

Key Aspects of Social and Economic Impact Management

Component	2009	2010	2011	2012
Created economic value				
Revenue, RUR thousand	96,107,857	119,476,792	221,254,674	143,484,851
Distributed economic value, RUR thousand	54,301,730	62,867,299	69,546,019	62,602,964
Operational costs, RUR thousand	38,739,394	35,932,957	40,507,713	37,242,997
Wages and other payments and employees benefits, RUR thousand.	7,156,666	14,266,825	16,164,714	18,551,998
Payments to suppliers of capital, RUR thousand	1,717,506	273,751	0	0
Payments to the State, RUR thousand	6,645,304	12,215,820	12,590,956	6,466,405
Investment in communities, RUR thousand	42,860	177,946	282,636	341,564
Undistributed economic value, RUR thousand	41,806,127	56,609,493	151,708,655	80,881,887

Technological connection of consumers

Technological connection is a complex service providing for actual connection of power receivers (power units) of potential counteragents to the facilities of electric grid system. The company provides services of technological connection to consumers, distribution grid companies and facilities producing electric energy.

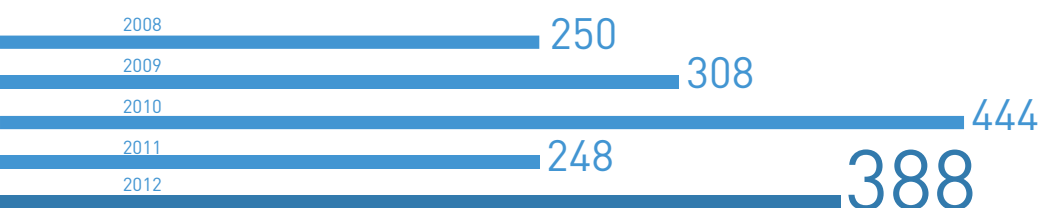
Agreement on technological connection is a public document, disclosure of information about the main consumer characteristics of technological connection services is performed in accordance with the Government Regulation No.24 "On adoption of standards for information disclosure by subjects of the wholesale and retail markets of electric energy" dated 21.01.2004.

During the reporting year the Company signed 388 agreements on technological connection, which is 56% more than in 2011.

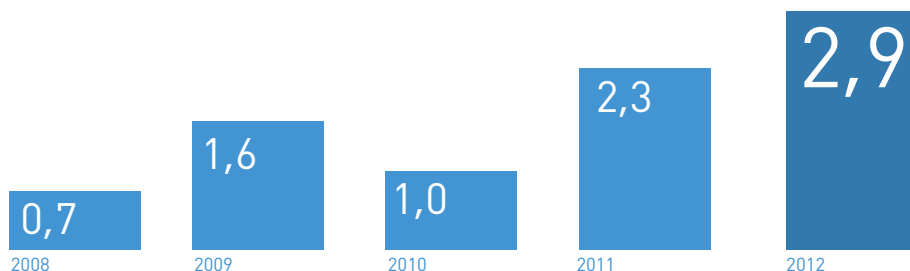
The total amount of maximum capacity upon the realized technological connections of consumers and distribution grid companies amounted

to 2.9 GW, which exceeds the level of the previous year by 26%.

Change in the Number of Concluded Contracts on Technological Connections of Consumers and Distribution Grid Companies in 2008-2012



Change in the Volume of Maximum Capacity for the Implemented Technological Connections of Consumers and Distribution Grid Companies in 2008-2012, GW



Since 2012 the Company actively participates in elaboration and implementation of the Plan for preparation of legislative acts, aimed at increasing the availability of energy infrastructure, adopted by the Order of the Government of Russia No.754-r and Plan of measures ("roadmap") "Increase of accessibility of energy infrastructure adopted by the Order of the Government of Russia No 1144-r dated 30.06.2012.

The roadmap "Increase of accessibility of energy infrastructure" provides for a complex of measures of expansion of preferences for connection of objects up to 150 kW and enhances the rules of technological connection in the part of arrangement of conditions for decreasing of terms and number of stages of technological connection. It also enhances the mechanism for redistribution of free capacity and

introduces modern methods and principles of management in the work of grid:

- designation of key performance indicators;
- increase in the standards of client service quality in the part of technological connection measures;
- arranging of grid organization on the basis of international best practices;
- introduction of unified standards for servicing of clients of the grid organizations.
- Introduction of acceptance of requests for capacity of up to 150 kW inclusively and with voltage of up to 10 kV inclusively through information telecommunication network Internet with option of real time tracking of application fulfillment.

With the aim of increasing of awareness of applicants and ensuring the transparency of provision of technological connection services the Company developed new information portal "technological connections services" presented at the official website of Federal Grid Company.

During implementation of this project particular attention was attributed to ensuring of interactive access to data concerning technological connection, systematization and placement of information is such a way, that it would be clear and accessible for any consumer, not having special

knowledge in the field of electric energy industry. The information that is most highly sought by consumers appeared to be the information on accessibility of main substations of the Company represented in linkage to the geographical map of Russia.

Purchasing activity

A proper organization of the purchasing activities is vital for the efficient operation of the Company in general, due to the cost, as well as the quality of purchased products. Therefore, the Company is interested in cooperation with the manufacturers of reliable electric equipment, and with contractors capable of ensuring high quality and optimal terms for the works performed.

The 2012 purchasing campaign consisted of 4 198 purchasing procedures for the total amount of RUR 174,243.298. Ninety one percent of the purchasing procedures were based on tenders. The positive effect (savings) resulting from the 2012 purchasing procedures amounted to RUR 20, 616.583 million.

The above indicators were achieved by the Company due to the continuous development of the purchasing system. The first purchasing policy was approved in 2004. The policy underwent continuous adjustments in line with the changing law requirements and the acquisition of purchasing experience by the Company, with new editions approved. In 2008

the purchasing system development became closely associated with the broadening e-commerce opportunities, while a continuous monitoring system is under development from 2010, allowing to obtain data on the condition of any purchasing procedure.

The current purchasing policy has been updated in line with the requirements of the Federal Law No 223 "On the Purchasing of Goods, Works, and Services by Certain Types of Legal Entities" as of 18.07.2011, effected on January 1, 2012. The current policy complies with all requirements of civil, as well as antimonopoly law.

We make every effort to streamline the Company approaches to the purchasing activities in accordance with the best practices, keeping abreast of external regulations in the field. In December 2012 the Company was given High Transparency Rating in the 2012 National Rating of Purchasing Transparency. The Rating includes state-owned companies engaged in purchasing activities in compliance with the provisions of the federal law No 223-FZ. In 2013 based on the results of "The Quality of Purchasing Management in State Corporations, and

Companies with State Participation" survey performed by Expert RA Rating Agency, the Company became one of the top three state companies in terms of the quality of adherence to the requirements of the federal laws regulating the purchases performed by state companies, and the compliance with the common business practices in the organization of purchasing activities.

We appreciate the recognition of the Company achievements by the Rating organizers and experts. We are going to proceed with the intense development of our purchasing system in the future.



Yuri Zafesov, Head of
Consolidated Planning and
Purchasing Department

During implementation of the investment program as well as annual rehabilitation and target programs the Federal Grid Companies performs purchasing activities aimed at acquiring of the required equipment and services at the competitive market. The Company is interested in collaboration with producers of highly efficient electrical equipment, construction, engineering and other contractor

organizations able to ensure high quality and meet optimal deadlines for work.

Federal Grid Company performs purchasing activity in strict conformity with Regulation on purchases the first amended of which was adopted in 2005.

The methodology for purchasing activity of the Company is based upon the following:

— legislation of Russia (Civil Code, Federal Laws 135-FZ, 223-FZ, 94-FZ);

— best practices of state purchases;
— advanced international experience;
— standards of purchasing activity of RAO «UES of Russia».

In accordance with the requirements of the Federal Law No. 223-FZ «On purchases of goods, works and services by certain types of legal entities” dated 18.07.2011 later referred to as “the Law” was developed and adopted in 2012 the new amendment of Regulation on purchases.

In accordance with the requirements of the Law the Regulation on purchases is available at the website of Federal Grid Company (www.fsk-ees.ru) since the day of its implementation and since 01.10.2012 in accordance with the requirements of the Order of the Government of Russia No. 662 «On term of publication during purchases of goods, works, services by certain types of legal entities of information at Internet network at the All-Russian website for placement of information on requests for supply of goods, fulfillment of works and provision of services (www.zakupki.gov.ru) dated 30.06.2012.

The document tightens regulations concerning conduction of non-competitive purchases, regulations concerning participants of purchasing procedures and also provides for decrease in the threshold amount for open competitive purchasing procedures published in mass media, from 2 500 thousand rubles to 500 thousand rubles.

In December 2012, Federal Grid Company was attributed the rating of «High transparency» in the «National rating of transparency of purchases 2012» in nomination, evaluating state companies subject to regulation by the Federal law No.223-FZ.

The main indicator of the rating is observance of transparency standards and economical effectiveness of the purchasing activity by the company. The participants of the rating are the most important federal, regional and municipal purchasing agents as well as the leader of the Russian corporate sector.

Procedure regulation of purchases ensures proper and effective use of funds as well as economically justified costs (market price of products).

During the purchasing campaign of the year 2012 Federal Grid Company conducted 4,198 purchasing procedures for an overall sum of RUR 174,243.298 million of which 91% were on a competitive bidding basis.

As a result of conduction of purchasing procedures in 2012 the economic effect amounted to RUR 20,616.583 million (economical effect is defined as the difference between the price limit and actual cost of purchasing).

Purchasing from local suppliers

Due to realization of purchases by regions, in which the Company branches are located, a significant number of local suppliers and contractors are involved in purchasing procedures.

Up to 75% of local suppliers and contractors participate in purchases in each region.

For fulfillment of highly specialized works can be attracted organizations, which perform such works on the whole territory of the Russian Federation. During construction and entry into service of power facilities are created new workplaces and are attracted workers from among local population and related branches of economy.

Volumes of Purchases of Federal Grid Company in the regions in 2012

Region	Share in overall volume of purchases, %	Total procedures conducted in 2012	
		Total sum, RUR thousand	Number of procedures
Siberia	5.92	10,313,300.20	491
Center	45.00	78,404,338.40	1181
East	2.92	5,094,315.50	432
South	20.13	35,073,888.90	585
Volga	5.35	9,323,901.30	326
Urals	5.30	9,233,751.20	296
North West	10.30	17,953,82.50	529
West Siberia	5.08	8,845,981.90	358
TOTAL	100.00	174,243,298.90	4198

Basic principles and the organizational structure disclosed in the Report for the year 2011 remained unchanged.

Import substitution

In 2012 Federal Grid Company continued to implement the import substitution Policy. Main principles of the Policy are:

- decrease of dependence on the import;
- introduction of innovative energy efficient technologies;
- development and modernization of the domestic industrial production;

- development of production and scientific potential;
- ensuring of the required level of energy security and industrial safety of the country;
- increase of the technological level of domestic production;
- creation of new workplaces.

Target indicators for implementation of the Program of import substitution for equipment, material and technologies of the Company for the years 2011-2014

Main types of equipment	Actual share of domestic equipment purchased	Target
Autotransformers	45%	80%
Shunting reactors	60%	75%
Controlled shunting reactors	50%	65%
Switches, three phase unit	20%	40%
Disconnecting devices, three phase unit	59%	80%
Current transformers, three phase unit	40%	50%
Shunt transformers, three phase unit	21%	35%
Insulated switchgears, cells	0%	50%
Cable with cross-linked polyethylene insulation	0%	15%

To achieve target indicators, the Company signed 95 agreements on cooperation in the field of development and implementation of the newest technologies and modern equipment in the electric grid complex. 77 agreements were signed with the producers of the electric grid equipment among which are 72 domestic companies.

In 2012 took place a number of events important for the Company in the field of import substitution.

Within the framework of Long-term agreement on supply of electrotechnical production signed with Elektrozavod Holding Company, transformer equipment with voltage class of 110-500 kV started to supply to the Company facilities.

Construction of the plant of Hyundai Electrosystems producing switchgears with voltage class of 110-500 kV was completed in Artyom, the Primorsk Region. In accordance with the long term agreement on supply of electrotechnical production concluded by Federal Grid Company and Hyundai Electrosystems in 2013 will be started the supply of switchgears to the power grid objects of the Company.

Within the framework of long term agreement on supply of electrotechnical production concluded by Federal Grid Company with Power Machines was established a joint venture Izhora transformers, which performs the construction of transformer plant in Kolpino. Production and supply of transformer equipment with voltage class of 110-500 kV to the objects of the Company will begin in 2014.

In accordance with long-term agreement signed the year before with Elektrozavod Holding Company were started the first deliveries of power and distribution transformers to the facilities of Company.

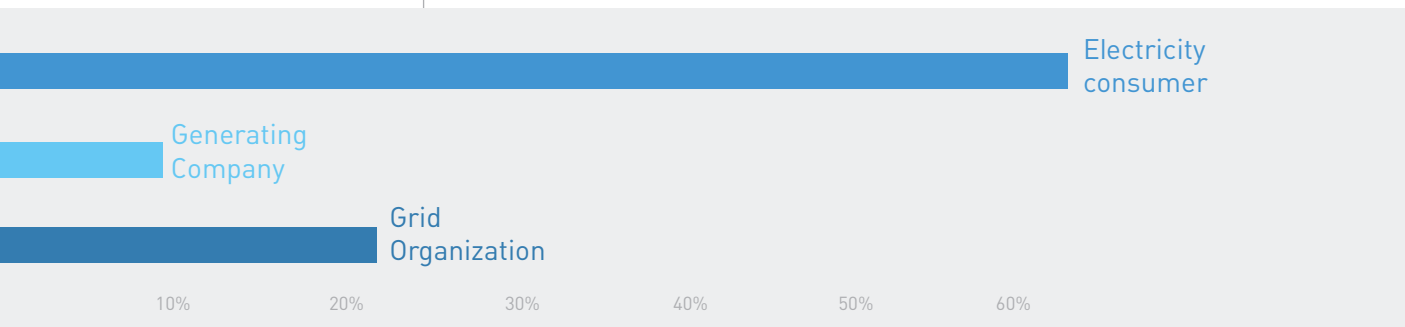
Consumer relations

Starting from 2009, Federal Grid Company annually conducts the studies of satisfaction level of the customers for the technological connection services provided by the Company.

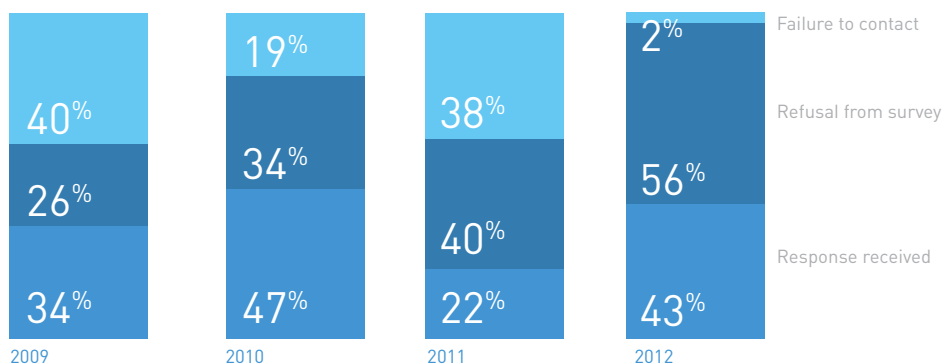
In 2012 the clients, who were in the beginning of the process of technological connection, and the clients that had been connected before, participated in the survey. At the same time the main bulk of those surveyed were at the stage of realization of measures of technological connection (35%), and a part of those surveyed filed more than 2 applications to the Company (17%). The analysis of categories of the respondents on the whole reflects the general features of corporate clients.

The transition from telephone to written interviewing in 2012 allowed to increase the number of responses from those surveyed by 2.5 times in comparison with 2011 and bring the share of irrelevant client information in line with the norm of B2B sector (the share of those surveyed that the Company failed to contact decreased from 38% to 2%). In addition, in order to improve the information disclosure at the official site of the Company («Technological connection services» portal) was introduced the services of online interviewing of clients in the personal area of consumer.

Categories of Clients Surveyed



Change of Response from Those Surveyed in 2009-2012

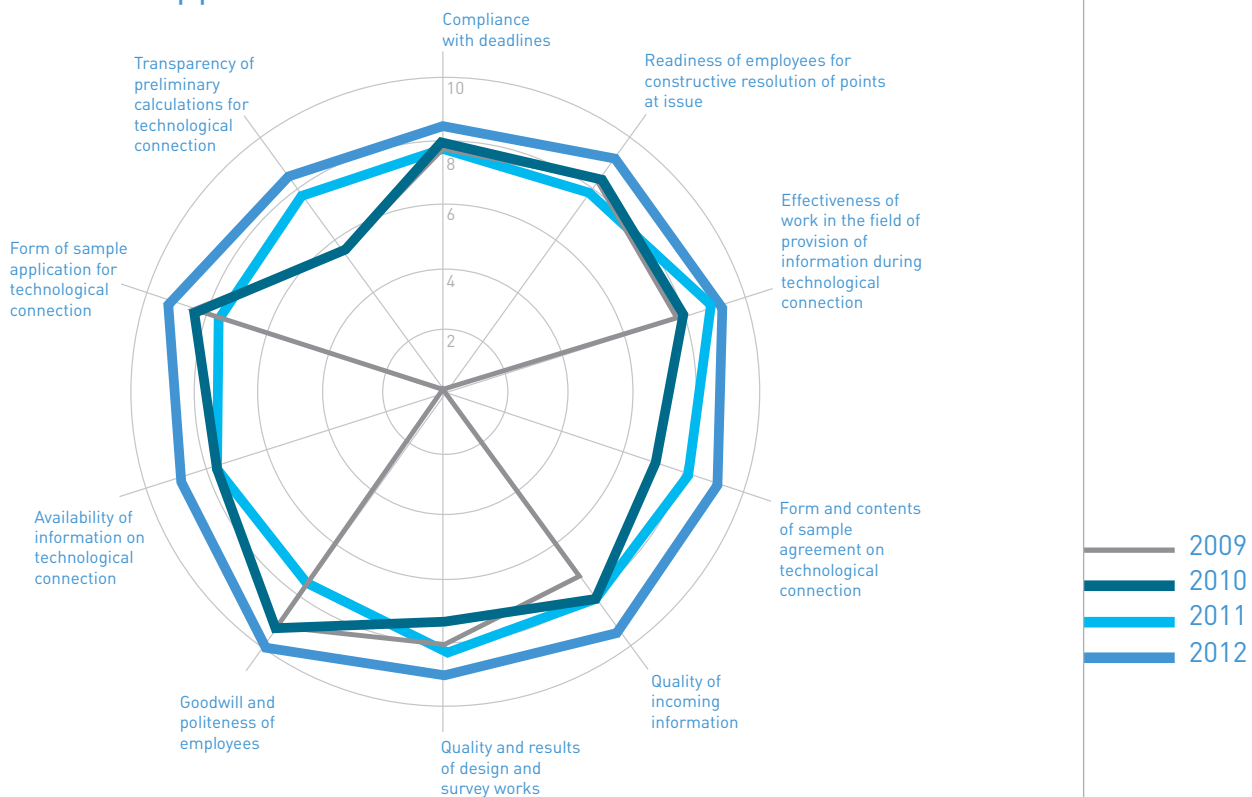


The study of 2012 identified an increase in the satisfaction level in comparison with 2011: the average satisfaction level for submitters of the applications was at "above average" level (8.9 out of ten), which is higher than the 2009-2011 level.

The analysis of evaluation of importance for clients of the studied parameters confirms the correctness of criteria selected for evaluation: the average 9.3 out of ten maintains since 2009. At the same time the importance of such criteria as "Compliance with deadlines" and 'Effectiveness of work in the field of provision of information during technological connection" (increase by 0.8 and 1.1 points respectively) has

increased. The decrease of importance for parameters "Form of sample application for technological connection" as well as "Form and contents of sample agreement on technological connection" (decrease by 1.3 and 0.6 points respectively) shows the improvement in the level of legislative regulation of the issue within the last year.

Change in Satisfaction Level for Submitters of the Applications



The conducted study also allowed to identify the parameters for which is observed the most deviation between "importance" and "satisfaction" level and which require specific attention in

2013: compliance with deadlines and transparency of preliminary calculations for components of most deviation for components of technological connection.

Procedure and sources of investment program financing

Energy Ministry of Russia adopted the investment program of Federal Grid Company for 2013-2017 (Order No. 531 dated October 31, 2012) in the overall volume of RUR 775.5 billion including VAT.

The program provides for introduction of 66,870 MVA of transformer capacity and 16,985 km of electricity transmission lines.

Indicator	2013	2014	2015	2016	2017	Total
Volume of financing, RUR million	155 177	154 596	155 135	155 499	155 124	775 531
Length of high voltage line introduced, km	3 358	4 397	3 690	3 112	2 428	16 985
Introduced transformer capacity, MVA	17 034	14 994	16 576	8 334	9 932	66 870

The investment program of the Company is aimed at achieving the following priorities:

- development of the UNEG for ensuring its reliable operation;
- ensuring renewal of the Company's grid assets;
- realization of electric grid construction projects, having state importance (Olympics-2014 in Sochi, ESPO, Skolkovo innovation center, improvement of reliability of power supply of Moscow, St. Petersburg etc.);
- providing technological connection to Federal Grid Company's grids;
- taking measures upon Agreements concluded with regional administrations for ensuring of electricity supply to consumers;

- power output of introduced power units;
- introduction of innovation projects and energy effectiveness programs;
- development of technological infrastructure for the functioning of competitive market of electric energy and capacity.

The program provides for equal distribution of investment expenses in the five year period, which will allow the Company to maintain a balanced structure of its financing sources. The financing of investment program will be performed out of funds of the federal budget and own funds of Federal Grid Company.

Financing of the investment program through loans and credits is growing.

Starting from 2010 the Company is one of the most active participants of the Russian capital market. The yield curve for the Company's bonds is a benchmark for determination of borrowing costs of other quasi-sovereign issuers and issuers of the energy industry of Russia.

In 2012 Federal Grid Company attracted RUR 55 billion at the Russian bond market. In the beginning of December 2012 the Company entered the international capital markets with its debut long term issue of ruble Eurobonds with an overall volume of RUR 17.5 billion.

The 2012 events show that the Company has support and trust from investment community.

In October 2012 the leading global rating agency Standard & Poor's confirmed the long term credit rating of Federal Grid Company at the investment level BBB according to international scale with stable outlook.

In its report Standard & Poor's points out that the main factors supporting the high credit quality of the Company are significant financial soundness of Federal Grid Company as well as the state support.

In December 2012 Federal Grid Company received "Issuer of the year" award according to Cbonds information agency. The award ceremony took place in St. Petersburg within the Cbonds X Russian Bond Congress.

Company input into economic development of the Russian regions

Payment (transfer) of taxes to budgets in 2012 (RUR thousand)

BUDGET	TOTAL	Federal Grid Company	JSC ESS ENES	JSC CIUS UES
Federal	8 308 365	6 955 213	373 688	979 464
Regional	3 071 206	2 954 328	55 873	61 005
Municipal	71 127	70 689	438	0
TOTAL	11 450 698	9 980 230	429 999	1 040 469



Investment plans of the Company upon introduction of new grid capacity for development of the regions were fulfilled nearly in full. The Company introduced 3,656 km of high voltage lines against the planned 4,023 km (91%), 17,852 MVA of transformer capacity against the planned 14,152 MVA (126%). The capital investments were used at 99% (RUR 186,378 million).

In 2012 Federal Grid Company closely interacted with the representatives of the regional authorities and largest consumers of services both upon the issues of planning of grid infrastructure development and in the part of implementation of large scale projects, which have significant importance for social and economic development of the Russian regions.

The branch of the Company – MES Siberia elaborated 278 proposals for development of the Eastern Siberia, which can be taken into account during the elaboration of the program for development of the Unified energy system of Siberia until year 2020.

The document was developed by a specially created workgroup upon instruction of the Chairman of the Management Board of Federal Grid Company Oleg Budargin. The composition of the workgroup included the representatives of the authorities of the Eastern Siberia, executives of energy companies as well as of large consumers of electric energy.

The Company contributes to development of production as well as social and economic infrastructure of the Far East. The branch of Federal Grid Company – MES East started implementation of the project aimed at ensuring external power supply of the Elgin sky coal complex at the South of the Sakha (Yakutia) Republic – large scale social and economic project, which will give further momentum to the development of Yakutia, the Amur, Khabarovsk and Primorsk Regions. By the end of 2015 the Company will create conditions for supply of the complex with electricity in the volume of 134 MW.

The branch of Federal Grid Company – MES Siberia put into operation a 220 kV controlled shunt reactor (CSR) at 220 kV Taksimo substation in the Republic of Buryatia. Putting of new equipment into operation increased the reliability of power supply of the Baikal-Amur Mainline Railway, including the Kodarskiy tunnel. Usage of CSRs at substations of the Company allows to manage the mode of operation of the grids so as to decrease losses, increase the electricity transmission capacity and prevent their overload. This allows to achieve high reliability of the system as well as to achieve significant economy of electricity during transmission.