



**ROSSETI**

ENERGY FOR EVERYONE

**ANNUAL REPORT 2016**

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# KEY FIGURES

Public Joint Stock Company ROSSETI was established on April 4, 2013 pursuant to the Decree of the President of the Russian Federation of November 22, 2012.

2 314 thousand kilometers of power lines

496 thousand substations

773 thousand MVA of transformer capacity

216 thousand employees

78 regions of operations

15 subsidiary grid companies

Distribution grids	14 subsidiaries (interregional and regional distribution grid companies) operate electric grids rated 110 kV and below
Transmission grids	FGC UES manages the Unified National (All-Russian) Electric Grid rated 220 kV and above
Other	Electricity retail companies and noncore assets (R&D and design companies, service and construction organizations, real property holders)

**74%** distribution grid asset of Russia

**88%** transmission grid asset of Russia

## ROSSETI Awards



As recognized by the National Union of Internal Auditors and Controllers in 2016, ROSSETI won in the category “Best Company in Internal Control System Reliability”

Ranking of procurement management quality among government-linked companies (Expert RA) January 1, 2016: RKZ 9, positive outlook	
National Procurement Transparency Rating 2013: Guaranteed Transparency 2014: Guaranteed Transparency 2015: Guaranteed Transparency 2016: Guaranteed Transparency	ROSSETI's credit rating from Standard & Poor's is equal to Russia's sovereign rating, which proves the Group's high financial stability (BB+, stable outlook)
Award “Leader in Competitive Procurement” 2014: Company of the Year in Competitive Procurement	National corporate governance rating “Developed practice of corporate governance”
Winner of the 17th Annual Contest of Annual Reports in the category “Best Disclosure on the Corporate Website”	
Prizewinner of the Moscow Exchange's Contest of Annual Reports in the category “Best Disclosure of Corporate Governance in Annual Reports”	

## KEY ACHIEVEMENTS IN 2012-2016

### RELIABILITY

**51%** reduction in the specific accident rate

**28%** reduction in the average duration of power outages

### EFFICIENCY

**135%** increase in market capitalization to **228** billion rubles

**30%** reduction in specific operating expenses; effect: **50.7** billion rubles

**74.5** billion rubles: effect of capex reduction (distribution grids)

**11.1** pp reduction in electricity losses to **8.78%**<sup>1</sup>, effect: **36.4** billion rubles

**28%** workforce productivity growth

**284.1** billion rubles: economic effect of procurement procedures; procurement transparency:

**97%**

### ACCESSIBILITY

**1,6 million completed network connection contracts**, including **1,5 million** contracts on preferential terms for connections of 15 kW and below (93%)

A total of **59.1 GW** of connected capacity, including **15.8 GW** on preferential terms (27%)

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<sup>1</sup> The level of electricity losses of 8.78% in 2016 is determined on a basis comparable with 2012 in terms of the composition of electric grid facilities and the operating modes of grids, for a correct assessment of achieving the target for reducing the 11% reduction of losses by 2017 as specified in the Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013.

## Corporate Highlights in 2016

Strategic		Corporate	
March		June	ROSSETI holds the Annual General Meeting of Shareholders, resolving to pay dividends for 1Q2016, including dividends on ordinary shares for the first time.
June		July	Expert RA upgrades the procurement rating of the ROSSETI Group to RKZ 9.
August		August	<p>ROSSETI places bonds totaling 10 billion rubles to Vnesheconombank at the lowest coupon rate in the corporate debt market in 2016 (9.15% p.a.).</p> <p>Russian Minister of Energy Alexander Novak is elected as the Chairman of the Company's Board of Directors.</p>
November		November	<p>The Moscow Exchange recognizes ROSSETI's annual report as one of the best disclosures of corporate governance.</p> <p>ROSSETI obtains registration for its open-ended program of exchange-traded bonds totaling 100 billion rubles, with the maximum term to maturity of each issue under the program being 30 years.</p>
December		December	The uniform Anti-Corruption Policy of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI is updated. As instructed by the Board of Directors of ROSSETI, the Company and all of its subsidiaries approve the

			<p>Program of Anti-Corruption Measures for 2017.</p> <p>ROSSETI ROSSETI is ranked among the top three government-linked companies in the national ranking of procurement transparency.</p> <p>The Company is rated 7++ in the corporate rating "Developed practice of corporate governance."</p> <p>ROSSETI begins the placement of an additional share issue.</p>
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## Message from the Chairman of the Board of Directors

Dear Shareholders:

Maintaining a tradition of looking back on the past year of operation, I am pleased to present to you the Annual Report of Public Joint Stock Company ROSSETI for 2016.

For the Company, 2016 was a year of sustained, steady development. Our progressive onward movement in the direction specified in the Strategy for Development of the Electric Grid Sector of the Russian Federation allowed the Company to remain one of Russia's largest electric utilities securing a high-quality, affordable, and reliable electricity supply in the regions of its operations.

Pursuing the goals of the Strategy, management worked to enhance the Company's operating efficiency, appeal for investors, and financial stability. Our work resulted in a substantial improvement in financial and economic performance compared with the previous period, enabling the ROSSETI Group to achieve record-high net profit and EBITDA.

ROSSETI closed the 1st quarter of 2016 with net profit, which made it possible to pay interim dividends of 1.8 billion rubles.

Market capitalization was 228.6 billion rubles at the end of 2016 (an increase of more than 150% for 2016).

The key factors contributing to the growth in ROSSETI share prices in 2016 were a 177% rise in the total value of traded shares in ROSSETI-owned subsidiaries, along with dividend payouts increased by electric grid companies to 50% of net profit for 2015.

Early this year, ordinary shares in ROSSETI were transferred to Quotation List Level 1 of the Moscow Exchange.

ROSSETI took full advantage of the favorable situation in the financial markets in 2016 to optimize its debt portfolio. With the aim of cutting their borrowing costs, the Group's entities refinanced over 237 billion rubles.

The Company's effective performance is also evidenced by other indicators. Specifically, we raised the reliability of the electric grid sector. Our systematic efforts in 2016 reduced the number of accidents resulting from the inadequate operation of electric grid facilities by 43.2%.

The ROSSETI Group's grid infrastructure became more accessible to customers in 2016. The time required to obtain an electricity connection, from contract to certificate, for network connection requests for facilities rated below 150 kW was decreased by 15% compared with 2015.

The Board of Directors pays close attention to the development of corporate governance in the Company. ROSSETI was ranked by the Expert Council of the Russian Government among the top three government-linked companies with respect to the introduction of the provisions of the Corporate Governance Code, and was highly rated (7++ "Developed practice of corporate governance") in the national corporate governance rating. At the 19th Annual Contest of Annual Reports organized by the Moscow Exchange, the previous Annual Report presented to you at the Annual General Meeting of Shareholders in 2016 won in the category "Best Disclosure of Corporate

Governance in Annual Reports” among 139 reports prepared by companies operating in various economic sectors.

Adhering to the principles of making the Company’s activities more transparent and efficient, the Board of Directors approved the Information and Anti-Corruption Policies in the reporting year.

In 2016, we continued work on improving the Company’s Long-term Development Program. The Board of Directors has plans to review a new version of the Strategy for Development of ROSSETI in the near future.

An important aspect of increasing the Company’s operating efficiency is to optimize procurement. To that end, the Board of Directors adopted decisions in 2016 to monitor the competitive environment, promote its further development, and provide small and medium-sized businesses with increased access to purchases.

In addition, the Board of Directors keeps a close watch on the need to reduce the ROSSETI Group’s dependence on imported equipment, technical devices, and component parts.

For instance, the Board of Directors approved amendments to the Company’s Procurement Policy in 2016, giving preference to purchases of domestically made building materials.

The Board of Directors also adopted decisions to bring down general and administrative expenses and approved the development plans of subsidiaries.

In order to encourage our management to deliver added value to all shareholders of the Company, the Board of Directors changed the management motivation system in 2016, directing the KPI system toward not only technical but also, to a large extent, financial indicators of the Company. The new motivation system takes into account financial indicators of both ROSSETI and its subsidiaries, along with market capitalization growth.

The main priority and one of the most important objectives of the Board of Directors is to achieve high indicators in the area of occupational and industrial safety and environmental protection as crucial factors in the sustained development of the Russian electric grid sector.

The Board of Directors intends to review and implement policy documents aimed at the renewal and modernization of electric grid facilities, which will give an added impetus to building the architecture of tomorrow’s electric grid sector. These solutions should be based on smart digital technology.

I am confident that the implementation of the Company’s development plans in this area not only will lead to the further improvement of grids’ operational and financial performance, but also will provide our customers with new opportunities to increase energy efficiency and will improve the environmental situation in this country as a whole.

ROSSETI continued in the reporting period to take an active part in carrying out the most significant nationwide infrastructure projects, including under the Program of Preparations for the 2018 FIFA World Cup in Russia.

As the mainstay of the Russian electric power sector, ROSSETI takes extensive measures to develop integration and interconnection projects in Eurasia.

Building up relations with the Asia-Pacific Region corresponds to the “oriental” agenda of Russia’s energy policy.

The Company’s future projects include facilitating the formation of common energy markets in the Eurasian Economic Space and participating in the implementation of international infrastructure projects to increase electricity exports and imports.

The Company’s involvement in such projects will contribute to retaining and strengthening Russia’s status as a leader in the global energy market.

The Company cannot be successful in carrying out its development plans without effective cooperation between the government and the Company’s management and without the confidence of shareholders and investors that the Company will continue to work and develop toward the further economic growth and wellbeing of this country.

I wish all of the Company’s shareholders and employees every success in the new corporate year!

Sincerely,

Alexander Novak

Chairman of the Board of Directors

ROSSETI

## Message from the Director General

### **- Mr. Budargin, how do you assess the year 2016, and what was 2016 like for the ROSSETI Group?**

- 2016 was a year when ROSSETI achieved record-high results, both operational and financial. All members of the Group's team showed their high professionalism once again, while customers, partners, regulators, and all stakeholders as well were able to see that we had pursued the right strategy and remained committed to reaching our long-term key goals: reliability, accessibility, efficiency, and innovation of the electric grid sector.

It has been only four years since Russian President Vladimir Putin decided to bring government-linked grid companies under common management, but our achievements exceeded all expectations. Our performance in 2016 is convincing evidence that this decision was farsighted and correct from both technical and economic perspectives.

### **- Mr. Budargin, you have repeatedly stated that ROSSETI is primarily a reliable electricity supplier. What did you achieve in 2016 in this area?**

- The ROSSETI Group reduced the specific accident rate by 51% in 2016 compared with 2012. In the same period, our grid companies reduced the average duration of power outages by 28% to 2.8 hours.

According to World Bank survey data, published in 2016, Russia ranked among 18 countries with the highest reliability of supply.

Overall, the ROSSETI Group's grid companies transported 742.732 billion kWh in 2016, or 3% more than a year earlier. Savings arising from comprehensive measures to reduce electricity losses totaled 2.398 billion kWh. ROSSETI decreased network losses by 11.1% to 8.78%<sup>2</sup> in 2016 compared with 2012.

Subsidiaries also deserve recognition for their efforts to make grid infrastructure services more accessible to customers by reducing the time required to obtain an electricity connection, cutting electricity connection costs, and decreasing the number of necessary visits to customer service offices and centers of grid companies. In the reporting period, the ROSSETI Group's entities fulfilled their obligations under 385,000 network connection contracts for 12.8 GW.

### **- Do the operational and financial results correlate?**

- Yes, definitely. Indeed, a reliable and uninterrupted electricity supply not only makes our customers feel comfortable and calm and is a crucial factor in successful regional socioeconomic development, but also ensures stable cash inflows from the core business of subsidiaries, namely electricity transmission and distribution.

The timely and high-quality performance of network connection obligations also has a positive effect on the Company's financial performance.

Revenue in accordance with IFRS totaled 904 billion rubles, or 18% more than in 2015. Net profit hit a record high of 98.3 billion rubles, or 20.5% higher than in 2015.

EBITDA achieved 265.2 billion rubles (248.9 billion rubles in 2015), with adjusted EBITDA totaling 323.3 billion rubles, or 6.5% and 18.4% higher than in 2015 respectively.

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<sup>2</sup> The level of electricity losses of 8.78% in 2016 is determined on a basis comparable with 2012 in terms of the composition of electric grid facilities and the operating modes of grids, for a correct assessment of achieving the target for reducing the 11% reduction of losses by 2017 as specified in the Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013.

Adjusted net profit margin increased by 2.8 pp on 2015 to 16%, which proves that the Company improved its operating efficiency.

Work continued throughout the year on bringing down costs, optimizing business processes and the loan portfolio, and strengthening internal control. These efforts allowed the ROSSETI Group to achieve all-time record results.

**- How do you think ROSSETI's shareholders and investors assess the year 2016?**

- Based on the results of the 1st quarter of 2016, we allocated 1.8 billion rubles for dividends. For the first time in its history, ROSSETI paid interim dividends on ordinary shares to its shareholders.

In 2016, ROSSETI's ordinary and preference shares gained 147% and 270% in value respectively.

All this allows to believe that shareholders and investors are satisfied with the Company's activities and results in the reporting period.

**- What plans does the Company have for 2017?**

- Above all, we intend to continue securing a reliable, high-quality, and affordable electricity supply by renewing and developing the grid infrastructure. To this end, the Board of Directors has already approved the program to renew electric grid facilities in 2017. The document is basically a methodology for creating modern approaches to managing the condition-monitored replacement of equipment in the electric grid sector with due regard to failure effects.

ROSSETI also presented a new internal document in early 2017, namely the Reliability Certificate. It will be issued to electric grid subsidiaries upon analyzing their operating results and evaluating their preparedness for operation in a severe environment. This is a new level of continuous internal production control.

As part of an environmental campaign conducted in Russia in 2017, the Year of Environmental Protection, ROSSETI adopted the Environmental Policy, aiming to reduce the adverse environmental impact of the grid sector in particular and enhance the energy efficiency of the energy sector in general. One of the main promising areas in carrying out the Environmental Policy is the introduction of self-supporting insulated wires and the wide use of tall towers designed to support power lines over tree crowns and making it possible to minimize deforestation.

ROSSETI's plans include continuing the distribution of smart electricity metering systems, the reduction of electricity losses, and the development of EV charging infrastructure.

An important aspect of the Company's activities is to take further steps toward the cross-border integration of electric grids in European and Asian countries, which will lead to the increased efficiency of the electric power industry of the continent as a whole and will additionally reduce the adverse environmental impact of the entire industry.

It is already obvious today that internal resources for business optimization have been exhausted; therefore, we will continue efforts to change the external conditions that determine how well the electric grid sector performs. This is about the promotion of intolerant public attitudes toward electricity theft, about the imposition of a harsher punishment for this offense, and about the necessity of improving the regulatory and legal framework in the area of making tariff and balancing decisions and aligning regional socioeconomic development plans with capital investment programs of ROSSETI subsidiaries.

In this respect, energy workers will do their best to retain the high confidence of customers, partners, shareholders, and investors, because the Group has created all necessary conditions. It is equally important to maintain stable workforce performance, help every employee play a more significant role in our overall success, and build a qualitatively new level of trust-based relationships with the regions.

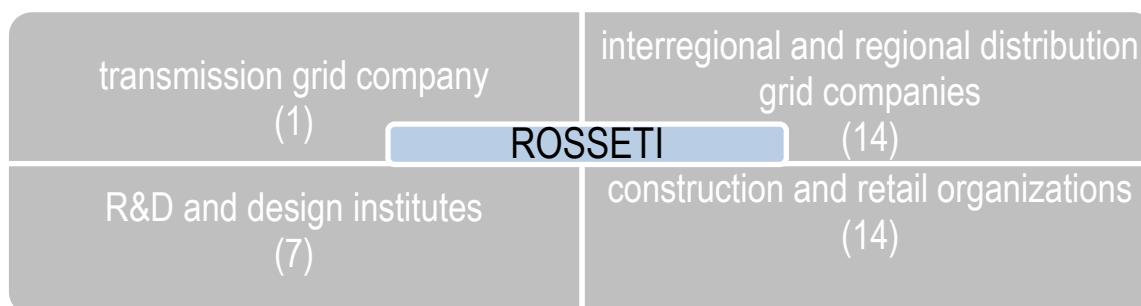
ROSSETI is optimistic about its future!

Oleg Budargin  
Director General  
ROSSETI

## I. COMPANY PROFILE

### 1.1. Company Overview

ROSSETI, the management company of Russia's largest and the world's third largest electric grid sector, is a global leader in electricity transmission and distribution. The vast majority of the Group's subsidiaries are government-regulated natural monopolies.

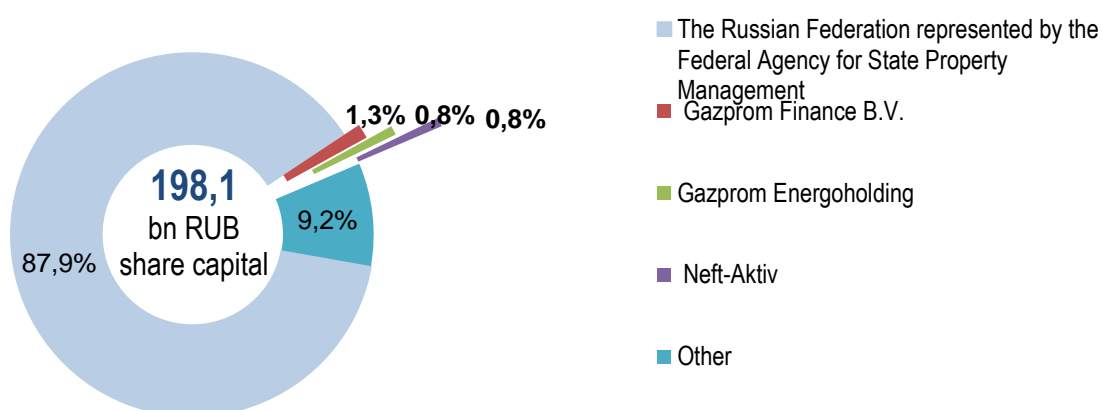


The ROSSETI Group ensures:

- reliable and high-quality power supply for customers by means of electricity transportation via 2.3 million kilometers of power lines *(for more detailed information, see Section 4.1.1 "Electricity Transmission and Distribution" of the Annual Report)*
- affordable network connection for customers *(for more detailed information, see Section 4.1.2 "Network Connection" of the Annual Report)*
- Russia's economic growth by implementing nationwide capital investment projects *(for more detailed information, see Section 4.4 "Results of Investing Activities" of the Annual Report)*

ROSSETI is the government's strategic asset; is included on the list of strategic enterprises and joint-stock companies, adopted with утвержденный Decree of the President of the Russian Federation No. 1009 of August 4, 2004<sup>3</sup>. The Government represented by the Federal Agency for State Property Management of the Russian Federation is the Company's majority shareholder<sup>4</sup>.

### Shareholding Structure<sup>5</sup> (Percentage of Share Capital, %) as of May 24, 2016



<sup>3</sup> Decree of the President of the Russian Federation No. 1009 of August 4, 2004, "On the Approval of the List of Strategic Enterprises and Strategic Joint-Stock Companies"

<sup>4</sup> The Company is managed in accordance with the directives issued by the Government of the Russian Federation under Resolution of the Government of the Russian Federation No. 738 of December 3, 2004, "On the Management of Federally Owned Shares in Joint-Stock Companies and on the Exercise of the Special Right to the Russian Federation's Participation in the Management of Joint-Stock Companies ("Golden Share")" and Ordinance of the Government of the Russian Federation of No. 91-r of January 23, 2003.

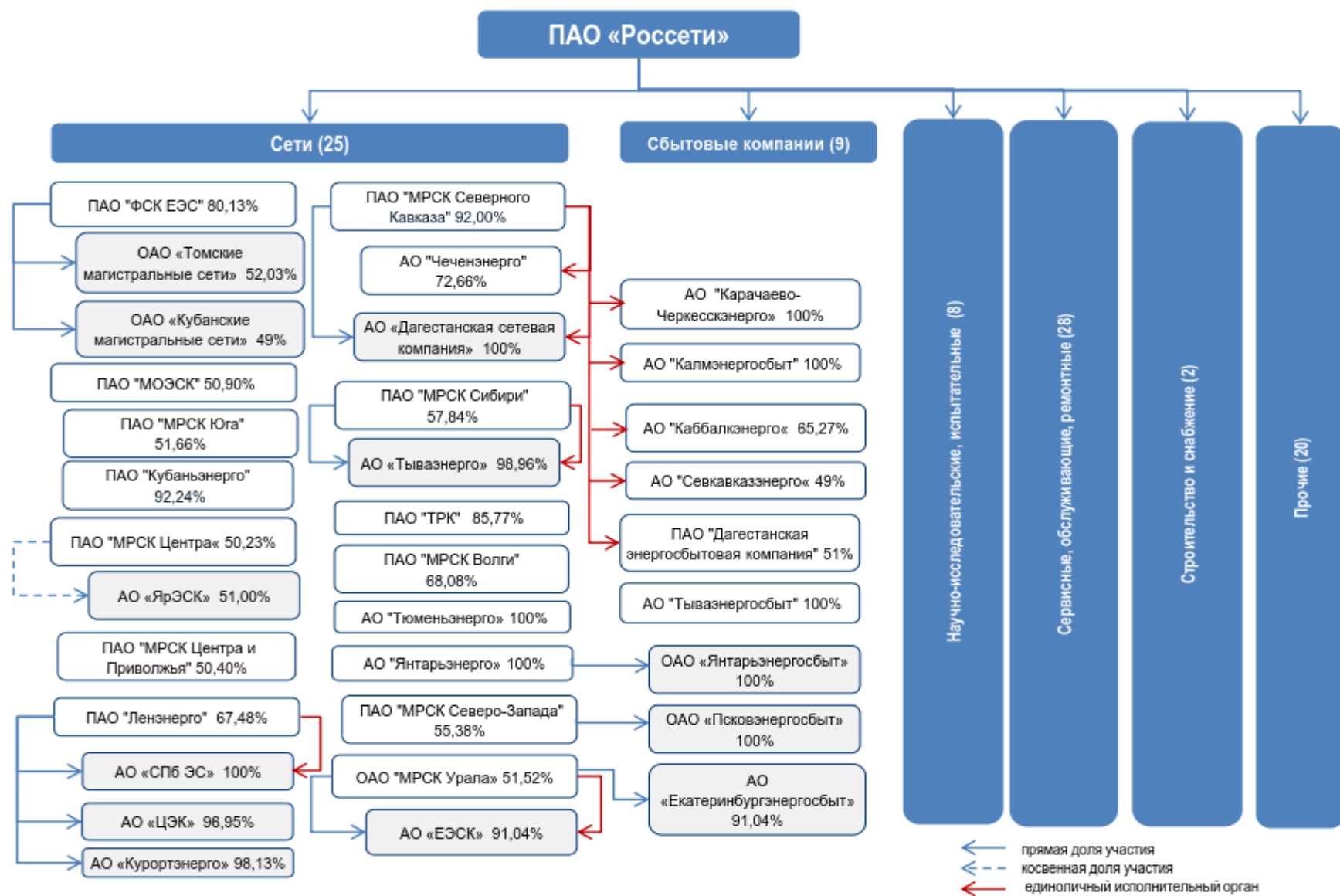
<sup>5</sup> Including additionally issued outstanding shares.

**Competitive advantages of the ROSSETI Group**

1. Scale: one of the world's largest electric utilities in terms of the number of customers and the length of power lines
2. Unique strategic and geopolitical position
3. Regional diversification: ROSSETI operates in almost all of Russia's regions
4. Strategic importance to the government
5. Convenient investment instrument: ROSSETI's securities listed on the Moscow Stock Exchange are available to Russian and foreign investors



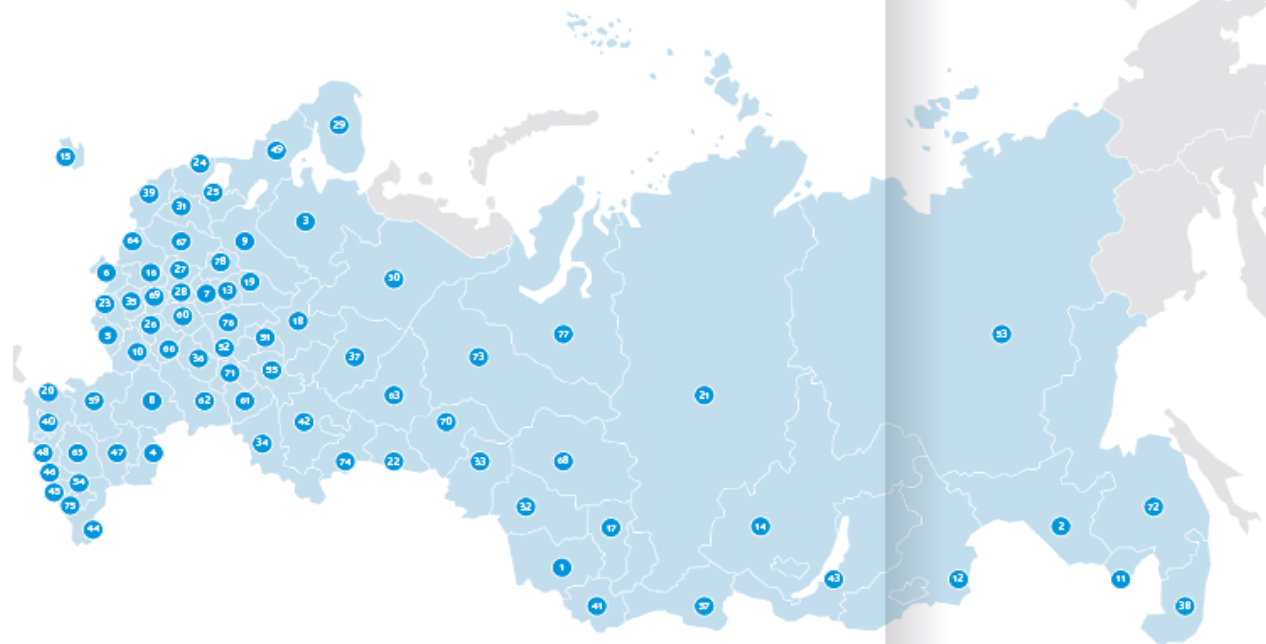
## 1.2.Group Structure



## 1.3. Geographic Presence

### География деятельности

- ФСК ЕЭС
- МЕЖРЕГИОНАЛЬНЫЕ СЕТЕВЫЕ КОМПАНИИ
- РАСПРЕДЕЛИТЕЛЬНЫЕ СЕТЕВЫЕ КОМПАНИИ
- РЕГИОНАЛЬНЫЕ СБЫТОВЫЕ КОМПАНИИ
- ОБЩЕСТВА, ВЛАДЕЮЩИЕ НЕДВИЖИМОСТЬЮ
- НИИ, ПКИ
- ОБСЛУЖИВАЮЩИЕ И СТРОИТЕЛЬНЫЕ КОМПАНИИ



- 1. Алтайский край
- 2. Амурская обл.
- 3. Архангельская обл.
- 4. Астраханская обл.
- 5. Белгородская обл.
- 6. Брянская обл.
- 7. Владимирская обл.
- 8. Волгоградская обл.
- 9. Вологодская обл.
- 10. Воронежская обл.
- 11. Еврейская автономная обл.
- 12. Забайкальский край
- 13. Ивановская обл.
- 14. Иркутская обл.
- 15. Калининградская обл.
- 16. Калужская обл.
- 17. Кемеровская обл.
- 18. Кировская обл.
- 19. Костромская обл.
- 20. Краснодарский край
- 21. Красноярский край
- 22. Курганская обл.
- 23. Курская обл.
- 24. Ленинградская обл.
- 25. г. Санкт-Петербург
- 26. Липецкая обл.
- 27. Московская обл.
- 28. г. Москва
- 29. Мурманская обл.
- 30. Нижегородская обл.
- 31. Новгородская обл.
- 32. Новосибирская обл.
- 33. Омская обл.
- 34. Оренбургская обл.
- 35. Орловская обл.
- 36. Пензенская обл.
- 37. Пермский край
- 38. Приморский край
- 39. Псковская обл.
- 40. Республика Адыгея
- 41. Республика Алтай
- 42. Республика Башкортостан
- 43. Республика Бурятия
- 44. Республика Дагестан
- 45. Республика Ингушетия
- 46. Республика Кабардино-Балкария
- 47. Республика Калмыкия
- 48. Республика Карачаево-Черкесия
- 49. Республика Карелия
- 50. Республика Коми
- 51. Республика Марий Эл
- 52. Республика Мордовия
- 53. Республика Саха
- 54. Республика Северная Осетия-Алания
- 55. Республика Татарстан
- 56. Республика Тыва
- 57. Республика Удмуртия
- 58. Республика Хакасия
- 59. Ростовская обл.
- 60. Рязанская обл.
- 61. Самарская обл.
- 62. Саратовская обл.
- 63. Свердловская обл.
- 64. Смоленская обл.
- 65. Ставропольский край
- 66. Тамбовская обл.
- 67. Тверская обл.
- 68. Томская обл.
- 69. Тульская обл.
- 70. Тюменская обл.
- 71. Ульяновская обл.
- 72. Хабаровский край
- 73. Ханты-Мансийский АО
- 74. Челябинская обл.
- 75. Чеченская Республика
- 76. Чувашская Республика
- 77. Ямало-Ненецкий АО
- 78. Ярославская обл.

78  
ГРУППА КОМПАНИЙ «РОССЕТИ»  
ФУНКЦИОНИРУЕТ В 78 СУБЪЕКТАХ РФ

4  
РАСПРЕДЕЛИТЕЛЬНЫЕ СЕТЕВЫЕ  
КОМПАНИИ

8  
МАГИСТРАЛЬНЫХ  
ЭЛЕКТРИЧЕСКИХ СЕТЕЙ (МЭС)

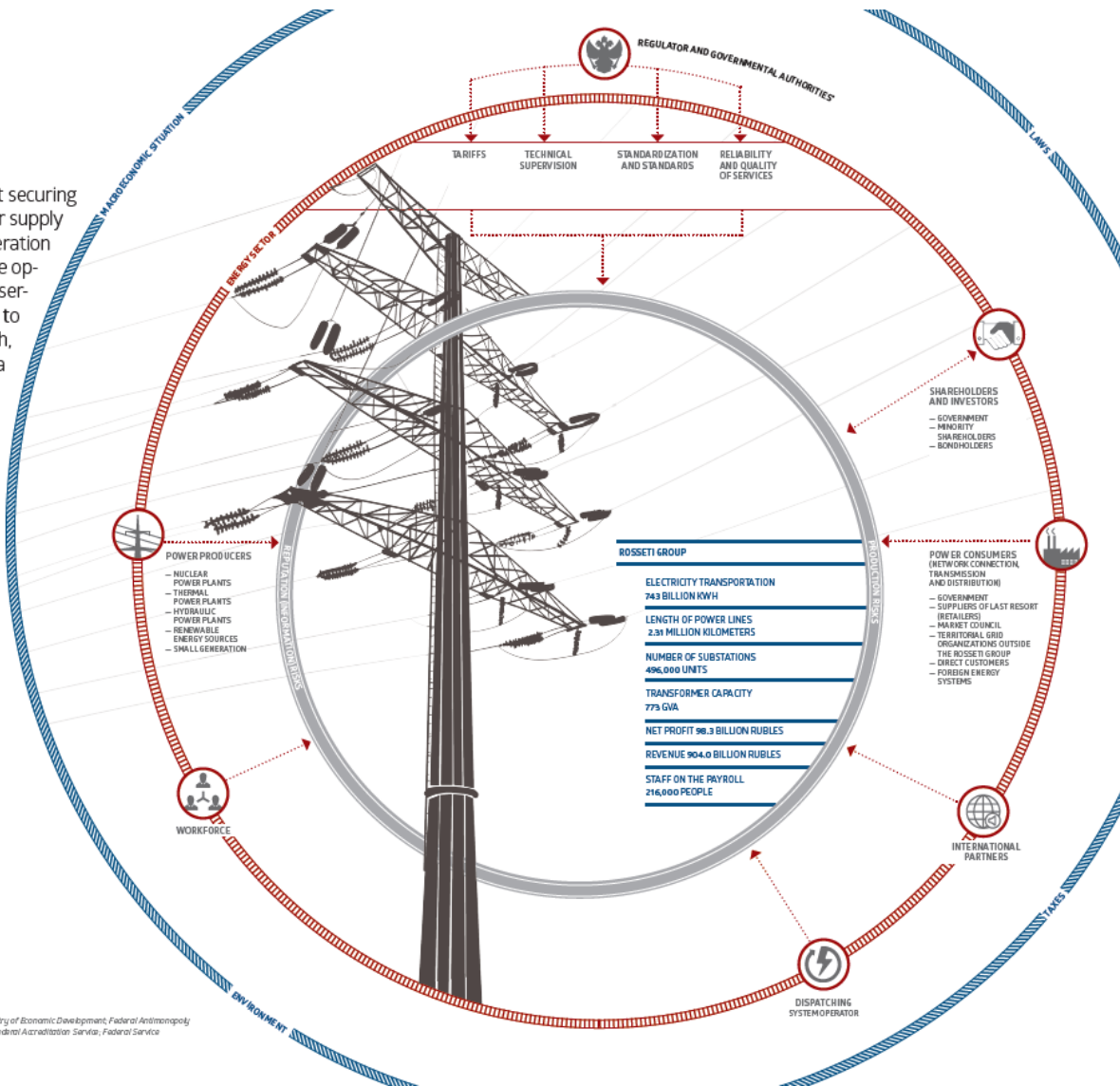
11  
МЕЖРЕГИОНАЛЬНЫХ СЕТЕВЫХ  
КОМПАНИЙ

8  
РЕГИОНАЛЬНЫХ СБЫТОВЫХ  
КОМПАНИЙ

41  
ПРЕДПРИЯТИЕ МАГИСТРАЛЬНЫХ  
ЭЛЕКТРИЧЕСКИХ СЕТЕЙ (ПМЭС)

### Business Model

The ROSSETI Group's activities are aimed at securing a reliable, high-quality, and affordable power supply and are fully compliant with the Russian Federation Electric Grid Sector Strategy. Besides its core operations aimed at providing power supply services, the ROSSETI Group pays attention to creating the conditions for economic growth, sustainable development, and keeping a balance between the interests of different key stakeholders among which the key are shareholders and investors, consumers, the Company's employees, equipment manufacturers and partners, Regulators and governmental authorities. The ROSSETI Group has an integrated risk management system which aims to achieve sustainable continuous functioning and development.

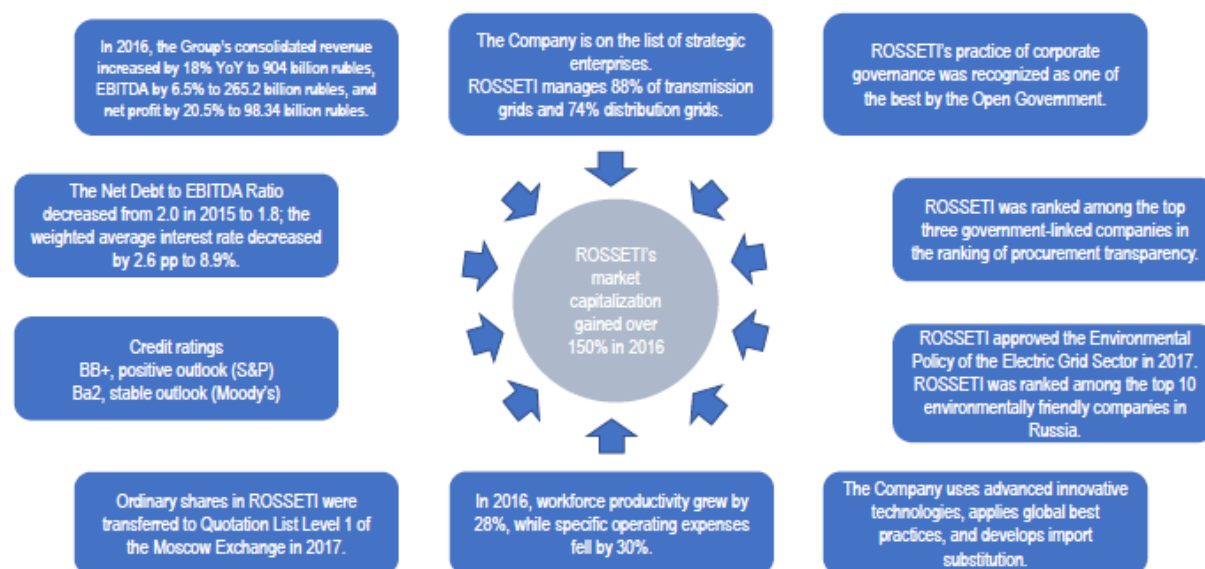


\*Russian Government; Federal Agency for State Property Management; Ministry of Energy; Ministry of Economic Development; Federal Antimonopoly Service; Regional Energy Commissions; Federal Agency on Technical Regulation and Metrology; Federal Accreditation Service; Federal Service for Environmental, Technological and Nuclear Management

## 1.5. Investor Appeal

To gain wider appeal among investors, the Company carries out measures to keep a balance between achieving return on investment sufficient for shareholders and managing the Company's inherent risks.

$$\text{Investor Appeal} = \int (\text{Return on Investment} + \text{Risk})$$



Risk Management	
<b>INDUSTRY-SPECIFIC RISKS</b>  Pursuing a balanced policy on improving the efficiency of investing and operating activities; preparing balanced and economically feasible tariff proposals Monitoring the capacity specified in network connection requests; cooperating with the regulator in preparing the schemes and development programs for the electric power industry Taking measures to eliminate the causes of disagreements, reduce contested overdue receivables, form judicial practice, and set positive precedents	<b>RISKS ASSOCIATED WITH THE COMPANY'S ACTIVITIES</b>  Raising the level of manageability in the electric grid sector; reducing the time of remedying emergency situations; reducing the proportion of equipment with an expired standard operating life; providing advanced training for production personnel and controlling their activities Ensuring that capital investment programs take account of raising the reliability and affordability of the grid infrastructure, reducing the physical deterioration of electric grid facilities and modernizing them, and achieving a high utilization rate of commissioned facilities
<b>FINANCIAL RISKS</b>  The loan portfolio consists mostly of fixed interest rate instruments. To reduce the risk of higher interest costs, measures are taken to minimize the loan portfolio The risk associated with the possible nonrepayment of fixed-term deposits is minimized by setting ceiling limits on deposits with counterparty banks The risk of impaired financial stability and financial solvency is managed by optimizing the capital structure, monitoring compliance with debt limits, and pursuing a policy on receivables and payables management	<b>COUNTRY, STRATEGIC, AND REPUTATIONAL RISKS</b>  The potential risks associated with political and macroeconomic factors existing globally, nationwide, and at regional level are reduced by optimizing the share of borrowings in the total capital and enhancing the efficiency of operating and investment expenses of the Company and SDCs Measures to prevent and promptly remedy emergency situations reduce the probability of natural calamities and interruptions in transportation due to remoteness and/or inaccessibility and the like

The fact that ROSSETI keeps a balance return on investment and risks is evidenced by the Company's high credit and corporate ratings:

Credit rating: Ba2 (Moody's), BB+ (S&P)  
Corporate

rating:

7++

## II. INDUSTRY REVIEW

### 2.1. Macroeconomic Situation in the Industry

Since its products are unique, the electric power industry is of vital importance to society and technological advances in the national economy. At the end of 2016, the Russian electricity sector accounted for 3.1% of the country's gross value added.

The economic and social advantages of the electric power industry are clearly seen in the close correlation between per capita gross national product and per capita electricity consumption. Global statistics show that, in the general case, where per capita electricity consumption or production is higher, there is also a higher level of economic development.

Electricity consumption in Russia grew by 1.7% in 2016 compared with 2015.

Higher electricity consumption in 2016 due to increased demand in the real sector and due to climatic conditions (cold winter and hot summer) affected the ROSSETI Group's operating indicators. Electricity transportation rose by 22.2 billion kWh (+3%).

*Detailed information about the ROSSETI Group's operating performance is contained in Section 4 "Operating Results".*

It is reasonable to believe that the main development trend in Russia's power industry is a moderate increase in electricity demand (as much as 2% per year), which is forecasted by the Russian Ministry of Energy to reach 1,153.6 billion kWh by 2029. This determines how the electric grid sector will develop in the future.

### 2.2. Business Position of ROSSETI

The ROSSETI Group's subsidiaries are natural monopolies because electricity transmission and distribution services can be effectively performed only in a naturally monopolistic market.

The presence of natural monopolies in an industry suggests that they are government regulated to ensure customer protection from inflated tariffs, redistributed costs, and other measures of price discrimination.

Information in the mass media about a large share of grids' revenues in the electricity tariff distorts the real structure of the electricity price.

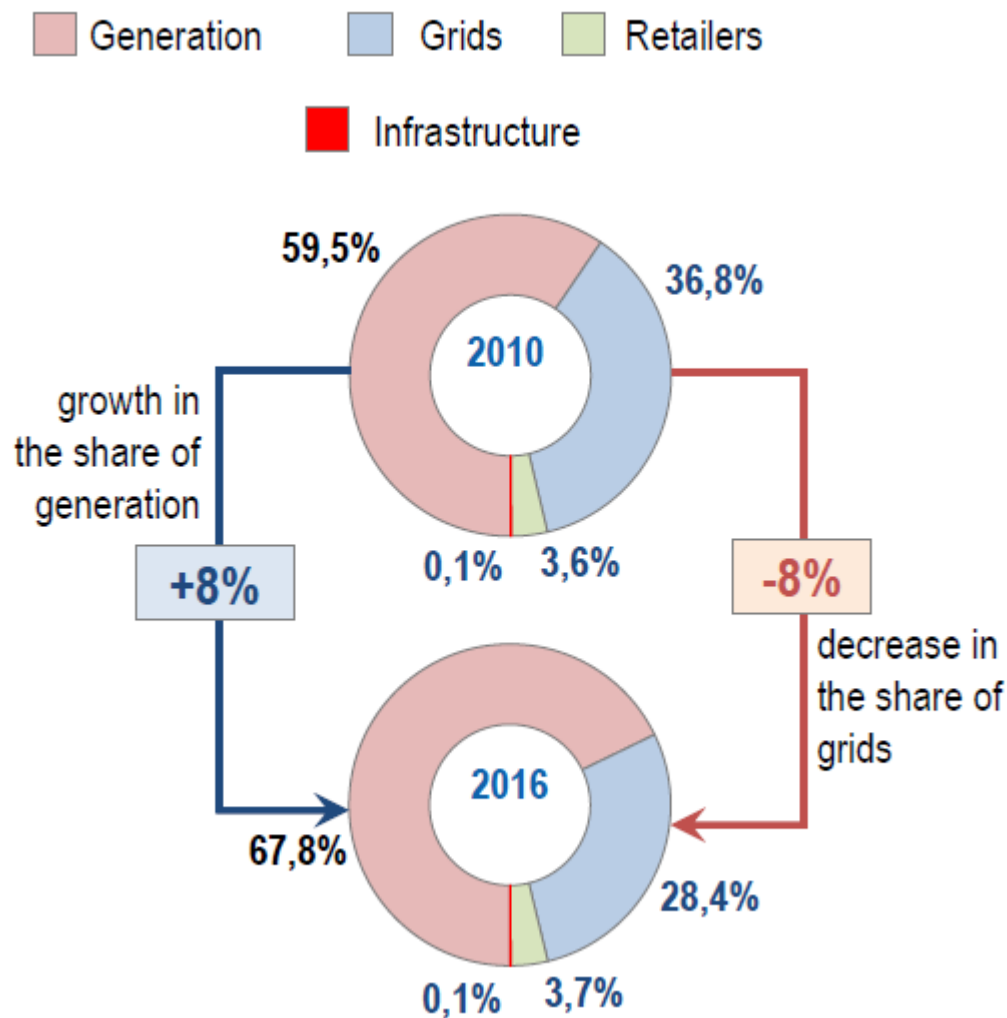
According to expert estimates, the ultimate electricity price includes, on the average, expenses associated with electricity purchased in the wholesale and retail markets (67.8%), expenses incurred by electricity sales companies (3.7%), and fees charged by infrastructure organizations (0.1%), while grids account for 28.4%, which is 8.4 pp lower than in 2010.

For its part, the ROSSETI Group has operational expenditures accounting for 18.7% in the ultimate tariff, including controllable expenses of 9.4% (most of which are direct labor costs for production personnel of 186,000 people).

The share of grids' revenues in the ultimate tariff was primarily reduced by the ROSSETI Group's efforts to improve efficiency. By 2017, the ROSSETI Group decreased expenses by 50.7 billion rubles, or 29.7% compared with 2012, doubling the cost optimization target specified in the Strategy for Development of the Electric Grid Sector.

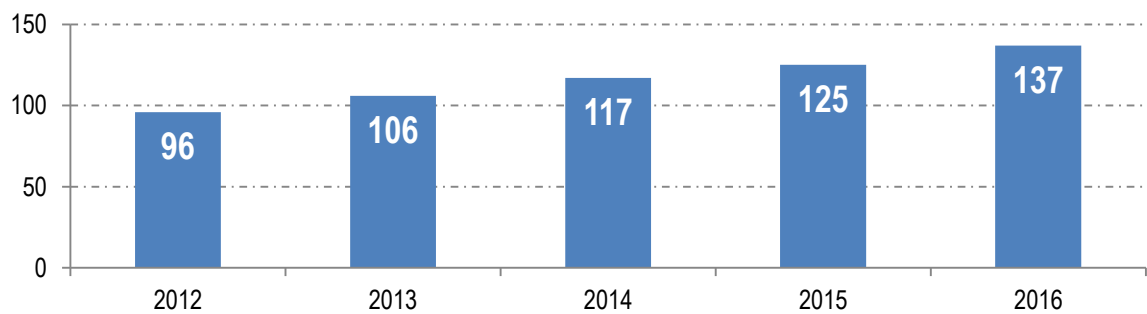
Despite restrictions imposed on electricity distribution tariff growth in 2011 and with grid organizations' cost optimization, the ultimate electricity price paid by customers did not decrease because grids' tariff growth was replaced by a rise in prices in the wholesale electricity and capacity market.

### REVENUE STRUCTURE

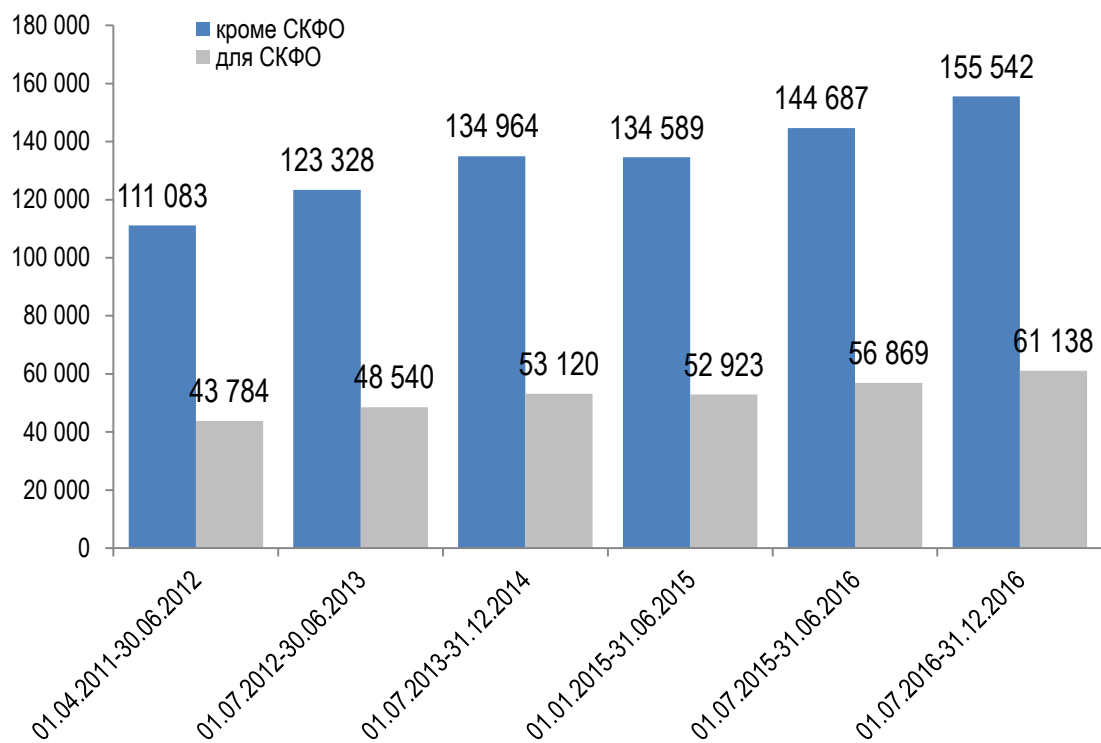


The weighted average pool tariff of electricity distribution services in the existing agreement system was 1.37 rubles per kwh in 2016, or 9.8% higher than in 2015.

Weighted Average Pool Tariff of Electricity Distribution Services in 2012–2016, kopecks/kWh



Tariff Rates of Electricity Distribution Services Related to Maintenance of Electric Grid Facilities, UNEG, 2011–2016, rubles/MWm



The tariff rate of electricity distribution services related to maintenance of UNEG electric grid facilities increased by 7.5% in the reporting year on 2015.



## 2.3. Tariff Policy in 2016

The ROSSETI Group's goals of the tariff policy in the electric grid sector are to establish long-term stable parameters of regulation and provide competitive tariffs for the Russian economy. As the organization managing the electric grid sector and controlled by the government, ROSSETI uses its best efforts to create the conditions for the outstripping development of the economy's and the social sector's growing demand in constituent entities of the Russian Federation by providing access to reliable grid infrastructure.

Given that the extensive emergence of new territorial grid organizations (hereinafter, "TGOs") is accompanied by the disproportionately rapid growth in their total revenues from electricity distribution services and that a large number of TGOs destabilize the tariff system, the Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013, sets the target of reducing the number of TGOs that fail to meet the requirements applicable to a qualified grid organization, and several legal regulations (Resolution of the Government of the Russian Federation No. 989 of September 30, 2016; Resolution of the Government of the Russian Federation No. 1056 of September 30, 2016) were approved in 2016 to achieve this target.

With a view to improving the operating efficiency of grid companies, the Russian Government in 2016 established consolidated price standards for model process solutions for capital construction, defined their application in tariff regulation, and clarified the procedure for adjusting grid companies' revenues depending on the implementation of capital investment programs<sup>6</sup>.

One more achievement in enhancing the transparency of tariff setting was that a regional regulator became obligated to set the same standardized network connection fee rates for all TGOs in a constituent entity of the Russian Federation<sup>7</sup>.

The ceiling tariffs for electricity (capacity) and the ceiling tariffs for electricity distribution services (for households and other customers) for 2017 were set in accordance with the Forecast of the Socioeconomic Development of the Russian Federation (hereinafter, the "Socioeconomic Development Forecast"), specifying the optimization of grid organizations' capital investment programs. In this connection, the Socioeconomic Development Forecast places restrictions on the ceiling indices of changes in total household payments for utility services and specifies the outstripping growth in electricity prices in the wholesale market.

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<sup>6</sup> Resolution of the Government of the Russian Federation No. 1157 of November 12, 2016.

<sup>7</sup> Resolution of the Government of the Russian Federation No. 1476 of December 24, 2016.



## Main Changes in the Regulatory Framework for Tariff Regulation in 2016

September 30, 2016	October 17, 2016	November 12, 2016	November 14, 2016	December 24, 2016	27 и 28.12.2016
Criteria were clarified in relation to qualifying owners of electric grid facilities as TGOs with respect to electric grid facilities used for electricity generation and capacity intended for electricity sales if such facilities and capacity are not subject to possession and/or use. <sup>8</sup>	Criteria were clarified in relation to qualifying owners of electric grid facilities as TGOs with respect to possession for a term that is not shorter than the long-term regulation period for electric grid facilities. Additional criteria were introduced in relation to power lines according to their lengths (at least 15 kilometers) and their available connections to substations <sup>9</sup> .	<p>The procedure for adjusting grid organizations' minimum regulated revenue was clarified with due regard to changes in capex programs (capex projects) and their actual implementation.<sup>10</sup></p> <p>The application of consolidated price standards for model process solutions for capital construction in tariff regulation was clarified.<sup>3</sup></p>	The Federal Antimonopoly Service set the new ceiling tariffs for electricity (capacity) for 2017 <sup>11</sup> .	A regional regulator became obligated to set the same standardized network connection fee rates for all TGOs in a constituent entity of the Russian Federation <sup>12</sup> .	The Federal Antimonopoly Service set the ceiling tariffs for electricity distribution services (for households <sup>13</sup> and other customers <sup>14</sup> ) for 2017.

<sup>8</sup> Resolution of the Government of the Russian Federation No. 989 of September 30, 2016.

<sup>9</sup> Resolution of the Government of the Russian Federation No. 1056 of September 30, 2016.

<sup>10</sup> Resolution of the Government of the Russian Federation No. 1157 of November 12, 2016.

<sup>11</sup> Order of the Federal Antimonopoly Service of the Russian Federation No. 1599a/16 of November 14, 2016.

<sup>12</sup> Resolution of the Government of the Russian Federation No. 1476 of December 24, 2016.

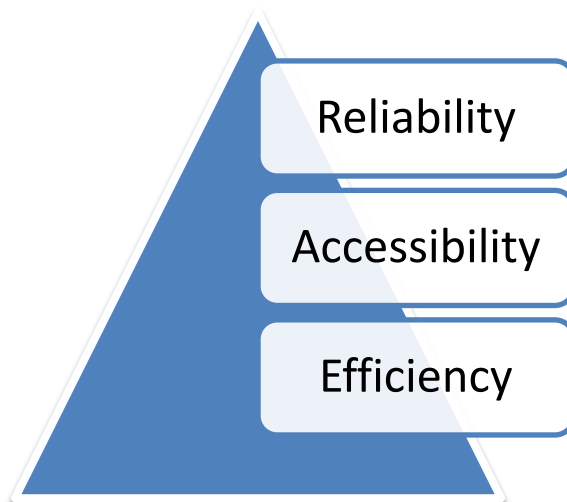
<sup>13</sup> Order of the Federal Antimonopoly Service of the Russian Federation No. 1902/16 of December 28, 2016.

<sup>14</sup> Order of the Federal Antimonopoly Service of the Russian Federation No. 1893/16 of December 27, 2016.

## II. DEVELOPMENT STRATEGY

### 3.1. Mission and Vision

In accordance with the Strategy for Development of the Electric Grid Sector of the Russian Federation<sup>15</sup>, the principal goal (mission) of the electric grid sector's operation is to secure a reliable, high-quality, and affordable power supply in the long run in Russia by organizing a grid infrastructure, as efficient as possible and conforming to world standards, with electricity transmission and distribution tariffs that will make electricity expenses acceptable to the Russian economy and enable the Company to be attractive to investors through adequate return on invested capital..



### 3.2. Strategic Goals

The Strategy for Development of the Electric Grid Sector specifies that ROSSETI performs the following functions:

- strategic;
- coordinating;
- controlling;
- accomplishment of institutional goals faced by the industry;
- participation in the consolidation of territorial grid assets.

#### Strategic goals of the ROSSETI Group:

securing the reliable, high-quality, and safe energy supply

ensuring infrastructure accessibility

improving efficiency

<sup>15</sup> Approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013.

The accomplishment of the strategic goals is evaluated by the ROSSETI Group's system of key performance indicators (KPIs), the attainment of which directly determines the variable component of management's remuneration<sup>16</sup>.

The achievement of the strategic goals is facilitated by a number of key documents formulated and implemented by the Company:

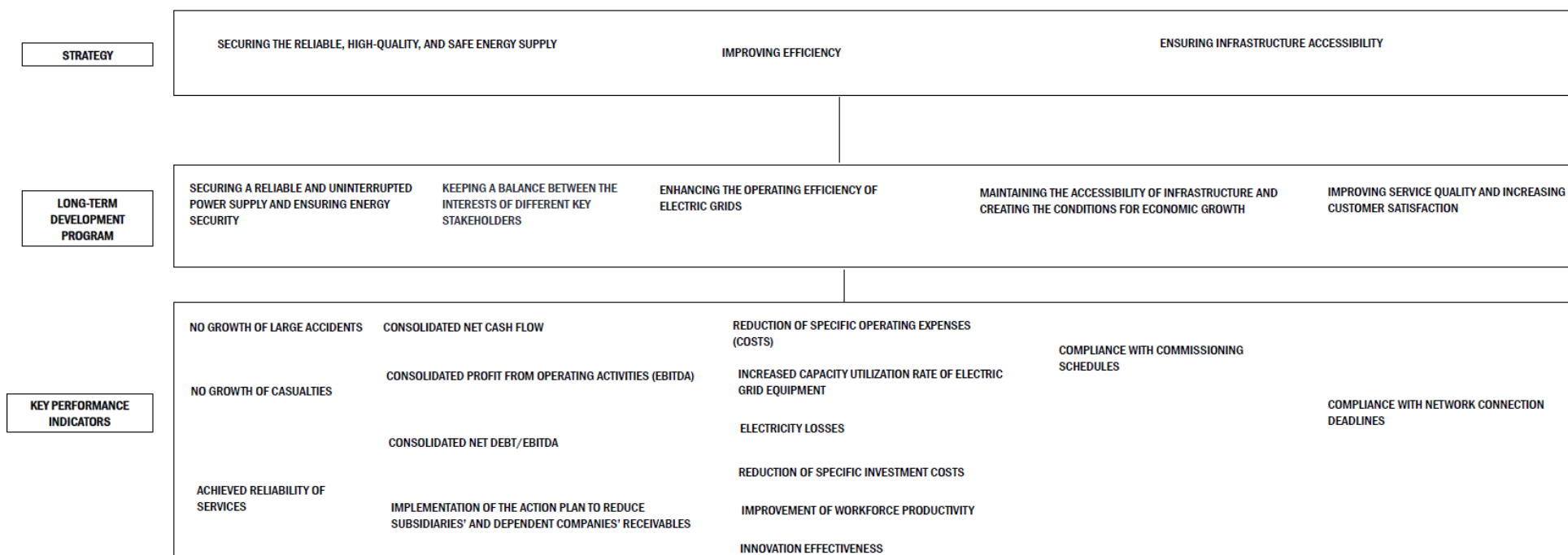
- Long-Term Development Program, which is ROSSETI's internal policy document containing the list of mechanisms and specific measures to ensure the achievement of the Company's strategic goals.<sup>17</sup>
- Functional policies defining a set of the principles, rules, and approaches applicable to activities in the relevant areas (Uniform Technical Policy; Economic Policy; Investment Policy; Policy on Society, Customer, and Government Relations; Innovative Development, Energy Conservation, and Energy Efficiency Policy; Personnel and Social Policy; Comprehensive Security Policy; Anti-Corruption Policy; Procurement Policy; Internal Audit Policy; Internal Control Policy; Risk Management Policy; Environmental Policy).

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<sup>16</sup> Detailed information is contained in Section 3.5 of the Annual Report.

<sup>17</sup> Detailed information is contained in Section 3.4 of the Annual Report.

### 3.3. Unity of Strategic Goals, Areas of the Long-Term Development Program, and Key Performance Indicators



## Development Prospects of the ROSSETI Group

The areas of ROSSETI's development in the long run are determined by the priority of securing a reliable and high-quality power supply.

As related to securing the reliable, high-quality, and safe energy supply

- Reduce the average duration and frequency of power outages
- Ensure the necessary technical condition of equipment
- Prevent an increase in the occupational injury rate

As related to ensuring infrastructure accessibility

- Take measures to improve the efficiency of performing network connection contracts as scheduled
- Reduce the time required to obtain an electricity connection for requesting entities (except individuals) with an electrical installation rated 15–150 kW for a distance of at most 300 meters in an urban area

As related to improving efficiency

- Continue work on reducing specific operating expenses (costs)
- Continue work on reducing specific investment costs
- Take measures to optimize receivables management
- Increase the share of competitive purchases
- Measures to improve electricity metering efficiency
- Decrease the share of imported equipment and materials in total purchases
- Raise workforce productivity
- Provide personnel training

### 3.4 Long-Term Development Program and the Report on Its Implementation

The Long-Term Development Program (LTDP) for 2015–2019<sup>18</sup> is intended to ensure that the Company achieves its strategic goals. The LTDP is formulated pursuant to Instructions of the President of the Russian Federation No. Pr-3086 of December 27, 2013, and in accordance with 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 issued by the Ministry of Economic Development of the Russian Federation.

The LTDP is the Company's internal policy document containing ROSSETI's strategic goals and the lists of mechanisms and measures for their achievement and covering the period from 2015 to 2019.

To perform the tasks assigned by the Strategy for Development of the Electric Grid Sector to ROSSETI, aware of current development trends and challenges, the Company carries out measures in the following main areas:



No changes were made to the LTDP in 2016 compared to the previous year.

#### LTDP Implementation Audit

LTDP implementation was audited in 2016<sup>19</sup>. Based on the results of the audit conducted in June 2016, the Company received from Nexia Pacioli an audit report on LTDP implementation for 2015. In the auditor's opinion, the LTDP implementation report for 2015, 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>18</sup> Approved by the Board of Directors of ROSSETI in December 2014.

<sup>19</sup> Audit report of June 21, 2016.

## **Actually attained target values and the attainment level of planned values in 2016 in comparison with the previous year:<sup>20</sup>**

The result of implementing the Long-Term Development Program of ROSSETI is the achievement of the principal targets set forth in the Strategy for Development of the Electric Grid Sector, including:

### **1. Improving service quality (including reducing the number of network connection stages from 10 to 6 by 2015 and to 5 by 2018).**

- In 2016, the ROSSETI Group's average number of network connection stages was 3. The target set for 2016 was achieved.
- A new version of the portal of electric grid services (Портал-ТП.рф) with expanded functionality was put into test operation. The number of visitors increased by 24% in 2016 on 2015, with a rise in the proportion of online inquiries.
- The model form of the Electric Grid Services Counselor service was developed and approved.
- The ROSSETI Group's entities and energy retail companies signed agreements to simplify the network connection procedure.
- The ROSSETI Group's entities and regional authorities signed agreements to simplify the right-of-way procedure for grid infrastructure construction.
- SO UPS and ROSSETI entered into the Cooperation Agreement for the formulation and approval of documents prepared in the course of providing network connections and constructing (rehabilitating) electric power facilities.
- The measures scheduled for 2016 to attain the target values of the Road Map "Enhancing the Affordability of the Power Infrastructure" were carried out.
- Network connection contracts for facilities specified in the Program of Preparations for the 2018 FIFA World Cup in Russia were entered into. 43 contracts were completed in 2016.
- Work started on providing an electricity supply for facilities involved in the Power of Siberia project and on developing the power infrastructure of the Baikal-Amur Mainline and the Trans-Siberian Railroad. The first network connection contracts were entered into.

### **2. Reducing the duration of power outages.**

- Compared with the base values prescribed in the LTDP in 2014, the average duration of power outages in networks rated 6 kV and above went down by 6.7% in 2016 (from 3.03 to 2.8 hours). The specific accident rate decreased by 33% compared with the average value of the indicator for the three previous years.
- 590 mobile crews of the ROSSETI Group's electric grid facilities ensure that the consequences of mass accidents are promptly remedied.
- To remedy emergency situations in a prompter manner, the Company cooperates with territorial divisions of the Ministry of Civil Defense, Emergencies and Disaster Relief of the Russian Federation, territorial divisions of the Federal Service for Hydrometeorology and Environmental Monitoring of the Russian Federation, contractors, territorial grid organizations, and other grid organizations.
- The Development Plan for Production Asset Management Systems of the ROSSETI Group was approved for 2016–2018. The measures scheduled for 2016 to develop production asset management systems were carried out.
- The Concept of Developing the Technical Diagnosis System was approved. The technological audit was conducted at some of the Group's entities.
- The Organization Standard "Operational Process Control of Distribution Networks Rated 0.4–20 kV" was approved.
- Automated technical operation and maintenance management systems became fully functional at all of the Group's electric grid companies.

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<sup>20</sup> Information about the implementation of the Consolidated Investment Program and the Innovative Development Program included in the LTDP and about the attainment of the Key Performance Indicators is contained in the corresponding sections of the Company's Annual Report for 2016.

- The Group's entities successfully carried out a package of measures to prepare for the heat deficit period and received certificates of preparedness for the heat deficit period.

**3. Improving power supply safety, including reducing the total number of accidents (including unrecorded accidents).**

- The implementation of the comprehensive occupational injury risk mitigation programs is systematically monitored. Compared with the base values prescribed in the LTDP in 2014, the number of accidents decreased by 40.3% in 2016 with the number of casualties and fatalities going down by 35.3% and 20.8% respectively.
- The Environmental Policy of the Electric Grid Sector was formulated, and the related implementation program was drafted.
- The multiyear plan of comprehensive inspections was approved for 2017–2021.
- The Procedure for Using Electrical Safety Devices at Electric Grid Facilities of ROSSETI was developed.

**4. Reducing specific investing expenses by 30 percent compared with 2012 (in rubles per physical unit: kilometers, MVA).**

- The target of reducing specific investing expenses was achieved in 2016.
- Work continued in 2016 on conducting the public technological and price audit of investment projects.
- The Organization Standard "Standard Technical Solutions for Substations Rated 6–110 kV" was approved.

**5. Reducing operating expenses by 15% by 2017, adjusted for inflation, compared with 2012, per unit of maintained electrical equipment.**

- The Indicator "Reduction of Operating Expenses in 2016, Adjusted for Inflation, Compared with 2012, per Unit of Maintained Electrical Equipment" was attained in 2016 and equaled 29.7%.
- In accordance with directives issued by the Government of the Russian Federation in 2016, specific operating expenses were decreased by 17.8% compared with 2015.
- Cost optimization measures are implemented under the approved Programs to Improve the Operating Efficiency and Reduce Expenses of the ROSSETI Group and the approved Plans to Improve the Operating Efficiency and Financial and Economic Condition of the ROSSETI Group.
- The number of administrative and managerial employees in the electric grid sector was reduced by 17% in 2016 compared with 2013.
- The share of purchased imported equipment was decreased to 12%.
- The share of competitive purchases was increased by 1.2% in 2016 compared with 2015.

**6. Reducing electricity losses by 11% by 2017 compared with 2012.**

- The level of reduced electricity losses on a basis comparable with 2012 was 8.78% in 2016.
- The Model Schedule of Formulating the Target-Oriented Electricity Loss Reduction Program was approved.
- The Technique for Formulating the Long-Term Development Programs for Electricity Metering Systems of the ROSSETI Group was approved.
- ROSSETI's distribution companies modernized/installed 172,000 electricity meters with automated data collection in 2016. The number of electricity meters with automated data collection exceeded 2.1 million. The proportion of electricity receipt/delivery meters using remote data collection systems increased to 11% of the total number of electricity meters.



### 3.5 KPI System and Performance Evaluation

The accomplishment of ROSSETI's priority goals of development is evaluated by the Company's system of key performance indicators (KPIs).

The Company's KPI system is aligned with the priorities defined by the Strategy for Development of the Electric Grid Sector of the Russian Federation, the goals of the Company's Long-Term Development Program, and specific instructions issued by the Government of the Russian Federation.

The Company's system of key performance indicators is interlinked with the variable component of management's remuneration: each indicator is assigned a specific weight in the bonus pool, and quarterly and annual bonuses are paid if the corresponding KPIs are attained.

#### KPI System for 2015

The Company's KPI system for 2015 was approved by the Board of Directors of ROSSETI (Minutes of the Meeting No. 217 of December 25, 2015). KPI attainment was also approved by the Board of Directors.

Long-Term Goals	KPI Description	Target Value in 2015	Achieved Results
<b>Quarterly Indicators</b>			
Securing the reliable, high-quality, and safe energy supply	No growth of large accidents	No growth	Attained. No growth (5 < 9)
Securing the reliable, high-quality, and safe energy supply	No growth of casualties	No growth	Attained. No growth (0.0286 < 0.0684 and 28 < 58)
improving efficiency	Financial soundness and liquidity indicator	soundness $\geq$ 0.85; liquidity $\geq$ 0.85	Attained. Soundness = 1; liquidity = 0.94

Long-Term Goals	KPI Description	Target Value in 2015	Achieved Results
<b>Annual Indicators</b>			
improving efficiency	Total shareholder return (TSR)	> the average value of the indicator for the three previous years -41.27%	Attained. 8.48%
improving efficiency	Return on invested capital (ROIC)	$\geq$ 0.9	Attained. 0.9
improving efficiency	Reduction of specific operating expenses (costs)	$\geq$ 10%	Attained. 12.1%
improving efficiency	Electricity losses	$\leq$ 9.56%	Attained. 9.42%
Securing the reliable, high-quality, and safe energy supply	Achieved reliability of services	$\leq$ 1	Attained. 0.53
improving efficiency	Reduction of specific investment costs	$\leq$ 1	Attained. 0.98
Ensuring infrastructure accessibility	Compliance with commissioning schedules	$\geq$ 90%	Attained. 93%
Ensuring infrastructure accessibility	Compliance with network connection deadlines	$\leq$ 1.1	Attained. 1.1

improving efficiency	Improvement of workforce productivity	$\geq 1,490$ rubles/man-hour	Attained. 1,521 rubles/man-hour
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#### KPI System for 2016

The Company's KPI system for 2016 was approved by the Board of Directors of ROSSETI (Minutes of the Meeting No. 225 of April 15, 2016).

The KPI system and calculation technique were adjusted by the Board of Directors of the Company in 2016 (Minutes of the Meeting No. 246 of December 5, 2016) pursuant to Directives of the Government of the Russian Federation No. 1472p-P13 of March 3, 2016, and No. 4750p-P13 of July 4, 2016, as related to the KPI "Innovation effectiveness" and the KPI "Reduction of specific operating expenses."

In accordance with the above-mentioned decisions adopted by the Board of Directors of the Company, the following KPIs and their target values were prescribed for 2016:

Long-Term Goals	KPI Description	Target Value in 2016	Achieved Results
<b>Quarterly Indicators</b>			
Securing the reliable, high-quality, and safe energy supply	No growth of large accidents	No growth	The number of large accidents was reduced.
Securing the reliable, high-quality, and safe energy supply	No growth of casualties	No growth	The occupational injury rate went down compared with 2015. The number of casualties from among SDCs' personnel decreased.
improving efficiency	Financial soundness and liquidity indicator	soundness $\geq 0.85$ ; liquidity $\geq 0.85$	The targets of financial soundness and liquidity were achieved.
<b>Annual Indicators</b>			
improving efficiency	Total shareholder return (TSR)	> the change in the MOEX Regulated Companies Index (RCI) for the reporting period + 0,01 percentage points (44.30%)	Detailed information about the achieved results is contained in the corresponding section of the Company's Annual Report concerning the Company's securities.
improving efficiency	Return on invested capital (ROIC)	$\geq 4.7$	Return on invested capital was higher than the target value.
improving efficiency	Reduction of specific operating expenses	$\geq 10\%$	Pursuant to Directive of the Government of the Russian Federation No. 4750p-P13 of July 4, 2016, concerning the Formulation (updating) of the plans (programs) to reduce operating expenses, the ROSSETI Group achieved a reduction in specific operating expenses in excess of the target value.

improving efficiency	Electricity losses	$\leq 9.3\%$	Electricity losses were not higher than the target value.
Securing the reliable, high-quality, and safe energy supply	Achieved reliability of services	$\leq 1$	The reliability of services was achieved in all of the regions of ROSSETI's operations. In 2016, the average duration of power outages at all of ROSSETI SDCs' branches was not greater than the values prescribed by governmental regulators in charge of tariff regulation.
improving efficiency	Reduction of specific investment costs	$\leq 1$	The implementation of the consolidated investment program of ROSSETI SDCs resulted in achieving the required reduction of specific investment costs in 2016.
Ensuring infrastructure accessibility	Compliance with commissioning schedules	$\geq 90\%$	Compliance with commissioning schedules was achieved in full.
Ensuring infrastructure accessibility	Compliance with network connection deadlines	$\leq 1.1$	Measures to ensure the accessibility of the ROSSETI Group's grid infrastructure resulted in a 15% reduction 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 2015.
improving efficiency	Improvement of workforce productivity	$\geq 1,483$ rubles/man-hour	Workforce productivity was higher than the target value.
improving efficiency	Innovation effectiveness	$\geq 90\%$	Subject to approval by the Chairman of 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.

Actual values of KPI results will be approved by the Board of Directors of the Company properly. The target values attained in the current year are not compared with those of previous years because of changes made in 2016 to the procedure for setting the target values and calculating the actually attained values of most indicators.

#### KPI System for 2017

The Company's KPI system and the target values for 2017 are set forth in the Long-Term Development Program of ROSSETI, including with due consideration to the necessity of achieving the targets contained in the Strategy for Development of the Electric Grid Sector of the Russian Federation as related to reducing specific operating expenses and specific investment costs by at least 15% and 30% respectively by 2017 compared with 2012 and reducing electricity losses by 11% by 2017 compared with 2012.

In accordance with the decision adopted by the Board of Directors of ROSSETI <sup>21</sup> the following KPIs and their target values were approved for 2017:

KPI Description	Target Value
<b>Quarterly Indicators</b>	
Consolidated profit from operating activities (EBITDA)	attained
Consolidated net debt/EBITDA	attained
Implementation of the action plan to reduce subsidiaries' and dependent companies' receivables	attained
No growth of large accidents	no growth
No growth of casualties	no growth
<b>Annual Indicators</b>	
Consolidated net cash flow	≥ -50.5 billion rubles
Reduction of specific operating expenses (costs)	≥ 3%
Increased capacity utilization rate of electric grid equipment	attained
Electricity losses	≤ 9.24%
Reduction of specific investment costs	≤ 1
Improvement of workforce productivity	≥ 5.25%
Innovation effectiveness	≥ 90%
Compliance with commissioning schedules	≥ 90%
Compliance with network connection deadlines	≤ 1.1
Achieved reliability of services	≤ 1

<sup>21</sup> Minutes of the Meeting No. 254 of March 3, 2017.

### III. OPERATING PERFORMANCE

#### 4.1. Operating Results

*Introductory remarks from Roman Berdnikov about the key results and achievements in 2016 and future plans*

A reliable, high-quality, and affordable electricity supply for our country's customers is a crucial objective of the ROSSETI Group. The Company carries out its activities under the Uniform Technical Policy and operates in compliance with technical regulations, implementing the repair and capital investment programs in a timely manner. This contributes to successful operations in the heat deficit period.

Faced with abnormal weather, which were not typical in terms of the time of occurrence and scale alike, we adequately operated in 2016. We assessed the consequences in time, provided additional resources for accident recovery work, and restored the electricity supply much faster than in previous years despite lengthy and repeated natural calamities. The Company secured a reliable electricity supply for events of particular importance in Russia such as the Eastern Economic Forum, the St. Petersburg International Economic Forum, and the Russian Investment Forum in 2016.

The level of actual electricity losses on a basis comparable with 2012 was 8.78% in 2016,<sup>22</sup> which is a reduction of 11.1% for four years. Savings arising from measures to reduce electricity losses have totaled 36.4 billion rubles over the past four years.

Making electricity connections more accessible and raising customer confidence in our electric grids are one of our priorities. In 2016, the Russian Federation ranked 40th in the World Bank's Doing Business rankings while ranking 30th in the "Getting Electricity" ranking. We do our best to provide convenient conditions for customers. We redesigned the uniform portal of electric grid services: the requesting entity can find out about the network connection procedure, receive information on the utilization rate of main substations, apply for connection to the ROSSETI Group's electricity networks, track the status of the network connection, and calculate a provisional network connection price.

In accordance with the Strategy for Development of the Electric Grid Sector of the Russian Federation, one of the goals facing the electric grid sector is to reduce the fragmentation of territorial grid organizations and increase control over them. In 2016, ROSSETI continued to consolidate electric grid assets. Under the consolidation programs, the ROSSETI Group purchased transformer substations of 3,900 MVA and power lines of 8,200 kilometers; at the end of 2016, transformer substations of 16,000 MVA and power lines of 44,500 kilometers were leased.

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<sup>22</sup> The level of electricity losses of 8.78% in 2016 is determined on a basis comparable with 2012 in terms of the composition of electric grid facilities and the operating modes of grids, for a correct assessment of achieving the target for reducing the 11% reduction of losses by 2017 as specified in the Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013.

In the reporting year, we paid special attention to the issues of relay protection, took part in the open corporate competition based on the WorldSkills methodology, and participated in the International Exhibition of Equipment Manufacturers.

We are constantly improving and striving to use modern technologies. This year, the Company approved the Innovative Development Program for 2016–2020 and the Regulations for Inventive Activities. For the first time in Russia, the MicroGrid project was implemented, using renewable energy sources (solar panels) and Li-Ion accumulators, which ensures operation in parallel with conventional sources of distributed generation. In a short period of time, the project will enable us to completely abandon regional subsidies for the purchase of fuel for power plants and save hundreds of millions of rubles a year. The program is underway to create the charging infrastructure for electric vehicles.

Very truly yours,

Roman Berdnikov  
First Deputy Director General

#### 4.1.1. Electricity Transmission and Distribution

##### TRANSMITTED AND DISTRIBUTED ELECTRICITY

**+22.2  
BILLION KWH  
(+3.08%)**

##### SAVINGS ARISING FROM MEASURES TO OPTIMIZE ELECTRICITY LOSSES

**2,397.8 million kWh**

ROSSETI SDCs are engaged in electricity transmission and distribution in the regions of their operations and are responsible for a reliable and uninterrupted power supply and for compliance with international standards of reliability.

Electricity from the Group's entities ensures the operation of the real sectors of the economy involved in the formation of 60% of GDP.

Revenues from electricity transmission and distribution are the main element of the Group's total revenues.

##### Operating Results of the ROSSETI Group for Electricity Distribution in 2016

	Delivery to Networks, million kWh		Electricity Losses, million kWh		Electricity Losses, %	
	2015	2016	2015	2016	2015	2016
IDGC of Centre	62,556.3	64,057.8	5,850.3	5,994.5	9.35	9.36
IDGC of Center and Volga Region	53,583.8	54,012.8	4,862.4	4,845.6	9.07	8.97
IDGC of Volga	52,907.5	53,042.1	3,543.4	3,590.9	6.70	6.77
IDGC of North-West	39,475.4	39,921.1	2,520.1	2,484.8	6.38	6.22
IDGC of Siberia	70,846.4	70,447.9	5,145.4	5,410.7	7.26	7.68
TDC	5,645.6	5,711.9	467.7	464.8	8.28	8.14
IDGC of Urals	76,152.5	74,445.7	6,011.2	5,942.9	7.89	7.98
IDGC of South	28,776.0	28,971.6	2,828.8	2,915.4	9.83	10.06
IDGC of Northern Caucasus	18,484.7	18,302.0	4,036.4	4,224.2	21.84	23.08
Chechenenergo	2,592.4	2,627.5	1,045.2	893.4	40.32	34.00
Kubanenergo	22,032.6	22,732.3	2,835.7	2,945.7	12.87	12.96
MOESK	87,618.4	90,637.2	7,491.2	7,549.6	8.55	8.33
LENENERGO	34,346.7	41,116.9	4,193.0	4,485.3	12.21	10.91
Tyumenenergo	71,552.7	71,373.5	1,818.1	1,813.4	2.54	2.54
Yantarenergo	4,154.4	4,229.8	766.3	718.8	18.44	16.99
<b>Total for distribution grids</b>	<b>630,725.5</b>	<b>641,630.1</b>	<b>53,415.1</b>	<b>53,279.9</b>	<b>8.47</b>	<b>8.46</b>

FGC UES <sup>23</sup>	549,247.1	565,572.5	23,478.1	25,032.9	4.47	4.63
<b>TOTAL for ROSSETI SDCs <sup>24</sup></b>	<b>797,419.7</b>	<b>822,045.0</b>	<b>76,893.2</b>	<b>79,312.8</b>	<b>9.64</b>	<b>9.65</b>
<b>TOTAL for ROSSETI SDCs <sup>25</sup></b>	<b>795,444.6</b>	<b>819,245.0</b>	<b>74,918.1</b>	<b>76,512.9</b>	<b>9.42</b>	<b>9.34</b>

The level of electricity losses in 2016, reduced to the conditions in which the electric grid sector operated at the time of approving SDCs' business plans for 2016, is 9.23%. The difference between electricity losses on a basis comparable with the planned conditions from the actual value is determined by the exclusion of the influence of the following significant factors that affected performance in 2016:

- an increase of 3,514 million kWh in electricity delivery and an increase of 430 million kWh in electricity losses due to Saint Petersburg Power Grid included in the ROSSETI Group in 2016;
- an increase of 2.7 billion kWh in conventionally variable (load) electricity losses in 2016 due to a rise of 20.5 billion kWh (2.6%) in electricity consumption in 2016 (exclusive of Saint Petersburg Power Grid) compared with the planned targets.

#### Operating Results of the ROSSETI Group for Electricity Distribution in 2016 in the Conditions for Plan Formulation for 2016

	Delivery to Networks, million kWh		Electricity Losses, million kWh		Electricity Losses, %	
	2015	2016	2015	2016	2015	2016
<b>TOTAL for ROSSETI SDCs</b>	<b>795,444.6</b>	<b>819,245.0</b>	<b>74,918.1</b>	<b>76,512.9</b>	<b>9.42</b>	<b>9.23</b>

Electricity losses were 8.78% in 2016 on a basis comparable with 2012. The difference between electricity losses on a basis comparable with 2012 from the actual value is determined by the exclusion of the influence of the following significant factors that affected the electric grid sector's performance in 2013–2016:

- an increase of 1,048.1 million kWh in electricity losses in 2012–2016 due to the consolidated networks of Makhachkala, Vladikavkaz, Grozny, Argun, and Gudermes included in the ROSSETI Group;
- an increase of 3,540.1 million kWh in conventionally variable (load) electricity losses in due to a rise of 25,620.5 million kWh (2.6%) in electricity consumption in 2016 compared with 2012.

#### Operating Results of the ROSSETI Group for Electricity Distribution in 2016 in the Conditions of 2012

	Delivery to Networks, million kWh		Electricity Losses, million kWh		Electricity Losses, %	
	2012	2016	2012	2016	2012	2016
<b>TOTAL for ROSSETI SDCs</b>	<b>793,624.5</b>	<b>819,245.0</b>	<b>78,395.4</b>	<b>71,924.7</b>	<b>9.88</b>	<b>8.78</b>

Electricity distribution increased in 2016 due to higher electricity demand on the part of small and medium-sized businesses, households, and large industrial customers connected to the Unified National Electric Grid.

<sup>23</sup> The calculation of FGC UES's electricity losses is based on electricity delivery from FGC UES's networks to customers' electricity networks.

<sup>24</sup> The calculation of ROSSETI's total result takes account of the electricity flow balance between electricity networks of FGC UES and electricity networks of ROSSETI's subsidiaries and dependent companies engaged in distribution.

<sup>25</sup> The calculation of ROSSETI's total result takes account of the electricity flow balance between electricity networks of FGC UES and electricity networks of ROSSETI's subsidiaries and dependent companies engaged in distribution and excludes electricity losses caused by the special operation mode of Russia's United Power System in 2015-2016.



## Reducing Electricity Losses

### Goal of the Long-Term Development Program: improving the operating efficiency of the electric grid sector

To achieve the goals of the Long-Term Development Program as related to improving the operating efficiency of the electric grid sector, the ROSSETI Group carries out measures to optimize (reduce) electricity losses.

#### IN 2016, SAVINGS TOTALED 2,397.8 MILLION KWH DUE TO

- Organizational measures, 1,855.4 million kWh
- Technical measures, 169.4 million kWh
- Measures to improve electricity metering, 373.0 million kWh

### SAVINGS ARISING FROM MEASURES TO REDUCE ELECTRICITY LOSSES (IN PHYSICAL TERMS) IN 2016 WERE 67.0% HIGHER THAN IN 2015.

### THE YEAR 2016 WITNESSED THE MODERNIZATION OF MORE THAN 172,000 ELECTRICITY METERS AND THE ORGANIZATION OF REMOTE DATA COLLECTION AT OVER 145,000 ELECTRICITY METERS.

33,700 reports on noncontractual consumption of electricity totaling 568.0 million kWh were issued and paid in 2016, which made it possible to avoid increased expenses of 2,867.8 million rubles, exclusive of VAT.

#### Main Measures to Reduce Electricity Losses in 2016

Description of Measures	Reduction of Electricity Losses, mn kWh
<b>1 Organizational measures</b>	<b>1,855.4</b>
1.1 Optimizing the established modes of electric grids	16.3
1.2 Suspending operation in small load modes	84.7
1.3 Disconnecting transformers at substations with seasonal loads	13.4
1.4 Aligning phase loads in electric grids	31.0
1.5 Reducing substations' own electricity consumption	10.8
1.6 Identifying unbilled electricity consumption during inspections	1,364.5
<b>2 Technical measures</b>	<b>169.4</b>
2.1 Replacing wires on overloaded lines	76.3
2.2 Replacing overloaded supply transformers and installing and putting into operation additional supply transformers at substations	52.2
2.3 Replacing underloaded supply transformers	0.3
2.4 Optimizing electricity network loads by means of the construction of lines and substations	11.2
<b>3 Measures to improve electricity metering</b>	<b>373.0</b>
3.1 Organizing the uniform taking of electricity meter readings strictly within the prescribed periods for customer groups	16.5
3.2 Installing automated electricity metering systems	136.0
3.3 Installing electricity meters with improved accuracy	4.6
3.4 Installing electricity meters on the boundaries between the balancing and operation	46.1

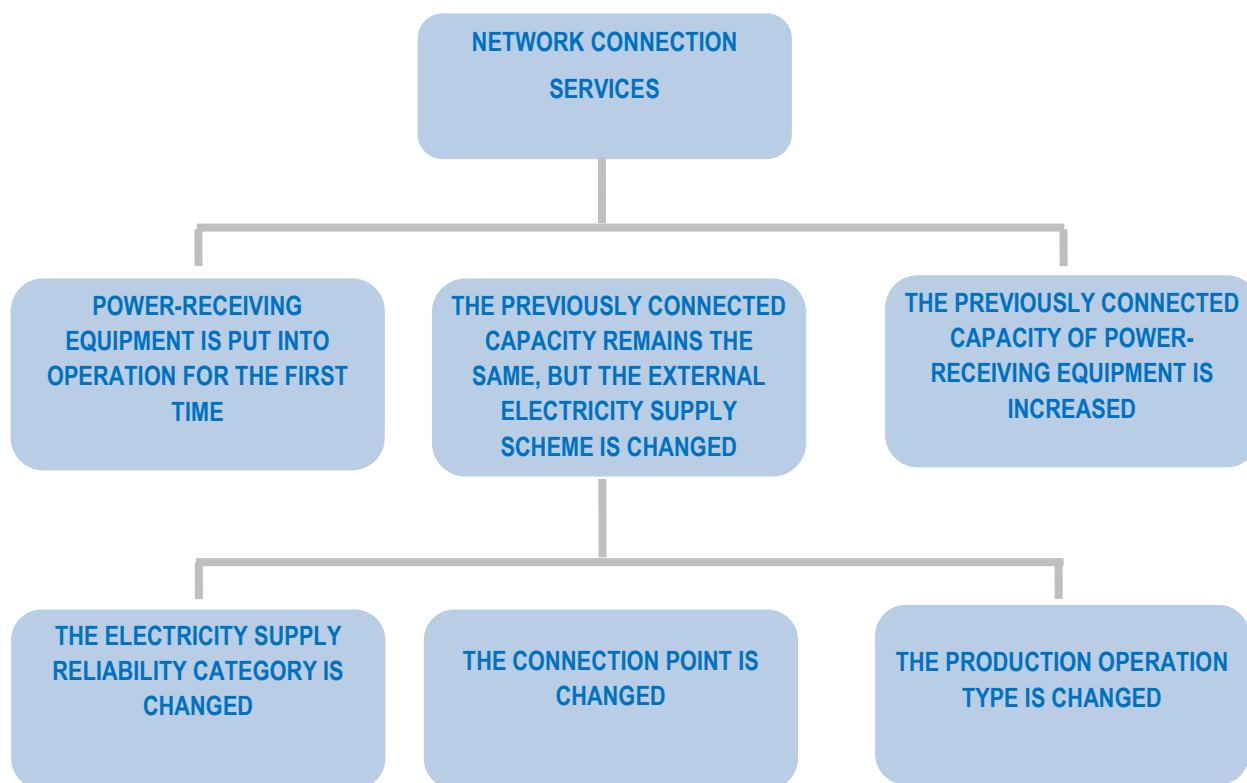
responsibilities	
<b>TOTAL</b>	<b>2,397.8</b>

#### Status of Electricity Metering Systems in the Wholesale Electricity Market (DGC–DGC and DGC–FGC)

Number of Electricity Meters on the Books, units	Number of Current Transformers on the Books, units			Number of Voltage Transformers on the Books, units			Number of Electrical Installation Information Processing Systems on the Books, units
	Total	Class B compliant	Class A compliant	Total	Class B compliant	Class A compliant	
1,754	5,703	28	5,688	2,484	23	2,465	581

#### 4.1.2. Network Connection

Network connection is one of the main regulated services provided by the ROSSETI Group, presenting the actual connection of power-receiving equipment of electricity consumers, power generation facilities, and electric grid facilities owned by grid organizations and other persons to networks of grid organizations.



#### Network Connection Achievements of ROSSETI SDCs in 2016

Strategic initiative for network connection targets are determined with the Action Plan (Road Map) “Enhancing the Affordability of the Power Infrastructure”<sup>26</sup>.

Reducing the time required to obtain an electricity connection for power-receiving equipment of requesting entities	The time of preparing and sending draft network connection contracts was reduced to 8 days with the prescribed time of 15 days for facilities rated below 150 kW and to 21 days with the prescribed time of 30 days for facilities rated 150–670 kW
Decreasing the number of electricity connection stages for power-receiving equipment of requesting entities	The required number of a requesting entity’s visits (for maximum capacity of below 150 kW) was decreased to 3, while this number is 4 in common practice The time necessary for a grid organization to prepare for providing a network connection (for maximum capacity of 15–150 kW) was reduced to 90 days with the prescribed time of 120–180 days;
Cutting electricity connection costs	The list of ROSSETI SDCs’ performance indicators with respect to the implementation of measures under the Road Map from 2014 to 2017 was expanded: › the synchronization of SDCs’ capex programs and Russian regions’ grid development schemes by facility; › the share of network connection contracts without capital expenditures; › the share of contracts with delayed completion.

MEASURES TO ENSURE THE ACCESSIBILITY OF THE ROSSETI GROUP’S GRID INFRASTRUCTURE RESULTED IN A 15% REDUCTION 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 2015.

### Doing Business Rankings

**ROSSETI’S TARGET IS TO ACHIEVE THE INCLUSION OF RUSSIA IN THE TOP 20 COUNTRIES  
ACCORDING TO THE DOING BUSINESS RANKINGS BY 2018**

ROSSETI approved the action plan to attain the key electricity connection indicators necessary to reach the target position in the “Getting Electricity” ranking of the Doing Business rankings:

<sup>26</sup> Approved by Ordinance of the Government of the Russian Federation No. 1144-r of June 30, 2012.

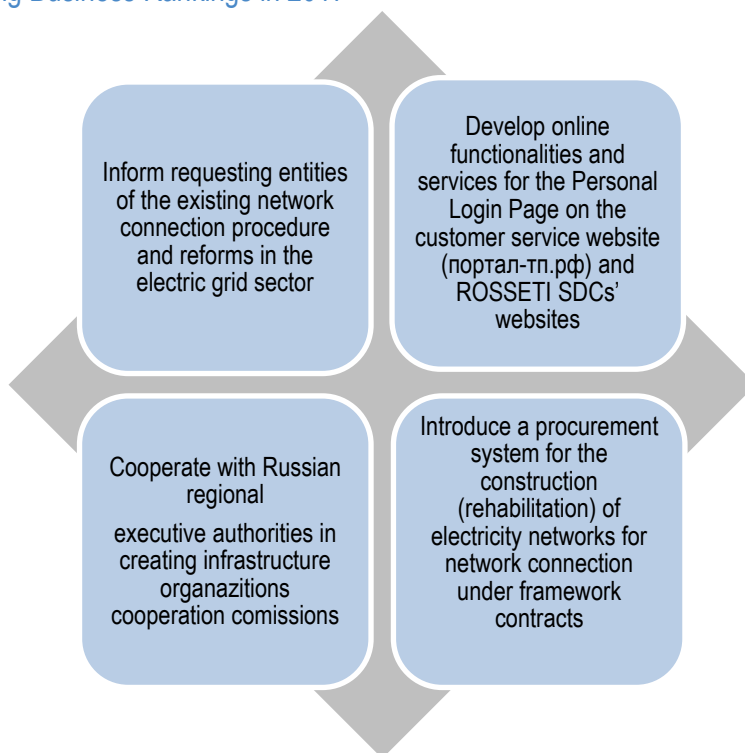
### Developing the Functionality of the the portal of electric grid services (Портал-ТП.рф)

- assessing available connection capacity on the Portal on the uniform map of utilization for main substations rated 35 kV and above for all of the regions of the ROSSETI Group's operations
- enabling requesting entities to make preliminary and controlled calculations of network connection fees
- submitting network connection requests on the personal account page
- signing network connection contracts with digital signatures
- monitoring the status (execution and performance) of network connection contracts on the part of requesting entities
- enabling feedback from the requesting entity to the grid company

### Optimizing the Procurement System

- introducing a procurement system for the construction (rehabilitation) of an electric grid organization's electricity networks for the planned volume of network connection under framework contracts

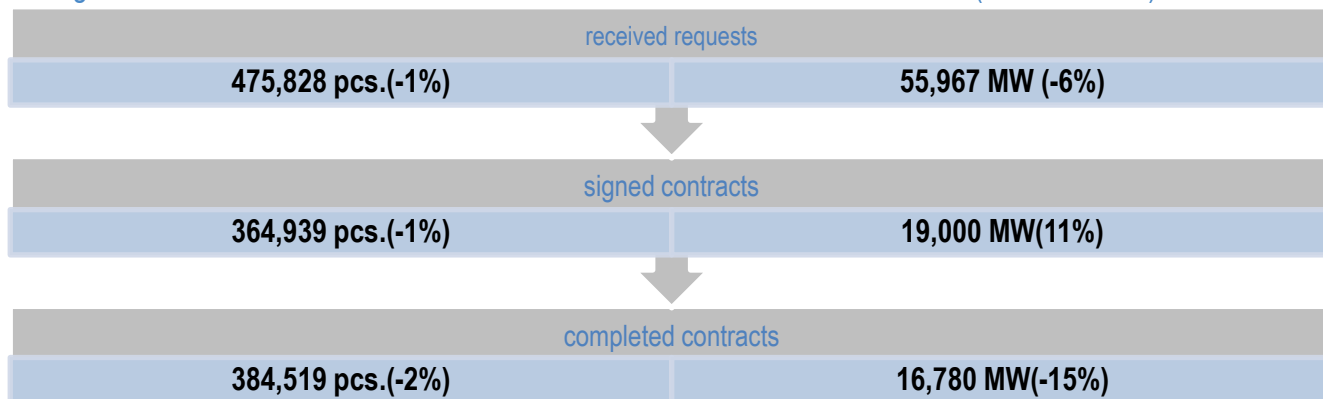
### Measures for the Doing Business Rankings in 2017



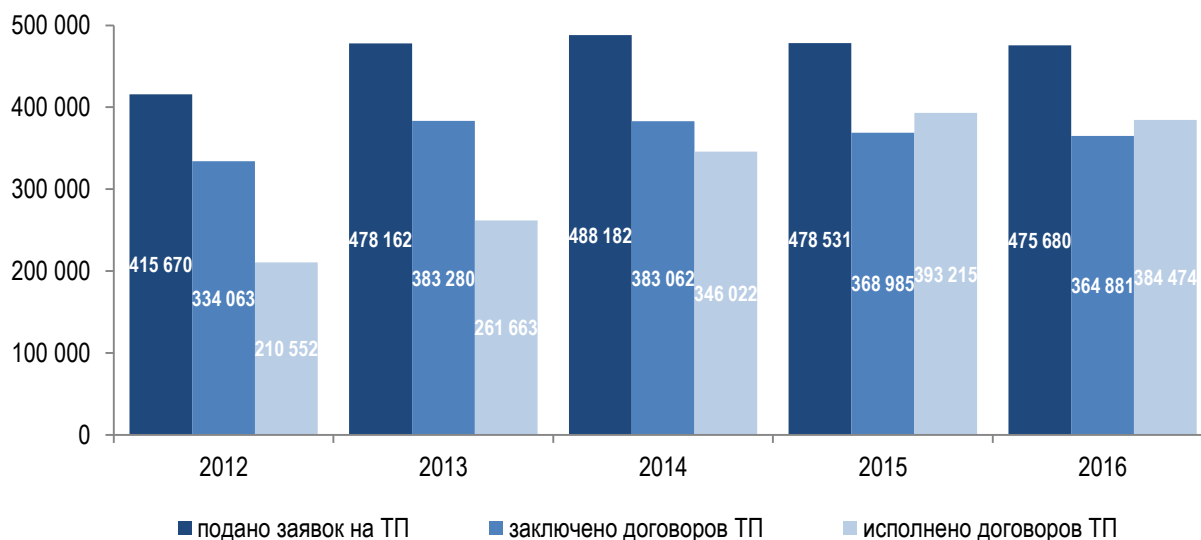
### Targets in the «Getting Electricity» Ranking of Doing Business

Target	Unit	2012	2015	2018F
Position in the «Getting Electricity» ranking	-	183	60	20
Number of procedures	Pcs.	10	4	3
Time	Days	281	135	90
Cost (% of income per capital)	%	1 852	321	20

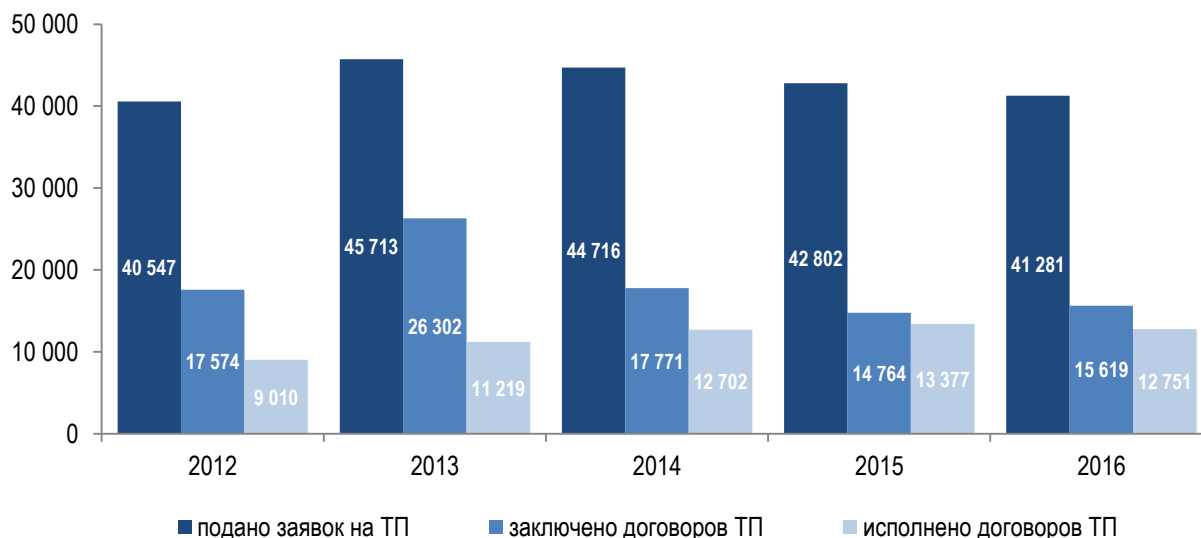
### Changes in Network Connection Provided for Customers and Generation Facilities (2016 vs. 2015)



### Changes in Network Connection for Provided for Customers 2012–2016, pcs.



### Changes in Network Connection for Provided for Customers 2012–2016, MW



### Network Connection Provided for Customers in 2016

SUBSIDIARY/DEPENDENT COMPANY NAME	NUMBER OF NETWORK CONNECTION REQUESTS		SIGNED NETWORK CONNECTION CONTRACTS		SIGNED NETWORK CONNECTION CERTIFICATES	
	pcs.	MW	pcs.	MW	pcs.	MW
IDGC of Centre	58,808	2,546	48,407	951	46,170	1,054
LENENERGO	33,777	3,346	21,022	713	31,868	725
MOESK	102,131	7,711	66,259	2,272	70,518	2,382
IDGC of Volga	17,708	1,517	15,535	654	17,949	561
Yantarenergo	6,223	433	4,668	179	4,318	118
IDGC of South	17,222	1,474	14,092	389	12,596	331
Kubanenergo	37,218	1,537	30,020	723	36,230	617
IDGC of Northern Caucasus	9,223	469	8,308	230	7,085	175
Tyumenenergo	5,834	813	5,060	446	5,016	516
IDGC of Siberia	40,424	2,289	30,059	808	34,042	785
TDC	3,041	102	2,870	96	2,808	53
IDGC of North-West	26,372	1,190	21,922	535	21,999	468
IDGC of Urals	35,165	1,953	28,556	695	30,539	717
IDGC of Center and Volga Region	59,282	2,154	50,552	1,199	46,671	962
Other	22,786	1,957	17,264	662	16,468	634
<b>TOTAL for distribution grids</b>	<b>475,214</b>	<b>29,491</b>	<b>364,594</b>	<b>10,553</b>	<b>384,277</b>	<b>10,098</b>
FGC UES	466	11,791	287	5,067	197	2,653
<b>TOTAL for ROSSETI SDCs</b>	<b>475,680</b>	<b>41,281</b>	<b>364,881</b>	<b>15,619</b>	<b>384,474</b>	<b>12,751</b>

#### Network Connection Provided for Generation Facilities in 2016

SUBSIDIARY/DEPENDENT COMPANY NAME	NUMBER OF NETWORK CONNECTION REQUESTS		SIGNED NETWORK CONNECTION CONTRACTS		SIGNED NETWORK CONNECTION CERTIFICATES	
	pcs.	MW	pcs.	MW	pcs.	MW
IDGC of Centre	7	156	2	17	3	24
LENENERGO	9	219	4	40	0	0
MOESK	6	455	1	335	0	0
IDGC of Volga	18	201	10	164	1	0
Yantarenergo	5	1,067	4	1,060	1	23
IDGC of South	12	341	3	55	3	15
Kubanenergo	2	10	2	10	0	0
IDGC of Northern Caucasus	10	51	2	23	3	191
Tyumenenergo	0	0	0	0	3	94
IDGC of Siberia	9	103	4	25	1	5
TDC	0	0	0	0	2	26
IDGC of North-West	6	258	2	27	0	0
IDGC of Urals	5	67	1	26	7	541
IDGC of Center and Volga Region	4	9	2	2	1	127
Other	11	612	0	0	1	1

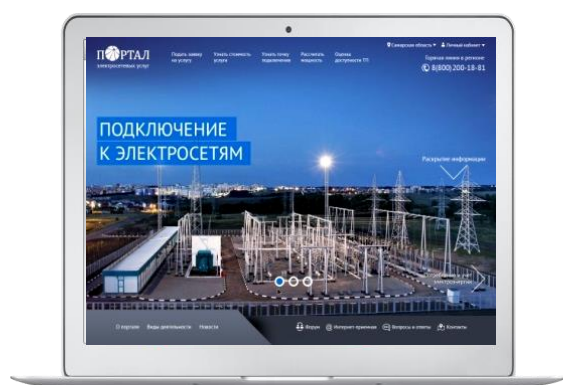
<b>TOTAL for distribution grids</b>	<b>104</b>	<b>3,548</b>	<b>37</b>	<b>1,783</b>	<b>26</b>	<b>1,047</b>
FGC UES	44	11,138	21	1,598	19	2,982
<b>TOTAL for ROSSETI SDCs</b>	<b>148</b>	<b>14,686</b>	<b>58</b>	<b>3,381</b>	<b>45</b>	<b>4,029</b>

## Best Practices and Pilot Projects for Network Connection

- In the area of developing online service and reducing the stages of network connection, the most successful was MOESK's "0 Visits" project, actually making it unnecessary to visit a customer service center. Under the project, contact between the customer and the grid company is on the grid company's website. The project enables a requesting entity to submit a network connection request online on the personal account page, with the possibility of signing, paying, and performance control with respect to a contract. In 2016, MOESK received 47,000 electronic network connection requests.
- MOESK and LENENERGO took the opportunity of entering into a power supply agreement via e grid company in the course of submitting a network connection request without involving a retail organization. The power supply agreement could be signed with a digital signature.

## Dialog with Customers

### ROSSETI's Portal of Electric Grid Services



As part of implementing ROSSETI's customer-oriented policy, work was completed in 2016 to redesign the uniform portal of electric grid services (Портал-ТП.рф),<sup>27</sup> including changing the concept of the portal and expanding the functionality as related to ROSSETI SDCs' services (processes) in accordance with the Uniform Quality Standards of Electricity Distribution and Metering.<sup>28</sup> The redesigned portal makes it possible to monitor grid organizations' operations, including network connection, both on the part of authorized agencies and on the part of customers.

#### MAIN AREAS OF REDESIGNING THE PORTAL

<b>Created uniform showcase for information disclosed by ROSSETI SDCs</b> (enabling regulators to monitor and analyze grid organizations' operations)	<b>Expanded functionality of personal login pages</b> (enabling requesting entities to monitor compliance by grid organizations with the prescribed deadlines for providing regulated services)	<b>Created calculators for service prices</b> (enabling requesting entities to calculate network connection fees online)	<b>Created uniform utilization map of main substations rated 35 kV and above</b> (making it possible to assess capacity available network connection at main substations in all regions of the ROSSETI's Group's operations)
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The portal includes services in the following areas:

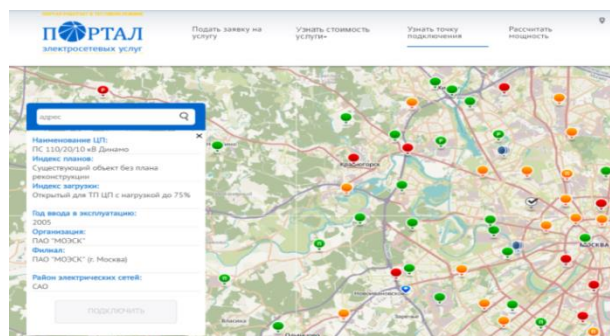
- **Transparency of operations for customers:**

<sup>27</sup> <https://www.портал-тп.рф/>

<sup>28</sup> Order of the Ministry of Energy of the Russian Federation No. 186 of April 15, 2014.



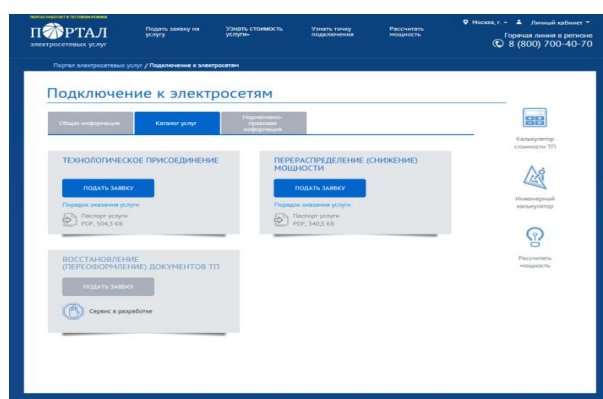
- calculator for network connection prices;
- scientific calculator for network connection prices



- in 2016, the uniform map of utilization for main substations rated 35 kV and above for all of the regions of the ROSSETI Group's operations was launched

#### ➤ Accessibility of services for customers

- The functionality of personal login pages was expanded in accordance with the Uniform Quality Standards of Electricity Distribution and Metering.
- For ease of navigation, all services are cataloged by activity type, and each service is furnished with a data sheet and visual reference describing the service performance procedure.



#### ➤ Customer feedback

To raise the ROSSETI Group's customer service quality, the portal is equipped with online inquiry forms enabling customers to send inquiries about services or make complaints about customer service quality.

In order to monitor the quality and accessibility of network connection, the portal and ROSSETI SDCs' websites are equipped with an online questionnaire to conduct customer surveys on a regular basis.

**THE NUMBER OF ONLINE INQUIRIES WAS ABOUT 170,000 IN 2016, OR OVER 75% MORE THAN IN 2015**



### 4.1.3. Customer Care

The ROSSETI Group's principal goal in society, customer, and government relations is to achieve customer loyalty by providing affordable services, offering high-quality customer service, and ensuring customer satisfaction in the short and long term.

The ROSSETI Group's Policy on Society, Customer, and Government Relations<sup>29</sup> defines the following principles:

High-quality and affordable services provided by the ROSSETI Group in accordance with the applicable laws of the Russian Federation.

Customers' sufficient awareness of the Company and the ROSSETI Group services .

- Territorial accessibility and convenient conditions of the ROSSETI Group's face-to-face service.

Accessibility and promptness of remote and online service.

Qualified service.

Transparent business processes of customer service and unbiased consideration of customer complaints.

#### Customer Service in 2016

Via all customer service channels, the ROSSETI Group received 4.5 million inquiries in 2016, or a 5% increase on 2015

1.9 million to service centers, an increase of 5%

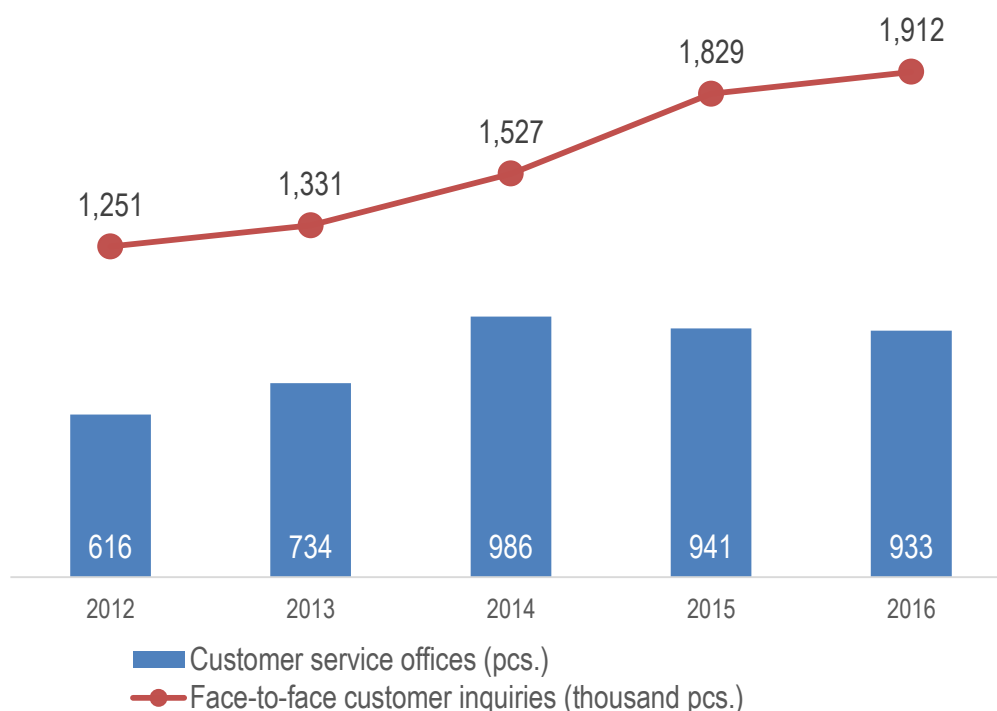
2.2 million by telephone, an increase of 6%

170,000 online, an increase of 75%  
68,700 online network connection requests with a 70% portion of Moscow and the Moscow Region

The increase is due to the higher territorial accessibility and quality of face-to-face service for households.

<sup>29</sup> Approved by the decision adopted by the Board of Directors on June 17, 2014 (Minutes of the Meeting No. 158 of June 20, 2014).

## Changes in the Opening of Customer Service Offices and the Number of Face-to-Face Inquiries in 2012–2016

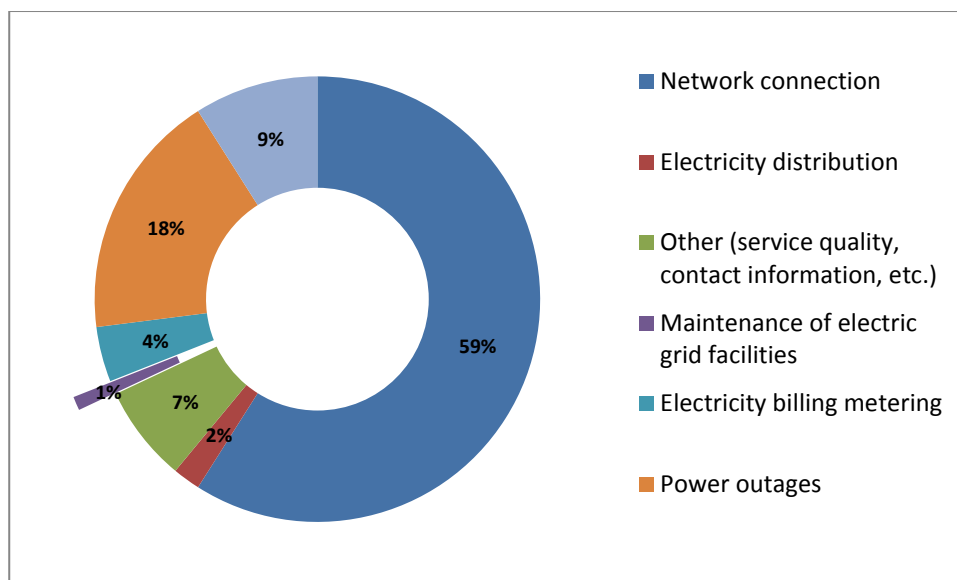


The Company gives much attention to increasing the accessibility of network connection and providing convenient conditions for customers. To this end, customer service offices are upgraded and fitted with modern equipment such as electronic queue management systems, payment terminals, and self-service information kiosks.<sup>30</sup>

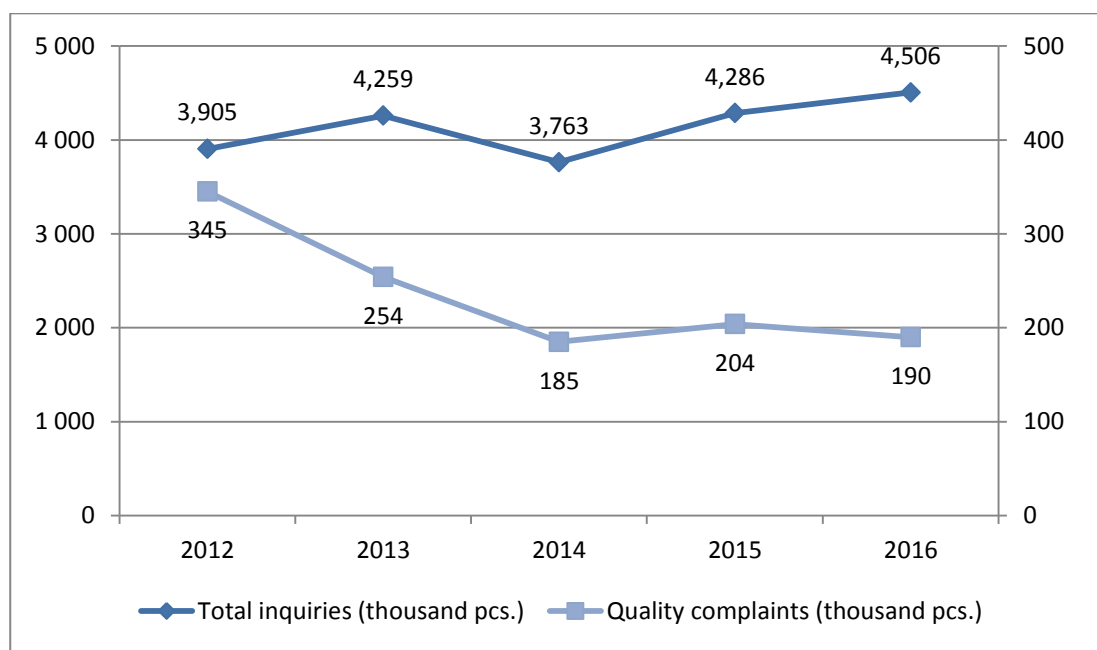
Beginning in 2015, the Group carries out projects to develop the integration with multifunctional centers to provide governmental and municipal services in relation to network connection requests. As a result of optimizing the infrastructure of face-to-face service, developing electronic forms on the portal of electric grid services and streamlining the acceptance of network connection requests via multifunctional centers in 2016, there was an insignificant decrease in the number of customer service offices.

### Subjects of Inquiries from Customers

<sup>30</sup> The ROSSETI Group audited face-to-face customer service for compliance with the Uniform Customer Service Quality Standards for Grid Organizations approved by Order of the Ministry of Energy of the Russian Federation No. 186 of April 15, 2014; and measures are taken to cause customer service offices to meet the approved requirements.



Changes in Inquiries in 2012–2016 (thousands of inquiries)



#### 4.1.4. Consolidation of Electric Grid Assets

The activities of the ROSSETI Group, as the largest company and the industry's mainstay, are aimed at achieving the targets set by the Strategy for Development of the Electric Grid Sector and focus on meeting the country's economic demand in all regions with unconditionally securing the quality and reliability of power supply and ensuring energy security in the regions. The expectations of ultimate electricity consumers as to the quality and reliability of power supply at acceptable tariffs are directly related to the priorities of the Strategy for Development of the Electric Grid Sector to reduce the fragmentation of territorial grid organizations and resolve problems of ownerless networks.

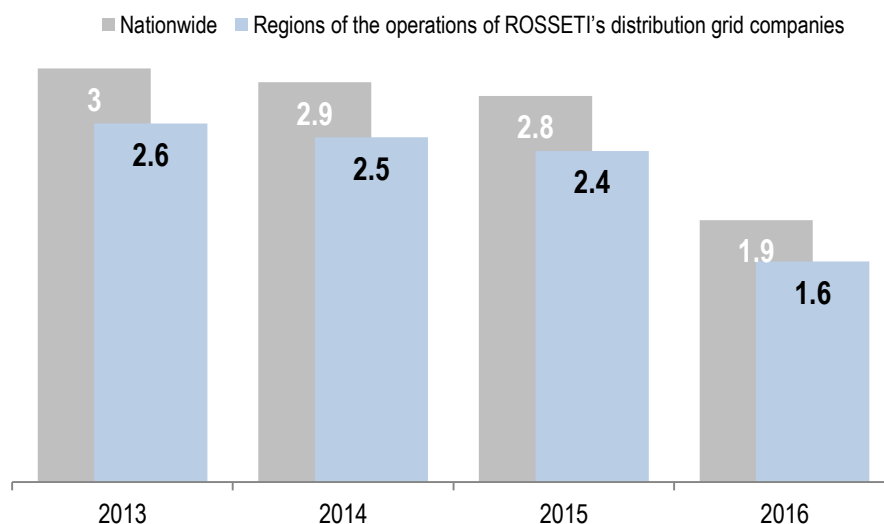
Creation of a single center of responsibility for securing a reliable, high-quality, and affordable electricity supply	Reduction of the fragmentation of territorial grid organizations and raised control
Increase in the ROSSETI Group's share in pool-based	Reduction of overlapping investment expenditures

revenues from distribution services provided for regional energy consumers	
Reduction of territorial grid organizations' receivables for electricity distribution services	Improved operating efficiency of the electric grid sector
Construction of an optimal electric grid infrastructure	Secured quality and reliability of power supply



Stage 1 (2014–2017)	The exclusion of one-customer grids from calculating the pool tariff will lead to a decrease in the numbers of territorial grid organizations that fail to meet the criteria for qualifying as territorial grid organizations
Stage 2 (2017–2030)	When implemented, the instruments of comparative analysis, along with more stringent quality and reliability requirements for tariff regulation, will reduce the number of territorial grid organizations to about 800

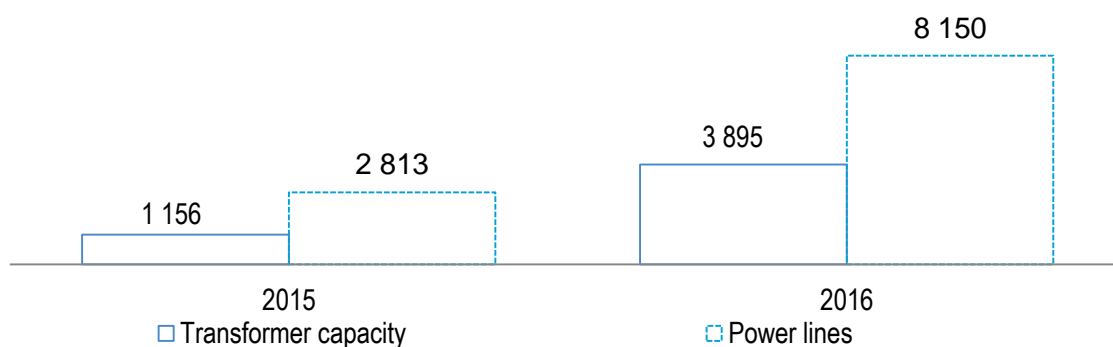
### Number of Territorial Grid Organizations, thousand entities



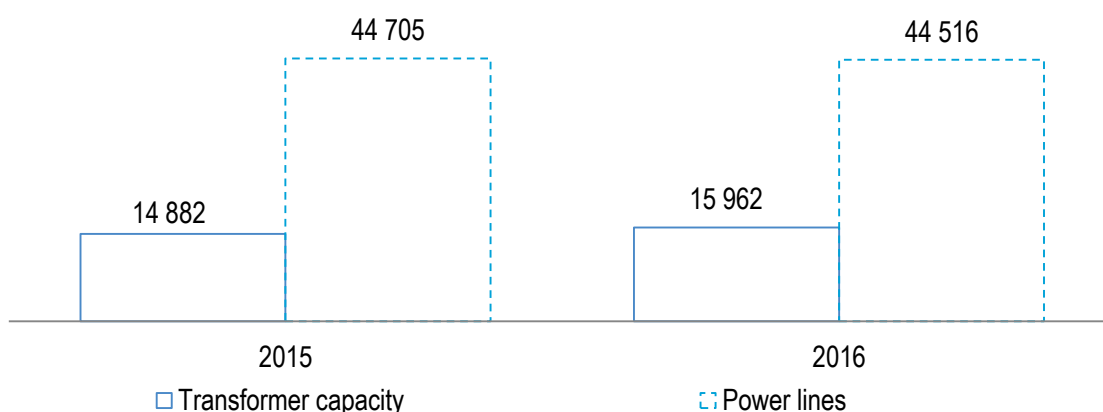
Under the consolidation programs in 2016, the ROSSETI Group acquired 3,900 MVA of transformer substations and 8,200 kilometers of power lines and leased 16,000 MVA of transformer substations and 44,500 kilometers of power lines.

### Consolidation of Electric Grid Assets

#### Acquired Electric Grid Facilities in 2015-2016, MVA, km



## Leased Electric Grid Facilities in 2015-2016, MVA, km



## Interaction with Russian Regions

The ROSSETI Group cooperates with authorized executive bodies of the constituent entities of the Russian Federation, local government authorities, and territorial grid organizations in preparing road maps to consolidate electric grid assets and take inventory of ownerless electric grid facilities.

### Implementation of the Road Maps to Consolidate Electric Grid Assets in Russian Regions

Constituent Entity of the Russian Federation	Start Date of Implementation
Vladimir Region	April 2, 2014
Chechen Republic	October 18, 2012
Karachayevo-Cherkessian Republic	July 25, 2014
Kabardino-Balkarian Republic	August 1, 2014
Republic of Dagestan	August 19, 2014
Republic of North Ossetia – Alania	August 28, 2014
Republic of Ingushetia	June 17, 2016
Republic of Karelia	June 18, 2015
Komi Republic	June 16, 2016
Murmansk Region	June 16, 2016

## 4.1.5. Causes of Reliability Failures in Electric Grids

### Results in the reliable and uninterrupted power supply in 2016

Grid companies' reliable operation is characterized by the average outage duration indicator.

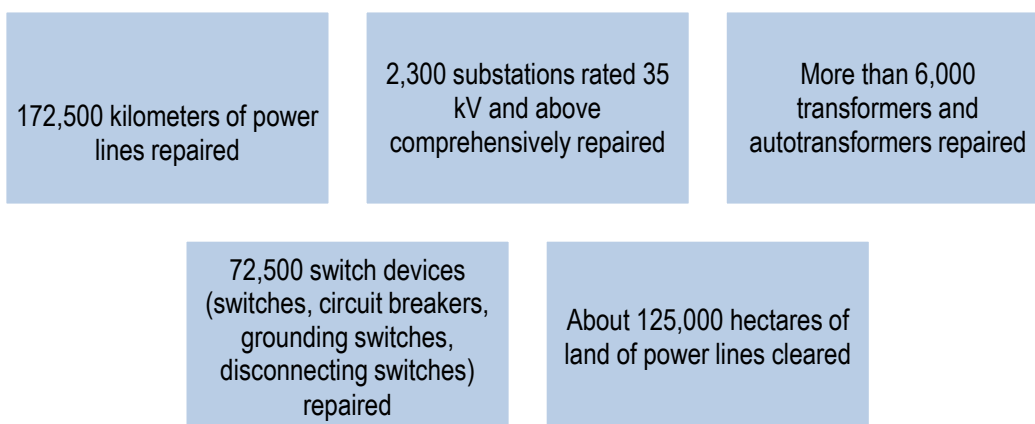
In 2016, the ROSSETI Group's indicator did not exceed the planned values set by the regional energy commissions, taking account of permissible deviations.

Some companies<sup>31</sup> considerably improved the average outage duration indicator compared with 2015.

<sup>31</sup> Kubanenergo; LENENERGO; Sverdlovenergo, a branch of IDGC of Urals; Astrakhanenergo, Volgogradenergo, Kalmenergo, and Rostovenergo, branches of IDGC of South; Altaienergo, Buryatenergo, Gorno-Altai Electric Networks, Krasnoyarskenergo,

To assess the electric grid sector's performance based on accidents and electricity supply reliability, the ROSSETI Group uses the modern software system (Avariynost) for recording process failures (accidents), which makes it possible to record and consolidate data about power outages.

#### Measures implemented under the repair program in 2016 at the ROSSETI Group's facilities:



The maintenance and repair program worth over 60 billion rubles was successfully completed.

#### Improving operating activities.

In accordance with the Strategy for Development of the Electric Grid Sector of the Russian Federation and the Long-Term Development Program of ROSSETI, the ROSSETI Group builds and improves the Integrated Production Asset Administration System, primarily aimed at:

- ensuring the level of electricity supply reliability set by the regulator;
- improving operating efficiency (including technical upgrading and rehabilitation).

#### Main measures taken in the reporting year:

- the Technical Operation and Maintenance Control System was developed;
- certification was provided for over 40,000 vehicles and 103,000 buildings and structures based on the classifies and reference books;
- all assessment algorithms for the technical condition of substations and power lines were updated;
- a methodology and technical requirements were formulated in relation to failure probability forecast automation systems for production assets;
- the procedure was developed for organizing and assessing the effectiveness and maturity level of the integrated production asset administration system.

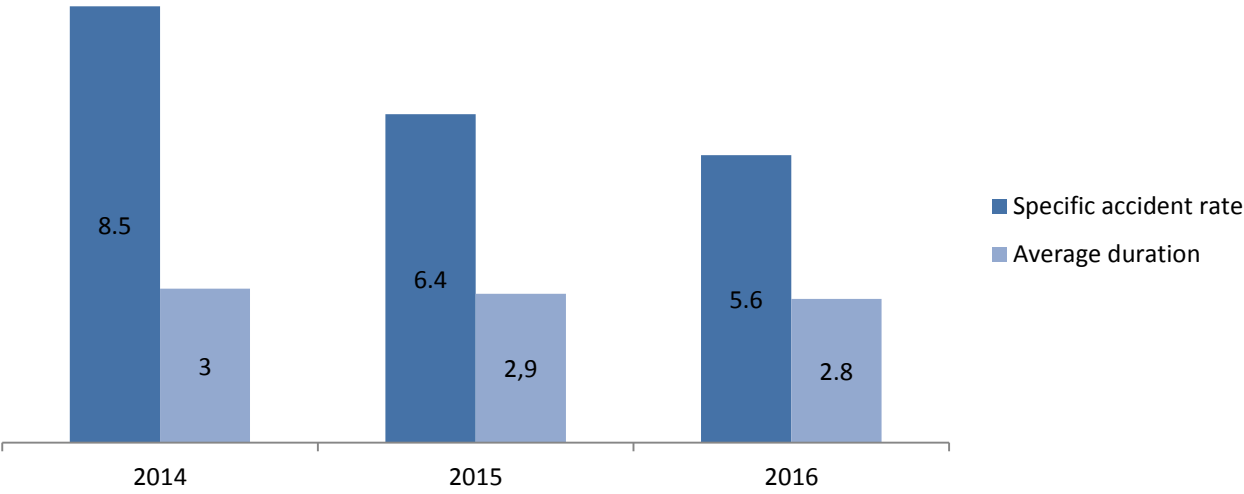
The implemented measures made it possible to enhance the transparency of operations and the relevance of managerial decisions.

#### Reducing Accident Rates

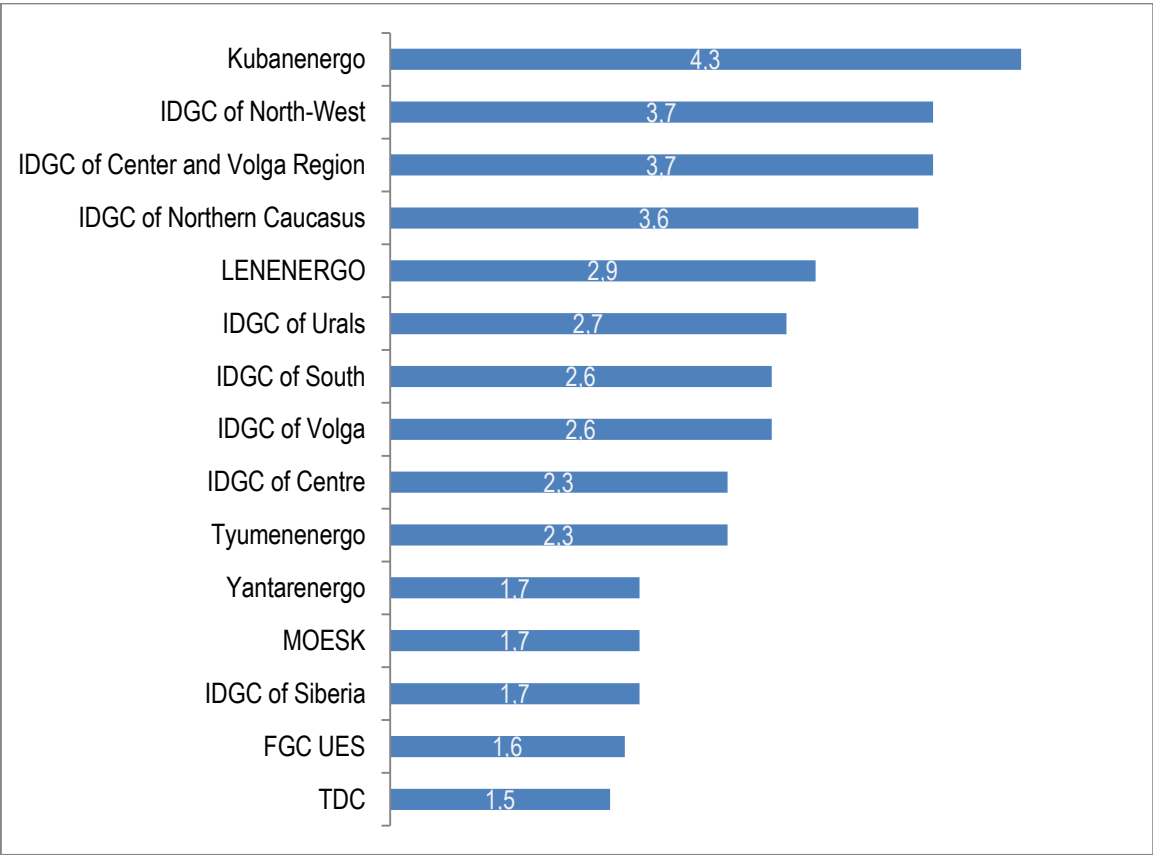
In 2016, the ROSSETI Group recorded and investigated 86,015 process failures in networks rated 6 kV and above, or 10.3% lower than in 2015.

Krasnoyarskenergo-RES, Omskenergo, Khakasenrgo, Chitaenero, and Tyvaenergo, branches of IDGC of Siberia; TDC; Stavropolenergo, Kabbalkenergo, Karachaevocherkesskenergo, Sevkavkazenergo, Ingushenergo, and Chechenenergo, branches of IDGC of Northern Caucasus; Tyumenenergo; Yantarenergo; Arkhenergo, Vologdaenergo, and Karelenegero, branches of IDGC of North-West; MOESK (Moscow and the Moscow Region; and FGC UES, PJSC ».

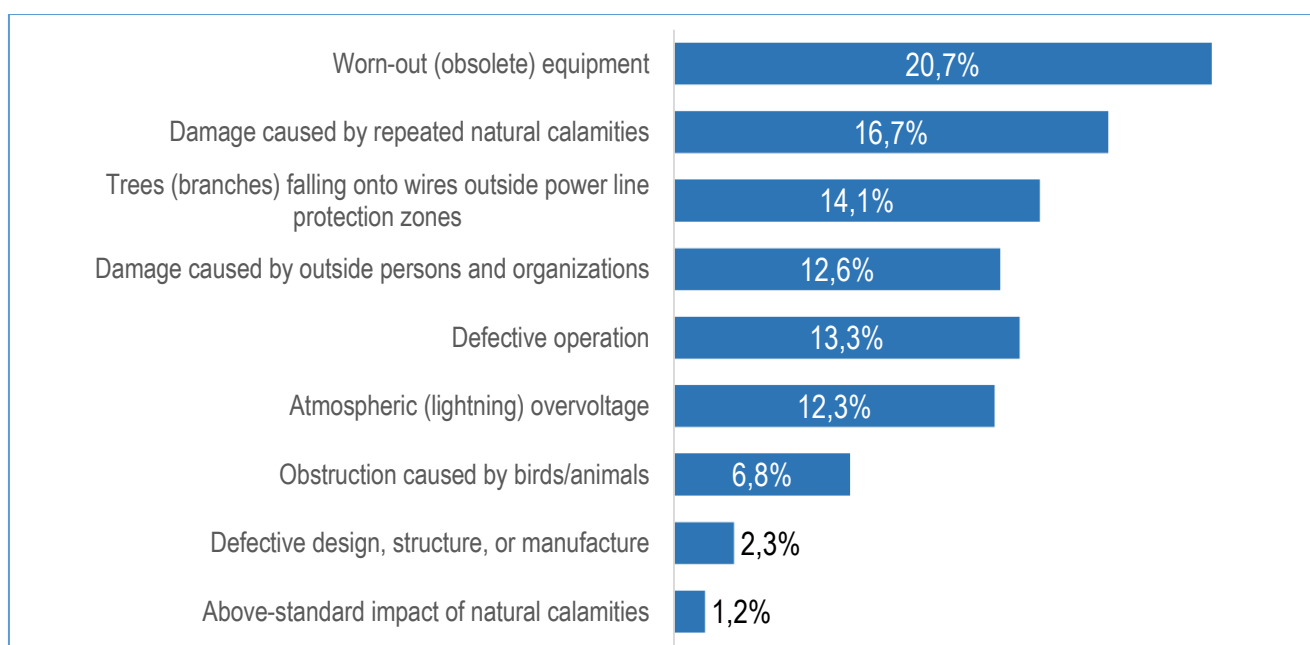
The specific accident rate was decreased by 12%. The average duration of process failures related to power outages was decreased by 4%.



**Average duration of power outages for networks rated 6 kV and above resulting from SDCs' process failures (hours):**



**Causes of Reliability Failures in Electric Grids**



The ROSSETI Group's effective production operations in 2016 resulted in decreasing the number of process failures (accidents) associated with inadequate operation by 43.2%, damage caused by outside persons and organizations by 15.4%, and damage caused by repeated natural calamities by 10.3%.

The main measures to reduce the accident rate and improve the reliability indicators in 2016 included as follows:

- widen narrow clearings;
- replace obsolete oil circuit breakers rated 6–110 kV with modern vacuum circuit breakers and SF6-insulated circuit breakers;
- replace air circuit breaker with SF6-insulated circuit breakers;
- replace surge arresters rated 6–110 kV with overvoltage suppressors;
- create loop systems and section extended feeders with reclosers installed;
- modernize equipment, including replacing isolators/short circuiters with modern circuit breakers;
- eliminate repeated failures of overhead lines, including due to lightning overvoltages (replacement of lightning cables, replacement of insulation, enhancement of the grounding loops of towers, additional installation of linear overvoltage suppressors);
- replace wires with self-supporting insulated wires.

Pursuant to the Strategy for Development of the Electric Grid Sector of the Russian Federation and in accordance with Resolution of the Government of the Russian Federation No. 1401 of December 19, 2016,<sup>32</sup> the Program to Renew Electric Grid Facilities of Subsidiaries and Dependent Companies of ROSSETI for 2017–2026 was approved in 2017, making it possible to select, under the existing scenario conditions of financing capital investment programs, the optimal areas and distribute financial resources of ROSSETI's subsidiaries primarily for ensuring the required reliability of existing electric grid facilities.

The goal of the Program to Renew Electric Grids is to comprehensively enhance power supply reliability and improve the technical condition of electric grid facilities with due consideration to the necessity of overcoming the trend toward their increasing obsolescence.

Principal objectives of the renewal program:

- make a prioritized list of capital investment projects based on technical condition assessment, taking account of failure effects;

<sup>32</sup> Resolution of the Government of the Russian Federation No. 1401 of December 19, 2016, "On the Comprehensive Defining of Technical and Economic Condition Indicators for Electric Power Facilities, Including Physical Deterioration and Energy Efficiency Indicators for Electric Grid Facilities and on the Monitoring of Such Indicators"



- update the program periodically on the basis of the analysis of technical condition assessment in relation to equipment of substations and power lines.
- replace technically and physically obsolete equipment of substations and power lines with modern equipment and, as a consequence, reduce future operating expenses.
- reduce social risks and raise social responsibility to customers.
- improve environmental indicators of electric grid facilities' performance.
- increase the utilization rate of domestic equipment manufacturers, construction companies, and R&D organizations and, as a consequence, raise employment in allied industries.

## 4.2 Economic Performance

- Record-high results of operating profitability in the Company's history since 2012.
- Growth of ROSSETI's net asset value to a level considerably higher than the share capital.

*Introductory remarks from Oksana Shatokhina, Deputy Director General for Economic Affairs*

ROSSETI is a company operating for the benefit of its customers and shareholders, both improving electricity supply reliability and accessibility and ensuring the financial stability and profitability of the Group as a whole. The introduced new management mechanisms, the cost reduction policy, and the integrated approach to achieving our goals with the support of federal and regional authorities enabled the Group in 2016 to achieve record-high results in its entire history.

Net profit of 98.3 billion rubles is 20.5% higher than a year earlier. EBITDA was 265.2 billion rubles, or 6.5% higher than in 2015.

Upward changes in financial indicators are due to the efficient management of the electric grid sector, which also led to an increase in the value of assets of subsidiaries and a rise in ROSSETI's net assets and bringing this figure to a level well above the share capital. In the reporting period, ROSSETI's net assets totaled 383.5 billion rubles, which is 185.4 billion rubles more than the share capital. The total market capitalization of subsidiaries increased by 143%.

The target of cost reduction and improved operating efficiency was achieved earlier than planned. Specifically, we achieved a reduction in specific operating expenses much higher than the targets set by the Strategy for Development of the Electric Grid Sector. In 2016, specific operating expenses were reduced by 17.8% compared with 2015.

ROSSETI's efficiency is also confirmed by other qualitative results. In 2016, ROSSETI SDCs' development plans were formulated and implemented to ensure their financial stability, including achieving profitability indicators, normalizing the debt level, fulfilling network connection obligations, securing the reliability and development of electric grids in the relevant constituent entities of the Russian Federation, and implementing major capital investment projects.

It is planned for 2017 to maintain upward changes in profitability and financial stability. For instance, there are plans for the ROSSETI Group to earn a profit in 2017 at a level not lower than in 2016; it is planned to increase EBITDA in 2017 compared with 2016; the debt burden is planned to be within the standard value of Debt/EBITDA of less than 3.0.

Very truly yours,  
Oksana Shatokhina

This review is based on the ROSSETI Group's audited consolidated financial results for the year ended December 31, 2016, in accordance with IFRS.

### Consolidated Key Operating Indicators

Indicator	2016	2015	Change
	bn RUB	bn RUB	%
Revenue, including:	904.0	766.8	17.9
- Electricity transmission and distribution	725.5	650.4	11.5
- Electricity and capacity sales	74.7	55.9	33.6
Operating expenses	788.3	652.5	20.8
Operating expenses (less impairment of fixed assets and receivables)	730.2	628.8	16.1
EBITDA	265.2	248.9	6.5
Adjusted EBITDA	323.3	273.1	18.4
Adjusted EBITDA margin	35.8%	35.6%	0.2 pp
Net profit	98.3	81.6	20.5
Adjusted net profit	144.8	100.9	43.5
Adjusted net profit margin	16.0%	13.2%	2.8 pp
Net cash flows from operating activities	175.6	156.7	12.1

The ROSSETI Group achieved a growth in all of the principal profitability indicators in 2016. The Group's net profit totaled 98.3 billion rubles (20.5% up on 2015), while adjusted net profit<sup>33</sup> increased to 144.8 billion rubles (43.5% up on 2015).

EBITDA was 265.2 billion rubles, and adjusted EBITDA<sup>34</sup> – 323.3 was 323.3 billion rubles, or 6.5% and 18.4% up on 2015 respectively.

Adjusted net profit margin rose by 2.8 percentage points compared with 2015 to 16%, which shows that the Company improved its operating efficiency.

### Revenue

The ROSSETI Group's consolidated revenue totaled 904 billion rubles, or 17.9% up on 2015.

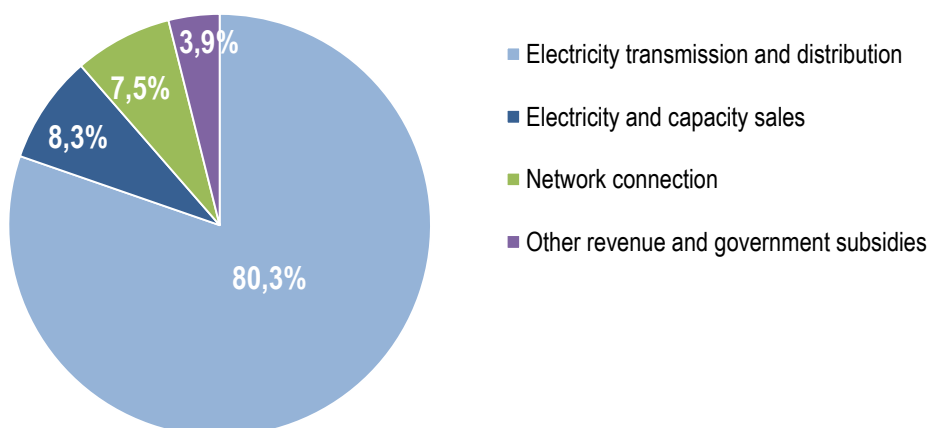
### Revenue Structure Analysis

Indicators	2016	2015	Change	
	bn RUB	bn RUB	bn RUB	%
Electricity transmission and distribution	725.5	650.4	75.1	11.5

<sup>33</sup> Adjusted Net Profit for the reporting period is calculated as the period's net profit less losses on impairment of fixed assets, impairment of financial investments, impairment of receivables, and related deferred profit tax liabilities.

<sup>34</sup> Adjusted EBITDA is calculated as EBITDA (earnings before interest, tax, depreciation, and amortization for the reporting period) less losses on impairment of fixed assets, impairment of financial investments, and impairment of receivables.

Electricity and capacity sales	74.7	55.9	18.8	33.6
Network connection	68.1	34.2	33.9	99.1
Other revenue and government subsidies	35.7	26.3	9.4	35.7
<b>TOTAL</b>	<b>904.0</b>	<b>766.8</b>	<b>137.2</b>	<b>17.9</b>



Revenue from electricity transmission and distribution grew due to increased net electricity delivery, compensation for lost income resulting from the termination of last mile agreements, and the restored smoothing mechanism of minimum regulated revenue in tariff decisions in accordance with the Forecast of the Socioeconomic Development of the Russian Federation.

Revenue from network connection services increased due to the completed performance of connection services.

The rise in revenue from electricity and capacity sales mainly resulted from increased sales.

Other revenue grew largely due to a rise in revenue from the performance of services under FGC UES Group' construction project contracts for electric grid facilities.

### Government Support

In 2016, ROSSETI did not receive government support, including subsidies. Government subsidies provided for ROSSETI's subsidiaries totaled 48 million rubles.

ROSSETI's subsidiaries implement projects financed from federal budget funds<sup>35</sup> totaled 3,121 million rubles, resulting from their additional share issues.

Additionally, a subsidiary of the ROSSETI Group used the proceeds of the sale of federal loan bonds in 2016 to perform its obligations under network connection contracts in the amount of at most 14,975 million rubles.

### Operating Expenses

The ROSSETI Group's operating expenses increased by 20.8% in 2016 compared with 2015 to 788.3 billion rubles.

### Opex Structure Analysis

Indicator	2016	Share in Total Expenses	2015	Share in Total Expenses	YoY Change
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<sup>35</sup> More detailed information is contained in Section 4.4 "Results of Investing Activities" of the Annual Report

	bn RUB		bn RUB		
<b>Uncontrollable expenses, including</b>	<b>524.4</b>	<b>66.5%</b>	<b>407.0</b>	<b>62.4%</b>	<b>28.8%</b>
Electricity transmission and distribution services	131.0	16.6%	119.3	18.3%	9.8%
Electricity purchased for compensation for electricity network losses	111.5	14.1%	101.2	15.5%	10.2%
Electricity purchased for resale	46.0	5.8%	31.2	4.8%	47.4%
Depreciation and amortization	113.8	14.4%	100.5	15.4%	13.2%
Taxes and levies except profit tax	20.8	2.6%	17.6	2.7%	18.2%
Impairment of fixed assets	38.5	4.9%	-5.1	-0.8%	
Impairment of receivables	19.6	2.5%	28.8	4.4%	-31.9%
Provisions	9.6	1.2%	3.9	0.6%	146.2%
Other	33.6	4.3%	9.6	1.5%	250.1%
<b>Controllable expenses, including</b>	<b>263.9</b>	<b>33.5%</b>	<b>245.5</b>	<b>37.6%</b>	<b>7.5%</b>
Employee benefits	173.6	22.0%	162.9	25.0%	6.6%
Other	90.3	11.5%	82.6	12.7%	9.3%
<b>Total operating expenses</b>	<b>788.3</b>		<b>652.5</b>		<b>20.8%</b>
<b>Total operating expenses less impairment of fixed assets and receivables</b>	<b>730.2</b>		<b>628.8</b>		<b>16.1%</b>

The Group's uncontrollable expenses increased by 117.4 billion rubles in 2016 (↑ 28.8%) due to the following factors:

- Electricity distribution services grew by 11.7 billion rubles (↑ 9.8%) due to higher service prices charged by certain territorial grid organizations.
- Expenses associated with electricity purchased for compensation for electricity network losses increased by 10.3 billion rubles (↑ 10.2%) due to higher prices of purchased electricity.
- Expenses associated with electricity purchased for resale increased by 14.8 billion rubles (↑ 47.4%) due to changes in the operating mode of the electric grid and due to higher electricity sales.
- Depreciation and amortization grew by 13.3 billion rubles (↑ 13.2%) due to putting into operation new fixed assets under the capex program.
- Tax payments increased by 3.2 billion rubles (↑ 18.2%) in the reporting period due to gradually abolished property tax benefits in relation to electric grid facilities.
- Impairment of fixed assets in the amount of 38.5 billion rubles was recognized due to a reduction in estimated future cash flows from using grids.
- Provisions increased by 5.7 billion rubles due to the recognition of contingent liabilities in connection with litigation with outside territorial grid organizations in relation to electricity distribution and with electricity retailers in relation to electricity purchased for compensation for electricity network losses.
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The Group's controllable expenses grew by 18.4 billion rubles in 2016 (↑ 7.5%) because of an increase of 10.7 billion rubles (↑ 6.6%) in employee benefits due to wage indexation for production personnel in accordance with the Sectoral Wage Rate Agreement.

## Net Other Income

Net other income grew by 25.8% to 27.8 billion rubles largely due to a rise in income from penalties and late payment interest under commercial contracts and an increase in income from identified noncontractual consumption of electricity.

## EBITDA

EBITDA was 265.2 billion rubles, while adjusted EBITDA reached 323.3 billion rubles. The key factors contributing to the upward changes were the implementation of measures under the Program to Improve the Operating Efficiency and Reduce Expenses of the ROSSETI Group, decreased impairment of the Group's receivables, and increased revenue from network connection services.

The adjusted EBITDA margin reached 35.8% (0.2 percentage point higher than in 2015).

### EBITDA Analysis

Indicator, mn RUB	2016	2015	% vs. 2015
<b>Profit for the period</b>	<b>98,341</b>	<b>81,602</b>	<b>20.5</b>
Depreciation and amortization	113,766	100,529	13.2
Interest paid under financial obligations with amortized cost	31,494	34,607	(9.0)
Interest paid under finance lease obligations	130	94	38.3
Profit tax expense	21,501	32,110	(33.0)
<b>EBITDA</b>	<b>265,232</b>	<b>248,942</b>	<b>6.5</b>
<b>Adjusted EBITDA</b>	<b>323,322</b>	<b>273,080</b>	<b>18.4</b>
Adjusted EBITDA margin	35.8%	35.6%	0.2 pp

## Assets

The book value of the ROSSETI Group's assets as at December 31, 2016, stood at 2,266.7 billion rubles, or 5.6% higher than in 2015.

Non-current assets increased by 8.2% to 1,960 billion rubles. Changes in increased non-current assets were caused by a rise in the value of fixed assets due to the commissioning of capital assets under the capital investment program.

Non-current receivables went up by 34.7 billion rubles to 51.3 billion rubles mainly due to a rise in receivables under network connection contracts with payment in installments.

The value of long-term financial assets increased by 53.4 billion rubles due to a rise in the Inter RAO share price.

### Structure of Non-Current Assets

Indicator, mn RUB	2016	2015	% vs. 2015
Fixed assets	1,798,568	1,734,044	3.7
Intangible assets	16,804	18,532	(9.3)
Investments in associates and joint ventures	936	1,489	(37.1)
Non-current receivables	51,262	16,572	209.3
Other investments and financial assets	85,351	31,928	167.3
Deferred tax assets	7,069	8,579	(17.6)
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,959,990</b>	<b>1,811,144</b>	<b>8.2</b>

Current assets decreased by 8.3% to 306.7 billion rubles in 2016. Changes in cash and cash equivalents and in other investments and financial assets (mainly bank deposits with a maturity of more than three months) were caused by the fact that the proceeds from bonds placed in 2015 were used in 2016 and that the proceeds from additionally issued shares (including special-purpose funds (LENENERGO)) were used to finance network connection activities. Receivables grew largely due to increased revenue.

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### Structure of Equity, million rubles

Indicator, mn RUB	2016	2015	% vs. 2015
Share capital	198,071	163,154	21.4
Share premium	212,978	212,978	-
Treasury shares	(2,702)	(2,713)	(0.4)
Reserve for issue of shares	1,678	33,473	(95.0)
Other reserves	33,165	(2,100)	-
Retained earnings	521,300	448,120	16.3
<b>Total equity attributable to equity holders of the Company</b>	<b>964,490</b>	<b>852,912</b>	<b>13.1</b>
Non-controlling interest	340,149	315,983	7.7
<b>TOTAL EQUITY</b>	<b>1,304 639</b>	<b>1,168,895</b>	<b>11.6</b>

The structure of liabilities changed insignificantly in 2016, with loans and borrowings representing a substantial share in non-current liabilities<sup>36</sup>. Key factors contributing to changes in the structure of liabilities are decreased value of loans and borrowings, including due to some loans and bond loans repaid by subsidiaries using their internal funds and decreased payables to construction organizations.

### Structure of Liabilities

Indicator, mn RUB	2016	2015	% vs. 2015
Loans and borrowings	472,057	465,439	1.4
Trade and other payables	23,698	22,075	7.4
Employee benefits	28,425	29,473	(3.6)
Deferred tax liabilities	66,835	60,155	11.1
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>591,015</b>	<b>577,142</b>	<b>2.4</b>
Loans and borrowings (short-term)	86,829	118,832	(26.9)
Trade and other payables (short-term)	261,754	267,972	(2.3)
Provisions	14,305	11,421	25.3
Current tax liabilities	8,136	1,495	444.2
<b>TOTAL CURRENT LIABILITIES</b>	<b>371,024</b>	<b>399,720</b>	<b>(7.2)</b>
<b>TOTAL LIABILITIES</b>	<b>962,039</b>	<b>976,862</b>	<b>(1.5)</b>

### Key Financial Ratios

INDICATOR	2014	2015	2016
Adjusted EBITDA margin	32.8%	35.6%	35.8%
Operating expenses/revenue	100.0%	85.1%	87.2%
<b>Net debt/adjusted EBITDA</b>	<b>2.0</b>	<b>1.8</b>	<b>1.5</b>
Current ratio	0.75	0.84	0.83
Financial leverage	0.91	0.84	0.74
Long-term loans/gross debt	84%	80%	84%

## Operating and Investment Efficiency and Cost Reduction of the ROSSETI Group

### Measures to Reduce Operating Expenses and Their Implementation Results

ROSSETI continued in 2016 to implement measures to improve operating efficiency and reduce the expenses of electric grid companies, taking into account the maintenance of the required level of power supply reliability and the quality and accessibility of services.

With the aim of improving the ROSSETI Group's operating efficiency, the following documents were formulated:

- Action plan to improve the operating efficiency and ensure the financial soundness of the electric grid sector in the current macroeconomic conditions
- Program to Improve the Operating Efficiency and Reduce Expenses of the ROSSETI Group for 2016–2020
- Development plans of ROSSETI SDCs<sup>37</sup>

<sup>36</sup> More detailed information is contained in Section 4.3 "Results of Financial Activities" of the Annual Report

<sup>37</sup> Minutes of the Meeting of the Board of Directors of ROSSETI No. 232 of June 9, 2016

- Action plan to optimize PJSC ROSSETI's expenses with due consideration to subsidiaries according to the external independent audit results <sup>38</sup>

**The implementation of the above-mentioned documents in the current macroeconomic conditions is a priority of ROSSETI.**

ROSSETI's subsidiaries formulated with approval from their boards of directors the action plans to improve the operating efficiency and financial and economic condition of companies; on a quarterly basis, review reports on the implementation of such plans and the program to improve the operating efficiency and reduce expenses of companies for 2016–2020, taking account of the annual updating of for a period of 5 years. Measures to improve operating efficiency are aimed at achieving the targets set by the Strategy for Development of the Electric Grid Sector of the Russian Federation and directives of the Government of the Russian Federation<sup>39</sup> in relation to the annual reduction of specific operating expenses (costs).

### Targets of the Strategy for Development of the Electric Grid Sector of the Russian Federation:

- reduction of operating expenses by 15% by 2017, adjusted for inflation, compared with 2012, per unit of maintained electrical equipment;
- reduction of specific investing expenses by 30% compared with 2012 (in rubles per physical unit: kilometers, MVA);
- reduction of electricity losses by 11% by 2017 compared with 2012.

The main areas of measures to improve operating efficiency and reduce costs are as follows:

- improve the workforce productivity of production personnel (by introducing up-to-date devices and diagnostics equipment, updating internal standards, including process charts, leveling the loads of production personnel and redistributing the head count, interregional grid companies' branches switching over to two-tier management, uniting interregional grid companies' branches, and aggregating electric grid districts)
- improve procurement functions (developing the price audit, promoting rebidding procedures, introducing category-based procurement management, and organizing centralized stock control);
- optimize repair functions (switching over to condition-based functions instead of scheduled preventive functions);
- optimize expenses for motor vehicles and special equipment (introducing a satellite monitoring system and abandoning unusable and inefficient vehicles);
- reduce losses (installing, with due regard to prioritizing, provide delivery points of technical and billing metering with modern meters, and introduce a uniform software system for recording electricity distribution services);
- optimizing general administrative expenses (standardization of the share of general administrative expenses in accordance with internal best practices and the centralization of functions at executive arms' level).

### Reduction of Operating Expenses: Results Achieved in 2013–2016

<sup>38</sup> Minutes of the Meeting of the Board of Directors of ROSSETI No. 254 of March 3, 2017

<sup>39</sup> Directives of the Government of the Russian Federation No. 2303p-P13 of April 16, 2015, No. 2073p-P13 of March 29, 2016, and No. 4750p-P13 of July 4, 2016



YEAR	REGULATORY FRAMEWORK	IN ABSOLUTE TERMS, BILLION RUBLES	IN RELATIVE TERMS, %
2013	Instructions of the Ministry of Energy of the Russian Federation	19.5	13.3 (vs. 2010)
2014	Strategy for Development of the Electric Grid Sector of the Russian Federation	23,5	13.7 (vs. 2012)
2014	Instructions of the Prime Minister of the Russian Federation, Directive of the Government of the Russian Federation regarding the reduction of general and administrative expenses by at least 15% of their actual value in 2013	9.5	17.5
2015	Strategy for Development of the Electric Grid Sector of the Russian Federation	43.1	25.3 (vs. 2012)
2015	Directive of the Government of the Russian Federation "On the Annual Reduction of at Least 2–3 Percent in Operating Expenses (Costs)"	26	12.1 (with the target of 2–3%)
2016	Strategy for Development of the Electric Grid Sector of the Russian Federation	50.7	29.7 (vs. 2012)

Pursuant to Directive of the Government of the Russian Federation<sup>40</sup> the ROSSETI Group reduced **per-unit operating expenses** by **17.8%**, in 2016 compared with 2015, while the target was **10%**.

## TARGETS FOR 2017:

EXPENSES BY 3% PURSUANT TO DIRECTIVE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 2303P-P13 OF APRIL 16, 2015, "ON THE ANNUAL REDUCTION OF AT LEAST 2–3 PERCENT IN OPERATING EXPENSES (COSTS)"

## Reducing Investment Expenses

Reduction of 30% in specific investment expenses compared with 2012 (in rubles per physical unit (kilometers, MVA)) in accordance with the Strategy for Development of the Electric Grid Sector for 2016 (with a planned target of 22.5%):

in distribution grids:

- by 1 kilometer of overhead power lines: 34.9%;
- by 1 kilometer of cable power lines: 34.2%;
- by 1 MVA: 25.5%.

in transmission grids:

- by 1 kilometer of power lines: 19.2%;
- by 1 MVA: 38.8%.

Overall, the effect of reducing the ROSSETI Group's investment expenses in 2016 totaled 37.6 billion rubles, exclusive of VAT (25.0% compared with 2012).

## TARGETS FOR 2017:

<sup>40</sup> Directive of the Government of the Russian Federation No.4750p-P13 of July 04,2016

REDUCTION OF 30% IN SPECIFIC INVESTMENT EXPENSES compared with 2012 (in rubles per physical unit (kilometers, MVA) pursuant to the Strategy for Development of the Electric Grid Sector.

### 4.3. Results of Financing Activities

- The ROSSETI Group's Common Treasury was set up, and its performance was appreciated by the Board of Directors of ROSSETI.
- The ROSSETI Group's consolidated debt decreased for the first time after 2011 to 559 billion rubles.
- The weighted average interest rate for the debt portfolio decreased by 2.6% to 8.9% p.a.

#### 4.3.1. Introductory remarks from Yegor Prokhorov, Deputy Director General for Finance

The main priorities of the ROSSETI Group's financial policy are to provide the necessary resources for the uninterrupted financing of operations of the Group's entities, maintain financial stability, and make the Group more attractive to investors. All these tasks were successfully fulfilled in 2016.

The Group took full advantage of the better situation in the financial markets and earlier refinanced a considerable share of the debt portfolio under more attractive terms and conditions. In 2016, the consolidated debt of the Group decreased from 584 to 559 billion rubles. We believe that the Group's debt burden is quite convenient.

The ROSSETI Group has the status of one of the best borrowers in the Russian Federation. The Group's entities maintain strategic partner relations with major Russian banks such as Sberbank, Gazprombank, and VTB Bank.

In 2016, ROSSETI's credit rating was reaffirmed by Standard & Poor's and Moody's at the sovereign level, and Standard & Poor's upgraded the rating outlook from negative to stable.

ROSSETI's Common Treasury successfully operates and continues to develop. In December 2016, the report on its activities was reviewed at an in-person meeting of the Board of Directors of ROSSETI, which appreciated its performance and noted the effectiveness of its work for the ROSSETI Group.

In addition, work was done in 2016 to find other sources of financing for the needs of the Group. Specifically, during the official visit of Russian President Vladimir Putin to China, ROSSETI and State Grid Corporation of China signed a JV agreement to jointly implement capital investment projects.

ROSSETI pays particular attention to insurance against key risks. Personnel are provided with high-quality and affordable insurance programs. For the main types of insurance, we have long-term contracts with a fixed rate. The Group's production facilities are insured against all risks. The optimization of insurance coverage programs in 2016 resulted in a 10% reduction in coverage costs for transmission and distribution companies as compared with 2015.

One of the ROSSETI Group's priorities is also the sale of noncore assets in order to bring down maintenance and management expenses and receive income from the sale of such assets. The plan implementation under the Long-Term Development Program of ROSSETI in this area was 123% in 2016.

Therefore, considering the results of 2016, we can say that the ROSSETI Group proved to be reliable and financially sound again. In 2017, the Group will continue to be active in maintaining its appeal among investors.

Very truly yours,  
Yegor Prokhorov  
Deputy Director General for Finance

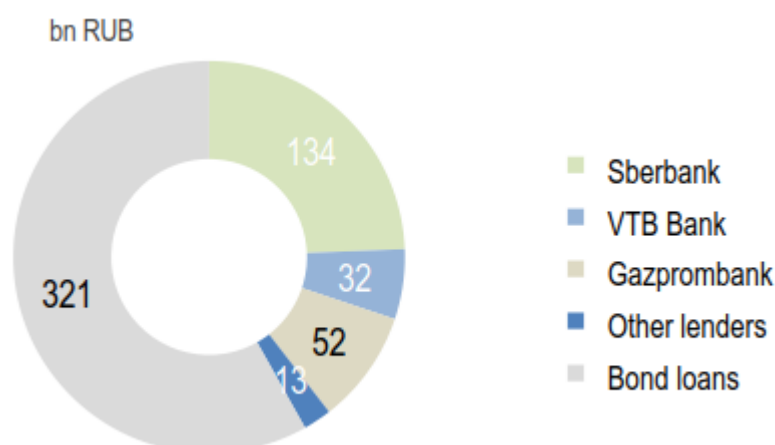
#### 4.3.2. Debt Capital

##### Information on Obtained Loans and Borrowings

The Group's debt portfolio consists mostly of bonds and loans issued by government-linked banks. 100% of the Group's loans and borrowings are denominated in Russian rubles.

The Group maintains strategic partner relations with major Russian banks such as Sberbank, Gazprombank, and VTB Bank. At the same time, the Group's entities are open to cooperation in debt financing with credit institutions that are ready to offer attractive conditions.

##### Debt Breakdown <sup>41</sup>



The Group's debt portfolio decreased from 584 to 559 billion rubles in 2016.

Type of Borrowing, bn RUB	December 31, 2015			December 31, 2016			Total Debt Growth	
	total	principal debt	accrued interest	total	principal debt	accrued interest	bn RUB	%
Bond loans	344	337	7	326	321	5	(18)	(5)
Bank loans and other lenders	240	239	1	233	231	2	(7)	(3)
<b>TOTAL</b>	<b>584</b>	<b>576</b>	<b>8</b>	<b>559</b>	<b>552</b>	<b>7</b>	<b>(25)</b>	<b>(4)</b>

Note: Other lenders include liabilities related to finance leases, bills and notes, and other loans.

In 2016, the Group earlier refinanced a considerable share of the debt portfolio under more attractive terms and conditions.

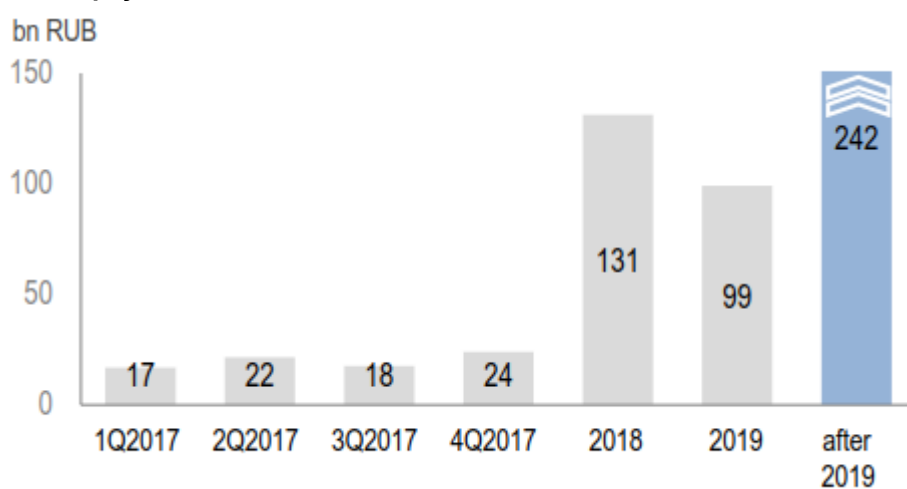
<sup>41</sup> Principal debt less accrued but unpaid interest

The average interest rate for the Group's debt portfolio decreased from 11.5% to 8.9% p.a. in the reporting year. Debt service expenses decreased by 8.3 billion rubles in 2016 compared with 2015 (including capitalized interest).

TYPE OF BORROWING	Weighted Average Interest Rates		Interest Rate Growth
	January 1, 2016	January 1, 2017	pp
Bank loans	9.9%	9.8%	(0.1)
Bond loans	12.6%	8.3%	(4.3)
<b>TOTAL</b>	<b>11.5%</b>	<b>8.9%</b>	<b>(2.6)</b>

Most loans and borrowings in the debt portfolio are long-term debt, which allows the Group to have a convenient repayment schedule.

#### Debt Repayment Schedule<sup>42</sup>



#### Information on Issued and Redeemed Bonds

ROSSETI placed two 10-year bond issues to Vnesheconombank in 2016 with a total par value of 10 billion rubles.

#### Main Characteristics of Bond Issues Placed by ROSSETI in 2016

Issue Number	Series	Value of Outstanding Bonds, mn RUB	Placement Date	Interest Rate at Placement, %
ROSSETI				
4B02-02-55385-E	BO-02	5,000	August 30, 2016	9.15%
4B02-03-55385-E	BO-03	5,000	August 30, 2016	9.15%

The bonds were issued to refinance the loan portfolio of ROSSETI's subsidiaries.

In November 2016, the MICEX Stock Exchange registered the ROSSETI Program of Series 001P Exchange-Traded Bonds<sup>43</sup>. The Program provides for the placement of exchange-traded bonds with a total par value of up to 100.0 billion rubles, with each issue under the Program having a 30-year maximum term to maturity.

<sup>42</sup> Principal debt less accrued but unpaid interest

<sup>43</sup> Program identification number: 4-55385-E-001P-02E

In December 2016, ROSSETI repaid earlier all Series BO-04 exchange-traded bonds totaling 10.0 billion rubles and placed on June 8, 2015 (with a coupon rate of 11.85%).

ROSSETI's subsidiaries raised a total of 39.35 billion rubles in bonds in 2016, including 10 billion rubles coming from intragroup financing.

Issue Number	Series	Value of Outstanding Bonds, mn RUB	Placement Date	Interest Rate at Placement, %
IDGC of Urals				
4B02-05-32501-D	BO-05	5,000	August 26, 2016	9.32%
IDGC of Centre				
4B02-05-10214-A	BO-05	5,000	August 26, 2016	9.32%
IDGC of Northern Caucasus				
4B02-01-34747-E-001P	BO-001P-01	1,350	April 28, 2016	13.00%
MOESK				
4B02-08-65116-D	BO-08	8,000	April 28, 2016	10.30%
4B02-05-65116-D	BO-05	5,000	June 7, 2016	10.00%
4B02-06-65116-D	BO-06	5,000	July 28, 2016	9.65%
FGC UES				
4B02-02-65018-D	BO-02	10,000	November 29, 2016	9.35%

The ROSSETI Group's principal investors in 2016 were management companies, pension funds, and large banks.

The following subsidiaries of ROSSETI obtained registration for their programs of exchange-traded bonds:

Subsidiary	Identification Number	Identification Number Assignment Date	Value	Maximum Term to Maturity Under the Program
Kubanenergo	4-00063-A-002P-02E	October 24, 2016	up to 25 billion rubles	30 years
IDGC of Northern Caucasus	4-34747-E-002P-02E	September 23, 2016	up to 25 billion rubles	30 years
IDGC of North-West	4-03347-D-001P-02E	November 11, 2016	up to 25 billion rubles	30 years
IDGC of Siberia <sup>44</sup>	4-12044-F-001P-02E	September 7, 2015	up to 25 billion rubles	30 years
IDGC of Centre	4-10214-A-001P-02E	December 21, 2016	up to 40 billion rubles	30 years
IDGC of Center and Volga Region	4-12665-E-001P-02E	October 10, 2016	up to 25 billion rubles	30 years
IDGC of South	4-34956-E-001P-02E	August 12, 2016	up to 25 billion rubles	30 years

## Events After the Reporting Period

1. On February 8, 2017, the Moscow Exchange assigned identification numbers to the MOESK Program of Series 001P Exchange-Traded Bonds totaling 80 billion rubles and the IDGC of Urals Program of Series

<sup>44</sup> Amendments to the Program has been registered.

- 001P Exchange-Traded Bonds totaling 25 billion rubles, with each issue under the Programs having a 30-year maximum term to maturity.
- On March 1, 2017, the Moscow Exchange assigned an identification number to the Tyumenenergo Program of Series 001P Exchange-Traded Bonds totaling 25 billion rubles, with each issue under the Program having a 30-year maximum term to maturity.
  - On March 17, 2017, the Moscow Exchange assigned an identification number to the IDGC of Volga Program of Series 001P Exchange-Traded Bonds totaling 25 billion rubles, with each issue under the Program having a 30-year maximum term to maturity.
  - On April 5, 2017, the Moscow Exchange assigned an identification number to the LENENERGO Program of Series 001P Exchange-Traded Bonds totaling 35 billion rubles, with each issue under the Program having a 30-year maximum term to maturity.

### Credit Rating History (Timeline); Parameters and Factors Determining the Current Ratings

The ROSSETI Group is active in cooperating with leading international rating agencies: Moody's, Standard & Poor's, and Fitch Ratings. In accordance with the methodologies of the international rating agencies, ROSSETI and its SDCs qualify as government-linked companies. Consequently, the credit ratings of the Group's entities are closely tied to the sovereign rating of the Russian Federation.

Against a background of stabilization in the Russian economy in 2016, the international rating agencies partially reconsidered their previous negative decisions concerning the sovereign rating of the Russian Federation, which enabled the agencies to take positive rating actions on the ROSSETI Group's entities:

- in March 2016, the sovereign rating of the Russian Federation and the credit ratings of some Russian companies were placed by Moody's on the Watchlist with a negative outlook. However, as early as April, the Russian sovereign rating was removed from the Watchlist, which also reaffirmed the Group's creditworthiness ratings;
- in October 2016, following an upgraded rating outlook for the Russian Federation, Fitch Ratings changed FGC UES's rating outlook from negative to stable and reaffirmed the rating at the sovereign level of BBB–

### ROSSETI's international credit rating from Standard & Poor's corresponds to the sovereign rating

The credit ratings received by ROSSETI and FGC UES from Standard & Poor's correspond to the ratings of the Russian Federation and follow their trends. For instance, as with the sovereign rating, both companies' rating outlooks were upgraded to stable in September 2016.

Receiving credit ratings from international credit rating agencies enables ROSSETI and its subsidiaries to be increasingly attractive to investors and pursue an effective borrowing policy in public capital markets

ROSSETI Group Credit Ratings as of December 31, 2016

COMPANY	CREDIT RATING			INITIAL ASSIGNMENT DATE		
	MOODY'S <sup>1</sup>	S&P	FITCH <sup>1</sup>			
ROSSETI	Ba2	BB+ ruAA+	-	July 2010/March 2014		
FGC UES	Ba1	BB+ ruAA+	BBB-	February 2006	June 2004	October 2013
MOESK	Ba2	BB- ruAA-	BB+	October 2007	January 2012	August 2013
IDGC of Centre	-	BB- ruAA-	-	November 2009		
IDGC of Volga	Ba2	-	-	October 2012		
IDGC of Center and Volga Region	Ba2	-	-	October 2012		
IDGC of Urals	Ba2	-	-	October 2012		

LENENERGO	Ba2	-	-	November 2009
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<sup>1</sup> National scale rating withdrawn

## Events After the Reporting Period

In February 2017, Moody's upgraded FGC UES's rating outlook to stable due to an upgraded outlook for the sovereign rating of the Russian Federation.

In March 2017, Standard & Poor's upgraded the outlooks for the credit ratings of ROSSETI, FGC UES, MOESK, and IDGC of Centre to positive after the rating of the Russian Federation was revised. Additionally, the agency decided to upgrade ROSSETI's own creditworthiness by one notch to BB due to the Company's high operating performance.

### 4.4. Results of Investing Activities

- Commissioning of 15,000 MVA of capacity and over 25,000 kilometers of power lines.
- Commissioning of capital assets worth 213 billion rubles.
- Total financing of 231 billion rubles, inclusive of VAT.
- Tasks of nationwide importance: energy security of the Kaliningrad Region and the Northwest Integrated Power System, preparations for the 2018 FIFA World Cup in Russia.

#### 4.4.1. Introductory remarks from Sergey Sergeev, Deputy Director General for Capital Construction

The ROSSETI Group's investing activities in 2016 focused on achieving the principal goals of the grid sector, including the renewal of equipment, the commissioning of new facilities to cover a shortage of loads and secure the supply of capacity from new generating facilities, and the fulfillment of network connection obligations.

In the reporting period, the financing of the capital investment program totaled 230.6 billion rubles, inclusive of VAT. The actual commissioning of capital assets reached 213.5 billion rubles. The commissioning of transformer capacity was 14,997 MVA, along with 25,645 kilometers of commissioned power lines.

The following projects were priorities in 2016: energy security of the Kaliningrad Region and the Northwest Integrated Power System; preparations for the 2018 FIFA World Cup and the Universiade in Krasnoyarsk; measures to develop the electric grid infrastructure in Eastern Siberia and the Far East, including those related to the expansion of the capacity of the Baikal-Amur Mainline and the Trans-Siberian Railroad and the electricity supply for facilities involved in the implementation of the Power of Siberia project.

It is deserving of note that LENENERGO carried out measures to fulfill its accumulated network connection obligations, using the proceeds from federal loan bonds allocated to LENENERGO pursuant to Instructions of Russian President Vladimir Putin No. Pr-1235 of June 23, 2015.

Under the approved capital investment programs of ROSSETI's for 2017–2019, it is planned to commission over 68,000 kilometers of power lines and 60,000 MVA of transformer capacity totaling 791 billion rubles.

Very truly yours,

The principal objectives of the ROSSETI Group's investments are to modernize electric grid facilities and improve their operating reliability.

The ROSSETI Group's capital investment program takes into account the necessity of maintaining the Company's financial stability.

#### Key Indicators of the ROSSETI Group's Investment Program in 2017–2019

Year	Financing, mn RUB, inclusive of VAT	Commissioned Capital Assets		
		mn RUB, exclusive of VAT	kilometers	MVA
2017	276,799	300,828	22,713	26,150
2018	262,442	279,385	23,924	18,728
2019	252,063	251,763	21,365	16,119
2017–2019	791,305	831,976	68,002	60,997

Информация о сроках реализации инвестиционных проектов, финансируемых за счет средств федерального бюджета

#### Information on Completion Dates of Federal Program

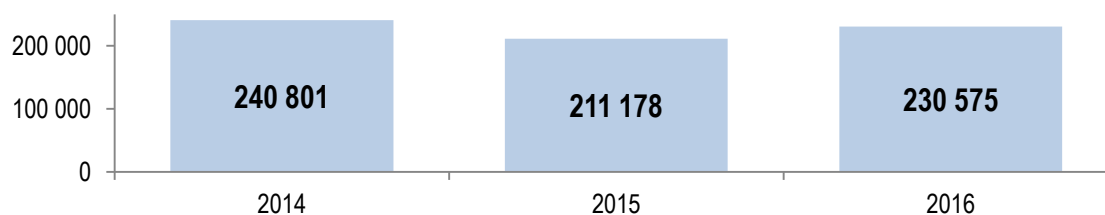
Program	Completion Dates
Program of Preparations for the 2018 FIFA World Cup in Russia	2014-2017
Comprehensive Program of Measures to Reduce Above-standard Electricity Losses	2011-2017
<b>TOTAL</b>	



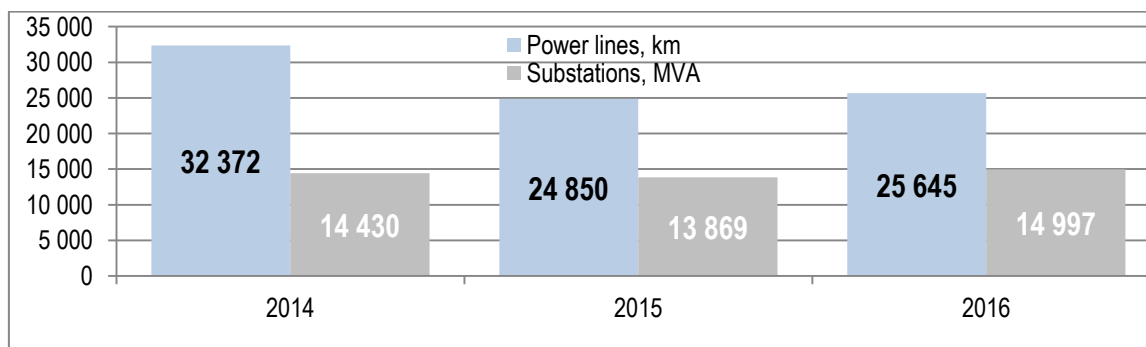
## Key Indicators of the Consolidated Investment Program in 2016<sup>45</sup>

SDCs	Financing, mn RUB (inclusive of VAT)	Commissioning, mn RUB (exclusive of VAT)	Commissioning, MVA	Commissioning, kilometers
IDGC of Siberia	5,967	5,517	259	2,061
TDC	648	529	75	423
Tyumenenergo	8,981	8,699	337	620
IDGC of Urals	6,462	5,424	334	1,820
IDGC of Volga	3,533	2,779	177	587
IDGC of South	2,114	1,588	139	1,064
Kubanenergo	6,079	3,602	278	1,150
IDGC of Northern Caucasus	1,707	1,769	53	103
Chechenenergo	189	9	0	0
IDGC of Center and Volga Region	8,748	8,404	498	3,173
IDGC of North-West	4,979	4,835	517	1,127
LENENERGO	27,617	15,165	844	2,147
Yantarenergo	4,001	499	41	148
IDGC of Centre	14,644	13,486	917	4,827
MOESK	36,725	29,756	1,282	4,828
Tyvaenergo	395	102	4	26
ENCE	1,678	1,272	229	268
FGC UES	90,689	103,671	8,772	827
Tsarskoye Selo Energy Company	241	166	6	30
Kurortenergo	280	268	36	18
Svet	7	6	0	0
Saint Petersburg Power Grid	4,569	5,390	162	359
Petrodvorets Electric Company	322	551	38	40
<b>Total for the ROSSETI Group</b>	<b>230,575</b>	<b>213,486</b>	<b>14,997</b>	<b>25,645</b>

### Changes in Financing for 2014–2016, million rubles, inclusive of VAT

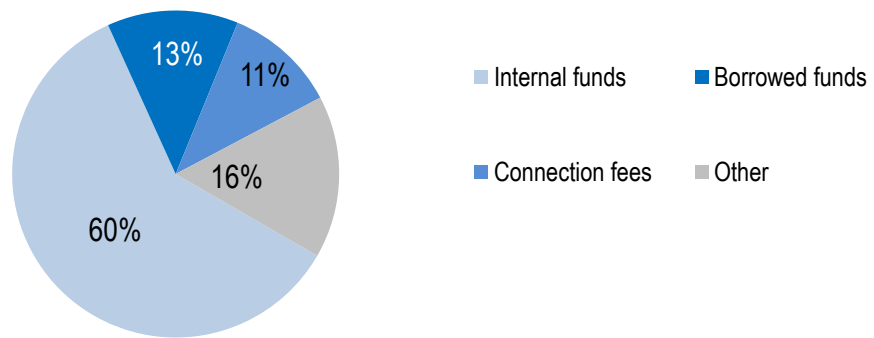


### Changes in Commissioned Capacity Under the ROSSETI Group's Consolidated Investment Program for 2014–2016



<sup>45</sup> В 2016 году ПАО «Россети» не совершало инвестиционных вложений, предполагаемый уровень дохода по которым составляет более 10% в год.

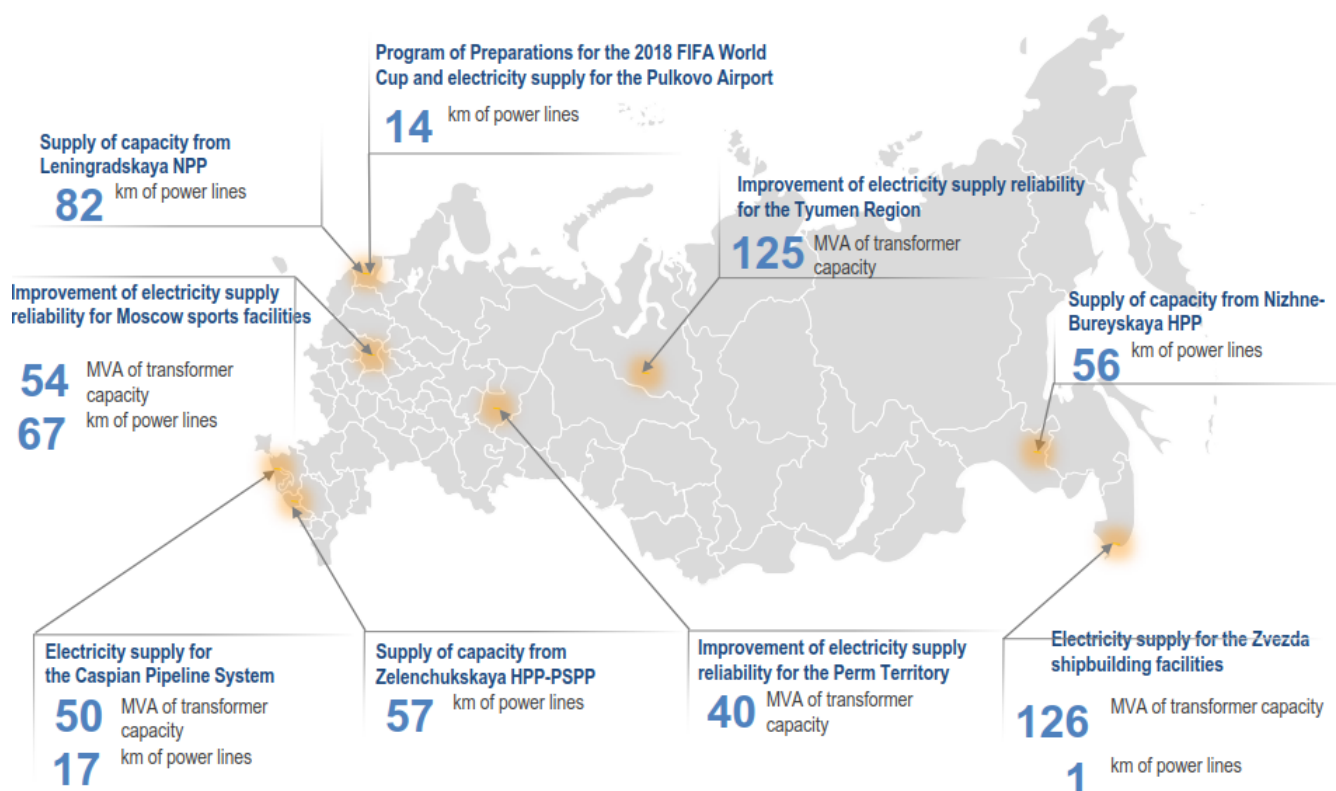
## Principal Financing Sources for the Investment Program in 2016



## Areas and Breakdown of Financing Under the ROSSETI Group's Consolidated Investment Program

Areas of Financing	2016	
	mn RUB (inclusive of VAT)	%
Network connection	121,737	53%
Modernization of capital assets	54,511	24%
Development of grids	37,844	16%
Other	16,483	7%
<b>Total</b>	<b>230,575</b>	<b>100.0%</b>

## Key Investment Projects Completed in 2016



There are plans to implement 35 000 capital investment projects from 2017 to 2022, including 1200 for transmission and 34 000 for distribution.

## Innovation

ROSSETI is active in pursuing the course taken by the Russian Government toward the modernization of the country's economy and toward the transition from the extensive to innovative scenario of industrial development. An independent audit of the Company's innovation compared with its peers showed that ROSSETI's innovation management system corresponded to international practices.

In late 2016, the Company approved a key document underlying the Group's innovation, the Innovative Development Program for 2016–2020 with Long-Term Plans Until 2025.

Under the Program, the aim of the electric power sector's innovative development is to switch over to a technologically new electricity supply with qualitatively new characteristics of reliability, efficiency, accessibility, manageability, and customer orientation in the Russian electric grid sector as a whole.

Key Areas of Innovative Development	Areas of Efficiency Evaluation for Program Implementation	Expected Effects of Program Implementation
<ul style="list-style-type: none"> <li>Switch over to and introduce digital substations rated 35–110 (220) kV on a large scale</li> <li>Switch over to actively adaptive digital grids (Smart Grids) with a distributed intellectual automation and control system</li> <li>Switch over to the integrated</li> </ul>	<ul style="list-style-type: none"> <li>Improve workforce productivity</li> <li>Improve the efficiency of production processes, reduce production costs, cut per-unit costs of services</li> <li>Introduce modern production technologies and managerial practices</li> <li>Improve energy efficiency for</li> </ul>	<ul style="list-style-type: none"> <li>Achieve production indicators corresponding to the current level typical of comparable electric utilities from developed countries</li> <li>Reach the technical and technological level of comparable electric utilities from developed countries</li> <li>Form a technological basis for actively</li> </ul>

efficiency of business processes and to the automation of control systems	production	adaptive transmission grids and smart distribution grids
• Use new technologies and materials in the electricity industry		• Enhance energy efficiency, including reducing electricity network losses (achieve the planned indicators of the Program)

#### Program implementation expenses, million rubles, exclusive of VAT

2016	2017	2018	2019	2020	2021–2025
5,923.0	8,516.0	7,925.0	8,500.0	8,960.0	39,200.0

#### Key results in 2016:

- Yantarenergo completed the largest and most difficult phase in the automation of the electricity distribution network in the Mamonovo electric grid district.
- The large-scale project of the ROSSETI Group's first digital 110 kV Olimpiyskaya substation of Tyumenenergo is nearing completion.
- Under the program to introduce EV charging stations, Mode-3 stations at the Sorochany ski resort and the Vnukovo-3 airport, six charging stations at Lukoil filling stations, and two stations in Sochi were installed and put into operation. The program specifies the construction of a total of 250 charging stations by 2018.
- The “Energy Breakthrough” All-Russia Contest of Innovative Projects was held. The contest of breakthrough projects in smart energy is designed to combine efforts and expertise from various areas of science and technology to create the future of energy. It has been held annually since 2013. 255 applications for participation were received in 2016. Some projects were selected during the All-Russia startup tour organized by the Skolkovo Foundation. As a result, the number of projects admitted to the final was as follows: 10 projects, including 5 projects in breakthrough technology, 4 projects in technology improvement, 1 project in a separate category.

#### EnergyNet National Technology Initiative <sup>46</sup>

In September 2016, the Presidential Council on the Economic Modernization and Innovative Development of the Russian Federation approved the EnergyNet road map for the market of integrated systems and services of smart energy. The document contains measures to develop the smart energy market until 2035 and was formulated as part of the National Technology Initiative implemented by order of the Russian President.

<sup>46</sup> The National Technology Initiative (NTI) is a governmental program of measures to support and develop promising industries, form fundamentally new markets, and create the conditions for Russia's global technological leadership by 2035. In the Address to the Federal Assembly of the Russian Federation on December 4, 2014, Russian President Vladimir Putin mentioned the NTI as a priority of government policy. Nine key markets were selected for the development of the initiative. EnergyNet is an energy market based on technological solutions that ensure the intellectualization and distribution of energy networks (smart grids). The working group on the development and implementation of the EnergyNet road map includes members of ROSSETI's Board of Directors Oleg Barkin and Oleg Dubnov and member of the Management Board and First Deputy Director General Roman Berdnikov.

The EnergyNet Action Plan (Road Map) of the National Technology Initiative was approved in September 2016.

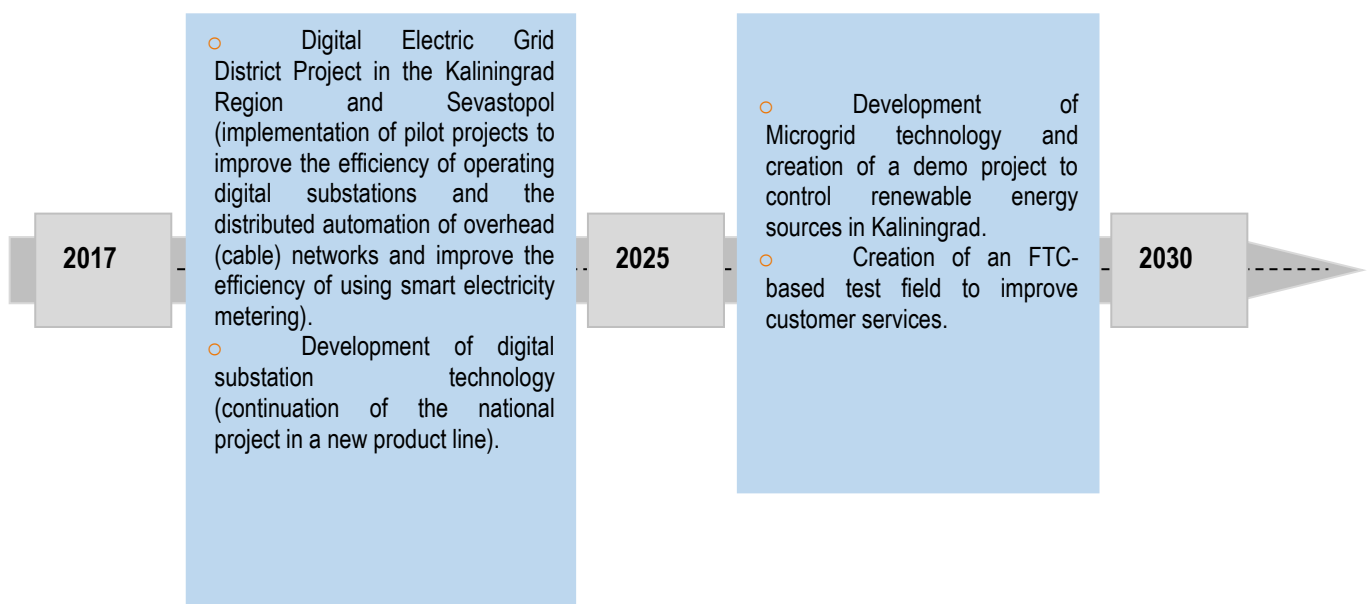
## Road Map Stages

Stage 1. Digital infrastructure and services (2016–2020): implement pilot projects based on available scientific and technical reserves, develop the regulatory framework, standards, and educational programs, develop and carry out measures to promote products, services and companies in the markets of the target countries.

Stage 2. Adaptive infrastructure and services (2016–2025): develop critical technologies to create adaptive energy infrastructure and services, implement pilot projects based on a new package of technologies, develop the regulatory framework, standards, and educational programs, develop and carry out measures to promote products, services and companies in the markets of the target countries.

Stage 3. Self-organizing infrastructure and services (2016–2030): initiate studies on the creation of self-organizing infrastructure and services, develop critical technologies, develop the regulatory framework, standards, and educational programs, develop and carry out measures to promote products, services and companies in the markets of the target countries.

It is intended that the ROSSETI Group will participate by providing pilot sites to test new solutions.



## Research and Development (R&D)

The ROSSETI Group's principal goal of R&D is to develop innovative solutions aimed at achieving an operating effect for the Company's activities and suitable for large-scale use in distribution and transmission.

Results of 2016:

Registration was obtained for 30 titles of protection for R&D deliverables

11 license agreements were signed for R&D deliverables

13 R&D deliverables are in test operation

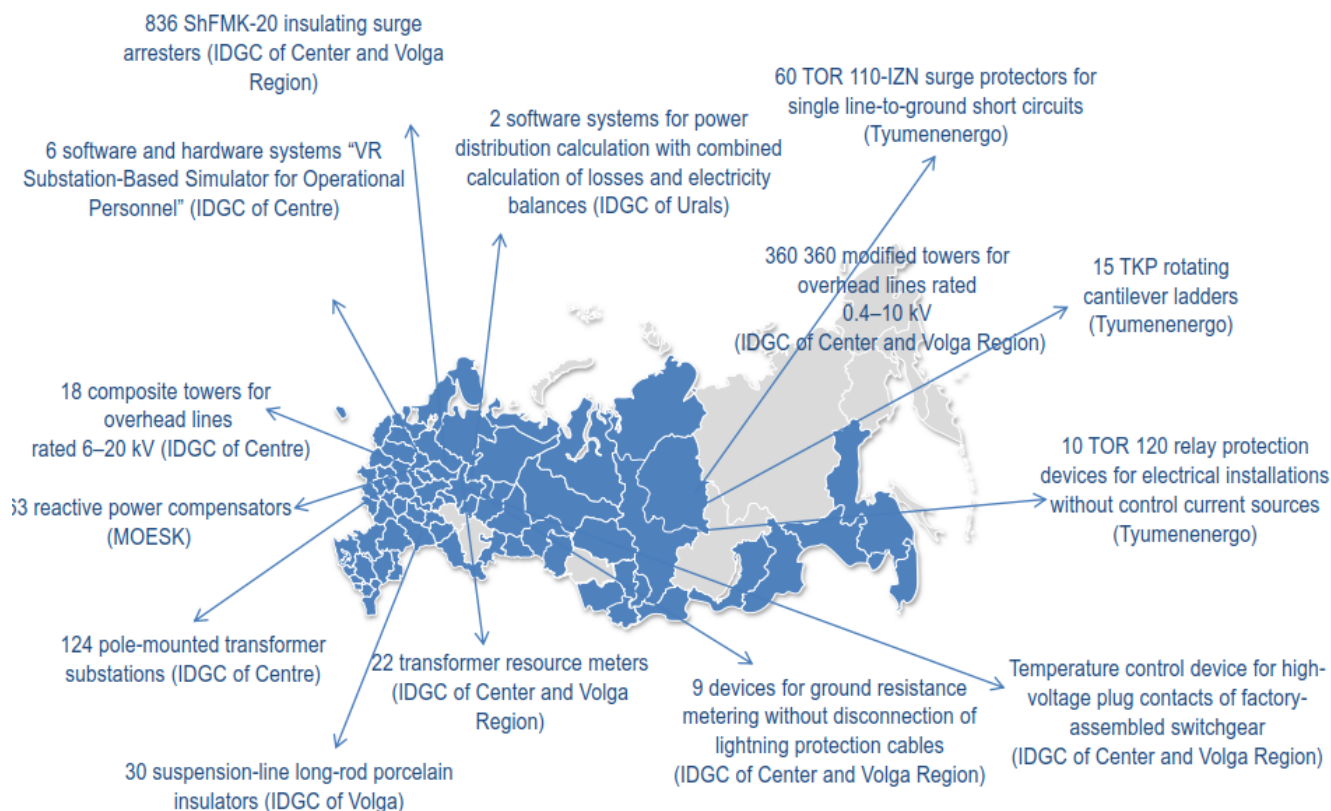
18 R&D deliverables are put into operation at the ROSSETI Group's electric grid facilities

10 R&D innovations were presented by the ROSSETI Group on the Innovation Podium of the Rugrids-Electro International Electric Power Forum

The program to improve the reliability of electric grid facilities in the area of lightning protection was developed

To implement innovative solutions, the Company keeps the Register,<sup>47</sup> which contained 134 innovative solutions at the end of 2016.

#### Main R&D Deliverables Put into Operation at Electric Grid Facilities in 2016



#### 4.5. Procurement

The share of imported products was reduced to 12% (compared with more than 40% in 2014).

In 2016, the Company carried out all planned measures under the Long-Term Development Program to ensure the implementation of market-based mechanisms and the principles of competitiveness, openness, and transparency in procurement procedures. Efforts to reduce costs in the area of procurement, including through the development of IT solutions (a single information space, including a single electronic trading floor) used for procurement, along with the use of a uniform methodology for procurement procedures, made it possible to achieve the planned effects: the increased share of competitive purchases and the decreased share of sole source purchases (96.9%/3.1%); an increase in the average number of bidders (4.6).

<sup>47</sup> The Register can be found on the corporate website at [http://www.rosseti.ru/investment/introduction\\_solutions/reestr\\_innovation/](http://www.rosseti.ru/investment/introduction_solutions/reestr_innovation/)

ROSSETI continued in 2016 to maintain a high level of transparency and openness of procurement procedures.

Based on the analysis of publicly available information for the period from July 1, 2015, to June 30, 2016, ROSSETI was ranked among the top three government-linked companies in the category “Guaranteed Transparency” in the National Procurement Transparency Rating of the National Association of E-Trade Participants.

We made extensive efforts to provide a wide range of small and medium-sized businesses with access to purchases of ROSSETI and its subsidiaries. For instance, the Company specified the minimum required package of documents submitted by bidders exclusively in electronic form, tightened control over the time of payment under contracts with due consideration to the financial condition of ordering entities, and uses prepayment for counterparties that participate in the partnership program between the Company and small and medium-sized businesses.

We will continue our efforts in this area in 2017.

Very truly yours,

Yuri Zafesov  
Director of the Procurement Department

TOTAL SHARE OF PURCHASES  
FROM SMALL AND MEDIUM-SIZED  
BUSINESSES

**58%**

AFTER PROCUREMENT  
PROCEDURES THAT MAY APPLY  
ONLY TO SMALL AND MEDIUM-  
SIZED BUSINESSES

**23%**

HIGHEST AWARD, “GUARANTEED  
TRANSPARENCY,” IN THE  
NATIONAL PROCUREMENT  
TRANSPARENCY RATING OF  
CONTRACTING PUBLIC ENTITIES

ROSSETI procurement procedures are in accordance with the requirements set forth in Russian laws and the Uniform Procurement Standard (Procurement Regulations) implemented in 2015.<sup>48</sup>

The Company annually makes purchases in large quantities. The main way to be efficient in this area is to use competitive mechanisms to select counterparties and determine the terms and conditions of transactions.

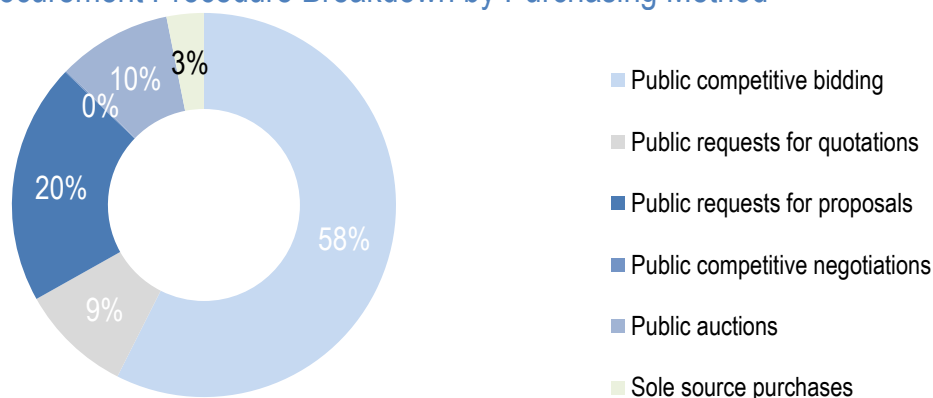
The following principles underlie ROSSETI's procurement management:

- proper and cost-effective use of funds;
- transparency;
- equality;
- fairness;
- nondiscrimination.

Information on all planned and current procurement procedures is posted on the official website of the Uniform Information System, the Company's website, and the Group's electronic trading floors.

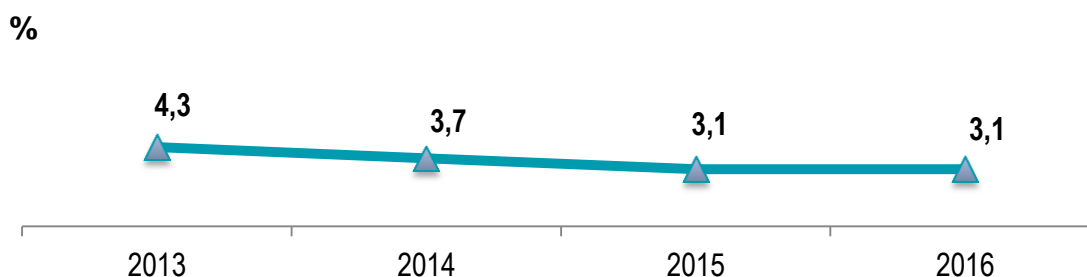
In 2016, the share of competitive purchases through electronic trading floors remained at 98.8%.

#### Regulated Procurement Procedure Breakdown by Purchasing Method



The Company works to reduce the share of sole source purchases. Compared with 2013, this indicator is down from 4.3% to 3.1% of the actual volume of purchases.

#### Reduction of Sole Source Purchases in 2013–2016

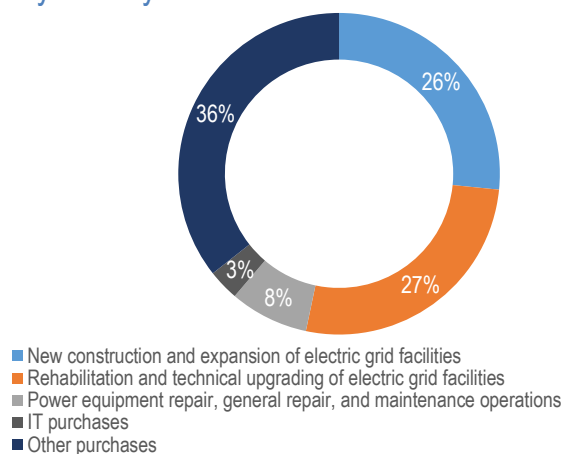


В 2016 году Группой компаний «Россети» проведено 33,4 тыс. закупочных процедур на общую сумму 360 млрд рублей без НДС.

<sup>48</sup> Published at zakupki.gov.ru and [http://www.rosseti.ru/custom/acts/edinij\\_standart.pdf](http://www.rosseti.ru/custom/acts/edinij_standart.pdf).



## Cost Breakdown by Activity



**THE TOTAL ECONOMIC EFFECT WITH SAVINGS ARISING FROM PROCUREMENT PLANNING REACHED 63.1 BILLION RUBLES, or 13%.**

The Company continued its work on entering into long-term (three-year) contracts and framework agreements with manufacturers of basic electrical equipment. As at the end of 2016, the ROSSETI Group had about 20,000 suppliers of electric grid equipment and contractors in 82 of 85 Russian regions.

As a result of work to provide small and medium-sized businesses with increased access to purchases, about 700 suppliers joined the partnership programs in 2016.

Changes in purchases from small and medium-sized businesses:

- purchases from small and medium-sized businesses totaled 157 billion rubles in 2016, which is almost three times as much as in 2015;
- the average number of bidders increased by 13% to 4.6.

**THE SHARE OF PURCHASES FROM SMALL AND MEDIUM-SIZED BUSINESSES AFTER PROCUREMENT PROCEDURES THAT MAY APPLY ONLY TO SMALL AND MEDIUM-SIZED BUSINESSES WAS 62.7 BILLION RUBLES, or 23%.**

In 2016, the Company attained the indicator of the share of purchases from small and medium-sized businesses as prescribed by Resolution of the Government of the Russian Federation No. 1352 of December 11, 2014.

### *Results of Implementing the Anti-Corruption Policy*

ROSSETI adheres to anti-corruption standards aimed at minimizing the risk that electric grid companies may be involved in corruption.

The anti-corruption activities of the ROSSETI Group are systematic, are integrated into strategic and operational management, and cover all of the Group's companies and divisions in the performance of their functions.

The basis of this work is the Anti-Corruption Policy, which is regularly improved.

In 2016, taking into account changes in anti-corruption legislation and the results of anti-corruption monitoring, we formulated a restated version of the Anti-Corruption Policy of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI.<sup>49</sup>

The principles and objectives set forth in the Anti-Corruption Policy fully correspond to advanced Russian and international anti-corruption standards.

As a party to the Anti-Corruption Charter of the Russian Business, ROSSETI proved compliance with the requirements of the Register of Reliable Partners.<sup>50</sup>

An important achievement in ensuring the transparency of the ROSSETI Group's business operations is the creation of the unique automated analysis and collection system for information on beneficiaries, which is a unified source of information about existing and potential counterparties. The system contains information about the counterparty's business reputation and makes it possible to consult the register of unscrupulous suppliers, assess business and reputational risks of a relationship with the counterparty, and preventively identify the signs of affiliation, conflicts of interest, pre-conflict situation, and other abuses.

To minimize corruption risks, the Company conducted control procedures in 2016, including as follows:

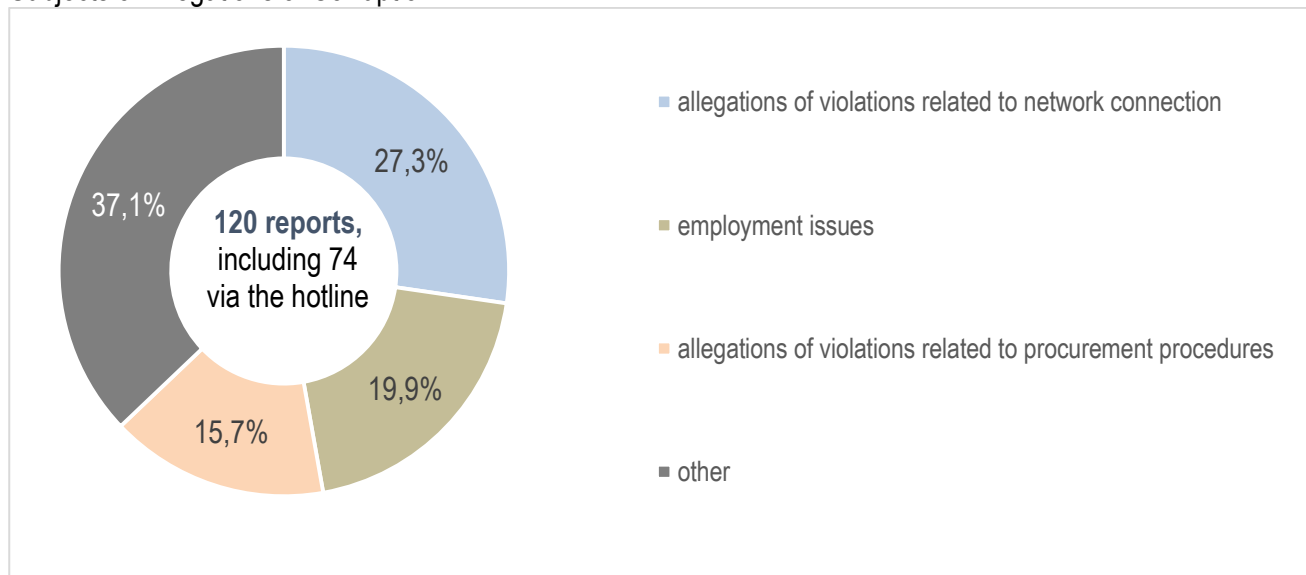
- anti-corruption examination of documents related to 338,759 contracts;
- over 25,400 examinations of employees and their family members for possible affiliation with counterparties;
- declaration of conflicts of interest by all employees of the ROSSETI Group and subsequent verification of declarations.<sup>51</sup>

To prevent fraud and corruption, make its business more transparent, and protect shareholder rights, the ROSSETI Group maintains the anti-corruption hotline.

**Allegations of corruption can be reported by:**

- **completing the contact form on the corporate website in the section “Anti-Corruption Policy” or via the banner on the main page**
- **calling the hotline at +7 495 664-8494**
- **sending a written message to: 121353, Moscow, ul. Belovezhskaya, 4**
- **holding a meeting in person**

**Subjects of Allegations of Corruption**



<sup>49</sup> Approved by the Board of Directors (Minutes of the Meeting No. 246 of December 5, 2016); available on the Company's website at <http://www.rosseti.ru/about/documents>.

<sup>50</sup> Certificate of inclusion on the Register of Reliable Partners (No. 01009-000 of December 30, 2016; valid for one year; subject to annual renewal).

<sup>51</sup> Includes initial declaration for employment, annual declaration (as of December 31 of the reporting year), and prompt declaration (within one workday after the date of occurrence/identification of a pre-conflict situation).

## IV. CORPORATE GOVERNANCE

### 5.1. Corporate Governance

*Introductory remarks from Yuri Goncharov, Deputy Director General for Corporate Governance*

ROSSETI's status as a public company and the Company's goals specified in the Strategy for the Development of the Electric Grid Sector of the Russian Federation raise requirements for the quality of corporate governance.

We strive to comply with advanced standards of corporate governance by gradually integrating the recommendations of the Corporate Governance Code and international best practices into the corporate governance system.

In 2016, we completed several large-scale projects to introduce the Corporate Governance Code recommended by the Bank of Russia. Specifically, we expanded the competence of the Board of Directors, formulated and approved the Regulations for the Corporate Secretary, a restated version of the Regulations for the Nomination and Remuneration Committee of the Board of Directors, elected new members of the Nomination and Remuneration Committee and the Audit Committee of the Board of Directors and other committees of the Board of Directors (3 out of 4 committees of the Board of Directors are headed by independent directors), organized work to improve the quality and completeness of information disclosed on the Company's corporate website about corporate governance, and made preparations for further improvements.

As a result of our work, ROSSETI's corporate governance was ranked by the Open Government among the top three practices.

For the first time, ROSSETI's corporate governance was evaluated by an independent expert and, based on the results of the evaluation, highly rated 7++ "Developed practice of corporate governance" in the national corporate governance rating.

The transparency and high level of disclosures made by the ROSSETI Group were recognized by the Moscow Exchange at the Annual Contest of Annual Reports.

On January 20, 2017, the Moscow Exchange decided to upgrade ordinary shares in ROSSETI to Quotation List Level 1, which is a factor contributing to an increase in the number of investors and creating the conditions for further growth in the liquidity of shares and market capitalization.

All our achievements prove a high level of corporate governance.

We are not complacent about our achievements, and we will continue to ensure the transparency and high level of disclosures and improve corporate governance with due consideration to changes in corporate legislation, the Listing Rules of the Moscow Exchange, and the recommendations of the Corporate Governance Code.

Very truly yours,

Yuri Goncharov  
Deputy Director General for Corporate Governance

ROSSETI gives particular attention to the quality of corporate governance because this determines the Company's reputation and appeal among investors. The Company builds the corporate governance system on compliance with Russian legal requirements, the Listing Rules of the Moscow Exchange and the London Stock Exchange, the recommendations of the Corporate Governance Code, international standards and global best practices in corporate governance.

ROSSETI is a government-linked company, and its controlling shareholder is the government; therefore, the corporate governance system should meet the requirements of federal executive authorities and comply with their methodological recommendations. The corporate governance system provides guaranteed protection for the rights of shareholders and investors and ensures fair treatment with respect to all shareholders in the exercise of their rights to participate in managing the Company.

## STATEMENT BY THE BOARD OF DIRECTORS ABOUT COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE <sup>52</sup>

Pursuant to Decree of the President of the Russian Federation No. 1567 of November 22, 2012, "On Joint Stock Company ROSSETI" and the Strategy for Development of the Electric Grid Sector of the Russian Federation, ROSSETI is formed as a single management company of the Russian electric grid sector.

The Company is managed in accordance with the directives issued by the Government of the Russian Federation under Resolution of the Government of the Russian Federation No. 738 of December 3, 2004, "On the Management of Federally Owned Shares in Joint-Stock Companies and on the Exercise of the Special Right to the Russian Federation's Participation in the Management of Joint-Stock Companies ('Golden Share')" and Ordinance of the Government of the Russian Federation of No. 91-r of January 23, 2003.

Pursuant to Instructions of the Government of the Russian Federation No. ISh-P13-5859 of July 31, 2014, ROSSETI is on the list of major government-linked companies that are given priority in introducing the principles and standards of the Corporate Governance Code. The Company continued in 2016 to introduce the recommendations of the Corporate Governance Code and corporate best practices into the Company's activities.

The implementation of measures to introduce the recommendations of the Corporate Governance Code in the 13 largest government-linked companies is monitored by the Open Government's experts. As stated in the report of the Working Group published on the website of the Open Government, ROSSETI carried out substantial work in this area in 2016: according to the experts, the Company ranked third among the companies evaluated as of August 22, 2016 (fifth as of March 24, 2016, and ninth as of January 29, 2016).

Additionally, ROSSETI invited independent external experts of the Russian Institute of Directors in 2016 to assess the Company's corporate governance. As a result, the Company was rated 7++ in the national corporate governance rating "Developed practice of corporate governance." According to the rating, if rated 7++, the Company complies with the requirements of the Russian laws on corporate governance and implements a considerable number of recommendations of the Russian Corporate Governance Code. The Company is exposed to low risks that it may lose owners in connection with the quality of corporate governance.

In 2017, the Company continues to improve corporate governance with due regard to the recommendations of the Bank of Russia's Corporate Governance Code and the Action Plan to Improve Corporate Governance Practices recommended by the Russian Institute of Directors when ROSSETI was assigned the corporate governance rating.

The Board of Directors of the Company hereby states that the Company is committed to constantly improving its corporate governance practices and intends to continue its work on introducing the key principles and recommendations of the Corporate Governance Code into its activities.

## 5.2. Achievements in Corporate Governance

ROSSETI continued in 2016 to introduce the principles and standards of the Corporate Governance Code recommended by the Bank of Russia into the ROSSETI Group's activities. For instance, work was done to improve the quality and completeness of information on corporate governance disclosed on the Company's corporate website:

- information concerning the members of the Board of Directors and the Management Board of the Company was updated and expanded in accordance with the recommendations of the Code;
- information concerning the Corporate Secretary was provided in accordance with the recommendations of the Code;

<sup>52</sup> Information about compliance with the Corporate Governance Code in accordance with the form provided in the Bank of Russia's Letter No. IN-06-52/8 of February 17, 2016, is contained in Appendix 10.7.

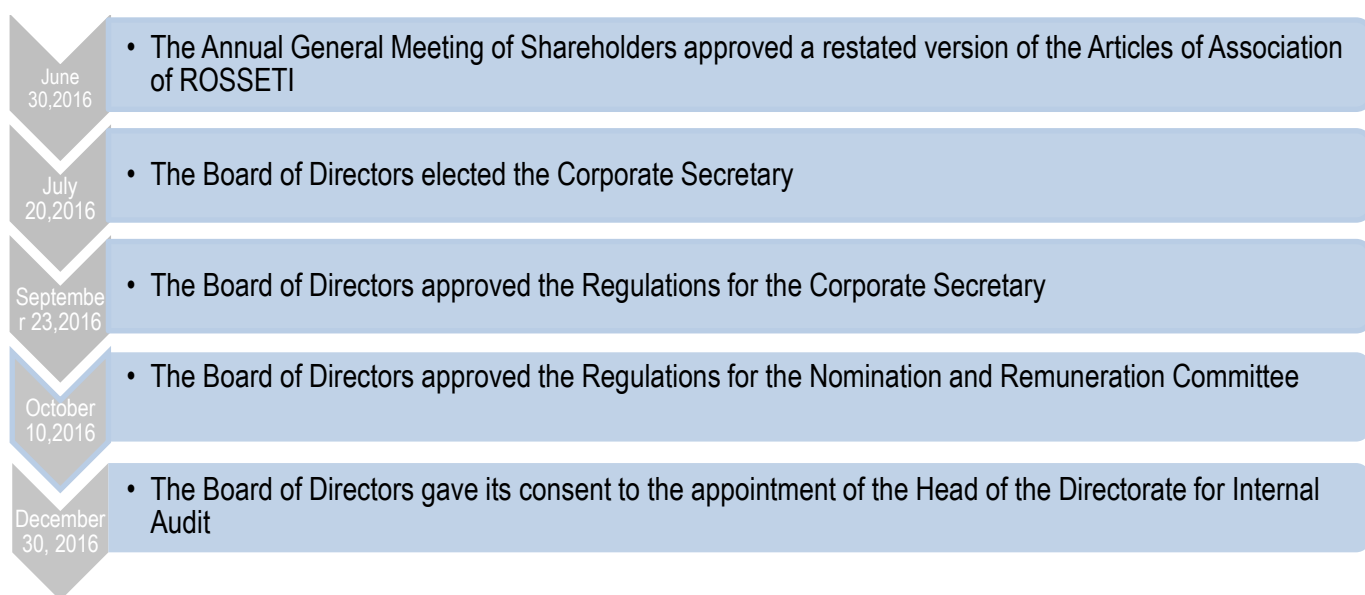
- information concerning the members of the committees of the Board of Directors of the Company was updated, specifying the chairmen and independent directors on the committees;
- the section of the corporate website about the share capital was refined in relation to the completeness of information concerning all shareholders owning more than 2% of ordinary shares in the Company, information concerning the quantity of shares held by corporate entities controlled by the Company, information concerning the persons that directly or indirectly own shares and/or control the votes attaching to shares and/or are beneficiaries with respect to the Company's shares with five or more percent of the Company's share capital or ordinary shares. Additionally, the website contains a statement by the Company's executive bodies that, other than disclosed by the Company, the Company does not have information that any shareholder owns a share of more than five percent;
- information concerning corporate social responsibility on the website was increased (specifically, the website discloses documents that govern social responsibility and the protection of stakeholders' interests: Personnel and Social Policy; Occupational Safety Policy; Policy on Society, Customer, and Government Relations; Regulations for the Procedure for Establishing and Using the Sponsorship and Charity Fund; Program of Partnership Between ROSSETI and Small and Medium-Sized Businesses; etc.).

The Company reveals important information about its activities even if the disclosure is not required by law.

Subject to the new requirements set forth in the Russian laws and the Corporate Governance Code and the requirements contained in the Listing Rules of Moscow Exchange (hereinafter, the "Listing Rules"), standard internal documents were formulated and approved by the Board of Directors for introduction into SDCs, such as the Regulations for the Corporate Secretary and the Regulations for Disclosing Material Information of ROSSETI Under Shareholder Laws and Securities Market Laws (Information Policy).

In 2016, measures were taken to ensure compliance by the ROSSETI Group with the requirements applicable to the internal audit division both with respect to the availability of the division and with respect to documents governing its activities<sup>53</sup>.

#### **Additionally, as part of the implementation of the Road Map, in 2016:**



Work is underway to prepare restated versions of the Company's Articles of Association and internal documents to give due consideration to changes in corporate legislation and the recommendations of the Code.

#### **CORPORATE GOVERNANCE RATING**

- In 2016, based on the analysis and assessment made by the Russian Institute of Directors in relation to corporate governance practices, ROSSETI was rated 7++ "Developed practice of corporate governance"
- Four components were assessed to assign the rating. Overview of the main positive aspects of the Company's corporate governance in these

<sup>53</sup> More detailed information about the internal audit division is contained in Section 7.3 of the Annual Report.

Shareholder rights	<ul style="list-style-type: none"> <li>• The rights attaching to the Company's shares are accounted for by a registrar with a good reputation and reliable technologies.</li> <li>• The Board of Directors exercises broadened powers related to the approval of material transactions.</li> <li>• External auditors are selected based on the results of public bidding procedures. Auditors are regularly engaged in rotation. External auditors do not provide consultancy services to the Company.</li> <li>• Information for the General Meeting of Shareholders is posted on the Company's corporate website; most recommendations of the Corporate Governance Code with respect to the provision of additional materials are implemented.</li> <li>• The Board of Directors approved the Regulations for Dividend Policy. For the first time, dividends were paid for the 1st quarter of 2016.</li> <li>• The Board of Directors approved the action plan (road map) to introduce the Russian Corporate Governance Code.</li> </ul>
Activities of management bodies	<ul style="list-style-type: none"> <li>• Four of the 15 members of the Board of Directors are independent directors.</li> <li>• In-person meetings of the Board of Directors are regular and prescheduled. The minutes of meetings of the Board of Directors specify the votes of each member of the Board of Directors on the agenda items. Dissenting opinions by members of the Board of Directors are attached to the minutes of meetings.</li> <li>• ROSSETI applies regulation for conflicts of interest of members of the Board of Directors and executive bodies.</li> <li>• The Board of Directors exercises broadened powers related to controlled entities of material importance.</li> <li>• The composition and functions of the Audit Committee and the Nomination and Remuneration Committee satisfy the Level 1 requirements contained in the Listing Rules of the Moscow Exchange and comply with the basic recommendations of the Corporate Governance Code.</li> <li>• The internal audit division is accountable to the Board of Directors.</li> <li>• The personnel reserve provides key executives.</li> <li>• The Company's staff includes the Corporate Secretary. The functions and powers of the Corporate Secretary comply with the recommendations of the Russian Corporate Governance Code.</li> </ul>
Disclosure	<ul style="list-style-type: none"> <li>• The Company has the Information Policy, updated by the Board of Directors in 2016.</li> <li>• In a timely manner, the Company publishes IFRS and RAS financial statements, including IFRS interim financial statements and management's explanations regarding accounts and records.</li> <li>• The Company discloses information about controlled entities.</li> <li>• The Company discloses information about whether or not external auditors provide consultancy services to the Company.</li> <li>• The Company has a division responsible for shareholder/investor relations. ROSSETI regularly holds meetings with shareholders and investors and makes presentations for them with the involvement of members of its management bodies.</li> <li>• The minutes of meetings of the Board of Directors are publicly available.</li> </ul>
Corporate social responsibility and sustainability	<ul style="list-style-type: none"> <li>• Documents governing corporate social responsibility policies are publicly available.</li> <li>• The Company carried out social projects for employees and participated in charitable activities.</li> <li>• The Company has the Code of Corporate Ethics.</li> <li>• The Company has the Anti-Corruption Policy.</li> <li>• The Company prepares social reports. Social reporting complies with the GRI Guidelines.</li> </ul>

After the reporting date, the Company's Board of Directors approved the Corporate Code of Ethics and Business Conduct of ROSSETI, the Environmental Policy of the Electric Grid Sector, a new version of the Regulations for the Uniform Technical Policy in the Electric Grids, and the Modernization (Renewal) Program for Electric Grid Facilities of ROSSETI's Subsidiaries and Dependent Companies.

### Performance evaluation of the Board of Directors

In order to introduce advanced instruments of corporate governance aimed at improving the operating efficiency of the Company and its management bodies, the Company ensured that performance evaluation of the Board of Directors was made in 2016.

Performance evaluation of the Board of Directors was also one of the Company's measures as part of implementing the road map to introduce the key provisions of the Russian Corporate Governance Code.<sup>55</sup>

<sup>54</sup> More detailed information about the components is contained in Section 10.1 of the Appendix to the Annual Report.

<sup>55</sup> Approved by the decision adopted by the Board of Directors on March 10, 2015 (Minutes of the Meeting No. 179).



Based on competitive bidding procedures, an independent external organization, namely the Russian Institute of Directors, was selected in the 4th quarter of 2016 to make evaluation.

Performance evaluation included: evaluation in relation to the Board of Directors, evaluation in relation to the committees of the Board of Directors, evaluation in relation to each member of the Board of Directors, evaluation in relation to the Chairman of the Board of Directors.

The evaluation made by the independent consultant used the PhICS approach, taking into account the factors determining a company's corporate governance model:

Ph is a company's development phase;

I is methods of investment financing;

C is shareholding control (shareholding structure);

S is a company's development strategy.

According to the results of performance evaluation of the Board of Directors, the composition of the management body is well balanced, the members of the Board of Directors have sufficient time for work on the Board of Directors and demonstrate activity and involvement, and the operating procedures of the Board of Directors are functional and operational.

The experts prepared recommendations for the further improvement of the activities of the Board of Directors and the committees of the Board of Directors. The performance evaluation report is scheduled for submission by an in-person meeting of the Board of Directors in the 2nd quarter of 2017 (to be preliminarily reviewed by the Nomination and Remuneration Committee).

In addition, the Company engaged an independent organization in 2016 to prepare the Technique for Self-Assessment in Relation to the Performance of the Board of Directors, Committees of the Board of Directors, and Members of the Board of Directors, which will be used for subsequent annual self-assessment in order to comply with the recommendations of the Code. It is planned that draft documents will be submitted for approval by the Board of Directors in the 2nd quarter of 2017 (to be preliminarily reviewed by the Nomination and Remuneration Committee).

## **Evaluation of Corporate Governance**

With a view to accomplishing the goals and objectives of internal audit as specified in the restated version of the Internal Audit Policy of ROSSETI, the internal audit division made an internal independent evaluation of the effectiveness of ROSSETI's corporate governance for 2016 in accordance with the Company's evaluation technique with respect to each of the six components of corporate governance and with respect to the corporate governance system as a whole.

## **Evaluation Components of Corporate Governance**



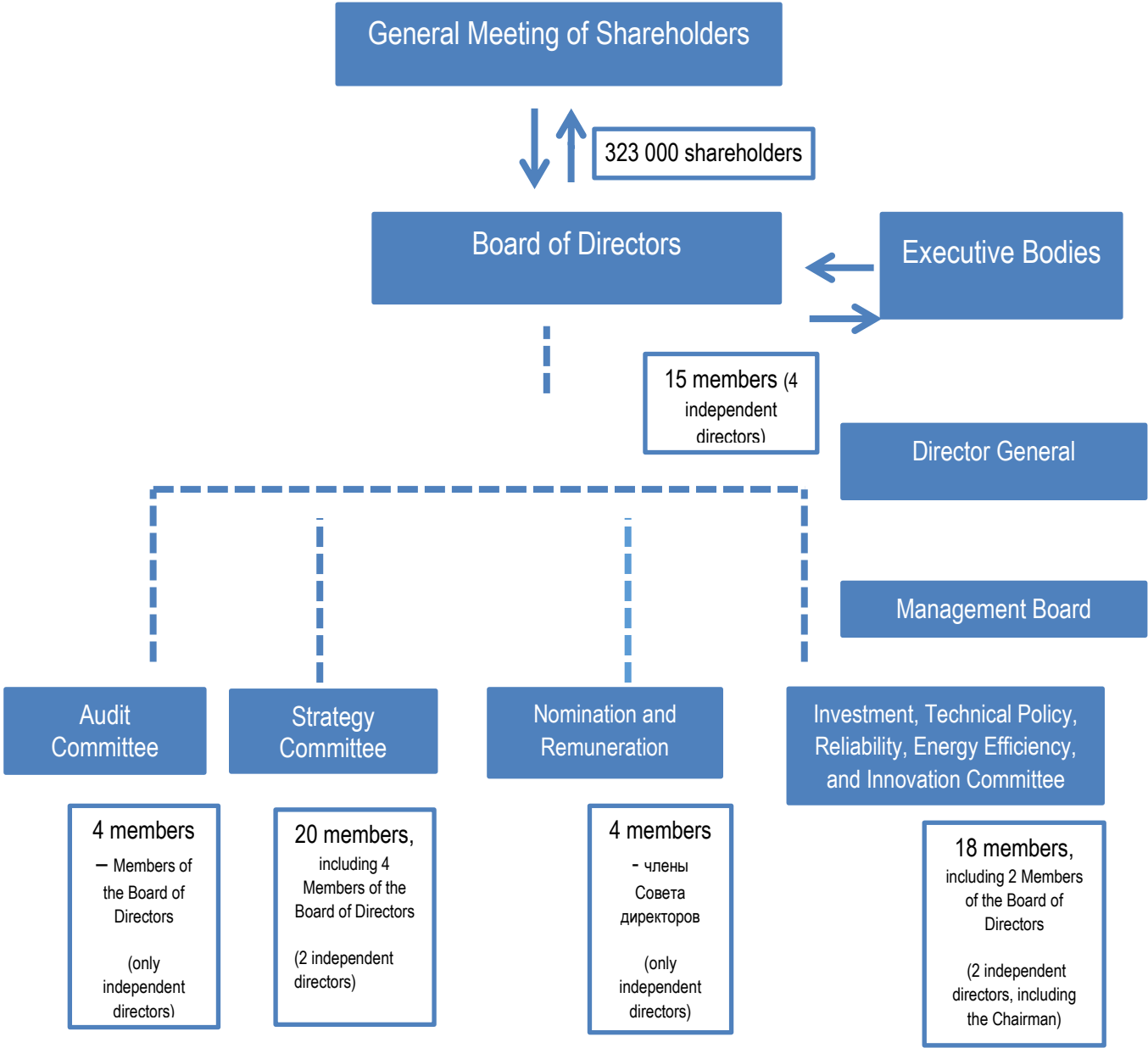
#### Evaluation results for each component:

Components	Number of Issues	Component Compliance Level (2016)
1. Shareholder rights	22	89%
2. Board of Directors	56	74%
3. Executive management	5	75%
4. Transparency and disclosure of information	15	96%
5. Risk management, internal control, and internal audit	16	97%
6. Corporate social responsibility, business ethics, and compliance	6	74%
7. Total evaluation	120	84%

The total result of evaluating the effectiveness of corporate governance for 2016 was 84%, which is 6 pp higher than the total evaluation for 2015 and corresponds to the criterion of “effective” corporate governance (80% to 100%).



5.3. Management Bodies



## 5.4. General Meeting of Shareholders

The highest management body of the Company is the General Meeting of Shareholders. The procedure for convening and holding the General Meeting of Shareholders of ROSSETI is governed by the Regulations for the General Meeting of Shareholders<sup>56</sup>.

Due to changes in legislation that make it possible to use online voting forms for general meetings of shareholders, the Company explores the possibilities of organizing this method of participation in meetings.<sup>57</sup>

The Annual General Meeting of Shareholders discussing the Company's performance in 2015 was held on June 30, 2016<sup>58</sup>.

### KEY DECISIONS

- for the first time in ROSSETI's dividend history, dividends on ordinary shares were paid for the 1st quarter of 2016
  - a restated version of the Articles of Association of ROSSETI was approved, taking into account all recent changes in legislation and clarifying the competence of the Board of Directors
  - approval was given to membership in WorldSkills Russia, the Russian official representative of the global hub for skills excellence and development in vocational, technological and service-oriented careers
- More detailed information is contained in Section 9.1 of the Annual Report*
- approval was given to membership in the Russian International Affairs Council, whose principal goals are to provide assistance in the Russian Federation in carrying out international studies, improving the process of training specialists in foreign policy and regional studies, and organizing the interaction between Russian scientific organizations and foreign expert and analytical centers on issues of international relations

The Company did not hold any extraordinary general meetings in the reporting period.

## 5.5. The Board of Directors

The Board of Directors acts in accordance with the laws of the Russian Federation, the Articles of Association, the Corporate Governance Code, and the Regulations for the Board of Directors of ROSSETI<sup>59</sup>.

Operating principles of the Board of Directors:



### Leadership

- The Board of Directors is the key element of the corporate system and is responsible for the strategic management of the Company, for its long-term sustained development, and for creating a corporate culture



### Efficiency

- The composition of the Board of Directors is well balanced. The Chairman of the Board of Directors ensures a straightforward and trust-based environment for meetings, constructive discussion on agenda items. For more detailed and effective discussion, most agenda items of meetings of the Board of Directors are subject to



### Control and Accountability of Management

- Communication with management is carried out on a regular basis; reports on the Company's performance

Meetings of the Board of Directors are held in accordance with the Action Plan and when necessary, but at least once every six weeks.

Procedure for Electing Members of the Board of Directors

<sup>56</sup> Approved by the Annual General Meeting of Shareholders on June 30, 2016, available on the Company's website <http://www.rosseti.ru/media/zakupki/oca.pdf>

<sup>57</sup> There are plans to amend the Articles of Association and the Regulations for the General Meeting of Shareholders of the Company to make it possible to send completed voting ballots to an email address determined by the Board of Directors and/or complete an online ballot form on the webpage also determined by the Board of Directors of the Company in the course of making preparations for the General Meeting of Shareholders.

<sup>58</sup> Information concerning all approved decisions can be found on the Company's website at <http://www.rosseti.ru/investors/common/results/>

<sup>59</sup> Approved by the decision adopted by the Annual General Meeting of Shareholders on June 30, 2016, available on the Company's website [http://www.rosseti.ru/investors/info/charter\\_and\\_internal\\_documents/](http://www.rosseti.ru/investors/info/charter_and_internal_documents/)

The Board of Directors consists of 15 members elected by the General Meeting of Shareholders at the suggestion of shareholders holding an aggregate of 2% of voting shares until the next Annual General Meeting of Shareholders. The General Meeting of Shareholders may decide on early termination of their powers only with regard to all members of the Board of Directors.

If any Annual General Meeting of Shareholders is not held within the period specified in the Articles of Association, the powers of the Company's Board of Directors terminate except for the powers to prepare, convene, and hold the Annual General Meeting of Shareholders.

Only an individual may be a member of the Board of Directors. The members of the Company's Management Board may not constitute more than one-fourth of the members of the Company's Board of Directors. Persons elected to the Board of Directors may be reelected for any number of successive terms.

#### Members of the Board of Directors

Two compositions of the Board of Directors acted during 2016.

**On June 30, 2016, the Annual General Meeting of Shareholders of the Company elected the following members of the Board of Directors of ROSSETI:**

1. Alexander Valentinovich Novak		Chairman of the Board of Directors
Year of birth	1971	
Nationality	Russian Federation	
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property	
Date of the first election to the Board of Directors of ROSSETI	June 30, 2015	
Position as of the time of election	Minister of Energy of the Russian Federation	
Education	Higher education	
	1993: Norilsk Industrial Institute, majoring in Economics and Management in Metallurgic Engineering	
	2009: Lomonosov Moscow State University, majoring in Management	
Positions held over the past 5 years:		

2008 – 2012: Deputy Minister of Finance of the Russian Federation  
 Since 2012: Minister of Energy of the Russian Federation

#### **Membership in management bodies of other corporate entities:**

2010–2012: Member of the Board of Directors, Rosspirtprom  
 2010–2012: Member of the Board of Directors, United Aircraft Corporation  
 2011–2013: Member of the Supervisory Board, State Company Russian Highways

Since 2012: Member of the Supervisory Board, ROSATOM  
 Since 2012: Member of the Board of Trustees, Siberian Federal University  
 Since 2015: Member of the Board of Directors, Rosneft  
 Since 2015: Member of the Board of Directors, GAZPROM  
 Since 2015: Member of the Board of Directors, Transneft  
 Since 2015: Member of the Board of Trustees, Gubkin Russian State University of Oil and Gas (National Research University)  
 Since 2015: Member of the Board of Trustees, Moscow Power Engineering Institute (National Research

University)

Since 2016: Chairman, Russian National Committee of the World Energy Council (RNC WEC)

Order of Honor, letters of honor from the President and Government of the Russian Federation. Honorary citizen of Norilsk from 2013.

Independence

- As of the time of nomination: representative of the Russian Federation
- In accordance with the Listing Rules the Corporate Governance Code: not independent

Shares held in the Company and the Company's SDCs, %

none

No transactions to acquire or transfer shares

## Member of the Board of Directors – Independent Director

2. Stanislav Olegovich Ashirov

Member of the Strategy Committee

Member of the Audit Committee

Member of the Nomination and Remuneration Committee

Year of birth

1973

Nationality

Russian Federation

Nominating shareholder (group of shareholders)

Group of shareholders ROSSETI, namely Gazprom Energoholding jointly with Gazprom Finance B.V.

Date of the first election to the Board of Directors of ROSSETI

June 28, 2013

Position as of the time of election

Director General, Mezhhregionenergosbyt

Higher education, Candidate of Science (Economics)

Education

1996: Sergo Ordzhonikidze State Academy of Management, majoring in Management; postgraduate studies at the State University of Management

2000 - State University of Management, postgraduate courses

## Positions held over the past 5 years:

Since 2008: Director General, Mezhhregionenergosbyt

Since 2008: Deputy Director General for Strategic Development (part-time), Tyumen Power Sales Company

Since 2016: Director General (part-time), Teplosbyt

## Membership in management bodies of other corporate entities:

2013 – 2014: Member of the Board of Directors, Siburenergomanagement

Since 2013: Member of the Board of Directors, Tyumen Power Sales Company

Since 2016: Member of the Board of Directors, Teplosbyt

Independence

- As of the time of nomination: independent, nonexecutive director
- In accordance with the Listing Rules the Corporate Governance Code: independent

Shares held in the Company and the Company's SDCs, %

none

No transactions to acquire or transfer shares
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3. Boris Ilyich Ayuyev	Member of the Board of Directors
Year of birth	1957
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 28, 2013
Position as of the time of election	Chairman of the Management Board, SO UPS
Education	higher education, Doctor of Science (Engineering)  1979: Ural Polytechnic Institute, majoring in Power Plants 2009: Novosibirsk State Technical University, postgraduate studies

**Positions held over the past 5 years:**

Since 2004: Chairman of the Management Board, SO UPS

**Membership in management bodies of other corporate entities:**

2004 – 2013: Member of the Board of Directors, FGC UES

2008 – 2013: Member of the Board of Directors, TSA and Financial Settling Center

2009 – 2015: Chairman, since 2015: Member of the Presidium, Russian National Committee of the Council on Large Electric Systems (CIGRE)

2012 – 2015: Member of the Board of Directors, RusHydro

Since 2004: Member of the Board of Directors, SO UPS

Since 2016: Member of the Board of Directors, Inter RAO

Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: representative of the Russian Federation</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> <li></li> </ul>
Shares held in the Company and the Company's SDCs,% (as of December 31, 2016)	<p>0.004531% of share capital of ROSSETI (0.004579% of ordinary shares)</p> <p>0.007115% of share capital of FGC UES (0.007115% of ordinary shares)</p>

No transactions to acquire or transfer shares

4. Oleg Gennadyevich Barkin	Member of the Board of Directors Member of the Strategy Committee
Year of birth	1975
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 30, 2014

Position as of the time of election	Deputy Chairman of the Board, Association «NP Market Council»
	Higher education, master's degree
Education	1998: Moscow Power Engineering Institute (Technical University), majoring in Applied Mechanics
	1999: Moscow Power Engineering Institute (Technical University), majoring in Financial Management
<b>Positions held over the past 5 years:</b>	
2008 – 2012: Member of the Board and Deputy Chairman of the Board for Market Development, NP Market Council	
2012 – 2014: Member of the Board, Deputy Chairman of the Board, NP Market Council	
Since 2014: Member of the Board, Deputy Chairman of the Board, Association «NP Market Council»	
Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: dependent, nonexecutive director (nominated as independent)</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> </ul>
Shares held in the Company and the Company's SDCs, %	none
No transactions to acquire or transfer shares	

5. Vasily Mikhailovich Belov	Member of the Board of Directors – Independent director
	Chairman of the Audit Committee
	Member of the Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee
	Member of the Nomination and Remuneration Committee
Year of birth	1981
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 30, 2015
Position as of the time of election	Senior Vice-President, Innovations development, Skolkovo Foundation
	Higher education, MBA
Education	2003: Faculty of Computational Mathematics and Cybernetics, Lomonosov Moscow State University
<b>Positions held over the past 5 years:</b>	
2011 – 2013: Executive Director of the Energy-Efficient Technology Cluster, Non-Profit Organization the Fund for Development of the Center for Elaboration and Commercialization of New Technologies	
Since 2013: Senior Vice-President, Innovations development, Skolkovo Foundation	
Since 2017: Director General, Skolkovo - Venture investments	
<b>Membership in management bodies of other corporate entities:</b>	
Since 2014: Member of the Board of Directors, FTC	
Since 2016: Member of the Board of Directors, Russian Venture Company	

Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: <a href="#">Independent Director</a></li> <li>In accordance with the Listing Rules the Corporate Governance Code: <a href="#">Independent Director</a></li> </ul>
Shares held in the Company and the Company's SDCs,%	none
No transactions to acquire or transfer shares	

<b>6. Oleg Mikhailovich Budargin</b>	<b>Member of the Board of Directors – Executive director</b>
Year of birth	1960
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 28, 2013
Position as of the time of election	Director General, ROSSETI
Education	higher education, Candidate of Science (Economics) 1982: Norilsk Industrial Institute, majoring in Industrial and Civil Construction

#### **Positions held over the past 5 years:**

2009 – 2013: Chairman of the Management Board, FGC UES  
 Since 2012: Chairman of the Management Board, since 2013: Director General, Member of the Board of Directors, ROSSETI

#### **Membership in management bodies of other corporate entities:**

2011 – 2015: Member of the Board of Directors, InterRAO  
 2012 – 2013: Chairman of the Board of Directors, Kubanenergo  
 2012 – 2013: Chairman of the Board of Directors, IDGC of Siberia  
 2014 – 2016: Member of the Board of Trustees, Primorsky Opera and Ballet Theater  
 2014 – 2016: Chairman of the Board of Directors, FTC

Since 2010 – Member of the Board of Directors / Member of the Board of Directors, FGC UES (2013-2015, 2016 – present)  
 Since 2010: Member of the Board of Trustees, member of the Scientific Council, Moscow Power Engineering Institute (National Research University)  
 Since 2011: Member of the Supervisory Board, Russian Regional Development Bank  
 Since 2011: Chairman of the Supervisory Board, Association of Solar Energy Enterprises Nonprofit Partnership  
 Since 2012: Member of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security of the Russian Federation  
 Since 2012: Chairman of the Board of Directors, MOESK  
 Since 2012: Member of the Supervisory Board, North-Caucasus Federal University  
 Since 2012: Member of the Board and Vice President for Environmental Issues, Association of Polar Explorers  
 Since 2013: Vice Chair, Responsibility for Regional Development, World Energy Council (WEC)  
 Since 2013: Member of the Board of Trustees, Mariinsky Theatre  
 Since 2016: Chairman of the Board of Directors, LENENERGO

Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: representative of the Russian Federation, executive director</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> </ul>
Shares held in the Company and the Company's SDCs,%	0.000569% of share capital of ROSSETI (0.00576% of ordinary shares)



7. Oleg Markovich Dubnov	Member of the Board of Directors – Independent Director	
	Chairman of the Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee	
	Member of the Strategy Committee	
	Member of the Nomination and Remuneration Committee	
	Member of the Audit Committee	
Year of birth	1971	
Nationality	Russian Federation	
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property	
Date of the first election to the Board of Directors of ROSSETI	June 30, 2016	
Position as of the time of election	Advisor to the Director General, Institute of Professional Directors	
Education	Higher education,	
	A. S. Griboedov Institute of International Law and Economics Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation (MGIMO)	
Positions held over the past 5 years:		
2011 – 2015: Member of the Management Board and Director for Energy, Polyus		
2015 – 2017: Advisor to the Director General, Institute of Professional Directors		
Since 2017: Vice-President and Executive Director of Energy Efficiency Cluster, Skolkovo Foundation		
Independence	<ul style="list-style-type: none"><li>As of the time of nomination: Independent Director</li><li>In accordance with the Listing Rules the Corporate Governance Code: not independent Independent Director</li></ul>	
Shares held in the Company and the Company's SDCs,%	none	
No transactions to acquire or transfer shares		

8. Alexander Sergeyevich Kalinin	Member of the Board of Directors – <b>Independent Director</b>	
	Chairman of the Nomination and Remuneration Committee	
	Member of the Audit Committee	
Year of birth	1966	
Nationality	Russian Federation	
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property	



Date of the first election to the Board of Directors of ROSSETI	June 30, 2014
Position as of the time of election	President, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business
Education	higher education 1989: Chelyabinsk Polytechnic Institute, majoring in Robotics 1991: Chelyabinsk Polytechnic Institute, postgraduate courses 1998: Ural Academy of Public Civil Service, majoring in Law
<b>Positions held over the past 5 years:</b>	
2003 -2014: Director, 2014-2015 (part-time) Granitny Bereg	
2012 -2014: First Vice President for Energy and Infrastructure, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business	
Since 2014: President, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business	
Since 2014: President, Association of Entrepreneurial Organizations of Russia (OPORA) Nonprofit Partnership	
<b>Membership in management bodies of other corporate entities:</b>	
2015 – 2016: Member of the Board of Directors, LENENERGO	
Since 2014: Member of the Board of Directors, SO UPS	
Since 2015: Member of the Board of Directors, Russian Small and Medium Business Corporation	
Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: <a href="#">independent</a></li> <li>In accordance with the Listing Rules the Corporate Governance Code: <a href="#">independent</a></li> </ul>
Shares held in the Company and the Company's SDCs,%	none
No transactions to acquire or transfer shares	

<a href="#">9. Vyacheslav Mikhailovich Kravchenko</a>	<a href="#">Member of the Board of Directors</a> <a href="#">Chairman of the Strategy Committee</a>
Year of birth	1967
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 30, 2014
Position as of the time of election	Deputy Minister of Energy of the Russian Federation
Education	higher education 1995: Lomonosov Moscow State University, majoring in Law
<b>Positions held over the past 5 years:</b>	
2010 – 2012: Chief Executive Officer, Member of the Board of Directors (2011-2012), United Energy Sales Company	
2012 – 2013: Chairman of the Management Board, NP Market Council	
Since 2013: Deputy Minister of Energy of the Russian Federation	
<b>Membership in management bodies of other corporate entities:</b>	
2007 -2014: Member of the Board of Directors (2012 – 2013 Chairman of the Board of Directors), TSA	
2008 – 2015: Member of the Board of Directors, Inter RAO	
2008 – 2015: Member of the Board of Directors, Financial Settling Center	
2009 – 2012: Member of the Board of Directors, Okha CHPP	

2011 – 2012: Member of the Board of Directors, Altaienergoby  
 2011 – 2012: Member of the Board of Directors, Saint-Petersburg Sale Company  
 2011 – 2012: Member of the Board of Directors, Saratovenergo  
 2011 – 2012: Member of the Board of Directors, Mosenergoby  
 2011 – 2012: Member of the Board of Directors, Tambov Power Sales Company  
 2012 – 2016: Member of the Board of Directors, FGC UES  
 2013 – 2014: Member of the Board of Directors, Russian Regional Development Bank

Since 2008: Member of the Supervisory Board, NP Market Council  
 Since 2012: Chairman of the Board of Directors, SO UPS  
 Since 2014: Member of the Board of Directors, MOESK  
 Since 2014: Member of the Board of Directors, RusHydro  
 Since 2016: Member of the Board of Directors, IDGC of Siberia

Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: representative of the Russian Federation</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> </ul>
Shares held in the Company and the Company's SDCs, %	none
No transactions to acquire or transfer shares	

<b>10. Andrey Yevgenyevich Murov</b>	<b>Member of the Board of Directors</b>
Year of birth	1970
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	28.06.2013
Position as of the time of election	Chairman of the Management Board, FGC UES Higher education, Doctor of Science (Economics)
Education	1993: Faculty of Law, Saint Petersburg State University  1998: professional retraining in Financial Management from the Interbranch Institute of Advanced Training and Retraining of Executive Personnel  2009: State University of Civil Aviation

#### **Positions held over the past 5 years:**

2007–2012: Director General, Pulkovo Airport  
 2012–2012: Deputy Director General/ July 2012–July 2012: Acting Director General/ 2012–2013: Executive Director, IDGC Holding (from April 4, 2013, JSC ROSSETI; from July 17, 2015, PJSC ROSSETI)  
 2012–2013: First Deputy Chairman of the Management Board/ Member of the Management Board, FGC UES  
 Since 2013: Chairman of the Management Board, FGC UES

#### **Membership in management bodies of other corporate entities:**

2012–2012: Member of the Board of Directors, IDGC of Urals

2012–2013: Chairman of the Board of Directors, IDGC of Volga  
 2012–2013: Chairman of the Board of Directors, IDGC of Centre  
 2012–2013: Member of the Board of Directors, Kubanenergo  
 2012–2013: Chairman of the Board of Directors, LENENERGO  
 2012–2013: Member of the Board of Directors, MOESK  
 2012–2014: Chairman of the Board of Directors, IDGC of North-West

Since 2013: Member of the Board of Directors, FGC UES  
 Since 2014: Member of the Board of Directors, Inter RAO  
 Since 2015: Member of the Board of Directors, SO UP  
 Since 2015: Chairman, Russian National Committee of the Council on Large Electric Systems (CIGRE)

Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: representative of the Russian Federation</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> </ul>
Shares held in the Company and the Company's SDCs, %	none
No transactions to acquire or transfer shares	

#### 11. Nikolay Radyevich Podguzov

#### Member of the Board of Directors

Year of birth	1974
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 30, 2016
Position as of the time of election	Deputy Minister of Economic Development of the Russian Federation
Education	<p>Higher education</p> <p>1997 - Saint Petersburg State Technical University, majoring in Applied Physics and Mathematics</p> <p>2000 - Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation (MGIMO), majoring in Global Economics</p>

#### Positions held over the past 5 years:

2010 – 2012: Unit Head, Division Head, VTB Capital  
 2012 – 2013: Deputy Department Director of Economic Affairs and Finance, Government Executive Office of the Russian Federation  
 Since 2013: Deputy Minister of Economic Development of the Russian Federation

#### Membership in management bodies of other corporate entities:

Since 2015: Member of the Board of Directors, Deposit Insurance Agency  
 Since 2015: Member of the Supervisory Board, Agency for Housing Mortgage Lending  
 Since 2016: Member of the Board of Directors, Russian Railways  
 Since 2016: Member of the Board of Directors, RusHydro

Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: representative of the Russian Federation</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> </ul>
Shares held in the Company and the Company's SDCs, %	none
No transactions to acquire or transfer shares	

<b>12. Mikhail Igorevich Poluboyarinov</b>	<b>Member of the Board of Directors</b>
Year of birth	1966
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 30, 2016
Position as of the time of election	First Deputy Chairman and member of the Board, State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank)
	higher education, Candidate of Science (Economics)
Education	1988 - Moscow Finance Institute, majoring in Finance and Credit 1998 –Plekhanov Russian Academy of Economics, postgraduate courses

#### **Positions held over the past 5 years:**

2011–2012: Deputy Chairman, State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank)

Since 2012: First Deputy Chairman and member of the Board, State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank)

#### **Membership in management bodies of other corporate entities:**

2010 – 2014: Member of the Board of Directors, Northern Caucasus Resorts

2011- 2015: Chairman of the Board of Directors, RusHydro

2013 – 2016: Member of the Board of Directors, Zarubezhneft

Since 2012 – Member of the Board of Directors, ZAO Leader

Since 2012 – Member of the Board of Directors, Sovcomflot

Since 2014 – Member of the Board of Directors, Rostelecom

Since 2015 – Member of the Supervisory Board, Agency for Housing Mortgage Lending

Independence	<ul style="list-style-type: none"> <li>Independence</li> </ul>
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Shares held in the Company and the Company's SDCs, %	Shares held in the Company and the Company's SDCs, %
No transactions to acquire or transfer shares	

<b>13. Nikolay Dmitryevich Rogalev</b>	<b>Member of the Board of Directors Member of the Strategy Committee</b>
Year of birth	1962
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 30, 2016
Position as of the time of election	Rector, Moscow Power Engineering Institute (National Research University)
Education	higher education, Doctor of Science (Engineering) 1985 – Moscow Power Engineering Institute, majoring in Thermal Power Plants
<b>Positions held over the past 5 years:</b>	
2001 – 2013: Department Head, Professor (part-time), Moscow Power Engineering Institute (National Research University)	
2013 – 2013: Acting Rector, Moscow Power Engineering Institute (National Research University)	
Since 2013: Rector, Moscow Power Engineering Institute (National Research University)	
Since 2015: Department Head, Professor (part-time), Moscow Power Engineering Institute (National Research University)	
Winner of the science and technology award of the Government of the Russian Federation; winner of the education award of the Government of the Russian Federation.	
Member of the Higher Attestation Commission of the Ministry of Education and Science of the Russian Federation;	
Member of the Public Council of the Ministry of Energy of the Russian Federation.	
<b>Membership in management bodies of other corporate entities:</b>	
2010 – 2012: Research Supervisor and First Deputy Director General, ZAO Escotech	
2012 – 2012: Deputy Manager, Energy without Borders Fund	
2014 – 2015: Member of the Board of Directors, OOO Gas Turbine Technologies Engineering Center	
2015- 2016: Member of the Board of Directors, Inter RAO	
Since 2016: Member of the Board of Directors, RusHydro	
Since 2016: President, Scientific and Technical Council of Unified Energy System Non-profit Partnership	
Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: representative of the Russian Federation</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> </ul>
Shares held in the Company and the Company's SDCs, %	none
No transactions to acquire or transfer shares	

<b>14. Sergey Ivanovich Shmatko</b>	<b>Member of the Board of Directors</b>
Year of birth	1966
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	the Russian Federation represented by the Federal Agency

shareholders)	for Management of Federal Property
Date of the first election to the Board of Directors of ROSSETI	June 28, 2013
Position as of the time of election	Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry
	higher education, Candidate of Science (Engineering)
	1990 – Faculty of Political Economics, Ural State University
Education	1992 - Faculty of Economics, University of Marburg
	2004 - Higher Academic Courses of the Military Academy of the General Staff of the Russian Armed Forces, majoring in Defense and Security Protection of the Russian Federation

#### **Positions held over the past 5 years:**

2008 – 2012: Minister of Energy of the Russian Federation  
Since 2012: Member of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security of the Russian Federation  
Since 2013: Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry

#### **Membership in management bodies of other corporate entities:**

2009 – 2012: Member of the Supervisory Board, ROSATOM  
2013 – 2016: Member of the Board of Directors, FGC UES  
2013 – 2014: Member of the Board of Directors, Transneft

Since 2013: Member of the Supervisory Board, Scientific and Technical Council of Unified Energy System Non-profit Partnership  
Since 2015: Chairman of the Board of Directors, Artpol Engineering  
Since 2015: Chairman of the Board of Directors, Atommasheexport

Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: representative of the Russian Federation</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> </ul>
Shares held in the Company and the Company's SDCs, %	none
No transactions to acquire or transfer shares	

<b>15. Nikolay Grigoryevich Shulginov</b>	<b>Member of the Board of Directors</b>
Year of birth	1951
Nationality	Russian Federation
Nominating shareholder (group of shareholders)	Group of shareholders ROSSETI, namely Gazprom Energoholding jointly with Gazprom Finance B.V.
Date of the first election to the Board of Directors of ROSSETI	June 30, 2016
Position as of the time of election	Chairman of the Management Board and General Director,

	RusHydro
Education	higher education, Candidate of Science (Engineering) 1973 - Sergo Ordzhonikidze Novocherkassk Polytechnic Institute, majoring in Industrial and Urban Electricity Supply
	2007 – North-Caucasus State Technical University, postgraduate courses
<b>Positions held over the past 5 years:</b>	
2009 – 2015: First Deputy Chairman of the Management Board, SO UPS	
Since 2015: Chairman of the Management Board and General Director, RusHydro	
<b>Membership in management bodies of other corporate entities:</b>	
2008 – 2012: Member of the Board of Directors, Mosenergo	
2013 – 2016: Member of the Board of Directors, FGC UES	
Since 2008: Member of the Supervisory Board, Scientific and Technical Council of Unified Energy System Non-profit Partnership	
Since 2015: Member of the Board of Trustees, Moscow Power Engineering Institute (National Research University)	
Since 2016: Member of the Supervisory Board, NP Market Council	
Since 2016: Member of the Management Board, Russian Union of Industrialists and Entrepreneurs Russian Association of Employers	
Since 2016: Member of the Supervisory Board, Association Hydropower of Russia	
Since 2016: Member of the Board of Directors, RAO ES EAST	
Since 2016: Member of the Board of Trustees, Siberian Federal University	
Independence	<ul style="list-style-type: none"> <li>As of the time of nomination: representative of the Russian Federation</li> <li>In accordance with the Listing Rules the Corporate Governance Code: not independent</li> </ul>
Shares held in the Company and the Company's SDCs, %	none
No transactions to acquire or transfer shares	

The members elected by the Annual General Meeting of Shareholders of the Company on June 30, 2015, served until June 30, 2016:

No	Name	Position (as of the time of election)
1	Alexander Valentinovich Novak <b>Chairman of the Board of Directors</b>	Minister of Energy of the Russian Federation Year of birth: 1971 Education: higher education Shares held in the Company and the Company's SDCs: N/A
2	Stanislav Olegovich Ashirov	Director General, Mezhhregionenergosbyt Year of birth: 1973 Education: higher education, Candidate of Science (Economics) Shares held in the Company and the Company's SDCs: N/A
3	Boris Ilyich Ayuyev	Chairman of the Management Board, «SO UPS», JSC Year of birth: 1957 Education: higher education  Shares held in the Company and the Company's SDCs: 0.004531% of share capital of



		ROSSETI (0.004579% of ordinary shares) <sup>60</sup> and 0.007115% of share capital of «FGC UES», (0.007115% of ordinary shares)
		Deputy Chairman of the Board, Association «NP Market Council»
4	Oleg Gennadyevich Barkin	Year of birth: 1975 Education: higher education
		Shares held in the Company and the Company's SDCs: N/A
5	Vasily Mikhailovich Belov	Senior Vice-President for Innovations, Non-Profit Organization the Fund for Development of the Center for Elaboration and Commercialization of New Technologies Year of birth: 1981 Education: higher education, MBA
		Shares held in the Company and the Company's SDCs: N/A
		Director General, ROSSETI
6	Oleg Mikhailovich Budargin	Year of birth: 1960 Education: higher education, Candidate of Science (Economics)
		Shares held in the Company and the Company's SDCs: 0.000569% of share capital of ROSSETI (0.00576% of ordinary shares) <sup>61</sup> and 0.00064% of share capital of «FGC UES» (0.00064% of ordinary shares).
		President, NP STC UPS 1936-2015
		Education: higher education, Associate Member of the Russian Academy of Sciences, Professor, Doctor of Science (Engineering)
		Shares held in the Company and the Company's SDCs: 0.0031% of share capital of ROSSETI (0.00314% of ordinary shares)
		0.004537% of share capital of FGC UES (0.004537% of ordinary shares)
		0.001091% of share capital of IDGC of Northern Caucasus (0.001091% of ordinary shares)
7	Anatoly Fyodorovich Dyakov <sup>62</sup>	0.00172% of share capital of IDGC of North-West (0.00172% of ordinary shares)
		0.012852% of share capital of IDGC of Siberia (0.012852% of ordinary shares)
		0.025509% of share capital of IDGC of South (0.025509% of ordinary shares)
		0.008024% of share capital of IDGC of Urals (0.008024% of ordinary shares)
		0.005796% of share capital of MOESK (0.005796% of ordinary shares)
		0.023% of share capital of LENENERGO (0.024% of ordinary shares)
		0.001917% of share capital of IDGC of Center and Volga Region (0.001917% of ordinary shares)

<sup>60</sup> По состоянию на 31.12.2016

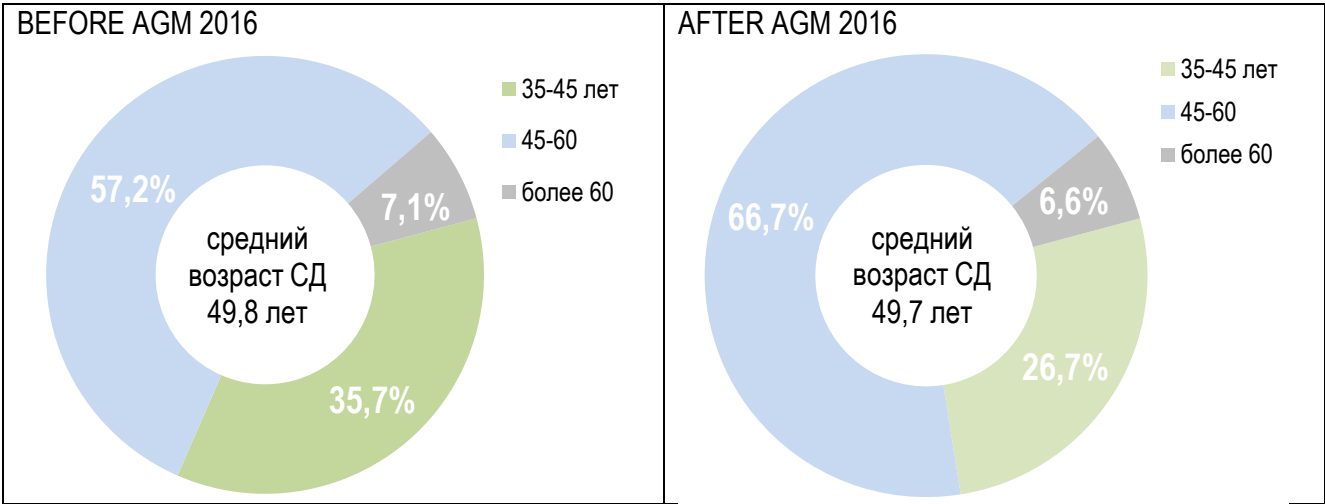
<sup>61</sup> По состоянию на 31.12.2016

<sup>62</sup> 12.08.2015 член Совета директоров ПАО «Россети» Дьяков А.Ф. ушел из жизни.



		0.020182% of share capital of Dagestan Energy Supply Company (0.020182% of ordinary shares)
		0.04404% of share capital of NWEMC (0.05159% of ordinary shares)
		Deputy Minister of Finance of the Russian Federation
8	Andrey Yurievich Ivanov	Year of birth: 1975 Education: higher education
		Shares held in the Company and the Company's SDCs: N/A
9	Alexander Sergeyevich Kalinin <i>Independent Director</i>	President of OPORA RUSSIA All-Russian Public Organization of Small and Medium Business  Year of birth: 1966 Education: higher education, Engineering Economics Shares held in the Company and the Company's SDCs: N/A
		Academician, Russian Academy of Sciences
10	Alexei Aleksandrovich Makarov <i>Independent Director</i>	Year of birth: 1937 Education: higher education, Doctor of Science (Economics), Academician, Russian Academy of Sciences
		Shares held in the Company and the Company's SDCs: N/A
		Representative of the Russian Federation on the Board of Directors of the European Bank for Reconstruction and Development
11	Denis Stanislavovich Morozov	Year of birth: 1973 Education: higher education, Candidate of Science (Economics)
		Shares held in the Company and the Company's SDCs: N/A
		Chairman of the Management Board, «FGC UES»
12	Andrey Yevgenyevich Murov	Year of birth: 1970 Education: higher education, Doctor of Science (Economics)
		Shares held in the Company and the Company's SDCs: N/A
13	Oleg Romanovich Fyodorov	Member of the Supervisory Board, ALROSA Year of birth: 1968 Education: higher education Shares held in the Company and the Company's SDCs: N/A
		Vice President for Energy, Industrial Safety, Occupational Safety and Environmental Affairs, Rosneft
14	Andrey Nikolayevich Shishkin	Year of birth: 1959 Education: higher education, Candidate of Science (Economics)
		Shares held in the Company and the Company's SDCs: N/A
		Member of Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security of the Russian Federation
15	Sergey Ivanovich Shmatko	Year of birth: 1966 Education: higher education, Candidate of Science (Engineering)
		Shares held in the Company and the Company's SDCs: N/A

BOARD OF DIRECTORS BY AGE:



## Competencies and Sectoral Experience of the Board of Directors (состав, действующий с 30.06.2016 до настоящего времени)

Members of the Board of Directors	Length of Service on the Board of Directors	Length of Service in the Industry	Key Competencies				
			Strategy	Finance and Audut	Law	Corporate Governance	Academic Degree
Alexander Valentinovich Novak	2 years	4 years	V	V	V	V	
Stanislav Olegovich Ashirov	3 years	10 years	V	V	V	V	Candidate of Science (Economics)
Boris Ilyich Ayuyev	4 years	35 years	V	V	V	V	Doctor of Science (Engineering)
Oleg Gennadyevich Barkin	3 years	15 years	V	V	V	V	Master's Degree
Vasily Mikhailovich Belov	2 years	7 years	V	V	V	V	MBA
Oleg Mikhailovich Budargin	4 years	7 years	V	V	V	V	Candidate of Science (Economics)
Oleg Markovich Dubnov	1 year	5 years	V	V	V	V	
Alexander Sergeyevich Kalinin	3 years	4 years	V	V	V	V	
Vyacheslav Mikhailovich Kravchenko	7 years	20 years	V	V	V	V	
Andrey Yevgenyevich Murov	4 years	4 years	V	V	V	V	Doctor of Science (Economics)
Nikolay Radyevich Podguzov	1 year	1 year	V	V	V	V	
Mikhail Igorevich Poluboyarinov	1 year	5 years	V	V	V	V	Candidate of Science (Economics)
Nikolay Dmitryevich Rogalev	1 year	30 years	V	V	V	V	Doctor of Science (Engineering)
Sergey Ivanovich Shmatko	4 years	10 years	V	V	V	V	Candidate of Science (Engineering)
Nikolay Grigoryevich Shulginov	1 year	40 years	V	V	V	V	Candidate of Science (Engineering)

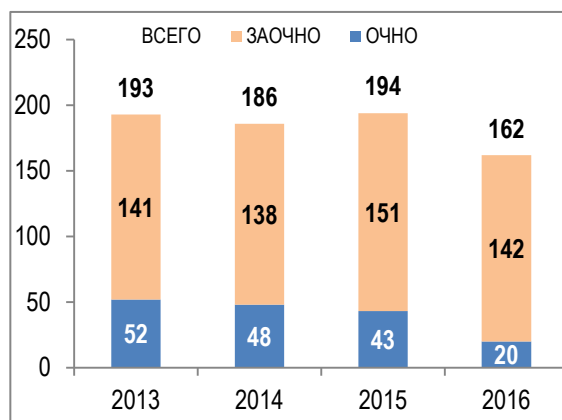
### IN THE REPORTING PERIOD, NONE OF THE MEMBERS OF THE BOARD OF DIRECTORS OF ROSSETI:

- was a relative of any persons that were members of the management bodies and/or bodies controlling ROSSETI's financial and economic activities;
- was subject to any information concerning the imposition of administrative sanctions against the individual for the violations of law in the area of finance, taxes and dues, securities market or criminal sanctions (criminal record) for crimes in the field of economics or offences against the state;
- was subject to any information concerning the positions in the management bodies of business entities when bankruptcy proceedings were initiated against the above-mentioned entities and/or one of the bankruptcy procedures provided for by the insolvency (bankruptcy) laws of the Russian Federation was introduced;
- had any conflict of interest with the Company's executive bodies.

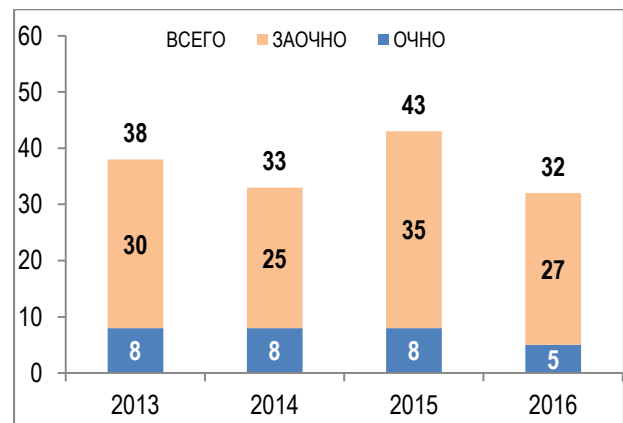
## Liability Insurance for Members of the Board of Directors

ROSSETI takes out liability insurance for directors and officers to indemnify the Company's shareholders, creditors, and other persons for their damage (losses) caused by the mistakes and unintentional acts (omission to act) on the part of such directors and officers while they perform their managerial activities.

### Issues considered by meetings of the Board of Directors



### Meetings held by the Board of Directors<sup>73</sup>



Administration of SDCs with respect to key issues of their operations	<ul style="list-style-type: none"> <li>• Development plans and dividends of subsidiaries of PJSC ROSSETI.</li> <li>• Integration of FGC UES, PJSC into the system of the Common Treasury of the ROSSETI Group.</li> <li>• Results of the ongoing monitoring of the financial and economic condition of subsidiaries and dependent companies of PJSC ROSSETI for 2015. Forecast for 2016–2018 (taking account of the anticipated loan debt burden and preset tariff growth rates). Review of the report on progress in measures taken by subsidiaries and dependent companies of PJSC ROSSETI to reduce receivables for electricity distribution services for the 4th quarter of 2015.</li> <li>• Consideration of the performance results of the Common Treasury of the ROSSETI Group and its operating efficiency for the ROSSETI Group and for PJSC ROSSETI.</li> </ul>
Strategic planning and development	<ul style="list-style-type: none"> <li>• Review of the report on the implementation of the Long-Term Development Program of PJSC ROSSETI for the 1st half of 2016.</li> <li>• Approval of the Unified Program of Energy Conservation and Energy Efficiency Enhancement of PJSC ROSSETI.</li> </ul>
Finance, investment, and R&D	<ul style="list-style-type: none"> <li>• Approval of the Innovative Development Program of PJSC ROSSETI for 2016–2020 with Long-Term Plans Until 2025.</li> <li>• Approval of the Procedure for Recording the Investment Projects Included on the List of Investment Projects.</li> <li>• PJSC ROSSETI's holding a stake in OOO Infrastructure Investments-3.</li> <li>• Review of the draft of the consolidated investment program of PJSC ROSSETI for 2016 and for 2017–2021.</li> </ul>
Budget and monitoring of SDCs' financial and economic condition	<ul style="list-style-type: none"> <li>• Diversification of financing sources by means of possible borrowings.</li> <li>• Formulation (updating) of the plans (programs) to reduce operating expenses by 10 percent.</li> <li>• Review of the RAS- and IFRS-based consolidated business plan of the ROSSETI Group for 2016.</li> </ul>
Procurement (including the Annual Comprehensive Procurement Program, contracts)	<ul style="list-style-type: none"> <li>• Approval of the Procurement Plan of PJSC ROSSETI for 2016</li> <li>• Purchases of domestically made competitive software necessary for PJSC ROSSETI's activities</li> </ul>
Key Performance Indicators (KPI)	<ul style="list-style-type: none"> <li>• Implementation of instructions issued by the Government of the Russian Federation as related to the approval of the list of annual key performance</li> <li>• indicators (KPI). Approval of the Technique for Calculating and Evaluating the Key Performance Indicators (KPI) of the Director General of PJSC ROSSETI and the Sole Executive Bodies of Subsidiaries and Dependent Companies of PJSC ROSSETI as applicable from 2017.</li> </ul>
Approval of internal documents	<ul style="list-style-type: none"> <li>• Approval of the Information Policy (Regulations for Disclosing Material Information of PJSC ROSSETI Under Shareholder Laws and Securities Market Laws)</li> <li>• Approval of the Regulations for the Corporate Secretary of PJSC</li> </ul>

<sup>63</sup>Более подробный перечень вопросов представлен в приложении к годовому отчету

	<p>ROSSETI.</p> <ul style="list-style-type: none"> <li>Approval of a restated version of the Anti-Corruption Policy of PJSC ROSSETI and Subsidiaries and Dependent Companies of PJSC ROSSETI.</li> <li>Approval of a restated version of the Regulations for the Nomination and Remuneration Committee of the Board of Directors of PJSC ROSSETI.</li> </ul>
Audit, control, and risks	<ul style="list-style-type: none"> <li>External independent cost audit of the Company and the formulation of the action plan for cost optimization for 2016 and for the medium term.</li> <li>Review of the internal auditor's report on the effectiveness evaluation of the internal control and risk management system and corporate governance of PJSC ROSSETI and subsidiaries and dependent companies of PJSC ROSSETI</li> </ul>

#### Отчет Совета директоров ПАО «Россети» о результатах развития по приоритетным направлениям деятельности

В 2016 году Совет директоров Общества продолжил работу по развитию Общества по приоритетными направлениями деятельности, определенным в предыдущие периоды.

Направление деятельности, определенное решением Совета директоров в качестве приоритетного	Реквизиты протокола Совета директоров по определению направления в качестве приоритетного	Рассмотрение в 2016 году	Оценка Совета директоров развития Общества по приоритетным направлениям деятельности
Создание Единого казначейства Общества, его дочерних и зависимых компаний	от 10.09.2014 №164	1. Integration of FGC UES, PJSC into the system of the Common Treasury of the ROSSETI Group. (протокол от 29.06.2016 № 234)	Совет директоров утвердил схему интеграции ПАО «ФСК ЕЭС» в Единое казначейство Группы компаний Россети на правах мониторинга процессов планирования и исполнения платежей ПАО «ФСК ЕЭС»
		2. Consideration of the performance results of the Common Treasury of the ROSSETI Group and its operating efficiency for the ROSSETI Group and for PJSC ROSSETI.	Советом директоров Общества принят к сведению отчет менеджмента о результатах работы Единого казначейства Группы компаний Россети, а также отмечена результативность его деятельности для ПАО «Россети» и Группы компаний Россети

Developing and Improving the Internal Control System of PJSC ROSSETI and Subsidiaries and Dependent Companies of PJSC ROSSETI	от 10.02.2014 №143	Review of the Annual Report «On the Performance Results for the Schedule (Road Map) for Implementing the Strategy for Developing and Improving the Internal Control System of PJSC ROSSETI and Subsidiaries and Dependent Companies of PJSC ROSSETI.» (протокол от 29.06.2016 №234)	Советом директоров отмечено соответствие лучшим мировым практикам проведение регулярной оценки эффективности системы внутреннего контроля и управления рисками. Наиболее широко используемый механизм реализации системы внутреннего контроля и управления рисками разработан Комитетом организаций-спонсоров Комиссии Тредуэй (COSO). COSO Enterprise Risk Management (2004) и COSO Internal Control (2013) используются во многих крупных компаниях в России и за рубежом.  <u>Более подробная информация о развитии и совершенствовании системы внутреннего контроля ПАО «Россети» и ДЗО ПАО «Россети» приведена в разделе VI. «Система внутреннего контроля и управления рисками» Годового отчета.</u>
Реализация инвестиционного проекта «Строительство интеллектуальных сетей»	от 19.12.2014 №174	PJSC ROSSETI's holding a stake in ООО Infrastructure Investments-3 (протокол от 29.06.2016 №234)	В рамках реализации инвестиционного проекта «Строительство «интеллектуальных сетей» Советом директоров одобрено заключение опционных контрактов на право приобретения долей в проектной компании ООО «Инфраструктурные инвестиции-3» в целях обеспечения требуемого уровня защищенности и сохранности средств Фонда национального благосостояния и инвесторов.

## 5.6. Committees of the Board of Directors of ROSSETI

In order to make decisions in the most effective manner and preliminarily consider the most important issues falling within its competence, the Board of Directors set up 4 Committees

The members, competence, and working procedure of the Committees of the Board of Directors of the Company are determined by the Board of Directors and set forth in the Committee Regulations approved by the Board of Directors in accordance with the applicable laws.

All the Committees include independent directors. Audit Committee Nomination and Remuneration Committee are completely composed of independent directors.

### Strategy Committee<sup>64</sup>

<sup>64</sup> Acts in accordance with the Committee Regulations approved by the Board of Directors of ROSSETI on October 21, 2013 (Minutes of the Meeting No. 137 as amended by the decisions adopted by the Board of Directors of ROSSETI on September 17, 2014 (Minutes of

The principal objective of the Strategy Committee is to Ключевая задача Комитета по стратегии состоит в обеспечении эффективной работы Совета директоров в области стратегического планирования и развития, приоритетных направлений деятельности Компании.

## MEMBERS OF THE STRATEGY COMMITTEE

The current members of the Committee were appointed by the decisions of the Board of Directors of September 23, 2016<sup>65</sup> and of October 10, 2016<sup>66</sup>:

NO.	NAME	POSITION AS OF THE TIME OF ELECTION
1.	Vyacheslav Mikhailovich Kravchenko Chairman of the Committee	Member of the Board of Directors, ROSSETI Deputy Minister of Energy of the Russian Federation
2.	Stanislav Olegovich Ashirov Independent director	Member of the Board of Directors, ROSSETI Director General, AO Mezhhregionenergosbyt
3.	Oleg Gennadyevich Barkin	Member of the Board of Directors, ROSSETI Deputy Chairman of the Board, NP Market Council
4.	Roman Nikolaevich Berdnikov	Member of the Management Board and First Deputy Director General for Technical Policy, ROSSETI
5.	Andrey Aleksandrovich Dyomin	Member of the Management Board, ROSSETI
6.	Oleg Markovich Dubnov Independent director	Member of the Board of Directors, ROSSETI Advisor to the Director General, Institute of Professional Directors
7.	Vasily Nikolayevich Kiselyov	Chairman of the Council of Customers of the Government Commission on the Development of the Electric Power Industry
8.	Mikhail Aleksandrovich Kolesnikov	Vice President, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business
9.	Andrey Vyacheslavovich Logatkin	Advisor to the Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry
10.	Viktor Viktorovich Mamin	Director of the of the Department for Corporate Governance, Price Conditions and Auditing in Fuel and Energy Industry Branches, Ministry of Energy of the Russian Federation
11.	Vasily Vladislavovich Nikonov	Director of the Energy Department, Rosneft
12.	Yevgeny Aleksandrovich Olkhovich	Deputy Director of the Department for State Regulation of Tariffs, Infrastructural Reforms and Energy Efficiency, Ministry of Economic Development of the Russian Federation
13.	Sergey Anatolyevich Pavlushko	Deputy Chairman of the Management Board, SO UPS
14.	Dzhordzh Ilyich Rizhinashvili	Member of the Management Board and First Deputy Director General, RusHydro
15.	Nikolay Dmitryevich Rogalev	Member of the Board of Directors, ROSSETI Rector, Moscow Power Engineering Institute (National Research University)
16.	Pavel Nikolayevich Snikkars	Director of the Electric Power Industry Development Department, Ministry of Energy of the Russian Federation

the Meeting No. 165), October 6, 2014 (Minutes of the Meeting No. 166), November 25, 2014 (Minutes of the Meeting No. 171), and August 5, 2015 (Minutes of the Meeting No. 198);

<sup>65</sup> Minutes of the Meeting No. 240

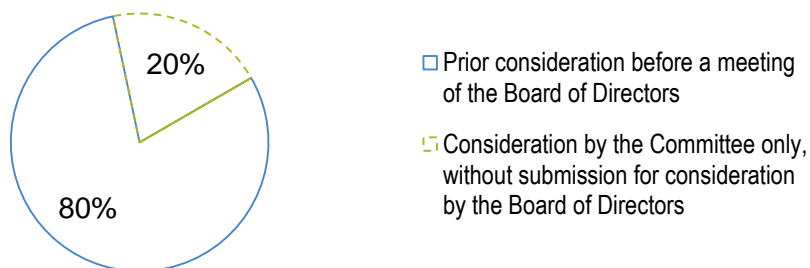
<sup>66</sup> Minutes of the Meeting No. 243



17.	Pavel Yurievich Sorokin	Head of the Fuel and Energy Sector Analysis Center, Russian Energy Agency of the Ministry of Energy of the Russian Federation
18.	Maria Gennadyevna Tikhonova	Deputy Chairperson of the Management Board, FGC UES
19.	Ernesto Ferlenghi	Head of the Eni Representative Office in the Russian Federation and the CIS
20.	Alexander Viktorovich Shevchuk	Executive Director, Investor Protection Association

In 2016, the Committee's current members adopted decisions on 22 issues documented in 6 meeting minutes, including 16 issues considered at 4 in-person meetings and 2 meeting minutes containing decisions on 6 issues that were addressed at absentee meetings with voting by ballot.

#### Types of Issues Considered by the Strategy Committee



# INFORMATION ON THE MEETINGS ATTENDED BY THE MEMBERS OF THE COMMITTEE

ABSENTEE MEETINGS- 2				IN-PERSON MEETINGS- 4		
No	Name	Number of the Meetings Attended by the Member of the Committee	Attendance rate, %	NUMBER OF MEETINGS ATTENDED BY THE COMMITTEE'S MEMBER IN PERSON	NUMBER OF MEETINGS ATTENDED BY THE COMMITTEE'S MEMBER BY BALLOT	Attendance rate, %  Participation rate, %
1.	V. M. Kravchenko	2	100	4	0	100
2.	S. O. Ashirov	2	100	4	0	100
3.	O. G. Barkin	2	100	0	4	100
4.	R. N. Berdnikov	2	100	0	4	100
5.	A. A. Dyomin	2	100	2	2	100
6.	O.M. Dubnov	2	100	4	0	100
7.	M.A. Kolesnikov	2	100	3	1	100
8.	V. N. Kiselyov	1	50	3	0	75
9.	A.V. Logatkin	2	100	4	0	100
10.	V. V. Mamin	1	50	1	1	50
11.	V. V. Nikonov	0	0	0	2	50
12.	Ye. A. Olkhovich	1	50	1	0	25
13.	S.A. Pavlushko	2	100	3	1	100
14.	Dz.I. Rizhinashvili	1	50	2	2	100
15.	N. D. Rogalev	2	100	2	2	100
16.	P. N. Snikkars	2	100	2	1	75
17.	P.Y.Sorokin	1	50	2	1	75
18.	M.G.Tikhonova	2	100	4	0	100
19.	E.Ferlenghi	2	100	1	3	100
20.	A. V. Shevchuk	2	100	4	0	100

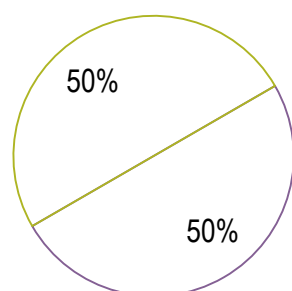
## Composition

The current members of the Committee were appointed by the decisions adopted by the Board of Directors on September 23, 2016 and on October 10, 2016

NO.	NAME	POSITION AS OF THE TIME OF ELECTION
1.	Vasily Mikhailovich Belov Chairman of the Committee Independent Director	Member of the Board of Directors, ROSSETI Senior Vice-President, Innovations development, Skolkovo Foundation
2.	Stanislav Olegovich Ashirov Independent Director	Member of the Board of Directors, ROSSETI Director General, AO Mezhtregionenergosbyt
3.	Oleg Markovich Dubnov Independent Director	Member of the Board of Directors, ROSSETI Advisor to the Director General, Institute of Professional Directors
4.	Alexander Sergeyevich Kalinin Independent Director	Member of the Board of Directors, ROSSETI President, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business.

In 2016, the Committee's current members adopted decisions on 9 issues documented in 3 meeting minutes that were addressed at absentee meetings with voting by ballot.

### Types of Issues Considered by the Audit Committee



- ☐ Prior consideration before a meeting of the Board of Directors
- ☐ Consideration by the Committee only, without submission for consideration by the Board of Directors

### Information on the Meetings Attended by the Members of the Audit Committee

No	Name	ABSENTEE MEETINGS-3	
		Number of the Meetings Attended by the Member of the Committee	Participation rate, %
1	S. O. Ashirov	3 (из 3)	100
2	V. M. Belov	3 (из 3)	100
3	Дубнов О.М.	3 (из 3)	100
4	A. S. Kalinin	3 (из 3)	100

The principal objectives of the Nomination and Remuneration Committee are to concern the questions of transparent policy of remuneration formulating, workforce planning, professional composition of the Executive bodies.

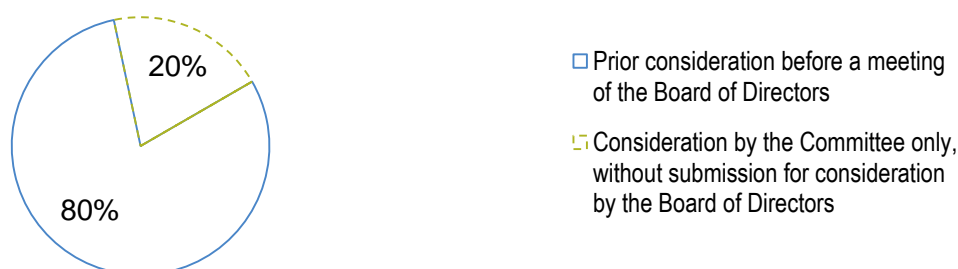
### Composition

The current members of the Nomination and Remuneration Committee<sup>68</sup> approved pursuant to the decisions adopted by the Board of Directors ROSSETI on September 23, 2016 <sup>69</sup> and on October 10, 2016 <sup>70</sup>

№	Name	Должность на момент избрания
1.	Alexander Sergeyevich Kalinin Chairman of the Committee Independent Director	Member of the Board of Directors, ROSSETI President, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business
2.	Stanislav Olegovich Ashirov Independent Director	Member of the Board of Directors, ROSSETI Director General, AO Mezhhregionenergosbyt
3.	Vasily Mikhailovich Belov Independent Director	Member of the Board of Directors, ROSSETI Senior Vice-President, Innovations development, Skolkovo Foundation
4.	Oleg Markovich Dubnov Independent Director	Member of the Board of Directors, ROSSETI Advisor to the Director General, Institute of Professional Directors.

In 2016, the Committee's current members adopted decisions on 10 issues documented in 5 meeting minutes, including 2 issues considered at 1 in-person meeting and 4 meeting minutes containing decisions on 8 issues that were addressed at absentee meetings with voting by ballot.

### Types of Issues Considered by the Nomination and Remuneration Committee



### Subjects of the Issues Considered by the Nomination and Remuneration Committee

<sup>67</sup> Acts in accordance with the Regulations for the Nomination and Remuneration Committee of the Board of Directors of PJSC ROSSETI approved by the decision adopted by the Board of Directors of PJSC ROSSETI on October 10, 2016 (Minutes No. 243), [http://www.rosseti.ru/about/documents/doc/polozenie\\_kadr\\_10.10.2016.pdf](http://www.rosseti.ru/about/documents/doc/polozenie_kadr_10.10.2016.pdf).

<sup>69</sup> Minutes No. 240

<sup>70</sup> Minutes No. 243

# INFORMATION ON THE MEETINGS ATTENDED BY THE MEMBERS OF THE COMMITTEE

No	Name	Absentee Meetings - 4		IN-PERSON MEETINGS- 1			
		Number of the Meetings Attended by the Member of the Committee	Attendance rate, %	NUMBER OF MEETINGS ATTENDED BY THE COMMITTEE'S MEMBER IN PERSON	NUMBER OF MEETINGS ATTENDED BY THE COMMITTEE'S MEMBER BY BALLOT	Attendance rate, %	Participation rate, %
1.	A. S. Kalinin	4 (4)	100	1 (из 1)	0 (из 1)	100	100
2.	S. O. Ashirov	3(3)	100	0 (из 1)	1 (из 1)	0	100
3.	V. M. Belov	4(4)	100	0 (из 1)	1 (из 1)	0	100
4.	O.M. Dubnov	4(4)	100	1 (из 1)	0 (из 1)	100	100

## Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee <sup>71</sup>

The goal of the Committee is to assist the Board of Directors of the Company in performing its functions related to ensuring the implementation of the Company's investment and technical policies, reliability assurance, energy efficiency, and innovative development of the Company.

### Composition

Current members of the Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee<sup>72</sup> are approved pursuant to the decisions adopted by the Board of Directors ROSSETI on September 23, 2016 <sup>73</sup>:

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<sup>71</sup> Действует на основании Положения о Комитете, утвержденного решением Совета директоров ПАО «Россети» от 21.10.2013 (протокол №137, с учетом изменений от 15.12.2014 (протокол № 173)), с текстом можно ознакомиться на сайте Компании [http://www.rosseti.ru/media/docs/komiteti/polozhenie\\_o\\_komitete\\_po\\_invest\\_15.12.2014.pdf](http://www.rosseti.ru/media/docs/komiteti/polozhenie_o_komitete_po_invest_15.12.2014.pdf)

<sup>72</sup> Состав Комитета, действовавший до 23.09.2016, приведен в приложении 10.1. к годовому отчету.

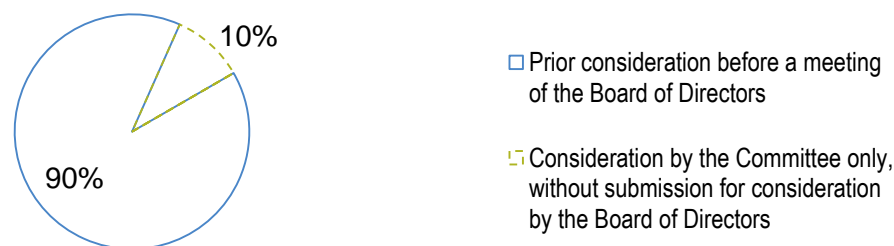
<sup>73</sup> Minutes № 240

NO.	NAME	POSITION AS OF THE TIME OF ELECTION
1.	Oleg Markovich Dubnov Chairman of the Committee Independent Director	Member of the Board of Directors, ROSSETI Вице-президент, Исполнительный директор Кластера энергоэффективных технологий Фонда «Сколково»
2.	Svetlana Alexandrovna Balaeva	Deputy Director General for Investment, ROSSETI
3.	Vasily Mikhailovich Belov Independent Director	Member of the Board of Directors, ROSSETI Senior Vice-President for Innovations, Non-Profit Organization the Fund for Development of the Center for Elaboration and Commercialization of New Technologies
4.	Alexander Mikhailovich Borisov	Member of the Presidium, OPORA RUSSIA
5.	Dmitry Stanislavovich Bulgakov	Deputy Head of the Fuel and Energy Sector Evaluation Directorate, Fuel and Energy Sector Analysis Center, Russian Energy Agency of the Ministry of Energy of the Russian Federation
6.	Valery Mikhailovich Gordienko	Deputy Director General for Technical Policy, PJSC ROSSETI
7.	Yevgeny Petrovich Grabchak	Director of the Department for Operational Control and Management in the Electric Power Industry, Ministry of Energy of the Russian Federation
8.	Yuri Yefimovich Dolin	Deputy Director General for Capital Construction, OOO Gazprom Energoholding
9.	Vitaly Anatolyevich Domnich	Unit Head, Department for Governmental Tariff Regulation, Infrastructural Reforms and Energy Efficiency, Ministry of Economic Development of the Russian Federation
10.	Alexander Vladimirovich Ilyenko	Member of the Management Board and Director for UPS Development Management, SO UPS, JSC
11.	Andrey Valentinovich Kazachenkov	Member of the Management Board and First Deputy Director General, PJSC RusHydro
12.	Igor Aleksandrovich Kamenskoy	Managing Director, Renaissance Broker LLC
13.	Vasily Nikolayevich Kiselyov	Chairman of the Council of Customers of the Government Commission on the Development of the

		Electric Power Industry
14.	Leonid Vladimirovich Mazo	Deputy of the Moscow Region Duma and member of the Committee on Economic Affairs, Entrepreneurship and Investment Policy
15.	Sergey Vladimirovich Sergeev	Deputy Director General for Capital Construction, PJSC ROSSETI
16.	Vyacheslav Sergeyevich Skulkin	Deputy Director of the Electric Power Industry Development Department, Ministry of Energy of the Russian Federation
17	Roman Yevgenyevich Filimonov	Acting First Deputy Chairman of the Management Board, FGC UES, PJSC
18.	Alexander Viktorovich Shevchuk	Executive Director, Investor Protection Association

In 2016, the Committee's current members adopted decisions on 10 issues documented in 3 in-person meeting minutes.<sup>74</sup>

#### Types of Issues Considered by Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee



#### INFORMATION ON THE MEETINGS ATTENDED BY THE MEMBERS OF THE COMMITTEE

<sup>74</sup> Подробный перечень вопросов, рассмотренных Комитетом по инвестициям, технической политике, надежности, энергоэффективности и инновациям, приведен в разделе 10.2 приложения к годовому отчету



No	Name	IN-PERSON MEETINGS— 3 (заочных не было)			
		Количество заседаний, в которых член Комитета принял личное участие	Количество заседаний, в которых член Комитета принял участие посредством направления опросного листа	Процент присутствия%	Participation rate, %
1.	Oleg Markovich Dubnov	3	0	100	100
2.	Svetlana Alexandrovna Balaeva	3	0	100	100
3.	Vasily Mikhailovich Belov	0	2	0	66,7
4.	Alexander Mikhailovich Borisov	1	2	33,3	100
5.	Dmitry Stanislavovich Bulgakov	3	0	100	100
6.	Valery Mikhailovich Gordienko	3	0	100	100
7.	Yevgeny Petrovich Grabchak	2	1	66,7	100
8.	Yuri Yefimovich Dolin	0	3	0	100
9.	Vitaly Anatolyevich Domnich	1	2	33,3	100
10.	Alexander Vladimirovich Ilyenko	2	1	66,7	100
11.	Andrey Valentinovich Kazachenkov	1	2	33,3	100
12.	Igor Aleksandrovich Kamenskoy	2	1	66,7	100
13.	Vasily Nikolayevich Kiselyov	2	0	66,7	66,7
14.	Leonid Vladimirovich Mazo	1	2	33,3	100
15.	Sergey Vladimirovich Sergeev	0	3	0	100
16.	Vyacheslav Sergeyevich Skulkin	0	1	0	33,3

17.	Roman Yevgenyevich Filimonov	1	2	33,3	100
18.	Alexander Viktorovich Shevchuk	1	2	33,3	100

## 5.7. Collegial Executive Body

The Management Board of ROSSETI acts in accordance with the Regulations for the Management Board.<sup>75</sup>

The number of the members of the Management Board is determined by the decision adopted by the Company's Board of Directors at the suggestion of the Company's Director General.

The Director General of the Company submits any nomination for a member of the Management Board for review by the Board of Directors, except for his/her own nomination. The members of the Management Board, including the Director General, are elected and their powers are terminated earlier by the Board of Directors of the Company.

1. Oleg Mikhailovich Budargin	Chairman of the Management Board, Director General, Member of the Board of Directors, ROSSETI
Year of birth	1960
	Higher education, Candidate of Science (Economics)
Education	1982: Norilsk Industrial Institute, majoring in Industrial and Civil Construction
<b>Positions held over the past 5 years:</b>	
2009 – 2013: Chairman of the Management Board, FGC UES Since 2012: Chairman of the Management Board, since 2013: Director General, Member of the Board of Directors, ROSSETI	

### **Membership in management bodies of other corporate entities:**

2011 – 2015: Member of the Board of Directors, InterRAO  
2012 – 2013: Chairman of the Board of Directors, Kubanenergo  
2012 – 2013: Chairman of the Board of Directors, IDGC of Siberia  
2014 – 2016: Member of the Board of Trustees, Primorsky Opera and Ballet Theater  
2014 – 2016: Chairman of the Board of Directors, FTC

Since 2010 – Member of the Board of Directors / Member of the Board of Directors, FGC UES (2013-2015, 2016 – present)

Since 2010: Member of the Board of Trustees, member of the Scientific Council, Moscow Power Engineering Institute (National Research University)

Since 2011: Member of the Supervisory Board, Russian Regional Development Bank

Since 2011: Chairman of the Supervisory Board, Association of Solar Energy Enterprises Nonprofit Partnership

Since 2012: Member of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security of the Russian Federation

Since 2012: Chairman of the Board of Directors, MOESK

Since 2012: Member of the Supervisory Board, North-Caucasus Federal University

Since 2012: Member of the Board and Vice President for Environmental Issues, Association of Polar Explorers

Since 2013: Vice Chair, Responsibility for Regional Development, World Energy Council (WEC)

Since 2013: Member of the Board of Trustees, Mariinsky Theatre

Since 2016: Chairman of the Board of Directors, LENENERGO

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<sup>75</sup> Approved by the Annual General Meeting of Shareholders of ROSSETI on June 30, 2015  
<http://www.rosseti.ru/eng/investors/reports/Internal-docs/>

Shares held in the Company and the Company's SDCs,% (as of December 31, 2016)	0.000569% of share capital of ROSSETI (0.00576% of ordinary shares)
	0.00064% of share capital of FGC UES (0.00064% of ordinary shares)

<b>2. Roman Nikolaevich Berdnikov</b>	<b>Member of the Management Board, First Deputy Director General, ROSSETI</b>
Year of birth	1973
Education	Higher education
	1998: Moscow Power Engineering Institute (Technical University), majoring in Power Plants
<b>Positions held over the past 5 years:</b>	
2009–2013: Member of the Management Board, FGC UES	
2010–2012: Deputy Chairman of the Management Board, FGC UES	
2012–2013: First Deputy Chairman of the Management Board FGC UES	
July 2012–October 2012: First Deputy Executive Director, IDGC Holding (from April 4, 2013, JSC ROSSETI; from July 17, 2015, PJSC ROSSETI)	
2012–present: Member of the Management Board, ROSSETI	
2013–2015: First Deputy Director General for Technical Policy, ROSSETI	
2015–present: First Deputy Director General, ROSSETI	
2015–present: Acting Director General and Chairman of the Management Board, LENENERGO	
<b>Membership in management bodies of other corporate entities:</b>	
2010–2014: Member of the Supervisory Board, GruzRosenergo	
2010–2012: Member of the Board of Directors, ENIN	
2011–2014: Member of the Supervisory Board, NP Market Council	
2012–2014: Member of the Board of Directors, EnergoRynok	
2012–2013: Member of the Board of Directors, Tyumenenergo	
2012–2013: Member of the Board of Directors, IDGC of Urals	
2012–2013: Member of the Board of Directors, IDGC of Northern Caucasus	
2013–2014 : Member of the Board of Directors, IDGC of Siberia	
2014 – 2016: Member of the Supervisory Board, Engineering Center UES Real Estate	
Since 2013: Member of the Presidium, Russian National Committee of the Council on Large Electric Systems (CIGRE)	
Since 2013: Member of the Supervisory Board, Noncommercial Partnership of Territorial Power Grid Organizations	
Since 2013: Chairman of the Supervisory Board, Scientific and Technical Council of Unified Energy System Non-profit Partnership	
Since 2014: Member of the Board of Directors, since 2016: Chairman of the Board of Directors, FTC	
Since 2016: Member of the Board of Directors, LENENERGO	
Shares held in the Company and the Company's SDCs,%	0.000000195% pf share capital (0.000000195% of ordinary shares) FGC UES

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As of December 31, 2016

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3. Nikolay Nikolayevich Varlamov	Member of the Management Board, Deputy Director General and Head of the Administrative Office, ROSSETI
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Year of birth	1974
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higher education, Master of Economics

Education

1996: Institute of Asian and African Studies, Lomonosov Moscow State University

2000: Finance Academy under the Government of the Russian Federation, majoring in Economics

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**Positions held over the past 5 years:**

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2011 – 2013: Deputy Chairman of the Management Board, FGC UES

2012 – 2013: Member of the Management Board, FGC UES

2013 – 2015: Deputy Director General for Controlling and Internal Inspection, ROSSETI

Since 2015: Deputy Director General and Head of the Administrative Office, ROSSETI

Since 2015: Member of the Management Board, ROSSETI

**Membership in management bodies of other corporate entities:**

2013 – 2015: Member of the Board of Directors, IDGC of Northern Caucasus

Since 2013: Member of the Board of Directors, IDGC of Center and Volga Region

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Shares held in the Company and the Company's SDCs, %	none
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4. Andrey Aleksandrovich Dyomin	Member of the Management Board, ROSSETI
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Year of birth	1974
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higher education

Education

1996: Zaporozhye State University, majoring in Applied Mathematics

1999: Zaporizhzhya Institute of Economics and Information Technologies, majoring in Finance

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**Positions held over the past 5 years:**

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2010 – 2012: Advisor to the Director General, Mezhhregionsbyt

2012 – 2013: Advisor to the Chairman of the Management Board, FGC UES

2013 – 2015: First Deputy Director General for Economic Affairs and Finance, ROSSETI

Since 2013: Member of the Management Board, ROSSETI

**Membership in management bodies of other corporate entities:**

2013 – 2015: Chairman of the Board of Directors, Tyumenenergo

2013 – 2014: Chairman of the Board of Directors, TDC

2013 – 2015: Member of the Board of Directors, FEEMC

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Since 2014: Member of the Board of Directors, MOESK  
 Since 2014: Member of the Board of Directors, FGC UES

Shares held in the Company and the Company's SDCs,% none

#### 5. Valentin Yefimovich Mezhevich

Member of the Management Board,  
 Chief Advisor, ROSSETI

Year of birth 1947

Higher education, Candidate of Science (Engineering)

Education

1970: Irkutsk Polytechnic Institute, majoring in Thermal Power Plant

1991: Leningrad Polytechnic Institute, postgraduate courses

#### Positions held over the past 5 years:

2013–2014: Deputy Director General for Strategic Communications, ROSSETI

Since 2013: Member of the Management Board, ROSSETI

Since 2014: Chief Advisor, ROSSETI

#### Membership in management bodies of other corporate entities:

2008 – 2014: Deputy Chairman of the Supervisory Board, NP Market Council

2014–2015: Member of the Board of Directors, IDGC of Northern Caucasus

2014–2015: Member of the Board of Directors, IDGC of Siberia

2014–2015: Member of the Board of Directors, Kubanenergo

Since 2015: Chairman of the Board of Directors, IDGC of Volga

Since 2015: Chairman of the Board of Directors, Tyumenenergo

Shares held in the Company and the Company's SDCs,% none

### Information on Meetings of the Management Board

#### Statistics on the Meetings Held by the Management Board of the Company in 2014–2016

No	2014	2015	2016
1. Number of meetings in the period, including:	85	133	137
in person	14	24	19
in absentia	71	109	118
2. Number of issues considered, including:	197	368	465
in person	40	58	52
in absentia	157	310	413

## 5.8. Sole Executive Body

### Oleg Mikhailovich Budargin

Director General, Chairman of the Management Board, Member of the Board of Directors, ROSSETI

Born on November 16, 1960. Oleg Budargin graduated with honors from the Norilsk Industrial Institute, majoring in Industrial and Civil Construction.

He started his career in 1984 as a foreman of the Construction Directorate of the Shaft Sinking Division of Norilsk Mining-and-Metallurgical Integrated Works; later, he was appointed as the Deputy Head of the Production Department of Norilskstroy; and in 1995, he took up his position as Deputy Director General of Norilsk Mining-and-Metallurgical Integrated Works.

He was the Head of the Norilsk Municipality from 2000 and the Governor of the Taimyr (Dolgano-Nenets) Autonomous District from 2003.

From 2009, he is the Chairman of the Management Board of FGC UES.

In June 2013, he was appointed as the Director General of ROSSETI.

He is a member of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security of the Russian Federation.

He is Vice Chair, Responsibility for Regional Development, of the World Energy Council (WEC).

Oleg Budargin has governmental and sectoral awards.

At present, he also holds the following positions:

- Chairman of the Board of Directors: FGC UES; MOESK; LENENERGO.
- Member of the Supervisory Board: Russian Regional Development Bank; North-Caucasus Federal University.
- Chairman of the Supervisory Board, Association of Solar Energy Enterprises Nonprofit Partnership.
- Member of the Board of Trustees, member of the Scientific Council, Moscow Power Engineering Institute (National Research University).
- Member of the Board and Vice President for Environmental Issues, Association of Polar Explorers.
- Member of the Board of Trustees, Mariinsky Theatre.

Stake held by the individual in the authorized of ROSSETI (as of December 31, 2016): 0.000569 %

Percentage of ordinary shares held by the individual in ROSSETI (as of December 31, 2016): 0.000576 %

## 5.9. Corporate Secretary

IN ORDER TO ALIGN CORPORATE GOVERNANCE PRACTICES WITH THE CORPORATE GOVERNANCE CODE AND THE LISTING RULES OF THE STOCK EXCHANGE, THE REGULATIONS FOR THE CORPORATE SECRETARY OF ROSSETI WERE FORMULATED AND APPROVED BY THE BOARD OF DIRECTORS IN 2016,<sup>76</sup> containing

- provisions setting forth the appointment requirements applicable to the Corporate Secretary;
- procedure for appointing and dismissing the Corporate Secretary;
- accountability of the Corporate Secretary and the procedure for his/her interaction with the Company's management bodies and divisions;
- functions, rights, and duties of the Corporate Secretary;
- terms and procedure for remuneration payable to the Corporate Secretary;
- responsibility of the Corporate Secretary.

The functions of the Corporate Secretary include interacting with shareholders and professional securities market participants, participating in the implementation of corporate policy and in the improvement of the Company's corporate governance practices, and ensuring the efficient work of the Board of Directors and its committees. To ensure his/her independence, the Corporate Secretary is functionally subordinate to the Board of Directors and does not perform the functions of the Secretary of the Management Board.

Information about the Corporate Secretary is disclosed on the Company's website at <http://www.rosseti.ru/about/management/secretary/>

Natalia Baranyuk	Corporate Secretary of ROSSETI
Year of birth	1978
Nationality	Russian Federation
Date of election	July 20, 2016 <sup>77</sup>
Position at the time of election	Corporate Secretary of ROSSETI <sup>78</sup>
	Higher education, master's degree
Education	2000: Krasnoyarsk State Agrarian University, majoring in Law
	2011: Lomonosov Moscow State University, majoring in Management
<b>Positions held over the past 5 years:</b>	
2008–January 2015: Administrative Assistant and Deputy Department Director, Ministry of Finance of the Russian Federation;	
January 2015–November 2015: Deputy Director of the Administrative Department, Ministry of Energy of the Russian Federation;	
November 2015–present: Corporate Secretary and Head of the Administrative Office of the Chairman of the Board of Directors, ROSSETI.	
<b>Positions in management bodies of other corporate entities: none</b>	

<sup>76</sup> Decision adopted on September 23, 2016 (Minutes of the Meeting No. 240); available on the Company's website at [http://www.rosseti.ru/about/documents/doc/polozenie\\_korp\\_sekretar.pdf](http://www.rosseti.ru/about/documents/doc/polozenie_korp_sekretar.pdf)

<sup>77</sup> Decision adopted by the Board of Directors on July 20, 2016 (Minutes of the Meeting No. 235 of July 22, 2016).

<sup>78</sup> Decision adopted by the Board of Directors on August 5, 2015 (Minutes of the Meeting No. 198 of August 7, 2015).



Shares held in ROSSETI and SDCs, %	none
No transactions involving the acquisition or transfer of shares	

## 5.10. External Audit

To independently assess the reliability of accounting (financial) statements prepared in accordance with Russian and international standards, the Company uses competitive bidding procedures to engage an external auditor.

The Company's auditor was selected in accordance with the following procedure:

In 2015, the Board of Directors defined the terms and conditions of a public bidding procedure for the right to enter into the agreement to conduct a mandatory annual audit of the statements for 2015–2017 (Minutes of the Meeting No. 176 of February 16, 2015).

Based on the results of a public bidding procedure for the right to enter into the agreement to conduct a mandatory annual audit of the statements of ROSSETI for 2015–2017 (IFRS and RAS), RSM RUS was selected as the preferred bidder (Minutes of the Meeting of the Bidding Commission No. 0473000000515000001 of April 17, 2015).

The Board of Directors resolved on May 30, 2016, (Minutes of the Meeting No. 230) to recommend that the Annual General Meeting of Shareholders approve RSM RUS as ROSSETI's auditor.

The Annual General Meeting of Shareholders approved on June 30, 2015, RSM RUS as ROSSETI's auditor.

RSM RUS is a member of RSM International and ranks among Russia's ten largest accounting firms.

RSM RUS is a member of a self-regulatory organization of auditors, Auditor Association Sodruzhestvo Non-profit Partnership

RSM RUS's fee for the mandatory annual audit of the statements of the Company for 2016 (IFRS and RAS) is 5,000,000 rubles, inclusive of VAT.

In order to ensure the external auditor's independence, the Company has not engaged RSM RUS to provide any services other than audit services.

## 5.11. Remuneration Report

### Remuneration for Members of the Board of Directors

Remuneration is paid to the members of the Board of Directors in accordance with the Regulations for Remuneration and Compensation for Members of the Board of Directors.<sup>79</sup>

Remuneration is paid in the amount calculated by the formula specified in the Regulations and taking account of the total number of meetings of the Board of Directors in the previous corporate year and taking account of the number of meetings in which each member of the Board of Directors took part.

The remuneration base amount is based on the revenues calculated in accordance with Russian Accounting Standards and received by the Company in the financial year.

On top of the remuneration, the following premiums apply:

- 30% payable to the Chairman of the Board of Directors;
- 20% payable to the chairman of a specialized committee of the Board of Directors<sup>80</sup>;
- 10% payable to a member of a specialized committee of the Board of Directors<sup>81</sup>.

No remuneration is paid to:

- executive directors;
- persons who are subject to a statutory restriction or ban on payments from for-profit organizations;
- members of the Board of Directors if they participate in less than 50% of meetings.

Any member of the Board of Directors may decline to receive the remuneration provided for in the Regulations, in full or in part, by notice thereof to the sole executive body (Director General).

No remuneration was accrued and paid to the members of the Board of Directors in 2016 due to the absence of the Company's net profit.

### Remuneration for Members of the Management Board

The motivation system for ROSSETI's senior managers is aimed at incentivizing them to achieve the strategic goals and increase the economic effectiveness of management. The procedures for determining and paying remuneration are governed by the Regulations for Financial Incentives for Senior Managers<sup>82</sup> and include the fixed and variable parts of pay.

The variable part of remuneration depends on attained key performance indicators (KPIs). The composition, calculation techniques, and target values of KPIs are approved by the Board of Directors of ROSSETI according to the goals of the Strategy for Development of the Electric Grid Sector of the Russian Federation and the Long-Term Development Program of the Company<sup>83</sup>.

Remuneration Paid to Members of the Management Board in 2016<sup>84</sup>:

Type of Remuneration	Amount of Remuneration,
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<sup>79</sup> Утверждено решением Годового Общего собрания акционеров 30.06.2015 (протокол № 6/н), с текстом можно ознакомиться на сайте Компании

<sup>80</sup> Не начисляется и не выплачивается, если за корпоративный год проведено менее трех заседаний Комитета

<sup>81</sup> Не начисляется и не выплачивается, если за корпоративный год проведено менее трех заседаний Комитета

<sup>82</sup> Утверждено решением Совета директоров от 19.11.2009 (протокол № 26)

<sup>83</sup> Подробнее о системе КПЭ в разделе 3.5 годового отчета

<sup>84</sup> Указанная информация раскрыта в сети Интернет в составе ежеквартального отчета за 4 квартал 2016 года на официальном сайте Общества <http://www.rosseti.ru/investors/info/quarter/?year=2017>.

	<b>million rubles</b>
Remuneration for participation in the work of the management body/financial and economic control body	4.70
Salary	108.53
Bonuses	169.60
Commission fees	0
Benefits	0
Other remuneration	1.68
<b>TOTAL</b>	<b>284.51</b>

## V. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

### 6.1. Internal Control System

The Company's internal control system assures not only safe business development but also the stable functioning of social systems, which is of particular importance to the electric power industry.

In 2016, ROSSETI was recognized by the National Union of Internal Auditors and Controllers as a winner of the national award "Effective Internal Control and Audit of the Year" in the category "Best Company in Internal Control System Reliability."

The Company will continue its efforts in 2017 to ensure the stable functioning and reliability of the ROSSETI Group's internal control system.

Very truly yours,

Marina Lelekova

Director of the Controlling and Internal Inspection Department

The ROSSETI Group set up and develops the internal control system (ICS) to achieve the goal of having reasonable assurance regarding the achievement of the Company's goals:

- ensure efficiency and productivity of the ROSSETI Group's activities; safeguard assets;
- ensure compliance with the applicable legal requirements and local regulatory documents, including in economic events and business accounting;
- ensure the reliability and timeliness of accounting (financial) and other reporting.

The principles of the COSO concept recommended by the Corporate Governance Code<sup>85</sup> underlie the internal control system.

ROSSETI has a whistleblower hotline and a customer hotline. Internal control is monitored on a regular basis.

The internal control system applies to all management levels and has the following ICS participants:

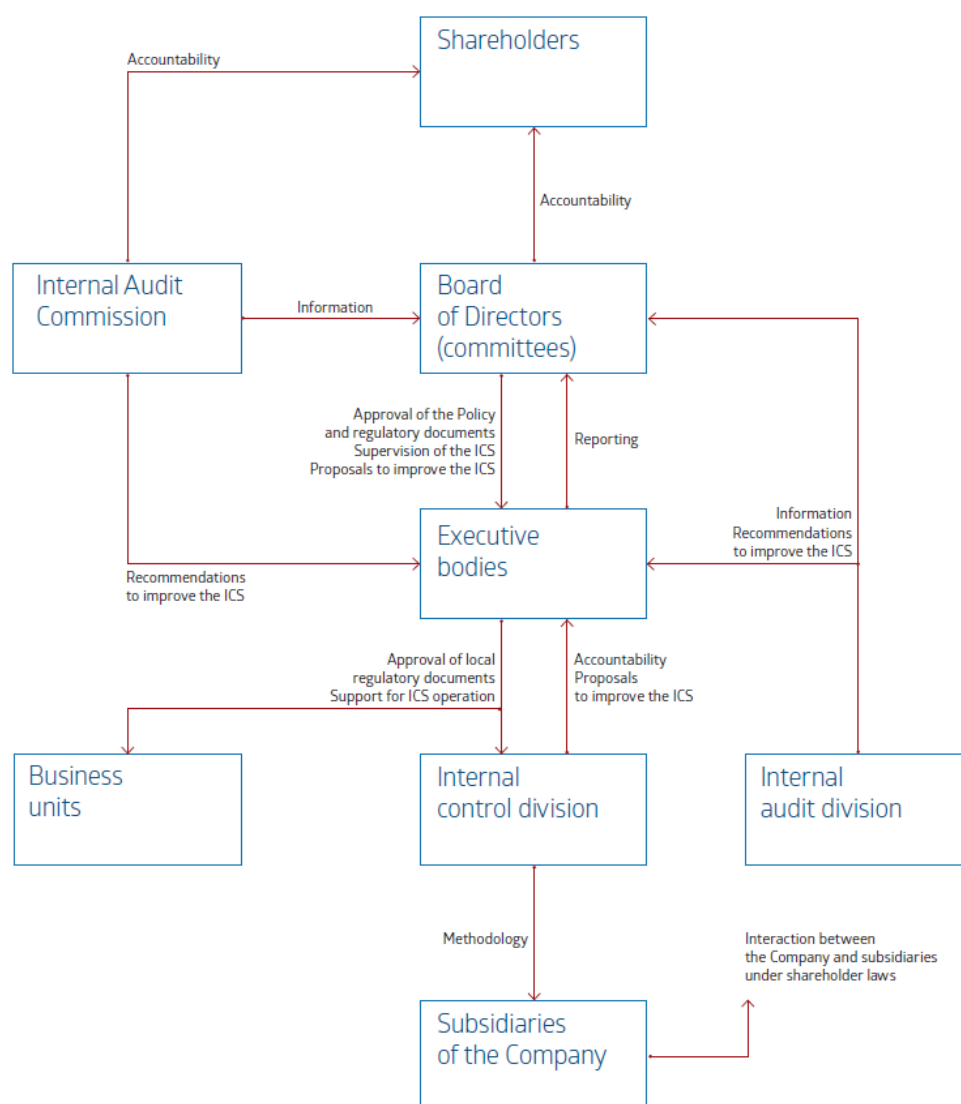
- Internal Audit Commission
- Board of Directors
- Audit Committee of the Board of Directors
- Other committees of the Board of Directors
- Executive bodies
- Divisions
- Internal control division
- Internal audit division

More detailed information about the functions of ICS participants is contained in Appendix 10.1 to the Annual Report.

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<sup>85</sup> Recommended by the Bank of Russia's Letter No. 06-2463 of April 10, 2014, "On the Corporate Governance Code."

## Interaction Diagram of ROSSETI's ICS Participants



In June 2016, the Board of Directors reviewed the Report on the Performance Results for the Road Map for Implementing the Strategy for Developing and Improving the Internal Control System of the ROSSETI Group for 2015<sup>86</sup>.

The key measures taken in 2016 to improve the ICS в 2016 include the introduction of the following regulatory documents:

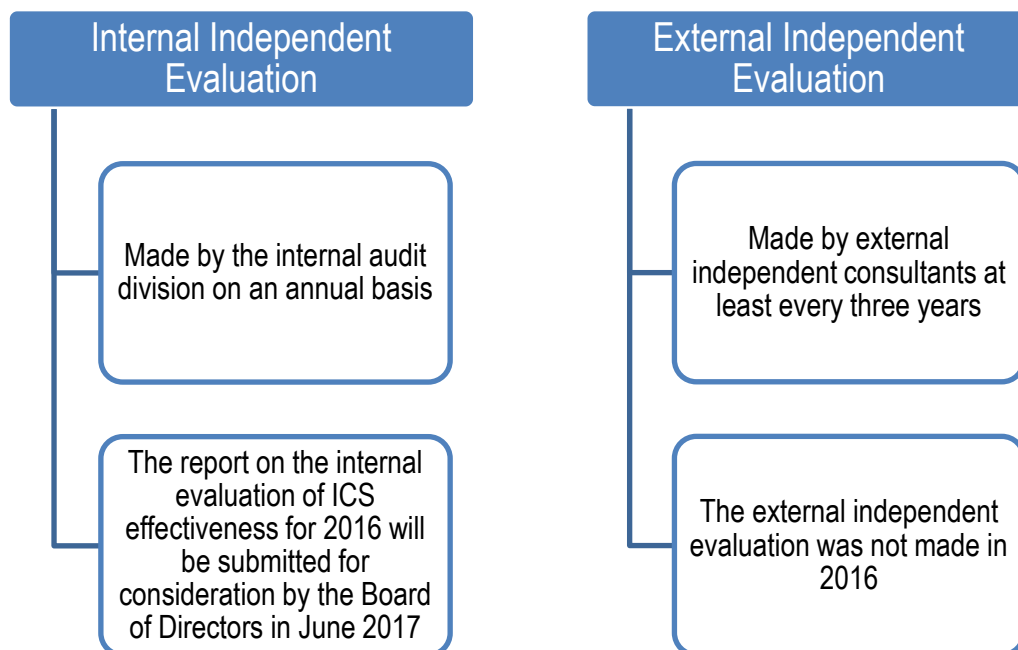
- Procedure for Implementing the Requirements of the Internal Control Policy;
- standard matrixes for controls for SDCs' core business processes.

Additionally, the Company analyzed:

- ROSSETI's electricity sector management processes, with the related control procedures documented;
- processes of SDCs' operating activities, with standard matrixes for controls constructed.

<sup>86</sup> Minutes of the Meeting No. 234 of June 30, 2016.

In accordance with the Strategy for Developing and Improving the Internal Control System of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI and the Internal Control Policy of ROSSETI based on the COSO concept and the Corporate Governance Code, the Company evaluates ICS effectiveness on an annual basis. This assures ICS effectiveness and ICS compliance with objectively changing requirements and conditions.



#### Key objectives for 2017:

- further the development of the ICS in management processes;
- ensure the integration of the internal control and risk management systems;
- document the authority and responsibilities of managers of business units and functional areas in responsibility matrixes;
- improve the competencies of suppliers of ICS assurances and approve the assurance map.

## 6.2. Internal Audit Commission

The Internal Audit Commission of ROSSETI is a standing elective body responsible for internal control. The Commission acts to the benefit of the shareholders and is accountable to the General Meeting of Shareholders.

The activities of the Internal Audit Commission are governed by the laws of the Russian Federation, the Articles of Association, the Regulations for the Internal Audit Commission<sup>87</sup>, and resolutions of the General Meeting of Shareholders.

The main objectives of the Commission of the Company include as follows:

- conduct audits of the financial and economic activities;
- make an independent assessment of information contained in the annual report and annual accounting statements;

<sup>87</sup> Утверждено решением ГОСА 30.06.2015.

- provide information about noncompliance with the accounting and financial reporting procedure and about noncompliance with the laws and regulations of the Russian Federation in the course of financial and economic activities;
- prepare proposals to improve the risk management and internal control systems;
- prepare recommendations to improve the effectiveness of managing assets;
- monitor the correction of deficiencies and the implementation of recommendations contained in reports on the previous audits;
- supervise the compliance of ROSSETI's financial and economic transactions with the laws of the Russian Federation and the Articles of Association of the Company.

#### Members of the Internal Audit Commission in the corporate year 2016/17:

Name	Position <sup>88</sup>
Alexander Yevgenyevich Bogashov	Deputy Director, Department for Corporate Governance, Price Conditions and Auditing in Fuel and Energy Industry Branches, Ministry of Energy of the Russian Federation
Sergey Aleksandrovich Kravchenko	Deputy Division Head, Department for Corporate Governance, Price Conditions and Auditing in Fuel and Energy Industry Branches, Ministry of Energy of the Russian Federation
Vladimir Vasilyevich Khvorov	Lead Expert, Unit for Electricity Industry Development, Department for Governmental Tariff Regulation, Infrastructural Reforms and Energy Efficiency, Ministry of Economic Development of the Russian Federation
Olga Alekseyevna Kuleshova	Deputy Division Head, Federal Agency for State Property Management of the Russian Federation
Igor Vladimirovich Shmakov	Head of the Directorate for Internal Audit, ROSSETI

In the reporting period, the Internal Audit Commission of ROSSETI:<sup>89</sup>

- held three meetings;
- audited the financial and economic activities of ROSSETI for the 1st half of 2016

Remuneration paid to the members of the Internal Audit Commission in 2016:

Name	Amount, rubles
Andrey Nikolayevich Kharin	48,300
Vladimir Vasilyevich Khvorov	115,500
Polina Sergeyevna Tsodikova	21,774
Igor Vladimirovich Shmakov	125,265
Andrey Ivanovich Yudin	78,578
<b>TOTAL</b>	<b>389,417</b>

### 6.3. Risk Management System

The Company operates a risk management system aimed at ensuring the sustained and continued functioning and developing of the Company by means of the timely identification and assessment and effective management of risks threatening the efficiency of the Company's operations.

<sup>88</sup> The positions specified are as of the time of election.

<sup>89</sup> Избранной на ГОСА 30.06.2016.

Work was done in 2016 on coordinating the Group's risk management activities, which resulted in:

- developing the regulatory and methodological framework for the risk management system based on the Model Risk Management Policy of the ROSSETI Group.
- approving restated versions of the local Risk Management Policies of the Group's entities.
- making the Group's lists of standard measures to minimize risks, which provided the basis for formulating and approving risk management action plans.

Work will continue in 2017 to build up an integrated risk management system based on unified approaches and standards.

Very truly yours,

Sergey Lebedev  
Director of the Strategic Development Department

### *Risk Management System*

The Company strives to ensure that the management and decision-making system includes comprehensive risk assessment. The risk management system (RMS) applies to all management levels of the ROSSETI Group.

ROSSETI approved and operates the Risk Management Policy, which specifies the Company's risk attitude and defines the general principles of building up the risk management system, its goals and objectives, general approaches to its organization, the distribution of responsibilities among its participants, and the pattern of their interaction.

#### **Objectives of the risk management system:**

- develop a risk-oriented corporate culture;
- improve the decision-making process for risk response;
- identify and manage the totality of risks in economic activities.

#### **Key risk management process participants:**

- Board of Directors;
- Authorized Committee of the Board of Directors;
- Internal Audit Commission;
- Executive bodies (Management Board, Director General);
- Risk owners;
- Officers responsible for risk management measures;
- Risk management division;
- Internal audit division.

The functions of the **risk management division** are to provide overall coordination for risk management processes, including actions of all RMS participants; draw up methodological documents supporting the risk management process and RMS operation; consolidate information on all identified risks and update the risk register in a timely manner; monitor the risk management process of the Company and its controlled entities.

#### **Basic principles of the risk management system:**

- protect the Group's values and create the conditions for the Company's development;
- integrate the risk management process into the Company's overall management system. Risk management is part of the obligations of management and is incorporated into all organizational processes



and into project and change management processes, including the Company's strategic development planning;

- ensure the interrelationship between risk management and decision making;
- ensure the continuity of information flows and the availability and completeness information;
- ensure the adaptability of the risk management system with due consideration to the necessity of meeting the new challenges arising from changes in the internal and external conditions of the Company's operations;
- ensure the transparency of activities and protect the interests of stakeholders;
- ensure that processes are dynamic, iterative, and prompt;
- cause all participants to be responsible for risk management;
- optimize the structure of the system, ensuring that decision making related to risk response is based on the comprehensive consideration of factors, including the ratio between risk management costs and risk management effects;
- ensure the unity of the methodological framework for all of the Company's divisions, using unified approaches and standards developed and approved in the ROSSETI Group.

Risk management is carried out by the boards of directors, collegial and sole executive bodies, and executives and employees at all management levels of the Group.

Risk management is a continuous and cyclical process within the common management system of the ROSSETI Group and includes the following main stages: setting goals, identifying risks, assessing risks, responding to risks, and monitoring risks.


In order to increase the effectiveness of the risk management process, the ROSSETI Group introduced a system for evaluating the risk management system, which applies a unified, systematic, and consistent evaluation procedure, and criteria. The effectiveness of the current state of the risk management system is periodically evaluated.

The ROSSETI Group organizes the risk management system, including risk classification, risk identification, risk assessment, risk monitoring, and risk response, in accordance with a unified methodology, which ensures the unity of approaches, including with respect to the preparation of performance reports.

Each risk affecting the Group's operations is assessed according to its significance level (influence): moderate; significant; critical.

The ROSSETI Group's most significant risks that materialized in 2016 are as follows:

Item	Risk*	Description	Risk Mitigation Measures
<b>1</b>	<b>Industry-Specific Risks</b>		
1	Risk associated with the failure of customers to pay for provided electricity distribution services	This risk arises from imperfect operation mechanisms of the retail electricity market and from the absence of effective mechanisms for encouraging customers to make timely payments for electricity distribution services and also results from macroeconomic factors. The issue of increased receivables in the electric grid sector and the failure of counterparties to fulfill their payment obligations in a timely manner and in full is complicated by the accumulated volume of	<p>■ Measures are taken to improve the efficiency of the enforced collection of debts, including signing an agreement with the Federal Bailiff Service of the Russian Federation to organize electronic document management, which increased the proportion of repaid debts as a result of the collection activities of the Federal Bailiff Service of the Russian Federation.</p> <p>■ If there are signs of economic crimes, measures are carried out together with law</p>

		<p>overdue receivables related to the forced performance of the supplier of last resort functions in 2013–2015. From the beginning of 2016, overdue receivables increased by 5%. A significant impact on this growth was due to nonpayments by suppliers of last resort.</p>	<p>enforcement agencies to hold executives of debtors that avoid debt repayment criminally liable.</p> <ul style="list-style-type: none"> <li>■ Provisioning for doubtful debts is applied to debts with a low probability of collection.</li> <li>■ A substantial portion of debts is included in the register of creditor claims as part of bankruptcy procedures against debtors.</li> </ul>
2	<p>Risk associated with the decreased volume of electricity distribution services</p>	<p>This risk is due to a possible decrease in electricity consumption and changes in large customers' external electricity supply.</p>	<ul style="list-style-type: none"> <li>■ Work is done on monitoring the demand for electricity and capacity, measures are taken to increase the reliability of forecasting the volume of services for their provision for the purposes of pricing and business planning.</li> <li>■ The Group's entities implement energy conservation and energy efficiency enhancement programs.</li> </ul>
3	<p>Tariff regulation risks</p> 	<p>These risks are associated with a possibility that grid companies' expenses are only partially recognized for the formation of minimum regulated revenue due to restrictions on the tariff for electricity distribution services. In 2016, tariff decisions did not take account of lost income resulting from previous periods. The amount of accumulated smoothing (revenues carried forward) did not decrease substantially and, in some cases, increased. The implementation of the tariff policy toward the distribution of the social burden of household cross-subsidies to the electricity distribution grid sector's customers caused the Group's distribution grid companies to lose large customers. These factors have an adverse effect on the Group's financial stability.</p>	<ul style="list-style-type: none"> <li>■ Documents are submitted to regulators in a timely manner.</li> <li>■ If necessary, applications for pre-trial dispute resolution are filed with the federal executive authority in charge of governmental tariff regulation against regional regulators.</li> <li>■ Claim-related work is done.</li> <li>■ The Company cooperates with federal executive authorities and the Russian Government in improving the regulation system.</li> <li>■ Work continues on cost reduction.</li> </ul>

The following risks had a smaller impact on the activities of the ROSSETI Group in 2016:

Item	Risk*	Description	Risk Mitigation Measures
<b>2</b>	<b>Financial Risks</b>		
2	Risks associated with interest rate changes	These risks are involved in a possible rise in the Group's entities' costs if they need to borrow to finance capital investment programs.	Measures are taken to optimize the loan portfolio, including by reducing operating expenses and investment costs and by partially repaying debts.
3	Risks associated with inflation impact	These risks are associated with the effect of a rise in the consumer price index on the Group's expenses, profitability, and, as a consequence, financial condition and ability to perform obligations.	The Group's entities formulated the schedules of improving the operating efficiency and reducing expenses, which were approved by their boards of directors.
<b>3</b>	<b>Risks Associated with the Company's Activities</b>		
1	Risk associated with failure to achieve the reliability level set in tariff regulation for electricity distribution services	This risk is associated with climatic factors, physical deterioration, noncompliance with operation requirements, and critical changes in the operating parameters of electric grid equipment, which may lead to failures (accidents) of electrical equipment and impair electricity supply reliability	<ul style="list-style-type: none"> <li>■ Measures are taken to raise the level of traceability and manageability in the electric grid sector and reduce the time of remedying emergency situations.</li> <li>■ Measures are taken to carry out technical upgrading and rehabilitation programs for worn-out equipment, carry out repair programs, and formulate repair plans taking into account the technical condition of equipment.</li> <li>■ Training and advanced training are provided for production personnel and their activities are controlled. The technical diagnostics system is developed for electrical equipment.</li> </ul>
2	Legal risks	These risks are associated with changes to legislation and judicial practice relating to the Company's activities and with changes to the balance between the interests of the Company and other electricity sector entities.	<ul style="list-style-type: none"> <li>■ The Company conducts preliminary legal review of planned corporate procedures, conducted transactions, and other aspects of financial and economic activities provided for by the applicable laws and/or Articles of Association of the Company.</li> <li>■ The Company updates local regulatory documents with respect to claim-related work.</li> </ul>

			<p>■ Changes to legislation and judicial practice are monitored.</p>
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\* Compared with the previous reporting period, the following changes were made to the list of the most significant risks:

- Risks associated with taking on the supplier of last resort status and functions and risks associated with the failure of customers to pay for provided electricity distribution services were combined;
- Risks associated with the possible liability of the issuer for third-party debts, including the issuer's subsidiaries were excluded, since, at the moment, the Company has no obligations related to third-party debts because no collateral was provided with respect to such obligations;
- Risks associated with interest rate changes were excluded due to macroeconomic stabilization and the implementation of import substitution measures.

Risks associated with circumstances objectively preventing the Group's activities (high likelihood of natural disasters, possible interruption of transportation due to remoteness and/or inaccessibility, possible conflicts and their implications, imposition of the state of emergency, and strikes in the regions) are assessed as unlikely to materialize.

#### **Main areas of improving risk management measures in 2017:**

- Improve the regulatory and methodological framework for risk management and provide methodological support for the risk management process in the ROSSETI Group.
- Continue work on building an integrated risk management system.

Information about pending legal proceedings in which ROSSETI participates as a respondent or claimant in a claim for debt collection is contained in Section 10.1 of the Appendix to the Annual Report

## **6.4. Internal Audit**

The goals of internal audit attained by taking a systematic and consistent approach to the analysis and evaluation of the risk management, internal control, and corporate governance systems as instruments for reasonable assurance regarding the achievement of the Company's goals:

- assist the Board of Directors and executive bodies of ROSSETI in increasing the Company's management efficiency
- assist the Board of Directors and executive bodies of ROSSETI in improving the Company's financial and economic activities

The internal audit function is performed by the relevant division that is functionally subordinate to the Board of Directors and administratively subordinate to the sole executive body. The chief internal audit executive is appointed and dismissed by the Board of Directors. The Company's Board of Directors (to be preliminarily considered by the Audit Committee) determines the general areas of organizing the internal audit function, approves the action plan of the internal audit division and the report on its implementation, and considers the results of audits. The activities of the internal audit division are governed by the Internal Audit Policy<sup>90</sup> and the International Professional Practices Framework (IPPF) released by The Institute of Internal Auditors (IIA).

**The following basic principles specified in the Code of Ethics for Internal Auditors of the ROSSETI Group underlie the Company's internal audit:**

independence  
integrity  
objectivity  
confidentiality  
competency

#### **Key events in 2016:**

- The system of internal corporate auditing standards was completed.
- A system was implemented for the continuous quality monitoring of internal audit activities and for periodic internal (at least once a year) and external (at least every five years) quality evaluations of ROSSETI's and subsidiaries' internal audit.
- Self-assessment was performed in relation to the internal audit function.
- The efficiency and effectiveness of the internal audit division was evaluated by an external auditor.
- The Action Plan to Develop and Improve Internal Audit was formulated.

In 2016, the internal audit division coordinated SDCs' measures to introduce internal corporate standards of internal audit and conducted end-to-end focused audits.

The units responsible for internal control conducted 517 inspections in 2016, resulting in prescribing 2,945 corrective measures. Out of the 2,371 corrective measures to be implemented in the reporting year, 2,212 were completed.

#### **Tasks for 2017:**

- optimize the internal control model of the ROSSETI Group;
- carry out measures under the Development and Improvement Plan for Internal Audit.

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<sup>90</sup> Approved by the Board of Directors, compliant with the Guidelines for Preparing the Regulations for Internal Audit approved by Instructions of the Government of the Russian Federation No. ISh-P13-4148 of June 24, 2015.

### **III. INFORMATION FOR SHAREHOLDERS AND INVESTORS**

*Introductory remarks from Denis Guryanov, Director of the Department for Corporate Governance and Shareholder and Investor Relations, about the key results and achievements in 2016 and future plans*

2016 can be called a successful year for holders of ROSSETI securities: the year-end market capitalization exceeded 228 billion rubles.

One of the most important events was that, for the first time in the Company's history, we paid dividends for the 1st quarter of 2016. This also became a major driver of growth for our shares and gave a signal to the market that ROSSETI was working effectively and for the benefit of its shareholders.

Shares in electric grid companies were also supported by our consistent work on opex and capex optimization.

In 2016, ROSSETI attained the target value of TSR. The Regulated Companies Index grew by 44%, while TSR reached 149% with the price of the Company's ordinary share going up by 147%. We believe that this is a positive result of ROSSETI's team.

I am confident that our work will contribute to a rise in the liquidity and value of securities of ROSSETI and its subsidiaries.

Very truly yours,

Denis Guryanov

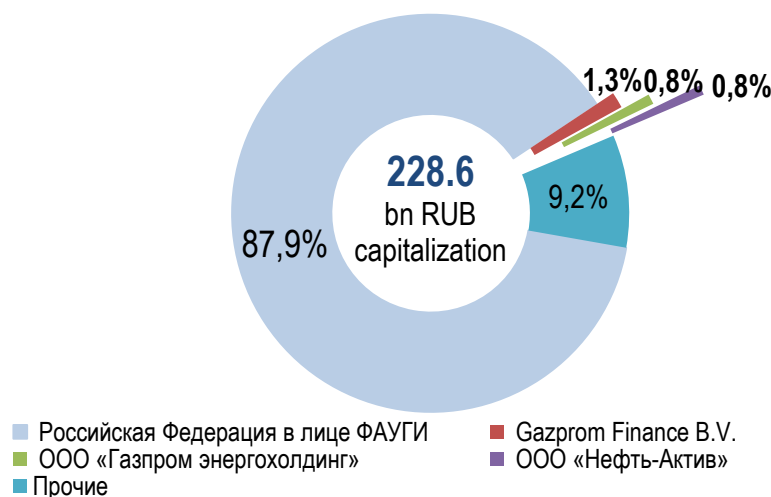
Director of the Department for Corporate Governance and Shareholder and Investor Relations

## 7.1. Share Capital

### Information on the Shareholding Structure of ROSSETI

As of December 31, 2016, the registered share capital of ROSSETI was 198,070,729,091 rubles and consisted of 198,070,729,091 shares, each with a par value of 1 ruble, including 195,995,579,707 ordinary shares and 2,075,149,384 preference shares<sup>91</sup>.

### Shareholding Structure (Shareholders with a Share of More than 1%) as of May 24, 2016<sup>92</sup>



### Quantity of Federally Owned Shares in ROSSETI as of December 31, 2016

Shareholder	Quantity of Shares		Percentage of Shares, %		Percentage of Share Capital, %
	Ordinary Shares	Preference Shares	Ordinary Shares	Preference Shares	
Federal Agency for State Property Management	173,953,862,023	145,523,224	88.75	7.01	87.90

Other than disclosed by the Company, the Company's executive bodies do not have information that any shareholder owns a share of more than five percent.

### Shareholders by Country as of May 24, 2016

Country	Percentage of Share Capital, %
Russian Federation	95.88
Netherlands	1.40
Cyprus	1.00

<sup>91</sup> On December 30, 2016, the Company began the placement of 3,259,955,215 additional ordinary shares. Further information can be found on the corporate website at <http://www.rosseti.ru/investors/capital/>

<sup>92</sup> The detailed shareholding structure is contained in Appendix 10.1 to the Annual Report.

United States	0.83
Switzerland	0.23
United Kingdom	0.19
Norway, Denmark, Sweden	0.16
Belize	0.07
Austria	0.06
Luxembourg	0.03
Cayman Islands	0.03
Estonia, Latvia, Lithuania	0.03
Ireland	0.02
British Virgin Islands	0.01
Italy	0.01
Other	0.04

Residents of the Russian Federation hold 95% of shares, while the remaining 5% of shares are distributed among corporate entities and individuals from 48 countries.

*Securities Market Overview for 2016*

#### **Stock Market Indices Including the Company's Shares as of December 31, 2016**

Index	Weight, %	Index Currency
MICEX Index	0.24 OS	RUB
MICEX Power Index	9.58 OS	RUB
	1.66 PS	RUB
MICEX SMID Index	1.68 OS	RUB
Second-Tier Index	2.12 PS	RUB
RTS Index	0.24 OS	USD
State-Owned Companies Index	1.28 OS	RUB
Moscow Exchange Broad Market Index	0.23 OS	RUB
	0.04 PS	RUB
RTS SMID Index	1.77 OS	USD



The Company's shares are also included in global providers' indices such as the S&P Global BMI USD Index, the FTSE Global Core Infrastructure 50/50 Index, and the FTSE Eastern Europe All Cap Index <sup>93</sup>.

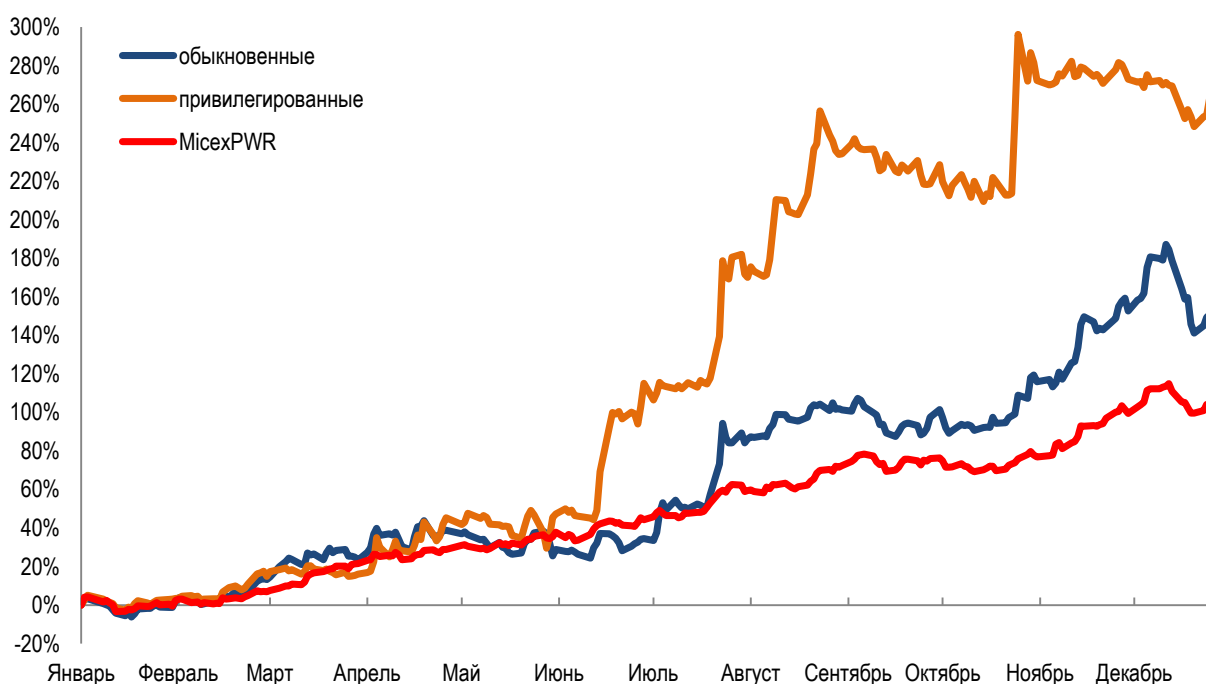
### Stock Market Quotes for the Company's Shares in 2016

ROSSETI's shares performed much better than the market in 2016: ordinary and preference shares gained 147% and 270% respectively, compared with a 29% rise in the MICEX Index and a 108% increase in the sectoral MICEX PWR Index.

The key factors contributing to the growth in ROSSETI share prices in 2016 were a 177% rise in the total value of traded shares in ROSSETI-owned subsidiaries, along with dividend payouts increased by electric grid companies to 50% of net profit for 2015.

Overall, shares in electric grid companies in 2016 received support from the stabilization of the Russian economy: a substantially slower GDP decline rate, a stronger Russian ruble, a decrease in the Bank of Russia's interest rates and inflation, a rise in resources saved by electric grid companies with resumed tariff indexation, and their systematic effective cost optimization measures.

### Changes in ROSSETI Share Prices (Ordinary and Preference Shares) and the MICEX PWR Index in 2016<sup>94</sup>



### Depositary Receipts

ROSSETI's global depositary receipts began trading on the London Stock Exchange's Main Market on December 8, 2011, and were admitted to trading as interdealer repos on the MICEX Stock Exchange on May 28, 2014.

<sup>93</sup> According to Bloomberg.

<sup>94</sup> Further information about the Company's shares can be found on the corporate website at [http://www.rosseti.ru/investors/securities/dynamics\\_stock/](http://www.rosseti.ru/investors/securities/dynamics_stock/)

Since the depositary receipts that represent ownership of ROSSETI's shares are traded in the Standard Listing segment of the London Stock Exchange's Main Market, the Company should comply with the requirements for depositary receipts under the Listing Rules, the Disclosure and Transparency Rules, and the Admission and Disclosure Standards.

## 7.2. Dividend Policy

*Introductory remarks from Yulia Yashcheritsyna, Director of the Department for Economic Planning and Budgeting, about the dividend policy in 2016 and the key areas in the future*

ROSSETI's Dividend Policy focuses on guaranteeing the rights of shareholders and investors, achieving return on investment acceptable to shareholders, increasing the dividend flow, and making the Company more attractive to investors. The key conditions that ensure the implementation of the basic principles and provisions of the Dividend Policy are the Company's financial stability and profitability.

We achieved a significant growth of financial and economic indicators in the reporting period; the ROSSETI Group's net profit and EBITDA hit a record high.

Beginning in early 2016, the securities market saw a positive trend in ROSSETI's share price. This helped our market capitalization reach 228.6 billion rubles at the end of 2016.

After a long break after 2012, ROSSETI shareholders received interim dividends of 1.8 billion rubles for the 1st quarter of 2016. For the first time in the Company's history, dividends were paid to holders of ordinary shares in ROSSETI. In accordance with the directives of the Government of the Russian Federation, income from dividends received from SDCs for 2015 were used in 2016 to provide financial support for SDCs' development plans related to ensuring their financial stability and development.

ROSSETI has plans not only to continue to achieve such results, but also ensure an upward trend, securing a further growth in net profit, net assets, market cap, and dividend payments.

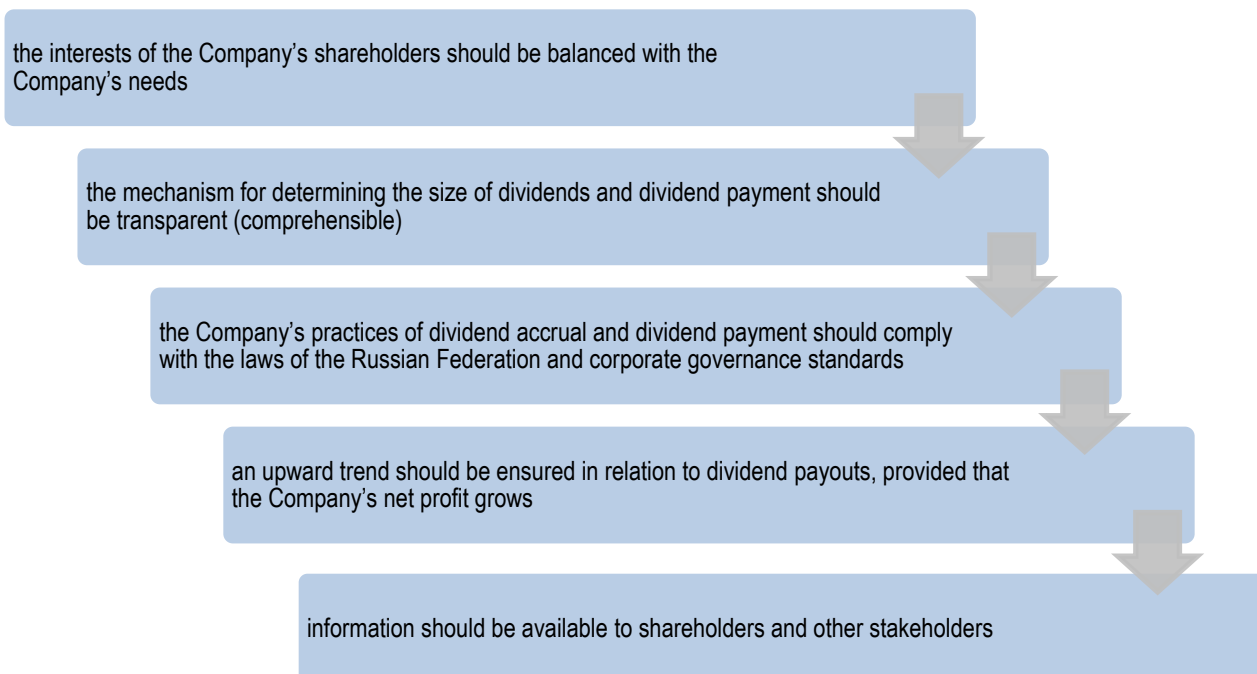
Very truly yours,

Yulia Yashcheritsyna  
Director of the Department for Economic Planning and Budgeting

### *Basic Provisions of the Dividend Policy*

ROSSETI's Dividend Policy focuses on protecting the rights of shareholders, ensuring strategic development, raising market capitalization, and making the Company more attractive to investors by balancing dividend payments with profit capitalization.

The basic principles underlying the Dividend Policy are set forth in the Regulations for Dividend Policy<sup>95</sup>:



In accordance with the Regulations for Dividend Policy, dividend payouts should be at least 25% of the Company's net profit.<sup>96</sup>

The size of dividends payable on shares is determined by the General Meeting of Shareholders on the recommendation of the Board of Directors. The Board of Directors prepares recommendations based on net profit, taking into account the necessity of establishing funds and the Company's need to finance the capital investment program.

Dividends may not be paid unless both of the following criteria are met:

- based on the results of the financial period, there is net profit;
- based on the results of the financial period, there is adjusted net profit.

### *Profit Distribution*

#### *Report on the Payment of Declared (Accrued) Dividends on the Company's Shares*

As resolved by the Annual General Meeting of Shareholders of ROSSETI on June 30, 2016, dividends of 1,784,970,000 rubles were paid for the 1st quarter of 2016.

The Company performed its obligations to pay dividends of 1,457,816,000 rubles for the 1st quarter of 2016 to the Federal Budget in full.

As of January 1, 2017, there were no overdue dividends payable to the Federal Budget.

<sup>95</sup> Approved by the Board of Directors (Minutes of the Meeting No. 169 of November 18, 2014); available on the corporate website at <http://www.rosseti.ru/about/documents/>

<sup>96</sup> Net profit does not include income from the revaluation of SDCs' securities traded in the market, along with the part of net profit distributed as funds, investments, development, and covering of losses of previous years.

Due to the absence of the Company's net profit for 2015, the net profit was not distributed, and the reserve and other funds were not established by the Company.

#### Profit Distribution Plans for 2016



### 7.3. Shareholder/Investor Relations

As a publicly traded company whose securities are listed on Russian and foreign stock exchanges, ROSSETI pays particular attention to the high-quality performance of the function of relations with shareholders and investors. To provide the investment community with complete information about the its activities, the Company:

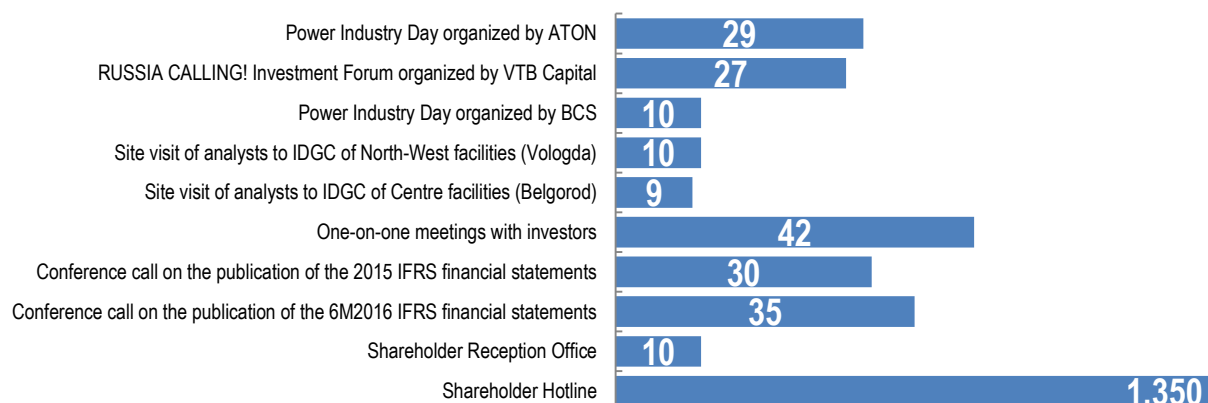
- discloses such full information about the Company on a regular basis as necessary for investors to make investment decisions;
- maintains and expands contact with investment banks and potential investors in securities of the energy industry;
- holds its own events or participates in outside events that contribute to the Company's transparency;
- promptly answers questions asked by shareholders of the Company.

In 2016, the Company used shareholder/investor relations tools such as one-on-one meetings, meetings at investment forums and production facilities, and conference calls discussing the published financial results.

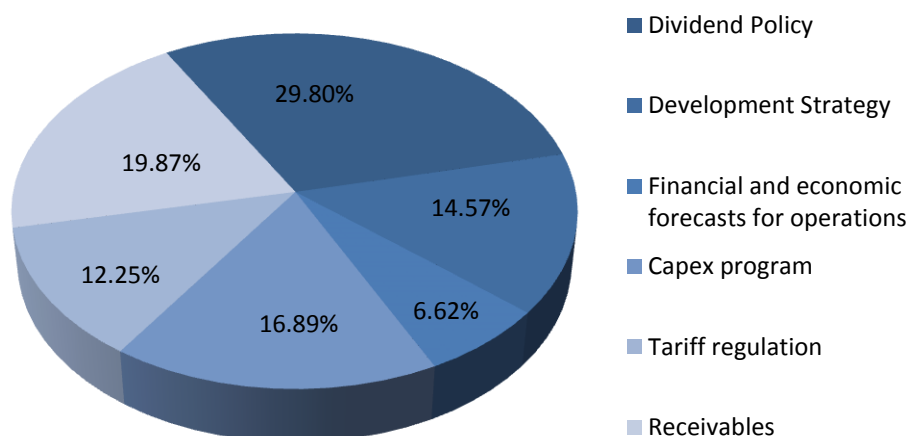
#### Number of Funds/Shareholders Attending Meetings

Analyst coverage was provided for ROSSETI by 8 major Russian and international banks in the reporting year.

#### Number of Funds/Shareholders Attending Meetings



#### Breakdown of the Subjects of Questions Asked by Analysts



In 2016, there was an increased interest from investors in ROSSETI securities.

ROSSETI is considering the possibility of expanding the geography of securities markets, including with an emphasis on Asian trading floors.

The IR calendar for 2016 and 2017 can be found on the Company's website in the section "Investors: Investor Calendar" at [www.rosseti.ru/investors/calendar](http://www.rosseti.ru/investors/calendar).

Events after the reporting period:

At a meeting with the financial community on January 31, 2017, ROSSETI's Director General Oleg Budargin said, "Last year was notable for a considerable increase in the Company's efficiency and transparency. For the first time in our history, high financial results allowed us to pay interim dividends in the first quarter of 2016. Management's efforts to enhance corporate governance enabled ordinary shares to be transferred to Quotation List Level 1 of the Moscow Exchange. The operating results show that ROSSETI's management is very much interested in the sustained creation of long-term value for shareholders and investors."

## **VI. CORPORATE SOCIAL RESPONSIBILITY**

*Introductory remarks from Nikolay Varlamov, Deputy Director General and Head of the Administrative Office*

Realizing that a stable and highly productive workforce consisting of qualified employees is the key to the operating reliability of the country's electric grid sector and energy security, we focus our efforts on retaining and developing our companies' human resources.

Almost half of our employees have worked in the industry for more than 10 years, the ROSSETI Group's average personnel turnover does not exceed 5%; the staffing level, including production personnel, is about 97%. All this results from our systematic HR management. We invest in employee development (over 50% of personnel take part in training programs every year), provide competitive employee benefits (above the average market values in all regions of our operations), implement targeted-oriented social support programs, form a personnel reserve, and systematically deal with young people.

In this regard, as an employer assessing long-term staffing needs and aimed at recruiting young talent, we cooperate with more than 300 universities and colleges in all regions where the Group's entities operate. Organizing targeted personnel training, externships and traineeships, and student labor brigades, participating in educational activities, providing occupational guidance, and rendering assistance with the modernization of training facilities bear fruit: over 10,000 qualified young staff members were hired in the electric grid sector in 2016.

The Company takes part and organizes annual events aimed at young people, including innovation contests and regional and sectoral youth forums. In 2016, the Company participated in the International Forum of Young Power Engineers and Industrialists (Forsage) and arranged for the ROSSETI Group's young employees' participation in the Mashuk North Caucasian Youth Forum and the POWER-GEN and ENES innovation forums. The most notable projects of the youth policy include the International Youth Energy Forum organized by ROSSETI as part of the official program of the St. Petersburg International Economic Forum. In 2016, the forum was attended by energy companies from Germany, Belarus, France, and China.

The Company takes part in government-initiated projects to develop the system of professional qualifications, and this work will remain one of our priorities in the near future.

Under the auspices of the Ministry of Energy and the Ministry of Labor and Social Protection, together with the Council on Professional Qualifications in the Electric Power Industry, we participate in carrying out the project to format the national qualification system. As a developer of professional standards for the key activities of the electric grid sector, pursuant to the resolution of the Russian Government on the particularities of applying professional standards in government-linked companies and the applicable directives of the Federal Agency for State Property Management, we introduce professional standards into the ROSSETI Group under the action plan covering the period until 2020.

ROSSETI is a pioneer of the WorldSkills movement in Russia. In the fall of 2016, the Company signed an agreement for associate membership in WorldSkills Russia, and as



early as the summer of 2016, the Company's first open corporate competition based on the WorldSkills methodology was held for the competence "Maintenance and Repair of Relay Protection Devices," and the electric grid sector's new competence "Operation of Cable Power Lines" was presented at the 3rd national competition.

Traditionally, special attention is given to popularizing a healthy lifestyle and encouraging employees to go in for popular sports. To systematize this work, the Company issued an annual calendar of corporate sports events including summer and winter sport tournaments, the winners of which have the honor of representing the ROSSETI Group at the sector's championships. By reviving the tradition of participating in the governmental physical culture program, we enable the ROSSETI Group's employees to have individual achievements in sports.

Very truly yours,

Nikolay Varlamov  
Deputy Director General and Head of the Administrative Office

## 8.1 Personnel and Social Policy

*Key Results of Implementing the Personnel Policy in 2016, Including Human Resource Development, Training, and the Personnel Reserve*

The ROSSETI Group's activities in human resource management are governed by the uniform Personnel and Social Policy, which makes it possible to maintain high-quality characteristics of personnel.

Key achievements in 2016:

- one-third of the Company's employees was young people aged under 35;
- the average age of personnel was 41.7 years (compared with 42 in 2015);
- the personnel turnover was 4.5% (compared with 4.9% in 2015);
- the Company's staffing level remained the same at 97%.

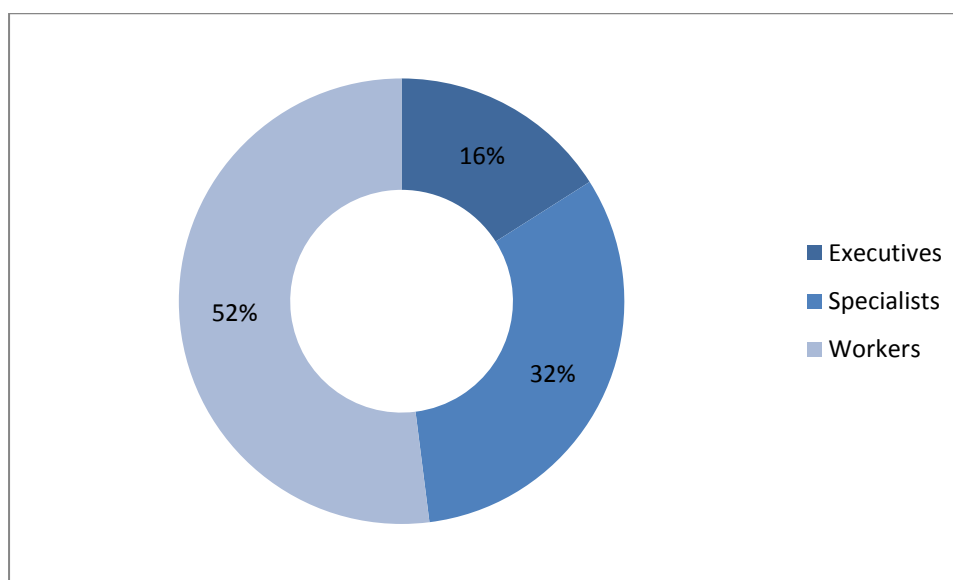
The staff on the payroll of ROSSETI's electric grid subsidiaries was 216,000 people in 2016.

### Staff on the Payroll of the ROSSETI Group in 2016

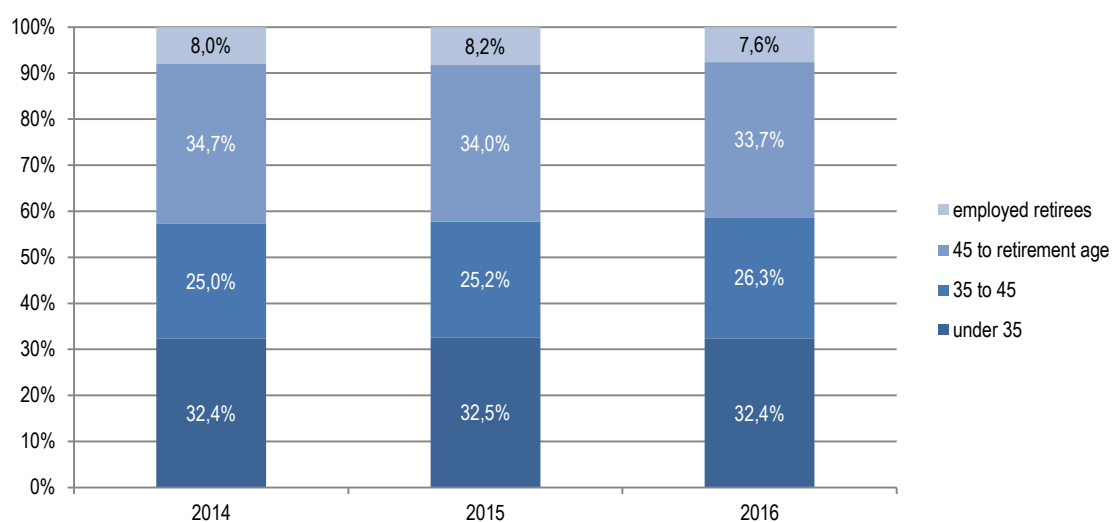
Company	Staff on the Payroll in 2016, thousand people
<b>Total for SDCs engaged in the core business</b>	<b>216,0</b>
IDGC of Centre*	29.7
IDGC of North-West	14.7
IDGC of Urals*	15.8
IDGC of Volga	21.3
IDGC of Siberia*	20.1
TDC	1.6
IDGC of South	13.5
IDGC of Center and Volga Region*	22.3
IDGC of Northern Caucasus *	14.8
Tyumenenergo	7.4
Yantarenergo	2.0
MOESK	14.8
LENENERGO*	7.5
Kubanenergo	8.4
FGC UES*	22.1

\* including SDCs and subsidiary SDCs engaged in the grid business under management

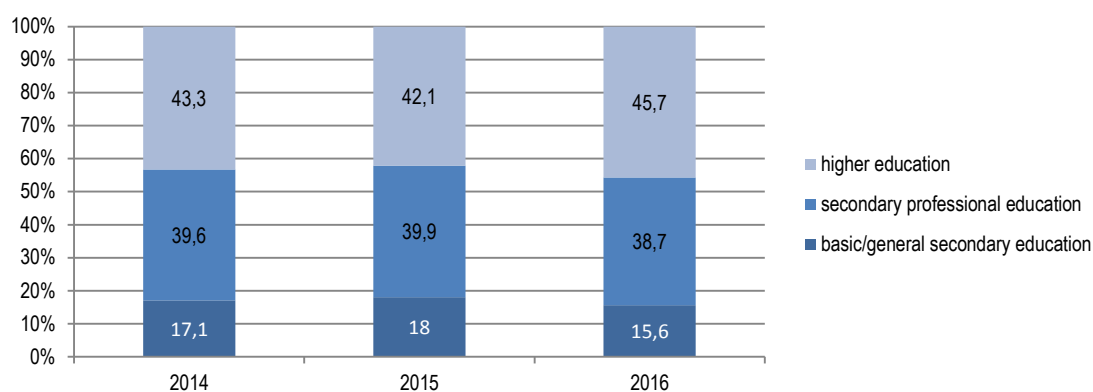
### Personnel of the ROSSETI Group by Occupational Category in 2016



**Personnel of the ROSSETI Group by Age in 2014–2016**



**Personnel of the ROSSETI Group by Educational Level in 2014–2016**



A basic element of the Personnel and Social Policy of ROSSETI is the human resource development system. Overall, the off-the-job training, retraining, and advanced training programs were attended in 2016 by 107,600 people, or about 50% of the staff on the payroll.

Production personnel accounted for 89% of trainees. Corporate training centers provided training for 58.2% of the total number of off-the-job trainees.

A key mechanism of career development at all management levels—from electric grid districts to the electric grid sector as a whole—is personnel reserves of about 15,000 people. Internal candidates accounted for more than 60% of appointments to managerial positions in 2016.

#### *Personnel Motivation Principles and Approaches*

ROSSETI operates an efficient personnel motivation system including financial and nonfinancial incentives.

## Personnel Motivation System

### Financial Incentives

- competitive pay;
- pay increases due to higher consumer prices;
- reasonable differentiation between managerial and production personnel;
- social pay.

### Nonfinancial Incentives

- governmental, sectoral, and corporate awards;
- health insurance;
- accident insurance;
- life insurance;
- non-state pension coverage.

The principle of performance-based pay is implemented through the bonus payment system, taking into account individual employee performance and employee contributions to the achievement of corporate goals and objectives.

#### *Key Results in Occupational and Industrial Safety*

A top priority for ROSSETI is to reduce the risk of occupational injuries. The Long-Term Development Program specifies a 10% reduction in the risk of occupational injuries by 2019.

ROSSETI keeps on building and introducing the occupational safety management system (OSMS) in accordance with the Russian laws. Proposals have already been prepared in relation to the improvement of the OSMS, with the uniform Regulations for the Occupational Safety Management System in the Electric Grid Sector to be formulated by the end of 2017 and the new OSMS to be introduced into SDCs and ROSSETI as early as 2018.

The occupational safety management system is aimed at:

- ensuring safe working conditions for employees at all stages of the production process;
- creating conditions where the risk of injuries is prevented;
- taking corrective measures to improve the efficiency of occupational safety.

All measures resulted in reducing the number of accidents by 9.8% in 2016 compared with 2015 from 41 to 37, the total number of injured persons decreased by 4.3% from 46 to 44, and the number of fatalities decreased by 24% from 25 to 19. In addition, the number of fatalities resulting from the main cause of injuries, namely electric shocks, decreased from 11 in 2015 to 9 in 2016. No occupational diseases were identified in 2016.

## 8.2. Charity

The ROSSETI Group's charity and sponsorship activities in the regions of its operations are in accordance with the Regulations for the Procedure for Establishing and Using the Sponsorship and Charity Fund approved by the Board of Directors on February 24, 2016.

The Company spent 3,268 million rubles on charitable activities in 2016.

The main areas of charity measures taken in 2016 are as follows:

- support for education, science, culture, the arts, instruction, physical culture, and popular sport;
- social support and protection for people, including **financial assistance** for low-income people and the social rehabilitation of unemployed, disabled, and other people physically or mentally unable to independently exercise their rights and legitimate interests;
- protection and proper maintenance of buildings, facilities, and areas of historic, spiritual, cultural, or environmental importance;
- social rehabilitation of orphans, children without parental care, abandoned children, and children in difficult situations.

The Company and SDCs spent 159 million rubles on sponsorship in 2016, including in the following areas:

- physical culture and popular sport;
- other socially important areas.

### 8.3 Implementation of Environmental Programs

The ROSSETI Group pays considerable attention to minimizing environmental impact.

In November 2016, the Management Board of the Company decided to recommend that the Board of Directors approve and put into effect the Environmental Policy of the Electric Grid Sector.

Principal targets of the Environmental Policy:

- decommission and subsequently destruct 100% of equipment containing polychlorinated biphenyls (2025);
- increase the share of motor vehicles using clean fuel to 10% of the entire fleet of vehicles (2020), provided that motor vehicles using clean fuel have the full payback compared with the equivalent internal combustion engines (gasoline, Gas, diesel fuel) within 7 years;
- introduce an environmental management system and obtain ISO 14001 certification (2020);
- reduce electricity network losses to 9.14% (2019);
- ensure that at least 10% of purchased transformer oil is regenerated annually;
- ensure that at least 15,000 kilometers of self-supporting insulated wires are introduced into the entire Group;
- install at least 15,000 units of bird protection equipment in the entire Group annually;
- reduce energy consumption for business purposes for office and production buildings by 3% annually by 2020.

One of the main promising areas in carrying out the Environmental Policy is the wide use of tall towers designed to support power lines over tree crowns and making it possible to minimize deforestation.

#### *Measures Taken to Enhance the Environmental Safety of Production Facilities and Equipment*

1. Pursuant to the Stockholm Convention on Persistent Organic Pollutants, in 2016, ROSSETI transferred to specialist organizations for disposal/decontamination 1,115 units of equipment containing polychlorinated biphenyls.
2. As part of biodiversity conservation measures, in 2016, ROSSETI SDCs installed 83,529 units of bird protection equipment.
3. The Company uses self-supporting insulated wires to prevent birds from being injured and killed in their nesting areas and habitats. 16,100 kilometers of self-supporting insulated wires were introduced in 2016.

#### *Air Emissions*

The ROSSETI Group's gross air contaminant emissions were 1,548.25 tonnes in 2016.

#### *Environmental Protection Measures*

ROSSETI SDCs' measures to comply with water protection laws include:

- drafting standards for permissible effluents to water bodies;
- drafting documents on sanitary protection zones for potable water intake wells;
- obtaining renewed subsoil use licenses in relation to underground water extraction and fulfilling subsoil use license conditions in relation to underground water extraction;
- exercising laboratory test control of compliance with existing standards for permissible effluents to water bodies water bodies;
- exercising laboratory quality control of extracted underground water;
- exercising control of surface water quality at moorings of small vessels, dredging moorings, and conducting regular (annual) observations on a part of a water body (morphometric observations) under water use contracts;

- carrying out technical measures (timely repairs and maintenance of water disposal systems, local treatment facilities, and systems and equipment of oil facilities).

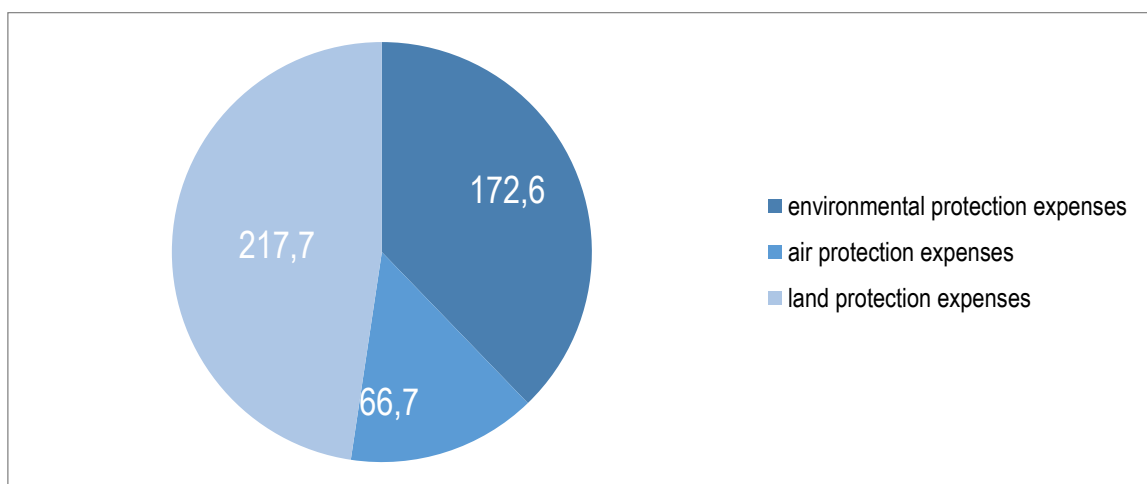
ROSSETI SDCs' measures to comply with production waste treatment laws include:

- drafting standards for waste formation and waste disposal and obtaining approvals for standards for waste formation and waste disposal. In 2016, ROSSETI SDCs drafted 355 standards for waste formation and waste disposal and obtained approvals for such standards;
- certifying waste of hazard classes I–IV;
- constructing waste accumulation sites as required by the environmental protection laws;
- entering into contracts to deliver waste to specialist organizations;
- keeping records of waste treatment;
- preparing technical reports on waste treatment.

#### *Environmental Protection Expenses*

The ROSSETI Group's current environmental protection expenses totaled 457 million rubles in 2016.

#### **Environmental Protection Expenses of the ROSSETI Group in 2016, million rubles**



The ROSSETI Group's payment for adverse environmental impacts totaled 41 million rubles.

Main reasons for above-level payment:

- permits related to environmental protection were not issued;
- production waste was placed at facilities other than those included on the State Register of Waste Disposal Facilities because the latter were not located in the areas of operations of the ROSSETI Group's production facilities.



## 8.4 Disclosure and External Communications

ROSSETI establishes long-term trust-based relationships with all stakeholders.



### Basic Principles of ROSSETI's External and Internal Communications

accuracy

transparency

completeness

The Company is active in using a whole range of channels to inform stakeholders about events, facts, and the Company's position in relation to various aspects of its activities:

- corporate website of the Company;
- mass media;
- business events;
- direct contacts;
- social networks;
- blogosphere;
- communications with subsidiaries.

The number of website visitors increased 3.5-fold compared with 2013.

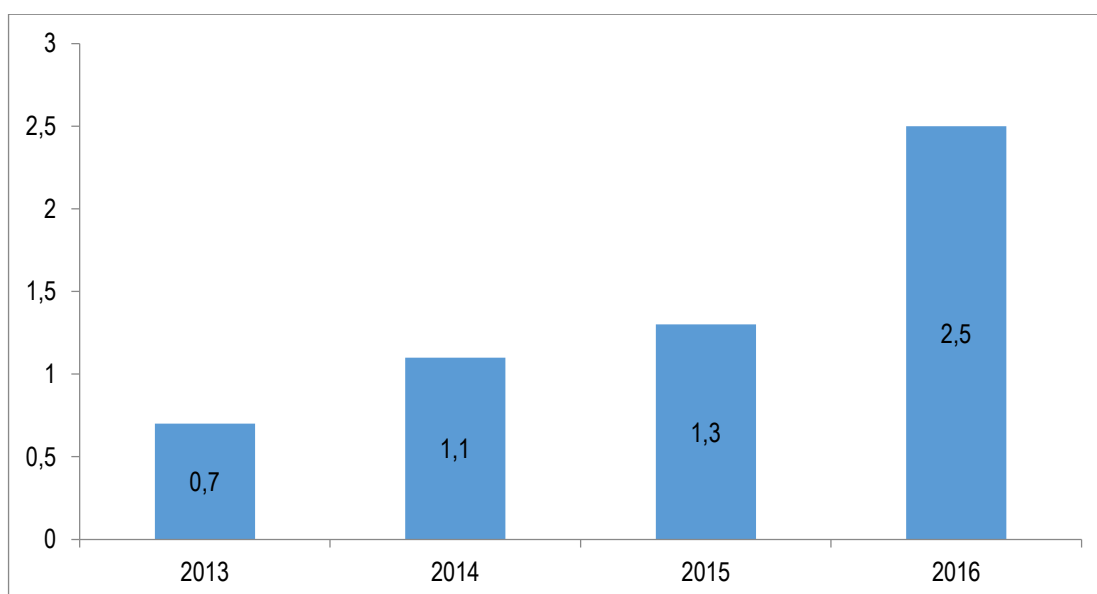
The number of news items in 2016 was up by 5% on 2015.

Radio and TV broadcasters aired 600 items mentioning the Company.

Compared with 2015, the number of followers on social networks and user coverage increased by 20% and 87.5% respectively.

Eight issues of the *Rossiyskie Seti* corporate newspaper were prepared and published in 2016.

#### ROSSETI Website Visitors in 2013–2016, million people



#### *Key Achievements in Insider Information Security*

As a publicly traded company whose securities are listed not only in Russian but also on international stock exchanges, ROSSETI gives special attention to insider information that can have a material effect on the value of the Company's financial instruments. ROSSETI uses the world's best practices in this area to provide all stock market participants with equal conditions and combat insider information misuse.

Insider information is disclosed in accordance with the Company's internal document, namely the Regulations for Disclosing Material Information of ROSSETI Under Shareholder Laws and Securities Market Laws (Information Policy). In February 2016, the Board of Directors of ROSSETI approved a restated version of the Information Policy, which follows advanced trends in the development of corporate governance as related to ensuring the maximal transparency and accessibility of information about the Company's activities

In order to improve preventive control, ROSSETI approved the Corporate Code of Ethics and Business Conduct,<sup>97</sup> which, among other things, governs the corporate accountability and behavior ethics of the Company's employees qualifying as insiders.

The Corporate Code of Ethics and Business Conduct defines the principal standards and rules for the individual and collective behavior of employees and members of the Company's management and control bodies and aims to accomplish the mission and strategic goals set forth in the Development Strategy and the Long-Term Development Program.

The Company carefully meets all legal requirements regarding the disclosure of insider information. No cases of noncompliance with the deadlines for disclosing insider information were found in 2016.

<sup>97</sup> Approved by the Board of Directors (Minutes of the Meeting No. 252 of February 22, 2017); available on the corporate website at <http://www.rosseti.ru/about/documents/>.

As of December 31, 2016, ROSSETI had 518 insiders.

In order to protect insider information, the Company created the conditions that ensure information security in accordance with the Russian laws and identify and prevent any possible leakage of information. The Company employs modern technical aids to protect information systems from unauthorized access to insider information and from loss of its confidentiality and uses an automated system to monitor leakages of information and counter computer attacks on information assets.

The Regulations for Insider Information are available on the corporate website at [http://www.rosseti.ru/investors/info/insider/doc/polojenie\\_ob\\_insaide\\_ot\\_26.08.2014.pdf](http://www.rosseti.ru/investors/info/insider/doc/polojenie_ob_insaide_ot_26.08.2014.pdf).

Further information intended for ROSSETI insiders can be found on the corporate website at <http://www.rosseti.ru/investors/info/insider/>.

## 8.5 Participation in International, Nationwide, and Regional Events

### Participation in Conferences and Exhibitions

ROSSETI took an active part in major conferences and exhibitions in 2016, which resulted in signing several cooperation agreements with regional authorities, financial and educational institutions, and other organizations interested in the development of the electric grid sector.

#### St. Petersburg International Economic Forum

June 16-18, 2016, ROSSETI traditionally participated in the St. Petersburg International Economic Forum as a Strategic Partner.

The exhibition included the ROSSETI stand, the main idea of which reflected the theme of building tomorrow's energy system through internal integration. On June 17, 2016, ROSSETI's Director General Oleg Budargin spoke at the roundtable organized by the Company as part of the St. Petersburg International Economic Forum and dealing with the issues of energy integration. During the event, global experts in energy discussed the possibilities of forming a single electric grid infrastructure on various continents and development models for the electricity markets. ROSSETI's Director General Oleg Budargin also became a participant in the discussion about Russian companies' ability to influence the development of the global infrastructure services market.

International cooperation in energy was discussed at the St. Petersburg International Economic Forum at the working meeting of Alexander Galushka, Minister for the Development of the Russian Far East, and Oleg Budargin, Director General of ROSSETI, with Masayoshi Son, Chairman & CEO of SoftBank Group Corp., and Tadashi Maeda, COO & Senior Managing Director of the Japan Bank for International Cooperation (JBIC). The meeting dealt with the project to integrate the energy systems of Northeast Asian countries by using an EHV power line and implement the Asia Super Grid concept to create links between the energy systems of Russia, Japan, South Korea, and China.

#### INNOPROM 2016 International Industrial Innovation Forum

July 11–14, ROSSETI took part in the INNOPROM 2016 International Industrial Innovation Forum.

The exhibition included the stand of ROSSETI's subsidiary, IDGC of Urals, which displayed modern technical equipment of the company. Visitors to the electric utility's stand not only became acquainted with innovative development trends of the electric grid sector but also saw real equipment used by energy workers to secure a reliable and uninterrupted electricity supply for households and industrial customers in the Urals and the Kama region. It is worth noting that the technical area was constructed to show working conditions as realistically as possible. Domestically made special equipment used in the energy industry was delivered to the stand directly from working sites. The total weight of exhibits exceeded 15 tonnes.

Another area of the company's stand displayed electric vehicles and Russian-made charging stations. At the meeting of the working group on the development of production and use of environmentally friendly vehicles at the forum of innovations, ROSSETI gave a report on the development of EV charging infrastructure.

#### Eastern Economic Forum

September 2–3, 2016, ROSSETI took part in the Eastern Economic Forum (EEF) as an Official Partner.

The event focuses on strengthening ties among the international investor community, Russian businesses, and federal, regional, and local authorities. The forum was visited by more than 1,500 guests and delegates from 24 countries with the largest delegations coming from China, Japan, South Korea, Singapore, and Malaysia.

ROSSETI's Director General Oleg Budargin spoke at the Russian-Japanese business forum, part of the EEF, about the experience of cooperation with Japanese companies in the manufacture of high-technology equipment, noting the responsibility and reliability of Japanese partners.

### **Rugrids-Electro International Electric Power Forum**

October 18–19, 2016, with the active involvement of ROSSETI, Moscow hosted the 5th Rugrids-Electro International Electric Power Forum, bringing together Russian and international experts from 18 countries, including Germany, France, Italy, and Japan, as well as the official delegation APEC. The participants discussed how to develop the electricity industry and modernize the electric grid sector in current conditions. The key topic of the business program was the future of energy 4.0. The main discussions dealt with methods for improving the efficiency of grid facilities and applying smart energy technology. One of the most important events was the awarding ceremony for the winners of the “Energy Breakthrough 2016” All-Russia Contest of Innovative Smart Energy Projects. The awards were granted by ROSSETI's Director General Oleg Budargin.

## International Activities of ROSSETI

In cooperation with major European and Asian electric utilities, ROSSETI continued in 2016 to develop integration projects in Eurasia.

### 1. REGIONS

#### Northeast Asia

ROSSETI cooperates with electricity companies of Northeast Asian countries (Japan, China, and South Korea) in studying and analyzing the development of interconnections under the Asia Super Grid megaproject.

On March 30, 2016, as part of the 2016 Global Energy Interconnection Conference in Beijing, ROSSETI, Russia; SoftBank Group Corp., Japan; State Grid Corporation of China (SGCC), China; and Korea Electric Power Corporation (Kepco), South Korea, signed the Memorandum of Understanding to jointly promote the Northeast Asian integrated power system. The meeting included discussing measures to implement the instructions issued by the Russian President to establish an intergovernmental working group to support the project.

On September 9, 2016, Oleg Budargin spoke at the workshop organized by the Renewable Energy Institute on the Wide Use of Renewable Sources in Global Interconnections about the cross-border integration of grids and the effects of implementing the Asia Super Grid project.

#### Integration Projects with Japan

During a working visit to Japan in September 2016, ROSSETI's Director General Oleg Budargin conducted negotiations with Masayoshi Son, Chairman & CEO of SoftBank Group Corp. They discussed the creation of the Asia Super Grid, which is to include an energy bridge between Russia and Japan. In the reporting year, initial practical steps were taken: ROSSETI studied the feasibility of electricity supply from Russia to Japan, considered possible options for energy routes, and estimated the costs of building grid infrastructure for the interconnection.

#### Integration Projects with China

On June 25, 2016, in Beijing, in the presence of President of the People's Republic of China Xi Jinping, and President of the Russian Federation Vladimir Putin, ROSSETI and State Grid Corporation of China (SGCC) signed a JV agreement to rehabilitate the Russian electric grid sector's infrastructure and construct new power facilities in Russia and, in the longer term, other countries.

#### Integration Projects with South Korea

In accordance with the Memorandum of Understanding signed in 2015 by ROSSETI and Korea Electric Power Corporation (Kepco) to study the possibility of connecting the energy systems of Russia and South Korea, the joint working group on scientific and technical cooperation held the first meeting in January 2016 and established priorities for cooperation.

#### Central Asia

In 2016, ROSSETI's initiatives to develop energy corridors as part of the Caspian grid reached a practical level. Jointly with electric utilities of Georgia, Armenia, and Iran, work started on preparing technical solutions for developing the North-South energy corridor and ensuring the future electricity supply.

On September 16, 2016, the parties signed the agreement for the feasibility study of the interconnection of Russia, Armenia, Georgia, and Iran and further measures for its implementation in accordance with the decision of the Ministers of the parties to the Coordinating Council. The project capacity is up to 1,000 MW.

## Eurasia

The Russian energy system has a unique geographical position, which allows it to serve as a natural energy bridge between Europe and Asia, with all conditions for increasing its export potential. Russia uses 140 interstate power lines, which connect the country to 11 adjacent energy systems. Jointly with Électricité de France (EDF) and State Grid Corporation of China (SGCC), ROSSETI considers the possibilities of developing interconnections on the Eurasian continent. ROSSETI and EDF agreed in principle to conduct joint studies of future electricity balances, the possibility of creating interconnections between Europe, Russia, and Northeast Asia, and the development of technological integration in Eurasia.

## 2. INTEGRATION ASSOCIATIONS

### European Union

#### **Development of Russia-Finland Cross-Border Transmission**

ROSSETI continued in 2016 to cooperate with Fingrid Oyj in studying and modeling the Finnish and Russian electricity markets under the strategic cooperation agreement signed by ROSSETI and Fingrid Oyj on November 13, 2015. In accordance with the road map for joint research approved in December 2015, ROSSETI held a series of joint meetings with Fingrid Oyj to discuss the interim results of cooperation and agree on subsequent steps to conduct joint research. As a result of the research, it is planned to prepare joint proposals for the development of Russia-Finland electricity transmission by the end of 2017.

#### **BRELL Cooperation**

At the 14th meeting in December 2016, the heads of the parties to the agreement for the parallel operation of the energy systems of the countries of the BRELL (Belarus, Russia, Estonia, Latvia, and Lithuania) Energy Ring approved the new regulations for the planning of electricity (capacity) supply balances between the United Power System of Russia and the Integrated Power System of Belarus, including taking into account the priorities established for the member states of the Treaty on the Eurasian Economic Union and giving consideration to the operating results of the Nord Pool (Baltic states).

### Commonwealth of Independent States

ROSSETI takes an active part in implementing the Strategy for Interaction and Cooperation of the Member States of the Commonwealth of Independent States in Energy approved by the Electric Power Council of the Commonwealth of the Independent States. The Company has strategic communications with electric utilities of the CIS member states on issues of cooperation in integration.

#### **Cooperation with Belenergo**

In 2016, ROSSETI continued extensive cooperation with Belenergo under the strategic cooperation agreement of January 22, 2015, and in accordance with the approved plan of joint actions for 2016.

The key events were republican and interregional professional competitions among equipment repair and maintenance personnel, joint seminars on the operation and repair of electrical equipment, and emergency training to remedy large-scale power outages in distribution grids.

## Eurasian Economic Union

As part of measures carried out by the Eurasian Economic Commission jointly with the member states of the Customs Union and the Single Economic Space to form a common electricity and capacity market in the Eurasian Economic Union, ROSSETI participates in drawing up documents that govern the opening and subsequent operation of the common electricity market of the Eurasian Economic Union (OREM Concept, OREM Formation and Operation Program).

ROSSETI takes part in formulating the rules for mutual electricity trade in the common electricity market of the Eurasian Economic Union under the action plan to implement the Program to Form the Common Electricity Market of the Eurasian Economic Union. The member states of the Eurasian Economic Union (Russia, Armenia, Kazakhstan, and Kyrgyzstan) signed the Program in December 2016 with due consideration to the rules for access to natural monopolies' services in the Eurasian Economic Union in order to provide the common electricity market's participants with access to natural monopolies' electric power services in the member states, taking account of the rules for determining and allocating transmission capacity and developing interstate cross-sections.



## **VII. ADDITIONAL INFORMATION**

### **9.1. General Information**

**FULL CORPORATE NAME: PUBLIC JOINT STOCK COMPANY ROSSETI**

**SHORT CORPORATE NAME: PJSC ROSSETI**

**REGISTERED ADDRESS AND PLACE OF BUSINESS:** Russia, 121353, Moscow, Belovezhskaya, 4

**TAXPAYER IDENTIFICATION NUMBER (INN)/PRINCIPAL STATE REGISTRATION NUMBER (OGRN):**  
7728662669/1087760000019

**UNIFORM STATE REGISTER OF JURIDICAL PERSONS:** Series 77 No. 011168002 of July 1, 2008

**RUSSIAN CLASSIFICATION OF ENTERPRISES AND ORGANIZATIONS (OKPO):** 94129941

**TEL./FAX:** +7 (495) 995 -53-33, 664-81-33 (9 a.m. to 6 p.m. Moscow time)

**E-MAIL:** [info@rosseti.ru](mailto:info@rosseti.ru)

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

**DEPARTMENT FOR CORPORATE GOVERNANCE AND SHAREHOLDER AND INVESTOR RELATIONS:**

**Toll-free shareholder hotline:** 9 a.m. to 6 p.m. Moscow time, Mon. through Fri. **TEL.:** +7 (495) 974-87-40 **E-MAIL:** [ir@rosseti.ru](mailto:ir@rosseti.ru)

**AUDITOR FULL CORPORATE NAME: RSM RUS LIMITED LIABILITY COMPANY**

**SHORT CORPORATE NAME: RSM RUS**

**ADDRESS:** Russia, 119285, Moscow, ul. Pudovkina, 4

**TEL.:** +7 (495) 363-2848 **FAX:** +7 (495) 981-4121

**E-MAIL:** [mail@rsmrus.ru](mailto:mail@rsmrus.ru)

[www.rsmrus.ru](http://www.rsmrus.ru)

**DEPOSITARY BANK FULL CORPORATE NAME: THE BANK OF NEW YORK MELLON**

**SHORT CORPORATE NAME: BNY MELLON**

**ADDRESS:** One Wall Street, New York, New York 10286, USA

**TEL.:** +1 212 815 5984

[www.bankofny.com](http://www.bankofny.com)

**REGISTRAR FULL CORPORATE NAME: STATUS REGISTRATION COMPANY JOINT-STOCK COMPANY**

**SHORT CORPORATE NAME: AO STATUS**

**ADDRESS:** Russia, 109544, Moscow, ul. Novorogozhskaya, 32/1

**TEL.:** +7 (495) 974-83-50 **FAX:** +7 (495) 678-71-10

[www.rostatus.ru](http://www.rostatus.ru)

## 9.2. Disclaimer

This Annual Report is prepared using information available to PJSC ROSSETI ("Company") and its subsidiaries and dependent companies at the time of the preparation hereof.

This Annual Report contains, inter alia, information concerning the Company's future production and business operations based on projections and estimates of the Company's management relying upon the current situation.

Due to various objective factors, the actual performance results may differ from such projections and estimates.

This Annual Report contains certain forward-looking statements regarding the Company's business operations, economic indicators, financial condition, plans, projections, and expected results. This Annual Report can also contain forward-looking statements regarding changes in prices of products/ services, output and consumption, costs, estimated expenditures, development prospects, and other similar factors and predictions with respect to the development of the industry and markets and to the start and end dates of specific projects related to the Company's business.

Forward-looking statements are generally identified by words such as "intend," "strive," "project," "expect," "estimate," "plan," "believe," "assume," "may," "can," "should," "will," "continue," and other similar or related words and expressions.

By virtue of their particularities, forwardlooking statements involve inherent risk and uncertainty of a general and specific nature, and there is a risk that estimates, predictions, projections, or other forward-looking statements may not materialize.

In view of the foregoing risks, uncertainties, and assumptions, the Company warns that the actual results may materially differ from what is expressed, whether directly or indirectly, in the forward- looking statements and valid only at the time of the preparation of this Annual Report.

The Company makes no representations or warranties with respect to the achievement of the operating results described in the forward-looking statements.

The Company shall not be liable for any losses that may be incurred by any individuals or corporate entities relying upon forward-looking statements. In each particular case, such forward-looking statements are only one of the numerous scenarios and shall not be regarded as the most likely.

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.

### 9.3. Glossary of Terms and Abbreviations

<b>ROSSETI</b>	Public Joint Stock Company ROSSETI (PJSC ROSSETI) or the Company
<b>APP</b>	Nuclear power plant
<b>AHML</b>	Agency for Housing Mortgage Lending
<b>SS</b>	Subsidiary subsidiaries
<b>GVA</b>	Gigawatt-ampere
<b>GW</b>	Gigawatt
<b>GDR</b>	Global depositary receipt
<b>AGM</b>	Annual General Meeting of Shareholders
<b>SGCC</b>	State Grid Corporation of China
<b>SDCS</b>	Subsidiaries and dependent companies
<b>LTDP</b>	Long-Term Development Program
<b>UNEG</b>	Unified National (All-Russian) Electric Grid
<b>UPS</b>	United Power System of Russia
<b>KV</b>	Kilovolt
<b>KPI</b>	Key performance indicators
<b>PL</b>	Power line
<b>MVA</b>	Megavolt-ampere
<b>MW</b>	Megawatt
<b>IDGC</b>	Interregional Distribution Grid Company
<b>IFRS</b>	International Financial Reporting Standards
<b>MRR</b>	Minimum regulated revenue

<b>NS</b>	Nominee shareholder
<b>VAT</b>	Value added tax
<b>R&amp;D</b>	Research and development
<b>RDC</b>	Research and development center
<b>HDP</b>	Heat deficit period
<b>OVS</b>	Overvoltage suppressor
<b>IPS</b>	Integrated Power System
<b>SS</b>	Substation
<b>RP</b>	Relay protection
<b>RAS</b>	Russian Accounting Standards
<b>RGC</b>	Regional grid company
<b>REC</b>	Regional Energy Commission
<b>ICS</b>	Internal control system
<b>MM</b>	Mass media
<b>SO UPS</b>	System Operator of the United Power System
<b>NC</b>	Network connection
<b>TGO</b>	Territorial grid organization
<b>FES</b>	Fuel and energy sector
<b>CHPP</b>	Combined heat and power plant
<b>AC</b>	Authorized capital
<b>FAS</b>	Federal Antimonopoly Service of the Russian Federation
<b>CSC</b>	Customer service center

<b>ETF</b>	Electronic trading floor
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortization
<b>IR</b>	Investor/shareholder relations department
<b>MICEX PWR</b>	MICEX Power Index. The Sector Indices are market capitalization weighted indices calculated based on prices of the most liquid shares of Russian issuers operating in the relevant economic sectors, admitted to trading on the Moscow Exchange, and included in the Broad Market Index calculation base