

Personnel Management

Personnel policy and personnel management system

Personnel management system of Federal Grid Company is one of the key factors to implement strategy of the electric power grid complex development. Accordingly, solution of the task of the UNEG development (increased reliability, investment attractiveness, availability of infrastructure) can be effective only by using the mechanisms of personnel policy.

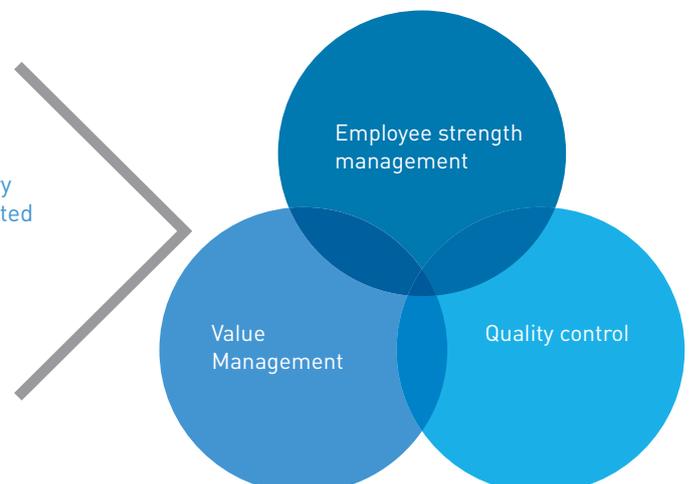
However, there are a number of external and internal constraints for the development of the personnel management system of Federal Grid Company, among them: the deterioration of the demographic situation in the country, the supply and demand imbalance in the education market, fall in the prestige of employment in the industrial sector, limitation of the Company's expenses under the tariff regulation and, as a consequence of all the above, the increased competition for highly skilled labor forces.

Given the internal request and external constraints, the Company's personnel policy at present is focused on the following tasks:

- providing staff of qualifications required in the right places and in the right quantity;
- promoting the Company's operating performance and cost optimization;
- move to personnel understanding of the Company's human capital and ensuring competitive advantage due to continuous personnel development.

The Strategic Objectives of Federal Grid Company in the Field of Human Resources Management

Timely provision of the Company with the necessary number of qualified, motivated and loyal personnel to accomplish goals of the Company with adequate personnel costs



Tools and Measures Implemented by Basic Processes of Personnel Management System and Personnel Policy

Tools and measures	Basic processes
<ul style="list-style-type: none"> — Planning the number of employee by key professionals for 5 years — The planning horizon is determined by the horizon of the investment program — The analysis of demographics and plans by region in relation to commissioning of objects and required qualifications 	Planning of headcount
<ul style="list-style-type: none"> — Employment by the Company (not involving external agencies) — General techniques, processes for the selection for all divisions and levels of management — Centralized selection of managers 	Recruitment
<ul style="list-style-type: none"> — The target indicators are set for employees each year and monitored on a quarterly basis — Organization of appraisal process is included in a functional of HR divisions — System of appraisal of individual results is implemented in the Company — Bonuses, plan of training and development, rotation and promotion are based on performance results 	Performance Management
<ul style="list-style-type: none"> — Use of common categories of payment including adjustments for the local market — Incentive system includes tangible and intangible benefits, social guarantees. A single transparent and simple compensation policy is used at all levels — There is periodic comparison of compensation with the market, if necessary; adjustments are made 	Compensation and incentives
<ul style="list-style-type: none"> — Internal training centers are established — Training programs are developed jointly with the heads of functional directions — Active interaction with higher educational institutions and institutions of specialized secondary education — System of internal personnel reserve 	Career, training, development
<ul style="list-style-type: none"> — Special training opportunities for the best employees — Selection and individual educational and training programs of the most talented managers — Support system for career development of talented personnel (managerial personnel reserve) 	Talent Management
<ul style="list-style-type: none"> — Target corporate culture (the values and standards of professional ethics) is defined and aligned with the strategic needs of the Company — Code of Conduct is approved and used — Internal communications system is developed 	Development of corporate culture

4,800

THE NEED OF FEDERAL GRID
COMPANY IN NEW EMPLOYEES

Dmitry Chevkin,
HR Director



Qualified personnel is required to solve the Company's strategic tasks, whereas the opportunities of the Company's HR Department to recruit the workforce resource required are limited by a number of external factors. The key factor among these is the worsening of demographic situation in Russia, with the working population decreasing in number, resulting in growing competition among the power industry companies seeking the workforce they need. A supply-demand imbalance on education market and a diminishing attractiveness of working in the production sphere should also be taken into account, together with the falling mobility of the human resources within the country. The Company's opportunities to use a traditional approach of increasing salary expenses are also limited, as the government is tasked with keeping the energy tariff growth rate down.

Taking the internal and external factors into consideration, the Company seeks and finds new efficient ways to solve the HR issues. The

The measures will result in a "rejuvenation" of the personnel, raising the prestige of the profession and the restriction of active personnel turnover of not more than 8% a year.

At least 80% of the Company officers shall be appointed from employees previously employed on lower-level staff positions.

And ultimately the realization of the main areas of personnel policy should lead to the provision of the Company with necessary personnel of required qualification, at the scheduled time and with an optimal level of costs on the activity.

In total in view of the need to provide facilities of Investment Program with employees and fill employee withdrawal the need of Federal Grid Company in new employees will be more than 4,800 people in 2011-2014.

The system of bodies of personnel management in Federal Grid Company includes the Department of personnel management, the Department of organizational development, the Department of social programs, Personnel training center and similar divisions in all branches of the Company - MESs of Federal Grid Company.

The main local regulatory documents which regulate the issues of human resources management in Federal Grid Company are:

- Regulations on remuneration and motivation of the employees of Federal Grid Company's branches (MES/PMES);
- Regulations on the social package formation by categories of positions of Federal Grid Company;
- Regulations on non-state pension provision for the employees of Federal Grid Company;
- Regulations on tutoring system of Federal Grid Company;
- Regulations on recommendation of employees of the executive apparatus, branches and SDCs of Federal Grid Company for a state, departmental, industrial and corporate awards;
- Regulations on financial assistance to veterans of Federal Grid Company.

Company develops its youth policy and establishes comprehensive personnel training programs, implementing efficient labor encouragement initiatives and social programs. The Company provides for decent and safe labor, forming the HR reserve based on the assessment of its employees. Taken together, these actions can be characterized as a transfer from the HR management to managing the human capital, attaching value to virtually every member of the Company team. The Company employees appreciate the changes in the attitude to the personnel as they influence their performance. Over 4.5 employees were awarded by corporate and industry awards in the end of 2012.

The implementation of the updated concept of the formation of the in-house HR reserve became one of the most successful HR innovations in 2012. Today the majority of management and production employee vacancies are filled by the Company HR reserve members, with the reserve being formed from

the Company employees successful in passing the assessment procedures and training.

The Company takes pride in the record-breaking low HR turnover (6%), while having one of the lowest average employee age in the industry (38.8 years). This means that the Company becomes more attractive for the young and promising employees.

The Company's target HR priorities include the enhancements in controlling the employee average age and the HR turnover level, while developing new tools to attract and motivate the personnel and switching over to long-term employee demand planning.

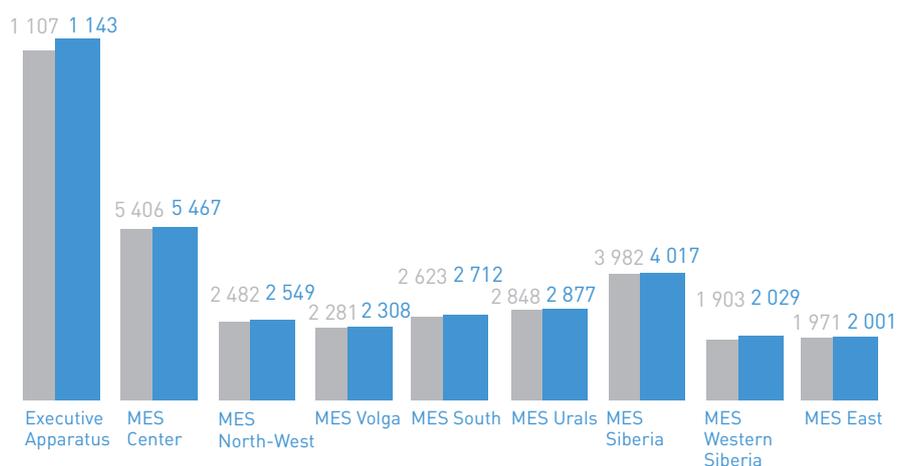
In conclusion I should like to emphasize that the Company values the feedback from its employees concerning the implementation of its HR policy projects. Together we will make the Company one of the best employers in the country!

Headcount and quality of employees

Average headcount of Federal Grid Company as of 31 December 2012 was 25,103 persons. Employee number growth in 2012 by 2% compared to 2011 is due to the creation of new jobs at the power facilities of the Sochi Region,

constructed for reliable power supply to the 2014 Olympic Games, and other newly introduced facilities of electric power grid complex, constructed as part of the implementation of the Company's Investment Program.

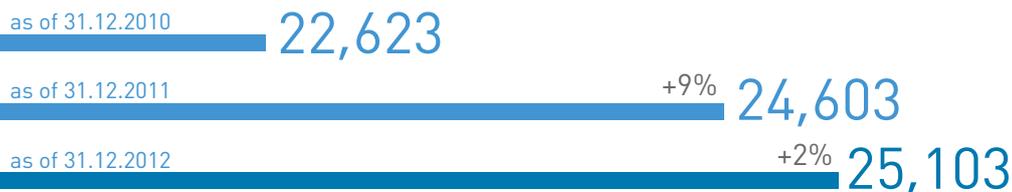
The 2012 Dynamics of the Average Headcount of Federal Grid Company, persons



In total, in 2010-2012 the Company headcount increased by 11%, the main increase is due to the implementation

of the programs to commission and activate new UNEG facilities.

Changes of the Headcount of Federal Grid Company since 2010, persons

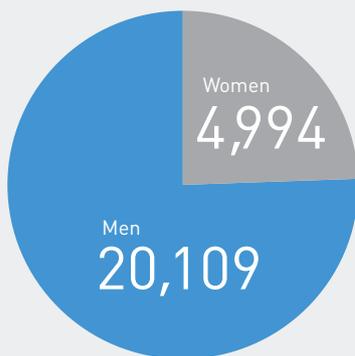


Total Headcount by Employment Type and Region

Branch	The average number of employees, total	including average headcount (full-time employment)	including external part-timers and civil law contractors (partial employment)
MES Center	5 443	5 367	76
MES North-West	2 552	2 488	64
MES Volga	2 268	2 262	6
MES South	2 620	2 614	6
MES Urals	2 844	2 822	22
MES Siberia	3 982	3 966	16
MES East	1 933	1 932	1
MES Western Siberia	1 997	1 974	23

Staffing indicator as of 31 December, 2012 is 97% of the target headcount, which indicates a high level of staff sufficiency.

Total Headcount of Personnel
Total 25,103 persons, of which



Personnel Structure by Categories, Men
persons, %



Personnel Structure by Categories, Women
person, %



Main Indicators of Staff Quality
In total

Average age, years

38.8

80%

Men

20%

Women

The Company Personnel Structure

45%

Workers

1.3% of employees are covered by Collective Agreements.

The managers are appointed in accordance with the requirements of the position imposed by the Company pursuant to the Regulations on the employment to Federal Grid Company

39%

Professionals

and in strict accordance with the Russian legislation.

90% of executives employed from the local population of the Russian regions where the Company operates.

16%

Managers

Annual rate of Employee turnover of Federal Grid Company decreased by 1.5% to 6% for 2008-2012.

2012

6%

2008

7.5%

Natural renewal of personnel which ensures continuity of generations and attracts young professionals is very important for the Company. Over the last few years the average age of employees has decreased. In 2010-2012, the average age decreased from 39.8 to 38.8 (as of December 31, 2012).

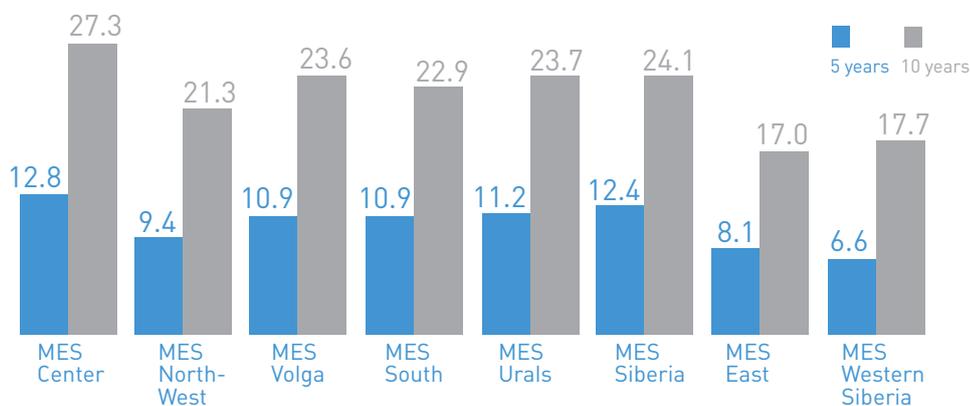
In addition, the vast majority of Federal Grid Company`s staff (56%) is employees of the most economically and socially active age – up to 40 years.

Thus, the Company achieved an optimal combination of young, enthusiastic and experienced, highly qualified employees which ensures the continuity of generations and professional knowledge and skills transfer.

Turnover Rates by Age Group, Gender, and Region

Branch	Average number in 2012, persons	Number of leavers to calculate turnover in 2012, persons	Employee turnover rate in 2012, %	Including leavers		Under the age of 30	Beyond the age of 30
				Men	Women		
MES Center	5 367	332	6,2	287	45	189	143
MES North-West	2 488	145	5,8	133	12	70	75
MES Volga	2 262	65	2,9	57	8	34	31
MES South	2 614	212	8,1	186	26	91	121
MES Urals	2 822	81	2,9	61	20	32	49
MES Siberia	3 966	229	5,8	189	40	109	120
MES Western Siberia	1 974	147	7,5	128	19	64	83
MES East	1 932	118	6,1	100	18	44	74

Proportion of Employees Who Attained Pension Age During 5-10 Years as a Percentage of Total Headcount



Social obligations and incentives

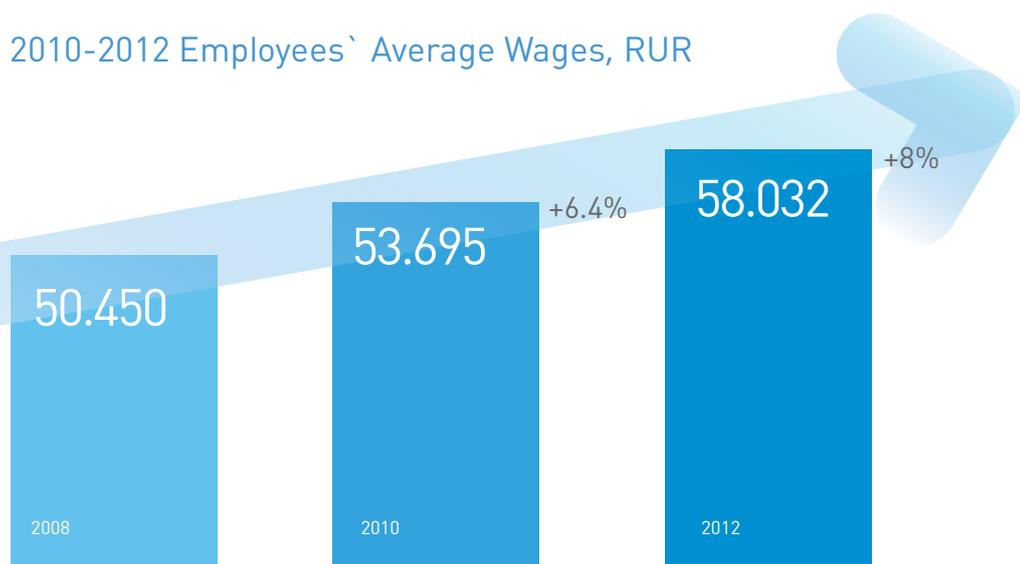
One of the most important factors to achieve strategic and current corporate objectives is a well-formed employee motivation model. The remuneration system in Federal Grid Company includes the categories of positions, performance of branches and structural divisions, characteristics of regional labor markets and the individual contribution of each employee.

Thus, the wage of each employee is determined by the level of difficulty and responsibility of its work, its qualification and contribution to the main results of the Company.

To determine the location of Federal Grid Company in the labor market studies of the level of salaries by key positions in competing companies in the Company's branches operation areas are pursued on a regular basis. Studies' results indicate that the level of wages in Federal Grid Company corresponds to the average segment of the labor market.

To maintain and increase achieved level of financial motivation, adjustment of salaries (base salary) of employees for the amount of the actual increase in the CPI (Consumer Price Index) in the Russian Federation is carried out quarterly in the Company's branches. It ensures stable wage increases.

2010-2012 Employees' Average Wages, RUR



Minimum Wage in the Branches of Federal Grid Company (MESs) versus the Cost of Living in the Company's Operation Areas

Regions covered by the area of responsibility of Federal Grid Company	Minimum wage amount of a first class employee, RUR	Regional premium rate, northern and regional bonuses, %	Cost of living in the MES branch location, RUR	Minimum wage in MES branch/cost of living in the region, %
Center	12,667	1.16	8,697	146
North-West	14,087	1.29	7,422	190
Volga	11,248	1.03	7,873	143
South	11,248	1.03	7,322	154
Urals	12,995	1.19	7,668	169
Western Siberia	23,041	2.11	10,651	216
Siberia	16,817	1.54	8,253	204
East	19,438	1.78	10,692	182

The Formation of personnel reserve of Federal Grid Company. Personnel appraisal

The Personnel Reserve Program applies in the Company since 2006. Prior to 2010, numerous appraisal and development measures for the staff of various levels of management were carried out. 2006 – 2010 results of the work with personnel reserve, confirmed by statistics, allowed the Company to make the next step on the way to the itemization of positions` professional standards and creation of job profiles.

As Federal Grid Company increasingly positioned itself as a production company, the goal of creating a personnel reserve has changed. The Company needed, primarily, educated production workers and experienced engineers. Since 2011 Federal Grid Company introduces updated concept of forming personnel reserve of the Company`s production and technical unit.

Personnel reserve is the basis for filling vacant positions and is formed from the Company`s employees who have successfully passed the appraisal procedures, developed by representatives of the production unit and the Department of personnel management.

Tests offered to employees, assess the level of development of vocational and technical competences. This approach allows us as soon as possible to begin work to develop the individual program for the development of employee`s professional grade and the formation of the optimal vocational and qualifying structure of staff.

In implementing the concept of personnel reserve the following basic problems were solved:

1. The comprehensive system of work with personnel reserve is established; key business areas which need the formation of personnel reserve for the posts of director of a structural division and deputy director of a structural division of the branches of Federal Grid Company are identified.
2. The model of vocational and technical competences, theoretical knowledge, management experience and skills of a candidate for inclusion in personnel reserve is formed.
3. The tutoring system for participants of the program for personnel reserve is developed.
4. The continuity of production technologies and corporate culture is maintained.
5. To retain key employees of the Company - the best technical professionals by providing opportunities for career development and growth became possible.



There are "tactical" and "strategic" reserve by length of stay of the candidates in the personnel reserve. Tactical reserve (redundant reserve) comprises employees, who rapidly are able to take target, vacant or newly freed positions, that is those need to be trained for a period not exceeding 12 months. Strategic reserve comprises employees who need to be trained to take a target position over 12 but not exceeding 36 months.

In 2011-2012 appraisal of candidates for enrollment in the reserve was conducted in all branches of Federal Grid Company, and a training tutor program was implemented in MES Center, MES North-West and MES Volga.

The appraisal for enrollment in the reserve involved 1,700 people, of which 478 are enrolled in a tactical personnel reserve, 27 people moved to the target staff positions. The training tutor program was participated by 288 people.

In 2013 it is planned to prepare 230 tutors for employees of Federal Grid Company, enrolled in the reserve.

Over the entire period of work on the basis of the updated system, only 2 persons left the group of reservists because they quit the Company. These results suggest that the program creates and maintains the required level of motivation and loyalty of this category of employees.

In turn, the tutoring system allows the employees of pre-retirement and pension age participated in the program of the formation of personnel reserve to get financial support. The Company has developed a tutor appraisal system which allows the Company to select the best tutors to work with reservists.

In 2012, the assessment methodology and assessment measures in respect of the position of "Director of PMES" were carried out. The above-mentioned measures involved 29 employees from the personnel reserve and 38 Directors of PMES for the position of "Director of PMES".

All participants of the assessment procedures, as well as CEOs of MESs of Federal Grid Company received feedback on the results of the assessment procedures.

In 2012 as part of cooperation with Moscow School of Management Skolkovo the Integrated Program - a strategic personnel reserve of Federal Grid Company was implemented.

12 of 41 graduates of the Integrated Program were received a promotion within the professional development in Federal Grid Company.

Award policy

To increase motivation of personnel to achieve high production results a program to award state awards, awards of the Government of the Russian Federation, departmental, industry and corporate awards to employees is being successfully implemented in Federal Grid Company.

The Program provides for that the following categories of employees may be recommended for award:

- awarded for service to the country, the fuel and energy complex and Federal Grid Company,
- demonstrated a high level of production efficiency and competencies in the field of management,
- achieved good results in operating, constructing and reconstructing power grid facilities and in creating, using and implementing new techniques and technologies,
- implemented advanced forms of work organization,
- showed competence in preventing or eliminating of accidents and restoring power facilities,
- had authority and respect with labor collective, promoted corporate values and met it.

In 2012, on the recommendation of Federal Grid Company 4,585 employees were awarded. For merits for the electric power industry 171 employees were awarded by the Ministry of Energy of the Russian Federation,

including the title of RF "Honorary Worker of the Fuel and Energy Complex" awarded to 2 employees; the title of "Honored Power Engineer" awarded to 9 employees, Certificate of Merit awarded to 79 employees, commendation issued to 81 employees. All-Russian Industrial Association of Employers in the power industry (RaEI) awarded 68 employees; including 16 employees were awarded the title of "Veteran of Power Industry" for many years of fruitful work in the electric power industry.

In addition 141 employees were awarded the titles, characters, inducted into the "Hall of Fame" of Federal Grid Company, 625 employees received the diploma, commendation issued to 583 employees. Numerous employees of the branches of Federal Grid Company were

awarded on behalf of the Heads of constituent entities of the Russian Federation for their contribution to the development of regional power grid complex, and also were awarded for services to the branch by MESs' management.

In 2012, the Company celebrated its 10th anniversary. Merits of employees with whom the Company shares its success to enhance the reliability of electric power supply, upgrade power grid and introduce innovative technologies were awarded by corporate awards of Federal Grid Company: 2,124 employees were awarded the Honorable Badge "10 years of Federal Grid Company of Unified Energy System", which was established in conjunction with the 10th anniversary of the establishment of the Company.

Federal Grid Company`s Employees` Awards in 2012

Government Awards



Awards of RaEL



Awards of the Ministry of Energy of the RF



Commendation of the Ministry of Energy of the RF



Corporate Awards of Federal Grid Company



Federal Grid Company`s Employees` Awards

