

ROSSETI continued to carry out its import substitution program in the reporting year. The foreign economic situation in 2014 around the Russian Federation showed the correctness and importance of import substitution efforts in the electric power sector as a guarantee of the country's future energy security.

The policy of supporting domestic manufacturers received legislative support. In late 2014, the Federal Law "On Industrial Policy in the Russian Federation" was enacted, which, among other things, facilitates the implementation of large-scale import substitution in the electricity sector.

The import substitution program of ROSSETI will be reviewed by the Board of Directors in the 1st half of 2015 and is to be a key instrument for implementing the Company's Long-Term Development Program. The Company intends to carry out the program at an accelerated pace and decrease the share of imported products to 14% by 2020.

As instructed by the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security of the Russian Federation, ROSSETI formulated and carries out the Action Plan to Reduce Import Dependence in the Electric Grid Sector of the Russian Federation.

The Action Plan includes the following key measures:

- develop and implement the comprehensive Import Substitution Program for SDCs for the period until 2019;
- extensively cooperate with domestic manufacturers in order to create the conditions for achieving expanded production and improved product quality;
- unify technical and design solutions by centralizing equipment purchases for SDCs;
- minimize the use of imported equipment and materials in the course of preparing design solutions and maximize the use of domestic equivalents;
- create the conditions for entering into long-term supply contracts with domestic manufacturers for guaranteed quantities in order to encourage the use of state-of-the-art technology and localize the production of equipment and component parts.

With the aim of implementing the action plan, in strategic partnership with Rostec, ROSSETI is creating the Common Competence Center (Technical Customer Center) for the manufacture and supply of import-substituting equipment for the electric grid sector.

The Company identified two key areas of import substitution policy implementation.

First area: ensuring industrial growth in the Russian economy through the development of domestic manufacturers' competencies and technology transfer at the desired level of production and R&D localization. This work includes the identification of innovative technologies and the Company's direct involvement in designing new and up-to-date types of electrical equipment.

Second area: improving the competitiveness of the Russian energy sector through the development of engineering capabilities for power plant engineering inside the country. This area includes providing legislative support for giving preference to the use of domestically made equipment and creating the long-range conditions for the production of Russian equivalents.

Manufacturers from Russian regions are already engaged to supply products to ROSSETI's facilities. The Company reached agreements on these operations with the Sverdlovsk Region Government and the Tomsk Region Government.

The Company also works to geographically diversify the purchase of equipment and component parts that have no domestic equivalents, including by importing products from the Asia-Pacific Region. The first steps in this direction have already been taken. In 2014, in the presence of President of the Russian Federation Vladimir Putin and President of the People's Republic of China Xi Jinping, ROSSETI and State Grid Corporation of China signed the Strategic Cooperation Agreement to set up a Russia-based joint venture in order to modernize electric grid facilities and attract new technology and investment.

An important area of import substitution is the localization of foreign manufacturers' production. The Company signed strategic cooperation agreements with Hyundai Heavy Industries, ABB, and Alstom in 2014. In order to optimize costs of localized products, ROSSETI works to reduce customs duties on imported component parts. For instance, import duties on component parts for factory-assembled switchgear were reduced to zero in 2014.