions transferred by SDCs and due to lower electricity sales of FGC UES’s subsidiary (MGES);
→ revenue from network connection services went down by 7.4% (or 3.9 bn rubles) due to compliance with the services schedule depending on customers;
→ other revenue decreased by 13.5% (or 3.1 bn rubles) due to changes in the completion of different construction project stages.
The Company’s operating expenses increased by 2.7% (or 22.5 bn rubles) in 2019 versus 2018 to 887.3 bn rubles. The key factors contributing to their changes are as follows:

- Employee benefits increased due to wage indexation for production personnel in accordance with the Sectoral Wage Rate Agreement;
- Expenses associated with electricity distribution services grew due to tariff indexation for other territorial grid organizations;
- Expenses associated with electricity purchased for compensation for electricity network losses increased due to higher unregulated prices of purchased electricity;
- Expenses associated with electricity purchased for resale decreased because of the supplier of last resort functions transferred by SDGs;
- Tax payments decreased due to movable property tax relief granted as of January 1, 2019;
- Provisioning rose following the assessment of possible negative outcomes of ongoing legal proceedings;
- Depreciation and amortization grew due to putting into operation new fixed assets, and introducing IFRS 16 Leases into the Company's accounting practices.

It is noteworthy that the provision for expected credit losses in 2019 was comparable to the amount in 2018. Losses on impairment of fixed assets were recognized in 2019 chiefly by three subsidiaries (LENENERGO, FGC UES, and ROSSETI Northern Caucasus).

Operating Efficiency Management

In order to bring down operating expenses and improve efficiency, the Company was active in carrying out the Program to Improve the Operating Efficiency and Reduce Expenses of the ROSSETI Group for 2019–2023. The Company implemented the action plan to optimize ROSSETI Group’s expenses with due consideration to subsidiaries according to the independent audit results.40

The ROSSETI Group’s specific operating expenses in 2019 were more than 2.0% down from 2018.

Assets and Liabilities

Some of the factors affecting the Company’s assets are as follows:

- The technical base is constantly modernized, including through digitalization;
- Equipment has a long life cycle;
- The company has a unique infrastructure that can help develop new activities and achieve synergies.

The Group’s assets increased by 5.2% (or 131.0 bn rubles) in 2019 versus 2018 to 2,649.6 bn rubles.

Changes in the structure of equity were primarily due to the net profit received in 2019.

The key factors contributing to changes in current liabilities are as follows:

- Short-term loans and borrowings were increased by reclassifying some long-term bond loans as short-term loans by maturity.
- Dividends were accrued.

The key factors contributing to changes in noncurrent liabilities are as follows:

- Lease obligations were recognized (in accordance with IFRS 16 Leases, effective from January 1, 2019).
- Long-term prepayments for network connection services increased.
- Long-term loans and borrowings decreased due to reclassification of a part of long-term bond loans as short-term loans by maturity.

Factors Contributing to Changes in Assets and Liabilities in 2019, bn RUB

The key factors contributing to changes in noncurrent assets were largely due to the following reasons:

- Fixed assets were increased by the implementation of the investment program.
- Right-of-use assets were recognized (in accordance with IFRS 16 Leases, effective from January 1, 2019).

The key factors contributing to changes in the value of current assets and available-for-sale assets are as follows:

- Receivables were decreased by completed payments for the sale of a shareholding in P.SIC Inter RAO.
- The asset swap agreement with FEEMC was completed.
Debt

The Company maintains an optimum level of liquidity and a low debt burden. Its borrowings are not exposed to currency risk because 100% of the Company’s debt is ruble denominated.

The Group’s debt obligations decreased by 5.9 bn rubles in 2019. It is, however, important to note that the introduction of IFRS 16 Leases, effective from January 1, 2019, increased lease obligations by 36.2 bn rubles. With lease obligations factored out, the Group’s debt would have decreased by 42.1 bn rubles in 2019.

The Group’s debt went down from 7.2% to 7.0% p.a., remaining below the market average (according to the Bank of Russia, the average lending rate in rubles for Russian corporate lenders for maturities of 1–3 years was 8.48% p.a. in December 2019).

The Group’s debt portfolio is dominated by long-term borrowings, with a weighted average maturity exceeding 8 years.

Financial Debt, bn RUB

<table>
<thead>
<tr>
<th>Financial Debt, bn RUB</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt service expenses</td>
<td>1.2</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>226</td>
<td>226</td>
<td>226</td>
</tr>
<tr>
<td>The ROSSETI Group weighted average rate at the end of the period, %</td>
<td>7.2</td>
<td>7.2</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Bonds

The ROSSETI Group actively attracts long-term borrowings on capital markets. In 2019, no placement of ROSSETI’s bonds took place. However, the companies of the ROSSETI Group successfully placed the following bond issues (the offer was approved without the provision by the holders of bonds with a total nominal volume of RUB 30.0 bn):

Events after the Reporting Date:

<table>
<thead>
<tr>
<th>Issue number</th>
<th>Series</th>
<th>Outstanding volume, RUB mn</th>
<th>Date of placement</th>
<th>Placement rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOESK</td>
<td>4B02–01–65116–D-001P</td>
<td>10,000</td>
<td>April 23, 2019</td>
<td>8.45</td>
</tr>
<tr>
<td>MOESK</td>
<td>4B02–05–65116–D</td>
<td>5,000</td>
<td>June 06, 2019(^a)</td>
<td>8.60</td>
</tr>
<tr>
<td>IDGC of Urals</td>
<td>4B02–03–32501–D</td>
<td>3,000</td>
<td>October 30, 2019</td>
<td>7</td>
</tr>
<tr>
<td>IDGC of Centre</td>
<td>4B02–04–32501–D</td>
<td>4,000</td>
<td>October 30, 2019</td>
<td>7</td>
</tr>
<tr>
<td>IDGC of Centre and Volga Region</td>
<td>4B02–01–10214–A-001P</td>
<td>5,000</td>
<td>November 19, 2019</td>
<td>6.85</td>
</tr>
<tr>
<td>IDGC of Centre and Volga Region</td>
<td>4B02–02–12665–E</td>
<td>5,000</td>
<td>December 30, 2019</td>
<td>6.85</td>
</tr>
</tbody>
</table>

The purpose of raising borrowed funds was to refinance the loan portfolio by subsidiaries. The key investors were managing companies, pension funds, banks, investment and insurance companies, as well as individuals.

In order to optimise the debt portfolio, ROSSETI repaid 4 issues of listed bonds (series BO-02, BO-03, BO-05 and BO-06), placed in 2015–2016, with a total nominal volume of RUB 26.0 bn. The companies of the ROSSETI Group also redeemed/bought back bonds totalling RUB 47.4 mn under the offers.

In early 2020, the ROSSETI Group also prepaid/redeemed bonds totalling RUB 23.1 bn under the offers.

\(^a\) As part of the offer.

Debt Service Expenses, bn RUB

<table>
<thead>
<tr>
<th>Debt Service Expenses, bn RUB</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>As part of the offer.</td>
<td>27</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Accrued interest included in expenses</td>
<td>39</td>
<td>42</td>
<td>45</td>
</tr>
<tr>
<td>Accrued interest capitalized in fixed asset and non-current asset value</td>
<td>45</td>
<td>42</td>
<td>46</td>
</tr>
</tbody>
</table>

Debt Repayment Schedule, bn RUB

<table>
<thead>
<tr>
<th>Debt Repayment Schedule, bn RUB</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>after 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>As part of the offer.</td>
<td>115</td>
<td>123</td>
<td>131</td>
<td>139</td>
</tr>
<tr>
<td>Principal debt less accrued but unpaid interest</td>
<td>163</td>
<td>163</td>
<td>163</td>
<td>163</td>
</tr>
</tbody>
</table>

Events after the Reporting Date:

<table>
<thead>
<tr>
<th>Issue number</th>
<th>Series</th>
<th>Outstanding volume, RUB mn</th>
<th>Placement rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>FGU UES</td>
<td>4B02–04–40018–D-001P</td>
<td>10,000</td>
<td>6.75</td>
</tr>
<tr>
<td>Lenenergo</td>
<td>4B02–03–00073–A</td>
<td>5,000</td>
<td>6.20</td>
</tr>
<tr>
<td>MOESK</td>
<td>4B02–04–00073–A</td>
<td>5,000</td>
<td>6.20</td>
</tr>
<tr>
<td>MOESK</td>
<td>4B02–01–65116–D-001P</td>
<td>10,000</td>
<td>6.15</td>
</tr>
</tbody>
</table>

In the favourable market conditions, the companies of ROSSETI Group placed bonds with a total volume of 30 bn RUB in the beginning of 2020.
Credit Ratings

Currently, ROSSETI has investment ratings from two major international rating agencies, Standard & Poor's (BBB- with a stable outlook) and Moody's (Baa3 with a stable outlook) at the level of the sovereign rating of the Russian Federation, as well as the highest rating of AAA (RU) with a stable outlook assigned by national rating agency ACRA (JSC), corresponding to the level of financial obligations of the Russian Government.

The ROSSETI Group's high credit quality is confirmed by credit ratings assigned by international and national rating agencies. Credit ratings not only raise the investment attractiveness, but also allow for conducting effective borrowing policies on capital markets.

In 2019, the following rating actions were carried out in respect of the ROSSETI group by international and national rating agencies:

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Rating Scale</th>
<th>February</th>
<th>March</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>December</th>
<th>February</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P</td>
<td>BBB-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moody's</td>
<td>Baa3</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Fitch</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACRA</td>
<td>AAA(RU)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expert RA</td>
<td>AAA(RU)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expert</td>
<td>AAA(RU)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moody's</td>
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<tr>
<td>Fitch</td>
<td>BB+</td>
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<tr>
<td>ACRA</td>
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<tr>
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<tr>
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<tr>
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</table>

Credit Ratings of the ROSSETI Group (as of February 2020)

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Rating Scale</th>
<th>S&amp;P</th>
<th>Moody’s</th>
<th>Fitch</th>
<th>ACRA</th>
<th>Expert RA</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROSSETI</td>
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<td>-</td>
</tr>
<tr>
<td>FGC UES</td>
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<td>BBB</td>
<td>AAA(RU)</td>
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<td>-</td>
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<tr>
<td>MOESK</td>
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<td>AAA</td>
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<td>LENENERGO</td>
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<td>AAA(RU)</td>
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<td>-</td>
</tr>
<tr>
<td>IDGC of Volga</td>
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<td>Baa1</td>
<td>AA+(RU)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IDGC of North-West</td>
<td>-</td>
<td>-</td>
<td>AA+(RU)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IDGC of Urals</td>
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<td>-</td>
<td>AAA</td>
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<td>-</td>
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</tr>
<tr>
<td>IDGC of Centre</td>
<td>BB+</td>
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<td>-</td>
<td>-</td>
<td>ruAA</td>
<td>-</td>
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<tr>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>ruAA</td>
<td>-</td>
</tr>
<tr>
<td>ROSSETI Tyumen</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>ruAA</td>
<td>-</td>
</tr>
</tbody>
</table>
Cash Flows

<table>
<thead>
<tr>
<th>Indicator, mln RUB</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>212,386</td>
<td>238,571</td>
<td>256,445</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(188,840)</td>
<td>(353,840)</td>
<td>(291,112)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(8,442)</td>
<td>(2,729)</td>
<td>(8,070)</td>
</tr>
<tr>
<td>Cash flow balance</td>
<td>15,084</td>
<td>(17,998)</td>
<td>(5,043)</td>
</tr>
</tbody>
</table>

Net cash used in financing activities increased in 2019 on 2018 due to the Group's decreased debt obligations.

Key Ratios

<table>
<thead>
<tr>
<th>Indicator,</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted EBITDA Margin</td>
<td>33.1%</td>
<td>30.7%</td>
<td>31.6%</td>
</tr>
<tr>
<td>Net Debt/Adjusted EBITDA</td>
<td>1.44</td>
<td>1.38</td>
<td>1.31</td>
</tr>
<tr>
<td>Liquid Ratio</td>
<td>0.31</td>
<td>0.33</td>
<td>0.33</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>0.89</td>
<td>0.89</td>
<td>0.77</td>
</tr>
<tr>
<td>Financial Leverage</td>
<td>0.71</td>
<td>0.88</td>
<td>0.87</td>
</tr>
<tr>
<td>Long-Term Loans/Total Debt</td>
<td>91%</td>
<td>85%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Tariff Policy

Since the ROSSETI Group has a monopolistic position in the market, the Company's tariff policy is subject to government regulation.

Tariff Policy for Electricity Transmission and Distribution Services

In accordance with the forecast of the Socioeconomic Development approved by the Russian Government:

→ the lower and/or upper limits on tariffs for electricity transmission and distribution services require approval from the Federal Antimonopoly Service;

→ regional regulators set uniform pool tariffs for electricity distribution services within the tariff limits approved by the Federal Antimonopoly Service.

The forecast of the Socioeconomic Development also places restrictions on total ceiling household payments for utility services and does not factor in the outstripping growth in electricity prices in the wholesale market as compared with the growth rate of grid tariffs, and, accordingly the outstripping growth in electricity purchased for compensation for electricity network losses.

Distribution of Costs in the Electricity Distribution Pool Tariff

<table>
<thead>
<tr>
<th>Indicator (in RUB unless otherwise stated)</th>
<th>2018</th>
<th>2019</th>
<th>2019/2018 Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs related to payment for maintenance of electric grid facilities</td>
<td>121</td>
<td>126</td>
<td>4.1</td>
</tr>
<tr>
<td>Costs related to payment for electricity network losses of distribution grid companies</td>
<td>197</td>
<td>166</td>
<td>2.1</td>
</tr>
<tr>
<td>Costs related to payment for services of affiliated territorial grid organizations at individual tariffs</td>
<td>144</td>
<td>147</td>
<td>2.1</td>
</tr>
<tr>
<td>Minimum regulated revenue for maintenance of electric grid facilities</td>
<td>404</td>
<td>417</td>
<td>3.2</td>
</tr>
</tbody>
</table>

All of ROSSETI's subsidiaries are subject to long-term tariff regulation methods:

→ return on invested capital method (RAB regulation) in 12 operating areas;

→ long-term minimum regulated revenue indexation method in 53 operating areas;

→ return on invested capital method applied to FGC UES tariffs.

Tariff Policy for Network Connection Services

The network connection fee is based on approved fee rates (standardized or rates for 1 kW of connected capacity) or charged individually in accordance with cost estimate standards.

Network connection fees cover expenses incurred by ROSSETI SDCs in connection with organizational and technical measures and the construction of electric power facilities from existing facilities to connected power-receiving equipment (last mile expenses).

In order to increase the accessibility of grid infrastructure, it is forbidden to include in the network connection fee for all categories of requesting entities the investment component for covering the costs associated with the development of existing networks. Preferential terms apply to connections up to 150 kW and below.

Government Support

In the reporting period, ROSSETI did not receive government support, including subsidies. Government subsidies provided for ROSSETI's subsidiaries totaled 148 mn rubles.
Sustainable Development

Since 2010, ROSSETI has reported annually on sustainable development activities by publishing non-financial reports on the Company’s official website. ROSSETI has prepared a separate Corporate Social Responsibility and Sustainability Report for 2019 in accordance with GRI standards. The Report has undergone the procedure of public assurance by the Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs. Besides, the Report discloses information on the Company’s sustainable development activities compliance with the UN Sustainable Development Goals.

Statement from the First Deputy Director General

The ROSSETI Group’s day-to-day activities show our commitment to the principles of sustainable development. Sustainability is an integral part of the Company’s strategy, that was approved by the Board of Directors of ROSSETI in late 2019. We are guided by international best practices to meet the Group’s sustainability targets.

The ROSSETI Group continued in 2019 to work on a whole range of projects that enabled the Company to make a contribution toward the Sustainable Development Goals (SDGs). SDGs are set by the UN General Assembly in 2015 and intended to deal with the most pressing global issues. For instance, our work on implementing the Digital Transformation 2030 Concept was consistent with efforts to attain SDG Goal 9, aiming to promote sustainable industrialization and foster innovation; while our continued measures to introduce international best practices to meet the Group’s sustainability targets.

A strategic priority for the ROSSETI Group is to build up transparent and mutually beneficial relationships with all stakeholders, such as shareholders, investors, partners, contractors, customers, governmental authorities, the media, and the general public.

In 2019, the Company was recognized again as a leader in the Responsibility and Transparency Index and the Sustainable Development Vector Index published by the Russian Union of Industrialists and Entrepreneurs, which shows that our disclosures of sustainability and corporate social responsibility are believed by the expert community to be among the best.

The ROSSETI Group’s employees are the most valuable asset for us, they are the major driver of positive change and continuing business development, which is why we give much attention to providing them with additional training and creating the conditions for their professional growth.

Specifically, for the first time in the industry’s history, ROSSETI held a contest among technical line managers, Energy Leaders, in 2019. The theoretical and practical tasks of one month’s contest allowed the Company to select the top 100 participants for its personnel reserve. The winners were 102 of over the 1,800 contestants, who represented not only the ROSSETI Group’s entities but also other Russian territorial grid organizations. The first promotions from among the winners took place in some regions of the Company’s operations as early as 2019. All senior executives and a considerable number of line managers of the Company’s executive body completed the Digital Economy program designed by Innopolis University especially for the ROSSETI Group to give them a better understanding of the current and long-term goals of the Digital Transformation 2030 Concept.

The ROSSETI Group’s young employees took part in the International Youth Energy Forum organized by ROSSETI every year, the International Forum of Young Power Engineers and Industrialists (Forsage), and the "Energy Breakthrough" Contest of Innovative Projects and Developments.

The ROSSETI Group traditionally paid great attention to relations with students and schoolchildren across the country in 2019: over 1,000 students at Russian leading higher and vocational education institutions received ROSSETI-sponsored training; the ROSSETI Group’s entities provided practical training for about 10,000 students. Besides, the Company organized the second Olympics for gifted children, and over 2,000 students worked in summer at the power grid facilities of the ROSSETI Group as part of the power grid complex student teams. Since electric grids are classified as highly hazardous infrastructure facilities, the ROSSETI Group’s entities were active in carrying out programs throughout 2019 to prevent electrical injuries in a wide variety of social groups, including children, adolescents, and adults at risk, namely fishers, skydivers, and construction workers. The Company undoubtedly implemented measures to eliminate occupational injuries among its own personnel.

As part of its government relations, the ROSSETI Group initiated discussions and took steps throughout 2019 to improve the existing legal framework with the aim of creating a better financial and economic situation in the electric grid sector and protecting the rights of shareholders, which is also specified as a priority for our activities in the updated development strategy. In conclusion, it is worth noting that the Annual Report and the Corporate Social Responsibility and Sustainability Report of ROSSETI complement each other and give a comprehensive picture of all activities, which conforms to the Sustainability Reporting Standards released by the Global Reporting Initiative (GRI Standards) and meets the requirements of the GRI Electric Utilities Sector Supplement.
Corporate Sustainability Management System

ROSSETI is committed to continuous improvement of the corporate governance system in order to increase transparency and decision-making efficiency.

The sustainable development management system is integrated into the ROSSETI corporate governance system and is implemented at all levels of the ROSSETI Group’s management: at the level of the Board of Directors, at the executive and operational levels.

→ The Board of Directors performs general management of ROSSETI’s activities in the field of sustainable development and supervises the activities of executive bodies in the main priority areas of sustainable development of the ROSSETI Group.

→ The Management Board and the Director General of ROSSETI, as senior executives at the executive level, are responsible for implementing priority areas of activity in the field of sustainable development.

→ Structural divisions plan and carry out activities aimed at achieving UN SDGs, approved by the Company as priority ones, and report on their progress in the framework of the annual Corporate Social Responsibility and Sustainability Report.

→ SDGs executives and functional units are responsible for achieving priority goals and reporting to senior management on achieving targets.

ROSSETI develops strategic objectives for the priority directions of the ROSSETI Group’s sustainable development, implements policies and internal procedures that meet international standards, focuses on the principles of sustainable development in building business processes, and conducts specialized training for employees. The priority directions of sustainable development of the ROSSETI Group are specified in accordance with the specifics of its activities, as well as taking into account the views and interests of stakeholders.

The ROSSETI Group’s sustainable development management system includes the HSE Management System, Quality Management System and the Environmental Management System, and is also based on the provisions and norms of the Environmental Policy, the Policy for Interaction with the Company, Consumers and Government Agencies, and the Occupational Safety Policy, the Corporate Code of Ethics and Business Conduct of ROSSETI, Anti-Corruption Policy. ROSSETI has a management system that governs the Group’s activities regarding various aspects of sustainable development.

More detailed information about the ROSSETI Group’s sustainability management system can be found in the section “Management Approach for Sustainability” of the 2019 Corporate Social Responsibility and Sustainability Report of ROSSETI.

Stakeholder Engagement

ROSSETI strives to build honest and transparent relationships with its key stakeholders through ongoing interaction, consideration of interests and timely reporting of the plans and results of the Company.

The key corporate document governing the interaction of the Company with external interested parties is the ROSSETI Policy on Interaction with the Company, Consumers and Governmental Authorities. ROSSETI’s HR and social policies and the Corporate Code of Ethics and Business Conduct of ROSSETI govern the interaction with the Company’s employees and internal stakeholders.

The interaction of ROSSETI with stakeholders is based on compliance with the obligations assumed by the Company, taking into account the interests and expectations of stakeholders, information transparency, performance evaluation and continuous improvement of activities.

When preparing the Company’s reporting on sustainable development, the Company is guided by the opinions and interests of its stakeholders. In 2019 polling of and meetings with stakeholders, analysis of trends and requirements in the industry and at the legislative level were conducted. As a result, 20 significant issues were revealed for disclosing information in the framework of the ROSSETI Corporate Social Responsibility and Sustainability Report for 2019.
Public and Media Relations

The ROSSETI Group implements comprehensive communication campaigns. Their goal is to support the business strategy of the ROSSETI Group and establish a relationship of trust with stakeholders based on open dialogue.

**287,876 PUBLICATIONS IN MASS MEDIA ON THE ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES IN 2019**

To this end, specialists maintain contacts with representatives of mass media, the public, various structures and organizations of the municipal, regional and federal levels, authorities, Russian and foreign companies.

In 2019, there were 287,876 publications in mass media on the activities of the Company and its subsidiaries, which is 31% more than in the previous year (220,432 publications in 2018). In 2019, the number of references to ROSSETI increased by 17%, which resulted in 99,132 information materials (84,881 in 2018). About 65% of them were published in the federal media.

As a result of its information activity, ROSSETI took the first line in the rating of energy companies media presence in 2019 according to SCAN-Interfax.

The Company maintains official accounts in key social networks that are most popular among users and provide the widest user coverage: Facebook, VK, Twitter, Instagram, YouTube and OK. A total of 1,920 posts were published.

In 2019, more than 39.3 thsd people were subscribed to information channels in social media, and the total audience reach was more than 4.4 mn users. Therefore, in comparison with 2018, the number of subscribers increased by 49%, and user coverage by 92%.

Environmental Protection

ROSSETI seeks to reduce its negative impact on the environment and ensure the minimum consumption of materials by developing and improving the environmental management system of ROSSETI.

The main document regulating the activities of the Group on environmental issues is the Environmental Policy of the electric grid complex, approved by the Board of Directors of the ROSSETI. The ROSSETI Innovation Development Program for the period of 2016-2020 provides for the key organizational and technical measures in the field of environmental protection. In addition, in 2019, a new version of the ROSSETI Regulation ‘On a Single Technical Policy for the Electric Grid Complex’ was approved, which enshrines the objectives of the technical policy in the field of environmental protection.
ROSSETI implemented a voluntary environmental responsibility mechanism and introduced a certification of the environmental management system for compliance with the requirements of the ISO 14001 series of standards. In December 2019, the Russian Register Certification Association confirmed the compliance of the ROSSETI environmental management system with the requirements of the international standard ISO 14001: 2015 and its national equivalent GOST R ISO 14001-2016. In addition, IDGC of the North-West, IDGC of Volga and MOESK also received certificates for environmental management system compliance with the requirements of the international standard ISO 14001: 2015 in the reporting period.

Environmental Protection Costs in 2019 amounted to RUB 555 m, which is RUB 16 m higher than in 2018. No environmental activities have led to an accident at the facilities of the ROSSETI Group in 2019.

The Company implements the following measures aimed at improving the existing environmental management system:
- develop plans to achieve the ROSSETI Group’s environmental goals;
- implement the systems of environmental control, environmental impact accounting, and environmental audits;
- provide systematic training of personnel in order to increase their competence in environmental protection issues and environmental safety;
- provide access to stakeholders to information related to the activities of electric grid companies in the field of environmental protection;
- Environmental protection costs in 2019 amounted to RUB 555 m, which is RUB 16 m higher than in 2018. No environmental activities have led to an accident at the facilities of the ROSSETI Group in 2019.

To monitor and evaluate the environmental impact of the Company, ROSSETI evaluates quantitative environmental indicators that characterize the effectiveness of the measures taken.

More detailed information about the Company’s environmental protection approach and measures can be found in the section “Environmental Protection” of the 2019 Corporate Social Responsibility and Sustainability Report of ROSSETI.
Personnel

Personnel is the most valuable asset of the Company, since the achievement of operational efficiency and strategic goals of the ROSSETI Group depends on them.

The Company ensures safe labor conditions, promotes professional and personal growth of its employees. The Company guarantees the protection of the rights of employees of the ROSSETI Group, including the principles of equality and non-discrimination. ROSSETI seeks to attract the most talented and competent specialists, implements personnel motivation programs, social programs, youth policy projects, and develops a corporate training system.

Regular Personnel

The average headcount in 2019 amounted to 217,500 employees. The staff structure of the ROSSETI Group by categories of employees in the reporting year did not change significantly; more than half of the employees are blue collar workers. Also, a significant change in the structure of the number of employees by age was not observed. About a third of the employees are young people under 35 years old. Almost half of the Company’s employees have higher education, and their number is growing. For the ROSSETI Group, the share of women is 23% of the total number of employees.

Personnel Reserve

In 2019 the personnel reserve of the ROSSETI Group amounted to 18,000 people, with 75% of appointments to senior positions made from among internal candidates. The personnel reserve facilitates rapid filling of vacant positions and contributes to the personnel potential development of the country’s power grid complex.

In 2019 ROSSETI held a Competition of Specialists of the Power Grid Complex “Energy Leaders” as part of the All-Russian Congress of Power Engineers organized by the ROSSETI Group. The Competition is the first industry projection of the “Leaders of Russia” Competition. Over 1,800 power engineers took part in the competition. The result of the competition was the announcement of the “Golden Hundred” of power engineers. The Company plans to hold such events biennially in order to exchange experience and best practices among the power engineers of Russian companies, and to form a pool of highly potential managers - an efficient personnel reserve of the industry.

>1,800 POWER ENGINEERS TOOK PART IN THE FIRST INDUSTRY COMPETITION “LEADERS OF RUSSIA”
Development and Training of Personnel

The planning of training, retraining and advanced training programs at ROSSETI is carried out in accordance with the regulatory requirements of the Russian Federation and in accordance with the Personnel and Social Policy of the Group. In 2019, 144,500 employees of the ROSSETI Group received training under retraining and advanced training programs, which was 67% of the total number of employees.

The companies of the ROSSETI Group use all available formats of full-time and distance training, as well as their combination. Taking into account educational activities implemented locally using training simulators and remote forms of self-training, the coverage of employees trained reaches 100%.

Personnel Reward and Motivation System

ROSSETI provides a competitive level of remuneration for its employees. The main provisions of the remuneration system, as well as social benefits and guarantees, are enshrined in the Sectoral Tariff Agreement of the electric power industry, the Regulation on Remuneration, and also in the Collective Agreements. In 2019, the average level of staff salaries increased by 3.5% compared to 2018.

Social Programs

The components of ROSSETI social programs are:

→ voluntary medical insurance (VHI) and accident and illness insurance, as well as VHI for family members of employees on preferential corporate conditions;

→ supporting employees in improving housing conditions, providing office housing for employees of key categories;

→ assistance in the provision of places in preschool and educational institutions for children of employees, the organization of children’s vacations;

→ providing targeted financial aid;

→ providing special offers for financial services of insurance companies and partner banks;

→ non-state pension provision, support of former employees of electric grid companies.

The average level of staff salaries increased by 3.5%.

Occupational Health and Safety

The main corporate documents governing labor protection and industrial safety are the ROSSETI Occupational Safety Policy, the Regulation on the Occupational Safety Management System in the ROSSETI Group, and the Human Resources and Social Policy of ROSSETI.

The ROSSETI Group uses the ROSSETI Occupational Safety and Health Management System (OSHE), which applies to all employees of ROSSETI divisions, as well as to contractors and suppliers working at the ROSSETI Group’s facilities. As part of the OSHE, ROSSETI’s strategic goals in the field of occupational safety were developed and approved by the senior management of the ROSSETI Group.

Key Occupational Injury Control Measures

In 2019, the following main measures for production control were implemented:

→ systematic monitoring of the organization of work at running electrical installations;

→ monthly holding of Occupational Safety Day events in each production structural unit of SDCs and in the branches;

→ ensure the functioning of the Response System for Occupational Safety Violations by ROSSETI SDCs employees (coupon system);

→ introduce video control of teams’ access to work at electrical installations;

→ exercise control (carry out audits) of compliance with labor protection requirements in the production process as part of the internal technical control system;

→ organizing systematic work of the ROSSETI Occupational Safety Commission with the hearing of the heads of SDCs and branches in which severe and fatal accidents occurred, which results helped determine measures to prevent injuries and improve the functioning of the OSHE management system in SDCs.

More detailed information about the occupational safety management system can be found in the section “Occupational Safety” of the 2019 Corporate Social Responsibility and Sustainability Report of ROSSETI.
Key Results within the Framework of Labor Protection and Industrial Safety Measures

As a result of the work carried out last year, an increase in industrial injuries was prevented, the number of injured people working at electrical installations was reduced by 8%.

0.161
Lost Time Injury Frequency Rate with temporary disability (LTIFR)

Reducing the number of accidents and injuries is the strategic goal of the ROSSETI Group. Since 2014 there has been a steady decrease in the level of industrial injuries as a result of the functioning of OSHES and the improvement of practices and control in the field of labor protection. In 2019, the number of accidents remained at the same level — 34 incidents, and the number of fatal cases increased from 13 to 15. The number of recorded cases of occupational diseases is 1.

The Dynamics of Industrial Injuries in 2015-2019

The number of occupational injuries is significantly affected by the introduction of new equipment. In 2019, the number of accidents decreased by 25 incidents compared to 2018. This trend continued in 2020.

In order to improve the energy infrastructure of the regions, ROSSETI finances the development plans of the ROSSETI Group’s companies.

Development of Presence Regions

The ROSSETI Group operates in 80 regions of Russia and seeks effective cooperation with regional and local authorities, the local community, local suppliers and representatives of small and medium-sized enterprises, the general public and consumers. The Group implements various social and environmental projects.

The ROSSETI Group contributes to the development of the presence regions, being a major taxpayer and employer, creating and improving the energy infrastructure of the regions.

ROSSETI Northern Caucasus

Inguhevo branch energy loss reduction program, Republic of Ingushetia.

Amount of financing in 2019 — 202 RUB mn

Amount of financing in 2019 — 370 RUB mn

In progress.

Expected effects:

→ reduction of losses on high-loss feeders to standard values;
→ providing consumers, network organization and guaranteeing suppliers with reliable information on the amount of electricity supplied / consumed.

Construction of 110/35/10 kV substation Plievo Novaya, Republic of Ingushetia.

Amount of financing in 2019 — 202 RUB mn

Amount of financing in 2019 — 370 RUB mn

In progress.

Expected effects:

→ unload existing energy facilities and maintain an appropriate level of reliability of power supply for about 40% of consumers in the Republic of Ingushetia;
→ transit flow to the Chechen Republic.

Technological connection of power plants of Vershinskaya SHPP and Ust-Dzhegutinsky SHPP, IT-infrastructure modernisation, Republic of Karachëvo-Cherkessia.

Amount of financing in 2019 — 89 RUB mn

In progress.

Expected effects:

→ energy supply to consumers of the region;
→ increase the reliability of energy supply in the region.

ROSSETI Tyva

Construction of 110 kV Substation “Grazny” (Grazny)

Amount of financing in 2019 — 1,193 RUB mn

In progress.

Expected result: to create a new 110 kV power plant to ensure the reliability of power supply to existing consumers in Grazny.
Procurement and Vendor Relationship

Results in 2019

The company carries out procurement activities in compliance with the principles of openness and transparency of procurement procedures. The company uses procurement procedures that meet regulatory requirements and ROSSETI’s Unified Procurement Standard (Procurement Regulation).

ROSSETI pays great attention to increasing transparency and ensuring access of all the ROSSETI Group members to the procurement process, including procurement procedures completed mainly in electronic form. At the end of 2019, the share of competitive procurements using ETF accounted for 99%, and open tender (60% of all purchases) was the priority method of procurement.

In 2019, ROSSETI continued to conclude long-term contracts and framework agreements with manufacturers of electrical equipment. In the reporting period, the ROSSETI Group had more than 24 thousand suppliers of electric grid equipment and contractors, which are representatives of 82 out of 85 regions of the Russian Federation.

In 2019, the ROSSETI Group became one of the top three among state-owned companies in the Guaranteed Transparency category based on its participation in the National Procurement Transparency Rating.

In November 2019, Expert RA rating agency affirmed ROSSETI’s rating in the Procurement Management Quality at 10 grade as the company with the Top Procurement Management Quality.

Cooperation with Small and Medium Enterprises

SME Corporation JSC performs conformity assessment procedures and monitors compliance of procurement plans of 15 SDCs of ROSSETI.

ROSSETI seeks to simplify small business access to its procurement program. The company regularly provides educational conferences and seminars for SMEs, as well as sets requirements for the minimum package of documents that are provided by the SME representatives in electronic form only.

At the end of 2019, Decree of the Government of the Russian Federation on December 11, 2014 No. 1352 was fully implemented in terms of reaching the established targets for the share of purchases from small and medium enterprises.

Import Substitution

ROSSETI is working towards reducing the dependence of the Russian energy & utilities industry on the import of equipment, spare parts and components, works and services of foreign companies, and the use of foreign software. The Company is implementing the ROSSETI Corporate Import Substitution Plan.

In 2019, the ROSSETI Group continued to work together with the SME Corporation in order to expand access for SMEs to procurement programs, increase the range of purchases of goods, works, services, and improve partnership programs implementation practice.

In 2019, the ROSSETI Group coronovirus pandemic. The company is working towards reducing the dependence of the Russian energy & utilities industry on the import of equipment, spare parts and components, works and services of foreign companies, and the use of foreign software. The Company is implementing the ROSSETI Corporate Import Substitution Plan.

Information on critical groups of equipment and components for ROSSETI is published on the corporate website of the Company. More detailed information about the Company’s supply chain and procurement can be found in the section “Supply Chain Management” of the 2019 Corporate Social Responsibility and Sustainability Report of ROSSETI.

Ensure technological safety of electric grid facilities and improve energy security of the Russian Federation

Promote development of industry-specific innovation infrastructure, supporting innovative development and modernization of enterprises in the domestic electrical industry

Assist manufacturers and investors in the creation and development of domestic production of electrical equipment and components that meet modern standards and requirements for quality, reliability and economic efficiency

Enhance the level of localization of production of electrical products in the Russian Federation

In 2019, the ROSSETI Group continued to work together with the SME Corporation in order to expand access for SMEs to procurement programs, increase the range of purchases of goods, works, services, and improve partnership programs implementation practice.
Implementation of Anti-Corruption Policy

ROSSETI adheres to the principle of zero tolerance towards corruption and bribery. The main corporate document on the anti-corruption activities of the Company is the Anti-Corruption Policy of ROSSETI and ROSSETI SDCs. Provisions of the Group’s Anti-Corruption Policy apply to ROSSETI employees, business partners and contractors, as well as other interested parties by virtue of anti-corruption commitments and agreements.

In 2019, 100% of the Group’s employees, including members of the Board of Directors, were informed of Anti-Corruption Policy. All business partners sign anti-corruption commitments and an anti-corruption clause with the companies of the Group, where they confirm that they have read the Anti-Corruption Policy, accept its provisions and undertake to ensure compliance with its requirements by themselves and by related individuals and legal entities.

Anti-Corruption Policy is a fundamental document of the Group, which includes the anti-corruption control and audit procedures, principles of interaction with business partners and contractors, as well as other interested parties.

Conflict of Interest Prevention and Resolution

2019 Results

Since 2017, ROSSETI and 20 SDCs have introduced an electronic conflict of interest declaration system integrated with the Professional Market and Company Analysis System (SPARK), as well as internal IT systems: Automated Beneficiary Information Analysis and Collection System (ABIACS) and the Automated Accounts Receivable Accounting System (AAARAS).

Due to expansion of the categories of employees of ROSSETI Group that participated in the declaration campaigns in 2019 and introduction of an electronic declaration system, a number of conflict of interest and pre-conflict situations were identified and resolved among those employees who were not previously included in the list of declarants. This fact explains the increase in the number of cases recognized as a conflict compared to 2018.

Conflict of Interest Declaration Campaign covered 47.7 thsd employees of the Group, which is 5% more than last year (45.5 thsd employees in 2018).

Results of Conflict of Interest Declaration Campaign in 2019

- Disciplinary sanctions imposed, pcs.: 55
- Conflict of Interest recognized, pcs.: 78
- Pre-conflict situations identified and resolved, pcs.: 373

In 2019, 100% of the Group’s employees, including members of the Board of Directors, were informed of Anti-Corruption Policy. All business partners sign anti-corruption commitments and an anti-corruption clause with the companies of the Group, where they confirm that they have read the Anti-Corruption Policy, accept its provisions and undertake to ensure compliance with its requirements by themselves and by related individuals and legal entities.

Anti-Corruption Controls in Procurement

Since 2012, in order to ensure transparency in financial and economic activities and to prevent corruption, ROSSETI and its SDCs require that counterparties disclose the information about the entire chain of their owners, as well as information on income, property and property obligations of the top managers of ROSSETI and ROSSETI SDCs. Counterparties enter information into a unified automated system for analysis and collection of information on beneficiaries (hereinafter referred to as AS ASIB).

In 2019, more than 2 thsd potential participants in the procurement procedures were disqualified by the security departments, results of 456 purchases totaling RUB 1,301 million were canceled, which is significantly higher than in 2018. In 2019, 4.6 times more conflicts of interest were identified (23 - in 2019 and 5 - in 2018), almost 2 times more cases of affiliation (339 - in 2019 and 180 - in 2018).

Number of Counterparties of the ROSSETI Group Verified as Part of the Unconditional Disclosure of the Ownership Chain, thsd counterparties

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Counterparties of Counterparty</td>
<td>302</td>
<td>334</td>
<td>699</td>
</tr>
<tr>
<td>Number of Counterparties of Counterparty</td>
<td>54.7</td>
<td>98.5</td>
<td>107.0</td>
</tr>
<tr>
<td>Number of Counterparties of Counterparty</td>
<td>1,566</td>
<td>2,244</td>
<td>2,063</td>
</tr>
</tbody>
</table>

Number of Examinations of Counterparties in Procurement Procedures, thsd pcs.

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement Procedures examined, pcs.</td>
<td>456</td>
<td>1,301</td>
<td></td>
</tr>
<tr>
<td>Amount, mn RUB</td>
<td>74</td>
<td>461</td>
<td></td>
</tr>
</tbody>
</table>

Number and Value of Canceled Results of Procurement Procedures for 2017-2019

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canceled Procurement Procedures</td>
<td>71</td>
<td>269</td>
<td>448</td>
</tr>
<tr>
<td>Amount, mn RUB</td>
<td>107.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

More detailed information about the management approach for anti-corruption and the 2019 results can be found in the section “Corporate Ethics and Anti-Corruption” of the 2019 Corporate Social Responsibility and Sustainability Report of ROSSETI.

Pursuant to instructions of the Government of the Russian Federation, decisions of the Commission of the President of the Russian Federation on the development strategy of the energy industry and environmental safety.
CORPORATE GOVERNANCE REPORT

Effective Management and Control System
Corporate Governance Report

OBJECTIVES OF THE CORPORATE GOVERNANCE OF THE COMPANY

Key corporate governance principles

- respect for and guarantee of the rights and legitimate interests of shareholders, investors, creditors, and employees;
- ensuring information and financial transparency of the Company’s activities;
- predictable dividend policy of the Company;
- efficient and professional Board of Directors accountable to the shareholders of the Company;
- zero tolerance for corruption and fraud;
- high standards of business ethics and compliance procedures;
- minimization and settlement of corporate conflicts;
- occupational safety and environmental protection;
- developed corporate culture and practice of corporate social responsibility.

MEASURES

Key corporate governance policies

- implementation of unified management standards in the ROSSETI Group;
- improving operational efficiency, improving the management system of the Company and the ROSSETI Group, improving the quality of business processes;
- professional interaction with investors, employees and partners of the Company;
- improving the information transparency of the Company, internal control and audit mechanisms.

Corporate Governance Model and Development

An efficient corporate governance system is one of the key components for the successful development of the Company, providing the necessary balance of interests of shareholders, investors, creditors, and employees. ROSSETI is one of the largest public companies in Russia in terms of the extent of operation, with the number of shareholders exceeding 320 thou.

An important factor for the successful activities of ROSSETI and its subsidiaries, a guarantee of the rights and interests of shareholders of the Company is an efficient company management system, in which corporate governance is of particular importance.

The ROSSETI Group is the employer for more than 220 thou. people, which obliges us to maintain a balanced HR policy and build our activities on the principles of social responsibility of business. The development of the ROSSETI Group as an attractive employer, respected among specialists and the professional community, is one of the most important priorities of the Company.

Our achievements in the reporting year allow us to look with optimism at the future development of ROSSETI, setting new goals and objectives in the interests of all shareholders and investors of the Company.

Alexander Novak
Minister of Energy of the Russian Federation
Chairman of the Board of Directors,
ROSSETI

Controlling Shareholder Memorandum

The majority (controlling) shareholder of the Company is the Russian Federation represented by the Federal Agency for State Property Management, owning 88.04% of the authorized capital of the Company. In accordance with the information received by the Company, the controlling shareholder has no plans to privatize its shares in ROSSETI in 2020-2022.

Corporate Governance Model and Development

Description of the corporate governance system, organization and principles

ROSSETI corporate governance model represents a system of relations among shareholders, the Board of Directors, the executive bodies of the Company and other stakeholders, which ensures smooth operational activities and development, management and control, rules and procedures for corporate decision-making process in the Company and the ROSSETI Group as a whole. ROSSETI corporate governance model includes goals, principles, organizational model, decision making and implementation, and monitoring and control mechanisms.

Letter to ROSSETI Shareholders from the Chairman of the ROSSETI Board of Directors Regarding the Corporate Performance in 2019

Dear Shareholders of ROSSETI!

In the reporting year, the ROSSETI Group posted good financial and operational results and reached the set targets for most indicators. In challenging environment, the Group showed positive dynamics in revenue, free cash flow, EBITDA, and book value of the assets.

Over the years, we are rightfully proud of the corporate governance model that we managed to create in the ROSSETI Group. The established system not only makes it possible to look forward to the growth of the shareholder value of the Company, but also ensures the achievement of goals and fulfillment of the obligations that we promised to shareholders as part of the Company’s Development Strategy.

We are pleased to see that the professional community has also confirmed the high assessment of the quality of the Company management: in 2019, ROSSETI confirmed its status of “developed corporate governance practice” as evaluated by the Russian Institute of Directors, and independent consultants rated the Company among the leaders in the area of information disclosure and information transparency.

The Board of Directors of the Company plays a key role in determining the development strategy and priorities of the ROSSETI Group. In 2019, under the leadership of the Board of Directors, an updated Development Strategy was approved for the period until 2036, setting ambitious goals for the management of the Company and designed to transform ROSSETI into one of the most technologically advanced power grid management companies in the world.

In 2019, we devoted a considerable amount of time (almost 1/3 of the total) to discussing the strategic development of the Company in individual segments, and aspects of the operational and investment efficiency of the Company. During the year, the Board of Directors monitored the implementation of key investment projects of the Company on an ongoing basis and controlled the activities of the management in this area.

I am sure many of you noticed changes in the organization of general meetings of shareholders – in 2019 ROSSETI held an annual meeting with the maximum use of new digital technologies, which allowed shareholders to use modern voting services and discuss agenda items.
Corporate Governance System of the Company

Characteristics of the ROSSETI Corporate Governance Model

ROSSETI is a company, the majority (controlling) shareholder and owner of 88.04% of the voting shares of which is the Russian Federation represented by the Federal Agency for State Property Management.

The status of a company with state participation implies a number of specific management aspects, including:

→ Based on Decree of the President of the Russian Federation on November 22, 2012 No. 1567 “On Open Joint-Stock Company Russian Grids” and the Development Strategy for the Power Grid Complex of the Russian Federation approved by Decree of the Government of the Russian Federation on April 01, 2012 No. 511-r, ROSSETI is a management company of the power grid complex of Russia. The main goal of the Company’s activity is defined as ensuring operating reliability of the power grid complex and uninterrupted power supply to consumers.

→ ROSSETI also coordinates the activities of grid companies, including those related to tariffs, technical policy, investment planning, financial and economic activities.

→ ROSSETI is included in the List of Strategic Joint-Stock Companies (approved by Decree of the President of the Russian Federation on August 4, 2004 No. 1009), the participation of the Russian Federation in the management of which ensures strategic interests, national defense capability and security of the state, protection of morals, health, rights and legitimate interests of citizens of the Russian Federation. The status of a strategic joint-stock company implies a special procedure for management and control over the Company by the President, the Government and federal executive bodies of Russia.

→ ROSSETI is included in the special list of joint-stock companies in respect of which the determination of the position on the most important issues (in particular, inclusion of issues on the agenda of the general meeting of shareholders, nomination of candidates for election to the management and control bodies, voting on issues on the agenda of the general meeting of shareholders, etc.), and approval of instructions to representatives of the Russian Federation in the boards of directors, is carried out by the Government of the Russian Federation (Order of the Government of the Russian Federation on January 23, 2003 No. 91-r).

→ ROSSETI is obliged to ensure that certain orders and tasks initiated by the Russian Federation are duly implemented as well as in the controlled entities (For more details see section Governance Mechanisms of the ROSSETI Group. Subsidiary Control).

Key Documents that Regulate Corporate Governance in the Company

→ Corporate Governance Code;
→ Articles of Association;
→ Regulations for the Management Bodies of the Company (General Meeting of Shareholders, Board of Directors, executive bodies);
→ Regulations for Committees of the Board of Directors;
→ Regulations for the Dividend Policy;
→ Procedure for Interaction between ROSSETI and Business Entities Whose Shares (Interests) Are Owned by ROSSETI;
→ Regulations for the Corporate Secretary;
→ Regulations for the Procedure for Providing Information to the Members of the Board of Directors

Policies related to core business processes:

→ anti-Corruption Policy;
→ internal Audit Policy;
→ internal Control Policy;
→ risk Management Policy;
→ the ROSSETI Group Occupational Safety Policy;
→ power Grid Complex Environmental Policy;
→ code of Conduct;
→ information Policy;
→ regulations for the Insider Information of the Company;
→ unified Procurement Standard and Unified Procurement Policy of the Company;
→ unified Technical Policy.

The public status and goals set for ROSSETI determine the increased requirements for the quality of corporate governance, because it affects the reputation and investment attractiveness of the Company. Moreover, the corporate governance system in the Company should comply with the best practices and current challenges.

ROSSETI builds its corporate governance system based on the requirements of the legislation of the Russian Federation, the Listing Rules of the Moscow and London stock exchanges, recommendations of the Corporate Governance Code, international standards and best international practices in the area of corporate governance.

The Company is consistently implementing programs to improve corporate governance practices, taking into account the recommendations of the Corporate Governance Code, changes in the regulatory environment and initiatives of the professional community.

In accordance with the order of the Government of the Russian Federation, since August 2014, the Company has been included in the list of 13 largest companies with state participation for the priority implementation of the recommendations of the Corporate Governance Code. In pursuance of this order, a comparative analysis of the current corporate governance standards in the Company and key provisions of the Corporate Governance Code was carried out in 2014. Since 2015, the Company has begun to implement measures for the consistent adoption of the recommendations of the Corporate Governance Code.

Statistics on Compliance with Recommendations and Principles of the Corporate Governance Code

Compliance with the Corporate Governance Code Recommendations

The following table shows the percentage of compliance with recommendations of the Corporate Governance Code. The public status and goals set for ROSSETI determine the increased requirements for the quality of corporate governance, because it affects the reputation and investment attractiveness of the Company. Moreover, the corporate governance system in the Company should comply with the best practices and current challenges.

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Development of Corporate Governance Practices of the Company in 2015-2019

2015
- Integration of CGC and roadmap approval
- Update of the Articles of Association, adoption of policies
- A roadmap for the implementation of the CGC was developed pursuant to the order of the Government of the Russian Federation for the 13 largest state-owned companies on July 31, 2016 No. (SH-P13-8369). The document includes the results of the analysis of corporate governance practice and key measures to improve it based on the recommendations of the CGC.
- The recommendations of the CGC were taken into account in the later versions of the Articles of Association, the Company’s policies were adopted (inter alia, related to control, audit, and risk).

2016
- Implementation of developed corporate governance practices, external assessment of corporate governance quality
- Introduction of the concept of Corporate Secretary
- In addition, the information policy and regulations for Committees were developed and approved, taking into account the listing requirements and recommendations of the CGC.
- Most committees are chaired by independent directors.
- An external assessment of the quality of corporate governance was conducted by Non-Profit Partnership Russian Institute of Directors, which resulted in a rating of 7 (out of 10) “Developed Corporate Governance Practice”.

2017
- Increase of the share of independent directors (1/3)
- External assessment of the Board of Directors was carried out
- Ordinary shares of the Company were upgraded to the 1st tier quotation list of the Moscow Stock Exchange.
- The Dividend Policy, Environmental Policy, the new version of the Corporate Code of Conduct, and the introductory course program for the members of the Board of Directors were approved.
- For the first time, an external assessment of the Board of Directors was carried out, and the methodology for assessing the Board of Directors of the Company was approved.

2018
- Electronic voting and remote access to the General Meeting of Shareholders
- Implementation of assessment of candidates to the Board of Directors and the Internal Audit Commission
- The scope of competence of the Board of Directors as related to control over strategy, business planning, management of subsidiaries and affiliates, risk management and internal control was expanded.
- The Information Policy and Regulations for Procurement were updated.
- For the first time, a possibility was provided to participate remotely in a meeting of shareholders, and access to a video broadcast of the meeting on the website. A forum for shareholders was introduced.
- Self-assessment of the work of the Board of Directors and its committees was carried out for the first time.
- The practice of preliminary assessment of candidates to the Board of Directors of the Company for compliance with independence criteria was introduced for the first time.

2019
- Update of the Articles of Association and policies
- Change in the remuneration system for the members of the Board of Directors
- New versions of documents on the management bodies of the Company were approved, taking into account changes in legislation and recommendations of the CGC.
- Revised Regulations for Remuneration and Compensation for Members of the Board of Directors were approved: the procedure for determining the base remuneration to members of the Board of Directors was changed.
- The practice of paying dividends to shareholders was maintained.
- Information transparency in the preparation of a meeting of shareholders was improved.
- Regulations for Insider Information were updated.


Corporate Governance System Development in 2019

In 2019, the Company continued to improve corporate governance in the Company and in the ROSSETI Group as a whole. The new version of the ROSSETI Articles of Association, approved in 2019, introduces legislative innovations, according to which the Board of Directors is elected in the same way as the Company’s main bodies (in consultation with shareholders and a web forum for shareholders was set up to discuss the issues on the agenda of the meeting on the Company’s website).

The new version of the Regulations for the Board of Directors of the Company, approved in 2019, establishes the right of the official responsible for organizing and conducting internal audits in the company to demand the convening of a meeting of the Board of Directors.

The revised Regulations for the Management Board, approved in 2019, also take into account changes to the Federal Law “On Joint-Stock Companies”: the right of the official responsible for organizing and conducting internal audit in the Company to receive minutes of meetings of the Management Board is stipulated.

In 2019, the revised Regulations for Remuneration and Compensation for the Members of the Board of Directors of the Company were also approved, which provide for amendments aimed at complying with the recommendations of the Corporate Governance Code, according to which the level of remuneration paid shall be sufficient to attract, motivate and retain persons with competency and qualifications required by the Company.

In 2019, the Company continued the practice of providing a possibility for easy participation in the annual general meeting, including live broadcast of the event on the corporate website of the Company and the possibility of electronic voting. Also, a special e-mail address was established for communication with shareholders and a web forum for shareholders was set up to discuss the issues on the agenda of the meeting on the Company’s website.

The composition of the Board of Directors of the Company elected at the annual General Meeting of Shareholders fully complies with the requirements of the Moscow Exchange for issuers of the 1st tier listing and the recommendations of the Corporate Governance Code: 5 out of 15 members of the Board of Directors are considered independent.

The company is consistently implementing plans to improve corporate governance practices, taking into account the recommendations of the Corporate Governance Code, changes in the regulatory environment and initiatives of the professional community.

The Corporate Governance System Development in 2019 includes the results of the analysis of corporate governance practice and key measures to improve it based on the recommendations of the CGC.
Due to the need to keep the Articles of Association and internal documents of ROSSETI and its subsidiaries and affiliates up to date, in 2020 the Company plans, as before, to pay significant attention to monitoring changes in legislation, listing rules, recommendations of regulatory bodies, to ensure timely development of model changes or new documents and methods for the Company and its subsidiaries and affiliates.

The list of key plans of the Company in the area of corporate governance includes:

- ensuring the unconditional implementation in practice of the requirements and recommendations of internal documents and the implementation of necessary corporate procedures;
- control over the implementation of decisions of governing bodies;
- development and implementation of corrective action plans based on the results of internal audits of corporate governance;
- conducting an external assessment of the activities of the Board of Directors of the Company;
- maintaining a high level of corporate governance rating;
- carrying out the activities stipulated by the roadmap for the transition of the ROSSETI Group companies to a single brand architecture.

Corporate Governance Assessment

Corporate Governance Self-Assessment

The Internal Audit Department of the Company assessed the efficiency of corporate governance at ROSSETI for the 2018-2019 corporate year with the aim of:

- providing the Board of Directors, the Audit Committee, executive bodies with objective and independent information on the status of corporate governance system in the Company, and its compliance with the principles and recommendations set out in the CGC;
- making recommendations on improving the corporate governance in the Company.

The assessment was carried out based on 6 main components (containing 115 criteria in total):

- shareholders’ rights;
- board of Directors;
- executive management;
- transparency and information disclosure;
- risk management, internal control and internal audit;
- corporate social responsibility, business ethics.

The overall result of the corporate governance in the Company for these components amounted to 93% of 100%, which by 5 percentage points exceeds the result achieved by the Company in the previous assessment. In 2019, efficiency of corporate governance in the ROSSETI Group was also assessed. The assessment results were considered by the Management Board and the Audit Committee of the Board of Directors of ROSSETI.

The Company seeks to constantly improve corporate governance and conducts an ongoing work to address recommendations of the internal auditor through the implementation of corrective measures. The Company also intends to take measures to further improve (update) the corporate governance assessment methodology in the ROSSETI Group.

The overall corporate governance score in the ROSSETI Group following the results of the 2018-2019 corporate year assessment was 85%, which by 5 percentage points exceeds the comparative score for 2017 (80%) and corresponds to the level of “Developed Practice”.

External Assessments of the Corporate Governance Development Level in the Company

In 2019, based on the results of independent monitoring of corporate governance practice, Non-Profit Partnership Russian Institute of Directors once again confirmed the ROSSETI corporate governance rating at 7 ++, “Developed Corporate Governance Practice”. These results confirm that the Company complies with the requirements of Russian legislation in the area of corporate governance and follows a significant number of recommendations of the Russian Corporate Governance Code, and is also characterized by a high level of corporate governance and low risks of loss of ownership related to the quality of corporate governance.

ROSSETI’s high level of corporate governance was highlighted in other studies conducted by companies specializing in governance practices analysis. In particular, according to the results of the National Corporate Governance Index 2019 prepared by TopCom- petence10, ROSSETI is among the Top 10 leaders in terms of the quality of information disclosed on the corporate governance principles observed (out of the 100 largest Russian issuers).

The Board of Directors hereby confirms that the data provided in the Report on Compliance with the Principles and Recommendations of the Corporate Code of Conduct contain complete and reliable information on the Company’s compliance with the principles and recommendations of the Corporate Governance Code as of the date of approval of the report.

The Board of Directors

10 The study can be found at http://gpindex.ru
General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of ROSSETI. The procedure for preparing and holding the General Meeting of Shareholders is regulated by the Articles of Association\(^4\) and the Regulations for the General Meeting of Shareholders of ROSSETI\(^5\).

The number of shareholders of the Company exceeds three hundred thousand registered persons residing (located) in the territory of almost all regions of the Russian Federation. The company seeks to provide the most comfortable conditions for shareholders to participate in general meetings, which is expressed, inter alia, in the following:

→ holding a meeting of shareholders at the location of the Company (in Moscow);
→ maximum information transparency in the preparation and conduct of Meetings (including placement of materials in Russian and English on the Company’s website, use of remote participation tools, organization of a web forum for shareholders, etc.);
→ organization of an exhibition for shareholders with the participation of representatives of subsidiaries and affiliates to answer questions about the work of the ROSSETI Group as a whole;
→ extended deadlines for informing shareholders about the Meeting and the provision of materials;
→ personal participation of the management, the majority of members of the Board of Directors and representatives of the auditor in the Meeting, and providing the opportunity for shareholders to ask questions to these persons;
→ holding by the management of preliminary meetings with shareholders before the meeting in order to answer questions on the agenda issues;
→ receiving feedback from shareholders on the organization of the meeting and eliminating deficiencies, if any.

Digitalization of the General Meeting of Shareholders in 2019

Taking into account the development of IT technologies, the Company is actively introducing tools for remote participation in Meetings and the ability to access all necessary information through digital services for the shareholders. In particular, in 2019 the following activities were implemented:

→ a web forum was organized for shareholders to discuss items on the agenda of the General Meeting of Shareholders;
→ video broadcasting was conducted on the Company’s website from the venue of the General Meeting of Shareholders;
→ a possibility was provided to fill out the electronic form of the bulletin on the website;
→ a possibility was provided to fill out the electronic form of the bulletin at information desks at the venue of the General Meeting of Shareholders during the meeting;
→ materials in electronic form were available on the Company’s website and information desks at the venue of the General Meeting of Shareholders during the meeting;
→ use of QR codes to get access to materials and the agenda;
→ a possibility was provided to fill out the electronic feedback form.

Results of the General Meetings of Shareholders in 2019

The annual General Meeting of Shareholders on the Company’s performance in 2018 was held on June 27, 2019 (Minutes without number on June 27, 2019).

<table>
<thead>
<tr>
<th>No</th>
<th>Item on the agenda</th>
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<th>Voting results</th>
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</thead>
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<td>1</td>
<td>Approval of the Company’s annual report for 2018.</td>
<td>The Company’s annual report for 2018 was approved.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>2</td>
<td>Approval of the Company’s annual accounting (financial) statements for 2018.</td>
<td>The Company’s annual accounting (financial) statements for 2018 were approved.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>3</td>
<td>Approval of the Company’s 2018 profit distribution.</td>
<td>Since there was no net profit for 2018, the Company did not distribute its profit (losses).</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>4</td>
<td>Amount of dividends, terms and form of their payment for 2018, and setting the date to define persons entitled to receive dividends.</td>
<td>It was decided not to pay dividends on the Company’s preferred and ordinary shares for 2018 due to the loss according to the accounting (financial) statements for 2018.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>5</td>
<td>Amount of dividends, terms and form of their payment for G1 2019, and setting the date to define persons entitled to receive dividends.</td>
<td>As of December 31, 2019, the following dividends were paid for G1 2019:</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>6</td>
<td>Payment of remuneration for work in the Board of Directors to members of the Board of Directors, who are not government officials, in the amount prescribed by the Company’s internal documents.</td>
<td>It was decided not to pay remuneration to members of the Company’s Board of Directors.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 1.2%</td>
</tr>
<tr>
<td>7</td>
<td>Payment of remuneration for work in the Internal Audit Commission to members of the Internal Audit Commission, who are not government officials, in the amount prescribed by the Company’s internal documents.</td>
<td>It was decided to pay remuneration to members of the Company’s Internal Audit Commission, who are not government officials.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 1.2%</td>
</tr>
<tr>
<td>8</td>
<td>Election of members to the Company’s Board of Directors.</td>
<td>The new Board of Directors of the Company was elected(^6).</td>
<td>Cumulative voting</td>
</tr>
<tr>
<td>9</td>
<td>Election of Members to the Company’s Internal Audit Commission.</td>
<td>The new Internal Audit Commission of the Company was elected(^7).</td>
<td>The Internal Audit Commission was elected.</td>
</tr>
<tr>
<td>10</td>
<td>Approval of the Company’s auditor.</td>
<td>LLC ROS RUS was approved as the auditor.</td>
<td>FOR – 98.9% AGAINST and ABSTAINED – 1.1%</td>
</tr>
<tr>
<td>11</td>
<td>Approval of the Company’s Articles of Association in a new version.</td>
<td>The new version of the Articles of Association of ROSSETI was approved.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>12</td>
<td>Approval of the Regulation on the Company’s General Meeting of Shareholders in a new version.</td>
<td>The new version of the Regulation on the Company’s General Meeting of Shareholders was approved.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>13</td>
<td>Approval of the Regulation on the Company’s Board of Directors in a new version.</td>
<td>The new version of the Regulation on the Company’s Board of Directors was approved.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>14</td>
<td>Approval of the Regulation on the Company’s Management Board in a new version.</td>
<td>The new version of the Regulation on the Company’s Management Board was approved.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 0.2%</td>
</tr>
<tr>
<td>15</td>
<td>Approval of the Regulation on payment of remunerations and compensations to members of the Company’s Board of Directors in a new version.</td>
<td>The new version of the Regulation on payment of remunerations and compensations to members of the Company’s Board of Directors was approved.</td>
<td>FOR – 99.8% AGAINST and ABSTAINED – 1.2%</td>
</tr>
</tbody>
</table>

No extraordinary General Meetings of Shareholders were held in the reporting period.

\(^4\) Approved by the decision of the Annual General Meeting of Shareholders on June 27, 2019 (Minutes of the Meeting on June 27, 2019 № 1/4), the text can be found on the Company’s website [http://www.rosseti.ru/ru/eng/about/]
\(^5\) Approved by the decision of the Annual General Meeting of Shareholders on June 27, 2019 (Minutes of the Meeting on June 27, 2019 № 1/4), the text can be found on the Company’s website [http://www.rosseti.ru/ru/eng/about/]
\(^6\) For more detailed information about the members of the Board of Directors, see “Members of the Board of Directors”.
\(^7\) For more detailed information about the members of the Internal Audit Commission, see “Internal Audit Commission”.

www.rosseti.ru/eng/
Participation of Shareholders in the General Meetings of Shareholders

The quorum for the most General Meetings of Shareholders of the Company is around 90%. In 2019, the attendance level of 94.07% was achieved at the AGM, which is a proof of a high interest of minority shareholders in the Company’s Meeting.

Analysis of the Shareholders’ Voting Results at the AGM

For most issues on the agenda of the 2019 shareholders meeting, minority shareholders also supported the proposed draft resolutions:

- the percentage of votes “against” and “abstained” on almost all issues did not exceed 0.3% of the votes;
- on a number of items on the agenda, the share of votes “against” and “abstained” was 1.1-1.2% of the total number of registered votes, or about 18% of the minority shareholders who participated in the meeting. Among such items on the agenda there were remuneration of members of the Internal Audit Commission, the Board of Directors, the auditor’s approval, and approval of the Regulation on remuneration of the Board of Directors.

In 2019, more than half of the total number of shares held by minority shareholders (6.65% of 11.96%) were registered at the AGM.

The percentage of votes “against” and “abstained” on almost all issues did not exceed 0.3% of the votes.

Report on Activities of the Board of Directors

The key element of the Company’s efficient corporate governance system is the professional Board of Directors, which plays a key role in the Company’s strategic and business management. The competence of the Company’s Board of Directors is determined by legal requirements and the Company’s Articles of Association and takes into account the Company’s special status as the largest national electricity transmission operator.

The Company’s Board of Directors is accountable to the General Meeting of Shareholders and is responsible to the shareholders for the Company’s development strategy, performance, and management control over the implementation of its objectives.

Board of Directors’ Work in 2019

The work of the Company’s Board of Directors is built on a planned basis, and involves holding 6-8 in-person meetings in Moscow in order to discuss the most important issues of ROSSETI’s activities (strategy, budget, motivation). The agenda of in-person meetings of the Board of Directors usually comprises from three to five issues, which allows for a high-quality level of discussion and consideration of different points of view when making decisions. Other meetings are held in absentia and include issues on which decision-making is possible without the simultaneous presence of members of the Company’s Board of Directors.

Usually, the Board of Directors reviews the consolidated budget implementation results and key strategic projects, and also considers the report of the Company’s executives. Most of the scheduled issues on the agenda of the Board of Directors’ meetings are pre-considered by relevant committees of the Board of Directors in order to develop recommendations on voting and allow a more detailed analysis of the information provided.

In 2019, the Board of Directors reviewed 182 matters, with 22 of them being considered during 7 in-person meetings of the Board of Directors.

Report of the Board of Directors on Development Results in Priority Areas of its Activities

STRATEGIC DEVELOPMENT
- In December 2019, the Board of Directors approved the new Development Strategy for ROSSETI;
- During the reporting year, the updated development plans of ROSSETI SDCs were reviewed, as well as the current status of certain areas of ROSSETI’s activities.

FINANCE AND INVESTMENTS
- Approved the budget of the ROSSETI Group, and reviewed reports on its implementation;
- Regularly monitored accounts receivable in the ROSSETI Group;
- Considered issues of working with non-core assets of the Company;
- Approved the consolidated investment program with total funding of 1.12 tn rubles in 2020-2024.

HR POLICY
In 2019, the Board of Directors:
- Considered issues of motivation of the Company’s management and its significant subsidiaries and affiliates;
- Approved the KPIs of the Company’s top management, as well as reports on their implementation;
- Approved changes to the Company’s organizational structure.
The composition of the Board of Directors is defined by the Company’s Articles of Association as 15 members and has remained unchanged since the establishment of the Company.

The number of Directors on the ROSSETI Board of Directors is optimal for a company of this size, allowing to:

- take into account the status of the Company with a predominance of state participation and the need to implement state policy through representatives of the interests of the state (the Russian Federation);
- ensure participation of the necessary number of representatives of interested parties in the Board of Directors (players of the electricity market and its key segments (generation, transportation, and sales of power));
- ensure compliance with the listing requirements of stock exchanges where the Company’s shares are listed;
- implement the recommendations of the Corporate Governance Code on a share of independent Directors equal to at least 1/3 of the total number of members in the Board of Directors;
- efficiently distribute the workload and tasks among members of the Board of Directors, taking into account their work in the committees, the volume, difficulty and complexity of the issues under consideration;
- ensure the necessary participation of representatives of the Company’s management and its key subsidiaries.

While drafting proposals on candidatures to the Board of Directors, the Company, represented by the Chairman, and members of the Board of Directors, initiate discussion of such proposals with representatives of the main shareholder (the Russian Federation, on behalf of which Federal Agency for State Property Management acts), paying attention to the need to ensure a balanced composition that allows the effective work of the Board of Directors, and the availability of the necessary knowledge, skills and competencies of the Company’s Directors.

In this case, the Nomination and Remuneration Committee plays a special role in reviewing candidates, conducting an independent assessment and noting that candidates meet the criteria of independence. They have special skills to meet regulatory requirements and compliance provisions (especially in terms of competencies in the field of finance and investment, strategic management and industry experience). Recommendations of the Nomination and Remuneration Committee are made publicly available to all interested parties by publishing them on the Company’s website before the AGM.

While considering candidates to the Board of Directors for the Annual General Meeting of Shareholders, the performance of each member of the Board of Directors in the previous year is taken into account, including the degree of commitment while participating in the meetings, discussion of issues, depth of study and material analysis. In addition, the objective possibility of being fully involved in the work of the Company’s Board of Directors and Committees was taken into account. As a result, in order to maintain the consistency of development, it was proposed to re-elect 13 members of the current Board of Directors for a new term and introduce two new members in order to strengthen individual competencies.

We are convinced that such practice and the Company’s openness allow the Company’s shareholders and investors to evaluate the proposed candidates as efficiently as possible and ensure their support when electing the Board of Directors not only from the main shareholder, but also from the votes of the Company’s minority shareholders.
As of December 31, 2019, the ROSSETI Board of Directors consisted of the Chairman (Non-Executive Director), one Executive Director, eight Non-Executive Directors and five Independent Directors (all members of the Board of Directors are citizens of the Russian Federation).

Usually, the number of Independent Directors should ensure the balance of interests of shareholders’ representatives in the Board of Directors. There is no maximum allowed period for Non-Executive Directors to hold the position of Director, at the same time, during the annual nomination of candidates to Directors it is taken into account their activity in the previous year and the availability of objective opportunities to devote sufficient time to the Company’s activities.

Members of the Board of Directors are elected through a transparent procedure that allows shareholders to obtain information about candidates, sufficient to form their position on candidates’ personal and professional qualities. Information about candidates to the Board of Directors is published in Russian and English on the Company’s website at least 20 days before the General Meeting of Shareholders, the agenda of which includes the issue of election of the Board of Directors. At the same time, shareholders are also provided with information about possible conflicts of interest, ownership of the Company’s shares by candidates, the initiator of nomination, and participation in the work of other companies’ management bodies, so that shareholders can form their opinion on the candidate and make an informed decision when voting. Additionally, information about members of the Board of Directors is provided to shareholders as part of the materials for the Company’s shareholders’ meeting (including the annual report, information about candidates). Besides, starting from 2018, shareholders can discuss the composition of the Board of Directors and candidates in a special web forum organized by the Company in preparation for General Meetings of Shareholders.

Profile of a Member of the Board of Directors of the Company

<table>
<thead>
<tr>
<th>All Board Members</th>
<th>Job Experience in the Industry, years</th>
<th>Job Experience in the Board of Directors of the Company, years</th>
<th>Age, years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>43</td>
<td>7</td>
<td>68</td>
</tr>
<tr>
<td>Median</td>
<td>13</td>
<td>5</td>
<td>49</td>
</tr>
<tr>
<td>Minimum</td>
<td>5</td>
<td>1</td>
<td>36</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent Directors</th>
<th>Job Experience in the Industry, years</th>
<th>Job Experience in the Board of Directors of the Company, years</th>
<th>Age, years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>33</td>
<td>7</td>
<td>55</td>
</tr>
<tr>
<td>Median</td>
<td>10</td>
<td>6</td>
<td>48</td>
</tr>
<tr>
<td>Minimum</td>
<td>7</td>
<td>1</td>
<td>36</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Executive Directors</th>
<th>Job Experience in the Industry, years</th>
<th>Job Experience in the Board of Directors of the Company, years</th>
<th>Age, years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>43</td>
<td>7</td>
<td>68</td>
</tr>
<tr>
<td>Median</td>
<td>16</td>
<td>4</td>
<td>58</td>
</tr>
<tr>
<td>Minimum</td>
<td>5</td>
<td>1</td>
<td>36</td>
</tr>
</tbody>
</table>
Members of the Board of Directors Biography

NOVAK Alexander Valentimovich

CHAIRMAN OF THE BOARD, Non-Executive Director

Born in 1971 in the city of Andreevka, Dzerzhinsk region, Ulyanovsk SSR. Citizenship — Russian Federation. The candidacy is proposed / approved by the decision of the Board of Directors of the Company. Date of the first election to the Board of Directors of ROSSETI — June 30, 2015.

EDUCATION

In 1993 he graduated from the Nizhniy Industrial Institute with a degree in economics and management in mechanical engineering. In 2009 he graduated from Moscow Lomonosov State University with a degree in management.

PROFESSIONAL EXPERIENCE


PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period, he is also a member of the Board of Directors (Supervisory Boards, Board of Trustees) of PJSC Rosatom, PJSC Sibur, PJSC TSK, State Corporation Rosnano, OJSC VEB, LLC named after K. K. Golikov, Siberian Federal University, Russian Basketball Federation, All-Russian Athletics Federation, Russian Motorcycle Federation, Conservation and Development Fund of the Solovetsky Archipelago, Arkhangelsk Regional Center for Sustainable Energy Development, Global Energy Association, and is also the chairman of the President of the Association “IRC WEC”.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES

During the reporting year, he did not have shares (studies) of ROSSETI and its affiliated organizations, he did not make transactions with securities (studies) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

ASHIROV Stanislav Olegovich

Independent Director

Member of the Nomination and Remuneration Committee

Member of the Strategy Committee

Born in 1976 in the city of Astana, Kazakhstan Republic. Citizenship — Russian Federation. The candidacy is proposed / approved by the decision of the Board of Directors of the Company. Date of the first election to the Board of Directors of ROSSETI — June 30, 2015.

EDUCATION

In 1999 he graduated from the Astana Power Technical Institute with a degree in “electrical stations”.

Doctor of Engineering Science.

PROFESSIONAL EXPERIENCE

Before 2006, he worked in project and managerial positions in electric power enterprises. From 2006 - Chairman of the Management Board of JSC SO UES.

PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period, he is also a member of the Board of Directors (Supervisory Board) of JSC Inter RAO, JSC SO UES, LLC SiberEnergy, and is also a member of the Board of Directors of PJSC “SibirEnergy.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES

During the reporting year, he did not have shares (studies) of ROSSETI and its affiliated organizations, he did not make transactions with securities (studies) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

AYUEV Boris Ilyich

Non-Executive Director

Member of the Audit Committee

Member of the Nomination and Remuneration Committee

Born in 1957 in the city of Rostov-on-Don. Citizenship — Russian Federation. The candidacy is proposed / approved by the decision of the Board of Directors of the Company. Date of the first election to the Board of Directors of ROSSETI — June 28, 2013.

EDUCATION

In 1979 he graduated from the Ural Polytechnic Institute with a degree in “electrical stations”.

Doctor of Engineering Science.

PROFESSIONAL EXPERIENCE

Before 2006, he worked in project and managerial positions in electric power enterprises. From 2006 - Chairman of the Management Board of JSC SO UES.

PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period, he is also a member of the Board of Directors (Supervisory Board) of JSC Inter RAO, JSC SO UES, LLC SiberEnergy, and is also a member of the Board of Directors of PJSC “SibirEnergy.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES

Share in the authorized capital of ROSSETI: 0.000037%.

Percentage of ordinary shares of ROSSETI owned by the shareholder of the Company: 0.000037%.

During the reporting year, he did not have shares (studies) of ROSSETI and its affiliated organizations, he did not make transactions with securities (studies) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

BELOV Vasily Mikhailovich

Independent Director

Chairman of the Audit Committee

Member of the Nomination and Remuneration Committee

Born in 1951 in Moscow. Citizenship — Russian Federation. The candidacy is proposed / approved by the decision of the Board of Directors of the Company. Date of the first election to the Board of Directors of ROSSETI — June 28, 2013.

EDUCATION

In 1986 he graduated from the Moscow Institute of Civil Engineering (MISI) with a degree in “hydraulic engineering construction of river structures and hydroelectric power stations.”

PROFESSIONAL EXPERIENCE

Before 2013, he worked in international consulting companies, as well as investment banking. From 2013 - 2017 - Senior Vice President, Innovation, Skolkovo Foundation. In 2017 - 2019 - Head of LLC Skolkovo - Venture Investments. From September 2019 - Director of Mergers and Acquisitions of LLC SBI.

PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period, he is also a member of the Board of Directors of PJSC RusHydro, JSC SO UES, RF Ministry of Economic Development, Ministry of Regional Development of the Russian Federation.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES

Share in the authorized capital of ROSSETI: 0.000016%.

Percentage of ordinary shares of ROSSETI owned by the person: 0.000016%.

During the reporting year, he did not have shares (studies) of ROSSETI and its affiliated organizations, he did not make transactions with securities (studies) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

BYSTROV Maksim Sergeevich

Independent Director

Member of the Nomination and Remuneration Committee

Born in 1964 in Moscow. Citizenship — Russian Federation. The candidacy is proposed / approved by the decision of the Board of Directors of the Company. Date of the first election to the Board of Directors of ROSSETI — June 28, 2013.

EDUCATION

In 1998 he graduated from the Moscow Institute of Civil Engineering (MISI) with a degree in “hydraulic engineering construction of river structures and hydroelectric power stations.”

PROFESSIONAL EXPERIENCE

Before 2011 he worked in government bodies in the structures of the Government, the Ministry of Economic Development, the Ministry of Regional Development of the Russian Federation.


PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period, he is also a member of the Board of Directors of LLC Skolkovo- Venture Investments.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES

During the reporting year, he did not have shares (studies) of ROSSETI and its affiliated organizations, he did not make transactions with securities (studies) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

DUBNOV Oleg Markovich

Independent Director

Chairman of the Committee on Investments, Technical Policy, Reliability, Energy Efficiency and Innovation

Member of the Audit Committee

Member of the Nomination and Remuneration Committee

Member of the Strategy Committee

Born in 1971 in Volgograd. Citizenship — Russian Federation. The candidacy is proposed / approved by the decision of the Board of Directors of the Company. Date of the first election to the Board of Directors of ROSSETI — June 28, 2013.

EDUCATION

In 2000 he graduated from the Graduate School of International Law and Economics. With a degree in “jurisprudence.”

In 2004 he graduated from the Moscow State Institute of International Relations (MSIS) with a degree in “world economics.”

PROFESSIONAL EXPERIENCE

Before 2011 - Director for Power Engineering, Member of the Management Board of JSC Polyservice. From 2011 to 2015 - Adviser to the Director General of the Institute of Professional Directors Fund. From 2017 - Vice President, Executive Director of the Energy Efficiency Technology Center of the Skolkovo Foundation.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES

During the reporting year, he did not have shares (studies) of ROSSETI and its affiliated organizations, he did not make transactions with securities (studies) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.
KALININ Alexander Sergeevich

Independent Director
Chairman of the Nomination and Remuneration Committee
Member of the Audit Committee

The candidacy is proposed / approved by the decision of the Board of Directors of the Company.
Date of the first election to the Board of Directors of ROSSETI — June 28, 2013.

EDUCATION
In 1990 he graduated from the Chelyabinsk Polytechnic Institute with an Indian in “radio engineering.”
In 1998 he graduated from the Ural Academic of Public Administration with a degree in “independence.”

PROFESSIONAL EXPERIENCE
Before 2013, he worked in electric grid companies in Moscow and the Moscow Region, having passed the post to the head of JSC UES.
In 2013 - 2017 - Head of the Fuel and Energy Department of Moscow, the Housing, Utilities and Amenities Administration of Moscow.
From 2017 - Director General and Chairman of the Management Board of ROSSETI.

PARTICIPATION IN GOVERNING BODIES
At the end of the reporting period, he is also a member of the Boards of Directors of ROSSETI, Boards of Trustees of JSC SO UES, PJSC RUSHydro, ROO “SFBS”, a member of the Board of OOR “RSPP”.
In 2014 - Head of the All-Russian Public Organization “OBOR” and OPORA Russia.
In 2016 - Head of the All-Russian Public Organization of Small and Medium Enterprises (OPORA) ROSSETI and NP OPORA.
In 2016 - Director (part-time) of LLC Sovyetsky Bereg.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (shares) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

LIVINSKIY Pavel Anatolyevich

Executive Director

Born in 1967 in Chelyabinsk.
Citizenship — Russian Federation.
The candidacy is proposed / approved by the decision of the Board of Directors of the Company.
Date of the first election to the Board of Directors of ROSSETI — June 29, 2018.

EDUCATION
In 2001 he graduated from the Moscow Lomonosov State University with a degree in “economics.”
In 2013 graduated from the Moscow Lomonosov State University with a degree in “management.”

PROFESSIONAL EXPERIENCE
Before 2012, he worked in electric grid companies in Moscow and the Moscow Region, having passed the post to the head of JSC UES.
In 2013 - 2017 - Head of the Fuel and Energy Department of Moscow, the Housing, Utilities and Amenities Administration of Moscow.
From 2017 - Director General and Chairman of the Management Board of ROSSETI.

PARTICIPATION IN GOVERNING BODIES
At the end of the reporting period, he is a member of the Boards of Directors (Supervisory Boards, Board of Trustees) of JSC SO UES, PJSC RUSHydro, ROSSETI, ROO “SFBS”, ROO “SNPP”, ROO “LONERGEO”, ROO “NNO LEO”, ROO “NEP”, and Associations of Organizations Digital development of the industry “Digital Power Engineering”.
He is also a member of the boards of directors (supervisory boards, board of trustees) of the Christ the Savior Cathedral Foundation, the All-Russian public sports organization Federation of the Russian Modern Pentathlon, the All-Russian Sovereign Power public organization, the All-Russian Athletics Federation public organization.

In addition, he is a member of the procedures of the Association “RNC CIGRE”, the Association “RNC INEC” and RGO “SGP”, a member of the Board of “GOK RUSGIP”.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (shares) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

MANEVEICH Yuri Vladislavovich

Non-Executive Director
Member of the Strategic Committee

Born in 1966 in Chelyabinsk.
Citizenship — Russian Federation.
The candidacy is proposed / approved by the decision of the Board of Directors of the Company.
Date of the first election to the Board of Directors of ROSSETI — June 27, 2019.

EDUCATION
In 1992 he graduated from the Yaroslavl State University with a degree in “economics.”

PROFESSIONAL EXPERIENCE
Before 2012, he worked in electric grid companies in Moscow and the Moscow Region, having passed the post to the head of JSC UES.
In 2013 - 2017 - Head of the Fuel and Energy Department of Moscow, the Housing, Utilities and Amenities Administration of Moscow.
From 2017 - Director General and Chairman of the Management Board of ROSSETI.

PARTICIPATION IN GOVERNING BODIES
At the end of the reporting period, he is also a member of the Board of Directors of PJSC RUSHydro, JSC SO UES.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (shares) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

MUROV Andrey Evgenievich

Non-Executive Director

Born in 1973 in Leningrad.
Citizenship — Russian Federation.
The candidacy is proposed / approved by the decision of the Board of Directors of the Company.
Date of the first election to the Board of Directors of ROSSETI — June 28, 2013.

EDUCATION
In 1993 he graduated from the Law Faculty of St. Petersburg State University with a degree in “law”.
In 2009, he graduated from the State University of Civil Aviation with a degree in “organization of transportation and transport management (air transport).”

Doctor of Economics.

PROFESSIONAL EXPERIENCE
Before 2012, he worked in commercial organizations in the transport and electric power sectors.
From 2013 - Chairman of the Management Board of PJSC RUS.

PARTICIPATION IN GOVERNING BODIES
At the end of the reporting period, he is also a member of the Boards of Directors of PJSC RUSHydro, JSC SO UES.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (shares) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

RASSTRIGIN Mikhail Alekseevich

Non-Executive Director

Born in 1953 in Irkutsk.
Citizenship — Russian Federation.
The candidacy is proposed / approved by the decision of the Board of Directors of the Company.
Date of the first election to the Board of Directors of ROSSETI — June 29, 2018.

EDUCATION
In 2005 he graduated from Ural State Power Engineering Institute with a degree in “thermal power plants” and “economics.”

Doctor of Engineering Science.

PROFESSIONAL EXPERIENCE
Before 2006, he worked in banks and electric power sectors.
In 2008 - 2017 - Analyst, Head of the Electric Power Division, JSC Capital Administration Department.
From 2017 - Assistant to the Minister of Economic Development of the Russian Federation, Deputy Minister of Economic Development of the Russian Federation, member of the Board of the FAS Russia.

PARTICIPATION IN GOVERNING BODIES
At the end of the reporting period, he is also a member of the Boards of Directors of JSC RUE, President of NP NTPUE.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (shares) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

ROGALYEV Nikolay Dmitrievich

Non-Executive Director

Born in 1962 in Ulan-Ude, Tatar ASSR.
Citizenship — Russian Federation.
The candidacy is proposed / approved by the decision of the Board of Directors of the Company.
Date of the first election to the Board of Directors of ROSSETI — June 30, 2016.

EDUCATION
In 1985, he graduated from the Moscow Power Engineering Institute with a degree in “thermal power plants”.

Doctor of Engineering Science.

PROFESSIONAL EXPERIENCE
Before 2013, he worked in scientific, educational institutions and commercial organizations, specializing in energy efficiency and innovation development.
From 2013 - Doctor of the National Research University MEPhI.

PARTICIPATION IN GOVERNING BODIES
At the end of the reporting period, he is also a member of the Boards of Directors of JSC RUE, President of NP NTPUE.

OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (shares) of these companies.

He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.
Changes in the Composition of the Board of Directors During the Reporting Year

During 2019, the composition of the Board of Directors of the Company was renewed by 13% based on the results of the annual general meeting, 2 new members were elected, including one independent director – Mr. M.S. Bystrov, as well as Mr. Yu.V. Manovich. The remaining 13 members of the Board of Directors were re-elected for a new term.

In the period until the annual general meeting of shareholders, the Board of Directors of the Company also included the following members:

- **Barkin, Oleg Gennadievich** (Independent Director)
  - Born in 1975 in Tomilino, Moscow Region.
  - Position at the time of election — Deputy Chairman of the Board of the Association NP Market Council.
  - In 1998 he graduated from NRU MPEI with a degree in Applied Mechanics. In 1999 he graduated from NRU MPEI with a degree in “Financial Management”.
  - From 2012 – Deputy Chairman of the Board of the Association NP Market Council.

In the reporting year, none of the members of the Board of Directors of the Company received loans, credits from the Company, and also did not have any other contractual relations with the Company and (or) its controlled organizations, with the exception of labor agreements / contracts (P.A. Livkin as Director General of ROSSETI, and A.E. Murov, as Chairman of the Management Board of FGC UES) and agreements related to the status of members of the Board of Directors of the Company.

Specific Features of the Board of Directors Activities Associated with the Governmental Involvement

In view of predominant participation in the share capital of the Company of the Russian Federation, corporate governance and the role of the Board of Directors are characterized by the specific regulations, as well as the adoption of individual decisions, as manifested in the following features:

- The Board of Directors of the Company includes civil servants representing executive bodies that coordinate the management of state property, as well as industry regulation (in relation to ROSSETI – the Ministry of Economic Development and the Ministry of Energy of Russia, respectively);
- members of the Board of Directors representing the interests of the state, in the performance of their functions, must take into account the position of the shareholder; and in some cases – take part in the vote and vote only in a certain way as directed by the shareholder (based on directives of the Government of the Russian Federation);
- voting of state representatives on the General Meeting of Shareholders of the Company is carried out only if there are written directives from the Government of the Russian Federation;
- the Board of Directors of the Company shall additionally monitor and ensure implementation of measures designed to increase efficiency of the Company in accordance with individual decisions of executive authorities. In particular, the Board of Directors should additionally consider the issues of managing core and non-core assets, long-term development program of the Company, special measures in the field of procurement, and take into account methodological recommendations when approving a number of documents and making decisions (KPIs, internal control, motivation system, etc.).
Board of Directors Performance Assessment

As part of the implementation of measures to introduce key provisions of the Corporate Governance Code and advanced corporate governance tools, the Company evaluates and self-evaluates the work of the Board of Directors. According to the internal documents of the Company, the Board of Directors is entitled to annually assess effectiveness of the Board of Directors independently (self-assessment) or with the involvement of an independent external organization (consultant) possessing required qualifications to conduct the assessment. The company, following recommendations of the Bank of Russia Corporate Governance Code (Article 2.9.2), engages an external organization (consultant) to conduct an independent assessment of the quality of work of the Board of Directors at least once every three years.

Items to assess performance of the Board of Directors of the Company:

- Board of Directors
- Committees of the Board of Directors
- Members of the Board of Directors
- Chairman of the Board of Directors
- Organization of the Board of Directors and Committees operations
- Directorial issues
- Other issues

As part of NP “Russian Institute of Directors” assessment of the Board of Directors performance in 2017, no external assessment was carried out in 2019.

In the reporting year performance of the Board of Directors and Committees of the Board of Directors was assessed according to the Methodology for performance assessment of the Board of Directors, Committees of the Board of Directors and members of the Board of Directors of ROSSETI, approved by the Board of Directors of October 30, 2017 (Minutes of the Meeting on November 2, 2017 No. 281).

Results of performance assessment of the Board of Directors and its members are taken into account when organizing the activities of management bodies, as well as in the framework of improving corporate governance practices:

- in the distribution of powers and functions among members of the Board of Directors (for the purposes of a more in-depth study and examination of materials);
- in the formation of the composition of the committees of the Board of Directors;
- as part of the nomination process for the election of a new Board of Directors in preparation for the annual General Meeting of Shareholders.

By conducting a self-assessment of the effectiveness of the Board of Directors in 2019, the following were assessed: the quality of the Board of Directors and the Committees fulfilling the functions assigned to them, relevance of the composition and structure of the Board of Directors and Committees, role of individual members of the Board of Directors, role of the Chairman, planning of the work of the Board of Directors and Committees, procedures of the meetings, information support of the Board of Directors and Committees, as well as a number of infrastructure aspects.

The table below shows results of self-assessment of the Board of Directors performance conducted in 2018 and in the reporting year according to the Performance Appraisal Methodology for the Board of Directors, Committees of the Board of Directors and members of the Board of Directors of ROSSETI. The digital scale used in the questionnaires for 2017 - 2018 and 2018 - 2019 corporate year includes five points.

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>Average Score by Criteria</th>
<th>Change (year on year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance of the key functions by the Board of Directors in the Company’s management</td>
<td>4.73</td>
<td>4.71</td>
</tr>
<tr>
<td>Composition and structure of the Board of Directors</td>
<td>4.75</td>
<td>4.83</td>
</tr>
<tr>
<td>Organization of the Board of Directors’ work</td>
<td>4.60</td>
<td>4.65</td>
</tr>
<tr>
<td>Incentive system for members of the Board of Directors</td>
<td>4.20</td>
<td>4.22</td>
</tr>
<tr>
<td>Interaction of the Board of Directors with the management of the Company and Committees of the Board of Directors of the Company</td>
<td>4.70</td>
<td>4.80</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>4.81</td>
<td>4.95</td>
</tr>
<tr>
<td>Nomination and Remuneration Committee</td>
<td>4.76</td>
<td>4.97</td>
</tr>
<tr>
<td>Strategy Committee</td>
<td>4.55</td>
<td>4.53</td>
</tr>
<tr>
<td>Committee in Investment, Technical Policy, Reliability, Energy Efficiency and Innovation</td>
<td>4.67</td>
<td>4.52</td>
</tr>
</tbody>
</table>

Based on the results of processing the answers to the questionnaire, analyzing all comments and recommendations received, analyzing internal documents and compiling statistical information, a Self-Assessment Report was prepared, which was reviewed by the Board of Directors (herewith referred to as the Report) (with preliminary consideration by the Nomination and Remuneration Committee).

Role of the Chairman of the Board of Directors and Independent Directors in the Activities of the Board of Directors

One of the key roles in organizing the work of the Board of Directors belongs to the Chairman of the Board of Directors of the Company. The main functions of the Chairman of the Board of Directors are determined by the Regulation on the Board of Directors and include:

- organization, convening and holding of meetings of the Board of Directors;
- determination of key issues to be considered by the Board of Directors, and selection of the optimal form of meeting for discussion of issues;
- representation of the Board of Directors in relations with shareholders, management and other interested parties;
- follow-up on the Company’s Board of Directors resolutions.

1 Resolution of the Board of Directors on March 05, 2020 (Minutes of the Meeting on March 06, 2020 No. 399).
In 2019, the Chairman of the Board of Directors was non-executive director A.V. Novak. Simultaneous participation of the Chairman of the Board of Directors A.V. Novak in the work of the Boards of Directors of a number of other companies and the performance of the duties of the Minister of Energy of the Russian Federation, in our opinion, made it possible to effectively carry out the functions and tasks of managing the activities of the ROSSETI Board of Directors, which is confirmed including:

→ participation in 100% of the 53 meetings of the Company’s Board of Directors;
→ personal participation in 100% of 7 in-person meetings of the Board of Directors;

Independent Directors

The status of a public company and the availability of securities admitted to trading in the first-level quotation list of the Moscow Exchange presuppose the Company’s Board of Directors to contain a significant share of independent directors who meet the substantive independence criteria.

All independent directors meet the independence criteria or have been recognized as independent directors in the manner prescribed by the Moscow Exchange listing rules, which, among other things, provides for:

→ lack of communication with competitors, significant contractors, representatives of management or members of the Board of Directors, which could affect the objectivity and professionalism of decisions;
→ lack of material compensation from the Company or related parties (with the exception of compensation for the performance of duties of a member of the Board of Directors);
→ performing the functions of a member of the Board of Directors of the Company for no more than a specified period of time.

Regulation of Potential Conflicts of Interests of the Board of Directors

Internal policies of the Company, such as the Regulation on the Board of Directors and the Code of Conduct define a list of cases that indicate a conflict of interest among members of the Board of Directors. The policies oblige members of the Board of Directors to refrain from participating in decisions on issues in respect of which they have a conflict of interest, as well as inform the Board of Directors about such situations.

The control over the timing and frequency of the provision of information in this case is entrusted to the Corporate Secretary of the Company. As part of the organization of the work of the Board of Directors, the Chairman of the Board of Directors and the Corporate Secretary of the Company take the necessary measures to form the most comfortable and constructive relations between members of the Board of Directors in order to develop balanced and objective decisions.

→ holding regular working meetings with members of the Board of Directors and representatives of the Company’s management.

The competence, the working procedure of the Board of Directors and the existing corporate procedures make it possible to make decisions on a significant part of the issues if there is a simple majority of votes of the members of the Board of Directors. At the same time the Chairman of the Board of Directors takes into account each member of the Board of Directors’ opinion when discussing issues on the agenda and takes measures to achieve the optimal solution on key issues, as well as take into account the positions and individual points that the members of the Board of Directors pay attention to.

The Board of Directors annually reviews the issue of meeting of its members the independence criteria, as a rule, at the first meeting of the Board of Directors elected in a new composition.

The Regulation on the Board of Directors provides for the possibility of electing a senior independent director in the Company, representing the interests of all independent directors in cooperation with the Chairman of the Board of Directors, external correspondents or consultants. In the reporting year, the position of senior independent director was not formed in the Company. However, all independent directors of the have the opportunity to draw attention and convey their position to the Chairman of the Board of Directors, the management of the Company, representatives of the main shareholder in cases where such an opinion may be important for the decision.

In 2019, five of the fifteen members of the Board of Directors were independent.

Liability Insurance of the Board of Directors

The Company and its subsidiaries have been using the practice of liability insurance of members of the Board of Directors, executive bodies and officials (Directors and Officers Liability Insurance, D&O) for several years. The main purpose of D&O liability insurance is to protect the interests of ROSSETI shareholders and to provide a source of compensation for possible losses of the Company and/or insured persons upon occurrence of insured events.

Liability insurance guarantees the protection of the Company, directors and officers from possible claims by third parties and compensation for damage (loss) caused to shareholders that may result from errors and unintentional actions (inaction) in the exercise of managerial duties by members of the Board of Directors and officers of ROSSETI.

The general terms and conditions of insurance comply with international standards, and also take into account the scale of the business and the specifics of the industry in terms of the volume of insured risks and compensation limits.

Certain conditions and requirements for liability insurance in the Company are stipulated in the Regulations for Insurance Coverage of ROSSETI.

General Terms and Conditions of D&O Liability Insurance

<table>
<thead>
<tr>
<th>Insurer</th>
<th>SOGAZ INSURANCE</th>
<th>SOGAZ INSURANCE</th>
<th>Ingosstrakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance premium, rubles</td>
<td>22,650,000</td>
<td>13,000,000</td>
<td>12,400,000</td>
</tr>
<tr>
<td>Insured sum, rubles</td>
<td>10,000,000,000</td>
<td>10,000,000,000</td>
<td>10,000,000,000</td>
</tr>
<tr>
<td>Total additional insured amount for independent directors, rubles</td>
<td>300,000,000</td>
<td>300,000,000</td>
<td>300,000,000</td>
</tr>
</tbody>
</table>

INSURED RISKS

→ risk of third-party claims against the insured persons for compensation of losses caused by unintentional erroneous actions of the insured persons in the exercise of their management duties;
→ risk of third-party claims against ROSSETI for compensation of losses in respect of securities of ROSSETI.

INSURED PERSONS

1. ROSSETI;
2. Any individual or corporate entity that, without limitation, was, is, or will be:
   → a member of the Board of Directors, irrespective of its name in any jurisdiction;
   → a member of the Board of Directors of ROSSETI’s subsidiary or affiliate if such member is elected to the Board of Directors of such subsidiary or affiliate by votes held by ROSSETI;
   → the sole executive body (Director General) of ROSSETI and/or its subsidiary or affiliate, the sole executive body (First Deputy Director General, Deputy Director General) of ROSSETI, a member of the Management Board of ROSSETI, the Chief Accountant of ROSSETI, other officers of the Company.

COVERAGE TERRITORY

The entire world

Voting by the Members of the Board of Directors on the Agenda Items

Voting options and Votes

FOR 2,589 (97.99%) AGAINST 14 (0.54%) ABSTAINED 38 (1.57%)

Admission of New Members of the Board of Directors to the Position

By the decision of the annual General Meeting of Shareholders in 2019 two of the fifteen members of the Board of Directors were elected for the first time - M. Bystrov and Y. Manevich. The Company has a practice of providing additional information and organizing individual awareness-raising events for newly elected members of the Board of Directors, which allows them to be more quickly involved in the work of the Board of Directors, committees of the Board of Directors and provide relevant data on the production and financial and economic activities of the Company. An introduction to a post usually includes the following activities:

→ sending the Company’s internal documents;
→ providing information on key issues of the management and performance of the Company;
→ meetings with the Company and its key subsidiaries;
→ informing about the duties and powers of members of the Board of Directors, their status, expected time spent, necessary resources to perform the functions of members of the Board of Directors;
→ informing on key events with the participation of members of the Board of Directors planned in the corporate year.
 Committees of the Board of Directors

Committees of ROSSETI Board of Directors are an important element of the corporate governance system of the Company, providing preliminary study and examination of the most significant issues related to the competence of the Board of Directors of the Company. Effective and professional work of the Committees allows for more thorough consideration of certain aspects of the Company and its subsidiaries performance, as a result of which the Board of Directors is provided with recommendations regarding voting on the agenda items.

In 2019, the following four Committees were active in ROSSETI:

1. **Audit Committee (AC)**
   - Information of the Audit Committee and the Nomination and Remuneration Committee exclusively of independent directors;
   - Engagement of persons other than members of the Board of Directors in the work of the Committees (with the exception of the Audit Committee and the Nomination and Remuneration Committee);
   - Consideration by the committees of both issues recommended to the Board of Directors and issues over which control has been delegated to the Committees.

2. **Strategy Committee (SC)**
   - Management of the Committees by members of the Board of Directors only.

3. **Committee on Investment, Technical Policy, Reliability, Energy Efficiency and Innovation (CITPREEI)**

4. **Nomination and Remuneration Committee (N&RC)**

Organizational fundamentals of the Committees (operating procedures, functions and competences, composition requirements, etc.) are regulated by the provisions on the committees approved by the Board of Directors’ resolutions and posted on the [http://www.rosseti.ru/eng/investors/reports/Internal-docs/](http://www.rosseti.ru/eng/investors/reports/Internal-docs/). To ensure maximum transparency and compliance with information disclosure standards we additionally publish on the Company’s website information on the results of the work of the Committees, the main issues addressed, their composition and chairmen.

To ensure efficient Committee performance we endeavour to stick to the following principles:

- Accountability of Committees to the Company’s Board of Directors;
- Management of the Committees by members of the Board of Directors only;
- Information of the Audit Committee and the Nomination and Remuneration Committee exclusively of independent directors;
- Engagement of persons other than members of the Board of Directors in the work of the Committees (with the exception of the Audit Committee and the Nomination and Remuneration Committee);
- Consideration by the committees of both issues recommended to the Board of Directors and issues over which control has been delegated to the Committees.

Dear shareholders and investors of ROSSETI!

The ROSSETI Audit Committee performs one of the key roles in matters of control over the Company financial statements reliability, organization of the Company effective internal control and risk management systems.

The Audit Committee consists exclusively of independent members of the Board of Directors with extensive competencies in the fields of audit, analysis of financial statements and risk management. All members of the Audit Committee obtained vast experience in the field of electricity supply. All the above mentioned factors allow the Audit Committee to consider issues related to industry specifics in comprehensive and objective manner.

The Audit Committee has held 13 meetings during the reporting year and has considered 29 issues. These Audit Committee meetings were mainly dedicated to development of policies in the field of internal audit, insider activities, anti-corruption mechanisms implementation. Those issues share amounted to almost a third of the total issues considered.

Traditionally, a significant amount of issues considered by the Committee was devoted to aspects of the selection and effectiveness of the Company external auditors, the terms and conditions of agreements therewith. In the reporting year, the Company’s External Auditor Rotation Policy was developed and approved, implementing principles and standards for the selection of auditors. Given the increasing attention of investors to the issues of risk control, we devoted several meetings of the Committee to improving the risk management system, including analysis of new challenges for the Company: regulatory risks (compliance), information and cybersecurity risks, as well as certain aspects of innovative technology implementation. The results of above mentioned activities have been used as a basis for comprehensive action plan for development of the risk management system within the entire ROSSETI group.

In addition, the Audit Committee has considered certain aspects of the internal audit service activities: organization of inspections, status of events based on their results, plans to eliminate identified shortcomings.

The effectiveness of communication and information sharing with representatives of shareholders is one of the key factors to improve the internal control system. The management of the Company is ready to contribute and consider any meaningful initiatives.

The achieved results have been laid as a basis for a number Audit Committee’s recommendations to the Board of Directors and the management of the Company, the implementation of which significantly improved the practice of preparing financial statements and audits performance, which is in the interests of all shareholders of the ROSSETI Group.

VASILY BELOV
Chairman of the Audit Committee,
Independent Member of the Board of Directors,
ROSSETI

In 2019, we have used the ROSSETI platform to hold the expanded meeting of members of the audit committees of organizations which are part of the ROSSETI Group. Independent directors - members of the audit committees of ROSSETI SOCs summarized the results of the external assessment of the internal control system and specified the “best practices” among the ROSSETI Group companies.
The purpose of the Audit Committee is to facilitate the effective performance of the Board of Directors functions in terms of preliminary consideration of issues related to control of the Company’s financial and economic activities.

Audit Committee Functions and Results for the Reporting Period

**CONTROL OF THE COMPANY’S REPORTING**

- Review of the Company financial statements.
- Review of the external auditor resolution.
- Review of information provided by the external auditor following the results of the audit of financial statements, the internal control system, as well as reports on the identification of deficiencies based on the results of audits.

**INTERNAL CONTROL, RISKS AND CORPORATE GOVERNANCE**

Issues considered during the reporting period:
- Review of the risk management and internal control system effectiveness, as well as reports in these fields for the Company and its subsidiaries and affiliates.
- Quality assessment of internal audit.
- Review of the external assessment of the internal audit and its material conditions.
- Coordination of the appointment of the head of the ROSSETI internal audit department, as well as the determination of his/her remuneration.

**EXTERNAL AUDIT**

Issues considered during the reporting period:
- Coordination of potential auditor and determination of the auditor remuneration for the services provided.

**ANTI-CORRUPTION POLICY AND COMPLIANCE**

Issues considered during the reporting period:
- Consideration of compliance issues, compliance with insider law.
- Updating the Regulation on insider information, the Anti-corruption policy, the Internal Audit Policy, and the Regulation on the Internal Audit Department.
- Review of inspection and audit conclusions.

During the reporting period, the Audit Committee was composed of four members, who are independent members of the Company’s Board of Directors.

<table>
<thead>
<tr>
<th>Meetings in Absentia (12)</th>
<th>Meetings in Presentia (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Meetings Attended by the Committee Member</td>
<td>Number of Meetings Attended by the Committee Member</td>
</tr>
<tr>
<td>Belyaev Vasily Mikhailovich</td>
<td>12</td>
</tr>
<tr>
<td>Independent Director</td>
<td></td>
</tr>
<tr>
<td>Ashirov Stanislav Olegovich</td>
<td>12</td>
</tr>
<tr>
<td>Independent Director</td>
<td></td>
</tr>
<tr>
<td>Dobrov Oleg Markovich</td>
<td>12</td>
</tr>
<tr>
<td>Independent Director</td>
<td></td>
</tr>
<tr>
<td>Kalinin Alexander Sergeevich</td>
<td>11</td>
</tr>
<tr>
<td>Independent Director</td>
<td></td>
</tr>
</tbody>
</table>

The Chairman, as well as all Audit Committee members have many years’ experience, competencies and professional skills in the field of audit, financial reporting, risk management, internal control, and compliance. All members of the Committee have experience in companies in the electric energy sector.

In the reporting year, 13 meetings of the Committee were held, including one in-person meeting (in presentia), which, in general, corresponds to the long-term practice of the Committee activity schedule.

**Audit Committee Meetings and Matters Reviewed**

In 2019, the Committee ensured a balanced consideration of issues on the Committee key functions.

**Topics of the Issues Considered by the Audit Committee**

- Counteraction to unfair actions of employees and third parties: 16%
- Conducting an external audit and external auditor selection: 21%
- Internal control system and corporate governance reliability: 17%
- Financial statements: 28%
- Internal Audit Functions: 69%
- Other: 31%

**Categories of Issues Considered**

- Recommendations to the Board of Directors: 36%
- Independent review: 64%
Dear shareholders and investors of ROSSETI!
Since the Committee establishment, the main tasks thereof have been to assist in improvement and development of the personnel motivation system, succession and human resource reserve, selection and assessment of candidates for the positions of the top management of the Company. The year of 2019 was not an exception. We paid increased attention to issues of management performance, affecting both aspects of adjusting policies in this area in accordance with modern requirements, and considering reports on the results of the Company’s management. All these aspects were carefully considered and reviewed during the reporting period. A striking example of the special role of human resources policy in the activities of the Company and the attention paid therefor by the Committee and management is the ROSSETI partnership in organizing the competition “Leaders of Russia”. A special pride is taken by the fact that in 2019 over 3,700 employees of the ROSSETI Group took part in the competition, which signifies, among other things, the high level of experience of the Company’s specialists and managers.

Since 2018, the Committee has introduced the practice to evaluate and assess the candidates for the Company’s Board of Directors members in terms of their compliance with the independence criteria, as well as the necessary competencies availability. The recommendations of the Committee are submitted to the shareholders of the Company during the annual General Meeting of Shareholders, which, in our opinion, contributes to greater awareness of the Meeting participants and their ability to analyze the nominees more extensively.

Among the future tasks the Committee shall resolve include, in particular, the planned updating of policies in the field of motivation and remuneration of the Company employees, including blue-collar and operations personnel, as well as a more detailed study of the connection of motivation systems with the strategic tasks of the ROSSETI Group. We are positive that the professional and balanced composition of the Committee, as well as the vast experience of members thereof, is a key to the effective development of the Company in terms of human resources policy and incentive systems, maximally contributing the goals’ achievement systems by the Company shareholders.

ALEXANDER KALININ
Chairman of the Committee, Independent Member of the Board of Directors, ROSSETI

ROSSETI Board of Directors Nomination and Remuneration Committee is a platform for preliminary consideration and development of proposals to the Board of Directors on issues related to incentivization, succession, personnel reserve, appointments of members of the Company governing bodies and management.

Committee Functions and Results for the Reporting Period

As of December 31, 2019, the Committee consisted of 5 members, who are independent members of the Board of Directors of the Company.

<table>
<thead>
<tr>
<th>Number of Meetings Attended by the Committee Member</th>
<th>Participation Percentage, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kalinin Alexander Sergeevich Committee Chairman Independent Director</td>
<td>17</td>
</tr>
<tr>
<td>Ashurov Stanislav Olegovich Independent Director</td>
<td>17</td>
</tr>
<tr>
<td>Belov Vyacheslav Mikhailovich Independent Director</td>
<td>17</td>
</tr>
<tr>
<td>Systrev Maxim Sergeevich Independent Director</td>
<td>10 (of 11)</td>
</tr>
<tr>
<td>Dubrov Oleg Markovich Independent Director</td>
<td>16</td>
</tr>
</tbody>
</table>

During the reporting period, the Committee held 17 meetings where 20 issues were considered.

A significant proportion of the issues considered by the Committee was devoted to aspects of management motivation (including KPI issues), as well as approval of staff appointments.

ROSSETI Board of Directors Nomination and Remuneration Committee Regulation was approved by the decision of the ROSSETI Board of Directors on February 28, 2018 (Minutes of the Meeting on March 02, 2018 No. 295).
Dear ROSSETI shareholders and investors!

The ROSSETI Group development strategy is the main reference point for almost all key business processes and programs of the Company. The Strategy Committee ensures the necessary coordination and cooperation between the key participants and is responsible for drafting, updating, and monitoring the implementation of the ROSSETI Group companies’ strategy on behalf of the Board of Directors. The second important activity of the Committee is to monitor the preparation and execution of the budget, as well as the most significant directions and development programs of the Company.

In 2019, we held 22 meetings (including 9 in-person meetings) addressing both the issues of adopting a new development strategy, and the implementation state of the previous Long-Term Development Program, as well as reviewing the consolidated budget of ROSSETI Group companies, and reports on its execution. A significant amount of the issues addressed were related to monitoring of separate programs’ implementation by the Company, such as non-core assets management Program, Environmental Policy, certain aspects of subsidiaries development.

Generally productive work of the Committee and its members’ active participation in discussions helped to ensure the necessary control of the Board of Directors in Company’s strategic and business planning, thereby ensuring high efficiency across the ROSSETI Group by 2019.

YURI MANEVICH
Chairman of the Committee,
member of the Board of Directors, ROSSETI

The principal objective of the Committee is to assist ROSSETI’s Board of Directors in determining the Company’s strategy.

The Regulations for the Strategy Committee at the Board of Directors of ROSSETI were approved by the decision of the Board of Directors on October 21, 2013 (Minutes of Meeting on October 23, 2013 No. 137, as further amended).

Committee Functions and Results for the Reporting Period

**Strategy and Core Business Activities**
- Issues considered during the reporting period:
  - Reviewing the Company’s strategy.
  - Reviewing the Report on the ROSSETI Long-Term Development Program Fulfillment.

**Subsidiaries and Dependent Companies Management**
- Issues considered during the reporting period:
  - Subsidiaries and Dependent Companies Management.

**Subsidiaries and Dependent Companies’ Development Plans**
- Issues considered during the reporting period:
  - Updating the plans for development of the subsidiaries and dependent companies.

**Monitoring the Implementation of the Company’s Key Business Programs**
- Issues considered during the reporting period:
  - Addressing the issues of fulfilling certain orders of the Russian President and the Russian Government.
  - Reviewing the Non-Core Assets Register of ROSSETI.
  - Reviewing the reports on implementation of key investment projects of the Company.

**Key Projects and Deals**
- Issues considered during the reporting period:
  - Determining the Company’s position with respect to the deals and projects of the subsidiaries and dependent companies.

**Budget**
- Issues considered during the reporting period:
  - Reviewing the consolidated 3-year business plan of the ROSSETI Group and scenarios for its preparation.
  - Reviewing the ROSSETI budget, as well as performance reports under it.
Current personal composition of the Strategy Committee of 20 members (including 3 members of the Board of Directors and 17 representatives of shareholders) was approved by the ROSSETI’s Board of Directors on October 17, 2018 (Minutes of the Meeting on October 19, 2018 No. 326) in view of reelection of the Chairman of the Committee subject to the Board of Directors’ decision of April 29, 2019 (Minutes of the Meeting on April 30, 2019 No. 353).

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Title/Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yuri Vladimirovich Manevich</td>
<td>Chairman of the Committee</td>
</tr>
<tr>
<td>Stanislav Degnevich Ashtrov</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Oleg Markovicikh Dubnov</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Pavel Nikolaevich Sankurov</td>
<td>Director of the Electric Power Industry Development Department, Ministry of Energy of the Russian Federation</td>
</tr>
<tr>
<td>Oleg Gennadyevich Burkin</td>
<td>Deputy Chairman of the Management Board of NP Market Council Association</td>
</tr>
<tr>
<td>Alexander Yevgenyevich Bogachev</td>
<td>Director of the Corporate Management, Pricing Environment, and Control and Revision of the Fuel and Energy Sector Department, Ministry of Energy of the Russian Federation</td>
</tr>
<tr>
<td>Dmitry Stanislavovich Bulgarov</td>
<td>Deputy Head of Directorate “Expert Centre in the Fuel and Energy Complex” (FSB “Russian Energy Agency” (Analytical Centre of the Fuel and Energy Complex))</td>
</tr>
<tr>
<td>Eduard Petrovich Volkov</td>
<td>Academician of the Russian Academy of Sciences</td>
</tr>
<tr>
<td>Pavel Vladimirovich Grebko</td>
<td>Acting Deputy General Director for Economics and Finance, ROSSETI</td>
</tr>
<tr>
<td>Dmitry Gennadyevich Denisov</td>
<td>Director of the Small and Medium Business and Competition Development Department of the Ministry of Economic Development of Russia</td>
</tr>
<tr>
<td>Vasily Nikolaevich Kiselev</td>
<td>Chairman of the Council of Customers of the Government Commission on the Development of the Electric Power Industry</td>
</tr>
<tr>
<td>Mikhail Aleksandrovich Kalusevich</td>
<td>Vice President, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business, and Director General, OOO Oddam</td>
</tr>
<tr>
<td>Telya Anatolyevna Medvedeva</td>
<td>Deputy Director of the Department for Operational Control and Management in the Electric Power Industry, Ministry of Energy of the Russian Federation</td>
</tr>
<tr>
<td>Vasily Nikolaevich Nikonorov</td>
<td>Director of the Energy Department, Rosatom</td>
</tr>
<tr>
<td>Yevgeny Nikolaevich Gobovichev</td>
<td>Deputy Director General for Strategic Development, ROSSETI</td>
</tr>
<tr>
<td>Sergey Anatolyevich Pavlushko</td>
<td>Deputy Chairman of the Management Board, SO UPL, JSC</td>
</tr>
<tr>
<td>Sergey Sergeevich Pikin</td>
<td>Director, Energy Development Fund</td>
</tr>
<tr>
<td>Evgeny Aleksandr Khubanshev</td>
<td>First Deputy Director General, Member of the Management Board, PJSC RosHydro</td>
</tr>
<tr>
<td>Maria Gennadyevna Tikhonova</td>
<td>Deputy Chairperson of the Management Board, FGC UES</td>
</tr>
<tr>
<td>Alexander Vitykovich Shechuk</td>
<td>Executive Director, Association of Institutional Investors</td>
</tr>
</tbody>
</table>

Before April 29, 2019, Vyacheslav Mikhailovich Kravchenko had been a member of the Committee. His position was terminated subject to the Board of Directors’ decision on April 29, 2019 (Minutes of Meeting on April 30, 2019 No. 353).
Dear Shareholders and Investors of ROSSETI,

The investment program and technical development issues are one of fundamental aspects of ROSSETI Group, on which not only financial results of ROSSETI Group but also reliability of the entire infrastructure of the Russian Power Grid complex depend. Every year ROSSETI makes large-scale investments in maintaining and developing fixed assets. The Company’s digital transformation program is being actively implemented and pilot projects are being launched.

The Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee provides necessary analysis of the feasibility and effectiveness of invested funds, as well as an in-depth examination of selected top priority projects of the Company. In addition to investment and technical policy issues, in 2019 we paid special attention to ROSSETI Group digital transformation processes - more than 20% of overall examined issues were dedicated to this area.

The investment program, Technical Policy, Reliability, Energy Efficiency and Innovation Committee was established to assist the Board of Directors to fulfill its responsibilities of implementing technical and investment policies, energy efficiency, reliability and innovation development.

Proposals and initiatives resulting from the Committee’s work were largely taken into account in the updated ROSSETI Development Strategy approved by the Company’s Board of Directors in December 2019.

The Regulations for the Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee at the Board of Directors of ROSSETI were approved by the decision of the Board of Directors on October 21, 2013 (Minutes of Meeting on October 23, 2013 No. 137, as further amended).

Committee Functions and Results for the Reporting Period

**Investment, Technical Policy and Other Key Policies of the Company**

- Consideration of the rules for pilot projects and first stage digital transformation pilot projects.

**Monitoring of Investment, Innovation, Energy Efficiency and Procurement Programmes**

Issues considered during the reporting period:

- Reviewing reports on comparison of technological development and ROSSETI KPI values with similar companies.
- Reviewing the report on results of work to improve the quality of services provided by the ROSSETI Group.
- Reviewing the report on development of the production asset management system.
- Reviewing the report on the progress of ROSSETI Group investment projects.
- Reviewing the report on implementation of the consolidated investment program at year-end.
- Reviewing the report on implementation of the Innovation Development Program.

The current members of the Committee were approved by ROSSETI Board of Directors decision on October 17, 2018 (Minutes of Meeting on October 19, 2018 No. 326) with subsequent amendments based on the Board of Directors decision on April 04, 2019 (Minutes of Meeting on April 05, 2019 No. 347). During the reporting period, the Committee operated with 18 members (including 1 member of the Board of Directors and 17 representatives of shareholders):

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Title/Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dubnov Oleg Markovich</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Barkin Oleg Gennadyevich</td>
<td>Deputy Chairman of the Management Board of ROSSETI NPF Management Council</td>
</tr>
<tr>
<td>Dmitry Stanislavovich Bulgakov</td>
<td>Deputy Head of Directorate “Expert Centre in the Fuel and Energy Complex” FSB “Russian Energy Agency” (Avdiofis Centre of the Fuel and Energy Complex)</td>
</tr>
<tr>
<td>Grachuk Yevgeny Petrovich</td>
<td>Director of the Department of Operational Control and Management in the Power Industry of the Ministry of Energy of Russia</td>
</tr>
<tr>
<td>Denisov Dmitry Gennadyevich</td>
<td>Director of the Small and Medium Business Development and Competition Department of the Ministry of Economic Development of Russia</td>
</tr>
<tr>
<td>Ilyenko Alexander Vladimirovich</td>
<td>Member of the Management Board, Director for Development Management of JSC SO UES</td>
</tr>
<tr>
<td>Kazachenkov Andrey Valeryevich</td>
<td>First Deputy General Director, member of the Management Board of PJSC RosHydro</td>
</tr>
<tr>
<td>Kiselev Yury Nikolayevich</td>
<td>Chairman of the Consumer Council under the Government Electricity Commission</td>
</tr>
<tr>
<td>Masa Leonid Vladimirovich</td>
<td>Advisor to the Chairman of the Management Board of JSC “Tender Bank” (JSC)</td>
</tr>
<tr>
<td>Mayyazov Andrey Valeryevich</td>
<td>Deputy Director General - Chief Engineer of ROSSETI</td>
</tr>
<tr>
<td>Mikhailenko Konstantin Konstantinovich</td>
<td>Principal Adviser of ROSSETI</td>
</tr>
<tr>
<td>Molsky Aleksandr Valeryevich</td>
<td>Deputy Chairman of the Board of ROSSETI, Member of the Board of FGC UES</td>
</tr>
<tr>
<td>Pavel Yuryevich Ruxdin</td>
<td>Head of Post-Investment Analysis, Investment Development and Management Department of PJSC “F GC “1 Plus”</td>
</tr>
<tr>
<td>Podulaevsky Sergey Vasilevich</td>
<td>Director of Investment Activities of ROSSETI</td>
</tr>
<tr>
<td>Radlyshov Alexey Yuryevich</td>
<td>Deputy Director General for Technical Issues of JSC Mezheenergosbyt</td>
</tr>
<tr>
<td>Sergeyev Sergey Vladimirovich</td>
<td>Deputy General Director for Capital Construction of ROSSETI</td>
</tr>
<tr>
<td>Shelkunov Pavel Nikolayevich</td>
<td>Director of the Department of Electric Power Industry Development of the Ministry of Energy of Russia</td>
</tr>
<tr>
<td>Shepelevsky Alexander Viktorovich</td>
<td>Executive Director of the Association of Professional Investors</td>
</tr>
</tbody>
</table>

During the reporting period the Committee members were also Dmitry B. Hakobyan, Dmitry B. Gondev and Roman E. Filimonom. The authorities of Dmitry B. Hakobyan, Dmitry B. Gondev and Roman E. Filimonom were terminated on the basis of the ROSSETI Board of Directors decision on April 4, 2019 (Minutes of Meeting on April 05, 2019 No. 347).
### Corporate Secretary

The post of Corporate Secretary was first introduced in the Company in 2015. According to the Regulations on the Corporate Secretary of the Company, the functions of the Corporate Secretary include:

- participation in cooperation with professional market participants;
- informing the Company’s Board of Directors on compliance with legislative requirements and provisions of internal documents in the area of corporate governance;
- participation in interaction of the Company with its shareholders and prevention of corporate conflicts;
- participating in organizing General Meetings of the Company’s Shareholders;
- participating in implementing the policy on information disclosure, as well as ensuring storage of corporate documents of the Company;
- participating in improving the system and practice of corporate governance;
- ensuring work of the Board of Directors and Committees of the Board of Directors of the Company.

The Corporate Secretary is functionally subordinate to the Board of Directors, and administratively to the General Director due to the specifics of the Russian labour laws. The appointment and dismissal of the Corporate Secretary in the Company shall be made on the basis of decision of the Board of Directors with preliminary consideration by the Nomination and Remuneration Committee of the Board of Directors. The competence of the Board of Directors includes motivation, remuneration of the Corporate Secretary, approval of the Regulations on the Corporate Secretary, which ensures independence from the management of the Company and efficiency of performance of the assigned functions.

#### The Corporate Secretary of the Company is Natalia Baranyuk.

### Corporate Governance Report

In 2019, the Committee held 10 meetings, including 7 in person, during which a total of 23 issues were considered. Over the reporting period, the Committee paid particular attention to investment, energy efficiency, innovation and certain technical policy aspects.

### Investment, Technical Policy, Reliability, Energy Efficiency and Innovation Committee

#### Meetings and Matters Reviewed

<table>
<thead>
<tr>
<th>Full name of Committee member</th>
<th>Number of Attended Meetings</th>
<th>Participation Rate, %</th>
<th>Number of Meetings in which the Committee Member Participated</th>
<th>Percentage of Presence, %</th>
<th>Participation Rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melikov A.V.</td>
<td>3</td>
<td>100</td>
<td>4</td>
<td>2</td>
<td>57.1</td>
</tr>
<tr>
<td>Nushchin P.V.</td>
<td>3</td>
<td>100</td>
<td>1</td>
<td>6</td>
<td>16.2</td>
</tr>
<tr>
<td>Pedeleckii S.V.</td>
<td>3</td>
<td>100</td>
<td>5</td>
<td>2</td>
<td>71.6</td>
</tr>
<tr>
<td>Roslyakov A.Yu.</td>
<td>3</td>
<td>100</td>
<td>5</td>
<td>2</td>
<td>71.6</td>
</tr>
<tr>
<td>Shevchuk A.V.</td>
<td>3</td>
<td>100</td>
<td>2</td>
<td>5</td>
<td>28.6</td>
</tr>
<tr>
<td>Snickers P.N.</td>
<td>2</td>
<td>66.7</td>
<td>2</td>
<td>3</td>
<td>28.6</td>
</tr>
<tr>
<td>Shcherbak A.V.</td>
<td>3</td>
<td>100</td>
<td>5</td>
<td>2</td>
<td>71.6</td>
</tr>
</tbody>
</table>

#### Issues Reviewed by the Investment, Technical Policy, Reliability, Energy Efficiency and Innovation Committee

- **23** issues reviewed by the Committee in 2019
- **90%** related to the assigned functions.

#### Categories of Issues Considered

- **26%** Recommendations to the Board of Directors
- **10%** Independent consideration
- **22%** Investments and investment operations
- **39%** Energy efficiency and innovation
- **4%** Procurement
- **4%** The Committee’s organization matters
- **5%** The Committee’s reports

The Regulations for the Corporate Secretary of ROSSETI were approved by the decision of the Board of Directors on September 23, 2016 (Minutes of Meeting on September 26, 2016 No. 240).

The Corporate Secretary is Natalia Nikolaevna Baranyuk.

**BARANYUK Natalya Nikolaevna**

- **Born** in 1978 in Krasnoyarsk.
- **In 2000,** she graduated from Krasnoyarsk State Agrarian University with a degree in “jurisprudence”.
- **In 2008,** she graduated from Lomonosov Moscow State University with a degree in “management”.

#### Professional Experience

- **2005 – 2015** – Corporate Secretary – Head of Staff of ROSSETI Chairman of the Board of Directors.

- She does not hold any shares of ROSSETI, nor any shares or interests in its controlled entities, has not performed any transactions with the Company’s securities during the year, and does not have any loans issued by the Company.
- She is not included in the management bodies of other legal entities.
- She is a member of the professional association of corporate secretaries (National Association of Corporate Secretaries (NACS)).
ROSSEITI Executive Bodies

The management of the Company's current activities is carried out by the collective and sole executive bodies - the Management Board and Director General of ROSSEITI. The competence of the executive bodies includes the decision of the issues related to the current activities of ROSSEITI, except for the issues referred to the competence of the General Meeting of Shareholders and the Board of Directors in accordance with the Company's Charter.

In accordance with the ROSSEITI Charter and the ROSSEITI Management Board Regulations, the Director General and members of the Management Board report to the Board of Directors.

The competent range of issues on which the Management Board and the Director General submit reports to the Board of Directors includes, but is not limited to, the following:
- implementation of the Company's strategy and Long-Term Development Programme;
- annual budgets (financial plans);
- information on significant projects of the Company and its S&A;
- status of implementation of programs and key policies of the Company;
- perspective plans for implementation of ROSSEITI's main activities;
- financial and economic activities of controlled companies whose shares (stakes) are held by ROSSEITI;
- information on risk management system and internal control procedures.

The ROSSEITI Management Board is a collegial executive body whose tasks include joint consideration, analysis and decision making on the most important issues of the Company's current activities, control over which is the responsibility of the executive bodies. Its activities, the Management Board is guided by the requirements of the Charter and the Regulations on the Management Board of the Company, ensuring both implementation of decisions of the General Meeting of Shareholders and the Board of Directors of the Company. In addition, the Management Board of the Company performs a significant amount of functions related to the management of 100% of ROSSEITI's subsidiaries, making decisions that fall within the competence of the meetings of shareholders (participants) of these companies.

The membership of the Management Board of the Company is determined by the Board of Directors of ROSSEITI on the proposal of the General Director of the Company. Candidates for members of the Management Board (except for its own) are submitted by the General Director of the Company. Election and early termination of powers of the Management Board members are performed by the Board of Directors of the Company. As of December 31, 2019 ROSSEITI Management Board consisted of 5 members of the Management Board.

The members of the Management Board of the Company are:

LIVINSKY Pavel Anatolyevich
- Director General, Chairman of the Management Board
- Born in 1963 in Dneprodzerzhinsk, Ukraine, USSR.
- Citizenship — Russian Federation.
- Education:
  - In 1996 he graduated from Zaporozhye State University with a degree in "applied mathematics".
  - In 1999 he graduated from Zaporozhye Institute of Economics and Information Technologies with a degree in "finance".
- Professional experience:
  - Before 2013 he worked in power grid companies of Moscow and Moscow region, having worked his way up to the Head of JSC "UEC".
  - In 2013 - 2017 - Head of the Fuel and Energy Department of Moscow, the Housing, Utilities and Amenities Department of Moscow.
  - From 2017 - Director General and Chairman of the Management Board of ROSSEITI.
- Participation in governing boards:
  - At the end of the reporting period he is also a member of boards of directors (supervisory boards, boards of trustees) of JSC SO UES, PJSC Rosseti, PJSC Rosseti Tyumen; ROSSETI, PJSC Rosseti, PJSC Rosseti Tyumen, PJSC NFTS UES, JSC MEI, Association of Digital Energy Industry Development Organizations.
  - He is also a member of Boards of Directors (Supervisory Boards, Boards of Trustees) of the Cathedral of Christ the Saviour, Russian Swimming Federation, the All-Russian Public Sports Organization "Federation of Modern Pentathlon of Russia", the Public Organization "All-Russian Swimming Federation", the All-Russian Public Organization "All-Russian Athletics Federation".
  - In addition, he is a member of presidiums of the Association "PRK SBER", Association "PRK MIRETS" and ROK "SPF", a member of the Board of "DDP".
- Ownership of and transactions with shares of ROSSEITI and subsidiaries and affiliates:
  - During the reporting year, he did not have any shares (stakes) in ROSSEITI or its controlled entities, nor did he perform any transactions with securities (stakes) of the said companies.
  - He has no family relations with any other members of ROSSEITI's management (control) bodies or its controlled organizations.

DEMIN Andrey Alexandrovich
- Member of the Management Board
- Born in 1974 in Zaporozhye, Ukrainian SSR.
- Citizenship — Russian Federation.
- Education:
  - In 1996 he graduated from Zaporozhye State University with a degree in "applied mathematics".
  - In 1999 he graduated from Zaporozhye Institute of Economics and Information Technologies with a degree in "finance".
- Professional experience:
  - Before 2013 he worked in the companies of electric power industry, dealing with finance, operations and strategic management issues.
  - In 2013 - 2019 - First Deputy Director General for Economics and Finance of ROSSEITI.
  - From 2019 - a member of the Management Board of ROSSEITI.
- Participation in governing boards:
  - At the end of the reporting period he is also a member of the Board of Directors of ROSSEITI Tyumen.
- Ownership of and transactions with shares of ROSSEITI and subsidiaries and affiliates:
  - During the reporting year, he did not have any shares (stakes) in ROSSEITI or its controlled organizations, nor did he perform any transactions with securities (stakes) of the said companies.


As of December 31, 2019.
Changes in the Composition of the Management Board in 2019

Over the period through April 29, 2019 Pyatigor Alexander Mikhailovich was also a member of the Management Board of the Company.

During the reporting period, none of the members of ROSSETI’s Management Board received any loans or credits from the Company, had any other contractual relations with the Company and/or its controlled organizations, except for employment agreements/agreements, and did not have any other grounds indicating a conflict of interests of a member of the Management Board of the Company.

Report on Activity of the Management Board Members

During the reporting period, the Company’s Management Board held 166 meetings, including 2 meetings in person, at which a total of 402 issues were considered.

Participation of ROSSETI Management Board Members in Meetings in 2019

<table>
<thead>
<tr>
<th>Full name</th>
<th>Absentee Meetings</th>
<th>In-person Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listovsk Pavel Anatolievich</td>
<td>166/166</td>
<td>2/2</td>
</tr>
<tr>
<td>Denis Andrey Alexandrovich</td>
<td>166/166</td>
<td>2/2</td>
</tr>
<tr>
<td>Korytkov Dmitry Sergeovich</td>
<td>167/166</td>
<td>2/2</td>
</tr>
<tr>
<td>Mezhevich Valentin Efimovich (member of the Management Board on April 29, 2019)</td>
<td>92/166</td>
<td>1/2</td>
</tr>
<tr>
<td>Pyatigor Alexander Mikhailovich</td>
<td>163/166</td>
<td>1/2</td>
</tr>
<tr>
<td>Sergeyeva Olga Andreyevna</td>
<td>166/166</td>
<td>2/2</td>
</tr>
</tbody>
</table>

Management Board Meetings and Matters Reviewed

Issues Reviewed by the Management Board

<table>
<thead>
<tr>
<th>Year</th>
<th>In-person meetings</th>
<th>Absentee meetings</th>
<th>Matters reviewed at in-person meetings</th>
<th>Matters reviewed at absentee meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>24</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>19</td>
<td>13</td>
<td></td>
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<tr>
<td>2017</td>
<td>13</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>3</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Recommendations to the Board of Directors (strategy, audit, budgeting and investments control, R&D, KPI, regulation);
- Development strategy, economics, finance items;
- Transactions with subsidiaries’ assets;
- General Meetings of Shareholders functions for subsidiaries;
- Proposing candidates to take administrator roles in subsidiaries;
- ROSSETI current operations.

35% of all issues reviewed by the Committee in 2019 were recommendations to the Board of Directors.
Sole Executive Body (Director General)

In accordance with the Company’s Charter, the current management of ROSSETI is carried out by the Company’s Director General elected by ROSSETI Board of Directors. The Director General also heads the Company’s Management Board.

Since September 2017th functions of the sole executive body of ROSSETI, the Director General, have been performed by Pavel Anatolievich Livinsky.

Remuneration and Bonuses

Statement of the Nomination and Remuneration Committee

In 2019, the Nomination and Remuneration Committee continued to perform its key function – to support the activities of the Board of Directors in matters of financial motivation of the Company’s management bodies and personnel decisions.

An important achievement of the reporting year was the adoption of a new version of the Regulation on Payment of Remuneration and Compensation to Members of the Board of Directors. The amendments were made to incorporate certain recommendations of the Russian Corporate Governance Code into the Company’s corporate practice. As a result, the basic annual remuneration of ROSSETI Board members was set at the level of average remuneration for members of comparable companies’ boards of directors.

In addition, in order to ensure control over the efficiency of the executive management bodies, the Committee considered issues related to setting KPI targets for 2019 and their achievement. Taking into account the degree of achievement of the established KPIs, the level of remuneration of the Company’s top managers was determined.

Main Provisions of the Company’s Management Bodies Remuneration Policy

ROSSETI’s policies on determining the amount and procedure for paying remuneration to members of the Company’s management bodies are based on the principles and recommendations of the Bank of Russia’s Corporate Governance Code, on the criteria of transparency and accountability.

Changes in the Company’s Remuneration Policy in 2019

In 2019, a new version of the Regulations on Remuneration and Compensation to Members of the Board of Directors was approved, which provides for amendments aimed at compliance with the recommendations of the Corporate Governance Code, according to which the level of remuneration paid should be sufficient to attract, motivate and retain persons with the competence and qualifications necessary for the Company. In accordance with the version of the Regulation, it is planned to switch from determining the amount of the basic remuneration depending on the level of the Company’s revenue to the use of a fixed value of the basic remuneration for the members of the Board of Directors.

Role of the Nomination and Remuneration Committee under the Board of Directors

The Nomination and Remuneration Committee under the Board of Directors of the Company plays an important role in the functioning of the remuneration system of the Company’s management bodies:

- the Committee makes recommendations to the Board of Directors of the Company on the Methods of calculation and evaluation of KPI implementation by ROSSETI General Director;
- the Committee preliminarily reviews reports on the implementation of quarterly and annual KPIs of ROSSETI General Director and makes recommendations to the Board of Directors on this matter.

Remuneration for Members of the Board of Directors and the Board Committees

Principles for Determining the Amount of Remuneration

The amount of remuneration for the members of the Board of Directors is determined based on the scope of responsibilities and actual participation in the work of the Board of Directors, as well as work in the Committees under the Board of Directors.

Remuneration is paid in the form of a lump sum payment in rubles. Other forms of remuneration, including forms of short-term and long-term motivation that depend on the financial result, as well as forms of motivation by shares (stock options), are not applied in the Company.
Report on Actual Remuneration and Compensation Paid to the Members of the Board of Directors and the Board Committees

The Annual General Meeting of Shareholders of the Company held on June 27, 2019, decided, not to pay members of the Board of Directors of the Company remuneration for their work in the Board of Directors due to a loss incurred in 2018.

Remuneration of the Management Board and Director General of the Company

The remuneration system of ROSSETI Management Board members is aimed at ensuring their material interest in achieving the Company’s long-term goals and increasing the economic efficiency of management, as well as ensuring a fair and competitive remuneration level. ROSSETI Director General’s remuneration is determined by the terms of the employment contract. Remuneration for the members of the Management Board consists of fixed (salary) and variable (KPI) bonus parts.

Main Components of the Motivation System for the Management Board Member

<table>
<thead>
<tr>
<th>Form of implementation</th>
<th>Fixed part</th>
<th>Variable part</th>
<th>Other forms of incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target weight of components in the compensation structure for the year</td>
<td>not more than 40%</td>
<td>not less than 60%</td>
<td>Provided</td>
</tr>
<tr>
<td>Target</td>
<td>Attracting and retaining highly professional managers through a fair level of base compensation at market level.</td>
<td>Incentives to achieve the targets in accordance with the Long-Term Development Programme and business plans of the Company</td>
<td>Provision of social benefits in accordance with best market practices</td>
</tr>
<tr>
<td>Target level</td>
<td>The level of salary corresponds to market conditions, which ensures stability of the Company management.</td>
<td>The amount of the quarterly and annual bonuses of the top manager of the Company is calculated on the basis of actually achieved KPI values based on the Company’s performance. The Company’s KPI system is interconnected with the business plan, the Company’s strategy, innovation activities, and achievement of the Company’s sustainable development goals.</td>
<td>→ Insurance coverage under VHI and liability insurance programs (GSD) → Other types of compensation and remuneration in accordance with the employment contract and the Company’s DRD</td>
</tr>
</tbody>
</table>

Control over introduction and implementation of the Company’s policy on remuneration for key employees of the Company falls within the competence of the Board of Directors of the Company and the Nomination and Remuneration Committee under the Board of Directors of the Company.

The return to the Company of the paid variable part of remuneration, the amount of severance pay and other payments in the event of early termination of the authority of the Company’s top managers is regulated in accordance with the requirements of the legislation of the Russian Federation.

Report on Actual Remuneration and Compensation Paid to the Members of the Management Board and the General Director of the Company

Remuneration to the Director General and Members of the Management Board Accrued in 2019, thsd RUB

| Remuneration for participation in the work of the management body | 3,618 |
| Salary | 194,485 |
| Bonuses | 158,926 |
| Other types of remunerations | 6,352 |
| Total | 273,361 |

The amount of the premium for 2019 was determined based on the achievement of KPI targets. The total amount of remuneration paid in 2019 to the members of the Committees of the Board of Directors who are not members of the Board of Directors was 8,561 thsd rubles.

Restrictions on Payment of Remuneration:

Members of the Board of Directors who are also members of the Management Board of the Company.

The Regulations on Payment to ROSSETI Board Members do not apply. Remuneration is not accrued or paid.

Members of the Board of Directors who are persons for whom federal law restricts or prohibits any payments from commercial organizations.

No remuneration shall be accrued or paid to such persons.

Members of the Board of Directors who attend less than 50% of meetings of the Board of Directors.

No remuneration shall be paid to such members of the Board of Directors.

Total remuneration of all members of the Board of Directors exceeds the Company’s net profit under IAS for the last year.

Remuneration is not paid to all members of the Board of Directors.

Holding less than 3 meetings of the Committee at the Board of Directors.

No remuneration (bonuses) is paid for chairing and/or being a member of this Committee.

The Company provides for the payment of compensation to the members of the Board of Directors of ROSSETI for expenses associated with participation in meetings of the Board of Directors or committees, according to the standards of reimbursement of travel expenses in force at the time of the meeting, established in the Company.

In the event of early termination of the powers of a member of the Board of Directors, no severance pay, compensation or other payments are envisaged in the Company.

Remuneration of the Members of the Board Committees who are not Members of the Board of Directors

The Strategy Committee under the Board of Directors and the Investment, Technical Policy, Reliability, Energy Efficiency and Innovation Committee under the Board of Directors are partially composed of persons who are not members of the Board of Directors in order to attract the necessary competence and expertise. The procedure for paying remuneration to these persons for attending meetings of these committees is regulated in the regulations for the respective committees.

Remuneration of the Chairmen of the Committee

Minimum monthly wage rates for the first class worker per meeting.

Remuneration of the Deputy Chairman of the Committee, member of the Committee

80% of the remuneration of the Chairperson of the Committee for a single meeting.

• Set forth in the Sected Wage Rate Agreement in the electricity sector of the Russian Federation as of the date of such meeting of the Committee, adjusted for the indicators provided for in the Agreement.

• Decision of ROSSETI Annual General Meeting of Shareholders on June 27, 2019 (minutes of meeting on June 27, 2019 P 0/0).

• Regulation on formation of social package by ROSSETI’s job categories approved by the Company’s Order No 125 on June 27, 2019.

• Information on remuneration paid is disclosed for the Company’s website as part of the quarterly report: www.rosseti.ru/eng/investors/reports/quarterly/
Remuneration Paid to the Members of the Audit Commission

The remuneration policy for members of the Audit Commission is determined by the Regulations on Payment of Remuneration and Compensation to Members of the Audit Commission. The amount of remuneration depends on the Company’s revenue indicator for the last reporting year and the degree of participation in the work of the Audit Commission during the corporate year.

Remuneration to members of the Internal Audit Commission is paid by decision of the General Meeting of Shareholders. In this case, remuneration shall not be paid to persons in respect of whom a legal limitation or prohibition on receiving payments from commercial organizations is provided.

Remuneration Paid to the Members of the Audit Commission in 2019

<table>
<thead>
<tr>
<th>Full Name</th>
<th>State Employee</th>
<th>Amount of Remuneration, thsd rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zaderzhava Angela Alexandrovna</td>
<td>No</td>
<td>143.0</td>
</tr>
<tr>
<td>Khakhina Nina Sergeevna</td>
<td>No</td>
<td>87.6</td>
</tr>
<tr>
<td>Zakharova Tatiana Valentinovna</td>
<td>Yes</td>
<td>0.0</td>
</tr>
<tr>
<td>Simonovich Dmitry Igorovich</td>
<td>Yes</td>
<td>0.0</td>
</tr>
<tr>
<td>Sintalina Natalia Valeryevna</td>
<td>Yes</td>
<td>0.0</td>
</tr>
</tbody>
</table>

No compensations were paid to the members of the Audit Commission in 2019.

Key Issues Considered by the Internal Audit Commission in the Reporting Year

- Control over financial and economic activities, elimination of identified shortcomings as a result of inspections.
- Assuring the reliability of the data contained in the annual report and annual financial statements.
- Examining the facts of violation of the accounting procedure, presentation of financial statements, procedure of financial and economic activities.
- Control of legitimacy of financial and economic operations.

The report on interested party transactions concluded in 2018 was considered (no violations were found).

Interaction between the Internal Audit Commission and the Internal Audit Department of the Company

The powers and functions of the Internal Audit Commission and the internal audit unit are separated as follows:

- Assistance to the Board of Directors and executive bodies of the Company in improving the efficiency of the Company’s management, improving its financial and economic activities (including analysis and assessment of risk management systems, internal control and corporate governance to ensure reasonable confidence in achieving the goals set for the Company).
- Control of financial and economic activities, assessment of reliability of reports in the interests of shareholders.
- To the Board of Directors (Audit Committee). As a rule, periodic reports during the year.
- To the General Meeting of Shareholders. An audit report is prepared before the Annual General Meeting of Shareholders.
- Inspections of activities/directions in accordance with the plan approved by the Board of Directors or as instructed by the Board of Directors (Audit Committee).
- Verification of financial statements for the annual general meeting and certain inspections on behalf of shareholders.
- Employees of the Company.
- The composition is determined by a decision of the General Meeting of Shareholders, members may be employees of the Company or independent from it.
- Candidate is agreed by the Board of Directors.
- The remuneration is determined by the Board of Directors.
- The remuneration is determined by the General Meeting of Shareholders.

Approval of the decision of the General Meeting of Shareholders of June 29, 2018 (Minutes of June 29, 2018 No. m/n).

No compensations were paid to the members of the Audit Commission in 2019.
Composition of the Internal Audit Commission of the Company

The Annual General Shareholders Meeting of the Company has approved the following composition of the Internal Audit Commission on June 27, 2019:

ZOBKOV TATIANA VALENTINOVNA
Chairman of the Internal Audit Commission
Born in 1956 in Vladivostok.
Citizenship — Russian Federation.
EDUCATION
1978 - Moskva Regional Pedagogical University, degree in "teacher of mathematics".
2006 - Moscow Engineering Physics Institute (State University), degree in "economics".
PROFESSIONAL EXPERIENCE
Until 2016 — worked in commercial organizations and municipal authorities.
Since 2016 — Leading Advisor, Deputy Head of Division, Head of Division, Deputy Director of the Department of Corporate Policy and Property Relations in the Fuel and Energy Sector of the Ministry of Energy of Russia.
OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, she did not have any shares (stakes) in ROSSETI or its controlled entities, nor did she perform any transactions with securities (stakes) in the above companies. Does not have any family relations with any members of ROSSETI's management (control) bodies or SDCs.

BALAGUROV SERGEY ARKADEVICH
Born in 1956 in Ivanovo.
Citizenship — Russian Federation.
EDUCATION
2006 - Ivanovo State University of Chemical Technology, degree in "electrochemical production technology".
PROFESSIONAL EXPERIENCE
OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, he did not have any shares (stakes) in ROSSETI or its controlled entities, nor did he perform any transactions with securities (stakes) in the above companies. Does not have any family relations with any members of ROSSETI's management (control) bodies or SDCs.

GABOV ANDREY VLADIMIROVICH
Born in 1976 in Uralsk.
Citizenship — Russian Federation.
EDUCATION
2003 — Perm State Technical University, degree in "lifting, construction and road machinery and equipment", qualification "engineer".
2008 — Perm State University, degree in economics with specialization "finance and credit".
PROFESSIONAL EXPERIENCE
Since 2015 — Head of the Electric Power Industry Development Division, Deputy Director of the Department of State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency of the Ministry of Economic Development of Russia.
OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES
During the reporting year, he did not have any shares (stakes) in ROSSETI or its controlled entities, nor did he perform any transactions with securities (stakes) in the above companies. Does not have any family relations with any members of ROSSETI's management (control) bodies or SDCs.
Risk Management and Internal Control System

Risk Management System

Principles and Approaches to Risk Management System Organization

In the course of their operational activities, ROSSETI and its SDCs are exposed to a significant number of external and internal risks, which can have a significant impact on the performance and efficiency of the ROSSETI Group as a whole. Monitoring, forecasting, prevention and mitigation of negative consequences of risks is one of the most important tasks of the Company’s management system.

The Risk Management System (RMS) was developed and implemented in the Company’s activities taking into account the basic models of risk management COSO ERM “Organization Risk Management. Integrated Model”. In order to formalize and regulate the key relations, the Company’s Board of Directors by its decision on November 16, 2015 (Minutes on November 16, 2015 No. 208) approved the Risk Management Policy in a new version, which took into account both changes in the regulatory environment and recommendations to the structure and content of internal documents, which determine the approaches of companies with state participation to risk management. To develop the Risk Management Policy, risk management standards were adopted, covering both ROSSETI and those adapted to the controlled entities.

Risk management is considered in ROSSETI as an integral part of strategic and operational management, business planning, and represents a set of measures implemented at all levels of management and planning. The goal of ROSSETI risk management system is to provide reasonable assurance in achieving the goals set for the Company.

Main Principles of the Company RMS:

- focus on creating and protecting the Company’s values;
- a systematic approach linked with strategic goals and encompassing all organizational processes of the Company on a continuous basis;
- the principle of optimality of the system in terms of costs and benefits received by the Company from the applied risk management measures;
- adaptability of the system to the constantly changing external and internal environment;
- involvement of all participants in the risk management process of the Company’s business processes and their responsibility for the results.

Risk Management System can be improved.

Recommended as to how Risk Management System can be improved.

Tasks of Risk Management System

ROSSETI uses various risk management mechanisms, the main of which are the following:

- avoidance of risk - avoidance of activities with unacceptable level of risk;
- risk-sharing - sharing the risk with another party;
- risk management - actions aimed atredution of the probability and/or consequences of a risk and/or elimination of the causes of risk;
- risk taking - an informed decision not to take any actions with regard to risk.

Risk Management System Actors

Given the size of the Company, a significant number of participants interact in the risk management process, ranging from operating units and employees in the field to shareholders and stakeholders of the Company. The key role in the formation of an effective risk management system is assigned to the Board of Directors, as well as to the unit responsible for risk management — the Department of Internal Control and Risk Management.

The Board of Directors is responsible for the oversight of the development and effective functioning of the Company’s risk management system. In addition, the Audit Committee on a regular basis examines risk management issues in more detail, analyzing both summary reports on risk management, plans for the development of the function, and reviews the most significant risks related to the Company’s activities, as well as the implementation of management initiatives.

Interaction Between the Risk Management System Actors

Functions and Roles

1. Accountability/Reporting.
2. Information.
3. Recommendations as how Risk Management System can be improved.
4. Approval of the risk management policy.
5. Approval of the risk appetite.
6. Reporting.
7. Proposals as to how the risk appetite level can be changed.
8. Approval of the local regulations.
9. Ensuring the operating capabilities.
10. Reporting.
11. Proposals.
12. Information.
13. Recommendations as how Risk Management System can be improved.
14. Methods and approaches.
15. Interacting with subsidiaries.
Key Initiatives Implemented in 2019

In 2019, ROSSETI continued to improve our risk management system based on common approaches and standards:

→ an independent expert was selected on a competitive basis, and an independent external evaluation of risk management efficiency was conducted;
→ key methodological documents in the field of risk management of ROSSETI Group were updated, including the approach to determining the level of risk appetite;
→ Risk management units’ employees were trained on professional topics in order to maintain the required level of competence;
→ a risk management knowledge day was held for the ROSSETI Group employees in order to maintain the required level of corporate culture maturity.

The Risk Management Policy of ROSSETI requires periodic external independent assessment of the effectiveness of the risk management system. In the reporting year, an independent expert in the Company conducted an independent assessment of the effectiveness of the risk management system, the report on the results of which was also reviewed by the Board of Directors of ROSSETI101. Based on the results of the independent assessment carried out in the reporting period, the risk management system was recognized as “effective, with potential for improvement”.

Further Plans for Risk Management

The Company developed an action plan to improve the risk management system of ROSSETI Group for 2020 – 2023 that was approved by decision of the Board of Directors. It set the following goals:

→ development of risk awareness culture as part of the Company’s corporate culture;
→ improvement of risk-oriented approach in the management decision making system;
→ automation of risk assessment process;
→ updating the methodology for determining risk appetite and its relation with the business strategy of the Company;
→ embedding the professional standards in the activities of the Company (“risk management specialist”).

Internal Control System

The internal control system of the ROSSETI Group is designed to minimize risks arising in the course of achievement of strategic and operational goals of the Company, as well as to increase the efficiency of the Company’s activity, and to ensure compliance with legal requirements and reliability of the financial and management reporting of the Company. The internal control system is integrated into the risk management system and is an integral part of it.

In order to assure the effectiveness of the risk management system, the Company’s internal audit department annually conducts an independent internal assessment of the risk management system efficiency. The internal auditor’s report on risk management system efficiency assessment was approved by the Board of Directors of ROSSETI December 23, 2019 (Minutes on December 23, 2019 No. 386) with preliminary consideration by the Audit Committee under the Board of Directors on August 13, 2019 (Minutes on August 13, 2019 No. 107). Based on the results of the Board of Directors’ review, the level of the risk management system was recognized as an optimal one.

The internal control procedures in the ROSSETI Group are governed by documents determining the order, procedures and content of the control environment.

<table>
<thead>
<tr>
<th>Key documents</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Control Policy of ROSSETI</td>
<td>Sets the requirements for organization and functioning of ICS goals, principles and elements of ICS of the Company, the main functions and responsibilities of ICS participants, the procedure for assessing the effectiveness of ICS.</td>
</tr>
<tr>
<td>Implementation of the requirements of ROSSETI’s Internal Control Policy</td>
<td>Describes tools for implementing the requirements of the Internal Control Policy, discloses the applied aspects of the implementation/enforcement of the norms established by the Internal Control Policy.</td>
</tr>
<tr>
<td>Regulation of the Internal Control Process</td>
<td>Defines Internal Control processes, as well as the roles of participants and resources.</td>
</tr>
<tr>
<td>Risks and Controls Matrices</td>
<td>Establishes controls that minimize risks of the core and supporting activities, as well as of the management processes of the Company.</td>
</tr>
</tbody>
</table>

Interaction between the Internal Control System Actors

Participants of Internal Control System

ICS of the Company defines the roles of participants depending on their participation in internal control procedures and their level of management.

Activity Areas and Tasks

→ Internal Control System organization principles and approaches.
→ Control operations.
→ Documenting the controls.
→ Implementing the control procedures.
→ Internal Control System efficiency assessment.
→ Methodological support.
→ Coordination.

101 Decision of Board of Directors on December 23, 2019 (Minutes on December 23, 2019 № 386).
102 Decision of Board of Directors on November 16, 2019 (Minutes on November 18, 2019 № 208).

186
In accordance with the Internal Control Policy, responsibility for the proper organization and execution of the control procedures lies with all participants of the internal control process within the powers set forth in the Articles of Association of the Company, Internal Control Policy, local regulatory acts of the Company, regulations of organizational units and job descriptions. Certain control procedures focus on the analysis of reporting processes and anti-corruption and anti-fraud procedures. The Company has an Anti-Corruption and Anti-Fraud Hotline, as well as a Consumer Hotline. The key processes of the Company are monitored and analyzed on a regular basis, including analysis and control of the effectiveness of business processes and the results of operations.

An important element of the internal control system is the Company’s risk management process which involves identification, assessment, measures to minimize risks, and monitoring of risks.

Key ICS Measures Implemented in 2019

In 2019, the Board of Directors reviewed the report on the results of implementation of the roadmap of the ICS Development and Improvement Strategy for ROSSETI and its SDCs, approved in 2014. The Board of Directors noted the organizational maturity of the internal control system and its optimal fit to the goals and objectives of the Company at the current stage of its development.

In 2019, the Company carried out the following activities to improve the efficiency of the internal control system:

→ an independent expert was selected on a competitive basis, and an independent external assessment of the internal control efficiency was conducted;
→ integration of updated risks and control matrices into process models;
→ a self-assessment of the effectiveness of control procedures and the effectiveness of the internal control system was carried out;
→ employees of internal control division were trained on professional topics to maintain the required level of competencies.

A report on the organization, functioning and effectiveness of the internal control system was reviewed by the Board of Directors of the Company.

Assessment of the Effectiveness of the Internal Control System

INTERNAL ASSESSMENT (SELF-ASSESSMENT)

In 2019, the ROSSETI Internal Audit Department conducted an annual internal assessment of the effectiveness of the internal control system. The report of the internal auditor on the effectiveness of the internal control system was reviewed by the ROSSETI Board of Directors, which concluded that the level of functioning of the internal control system was between ‘optimal’ and ‘high (advanced)’.

EXTERNAL EVALUATION

In accordance with the requirements of the ROSSETI Internal Control Policy, an independent assessment of the internal control system was also carried out in 2019. Based on the results of the assessment, an independent expert recognized the internal control system as “efficient”. The report of the independent expert on evaluating the effectiveness of the internal control system was reviewed by the ROSSETI Board of Directors on December 23, 2019.

DECISION:

8.1. To approve information on risk management and internal control systems for inclusion in the Annual Report of the Company in accordance with Annex 6 to this decision.

The decision has been made.

Secretary of the Audit Committee

A.A. Ozherelyev

April 14, 2020
Internal Control System Development Plans

In order to improve ICS in 2019, we developed a plan to maintain the efficiency and development of the internal control system of the ROSSETI Group for 2019-2022. The plan provides for a number of measures aimed at achieving the following goals:

- Fostering of employee competencies and qualifications.
- Maintaining a high level of risk-awareness culture and understanding of the importance of control.
- Certification/training of employees under professional standards ‘Internal Control Specialist’.

The functional subordination of the internal audit Department to the Board of Directors of the Company means that the Board of Directors controls and organizes its activities, including:

- Approval of the internal audit activity plan;
- Review of the report on the implementation of the internal audit plan;
- Approval of the budget of the internal audit Department;
- Approval of decisions on the appointment, dismissal, and determination of remuneration for the head of the internal audit Department.

The goals and objectives, the basic principles of organization, the functions and powers of the internal audit are defined in the ROSSETI Internal Audit Policy, approved by the decision of the Board of Directors of the Company.

The key function of the internal audit is to assist the Board of Directors and executive bodies of the Company in improving the efficiency of the Company’s management and its financial and economic activities by a systematic and consistent approach to the analysis and evaluation of risk management systems, internal control and corporate governance as tools that ensure reasonable assurance in achieving the goals set for the Company.

The implementation of an automated system of continuous monitoring of deviations;

- Certification/training of employees under professional standards ‘Internal Control Specialist’;

At the end of the reporting period, the head of ROSSETI Internal Audit Department was Irina Olegovna Posevina.

### ROSSEVA Irina Olegovna

**Sex**: Female

**Date of Birth**: 1970-6-19

**Education**: Ph.D. in Economics, “Accounting, Con’nt. & Risk Mgmt.

**Professional Experience**

- From 2013 to 2016 — Director of Internal Control and Risk Management - Chief Auditor of PJSC RusHydro.
- From 2017 to 2018 — Director of Internal Control and Risk Management - Chief Auditor of LLC RT-Capital.
- From 2010 to 2019 — Financial Director of LLC Eco-Mechanics.
- Since 2019 — Head of the Internal Audit Department, Director of the ROSSETI Internal Audit Department.

#### External Audit

To ensure an independent assessment of the reliability of financial statements, the Company annually engages an external auditor to review the accounts prepared in accordance with IFRS and RAS. External auditors are involved on the basis of tender procedures that ensure objective selection according to criteria that take into account the volume and time of work, as well as the business specifics of the Company. The candidates of the auditors of the Company, as well as its subsidiaries (including the main terms of the contracts on the basis of which the auditors are contracted) are preliminary considered by the Audit Committee of the Board of Directors of the Company to develop recommendations for further approval of external auditors.

#### ROSSEVA Irina Olegovna

**Date of Birth**: 1970-6-19

**Education**: Ph.D. in Economics, “Accounting, Con’nt. & Risk Mgmt.

**Professional Experience**


**External Auditor Rotation Policy**

The candidacy of the Company’s auditor was determined based on the results of an open tender for the right to conclude contracts for the mandatory annual audit of ROSSETI reporting for 2018-2020, carried out in the manner prescribed by the Federal Law on April 05, 2013 No. 44 FZ ‘On contract system in the field of procurement of goods, works and services to ensure state and municipal needs’. The offer of the auditor RSM RUS LLC was previously recommended by the Audit Committee, the Board of Directors of the Company and approved by the decision of the ROSSETI Annual General Meeting of Shareholders held on June 27, 2019.

<table>
<thead>
<tr>
<th>Year</th>
<th>Auditor RSM RUS LLC</th>
<th>Cost of Financial Statements Audit Services</th>
<th>Cost of services other than the statutory audit (provision of audit-related services)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>RSM RUS LLC</td>
<td>5,000 thousand rubles</td>
<td>not provided</td>
</tr>
<tr>
<td>2018</td>
<td>RSM RUS LLC</td>
<td>4,200 thousand rubles</td>
<td>not provided</td>
</tr>
<tr>
<td>2019</td>
<td>RSM RUS LLC</td>
<td>4,000 thousand rubles</td>
<td>not provided</td>
</tr>
</tbody>
</table>

In addition, by decision of the Board of Directors, the ROSSEVI External Auditor Rotation Policy was approved, which sets the main approaches to selection and requirements for the Company's external auditors.

The Audit Committee provides feedback to the head of the internal audit Department in the course of his interaction with the Audit Committee, by means of an analysis of the decision/recommendations of the Audit Committee on issues related to the competence of the internal audit, as well as through a survey of members of the Audit Committee.

In 2019, an external independent assessment of the internal audit function of ROSSETI Group, which in compliance with the internal audit policy should be conducted at least once every 5 years, was carried out for the first time. Based on the results of an independent assessment, the Company received the opinion of an external expert (KPMG JSC), according to which the activities of the internal audit of the Company were recognized as generally consistent with the requirements of the International Professional Standards for Internal Auditing, the Code of Ethics, and the Internal Audit Policy.

On the basis of the results of the internal audit self-assessment and recommendations of the external independent expert the Company developed an Action Plan for the Development and Improvement of Internal Audit Activities in the ROSSETI Group for the Period from 2020 to 2024 that contains measures aimed at further enhancing the role of internal audit as a strategic business partner, and provides for an increase in the frequency of consultations.
Governance Mechanisms of the ROSSETI Group. Subsidiary Control

ROSSETI corporate governance model includes a number of instruments to influence and control at the parent company level and in respect to controlled companies. At the end of the reporting period, ROSSETI controlled 88 organizations operating in 80 regions of the Russian Federation.

The specific approaches to governance of controlled companies are determined by the specifics of the ROSSETI business model and the structure of the group, and are reflected in the following:

- ROSSETI does not carry out any operational activities in the electric power market, while acting as a coordinator of the activities of subsidiaries and a center for the development of a unified management policy;
- ROSSETI is responsible for the implementation by controlled "Governance Tool" TRK PJSC, "IDGC of Centre" PJSC, "IDGC of Urals" JSC, "IDGC of the North-West" PJSC, "Kubanenergo" PJSC, "MOESK" PJSC, "Yantarnenergo" JSC, and other companies as the largest transmission system operator.

Material Controlled Entities material Importance to ROSSETI

- "FGC UES" PJSC
- "Kubanenergo" PJSC
- "Lenenergo" PJSC
- "IDGC of Centre" PJSC
- "IDGC of Center and Volga Region" PJSC
- "MOESK" PJSC
- "IDGC of Urals" JSC
- "IDGC of Siberia" PJSC
- "IDGC of Volga" PJSC
- "ROSSETI North Caucasus" PJSC
- "TRK" PJSC
- "ROSSETI Tyumen" JSC
- "Yantarnenergo" JSC

The governance of such a large number of SDCs with various business specifics is achieved through the implementation of effective methods of coordination and control of their activities by ROSSETI. The Board of Directors of the Company plays the key role in determining the management policy of SDCs, as well as making decisions on certain issues related to the activities of SDCs.

The following governance approaches and measures ensure the effective management of the ROSSETI Group’s companies:

- extended authority of the boards of directors of SDCs, that exclude the possibility of unauthorized decision-making by heads of SDCs on key issues without the approval by the general meeting / board of directors;
- extended governance authority of the Board of Directors and the Management Board of ROSSETI regarding decision-making in SDCs, i.e. "definition of SDCs strategy/approach" by ROSSETI as the key approach;
- alignment of the provisions of the articles of association, internal policies of the SDCs with the decisions and policies at the ROSSETI level SDCs;
- active role in the development of strategy of SDCs;
- coordination of financial, investment and HR activities of SDCs;
- information exchange between the Company and its SDCs.

The share of companies of the ROSSETI Group in the MOEXEU as of December 30, 2019:

- 41% ROSSETI companies’ weight in the MOEXEU
- 59% other companies’ weight in the MOEXEU

The following governance approaches and measures ensure the effective management of the ROSSETI Group’s companies:

- extended authority of the boards of directors of SDCs, that exclude the possibility of unauthorized decision-making by heads of SDCs on key issues without the approval by the general meeting / board of directors;
- extended governance authority of the Board of Directors and the Management Board of ROSSETI regarding decision-making in SDCs, i.e. "definition of SDCs strategy/approach" by ROSSETI as the key approach;
- alignment of the provisions of the articles of association, internal policies of the SDCs with the decisions and policies at the ROSSETI level SDCs;
- active role in the development of strategy of SDCs;
- coordination of financial, investment and HR activities of SDCs;
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- information exchange between the Company and its SDCs.
The Articles of Association of the Company and the Procedure for interaction between ROSSETI and business entities whose shares (stocks) are owned by ROSSETI determine the list of the most important issues on the agenda of the General Meeting of Shareholders and a meeting of the Board of Directors, on which the position of the Company (representatives of the Company) is determined by a decision of the Board of Directors.

The key issues on the agenda of SDCs controlled by ROSSETI SDCs are the following:

→ decisions on significant corporate actions (meetings, reorganization, liquidation, creation of governing/control bodies, change in authorized capital, etc.);
→ approval of material transactions and projects of SDCs;
→ approval of participation in other entities.

In addition, in relation to FGC UES, its position is determined on a number of other issues: strategy formulation, key areas of activity, amount of dividends, organizational structure, management remuneration of FGC UES, etc.

The main planning and business processes of SDCs are synchronized with the strategic and budget planning and implementation processes of the corporate center. The ROSSETI Group has unified principles and approaches to the implementation of key business processes (strategy, budget, KPIs, HR management and others). The internal documents are updated regularly to reflect the changes in the goals and objectives of the ROSSETI Group’s companies and to incorporate best practices.

The Company has developed and approved procedures that allow the corporate center to successfully coordinate and control the activities of SDCs in the course of implementation of the Company’s development strategy.
Annual report 2019

Key Shareholders of ROSSETI (over 1%) as of December 31, 2019

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares, pcs.</th>
<th>Ownership share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Property (FAUGI)</td>
<td>176,779,514,113</td>
<td>88.89</td>
</tr>
<tr>
<td>Gazprom Capital LLC</td>
<td>2,542,692,100</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Additional Share Issues in 2019

ROSSETI did not issue shares in 2019. The executive bodies of the Company do not have information about share ownership interest exceeding 5%, in addition to the disclosed. The structure of share capital with an ownership interest of more than 5% of the authorized capital did not change.

ROSSETI Capitalization, bn RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>Ordinary shares capitalization</th>
<th>Preference shares capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>276.4</td>
<td>3.4</td>
</tr>
<tr>
<td>2016</td>
<td>228.6</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>166.9</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>156.2</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>279.8</td>
<td></td>
</tr>
</tbody>
</table>

ROSSETI capitalization as of December 31, 2019 279.8 bn RUB
Relations with Shareholders, Investors and Analysts

One of the key tasks in protection of shareholder rights is to ensure equal and free access to information to the extent necessary for shareholders to make an informed investment decision about ROSSETI securities.

In the reporting year, the Company organized various activities with investors and analysts in order to increase the transparency and provide necessary information to this group of stakeholders. In particular, conference calls were organized for investors with the participation of representatives of functional and operational areas of the Company as part of the disclosure of the results of the Company, meetings were held with investors both during investment conferences and during participation in congress and exhibition events. Particular emphasis was placed on issues of disclosure of information on the digital transformation of the Company, sustainable development and social responsibility of the ROSSETI Group.

Analytical coverage is provided by: Aton, BCS, VTB Capital, Gazprombank, Raiffeisenbank, Renaissance Capital, Sberbank, Sova Capital.

Dividend Policy

The dividend policy of the Company is focused on increasing investment attractiveness and increasing its market capitalization. The decision on the payment of dividends is taken by the General Meeting of Shareholders. The recommended amount of dividend payments is determined by the Board of Directors on the basis of financial results.

Dividend Policy Principles

- Compliance with Russian law and corporate governance standards.
- Maximum transparency of the mechanism determining the amount of dividends and the procedure for their payment.
- Balance of interests of shareholders and needs of the Company.
- Positive dynamics of dividend payments with net profit growth.
- Dividends of not less than 50% of net profit.
- Availability and transparency of Dividend Policy.
- Quarterly dividend payments (when meeting certain criteria).
Due to the loss incurred by the Company in 2018 and in accordance with the provisions of paragraph 2 of Article 42 of the Federal Law "On Joint-Stock Companies", the annual General Meeting of Shareholders of ROSSETI on June 27, 2019 decided not to pay dividends on the shares of the Company for 2018. At the same time, the financial results for the 1st quarter of 2019 allowed the Company to pay interim dividends. In accordance with the decision of ROSSETI Annual General Meeting of Shareholders held on June 27, 2019, based on the results of the 1st quarter of 2019

Amount of Dividends Transferred to the Federal Budget in the Reporting Period

<table>
<thead>
<tr>
<th>Dividend History</th>
<th>Dividends were not accrued or paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preference</td>
<td>0.0% 261 022 142 461 168 595.56</td>
</tr>
<tr>
<td>Ordinary</td>
<td>0.08% 318 130 13 33 316 703.15</td>
</tr>
<tr>
<td>1764 969 966.17</td>
<td>1824 969 966.17</td>
</tr>
<tr>
<td>10 969 284.17</td>
<td>10 969 284.17</td>
</tr>
<tr>
<td>99.52</td>
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<tr>
<td>2017 Based on the results of 2016</td>
<td>30.06.2017 19.07.2017</td>
</tr>
<tr>
<td>Preference</td>
<td>0.36% 305 228 76 99 245 217</td>
</tr>
<tr>
<td>Ordinary</td>
<td>0.06% 314 440 12 35 675 252.24</td>
</tr>
<tr>
<td>1999 399 902.41</td>
<td>2332 455 243.13</td>
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<td>1090 276 45.27</td>
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<tr>
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<td>2018 Based on the results of 2017</td>
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<tr>
<td>Preference</td>
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</tr>
<tr>
<td>Ordinary</td>
<td>0.01% 165 000 2378 975 610.26</td>
</tr>
<tr>
<td>2447 937 357.23</td>
<td>2735 995 915.78</td>
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<td>2114 568 636.36</td>
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<tr>
<td>Ordinary</td>
<td>0.04% 320 000 4853 364 768.88</td>
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<td>5053 314 682.85</td>
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<tr>
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Amount of Dividends Transferred to the Federal Budget in the Reporting Period

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<th>Profit Sharing</th>
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</tbody>
</table>

Profit Sharing

Due to the losses in 2018, the net profit was not directed to the Company’s funds and dividends or to cover losses of previous years and to finance investment and other projects.

Report on the Amount of Dividends Received by ROSSETI from SDCs

In 2019, the amount of dividends accrued on shares of SDCs owned by ROSSETI was 36.3 bn rubles.

12 As of December 31, 2019, the dividend payment arrears amounted to 51,127 thsd rubles, due to the lack of correct shareholders details. The company works with shareholders to update personal data and ensures the repeated payment of dividends after they are received during the payment period established by the legislation of the Russian Federation.
### Naming of Companies of the ROSSETI Group

<table>
<thead>
<tr>
<th>Short corporate names</th>
<th>Naming in the Report</th>
<th>Naming after rebranding</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSC ENCE</td>
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<tr>
<td>PJSC Kubanenergo</td>
<td>Kubanenergo</td>
<td>ROSSETI Kuban</td>
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<tr>
<td>JSC Kurortenergo</td>
<td>Kurortenergo</td>
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<tr>
<td>PJSC LENENERGO</td>
<td>LENENERGO</td>
<td>ROSSETI Lenenergo</td>
</tr>
<tr>
<td>PJSC MOESK</td>
<td>MOESK</td>
<td>ROSSETI Moscow Region</td>
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<tr>
<td>PJSC Rosseti Dom RUS</td>
<td>Iskra Dom RUS</td>
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