

THE LONG-TERM DEVELOPMENT PROGRAM

In December 2014, the Board of Directors approved the Long-Term Development Program of ROSSETI, an internal policy document covering the period from 2015 to 2019

The Long-Term Development Program of ROSSETI is formulated in accordance with the Russian President's instructions and the Recommended Guidelines for Developing the Long-Term Development Programs issued by the Ministry of Economic Development of the Russian Federation.

The Long-Term Development Program is an internal policy document covering the period from 2015 to 2019 and containing the lists of mechanisms and measures to ensure the achievement of ROSSETI's strategic goals.

The approved Long-Term Development Program of ROSSETI contains the Russian Government's requirements relating to workforce productivity growth and labor resource availability.

To perform the strategic tasks assigned by the Government to ROSSETI, aware of current trends and challenges in the electric grid sector, ROSSETI has set aims and objectives for itself in the following main areas:

1. Secure a reliable and uninterrupted power supply and ensure energy security
2. Improve service quality and increase customer satisfaction
3. Maintain the accessibility of infrastructure and create the conditions for economic growth
4. Enhance the operating efficiency of electric grids as related to:
 - Operating activities.
 - Investing activities.
 - Energy efficiency.
 - Import substitution.
 - Innovative development.
 - Environmental security.
 - Institutional transformations improving the efficiency of the electric grid sector as a whole.
 - Anti-corrupt practices.
 - Internal control, risk management, and internal audit.
5. Keep a balance between the interests of different key stakeholders as related to:
 - Corporate governance and shareholder/investor relations.
 - Dividend policy.
 - Financial stability.
 - Improvements to the tariff policy.

The Company's Long-Term Development Program is intended to ensure the achievement of the targets set by the Strategy for Development of the Electric Grid Sector of the Russian Federation with due consideration to ROSSETI's authority and the current economic situation.

The instrument for implementing the Long-Term Development Program is ROSSETI's schedule for implementing the Long-Term Development Program for 2015.

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

Another priority is to maintain integrated security at the necessary level, taking account of terrorism threats and the risk of economic damage.

ROSSETI makes use of comprehensive business planning to effectively reach the goals. The key indicators of the approved business plans in the medium term are linked to the Company's objectives of ensuring the achievement of the targets.

For example, in the case of financing activities, the current objective is to ensure the stable current, medium-term, and long-term liquidity and financial soundness of both ROSSETI and each of its SDCs.

In addition, ROSSETI takes an active part in the preparation of proposals for draft regulations to implement the Strategy for Development.

The instrument for implementing the Strategy for Development is the Long-Term Development Program of ROSSETI approved in December 2014. The Program contains the lists of mechanisms and measures to ensure the achievement of ROSSETI's strategic goals in 2015–2019.

Areas of Development	Principal Goals*
In the area of securing the reliable and high-quality provision of services	<ul style="list-style-type: none">• ensure that grid SDCs attain the prescribed reliability and quality indicators of services• carry out the Action Plan (Road Map) "Enhancing the Affordability of the Power Infrastructure" under Ordinance of the Government of the Russian Federation No. 1144-r of June 30, 2012
In the area of improving the operating efficiency	<ul style="list-style-type: none">• reduce operating expenses by 15% (adjusted for inflation) compared with 2012 (in rubles per unit of maintained electrical equipment)
In the area of optimizing investing activities	<ul style="list-style-type: none">• implement the principles of efficiency, transparency, and balance of the investment process• increase investment efficiency by an average of 30% against 2012 (in rubles per physical unit: kilometers, MVA)
In the area of enhancing energy conservation and energy efficiency	<ul style="list-style-type: none">• reduce electricity losses by 11% compared with 2012 by 2017

* Due to the current macroeconomic situation, these indicators are subject to adjustment

Development programs implemented by ROSSETI and planned for implementation under the Long-Term Development Program:

- Consolidated Investment Program for 2015 and 2016–2020
- Innovative development programs of ROSSETI for distribution and transmission grids:
 - Innovative Development Program for 2011–2016 implemented by ROSSETI's subsidiaries and dependent companies (interregional distribution grid companies)
 - Innovative Development Program for transmission grids
- Draft of the Innovative Development Program of ROSSETI for 2014–2018 with Long-Term Plans Until 2020
- Comprehensive Import Substitution Program of ROSSETI (subject to review by the Board of Directors in the 1st half of 2015; intended to become a key instrument for implementing ROSSETI's long-term development program)

At ROSSETI SDCs' level, the provisions of the Strategy for Development are detailed in the Comprehensive Development Programs for Electricity Networks of 35 kV and Above for Russian regions for a period of five years (CDPs). The Programs are prepared in accordance with ROSSETI's Order "On Planning the Development of Electric Grids."

Innovative Development Program

After ROSSETI, a holding company uniting interregional distribution grid companies, transmission grids, and some other of the industry's assets, was established in 2013 (under Decree of the President of the Russian Federation No. 1567 of November 22, 2012, "On Joint Stock Company ROSSETI"), the objective of coordinating ROSSETI SDCs' innovation activities as one of the conditions for achieving the Company's goals and objectives became more relevant.

The first result of measures to draw up new corporate strategic and policy documents relating to innovative development was the formulation of the Innovative Development, Energy Conservation, and Energy Efficiency Enhancement Policy of ROSSETI (approved by the Board of Directors of the Company; Minutes of the Meeting No. 150 of April 23, 2014), defining the adjusted goals, objectives, principles, priorities, approaches, and parameters of planning and carrying out the innovation activities of the Company and its SDCs.

The approval of the Policy necessitated formulating the new uniform Innovative Development Program of ROSSETI. The drafted Innovative Development Program of ROSSETI for 2014–2018 with long-term plans until 2020 (hereinafter, the "Program") mapped out ROSSETI's innovation measures for 2014–2019 with long-term plans until 2020 to ensure the Company's focus on innovation in the long run.

The Program's goal set out in the Strategy for Development of the Electric Grid Sector of the Russian Federation is the transition to a technologically new grid with qualitatively new characteristics of reliability, efficiency, accessibility, manageability and customer-orientedness in the Russian electric grid sector as a whole (Smart Grid)

In order for the Program's goal to be achieved, the following main objectives were set:

- achieve worldwide average indicators of power supply reliability, safety, quality, efficiency, and accessibility by introducing new equipment, processes, and practices;
- increase ROSSETI's customer-orientedness by improving existing and creating new services, including high-technology services;
- develop, test, and support the conditions for the commercialization of innovative equipment and practices with due regard to the factors of comprehensive efficiency and in accordance with the principles of lifecycle management for facilities and systems;
- improve the system of interaction with the industry's innovators: small and medium-sized businesses, higher education institutions, research establishments, leading domestic and foreign manufacturers of equipment, etc.;
- improve the innovation management system, including setting up the R & D Foundation and building the intellectual property management system;
- use a new technological and methodological basis to increase the operating efficiency of the Company and its SDCs;
- form the personnel potential with promising competencies to ensure the achievement of the Company's and its SDCs' objectives of innovative development;
- create the conditions for developing promising scientific studies, engineering efforts, and advanced production processes in Russia;
- reduce the adverse environmental impact of electric grid facilities.

Special indicators will be used to evaluate the effectiveness of carrying out the Innovative Development Program of ROSSETI, namely the Program's key performance indicators divided into two groups:

- production indicators reflecting the economic and production effects of the Company' and its SDCs' innovation activities;
- innovation indicators characterizing the efficiency and qualitative characteristics of corporate innovation processes and activities.

Consolidated Capital Investment Program of SDCs ROSSETI for 2015 and 2016–2020

Pursuant to the instructions issued by Russian President Vladimir Putin in relation to the improvement of the operating efficiency of government-linked companies and under the approved Long-Term Development Program, which provides for the improvement of investment and operating efficiency, the Board of Directors of ROSSETI considered the adjusted capex program of subsidiaries and dependent companies for the period until 2020.

The draft capex programs of ROSSETI SDCs for the period until 2020 are optimized, taking into account the current economic conditions and macroeconomic environment, which are characterized by the following factors:

- an increase in expected inflation in 2015
- higher current debt service costs
- limited access to long-term loans
- a forecasted growth in nonpayments and a deterioration in payment discipline across the ROSSETI Group
- a forecasted decline in consumption
- higher costs of imported and domestic equipment and services

The capex programs were optimized in accordance with the capex program scenarios including the conditions and the system of criteria and priorities for the inclusion of projects in capital investment programs:

1. Measures to remedy the consequences of accidents at electric grid facilities;
2. Measures to improve reliability to secure an uninterrupted power supply for facilities (measures to reduce the risk of power outages in high-risk areas, measures to prepare electric grid facilities in the heat deficit period, compliance with orders issued by executive authorities, measures to remedy potential emergency situations, etc.);
3. Network connection services on preferential terms, the fulfillment of mutual obligations of ROSSETI SDCs, and measures to support the delivery of generation facilities' capacity in the case of generation facilities that will supply capacity under capacity delivery contracts;
4. Programs aimed at improving the operating reliability of the electric grid sector (Modernization Program for Relay Protection Devices and Systems, Development Program for Telemetry and Telecommunication Systems, the installation of devices for voltage regulation and reactive power compensation, R&D, etc.);

5. Facilities with a high degree of preparedness;
6. Renewal of electric grid facilities with an expired standard operating life;
7. Measurement of the volume of provided electricity distribution services;
8. Network connection services except for network connection services on preferential terms and measures to support the delivery of generation facilities' capacity in the case of generation facilities that will supply capacity under capacity delivery contracts.

DEVELOPMENT OF THE COMPREHENSIVE DEVELOPMENT PROGRAMS FOR ELECTRICITY NETWORKS

In 2014 and early 2015, ROSSETI SDCs developed the Comprehensive Development Programs for Electricity Networks of 35 kV and Above for constituent entities of the Russian Federation for a period of five years (CDPs). It was necessary to formulate the CDPs due to the following:

1. In accordance with Resolution of the Government of the Russian Federation No. 823 of October 17, 2009, the long-term plans to develop the electric power industry at regional level, including electricity networks, are determined by the Long-Term Development Schemes and Programs for the Electric Power Industry for Russian regions for a period of five years (hereinafter, the "Regional Schemes"). The Regional Schemes are ordered and approved by regional governments. The quality and extent of the elaboration of the issues related to electricity networks' development in the Regional Schemes remain unsatisfactory. For instance, the Regional Schemes in some constituent entities of the Russian Federation are descriptive in nature; their conclusions and recommendations are not supported by calculations of electric modes and, consequently, have no technical justification. The Regional Schemes that cover a wide range of aspects, devoting only one of their sections to electricity networks' development, deal in detail only with selected electric grid facilities.

If the prepared CDPs are submitted to regional governments as technical justification, this will raise to a qualitatively new level the formulation of the section of the Regional Schemes about the development of electric grid facilities

2. The Regional Schemes fail to deal with a complete list of electric grid facilities rated 35 kV and above; in some cases, the necessary calculations are not contained in the Regional Schemes, which does not provide sufficient technical justification for the construction or extension of electric grid facilities that are recommended for inclusion in a capex program.

The calculations made in the CDPs will provide technical justification for the inclusion of distribution grid facilities in capex programs, increase the efficiency and utilization rates of newly commissioned equipment, and synchronize the development of transmission and distribution grids

3. The development of territorial planning schemes at regional level is not consistent with the development of electricity sector entities' capex programs.

If the CDPs with updated information on the development of electric grid facilities are annually submitted to regional governments, this will make it possible to use these materials for the adjustment of the territorial planning schemes of constituent entities of the Russian Federation, municipalities, and populated places and the general layouts of urban districts as related to reserving land for electricity networks

ROSSETI has plans to continue in 2015 to prepare ROSSETI SDCs' CDPs on an annual basis and intends to sign the Cooperation Agreement with SO UPS. The Cooperation Agreement will include the model schedule of cooperation between SO UPS (branches) and ROSSETI (SDCs' branches, SDCs) in preparing the CDPs and agreeing on development schemes and programs for the electric power industry for Russian regions for a period of five years.

ROSSETI SDCs drew up the Comprehensive Development Programs for Electricity Networks of 35 kV and Above for Russian regions

COMMON TREASURY

In 2014, ROSSETI worked toward the centralization and automation of subsidiaries' and dependent companies' treasury functions and their integration into the ROSSETI Group's common treasury in accordance with Instructions of the President of the Russian Federation No. PR-1032 of May 7, 2014, and Directive of the Government of the Russian Federation No. 5110p-P13RF of August 8, 2014.

The Board of Directors of ROSSETI resolved to regard setting up the Company's common treasury as a priority for ROSSETI's activities

PRIORITIES

In accordance with the Strategy for Development, the principal goal of the electric grid sector's operation is to secure a reliable, high-quality, and affordable power supply in the long term.

A priority in the current macroeconomic situation is to unconditionally secure a reliable and uninterrupted power supply for all categories of customers and accessibility. Outstripping development will take into account the accessibility of infrastructure, tariff-based revenues, and the possibilities of borrowing.

Amid limited investment resources and reduced capital investment programs, the main task is to find the right balance between the need to retain and stabilize the level of physical deterioration and the fulfillment of obligations related to network connection and development.

ROSSETI is involved in developing measures to reduce the dependence of the Russian fuel and energy sector on imported equipment, technical devices, and component parts.

Our priorities include the tasks of bringing down commercial losses, improving payment discipline, and consolidating electric grid assets to reduce the fragmentation of territorial grid organizations and stiffen control over them within a united government-linked company.

A significant strategic advantage and strength is the ROSSETI team's huge experience of many years and the available personnel potential ensuring the effective fulfillment of the tasks.