

The Risk Management System

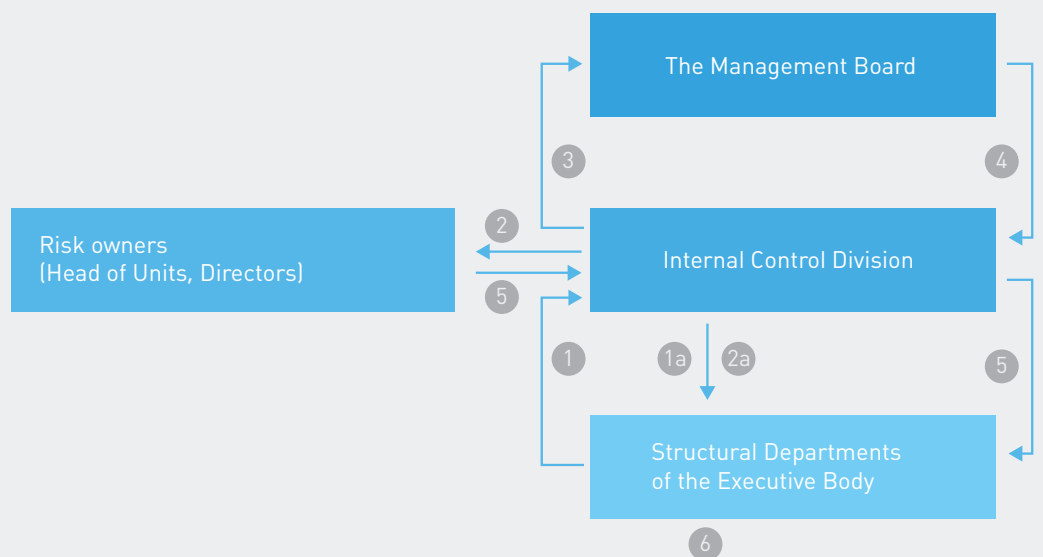
The Company has an established risk management system intended to provide for the sustainable and continuous operation and development of the Company via the timely identification, assessment and efficient management of risks that threaten the efficient economic operation and good standing of the Company, the health of the Company's employees, the environment and the property interests of its shareholders and investors.

The risk management system is regulated by the following documents:

A Provision on the System of Internal Control, as approved by the Board of Directors of Federal Grid Company, Minutes #170, dated 3 August 2012. According to the Provision, the risk management system is an integral part of the Company's system of internal control;

The Company's Risk Management Policy as approved by Order #229, dated 7 April 2010. The Policy sets forth the goals and elements of the risk management system;

A Procedure for the use of the Company's Risk Management System, as approved by Order #997, dated 28 December 2010. The Procedure contains practical recommendations on the identification and assessment of risks.



The Risk Management System determines the following:

- 1. Risk identification methods.**
 - The identification of risks is performed using methods based on ISO/IES 31010 and COSO standards (analysis, threat assessment, expert assessment, and the event tree).
- 2. Risk Assessment Criteria**
 - The risk assessment criteria include: probability, financial impact and risk controllability. The probability and financial impact of the risk determines its significance. The significance can become higher in case the Company is intolerant to the particular risk, or in case some of the departments of the Company's Executive Body, or its branches or SDC, are prone to said risk.
- 3. Risk Response Methods**
 - The risk response methods include: risk taking, minimizing risk consequences, transferring risk to a third party, avoiding risk and other combined actions. The choice of strategy is agreed on with the Internal Control Department and is approved by the Management Board.
- 4. Procedures and terms for the submission of risk reports**
 - Risk owners submit their risk reports to the Internal Control Division on a quarterly basis. If necessary, the Division adjusts the reports and coordinates the amendments with risk owners. Based on the adjusted reports, the Company prepares the Risk Matrix and the Risk Minimization Actions Summary. These documents are subject to the approval of the Company's Management Board.

- 1 Identification and assessment of risks, submission of the risk reports and information on risks that actually occurred
- 1a Analysis and adjustment of risk reports, coordinating amendments with risk owners
- 2 Coordinating risk reports with the heads of the corresponding departments of the Executive Body and with the directors
- 2a Adjustment of reports depending on the results of coordinating efforts involving the heads of departments of the Executive Body and the directors
- 3 Preparation of the Risk Matrix and of the Risk Summary, and risk minimization actions. Submission of the above to the Management Board for approval, control over the implementation of previous risk minimization actions and the analysis of risk assessment dynamics
- 4 Approval of the Risk Matrix and Risk Summary and of risk minimization actions
- 5 Re-working the approved risk minimization actions
- 6 Implementing the approved risk minimization actions

Principal Risks and Company-wide Risk Mitigation Actions

RISK TYPE AND DESCRIPTION	EFFORTS TO MINIMIZE RISKS	RESULTS OF IMPLEMENTING RISK MITIGATION POLICY
Operation risks		
<p>Power system disturbance risk (equipment damage, incorrect operation of the relay protection and emergency automatics (RP and EA), resulting or potentially resulting in the disconnection of power transmission lines and/or substations, and in de-energizing power consumers)</p>	<ul style="list-style-type: none"> — Implementation of the investment program in regard to the complex re-construction and construction of new facilities and the program for the improvement of lightning-surge protection and the widening of clearings for overhead power transmission lines (OPTLs); — Implementation of maintenance and repair plans, and of targeted programs pertaining to the replacement of outdated OPTL and SS equipment; — Cooperation with manufacturers pertaining to servicing and eliminating defects in supplied equipment; — Improving the operability of the equipment and advancing the qualifications of OPTL and SS personnel; — Accomplishing emergency prevention training and a field audit of the Company branches; — Closely investigating accidents; — Introducing changes in the legal framework, intended to ensure the reliable supply of power to consumers; — Operations monitoring, certification of new RP and EA devices and sets 	<p>In the autumn-winter period of maximal loads in 2012, the Company reduced the specific accident rate at UNEG facilities by 33%, compared with 2011.</p> <p>Signing cooperation agreements with equipment manufacturers, telecommunication companies, participating in the restoration of the certification system, the appraisal system and testing equipment, as well as developing and implementing new technologies.</p> <p>Operations Overview/Upgrading Reliability p. 47</p>
<p>Risk of employee injury at the Company facilities, resulting in damages to health or death</p>	<ul style="list-style-type: none"> — Developing and updating the legal framework on labor safety and injury prevention; — Implementing measures intended to assess the condition of labor safety and its improvement at the Company's facilities. 	<p>In 2012 the injury rate fell by 14.3%.</p> <p>Social Responsibility and Sustainable Development /Social Aspect – Production Safety p. 85</p>
Industry risks		
<p>Risk related to government tariff regulation (changes in the tariffs or parameters of tariff regulation)</p>	<ul style="list-style-type: none"> — Consistently implementing RAB regulation parameters and preparing well-balanced and economically feasible proposals; — Preparing high quality materials as a rationale for establishing/reviewing tariffs. 	<p>In May 2012, the rate of growth of tariffs for 2012-2014 and the Company's investment program were simultaneously adjusted.</p> <p>Tariff Regulation p. 108 Cost Optimization p. 112</p>
<p>Risks of the nonfulfillment of plans for the timely commissioning of investment program facilities</p>	<ul style="list-style-type: none"> — Setting priorities for the investment programs; — Controlling the implementation of the plan for financing investments and complying with the operating schedule; — Financial provisions for counter-parties' liabilities. 	<p>In 2012, our plans for commissioning overhead transmission lines were 91% realized (3,643 km against the planned 4,023 km), and plans for commissioning substations were exceeded by 26% (17,827 MVA against the planned 14,152 MVA).</p> <p>Operations Overview/Investment activities p. 54</p>
<p>Risk of income gap due to the difference between the customer contract demand, taken into account during tariff formation and power actually consumed</p>	<ul style="list-style-type: none"> — Including customer contract demand into agreements with contractors, this customer contract demand was accounted for by the Federal Tariff Service (FTS) during tariff formation; — Imposing sanctions on contractors for the excess of the maximal actually consumed power by more than 10% of the value of customer contractor demand; — Expertly assessing contractor information about customer contract demand and the submission of this information to the Federal Tariff Service to set a justified tariff. 	<p>The supply of electric energy to distribution grid companies' grids, direct consumers and the independent JS-energo increased 2.8% compared with 2011</p> <p>Operations Overview/Electricity Transmission p. 39</p>
Financial risks		
<p>Risk of the non-fulfillment of liabilities by counter-parties</p>	<ul style="list-style-type: none"> — Settling overdue accounts receivable (court reclamation of debts, setting off claims, debt re-structuring, charge offs); — Reviewing the financial status of counter-agents at the procurement stage and conducting further monitoring at the stage of performing contractual obligations; — Providing financial provisions for counter-parties' liabilities; — Monitoring debt status by the managers responsible for contracts, prejudicial interactions with counter-parties in accordance with Federal Grid Company's Rules for receivables and payables management. 	<p>Decreased level of accounts receivable for 2012.</p> <p>Financial Performance Overview p. 103</p>

EFFORTS TO MINIMIZE RISKS	RESULTS OF IMPLEMENTING RISK MITIGATION POLICY	RISK TYPE AND DESCRIPTION
<ul style="list-style-type: none"> — Diversifying debt financing sources and instruments; — Building relationships with major Russian and foreign banks; — Opening credit lines in the largest reliable banks with maximal amounts of loans and long-term maturity; 	<p>In 2012, Federal Grid Company's investment program had 100% debt financing sources. The Company fulfilled the resolution of the Board of Directors on diversifying investment program's financing sources dated 27 April 2012 in full:</p> <ul style="list-style-type: none"> — The prospectus for the RUR125 billion bond issue was registered; bonds for RUR45 billion were placed on MICEX. — The prospectus for the RUR100 billion exchange bonds for a 3-year period was registered; bonds for RUR10 billion were placed on MICEX. — The international prospectus for the RUR100 billion Eurobonds was registered; bonds for RUR17.5 billion were placed on the Irish Stock Exchange. <p>In 2012, Federal Grid Company became the first Russian electric energy company that placed 10-year inflation protected bonds.</p> <p>Financial Performance Overview/Debt Portfolio p. 113</p>	<p>Risks of insufficient financing of the Investment Program</p>
<ul style="list-style-type: none"> — Controlling the payments level and the Company's liabilities in foreign currencies 	<p>Concluding long-term contracts with fixed price.</p> <p>The Company's financial status, liquidity, financial sources and performance results are not exposed to major currency risks. The Company does not have liabilities denominated in foreign currencies.</p> <p>Financial Performance Overview/Debt Portfolio p. 113</p>	<p>Foreign Exchange risk</p>
<ul style="list-style-type: none"> — Controlling the debt burden and creditworthiness of the Company in accordance with Federal Grid Company's Regulations on Credit Policy; — Retaining a high level of unspent credit limits at major Russian and foreign banks; — Forming the Company's diversified credit portfolio in respect to instruments and terms. 	<p>Federal Grid's international credit ratings are placed in the investment category; loan servicing is held in strict compliance with approved schedules.</p> <p>Financial Performance Overview/Debt Portfolio p. 113</p>	<p>Liquidity risk</p>
<ul style="list-style-type: none"> — Attracting financing with fixed interest rates 	<p>95% of the Company's credit portfolio is formed via loans and borrowings with fixed interest rates</p> <p>Financial Performance Overview/Debt Portfolio p. 113</p>	<p>Interest rate risk</p>
<h2 style="margin: 0;">Corporate risks</h2>		
<ul style="list-style-type: none"> — Implementing pre-court settlement procedures; — Concluding amicable settlement agreements during court proceedings; — The Company's legal position is to refuse to satisfy claims and actions; — Satisfying claims; — Actually performing obligations and restoring violated rights. 	<p>The claims settled out of court amounted to some RUR16 million (for the Company's branches). The amount collected according to the Company's actions in 2012 comprised RUR230 million, with actions refused in the amount of RUR635 million.</p> <p>Some RUR737 million were collected in favor of the Company (including the settlement of an amicable agreement in favor of the Company).</p>	<p>Risk of claims and actions presented to the Company or by the Company</p>
<ul style="list-style-type: none"> — Analyzing references to the Company in mass media; — Distributing press releases and other information material intended to form positive information coverage for the Company; — Conducting press conferences, briefings and other events for the mass media; — Participating in major forums and exhibitions; — Communicating the Company's policy on strategic communications and the Company's Anti-corruption Policy to the employees; — Applying the Company's unified corporate design standards. 	<p>No cases of negative references to the Company in the mass media were registered in 2012.</p> <p>Social Responsibility and Sustainable Development p. 72</p>	<p>Risk of damaging the Company's business reputation as the result of inefficient communication</p>