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The key priorities of the Technical Division of ROSSETI include reliable and high-quality electricity supply to consumers, further formation of the necessary technological base in order to reduce the number of accidents and improve the conditions for connection to networks of subsidiaries and dependent companies, including for representatives of the small and medium businesses, and the agribusiness industry.

In 2014, the Innovative Development, Energy Conservation, and Energy Efficiency Enhancement Policy of JSC ROSSETI developed to achieve the long-term target values for the specified activity areas was implemented in addition to the Uniform Technical Policy in the group of companies. Implementation of the provisions of the document will allow enhancing the efficiency of the public economy on the whole.

Pursuant to the instructions of the Government of the Russian Federation, ROSSETI continues implementing the strategic investment project – setting up the Federal Testing Center (FTC) in St. Petersburg. The center will allow creating new jobs. The FTC will hold the entire list of qualification tests meeting the international standards of new equipment or equipment under development for the electric grid sector. Testing methods, standards and specifications will be developed on the basis of the FTC. It is also planned to open a personnel training center.

In 2015, ROSSETI will continue achieving the strategic target values for reliability, increasing the client centeredness level, improving the network connection organization system. It will also continue interaction with public authorities of the constituents of the Russian Federation in order to improve the level of synchronization of development programs for the electric grid sector with the regional social and economic development programs.

ELECTRICITY DISTRIBUTION

Subsidiaries and dependent companies of ROSSETI ensure electricity transmission and distribution in the regions where they operate and are responsible for reliable and uninterrupted power supply to consumers and meeting the reliability and quality standards in accordance with the global standards.

Production Results of ROSSETI SDCs* for 2014

SDC name	Volume of electric power supply to the grids, in millions of kW*h	Volume of electric power losses, in millions of kW*h	Level of electric power losses, in %
IDGC of Centre	64,175.5	5,949.2	9.27
IDGC of Center and Volga Region	55,004.0	5,076.9	9.23
IDGC of Volga	54,931.5	3,638.4	6.62
IDGC of North-West	39,715.0	2,547.1	6.41
IDGC of Siberia	74,766.2	5,668.8	7.58
TDC	6,050.2	511.9	8.46
IDGC of Urals	79,770.1	6,240.6	7.82
IDGC of South	29,525.8	2,745.3	9.30
IDGC of Northern Caucasus	18,058.7	3,572.8	19.78
Chechenenergo	2,533.3	944.8	37.29
Kubanenergo	21,572.7	2,852.7	13.22
MOESK	88,764.9	7,784.6	8.77
LENENERGO	34,208.4	3,791.5	11.08
Tyumenenergo	73,403.2	1,868.2	2.55
Yantarenergo	4,198.4	776.0	18.48
Total for electricity distribution sector	646,678.0	53 968.9	8.35
FGC UES**	536,510.65	21,261.0832	4.13
Total for ROSSETI SDCs***	790,534.6	75,229.9	9.52

*The data related to ROSSETI SDCs on the whole take into account operating results of subsidiaries and dependent companies of ROSSETI SDCs involved in electricity distribution.

** The level of electric power losses for FGC UES is calculated on the basis of the electric power volume transmitted from the grids of FGC UES to the electric grids of service consumers.

*** The resulting data related to ROSSETI on the whole are calculated subject to the net power flow from the electric grids of FGC UES to the electric grids of distribution subsidiaries and dependent companies of ROSSETI.

According to the results of 2014 on the whole for the ROSSETI Group of Companies, as compared to the results for 2013, the volume of electric power losses reduced by 1,056.4 million kW*h, the level of electric power losses reduced by 0.14 percent, in the conditions compared to the conditions in 2013 by 2,041 million kW*h, the level of losses reduced by 0.23 percent

Changes in Proceeds for the Electricity Distribution Services

On the basis of the results for 2014, ROSSETI SDCs increased proceeds by 5.2% to 760.2 billion rubles as compared to 2013.

SDC name

	2013		2014		Deviation (in comparable conditions)*	
	in electricity distribution services contracts	"internal service" included in supplied electricity value	in electricity distribution services contracts	"internal service" included in supplied electricity value	in millions of rubles	%
IDGC of Centre	61,396	13,785	69,151	6,753	723	1.0
IDGC of Center and Volga Region	61,225	5,188	65,113	586	-715	-1.1
IDGC of Volga	39,968	3,598	45,244	-	1,678	3.9
IDGC of North-West	29,650	1,919	31,343	1,416	1,190	3.8
IDGC of Siberia	49,771	3,837	50,545	1,452	-1,610	-3.0
TDC	6,469	-	7,103	-	634	9.8
IDGC of Urals	55,258	-	57,481	-	2,223	4.0
IDGC of South	25,882	-	28,009	-	2,128	8.2
IDGC of Northern Caucasus	11,152	-	12,281	-	1,129	10.1
Chechenenergo**	402	-	2,065	-	1,663	413.8
Kubanenergo	30,505	-	28,464	-	-2,041	-6.7
MOESK	110,981	-	112,509	-	1,528	1.4
LENENERGO	33,207	-	36,261	-	3,054	9.2
Tyumenenergo	50,638	-	50,895	-	257	0.5
Yantarenergo	3,408	-	3,804	-	396	11.6
Total for electricity distribution sector	569,910	28,328	600,269	10,207	12,238	2.0
FGC UES	152,709	-	159,881	-	7,172	4.7
TOTAL for ROSSETI SDCs	722,620	28,328	760,150	10,207	19,410	2.6

* For ROSSETI SDCs performing the functions of the guaranteeing supplier in 2013 and 2014 the changes in proceeds, for correct comparison purposes, are reflected subject to the "internal service" value included in the supplied electricity value.

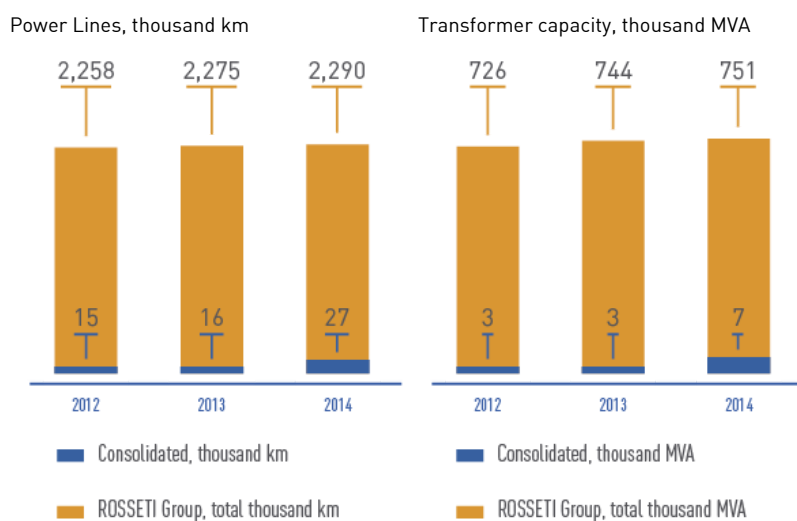
** Chechenenergo started production from October 1, 2013.

Consolidation of Electric Grid Assets

Providing the electricity transmission and distribution service, ROSSETI subsidiaries, alongside with their grids, use electric grids leased and received for free use. Moreover, electric grid assets are consolidated on a yearly basis, which provides for receipt of title to electric grids by ROSSETI subsidiaries, for the purposes of reducing the fragmentation of territorial grid organizations and enhancing control over them, expanding the service area and providing access to the electric grid infrastructure for consumers.

In 2014, the ROSSETI Group of Companies acquired title to 1.8 thousand km of power lines and 948 MVA of transformer capacity, 24.4 thousand km of power lines and 5.46 thousand MVA of transformer capacity were leased. The percentage of grids leased in 2014 was 2.12% as related to the total volume of electric grid facilities (in conventional units) operated by ROSSETI subsidiaries.

Consolidation Results of the ROSSETI Group of Companies



Taking into account the limited number of financing sources for costs of acquiring electric grid property, one of the most important mechanisms of achievement of the strategic goals of reducing the number of territorial grid organizations and consolidating electric grid assets is close cooperation with regional executive authorities providing for systematic revealing and accounting of ownerless electric grid property, reducing receivables of corporate debtors for electricity distribution services by entering into lease agreements or purchasing property and consolidating republican and municipal grid property under management of the ROSSETI subsidiaries. In 2014, road maps for consolidation of electric grid assets were signed and implemented:

- with the Republic of Ingushetia,
- with the Republic of Dagestan,
- with the Republic of North Ossetia,
- with the Kabardino-Balkarian Republic,

- with the Karachayevo-Cherkessian Republic,
- with the Vladimir Region.

NETWORK CONNECTION

Network Connection

Network connection is one of the key regulated services provided by the ROSSETI Group of Companies and a set of events designed to make it technically feasible to consume (supply) electricity (capacity).

Network connection is 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

The network connection service is provided to applicants in the following cases:

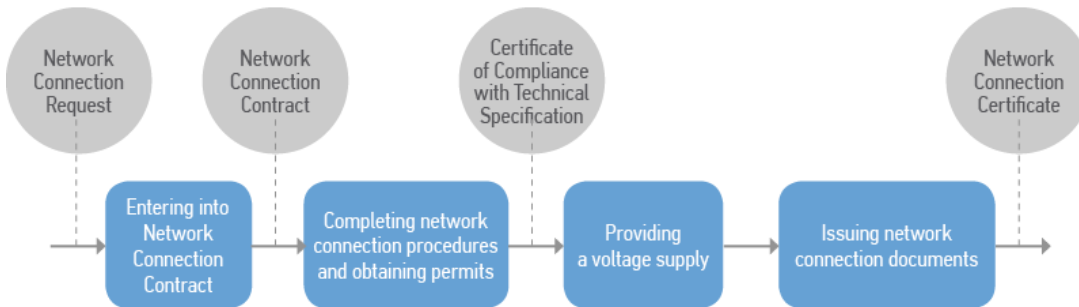
- when power-receiving equipment initially put into operation is connected;
- when earlier connected capacity of earlier connected reconstructed power-receiving equipment is increased;
- when the reliability category of electric power supply, connection point, production activity types not involving any review of the connected capacity value but changing the external electric power supply diagram of earlier connected power-receiving equipment are changed.

Network connection of power-receiving equipment is done using the temporary or permanent electric power supply diagram.

Documents governing network connection to electric grids of grid organizations

- Federal Law No. 35-FZ of March 26, 2003, "On the Electric Power Industry"
- Rules of Network Connection of Power-Receiving Equipment of Electricity Consumers, Power Generation Facilities, and Electric Grid Facilities Owned by Grid Organizations and Other Persons to Networks approved by Resolution of the Government of the Russian Federation No. 861 of December 27, 2004
- Resolution of the Government of the Russian Federation No. 1178 of December 29, 2011, "On Pricing in the Area of Regulated Prices (Tariffs) in the Electric Power Industry"
- Resolution of the Government of the Russian Federation No. 24 of January 21, 2004, "On the Approval of the Standards of Disclosure by Wholesale and Retail Electricity Market Entities"

Network Connection Stages

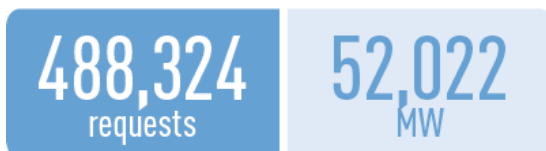


The Federal Antimonopoly Service of the Russian Federation is the authorized federal executive body exercising functions of adopting regulations, control and supervision over compliance with the laws on competition and activities of natural monopoly holders

The key activity areas of the Federal Antimonopoly Service of the Russian Federation cover, without limitation, control over compliance with the applicable laws and activities of electric grid companies when providing network connection services. The Federal Antimonopoly Service of the Russian Federation closely coordinates its work with the Federal Tariff Service of the Russian Federation.

Changes in the Network Connection Volume

In 2014, ROSSETI SDCs received 488,324 network connection requests for power-receiving equipment of individual customers and power generation facilities for total capacity of 52,022 MW.



The number of network connection requests submitted in 2014 increased by 2% on 2013, while requested capacity for 2014 was 5% down as compared to 2013.

Number of submitted requests 2014/2013

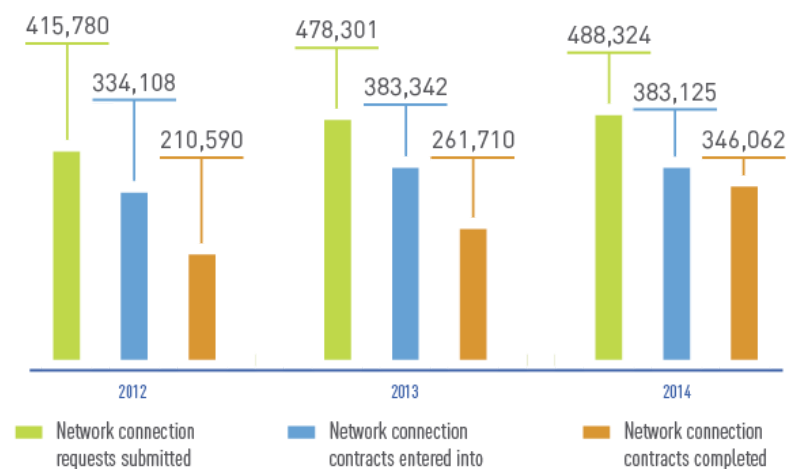
+2%

Requested capacity volume 2014/2013

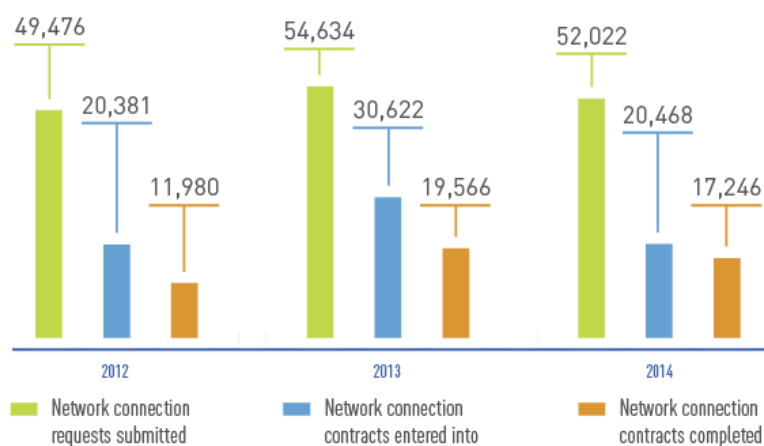
-5%

In 2013, ROSSETI SDCs entered into 383,125 network connection contracts for power-receiving equipment of individual customers and power generation facilities for total capacity of 20,468 MW. The number of network connection contracts entered into in 2014 did not change as compared to 2013 with a reduction of 33% in capacity (MW).

Changes in the Network Connection Volume, pcs.



Changes in the Network Connection Volume, MW



The actual number of signed network connection certificates was 346,062 for total capacity of 17,246 MW. The number of network connection contracts completed in 2014 went up by 32% as compared to 2013. Capacity (MW) reduced by 12%.

+32%

Number of completed network connection contracts 2014/2013

In 2014, ROSSETI subsidiaries completed work on network connection for several large power generation facilities constructed under Ordinance of the Government of the Russian Federation No. 1334-r of August 11, 2010, "On the Approval of the List of Generation Facilities Used for the Supply of Capacity Under Capacity Supply Contracts" such as:

FGC UES	Network connection for Unit No. 4	890 MW	Beloyarskaya NPP Rosenergoatom Concern
FGC UES	Network connection for Unit No. 3	420 MW	Nyaganskaya TPP Fortum
FGC UES	Network connection for Unit No. 1	180 MW	Novogorkovskaya CHPP Integrated Energy Systems
IDGC of Center and Volga Region	Network connection for Unit No. 2	180 MW	Novogorkovskaya CHPP Integrated Energy Systems
MOESK	Network connection for CCGT	420 MW	CHPP-16 MOSENERGO
IDGC of Siberia	Network connection for CCGT	120 MW	Abakanskaya CHPP TGK-13

Network Connection of Power-Receiving Equipment of Consumers in 2014*

SDC name	Number of network connection requests		Network connection contracts entered into		Network connection certificates signed	
	pcs.	MW**	pcs.	MW	pcs.	MW
IDGC of Centre	62,558	2,898	52,022	1,368	50,304	1,109
LENENERGO	35,877	4,548	16,749	614	14,767	529
MOESK	92,732	7,737	67,479	3,729	57,496	2,039
IDGC of Volga	19,394	1,932	21,781	722	24,885	519
Yantarenergo	5,738	573	4,801	160	2,767	61
IDGC of South	19,982	1,780	16,283	534	14,674	376
Kubanenergo	36,695	1,475	29,532	591	16,785	351
IDGC of Northern Caucasus	8,316	425	7,831	268	6,879	180
Tyumenenergo	6,391	958	5,523	835	4,568	341
IDGC of Siberia	44,286	2,730	35,231	1,225	36,119	731
TDC	3,570	93	3,207	83	2,977	77
IDGC of North-West	31,995	1,508	26,136	643	25,558	464
IDGC of Urals	38,465	2,369	30,161	955	34,590	850
IDGC of Center and Volga Region	66,231	3,486	54,616	1,596	45,667	1,017
Other***	15,434	1,799	11,498	752	7,722	291
Total for electricity distribution sector	487,664	34,312	382,850	14,076	345,758	8,934
FGC UES	518	10,404	212	3,695	264	3,768
TOTAL for ROSSETI SDCs	488,182	44,716	383,062	17,771	346,022	12,702

* Details without information on electric power generation facilities.

** note: 1 MW = 1000 kW

*** Yargorelektrosset, Tsarskoye Selo Electric Grid Company, Kurortenergo, Dagenergoset, Chechenenergo, Ingushenergoset, ENCE, Tyvaenergo

Network Connection of Power Generation Facilities in 2014

SDC name	Number of network connection requests		Network connection contracts entered into		Network connection certificates signed	
	pcs.	MW**	pcs.	MW	pcs.	MW
IDGC of Centre	12	543	5	17	2	8
LENENERGO	0	0	0	0	1	150
MOESK	3	99	0	0	3	484
IDGC of Volga	8	108	8	110	1	45
Yantarenergo	2	23	2	23	1	0
IDGC of South	17	363	5	45	2	72
Kubanenergo	3	29	0	0	3	193
IDGC of Northern Caucasus	10	178	1	140	1	150
Tyumenenergo	2	35	0	0	5	1,068
IDGC of Siberia	8	197	2	125	4	157
TDC	3	42	3	42	0	0
IDGC of North-West	15	89	6	30	2	21
IDGC of Urals	15	853	11	1,001	3	101
IDGC of Center and Volga Region	5	32	3	22	3	327
Other	6	138	3	10	0	0
Total for electricity distribution sector	109	2,729	49	1,565	31	2,775
FGC UES	33	4,577	14	1,133	9	1,769
TOTAL for ROSSETI SDCs	142	7,306	63	2,698	40	4,544

Network Connection Fee

The following legal regulations apply to government regulation of network connection fees charged by electric utilities

- Federal Law No. 35-FZ of March 26, 2003, "On the Electric Power Industry"
- Resolution of the Government of the Russian Federation No. 1178 of December 29, 2011, "On Pricing in the Area of Regulated Prices (Tariffs) in the Electric Power Industry"
- Guidelines approved by Order of the Federal Tariff Service of the Russian Federation No. 209-e/1 of September 11, 2012

The Federal Tariff Service sets fees for connection to the Unified National (All-Russian) Electric Grid:

1 individually for a specific Applicant approaching the Federal Tariff Service if it is necessary to build electric grid facilities;

- 2 as a formula if the measures included in the S1 standardized tariff rate (cost of organizational measures that are not related to building electric grid facilities) are carried out.

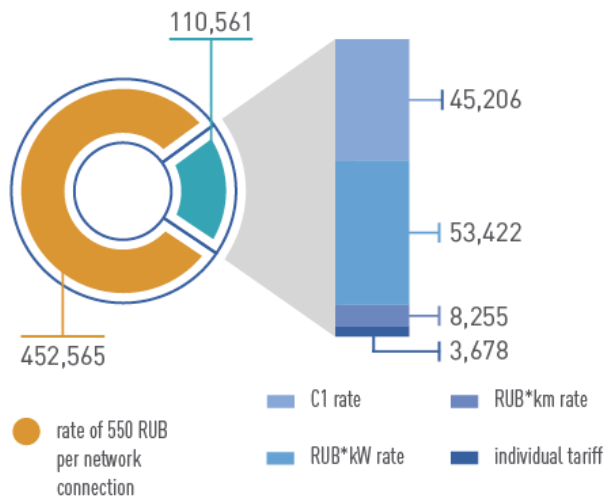
Executive authorities of constituents of the Russian Federation in the sector of state regulation of tariffs for calculation of the fee for network connection to territorial distribution grids approve:

- 1 for the regulation period:
 - standardized tariff rates
 - rates for maximum capacity unit (rubles/kW)
 - Network connection fee formula
- 2 as requested by the grid organization, fee for network connection to territorial distribution grids of power-receiving equipment of individual consumers for maximum capacity of at least 8,900 kW and on the voltage level of at least 35 kV and electric power generation facilities, and for connection under a specific project

Pursuant to the applicable laws, the person intending to have network connection to electric grids may select the network connection fee rate type on its own. The applicant selects the fee rate at the stage of entering into the network connection contract.

The structure of preferences of applicants by network connection fee rate types, subject to pricing features for specific applicant categories in 2014:

Distribution of Contracts by Use of the Network Connection Fee Pricing Type*, pcs.



*The S1 tariff rate includes the cost of organizational measures that are not related to building electric grid facilities.

The fee under the network connection contract is charged in a lump sum with a possible condition for payment for specific network connection activities.

The network connection fee for power-receiving equipment for maximum capacity not exceeding 15 kW inclusive (subject to earlier connected power-receiving equipment at this connection point) electric power supply for which is provided for one source is equal to the amount not exceeding 550 rubles given that the distance from the applicant's lot to the electric grid facilities of the voltage class required by the applicant of the grid organization where the request is submitted does not exceed 300 meters in cities and urban-type settlements and 500 meters in the rural area.

For applicants with maximum capacity from 15 to 150 kW the opportunity of having an interest-free instalment plan of 95% of the network connection fee amount for a term up to 3 years is provided for

Pursuant to the provisions of the Federal Law "On the Electric Power Industry" dated January 1, 2011, the network connection fee must not include the investment element for coverage of expenses related to the existing infrastructure development, including relations between the facilities of territorial grid organizations and the facilities of the Unified National (All-Russian) Electric Grid, except for expenses for construction of electric grid facilities – from the existing electric grid facilities to connected power-receiving equipment or power industry facilities.

Implementation of the amendments to this Federal Law resulted in reduction of the average network connection fee amount in 2014 by 70% as compared to the maximum value in 2010

Existing Average Amount of the Fee for Network Connection to Distribution Grids¹, Rubles/kW

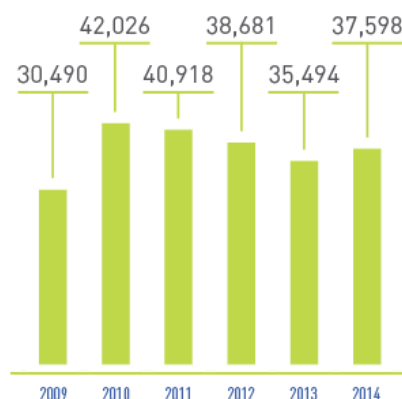


¹ The average network connection fee rate amount (rubles per kW) is calculated by dividing the proceeds from network connection services for the period by the connected capacity volume in this period.

Proceeds from Network Connection Services in 2014

Changes in the pricing for the fee for network connection to electric grids of grid companies, namely exclusion from the network connection fee of the investment element for coverage of expenses related to the existing infrastructure development, reduction of the network connection fee amount for specific applicant types, is a limiting factor for the increase of proceeds from network connection services.

Changes in Proceeds from Network Connection Services (2009–2014), in millions of rubles (without VAT)



In 2014, for the ROSSETI Group of Companies against the scheduled amount of 32 billion rubles (without VAT) the actual proceeds from network connection services were equal to 37.6 billion rubles (without VAT) or 117% of the scheduled one

SDC name	Scheduled for 2014 million rubles (without VAT)	Actual for 2014 million rubles (without VAT)	Scheduled for 2015 million rubles (without VAT)
IDGC of Centre	1,375	1,496	1,131
LENENERGO	8,183	8,249	9,484
MOESK	11,126	11,830	10,954
IDGC of Volga	477	490	207
Yantarenergo	257	250	323
IDGC of South	670	704	435
Kubanenergo	793	848	908
IDGC of Northern Caucasus	439	436	56
Chechenenergo	1	1	8
Tyumenenergo	906	871	401
IDGC of Siberia	969	890	834
TDC	53	64	29
IDGC of North-West	826	882	1,483
IDGC of Urals	1,710	1,720	1,953
IDGC of Center and Volga Region	679	723	599
Other ¹	1,055	1,170	1296
Total for electricity distribution sector	29,518	30,622	30,101
FGC UES	2,501	6,976	6,551
TOTAL for ROSSETI SDCs	32,020	37,598	36,652

¹ Yargorelektroset, Tsarskoye Selo Electric Grid Company, Kurortenergo, Dagenegoset, Ingushenergoset, ENCE, Tyvaenergo.

Best Practices and Pilot Projects Related to Network Connection

One of the key mechanisms for achievement of strategic network connection goals at ROSSETI is distribution in ROSSETI SDCs of the best corporate and regional practices to ensure affordability of the grid infrastructure.

Thus, at the initiative of ROSSETI SDCs, on the regional level in order to reduce the network connection period due to elimination of administrative barriers the regulations were adopted for the purposes of reduction of the period for allocation of land plots for construction of electric grid facilities in the following constituents of the Russian Federation: Sverdlovsk Region, Chelyabinsk Region, Perm Territory, Yaroslavl Region, Moscow Region, Nizhni Novgorod Region, Republic of Udmurtia, etc.

In order to involve public authorities, representatives of public organizations and experts in the power industry area in discussion of urgent issues of affordability of the grid infrastructure and exchange of the best corporate and regional practices, in September 2014, in St. Petersburg, ROSSETI held the Second All-Russian Forum for Network Connection "Affordable Grids: Projects, Experience, Actual Issues." In the form of panel discussions the

participants of the forum considered urgent issues of increasing affordability of network connection, defined priority areas of further work and interaction of the power infrastructure entities and users.

Most successful corporate practices of simplification of the network connection procedure and provision of comfortable servicing conditions include the following projects of ROSSETI SDCs:

Back Office Establishment IDGC of Siberia	In early 2014, IDGC of Siberia started implementing the project "Back Office Establishment" comprising engineering business processes for centralization of functions of preparing draft contracts for network connection and technical requirements and automation of the aforesaid processes with application of geoinformation systems and the SAP software solution. Implementation of this project will allow reducing the scope of unreasonable activities related to construction and reconstruction of grids, optimization of the headcount due to uniformly distributed load and exclusion of the opportunity of misusing their official capacity by employees of the Company
Electronic ROSSETI Kubanenergo	The Project implemented by Kubanenergo – opening of the Customer Service Center in Sochi equipped with the data self-service terminal "Electronic ROSSETI" and the electronic queue system – is a successful practice in the area of development of the face-to-face form of servicing. Up-to-date equipment in service offices provides applicants with the opportunity of submitting network connection requests through the self-service terminal, receiving structured reference information and having a simplified procedure for filling in standard document forms in the data terminal.

The most successful practice of the ROSSETI Group of Companies in 2014 with regard to development of electronic service forms and reduction of connection states is the project implemented by MOESK – "3 Steps – 2 Visits"

As part of the project, for any applicant the capacity of power-receiving equipment of which is up to 150 kW the request acceptance procedure is organized through the MOESK Web portal which excludes the need for any face-to-face visit to the company's office. According to the program results, the number of stages was reduced from 19 to 5 and the period for preparation of draft contracts for network connection of facilities for capacity up to 150 kW was reduced from 31 to 9 days.

Best Practices on Development of Electric Grids in the Long Term

The following practices should be mentioned as the best practices of SDCs with regard to the long-term development of electric grids of the distribution facilities:

- experience of MOESK related to the development in 2014 of the Comprehensive Development Program for Electricity Networks of 110 (35) kV and Above in the Territory of Moscow and the Moscow Region for the Period of 2014–2019 and Up to 2025;
- experience of Tyumenenergo related to the development in 2014 of the Comprehensive Development Programs for Electricity Networks of 35 kV and Above in the Territory of the Khanty-Mansiysk Autonomous District, the Yamalo-Nenets Autonomous District and the Tyumen Region by the engineering company, PIC UralTEP