

Annual Report  
2019



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

[www.rosseti.ru/eng/](http://www.rosseti.ru/eng/)

## 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 № n/n of June 1, 2020).

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

## 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

The reliability of information contained in this Report was confirmed by the Internal Audit Commission of the Company (Minutes of the Meeting No. 5 of April 16, 2020).

Until 2024"<sup>1</sup> 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:

- Federal Law No. 208-FZ of December 26, 1995, "On Joint-Stock Companies";
- 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);
- Resolution of the Government of the Russian Federation No. 1214 of December 31, 2010, "On the Improvement of the Procedure for

- Managing Joint-Stock Companies Whose Shares Are Federally Owned and Federal State Unitary Enterprises";
- Corporate Governance Code recommended by the Bank of Russia's letter No. 06-52/2463 of 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.

<sup>1</sup> From July 05, 2018 No. 204.



# THE ROSSETI GROUP

IS ONE OF THE WORLD LEADERS  
IN THE ELECTRIC POWER INDUSTRY



1

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78%

OF THE ELECTRICITY GENERATED IN RUSSIA WAS TRANSMITTED THROUGH THE ROSSETI GROUPS' GRIDS

3

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DIGITAL TRANSFORMATION

2030

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

8

UN SUSTAINABLE DEVELOPMENT GOALS

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

2

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THE DEVELOPMENT STRATEGY UNTIL

2030

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

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Shareholder Value Creation	195

79%

CAPITALIZATION GROWTH FOR THE YEAR





Digital  
transformation

## 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.

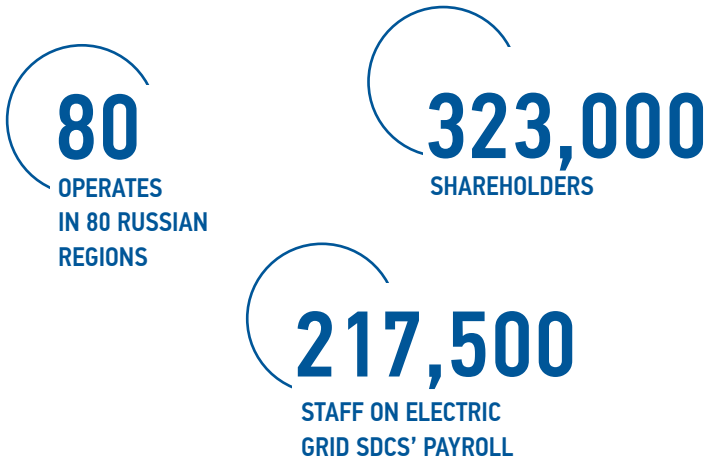
## Our Company

- 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

## Assets of the Group



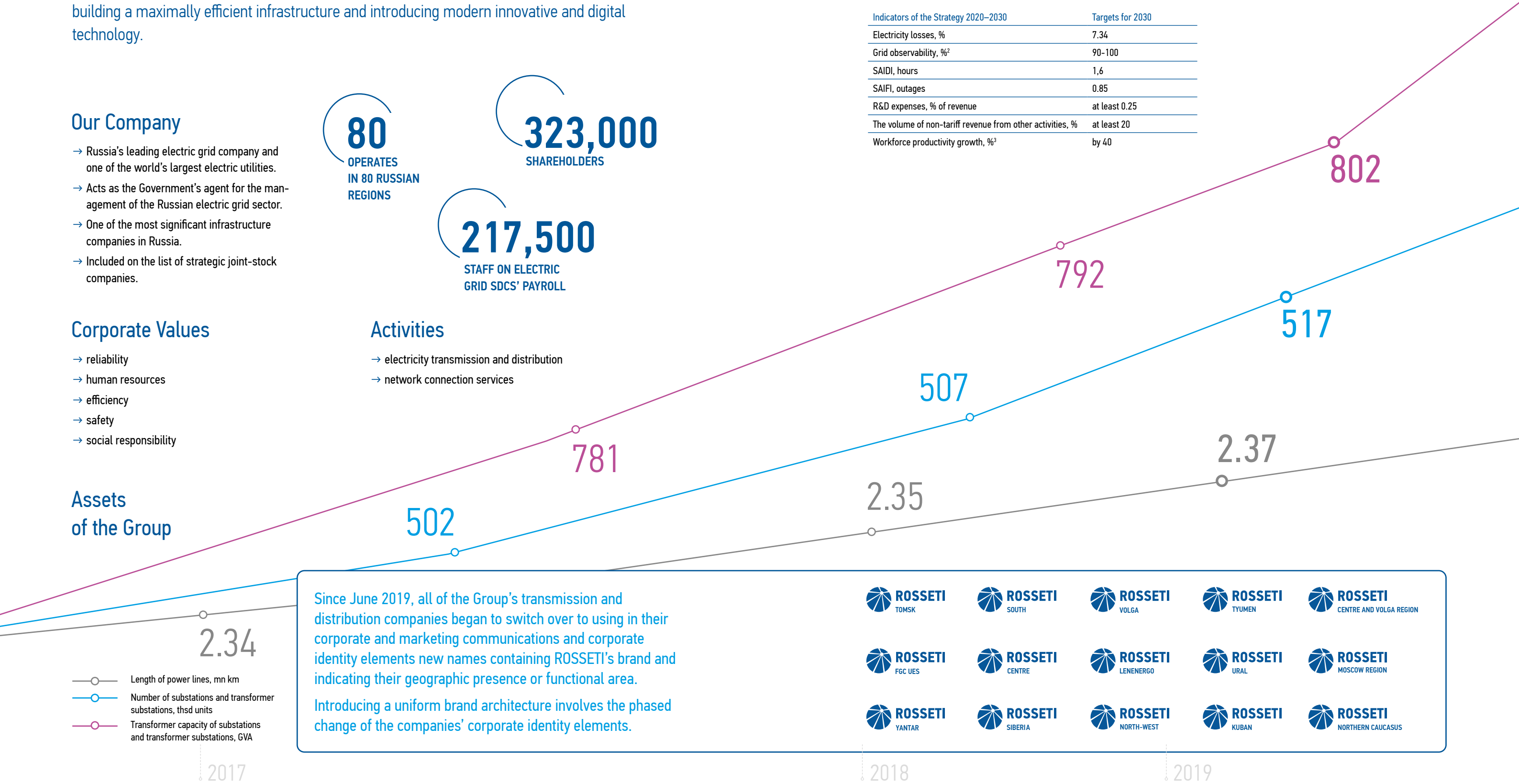
## Activities

- electricity transmission and distribution
- network connection services

## 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	Targets for 2030
Electricity losses, %	7.34
Grid observability, % <sup>2</sup>	90–100
SAIDI, hours	1,6
SAIFI, outages	0.85
R&D expenses, % of revenue	at least 0.25
The volume of non-tariff revenue from other activities, %	at least 20
Workforce productivity growth, % <sup>3</sup>	by 40

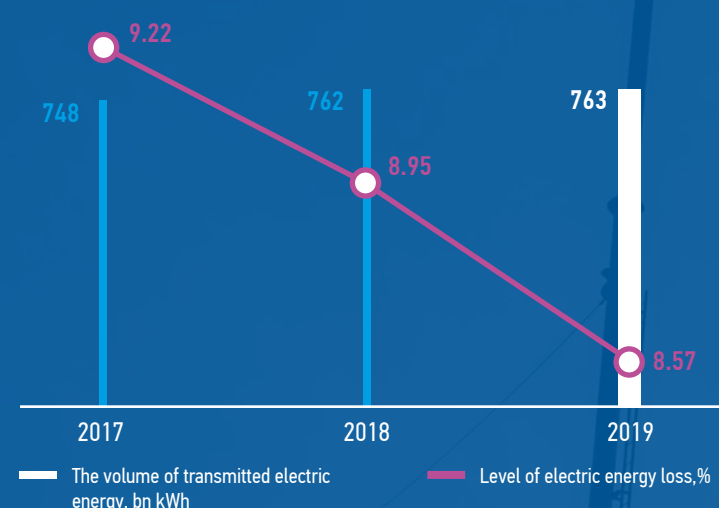


<sup>2</sup> For grids with voltages of 0.4–20 kV.  
<sup>3</sup> Compared with the end of 2018.

# Uninterrupted Power Supply for All

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

## ELECTRICITY TRANSMISSION AND DISTRIBUTION SERVICES INDICATORS

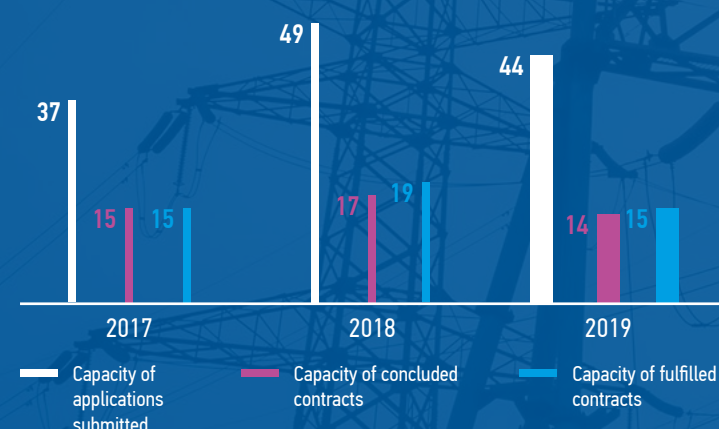


THE ROSSETI GROUP'S ENTITIES ACCOUNT FOR

# 78%

TRANSMISSION AND DISTRIBUTION FOR ELECTRICITY GENERATED IN RUSSIA

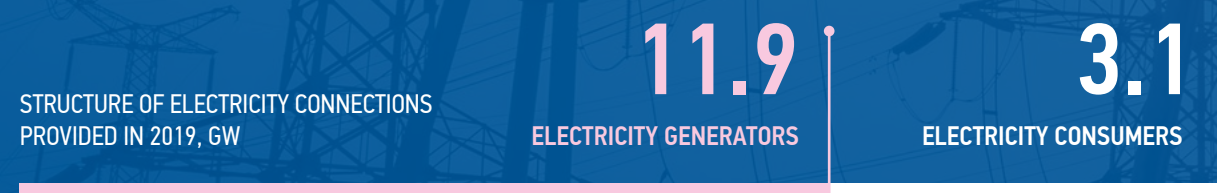
## CAPACITY OF THE APPLICATIONS RECEIVED AND CONTRACTS CONCLUDED, GW



# 98%

THE MAIN VOLUME OF COMPLETED NETWORK CONNECTIONS 150 KW AND BELOW IS ATTRIBUTABLE TO THE PREFERENTIAL TERMS APPLICANTS

## STRUCTURE OF ELECTRICITY CONNECTIONS PROVIDED IN 2019, GW



# In the World Bank's Doing business 2019 rating

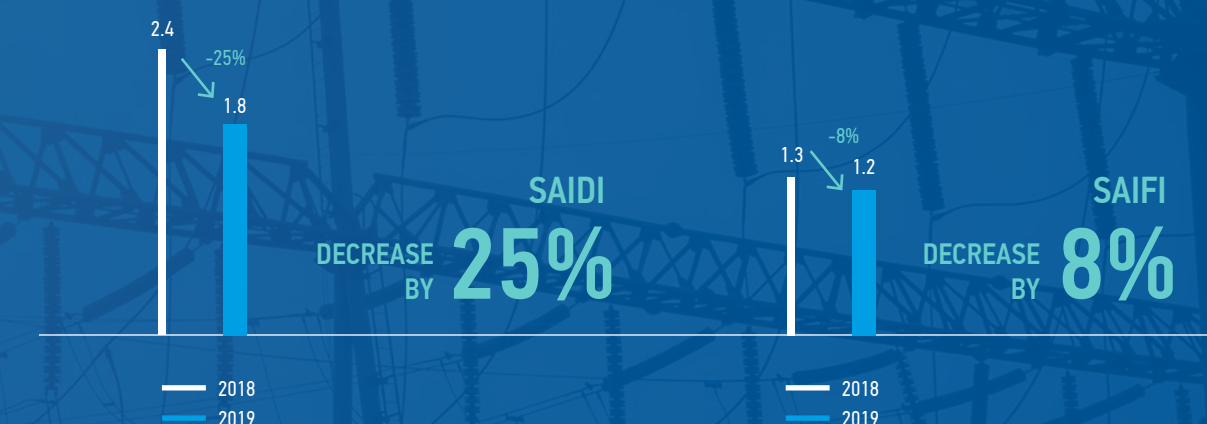
on the "power supply reliability" Index (SAIDI, SAIFI),

the Russian Federation confirmed the maximum rating

# 8 POINTS OUT OF 8

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

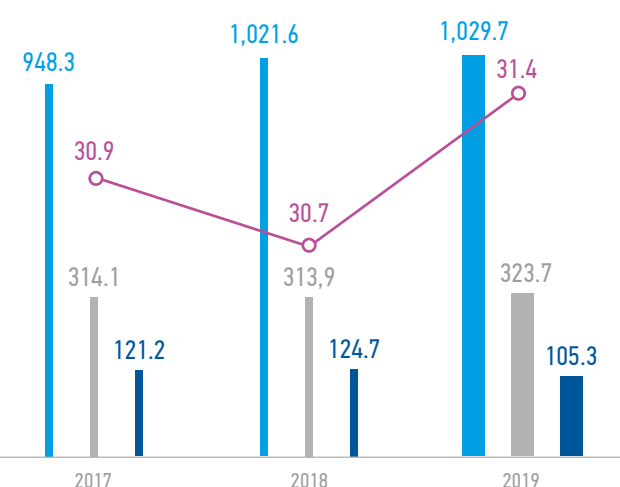




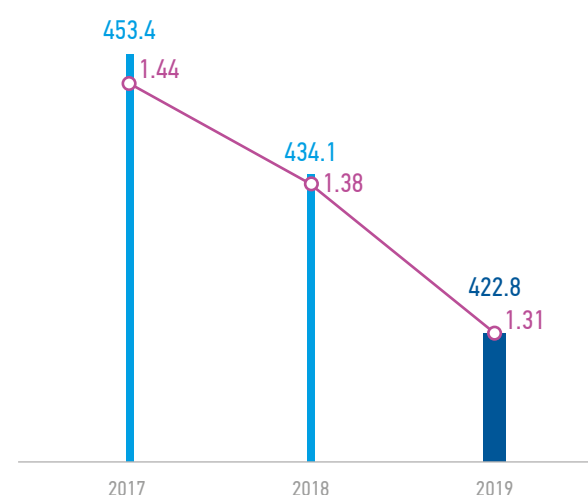
# Stable Financial Results

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.



— Revenue, bn RUB  
— Adjusted EBITDA<sup>4</sup>, bn RUB  
— Net profit, bn RUB  
— Adjusted EBITDA margin, %



— Net debt, bn RUB  
— Net Debt/Adjusted EBITDA<sup>4</sup>

<sup>4</sup> adjusted EBITDA is calculated as EBITDA (earnings before interest, tax, depreciation, and amortization) less impairment of fixed assets.

## 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.

## 860.9

BN RUB

REVENUE FROM ELECTRICITY TRANSMISSION AND DISTRIBUTION

## 48.7

BN RUB

REVENUE FROM NETWORK CONNECTION SERVICES

## 100.3

BN RUB

REVENUE FROM ELECTRICITY AND CAPACITY SALES

## 19.8

BN RUB

OTHER REVENUE

Revenue Structure

Key results in 2019<sup>5</sup>

(compare to 2018)

## 1,029.7

+0.8% ↑

BN RUBLES  
REVENUE

## 323.7

+3.1% ↑

BN RUBLES  
ADJUSTED EBITDA<sup>4</sup>

## 256.4

+7.5% ↑

BN RUBLES  
NET CASH FLOWS FROM OPERATING ACTIVITIES

## 105.3

-15.5% ↓

BN RUBLES  
NET PROFIT

## 82.6%

SHARE OF LONG-TERM DEBT OBLIGATIONS IN THE DEBT PORTFOLIO

<sup>5</sup> Data from the IFRS consolidated financial statements.



# Investor Appeal

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

## AKPA

AAA(RU), STABLE OUTLOOK

NATIONAL  
CORPORATE  
GOVERNANCE  
RATING: **7++**

FREE FLOAT

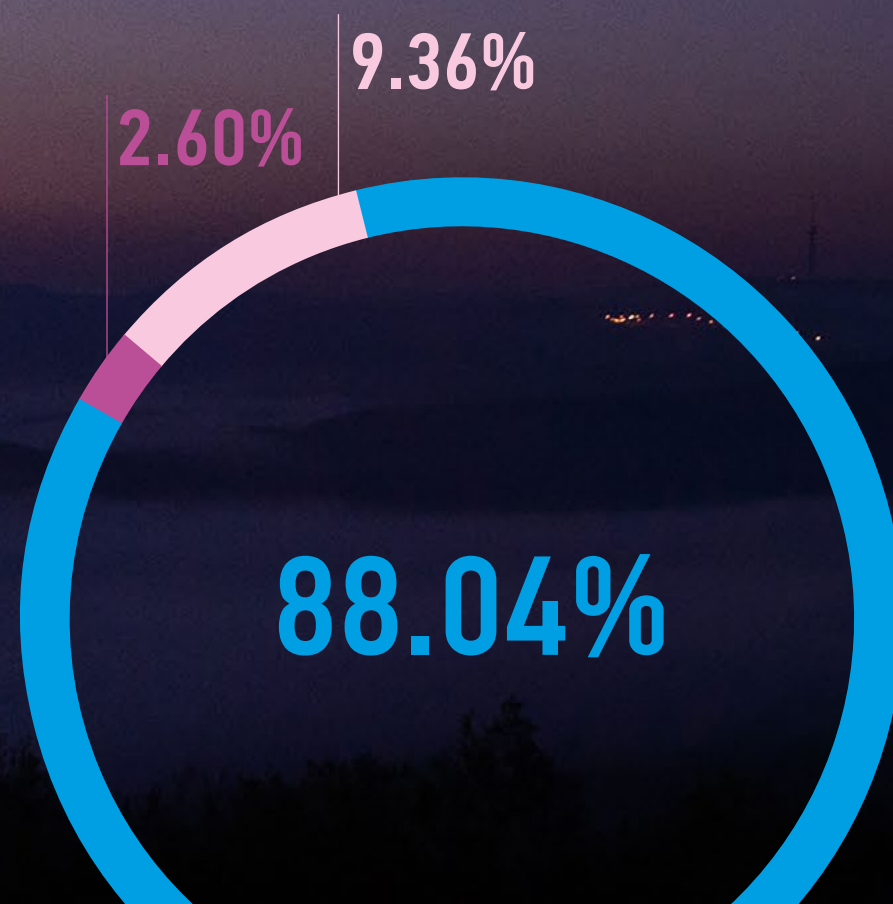
**11.1%** of ordinary shares

OWNERSHIP STRUCTURE OF SHARE CAPITAL AS OF DECEMBER 31, 2019

State owned  
Corporate entities  
Individuals

The number of ROSSETI's  
shareholders

OVER  
**323,000**



## 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

## Listing



**MOSCOW  
EXCHANGE**

TICKER: RSTI, RSTIP



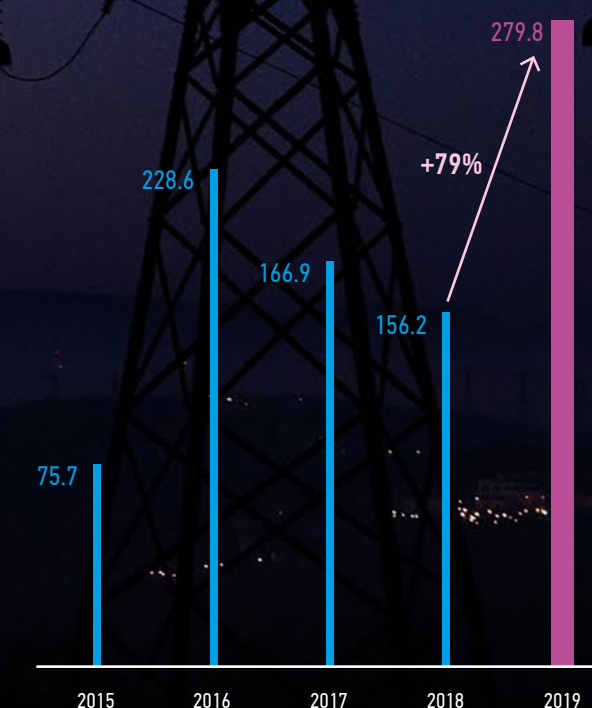
**London  
Stock Exchange**

TICKER: RSTI

## DIVIDENDS, BN RUB



## ROSSETI MARKET CAPITALIZATION, BN RUB





# 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.

## 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.

## Results in 2019

The Company developed and approved:

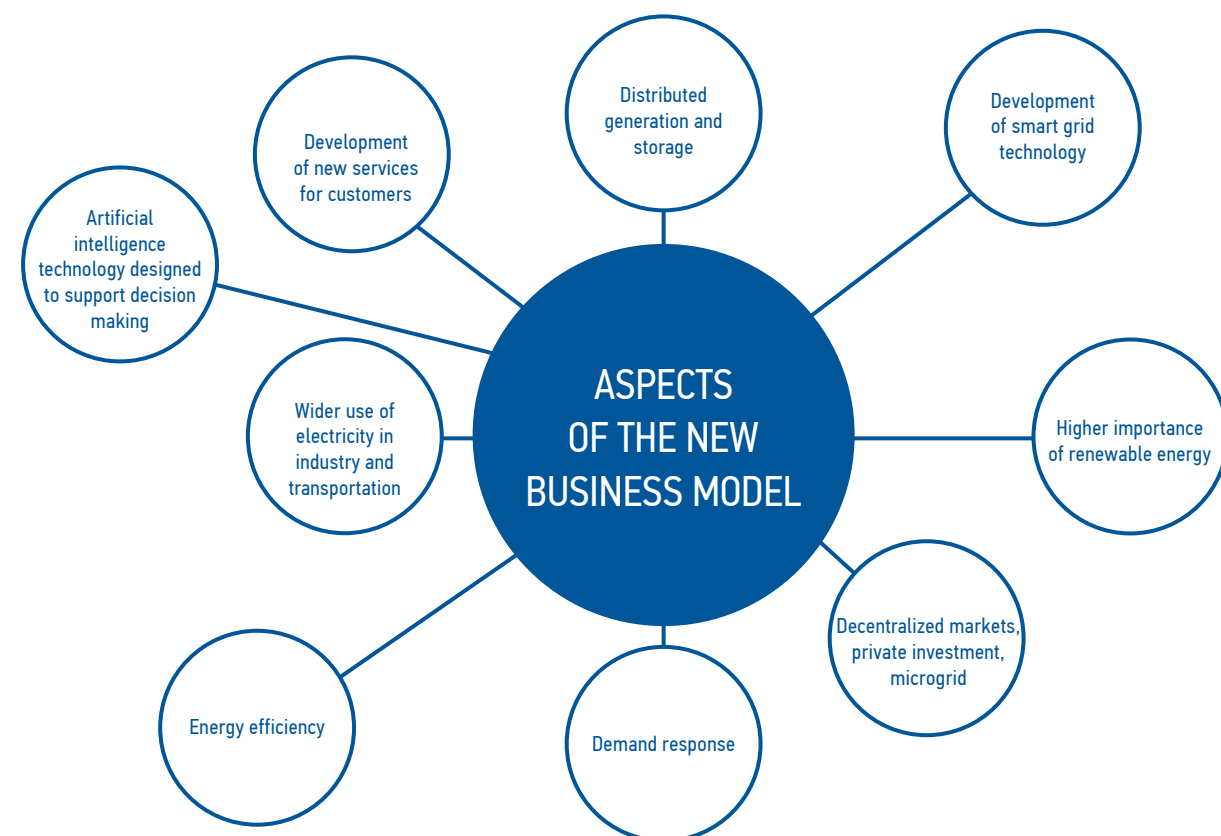
- Digital Electric Grid Standard;
- Digital Substation Standard;
- Uniform Technical Policy;
- Technique for Calculating the Digital Transformation Index;
- Phase 1 pilot projects of digital transformation

## The 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.

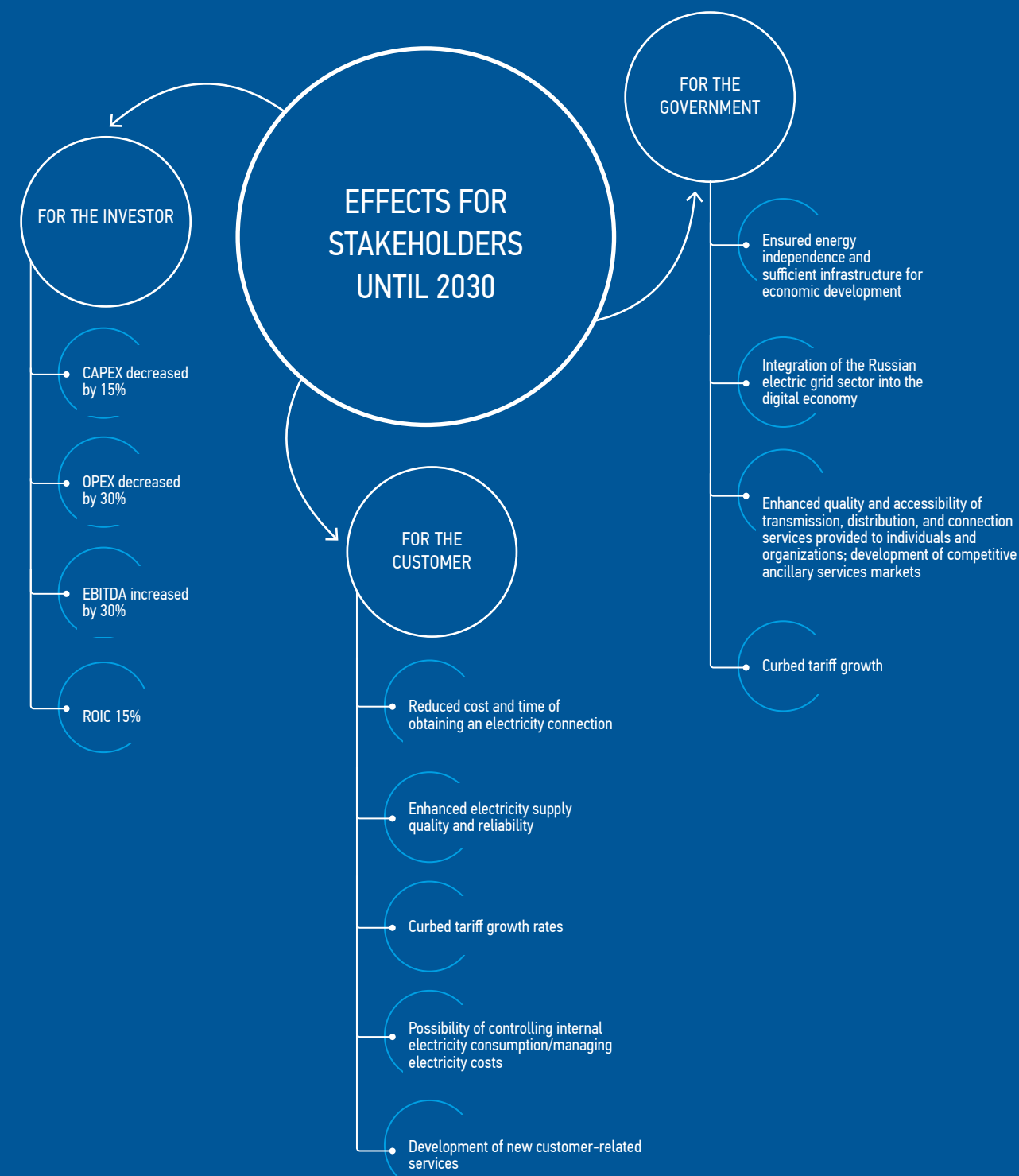
The number of electricity meters used by the ROSSETI Group increased by an average of 3.3 pp.

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



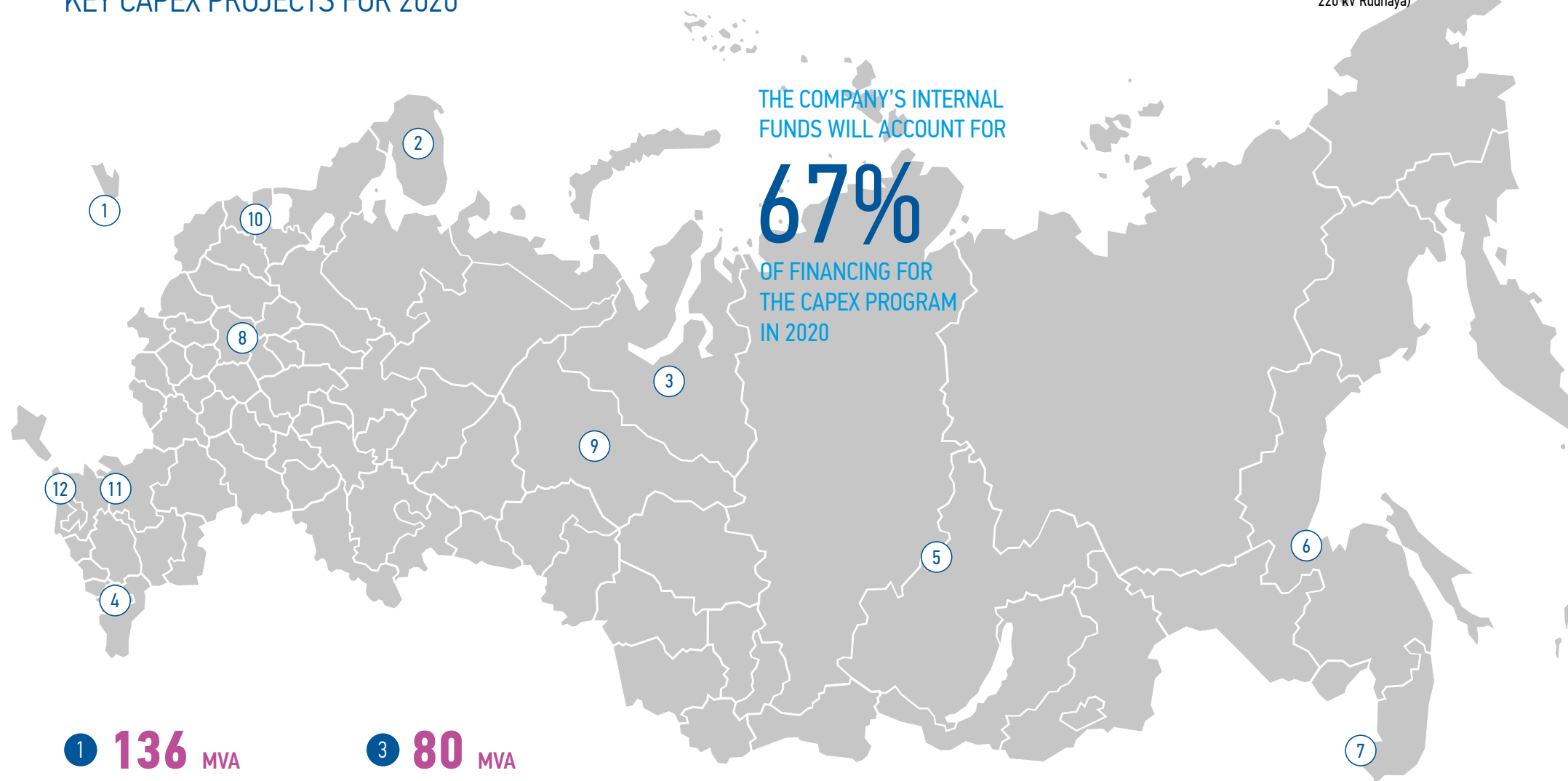
"Transition to digital technologies requires us to make an all-out effort to search for innovations and modern domestic equipment and bring them into use."

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



# Country-wide Capital Investment

## KEY CAPEX PROJECTS FOR 2020



THE COMPANY'S INTERNAL FUNDS WILL ACCOUNT FOR

**67%**

OF FINANCING FOR THE CAPEX PROGRAM IN 2020

**1 136 MVA**

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

**3 80 MVA**

**47.76 KM**

Network connection for Gazprom Dobycha Noyabrsk (SS 110 kV GDN, OL 110 kV Severny-GDN 1, 2)

**2 250 MVA**

**36.08 KM**

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

**4 793 MVA**

**265 KM**

Strengthening of the IPS South grid (construction OL 500 kV Nevinnomyssk-Mozdok with expansion of SS 500 kV Nevinnomyssk and SS 330 Mozdok)

**5 294.5 KM**

Improvement of electricity supply reliability for the Irkutsk Region and the Baikal-Amur Mainline (construction of OL 220 kV Ust-Ilimsk HPP-Ust-Kut)

**6 63 MVA**  
**174 KM**

Network connection for Albynsky Rudnik (OL 220 kV Fevral'skaya-Rudnaya with SS 220 kV Rudnaya)

**7 126 MVA**  
**30 KM**

Network connection for Far East Development Corporation (construction of SS Prompark with OL 220 kV Vladivostok-Prompark)

**9 80 MVA**  
**34 KM**

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

**10 20 MVA**  
**7.7 KM**

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

**8 709 MVA**  
**25 KM**

Improvement of electricity supply reliability for Moscow (2nd phase of high-voltage network reliability improvement in Moscow's Troitsk and Novomoskovsky Administrative Districts, COL 110 kV Fili-Khodynka, CL 220 kV Butyrki-Beloruskaya 1, 2)

**11 126 MVA**

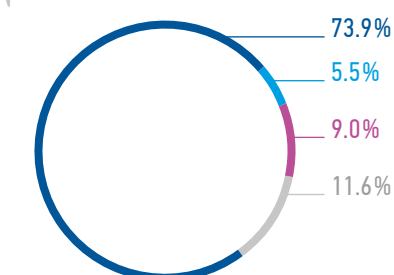
Supply of capacity from Rostov Region Wind Park (SS 110 kV Zarya)

**12 50 MVA**

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

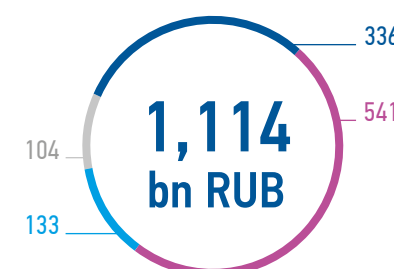
## INVESTMENT IN 2020–2024

### Sources of Financing for the CAPEX Program in 2020–2024



Internal funds  
Borrowed funds  
Connection fee  
Other

### Areas of Financing for the Capex Program in 2020–2024, bn RUB (inclusive of VAT)



Network connection  
Modernizations of fixed assets  
Grid development  
Other

## FINANCING IS TO TOTAL

**293**

bn RUBLES  
IN 2020



# Sustainable Development for Future Generations

The Company takes a responsible approach to organizing its activities, working to conserve the environment, caring about its employees, and contributing to the development of the regions of its operations. The 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.

## 217.5

THSD PEOPLE

Electric grid SDCs' staff on the payroll

## 18,000

Personnel reserve

## 97%

Staffing level

## 4.8%

Personnel turnover

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

## THE COMPANY OPERATES

Occupational Safety Management System

Quality Management System

Environmental Management System

## 4,879

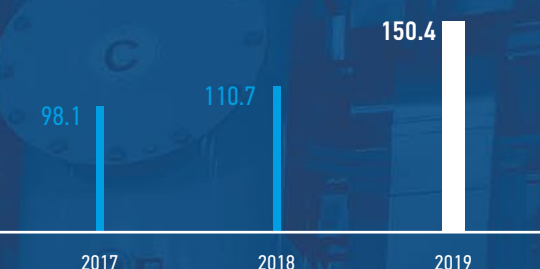
hectares

Land rehabilitation in 2019

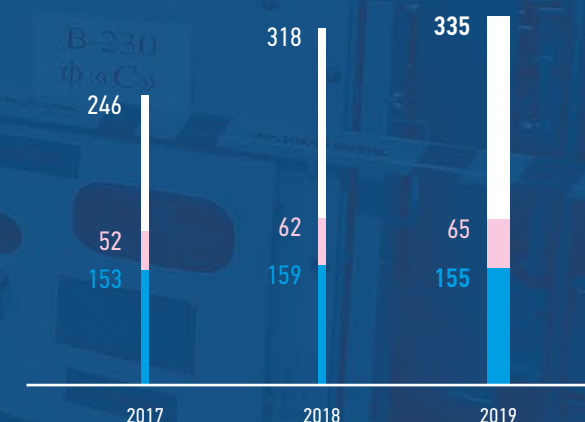
Air Emissions in 2017–2019, tonnes



Bird Protection Equipment Installed in 2017–2019, thsd units



Environmental Expenses of the ROSSETI Group, mn RUB



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

UN Sustainable Development Goals



# Corporate History

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.

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.

1992

1998

2003

2007

## REFORM

There were signs of stagnation in the Russian electric power industry in the 1980s: obsolete facilities were replaced slowly; there was no payment discipline; operations of the industry's entities were not transparent; the market lacked new investment. It gradually became necessary to reform the electricity industry in order to increase operating efficiency and encourage investment.

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.

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 vaster and more sophisticated geographies of electricity sales, including export-import operations.



## 100th Anniversary of the GOELRO Plan

Approved in 1920, 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 bn 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.

2008

2012

2013

2019

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

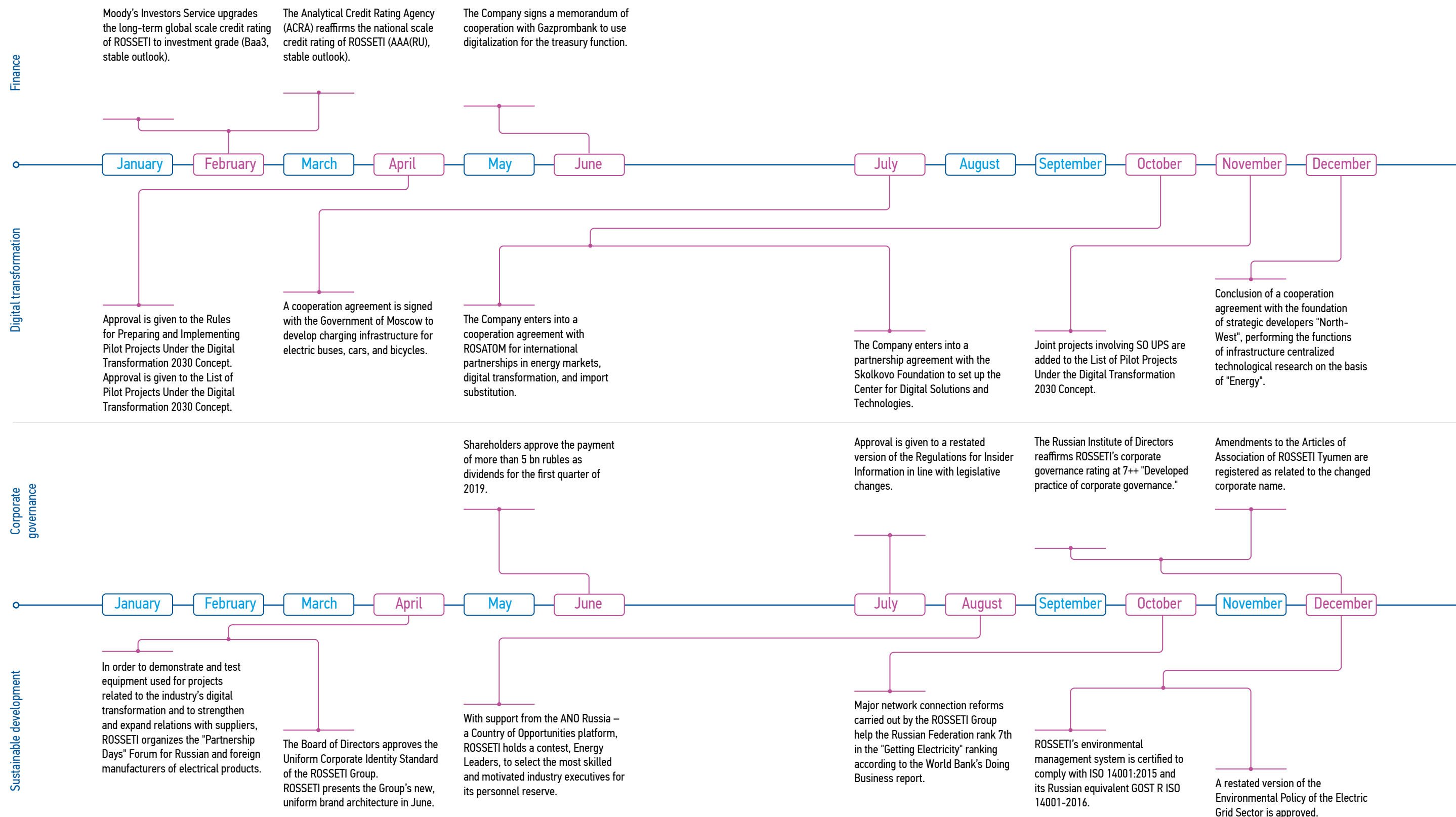
In order to ensure a unified approach to implementing the principles of management and establish uniform operational requirements and standards, transmission and distribution grids were merged in 2012.

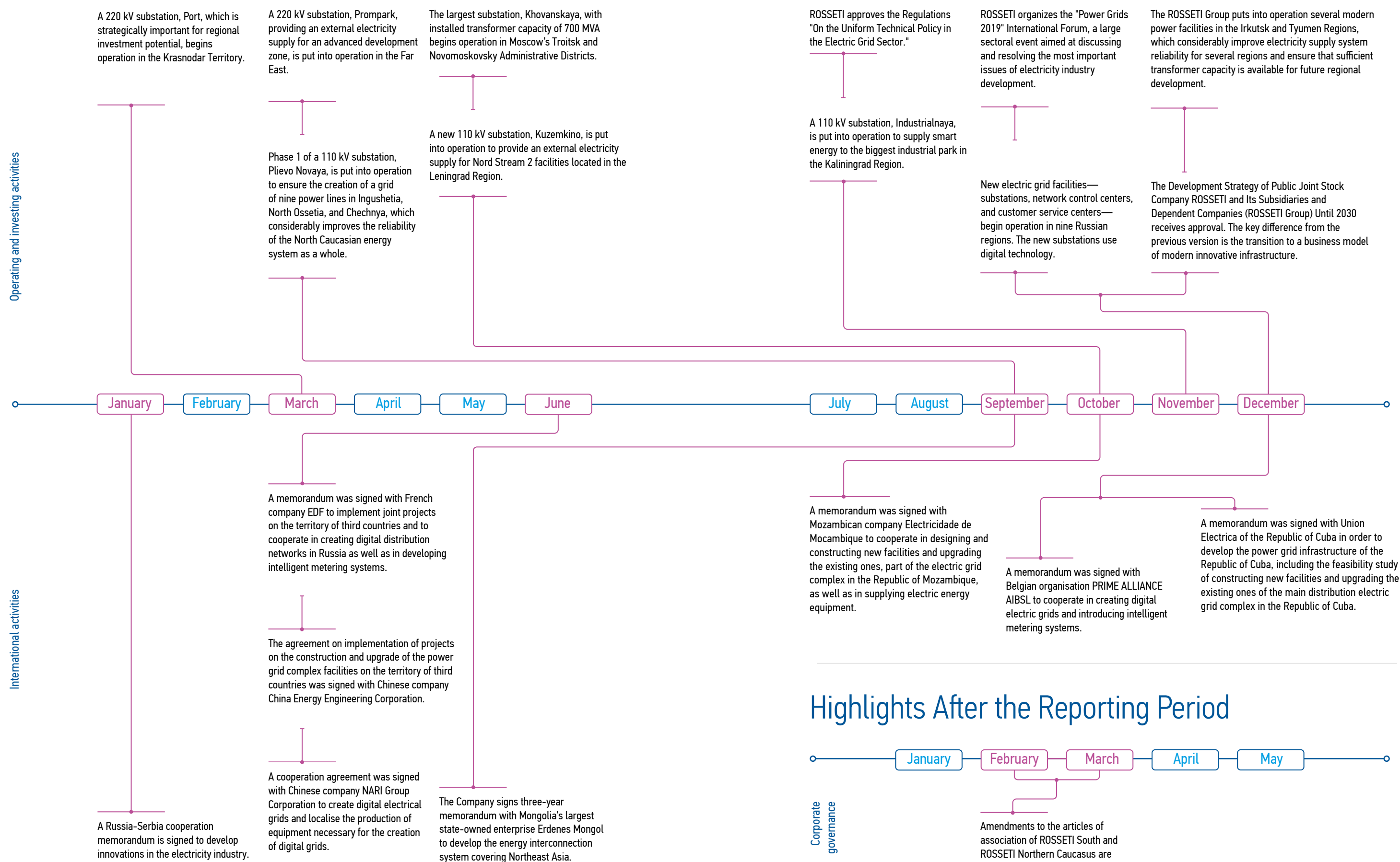
MRSK Holding was renamed ROSSETI in 2013, with the government contributing a 79.55% stake in FGC UES to the new company's capital. This finished the formation of ROSSETI.

- 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.
- Development Strategy of the ROSSETI Group Until 2030 was approved.
- ROSSETI presented the Group's new brand architecture. Since the ROSSETI Group operates in 80 regions and takes a unified approach to managing its activities, the transition to a uniform brand architecture is a natural and logical step in the Group's development. It is important for customers in any region of the country to understand who is responsible to them for a reliable and high-quality electricity supply.

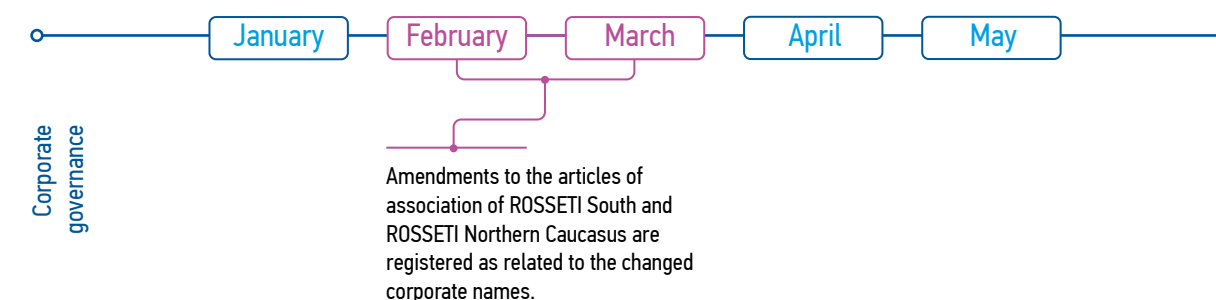


# Highlights in the Reporting Year





## Highlights After the Reporting Period





# 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.



## MEASURES TO MAKE THE TRANSITION TO THE UNIFORM BRAND ARCHITECTURE WERE DIVIDED INTO TWO MAIN STAGES:

- 01 After the Board of Directors of ROSSETI approved the Uniform Corporate Identity Standard, all of the ROSSETI Group's transmission and distribution companies conducted corporate procedures accordingly. The subsequent replacement of corporate identity elements is made as the amortization periods expire without increasing any existing budgets and in accordance with the approved business plans.
- 02 Changes are made to the corporate names of subsidiaries and dependent companies.

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



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

## 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 Groups 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

**NEW DEVELOPMENT  
STRATEGY APPROVED FOR  
THE PERIOD UNTIL**

**2030**

**80**

**REGIONS OF PRESENCE  
OF THE ROSSETI GROUP  
COMPANIES**



the ultimate customer. In addition, operational personnel can see in advance and resolve a problem, choose the best solution. The main types of intelligent control systems are automated process control systems of network control centers. ROSSETI has started to develop national standards that define the requirements for such systems.

In parallel, work is underway to create a digital model of electric 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.

ROSSETI's experience will make it possible to appropriately adjust the regulatory framework, accurately formulate the

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.

**79%**

**COMPANY'S MARKET  
CAPITALIZATION INCREASED  
IN 2019 BY**

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.

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



## 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



**Pavel Livinsky**  
Director General,  
ROSSETI

stakeholders such as the government and our customers, shareholders, and investors.

Further information about the updated strategy can be found in this Annual 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 outstripping 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 billion rubles, while the Group adjusted EBITDA totaled 323.7 billion 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 nontariff 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.



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### **ROSSETI approved a new long-term strategy for the period until 2030. What is behind the new strategy, and what are your new priorities?**

As the world changes, the Company has to adapt to the changing conditions. Leaders are the companies that can adapt to change, that are innovative, that clearly understand current trends. We want to remain a world leader in electricity transmission and distribution, and the principal goal of the strategy is to identify these areas. Therefore, the new strategy specifies such areas as the development of additional services.



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### **Nontariff activities**

#### **Does the Company intend to develop nontariff services? What services do you want to bring to market?**

First of all, these are services related to customer load management. The mobile app will be designed to enable customers to know their service providers and see whether their load is off or on. They will be able to take full advantage of advanced metering infrastructure to optimize their consumption, reduce their costs, and spread their consumption over time. Everything that is called demand response. Energy storage services, electric vehicles, charging infrastructure—all of this is also of great importance and looks logical in our business model.

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#### **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

Central Federal District

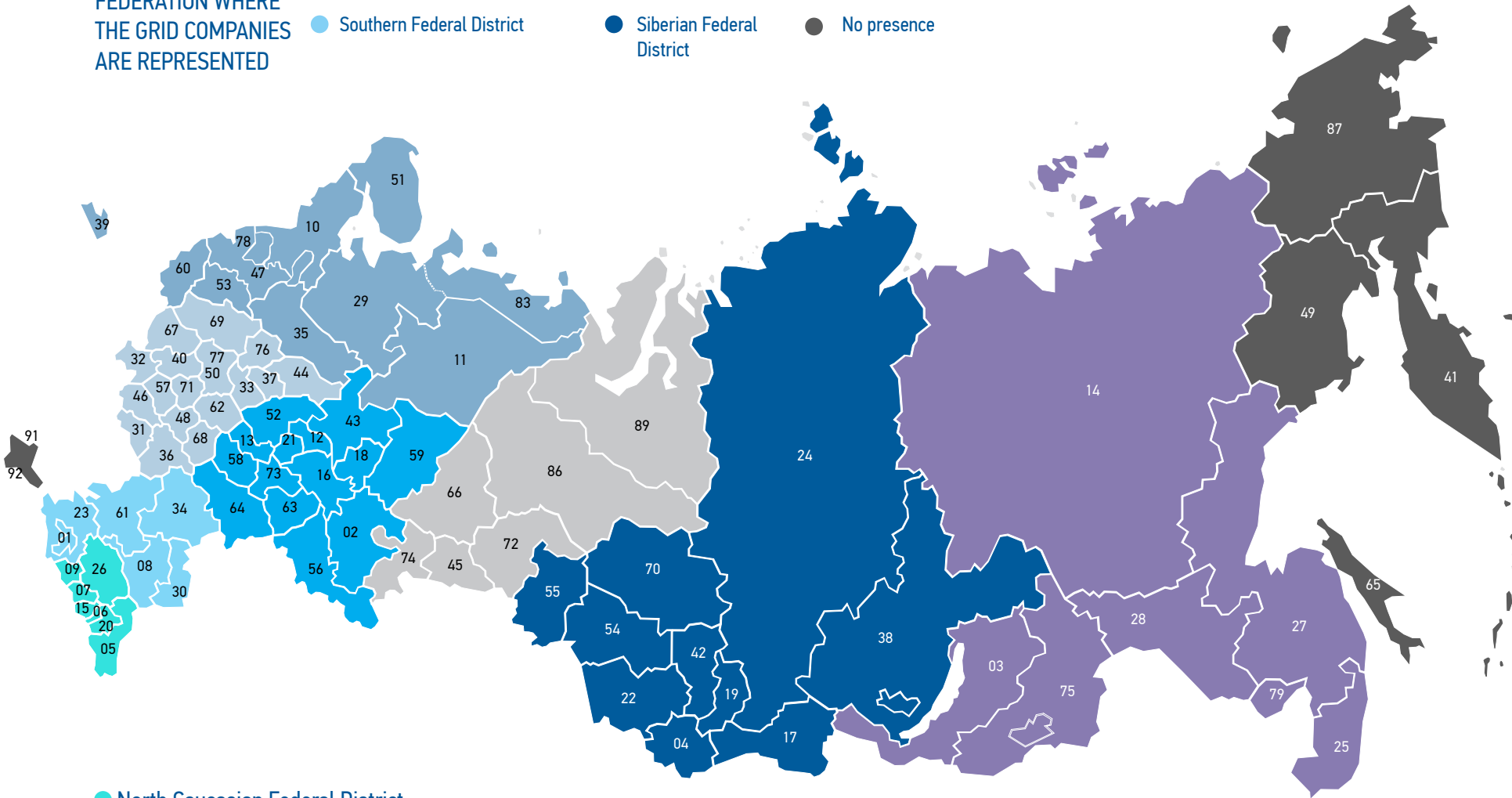
Southern Federal District
- Volga Federal District

Urals Federal District

Siberian Federal District
- North Caucasian Federal District

Far Eastern Federal District

No presence



● North Caucasian Federal District  
ROSSETI Northern Caucasus, South MES

Region Code	Territory/Region	Administrative Center	Regional Grid Company	FGC UES Branch
05	Republic of Dagestan	Makhachkala	Dagestan Grid Company (ROSSETI Northern Caucasus)	Severo-Kavkazskoye PMES (South MES)
06	Republic of Ingushetia	Nazran	Ingushenergo (ROSSETI Northern Caucasus)	
07	Kabardino-Balkarian Republic	Nalchik	Kabbalkenergo (ROSSETI Northern Caucasus)	
09	Karachay-Cherkess Republic	Cherkessk	Karachaevo-Cherkesskenenergo (ROSSETI Northern Caucasus)	
15	Republic of North Ossetia-Alania	Vladikavkaz	Sevkavkazenergo (ROSSETI Northern Caucasus)	
20	Chechen Republic	Grozny	Chechenenergo (ROSSETI Northern Caucasus)	
26	Stavropol Territory	Stavropol	Stavropolenergo (ROSSETI Northern Caucasus)	

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

Region Code	Territory/Region	Administrative Center	Regional Grid Company	FGC UES Branch
66	Sverdlovsk Region	Yekaterinburg	Sverdlovenergo, ENCE (ROSSETI Urals)	Sverdlovskoye PMES (Urals MES)
45	Kurgan Region	Kurgan	no presence	Yuzhno-Uralskoye PMES (Urals MES)
74	Chelyabinsk Region	Chelyabinsk	Chelyabenergo (ROSSETI Urals)	
72	Tyumen Region	Tyumen	ROSSETI Tyumen	Yuzhnoye PMES (Western Siberia MES)
86	Khanty-Mansijsk Autonomous District	Khanty-Mansijsk		Tsentralnoye PMES (Western Siberia MES), Vostochnoye PMES (Western Siberia MES)
89	Yamalo-Nenets Autonomous District	Salekhard		Yamalo-Nenetskoye PMES (Western Siberia MES)

● Southern Federal District  
South MES, Center MES, Mobile GTPP

Region Code	Territory/Region	Administrative Center	Regional Grid Company	FGC UES Branch
01	Republic of Adygeya	Maikop	ROSSETI Kuban	Kubanskoye PMES (South MES)
23	Krasnodar Territory	Krasnodar	ROSSETI Kuban	Kubanskoye PMES (South MES), Mobile GTPP
08	Republic of Kalmykia	Elista	Kalmenergo (ROSSETI South)	Rostovskoye PMES (South MES)
61	Rostov Region	Rostov-on-Don	Rostovenergo (ROSSETI South)	
30	Astrakhan Region	Astrakhan	Astrakhanenergo (ROSSETI South)	Volgo-Donskoye PMES (Center MES)
34	Volgograd Region	Volgograd	Volgogradenergo (ROSSETI South)	
91	Republic of Crimea	Simferopol	No presence	
92	Sevastopol	Sevastopol		

● Siberian Federal District  
ROSSETI Siberia, ROSSETI Tomsk, Siberia MES

Region Code	Territory/Region	Administrative Center	Regional Grid Company	FGC UES Branch
04	Republic of Altai	Gorno-Altaysk	Gorno-Altaysk Electricity Networks (ROSSETI Siberia)	no presence
17	Republic of Tuva	Kyzyl	Tyvaenergo (ROSSETI Siberia)	Khakasskoye PMES (Siberia MES)
19	Republic of Khakassia	Abakan	Khakasenergo (ROSSETI Siberia)	
22	Altai Territory	Barnaul	Altaienergo (ROSSETI Siberia)	Zapadno-Sibirskoye PMES (Siberia MES)
54	Novosibirsk Region	Novosibirsk	no presence	Zapadno-Sibirskoye PMES (Siberia MES)
55	Omsk Region	Omsk	Omskenenergo (ROSSETI Siberia)	Zapadno-Sibirskoye PMES (Siberia MES)
24	Krasnoyarsk Territory	Krasnoyarsk	Krasnoyarskenenergo (ROSSETI Siberia)	Krasnoyarskoye PMES (Siberia MES)
38	Irkutsk Region	Irkutsk	no presence	Zabaykalskoye PMES (Siberia MES)
42	Kemerovo Region	Kemerovo	Kuzbassenergo-RES (ROSSETI Siberia)	Kuzbasskoye PMES (Siberia MES)
70	Tomsk Region	Tomsk	ROSSETI Tomsk	Kuzbasskoye PMES (Siberia MES)



● Northwestern Federal District

ROSSETI Lenenergo, ROSSETI Yantar, ROSSETI North-West, North-West MES, Center MES

Region Code	Territory/Region	Administrative Center	Regional Grid Company	FGC UES Branch
10	Republic of Karelia	Petrozavodsk	Karelia Branch (ROSSETI North-West)	Karelskoye PMES (North-West MES)
51	Murmansk Region	Murmansk	Murmansk Branch (ROSSETI North-West)	
11	Komi Republic	Syktvykar	Komi Branch (ROSSETI North-West)	Severnoye PMES (North-West MES)
29	Arkhangelsk Region	Arkhangelsk	Arkhangelsk Branch (ROSSETI North-West)	
35	Vologda Region	Vologda	Vologda Branch (ROSSETI North-West)	Vologodskoye PMES (Center MES)
39	Kaliningrad Region	Kaliningrad	ROSSETI Yantar	North-West MES
47	Leningrad Region	Saint Petersburg	ROSSETI Lenenergo	Leningradskoye PMES, Karelskoye PMES
78	Saint Petersburg			
53	Novgorod Region	Veliky Novgorod	Novgorod Branch (ROSSETI North-West)	Novgorodskoye PMES (North-West MES)
60	Pskov Region	Pskov	Pskov Branch (ROSSETI North-West)	
83	Nenets Autonomous District	Naryan-Mar	Komi Branch (ROSSETI North-West)	no presence

● Volga Federal District

ROSSETI Volga, ROSSETI Center and Volga Region, ROSSETI Urals, Volga MES, Urals MES

Region Code	Territory/Region	Administrative Center	Regional Grid Company	FGC UES Branch
64	Saratov Region	Saratov	Saratov Distribution Networks (ROSSETI Volga)	Nizhne-Volzskoye PMES (Volga MES)
73	Ulyanovsk Region	Ulyanovsk	Ulyanovsk Distribution Networks (ROSSETI Volga)	Sredne-Volzskoye PMES (Volga MES)
58	Penza Region	Penza	Penzaenergo (ROSSETI Volga)	
21	Chuvashi Republic	Cheboksary	Chuvashenergo (ROSSETI Volga)	
13	Republic of Mordovia	Saransk	Mordovenergo (ROSSETI Volga)	
12	Republic of Marij El	Yoshkar-Ola	Marienergo (ROSSETI Center and Volga Region)	Samarskoye PMES (Volga MES)
63	Samara Region	Samara	Samara Distribution Networks (ROSSETI Volga)	
52	Nizhni Novgorod Region	Nizhni Novgorod	Nizhnovenergo (ROSSETI Center and Volga Region)	Nizhegorodskoye PMES (Volga MES)
59	Perm Territory	Perm	Permenergo (ROSSETI Urals)	Permskoye PMES (Urals MES)
43	Kirov Region	Kirov	Kirovenergo (ROSSETI Center and Volga Region)	
18	Udmurtian Republic	Izhevsk	Udmurtenergo (ROSSETI Center and Volga Region)	Orenburgskoye PMES (Volga MES)
56	Orenburg Region	Orenburg	Orenburgenergo (ROSSETI Volga)	
16	Republic of Tatarstan	Kazan	no presence	Permskoye PMES (Urals MES), Samarskoye PMES (Volga MES), Orenburgskoye PMES (Volga MES)
02	Republic of Bashkortostan	Ufa	no presence	Permskoye PMES (Urals MES), Yuzhno-Uralskoye PMES (Urals MES), Orenburgskoye PMES (Volga MES)

● Central Federal District

ROSSETI Moscow Region, ROSSETI Centre, ROSSETI Center and Volga Region, Center MES, North-West MES

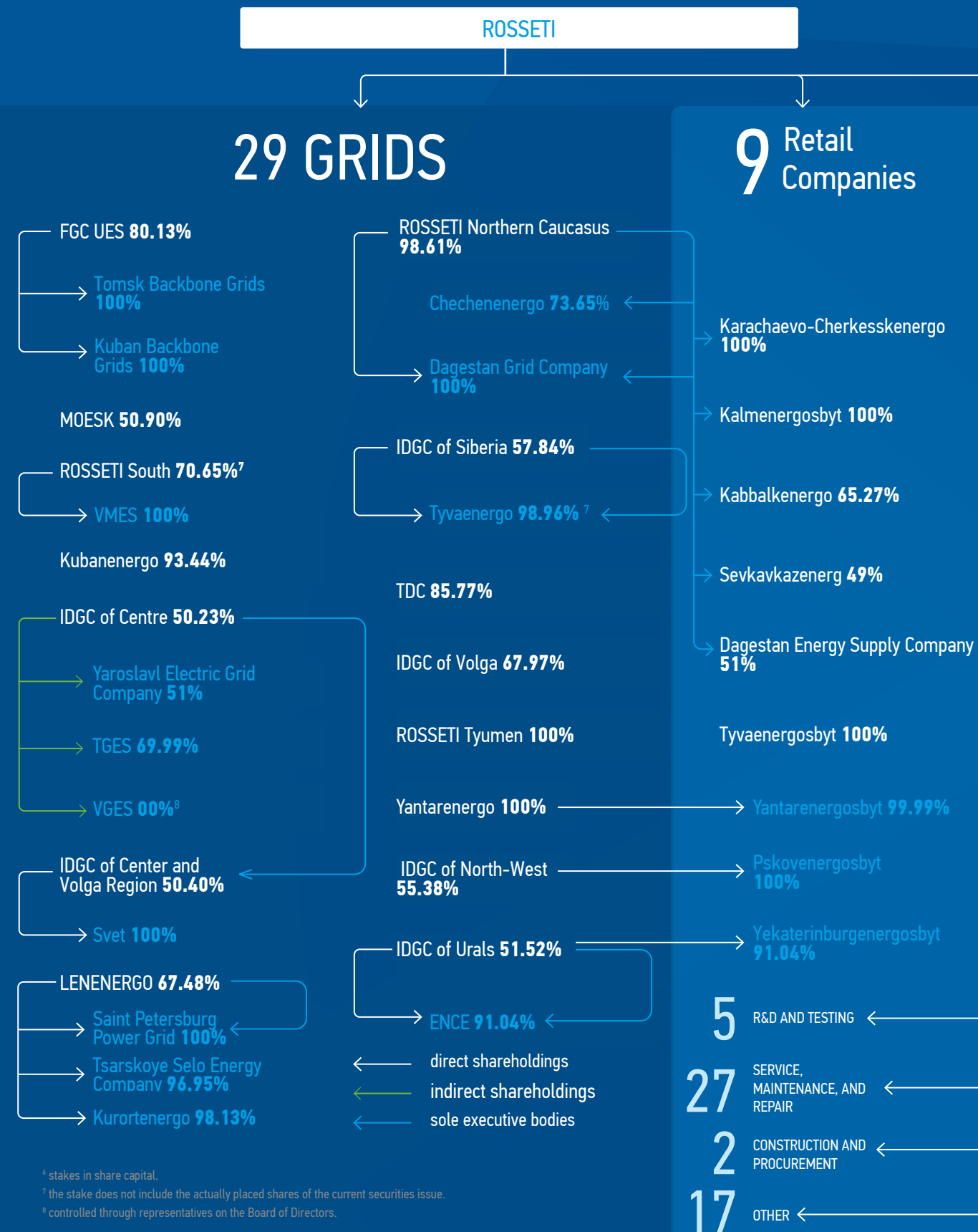
Region Code	Territory/Region	Administrative Center	Regional Grid Company	FGC UES Branch
77	Moscow	Moscow	ROSSETI Moscow Region	Moskovskoye PMES (Center MES)
50	Moscow Region			
76	Yaroslavl Region	Yaroslavl	Yarenergo (ROSSETI Centre)	Valdayskoye PMES (Center MES)
69	Tver Region	Tver	Tverenergo (ROSSETI Centre)	
36	Voronezh Region	Voronezh	Voronezhenergo (ROSSETI Centre)	Verkhne-Donskoye PMES (Center MES)
48	Lipetsk Region	Lipetsk	Lipetskenergo (ROSSETI Centre)	
68	Tambov Region	Tambov	Tambovenergo (ROSSETI Centre)	
57	Oryol Region	Oryol	Oryolenergo (ROSSETI Centre)	Chernozyomnoye PMES (Center MES)
31	Belgorod Region	Belgorod	Belgorodenergo (ROSSETI Centre)	
46	Kursk Region	Kursk	Kurskenergo (ROSSETI Centre)	
44	Kostroma Region	Kostroma	Kostromaenergo (ROSSETI Centre)	Vologodskoye PMES (Center MES)
33	Vladimir Region	Vladimir	Vladimirenergo (ROSSETI Center and Volga Region)	
37	Ivanovo Region	Ivanovo	Ivenergo (ROSSETI Center and Volga Region)	
71	Tula Region	Tula	Tulenergo (ROSSETI Center and Volga Region)	Priokskoye PMES (Center MES)
40	Kaluga Region	Kaluga	Kalugaenergo (ROSSETI Center and Volga Region)	
62	Ryazan Region	Ryazan	Ryazanenergo (ROSSETI Center and Volga Region)	
32	Bryansk Region	Bryansk	Bryanskenergo (ROSSETI Centre)	Novgorodskoye PMES (North-West MES)
67	Smolensk Region	Smolensk	Smolenskenergo (ROSSETI Centre)	

● Far Eastern Federal District

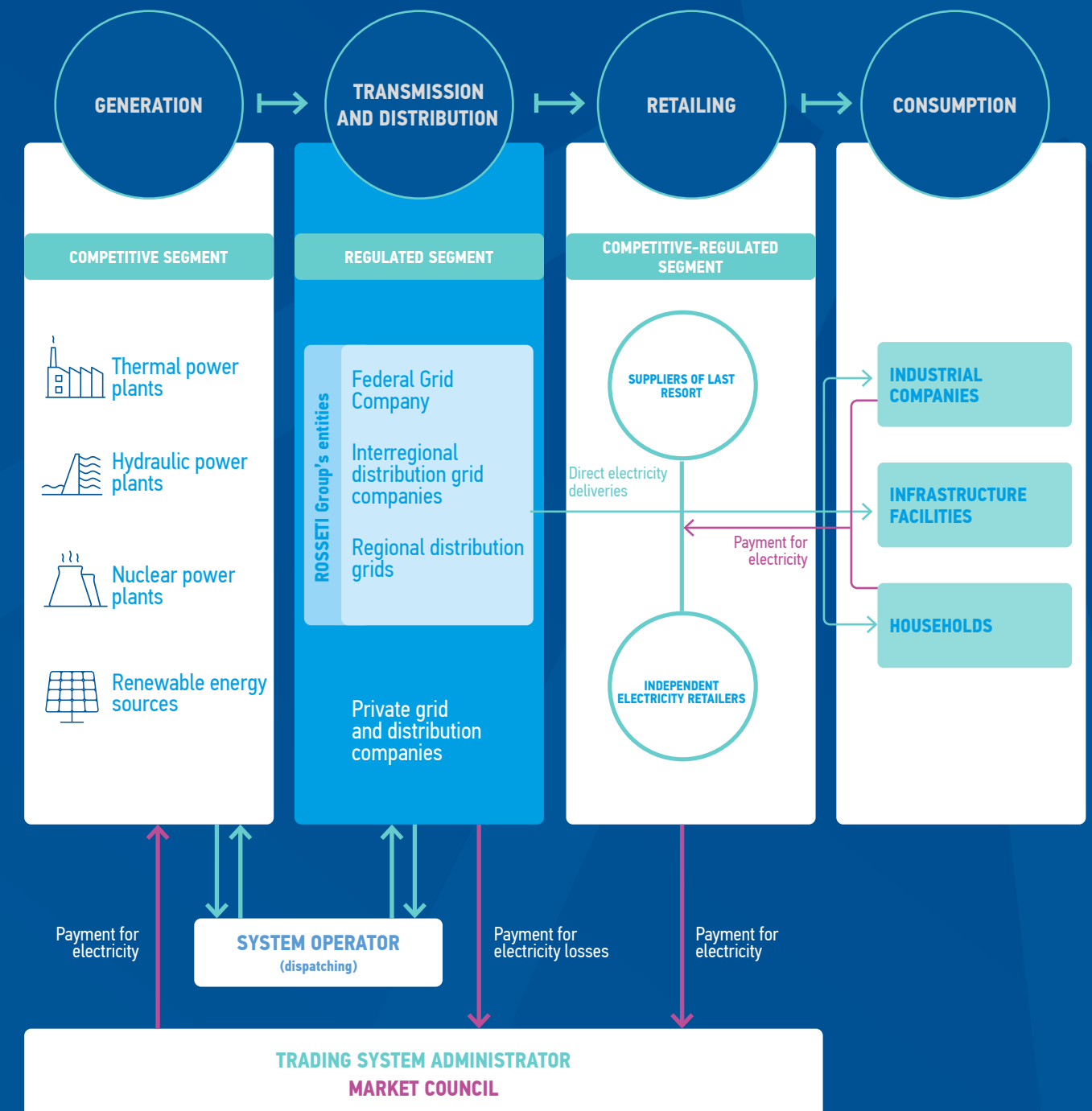
East MES, Siberia MES, ROSSETI Siberia

Region Code	Territory/Region	Administrative Center	Regional Grid Company	FGC UES Branch
03	Republic of Buryatia	Ulan-Ude	Buryatenergo (ROSSETI Siberia)	Zabaykalskoye PMES (Siberia MES)
75	Trans-Baikal Territory	Chita	Chitaenergo (ROSSETI Siberia)	
28	Amur Region	Blagoveshchensk	no presence	Amurskoye PMES (East MES)
14	Republic of Sakha (Yakutia) (southern part)	Yakutsk		Yuzhno-Yakutsky RES, Amurskoye PMES (East MES)
25	Primorie Territory	Vladivostok		Primorskoye PMES (East MES)
27	Khabarovsk Territory	Khabarovsk		Khabarovskoye PMES (East MES)
79	Jewish Autonomous Region	Birobidzhan		
41	Kamchatka Territory	Petropavlovsk-Kamchatsky	no presence	
49	Magadan Region	Magadan		
65	Sakhalin Region	Yuzhno-Sakhalinsk		
87	Chukotka Autonomous District	Anadyr		

# ROSSETI Group Structure as of March 31, 2020<sup>6</sup>



## ROSSETI Group's Position in the Electric Power Industry





# 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

2018 → 2019

## GRID COMPANIES

## RESULTS

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

Electric grid SDCs' staff on the payroll, thsd people.  
**217.3 → 217.5**

HUMAN CAPITAL

Environmental expenses, mn RUB  
**539 → 555**

NATURAL CAPITAL

Equity, bn RUB  
**1,495 → 1,584**  
Liabilities, bn RUB  
**1,024 → 1,065**

FINANCIAL CAPITAL

R&D expenses as a percentage of revenue  
**0.2 → 0.29**

INTELLECTUAL CAPITAL

S&P Global **BBB → BBB-**  
**AKPA AAA (ru) → AAA (ru)**  
Moody's **Ba1 → Baa3**

SOCIAL AND REPUTATIONAL CAPITAL

Length of power lines, mn km  
**2.35 → 2.37**  
Number of substations, thsd units  
**507 → 517**  
Transformer capacity of substations, GVA  
**792 → 802**

PRODUCTION CAPITAL

### GENERATION



Thermal power plants



Hydraulic power plants



Nuclear power plants



Renewable energy sources

### Transmission and Distribution

#### ROSSETI GROUP'S ENTITIES:

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

### CONSUMPTION

INDUSTRIAL COMPANIES

INFRASTRUCTURE FACILITIES

HOUSEHOLDS

**67%** Percentage of employees trained in the year

**>12,000** Practical training in the ROSSETI Group, students

**5%** Water consumption reduction

**0.3 pp** Electricity loss reduction

**15%** Waste generation reduction

**323.7** Adjusted EBITDA, bn RUB

**105.3** Net profit, bn RUB

**20** patents and certificates received in 2019

**7** Position in the "Getting Electricity" ranking of World Bank's Doing Business

**834.9** Electricity delivery to networks, bn kWh

**15** Connected capacity, GW

**1.8** SAIDI **1.2** SAIFI



**4.8 bn RUB** paid as dividends to the federal budget (for 1Q2019)



Market capitalization increased to **279.8 bn RUB**



**50.8 bn RUB** paid as taxes to budgets of all levels



paid as contributions to private pension funds and other pension plans  
**1.3 bn RUB**



**37,000** procurement procedures totaling **559 bn RUB**



**30 digital infrastructure facilities** put into operation







# 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 <sup>9</sup>, 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.

### 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%).

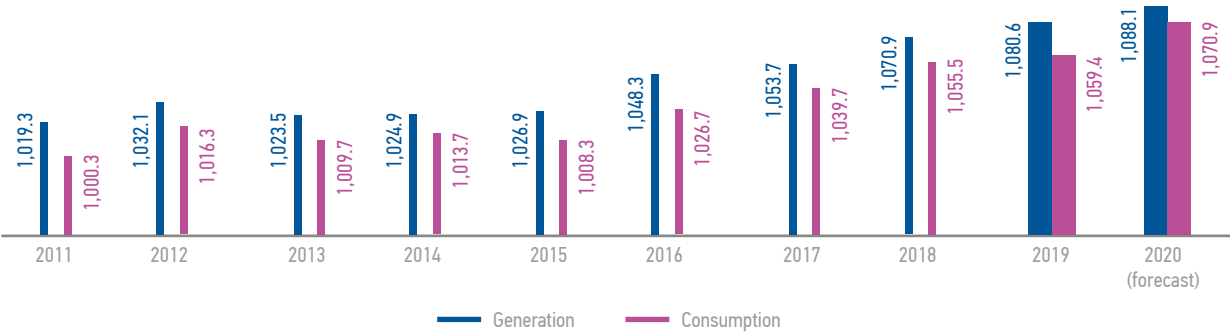
## Situation in the Russian Energy Sector in 2019 and Short-Term Forecast

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

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%).

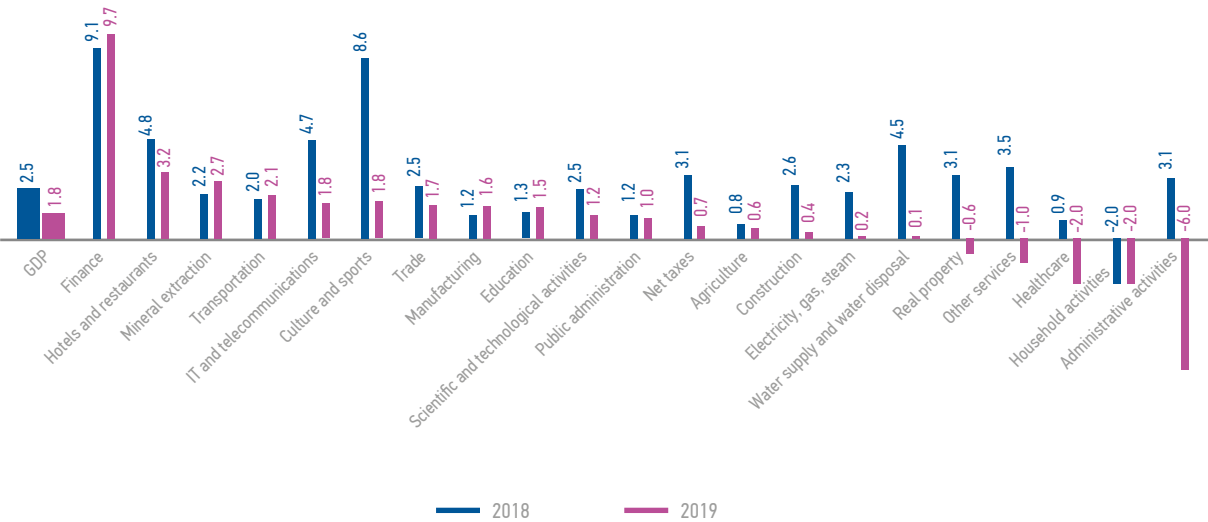
The electric power industry is among the ten industries with the largest contribution to Russia's GDP. According to the Federal Service for State Statistics, the electricity sector accounted for 2.8% of Russia's GDP in 2018. The country saw an increase in electricity consumption for several years. In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

Russian Electricity Generation and Consumption, bn kWh



Actual data for 2011–2019 are from the System Operator (Report on the Functioning of Russia's United Power System in 2019). The forecast of electricity generation for 2020 is based on data from the Russian Ministry of Economic Development (Forecast of the Long-Term Socioeconomic Development of the Russian Federation Until 2024). The forecast of electricity consumption for 2020 is based on data from the Russian Ministry of Energy (Development Scheme and Program for Russia's United Power System for 2018–2025).

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



The total installed capacity of power plants in Russia's United Power System increased by 1.3% to 246.3 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 Development<sup>11</sup> and the Ministry of Energy<sup>12</sup> 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.

<sup>11</sup> Forecast of the Long-Term Socioeconomic Development of the Russian Federation Until 2024.  
<sup>12</sup> Development Scheme and Program for Russia's United Power System for 2018–2024.

<sup>9</sup> Source: International Monetary Fund. World Economic Outlook Update, January 20, 2020.  
<sup>10</sup> Source: Rosstat. OKVED. Physical volume indexes, % to previous year.

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).

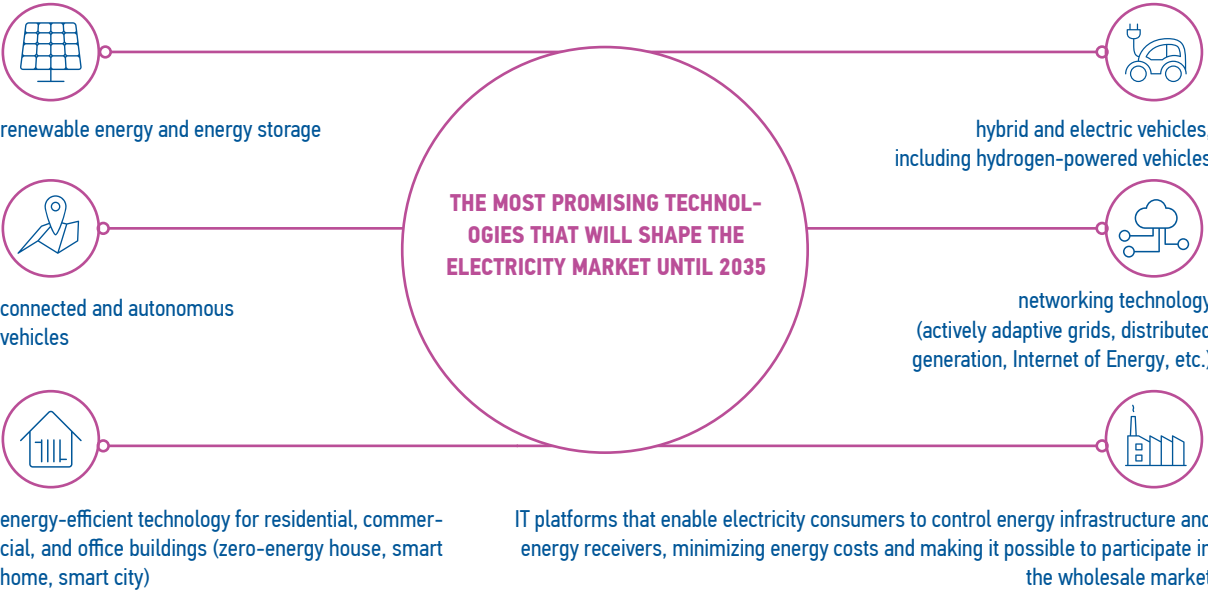
There are, however, several factors that weaken global trends:

- 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.

Prospects for Growth in the Russian Electricity Industry until 2035–2040.

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.
- Risk factors that may substantially slow down the development of the industry:
- 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

Controlled Market Share of ROSSETI SDCs<sup>13</sup>

	2019 (Actual)	2020 (Plan)
Controlled market share, %	73.3	+0.2% annually

Minimum regulated revenue (MRR) is the economically justified amount of financial resources required by regulated electric grid organizations to carry out their activities within the tariff regulation period. MRR forms the basis for the approved uniform pool tariffs in the regions ROSSETI SDCs' operations; therefore, the share of each subsidiary in the region's total MRR determines its profitability. The share of a subsidiary in the region's total MRR is equivalent to its market share in Russia.

Market Share in the Regional Electricity Distribution Services Market in Comparable Conditions of Tariff Regulation	MRR-Based Market Share, %	
	2018	2019
MOESK	62.71	62.54
IDGC of Urals	79.91	79.57
IDGC of Siberia	65.14	65.35
ROSSETI Tyumen	69.10	67.09
IDGC of Center and Volga Region	76.83	77.34
IDGC of Centre	86.12	86.20
IDGC of Volga	65.31	65.32
LENENERGO	86.37	88.05
IDGC of North-West	73.33	74.49
ROSSETI South	82.92	69.92
Kubanenergo	80.45	80.05
ROSSETI Northern Caucasus	79.44	78.95
TDC	74.89	72.74
Yantarenergo	80.58	84.21

The ROSSETI Group strives to increase its market share in Russia.

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.

<sup>13</sup> 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).

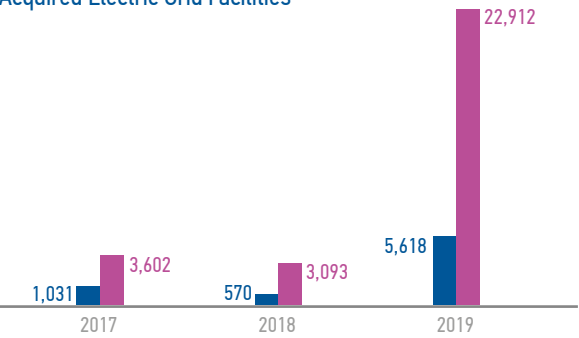


Under the Development Strategy of the ROSSETI Group Until 2030<sup>14</sup>, it is intended that a single operator of Russian electric grids will be formed using the ROSSETI Group's resources.

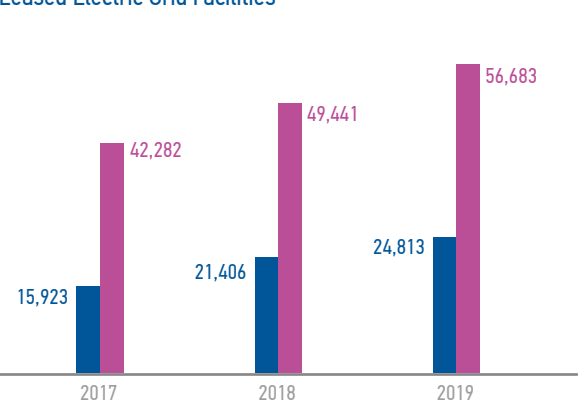
The following major projects to consolidate electric grid assets were completed in 2019:

- acquisition of a 100% stake in YuSM (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 Volga Region);
- acquisition of the electric grid facilities owned by Izhevsk Electricity Networks (Udmurtian Republic, IDGC of Center and Volga 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, GT-Energo (Oryol Region, IDGC of Centre);
- acquisition of electric grid facilities in the Zaigrayevo District (Republic of Buryatia, IDGC of Siberia);
- acquisition of a 100% stake in VGES (Voronezh Region, IDGC of Centre).

Acquired Electric Grid Facilities



Leased Electric Grid Facilities



Transformer capacity, MVA  
Power lines, km

Comparison with Foreign Peers by Financial and Investment Indicator<sup>15</sup>

Company Name	Mcap, bn RUB	EBITDA, bn RUB	EBITDA Margin, %	Dividend Yield, %	EV/EBITDA, %	P/E	ROIC, %
1. ROSSETI Group	279.8 <sup>16</sup> 380.8 <sup>17</sup>	323.7 <sup>18</sup>	31.4	2.1 <sup>19</sup>	2.3	2.7	5.1
2. Red Eléctrica do Espesa, Spain	671.1	111.2	79.7	5.9	9.9	13.5	7.2
3. Terna, Italy	820.9	120.9	75.9	4.2	11.7	15.6	6.2
4. Elia, Belgium	377.2	64.6	40.1	1.7	12.1	21.4	3.1
5. AusNet Services, Australia	272.7	53.9	62.1	5.5	12.1	23.1	5.1
6. Eversource Energy, USA	1,737.6	180.2	34.1	3.2	15.0	25.7	6.6
7. Fingrid OYJ, Finland	-	15.1	27.5	-	-	-	5.0
8. Electricite de France SA, France	2,158.6	1,121.5	22.7	2.1	5.4	6.0	5.1

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.

<sup>14</sup> Approved by the Board of Directors of ROSSETI (Minutes of the Meeting No. 388 of December 26, 2019).  
<sup>15</sup> Company comparison by key market indicator based on the financial results in 2019.  
<sup>16</sup> Capitalization of ordinary and preference shares in ROSSETI.  
<sup>17</sup> Aggregate capitalization of stakes in public ROSSETI SDCs.  
<sup>18</sup> Adjusted EBITDA, net of losses on impairment of fixed assets.  
<sup>19</sup> Ordinary shares.

Strategy

ROSSETI's mission is to secure a reliable, high-quality, and affordable power supply for a comfortable life and free economic growth in Russia, increasing profitability for shareholders and offering more opportunities for professional growth. As a pillar of the country's energy security, we use advanced, innovative technologies.

Strategy for Development of the Electric Grid Sector of the Russian Federation

Since the Company is the Government's agent for the implementation of the most important national capital investment projects and programs in the electric power industry and is a strategic infrastructure company, ROSSETI's strategic planning process is invariably guided by governmental strategies and programs.

The priorities of the Russian electric grid sector's development, including with respect to ROSSETI, are established by the Strategy for Development of the Electric Grid Sector of the Russian Federation<sup>20</sup>.

Key Results of Implementing the Strategy for Development of the Electric Grid Sector of the Russian Federation in 2013–2019

Strategic Priority	Achieved Results
Strategic Priority	Indices introduced and improved: SAIDI from 10.62 hours to 1.8 hours, SAIFI from 2.3 to 1.2
Infrastructure accessibility	→ the number of procedures to obtain an electricity connection was reduced to 3 <sup>21</sup> in 2019 → the time required to obtain an electricity connection was reduced from 183 days in 2013 to 41 days in 2019 (from 141st in 2013 to 7th in 2019 in the "Ease of Doing Business" ranking)
Efficiency	→ electricity losses reduced by 1.31 pp compared with 2012 (from 9.88% to 8.57%) → specific operating and investing expenses reduced by 30.3% and 30% respectively by 2017
Accomplishment of federal-level task	Infrastructure built under federal projects (Olympic Winter Games in 2014, 2018 FIFA World Cup, BRELL, etc.)
Technological and innovative development	→ uniform technical and innovation policies approved → program introduced for pilot projects of digital transformation
Reduced fragmentation of territorial grid organizations	The number of territorial grid organizations was decreased from 3,000 in 2013 to 1,600 in 2019. This made it possible to increase the efficiency of using uniform operating standards and improve reliability and customer satisfaction

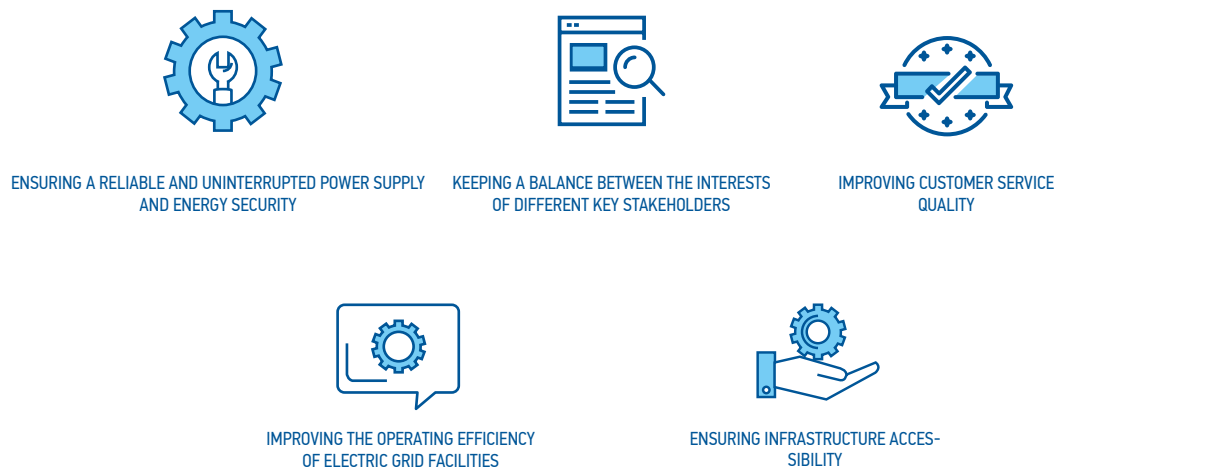
Overall, all quantitative target values specified in the Strategy for Development of the Electric Grid Sector of the Russian Federation for the period until 2019 were attained.

<sup>20</sup> Approved by Order No. 207-r of the Russian Government dated 13 February 2019  
<sup>21</sup> To 2 procedures in accordance with the World Bank's methodology.

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<sup>22</sup> (LTDP 2015–2019).

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



LTDP Implementation Report for 2019

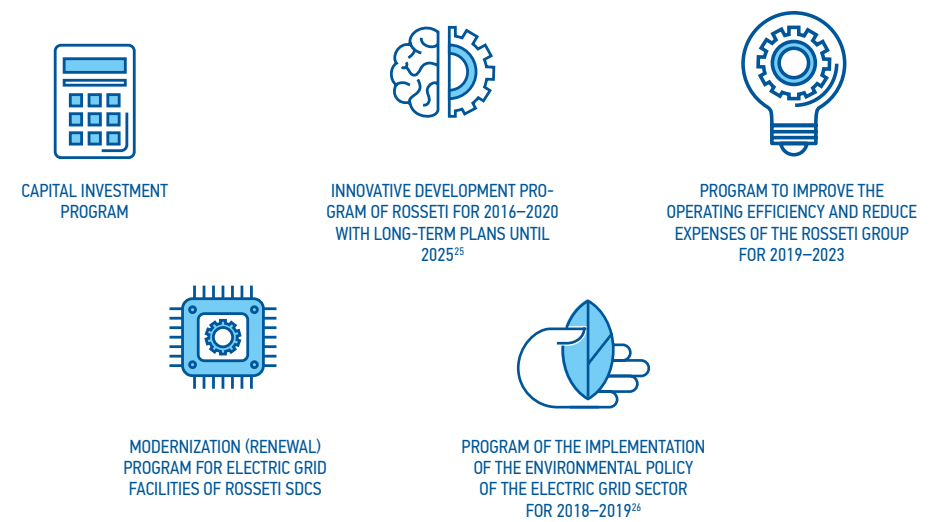
Targets set by the Strategy for Development of the Electric Grid Sector of the Russian Federation	Actually attained target values and the attainment level of planned values	
	2019 <sup>23</sup>	2015–2019
Improving service quality	The ROSSETI Group's average number of electricity connection procedures was 3.	The number of electricity connection procedures decreased from 10 to 3.
Reducing the duration of power outages	The average duration of power outages was decreased from 1.97 hours to 1.59 hours.	The average duration of power outages was decreased from 2.9 hours to 1.59 hours.
Improving power supply safety, including reducing the total number of accidents (including unrecorded accidents)	Compared with the base values prescribed in the LTDP in 2014, the number of accidents decreased by 45% in 2019.	
Reducing specific investing expenses compared with 2012 (in rubles per physical unit: kilometers, MVA)	Specific investing expenses associated with the construction of power lines and substations were actually decreased by 53.85% and 30.77% respectively.	
Reducing operating expenses	Specific operating expenses were decreased by over 2%.	Specific operating expenses were decreased by 30.3% <sup>24</sup> .
Reducing electricity losses	Electricity losses were reduced by 0.38 pp as compared with the actual value of the previous year.	Decreased from 9.64% to 8.57%.

<sup>22</sup> The program was formulated pursuant to Instructions of the President of the Russian Federation No. Pr-3086 of December 27, 2013, and the Recommended Guidelines for Developing the Long-Term Development Programs of Strategic Open Joint-Stock Companies and Federal State Unitary Enterprises, and Open Joint-Stock Companies in 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 (Minutes of the Meeting No. 174 of December 19, 2014).

<sup>23</sup> 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.

<sup>24</sup> By 2017 in accordance with the Strategy for Development of the Electric Grid Sector of the Russian Federation.

LTDP 2015–2019, INTER ALIA, INCLUDED MEASURES UNDER THE FOLLOWING PRINCIPAL PROGRAMS:



LTDP Implementation Audit

The implementation of the Long-Term Development Program (LTDP) was audited in May 2019. In the auditor's opinion (Nexia Pacioli)<sup>27</sup>, 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.



<sup>25</sup> Approved by the Board of Directors on December 30, 2016 (Minutes of the Meeting No. 250 of December 30, 2016).

<sup>26</sup> Approved by the Board of Directors on February 12, 2018 (Minutes of the Meeting No. 293 of February 15, 2018).

<sup>27</sup> Audit report of December 25, 2019.



## Development Strategy of the ROSSETI Group until 2030

Following the strategic planning period of 2015–2019 and with due consideration to strategic documents adopted by the Russian Government, the Board of Directors of ROSSETI approved in December 2019 the ROSSETI Group's new strategy until 2030<sup>1</sup> (the "Strategy 2030") defining the goals and areas of the Group's development.

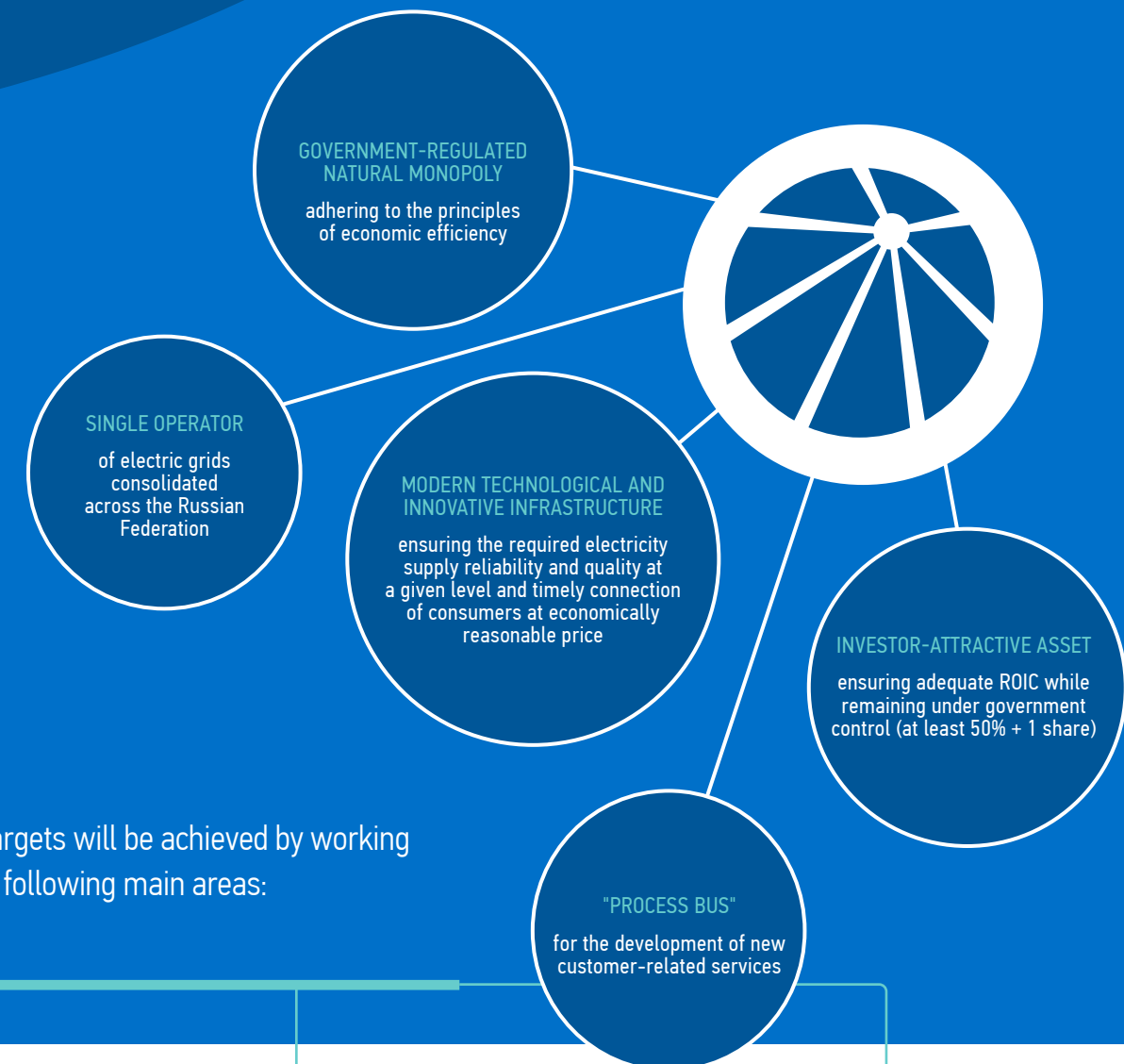
By 2030 the Company intends to become a leader in the energy sector resilient to changes in the global and local electricity markets by 2030 through the digital transformation of its business.

"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



## Target Model of the ROSSETI Group's Operation



The targets will be achieved by working in the following main areas:

### The Company's strategic priorities:

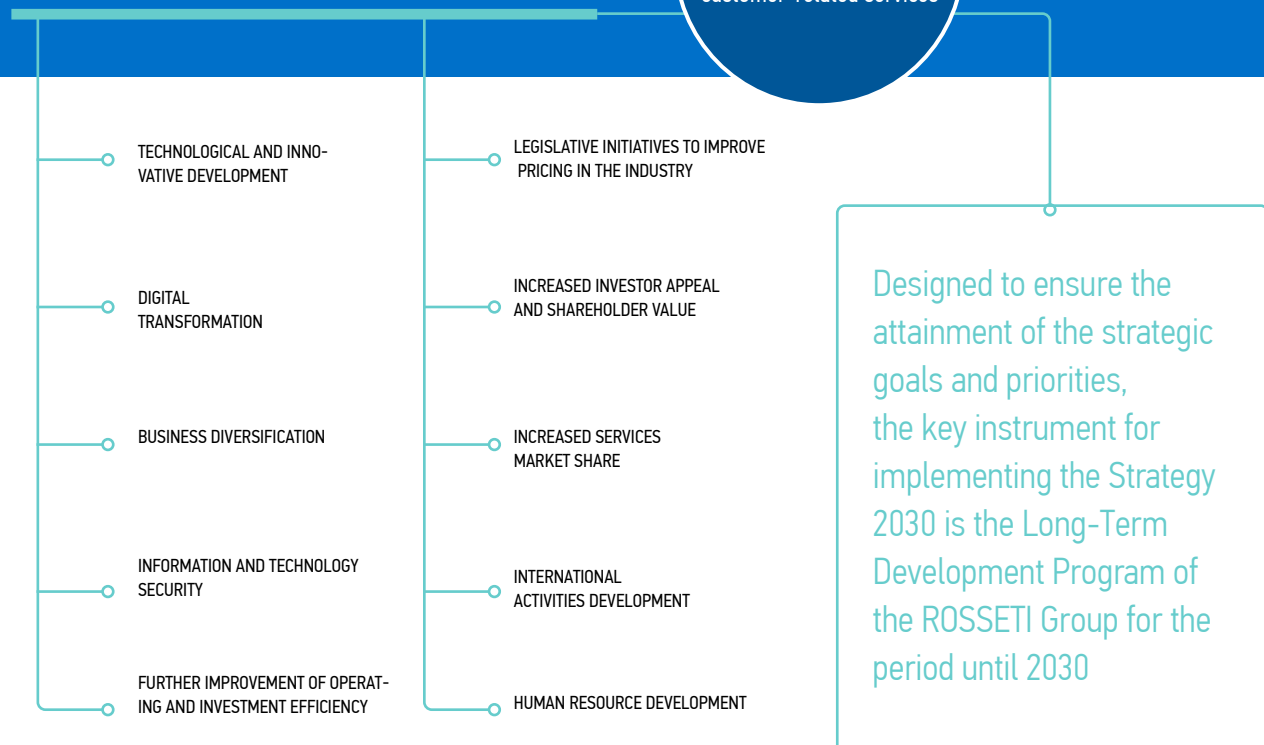
- increasing core business efficiency (electricity transmission and distribution);
- promoting legislative initiatives to develop the industry;
- ensuring electricity supply reliability and quality and non-discriminatory access to energy infrastructure in a new digital environment;
- keeping a balance 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.

Targets of the Strategy 2030		2030
Electricity losses, %		7.34
Grid observability, % <sup>29</sup>		90–100
SAIDI, hours		1.6
SAIFI, outages		0.85
Digital Transformation Index		0.95–1
R&D expenses, % of revenue		at least 0.25
Revenue from nontariff sources, %		at least 20
Workforce productivity growth, % <sup>30</sup>		by 40
Decline in specific OPEX, %		by 40

<sup>28</sup> Development Strategy of Public Joint Stock Company ROSSETI and Its Subsidiaries and Dependent Companies (ROSSETI Group) Until 2030. Approved by the Board of Directors (Minutes of the Meeting No. 388 of December 26, 2019).

<sup>29</sup> For grids with voltages of 0.4–20 kV.

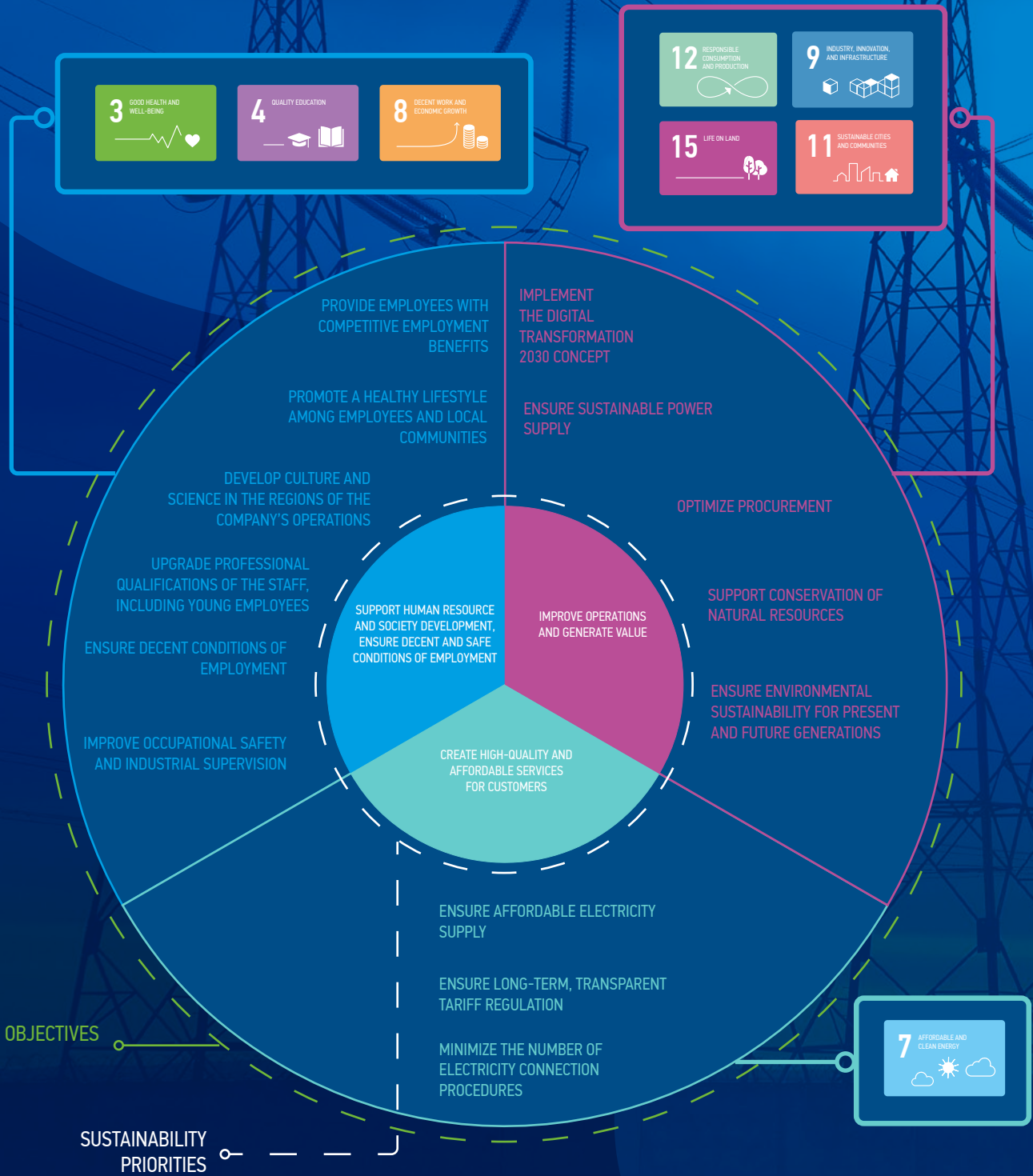
<sup>30</sup> Compared with the end of 2018.



Contribution Toward the UN Sustainable Development Goals

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.

Sustainability Priorities

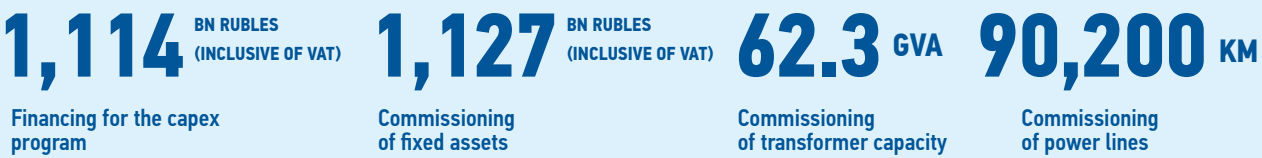
SUPPORT HUMAN RESOURCE AND SOCIETY DEVELOPMENT, ENSURE DECENT AND SAFE CONDITIONS OF EMPLOYMENT			
UN SDGs	Objectives	Areas of Activities	Actual Progress in 2019
	PROVIDE EMPLOYEES WITH COMPETITIVE EMPLOYMENT BENEFITS PROMOTE A HEALTHY LIFESTYLE AMONG EMPLOYEES AND LOCAL COMMUNITIES	→ Life and health insurance for employees. → Support for physical culture and popular sport.	→ Insurance plans cover <b>100%</b> of the ROSSETI Group's employees.
	DEVELOP CULTURE AND SCIENCE IN THE REGIONS OF THE COMPANY'S OPERATIONS UPGRADE PROFESSIONAL QUALIFICATIONS OF THE STAFF, INCLUDING YOUNG EMPLOYEES	→ Support for projects in education, science, culture, the arts, and instruction. → Retraining and advanced training for employees.	→ More than <b>12,000 students</b> received practical training in the ROSSETI Group. Additionally, <b>2,300 people</b> worked in student labor brigades at the ROSSETI Group's electric grid facilities. → About <b>300 higher education institutions</b> and specialized secondary education institutions cooperate with the Company on a constant basis. → <b>67% of the ROSSETI Group's employees</b> received off-the-job training in the reporting year.
	ENSURE DECENT CONDITIONS OF EMPLOYMENT IMPROVE OCCUPATIONAL SAFETY AND INDUSTRIAL SUPERVISION	→ Reduction of industrial injury risks. → Collective bargaining. → Compensatory payments, social benefits, and guarantees for employees.	→ The industrial injury rate did not increase in 2019 on 2018. → Occupational safety expenses totaled <b>5.7 bn rubles</b> . → The average monthly pay in the ROSSETI Group was higher than the average pay in the Russian Federation.



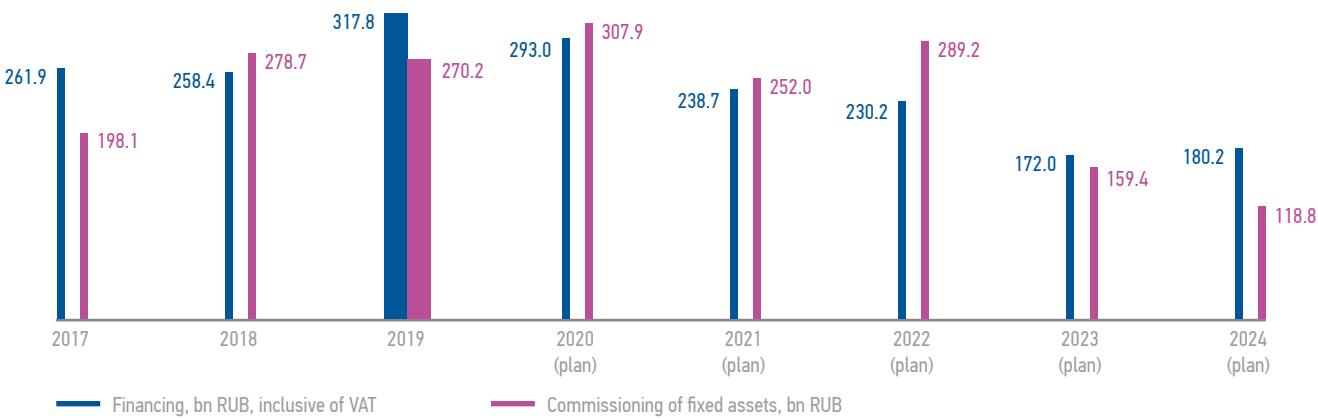
CREATE HIGH-QUALITY AND AFFORDABLE SERVICES FOR CUSTOMERS			
UN SDGs	Objectives	Areas of Activities	Actual Progress in 2019
<div><div>7</div><div>AFFORDABLE AND CLEAN ENERGY</div></div>	<div>ENSURE AFFORDABLE ELECTRICITY SUPPLY</div> <div>ENSURE LONG-TERM, TRANSPARENT TARIFF REGULATION</div> <div>MINIMIZE THE NUMBER OF ELECTRICITY CONNECTION PROCEDURES</div>	<div>→ Effective and successful customer relations</div> <div>→ Increasing consumer literacy on technology connection issues.</div>	<div>→ The time required to obtain an electricity connection was reduced from 73 days in 2018 to <b>41 days</b> in 2019.</div> <div>→ The cost of obtaining an electricity connection was decreased from 93% of income per capita to <b>5% in 5 years</b>.</div> <div>→ The time of replying to complaints on the Svetlaya Strana customer relations website was reduced from 30 to <b>8 business days</b>.</div> <div>→ The number of procedures to obtain an electricity connection in the ROSSETI Group was reduced to <b>an average of 3</b>.</div>
IMPROVE OPERATIONS AND GENERATE VALUE			
UN SDGs	Objectives	Areas of Activities	Actual Progress in 2019
<div><div>9</div><div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div></div>	<div>DIGITAL TRANSFORMATION 2030 CONCEPT</div>	<div>→ Change of the ROSSETI Group's business model; use of digital solutions for creating a common information environment for the ROSSETI Group's administration.</div> <div>→ Creation of new business models and services based on new digital technology.</div> <div>→ Development of EV infrastructure and platform solutions.</div>	<div>→ Approval of pilot projects by the Board of Directors of ROSSETI and their implementation.</div> <div>→ Development of the ROSSETI Group's Digital Transformation Program Until 2030.</div>
<div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div></div>	<div>SUSTAINABLE POWER SUPPLY</div>	<div>→ Safety, availability, and reliability of power supply</div> <div>→ Improvement of power supply quality</div> <div>→ Disaster/emergency planning and response</div>	<div>→ Electricity losses were reduced by 0.38 pp to <b>8.57%</b>.</div> <div>→ SAIDI decreased by 25% to <b>1.8 hours</b>; SAIFI decreased by 8% to <b>1.2 interruptions</b>.</div>
<div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div></div>	<div>OPTIMIZE PROCUREMENT</div> <div>SUPPORT CONSERVATION OF NATURAL RESOURCES</div>	<div>→ Responsible selection of suppliers, contractors, and service providers</div> <div>→ Reduction of energy consumption for the business needs of office and production buildings</div>	<div>→ ROSSETI introduced the Uniform Procurement Standard into its activities.</div> <div>→ The proportion of waste transferred for decontamination and disposal increased to <b>39%</b>.</div>
<div><div>15</div><div>LIFE ON LAND</div></div>	<div>ENSURE ENVIRONMENTAL SUSTAINABILITY FOR PRESENT AND FUTURE GENERATIONS</div>	<div>→ Industrial environmental supervision and monitoring</div> <div>→ Decommissioning of equipment containing polychlorinated biphenyls</div> <div>→ Bird protection of electric grid facilities</div> <div>→ Development, introduction and certification of the environmental management system in accordance with ISO 14001:2015 (GOST R ISO 14001-2016)</div>	<div>→ environmental protection expenses totaled <b>555 mln rubles</b>;</div> <div>→ <b>12,000 PCB-containing equipment units</b> were decommissioned and transferred for destruction;</div> <div>→ <b>150,000 bird protection equipment</b> units were installed.</div>

# Capital Investment Program

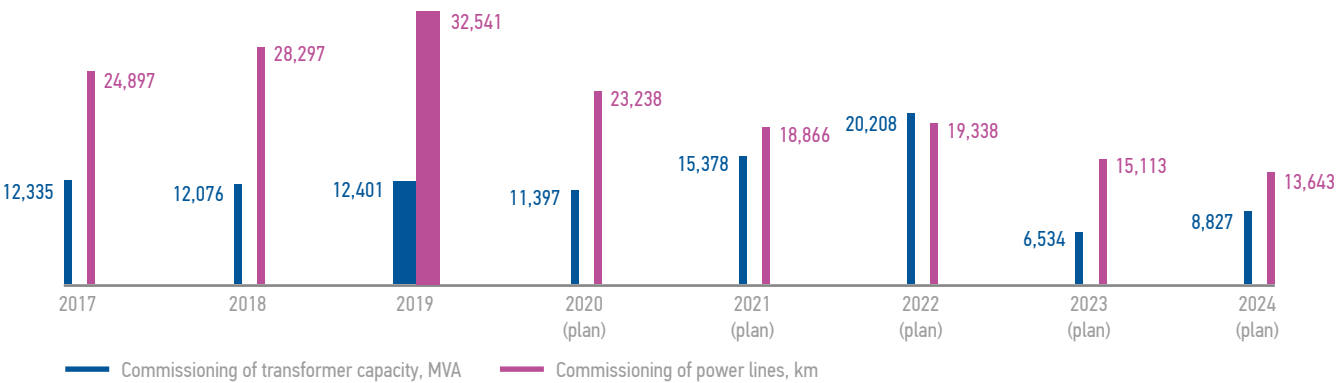
for 2020–2024:



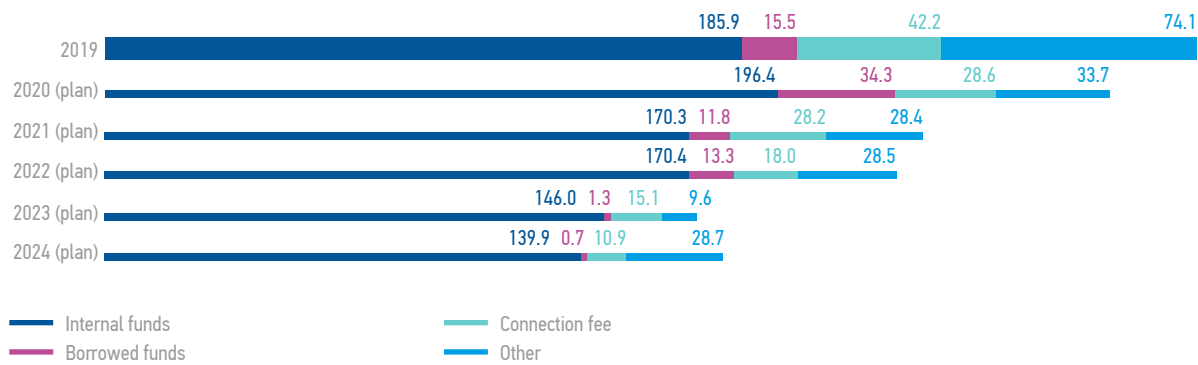
Expenses under the ROSSETI Group's Capex Program



Commissioning in the ROSSETI Group



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



Consolidated capex program of ROSSETI Group for 2019–2024

Financing, mn RUB (inclusive of VAT)	2019	2020	2021	2022	2023	2024
Distribution grids	167,458	166,660	120,164	113,997	80,406	75,823
Transmission grids	149,755	125,537	118,284	115,903	91,322	104,105
ROSSETI subsidiary SDCs	572	774	251	250	279	246
Total for ROSSETI SDCs	317,785	292,970	238,698	230,150	172,007	180,174
Commissioning of fixed assets, mn RUB						
Distribution grids	155,145	158,035	98,355	131,724	63,919	58,706
Transmission grids	114,368	148,963	153,405	157,233	95,232	59,896
ROSSETI subsidiary SDCs	718	893	209	208	232	205
Total for ROSSETI with subsidiary SDCs	270,231	307,890	251,969	289,165	159,382	118,806
Commissioning of fixed assets, power lines, km						
Distribution grids	29,628	20,586	16,288	17,701	13,608	13,236
Transmission grids	2,832	2,623	2,564	1,627	1,495	397
ROSSETI subsidiary SDCs	81	30	14	10	11	10
Total for ROSSETI with subsidiary SDCs	32,541	23,238	18,866	19,338	15,113	13,643
Commissioning of fixed assets, transformer capacity, MVA						
Distribution grids	8,412	7,603	5,004	4,806	2,301	2,380
Transmission grids	3,957	3,778	10,372	15,401	4,233	6,444
ROSSETI subsidiary SDCs	32	15	2	1	1	3
Total for ROSSETI with subsidiary SDCs	12,401	11,397	15,378	20,208	6,534	8,827

Overview of the implementation of the consolidated capex program of the ROSSETI Group in 2019

SDCs	Financing, mn RUB (inclusive of VAT)	Commission- ing, mn RUB (exclusive of VAT)	Commission- ing, MVA	Commission- ing, km
Distribution grids				
MOESK	34,264	30,229	1,070	4,358
IDGC of Urals	9,991	10,942	459	2,563
IDGC of Siberia	11,810	10,524	790	3,146
ROSSETI Tyumen	11,572	11,802	560	697
IDGC of Center and Volga Region	17,931	14,282	1,620	6,769
IDGC of Centre	13,563	11,246	426	3,351
IDGC of Volga	9,544	8,868	489	1,614
LENENERGO	32,568	23,997	1,078	2,294
IDGC of North-West	5,534	4,892	179	1,316
ROSSETI South	2,296	2,619	215	794
Kubanenergo	5,445	12,912	783	791
ROSSETI Northern Caucasus	3,341	1,966	84	659
TDC	1,061	848	86	555
Yantarenergo	3,893	6,776	369	369
Chechenenergo	1,831	744	5	53
ENCE	2,254	1,767	161	101
Transmission grids				
FGC UES	149,755	114,368	3,957	2,832
ROSSETI subsidiary SDCs				
Tyvaenergo	561	730	38	196
Tsarskoye Selo Energy Company	66	55	6	5
Kurortenergo	345	308	13	44
Svet	11	9	6	1
Petrodvorets Electric Company	110	121	3	14
Saint Petersburg Power Grid	40	225	3	18
Total for ROSSETI with subsidiary SDCs	317,785	270,231	12,401	32,541

KEY CAPEX PROJECTS COMPLETED IN 2019





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.

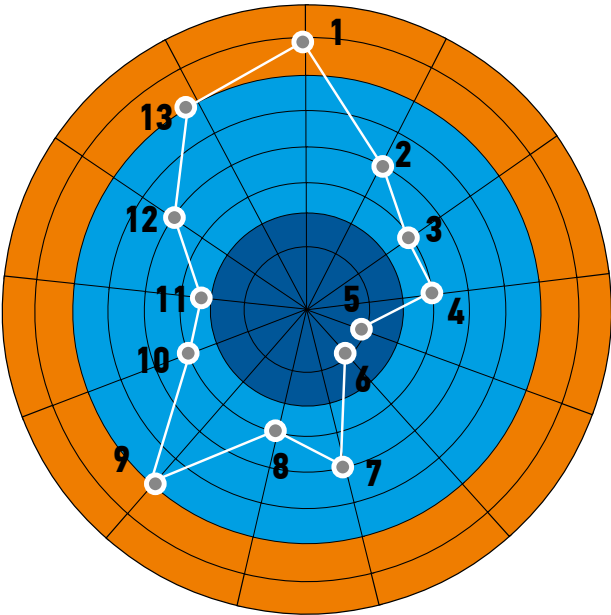
In order to determine the level of the impact of risks on the activities of the ROSSETI Group, the level of risk materiality is identified through the expert assessment of risk probability and risk consequences, as well as through the quantitative assessment using mathematical methods to calculate risk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



CRITICAL RISKS:

- 1. Risk associated with the failure of customers to pay for provided electricity distribution services.
- 9. Professional risks.
- 13. Compliance risks.

SIGNIFICANT RISKS:

- 2. Risk associated with the decreased volume of electricity distribution services.
- 3. Risks associated with the provision of network connection services.
- 4. Tariff regulation risks.
- 7. Risk associated with the deviation of Debt/EBITDA from the value specified in the business plan.

- 8. Risk associated with failure to achieve the reliability level of electricity distribution services.
- 10. Risks associated with failure to meet the main targets of the capex program.
- 11. Risks associated with the introduction of new innovative technology.
- 12. Risks associated with changes to legislation and judicial practice.

MODERATE RISKS:

- 5. Risks associated with the effects of inflation.
- 6. Risks associated with interest rate changes

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 8.5%).

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 5.7 bn in the intra-group settlements with PJSC FGC UES.

The overdue debt of guaranteeing suppliers grew by RUB 0.3 billion in 2019. This was mainly due to non-payments of TNS Energo Group's guaranteeing suppliers (RUB +0.9 billion), Astrakhanenergoby (RUB +1.1 billion), Chitaenergoby (RUB +0.8 billion), and Volgogradenergoby (RUB +0.8 billion). In terms of guaranteeing suppliers, outstanding receivables fell by RUB 3.3 bn, including RUB 1.4 billion 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 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.
- 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.

2. THE RISK OF REDUCTION IN THE VOLUMES OF ELECTRICITY TRANSMISSION SERVICES



RISK DESCRIPTION

The risk is due to the possibility of reduction in electricity consumption related to macroeconomic changes, a decline in business activity, fluctuations in the consumer demand for electricity, as well as optimisation of external power supply arrangements by major consumers.

Realisation of this risk is affected by abnormal meteorological conditions (low predictability of climate changes and their impact on different geographical regions).

The risk is due to the failure of applicants to use the capacity obtained by means of technological connection.

Decentralisation of generation and deterioration of the overall economic situation are the factors associated with the decline in demand for electricity transmission services.

In 2019, the volume of electricity transmission services of subsidiaries and affiliates saw an increase of 0.25% in physical terms year-over-year.

In the reporting year, Rosseti Group managed to reduce the level of electricity losses by 0.38 p.p. to 8.57%, compared to the actual value y-o-y.

The risk remains significant and pressing for the Group.

RISK MINIMISATION MEASURES

- Forecasting and monitoring of electricity consumption is carried out by voltage level, the price (tariff) for electricity transmission services of which is differentiated, and by category of consumers, as well as the physical parameters of the electric energy and capacity balance are monitored.
- The work is being performed to improve the accuracy and reliability of electricity and capacity demand planning, in particular a special focus is placed on monitoring of electricity consumption by large consumers (who plan a construction and/or acquisition of alternative and generating facilities).
- Inspections of off-the-record electricity consumption are carried out.
- The data on volumes of consumption used by guaranteeing suppliers (energy sales organisations) in the calculation of costs of electricity transmission services is managed (including by voltage level, the price (tariff) for electricity transmission services of which is differentiated, by tariff option chosen by consumers, by category of consumers, within and above the social norm of consumption).
- In 2019, measures were taken to resolve differences in determining the scope of obligations under contracts for the provision of energy transmission services and (or) purchase of electric energy to compensate for technological consumption (losses) of electric energy.
- In 2019, the implementation of the Programme of Measures to Reduce Electricity Losses in Electricity Networks continued.
- In 2019, the Group continued to work with consumers of electricity transmission services to coordinate the planned scope of services, including the declared capacity, to introduce them into respective electricity transmission service contracts and submit them to state tariff regulation authorities.
- Suggestions on technological consumption of electricity/capacity are formed and submitted to state tariff regulation bodies, taking into account the current dynamics of productive supply for the purpose of establishing the consolidated forecast balance of production and supply of electric energy for the next year.
- As part of the schedule in 2019, inspections of measuring complexes were carried out on a regular basis in order to replace metering devices on schedule.
- Currently, the analysis of approved arrangements and programmes for the development of the regional electric power industry is conducted to determine the necessity in constructing new generation facilities.
- The subsidiaries and affiliates implement approved programmes for the prospective development of electricity metering systems on the retail electricity market in distribution networks.

3. RISKS ASSOCIATED WITH THE PROVISION OF TECHNOLOGICAL CONNECTION SERVICES TO APPLICANTS



RISK DESCRIPTION

Risks are associated with the possible shortage of funds for the implementation of contracts on technological connection; decrease in demand for technological connection services in comparison with planned volumes taken into account when regional bodies make tariff and balance sheet decisions; failure of applicants to perform obligations under technological connection contracts (in particular, growth of operating costs due to an overestimation of the declared capacity by consumers in technological connection); untimely performance of obligations by a grid organisation.

Due to the influence of these factors, revenue from technological connection may decrease.

In 2019, the volume of technological connection of consumers and energy generation facilities suffered a drop of 9% in terms of the executed contracts and of 21% in terms of connected capacity y-o-y. At the same time, the amount of accumulated obligations was reduced by 9%.

The general volume of executed technological connection contracts (98%) falls on applicants on benefits, with power receiving devices with a capacity of up to 150 kW (inclusive).

The key achievement in this type of operations was the reduced period of connection of applicants — 88 days, which is 9% less against 2018.

RISK MINIMISATION MEASURES

- Rosseti Group operates a range of measures related to technological connection contract management (it covers each stage: development of technical conditions, pricing, procurement, signing and execution of contractor agreements, execution of in-house technological connection contracts), including the automation of technological connection activities.
- In 2019, applications were monitored as well as technological connection forecasts were prepared (including the growth geography) in order to predict the volume of applications and obligations of the grid company in the next year.
- Workflows for processing consumer applications for technological connection and execution of technological connection contracts are improved. Technological connection is conducted in an automated process control system, thus ensuring transparency, rapid drafting and analysis of reports, control of the implementation practice, and documentation drafting. Applications for technological connection are filled in electronically on the subsidiaries and affiliates' official websites, as well as on the PJSC Rosseti portal of electric grid services (noptan-tr.pf), which allows for processing applications in real time and avoid paper document flow.
- To ensure the provision of high-quality services by the grid organisations to their consumers, current and potential applicants can apply for technological connection online on the Portal of Electric Grid Services (noptan-tr.pf).
- Since 2018, the SVETLAYA STRANA (Bright Country) Portal has been functioning for electricity consumers to provide feedback for the purpose of rapid real-time communication between residents and an electricity supplier.
- In order to reduce the number of stages and speed up the connection of applicants, the volume of work on technological connection, performed on own account, increases.
- Automation of the preparation of technical conditions takes place: introduction of geoinformation systems and digitisation of power grid facilities make it possible, based on the topography data of electric grid facilities, to automatically generate a list of activities aimed for the inclusion in technical conditions, while reducing the period of such a stage of the technological connection procedure.
- For the purpose of implementing the digitalisation concept, work is being performed on the transition to a unified digital infrastructure for servicing consumers of Rosseti Group.
- In 2019, the development of a mobile application of the power grid services portal was started, allowing to use a wide range of electronic services.

4. RISKS OF TARIFF REGULATION



RISK DESCRIPTION

The risks are associated with the partial consideration of costs of power grid companies incurred in the course of necessary gross revenue generation, as a result of limited growth rates of tariffs for electricity transmission services.

Implementation of the state tariff policy on distribution of the social burden of cross-subsidisation of residents to consumers of the distribution power grid complex exclusively causes major consumers to choose a UNEG management company or their own generation.

These factors negatively affect Rosseti Group's financial stability.

RISK MINIMISATION MEASURES

- Work is being carried out on the cooperation with executive authorities of the constituent entities of the Russian Federation in the field of state regulation of tariffs when setting economically reasonable tariffs.
- Work is being carried out on the cooperation with federal executive authorities (the FAS of Russia, the Ministry of Energy of Russia, the Ministry of Economic Development of Russia and others) aimed to improve the principles of tariff regulation.



FINANCIAL RISKS

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 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

→ Rosseti Group provides a set of measures aimed at optimising the share 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 DESCRIPTION

Risks of deviation of the actual value of the Debt/EBITDA debt burden ratio from the value set in the business plan. The Debt/EBITDA indicator characterises the Company's degree of debt burden and solvency.

In general, for Rosseti Group the risk was not realised. In 2019, the value of the Debt/EBITDA indicator was 1.9 (with a target value of 2.0).

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.

→ Rationing 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 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.

The average duration of disruption of electricity transmission to the Psaidi reception point was 1.8 hours.

The average frequency of disruption of electricity transmission to the Psaiñ reception point was 1.2 pcs.

The Russian Federation confirmed a maximum rating of 8 out of 8 points for the Electrical Power Reliability Index (SAIDI, SAIFI) indicator.

In total, PJSC Rosseti subsidiaries and affiliates recorded and investigated 9.6 thsd 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 PJSC Rosseti, the number of technological violations related to adverse weather events was down by 20%, and due to the poor maintenance of equipment — decreased by 13%.

Based on the strategic importance of the "reliability of electricity transmission services" indicator, this risk remains significant for 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 S&A, aimed at:

- the disposal of equipment that may cause injuries;
- the standardisation of OL passages (clearing the territories near power lines of forests);
- the improvement of reliability of the distribution network;
- the improvement of lighting-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 Rosseti Group has zero tolerance for accidents that are dangerous for its employees.

RISK MINIMISATION MEASURES

→ 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 to 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 passages 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.

3. THE RISK OF FAILURE TO DELIVER KEY PARAMETERS OF THE INVESTMENT PROGRAMME <sup>31</sup>



RISK DESCRIPTION

The risk realisation is mainly affected by the following factors: lack of financing sources, failure to meet project deadlines by contractors, bankruptcy, unwillingness and refusal of an applicant related to TC activities, failure to receive initial permits. In 2019, 193 priority facilities worth RUB 78 billion were scheduled for commissioning. In fact, 188 facilities worth RUB 76.7 billion were accepted.

✔ RISK MINIMISATION MEASURES

- A new system of assessment of key management efficiency indicators of Rosseti's S&A has been introduced so that to increase the responsibility for execution of investment projects, taking into account quarterly performance in terms of priority facilities commissioning.
- The system of control over the implementation of priority investment projects, introduced by PJSC Rosseti, allows for the timely identification of risks of failure to implement projects and promptly respond to slippages.
- In order to minimise the risk, 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.

4. RISKS ASSOCIATED WITH INNOVATIVE TECHNOLOGY IMPLEMENTATION



RISK DESCRIPTION

The tasks of accelerated breakthrough scientific, technological and socio-economic development, set forth by Decree of the President of the Russian Federation No. 204 of 7 May 2018, require the introduction of technological innovations to accelerate technological development, as well as the introduction of new innovative technologies, including in the part of large-scale digitalisation of the power grid complex. Meeting these goals is associated with risks of higher investment costs, lower return on investments, and failure to achieve required effects, as well as with risks related to information security. The areas of PJSC Rosseti's innovation-driven growth are in conformity with main areas of application of overseas companies' innovative technology. The key performance indicators set for the Innovative Development Programme of PJSC Rosseti correspond to the indicators used by peers, and also reflect the contribution of innovation in the combined effect of improving the performance of production activities.

✔ RISK MINIMISATION MEASURES

- PJSC Rosseti's key innovative development areas are being formed and introduced on the basis of best practices in terms of the application of innovative technologies developed by leading foreign peers.
- Updating of the list of priority technologies in the areas of innovative development, taking into account the best world experience, is taking place.
- Every year, the evolution and experience of innovative technology introduction abroad is studied.
- Patent research (patent analytics) on priority technological innovations is carried out.
- The automated system of formation and monitoring of implementation and efficiency assessment of the innovative development programme's activities and projects is being implemented across Rosseti Group.
- Work is underway to improve the system of innovation management (taking into account the objectives of digital transformation).
- Work has been organised to form and expand the ecosystem of innovations with the involvement of experts, scientific organisations, universities, and professional communities.
- The analysis of necessity and sufficiency of the current coverage of all subjects of the Russian Federation by digital technology is conducted.
- To reduce risks of cyber threats, the transition to the use of mainly domestic software is in progress.
- Information security threats are analysed and a model of information security threats is developed or elaborated (if there is one), as well as the category of importance of information infrastructure facilities is determined.

LEGAL RISKS

1. RISKS ASSOCIATED WITH CHANGES IN LEGISLATION AND JUDICIAL PRACTICE



RISK DESCRIPTION

Activities of Rosseti Group are regulated and controlled by federal executive authorities, including the Federal Antimonopoly Service of Russia, the Federal Tax Service of Russia, the Ministry of Energy of Russia, and Rostekhnadzor. Rosseti Group executes a number of orders and instructions of the Government of the Russian Federation, and is controlled by the Accounts Chamber of the Russian Federation in terms of the lawful use budget funds allocated for significant investment projects.

✔ RISK MINIMISATION MEASURES

- In 2019, the updating of local regulations was actively carried out.
- Legislative changes are monitored every month.
- Every year, a plan of rule-making activities is created and implemented.
- An intra-group law enforcement practice on the functioning of the power grid complex is being formed.

2. COMPLIANCE RISKS



RISK DESCRIPTION

Inside Rosseti Group, a special attention is paid to the work on ensuring the compliance with legal requirements for anti-corruption and competition, as well as activities to counter the misuse of insider information and market manipulation. Based on the accepted level of tolerance to this group of risks, compliance risks remain significant and relevant.

✔ RISK MINIMISATION MEASURES

- Rosseti Group has formed and adhere to the basic principles of anti-corruption; the adopted local regulations allow to promote a negative attitude towards corruption, to prevent or resolve conflicts of interest, and to prevent any illegal activities.
- The Company has the Ethics Code in place, which defines, inter alia, the procedure for response of employees in a conflict of interest. It also suggests a mechanism for implementation and monitoring of compliance with the corporate ethics guidelines.
- The Anti-corruption policy has been adopted. Every year, a set of measures aimed at preventing corruption are developed and followed.
- 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:
  - 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;
  - 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;
- 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.

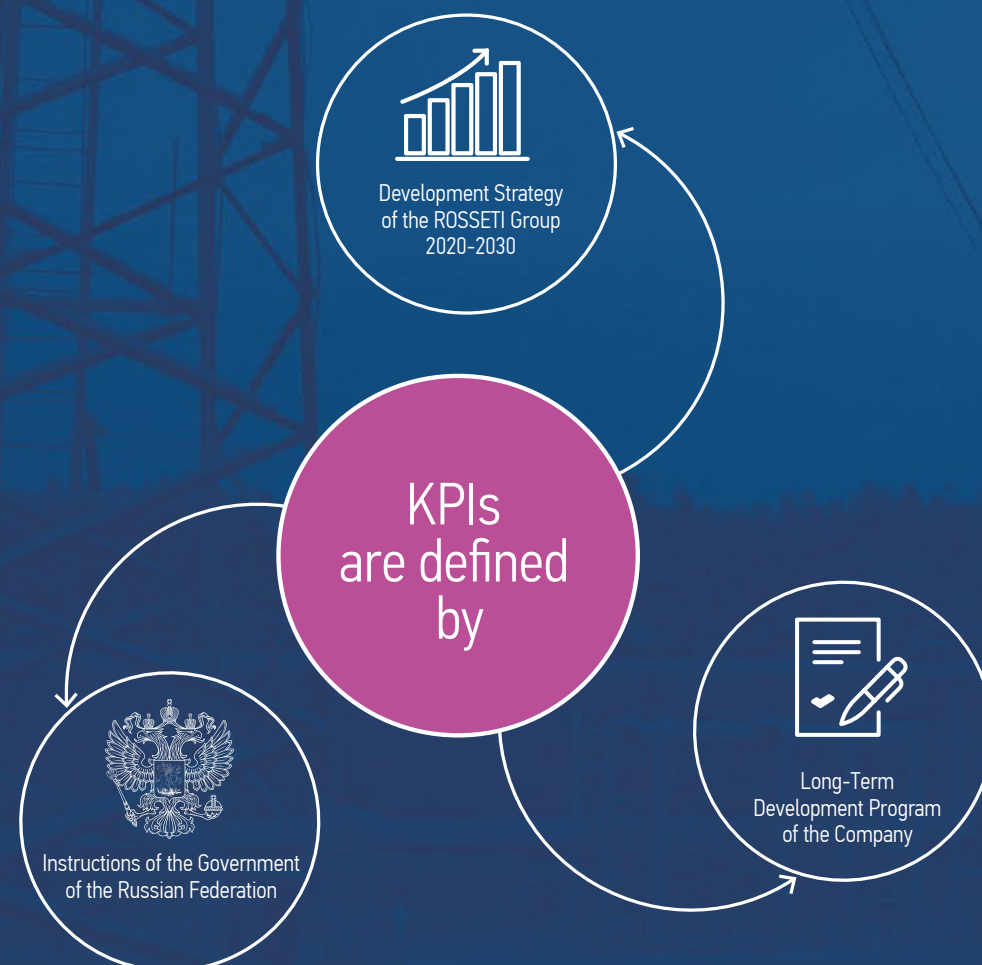
<sup>31</sup> The Company has no investments, whose estimated level of income exceeds 10% per year.



# 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.



THE KPI SYSTEM IS LINKED TO THE VARIABLE COMPONENT OF MANAGEMENT'S REMUNERATION: EACH INDICATOR IS ASSIGNED A SPECIFIC WEIGHT IN THE BONUS POOL. QUARTERLY AND ANNUAL BONUSES ARE PAID IF THE CORRESPONDING KPIS ARE ATTAINED.

## KPI System in 2019

The existing KPI system was approved by the Board of Directors of ROSSETI in March 2017<sup>32</sup>.

The target values for 2019 were approved by the Board of Directors of the Company<sup>33</sup>.

Decision of the Company's Board of Directors (minutes No. 349) of 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  $\geq 90\%$ . 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.

<sup>32</sup> Resolution of the ROSSETI Board of Directors dated March 01, 2017 (Minutes of the Meeting of March 03, 2017 №254).

<sup>33</sup> Resolution of the ROSSETI Board of Directors dated November 07, 2019 (Minutes of the Meeting of August 11, 2019 №378).

KPI Structure and Target Values for 2018 and 2019

LTDP Targets	KPI Description	Weight in the Bonus System, %	Results Achieved in 2018	Target Value in 2019	Results Achieved in 2019
QUARTERLY					
ENHANCING THE OPERATING EFFICIENCY OF ELECTRIC GRIDS	Consolidated profit from operating activities (EBITDA)	50	attained	attained	<b>Level of attainment: 100%</b> <sup>34</sup> (subsidiaries did not exceed the permissible number of unachieved indicators)
	Consolidated net debt/EBITDA	25	attained	attained	<b>Level of attainment: 100%</b> <sup>35</sup> (subsidiaries did not exceed the permissible number of unachieved indicators)
	Implementation of the action plan to reduce subsidiaries' and dependent companies' receivables	25	attained	attained	<b>Level of attainment: 100%</b> <sup>36</sup> (subsidiaries did not exceed the permissible number of unachieved indicators)
	Compliance with commissioning schedules	-10	-	≥ 90%	<b>Level of attainment: 100%</b> <sup>37</sup> (commissioning schedules were complied with)
SECURING A RELIABLE AND UNINTERRUPTED POWER SUPPLY AND ENSURING ENERGY SECURITY	No growth of large accidents	-25	no growth	attained	<b>Level of attainment: 100%</b> <sup>38</sup> (the number of large accidents was decreased by all SDCs)
	No growth of casualties	-25	no growth	no growth	<b>Level of attainment: 100%</b> <sup>39</sup> (the occupational injury rate was reduced as compared with 2018; the number of casualties from among SDCs' personnel was decreased)
ANNUAL					
KEEPING A BALANCE BETWEEN THE INTERESTS OF DIFFERENT KEY STAKEHOLDERS	Consolidated net cash flow	20	25.0 bn RUB	≥ -29.0 bn RUB	<b>Level of attainment: 217%</b> (the consolidated net cash flow exceeded the target value)
ENHANCING THE OPERATING EFFICIENCY OF ELECTRIC GRIDS	Reduction of specific operating expenses (costs)	15	≥ 2% (not attained by three companies)	≥ 2% (not attained by at most three companies)	<b>Level of attainment: 100%</b> (companies did not exceed the permissible number of unachieved indicators)
	Electricity losses	10	8.95%	≤ 8.87%	<b>Level of attainment: 103%</b> (electricity losses were kept at the planned level)
	Reduction of specific investment costs	15	0.95	≤ 1	<b>Level of attainment: 112%</b> (specific investment costs were reduced as required under the consolidated investment program of ROSSETI SDCs for 2019)
	Improvement of workforce productivity	10	3.40%	≥ 2.00%	<b>Level of attainment: 339%</b> (workforce productivity was improved as required)
	Innovation effectiveness	20	113%	≥ 90%	<b>Level of attainment: 126%</b> (evaluated by the Interdepartmental Working Group on the Attainment of Innovative Development Priorities of the Presidium of the Presidential Council on the Economic Modernization and Innovative Development of the Russian Federation within the prescribed period)
SECURING A RELIABLE AND UNINTERRUPTED POWER SUPPLY AND ENSURING ENERGY SECURITY	Increased capacity utilization rate of electric grid equipment	10	attained	attained	<b>Level of attainment: 100%</b> (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)
	Achieved reliability of services	-10	0.32 (attained by all subsidiaries)	SAIDI, SAIFI, ENS simultaneously: < 1.00	<b>Level of attainment: 100%</b> <sup>40</sup> (the target level of service reliability was achieved in all regions of ROSSETI's operations)
MAINTAINING THE ACCESSIBILITY OF INFRASTRUCTURE, IMPROVING CUSTOMER SERVICE QUALITY	Compliance with network connection deadlines	-10	1.0	≤ 1.1	<b>Level of attainment: 100%</b> (the 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 150 kW as compared with 2018)

<sup>34</sup> For the 4th quarter of 2019 and 2019, 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 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 for the 1st quarter, the 1st half, and the 9 months of the reporting year is ≥ 0 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.

<sup>35</sup> 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 statement.

<sup>36</sup> 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 they achieve the planned values specified in the action plans approved by the boards of directors of SDCs to reduce SDCs' receivables.

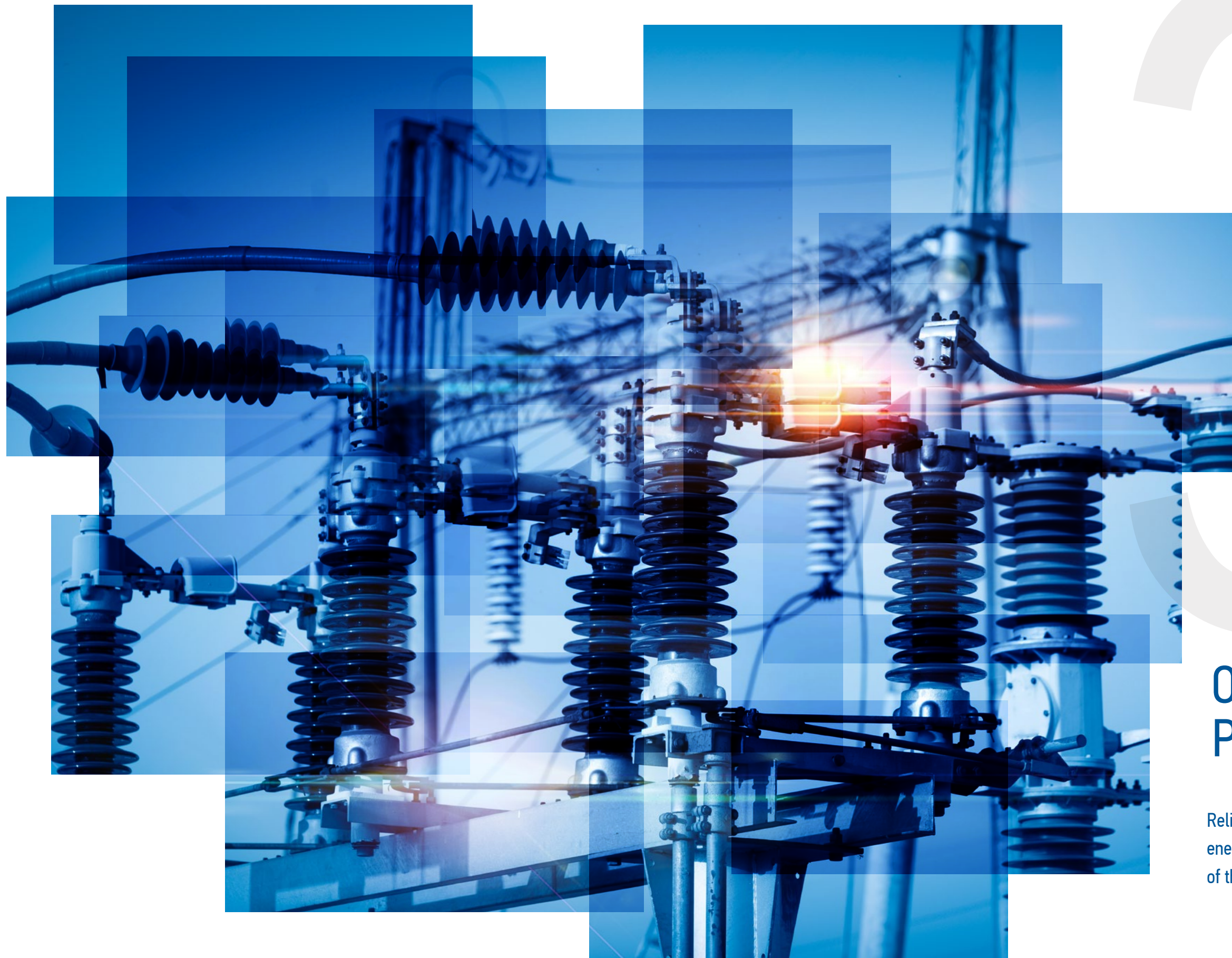
<sup>37</sup> The indicator is deemed to be attained by ROSSETI if the target value is exceeded for high-priority projects included in the current capital investment programs of SDCs.

<sup>38</sup> 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.

<sup>39</sup> 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.

<sup>40</sup> The indicator is deemed to be attained by ROSSETI in 2019 if the target value is not exceeded as related to the System Average Interruption Duration Index (SAIDI), the System Average Interruption Frequency Index (SAIFI), and the Energy Not Supplied (ENS) Index. In 2017–2018, the KPI was evaluated for the Duration of Power Outages Index.





## OPERATIONAL PERFORMANCE

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



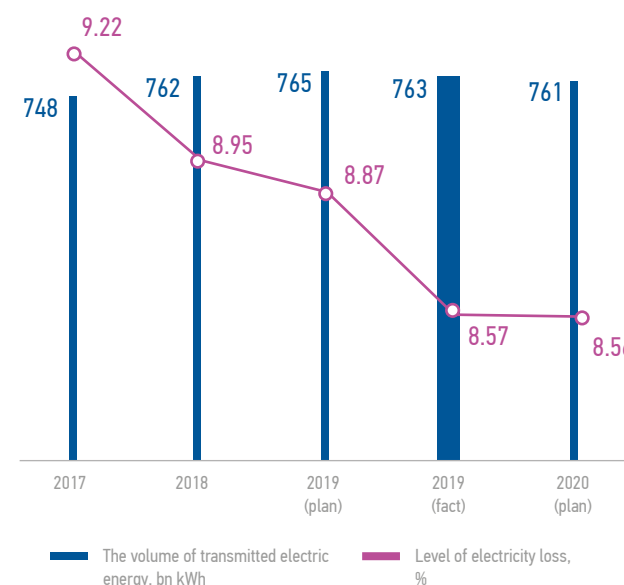
# Review of Operating Results

Principal activities of ROSSETI Group are electricity transmission and distribution services as well as network connection services

## Electricity Transmission and Distribution

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

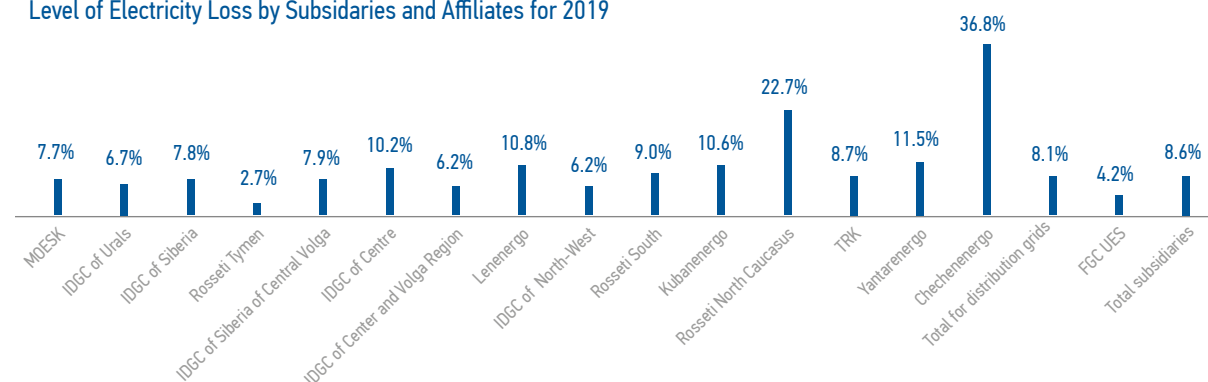
Electricity Transmission Services Indicators



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

The company once more faced a decrease in the level 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 energy 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.

Level of Electricity Loss by Subsidiaries and Affiliates for 2019



## 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:



All above mentioned events experienced no interruptions in energy supply.

TO FULFILL THE ABOVE TASK THE GROUP ENGAGED



SDCs	Electric Energy Supplied to the Network, mln kW * h					Volume of Electricity Loss, mln kW * h					Level of Electricity Loss, %				
	2017	2018	2019 plan	2019 actual	2020 plan	2017	2018	2019 plan	2019 actual	2020 plan	2017	2018	2019 plan	2019 actual	2020 plan
MOESK	90,231.4	91,881.2	93,234.0	91,747.8	92,742.3	7,431.7	7,439.5	7,315.0	7,036.5	7,125.4	8.24	8.10	7.85	7.67	7.68
IDGC of Urals	73,897.3	73,135.7	73,701.1	71,598.5	70,954.4	5,715.3	5,427.5	5,241.0	4,810.2	4,989.8	7.73	7.42	7.11	6.72	7.03
IDGC of Siberia	65,507.0	62,021.3	62,617.3	61,065.2	61,460.9	4,997.8	4,844.2	5,046.5	4,778.2	4,768.9	7.63	7.81	8.06	7.82	7.76
Rosseti Tyumen	65,022.0	57,853.8	58,102.1	58,059.7	58,683.2	1,700.0	1,640.2	1,585.8	1,547.0	1,523.1	2.61	2.84	2.73	2.66	2.60
IDGC of Center and Volga Region	54,797.5	54,055.5	54,409.8	53,617.7	53,082.3	4,373.5	4,236.4	4,075.2	4,257.6	3,842.9	7.98	7.84	7.49	7.94	7.24
IDGC of Centre	59,234.8	54,235.7	53,554.3	53,141.3	52,749.6	5,841.8	5,751.5	5,494.3	5,434.5	5,185.1	9.86	10.60	10.26	10.23	9.83
IDGC of Volga	53,051.2	53,491.2	53,043.3	51,884.8	51,332.2	3,501.8	3,466.6	3,355.4	3,200.4	3,145.9	6.60	6.48	6.33	6.17	6.13
Lenenergo	38,717.3	38,263.8	38,764.7	38,255.5	37,914.8	4,439.6	4,337.5	4,320.9	4,138.4	4,123.5	11.47	11.34	11.15	10.82	10.88
IDGC of North-West	37,621.4	34,297.4	34,791.0	34,593.7	34,135.2	2,283.6	2,258.6	2,200.3	2,156.4	2,124.3	6.07	6.59	6.32	6.23	6.22
Rosseti South <sup>41</sup>	27,995.1	27,326.0	27,036.7	25,973.5	26,784.7	2,653.8	2,679.0	2,436.2	2,323.8	2,273.4	9.48	9.80	9.01	8.95	8.49
Kubanenergo	22,633.3	23,032.5	23,378.0	22,850.7	23,838.8	2,729.0	2,590.1	2,582.5	2,426.4	2,504.3	12.06	11.25	11.05	10.62	10.51
Rosseti North Caucasus <sup>42</sup>	18,477.2	18,531.1	18,983.2	18,720.7	19,005.5	4,024.8	3,703.2	3,587.3	4,246.0	3,406.5	21.78	19.98	18.90	22.68	17.92
TRK	5,442.2	5,288.9	5,368.2	5,335.7	5,285.1	450.0	475.8	476.6	464.8	457.6	8.27	9.00	8.88	8.71	8.66
Yantarenergo	4,178.6	4,142.5	4,145.0	4,140.3	4,186.5	646.6	520.6	531.1	474.6	510.1	15.47	12.57	12.81	11.46	12.19
Chechenenergo	2,681.8	2,754.4	2,800.0	2,905.3	2,862.9	925.0	988.1	846.0	1,069.0	806.6	34.49	35.87	30.21	36.80	28.17
Total for Distribution Grids	619,488.1	600,311.0	603,928.7	593,890.5	595,018.5	51,714.3	50,358.9	49,094.0	48,363.8	46,787.4	8.35	8.39	8.13	8.14	7.86
FGC UES	571,658.7	582,268.9	580,190.7	581,918.5	581,349.9	24,307.3	24,539.2	25,360.8	23,196.7	24,454.8	4.44	4.40	4.57	4.15	4.39
Total for ROSSETI SDCs	824,184.1	836,393.1	838,991.7	834,939.0	831,892.6	76,021.6	74,898.2	74,454.8	71,560.5	71,242.2	9.22	8.95	8.87	8.57	8.56

<sup>41</sup> Prior to 17.02.2020 – IDGC of South.

<sup>42</sup> Prior to 24.03.2020 – 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.:

LEVEL OF IMPLEMENTATION WITH MODERN SMART METERING SYSTEMS WITHIN THE GROUP COMPANIES HAS INCREASED UP TO

**20.1%**

HAVE BEEN MODERNIZED

**687**

THSD  
METERING  
POINTS

REMOTE DATA COLLECTION HAS BEEN INTRODUCED WITHIN

**601**

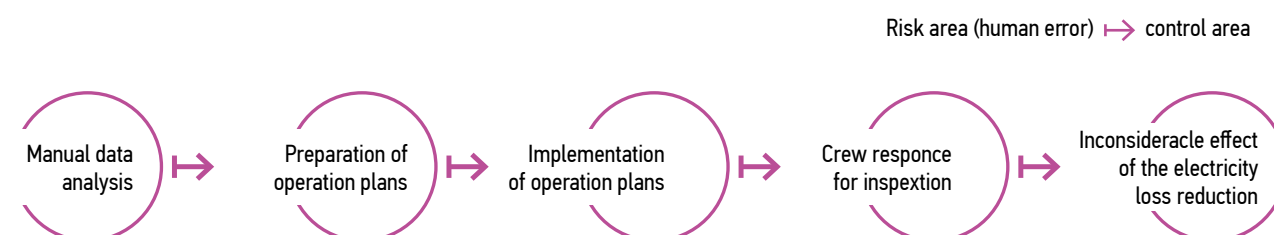
THSD METERING  
POINTS

CORRESPONDING COSTS

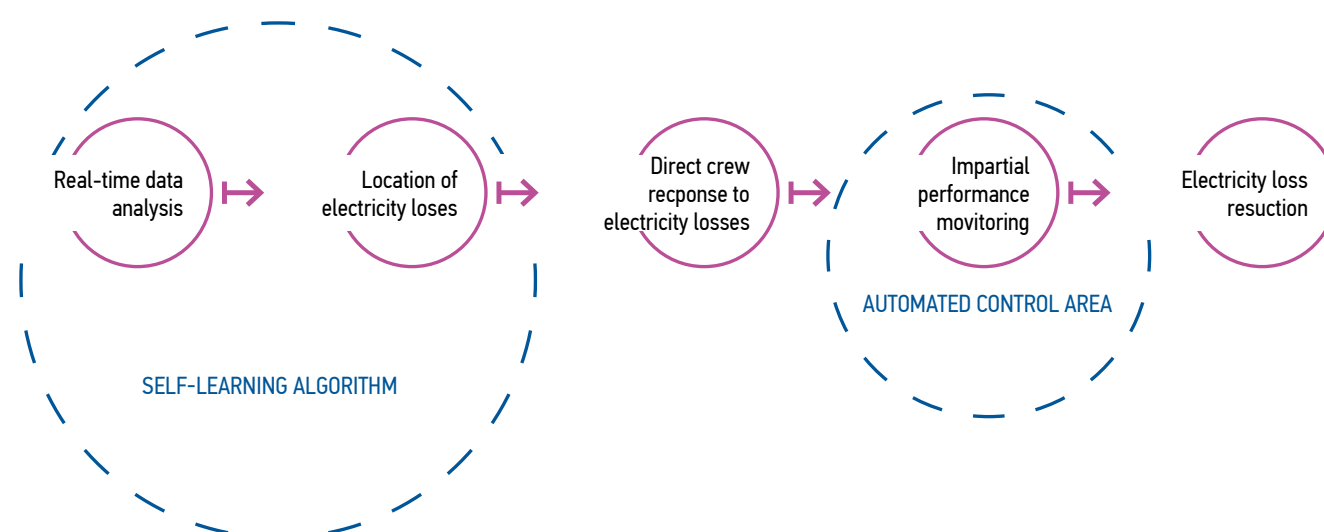
**17.1**

BN  
RUBLES

#### Current Process of Locating Electricity Losses



#### Target Model for the Process of Locating Electricity Losses



## Technological Connection

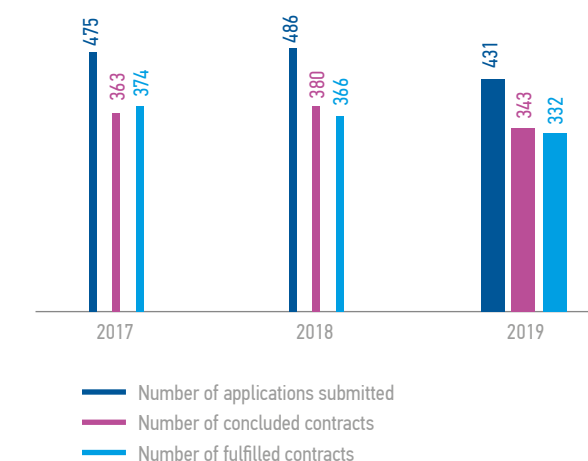
The companies of the ROSSETI group provide comprehensive services for the technological connection of consumers and producers of electricity to electric networks. Technological connection is the actual connection of power receiving devices of consumers, electric energy production facilities and electric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

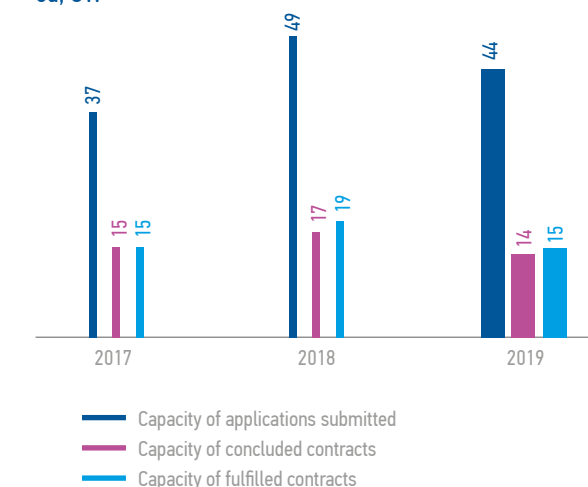
IN 2020,  
IT IS PLANNED  
TO FULFILL  
**312** THSD  
CONTRACTS

ADDING A TOTAL  
CAPACITY OF  
**15.1** GW

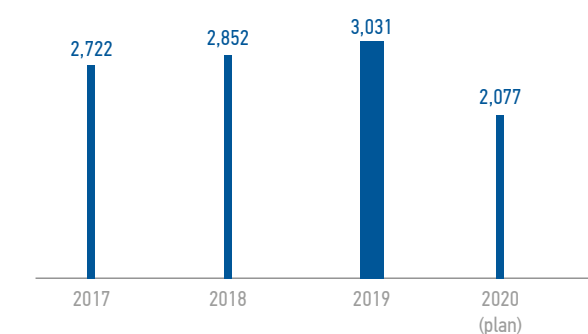
Number of Applications Received and Contracts Concluded, thsd spc.



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)

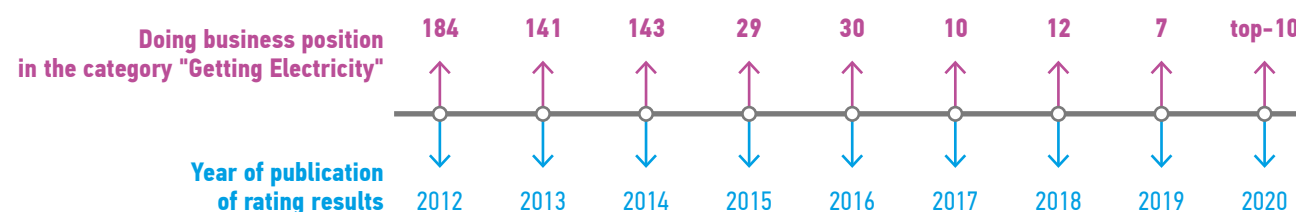


Connection cost, % GNI per capita (decrease from 5.7%)



The number of steps required for connection, pcs.

### Doing Business Rating Results



## Technological Connection in 2019

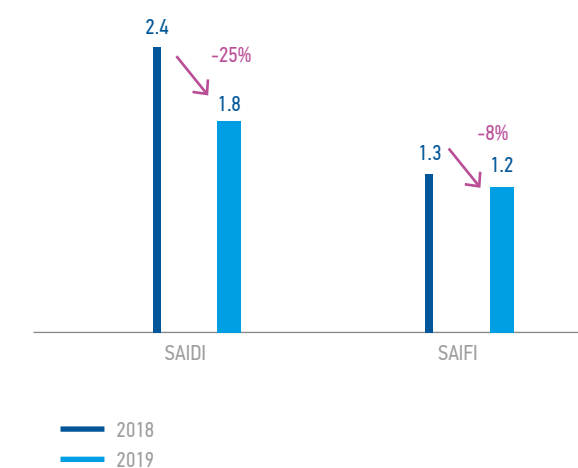
SDCs	Consumer Power Receivers						Power Generation Facilities					
	Applications submitted		Concluded contracts		Fulfilled contracts		Applications submitted		Concluded contracts		Fulfilled contracts	
	Spc.	MW	Spc.	MW	Spc.	MW	Spc.	MW	Spc.	MW	Spc.	MW
MOESK	77,249	6,208	57,942	2,060	52,725	1,887	15	99	5	37	1	71
IDGC of Urals	40,176	2,166	29,959	806	27,794	678	12	112	5	78	2	13
IDGC of Siberia	33,088	2,512	26,787	813	28,188	723	15	167	11	159	12	218
Rosseti Tyumen	6,306	607	5,114	247	4,956	300	0	0	0	0	0	0
IDGC of Center and Volga Region	55,968	2,188	45,639	913	44,059	895	1	3	0	0	0	0
IDGC of Centre	47,871	2,703	38,529	909	38,061	813	5	233	2	5	2	27
IDGC of Volga	20,591	1,263	16,695	450	16,119	543	12	352	2	76	12	172
Lenenergo	29,983	1,998	23,987	772	27,482	893	15	182	4	12	1	0
IDGC of North-West	24,398	1,212	20,404	521	20,400	426	2	36	1	4	0	24
Rosseti South <sup>43</sup>	18,799	1,626	14,698	418	14,032	354	25	1,351	10	713	5	138
Kubanenergo	33,216	1,421	28,532	711	26,165	797	3	25	2	21	0	0
Rosseti North Caucasus <sup>44</sup>	9,928	565	8,725	300	8,370	325	8	309	1	2	1	74
TRK	3,155	139	2,690	76	2,697	62	0	0	0	0	0	0
Yantarenergo	5,919	334	4,809	169	5,718	170	0	0	0	0	0	65
Other	23,992	1,317	18,181	380	14,707	336	3	4	2	3	1	347
Total for Distribution Grids	430,639	26,259	342,691	9,544	331,473	9,200	116	2,874	45	1,111	37	1,149
FGC UES	363	7,451	182	2,724	190	2,745	40	7,222	11	352	12	1,972
Total for ROSSETI SDCs	431,002	33,711	342,873	12,268	331,663	11,945	156	10,096	56	1,464	49	3,121

## Ensuring Reliable and Uninterrupted Power Supply

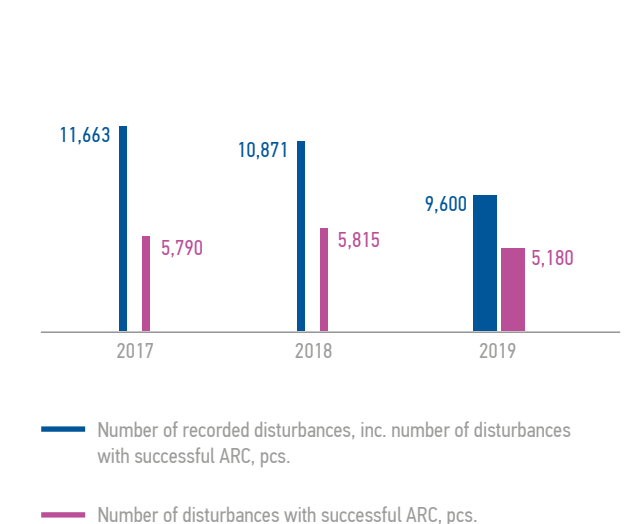
In 2019, ROSSETI companies significantly improved reliability and quality of electricity supply. This was facilitated by the work on repair, reconstruction and technical re-equipment of existing power facilities, construction of new facilities of electric grid infrastructure, active work with personnel - 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



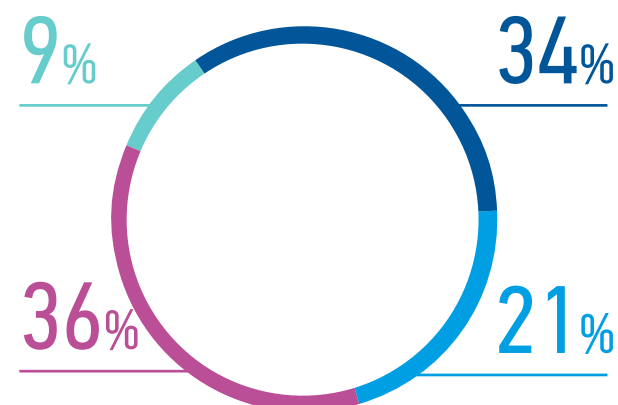
<sup>43</sup> Prior to February 17, 2020 – IDGC of South.

<sup>44</sup> Prior to March 24, 2020 – IDGC of North Caucasus.



In 2019, ROSSETI SDCs recorded and investigated 9,600 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



DECREASE BY  
**20%**

NUMBER OF DISTURBANCES DUE TO ADVERSE WEATHER CONDITIONS

DECREASE BY  
**13%**

NUMBER OF DISTURBANCES DUE TO POOR TECHNICAL CONDITION

— Adverse weather conditions  
— Physical deterioration  
— External factors  
— Other



In the World Bank rating "Doing Business - 2019", the Russian Federation reattained 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.

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 rime 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.

## 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 of the ROSSETI 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 of "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.

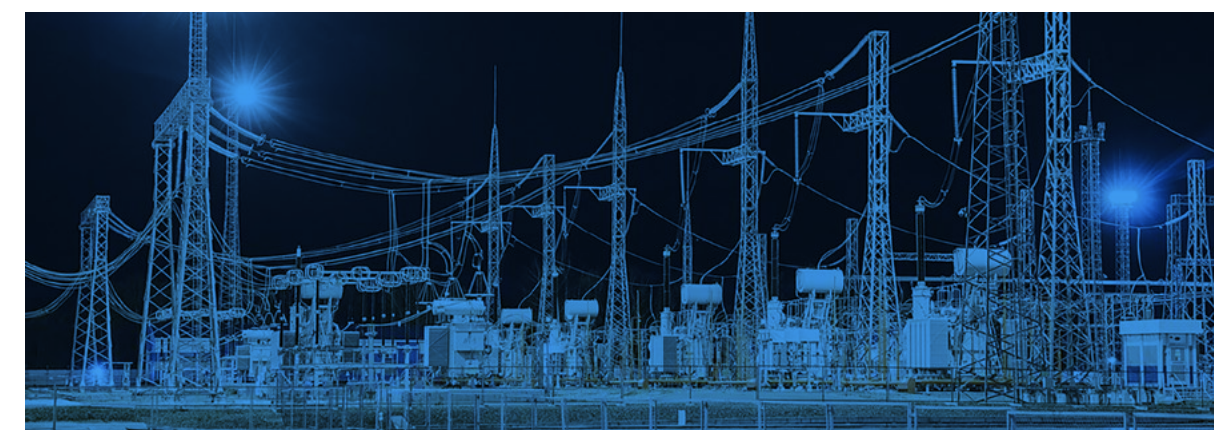
Digital transformation of the industry establishes fundamentally different requirements to the interaction of market participants. Under the conditions of moderate growth of useful electricity supply and constant demand for technological connection services over the last five years, the ROSSETI Group 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, ROSSETI Group paid special attention to the development of interactive online services for clients, which additionally facilitate the process of technological connection to electricity grids.

### Online Services for Interaction with Clients

In 2019, ROSSETI 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<sup>45</sup>.

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 ROSSETI SDCs 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 ROSSETI Group was approved. The document determines the vector of Internet resources development for interaction with clients at ROSSETI Group.



<https://светлаястрана.рф/>



### Svetlaya Strana Portal

Svetlaya Strana Portal is the Internet portal launched by ROSSETI 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 ROSSETI Moderation Service.

#### The Portal helps to solve the following problems:

- blackout;
- fluctuations of voltage;
- low voltage;
- defects of electric equipment.
- In the future, ROSSETI will expand the list

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

**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;
- ROSSETI side – additional check on the most problematic messages.



[Портал-ТП.рф](https://portal-tp.rf/)



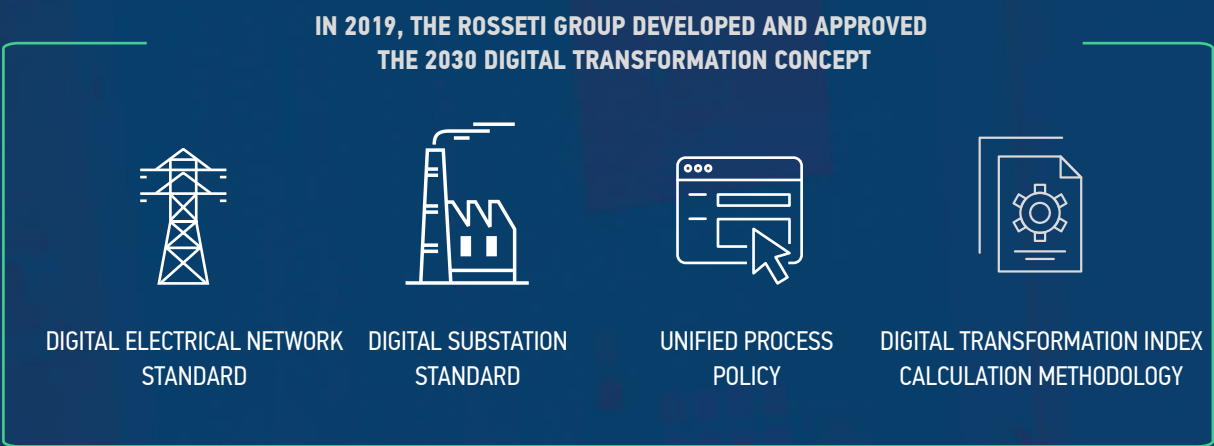
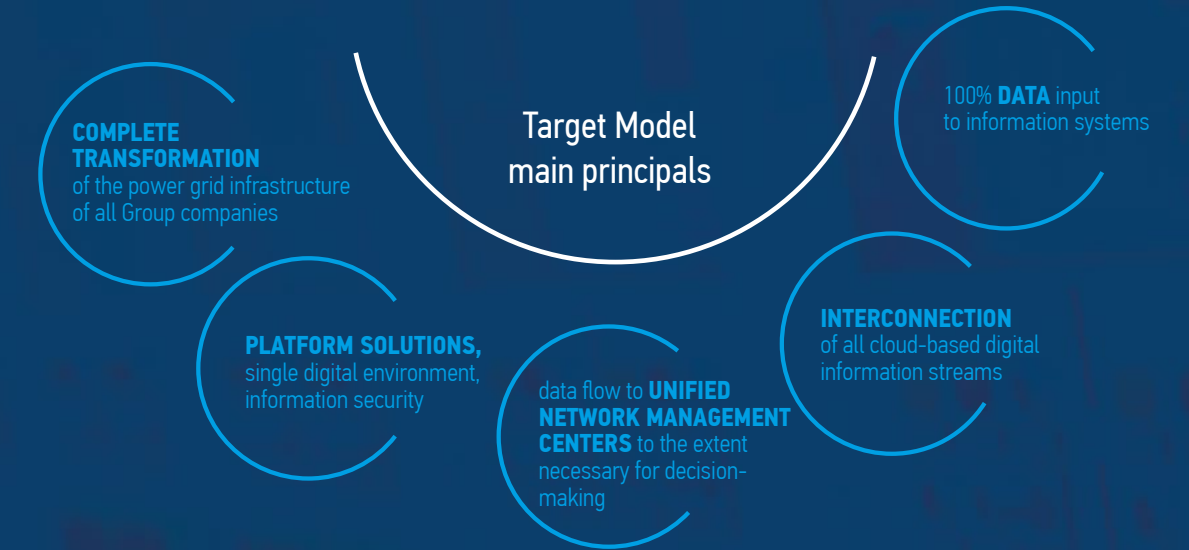
<sup>45</sup> Approved by the Russian Federation Government Resolution No. 24 of January 21, 2004.



# Introduction of New Technologies

## 2030 Digital Transformation

At the end of 2018, ROSSETI adopted the concept "Digital Transformation 2030"<sup>46</sup>. 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.



In 2020, it is planned to approve a program of ROSSETI digital transformation corresponding to the ROSSETI Group Development Strategy till 2030.

## The ROSSETI Group Digital Transformation and Effects for Company Stakeholders



EFFECTS OF DIGITALIZATION					COST CREATION
FOR THE STATE	FOR CONSUMERS	FOR ECOLOGY	FOR THE COMPANY		
<ul style="list-style-type: none"><li>economic and energy security of regions and countries as a whole;</li><li>competitiveness of domestic products of power engineering and information systems;</li><li>new jobs in various sectors of economy;</li><li>advanced modernization of the basic infrastructure company;</li><li>radical improvement of quality and availability of services on transmission and technological connection; development of competitive markets of related services;</li><li>control of tariffs;</li><li>ensuring energy independence and infrastructure security of the economy.</li></ul>	<ul style="list-style-type: none"><li>high quality standards of power supply and energy services;</li><li>ability to participate in self-consumption/energy cost management;</li><li>reduced cost and time of technological connection to the electrical network;</li><li>controlling tariff growth;</li><li>improving the quality and reliability of power supply.</li></ul>	<p>Improving the ecology by reducing energy losses and using new energy-saving technologies</p>	<ul style="list-style-type: none"><li>optimization of equipment supply logistics;</li><li>gaining savings in implementing the investment programs;</li><li>opportunity to advance network infrastructure while increasing the Company business profitability;</li><li>infrastructure readiness for new challenges;</li><li>improving the quality and reliability of power supply to consumers;</li><li>increasing the speed and quality of decision-making at all levels of the Company management;</li><li>increasing the level of personnel competence;</li><li>reducing losses through timely detection of non-contract and non-recorded consumption;</li><li>operational costs reduction - transition from scheduled to condition-based repair.</li></ul>		

<sup>46</sup> Resolution of the ROSSETI Board of Directors dated December 21, 2018 (Minutes of the Meeting of December 21, 2018 №336).

## Unified Technical Policy

In 2019, in support of implementation of the Concept "2030 Digital Transformation", a new technical policy of ROSSETI was approved.<sup>47</sup> 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;
- setermination 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.

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.

More detailed information about technical upgrading and rehabilitation can be found in the section "Capital Investment Program".

In order to develop and implement automated system of technological control ASTU Operator JSC (Rosseti ASTU) was established in December 2019. Expected results of its work are as follows:

- optimization of technological control costs;
- creating tools for new customer interaction services and business models;
- promotion of own products, experience and competences in foreign and international markets.

## 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<sup>48</sup>. Several important information technology projects were implemented in 2019.

## AUTOMATION OF TAX MONITORING OF ENTERPRISES



### SCOPE OF APPLICATION

Interaction with tax authorities



### TOOLS

Automation of tax monitoring on the basis of 1C: Holding Management: automation of the Company interaction with tax authorities, organization of access of tax service specialists to the Company business and tax accounting data, processing and control of execution of Federal Tax Service requests.



### RESULTS

- reducing tax administration costs;
- improvement of the quality of tax function within the company;
- reducing the time to check tax reporting from 3 years to 9 months upon completion of the tax year;
- elimination of retrospective risk in case of obtaining a qualified opinion issued by the Russian tax authorities.

## DEVELOPMENT OF AUTOMATED INFORMATION SYSTEM FOR CENTRALIZATION AND AUTOMATION OF TREASURY AND FINANCIAL FUNCTIONS IN ROSSETI AND SDCs



### SCOPE OF APPLICATION

Management of the ROSSETI Group companies financial flows



### TOOLS

- standardization of financial commitment processes;
- automation of processes of financial obligations acceptance and repayment in terms of payment planning and execution;
- management of bank and non-bank accounts;
- liquidity and financial transaction management;
- prompt generation of relevant treasury reports.



### RESULTS

- transfer of payment processes and control procedures to the updated automated system;
- making all receipts and payments in a single system;
- automatic control of capital adequacy of banks issuing bank guarantees;
- automatic network reporting on financial transactions to avoid errors;
- implementation of the financial planning subsystem to improve control over financial flows;
- enabling flexible selection and change of work model in the system for all SDCs
- implementing a universal payment system using host-to-host technology to exclude labor efforts on downloading and recognition of account statements.

## 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.

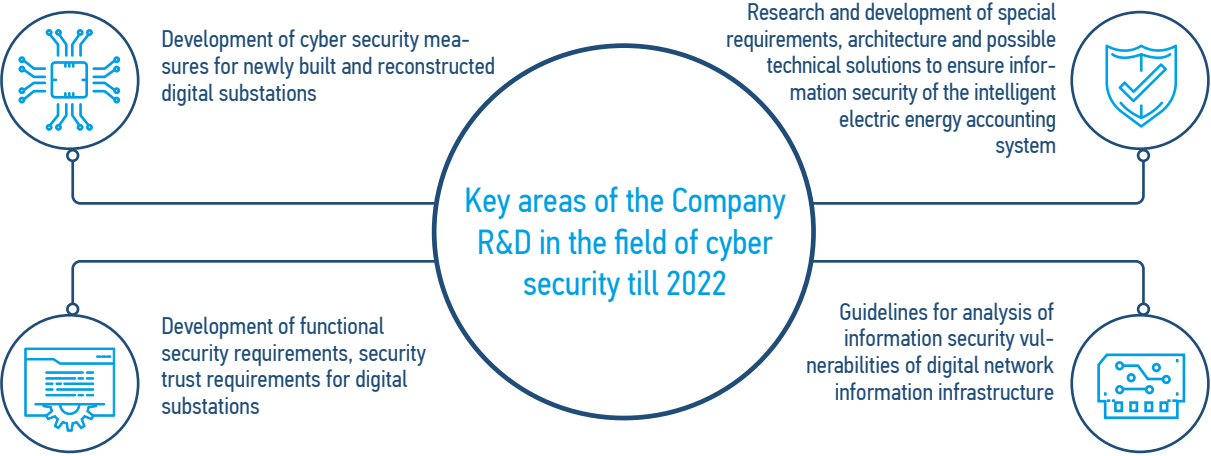
In the reporting year, ROSSETI categorized the items of critical information infrastructure of the electric grid complex. Modernization of information security system is planned for important items of critical information infrastructure.

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.

<sup>47</sup> Regulations "On the Uniform Technical Policy in the Electric Grid Sector" (approved by the Board of Directors on November 07, 2019 (minutes of meeting of the Board of Directors on November 08, 2019 №378).

<sup>48</sup> Approved by the Board of Directors on September 08, 2017 (minutes of meeting of the Board of Directors on September 08, 2017 №276).





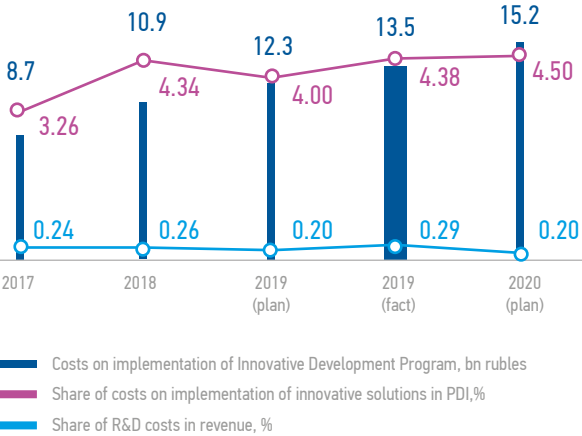
Innovative Development Program

ROSSETI implements Innovative Development Program for 2016–2020 with vision up to 2025<sup>49</sup>

Implementation of KPI target values "Innovation Efficiency"

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.



R&D Projects



20

R&D TITLES OF PROTECTION:  
• 7 PATENTS FOR UTILITY MODELS  
• 4 PATENTS FOR INVENTIONS  
• 9 CERTIFICATES



8.72 BN RUB

AMOUNT OF FEES PAID UNDER LICENSE AGREEMENTS



46

PARTNERSHIPS WITH UNIVERSITIES AND ACADEMIC ORGANIZATIONS

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 billion rubles.

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

Most significant R&D projects

SDCs	Project
IDGC of Siberia	Development of a unified information systems integration platform.
LENENERGO	Research on the use of flexible AC (FACTS) technologies for creating 110 active adaptive electrical networks.
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-aluminium 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 HVTL and AR against lightning overvoltage.
Yantarenergo	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 Vyborskaya.



<sup>49</sup> Approved by the Board of Directors on December 30, 2016 (minutes of meeting of the Board of Directors 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

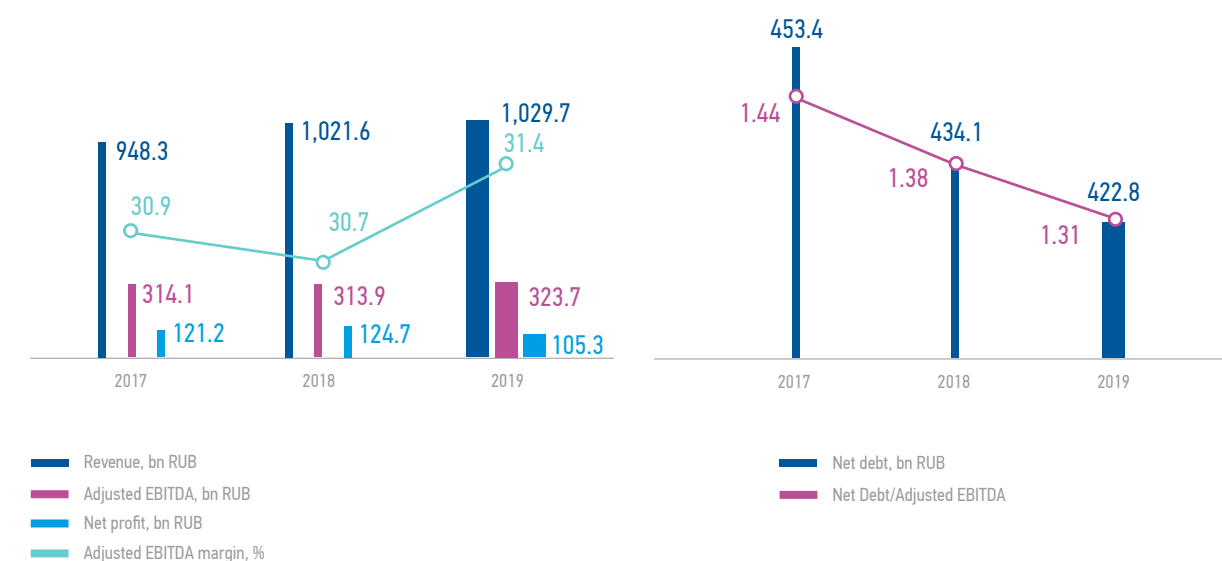
The primary focus of the Company's financial policy is to improve operating efficiency, maintain an optimum level of liquidity and a low debt burden, retain high credit ratings from international rating agencies, and ensure a high level of self-financing for capital expenditures. This allows the Company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

The key factors affecting 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 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 Rosseti Group;
- application of the new IFRS 16 Leases standard in Rosseti Group's accounting.

## Summary of IFRS Key Financial Results

Indicator (bn RUB unless otherwise stated)	2017 (restated)	2018	2019	2019/2018 Change, %
Revenue	948.3	1,021.6	1,029.7	0.8
Operating expenses	(760.2)	(835.8)	(858.3)	2.7
Adjusted EBITDA <sup>50</sup>	314.1	313.9	323.7	3.1
Operating profit	172.4	175.7	151.5	(13.8)
Net profit	121.2	124.7	105.3	(15.5)
Net debt	453.4	434.1	422.8	(2.6)
Net cash flows from operating activities	212.4	238.6	256.4	7.5



## RESULTS IN 2019:

→ **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%.

<sup>50</sup> Adjusted EBITDA is calculated as EBITDA (earnings before interest, tax, depreciation, and amortization) less impairment of fixed assets.

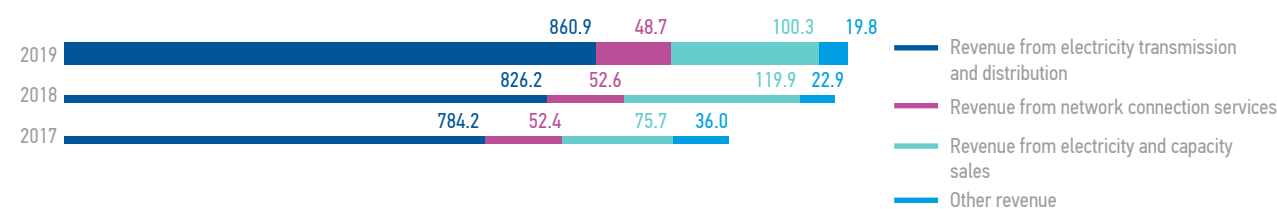


## Revenue

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.

Indicator (bn RUB unless otherwise stated)	2017 (restated)	2018	2019	2019/2018 Change, %
Revenue, including:	948.3	1,021.6	1,029.7	0.8
Electricity transmission and distribution	784.2	826.2	860.9	4.2
Network connection services	52.4	52.6	48.7	(7.4)
Electricity and capacity sales	75.7	119.9	100.3	(16.3)
Other revenue	36.0	22.9	19.8	(13.5)

Revenue Structure, bn RUB

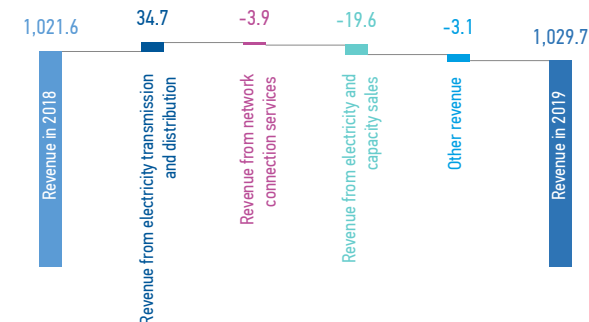


The Company's revenue increased by 0.8% (or 8.1 bn rubles) in 2019 versus 2018 to 1,029.7 bn rubles. The key factors contributing to changes in revenue are as follows:

- 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.

**1,029.7** BN  
RUB  
REVENUE

Factors Contributing to Changes in Revenue in 2019, bn RUB

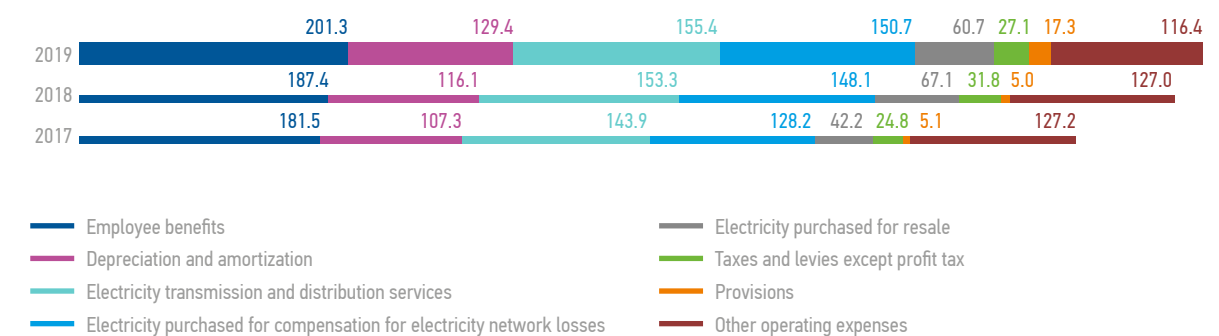


## Operating Expenses

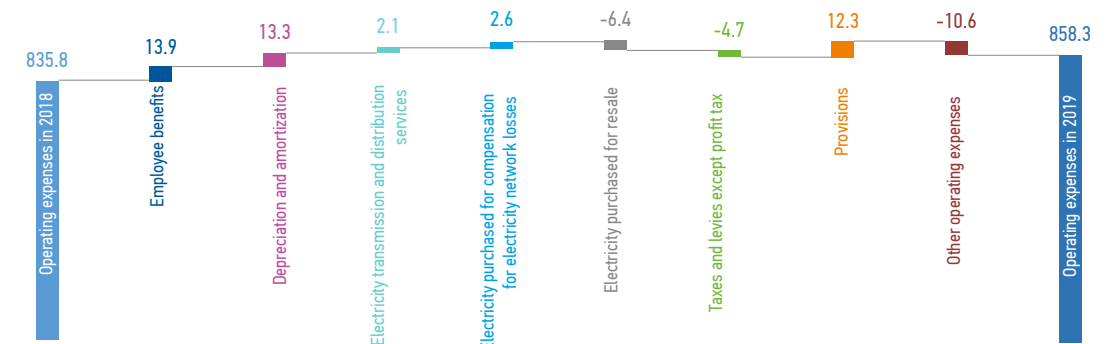
The ROSSETI Group's priorities include improving operating efficiency and reducing expenses without detriment to the reliability, quality, and accessibility of services.

Indicator (bn RUB unless otherwise stated)	2017 (restated)	2018	2019	2019/2018 Change, %
<b>Total expenses</b>	<b>797.6</b>	<b>869.3</b>	<b>905.3</b>	<b>4.1</b>
Operating expenses, including:	760.2	835.8	858.3	2.7
Employee benefits	181.5	187.4	201.3	7.4
Depreciation and amortization, right-of-use assets and intangible assets	107.3	116.1	129.4	11.5
Electricity transmission and distribution services	143.9	153.3	155.4	1.4
Electricity purchased for compensation for electricity network losses	128.2	148.1	150.7	1.8
Electricity purchased for resale	42.2	67.1	60.7	(9.5)
Taxes and levies except profit tax	24.8	31.8	27.1	(14.8)
Provisions	5.1	5.0	17.3	3-fold
Other operating expenses	127.2	127.2	116.4	(8.3)
Provision for expected credit losses (impairment of receivables)	16.2	25.8	23.4	(9.3)
Losses on impairment of fixed assets and right-of-use assets	21.2	7.7	23.6	3-fold

Structure of Operating Expenses, bn RUB



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



The Company's operating expenses increased by 2.7% (or 22.5 bn rubles) in 2019 versus 2018 to 858.3 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 SDCs;

- 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.<sup>51</sup>

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

In order to meet the Strategy targets, ROSSETI initiated the formulation of the Operating Efficiency Improvement Program in 2020. The Program is a part of ROSSETI's strategic planning documents with due regard to the objectives of transforming the energy industry. It will form the basis for determining priorities and actions related to the centralization and optimization of the administrative and accounting functions and selecting methods for increasing the efficiency of production and other processes.

## Assets and Liabilities

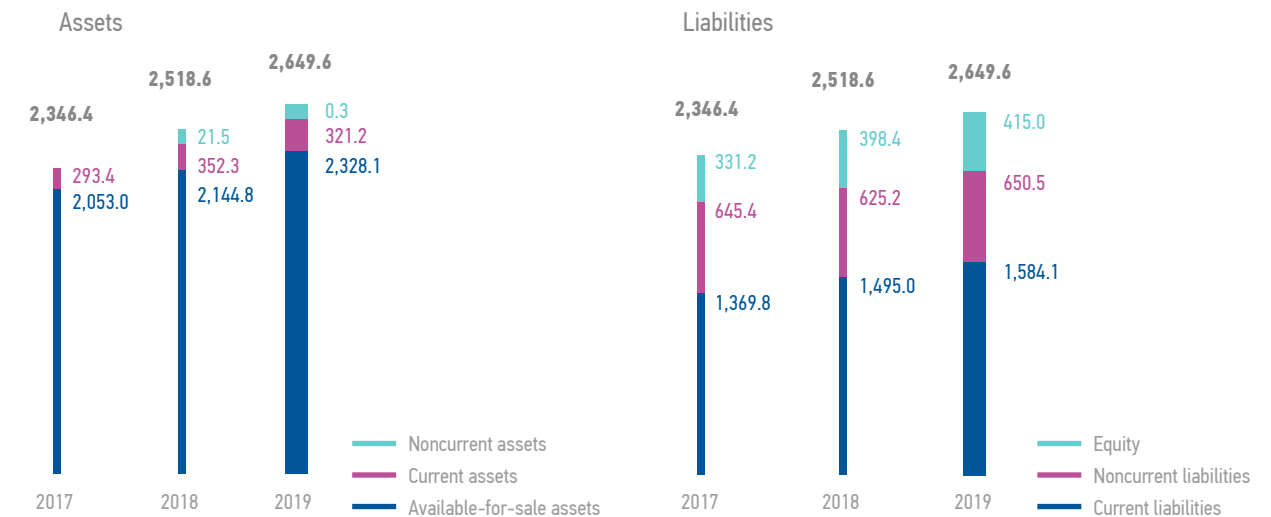
Some of the factors affecting the Company's assets are as follows:

- 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.

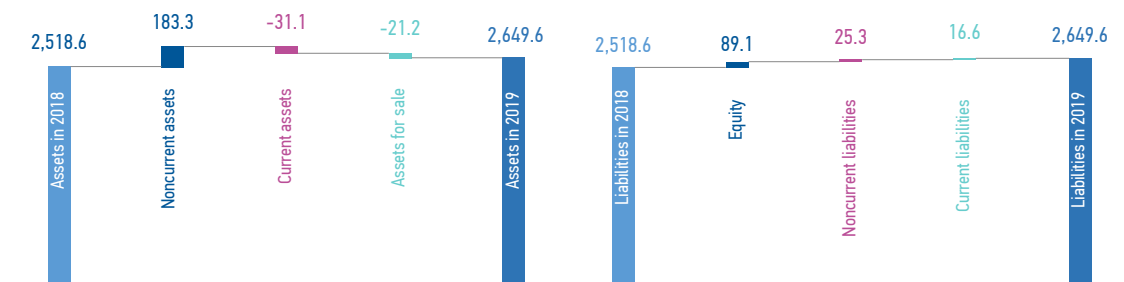
**2,649.6<sup>BN</sup><sub>RUB</sub>**  
ASSETS IN 2019

Indicator (bn RUB unless otherwise stated)	2017 (restated)	2018	2019	2019/2018 Change, %
<b>Assets</b>	<b>2,346.4</b>	<b>2,518.6</b>	<b>2,649.6</b>	<b>5.2</b>
Noncurrent assets	2,053.0	2,144.8	2,328.1	8.5
Current assets	293.4	352.3	321.2	(8.8)
Available-for-sale assets	-	21.5	0.3	(98.6)
<b>Liabilities</b>	<b>2,346.4</b>	<b>2,518.6</b>	<b>2,649.6</b>	<b>5.2</b>
Equity	1,369.8	1,495.0	1,584.1	6.0
Noncurrent liabilities	645.4	625.2	650.5	4.0
Current liabilities	331.2	398.4	415.0	4.2

### Structure of Assets and Liabilities, bn RUB



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



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

#### 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 PJSC Inter RAO.
- The asset swap agreement with FEEMC was completed.

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.

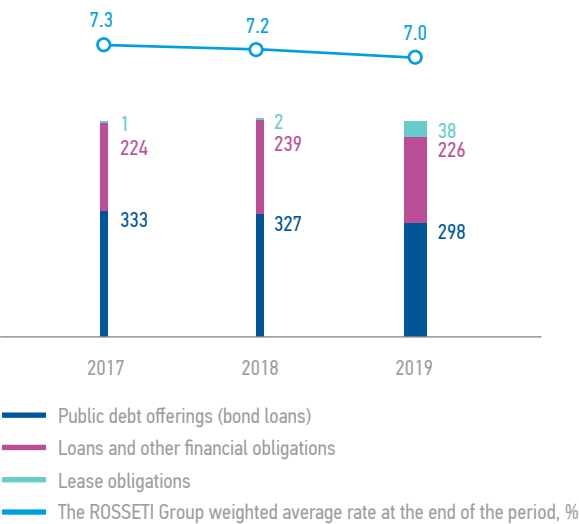
<sup>51</sup> Decision of the Board of Directors on March 1, 2017 (minutes of meeting of the Board of Directors March 3, 2017).



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.

Financial Debt, bn RUB

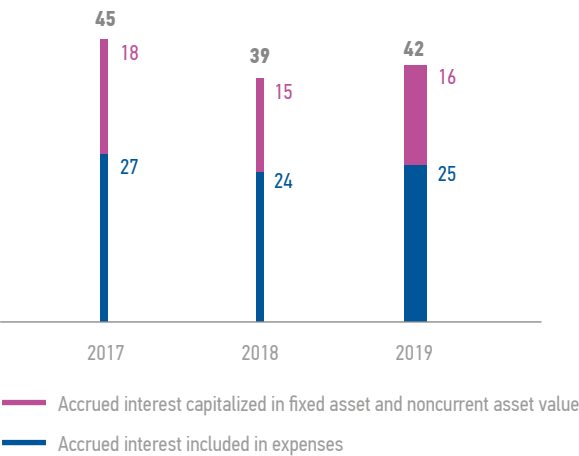


The Group's debt obligations decreased by 5.9 bn rubles in 2019. It is, however, important to note that the introduction of IFRS 16 Leases, effective from January 1, 2019, increased lease obligations by 36.2 bn rubles. With lease obligations factored out, the Group's debt would have decreased by 42.1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

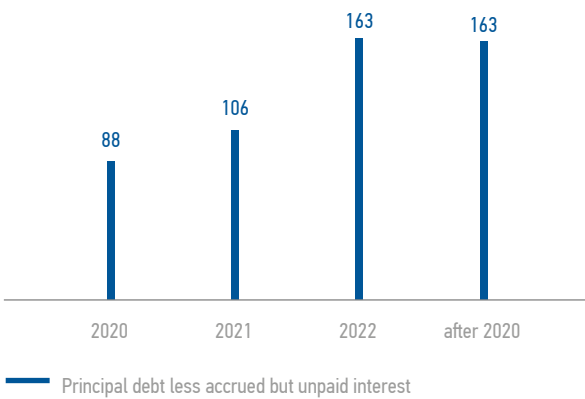
The Group's debt went down from 7.2% to 7.0% p.a., remaining below the market average (according to the Bank of Russia, the average lending rate in rubles for Russian corporate lenders for maturities of 1–3 years was 8.48% p.a. in December 2019).

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

Debt Service Expenses, bn RUB



Debt Repayment Schedule, bn RUB



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 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):

Issue number	Series	Outstanding volume, RUB mln	Date of placement	Placement rate, %
MOESK				
4B02-01-65116-D-001P	001P-01	8,000	April 23, 2019	8.45
4B02-05-65116-D	B0-05	5,000	June 06, 2019 <sup>52</sup>	8.40
IDGC of Urals				
4B02-03-32501-D	B0-03	3,000	October 30, 2019	7
4B02-04-32501-D	B0-04	4,000	October 30, 2019	7
IDGC of Centre				
4B02-01-10214-A-001P	001R-01	5,000	November 19, 2019	6.85
IDGC of Center and Volga Region				
4B02-02-12665-E	B0-02	5,000	December 03, 2019	6.85

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 B0-02, B0-03, B0-05 and B0-06), placed in 2015–2016, with a total nominal volume of RUB 26.0 bn. The companies of Rosseti Group also redeemed/bought back bonds totalling RUB 47.4 million under the offers.

Events after the Reporting Date:

Issue number	Series	Outstanding volume, RUB mln	Placement rate, %
FGC UES			
4B02-04-65018-D-001P	001P-04R	10,000	6.75
Lenenergo			
4B02-03-00073-A	B0-03	5,000	6.20
4B02-04-00073-A	B0-04	5,000	6.20
MOESK			
4B02-02-65116-D-001P	001P-02	10,000	6.15

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

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

<sup>52</sup> As part of the offer.

Credit ratings

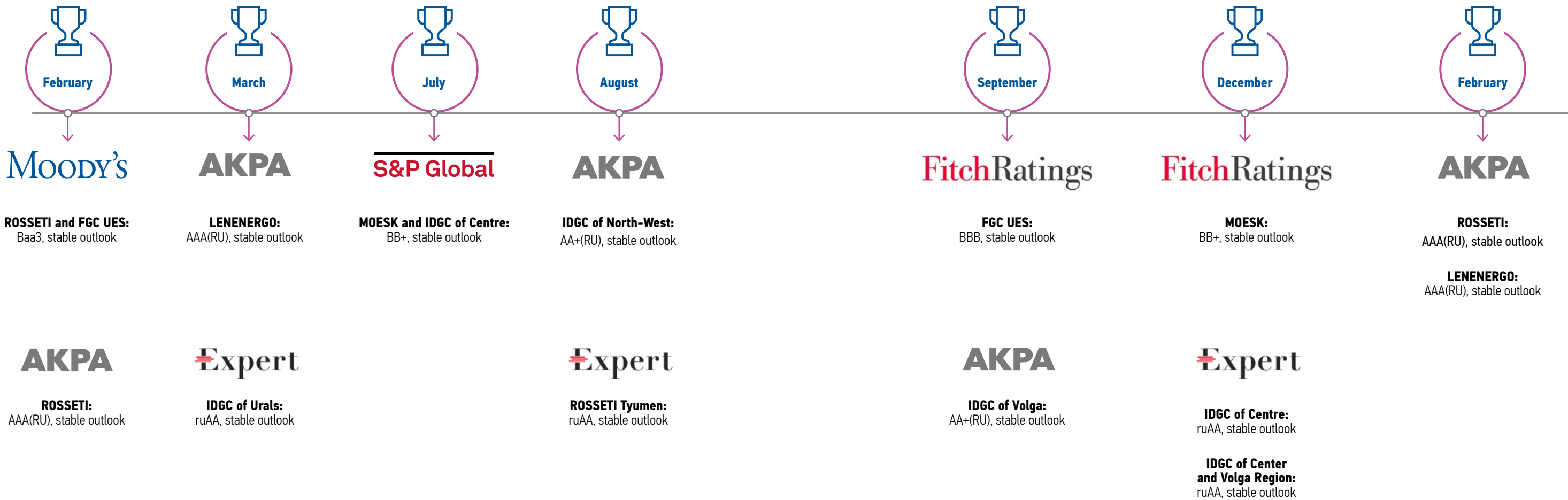
Currently, ROSSETI has investment ratings from two major international rating agencies, Standard & Poor's (BBB- with a stable outlook) and Moody's ( Baa3 with a stable outlook) at the level of the sovereign rating of the Russian Federation, as well as the highest rating of AAA (RU) with a stable outlook 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:

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

Rating Agency	S&P	Moody's	Fitch	AKPA	Expert RA
Rating Scale	International			National	
ROSSETI	BBB-	Baa3	-	AAA(RU)	-
FGC UES	BBB-	Baa3	BBB	AAA(RU)	-
MOESK	BB+	Ba1	BB+	AAA(RU)	-
LENENERGO	-	Ba1	-	AAA(RU)	-
IDGC of Volga	-	Ba1	-	AA+(RU)	-
IDGC of North-West	-	-	-	AA+(RU)	-
IDGC of Urals	-	Ba1	-	-	ruAA
IDGC of Centre	BB+	-	-	-	ruAA
IDGC of Center and Volga Region	-	Ba1	-	-	ruAA
ROSSETI Tyumen	-	-	-	-	ruAA





## Cash Flows

Indicator, mn RUB	2017	2018	2019
Net cash provided by operating activities	212,386	238,571	256,445
Net cash used in investing activities	(188,840)	(253,840)	(201,112)
Net cash used in financing activities	(8,462)	(2,729)	(60,376)
Cash flow balance	15,084	(17,998)	(5,043)

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

## 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:

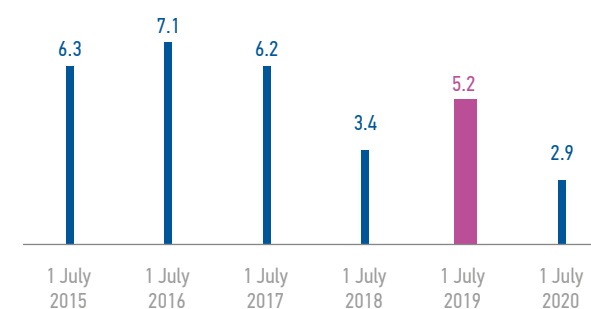
- the lower and/or upper limits on tariffs for electricity transmission and distribution services require approval from the Federal Antimonopoly Service;
- regional regulators set uniform pool tariffs for electricity distribution services within the tariff limits approved by the Federal Antimonopoly 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.

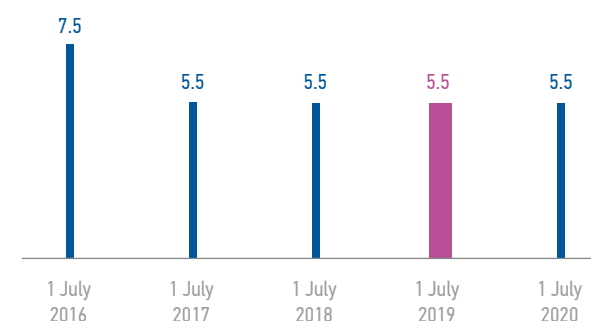
## Key Ratios

	2017	2018	2019
Adjusted EBITDA Margin	33.1%	30.7%	31.4%
Net Debt/Adjusted EBITDA	1.44	1.38	1.31
Liquid Ratio	0.31	0.33	0.33
Current Ratio	0.89	0.88	0.77
Financial Leverage	0.71	0.68	0.67
Long-Term Loans/Gross Debt	91%	85%	83%

Distribution Grid Tariff, %



Transmission Grid Tariff, %



### Distribution of Costs in the Electricity Distribution Pool Tariff

Indicator (bn RUB unless otherwise stated)	2018	2019	2019/2018 Change, %
Costs related to payment for normative (technological) electricity network losses of distribution grid companies	121	126	4.1
Costs related to payment for services of allied territorial grid organizations at individual tariffs	157	164	4.5
Costs related to payment for services of FGC UES	144	147	2.1
Minimum regulated revenue for maintenance of electric grid facilities	404	417	3.2

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 of 150 kW and below:

- in the case of 15 kW or below, the network connection fee does not exceed 550 rubles (provided that the conditions for Reliability Category 3 are fulfilled, that the distance from existing electric grid facilities is not in excess of 300 meters in urban areas or 500 meters in rural areas, and that voltages are not above 20 kV);
- in the case of a maximum of 150 kW, the fee covers expenses associated with organizational and technical measures (excluding last mile expenses).

Economically reasonable costs incurred by ROSSETI SDCs that are not covered by the network connection fee are included in electricity distribution tariffs.

## Government Support

In the reporting period, ROSSETI did not receive government support, including subsidies. Government subsidies provided for ROSSETI's subsidiaries totaled 148 mln 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 and gain certification for the ISO 14001:2015-compliant environmental management system allowed ROSSETI's grid companies to be involved in achieving the environmental protection targets of SDG Goal 15.

Following the principles of maximal transparency, ROSSETI constantly informs stakeholders about all significant events through various channels of communication, including our corporate website, official accounts on social networks, and media relations.

To demonstrate ROSSETI Group's key principles of corporate governance, social responsibility, and eco-efficiency as transparently as possible is the main goal of our sustainability disclosures.



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.

**Larisa Romanovskaya**  
First Deputy Director General, ROSSETI

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

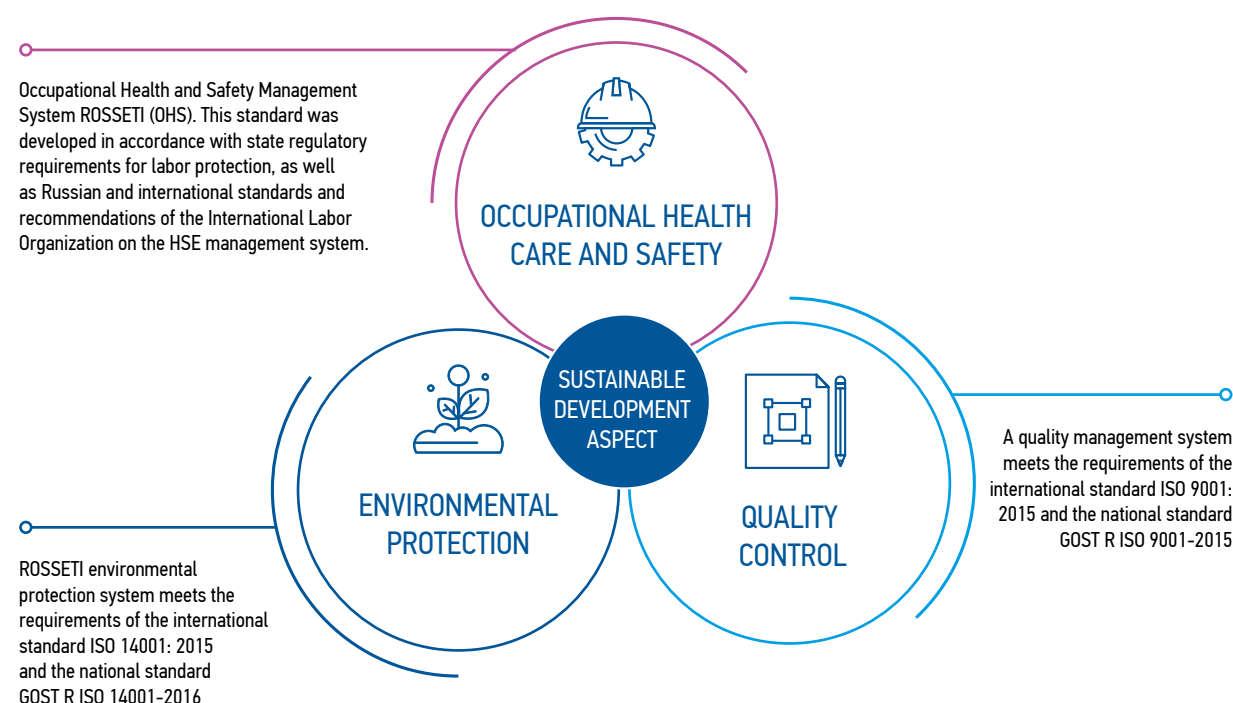
The sustainable development management system is integrated into the ROSSETI corporate governance system and is implemented at all levels of the ROSSETI Group's management: at the level of the Board of Directors, at the executive and operational levels:

- 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.
- SDCs 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.

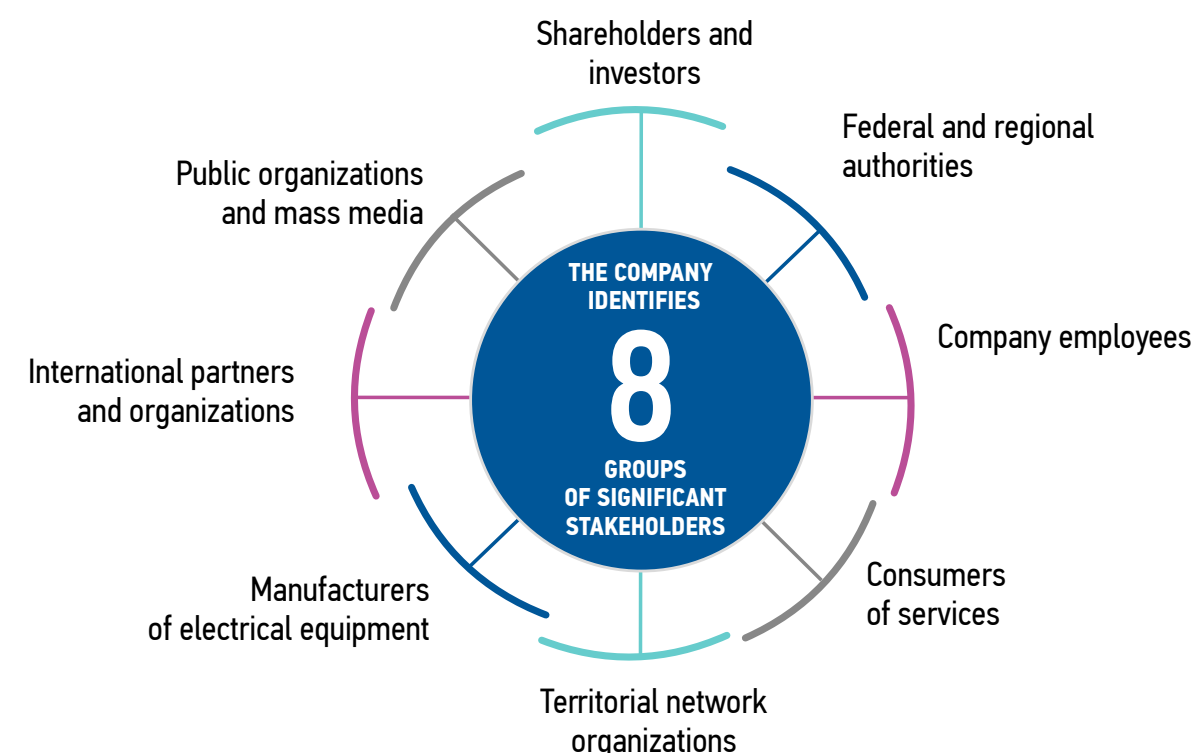
The ROSSETI Group's sustainable development management system includes the HSE Management System, Quality Management System and the Environmental Management System, and is also based on the provisions and norms of the Environmental Policy, the Policy for Interaction with the Company, Consumers and Government 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 HR and social policies and the Corporate Code of Ethics and Business Conduct of PJSC 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**  **+ 31% on 2018**

**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 million users. Therefore, in comparison with 2018, the number of subscribers increased by 49%, and user coverage by 92%

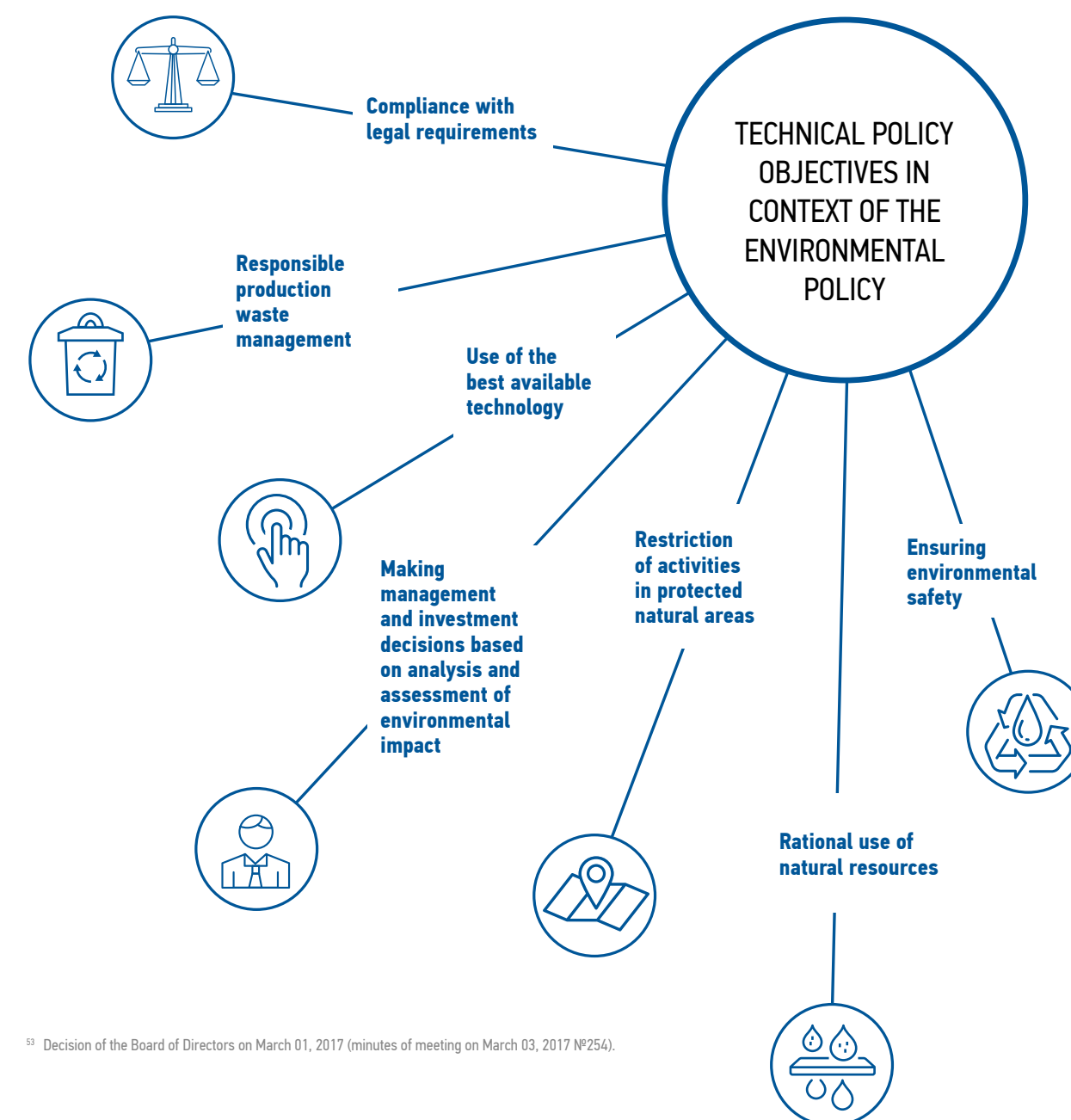


Detailed information on the Company's stakeholder's engagement can be found in 2019 Social Responsibility and Corporate Sustainability Report of ROSSETI.

## 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<sup>53</sup>. 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.



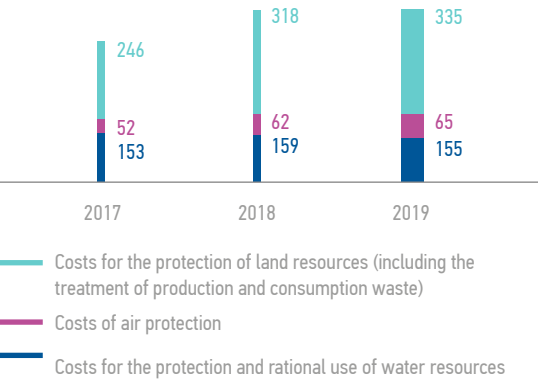
<sup>53</sup> Decision of the Board of Directors on March 01, 2017 (minutes of meeting on March 03, 2017 №254).



Technical Policy Objectives as Part of the Environmental Policy	Environmental Policy Implementation Targets
Responsible waste management	Decommissioning of equipment containing polychlorinated biphenyls before 2024 inclusive, followed by its transfer to specialized licensed organizations for destruction.
	Ensuring the secondary use of transformer oil (regeneration) in the amount of at least 10% of the purchased oil per year.
Rational use of natural resources	Reducing the consumption of energy resources for household needs of buildings for administrative purposes by 3% per year before 2020.
Use of the the best available technology	Bringing the share of motor vehicles using environmentally friendly fuel to 10% of the total fleet (2020).
	Achieving the full payback of motor vehicles using ecologically "clean" type of fuel, in comparison with ICE analogues (gasoline, gas, diesel) in a period of not more than 7 years.
	Ensuring the implementation of self-supporting insulated wires of at least 15,000 km per year throughout the ROSSETI Group.
Ensuring environmental safety	Certification and continuous improvement of the environmental management system in order to improve the environmental performance of the ROSSETI Group.
	Conservation of biodiversity, including measures to prevent a reduction in the number of birds listed in the Red Book of Russia: installation of at least 15,000 bird protection devices annually throughout the ROSSETI Group's entities.

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 expenditures of the ROSSETI Group, RUB mln



**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;

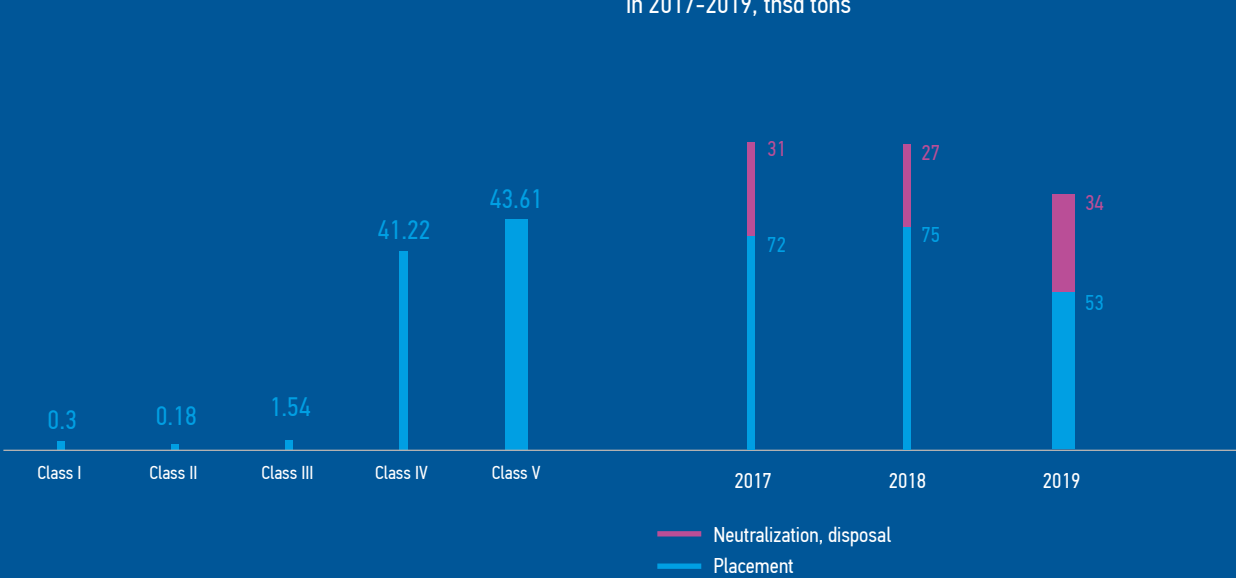
Environmental protection costs in 2019 amounted to RUB 555 mln, which is RUB 16 mln higher than in 2018. No environmental affecting accidents at the facilities of the ROSSETI Group in 2019.

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.

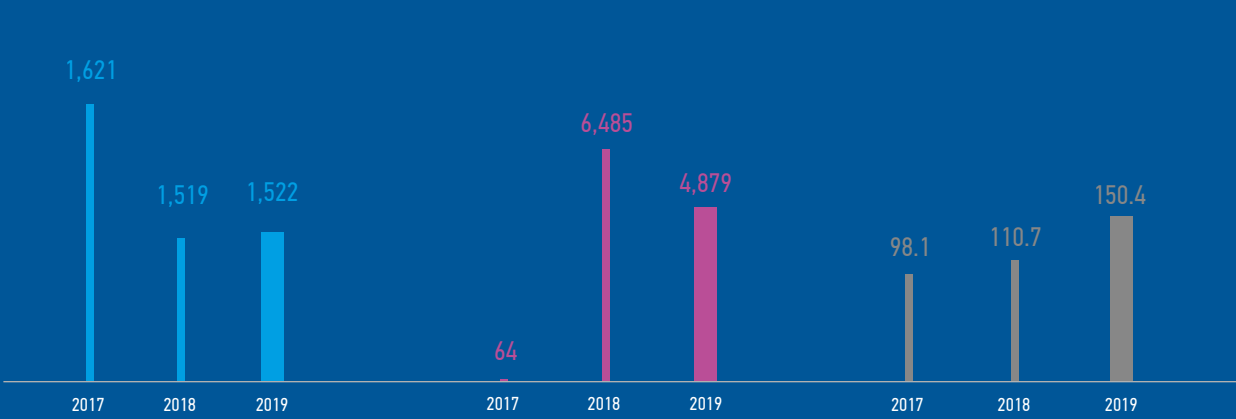
**DYNAMICS OF CHANGES IN THE MAIN SUSTAINABILITY INDICATORS OVER THE PAST THREE YEARS:**

Waste Hazard classification in 2019, thsd tons



Production and consumption waste management in 2017-2019, thsd tons

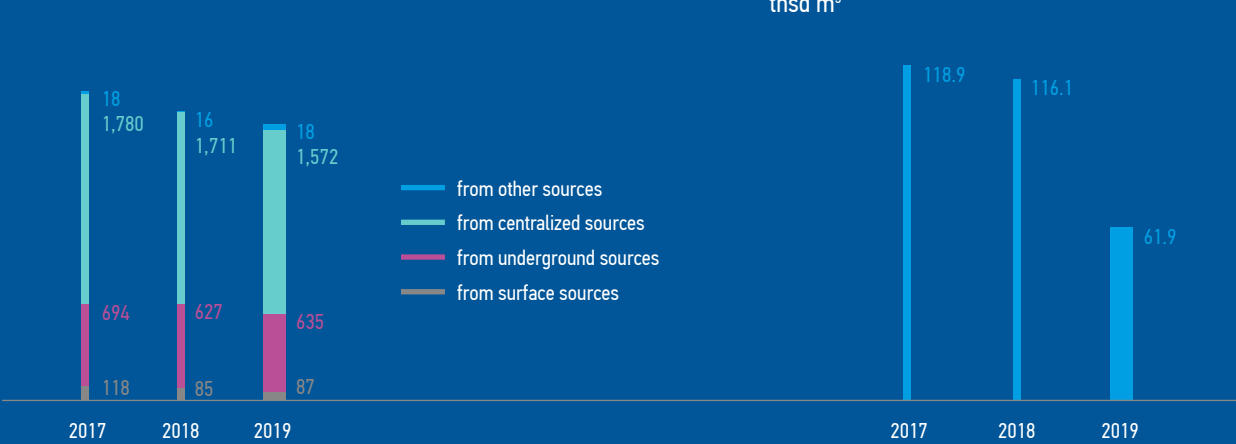
The volume of gross emissions of pollutants into the air in 2017-2019, tons



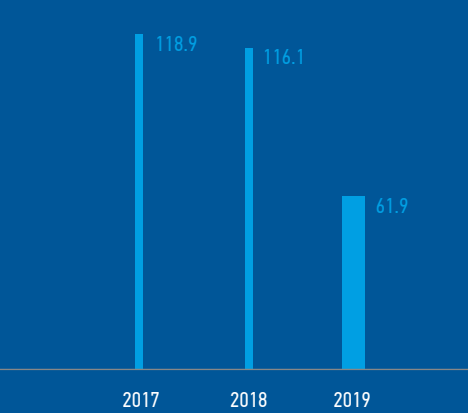
The scope of reclamation of disturbed lands in 2017-2019, Ha

The number of installed bird protection devices in 2017-2019, thsd pcs

Water intake by water sources in 2017-2019, thsd m³



Volume of water disposal by water sources in 2017-2019, thsd m³

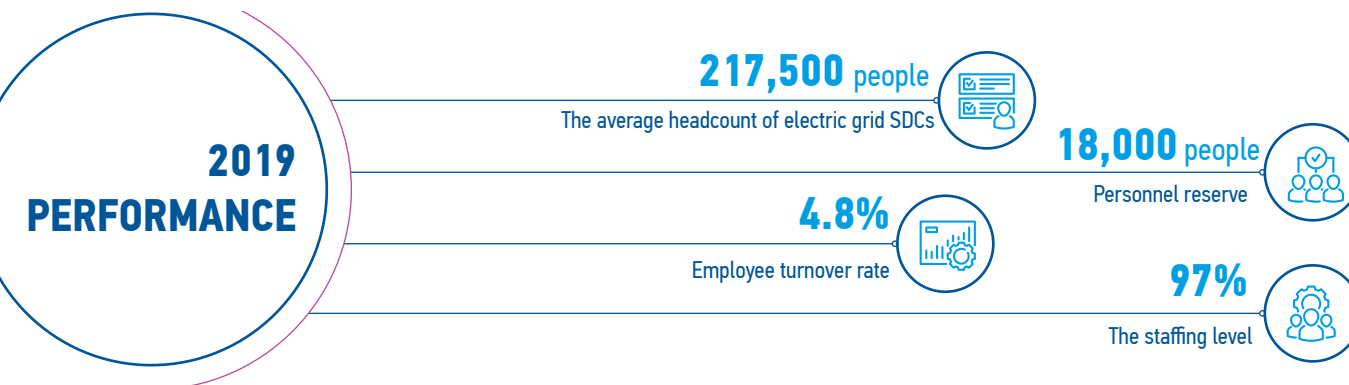


## Personnel

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.

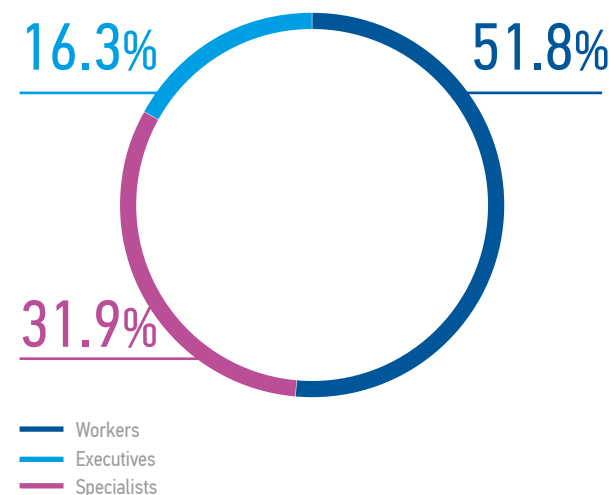


## Regular Personnel

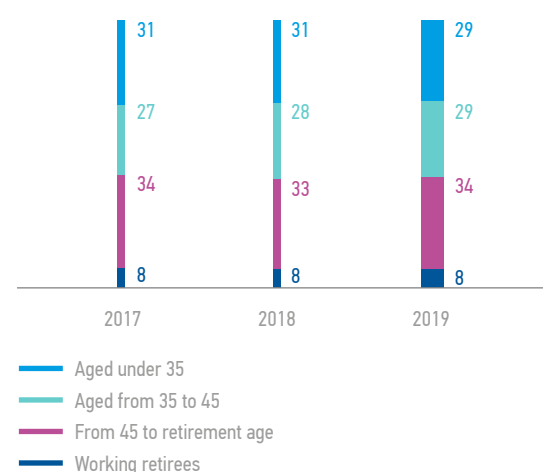
The average headcount in 2019 amounted to 217,5 thsd employees. The staff structure of the ROSSETI Group by categories of employees in the reporting year did not change significantly; more than half of the employees are blue collars. Also, a significant change in the structure of the number of employees 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.

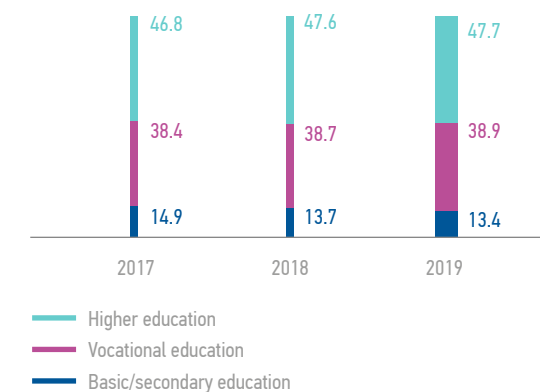
Personnel of the ROSSETI Group by Occupational Category



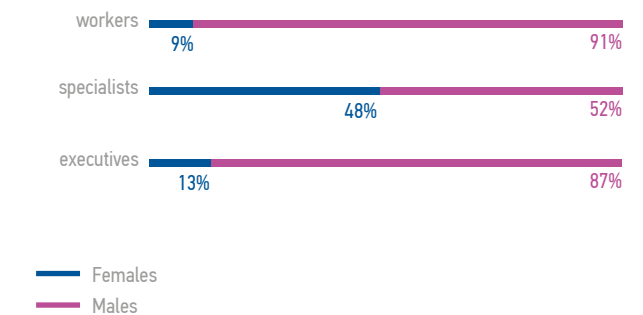
The Personnel Structure of the ROSSETI Group by Age for 2017 - 2019, %



The ROSSETI Group Personnel Breakdown by Educational Level for 2017 - 2019, %



Share of Women by Employee Category in the ROSSETI Group in 2019, %



## Personnel Reserve

In 2019, the personnel reserve of the ROSSETI Group amounted to 18 thsd 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.

# 75%

OF APPOINTMENTS TO SENIOR POSITIONS MADE FROM INTERNAL CANDIDATES

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, 146,500 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.

THE AVERAGE LEVEL OF STAFF SALARIES  
INCREASED BY

# 3.5%

# 67%

OF THE TOTAL NUMBER OF EMPLOYEE RECEIVED  
TRAINING UNDER RETRAINING AND ADVANCED  
TRAINING PROGRAMS

## 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.

More detailed information about the human resource management system can be found in the section "Our Employees" of the 2019 Corporate Social Responsibility and Sustainability Report of ROSSETI.

## Occupational Health and Safety

The issues of protecting the life and health of employees in working conditions, as well as visitors and contractors, are at the core of sustainable development of ROSSETI.

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.

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 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.

## Key Results within the Framework of Labor Protection and Industrial Safety Measures

### Results in 2019

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

0.161

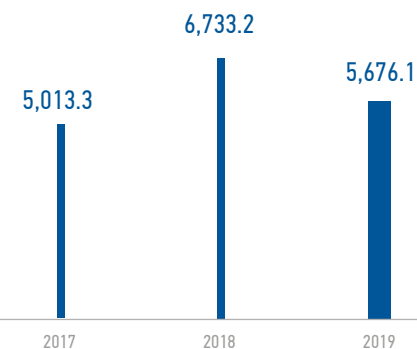
Lost Time Injury Frequency Rate with temporary disability (LTIFR)

by 8%

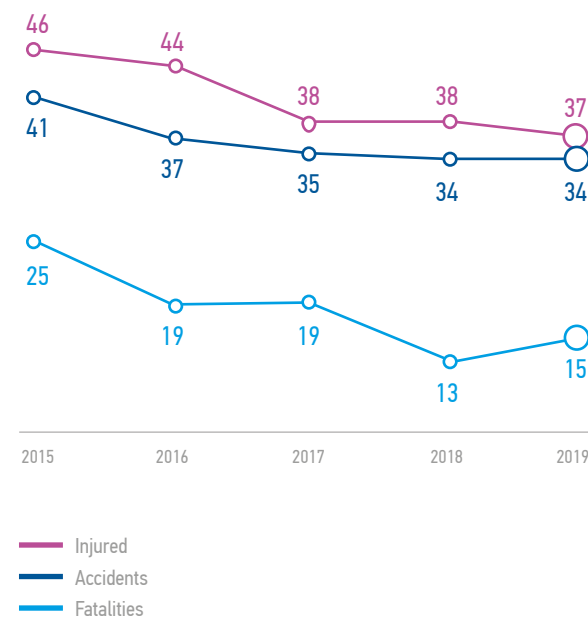
Labor protection costs increased

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 OSHS 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.

Labor protection expenses in the ROSSETI Group for 2017-2019, RUB mln



The dynamics of industrial injuries in 2015-2019 <sup>54</sup>



<sup>54</sup> Data for 2018 has been adjusted as per the decision of the State Labor Inspectorate.

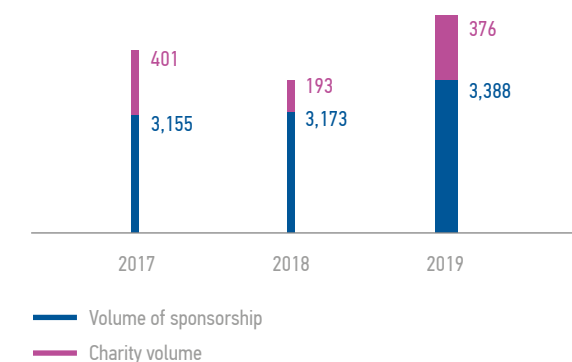


## Development of Presence Regions

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.

The volume of social investments of ROSSETI for 2017-2019, RUB mln



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

### ROSSETI Northern Caucasus

Ingushenergo branch energy loss reduction program, Republic of Ingushetia.

Amount of financing in 2019 — 202 RUB mln

In progress.

Expected effects:

- reduction of losses on high-loss feeders to standard values;
- providing consumers, a 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 — 370 RUB mln

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 Verkhnebalkarskaya SHPP and Ust-Dzhegutinsky SHPP, IT-infrastructure modernisation, Republic of Karachevo-Cherkessia Stavropol Territory (Pyatigorsk).

Amount of financing in 2019 — 89 RUB mln

In progress.

Expected effects:

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

### Chechenenergo, Chechen Republic

Construction of 110 kV Substation "Gorod" (Grozny)

Amount of financing in 2019 — 1,193 RUB mln

In progress.

Expected result: to create a new 110 kV power plant to ensure the reliability of power supply to existing consumers in Grozny.

### Kubanenergo, Krasnodar Krai

Construction and commissioning of the electric grid complex on the Taman Peninsula

Amount of financing in 2019 — 3,086 RUB mln

Implemented in 2019.

Outcomes:

- power supply to the transport crossing of the Kerch Strait and the dry cargo area of the Taman seaport;
- development of existing railway infrastructure;
- creating the possibility of technological connection of new consumers and conditions for economic growth in the region;
- increasing the reliability of energy supply in the Krasnodar Territory.

### Yantarenergo, Kaliningrad Oblast

The program of reconstruction and development of electric grids in the Kaliningrad region until 2020.

Amount of financing in 2019 — 1,105 RUB mln

In progress.

Outcomes:

- electric power supply to consumers of the Curonian Spit, Kaliningrad Oblast;
- Increase the reliability of energy supply to the Western energy district of the Kaliningrad Oblast through the reconstruction of substations;
- increase the availability of energy infrastructure in the Kaliningrad Oblast.

### Tyvaenergo, Tyva Republic

Construction of energy facilities at Kaa-Khem village

Amount of financing in 2019 — 402 RUB mln

In progress.

Outcomes:

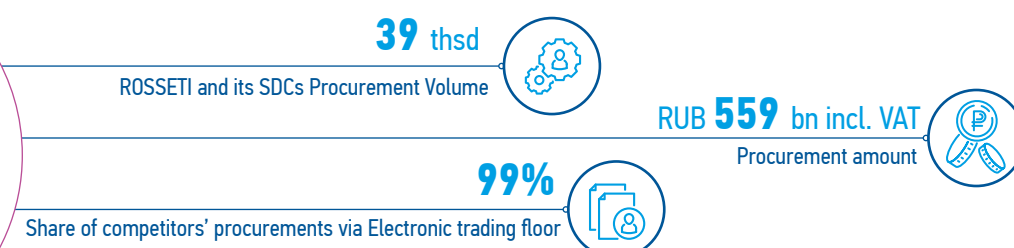
- put the distribution network of the village Kaa-Khem in compliance with the regulatory requirements in order to exclude potential harm to life, health of people and property;
- ensure the availability of power supply for residents of the village of Kaa-Khem
- ensure the reliability of power supply to existing district consumers;
- minimization of commercial losses of electric power.

The expected reduction in electricity losses due to the implementation of the project by 2021 is 11.5 mln kWh.



## 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<sup>55</sup> and ROSSETI 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.

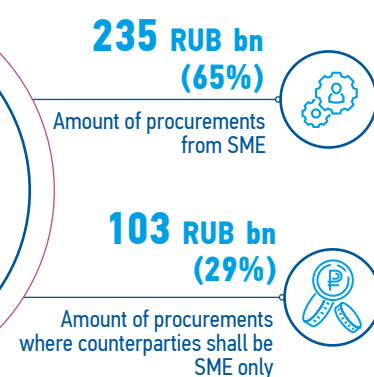
In 2019, ROSSETI continued to conclude long-term contracts and framework agreements with manufacturers of electrical equipment. In the reporting period, the ROSSETI Group had more than 24 thsd suppliers of electric grid equipment and contractors, which are representatives of 82 out of 85 regions of the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

### Results in 2019



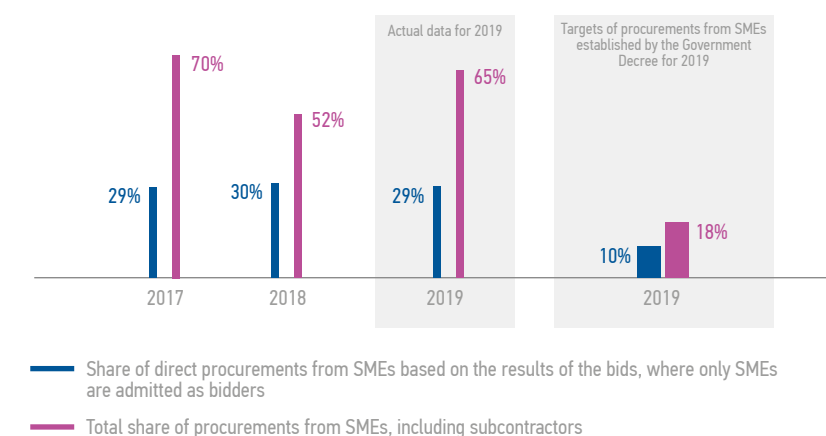
SME Corporation JSC performs conformity assessment procedures and monitors compliance of procurement plans of 15 SDCs of ROSSETI.

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 dated 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.

<sup>55</sup> In accordance with the requirements of the Civil Code of the Russian Federation, Federal Laws No. 135-FZ "On the Protection of Competition", No. 223-FZ "On the Procurement of Goods, Works, and Services by Certain Types of Legal Entities.

## Share of procurements from SMEs for 2017-2019



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.

## 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<sup>56</sup>.

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.

### Import Substitution Objectives

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

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

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

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

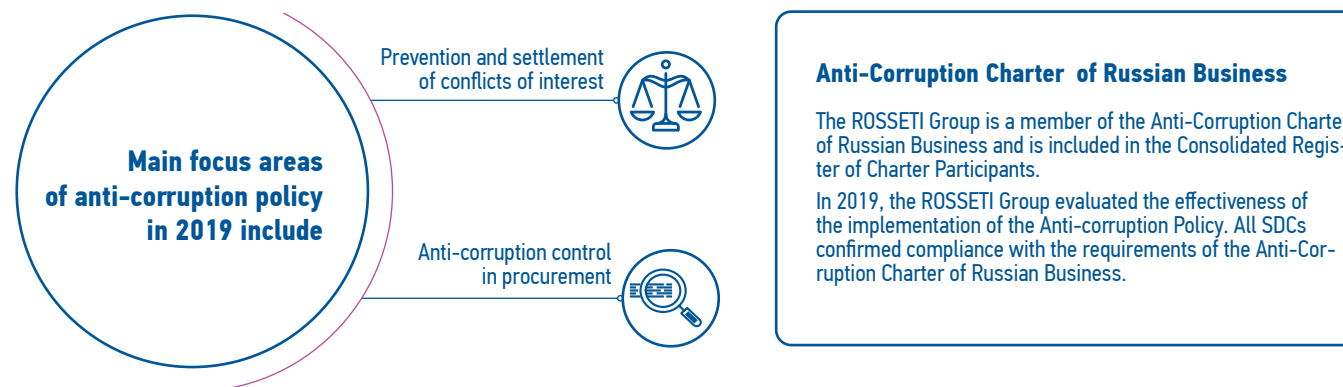
<sup>56</sup> It was developed in accordance with the guidelines for the preparation of corporate import substitution plans by state corporations, state companies, joint-stock companies in which the interest held by the Russian Federation exceeds 50 percent of the authorized capital, approved by order of the Ministry of Economic Development of Russia No. 219P-AU dated 11.08.2016, taking into account the analytical report "Assessment of the import substitution potential, the main directions of import substitution and the conditions for their implementation in the ROSSETI SDCs until 2019".



## 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.



## 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 (AARAS).

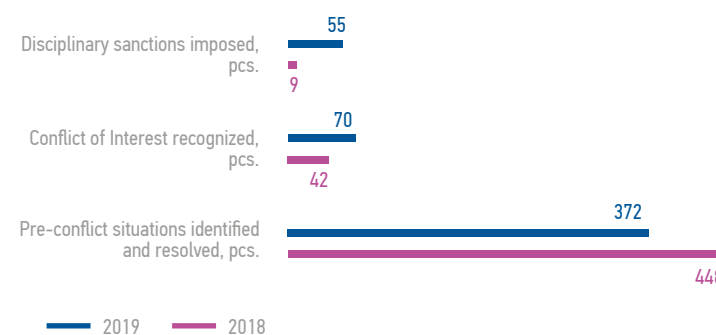


Due to expansion of the categories of employees of ROSSETI Group that participated in the declaration campaigns in 2019 and introduction of an electronic declaration system, a number of conflict of interest and pre-conflict situations were identified and resolved among those employees who were not previously 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



## Anti-Corruption Controls in Procurement

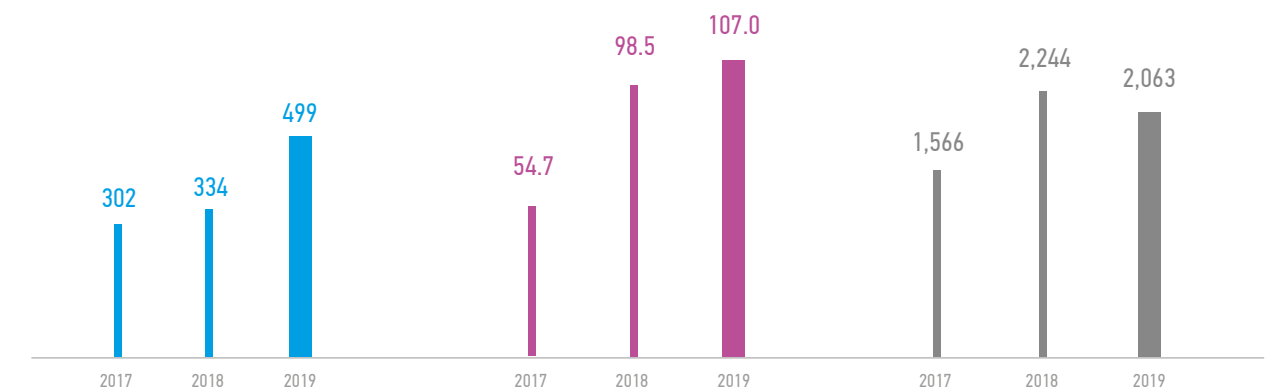
Since 2012, in order to ensure transparency in financial and economic activities and to prevent corruption<sup>57</sup>, ROSSETI and its SDCs require that counterparties disclose the information about the entire chain of their owners, as well as information on income, property and property obligations 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).

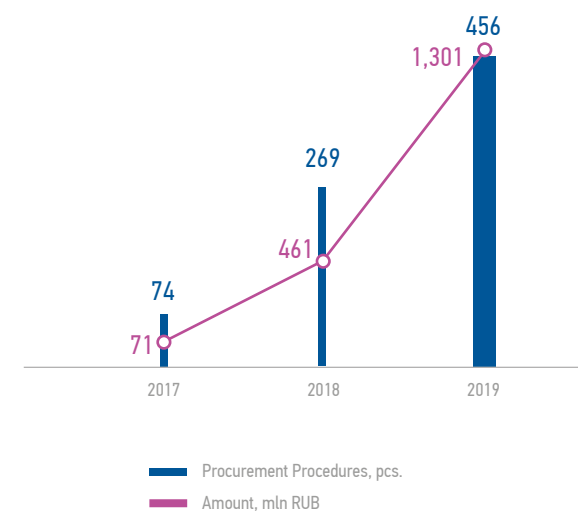
Number of counterparties of the ROSSETI Group verified as part of the unconditional disclosure of the ownership chain, thsd counterparties

Number of examinations of counterparties in procurement procedures, thsd pcs.

Number of rejected procurement procedures due to identified violations, pcs.



Number and value of canceled results of procurement procedures for 2017-2019



In 2019, ROSSETI Group continued to thoroughly check justification of initial maximum price (IMP) of contracts. According to the results of the audits by the security departments in 2019, savings by ROSSETI Group amounted to RUB 3,531 million rubles, which is almost 2 times more than in 2018 (1,842 million rubles).

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.

<sup>57</sup> 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&utilities industry and environmental safety.





# CORPORATE GOVERNANCE REPORT

Effective management  
and control system



# 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 2030, 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.



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 thsd 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

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 thsd persons.

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.



### OBJECTIVES OF THE CORPORATE GOVERNANCE OF THE COMPANY

#### Strategic guidelines

- increase of shareholder value and investment attractiveness of the Company;
- generating profit from the activities;
- stable and predictable development of the Company;
- ensuring efficient asset management of the Company and its subsidiaries;
- improving the management system, employee motivation and succession practices.



### PRINCIPLES AND PRIORITIES OF THE CORPORATE GOVERNANCE OF THE COMPANY

#### Key corporate governance principles

- respect for and guarantees of the rights and legitimate interests of shareholders, investors, and stakeholders of the Company;
- 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.

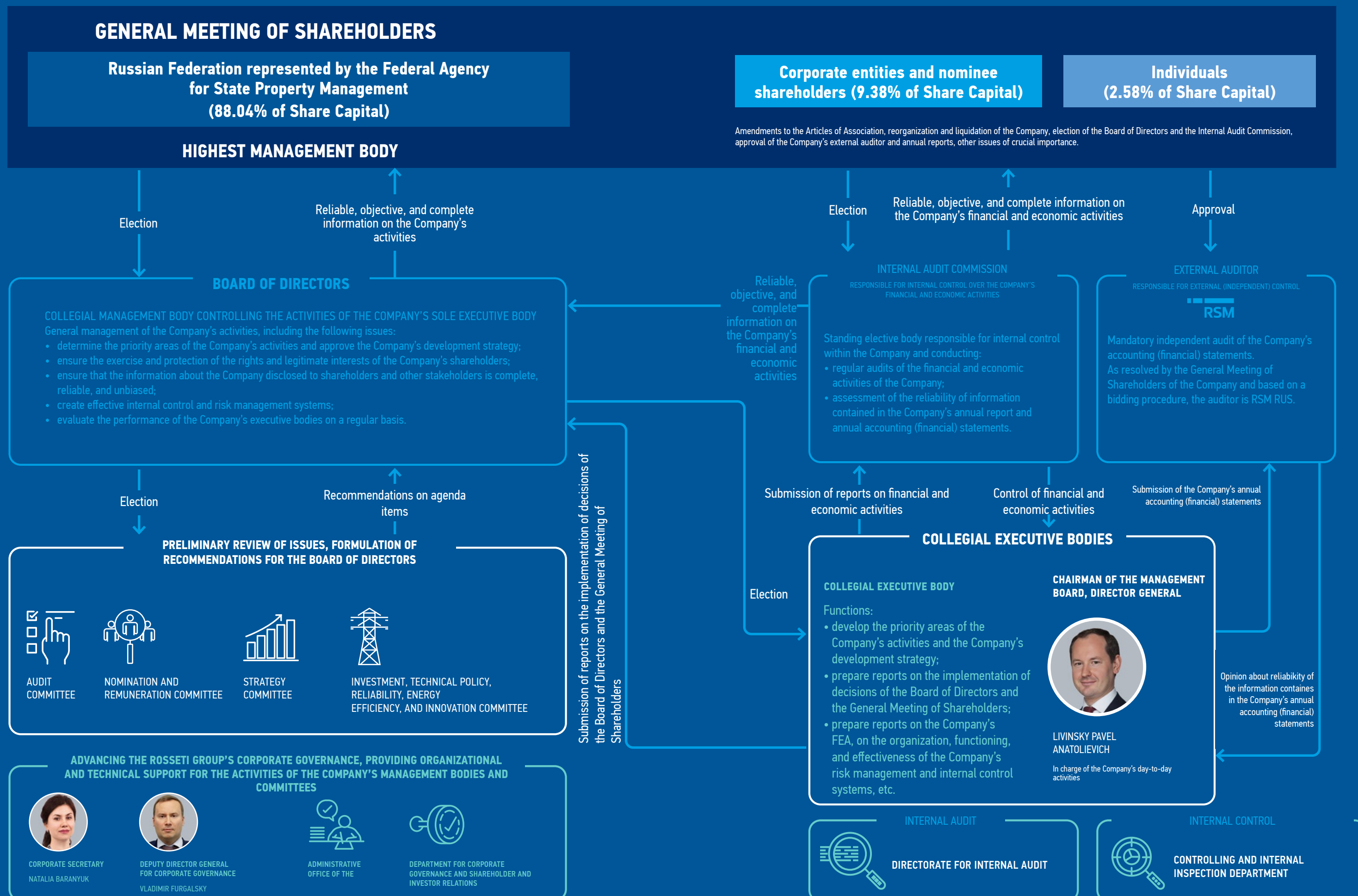


### MEASURES

#### 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 system of the Company





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, includin:

- Based on Decree of the President of the Russian Federation dated 22.11.2012 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 dated 03.04.2013 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 dated 04.08.2004 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 dated 23.01.2003 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<sup>58</sup>
  - 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:

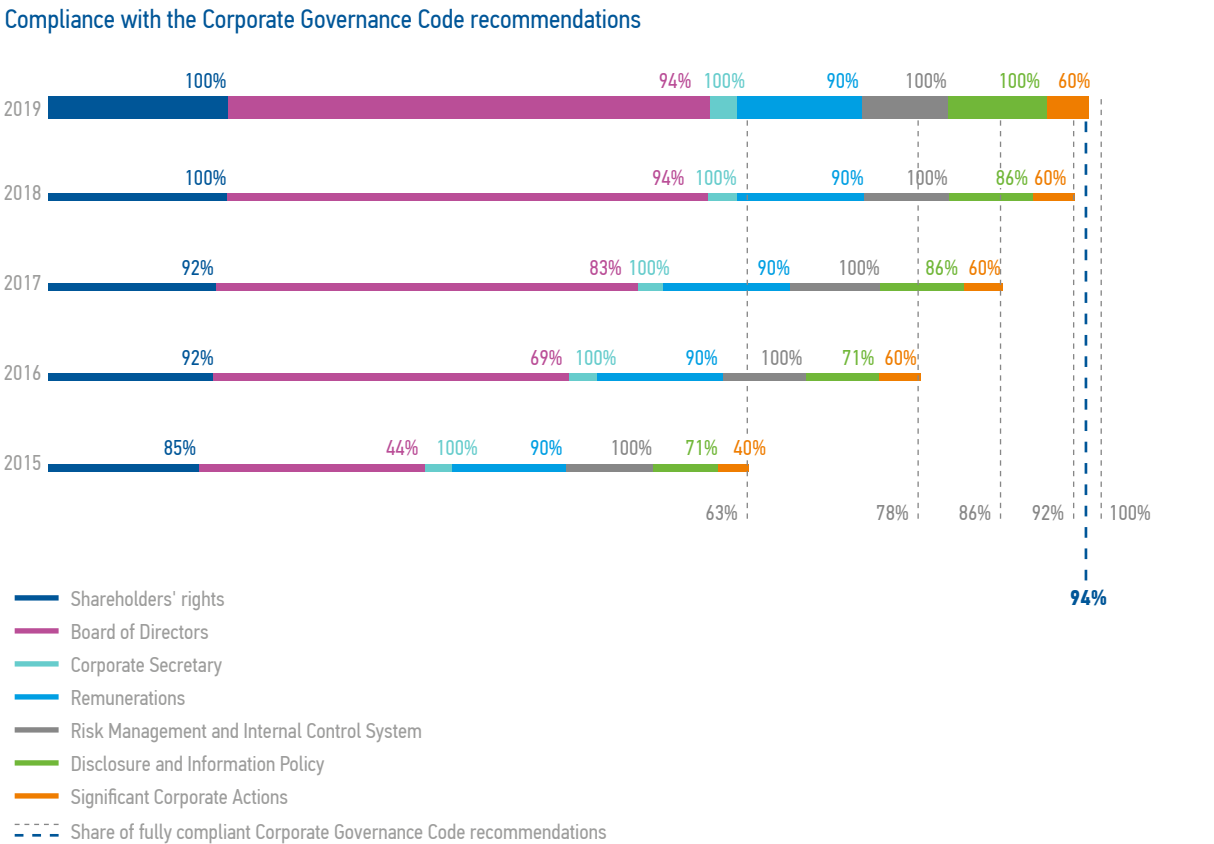
  - anti-Corruption Policy;
  - internal Audit Policy;
  - internal Control Policy;
  - risk Management Policy;
  - the ROSSETI Group Occupational Safety Policy;
  - power Grid Complex Environmental Policy;
  - code of Conduct;
  - information Policy;
  - regulations for the Insider Information of the 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.

In accordance with the order of the Government of the Russian Federation<sup>59</sup>, 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<sup>60</sup>

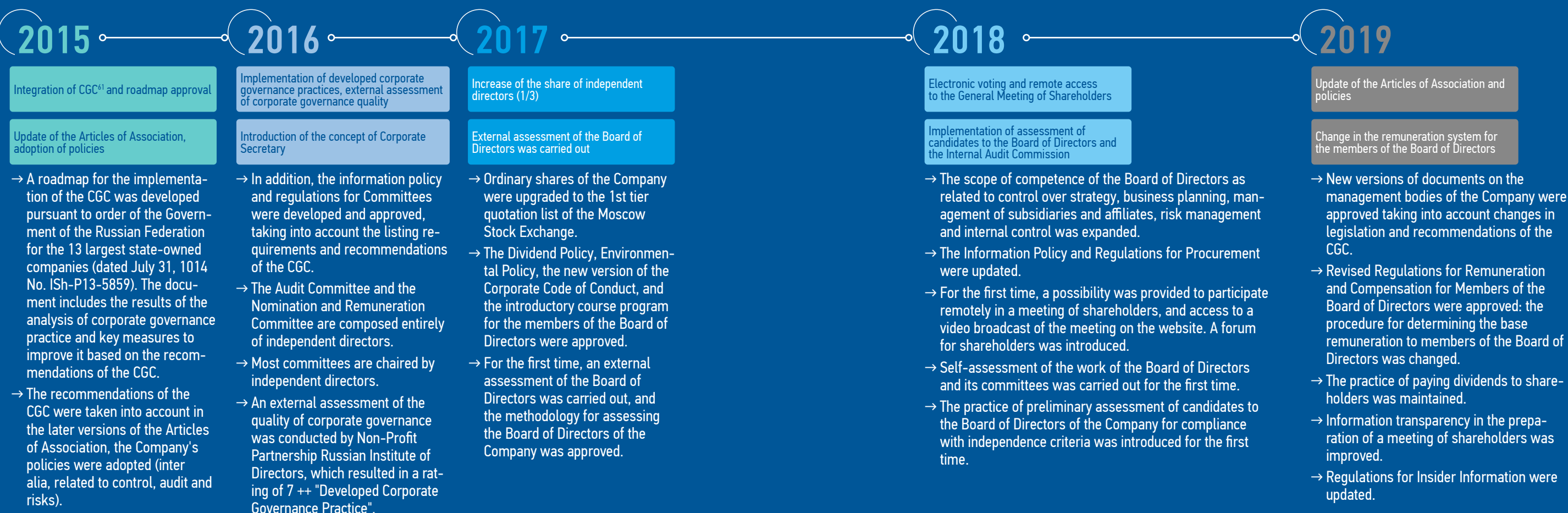


The Company is consistently implementing programs to improve corporate governance practices, taking into account the recommendations of the Corporate Governance Code, changes in the regulatory environment and initiatives of the professional community

<sup>58</sup> ROSSETI Board of Directors by its decision dated June 27, 2017 (Minutes of the Meeting dated June 30, 2017 No. 271) determined that the Company in its activities is guided by the recommendations of the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21.03.2014 (letter of the Bank of Russia dated 10.04.2014 No. 06-52/2463), as a document defining corporate governance standards.

<sup>59</sup> Order of the Government of the Russian Federation dated July 31, 2014 No. ISh-P13-5859.  
<sup>60</sup> Information is provided on fully compliant Code recommendations, excluding partially compliant recommendations.

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



**ROSSETI BUILDS A 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 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.**

### Corporate Governance System Development in 2019

In 2019, the Company continued to improve corporate governance in the Company and the ROSSETI Group as a whole. The new version of the **ROSSETI Articles of Association**, approved in 2019, takes into account legislative innovations, according to which the Board of Directors is vested with the right, along with shareholders, to propose candidates to the management and control bodies of the Company. The competence of the Board of Directors has been expanded to include issues related

to monitoring the implementation of transactions on making gratuitous contributions to the property of companies in which ROSSETI has an interest (share) in the authorized capital, where such contributions do not increase the authorized capital of such companies and do not change the nominal value of shares.

The new version of the **Regulations for the General Meeting of Shareholders of ROSSETI**, approved in 2019, in addition to previously specified mechanisms for submitting proposals by

shareholders to items on the agenda of the general meeting, proposals to nominate candidates to the management and control bodies, and requests to hold an extraordinary General Meeting of Shareholders, provided for a possibility to send such proposals using electronic signature to the following email address: [ir@rosseti.ru](mailto:ir@rosseti.ru).

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 the 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.**

<sup>41</sup> Corporate Governance Code recommended by the Board of Directors of the Bank of Russia.

<sup>42</sup> Order of Government of Russian Federation №ISH-P13-5859 dated July 31, 2014.



## Plans for 2020

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.

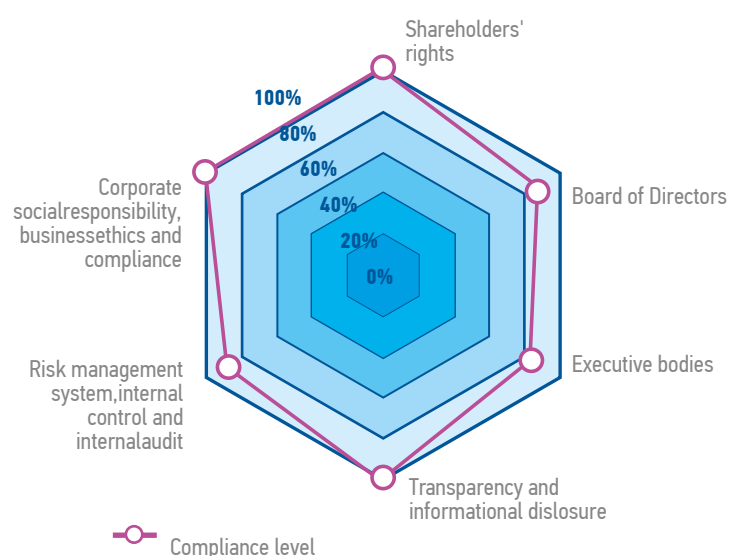
The overall result of the corporate governance in the Company for these components amounted to 93% of 100%, which by 5 percentage points exceeds the result achieved by the Company in the previous assessment. In 2019, efficiency of corporate governance in the ROSSETI Group was also assessed. The assessment 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 comparable score for 2017 (80%) and corresponds to the level of "Developed Practice".

Component compliance level (2018-2019)



## Assessment of Compliance of the Corporate Governance Level with the Bank of Russia Corporate Governance Code

Assessment of compliance with the principles and recommendations of the Corporate Governance Code is carried out by ROSSETI on the basis of the Methodology recommended by the Bank of Russia by letter dated 17.02.2016 No. IN 06-52/8 "On the Disclosure of a Report on Compliance with the Principles and Recommendations of the Corporate Governance Code in the Annual Report of a Public Joint-Stock Company". A detailed Report on Compliance with the Principles and Recommendations of the Corporate Governance Code is presented in the appendices to the present Annual Report.

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

### 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.

In the framework of the assessment, it was highlighted that during the monitoring period, the practice of holding in-presence meetings of the Board of Directors was improved (7 in-presence meetings (13%) of 53 meetings held in 2019). Experts indicated that the meeting agenda was in line with the recommendations of the Corporate Governance Code.

DEVELOPED CORPORATE GOVERNANCE PRACTICE **7++**

	2016	2017	2018	2019
National Corporate Governance Rating	7++	7++	7++	7++

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 TopCompetence<sup>43</sup>, 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).

**TOP 10**  
LEADERS IN TERMS OF THE QUALITY  
OF INFORMATION DISCLOSED ON THE CORPORATE  
GOVERNANCE PRINCIPLES OBSERVED

<sup>43</sup> The study can be found at: <http://cgindex.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<sup>64</sup> and the Regulations for the General Meeting of Shareholders of ROSSETI<sup>65</sup>.

The number of shareholders of the Company exceeds three hundred thsd 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 re-

mote 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.

<sup>64</sup> Approved by the decision of the Annual General Meeting of Shareholders dated June 27, 2019 (Minutes of the Meeting dated June 27, 2019 № n/n), the text can be found on the Company's website <http://www.rosseti.ru/about/documents/>.

<sup>65</sup> Approved by the decision of the Annual General Meeting of Shareholders dated June 27, 2019 (Minutes of the Meeting dated June 27, 2019 № n/n), the text can be found on the Company's website <http://www.rosseti.ru/about/documents/>.

# 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 (Minuted without number dated June 27, 2019).

No	Item on the agenda:	Results and status	Voting results
1	Approval of the Company's annual report for 2018.	The Company's annual report for 2018 was approved.	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
2	Approval of the Company's annual accounting (financial) statements for 2018.	The Company's annual accounting (financial) statements for 2018 were approved.	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
3	Approval of the Company's 2018 profit distribution.	Since there was no net profit for 2018, the Company did not distribute its profit (losses).	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
4	Amount of dividends, terms and form of their payment for 2018, and setting the date to define persons entitled to receive dividends.	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.	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
5	Amount of dividends, terms and form of their payment for Q1 2019, and setting the date to define persons entitled to receive dividends.	As of December 31, 2019, the following dividends were paid for Q1 2019: → on preferred shares in the amount of RUB 0.7997 per share for the total amount of RUB 159,277,148.33. → on ordinary shares in the amount of RUB 0.02443 per share for the total amount of RUB 4,852,155,945.39.	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
6	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.	It was decided not to pay remuneration to members of the Company's Board of Directors.	FOR – 98.8% AGAINST and ABSTAINED – 1.2%
7	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.	It was decided to pay remuneration to members of the Company's Internal Audit Commission, who are not government officials.	FOR – 98.8% AGAINST and ABSTAINED – 1.2%
8	Election of members to the Company's Board of Directors.	The new Board of Directors of the Company was elected <sup>66</sup> .	Cumulative voting
9	Election of Members to the Company's Internal Audit Commission.	The new Internal Audit Commission of the Company was elected <sup>67</sup> .	The Internal Audit Commission was elected.
10	Approval of the Company's auditor.	LLC RSM RUS was approved as the auditor.	FOR – 98.9% AGAINST and ABSTAINED – 1.1%
11	Approval of the Company's Articles of Association in a new version.	The new version of the Articles of Association of ROSSETI was approved.	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
12	Approval of the Regulation on the Company's General Meeting of Shareholders in a new version.	The new version of the Regulation on the Company's General Meeting of Shareholders was approved.	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
13	Approval of the Regulation on the Company's Board of Directors in a new version.	The new version of the Regulation on the Company's Board of Directors was approved.	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
14	Approval of the Regulation on the Company's Management Board in a new version.	The new version of the Regulation on the Company's Management Board was approved.	FOR – 99.8% AGAINST and ABSTAINED – 0.2%
15	Approval of the Regulation on payment of remunerations and compensations to members of the Company's Board of Directors in a new version.	The new version of the Regulation on payment of remunerations and compensations to members of the Company's Board of Directors was approved.	FOR – 98.8% AGAINST and ABSTAINED – 1.2%

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

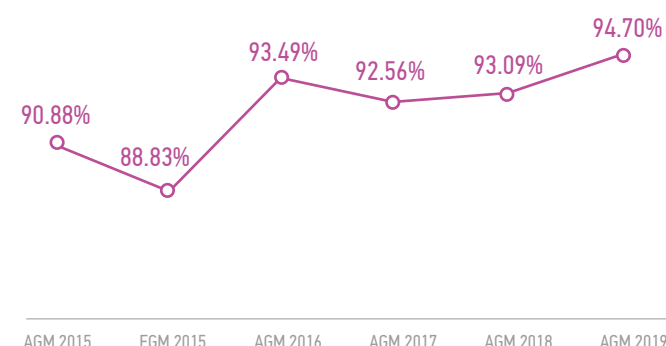
<sup>66</sup> For more detailed information about the members of the Board of Directors, see "Members of the Board of Directors".

<sup>67</sup> For more detailed information about the members of the Internal Audit Commission, see "Internal Audit Commission".

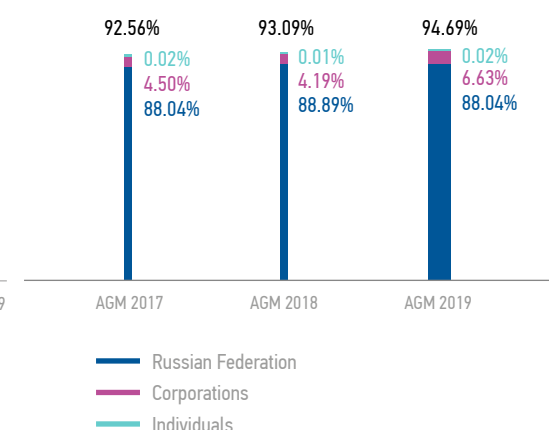


## Participation of Shareholders in the General Meetings of Shareholders

General Meetings of Shareholders  
Quorum Statistics



General Meetings of Shareholders Participants  
over 2017-2019



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.

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.

## 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.

**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's 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

In 2019, the Board of Directors:

- 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 trillion rubles in 2020-2024.

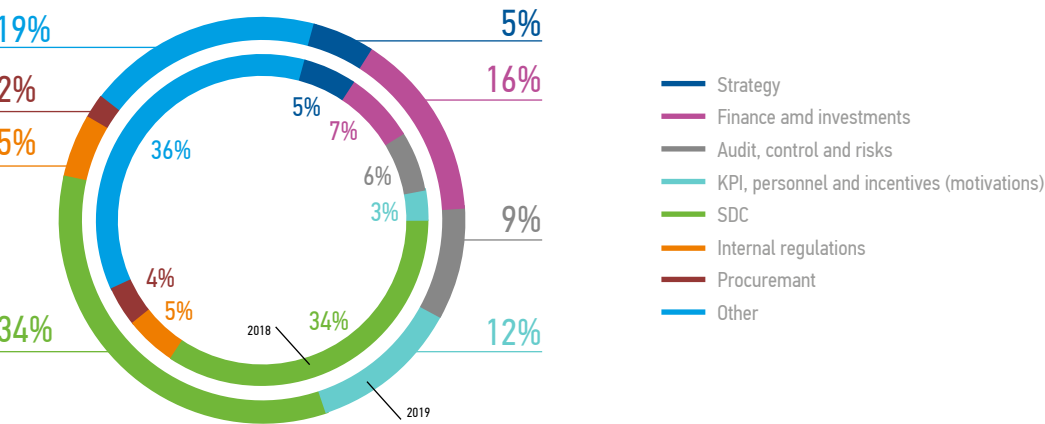


### HR POLICY

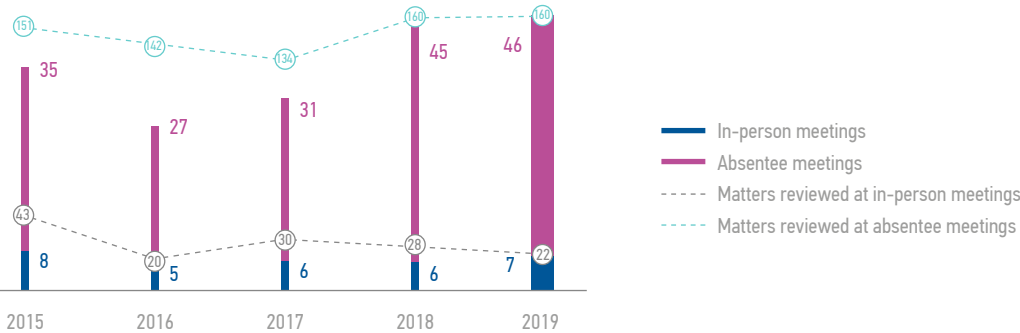
In 2019, the Board of Directors:

- 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.

Categories of matters reviewed by the BoD



Board of Directors meetings and matters reviewed



Participation in Meetings of the Board of Directors and Committees<sup>68</sup>

Member of the Board of Directors	Board of Directors	Speeches at in-person meetings of the Board of Directors	AC	N&RC	CS	CITPREEI
Novak Alexander Valentinovich	53/53	22				
Ashirov Stanislav Olegovich	53/53	14	13(1)/13	17/17	22(5)/22	
Ayuev Boris Ilyich	53/53	8				
Belov Vasily Mikhailovich	52(1)/53	2	13/13	17/17		
Bystrov Maksim Sergeevich (since June 27, 2019)	28/29	6		10/11		
Dubnov Oleg Markovich	52/53	6	13/13	16/17	20(1)/22	10/10
Kalinin Alexander Sergeevich	50(4)/53	6	12(1)/13	17/17		
Livinsky Pavel Anatolievich	52/53	19				
Manevich Yuri Vladislavovich (since June 27, 2019)	28/29	5			17/17	
Murov Andrey Evgenievich	52/53	8				
Rasstrigin Mikhail Alekseevich	49(2)/53	6				
Rogalev Nikolay Dmitrievich	53(4)/53	1				
Tikhonov Anatoly Vladimirovich	53/53	11				
Shmatko Sergey Ivanovich	52/53	6				
Shulginov Nikolai Grigoryevich	53(7)/53	-				
Barkin Oleg Gennadievich (until June 27, 2019)	24/24	6			19(4)/22	10(4)/10
Kravchenko Vyacheslav Mikhailovich (until June 27, 2019)	15(1)/24	-			5(3)/5	

<sup>68</sup> "Participation" The data in the table are in the format "5(2)/7", indicating that a person could have participated in 7 meetings of the Board of Directors (Committee), actually participated in 5 meetings, including 2 of 5 – by providing a written opinion. The coincidence of the number of possible and actually attended meetings indicates a high degree of involvement of the Director in the work of the Board of Directors and/or the Committee and participation in all meetings. The significant number of written opinions means a significant proportion of in-person meetings in which the person did not physically participate  
"Speeches" The data are provided based on the minutes of in-person meetings of the Board of Directors, during which members had the opportunity to participate in direct discussion of issues. A non-zero value reflects the degree of activity of a member of the Board of Directors in joint consideration of issues on the agenda.

Members of the Board of Directors

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 predominant share 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 Fed-

eration, 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, 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<sup>69</sup>.

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.

<sup>69</sup> <http://www.rosseti.ru/eng/investors/shareholder/>



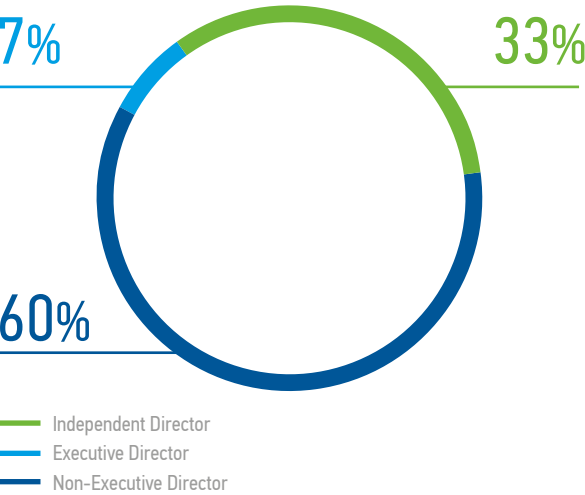
Competencies and Industry Experience of ROSSETI Board Members

Member of the Board of Directors	Experience in the industry, years	Work in the Board of Directors, years	Competencies and education					Corporate governance and law
			Strategy	Finance, risk and audit	Electric power	IT / innovation	GR	
<b>Novak Alexander Valentinovich</b> Non-Executive Director	7	5						
<b>Ashirov Stanislav Olegovich</b> <i>Independent Director</i>	13	6						
<b>Ayuev Boris Ilyich</b> Non-Executive Director	38	7						
<b>Belov Vasily Mikhailovich</b> <i>Independent Director</i>	10	5						
<b>Bystrov Maksim Sergeevich</b> (since June 27, 2019) <i>Independent Director</i>	33	1-st year						
<b>Dubnov Oleg Markovich</b> <i>Independent Director</i>	8	7						
<b>Kalinin Alexander Sergeevich</b> <i>Independent Director</i>	7	6						
<b>Livinsky Pavel Anatolievich</b> Executive Director	16	2						
<b>Manevich Yuri Vladislavovich</b> (since June 27, 2019) Non-Executive Director	19	1-st year						
<b>Murov Andrey Evgenievich</b> Non-Executive Director	8	7						
<b>Rasstrigin Mikhail Alekseevich</b> Non-Executive Director	16	2						
<b>Rogalev Nikolay Dmitrievich</b> Non-Executive Director	33	4						
<b>Tikhonov Anatoly Vladimirovich</b> Non-Executive Director	5	3						
<b>Shmatko Sergey Ivanovich</b> Non-Executive Director	13	7						
<b>Shulginov Nikolai Grigoryevich</b> Non-Executive Director	43	4						

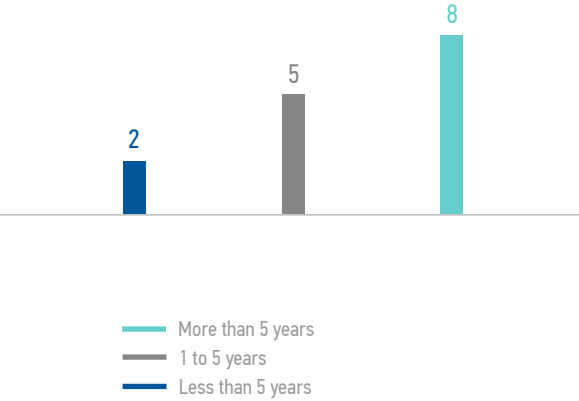
Explanation: All members of the Company's Board of Directors have professional knowledge and competence in key areas – strategic management, finance and industry specifics. The assessment of competencies in other areas is based on information about the availability of specialized education, experience or skills recognized by the professional community of members of the Board of Directors, where:

■ availability of competencies to the fullest extent ■ availability of experience or education, or skills

Board of Directors Member Categories



Time serves as s Board of Directors members



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

All Board Members	Job experience in the industry, years	Job experience in the Board of Directors of the Company, years	Age, years
Maximum	43	7	68
Median	13	5	49
Minimum	5	1	36

Independent Directors	Job experience in the industry, years	Job experience in the Board of Directors of the Company, years	Age, years
Maximum	33	7	55
Median	10	6	48
Minimum	7	1	38

Non-Executive Directors	Job experience in the industry, years	Job experience in the Board of Directors of the Company, years	Age, years
Maximum	43	7	68
Median	16	4	50
Minimum	5	1	36

Members of the Board of Directors biography

		
<b>NOVAK Alexander Valentinovich</b>	<b>ASHIROV Stanislav Olegovich</b>	<b>AYUEV Boris Ilyich</b>
<b>CHAIRMAN OF THE BOARD, Non-executive Director</b>  Born in 1971 in the city of Avdeevka, Donetsk region, Ukrainian 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.	<b>Independent Director</b>  Member of the Audit Committee Member of the Nomination and Remuneration Committee Member of the Strategy Committee  Born in 1973 in the city of Achinsk, Krasnoyarsk Region.  Citizenship — Russian Federation.  The candidacy is proposed / approved by the shareholder of the Company, Progressive Investment Ideas Management Company JSC, trust management of pension savings funds to finance the funded pension of JSC NPF GAZFOND Pension Savings.  Date of the first election to the Board of Directors of ROSSETI — June 30, 2015 (was a member of the Board of Directors from June 28, 2013 to June 20, 2014).	<b>Non-Executive Director</b>  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.
<b>EDUCATION</b>  In 1993 he graduated from the Norilsk Industrial Institute with a degree in "economics and management in metallurgy".  In 2009 he graduated from Moscow Lomonosov State University with a degree in "management".	<b>EDUCATION</b>  In 1996 he graduated from the State Academy of Management named after Sergo Ordzhonikidze with a degree in "management".  PhD in Economics.	<b>EDUCATION</b>  In 1979 he graduated from the Ural Polytechnic Institute with a degree in "electrical stations".  Doctor of Engineering Science.
<b>PROFESSIONAL EXPERIENCE</b>  Before 2012, he worked in government authorities. From May 2012 - Minister of Energy of the Russian Federation.	<b>PROFESSIONAL EXPERIENCE</b>  Before 2008, he held senior positions in companies in the extractive and electricity sectors of the economy. From 2008 - General Director of JSC Gazprom Energosbyt. From 2017 - General Director (part-time) of LLC Engineering Company Energy Solutions in the Electric Power Industry. From 2019 - Director (part-time) of Our Future Fund.	<b>PROFESSIONAL EXPERIENCE</b>  Before 2004, he worked in project and managerial positions in electric power enterprises. From 2004 - Chairman of the Management Board of JSC SO UES.
<b>PARTICIPATION IN GOVERNING BODIES</b>  At the end of the reporting period, he is also a member of the Boards of Directors (Supervisory Boards, Board of Trustees) of PJSC Rosneft, PJSC Gazprom, PJSC Transneft, State Corporation Rosatom, NRU MEI, NIU named after I.M. Gubkin, Siberian Federal University, Russian Basketball Federation, All-Russian Athletics Federation, Russian Motorcycle Federation, Conservation and Development Fund of the Solovetsky Archipelago, ANO International Center for Sustainable Energy Development, Global Energy Association, and is also the chairman of the Presidium of the the Association "RNC WEC".	<b>PARTICIPATION IN GOVERNING BODIES</b>  At the end of the reporting period, he is also a member of the Boards of Directors (Supervisory Boards) of PJSC Inter RAO, JSC SO UES, Association Digital Energy, and is also a member of the Presidium of RNC CIGRE.	<b>PARTICIPATION IN GOVERNING BODIES</b>  At the end of the reporting period, he is also a member of the Boards of Directors of Skolkovo-Venture Investments LLC.
<b>OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES</b>  During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (stakes) 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	<b>OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES</b>  During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (stakes) 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.	<b>OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES</b>  During the reporting year, he carried out no transactions with securities (shares) of ROSSETI and its affiliated organizations  He does not have family relations with other persons who are members of the management (control) bodies of ROSSETI or its affiliated organizations.

		
<b>BELOV Vasily Mikhailovich</b>	<b>BYSTROV Maksim Sergeevich</b>	<b>DUBNOV Oleg Markovich</b>
<b>Independent Director</b>  Chairman of the Audit Committee Member of the Nomination and Remuneration Committee  Born in 1981 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 30, 2015.	<b>Independent Director</b>  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 27, 2019.	<b>Independent Director</b>  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 Vologda.  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.
<b>EDUCATION</b>  In 2003 he graduated from the Faculty of Computational Mathematics and Cybernetics of Moscow State University named after M. V. Lomonosov and received an MBA from the American Institute of Business and Economics (AIBEC).	<b>EDUCATION</b>  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".  In 1998 he graduated from the All-Russian Academy of Foreign Trade with a degree in "world economics".	<b>EDUCATION</b>  In 2000 he graduated from the Gribodov Institute of International Law and Economics. With a degree in "jurisprudence".  In 2004 he graduated from the Moscow State Institute of International Relations (MGIMO) with a degree in "world economics".
<b>PROFESSIONAL EXPERIENCE</b>  Before 2013, he worked in international consulting companies, as well as investment banking holdings. In 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 IBS.	<b>PROFESSIONAL EXPERIENCE</b>  Before 2013, 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 From 20132013 - Head of JSC ATS. From 2014 - Head of the Association NP Market Council.	<b>PROFESSIONAL EXPERIENCE</b>  In 2011 - 2015 - Director for Power Engineering, Member of the Management Board of CJSC Polyus.  In 2015 - 2017 - Advisor to the Director General of the Institute of Professional Directors Fund. From 2017 - Vice President, Executive Director of the Energy Efficiency Technology Cluster of the Skolkovo Foundation.
<b>PARTICIPATION IN GOVERNING BODIES</b>  At the end of the reporting period, he is also a member of the Boards of Directors of PJSC RusHydro, JSC SO UES.	<b>PARTICIPATION IN GOVERNING BODIES</b>  At the end of the reporting period, he is also a member of the Boards of Directors of PJSC RusHydro, JSC SO UES.	<b>PARTICIPATION IN GOVERNING BODIES</b>  At the end of the reporting period, he is also a member of the Boards of Directors of PJSC RusHydro, JSC SO UES.
<b>OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES</b>  During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (stakes) 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.	<b>OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES</b>  During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (stakes) 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.	<b>OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF ROSSETI AND SUBSIDIARIES AND AFFILIATES</b>  During the reporting year, he did not have shares (stakes) of ROSSETI and its affiliated organizations; he did not make transactions with securities (stakes) 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

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 30, 2014.

EDUCATION

In 1989 he graduated from the Chelyabinsk Polytechnic Institute with a degree in "robotic engineering". In 1998 he graduated from the Ural Academy of Public Administration with a degree in "jurisprudence".

Candidate of Engineering Science.

PROFESSIONAL EXPERIENCE

Before 2014, he worked in commercial and public organizations, acting as one of the founders of the Organization of Small and Medium Enterprises OPORA ROSSII.

From 2014 - Head of the All-Russian Public Organization of Small and Medium Enterprises OPORA ROSSII and NP OPORA.

From 2014 - Director (part-time) of LLC Granitny Bereg.

PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period, he is also a member of the Boards of Directors of JSC SO UES, JSC Federal Corporation for the Development of Small and Medium Enterprises, PJSC CB Vostochny.

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 (stakes) 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 1980 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 Moscow Lomonosov State University with a degree in "economics".

In 2003 graduated from the Moscow Lomonosov State University with a degree in "management".

PROFESSIONAL EXPERIENCE

Before 2013, he worked in electric grid companies in Moscow and the Moscow Region, having passed the path to the head of JSC "OEC"

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 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, MOESK, FGC UES, LENENERGO, NP NTS UES, NRU MEI, 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 Swimming Federation public organization, and the All-Russian Athletics Federation public organization.

In addition, he is a member of the presidiums of the Association "RNC CIGRE", the Association "RNC WEC" and ROO "SFPS", a member of the Board of OOR "RSPP".

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 (stakes) 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.



MANEVICH Yuri Vladislavovich

Non-Executive Director

Member of the Strategy Committee

Born in 1972 in St.Petersburg.

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 1994, he graduated from St. Petersburg State University of Economics and Finance with a degree in "economics and production management".

PhD in Economics.

PROFESSIONAL EXPERIENCE

Before 2010, he worked in financial and industrial holdings, as well as infrastructure companies in the electric power industry.

In 2010 - 2019 - Head of CJSC "ROSPROEKT"

From 2019 - Deputy Minister of Energy 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 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 (stakes) 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 1970 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 2013, he worked in commercial organizations in the transport and electric power sectors.

From 2013 - Chairman of the Management Board of FGC UES.

PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period, she is also a member of the Boards of Directors (Supervisory Boards, Board of Trustees) of FGC UES, JSC SO UES, PJSC Inter RAO, Global Energy Association, NP NTS UES, member of the Presidium of RNC CIGRE Association.

In addition, he is a member of the Boards of Directors (Supervisory Boards, Boards of Trustees) of the National Research University of Power Engineering, St. Petersburg State University, St. Petersburg State University of Economics, the Rugby Sports Federation (Union) of Russia, and the Russian Engineering Union.

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 (stakes) 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 1983 in Ivanovo.

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 Ivanovo State Energy University named after V.I. Lenin with a degree in "thermal power plants" and "economics".

PROFESSIONAL EXPERIENCE

Before 2008, he worked in banks and electric power sectors.

In 2008 - 2017 - Analyst, Head of the Electric Power Division, VTB Capital Analytical 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 (Supervisory Boards) of PJSC RusHydro, JSC Russian Railways, JSC SO UES, Association NP Market Council.

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 (stakes) 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.



ROGALEV Nikolay Dmitrievich

Non-Executive Director

Born in 1962 in Urussu, 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 innovative development.

From 2013 - Rector of the National Research University MPEI.

PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period, he is also a member of the Boards of directors of PJSC RusHydro, President of NP NTS 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 (stakes) 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. Manevich. 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 the town of 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. Livinskiy 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 specifics of regulation, 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)<sup>70</sup>;

Kravchenko, Vyacheslav Mikhailovich (Non-executive director)

Born in 1967 in Moscow.

Position at the time of election — Deputy Minister of Energy of the Russian Federation.

In 1995 he graduated from Moscow Lomonosov State University with a degree in "Jurisprudence".

From 2013 to 2018 – Deputy Minister of Energy of the Russian Federation

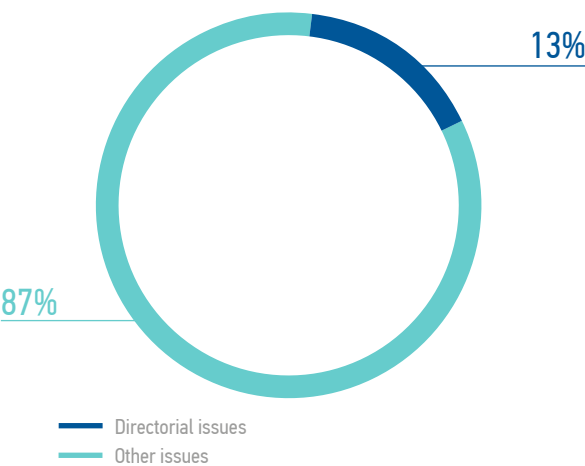
O.G. Barkin and V.M. Kravchenko in the reporting year did not own shares of ROSSETI and its controlled companies, did not make transactions with securities of these organizations, and also did not have family relations with members of the management bodies of the Company.

<sup>70</sup> The list of such issues includes two groups: (1) issues specified in Clause 17 of the Regulations on the Management of Federally Owned Shares of Joint-Stock Companies and the Use of the Special Right to Participate the Russian Federation in the Management of Joint-Stock Companies (the "Golden Share") (approved by resolution Of the Government of the Russian Federation dated December 3, 2004 No. 738), in particular, the formation and termination of powers of the executive bodies of the Company, approval of major transactions, participation in other organizations, determination of the agenda of the General Meeting of Shares oners, election of the Chairman of the Board of Directors; (2) issues pursuant to individual instructions of the President or the Government of the Russian Federation (as a rule, the approval of individual programs and policies, requirements for a top management motivation system, and some others).



Making decisions, the Board of Directors takes into account the noted features, while ensuring a comprehensive review of issues and taking into account the interests of all groups of shareholders and investors of the Company for the most efficient operation of the Company. In order to ensure unbiased approach when considering "policy issues", the Company takes into account position of independent directors (they are not obligated to comply with directives of the Government of the Russian Federation), which allows to further improve the quality and depth of the study of such issues.

The Matters Resolved by the Board of Directors in 2019



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.

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 No. 281 of November 2, 2017)

Items to assess performance of the Board of Directors of the Company:



Assessment methodology provides for conducting a questionnaire based on 85 criteria on a five-point system, interviews with members of the Board of Directors, analysis of the provisions of internal documents and deliverables of the Board of Directors (Committees) in the reporting period.

The following metrics are used as appraisal criteria:

- composition, structure, work practice of the Board of Directors and its committees;

- quality of organization of the Board of Directors activities;
- analysis of performance of key ROSSETI management functions;
- quality of interaction of the Board of Directors, Committees, management of the Company;
- performance of the Chairman of the Board of Directors;
- performance of each member of the Board of Directors.

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.

Assessment Criteria	Average Score by Criteria		Change (year on year)
	2017 - 2018	2018 - 2019	
Performance of the key functions by the Board of Directors in the Company's management	4.73	4.71	↘-0.02
Composition and structure of the Board of Directors	4.75	4.83	↗+0.08
Organization of the Board of Directors' work	4.60	4.65	↗+0.05
Incentive system for members of the Board of Directors	4.20	4.22	↗+0.02
Interaction of the Board of Directors with the management of the Company and Committees of the Board of Directors of the Company	4.70	4.80	↗+0.10
Audit Committee	4.81	4.95	↗+0.06
Nomination and Remuneration Committee	4.76	4.97	↗+0.21
Strategy Committee	4.55	4.53	↘-0.02
Committee on Investment, Technical Policy, Reliability, Energy Efficiency and Innovation	4.47	4.52	↗+0.05

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<sup>71</sup> (hereinafter referred to as the Report) (with preliminary consideration by the Nomination

and Remuneration Committee). The Report considered by the Board of Directors contains recommendations for further performance improvement of the Board of Directors and Committees of the Board of Directors, which will be implemented by the Company during the next reporting year.

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.

<sup>71</sup> Resolution of the Board of Directors dated March 05, 2020 (Minutes No. 399 dated March 06, 2020).

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 substantial 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 Company's 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 counterparties 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.

Internal corporate procedures exclude the possibility of submitting for consideration by the Board of Directors issues that have not been worked out and not prepared for decision-making, and the stipulated deadlines for preliminary familiarization of directors with the planned agenda and materials (at least 10 days in advance) contribute to the possibility of a comprehensive study of documents and the substance of the issues. At the same time, the format of discussion during in-person meetings of the Board of Directors in some cases leads to situations where initial draft decisions change, or to cases where individual directors speak out against or abstain from voting on agenda items. This circumstance further confirms that the members of the Board of Directors are attentive to the functions assigned to them, and if there are any objections, they pay attention to this, which ultimately contributes to the development of more balanced decisions, as well as taking into account the interests of representatives of various parties.

Voting by the members of the Board of Directors on the Agenda items<sup>72</sup>

Voting options and Votes

FOR 2,589 (97,99%) AGAINST 14 (0,54%) ABSTAINED 38 (1,47%)

In 2019, no conflicts of interest were revealed among members of the ROSSETI Board of Directors.

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 management of 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.

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

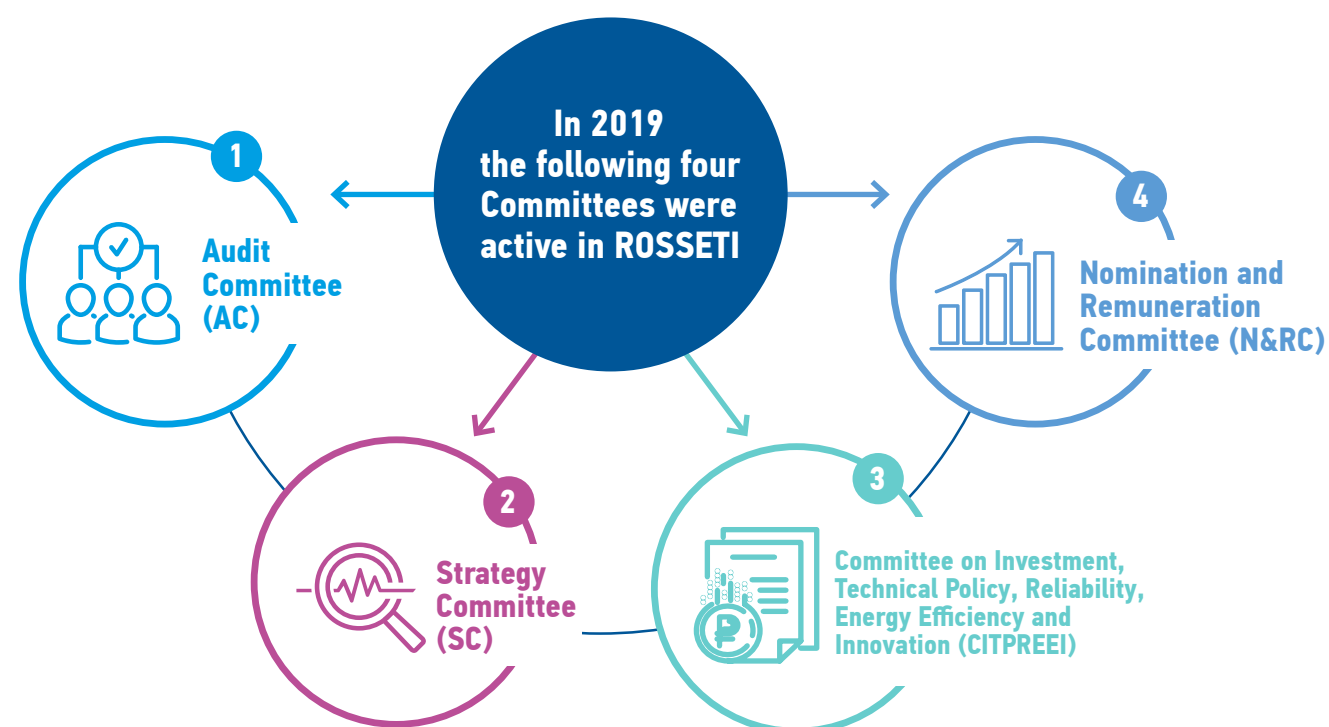
Insurer	SOGAZ INSURANCE	SOGAZ INSURANCE	Ingosstrakh
Insurance period	December, 2016 - July, 2018 (19 months)	July, 2018 - July, 2019 (12 months)	July, 2019 - July, 2020 (12 months)
Insurance premium, rubles	22,450,000	13,000,000	12,600,000
Insured sum, rubles	10,000,000,000	10,000,000,000	10,000,000,000
Total additional insured amount for independent directors, rubles	300,000,000	300,000,000	300,000,000
INSURED RISKS	INSURED PERSONS		
→ 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 managerial duties;	1. ROSSETI.		
→ risk of third-party claims against ROSSETI for compensation of losses in respect of securities of 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 deputy 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		

<sup>72</sup> The information is provided on the basis of the minutes of the Board of Directors meeting. As a rule, the shares of "against" and "abstained" votes indicate different points of view, which contributes to more objective consideration of issues and development of balanced decisions.



# 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



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/>. 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;

- formation 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.



## Progress Report of ROSSETI Board of Directors Audit Committee

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, establishing 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 SDCs 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.

The Regulations for the Audit Committee at the Board of Directors of ROSSETI were approved by the decision of the Board of Directors dated December 25, 2015 (Minutes No. 217 dated December 28, 2015).

Audit Committee Functions and Results for the Reporting Period

**CONTROL OF THE COMPANY'S REPORTING**

Issues considered during the reporting period:

- 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 elimination 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 of, as well as the determination of his/her remuneration.

**EXTERNAL AUDIT**

Issues considered during the reporting period:

- Consideration 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<sup>73</sup> of four members, who are independent members of the Company's Board of Directors.

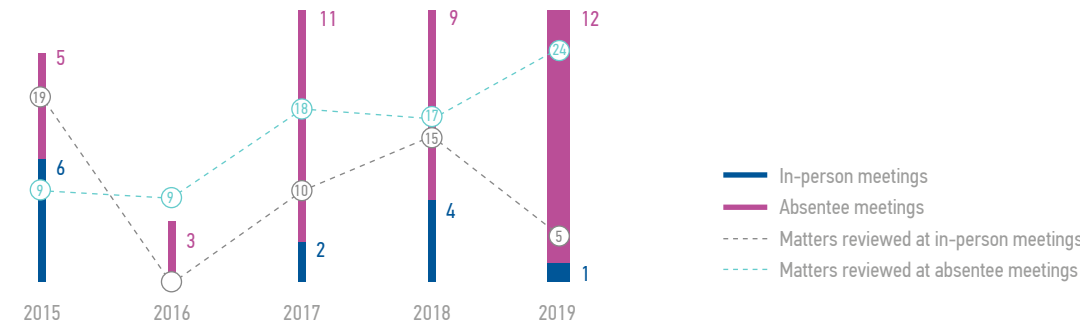
	Meetings in Absentia (12)		Meetings in Presentia (1)			
	Number of Meetings Attended by the Committee Member	Percentage, %	Number of Meetings Attended by the Committee Member In-person	Number of Meetings in which a Committee Member Participated by Means of Questionnaire Submission	Percentage, %	Percentage, %
<b>Belov Vasily Mikhailovich</b> Committee Chairman <i>Independent Director</i>	12	100	1	0	100	100
<b>Ashirov Stanislav Olegovich</b> <i>Independent Director</i>	12	100	0	1	0	100
<b>Dubnov Oleg Markovich</b> <i>Independent Director</i>	12	100	1	0	100	100
<b>Kalinin Alexander Sergeevich</b> <i>Independent Director</i>	11	91.7	0	1	0	100

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.

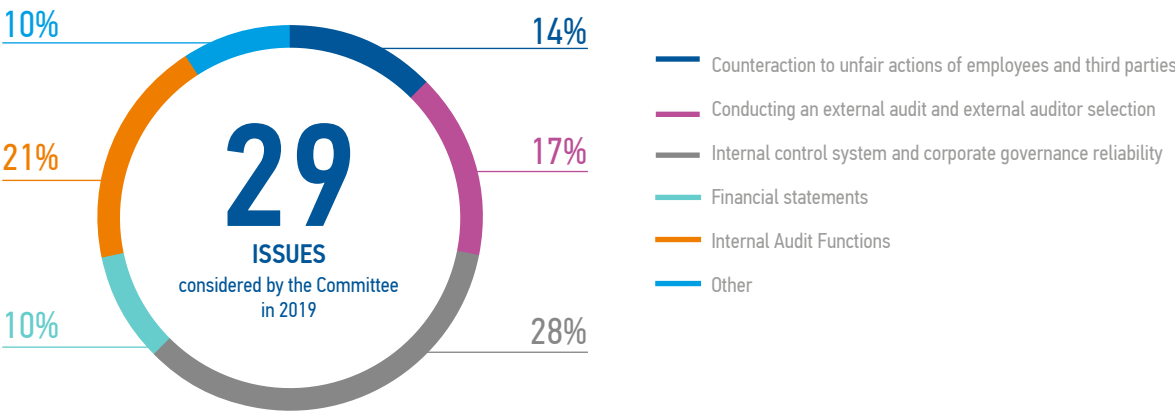
<sup>73</sup> Composition of ROSSETI Board of Directors Audit Committee was approved by the resolution of the ROSSETI Board of Directors dated June 29, 2018 (Minutes of the Meeting of July 02, 2018 No. 316) and was reelected by the resolution of the Board of Directors dated June 27, 2019 (Minutes of the Meeting of July 01, 2019 No. 364).

Audit Committee Meetings and Matters Reviewed

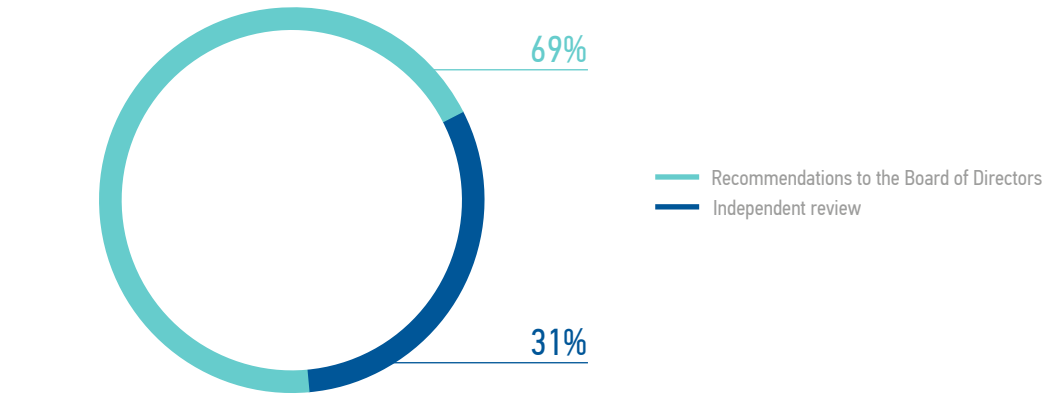


In 2019, the Committee ensured a balanced consideration of issues on the Committee key functions.

Topics of the Issues Considered by the Audit Committee



Categories of Issues Considered







Progress Report of ROSSETI Board of Directors  
Nomination and Remuneration Committee



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 preparation for 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 set 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.

[ROSSETI Board of Directors Nomination and Remuneration Committee Regulation](#) was approved by the resolution of the ROSSETI Board of Directors on February 28, 2018 (Minutes No. 295 dated March 02, 2018).

Committee Functions and Results for the Reporting Period



REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND TOP MANAGEMENT

Issues considered during the reporting period:

- Recommendations on approval of the Regulation members of the Company Board of Directors compensation and remuneration.
- Review of the Methodology for calculating and evaluating the key performance indicators of ROSSETI's Director General.



SUCCESSION AND PERSONNEL RESERVE

Issues considered during the reporting period:

- Evaluation of nominees for the ROSSETI Board of Directors.
- Review of nominees for ROSSETI positions.
- Review of the organizational chart of the ROSSETI executive office.



PERFORMANCE ASSESSMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND TOP MANAGEMENT

Issues considered during the reporting period:

- Review of the ROSSETI Director General's KPI Report.
- Consideration of issues related to performance of the Company Board of Directors.



BOARD OF DIRECTORS AND COMMITTEES WORKFLOW MANAGEMENT

Issues considered during the reporting period:

- Consideration of nominees of members of the Board of Directors for compliance with independence criteria.
- Consideration of the Committee performance report.
- Approval of the Committee's Operation Plan.
- Consideration of the professional standards in the Company routine activities.

As of December 31, 2019, the Committee consisted<sup>74</sup> of 5 members, who are independent members of the Board of Directors of the Company.

Meetings in Absentia (17)		
	Number of Meetings Attended by the Committee Member	Participation Percentage, %
<b>Kalinin Alexander Sergeevich</b> Committee Chairman Independent Director	17	100
<b>Ashirov Stanislav Olegovich</b> Independent Director	17	100
<b>Belov Vasily Mikhailovich</b> Independent Director	17	100
<b>Bystrov Maxim Sergeevich</b> <sup>75</sup> Independent Director	10 (of 11)	90.9
<b>Dubnov Oleg Markovich</b> Independent Director	16	94.1

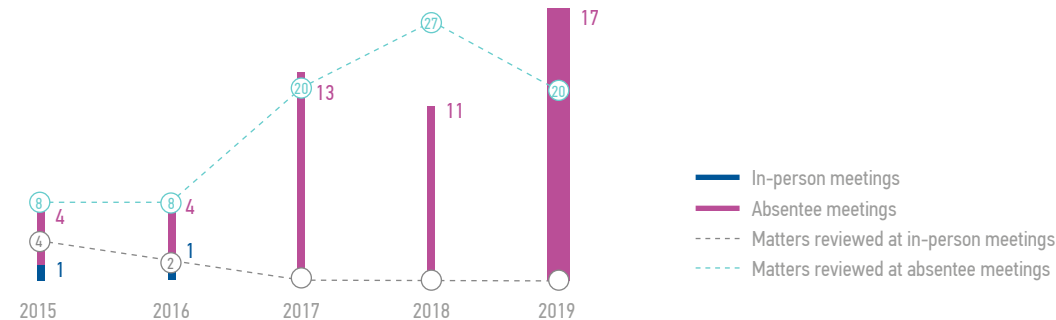
During the reporting period, the Committee held 17 meetings where 20 issues were considered.

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.

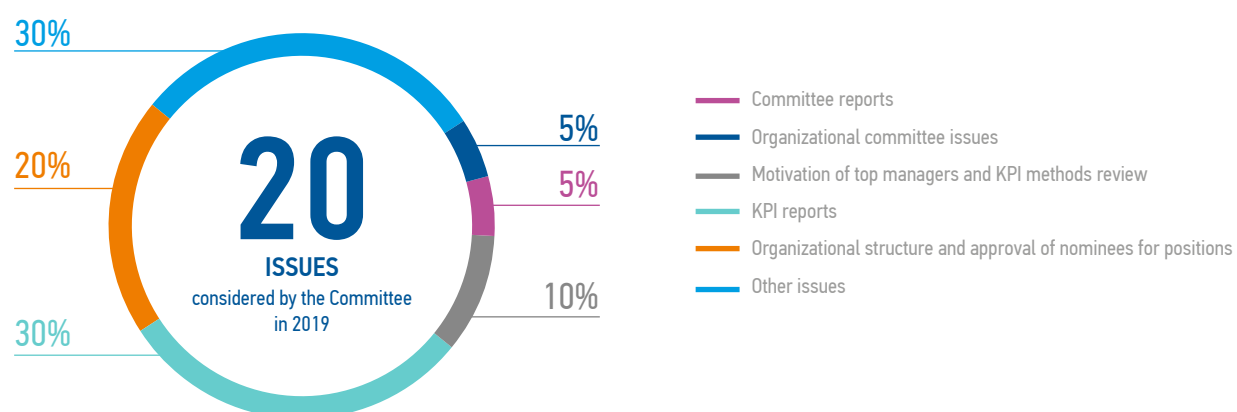
<sup>74</sup> ROSSETI Board of Directors Nomination and Remuneration Committee composition was approved by the resolutions of ROSSETI Board of Directors dated June 29, 2018 (Minutes of the Meeting of July 02, 2018 No. 316) and dated June 27, 2019 (Minutes of the Meeting of July 01, 2019 No. 364).

<sup>75</sup> Elected to the Committee by the resolution of ROSSETI Board of Directors of June 27, 2019 (Minutes No. 364 of July 1, 2019).

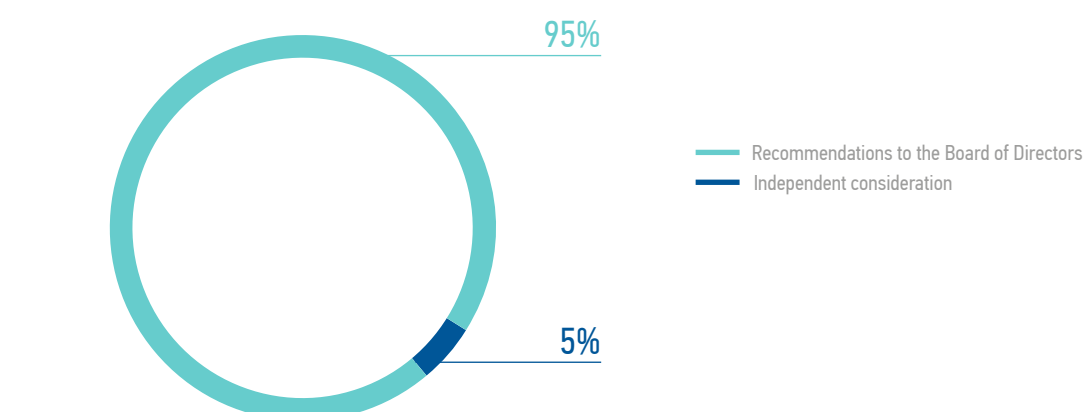
### Nomination and Remuneration Committee meetings and matters reviewed



### Topics of the issues considered and reviewed by the Nomination and Remuneration Committee



### Categories of Issues Considered



### Progress Report of ROSSETI Board of Directors Strategy Committee

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.



**YURI MANEVICH**  
Chairman of the Committee,  
member of the Board of Directors, ROSSETI

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.

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 dated October 21, 2013 (Minutes No. 137 dated October 23, 2013, as further amended).

### Committee Functions and Results for the Reporting Period

<b>STRATEGY AND CORE BUSINESS ACTIVITIES</b> Issues considered during the reporting period: <ul style="list-style-type: none"> <li>→ Reviewing the Company's strategy.</li> <li>→ Reviewing the Report on the ROSSETI Long-Term Development Program Fulfillment.</li> </ul>	<b>SUBSIDIARIES AND DEPENDENT COMPANIES MANAGEMENT</b> Issues considered during the reporting period: <ul style="list-style-type: none"> <li>→ Subsidiaries and Dependent Companies Management.</li> </ul>
<b>SUBSIDIARIES AND DEPENDENT COMPANIES' DEVELOPMENT PLANS</b> Issues considered during the reporting period: <ul style="list-style-type: none"> <li>→ Updating the plans for development of the subsidiaries and dependent companies.</li> </ul>	<b>KEY PROJECTS AND DEALS</b> Issues considered during the reporting period: <ul style="list-style-type: none"> <li>→ Determining the Company's position with respect to the deals and projects of the subsidiaries and dependent companies.</li> </ul>
<b>MONITORING THE IMPLEMENTATION OF THE COMPANY'S KEY BUSINESS PROGRAMS</b> Issues considered during the reporting period: <ul style="list-style-type: none"> <li>→ Reviewing the report on implementation of certain policies of the Company.</li> <li>→ Addressing the issues of fulfilling certain orders of the Russian President and the Russian Government.</li> <li>→ Reviewing the Non-Core Assets Register of ROSSETI.</li> <li>→ Reviewing the reports on implementation of key investment projects of the Company.</li> </ul>	<b>BUDGET</b> Issues considered during the reporting period: <ul style="list-style-type: none"> <li>→ Reviewing the consolidated 3-year business plan of the ROSSETI Group and scenarios for its preparation.</li> <li>→ Reviewing the ROSSETI budget, as well as performance reports under it.</li> </ul>

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 No. 326 dd.

Full Name	Title/Position <sup>76</sup>
<b>Yuri Vladislavovich Manevich</b> <sup>77</sup> Chairman of the Committee	Non-Executive Director
<b>Stanislav Olegovich Ashirov</b>	Independent Director
<b>Oleg Markovich Dubnov</b>	Independent Director
<b>Pavel Nikolayevich Snikkars</b> Deputy Chairman of the Committee	Director of the Electric Power Industry Development Department, Ministry of Energy of the Russian Federation
<b>Oleg Gennadyevich Barkin</b>	Deputy Chairman of the Management Board of NP Market Council Association
<b>Alexander Yevgenyevich Bogashov</b>	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
<b>Dmitry Stanislavovich Bulgakov</b>	Deputy Head of Directorate "Expert Centre in the Fuel and Energy Complex" FSBI "Russian Energy Agency" (Analytical Centre of the Fuel and Energy Complex)
<b>Eduard Petrovich Volkov</b>	Academician of the Russian Academy of Sciences
<b>Pavel Vladimirovich Grebtsov</b>	Acting Deputy General Director for Economics and Finance, ROSSETI
<b>Dmitry Gennadyevich Denisov</b>	Director of the Small and Medium Business and Competition Development Department of the Ministry of Economic Development of Russia
<b>Vasily Nikolayevich Kiselyov</b>	Chairman of the Council of Customers of the Government Commission on the Development of the Electric Power Industry
<b>Mikhail Aleksandrovich Kolesnikov</b>	Vice President, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business, and Director General, OOO Oldam
<b>Yelena Anatolyevna Medvedeva</b>	Deputy Director of the Department for Operational Control and Management in the Electric Power Industry, Ministry of Energy of the Russian Federation
<b>Vasily Vladislavovich Nikonov</b>	Director of the Energy Department, Rosneft
<b>Yevgeny Aleksandrovich Olkhovich</b>	Deputy Director General for Strategic Development, ROSSETI
<b>Sergey Anatolyevich Pavlushko</b>	Deputy Chairman of the Management Board, SO UPS, JSC
<b>Sergey Sergeyevich Pikin</b>	Director, Energy Development Fund
<b>Dzhordzh Ilyich Rizhinashvili</b>	First Deputy Director General, Member of the Management Board, PJSC RusHydro
<b>Maria Gennadyevna Tikhonova</b>	Deputy Chairperson of the Management Board, FGC UES
<b>Alexander Viktorovich Shevchuk</b>	Executive Director, Association of Institutional Investors

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 of April 29, 2019 (Minutes No. 353 dd. April 30, 2019).

Full Name	In Absentia Meetings (13)			In-Person Meetings (9)		
	Number of Meeting Attended by the Member	Participation Share, %	Number of Meeting Attended Personally by the Member	Number of Meeting Attended by the Member by Poll	Attendance Share, %	Participation Share, %
<b>S.O. Ashirov</b>	13	<b>100</b>	4	5	44.4	<b>100</b>
<b>O.G. Barkin</b>	12	<b>92.3</b>	3	4	33.3	<b>77.8</b>
<b>A.Ye. Bogashov</b>	10	<b>76.9</b>	4	3	44.4	<b>77.8</b>
<b>D.S. Bulgakov</b>	13	<b>100</b>	9	0	100	<b>100</b>
<b>E.P. Volkov</b>	11	<b>84.6</b>	7	2	77.8	<b>100</b>
<b>P.V. Grebtsov</b>	13	<b>100</b>	8	1	88.9	<b>100</b>
<b>D.G. Denisov</b>	11	<b>84.6</b>	1	8	11.1	<b>100</b>
<b>O.M. Dubnov</b>	11	<b>84.6</b>	8	1	88.9	<b>100</b>
<b>V.N. Kiselyov</b>	13	<b>100</b>	8	1	88.9	<b>100</b>
<b>M.A. Kolesnikov</b>	13	<b>100</b>	5	4	55.5	<b>100</b>
<b>Ye.A. Medvedeva</b>	11	<b>84.6</b>	5	3	55.5	<b>88.9</b>

<sup>76</sup> The members' positions are states as of the date of their election to the Committee. During the reporting period and as of the date of the Report approval some of the positions have changed.

<sup>77</sup> Elected to the Committee by the decision of the Board of Directors dated April 29, 2019 (Minutes No. 353 dated April 30, 2019).

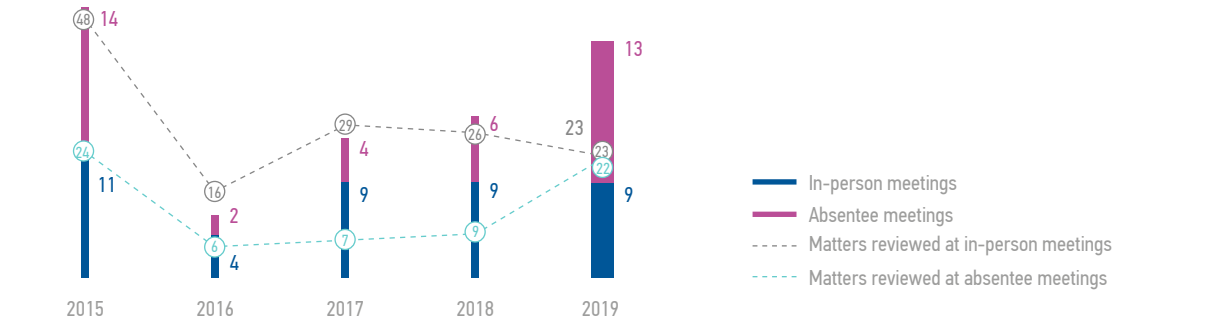
October 19, 2018) in view of reelection of the Chairman of the Committee subject to the Board of Directors' decision of April 29, 2019 (Minutes No. 353 dd. April 30, 2019):

Full Name	In Absentia Meetings (13)			In-Person Meetings (9)		
	Number of Meeting Attended by the Member	Participation Share, %	Number of Meeting Attended Personally by the Member	Number of Meeting Attended by the Member by Poll	Attendance Share, %	Participation Share, %
<b>V.V. Nikonov</b>	11	<b>84.6</b>	3	3	33.3	<b>66.7</b>
<b>Ye.A. Olkhovich</b>	13	<b>100</b>	5	4	55.5	<b>100</b>
<b>S.A. Pavlushko</b>	10	<b>76.9</b>	2	5	22.2	<b>77.8</b>
<b>S.S. Pikin</b>	12	<b>92.3</b>	9	0	100	<b>100</b>
<b>Dzh.I. Rizhinashvili</b>	12	<b>92.3</b>	3	5	33.3	<b>88.9</b>
<b>P.N. Snikkars</b>	10	<b>76.9</b>	8	0	88.9	<b>88.9</b>
<b>M.G. Tikhonova</b>	12	<b>92.3</b>	9	0	100	<b>100</b>
<b>A.V. Shevchuk</b>	13	<b>100</b>	6	3	66.7	<b>100</b>

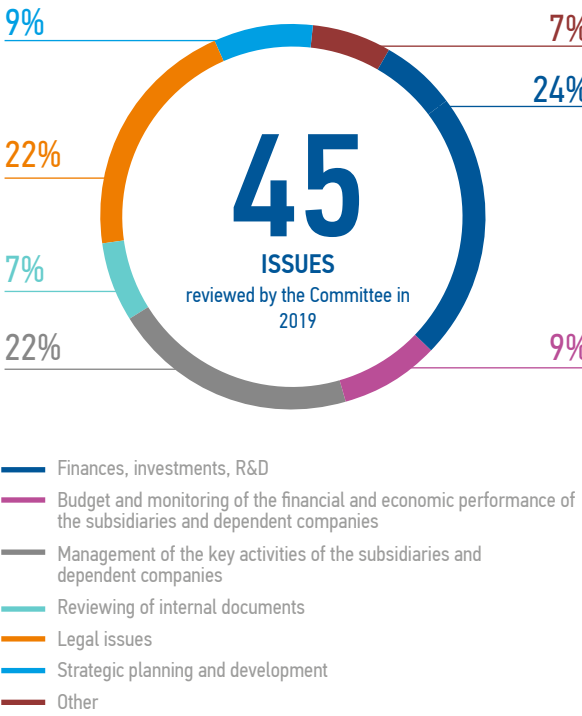
The Committee held 22 meetings in the reporting period, including 9 in-person, at which a total of 45 issues were considered.

In 2019, the Committee ensured a balanced consideration of issues on the Committee key functions.

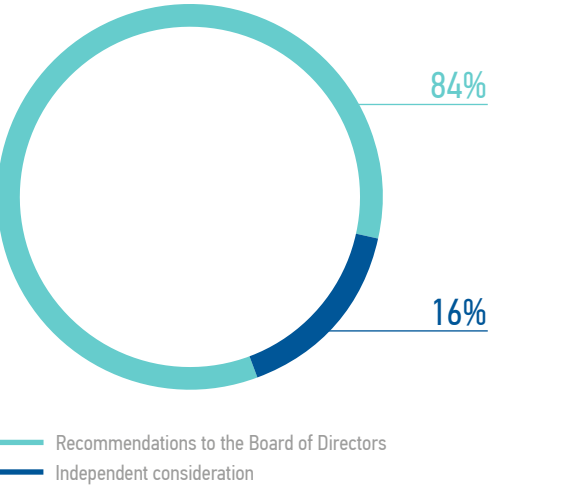
The Strategy Committee Meetings and Matters Reviewed



Issues Considered by the Strategy Committee



Categories of Issues Considered







## Progress Report of ROSSETI Board of Directors Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee

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.



**OLEG DUBNOV**

Chairman of the Committee,  
Independent Director, ROSSETI

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 Investment, Technical Policy, Reliability, Energy Efficiency and Innovation Committee was established to assist the Board of Directors to fulfil its responsibilities in implementation of technical and investment policies, energy efficiency, reliability and innovation development.

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 dated October 21, 2013 (Minutes No. 137 dated October 23, 2013, as further amended).

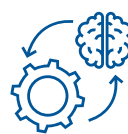
## Committee Functions and Results for the Reporting Period



### INVESTMENT, TECHNICAL POLICY AND OTHER KEY POLICIES OF THE COMPANY

Issues considered during the reporting period:

- Review of the consolidated investment program of the ROSSETI Group, its methodology and approval.
- Consideration of the rules for pilot projects and first stage digital transformation pilot projects.
- Review of the consolidated program "Digital transformation of the ROSSETI Group for 2019-2030", Action Plan of the Concept "Digital Transformation 2030".



### 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.



### DEVELOPMENT OF POLICIES ON INVESTMENT AND TECHNICAL ACTIVITIES, ENSURING RELIABILITY, ENERGY EFFICIENCY AND INNOVATIVE DEVELOPMENT OF THE COMPANY

Issues considered during the reporting period:

- Review of ROSSETI Regulation "On Unified Technical Policy of Power Grid Complex".



### ANALYSIS OF NORMATIVE DOCUMENTS ON IMPLEMENTATION OF INVESTMENT, TECHNICAL AND OTHER KEY POLICIES

Issues considered during the reporting period:

- Reviewing the updated Modernization (Renovation) Program for ROSSETI SDCs Power Grid Facilities.

The current members of the Committee were approved by ROSSETI Board of Directors resolution dd. October 17, 2018 (Minutes dd. October 19, 2018 No. 326) with subsequent amendments based on the Board of Directors resolution dd. April 04, 2019

(Minutes dd. 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):

Full Name	Title/Position <sup>78</sup>
<b>Dubnov Oleg Markovich Chairman</b>	<b>Independent Director</b>
<b>Barkin Oleg Gennadyevich</b>	Deputy Chairman of the Management Board of Association NP Market Council
<b>Dmitry Stanislavovich Bulgakov</b>	Deputy Head of Directorate "Expert Centre in the Fuel and Energy Complex" FSBI "Russian Energy Agency" (Analytical Centre of the Fuel and Energy Complex)
<b>Grabchak Yevgeny Petrovich</b>	Director of the Department of Operational Control and Management in the Power Industry of the Ministry of Energy of Russia
<b>Denisov Dmitry Gennadyevich</b>	Director of the Small and Medium Business Development and Competition Department of the Ministry of Economic Development of Russia
<b>Ilyenko Alexander Vladimirovich</b>	Member of the Management Board, Director for Development Management of JSC SO UES
<b>Kazachenkov Andrey Valentinovich</b>	First Deputy General Director, member of the Management Board of PJSC RusHydro
<b>Kiselev Vasily Nikolaevich</b>	Chairman of the Consumer Council under the Government Electricity Commission
<b>Mazo Leonid Vladimirovich</b>	Advisor to the Chairman of the Management Board of JSCB "Tender Bank" (JSC)
<b>Mayorov Andrey Vladimirovich<sup>79</sup></b>	Deputy Director General - Chief Engineer of ROSSETI
<b>Mikhailenko Konstantin Sergeyevich</b>	Principal Advisor of ROSSETI
<b>Molsky Aleksey Valeryevich<sup>79</sup></b>	Deputy Chairman of the Board of FGC UES, Member of the Board of FGC UES
<b>Pavel Yurievich Nuzhdin</b>	Head of Post-Investment Analysis, Investment Development and Management Department of PJSC "T Plus"
<b>Podlutskiy Sergey Vasilyevich<sup>79</sup></b>	Director of Investment Activities of ROSSETI
<b>Roslyakov Alexey Yurievich</b>	Deputy Director General for Technical Issues of JSC Mezhennergosbyt
<b>Sergeyev Sergey Vladimirovich</b>	Deputy General Director for Capital Construction of ROSSETI
<b>Snikkars Pavel Nikolaevich</b>	Director of the Department of Electric Power Industry Development of the Ministry of Energy of Russia
<b>Shevchuk Alexander Viktorovich</b>	Executive Director of the Association of Professional Investors

During the reporting period the Committee members were also Dmitry B. Hakobyan, Dmitry B. Gvozdev and Roman E. Filimonov. The authorities of Dmitry B. Hakobyan, Dmitry B. Gvozdev and

Roman E. Filimonov were terminated on the basis of the ROSSETI Board of Directors resolution dated April 4, 2019. (Minutes No. 347 dated April 05, 2019).

Full name of Committee member	In Absentia Meetings (3)		In-person Meetings (7)			
	Number of attended meetings	Participation rate, %	Number of meetings in which the Committee member participated in person	Number of meetings in which the Committee member participated by sending a questionnaire	Percentage of presence %	Participation rate, %
<b>Dubnov O.M.</b>	3	<b>100</b>	7	0	100	<b>100</b>
<b>Barkin O.G.</b>	3	<b>100</b>	3	4	42.9	<b>100</b>
<b>Bulgakov D.S.</b>	3	<b>100</b>	7	0	100	<b>100</b>
<b>Grabchak E.P.</b>	3	<b>100</b>	4	3	57.1	<b>100</b>
<b>Denisov D.G.</b>	2	<b>66.7</b>	1	4	14.2	<b>71.4</b>
<b>Ilyenko A.V.</b>	3	<b>100</b>	3	4	42.9	<b>100</b>
<b>Kazachenkov A.V.</b>	3	<b>100</b>	2	4	28.6	<b>85.7</b>
<b>Kiselev V.N.</b>	3	<b>100</b>	7	0	100	<b>100</b>
<b>Mazo L.V.</b>	3	<b>100</b>	0	7	0	<b>100</b>
<b>Mayorov A.V.</b>	3	<b>100</b>	6	1	85.7	<b>100</b>
<b>Mikhailenko K.S.</b>	3	<b>100</b>	7	0	100	<b>100</b>

<sup>78</sup> The members' positions are states as of the date of their election to the Committee. During the reporting period and as of the date of the Report approval some of the positions have changed.

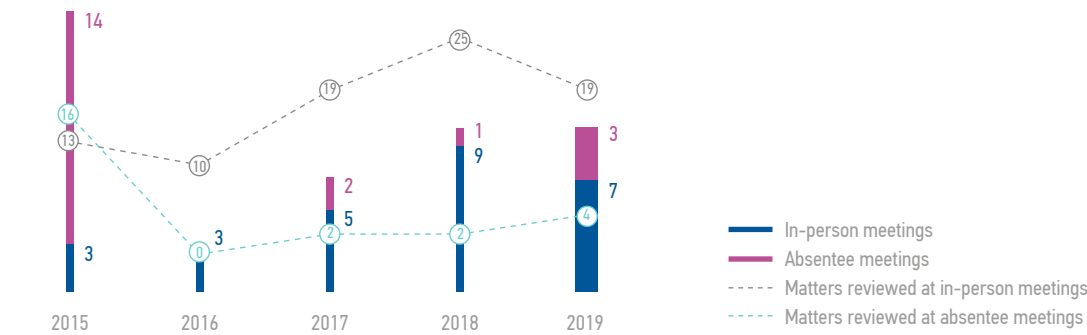
<sup>79</sup> Elected to the Committee by the Board of Directors' decision dated April 04, 2019 (Minutes No. 347 dated April 05, 2019).

Full name of Committee member	In Absentia Meetings (3)			In-person Meetings (7)			
	Number of attended meetings	Participation rate, %	Number of meetings in which the Committee member participated in person	Number of meetings in which the Committee member participated by sending a questionnaire	Percentage of presence %	Participation rate, %	
Molsky A.V.	3	100	4	2	57.1	85.7	
Nuzhdin P.Yu.	3	100	1	6	14.2	100	
Podlutskiy S.V.	3	100	5	2	71.4	100	
Roslyakov A.Yu.	3	100	5	2	71.4	100	
Sergeev S.V.	3	100	2	5	28.6	100	
Snickers P.N.	2	66.7	2	3	28.6	71.4	
Shevchuk A.V.	3	100	5	2	71.4	100	

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

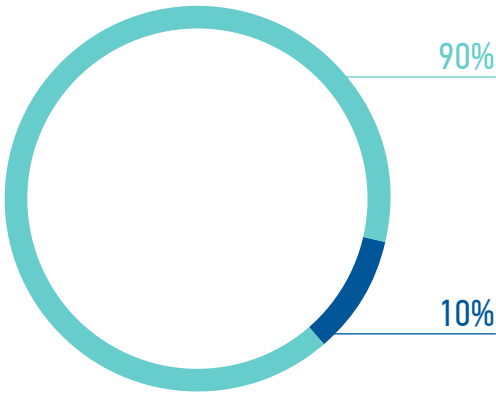


Issues Reviewed by the Investment, Technical Policy, Reliability, Energy Efficiency and Innovation Committee



- Investments and investment operations
- Energy efficiency and innovation
- Technical policies, service quality and reliability
- Procurement
- The Committee's organization matters
- The Committee's reports

Categories of Issues Considered



- Recommendations to the Board of Directors
- Independent consideration

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;
- participation in organizing General Meetings of the Company's Shareholders;
- participation in implementing the policy on information disclosure, as well as ensuring storage of corporate documents of the Company;
- participation in improving the system and practice of corporate governance of the Company;
- ensuring work of the Board of Directors and Committees of the Board of Directors of the Company.

The Regulations for the Corporate Secretary of ROSSETI were approved by the decision of the Board of Directors dated September 23, 2016 (Minutes No. 240 dated September 26, 2016).

The Corporate Secretary is functionally subordinate to the Board of Directors, and administratively to the Director General 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 resolution 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.

BARANYUK Natalya Nikolaevna



Born in 1978 in Krasnoyarsk.  
In 2011, she graduated from Lomonosov Moscow State University with a degree in "management".  
In 2000, she graduated from Krasnoyarsk State Agrarian University with a degree in "jurisprudence".

**PROFESSIONAL EXPERIENCE**

**2008 - 2015** — Adviser, Deputy Director of the Department of the Ministry of Finance of the Russian Federation.  
**In 2015** — Deputy Director of the Affairs Management Department of the Ministry of Energy of the Russian Federation.  
**From 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)).

# ROSSETI 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 ROSSETI.

The competence of the executive bodies includes the resolution of the issues related to the current activities of ROSSETI, 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 ROSSETI Charter and the ROSSETI Management Board Regulations, the Director General and members of the Management Board report to the Board of Directors.

The 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 ROSSETI's main activities;
- financial and economic activities of controlled companies whose shares (stakes) are held by ROSSETI;
- information on risk management system and internal control procedures.

## Collegial Executive Body (the Management Board)

The ROSSETI 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. In its activities, the Management Board is guided by the requirements of the Charter and the Regulations on the Management Board of the Company<sup>80</sup>, 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 ROSSETI'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 ROSSETI 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 ROSSETI Management Board consisted of 5 members of the Management Board.

## Members of the Company's Management Board<sup>81</sup>



### LIVINSKY Pavel Anatolyevich

#### Director General, Chairman of the Management Board

Born in 1980 in Chelyabinsk.  
Citizenship — Russian Federation.

#### EDUCATION

In 2001 he graduated from the Lomonosov Moscow State University with a degree in "economics".  
In 2003 he graduated from the Lomonosov Moscow State University with a degree in "management".

#### 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 ROSSETI.

#### PARTICIPATION IN GOVERNING BODIES

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 RusHydro, ROSSETI, MOESK, FGC UES, LENENERGO, NP NTS UES, NIU 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 Savior Foundation, 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 "RNK SIGRE", Association "RNK MIREs" and ROO "SFPS", a member of the Board of OOR "RSP".

#### OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF PJSC 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) of the said companies.  
He has no family relations with any other members of ROSSETI'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 - 2015 - First Deputy Director General for Economics and Finance ROSSETI.  
From 2013 - a member 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 ROSSETI Tyumen.

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

During the reporting year, he did not have any shares (stakes) in ROSSETI or its controlled organizations, nor did he perform any transactions with securities (stakes) of the said companies.

<sup>80</sup> Approved by the resolution of ROSSETI Annual General Shareholders Meeting dated June 27, 2019 (Minutes of the Meeting of June 27, 2019), available online on Company's website at [http://www.rosseti.ru/eng/investors/reports/Internal-docs/doc/Regulations\\_for\\_the\\_management\\_board\\_2019.pdf](http://www.rosseti.ru/eng/investors/reports/Internal-docs/doc/Regulations_for_the_management_board_2019.pdf)

<sup>81</sup> As of December 31, 2019.





KOROTKOV Dmitry Sergeyevich

Member of the Management Board, Deputy Director General for Legal Support

Born in 1982 in Leningrad.  
Citizenship — Russian Federation.

EDUCATION

In 2004 he graduated from St. Petersburg State University with a degree in "law".

PROFESSIONAL EXPERIENCE

Before 2015 he worked in federal government bodies.  
In 2015 – 2018 - Assistant to the Prime Minister of the Government of the Russian Federation.  
From 2018 - Deputy Director General for Legal Support, member 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 IDGC of Volga, a member of the Supervisory Board of ANO Centre Amur Tiger.

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

During the reporting year, he did not have any shares (stakes) in ROSSETI or its controlled organizations, nor did he perform any transactions with securities (stakes) of the said companies.



SERGEYEVA Olga Andreyevna

Member of the Management Board, Chief Advisor

Born in 1984 in Moscow.  
Citizenship — Russian Federation.

EDUCATION

In 2006, she graduated from the Plekhanov Russian Academy of Economics. In 2006 she graduated from the Russian Academy of Economics named after G.V. Plekhanov with a degree in "economics and management at an enterprise (construction)".

PROFESSIONAL EXPERIENCE

In 2012 – 2017 she held managerial positions in the Moscow City Government.  
In 2017 – 2018 - Advisor, Chief Advisor of ROSSETI.  
In 2018 – 2019 - Deputy General Director - Head of ROSSETI Office, Member of the Management Board of ROSSETI.  
From 2019 - Chief Advisor of ROSSETI, Member of the Management Board of ROSSETI.

PARTICIPATION IN GOVERNING BODIES

At the end of the reporting period she is also a member of the boards of directors (supervisory boards, boards of trustees) of FGC UES, MOESK, LENENERGO, ROSSETI South, IDGC of North-West, ROSSETI Northern Caucasus, Kubanenergo, JSC "NPF Otkrytie", Association "ERA of Russia".

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

During the reporting year she did not have any shares (stakes) in ROSSETI or its controlled organizations, did not perform any transactions with securities (stakes) of the said companies.



PYATIGOR Alexander Mikhailovich

Member of the Management Board, Deputy Director General for Implementation of Services

Born in 1980 in Kiima village of Kazakh SSR.  
Citizenship — Russian Federation.

EDUCATION

In 2002, he graduated from the Kazakh Agrarian University. C. Saifulin Kazakh Agrarian University with a degree in "electricity supply and electrification of agriculture".

PROFESSIONAL EXPERIENCE

In 2013 – 2018 - Deputy Director General for Technological Connection and Development of MOESK services.  
In June, 2018 - November, 2018 - Acting Deputy Director General for Development and Implementation of Services of ROSSETI.  
In November, 2018 – April, 2020 - Deputy Director General for Implementation of Services of ROSSETI.  
From 2018 - Member 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 (supervisory boards, boards of trustees) of IDGC of Volga, ROSSETI Northern Caucasus, PJSC Dagestan Power Sales Company, JSC Ekaterinburgenergosbyt, JSC "Kabbalkenergo", JSC "Sevkavkazenergo", JSC "Karachayevo-Cherkesskenergo", JSC "Pskovenergosbyt", JSC "Kalmenergosbyt", JSC "Tyvaenergosbyt", JSC "Yantarenergosbyt", JSC "EnergoCenter", JSC "Management of Vols VL".

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

During the reporting year he did not have any shares (stakes) in ROSSETI or its controlled organizations, did not perform any transactions with securities (stakes) of the said companies.

Changes in the Composition of the Management Board in 2019

Over the period through April 29, 2019<sup>82</sup> **Valentin Efimovich Mezhevich** 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.

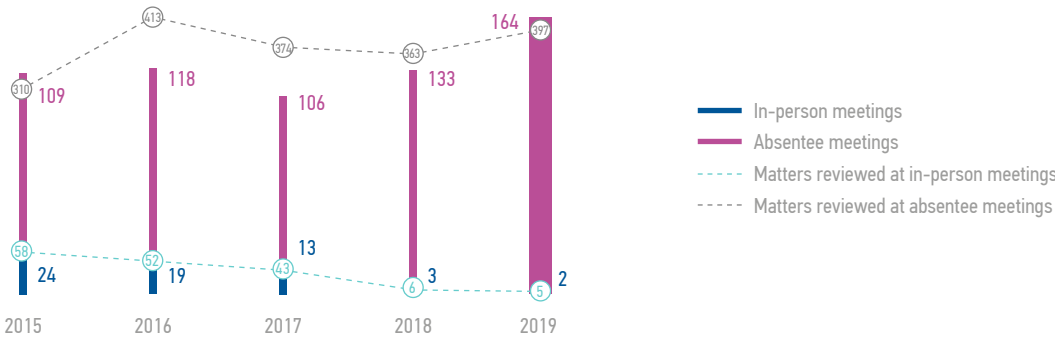
Report on activity of the Management Board members

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.

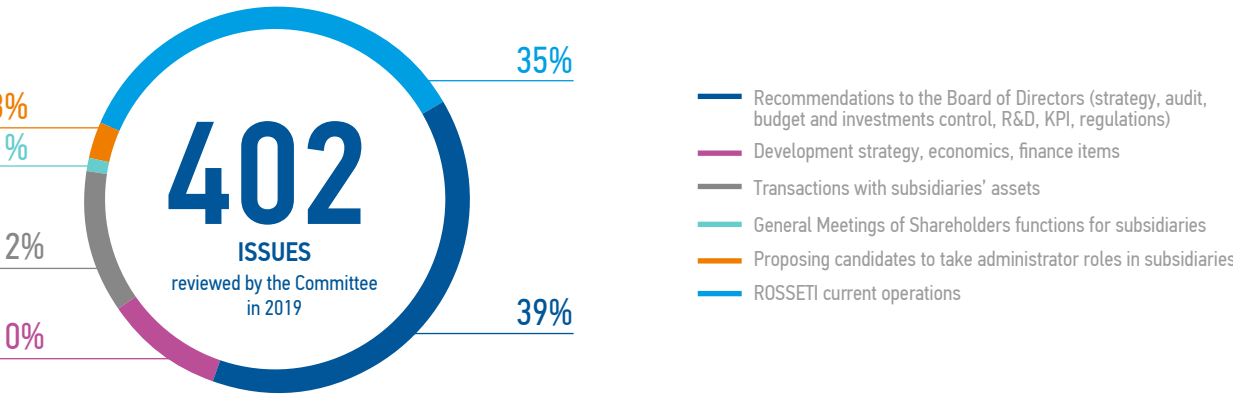
Participation of ROSSETI Management Board members in meetings in 2019.<sup>83</sup>

Full name	Meetings In absentia	In-person meetings
Livinsky Pavel Anatolievich	164/164	2/2
Demin Andrey Alexandrovich	164/164	2/2
Korotkov Dmitry Sergeevich	162/164	2/2
Mezhevich Valentin Efimovich (member of the Management Board till April 29, 2019)	52/164	1/2
Pyatigor Alexander Mikhailovich	163/164	1/2
Sergeyeva Olga Andreyevna	164/164	2/2

Management Board Meetings and Matters Reviewed



Issues Reviewed by the Management Board



<sup>82</sup> This member's power was cancelled under the decision taken by the Board of Directors on 29.04.2019 (Minutes of the Meeting of April 30, 2019 № 353).

<sup>83</sup> The data in the table are given in the format "5/7", indicating that the person could have participated in 7 meetings of the Board, actually participated in 5 meetings.

## 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 2017<sup>84</sup> functions of the sole executive body of ROSSETI, the Director General, have been performed by Pavel Anatolievich Livinsky.

The information about Mr. Livinsky is available in the Management Board and Board of Directors sections.

## 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.

### Management Bodies Remuneration Policy Framework

The Company's remuneration policies are set out in a number of internal regulatory documents:

- for members of the Board of Directors – by the Regulations on Payment of Remuneration and Compensations to Members of the Board of Directors<sup>85</sup>;
- for the members of the Committees under the Board of Directors who are not members of the Board of Directors – Regulations on the Strategy Committee under the Board

of Directors of ROSSETI and Regulations on the Investment, Technical Policy, Reliability, Energy Efficiency and Innovation Committee under the Board of Directors of ROSSETI<sup>86</sup>;

- for top managers – ROSSETI Regulation on Material Incentives for Top Managers<sup>87</sup>.

The remuneration of the General Director is determined by the terms of the employment contract concluded with him.

### 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. ROSSETI's basic annual remuneration for members of the Board of Directors has been set at the level of average remuneration for members of the boards of directors of comparable companies.

### 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 is vested with the authority to develop and periodically review the remuneration policy for members of the Company's Board of Directors;
- the Committee supervises the implementation and implementation of policies on remuneration for members of the Company's Board of Directors and Management Board;

- 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. The amount of the basic annual remuneration set out in the Regulations on Remuneration and Compensation to ROSSETI Board Members is adjusted for these indicators.

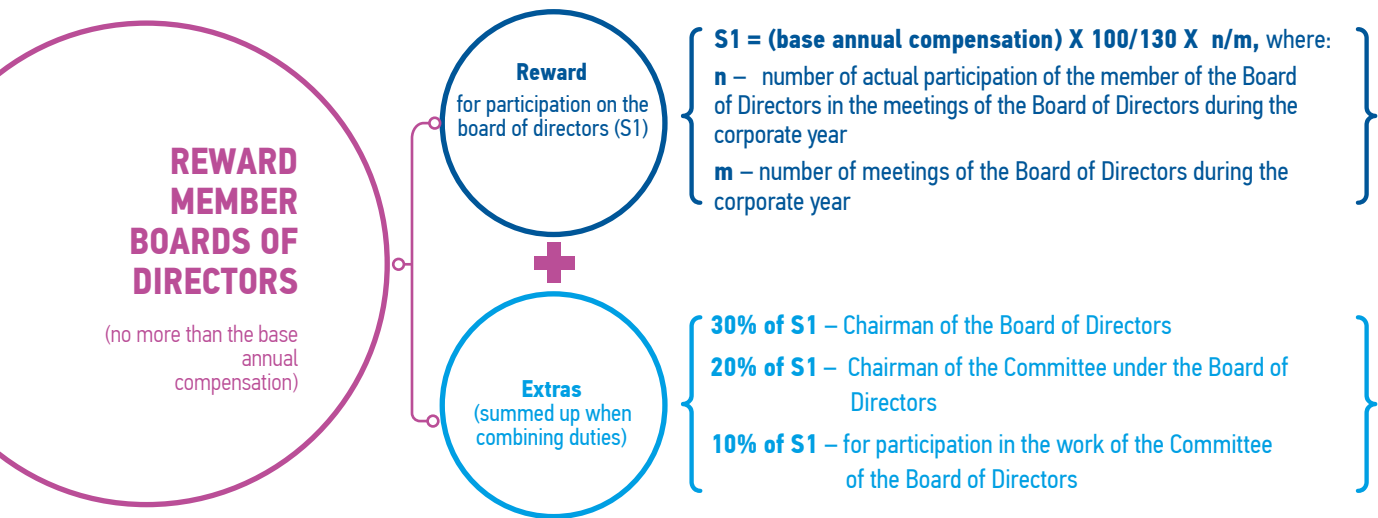
Remuneration is paid in the form of a lump sum payment in rubles. Other forms of remuneration, including forms of short-term and long-term motivation that depend on the financial result, as well as forms of motivation by shares (stock options), are not applied in the Company.

<sup>84</sup> Resolution of the Board of Directors dated September 11, 2017 (Minutes No. 277 dated September 14, 2017). Order No. 340k dd. September 12, 2017.

<sup>85</sup> Approved by the ROSSETI's AGM June 27, 2019 (Minutes of Meeting June 27, 2019 № n/n).

<sup>86</sup> Approved by the decision of the Board of Directors of ROSSETI of October 21, 2013 (Minutes No. 137, as amended by the decision of the Board of Directors of ROSSETI of December 15, 2014 (Minutes No. 173)).

<sup>87</sup> Approved by the Board of Directors (Minutes of the Meeting of November 19, 2009 №26).



The amount of the base annual compensation is 3.5 mln 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 member of the Board of Directors.
Total remuneration of all members of the Board of Directors exceeds the Company's net profit under RAS 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 Chairman of the Committee	3 minimum monthly wage rates for the first class <sup>88</sup> 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.

<sup>88</sup> Set forth in the Sectoral Wage Rate Agreement in the electricity sector of the Russian Federation as of the date of such meeting of the Committee, adjusted for the indexation provided for in the Agreement.

Report on Actual Remuneration and Compensations 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<sup>89</sup>, 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.

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.

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

	Fixed part	Variable part	Other forms of incentives
Form of implementation	Official salary	Quarterly and annual bonuses based on KPI achievement	Social package <sup>91</sup> and liability insurance (D&O)
	Target weight of components in the compensation structure for the year		
	not more than 40%	not less than 60%	Provided
Target weight of components in the compensation structure for the year	Attracting and retaining highly professional managers through a fair level of base compensation at market level.	Incentives to achieve the targets in accordance with the Long-Term Development Programme and business plans of the Company	Provision of social benefits in accordance with best market practices
Target	The level of salary corresponds to market conditions, which ensures stability of the Company management	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.	→ Insurance coverage under VHI and liability insurance programs (D&O) → Other types of compensation and remuneration in accordance with the employment contract and the Company's ORD

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<sup>91</sup>

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	104,485
Bonuses	158,926
Other types of remunerations	6,332
Total	273,361

The amount of the premium for 2019 was determined based on the achievement of KPI targets.

For more information on the KPI system, see KPI System. Performance evaluation.

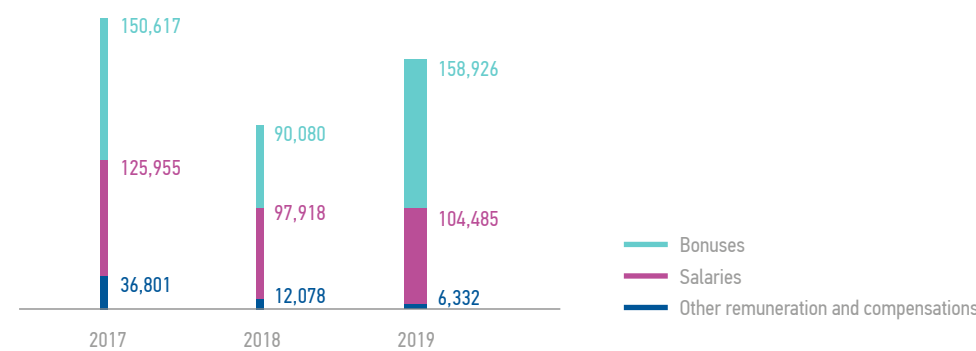
<sup>89</sup> Decision of ROSSETI Annual General Meeting of Shareholder on June 27, 2019 (minutes of meeting of June 27, 2019 № n/n).

<sup>90</sup> Regulation on formation of social package by ROSSETI's job categories (approved by the Company's Order No 125 of 27.06.2019).

<sup>91</sup> Information on remuneration paid is disclosed on the Company's website as part of the quarterly report [www.rosseti.ru/eng/investors/reports/quarterly/](http://www.rosseti.ru/eng/investors/reports/quarterly/)



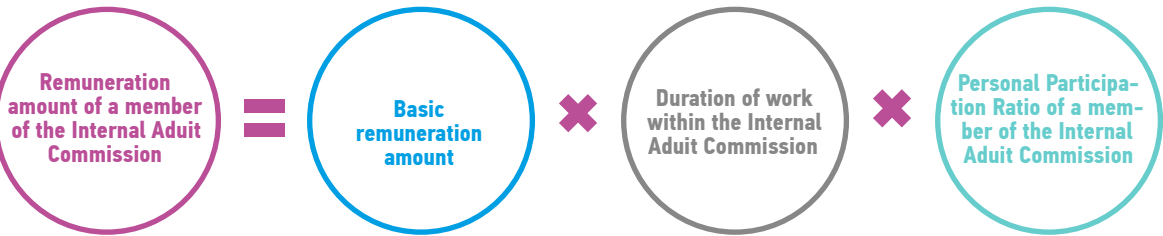
Remuneration paid to the members of ROSSETI Management Board and Director General, thsd RUB



Remuneration of members of the Internal Audit Commission

The remuneration policy for members of the Audit Commission is determined by the Regulations on Payment of Remuneration and Compensations to ROSSETI Members of the Audit Commission<sup>92</sup>. 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 Internal 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.



Company Revenue	Base Remuneration Amount
Over 200 bn rubles	150,000 rubles
Over 30 bn rubles	135,000 rubles
Over 10 bn rubles	120,000 rubles
Over 1 bn rubles	105,000 rubles
Over 600 mln rubles	90,000 rubles

Remuneration paid to the members of the Audit Commission in 2019<sup>93</sup>

Full Name	State Employee <sup>94</sup>	Amount of Remuneration, thsd rubles
Zadorozhnaya Angelika Alexandrovna	No	143.0
Khakimova Nina Sergeevna	No	87.4 <sup>95</sup>
Zobkova Tatiana Valentinovna Chairman	Yes	0.0
Simochkin Dmitry Igorevich	Yes	0.0
Sinitsina Natalia Valeryevna	Yes	0.0

No compensations were paid to the members of the Audit Commission in 2019.

<sup>92</sup> Approved by the decision of the General Meeting of Shareholders of June 29, 2018 (Minutes of June 29, 2018 No. n/n).  
<sup>93</sup> According to the decision of the General Meeting of Shareholders of June 27, 2019 (Minutes of June 27, 2019 No. n/n) in 2018, remuneration was paid to the members of the Audit Commission elected on June 29, 2018 (Minutes of the General Shareholders' Meeting of June 29, 2018 No. n/n).  
<sup>94</sup> The members of the Audit Commission, who are government officials, were not paid remuneration due to legal restrictions on receiving payments from commercial organizations.  
<sup>95</sup> When defining remuneration, the time interval from June 29, 2018 to October 29, 2018 was excluded due to the fact that during this period Khakimova N.S. was a civil servant.

Risk Management System and Corporate Control

Internal Audit Commission

In order to control the financial and economic transactions of ROSSETI, the Company has established an Audit Commission, a permanent control body formed by and accountable to the General Meeting of Shareholders.  
The Audit Commission is elected from candidates proposed by shareholders of the Company or nominated by the Board of Directors of the Company and acts on the basis of the legislation of the Russian Federation, the Charter and Regulations

on the Audit Commission of the Company, as well as taking into account methodological recommendations of the Federal Property Management Agency<sup>96</sup>.

[Regulations on the Internal Audit Commission ROSSETI approved by the decision of the General Meeting of Shareholders of the Company dated June 30, 2015.](#)

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	ROSSETI's financial and business operations for 2018 and 9 months of 2019 were audited (no violations were found).
Assessing the reliability of the data contained in the annual report and annual financial statements	Reviewed the annual report, annual financial statements for 2018. No material misstatements were found that could significantly affect the information in the annual report.
Informing on the facts of violation of the accounting procedure, presentation of financial statements, procedure of financial and economic activities	The issues of preparing the financial statements and compliance with accounting rules were considered, and no violations were found.
Control of legitimacy of financial and economic operations carried out	The report on interested party transactions concluded in 2018 was considered (no violations of the law were revealed).

Interaction between the Internal Audit Commission and the Internal Audit Department of the Company

According to the requirements of the legislation, in order to organize ROSSETI control system, along with the possibility of establishing an Internal Audit Commission, it is also obliged to organize internal audit function and determine the unit (person) responsible for this function.

The powers and functions of the Internal Audit Commission and the internal audit unit are separated as follows:

	Internal Audit Department of ROSSETI	Internal Audit Commission of ROSSETI
Purpose	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.
Accountability	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.
Powers	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.
Composition	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.
Leadership/Chairman	Candidate is agreed by the Board of Directors.	The Chairman of the Commission is determined by the decision of the Internal Audit Commission.
Motivation	The remuneration is determined by the Board of Directors.	The remuneration is determined by the General Meeting of Shareholders.

<sup>96</sup> Approved by Order of the Federal Property Management Agency of September 16, 2014 №350.

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<sup>97</sup>:



ZOBKOVA TATIANA VALENTINOVNA

Chairman of the Internal Audit Commission

Born in 1976 in Uralsk.  
Citizenship — Russian Federation.

EDUCATION

1999 – Moscow Regional Pedagogical University, degree in "teacher of mathematics".  
2004– Moscow Engineering Physics Institute (State University), degree in "economics".

PROFESSIONAL EXPERIENCE

Until 2014 – worked in commercial organizations and municipal authorities.  
Since 2014 - 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 PJSC 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 Arkadieovich

Born in 1984 in Ivanovo.  
Citizenship — Russian Federation.  
[EDUCATION](#)  
2006 – Ivanovo State University of Chemical Technology, degree in "electrochemical production technology".  
[PROFESSIONAL EXPERIENCE](#)

Since 2014 - Chief Expert, Leading Advisor and Deputy Head of the Division for Pricing Policy and Industry Infrastructure Control of the Department of Electric Power Industry Development of the Ministry of Energy of Russia.  
[OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF PJSC ROSSETI AND SUBSIDIARIES AND AFFILIATES](#)  
During the reporting year, he 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.

GABOV Andrey Vladimirovich

Born in 1981 in Gubaha.  
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 concentration in "finance and credit".  
[PROFESSIONAL EXPERIENCE](#)

Since 2014 - 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 PJSC ROSSETI AND SUBSIDIARIES AND AFFILIATES](#)  
During the reporting year, he 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.

GRECHKA Irina Nikolaevna

Born in 1964 in Lubny.  
Citizenship — Russian Federation.  
[EDUCATION](#)  
1986 – St. Petersburg State University of Economics and Finance, degree in "labor economics".  
[PROFESSIONAL EXPERIENCE](#)  
Until 2014 – Deputy Chief Accountant in commercial organizations.  
From 2014 to 2015 - Head of the Internal Audit Department at RT-Biotechprom JSC.  
2015 – Advisor to the Director General of FGUP NPO Mikrogen.  
2016 – 2018 – Advisor to the Director General of FGUP NPO Mikrogen.  
2016 to 2018 – Head of the Planning and Economic Department of the State Budgetary Institution of the United Research and Development Centre of Moscow.  
2018 to 2019 – Head of the Internal Audit Directorate of ROSSETI.  
[OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF PJSC 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.

SIMOCHKIN Dmitry Igorevich

Born in 1992 in Moscow.  
Citizenship — Russian Federation.  
[EDUCATION](#)  
2015 – Moscow State University, degree in "economics".  
2015 – Moscow Institute of State and Municipal Management, Master of Laws.  
[PROFESSIONAL EXPERIENCE](#)  
Since 2015 - specialist; chief expert; advisor of the department; deputy head of the department; head of the department of the Federal Property Management Agency.  
[OWNERSHIP OF AND TRANSACTIONS WITH SHARES OF PJSC ROSSETI AND SUBSIDIARIES AND AFFILIATES](#)  
During the reporting year, he 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.

Before the Annual General Shareholders' Meeting of the Company on June 27, the Internal Audit Commission had the following composition<sup>98</sup>:

Full Name	Position at election time
<b>Zobkova Tatiana Valentinovna</b> Chairman of the Internal Audit Commission	Division Head, Department of the Russian Ministry of Energy
<b>Zadorozhnaya Angelica Alexandrovna</b>	Head of Internal Audit Directorate of ROSSETI
<b>Simochkin Dmitry Igorevich</b>	Deputy Head of the Department of Federal Property Management
<b>Sinitsina Natalya Valerievna</b>	Division Head, Department of the Russian Ministry of Energy
<b>Khakimova Nina Sergeevna</b>	Leading Advisor of a Division of the Ministry of Economic Development of Russia

Statistics of the Internal Audit Commission

Attendance at meetings<sup>99</sup>

Members of the Internal Audit Commission in 2019	Meetings
<b>Zobkova Tatiana Valentinovna</b>	5/5
<b>Balagurov Sergey Arkadieovich</b> (from June 27, 2019)	2/2
<b>Gabov Andrey Vladimirovich</b> (from June 27, 2019)	2/2
<b>Grechka Irina Nikolaevna</b> (from June 27, 2019)	0/2
<b>Simochkin Dmitry Igorevich</b>	3/5
<b>Zadorozhnaya Angelika Alexandrovna</b> (till June 27, 2019)	3/3
<b>Sinitsina Natalya Valerievna</b> (till June 27, 2019)	0/3
<b>Khakimova Nina Sergeevna</b> (till June 27, 2019)	3/3

<sup>97</sup> Elected by decision of the General Meeting of Shareholders of 27.06.2019 (Minutes of 27.06.2019 № n/n).

<sup>98</sup> Elected by the General Meeting of Shareholders on 29.06.2018 (Minutes of the Meeting of 29.06.2018 № n/n).

<sup>99</sup> The 3/5 format means that a member of the Audit Commission could have participated in five meetings, but in fact only participated in three meetings.

# 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.

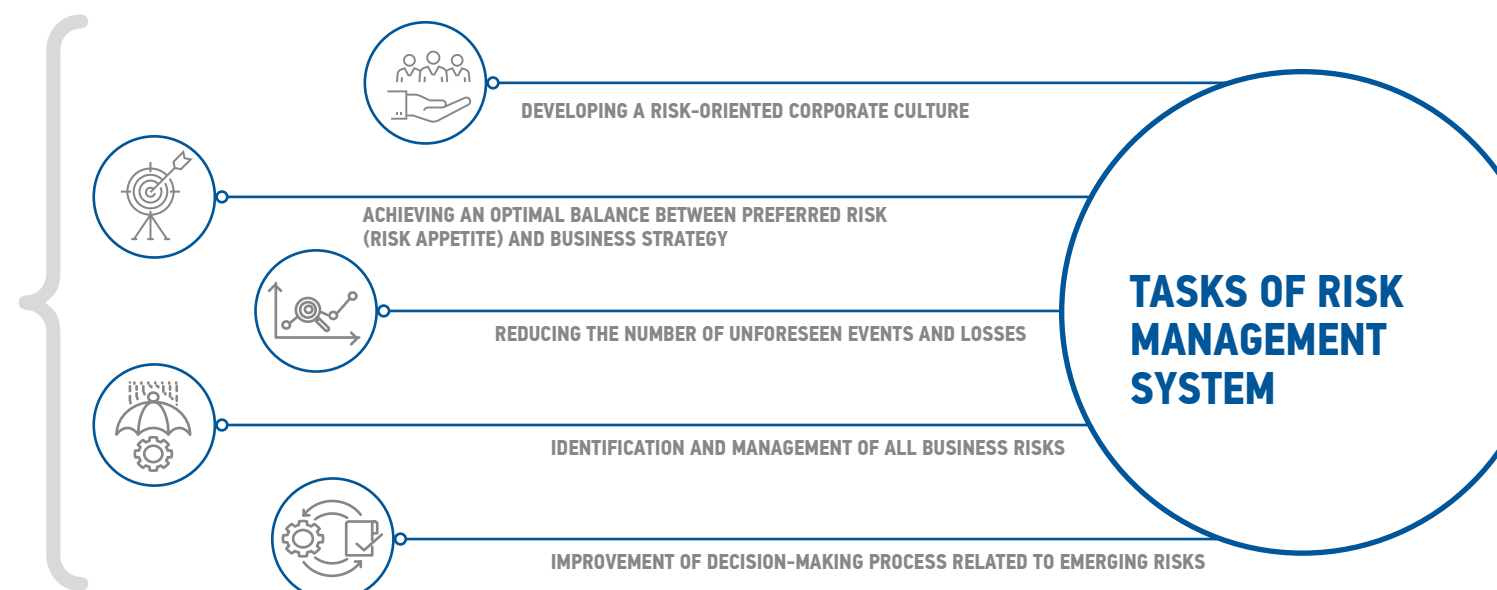
The Risk Management System (RMS) was developed and implemented in the Company's activities taking into account the basic models of risk management COSO ERM "Organization Risk Management. Integrated Model". In order to formalize and regulate the key relations, the Company's Board of Directors by its decision dated November 16, 2015 (Minutes dated 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.



## 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 at reduction 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 is a continuous and iterative process within the overall ROSSETI Group management system and has the following key steps:

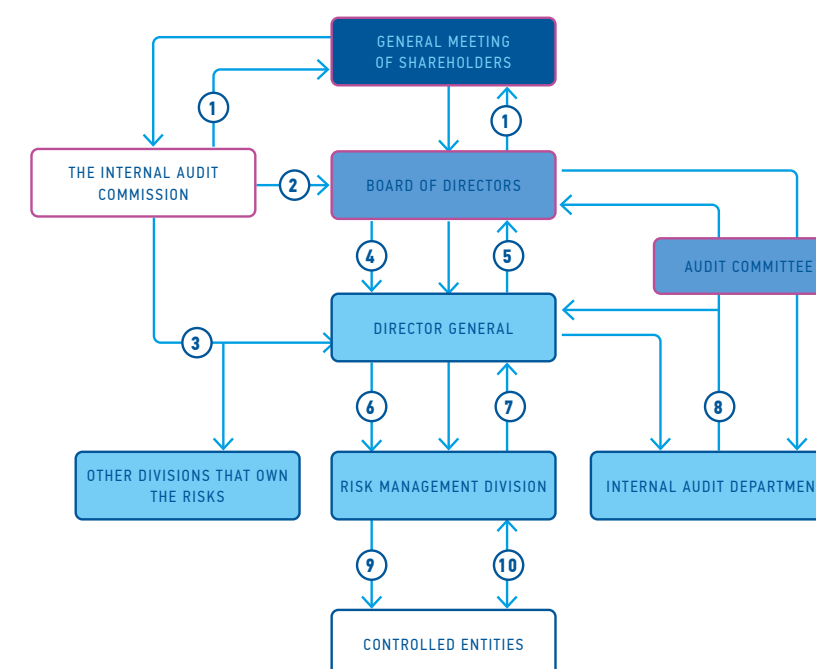
- goal-setting,
- risk identification,
- risk assessment,
- risk response,
- risk monitoring.

## 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 to how Risk Management System can be improved.
- 4 Approval of the risk management policy.  
Approval of the risk appetite.
- 5 Reporting.  
Proposals as to the risk appetite level.
- 6 Approval of the local regulations.  
Ensuring the operating capabilities.
- 7 Reporting.  
Proposals.
- 8 Information.  
Recommendations as to how Risk Management System can be improved.
- 9 Methods and approaches.
- 10 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.

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 No. 386 dated December 23, 2019) with preliminary consideration by the Audit Committee under the Board of Directors on August 13, 2019 (Minutes No. 107 dated August 13, 2019). Based on the results of the Board of Directors' review, the level of the risk management system was recognized as an optimal one.

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 ROSSETI<sup>100</sup>. 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.

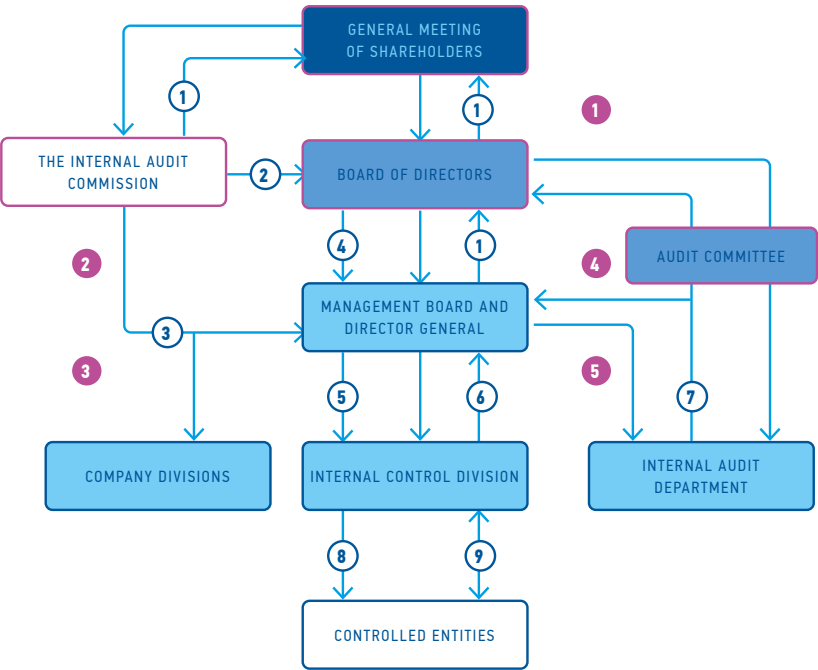
The internal control procedures in the ROSSETI Group are governed by the Internal Control Policy approved by the decision of the Board of Directors of the Company dated November 16, 2015<sup>101</sup>. Certain elements of the internal control system (ICS) in the Company are governed by documents determining the order, procedures and content of the control environment.

Key documents	Description
Internal Control Policy of ROSSETI	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.
Implementation of the requirements of ROSSETI's Internal Control Policy	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.
Regulation of the Internal Control Process	Defines Internal Control processes, as well as the roles of participants and resources.
Risks and Controls Matrices	Establishes controls that minimize risks of the core and supporting activities, as well as of the management processes of the Company.

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.



Functions and roles

- 1 Accountability/Reporting.
- 2 Information.
- 3 Recommendations as to how Internal Control System can be improved.
  - Approval of policies and regulations.
- 4 Internal Control System oversight.
  - Proposals as to how Internal Control System can be improved.
- 5 Approval of the local regulations.
  - Keeping the Internal Control System operational.
- 6 Accountability.
  - Proposals as to how Internal Control System can be improved.
- 7 Information.
  - Recommendations as to how Risk Management System can be improved.
- 8 Methods and approaches.
- 9 Interacting with subsidiaries.

Activity areas and tasks

- Internal Control System organization principles and approaches.
- Control operations.
- 2 Documenting the controls.
- 3 Implementing the control procedures.
- 4 Internal Control System efficiency assessment.
  - Methodological support.
  - Coordination.

<sup>100</sup> Resolution of Board of Directors on December 23, 2019 (minutes of meeting of December 23, 2019 № 386).  
<sup>101</sup> Resolution of Board of Directors on November 16, 2015 (minutes of meeting of November 18, 2015 № 208).

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

Key ICS Measures Implemented in 2019

In 2019, the Board of Directors<sup>102</sup> reviewed the report on the results of implementation of the roadmap of the ICS Development and Improvement Strategy for of ROSSETI and its SDCs, approved in 2014<sup>103</sup>. 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;

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.

- 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<sup>104</sup>.

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<sup>105</sup>, 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<sup>106</sup>.



PUBLIC JOINT STOCK COMPANY "ROSSETI"

EXPLANATORY OF THE PROTOCOL  
of the meeting of the Audit Committee  
of the Board of Directors of ROSSETI

Moscow

№ 114 April 14, 2020

Form of conduct: absentee voting  
Venue: Moscow

The total number of members of the Audit Committee under the Board of Directors of ROSSETI is 4 (four) people.

There is a quorum for the Audit Committee meeting.

Under question 8: Review and reconciliation of risk management system information and internal control for inclusion in the Annual Report of the Company.

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

<sup>102</sup> Minutes of the meeting of the Board of Directors No. 368 dated 29.07.2019.  
<sup>103</sup> Resolution of Board of Directors on February 10, 2014 (minutes of meeting of February 13, 2014 № 143).  
<sup>104</sup> Minutes of the meeting of the Board of Directors No. 386 dated 23.12.2019.  
<sup>105</sup> Minutes of the meeting of the Board of Directors No. 386 dated 23.12.2019.  
<sup>106</sup> Minutes of the meeting of the Board of Directors No. 386 dated 23.12.2019

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<sup>107</sup>. 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 standard 'Internal Control Specialist';

- further integration of the quality management system, internal control system and risk management system into the overall management system;
- increasing the level of automation of control procedures under the the Digital Transformation Strategy;
- implementation of an automated system of continuous monitoring of deviations;
- improving self-assessment by managing the effectiveness of control procedures and an internal process control system.

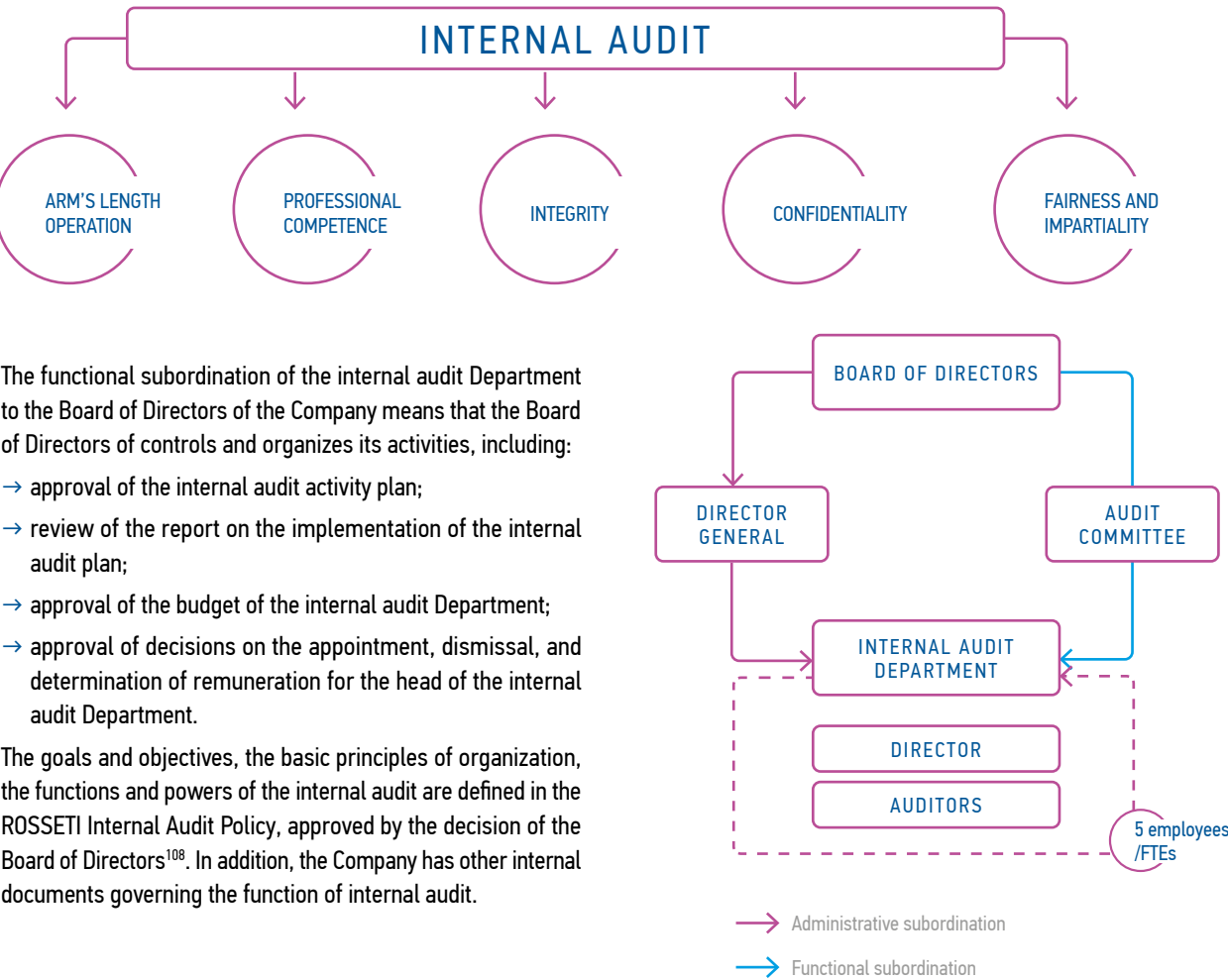
Internal Audit

ROSSETI has established an effectively functioning Internal Audit Department, which performs the functions of internal audit and reports to 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.

ROSSETI internal audit priorities



<sup>107</sup> Resolution of Board of Directors on February 14, 2020 (minutes of meeting of February 17, 2020 №394).  
<sup>108</sup> Resolution of Board of Directors on July 27, 2019 (minutes of meeting of July 29, 2019 №368).

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<sup>109</sup>, 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.

At the end of the reporting period, the head of ROSSETI Internal Audit Department was Irina Olegovna Posevina.

POSEVINA Irina Olegovna

Born in 1970 in Moscow  
In 1994 – Plekhanov Russian Academy of Economics, degree in 'accounting, control and analysis of economic activity'.  
**PROFESSIONAL EXPERIENCE**  
From 2010 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 2018 to 2019 — Financial Director of LLC Eco-Mechanics.  
Since May 2019 — Head of the Internal Audit Directorate, 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 candidacies 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.

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 No. 44-FZ dated April 05, 2013 '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<sup>110</sup> and approved by the decision of the ROSSETI Annual General Meeting of Shareholders held on June 27, 2019.

	2017	2018	2019
Auditor (RAS and IFRS)	RSM RUS LLC	RSM RUS LLC	RSM RUS LLC
Cost of Financial Statements Audit Services	5,000 thsd rubles	4,034 thsd rubles	4,068 thsd rubles
Cost of services other than the statutory audit (provision of audit-related services)	not provided	not provided	not provided

In April 2019, the Audit Committee of the Board of Directors reviewed the results of the audit of the Company's reporting for the previous reporting period (2018), as well as the comments of the external auditor, no problems or issues related to reporting were noted.

In addition, by decision of the Board of Directors, the ROSSETI External Auditor Rotation Policy<sup>111</sup>, was approved, which sets out the main approaches to selection and requirements for the Company's external auditors.

<sup>109</sup> The results of the external independent evaluation of the Company's Internal Audit were reviewed by the Audit Committee (Minutes of 16.01.2020 № 113).  
<sup>110</sup> Resolution of Board of Directors on March 05, 2020 (minutes of meeting of March 06, 2020 №399).  
<sup>111</sup> Resolution of Board of Directors on May 27, 2019 (minutes of meeting of May 27, 2019 №356).



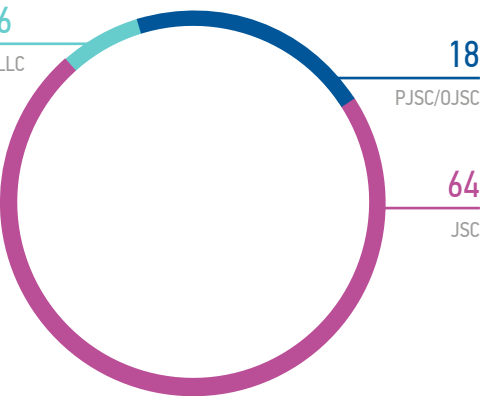
# Governance Mechanisms of the ROSSETI Group. Subsidiary Control

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.

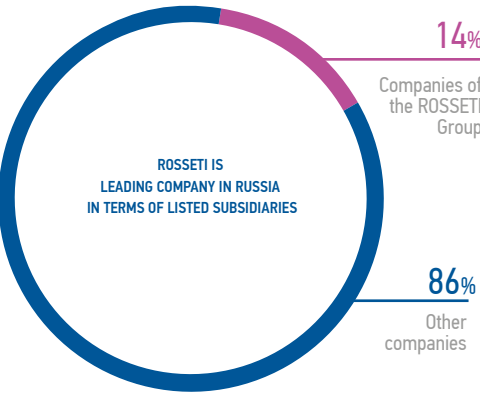
The specific approaches to governance of controlled companies are determined by the specifics of the ROSSETI business model and the structure of the group, and are reflected in the following:

- 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 organizations of the instructions of the President of the Russian Federation, Government of the Russian Federation, federal executive bodies of the Russian Federation;
- special authority with respect to FGC UES as the largest transmission system operator.

Legal entity types of organizations controlled by ROSSETI



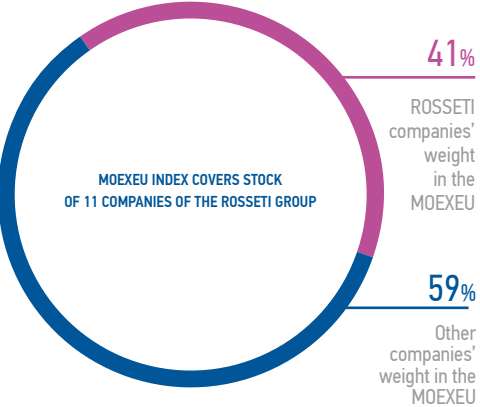
Percentage of the ROSSETI Group entity issuers listed in the MICEX Quotation Lists 1 and 2



## 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
- "Rosseti South" PJSC
- "IDGC of the North-West" PJSC
- "IDGC of Siberia" PJSC
- "IDGC of Volga" PJSC
- "Rosseti North Caucasus" PJSC
- "TRK" PJSC
- "Rosseti Tyumen" JSC
- "Yantarenergo" JSC

Share of companies of the ROSSETI Group in the MOEXEU as of December 30, 2019



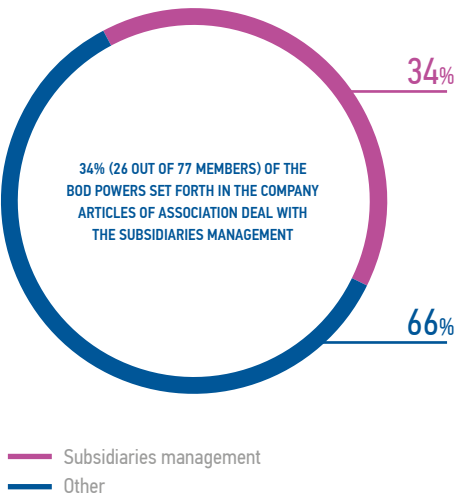
The governance of such a large number of SDCs with various business specifics is achieved through the implementation of effective methods of coordination and control of their activities by ROSSETI. The Board of Directors of the Company plays the key role in determining the management policy of SDCs, as well as as makes 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.

Procedure for Interaction of ROSSETI with the Economic Entities Whose Shares (Equities) Are Owned by ROSSETI, approved by the Board of Directors on April 22, 2011.

Board of Directors Subsidiary Management Competence



## Matrix of Corporate Governance Instruments of Controlled Entities

SDC Category	Governance Tool	Decision-making Level at ROSSETI
The share of ROSSETI in SDCs is 100% (8 companies)	Authority of general meetings of shareholders/participants of SDCs	Management Board of ROSSETI
The share of ROSSETI in SDCs is less than 100%, while: (25 companies)		
It is possible to determine the decision of SDCs (control)	Determining the position of ROSSETI representatives at the General Meetings of Shareholders and on the Board of Directors of SDCs on key issues SDCs	Board of Directors of ROSSETI
It is not possible to determine the decision of SDCs (control)	Decision of a ROSSETI representative without the need for position determination and approval	-
SDCs in relation to ROSSETI SDCs (level 'ROSSETI minus 2'), while: (more than 60 companies)		
It is possible to determine the decision of SDCs (control)	Determining the position of ROSSETI's SDCs representatives at the General Meetings of Shareholders and on the Board of Directors of these organizations on key issues SDCs	Board of Directors of ROSSETI with aligned position of GMS/ boards of directors of SDCs
It is not possible to determine the decision of SDCs (control)	Decision of a ROSSETI representative without the need for position determination and approval	-

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.

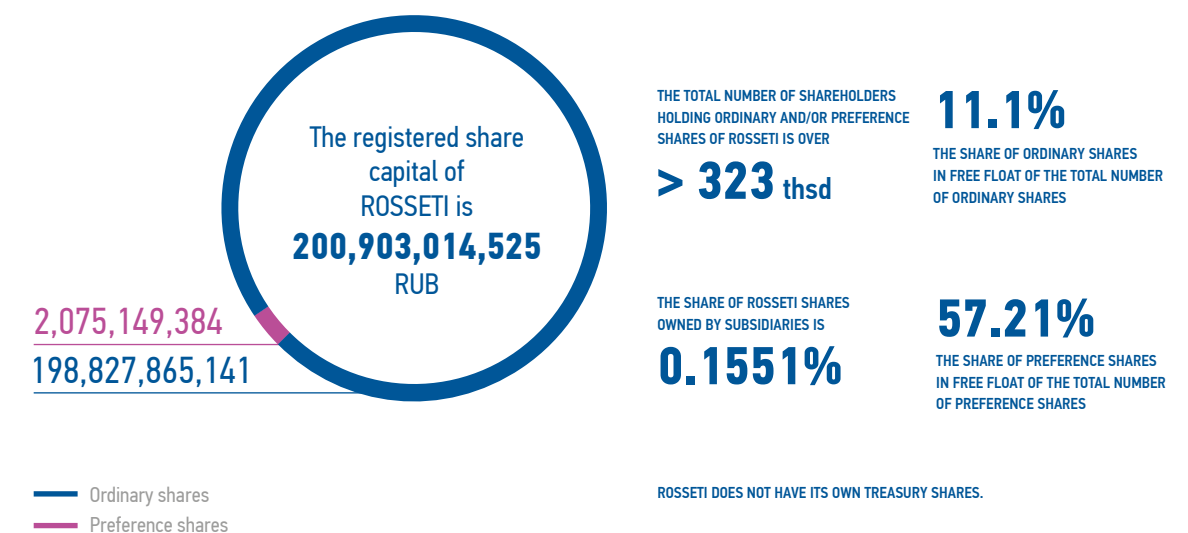
The main planning and business processes of SDCs are synchronized with the strategic and budget planning and implementation processes of the corporate center. The ROSSETI Group has unified principles and approaches to the implementation of key business processes (strategy, budget, KPIs, HR management 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.

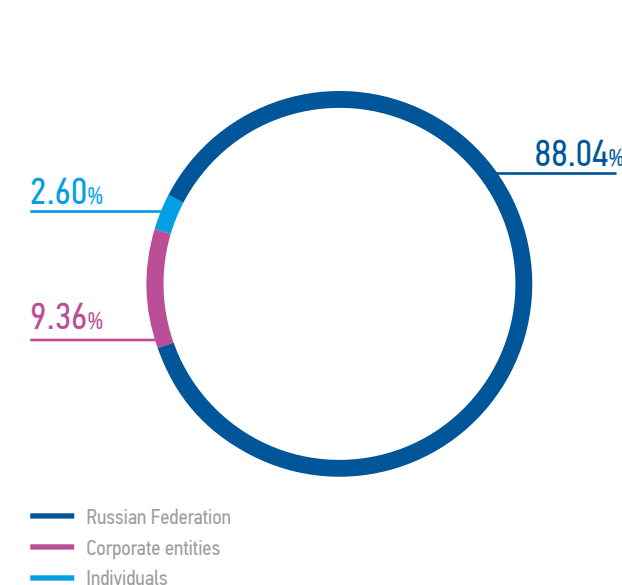
# Shareholder Value Creation

## Share capital

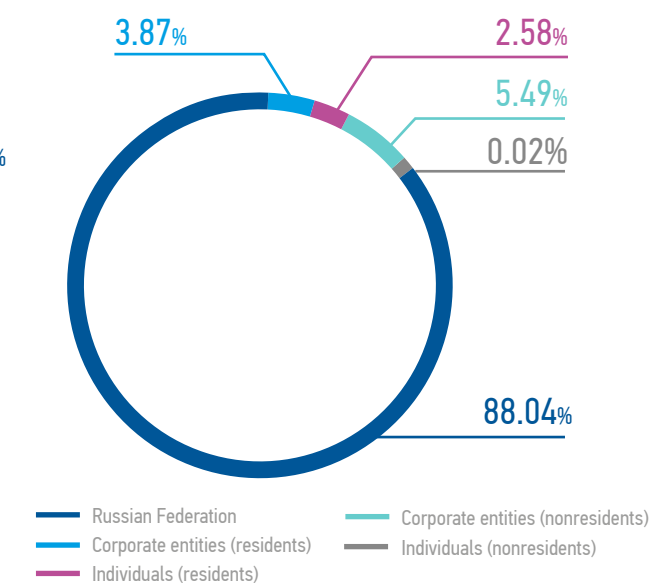
Structure of share capital of ROSSETI as of December 31, 2019, RUB



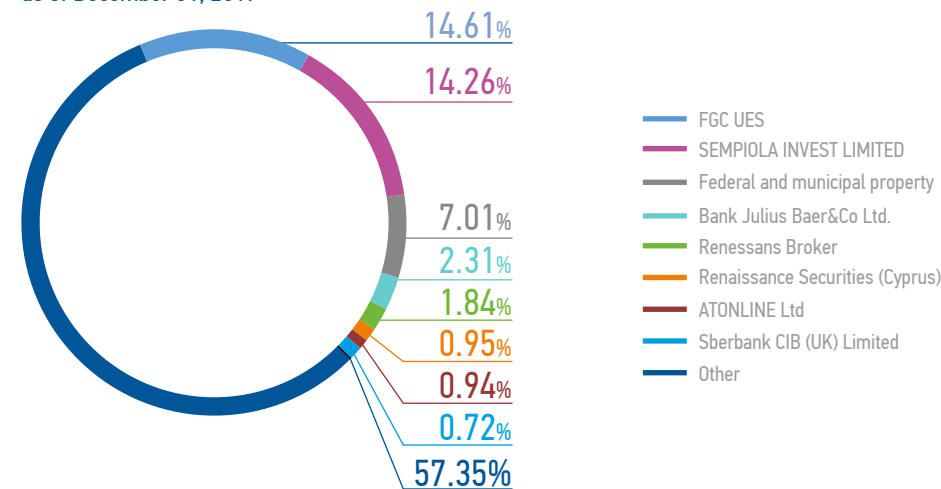
Ownership structure of share capital as of December 31, 2019



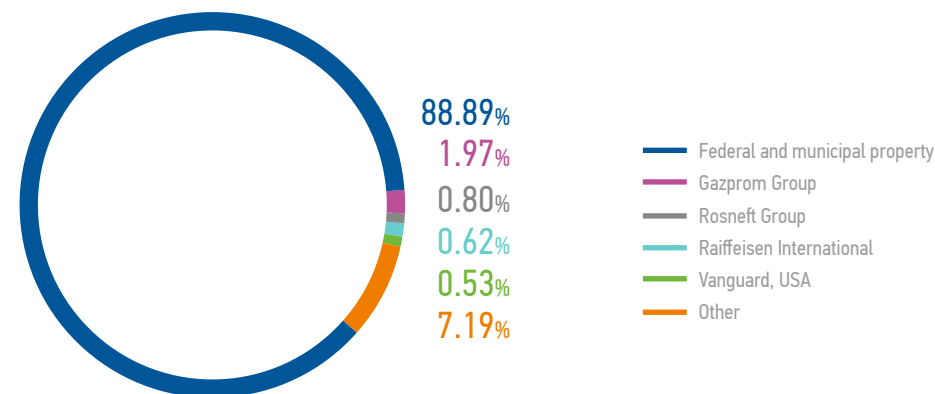
Resident and nonresident shareholders as of December 31, 2019



### Ownership Structure of Preference Shares as of December 31, 2019



### Ownership Structure of Ordinary Shares as of December 31, 2019



### Key shareholders of ROSSETI (over 1%) as of December 31, 2019

Name	Number of shares, pcs.		Ownership share, %		
	ordinary shares	preference shares	of ordinary shares	of preference shares	of share capital
Federal Property (FAUGI)	176,729,514,113	145,523,224	88.89	7.01	88.04
Gazprom Capital LLC	2,562,682,900	0.00	1.29	0.00	1.28

### 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.

## Stock Exchange information on the securities of the Company

### Listing

**Moscow Exchange**  
ticker: RSTI; Rstip  
listing date: March 12, 2008  
quotation list - first  
segment: main market.

**London stock exchange**  
ticker: RSTI  
listing date: August 12, 2011  
1 depositary receipt = 200 ordinary shares of ROSSETI  
segment: Main Market Standard Listing, IOB platform.

ROSSETI global depositary receipts have been traded on the London Stock Exchange in the main market segment since December 8, 2011 and since May 28, 2014 have been admitted to trading at MICEX Stock Exchange in the inter-dealer repo mode.

Due to the floating of depositary receipts for ROSSETI shares on the London Stock Exchange in the Main Market segment in the standard listing category (Standard Listing), the Company must comply with the requirements for depositary receipts established by the Listing Rules and Disclosure and Transparency Rules).

### ROSSETI Stocks in Indices

#### Weight of ROSSETI shares in the Moscow Exchange Indices as of December 31, 2019

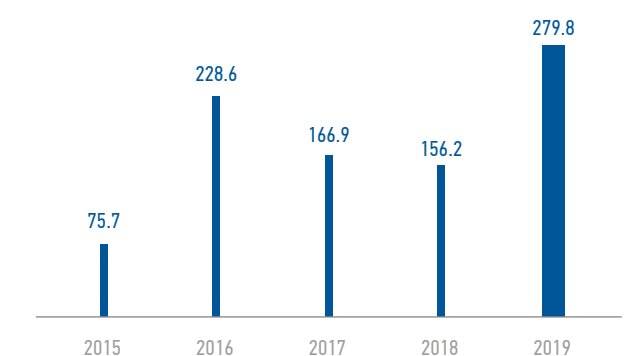
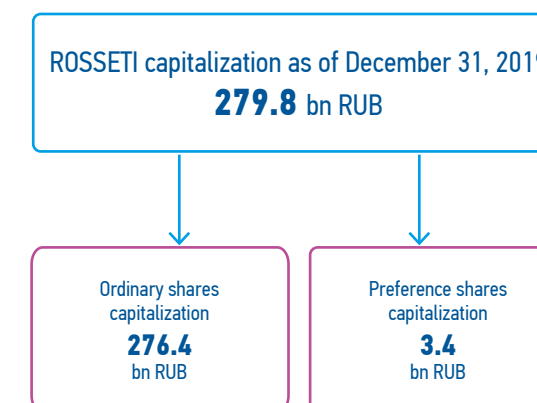
Index name	Code	Weight in the index, %	Index currency
Electricity Index	MOEXEU	10.21 OS ↑	RUB
		0.71 PS ↓	RUB
		10.21 OS ↑	USD
		0.71 PS ↓	USD
Medium and Small Cap Index	MCXSM	3.28 OS ↑	RUB
	RTSSM	3.28 OS ↑	USD
Government Equity Index	MOEX SCI	1.17 OS ↑	RUB
	MOEXBMI	0.18 OS ↑	RUB
Broad market index	RUBMI	0.01 PS =	RUB
		0.18 OS ↑	USD
		0.01 PS =	USD

Capitalization of ROSSETI increased by 79.09% during the reporting period. The price of ordinary shares of ROSSETI increased by 78% and amounted to 1.39 rubles. per share at the year end.

#### Presence of ROSSETI in international indices:

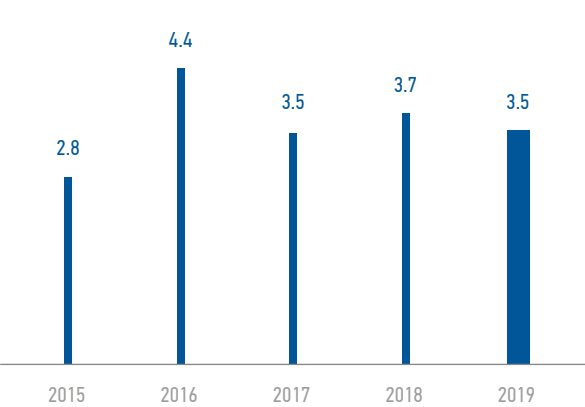
- FTSE All-World (weight <0.005%)
- FTSE Emerging (weight <0.01%)

#### ROSSETI capitalization, bn RUB

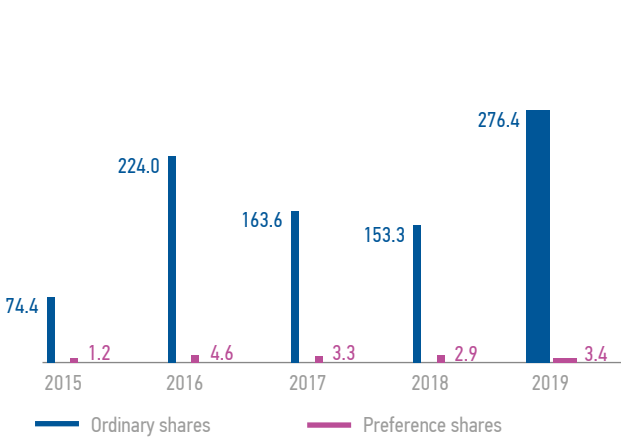




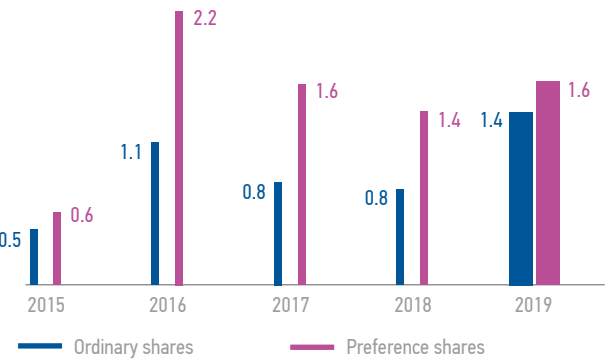
Trading volumes of ROSSETI shares as % of MOEXEU Turnover, %



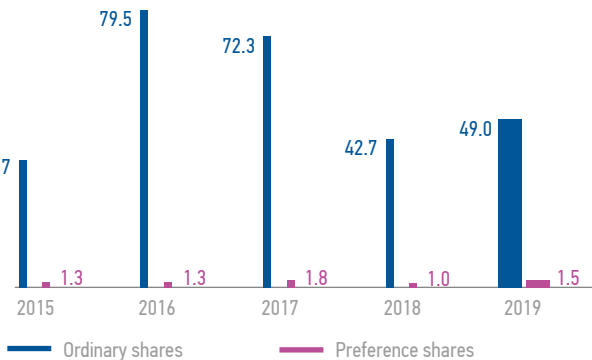
ROSSETI ordinary and preference shares capitalization, bn RUB



ROSSETI share price dynamics, RUB

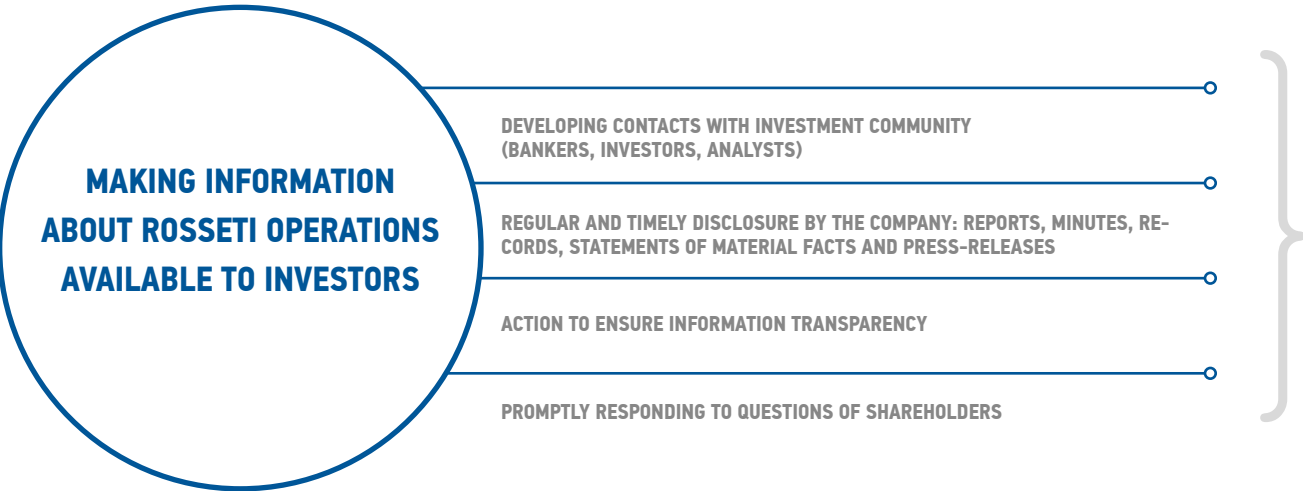


Trading volumes of ROSSETI shares, bn RUB



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, Sovia Capital.

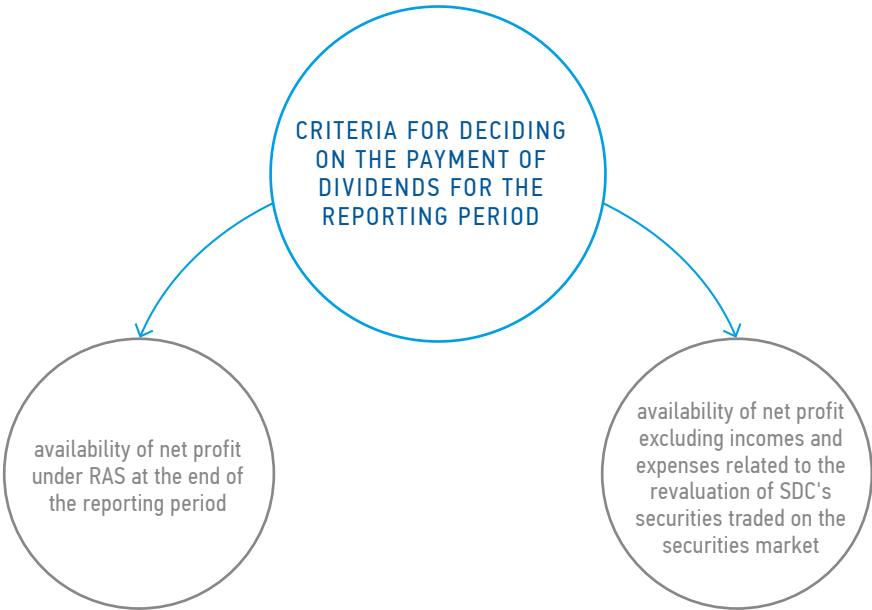
Dividend policy

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).		Dividends on ordinary shares are paid only in case of full payment of dividends on preferred shares.

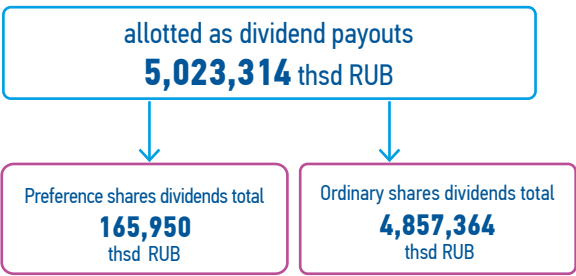
- DIVIDEND GUIDELINES:**
- Articles of Association of ROSSETI.
  - Dividend policy of ROSSETI.
  - Current legislation, directives and orders of the Government of the Russian Federation.



Dividend History

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

							Including paid to the federal budget on shares belonging to the Russian Federation		Persantage of Payment, %
Payout year	Decision date	Date of compilation of the list	Type of shares	Dividend per 1 share, rub.	Accrued by types of shares, rub.	Total accrued, rub.	Paid, rub.		
2016 (based on the results of 2015)	Dividends were not accrued or paid								
2016 (based on the results of 1 quater of 2016)	30.06.2016	19.07.2016	Preference	0.074 526 140	154 652 853.55	1 784 969 556.71	148 151 456.38	10 845 284.17	99.52
			Ordinary	0.008 318 130	1 630 316 703.16		1 628 178 753.56	1 446 970 838.31	
2017 (based on the results of 2016)	30.06.2017	19.07.2017	Preference	0.368 355 281	764 392 240.17	1 999 999 992.41	734 168 497.72	53 604 248.07	98.38
			Ordinary	0.006 214 460	1 235 607 752.24		1 233 405 241.63	1 098 278 496.27	
2018 (based on the results of 2017)	Dividends were not accrued or paid								
2018 based on the results of 1 quater of 2018)	29.06.2018	09.07.2018	Preference	0.042 870 000	88 961 647.07	2 467 937 257.33	85 160 474.64	6 238 580.61	99.72
			Ordinary	0.011 965 000	2 378 975 610.26		2 375 956 915.78	2 114 568 636.36	
2019 (based on the results of 2018)	Dividends were not accrued or paid								
2019 (based on the results of 1 quater of 2019	27.06.2019	08.07.2019	Preference	0.079 970 000	165 949 713.97	5 023 314 482.85	159 277 148.33	11 637 492.22	99.76 <sup>112</sup>
			Ordinary	0.024 430 000	4 857 364 768.88		4 852 155 945.39	4 317 502 029.78	

Amount of dividends transferred to the federal budget in the reporting period

Name	2016 (based on the results of the 1st quarter of 2016)	2017 (based on the results of 2016)	2018 (based on the results of the 1st quarter of 2018)	2019 (based on the results of the 1st quarter of 2019)
Paid to the federal budget, thsd rubles	1,457,816	1,151,883	2,120,807	4,329,140
Debt to the federal budget	none	none	none	none

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.

Glossary

Abbreviation	Meaning
AACSIB	Automated analysis and collection system for information on beneficiaries
AC	Audit Committee
AD	Autonomous district
AGM	Annual general meeting of shareholders
ANO	Autonomous nonprofit organization
APR	Asia-Pacific Region
AR	Annual report
Bank of Russia	Central Bank of the Russian Federation
BoD	Board of directors
BRELL	Belarus, Russia, Estonia, Latvia and Lithuania Energy Ring
CAPEX	Capital expenses/expenditures
CGC	Corporate Governance Code
CIGRE	International Council on Large Electric Systems (RNC CIGRE: Russian National Committee of CIGRE)
CIM	Common information model
CIP	Capital investment program
CJSC	Closed joint-stock company
CL	Cable line
COL	Cable overhead line
CSR	Corporate social responsibility
D&O	Directors and officers liability
DGC	Distribution grid company
DS	Distribution substation
EAEU	Eurasian Economic Union
EBITDA	Earnings before interest, tax, depreciation and amortization.
EBITDA adj.	Adjusted EBITDA is calculated as EBITDA less impairment of fixed assets.
EMERCOM	Ministry of Civil Defense, Emergencies and Disaster Relief of the Russian Federation
EN	Electricity network
ENCE	Electric Network Company of Ekaterinburg
Energy Ministry	Ministry of Energy of the Russian Federation
EP	Environmental protection
ERP	Enterprise resource planning
ERS	Electricity-receiving station
ETF	Electronic trading floor
ETG	Electricity transmission grid
ETGE	Electricity transmission grid entity
EV	Enterprise value
FD	Federal district
FEA	Financial and economic activities
FEEMC	Far Eastern Energy Management Company, Joint-Stock Company
Federal Antimonopoly Service	Federal Antimonopoly Service of the Russian Federation

Abbreviation	Meaning
Federal State Property Management Agency	Federal Agency for State Property Management of the Russian Federation
Federal State Statistics Service	Federal Service for State Statistics of the Russian Federation
Federal Taxation Service	Federal Taxation Service of the Russian Federation
Federal Technical Supervision Service	Federal Service for Environmental, Technological and Nuclear Supervision of the Russian Federation
FES	Fuel and energy sector
FOCL-OL	Fiber-optic communication line, overhead line
FOREM	Federal Wholesale Electricity (Capacity) Market
FSBI	Federal state budgetary institution
GC	Grid company
GC	Group of companies
GDP	Gross domestic product
GM	General meeting of shareholders
GOELRO Plan	Plan of the State Commission for Electrification of Russia
GOST	Russian state standard
GR	Government relations
GRI	Global Reporting Initiative
HEI	Higher education institution
HPP	Hydraulic power plant
IAC	Internal Audit Commission
IC&IA	Internal control and internal audit
ICE	Internal combustion engine
ICS	Internal control system
IDGC	Interregional distribution grid company
IEC	International Electrotechnical Commission
IFRS	International Financial Reporting Standards
IPS	Integrated Power System
IS	Isolator switch
ISO	International Organization for Standardization
IT	Information technology
ITPREEIC	Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee
JSC	Joint-stock company
KPI	Key performance indicator
LLC	Limited liability company
LRD	Limited liability company
LTDP	Long-Term Development Program
LTIFR	Lost time injury frequency rate
MBA	Master of business administration
MC	Management company
Media	Mass media

<sup>112</sup> 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.

Abbreviation	Meaning
MOESK	Moscow United Electric Grid Company
MPEI	Moscow Power Engineering Institute
MRR	Minimum regulated revenue
MSU	Lomonosov Moscow State University
MUE	Municipal unitary enterprise
NP	Nonprofit partnership
NRC	Nomination and Remuneration Committee
NRU	National research university
NS	Nominee shareholder
NSTU	Novosibirsk State Technical University
OHS	Occupational health and safety
OJSC	Open joint-stock company
OL	Overhead line
OPEX	Operating expenses/expenditures
OPL	Overhead power line
OS	Organization standard
OSMS	Occupational safety management system
P/E	Price/earnings
PJSC	Public joint-stock company
PL	Power line
PUS	Public utility services
QR	Quick response code
R&D	Research and development
R&O	Regulations and orders
RAB	Regulatory Asset Base
RAO UES	Unified Energy System of Russia
RAS	Russian Accounting Standards
RAS	Russian Academy of Sciences
REG	Regional electric grid
RES	Renewable energy source
RM&ICS	Risk management and internal control system
RMS	Risk management system
ROIC	Return on invested capital
ROSATOM	Rosatom State Nuclear Energy Corporation
RP	Relay protection: a set of devices designed to quickly, automatically (in the event of damage) identify and separate from the electric power system its damaged elements in emergency situations in order to ensure the normal operation of the entire system
RP	Research project
RSPP	Russian Union of Industrialists and Entrepreneurs
S	Subsidiary
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SC	Short-circuiter
SC	Strategy Committee
SC	Share capital
SDCs	Subsidiaries and dependent companies
SEB	Sole executive body

Abbreviation	Meaning
SMBs	Small and medium-sized businesses
SO UPS	System Operator of the United Power System
SPbU	Saint Petersburg State University
SPD	Surge protection device
SS	Substation
SSEI	Specialized secondary education institution
SSR	Soviet Socialist Republic
SWRA	Sectoral Wage Rate Agreement
TGC	Territorial generation company
TGO	Territorial grid organization
TS	Transformer substation
UN	United Nations
UN SDGs	UN Sustainable Development Goals
UPS	Uninterruptible power supply
USIA	Unified System of Identification and Authentication
VAT	Value-added tax
VHI	Voluntary health insurance
WGC	Wholesale generation company

Units of Measurement	Meaning
GVA	Gigavolt-ampere
GW	Gigawatt
u	Unit
kV	Kilovolt
kWh	Kilowatt-hour
km	Kilometer
MVA	Megavolt-ampere
MW	Megawatt
mn	Million
bn	Billion
pp	percentage point
RUB	Russian ruble
t	Tonne
tfe	Tonne of fuel equivalent
tn	Trillion
thsd	Thousand
pc.	Piece

## Naming of ROSSETI Group companies

Short corporate names	Naming in the Report	Naming after rebranding
JSC ENCE	ENCE	
PJSC Kubanenergo	Kubanenergo	ROSSETI Kuban
JSC Kurortenergo	Kurortenergo	
PJSC LENENERGO	LENENERGO	ROSSETI Lenenergo
PJSC MOESK	MOESK	ROSSETI Moscow Region
PJSC IDGC of Volga	IDGC of Volga	ROSSETI Volga
PJSC IDGC of Siberia	IDGC of Siberia	ROSSETI Siberia
JSC IDGC of Urals	IDGC of Urals	ROSSETI Urals
PJSC IDGC of Centre	IDGC of Centre	ROSSETI Centre
PJSC IDGC of Center and Volga Region	IDGC of Center and Volga Region	ROSSETI Centre and Volga Region
PJSC IDGC of North-West	IDGC of North-West	ROSSETI North-West
JSC Petrodvorets Electric Company	Petrodvorets Electric Company	
PJSC ROSSETI	ROSSETI	ROSSETI
PJSC ROSSETI South (Prior to February 17, 2020 – PJSC IDGC of South)	ROSSETI South	ROSSETI South
PJSC ROSSETI Northern Caucasus (Prior to March 24, 2020 – PJSC IDGC of Northern Caucasus)	ROSSETI Northern Caucasus	ROSSETI Northern Caucasus
JSC ROSSETI Tyumen	ROSSETI Tyumen	ROSSETI Tyumen
CJSC Svet	Svet	
JSC Saint Petersburg Power Grid	Saint Petersburg Power Grid	
PJSC TDC	TDC	ROSSETI Tomsk
PJSC Tyvaenergo	Tyvaenergo	
PJSC FGC UES	FGC UES	ROSSETI FGC UES
PJSC Chechenenergo	Chechenenergo	
JSC Tsarskoye Selo Energy Company	Tsarskoye Selo Energy Company	
JSC Yantarenergo	Yantarenergo	ROSSETI Yantar