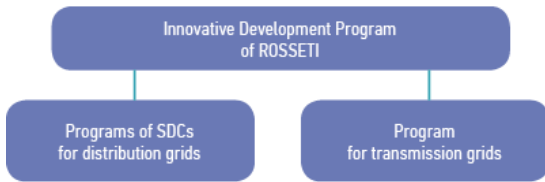


Implementation of the Innovation Program

In 2014, ROSSETI developed and approved the Innovative Development, Energy Conservation, and Energy Efficiency Enhancement Policy. The Policy defines principles and rules, contains goals and objectives, and details targets and implementation mechanisms.

Pursuant to the approved Policy, the Company continued in the reporting year to carry out the Innovative Development Program of ROSSETI for distribution and transmission grids. The Program is aimed at achieving the strategic goal: securing the reliable, high-quality, and affordable energy supply for customers by building a network infrastructure that is maximally efficient and conforms to international standards, including using advanced innovative approaches, technologies, and solutions.



The Innovative Development Program focuses on:

- building up an efficient management system for innovative development;
- developing and introducing advanced technology, including energy efficiency technology and , environmental protection technology;
- carrying out the Research and Development (R&D) Program;
- creating the conditions for the implementation of innovation projects, including pilot projects;
- automating the operation of electric grid facilities;
- developing and improving electricity metering systems.

The Company also intends to cooperate closely with innovative small and medium-sized businesses and develop innovative, scientific, and engineering competencies of its own personnel.

Standardization

In 2014, ROSSETI provided resources for establishing the Subcommittee on Electric Grids (Transmission and Distribution) of the Technical Committee on Electricity Industry Standardization working in the area of national standardization. Technical regulation system will provide the legal framework for the innovative development of not only the Company but also the Russian electricity industry as a whole.

The Subcommittee formulated proposals for the plan to develop national and interstate standards for 2015. The plan includes 15 documents, 11 national standards, and four interstate standards with financial backing. Action plans for national standardization will also be formulated for 2016 and 2017.

Implementation of the R&D Program

The R&D program is an integral part of the Innovative Development Program. The R&D program is based on the electric grid sector's current issues and aimed at creating fundamentally new developments, technologies, methods, and materials and at improving existing technologies. The list of R&D areas recommended for implementation under the R&D program in 2014–2018 and based on the collection and expert examination of proposals received from ROSSETI SDCs, R&D and design organizations, and production entities is posted on the Company's corporate website.

In the reporting year, the Company approved the Regulations for the Introduction of Innovative Solutions into ROSSETI. This document sets forth the procedure and rules for ROSSETI's and its SDCs' measures introduce innovative solutions into SDCs' electric grid facilities. ROSSETI established the Innovation Commission with the principal goal of keeping the Register of Innovative Solutions Recommended for Use by SDCs.

In the reporting year, the Company also approved the Concept of Managing the Intellectual Property of ROSSETI and SDCs. The Concept provides the basis for building up the system of intellectual property, innovation, and invention management at the Company and SDCs.

Additionally, the Company is considering setting up the centralized Foundation for Research, Development, and Innovation Support (R&D Foundation) and the Center for Technology Monitoring and Transfer. The R&D Foundation will provide further impetus for the development of R&D by making it possible to carry out long-term projects with confirmed financial backing, distribute R&D deliverables to all SDCs, and co-finance large-scale projects jointly with sectoral and governmental foundations.

The R&D program includes measures to develop breakthrough and applied technologies. Some of them were implemented in 2014. In the reporting year, the Company also successfully completed several pilot projects and resolved the issue of seeking federal and regional regulators' consent to R&D areas.

Setting up the Federal Testing Center

The year 2014 saw the establishment of Russia's Federal Testing Center (FTC). This is one of the most important steps toward the development of the country's electric grid sector.

With 10 laboratories, FTC will focus primarily on testing high-voltage equipment. FTC will make it possible to conduct comprehensive tests both on prototypes and pre-production models of new electrical products and on a full range of domestically made electrical equipment.

Up to now, Russia has had no testing facility conforming to international standards and domestic manufacturers have had to conduct necessary tests abroad. Setting up FTC will considerably shorten the period from developing new domestic technologies to bringing them into use and will create the conditions for avoiding additional transportation costs and customs fees and duties. This will provide considerable support for the development of domestic manufacturers of equipment rated over 110 kV.

The Company plans to begin the creation of FTC in Saint Petersburg in 2015 and complete it in two years' time.